UMPQUA HOLDINGS CORP
Form 10-Q
November 03, 2017
United States
Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-Q
[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the quarterly period ended: September 30, 2017
or
[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the transition period from to .

Commission File Number: 001-34624

Umpqua Holdings Corporation
(Exact Name of Registrant as Specified in Its Charter)

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

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

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

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

[X] Yes [ ] No

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

[X] Yes [ ] No

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to section 13(a) of the

Exchange Act. [ ]

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

[ ] Yes [X] No

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

Common stock, no par value: 220,231,751 shares outstanding as of October 31, 2017

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

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

| | September 30, 2017 | December 31, 2016 |
|---|---|---|
| ASSETS | | |
| Cash and due from banks (restricted cash of $31,665 and $51,017) | $304,760 | $331,994 |
| Interest bearing cash and temporary investments (restricted cash of $701 and $0) | 540,806 | 1,117,438 |
| Total cash and cash equivalents | 845,566 | 1,449,432 |
| Investment securities | | |
| Trading, at fair value | 11,919 | 10,964 |
| Available for sale, at fair value | 3,047,358 | 2,701,220 |
| Held to maturity, at amortized cost | 3,905 | 4,216 |
| Loans held for sale, at fair value | 417,470 | 387,318 |
| Loans and leases | 18,677,762 | 17,508,663 |
| Allowance for loan and lease losses | (139,503) | (133,984) |
| Net loans and leases | 18,538,259 | 17,374,679 |
| Restricted equity securities | 45,509 | 45,528 |
| Premises and equipment, net | 276,316 | 303,882 |
| Goodwill | 1,787,651 | 1,787,651 |
| Other intangible assets, net | 31,819 | 36,886 |
| Residential mortgage servicing rights, at fair value | 141,225 | 142,973 |
| Other real estate owned | 4,160 | 6,738 |
| Bank owned life insurance | 305,572 | 299,673 |
| Deferred tax asset, net | — | 34,322 |
| Other assets | 238,934 | 227,637 |
| Total assets | $25,695,663 | $24,813,119 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Deposits | | |
| Noninterest bearing | $6,571,471 | $5,861,469 |
| Interest bearing | 13,280,439 | 13,159,516 |
| Total deposits | 19,851,910 | 19,020,985 |
| Securities sold under agreements to repurchase | 321,542 | 352,948 |
| Term debt | 852,306 | 852,397 |
| Junior subordinated debentures, at fair value | 266,875 | 262,209 |
| Junior subordinated debentures, at amortized cost | 100,690 | 100,931 |
| Deferred tax liability, net | 51,423 | — |
| Other liabilities | 265,657 | 306,854 |
| Total liabilities | 21,710,403 | 20,896,324 |
| COMMITMENTS AND CONTINGENCIES (NOTE 8) | | |
| SHAREHOLDERS' EQUITY | | |
| Common stock, no par value, shares authorized: 400,000,000 in 2017 and 2016; issued and outstanding: 220,225,406 in 2017 and 220,177,030 in 2016 | 3,516,558 | 3,515,299 |
| Retained earnings | 476,226 | 422,839 |

| | | |
|---|---|---|
| Accumulated other comprehensive loss | (7,524 ) | (21,343 ) |
| Total shareholders' equity | 3,985,260 | 3,916,795 |
| Total liabilities and shareholders' equity | $25,695,663 | $24,813,119 |

See notes to condensed consolidated financial statements

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

| (in thousands, except per share amounts) | Three Months Ended September 30, 2017 | Three Months Ended September 30, 2016 | Nine Months Ended September 30, 2017 | Nine Months Ended September 30, 2016 |
|---|---|---|---|---|
| INTEREST INCOME | | | | |
| Interest and fees on loans and leases | $223,321 | $212,037 | $642,315 | $640,255 |
| Interest and dividends on investment securities: | | | | |
| Taxable | 13,979 | 10,779 | 43,130 | 35,797 |
| Exempt from federal income tax | 2,125 | 2,181 | 6,604 | 6,599 |
| Dividends | 357 | 332 | 1,105 | 1,063 |
| Interest on temporary investments and interest bearing deposits | 934 | 1,090 | 2,815 | 2,222 |
| Total interest income | 240,716 | 226,419 | 695,969 | 685,936 |
| INTEREST EXPENSE | | | | |
| Interest on deposits | 12,052 | 8,999 | 32,341 | 25,952 |
| Interest on securities sold under agreement to repurchase and federal funds purchased | 81 | 32 | 432 | 100 |
| Interest on term debt | 3,491 | 3,558 | 10,663 | 11,592 |
| Interest on junior subordinated debentures | 4,628 | 3,938 | 13,266 | 11,500 |
| Total interest expense | 20,252 | 16,527 | 56,702 | 49,144 |
| Net interest income | 220,464 | 209,892 | 639,267 | 636,792 |
| PROVISION FOR LOAN AND LEASE LOSSES | 11,997 | 13,091 | 34,326 | 28,503 |
| Net interest income after provision for loan and lease losses | 208,467 | 196,801 | 604,941 | 608,289 |
| NON-INTEREST INCOME | | | | |
| Service charges on deposits | 15,849 | 15,762 | 46,056 | 45,945 |
| Brokerage revenue | 3,832 | 4,129 | 11,857 | 12,803 |
| Residential mortgage banking revenue, net | 33,430 | 47,206 | 94,158 | 99,415 |
| (Loss) gain on investment securities, net | (6) | — | 27 | 858 |
| Gain on loan sales, net | 7,969 | 1,285 | 13,033 | 9,296 |
| Loss on junior subordinated debentures carried at fair value | (1,590) | (1,590) | (4,717) | (4,734) |
| BOLI income | 2,041 | 2,116 | 6,199 | 6,407 |
| Other income | 13,877 | 11,802 | 40,133 | 31,330 |
| Total non-interest income | 75,402 | 80,710 | 206,746 | 201,320 |
| NON-INTEREST EXPENSE | | | | |
| Salaries and employee benefits | 108,732 | 105,341 | 323,766 | 319,424 |
| Occupancy and equipment, net | 37,648 | 38,181 | 113,276 | 114,326 |
| Communications | 4,549 | 5,107 | 14,512 | 15,966 |
| Marketing | 1,950 | 2,124 | 6,057 | 7,978 |
| Services | 9,578 | 9,983 | 32,269 | 32,183 |
| FDIC assessments | 4,405 | 4,109 | 12,939 | 11,523 |
| Gain on other real estate owned, net | (99) | (14) | (474) | (82) |
| Intangible amortization | 1,689 | 1,867 | 5,067 | 6,755 |
| Merger related expenses | 6,664 | 2,011 | 9,324 | 12,095 |
| Goodwill impairment | — | — | — | 142 |
| Other expenses | 13,238 | 12,478 | 38,353 | 33,377 |
| Total non-interest expense | 188,354 | 181,187 | 555,089 | 553,687 |
| Income before provision for income taxes | 95,515 | 96,324 | 256,598 | 255,922 |

| | | | | |
|---|---|---|---|---|
| Provision for income taxes | 34,182 | 34,515 | 92,450 | 92,257 |
| Net income | $61,333 | $61,809 | $164,148 | $163,665 |

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

| (in thousands, except per share amounts) | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, | | September 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| Net income | $61,333 | $61,809 | $164,148 | $163,665 |
| Dividends and undistributed earnings allocated to participating securities | 14 | 31 | 40 | 92 |
| Net earnings available to common shareholders | $61,319 | $61,778 | $164,108 | $163,573 |
| Earnings per common share: | | | | |
| Basic | $0.28 | $0.28 | $0.75 | $0.74 |
| Diluted | $0.28 | $0.28 | $0.74 | $0.74 |
| Weighted average number of common shares outstanding: | | | | |
| Basic | 220,215 | 220,291 | 220,270 | 220,313 |
| Diluted | 220,755 | 220,751 | 220,793 | 220,936 |

See notes to condensed consolidated financial statements

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

| (in thousands) | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, | | September 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| Net income | $61,333 | $61,809 | $164,148 | $163,665 |
| Available for sale securities: | | | | |
| Unrealized gains (losses) arising during the period | 4,118 | (9,768) | 22,581 | 32,228 |
| Income tax (expense) benefit related to unrealized gains (losses) | (1,594) | 3,780 | (8,745) | (12,472) |
| Reclassification adjustment for net realized (gains) losses in earnings | 6 | — | (27) | (858) |
| Income tax (benefit) expense related to realized (gains) losses | (3) | — | 10 | 332 |
| Other comprehensive income (loss), net of tax | 2,527 | (5,988) | 13,819 | 19,230 |
| Comprehensive income | $63,860 | $55,821 | $177,967 | $182,895 |

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

| (in thousands, except shares) | Common Stock | | Retained | Accumulated Other Comprehensive | |
|---|---|---|---|---|---|
| | Shares | Amount | Earnings | Income (Loss) | Total |
| BALANCE AT JANUARY 1, 2016 | 220,171,091 | $3,520,591 | $331,301 | $ (2,558) | $3,849,334 |
| Net income | | | 232,940 | | 232,940 |
| Other comprehensive loss, net of tax | | | | (18,785) | (18,785) |
| Stock-based compensation | | 9,790 | | | 9,790 |
| Stock repurchased and retired | (1,117,061) | (17,708) | | | (17,708) |
| Issuances of common stock under stock plans | 1,123,000 | 2,626 | | | 2,626 |
| Cash dividends on common stock ($0.64 per share) | | | (141,402) | | (141,402) |
| Balance at December 31, 2016 | 220,177,030 | $3,515,299 | $422,839 | $ (21,343) | $3,916,795 |
| | | | | | |
| BALANCE AT JANUARY 1, 2017 | 220,177,030 | $3,515,299 | $422,839 | $ (21,343) | $3,916,795 |
| Net income | | | 164,148 | | 164,148 |
| Other comprehensive income, net of tax | | | | 13,819 | 13,819 |
| Stock-based compensation | | 6,688 | | | 6,688 |
| Stock repurchased and retired | (340,849) | (5,977) | | | (5,977) |
| Issuances of common stock under stock plans | 389,225 | 548 | | | 548 |
| Cash dividends on common stock ($0.50 per share) | | | (110,761) | | (110,761) |
| Balance at September 30, 2017 | 220,225,406 | $3,516,558 | $476,226 | $ (7,524) | $3,985,260 |

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

| (in thousands) | Nine Months Ended September 30, | |
|---|---|---|
| | 2017 | 2016 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $164,148 | $163,665 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Amortization of investment premiums, net | 22,526 | 16,401 |
| Gain on sale of investment securities, net | (27) | (858) |
| Gain on sale of other real estate owned, net | (620) | (1,683) |
| Valuation adjustment on other real estate owned | 146 | 1,601 |
| Provision for loan and lease losses | 34,326 | 28,503 |
| Change in cash surrender value of bank owned life insurance | (6,272) | (6,483) |
| Depreciation, amortization and accretion | 43,628 | 44,607 |
| Loss on sale of premises and equipment | 1,127 | 5,221 |
| Additions to residential mortgage servicing rights carried at fair value | (23,486) | (25,020) |
| Change in fair value of residential mortgage servicing rights carried at fair value | 25,234 | 42,391 |
| Change in junior subordinated debentures carried at fair value | 4,666 | 4,657 |
| Stock-based compensation | 6,688 | 7,523 |
| Net increase in trading account assets | (955) | (1,280) |
| Gain on sale of loans, net | (103,665) | (136,949) |
| Change in loans held for sale carried at fair value | (7,210) | (13,555) |
| Origination of loans held for sale | (2,563,978) | (2,928,951) |
| Proceeds from sales of loans held for sale | 2,631,668 | 3,133,551 |
| Goodwill impairment | — | 142 |
| Change in other assets and liabilities: | | |
| Net decrease in other assets | 21,390 | 9,336 |
| Net (decrease) increase in other liabilities | (2,282) | 44,314 |
| Net cash provided by operating activities | 247,052 | 387,133 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of investment securities available for sale | (783,430) | (443,094) |
| Proceeds from investment securities available for sale | 437,007 | 461,342 |
| Proceeds from investment securities held to maturity | 392 | 389 |
| Purchases of restricted equity securities | (243,171) | (600) |
| Redemption of restricted equity securities | 243,190 | 12 |
| Net change in loans and leases | (1,405,145) | (1,248,475) |
| Proceeds from sales of loans | 218,944 | 429,997 |
| Net change in premises and equipment | (14,131) | (22,573) |
| Proceeds from bank owned life insurance death benefits | 373 | 814 |
| Proceeds from sales of other real estate owned | 5,825 | 13,608 |
| Net cash used in investing activities | $(1,540,146) | $(808,580) |

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

| (in thousands) | Nine Months Ended September 30, | |
|---|---|---|
| | 2017 | 2016 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Net increase in deposit liabilities | $831,811 | $1,213,354 |
| Net (decrease) increase in securities sold under agreements to repurchase | (31,406) | 4,903 |
| Proceeds from term debt borrowings | 205,000 | 490,000 |
| Repayment of term debt borrowings | (205,000) | (475,014) |
| Dividends paid on common stock | (105,748) | (105,824) |
| Proceeds from stock options exercised | 548 | 1,098 |
| Repurchase and retirement of common stock | (5,977) | (14,354) |
| Net cash provided by financing activities | 689,228 | 1,114,163 |
| Net (decrease) increase in cash and cash equivalents | (603,866) | 692,716 |
| Cash and cash equivalents, beginning of period | 1,449,432 | 773,725 |
| Cash and cash equivalents, end of period | $845,566 | $1,466,441 |
| | | |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | |
| Cash paid during the period for: | | |
| Interest | $58,191 | $53,783 |
| Income taxes | $25,668 | $12,921 |
| SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES: | | |
| Change in unrealized gains on investment securities available for sale, net of taxes | $13,819 | $19,230 |
| Cash dividend declared on common stock and payable after period-end | $39,649 | $35,250 |
| Transfer of loans to loans held for sale | $— | $265,741 |
| Change in GNMA mortgage loans recognized due to repurchase option | $1,445 | $(11,857) |
| Transfer of loans to other real estate owned | $2,851 | $5,409 |
| Transfers from other real estate owned to loans due to internal financing | $78 | $5,881 |

See notes to condensed consolidated financial statements

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 – Summary of Significant Accounting Policies

The accounting and financial reporting policies of Umpqua Holdings Corporation conform to accounting principles generally accepted in the United States of America. The accompanying interim condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material inter-company balances and transactions have been eliminated. The condensed consolidated financial statements have not been audited. A more detailed description of our accounting policies is included in the 2016 Annual Report filed on Form 10-K. These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes contained in the 2016 Annual Report filed on Form 10-K. All references in this report to "Umpqua," "we," "our," "us," the "Company" or similar references mean Umpqua Holdings Corporation, and include our consolidated subsidiaries where the context so requires. References to "Bank" refer to our subsidiary Umpqua Bank, an Oregon state-chartered commercial bank, and references to "Umpqua Investments" refer to our subsidiary Umpqua Investments, Inc., a registered broker-dealer and investment adviser. The Bank also has a wholly-owned subsidiary, Financial Pacific Leasing Inc., a commercial equipment leasing company. Pivotus Ventures, Inc., a wholly-owned subsidiary of Umpqua Holdings Corporation, focuses on advancing bank innovation by developing new bank platforms that could have a significant impact on the experience and economics of banking.

In preparing these condensed consolidated financial statements, the Company has evaluated events and transactions subsequent to September 30, 2017 for potential recognition or disclosure. In management's opinion, all accounting adjustments necessary to accurately reflect the financial position and results of operations on the accompanying financial statements have been made. These adjustments include normal and recurring accruals considered necessary for a fair and accurate presentation. The results for interim periods are not necessarily indicative of results for the full year or any other interim period. Certain reclassifications of prior period amounts have been made to conform to current classifications.

Note 2 – Investment Securities

The following tables present the amortized costs, unrealized gains, unrealized losses and approximate fair values of investment securities at September 30, 2017 and December 31, 2016:

| (in thousands) | September 30, 2017 | | | |
|---|---|---|---|---|
| | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| AVAILABLE FOR SALE: | | | | |
| U.S. Treasury and agencies | $40,026 | $ — | $— | $40,026 |
| Obligations of states and political subdivisions | 291,908 | 6,775 | (889 ) | 297,794 |
| Residential mortgage-backed securities and collateralized mortgage obligations | 2,725,745 | 5,499 | (23,689 ) | 2,707,555 |
| Investments in mutual funds and other equity securities | 1,959 | 24 | — | 1,983 |
| | $3,059,638 | $ 12,298 | $(24,578 ) | $3,047,358 |
| HELD TO MATURITY: | | | | |
| Residential mortgage-backed securities and collateralized mortgage obligations | $3,905 | $ 1,114 | $— | $5,019 |
| | $3,905 | $ 1,114 | $— | $5,019 |

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| (in thousands) | December 31, 2016 | | | |
|---|---|---|---|---|
| | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| AVAILABLE FOR SALE: | | | | |
| Obligations of states and political subdivisions | $305,708 | $ 5,526 | $(3,537 ) | $307,697 |
| Residential mortgage-backed securities and collateralized mortgage obligations | 2,428,387 | 3,664 | (40,498 ) | 2,391,553 |
| Investments in mutual funds and other equity securities | 1,959 | 11 | — | 1,970 |
| | $2,736,054 | $ 9,201 | $(44,035 ) | $2,701,220 |
| HELD TO MATURITY: | | | | |
| Residential mortgage-backed securities and collateralized mortgage obligations | $4,216 | $ 1,001 | $— | $5,217 |
| | $4,216 | $ 1,001 | $— | $5,217 |

Investment securities that were in an unrealized loss position as of September 30, 2017 and December 31, 2016 are presented in the following tables, based on the length of time individual securities have been in an unrealized loss position.

September 30, 2017

| (in thousands) | Less than 12 Months | | 12 Months or Longer | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| AVAILABLE FOR SALE: | | | | | | |
| Obligations of states and political subdivisions | $13,108 | $ 147 | $25,256 | $ 742 | $38,364 | $ 889 |
| Residential mortgage-backed securities and collateralized mortgage obligations | 1,169,351 | 10,792 | 667,296 | 12,897 | 1,836,647 | 23,689 |
| Total temporarily impaired securities | $1,182,459 | $ 10,939 | $692,552 | $ 13,639 | $1,875,011 | $ 24,578 |

December 31, 2016

| (in thousands) | Less than 12 Months | | 12 Months or Longer | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| AVAILABLE FOR SALE: | | | | | | |
| Obligations of states and political subdivisions | $71,571 | $ 3,065 | $1,828 | $ 472 | $73,399 | $ 3,537 |
| Residential mortgage-backed securities and collateralized mortgage obligations | 1,855,304 | 35,981 | 182,804 | 4,517 | 2,038,108 | 40,498 |
| Total temporarily impaired securities | $1,926,875 | $ 39,046 | $184,632 | $ 4,989 | $2,111,507 | $ 44,035 |

The unrealized losses on obligations of states and 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 the published credit ratings of these securities for material rating or outlook changes. As of September 30, 2017, 95% of these securities were rated A3/A- or higher by rating agencies. Substantially all of the Company's obligations of states and political subdivisions are general obligation issuances. All of the available for sale residential mortgage-backed securities and collateralized mortgage obligations portfolio in an unrealized loss position at September 30, 2017 are issued or guaranteed by government sponsored enterprises. The unrealized losses on residential mortgage-backed securities and collateralized mortgage obligations were caused by changes in market interest rates or the widening of market spreads subsequent to the initial purchase of these securities, and not concerns regarding the underlying credit of the issuers or the underlying collateral. It is expected that these securities will be settled at a price at least equal to the amortized cost of each investment.

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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 and it is not more likely than not 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, these investments are not considered other-than-temporarily impaired.

The following table presents the maturities of investment securities at September 30, 2017:

| (in thousands) | Available For Sale | | Held To Maturity | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| AMOUNTS MATURING IN: | | | | |
| Due within one year | $1,786 | $1,791 | $— | $— |
| Due after one year through five years | 101,898 | 102,915 | — | — |
| Due after five years through ten years | 416,627 | 419,502 | 18 | 19 |
| Due after ten years | 2,537,368 | 2,521,167 | 3,887 | 5,000 |
| Other investment securities | 1,959 | 1,983 | — | — |
| | $3,059,638 | $3,047,358 | $3,905 | $5,019 |

The following tables present the gross realized gains and losses on the sale of securities available for sale for the three and nine months ended September 30, 2017 and 2016:

| (in thousands) | Three Months Ended | | | |
|---|---|---|---|---|
| | September 30, 2017 | | September 30, 2016 | |
| | Gains | Losses | Gains | Losses |
| Obligations of states and political subdivisions | $— | $ 6 | $— | $ — |
| | $— | $ 6 | $— | $ — |

| | Nine Months Ended | | | |
|---|---|---|---|---|
| | September 30, 2017 | | September 30, 2016 | |
| | Gains | Losses | Gains | Losses |
| Obligations of states and political subdivisions | $— | $ 9 | $971 | $ — |
| Residential mortgage-backed securities and collateralized mortgage obligations | 135 | 99 | 270 | 383 |
| | $135 | $ 108 | $1,241 | $ 383 |

The following table presents, as of September 30, 2017, 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 the Federal Home Loan Bank to secure borrowings | $458 | $467 |
| To state and local governments to secure public deposits | 926,917 | 927,182 |
| Other securities pledged principally to secure repurchase agreements | 426,540 | 423,854 |
| Total pledged securities | $1,353,915 | $1,351,503 |

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Note 3 – Loans and Leases

The following table presents the major types of loans and leases, net of deferred fees and costs, as of September 30, 2017 and December 31, 2016:

| (in thousands) | September 30, 2017 | December 31, 2016 |
|---|---|---|
| Commercial real estate | | |
| Non-owner occupied term, net | $3,475,243 | $3,330,442 |
| Owner occupied term, net | 2,467,995 | 2,599,055 |
| Multifamily, net | 2,993,203 | 2,858,956 |
| Construction & development, net | 521,666 | 463,625 |
| Residential development, net | 186,400 | 142,984 |
| Commercial | | |
| Term, net | 1,819,664 | 1,508,780 |
| LOC & other, net | 1,134,045 | 1,116,259 |
| Leases and equipment finance, net | 1,137,732 | 950,588 |
| Residential | | |
| Mortgage, net | 3,094,361 | 2,887,971 |
| Home equity loans & lines, net | 1,079,931 | 1,011,844 |
| Consumer & other, net | 767,522 | 638,159 |
| Total loans and leases, net of deferred fees and costs | $18,677,762 | $17,508,663 |

The loan balances are net of deferred fees and costs of $74.5 million and $67.7 million as of September 30, 2017 and December 31, 2016, respectively. Net loans also include discounts on acquired loans of $13.1 million and $41.3 million as of September 30, 2017 and December 31, 2016, respectively. As of September 30, 2017, loans totaling $10.7 billion were pledged to secure borrowings and available lines of credit.

The outstanding contractual unpaid principal balance of purchased impaired loans, excluding acquisition accounting adjustments, was $276.5 million and $368.2 million at September 30, 2017 and December 31, 2016, respectively. The carrying balance of purchased impaired loans was $206.6 million and $280.4 million at September 30, 2017 and December 31, 2016, respectively.

The following tables present the changes in the accretable yield for purchased impaired loans for the three and nine months ended September 30, 2017 and 2016:

| (in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Balance, beginning of period | $82,306 | $111,379 | $95,579 | $132,829 |
| Accretion to interest income | (10,774) | (11,042) | (28,905) | (35,217) |
| Disposals | (2,721) | (4,209) | (10,270) | (15,470) |
| Reclassifications from non-accretable difference | 6,189 | 4,931 | 18,596 | 18,917 |
| Balance, end of period | $75,000 | $101,059 | $75,000 | $101,059 |

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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 the carrying value of loans and leases sold by major loan type during the three and nine months ended September 30, 2017 and 2016:

| (in thousands) | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, | | September 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| Commercial real estate | | | | |
| Non-owner occupied term, net | $3,596 | $1,340 | $7,519 | $18,614 |
| Owner occupied term, net | 10,936 | 10,380 | 38,158 | 28,283 |
| Multifamily, net | — | 49 | — | 129,879 |
| Commercial | | | | |
| Term, net | 5,932 | 1,809 | 12,449 | 4,729 |
| LOC & other, net | 187 | — | 187 | — |
| Leases and equipment finance, net | 19,199 | — | 46,312 | — |
| Residential | | | | |
| Mortgage, net | 72,493 | 103,465 | 101,286 | 239,196 |
| Total | $112,343 | $117,043 | $205,911 | $420,701 |

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Note 4 – Allowance for Loan and Lease Loss and Credit Quality

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

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

The formula allowance is calculated by applying risk factors to various segments of pools of outstanding loans and leases. Risk factors are assigned to each portfolio segment based on management's evaluation of the losses inherent within each segment. Segments 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.

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

Risk factors may be changed periodically based on management's evaluation of the following factors: loss experience; changes in the level of non-performing loans and leases; regulatory exam results; changes in the level of adversely classified loans and leases; improvement or deterioration in economic conditions; and any other factors deemed relevant. Additionally, Financial Pacific Leasing Inc. considers the additional quantitative and qualitative factors: migration analysis; a static pool analysis of historic recoveries; and forecasting uncertainties. A migration analysis is a technique used to estimate the likelihood that an account will progress through the various delinquency states and ultimately be charged off.

Specific Allowance
Regular credit reviews of the portfolio identify loans that are considered potentially impaired. Potentially impaired loans are referred to the ALLL Committee which reviews and approves designated loans as impaired. A loan is considered impaired when, based on current information and events, we determine that we will probably not be able to collect all amounts due according to the loan contract, including scheduled interest payments. When we identify a loan as impaired, we measure the impairment using discounted cash flows or estimated note sale price, except when the sole remaining source of the repayment for the loan is the liquidation of the collateral. In these cases, we use the current fair value of the collateral, less selling costs, instead of discounted cash flows. If we determine that the value of the impaired loan is less than the recorded investment in the loan, we either recognize an impairment reserve as a specific allowance to be provided for in the allowance for loan and lease losses or charge-off the impaired balance on collateral-dependent loans if it is determined that such amount represents a confirmed loss. Loans determined to be impaired are excluded from the formula allowance so as not to double-count the loss exposure.

The combination of the formula allowance component and the specific allowance component represents the allocated allowance for loan and lease losses. There is currently no unallocated allowance.

Management believes that the ALLL was adequate as of September 30, 2017. There is, however, no assurance that future loan and lease losses will not exceed the levels provided for in the ALLL and could possibly result in additional charges to the provision for loan and lease losses.

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

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

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Activity in the Allowance for Loan and Lease Losses

The following tables summarize activity related to the allowance for loan and lease losses by loan and lease portfolio segment for the three and nine months ended September 30, 2017 and 2016:

| (in thousands) | Three Months Ended September 30, 2017 | | | | |
|---|---|---|---|---|---|
| | Commercial Real Estate | Commercial | Residential | Consumer & Other | Total |
| Balance, beginning of period | $47,414 | $ 60,057 | $ 18,051 | $ 11,345 | $ 136,867 |
| Charge-offs | (503 ) | (10,504 ) | (128 ) | (2,087 ) | (13,222 ) |
| Recoveries | 676 | 2,121 | 287 | 777 | 3,861 |
| (Recapture) provision | (696 ) | 9,900 | 755 | 2,038 | 11,997 |
| Balance, end of period | $46,891 | $ 61,574 | $ 18,965 | $ 12,073 | $ 139,503 |

| | Three Months Ended September 30, 2016 | | | | |
|---|---|---|---|---|---|
| | Commercial Real Estate | Commercial | Residential | Consumer & Other | Total |
| Balance, beginning of period | $50,584 | $ 52,355 | $ 20,146 | $ 7,957 | $ 131,042 |
| Charge-offs | (1,071 ) | (8,975 ) | (915 ) | (2,127 ) | (13,088 ) |
| Recoveries | 628 | 1,186 | 137 | 696 | 2,647 |
| (Recapture) provision | (2,839 ) | 12,846 | 626 | 2,458 | 13,091 |
| Balance, end of period | $47,302 | $ 57,412 | $ 19,994 | $ 8,984 | $ 133,692 |

| (in thousands) | Nine Months Ended September 30, 2017 | | | | |
|---|---|---|---|---|---|
| | Commercial Real Estate | Commercial | Residential | Consumer & Other | Total |
| Balance, beginning of period | $47,795 | $ 58,840 | $ 17,946 | $ 9,403 | $ 133,984 |
| Charge-offs | (1,651 ) | (31,304 ) | (745 ) | (6,468 ) | (40,168 ) |
| Recoveries | 2,533 | 5,662 | 597 | 2,569 | 11,361 |
| (Recapture) provision | (1,786 ) | 28,376 | 1,167 | 6,569 | 34,326 |
| Balance, end of period | $46,891 | $ 61,574 | $ 18,965 | $ 12,073 | $ 139,503 |

| | Nine Months Ended September 30, 2016 | | | | |
|---|---|---|---|---|---|
| | Commercial Real Estate | Commercial | Residential | Consumer & Other | Total |
| Balance, beginning of period | $54,293 | $ 47,487 | $ 22,017 | $ 6,525 | $ 130,322 |
| Charge-offs | (2,137 ) | (23,224 ) | (1,546 ) | (6,713 ) | (33,620 ) |
| Recoveries | 1,348 | 3,633 | 661 | 2,845 | 8,487 |
| (Recapture) provision | (6,202 ) | 29,516 | (1,138 ) | 6,327 | 28,503 |
| Balance, end of period | $47,302 | $ 57,412 | $ 19,994 | $ 8,984 | $ 133,692 |

The valuation allowance on purchased impaired loans was increased by provision expense, which includes amounts related to subsequent deterioration of purchased impaired loans of $96,000 for the nine months ended September 30, 2017, and $1.4 million for the nine months ended September 30, 2016. There was no provision expense that related to subsequent deterioration of purchased impaired loans recorded during the three months ended September 30, 2017 and

2016. The valuation allowance on purchased impaired loans was decreased by recaptured provision of $317,000 and $531,000 for the three and nine months ended September 30, 2017, respectively, and $55,000 and $902,000 for the three and nine months ended September 30, 2016, respectively.

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The following tables present the allowance and recorded investment in loans and leases by portfolio segment as of September 30, 2017 and 2016:

| (in thousands) | September 30, 2017 | | | | |
|---|---|---|---|---|---|
| | Commercial Real Estate | Commercial | Residential | Consumer & Other | Total |
| Allowance for loans and leases: | | | | | |
| Collectively evaluated for impairment | $43,792 | $60,809 | $18,383 | $12,045 | $135,029 |
| Individually evaluated for impairment | 749 | 416 | — | — | 1,165 |
| Loans acquired with deteriorated credit quality | 2,350 | 349 | 582 | 28 | 3,309 |
| Total | $46,891 | $61,574 | $18,965 | $12,073 | $139,503 |
| Loans and leases: | | | | | |
| Collectively evaluated for impairment | $9,440,129 | $4,054,600 | $4,136,418 | $767,054 | $18,398,201 |
| Individually evaluated for impairment | 40,832 | 32,125 | — | — | 72,957 |
| Loans acquired with deteriorated credit quality | 163,546 | 4,716 | 37,874 | 468 | 206,604 |
| Total | $9,644,507 | $4,091,441 | $4,174,292 | $767,522 | $18,677,762 |

| (in thousands) | September 30, 2016 | | | | |
|---|---|---|---|---|---|
| | Commercial Real Estate | Commercial | Residential | Consumer & Other | Total |
| Allowance for loans and leases: | | | | | |
| Collectively evaluated for impairment | $43,473 | $55,735 | $19,225 | $8,913 | $127,346 |
| Individually evaluated for impairment | 1,099 | 1,327 | — | — | 2,426 |
| Loans acquired with deteriorated credit quality | 2,730 | 350 | 769 | 71 | 3,920 |
| Total | $47,302 | $57,412 | $19,994 | $8,984 | $133,692 |
| Loans and leases: | | | | | |
| Collectively evaluated for impairment | $9,051,925 | $3,521,571 | $3,830,060 | $624,708 | $17,028,264 |
| Individually evaluated for impairment | 39,737 | 22,736 | — | — | 62,473 |
| Loans acquired with deteriorated credit quality | 247,340 | 6,669 | 46,496 | 809 | 301,314 |
| Total | $9,339,002 | $3,550,976 | $3,876,556 | $625,517 | $17,392,051 |

Summary of Reserve for Unfunded Commitments Activity

The following table presents a summary of activity in the RUC and unfunded commitments for the three and nine months ended September 30, 2017 and 2016:

| (in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Balance, beginning of period | $3,816 | $3,531 | $3,611 | $3,574 |
| Net charge to other expense | 116 | 5 | 321 | (38 ) |
| Balance, end of period | $3,932 | $3,536 | $3,932 | $3,536 |

| (in thousands) | |
|---|---|
| | Total |
| Unfunded loan and lease commitments: | |
| September 30, 2017 | $4,839,882 |
| September 30, 2016 | $4,118,259 |

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Asset Quality and Non-Performing Loans and Leases

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

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

The following tables summarize our non-accrual loans and leases and loans and leases past due, by loan and lease class, as of September 30, 2017 and December 31, 2016:

| (in thousands) | September 30, 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Greater than 30 to 59 Days Past Due | 60 to 89 Days Past Due | Greater than 90 Days and Accruing | Total Past Due | Non-Accrual | Current & Other (1) | Total Loans and Leases |
| Commercial real estate | | | | | | | |
| Non-owner occupied term, net | $258 | $947 | $ 599 | $1,804 | $ 3,500 | $3,469,939 | $3,475,243 |
| Owner occupied term, net | 2,087 | 2,397 | 1 | 4,485 | 6,780 | 2,456,730 | 2,467,995 |
| Multifamily, net | — | 325 | — | 325 | 366 | 2,992,512 | 2,993,203 |
| Construction & development, net | — | — | — | — | 1,091 | 520,575 | 521,666 |
| Residential development, net | — | — | — | — | 6,153 | 180,247 | 186,400 |
| Commercial | | | | | | | |
| Term, net | 131 | 973 | — | 1,104 | 13,081 | 1,805,479 | 1,819,664 |
| LOC & other, net | 583 | 169 | 505 | 1,257 | 3,700 | 1,129,088 | 1,134,045 |
| Leases and equipment finance, net | 5,379 | 8,072 | 2,411 | 15,862 | 9,902 | 1,111,968 | 1,137,732 |
| Residential | | | | | | | |
| Mortgage, net (2) | — | 5,024 | 35,532 | 40,556 | — | 3,053,805 | 3,094,361 |
| Home equity loans & lines, net | 1,235 | 1,309 | 2,023 | 4,567 | — | 1,075,364 | 1,079,931 |
| Consumer & other, net | 2,360 | 1,002 | 304 | 3,666 | — | 763,856 | 767,522 |
| Total, net of deferred fees and costs | $12,033 | $20,218 | $41,375 | $73,626 | $ 44,573 | $18,559,563 | $18,677,762 |

(1) Other includes purchased credit impaired loans of $206.6 million.
(2) Includes government guaranteed GNMA mortgage loans that Umpqua has the right but not the obligation to repurchase that are past due 90 days or more, totaling $12.3 million at September 30, 2017.

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| (in thousands) | December 31, 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Greater than 30 to 59 Days Past Due | 60 to 89 Days Past Due | Greater than 90 Days and Accruing | Total Past Due | Non-Accrual | Current & Other (1) | Total Loans and Leases |
| Commercial real estate | | | | | | | |
| Non-owner occupied term, net | $718 | $1,027 | $ 1,047 | $2,792 | $ 2,100 | $3,325,550 | $3,330,442 |
| Owner occupied term, net | 974 | 4,539 | 1 | 5,514 | 4,391 | 2,589,150 | 2,599,055 |
| Multifamily, net | — | — | — | — | 476 | 2,858,480 | 2,858,956 |
| Construction & development, net | — | — | — | — | — | 463,625 | 463,625 |
| Residential development, net | — | — | — | — | — | 142,984 | 142,984 |
| Commercial | | | | | | | |
| Term, net | 319 | 233 | — | 552 | 6,880 | 1,501,348 | 1,508,780 |
| LOC & other, net | 1,673 | 27 | — | 1,700 | 4,998 | 1,109,561 | 1,116,259 |
| Leases and equipment finance, net | 5,343 | 6,865 | 1,808 | 14,016 | 8,920 | 927,652 | 950,588 |
| Residential | | | | | | | |
| Mortgage, net (2) | 10 | 3,114 | 33,703 | 36,827 | — | 2,851,144 | 2,887,971 |
| Home equity loans & lines, net | 289 | 848 | 2,080 | 3,217 | — | 1,008,627 | 1,011,844 |
| Consumer & other, net | 3,261 | 1,185 | 587 | 5,033 | — | 633,126 | 638,159 |
| Total, net of deferred fees and costs | $12,587 | $17,838 | $ 39,226 | $69,651 | $ 27,765 | $17,411,247 | $17,508,663 |

(1) Other includes purchased credit impaired loans of $280.4 million.
(2) Includes government guaranteed GNMA mortgage loans that Umpqua has the right but not the obligation to repurchase that are past due 90 days or more, totaling $10.9 million at December 31, 2016.

Impaired Loans

Loans with no related allowance reported generally represent non-accrual loans, which are also considered impaired loans. The Bank recognizes the charge-off on impaired loans in the period it arises for collateral-dependent loans. Therefore, the non-accrual loans as of September 30, 2017 have already been written down to their estimated net realizable value and are expected to be resolved with no additional material loss, absent further decline in market prices. The valuation allowance on impaired loans primarily represents the impairment reserves on performing restructured loans, and is measured by comparing the present value of expected future cash flows on the restructured loans discounted at the interest rate of the original loan agreement to the loan's carrying value.

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The following tables summarize our impaired loans by loan class as of September 30, 2017 and December 31, 2016:

| (in thousands) | September 30, 2017 | | | |
|---|---|---|---|---|
| | Unpaid | Recorded Investment | | |
| | Principal Balance | Without Allowance | With Allowance | Related Allowance |
| Commercial real estate | | | | |
| Non-owner occupied term, net | $18,726 | $2,143 | $ 16,485 | $ 319 |
| Owner occupied term, net | 10,617 | 4,216 | 6,039 | 284 |
| Multifamily, net | 3,998 | 366 | 3,519 | 141 |
| Construction & development, net | 1,091 | 1,091 | — | — |
| Residential development, net | 6,974 | 6,153 | 820 | 5 |
| Commercial | | | | |
| Term, net | 28,340 | 16,911 | 5,044 | 113 |
| LOC & other, net | 11,845 | 3,518 | 6,652 | 303 |
| Total, net of deferred fees and costs | $81,591 | $34,398 | $ 38,559 | $ 1,165 |

| (in thousands) | December 31, 2016 | | | |
|---|---|---|---|---|
| | Unpaid | Recorded Investment | | |
| | Principal Balance | Without Allowance | With Allowance | Related Allowance |
| Commercial real estate | | | | |
| Non-owner occupied term, net | $19,797 | $278 | $ 19,116 | $ 524 |
| Owner occupied term, net | 8,467 | 1,768 | 6,445 | 131 |
| Multifamily, net | 4,015 | 476 | 3,520 | 123 |
| Construction & development, net | 1,091 | — | 1,091 | 9 |
| Residential development, net | 7,304 | — | 7,304 | 72 |
| Commercial | | | | |
| Term, net | 16,875 | 5,982 | 3,239 | 8 |
| LOC & other, net | 8,279 | 4,755 | — | — |
| Total, net of deferred fees and costs | $65,828 | $13,259 | $ 40,715 | $ 867 |

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The following tables summarize our average recorded investment and interest income recognized on impaired loans by loan class for the three and nine months ended September 30, 2017 and 2016:

| (in thousands) | Three Months Ended September 30, 2017 | | Three Months Ended September 30, 2016 | |
|---|---|---|---|---|
| | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized |
| Commercial real estate | | | | |
| Non-owner occupied term, net | $18,706 | $ 149 | $18,544 | $ 155 |
| Owner occupied term, net | 10,159 | 14 | 3,682 | — |
| Multifamily, net | 3,890 | 30 | 4,209 | 31 |
| Construction & development, net | 1,091 | — | 1,860 | 21 |
| Residential development, net | 7,096 | 13 | 7,671 | 77 |
| Commercial | | | | |
| Term, net | 19,269 | 88 | 17,884 | 67 |
| LOC & other, net | 7,560 | 5 | 4,536 | 20 |
| Leases and equipment finance, net | 137 | — | — | — |
| Total, net of deferred fees and costs | $67,908 | $ 299 | $58,386 | $ 371 |

| (in thousands) | Nine Months Ended September 30, 2017 | | Nine Months Ended September 30, 2016 | |
|---|---|---|---|---|
| | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized |
| Commercial real estate | | | | |
| Non-owner occupied term, net | $17,220 | $ 447 | $12,634 | $ 350 |
| Owner occupied term, net | 9,556 | 141 | 7,950 | 86 |
| Multifamily, net | 3,914 | 91 | 3,792 | 91 |
| Construction & development, net | 1,201 | 22 | 1,412 | 61 |
| Residential development, net | 7,270 | 163 | 7,871 | 238 |
| Commercial | | | | |
| Term, net | 16,048 | 242 | 21,223 | 180 |
| LOC & other, net | 6,263 | 55 | 3,686 | 60 |
| Leases and equipment finance, net | 185 | — | — | — |
| Total, net of deferred fees and costs | $61,657 | $ 1,161 | $58,568 | $ 1,066 |

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

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. Homogeneous loans and leases are not risk rated until they are greater than 30 days past due, and risk rating is based on the past due status of the loan or lease. The 10 risk rating categories can be generally described by the following groupings for 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.

Special Mention—A special mention loan or lease, risk rated 7, has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or the institution's credit position at some future date. They contain unfavorable characteristics and are generally undesirable. Loans and leases in this category are currently protected but are potentially weak and constitute an undue and unwarranted credit risk, but not to the point of a substandard classification. A special mention loan or lease has potential weaknesses, which if not checked or corrected, weaken the asset or inadequately protect the Bank's position at some future date. For commercial and commercial real estate homogeneous loans and leases to be classified as special mention, risk rated 7, the loan or lease is greater than 30 to 59 days past due from the required payment date at month-end. Residential and consumer and other homogeneous loans are risk rated 7, when the loan is greater than 30 to 89 days past due from the required payment date at month-end.

Substandard—A substandard asset, risk rated 8, is inadequately protected by the current worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard assets, does not have to exist in individual assets classified substandard. Loans and leases are classified as substandard when they have unsatisfactory characteristics causing unacceptable levels of risk. A substandard loan or lease normally has one or more well-defined weaknesses that could jeopardize repayment of the debt. The likely need to liquidate assets to correct the problem, rather than repayment from successful operations is the key distinction between special mention and substandard. Commercial and commercial real estate homogeneous loans and leases are classified as a substandard loan or lease, risk rated 8, when the loan or lease 60 to 89 days past due from the required payment date at month-end. Residential and consumer and other homogeneous loans are classified as a substandard loan, risk rated 8, when an open-end loan is 90 to 180 days past due from the required payment date at month-end or when a closed-end loan 90 to 120 days is past due from the required payment date at month-end.

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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. Commercial and commercial real estate homogeneous doubtful loans or leases, risk rated 9, are 90 to 179 days past due from the required payment date at month-end.

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. For a commercial or commercial real estate homogeneous loss loan or lease to be risk rated 10, the loan or lease 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. Residential, consumer and other homogeneous loans are risk rated 10, when a closed-end loan becomes past due 120 cumulative days or when 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.

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.

The following tables summarize our internal risk rating by loan and lease class for the loan and lease portfolio, including purchased credit impaired loans, as of September 30, 2017 and December 31, 2016:

| (in thousands) | September 30, 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Pass/Watch | Special Mention | Substandard | Doubtful | Loss | Impaired (1) | Total |
| Commercial real estate | | | | | | | |
| Non-owner occupied term, net | $3,381,062 | $40,560 | $ 34,711 | $282 | $— | $18,628 | $3,475,243 |
| Owner occupied term, net | 2,374,238 | 43,483 | 39,662 | — | 357 | 10,255 | 2,467,995 |
| Multifamily, net | 2,963,655 | 16,695 | 8,968 | — | — | 3,885 | 2,993,203 |
| Construction & development, net | 516,139 | 1,934 | 2,502 | — | — | 1,091 | 521,666 |
| Residential development, net | 178,239 | — | 1,188 | — | — | 6,973 | 186,400 |
| Commercial | | | | | | | |
| Term, net | 1,773,745 | 9,176 | 14,700 | 85 | 3 | 21,955 | 1,819,664 |
| LOC & other, net | 1,082,301 | 10,005 | 31,293 | 276 | — | 10,170 | 1,134,045 |
| Leases and equipment finance, net | 1,111,968 | 5,379 | 8,072 | 11,148 | 1,165 | — | 1,137,732 |
| Residential | | | | | | | |
| Mortgage, net (2) | 3,050,451 | 6,071 | 35,919 | — | 1,920 | — | 3,094,361 |
| Home equity loans & lines, net | 1,074,788 | 2,942 | 2,119 | — | 82 | — | 1,079,931 |
| Consumer & other, net | 763,815 | 3,367 | 302 | — | 38 | — | 767,522 |
| Total, net of deferred fees and costs | $18,270,401 | $139,612 | $ 179,436 | $11,791 | $3,565 | $72,957 | $18,677,762 |

(1) The percentage of impaired loans classified as pass/watch, special mention, and substandard was 5.8%, 1.1% and 93.1%, respectively, as of September 30, 2017.
(2) Includes government guaranteed GNMA mortgage loans that Umpqua has the right but not the obligation to repurchase that are past due 90 days or more, totaling $12.3 million at September 30, 2017, which is included in the substandard category.

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| (in thousands) | December 31, 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Pass/Watch | Special Mention | Substandard | Doubtful | Loss | Impaired (1) | Total |
| Commercial real estate | | | | | | | |
| Non-owner occupied term, net | $3,205,241 | $55,194 | $ 48,699 | $1,368 | $546 | $19,394 | $3,330,442 |
| Owner occupied term, net | 2,466,247 | 75,189 | 46,781 | 972 | 1,653 | 8,213 | 2,599,055 |
| Multifamily, net | 2,828,370 | 11,903 | 14,687 | — | — | 3,996 | 2,858,956 |
| Construction & development, net | 458,328 | 1,712 | 2,494 | — | — | 1,091 | 463,625 |
| Residential development, net | 134,491 | — | 1,189 | — | — | 7,304 | 142,984 |
| Commercial | | | | | | | |
| Term, net | 1,458,699 | 15,716 | 24,678 | 119 | 347 | 9,221 | 1,508,780 |
| LOC & other, net | 1,063,305 | 10,565 | 37,387 | 3 | 244 | 4,755 | 1,116,259 |
| Leases and equipment finance, net | 927,378 | 5,614 | 6,866 | 9,752 | 978 | — | 950,588 |
| Residential | | | | | | | |
| Mortgage, net (2) | 2,830,547 | 1,803 | 53,607 | — | 2,014 | — | 2,887,971 |
| Home equity loans & lines, net | 1,006,647 | 1,490 | 2,727 | — | 980 | — | 1,011,844 |
| Consumer & other, net | 633,098 | 4,446 | 527 | — | 88 | — | 638,159 |
| Total, net of deferred fees and costs | $17,012,351 | $183,632 | $ 239,642 | $12,214 | $6,850 | $53,974 | $17,508,663 |

(1) The percentage of impaired loans classified as pass/watch, special mention, substandard and doubtful was 8.1%, 6.5%, 82.5%, and 2.9%, respectively, as of December 31, 2016.
(2) Includes government guaranteed GNMA mortgage loans that Umpqua has the right but not the obligation to repurchase that are past due 90 days or more, totaling $10.9 million at December 31, 2016, which is included in the substandard category.

Troubled Debt Restructurings

At September 30, 2017 and December 31, 2016, impaired loans of $45.8 million and $40.7 million, respectively, were classified as accruing restructured loans. The restructurings were granted in response to borrower financial difficulty, and generally provide for a temporary modification of loan repayment terms. In order for a newly 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 $1.9 million available commitments for troubled debt restructurings outstanding as of September 30, 2017 and none as of December 31, 2016.

The following tables present troubled debt restructurings by accrual versus non-accrual status and by loan class as of September 30, 2017 and December 31, 2016:

| (in thousands) | September 30, 2017 | | |
|---|---|---|---|
| | Accrual Status | Non-Accrual Status | Total Modifications |
| Commercial real estate, net | $22,807 | $ 7,244 | $ 30,051 |
| Commercial, net | 16,439 | 11,654 | 28,093 |
| Residential, net | 6,567 | — | 6,567 |
| Total, net of deferred fees and costs | $45,813 | $ 18,898 | $ 64,711 |

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| (in thousands) | December 31, 2016 | | |
|---|---|---|---|
| | Accrual Status | Non-Accrual Status | Total Modifications |
| Commercial real estate, net | $30,563 | $ — | $ 30,563 |
| Commercial, net | 3,054 | 3,345 | 6,399 |
| Residential, net | 7,050 | — | 7,050 |
| Total, net of deferred fees and costs | $40,667 | $ 3,345 | $ 44,012 |

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 following tables present newly restructured loans that occurred during the three and nine months ended September 30, 2017 and 2016:

| (in thousands) | Three Months Ended September 30, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Rate Modifications | Term Modifications | Interest Only Modifications | Payment Modifications | Combination Modifications | Total Modifications |
| Commercial real estate, net | $— | $ — | $ — | $ — | $ 5,086 | $ 5,086 |
| Commercial, net | — | — | — | — | 9,053 | 9,053 |
| Residential, net | — | 187 | — | — | — | 187 |
| Total, net of deferred fees and costs | $— | $ 187 | $ — | $ — | $ 14,139 | $ 14,326 |

| | Three Months Ended September 30, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Rate Modifications | Term Modifications | Interest Only Modifications | Payment Modifications | Combination Modifications | Total Modifications |
| Commercial, net | $— | $ — | $ — | $ — | $ 1,009 | $ 1,009 |
| Residential, net | — | — | — | — | 2,117 | 2,117 |
| Total, net of deferred fees and costs | $— | $ — | $ — | $ — | $ 3,126 | $ 3,126 |

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| | Nine Months Ended September 30, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Rate Modifications | Term Modifications | Interest Only Modifications | Payment Modifications | Combination Modifications | Total Modifications |
| Commercial real estate, net | $— | $ — | $ — | $ — | $ 5,086 | $ 5,086 |
| Commercial, net | — | — | — | — | 21,846 | 21,846 |
| Residential, net | — | 187 | — | — | 1,134 | 1,321 |
| Total, net of deferred fees and costs | $— | $ 187 | $ — | $ — | $ 28,066 | $ 28,253 |

| (in thousands) | Nine Months Ended September 30, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Rate Modifications | Term Modifications | Interest Only Modifications | Payment Modifications | Combination Modifications | Total Modifications |
| Commercial real estate, net | $— | $ — | $ — | $ — | $ 5,659 | $ 5,659 |
| Commercial, net | — | — | — | — | 4,405 | 4,405 |
| Residential, net | — | — | — | — | 2,845 | 2,845 |
| Consumer & other, net | — | — | — | — | 77 | 77 |
| Total, net of deferred fees and costs | $— | $ — | $ — | $ — | $ 12,986 | $ 12,986 |

For the periods presented in the tables above, the outstanding recorded investment was the same pre and post modification. There were $118,000 in financing receivables modified as troubled debt restructurings within the previous 12 months for which there was a payment default during the nine months ended September 30, 2017 and $77,000 and $304,000 for the three and nine months ended September 30, 2016. There were no payment defaults in the three months ended September 30, 2017.

Note 5–Goodwill and Other Intangible Assets

Goodwill totaled $1.8 billion as of September 30, 2017 and December 31, 2016, and represents the excess of the total acquisition price paid over the fair value of the assets acquired, net of the fair values of liabilities assumed. Goodwill is not amortized but is evaluated for impairment on an annual basis at December 31 of each year or whenever events or changes in circumstances indicate the carrying value may not be recoverable. No events or circumstances since the December 31, 2016 annual impairment test were noted that would indicate it was more likely than not a goodwill impairment exists.

The following table summarizes the changes in the Company's other intangible assets for the year ended December 31, 2016, and the nine months ended September 30, 2017.

| (in thousands) | Other Intangible Assets | | |
|---|---|---|---|
| | Gross | Accumulated Amortization | Net |
| Balance, December 31, 2015 | $113,471 | $ (67,963 ) | $45,508 |
| Amortization | — | (8,622 ) | (8,622 ) |
| Balance, December 31, 2016 | 113,471 | (76,585 ) | 36,886 |
| Amortization | — | (5,067 ) | (5,067 ) |
| Balance, September 30, 2017 | $113,471 | $ (81,652 ) | $31,819 |

Core deposit intangible asset's values were determined by an analysis of the cost differential between the core deposits inclusive of estimated servicing costs and alternative funding sources for core deposits acquired through acquisitions. The core deposit intangible assets are amortized on an accelerated basis over a period of approximately 10 years.

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

| Year | Expected Amortization |
|---|---|
| Remainder of 2017 | $ 1,689 |
| 2018 | 6,166 |
| 2019 | 5,618 |
| 2020 | 4,986 |
| 2021 | 4,520 |
| Thereafter | 8,840 |
| | $ 31,819 |

Note 6 – Residential Mortgage Servicing Rights

The following table presents the changes in the Company's residential mortgage servicing rights ("MSR"), which are carried at fair value, for the three and nine months ended September 30, 2017 and 2016:

| (in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Balance, beginning of period | $141,832 | $112,095 | $142,973 | $131,817 |
| Additions for new MSR capitalized | 8,626 | 10,177 | 23,486 | 25,020 |
| Changes in fair value: | | | | |
| Due to changes in model inputs or assumptions (1) | (4,861) | (5,386) | (13,040) | (22,473) |
| Other (2) | (4,372) | (2,440) | (12,194) | (19,918) |
| Balance, end of period | $141,225 | $114,446 | $141,225 | $114,446 |

(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 September 30, 2017 and December 31, 2016 is as follows:

| (dollars in thousands) | September 30, 2017 | December 31, 2016 |
|---|---|---|
| Balance of loans serviced for others | $15,007,942 | $14,327,368 |
| MSR as a percentage of serviced loans | 0.94 % | 1.00 % |

The amount of contractually specified servicing fees, late fees and ancillary fees earned, recorded in residential mortgage banking revenue, was $9.9 million and $29.6 million for the three and nine months ended September 30, 2017, respectively, as compared to $9.4 million and $25.7 million for the three and nine months ended September 30, 2016, respectively.

Key assumptions used in measuring the fair value of the MSR as of September 30, 2017 and December 31, 2016 were as follows:

| | September 30, 2017 | December 31, 2016 |
|---|---|---|
| Constant prepayment rate | 13.20 % | 11.43 % |
| Discount rate | 9.70 % | 9.69 % |
| Weighted average life (years) | 5.9 | 6.6 |

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A sensitivity analysis of the current fair value to changes in discount and prepayment speed assumptions as of September 30, 2017 and December 31, 2016 is as follows:

| (in thousands) | September 30, 2017 | December 31, 2016 |
| --- | --- | --- |
| Constant prepayment rate | | |
| Effect on fair value of a 10% adverse change | $ (6,101) | $ (6,075) |
| Effect on fair value of a 20% adverse change | $ (11,711) | $ (11,720) |
| | | |
| Discount rate | | |
| Effect on fair value of a 100 basis point adverse change | $ (5,116) | $ (5,817) |
| Effect on fair value of a 200 basis point adverse change | $ (9,868) | $ (11,118) |

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

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Note 7 – Junior Subordinated Debentures

Following is information about the Company's wholly-owned trusts ("Trusts") as of September 30, 2017:

| (dollars in thousands) Trust Name | Issue Date | Issued Amount | Carrying Value (1) | Rate (2) | Effective Rate (3) | Maturity Date |
|---|---|---|---|---|---|---|
| AT FAIR VALUE: | | | | | | |
| Umpqua Statutory Trust II | October 2002 | $20,619 | $16,015 | Floating rate, LIBOR plus 3.35%, adjusted quarterly | 6.00% | October 2032 |
| Umpqua Statutory Trust III | October 2002 | 30,928 | 24,172 | Floating rate, LIBOR plus 3.45%, adjusted quarterly | 6.10% | November 2032 |
| Umpqua Statutory Trust IV | December 2003 | 10,310 | 7,641 | Floating rate, LIBOR plus 2.85%, adjusted quarterly | 5.60% | January 2034 |
| Umpqua Statutory Trust V | December 2003 | 10,310 | 7,585 | Floating rate, LIBOR plus 2.85%, adjusted quarterly | 5.67% | March 2034 |
| Umpqua Master Trust I | August 2007 | 41,238 | 25,650 | Floating rate, LIBOR plus 1.35%, adjusted quarterly | 4.29% | September 2037 |
| Umpqua Master Trust IB | September 2007 | 20,619 | 14,593 | Floating rate, LIBOR plus 2.75%, adjusted quarterly | 5.75% | December 2037 |
| Sterling Capital Trust III | April 2003 | 14,433 | 11,664 | Floating rate, LIBOR plus 3.25%, adjusted quarterly | 5.64% | April 2033 |
| Sterling Capital Trust IV | May 2003 | 10,310 | 8,245 | Floating rate, LIBOR plus 3.15%, adjusted quarterly | 5.58% | May 2033 |
| Sterling Capital Statutory Trust V | May 2003 | 20,619 | 16,500 | Floating rate, LIBOR plus 3.25%, adjusted quarterly | 5.72% | June 2033 |
| Sterling Capital Trust VI | June 2003 | 10,310 | 8,208 | Floating rate, LIBOR plus 3.20%, adjusted quarterly | 5.68% | September 2033 |
| Sterling Capital Trust VII | June 2006 | 56,702 | 36,457 | Floating rate, LIBOR plus 1.53%, adjusted quarterly | 4.42% | June 2036 |
| Sterling Capital Trust VIII | September 2006 | 51,547 | 33,384 | Floating rate, LIBOR plus 1.63%, adjusted quarterly | 4.55% | December 2036 |
| Sterling Capital Trust IX | July 2007 | 46,392 | 29,095 | Floating rate, LIBOR plus 1.40%, adjusted quarterly | 4.30% | October 2037 |
| Lynnwood Financial Statutory Trust I | March 2003 | 9,279 | 7,362 | Floating rate, LIBOR plus 3.15%, adjusted quarterly | 5.65% | March 2033 |
| Lynnwood Financial Statutory Trust II | June 2005 | 10,310 | 6,937 | Floating rate, LIBOR plus 1.80%, adjusted quarterly | 4.64% | June 2035 |
| Klamath First Capital Trust I | July 2001 | 15,464 | 13,367 | Floating rate, LIBOR plus 3.75%, adjusted semiannually | 6.02% | July 2031 |
| | | $379,390 | $266,875 | | | |
| AT AMORTIZED COST: | | | | | | |
| HB Capital Trust I | March 2000 | $5,310 | $6,008 | 10.875% | 8.68% | March 2030 |
| Humboldt Bancorp Statutory Trust I | February 2001 | 5,155 | 5,673 | 10.200% | 8.58% | February 2031 |
| Humboldt Bancorp Statutory Trust II | December 2001 | 10,310 | 11,070 | Floating rate, LIBOR plus 3.60%, adjusted quarterly | 4.10% | December 2031 |
| Humboldt Bancorp Statutory Trust III | September 2003 | 27,836 | 29,856 | Floating rate, LIBOR plus 2.95%, adjusted quarterly | 3.55% | September 2033 |

| | | | | | | |
|---|---|---|---|---|---|---|
| CIB Capital Trust | November 2002 | 10,310 | 10,967 | Floating rate, LIBOR plus 3.45%, adjusted quarterly | 4.08% | November 2032 |
| Western Sierra Statutory Trust I | July 2001 | 6,186 | 6,186 | Floating rate, LIBOR plus 3.58%, adjusted quarterly | 4.89% | July 2031 |
| Western Sierra Statutory Trust II | December 2001 | 10,310 | 10,310 | Floating rate, LIBOR plus 3.60%, adjusted quarterly | 4.92% | December 2031 |
| Western Sierra Statutory Trust III | September 2003 | 10,310 | 10,310 | Floating rate, LIBOR plus 2.90%, adjusted quarterly | 4.20% | September 2033 |
| Western Sierra Statutory Trust IV | September 2003 | 10,310 | 10,310 | Floating rate, LIBOR plus 2.90%, adjusted quarterly | 4.20% | September 2033 |
| | | 96,037 | 100,690 | | | |
| | Total | $475,427 | $367,565 | | | |

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(1) Includes acquisition accounting adjustments, net of accumulated amortization, for junior subordinated debentures assumed in connection with previous mergers as well as fair value adjustments related to trusts recorded at fair value.
(2) Contractual interest rate of junior subordinated debentures.
(3) Effective interest rate based upon the carrying value as of September 30, 2017.

The Trusts are reflected as junior subordinated debentures in the Condensed Consolidated Balance Sheets. The common stock issued by the Trusts is recorded in other assets in the Condensed Consolidated Balance Sheets, and totaled $14.3 million at September 30, 2017 and December 31, 2016. As of September 30, 2017, all of the junior subordinated debentures were redeemable at par, at their applicable quarterly or semiannual interest payment dates.

The Company selected the fair value measurement option for junior subordinated debentures originally issued by the Company (the Umpqua Statutory Trusts) and for junior subordinated debentures acquired from Sterling Financial Corporation ("Sterling"). Refer to Note 14 for discussion of the rationale for election of fair value and the approach used to fair value the selected junior subordinated debentures.

Absent changes to the significant inputs utilized in the discounted cash flow model used to measure the fair value of these instruments, the discounts will reverse over time in a manner similar to the effective interest rate method as if these instruments were accounted for under the amortized cost method. Losses recorded resulting from the change in the fair value of these instruments was $1.6 million and $4.7 million for the three and nine months ended September 30, 2017, respectively, and $1.6 million and $4.7 million for the three and nine months ended September 30, 2016, respectively.

Note 8 – Commitments and Contingencies

Lease Commitments — As of September 30, 2017, the Bank leased 237 sites under non-cancelable operating leases. The leases contain various provisions for increases in rental rates, based either on changes in the published Consumer Price Index or a predetermined escalation schedule. Substantially all of the leases provide the Company with the option to extend the lease term one or more times following expiration of the initial term.

Rent expense for the three and nine months ended September 30, 2017 was $9.7 million and $28.9 million, respectively, and for the three and nine months ended September 30, 2016 was $9.8 million and $29.0 million, respectively. Rent expense was partially offset by rent income of $529,000 and $1.5 million for the three and nine months ended September 30, 2017, respectively, and $508,000 and $1.5 million for the three and nine months ended September 30, 2016, respectively.

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

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

| (in thousands) | As of September 30, 2017 |
|---|---|
| Commitments to extend credit | $4,768,577 |
| Forward sales commitments | $625,308 |
| Commitments to originate residential mortgage loans held for sale | $405,786 |
| Standby letters of credit | $71,305 |

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

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

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

Standby letters of credit and financial guarantees written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. These guarantees are primarily issued to support public and private borrowing arrangements, including international trade finance, commercial paper, bond financing and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds cash, marketable securities, or real estate as collateral supporting those commitments for which collateral is deemed necessary. There were no financial guarantees that the Bank was required to perform on during the three and nine months ended September 30, 2017 and September 30, 2016. At September 30, 2017, approximately $51.5 million of standby letters of credit expire within one year, and $19.8 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. The Bank recorded approximately $218,000 and $682,000 in fees associated with standby letters of credit during the three and nine months ended September 30, 2017, respectively, compared to $235,000 and $608,000 for the three and nine months ended September 30, 2016, respectively.

Residential mortgage loans sold into the secondary market are sold with limited recourse against the Company, meaning that the Company may be obligated to repurchase or otherwise reimburse the investor for incurred losses on any loans that suffer an early payment default, are not underwritten in accordance with investor guidelines or are determined to have pre-closing borrower misrepresentations. As of September 30, 2017, the Company had a residential mortgage loan repurchase reserve liability of $1.2 million. For loans sold to GNMA, the Bank has a unilateral right, but not the obligation, to repurchase loans that are past due 90 days or more. As of September 30, 2017, the Bank has recorded a liability for the loans subject to this repurchase right of $12.3 million, and has recorded these loans as part of the loan portfolio as if we had repurchased these loans.

Legal Proceedings—Umpqua is involved in legal proceedings occurring in the ordinary course of business. Based on information currently available, advice of counsel and available insurance coverage, we believe that the eventual outcome of actions against the Company or its subsidiaries will not, individually or in the aggregate, have a material adverse effect on our consolidated financial condition. However, it is possible that the ultimate resolution of a matter, if unfavorable, may be material to our results of operations for any particular period.

Contingencies—In October 2017, the Company announced a plan to consolidate approximately 30 store locations to be completed by the end of the first quarter of 2018.

Concentrations of Credit Risk— The Bank grants real estate mortgage, real estate construction, commercial, agricultural and installment loans and leases to customers throughout Oregon, Washington, California, Idaho, and Nevada. In management's judgment, a concentration exists in real estate-related loans, which represented approximately 75% of the Bank's loan and lease portfolio at September 30, 2017 and 76% at December 31, 2016. 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.

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Note 9 – Derivatives

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

The Bank enters into forward delivery contracts to sell residential mortgage loans or mortgage-backed securities to broker/dealers at specific prices and dates in order to hedge the interest rate risk in its portfolio of mortgage loans held for sale and its residential mortgage loan commitments. Credit risk associated with forward contracts is limited to the replacement cost of those forward contracts in a gain position. There were no counterparty default losses on forward contracts in the three and nine months ended September 30, 2017 and 2016. Market risk with respect to forward contracts arises principally from changes in the value of contractual positions due to changes in interest rates. The Bank limits its exposure to market risk by monitoring differences between commitments to customers and forward contracts with broker/dealers. In the event the Company has forward delivery contract commitments in excess of available mortgage loans, the Company completes the transaction by either paying or receiving a fee to or from the broker/dealer equal to the increase or decrease in the market value of the forward contract. At September 30, 2017, the Bank had commitments to originate mortgage loans held for sale totaling $405.8 million and forward sales commitments of $625.3 million, which are used to hedge both on-balance sheet and off-balance sheet exposures.

The Bank executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. Those interest rate swaps are simultaneously hedged by offsetting the interest rate swaps that the Bank executes with a third party, such that the Bank minimizes its net risk exposure. As of September 30, 2017, the Bank had 613 interest rate swaps with an aggregate notional amount of $2.8 billion related to this program. As of December 31, 2016, the Bank had 516 interest rate swaps with an aggregate notional amount of $2.3 billion related to this program.

As of September 30, 2017 and December 31, 2016, 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 $4.4 million and $34.9 million, respectively. The Bank has collateral posting requirements for initial margin with its clearing members and clearing houses and has been required to post collateral against its obligations under these agreements of $32.0 million and $50.3 million as of September 30, 2017 and December 31, 2016, respectively.

Effective in the first quarter of 2017, the Chicago Mercantile Exchange and London Clearing House amended their respective rulebooks to legally characterize variation margin payments, for derivative contracts that are referred to as settled-to-market (STM), as settlements of the derivative’s mark-to-market exposure and not collateral. Based on these changes, Umpqua has treated the variation margin as a settlement, which has resulted in a decrease in our cash collateral, and a corresponding decrease in our derivative asset and liability. As of September 30, 2017, the variation margin was $32.7 million. The change was applied prospectively so prior period balances have not been adjusted.

The Bank incorporates credit valuation adjustments ("CVA") to appropriately reflect nonperformance risk in the fair value measurement of its derivatives. As of September 30, 2017 and December 31, 2016, the net CVA decreased the settlement values of the Bank's net derivative assets by $1.9 million and $241,000, respectively.

The Bank also executes foreign currency hedges as a service for customers. These foreign currency hedges are then offset with hedges with other third-party banks to limit the Bank's risk exposure.

The following table summarizes the types of derivatives, separately by assets and liabilities, and the fair values of such derivatives as of September 30, 2017 and December 31, 2016:

| (in thousands) | Asset Derivatives | | Liability Derivatives | |
|---|---|---|---|---|
| Derivatives not designated as hedging instrument | September 30, 2017 | December 31, 2016 | September 30, 2017 | December 31, 2016 |
| Interest rate lock commitments | $4,781 | $ 4,076 | $— | $ — |
| Interest rate forward sales commitments | 964 | 8,054 | 807 | 1,318 |
| Interest rate swaps | 35,320 | 34,701 | 4,394 | 34,871 |
| Foreign currency derivatives | 670 | 670 | 610 | 874 |
| Total | $41,735 | $ 47,501 | $5,811 | $ 37,063 |

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The following table summarizes the types of derivatives and the gains (losses) recorded during the three and nine months ended September 30, 2017 and 2016:

| (in thousands) | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| Derivatives not designated | September 30, | | September 30, | |
| as hedging instrument | 2017 | 2016 | 2017 | 2016 |
| Interest rate lock commitments | $36 | $(451) | $706 | $6,947 |
| Interest rate forward sales commitments | (4,337) | (5,865) | (10,942) | (26,885) |
| Interest rate swaps | (153) | 182 | (1,636) | (3,104) |
| Foreign currency derivatives | 387 | 307 | 1,152 | 900 |
| Total | $(4,067) | $(5,827) | $(10,720) | $(22,142) |

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

The following table summarizes the derivatives that have a right of offset as of September 30, 2017 and December 31, 2016:

| (in thousands) | | | | Gross Amounts Not Offset in the Statement of Financial Position | | |
|---|---|---|---|---|---|---|
| | Gross Amounts of Recognized Assets/Liabilities | Gross Amounts Offset in the Statement of Financial Position | Net Amounts of Assets/Liabilities presented in the Statement of Financial Position | Financial Instruments | Collateral Posted | Net Amount |
| September 30, 2017 | | | | | | |
| Derivative Assets | | | | | | |
| Interest rate swaps | $ 35,320 | $ — | $ 35,320 | $(4,394) | $— | $30,926 |
| Foreign currency derivatives | 670 | — | 670 | — | — | 670 |
| Derivative Liabilities | | | | | | |
| Interest rate swaps | $ 4,394 | $ — | $ 4,394 | $(4,394) | $— | $— |
| Foreign currency derivatives | 610 | — | 610 | — | — | 610 |
| December 31, 2016 | | | | | | |
| Derivative Assets | | | | | | |
| Interest rate swaps | $ 34,701 | $ — | $ 34,701 | $(11,225) | $— | $23,476 |
| Foreign currency derivatives | 670 | — | 670 | — | — | 670 |
| Derivative Liabilities | | | | | | |
| Interest rate swaps | $ 34,871 | $ — | $ 34,871 | $(11,225) | $(23,646) | $— |
| Foreign currency derivatives | 874 | — | 874 | — | — | 874 |

The above table represents the impact of the changes to the derivative clearing rules that treat the variation margin as a settlement.

Note 10 – Shareholders' Equity and Stock Compensation

The Company has a share repurchase plan, which allows the Company to repurchase shares from time to time subject to a maximum number of shares over the life of the plan. In May 2017, the Company repurchased 225,000 shares for a total of $3.9 million.

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Stock-Based Compensation

The compensation cost related to stock options, restricted stock and restricted stock units in Company stock granted to employees and included in salaries and employee benefits was $2.2 million and $5.9 million, respectively, for the three and nine months ended September 30, 2017, as compared to $2.0 million and $6.7 million, respectively, for the three and nine months ended September 30, 2016. The total income tax benefit recognized related to stock-based compensation was $834,000 and $2.3 million, respectively, for the three and nine months ended September 30, 2017, as compared to $774,000 and $2.6 million, respectively, for the three and nine months ended September 30, 2016.

The following table summarizes information about stock option activity for the nine months ended September 30, 2017:

| (in thousands, except per share data) | Nine Months Ended September 30, 2017 | | | |
|---|---|---|---|---|
| | Options Outstanding | Weighted-Avg Exercise Price | Weighted-Avg Remaining Contractual Term (Years) | Aggregate Intrinsic Value |
| Balance, beginning of period | 219 | $ 15.74 | | |
| Granted/assumed | — | $ — | | |
| Exercised | (42 ) | $ 13.20 | | |
| Forfeited/expired | (50 ) | $ 26.12 | | |
| Balance, end of period | 127 | $ 12.48 | 2.62 | $ 894 |
| Options exercisable, end of period | 123 | $ 12.50 | 2.54 | $ 864 |

The total intrinsic value (which is the amount by which the stock price exceeded the exercise price on the date of exercise) of options exercised during the three and nine months ended September 30, 2017 was $52,000 and $193,000, respectively, as compared to the three and nine months ended September 30, 2016 of $81,000 and $259,000, respectively.

During the three and nine months ended September 30, 2017, the amount of cash received from the exercise of stock options was $85,000 and $354,000, respectively, as compared to the three and nine months ended September 30, 2016 of $365,000 and $432,000, respectively. Total consideration was $85,000 and $548,000, respectively, for the three and nine months ended September 30, 2017 as compared to the three and nine months ended September 30, 2016 of $322,000 and $1.1 million, respectively.

The Company grants restricted stock periodically for the benefit of employees and directors. Restricted shares generally vest over a three year period, subject to time or time plus performance vesting conditions. The following table summarizes information about nonvested restricted share activity for the nine months ended September 30, 2017:

| (in thousands, except per share data) | Nine Months Ended September 30, 2017 | |
|---|---|---|
| | Restricted Shares Outstanding | Weighted Average Grant Date Fair Value |
| Balance, beginning of period | 1,096 | $ 15.61 |
| Granted | 611 | $ 18.15 |
| Vested/released | (297 ) | $ 16.25 |

| | | |
|---|---|---|
| Forfeited/expired | (79 ) | $ 16.68 |
| Balance, end of period | 1,331 | $ 16.57 |

The total fair value of restricted shares vested and released during the three and nine months ended September 30, 2017 was $193,000 and $5.4 million, respectively, as compared to the three and nine months ended September 30, 2016 of $331,000 and $11.6 million, respectively.

The Company granted restricted stock units in connection with the acquisition of Sterling as replacement awards. Restricted stock unit grants may be subject to performance-based vesting as well as other approved vesting conditions. The total number of restricted stock units granted represents the maximum number of restricted stock units eligible to vest based upon the performance and service conditions set forth in the grant agreements.

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The following table summarizes information about nonvested restricted stock unit activity for the nine months ended September 30, 2017:

| (in thousands, except per share data) | Nine Months Ended September 30, 2017 | |
|---|---|---|
| | Restricted Stock Units Outstanding | Weighted Average Grant Date Fair Value |
| Balance, beginning of period | 78 | $ 18.58 |
| Assumed | — | $ — |
| Released | (50) | $ 18.58 |
| Forfeited/expired | (4 ) | $ 18.58 |
| Balance, end of period | 24 | $ 18.58 |

The total fair value of restricted stock units vested and released during the three and nine months ended September 30, 2017 was $80,000 and $891,000, respectively, as compared to the three and nine months ended September 30, 2016 of $65,000 and $2.2 million, respectively.

As of September 30, 2017, there was $3,000 of total unrecognized compensation cost related to nonvested stock options which is expected to be recognized over a weighted-average period of 0.21 years. As of September 30, 2017, there was $10.7 million of total unrecognized compensation cost related to nonvested restricted stock awards which is expected to be recognized over a weighted-average period of 1.54 years, assuming expected performance conditions are met for certain awards. As of September 30, 2017, there was $504,000 of total unrecognized compensation cost related to nonvested restricted stock units which is expected to be recognized over a weighted-average period of 0.49 years.

For the three and nine months ended September 30, 2017, the Company received income tax benefits of $126,000 and $2.5 million, respectively, as compared to the three and nine months ended September 30, 2016 of $185,000 and $5.4 million, respectively, related to the exercise of non-qualified employee stock options, disqualifying dispositions on the exercise of incentive stock options, the vesting of restricted shares and the vesting of restricted stock units. The tax deficiency or benefit is recorded as income tax expense or benefit in the period the shares are vested.

Note 11 – Income Taxes

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, as well as in the majority of states and in Canada. As of September 30, 2017, the Company has a net deferred tax liability of $51.4 million, which is net of certain deferred tax assets. The Company has a deferred tax asset of $3.3 million for state net operating loss ("NOL") carry-forwards. The Company believes that it is more likely than not that the benefit from the state NOL and tax credit carry-forwards will not be realized and therefore has provided a valuation allowance of $1.1 million against the deferred tax assets relating to these NOL and tax credit carry-forwards.

The Company had gross unrecognized tax benefits of $3.1 million as of September 30, 2017. If recognized, the unrecognized tax benefit would reduce the 2017 annual effective tax rate by 0.6%. During the three and nine months ended September 30, 2017, the Company reversed $29,000 and $2,000, respectively, of interest relating to its liability for unrecognized tax benefits. Interest on unrecognized tax benefits is reported by the Company as a component of tax expense. As of September 30, 2017, the accrued interest related to unrecognized tax benefits was $352,000.

Note 12 – Earnings Per Common Share

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

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

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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, 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.

The following is a computation of basic and diluted earnings per common share for the three and nine months ended September 30, 2017 and 2016:

| (in thousands, except per share data) | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, | | September 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| NUMERATORS: | | | | |
| Net income | $61,333 | $61,809 | $164,148 | $163,665 |
| Less: | | | | |
| Dividends and undistributed earnings allocated to participating securities (1) | 14 | 31 | 40 | 92 |
| Net earnings available to common shareholders | $61,319 | $61,778 | $164,108 | $163,573 |
| DENOMINATORS: | | | | |
| Weighted average number of common shares outstanding - basic | 220,215 | 220,291 | 220,270 | 220,313 |
| Effect of potentially dilutive common shares (2) | 540 | 460 | 523 | 623 |
| Weighted average number of common shares outstanding - diluted | 220,755 | 220,751 | 220,793 | 220,936 |
| EARNINGS PER COMMON SHARE: | | | | |
| Basic | $0.28 | $0.28 | $0.75 | $0.74 |
| Diluted | $0.28 | $0.28 | $0.74 | $0.74 |

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

The following table presents the weighted average outstanding securities that were not included in the computation of diluted earnings per common share because their effect would be anti-dilutive for the three and nine months ended September 30, 2017 and 2016.

| (in thousands) | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, | | September 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| Stock options | — | 50 | 12 | 104 |

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Note 13 – Segment Information

In the first quarter of 2017, the Company realigned its operating segments based on changes in its internal reporting structure to align with the change in the Company's Chief Operating Decision Maker. The Company now reports four primary segments: Commercial Bank, Wealth Management, Retail Bank, and Home Lending with the remainder as Corporate and other. The prior periods have been restated to reflect current presentation of segments.

The Commercial Bank segment includes lending, treasury and cash management services and customer risk management products to small businesses, middle market and larger commercial customers and includes the operations of Financial Pacific Leasing Inc., a commercial leasing company. 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 Retail Bank segment includes retail lending and deposit services for customers served through the Bank's store network. The Home Lending segment originates, sells and services residential mortgage loans. The Corporate and other segment includes activities that are not directly attributable to one of the four principal lines of business and includes the operations of Pivotus Ventures, Inc. and the parent company, eliminations and the economic impact of certain assets, capital and support functions not specifically identifiable within the other lines of business.

Management monitors the Company's results using an internal performance measurement accounting system, which provides line of business results and key performance measures. A primary objective of this profitability measurement system and related internal financial reporting practices are designed to produce consistent results that reflect the underlying economics of the businesses, and to support strategic objectives and analysis based on how management views the business. Various methodologies employed within this system to measure performance are based on management's judgment or other subjective factors. Consequently, the information presented is not necessarily comparable with similar information for other financial institutions.

This system uses various techniques to assign balance sheet and income statement amounts to the business segments, including internal funds transfer pricing, allocations of income, expense, the provision for credit losses, and capital. The application and development of these management reporting methodologies is a dynamic process and is subject to periodic enhancements. As these enhancements are made, financial results presented by each reportable segment may be periodically revised retrospectively, if material.

Funds transfer pricing is used in the determination of net interest income reported by assigning a cost for funds used or credit for funds provided to all assets and liabilities within each business segment. In general, assets and liabilities are match-funded based on their maturity or repricing characteristics, adjusted for estimated prepayments if applicable. The value of funds provided or cost of funds used by the business segments is priced at rates that approximate wholesale market rates of the Company for funds with similar duration and re-pricing characteristics. Market rates are generally based on LIBOR or interest rate swap rates, plus consideration of the Company’s incremental credit spread/cost of borrowing. As a result, the business segments are generally insulated from changes in interest rates. This method of funds transfer pricing also serves to transfer interest rate risk to Treasury, which is contained within the Corporate & Other segment. However, the business segments have some latitude to retain certain interest rate exposures related to customer pricing decisions that are within overall Corporate guidelines.

Noninterest income and expenses directly attributable to a business segment are directly recorded within that business unit. To better analyze the total financial performance of each business unit and to consider the total cost to support a segment, management allocates centrally provided support services and other corporate overhead to the business segments based on various methodologies. Examples of these type of expense overhead pools include information technology, operations, human resources, finance, risk management, credit administration, legal, and marketing. Expense allocations are based on actual usage where practicably calculated or by management's estimate of such usage. Example of typical expense allocation drivers include number of employees, loan or deposits average balances or counts, origination or transaction volumes, credit quality related indicators, noninterest expense, or other identified drivers.

The provision for loan and lease losses is based on the methodology consistent with our process to estimate our consolidated allowance. The provision for credit losses incorporates the actual net charge-offs recognized related to loans contained within each business segment. The residual provision for credit losses to arrive at the consolidated provision for credit losses is included in Corporate and Other.

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The provision for income taxes is allocated to business segments using a 37% effective tax rate. The residual income tax expense or benefit arising from tax planning strategies or other tax attributes to arrive at the consolidated effective tax rate is retained in Corporate and Other.

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

| (in thousands) | Three Months Ended September 30, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Commercial Bank | Wealth Management | Retail Bank | Home Lending | Corporate & Other | Consolidated |
| Net interest income | $110,499 | $ 5,609 | $72,529 | $10,191 | $21,636 | $ 220,464 |
| Provision (recapture) for loan and lease losses | 9,166 | 107 | 1,999 | 855 | (130 ) | 11,997 |
| Non-interest income | 12,703 | 4,462 | 16,038 | 38,855 | 3,344 | 75,402 |
| Non-interest expense | 53,830 | 8,723 | 69,159 | 37,454 | 19,188 | 188,354 |
| Income before income taxes | 60,206 | 1,241 | 17,409 | 10,737 | 5,922 | 95,515 |
| Provision for income taxes | 22,276 | 459 | 6,443 | 3,973 | 1,031 | 34,182 |
| Net income | $37,930 | $ 782 | $10,966 | $6,764 | $4,891 | $ 61,333 |

| (in thousands) | Nine Months Ended September 30, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Commercial Bank | Wealth Management | Retail Bank | Home Lending | Corporate & Other | Consolidated |
| Net interest income | $320,561 | $ 16,251 | $208,482 | $29,461 | $64,512 | $ 639,267 |
| Provision (recapture) for loan and lease losses | 26,059 | 482 | 6,667 | 1,142 | (24 ) | 34,326 |
| Non-interest income | 40,163 | 13,689 | 46,539 | 100,372 | 5,983 | 206,746 |
| Non-interest expense | 160,040 | 25,570 | 215,534 | 110,634 | 43,311 | 555,089 |
| Income before income taxes | 174,625 | 3,888 | 32,820 | 18,057 | 27,208 | 256,598 |
| Provision for income taxes | 64,611 | 1,438 | 12,144 | 6,681 | 7,576 | 92,450 |
| Net income | $110,014 | $ 2,450 | $20,676 | $11,376 | $19,632 | $ 164,148 |

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| (in thousands) | Three Months Ended September 30, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Commercial Bank | Wealth Management | Retail Bank | Home Lending | Corporate & Other | Consolidated |
| Net interest income | $105,827 | $ 5,442 | $63,568 | $11,177 | $ 23,878 | $ 209,892 |
| Provision for loan and lease losses | 9,054 | 234 | 2,732 | 829 | 242 | 13,091 |
| Non-interest income | 9,478 | 4,800 | 16,301 | 48,292 | 1,839 | 80,710 |
| Non-interest expense | 50,237 | 8,760 | 71,169 | 40,688 | 10,333 | 181,187 |
| Income before income taxes | 56,014 | 1,248 | 5,968 | 17,952 | 15,142 | 96,324 |
| Provision for income taxes | 20,725 | 462 | 2,208 | 6,642 | 4,478 | 34,515 |
| Net income | $35,289 | $ 786 | $3,760 | $11,310 | $ 10,664 | $ 61,809 |

| (in thousands) | Nine Months Ended September 30, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Commercial Bank | Wealth Management | Retail Bank | Home Lending | Corporate & Other | Consolidated |
| Net interest income | $313,832 | $ 16,010 | $187,168 | $30,369 | $ 89,413 | $ 636,792 |
| Provision (recapture) for loan and lease losses | 21,830 | 602 | 6,310 | (1,669 ) | 1,430 | 28,503 |
| Non-interest income | 29,748 | 14,519 | 46,932 | 104,980 | 5,141 | 201,320 |
| Non-interest expense | 149,737 | 27,060 | 220,804 | 116,596 | 39,490 | 553,687 |
| Income before income taxes | 172,013 | 2,867 | 6,986 | 20,422 | 53,634 | 255,922 |
| Provision for income taxes | 63,645 | 1,061 | 2,585 | 7,556 | 17,410 | 92,257 |
| Net income | $108,368 | $ 1,806 | $4,401 | $12,866 | $ 36,224 | $ 163,665 |

| (in thousands) | September 30, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Commercial Bank | Wealth Management | Retail Bank | Home Lending | Corporate & Other | Consolidated |
| Total assets | $13,594,329 | $ 456,114 | $2,060,076 | $3,436,392 | $6,148,752 | $25,695,663 |
| Total loans and leases | $13,414,523 | $ 441,727 | $1,977,641 | $2,855,875 | $(12,004 ) | $18,677,762 |
| Total deposits | $3,737,068 | $ 1,023,661 | $12,471,328 | $332,686 | $2,287,167 | $19,851,910 |

| (in thousands) | December 31, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Commercial Bank | Wealth Management | Retail Bank | Home Lending | Corporate & Other | Consolidated |
| Total assets | $12,829,249 | $ 437,058 | $1,893,433 | $3,243,600 | $6,409,779 | $24,813,119 |
| Total loans and leases | $12,640,383 | $ 415,737 | $1,806,554 | $2,685,181 | $(39,192 ) | $17,508,663 |
| Total deposits | $3,288,837 | $ 1,011,454 | $12,032,906 | $229,358 | $2,458,430 | $19,020,985 |

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Note 14 – Fair Value Measurement

The following table presents estimated fair values of the Company's financial instruments as of September 30, 2017 and December 31, 2016, whether or not recognized or recorded at fair value in the Condensed Consolidated Balance Sheets:

| (in thousands) | | September 30, 2017 | | December 31, 2016 | |
|---|---|---|---|---|---|
| | Level | Carrying Value | Fair Value | Carrying Value | Fair Value |
| FINANCIAL ASSETS: | | | | | |
| Cash and cash equivalents | 1 | $845,566 | $845,566 | $1,449,432 | $1,449,432 |
| Trading securities | 1,2 | 11,919 | 11,919 | 10,964 | 10,964 |
| Investment securities available for sale | 2 | 3,047,358 | 3,047,358 | 2,701,220 | 2,701,220 |
| Investment securities held to maturity | 3 | 3,905 | 5,019 | 4,216 | 5,217 |
| Loans held for sale | 2 | 417,470 | 417,470 | 387,318 | 387,318 |
| Loans and leases, net | 3 | 18,538,259 | 18,492,760 | 17,374,679 | 17,385,156 |
| Restricted equity securities | 1 | 45,509 | 45,509 | 45,528 | 45,528 |
| Residential mortgage servicing rights | 3 | 141,225 | 141,225 | 142,973 | 142,973 |
| Bank owned life insurance assets | 1 | 305,572 | 305,572 | 299,673 | 299,673 |
| Derivatives | 2,3 | 41,735 | 41,735 | 47,501 | 47,501 |
| Visa Class B common stock | 3 | — | 79,728 | — | 59,107 |
| FINANCIAL LIABILITIES: | | | | | |
| Deposits | 1,2 | $19,851,910 | $19,846,636 | $19,020,985 | $19,016,330 |
| Securities sold under agreements to repurchase | 2 | 321,542 | 321,542 | 352,948 | 352,948 |
| Term debt | 2 | 852,306 | 846,390 | 852,397 | 844,377 |
| Junior subordinated debentures, at fair value | 3 | 266,875 | 266,875 | 262,209 | 262,209 |
| Junior subordinated debentures, at amortized cost | 3 | 100,690 | 79,013 | 100,931 | 77,640 |
| Derivatives | 2 | 5,811 | 5,811 | 37,063 | 37,063 |

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Fair Value of Assets and Liabilities Measured on a Recurring Basis

The following tables present information about the Company's assets and liabilities measured at fair value on a recurring basis as of September 30, 2017 and December 31, 2016:

| (in thousands) | September 30, 2017 | | | |
|---|---|---|---|---|
| Description | Total | Level 1 | Level 2 | Level 3 |
| FINANCIAL ASSETS: | | | | |
| Trading securities | | | | |
| Obligations of states and political subdivisions | $268 | $— | $268 | $— |
| Equity securities | 11,651 | 11,651 | — | — |
| Investment securities available for sale | | | | |
| U.S. Treasury and agencies | 40,026 | — | 40,026 | — |
| Obligations of states and political subdivisions | 297,794 | — | 297,794 | — |
| Residential mortgage-backed securities and collateralized mortgage obligations | 2,707,555 | — | 2,707,555 | — |
| Investments in mutual funds and other equity securities | 1,983 | — | 1,983 | — |
| Loans held for sale, at fair value | 417,470 | — | 417,470 | — |
| Residential mortgage servicing rights, at fair value | 141,225 | — | — | 141,225 |
| Derivatives | | | | |
| Interest rate lock commitments | 4,781 | — | — | 4,781 |
| Interest rate forward sales commitments | 964 | — | 964 | — |
| Interest rate swaps | 35,320 | — | 35,320 | — |
| Foreign currency derivative | 670 | — | 670 | — |
| Total assets measured at fair value | $3,659,707 | $11,651 | $3,502,050 | $146,006 |
| FINANCIAL LIABILITIES: | | | | |
| Junior subordinated debentures, at fair value | $266,875 | $— | $— | $266,875 |
| Derivatives | | | | |
| Interest rate forward sales commitments | 807 | — | 807 | — |
| Interest rate swaps | 4,394 | — | 4,394 | — |
| Foreign currency derivative | 610 | — | 610 | — |
| Total liabilities measured at fair value | $272,686 | $— | $5,811 | $266,875 |

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| (in thousands) | December 31, 2016 | | | |
|---|---|---|---|---|
| Description | Total | Level 1 | Level 2 | Level 3 |
| FINANCIAL ASSETS: | | | | |
| Trading securities | | | | |
| Obligations of states and political subdivisions | $662 | $— | $662 | $— |
| Equity securities | 10,302 | 10,302 | — | — |
| Investment securities available for sale | | | | |
| Obligations of states and political subdivisions | 307,697 | — | 307,697 | — |
| Residential mortgage-backed securities and collateralized mortgage obligations | 2,391,553 | — | 2,391,553 | — |
| Investments in mutual funds and other equity securities | 1,970 | — | 1,970 | — |
| Loans held for sale, at fair value | 387,318 | — | 387,318 | — |
| Residential mortgage servicing rights, at fair value | 142,973 | — | — | 142,973 |
| Derivatives | | | | |
| Interest rate lock commitments | 4,076 | — | — | 4,076 |
| Interest rate forward sales commitments | 8,054 | — | 8,054 | — |
| Interest rate swaps | 34,701 | — | 34,701 | — |
| Foreign currency derivative | 670 | — | 670 | — |
| Total assets measured at fair value | $3,289,976 | $10,302 | $3,132,625 | $147,049 |
| FINANCIAL LIABILITIES: | | | | |
| Junior subordinated debentures, at fair value | $262,209 | $— | $— | $262,209 |
| Derivatives | | | | |
| Interest rate forward sales commitments | 1,318 | — | 1,318 | — |
| Interest rate swaps | 34,871 | — | 34,871 | — |
| Foreign currency derivative | 874 | — | 874 | — |
| Total liabilities measured at fair value | $299,272 | $— | $37,063 | $262,209 |

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

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

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

Loans Held for Sale— Fair value for residential mortgage loans originated as held for sale is determined based on quoted secondary market prices for similar loans, including the implicit fair value of embedded servicing rights. For loans not originated as held for sale, these loans are accounted for at lower of cost or market, with the fair value estimated based on the expected sales price.

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

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

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

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

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

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

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

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

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

Derivative Instruments— The fair value of the interest rate lock commitments and forward sales commitments are estimated using quoted or published market prices for similar instruments, adjusted for factors such as pull-through rate assumptions based on historical information, where appropriate. The pull-through rate assumptions are considered Level 3 valuation inputs and are significant to the interest rate lock commitment valuation; as such, the interest rate lock commitment derivatives are classified as Level 3. The fair value of the interest rate swaps is determined using a discounted cash flow technique incorporating credit valuation adjustments to reflect nonperformance risk in the measurement of fair value. Although the Bank has determined that the majority of the inputs used to value its interest rate swap derivatives fall within Level 2 of the fair value hierarchy, the CVA associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of September 30, 2017, the Bank has assessed the significance of the impact of the CVA on the overall valuation of its interest rate swap positions and has determined that the CVA are not significant to the overall valuation of its interest rate swap derivatives. As a result, the Bank has classified its interest rate swap derivative valuations in Level 2 of the fair value hierarchy.

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

The following table provides a description of the valuation technique, significant unobservable inputs, and qualitative information about the unobservable inputs for the Company's assets and liabilities classified as Level 3 and measured at fair value on a recurring basis at September 30, 2017:

| Financial Instrument | Valuation Technique | Unobservable Input | Weighted Average |
|---|---|---|---|
| Residential mortgage servicing rights | Discounted cash flow | | |
| | | Constant Prepayment Rate | 13.20% |
| | | Discount Rate | 9.70% |
| Interest rate lock commitment | Internal Pricing Model | | |
| | | Pull-through rate | 86.48% |
| Junior subordinated debentures | Discounted cash flow | | |
| | | Credit Spread | 5.26% |

Generally, any significant increases in the constant prepayment rate and discount rate utilized in the fair value measurement of the residential 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 September 30, 2017, or the passage of time, will result in negative fair value adjustments. Generally, an increase in the credit risk adjusted spread and/or the forward swap interest rate 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 the forward swap interest rate curve will result in negative fair value adjustments (and increase the fair value measurement).

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The following tables provide a reconciliation of assets and liabilities measured at fair value using significant unobservable inputs (Level 3) on a recurring basis during the three and nine months ended September 30, 2017 and 2016:
(in thousands)

| Three Months Ended September 30, | 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 |
|---|---|---|---|---|---|---|
| 2017 | | | | | | |
| Residential mortgage servicing rights | $ 141,832 | $ (9,233 ) | $ 8,626 | $ — | $ 141,225 | $ (4,730 ) |
| Interest rate lock commitment, net | 4,746 | 884 | 10,028 | (10,877) | 4,781 | 4,781 |
| Junior subordinated debentures, at fair value | 265,423 | 5,043 | — | (3,591 ) | 266,875 | 5,043 |
| 2016 | | | | | | |
| Residential mortgage servicing rights | $ 112,095 | $ (7,826 ) | $ 10,177 | $ — | $ 114,446 | $ (3,424 ) |
| Interest rate lock commitment, net | 11,028 | 1,585 | 19,503 | (21,539) | 10,577 | 10,577 |
| Junior subordinated debentures, at fair value | 258,660 | 4,486 | — | (3,032 ) | 260,114 | 4,486 |

(in thousands)

| Nine Months Ended September 30, | 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 |
|---|---|---|---|---|---|---|
| 2017 | | | | | | |
| Residential mortgage servicing rights | $ 142,973 | $ (25,234 ) | $ 23,486 | $ — | $ 141,225 | $ (12,954 ) |
| Interest rate lock commitment, net | 4,076 | 2,261 | 31,992 | (33,548) | 4,781 | 4,781 |
| Junior subordinated debentures, at fair value | 262,209 | 14,595 | — | (9,929 ) | 266,875 | 14,595 |
| 2016 | | | | | | |
| Residential mortgage servicing rights | $ 131,817 | $ (42,391 ) | $ 25,020 | $ — | $ 114,446 | $ (35,386 ) |
| Interest rate lock commitment, net | 3,631 | 5,306 | 50,785 | (49,145) | 10,577 | 10,577 |
| Junior subordinated debentures, at fair value | 255,457 | 13,160 | — | (8,503 ) | 260,114 | 13,160 |

Changes in residential mortgage servicing rights carried at fair value are recorded in residential mortgage banking revenue within non-interest income. Gains (losses) on interest rate lock commitments carried at fair value are recorded in residential mortgage banking revenue within non-interest income. Gains (losses) on junior subordinated debentures carried at fair value are recorded in 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, typically on collateral dependent loans.

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

The following tables present 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) | September 30, 2017 | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| Loans and leases | $58,976 | $ — | $ — | $58,976 |
| Other real estate owned | 68 | — | — | 68 |
| | $59,044 | $ — | $ — | $59,044 |

| (in thousands) | December 31, 2016 | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| Loans and leases | $25,753 | $ — | $ — | $25,753 |
| Other real estate owned | 2,612 | — | — | 2,612 |
| | $28,365 | $ — | $ — | $28,365 |

The following table presents the losses resulting from nonrecurring fair value adjustments for the three and nine months ended September 30, 2017 and 2016:

| (in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Loans and leases | $11,138 | $6,472 | $34,294 | $19,642 |
| Other real estate owned | 39 | 139 | 146 | 1,601 |
| Total loss from nonrecurring measurements | $11,177 | $6,611 | $34,440 | $21,243 |

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. Unobservable inputs and qualitative information about the unobservable inputs are not presented as the fair value is determined by third-party information. The loans and leases amounts above represent 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 other real estate owned amount above represents impaired real estate that has been adjusted to fair value. 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 other real estate owned for fair value adjustments based on the fair value of the real estate.

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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 September 30, 2017 and December 31, 2016:

| (in thousands) | September 30, 2017 | | | December 31, 2016 | | |
|---|---|---|---|---|---|---|
| | 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 | $417,470 | $401,915 | $ 15,555 | $387,318 | $378,974 | $ 8,344 |

Residential mortgage 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 residential mortgage banking revenue, net in the Condensed Consolidated Statements of Income. For the three and nine months ended September 30, 2017, the Company recorded a net increase in fair value of $136,000 and $7.2 million, respectively. For the three and nine months ended September 30, 2016, the Company recorded a net decrease in fair value of $254,000 and a net increase of $13.6 million, respectively.

The Company selected the fair value measurement option for existing junior subordinated debentures (the Umpqua Statutory Trusts) and for junior subordinated debentures acquired from Sterling. The remaining junior subordinated debentures were acquired through previous business combinations and were measured at fair value at the time of acquisition and subsequently measured at amortized cost.

Accounting for the selected junior subordinated debentures 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.

Due to inactivity in the junior subordinated debenture market and the lack of 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, evaluates 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. We also consider changes in the interest rate environment in our valuation, specifically the absolute level and the shape of the slope of the forward swap curve.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This Report contains certain forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which are intended to be covered by the safe harbor for "forward-looking statements" provided by the Private Securities Litigation Reform Act of 1995. These statements may include statements that expressly or implicitly predict future results, performance or events. Statements other than statements of historical fact are forward-looking statements. You can find many of these statements by looking for words such as "anticipates," "expects," "believes," "estimates," "intends" and "forecast," and words or phrases of similar meaning. We make forward-looking statements regarding projected sources of funds; our securities portfolio; loan sales; adequacy of our allowance for loan and lease losses and reserve for unfunded commitments; provision for loan and lease losses; impaired loans and future losses; performance of troubled debt restructurings; our commercial real estate portfolio, its collectability and subsequent charge-offs; resolution of non-accrual loans; litigation; Pivotus Ventures, Inc.; junior subordinated debentures; and the effect of accounting pronouncements. Forward-looking statements involve substantial risks and uncertainties, many of which are difficult to predict and are generally beyond our control. There are many factors that could cause actual results to differ materially from those contemplated by these forward-looking statements. Risks and uncertainties include those set forth in our filings with the Securities and Exchange Commission (the "SEC") and the following factors that might cause actual results to differ materially from those presented:

- our ability to attract new deposits and loans and leases and to retain deposits during store consolidations;
- demand for financial services in our market areas;
- competitive market pricing factors;
- our ability to effectively develop and implement new technology;
- deterioration in economic conditions that could result in increased loan and lease losses, especially those risks associated with concentrations in real estate related loans;
- market interest rate volatility;
- compression of our net interest margin;
- stability of funding sources and continued availability of borrowings;
- changes in legal or regulatory requirements or the results of regulatory examinations that could increase expenses or restrict growth;
- our ability to recruit and retain key management and staff;
- availability of, and competition for, acquisition opportunities;
- risks associated with merger and acquisition integration;
- significant decline in the market value of the Company that could result in an impairment of goodwill;
- our ability to raise capital or incur debt on reasonable terms;
- regulatory limits on the Bank's ability to pay dividends to the Company;
- financial services reform, including the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act and other legislation and implementing regulations on the Company's business operations, including our compliance costs, interest expense, and revenue;
- a breach or failure of our operational or security systems, or those of our third-party vendors, including as a result of cyber attacks; and
- competition, including from financial technology companies.

There are many factors that could cause actual results to differ materially from those contemplated by these forward-looking statements. Forward-looking statements are made as of the date of this Form 10-Q. We do not intend to update these forward-looking statements. Readers should consider any forward-looking statements in light of this explanation, and we caution readers about relying on forward-looking statements.

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General

Umpqua Holdings Corporation, an Oregon corporation, is a financial holding company with two principal operating subsidiaries, Umpqua Bank and Umpqua Investments, Inc.

With headquarters located in Roseburg, Oregon, the Bank is considered one of the most innovative community banks in the United States, recognized nationally and internationally for its unique company culture and customer experience strategy, which differentiate the Company from its competition. The Bank provides a wide range of banking, wealth management, mortgage and other financial services to corporate, institutional and individual customers, and also has a wholly-owned subsidiary, Financial Pacific Leasing, Inc., a commercial equipment leasing company.

Umpqua Investments is a registered broker-dealer and registered investment advisor with offices in Oregon, Washington, and California, and also offers products and services through Umpqua Bank stores. The firm is one of the oldest investment companies in the Northwest. Umpqua Investments offers a full range of investment products and services including: stocks, fixed income securities (municipal, corporate, and government bonds, CDs, and money market instruments), mutual funds, options, retirement planning, advisory account services, goals based planning, insurance and annuities.

In 2015, we formed Pivotus Ventures, Inc. as a subsidiary of Umpqua Holdings Corporation. Pivotus uses a startup dynamic and collaboration with other institutions to validate, develop, and test new bank platforms that could have a significant impact on the experience and economics of banking. We believe the collaborative model will enhance Pivotus' ability to imagine and develop disruptive technologies, test them with a broad range of customers and deliver them at scale.

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

Executive Overview

Significant items for the three and nine months ended September 30, 2017 were as follows:

Financial Performance

- Net earnings available to common shareholders per diluted common share were $0.28 and $0.74 for the three and nine months ended September 30, 2017, respectively, compared to $0.28 and $0.74 for the three and nine months ended September 30, 2016, respectively.

- Net interest margin, on a tax equivalent basis, was 3.94% and 3.91% for the three and nine months ended September 30, 2017, respectively, as compared to 3.95% and 4.12% for the three and nine months ended September 30, 2016, respectively. The decrease in net interest margin for the three and nine months ended September 30, 2017, compared to the same periods in the prior year, reflects lower average yields on the loan and lease portfolio, as well as an increase in the cost of interest-bearing liabilities.

- Residential mortgage banking revenue was $33.4 million and $94.2 million for the three and nine months ended September 30, 2017, respectively, as compared to $47.2 million and $99.4 million for the three and nine months ended September 30, 2016, respectively. The decrease for the three month period was primarily driven by a decline in mortgage originations, along with a lower gain on sale margin, which decreased to 3.68% for the three months ended September 30, 2017, compared to 4.08% in the same period of the prior year. The decrease is also partially due to higher negative fair value adjustment of $9.2 million for the three months ended September 30, 2017, as compared to the negative fair value adjustment of $7.8 million for the three months ended September 30, 2016. The decrease for the nine month period was primarily driven by a 12% decrease in origination volume, as well as a decrease in the gain on sale margin to 3.50% for the nine months ended September 30, 2017, compared to 3.96% in the same period of the prior year. This was partially offset by a lower negative fair value adjustment of $25.2 million on the MSR asset relative to the negative fair value adjustment of $42.4 million for the nine months ended September 30, 2016.

- Total gross loans and leases were $18.7 billion as of September 30, 2017, an increase of $1.2 billion, as compared to December 31, 2016. The increase reflects balanced growth across the Company's commercial term, leases and equipment finance, commercial real-estate, and consumer loan portfolios.

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- Total deposits were $19.9 billion as of September 30, 2017, an increase of $830.9 million, compared to December 31, 2016. This increase was primarily attributable to growth in demand, savings, and time deposits.

- Total consolidated assets were $25.7 billion as of September 30, 2017, compared to $24.8 billion at December 31, 2016.

Credit Quality

- Non-performing assets increased to $77.8 million, or 0.30% of total assets, as of September 30, 2017, as compared to $62.9 million, or 0.25% of total assets, as of December 31, 2016. Non-performing loans were $73.6 million, or 0.39% of total loans, as of September 30, 2017, as compared to $56.1 million, or 0.32% of total loans, as of December 31, 2016. This increase reflects two larger loans which moved to non-accrual status during the quarter.

- The provision for loan and lease losses was $12.0 million and $34.3 million for the three and nine months ended September 30, 2017, respectively, as compared to the $13.1 million and $28.5 million, respectively, recognized for the three and nine months ended September 30, 2016. The decrease for the three months ended September 30, 2017, compared to the same period of the prior year was primarily attributable to a decrease in net charge-off during the quarter, which were $9.4 million for the three months ended September 30, 2017, or 0.20% of average loans and leases (annualized), as compared to net charge-offs of $10.4 million, or 0.24% of average loans and leases (annualized), for the three months ended September 30, 2016. The increase for the nine months ended September 30, 2017, compared to the same period of the prior year was primarily attributable to strong growth in the loan portfolio, as well as an increase in net charge-offs. Net charge-offs were $28.8 million for the nine months ended September 30, 2017, or 0.21% of average loans and leases (annualized), as compared to net charge-offs of $25.1 million, or 0.20% of average loans and leases (annualized), for the nine months ended September 30, 2016.

Capital and Growth Initiatives

- The Company's total risk based capital was 14.2% and its Tier 1 common to risk weighted assets ratio was 11.1% as of September 30, 2017. As of December 31, 2016, the Company's total risk based capital ratio was 14.7% and its Tier 1 common to risk weighted assets ratio was 11.5%.

- Cash dividends declared in the third quarter of 2017 were $0.18 per common share, an increase of 12.5% from the comparable period of the prior year's cash dividend of $0.16 per common share.

- Umpqua introduced "Next-Gen," an initiative to modernize and evolve the Bank. At the center of Next-Gen is a new strategy we are calling human-digital banking, which uses technology to build on Umpqua's customer-centric brand and culture and to differentiate Umpqua in the marketplace with a new competitive advantage. Through Next-Gen, we will activate our mission, providing personalized banking for all anytime, anywhere.

Summary of Critical Accounting Policies

Our significant accounting policies are described in Note 1 to the Consolidated Financial Statements for the year ended December 31, 2016 included in the Form 10-K filed with the SEC on February 23, 2017. 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 September 30, 2017, there was no unallocated allowance amount.

The 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 September 30, 2017. 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. A substantial percentage of our loan portfolio is secured by real estate, as a result a significant decline in real estate market values may require an increase in the allowance for loan and lease losses.

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Acquired Loans

Acquired loans and leases are recorded at their fair value at the acquisition date. For purchased non-impaired loans, the difference between the fair value and unpaid principal balance of the loan at the acquisition date is amortized or accreted to interest income using the effective interest method over the remaining contractual period to maturity. The acquired loans that are purchased impaired loans are aggregated into pools based on individually evaluated common risk characteristics and aggregate expected cash flows were estimated for each pool. A pool is accounted for as a single asset with a single interest rate, cumulative loss rate and cash flow expectation. The cash flows expected to be received over the life of the pool were estimated by management. These cash flows were input into an accounting loan system which calculates the carrying values of the pools and underlying loans, book yields, effective interest income and impairment, if any, based on actual and projected events. Default rates, loss severity, and prepayment speeds assumptions are periodically reassessed and updated within the accounting model to update our expectation of future cash flows. The excess of the cash flows expected to be collected over a pool's carrying value is considered to be the accretable yield and is recognized as interest income over the estimated life of the loan or pool using the effective yield method. The accretable yield may change due to changes in the timing and amounts of expected cash flows. Changes in the accretable yield are disclosed quarterly.

Residential Mortgage Servicing Rights ("MSR")

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

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

Valuation of Goodwill and Intangible Assets

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

The Company performed its annual goodwill impairment analysis as of December 31, 2016. The Company assessed qualitative factors to determine whether the existence of events and circumstances indicated that it is more likely than not that the indefinite-lived intangible asset is impaired, and determined no factors indicated an impairment.

Stock-based Compensation

We recognize expense in the income statement for the grant-date fair value of restricted shares and stock options as 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 the restricted shares is based on the Company's share price on the grant date. 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.

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Fair Value

A hierarchical disclosure framework associated with the level of pricing observability is utilized in measuring financial instruments at fair value. The degree of judgment utilized in measuring the fair value of financial instruments generally correlates to the level of pricing observability. Financial instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of pricing observability and a lesser degree of judgment utilized in measuring fair value. Conversely, financial instruments rarely traded or not quoted will generally have little or no pricing observability and a higher degree of judgment utilized in measuring fair value. Pricing observability is impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established and the characteristics specific to the transaction.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606), which creates Topic 606 and supersedes Topic 605, Revenue Recognition. In August 2015, FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606), which postponed the effective date of 2014-09. Multiple ASUs and interpretative guidance have been issued in connection with ASU 2014-09. The core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In general, the new guidance requires companies to use more judgment and make more estimates than under current guidance, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The standard is effective for public entities for interim and annual periods beginning after December 15, 2017; early adoption is not permitted. For financial reporting purposes, the standard allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the standard recognized at the date of initial application. The Company is working through their process to implement this new standard. The Company has reviewed all revenue sources to determine the sources that are in scope for this guidance. As a bank, key revenue sources, such as interest income have been identified as out of scope of this new guidance. The Company's overall assessment of key in-scope revenue sources include service charges on deposits, credit card and payment processing fees, and brokerage revenues. The guidance is not expected to have a significant impact on the Company's financial statements. The Company plans to adopt the guidance on January 1, 2018, utilizing the modified retrospective approach.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The new guidance is intended to improve the recognition and measurement of financial instruments. This ASU requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. In addition, the amendment requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes and requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements. This ASU also eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. The amendment also requires a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument specific credit risk (also referred to as "own credit") when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. ASU No. 2016-01 is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. While the Company continues to assess the potential impacts of this ASU, we do not expect adoption to have a material impact on the Company's consolidated financial statements.

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In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The amendments in this update require lessees, among other things, to recognize lease assets and lease liabilities on the balance sheet for those leases classified as operating leases under previous authoritative guidance. This update also introduces new disclosure requirements for leasing arrangements. ASU 2016-02 is effective for financial statements issued for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. The Company has established a project team, for the implementation of this new standard. The team has completed implementation of a new leasing software that will support the current leasing process, as well as aid in the transition to the new leasing guidance. Although an estimate of the impact of the new leasing standard has not yet been determined, the Company expects a significant new lease asset and related lease liability on the balance sheet due to the number of leased properties the Bank currently has that are accounted for under current operating lease guidance.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments —Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The ASU is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The ASU requires the measurement of all expected credit losses for certain financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates, but will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. The ASU requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early application will be permitted for specified periods. The Company has formed a cross-functional team to begin its implementation efforts of this new guidance. The team has begun the next steps of the process by evaluating the data elements, and modeling options, that are expected to be critical to the new process. An estimate of the impact of this standard has not yet been determined, however, the impact is expected to be significant.

In February 2017, the FASB issued ASU No. 2017-05, Other Income —Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. The amendment clarifies that a financial asset is within the scope of Subtopic 610-20 if it meets the definition of an in substance nonfinancial asset. The amendments also define the term in substance nonfinancial asset. The amendments clarify that nonfinancial assets within the scope of Subtopic 610-20 may include nonfinancial assets transferred within a legal entity to a counterparty. A contract that includes the transfer of ownership interests in one or more consolidated subsidiaries is within the scope of Subtopic 610-20 if substantially all of the fair value of the assets that are promised to the counterparty in a contract is concentrated in nonfinancial assets. The amendments clarify that an entity should identify each distinct nonfinancial asset or in substance nonfinancial asset promised to a counterparty and derecognize each asset when a counterparty obtains control of it. The amendment is effective at the same time as the Topic 606, Revenue from Contracts with Customers. For public entities, the amendments are effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. The Company is currently evaluating the impact of this ASU on the Company's consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The ASU is intended to improve and simplify accounting rules for hedge accounting by better aligning a company’s financial reporting for hedging activities with the economic objectives of those activities. The standard refines and expands hedge accounting for both financial (e.g., interest rate) and commodity risks. Its provisions create more transparency around how economic results are presented, both on the face of the financial statements and in the footnotes. The ASU takes effect for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, early adoption is permitted in any interim period or fiscal years before the effective date of the standard. The Company is currently evaluating the impact of this ASU on the Company's consolidated financial statements.

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Results of Operations

Overview

For the three and nine months ended September 30, 2017, net earnings available to common shareholders were $61.3 million, or $0.28 per diluted common share and $164.1 million, or $0.74 per diluted common share, respectively, as compared to net earnings available to common shareholders of $61.8 million, or $0.28 per diluted common share and $163.6 million, or $0.74 per diluted common share, for the three and nine months ended September 30, 2016, respectively. The decrease in net earnings for the three months ended September 30, 2017 compared to the same period of the prior year was principally attributable to an increase in non-interest expense, driven by higher merger-related expenses related to the final work on a non-customer facing system conversion. In addition, non-interest income decreased as the result of lower residential mortgage banking revenue driven by lower mortgage originations and sales during the period. The decreases were primarily offset by increased net interest income, driven by growth in interest-earning assets, specifically within the loan and lease portfolio and taxable investment securities. The increase for the nine months ended September 30, 2017 compared to the same period of the prior year was attributable to an increase in interest income, as well as non-interest income. The increase in interest income is attributable to the increase in interest-earning assets, while the increase in non-interest income related to an increase in the gain on loan sales, reflecting a higher level of portfolio loan sales and an increase in debt capital market swap revenue. The increase was offset by an increase in interest expense, primarily attributable to higher cost of funds, and an increase in the provision for loan and lease losses.

The following table presents the return on average assets, average common shareholders' equity and average tangible common shareholders' equity for the three and nine months ended September 30, 2017 and 2016. For each of the periods presented, the table includes the calculated ratios based on reported net earnings available to common shareholders. 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 is 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

| (dollars in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Return on average assets | 0.96 % | 1.01 % | 0.88 % | 0.91 % |
| Return on average common shareholders' equity | 6.10 % | 6.28 % | 5.54 % | 5.61 % |
| Return on average tangible common shareholders' equity | 11.23 % | 11.79 % | 10.26 % | 10.59 % |
| Calculation of average common tangible shareholders' equity: | | | | |
| Average common shareholders' equity | $3,986,868 | $3,911,323 | $3,960,180 | $3,893,218 |
| Less: average goodwill and other intangible assets, net | (1,820,394 ) | (1,827,405 ) | (1,822,063 ) | (1,829,611 ) |
| Average tangible common shareholders' equity | $2,166,474 | $2,083,918 | $2,138,117 | $2,063,607 |

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.

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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 September 30, 2017 and December 31, 2016:

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

| (dollars in thousands) | September 30, 2017 | December 31, 2016 |
|---|---|---|
| Total shareholders' equity | $3,985,260 | $3,916,795 |
| Subtract: | | |
| Goodwill | 1,787,651 | 1,787,651 |
| Other intangible assets, net | 31,819 | 36,886 |
| Tangible common shareholders' equity | $2,165,790 | $2,092,258 |
| Total assets | $25,695,663 | $24,813,119 |
| Subtract: | | |
| Goodwill | 1,787,651 | 1,787,651 |
| Other intangible assets, net | 31,819 | 36,886 |
| Tangible assets | $23,876,193 | $22,988,582 |
| Tangible common equity ratio | 9.07 % | 9.10 % |

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

Net Interest Income

Net interest income is the largest source of our income. Net interest income for the three and nine months ended September 30, 2017 was $220.5 million and $639.3 million, respectively, an increase of $10.6 million and $2.5 million, respectively, compared to the same periods in 2016. The increase in net interest income for the three and nine months ended September 30, 2017 as compared to the same periods in 2016, is driven by growth in interest-earning assets, specifically the loan and lease portfolio and taxable investment securities. The increase was partially offset by lower average yields on the loan and lease portfolio, as well as an increase in the average cost of funds. The cost of funds increase was primarily due to an increase in the cost of time deposits due to the utilization of longer-term maturities which typically carry a high rate paid, as well as an increase in the interest expense on junior subordinated debentures.

The net interest margin (net interest income as a percentage of average interest-earning assets) on a fully tax equivalent basis was 3.94% and 3.91%, respectively, for the three and nine months ended September 30, 2017, a decrease of 1 basis points and 21 basis points, respectively, as compared to the same periods in 2016. The decrease in net interest margin primarily resulted from lower average yields on the loan and lease portfolio, as well as an increase in the cost of interest-bearing liabilities. The yield on loans and leases decreased by 5 basis points and 21 basis points for the three and nine months ended September 30, 2017, respectively, as compared to the same periods in 2016.

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.

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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 the three and nine months ended September 30, 2017 and 2016:

Average Rates and Balances

| (dollars in thousands) | Three Months Ended September 30, 2017 | | | Three Months Ended September 30, 2016 | | |
|---|---|---|---|---|---|---|
| | Average Balance | Interest Income or Expense | Average Yields or Rates | Average Balance | Interest Income or Expense | Average Yields or Rates |
| INTEREST-EARNING ASSETS: | | | | | | |
| Loans held for sale | $420,282 | $4,090 | 3.89 % | $481,740 | $4,567 | 3.79 % |
| Loans and leases (1) | 18,537,827 | 219,231 | 4.70 % | 17,400,657 | 207,470 | 4.75 % |
| Taxable securities | 2,867,292 | 14,336 | 2.00 % | 2,265,883 | 11,111 | 1.96 % |
| Non-taxable securities (2) | 281,139 | 3,223 | 4.59 % | 283,818 | 3,317 | 4.68 % |
| Temporary investments and interest-bearing cash | 253,015 | 934 | 1.47 % | 874,410 | 1,090 | 0.50 % |
| Total interest-earning assets | 22,359,555 | $241,814 | 4.30 % | 21,306,508 | $227,555 | 4.26 % |
| Allowance for loan and lease losses | (138,924) | | | (131,880) | | |
| Other assets | 3,091,363 | | | 3,248,358 | | |
| Total assets | $25,311,994 | | | $24,422,986 | | |
| INTEREST-BEARING LIABILITIES: | | | | | | |
| Interest-bearing demand deposits | $2,358,102 | $1,066 | 0.18 % | $2,201,826 | $585 | 0.11 % |
| Money market deposits | 6,625,514 | 3,323 | 0.20 % | 6,812,445 | 2,504 | 0.15 % |
| Savings deposits | 1,441,931 | 172 | 0.05 % | 1,280,640 | 148 | 0.05 % |
| Time deposits | 2,729,915 | 7,491 | 1.09 % | 2,542,076 | 5,762 | 0.90 % |
| Total interest-bearing deposits | 13,155,462 | 12,052 | 0.36 % | 12,836,987 | 8,999 | 0.28 % |
| Repurchase agreements and federal funds purchased | 332,246 | 81 | 0.10 % | 347,193 | 32 | 0.04 % |
| Term debt | 852,250 | 3,491 | 1.63 % | 902,847 | 3,558 | 1.57 % |
| Junior subordinated debentures | 365,884 | 4,628 | 5.02 % | 359,660 | 3,938 | 4.36 % |
| Total interest-bearing liabilities | 14,705,842 | $20,252 | 0.55 % | 14,446,687 | $16,527 | 0.46 % |
| Non-interest-bearing deposits | 6,354,591 | | | 5,766,022 | | |
| Other liabilities | 264,693 | | | 298,954 | | |
| Total liabilities | 21,325,126 | | | 20,511,663 | | |
| Common equity | 3,986,868 | | | 3,911,323 | | |
| Total liabilities and shareholders' equity | $25,311,994 | | | $24,422,986 | | |
| NET INTEREST INCOME | | $221,562 | | | $211,028 | |
| NET INTEREST SPREAD | | | 3.75 % | | | 3.80 % |
| AVERAGE YIELD ON EARNING ASSETS (1), (2) | | | 4.30 % | | | 4.26 % |
| INTEREST EXPENSE TO EARNING ASSETS | | | 0.36 % | | | 0.31 % |
| NET INTEREST INCOME TO EARNING ASSETS OR NET INTEREST MARGIN (1), (2) | | | 3.94 % | | | 3.95 % |

(1) Non-accrual loans and leases are included in the average balance.

(2) Tax-exempt income has been adjusted to a tax equivalent basis at a 35% tax rate. The amount of such adjustment was an addition to recorded income of approximately $1.1 million for both the three months ended September 30, 2017 and 2016.

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| (dollars in thousands) | Nine Months Ended September 30, 2017 | | | Nine Months Ended September 30, 2016 | | |
|---|---|---|---|---|---|---|
| | Average Balance | Interest Income or Expense | Average Yields or Rates | Average Balance | Interest Income or Expense | Average Yields or Rates |
| INTEREST-EARNING ASSETS: | | | | | | |
| Loans held for sale | $388,263 | $10,678 | 3.67 % | $394,797 | $11,430 | 3.86 % |
| Loans and leases (1) | 18,057,039 | 631,637 | 4.67 % | 17,215,000 | 628,825 | 4.88 % |
| Taxable securities | 2,866,842 | 44,235 | 2.06 % | 2,294,054 | 36,860 | 2.14 % |
| Non-taxable securities (2) | 286,693 | 10,029 | 4.66 % | 283,914 | 10,036 | 4.71 % |
| Temporary investments and interest bearing cash | 392,399 | 2,815 | 0.96 % | 583,056 | 2,222 | 0.51 % |
| Total interest-earning assets | 21,991,236 | $699,394 | 4.25 % | 20,770,821 | $689,373 | 4.43 % |
| Allowance for loan and lease losses | (137,538) | | | (131,969) | | |
| Other assets | 3,093,482 | | | 3,274,594 | | |
| Total assets | $24,947,180 | | | $23,913,446 | | |
| INTEREST-BEARING LIABILITIES: | | | | | | |
| Interest-bearing demand deposits | $2,312,201 | $2,509 | 0.15 % | $2,175,016 | $1,800 | 0.11 % |
| Money market deposits | 6,725,754 | 8,967 | 0.18 % | 6,723,247 | 7,926 | 0.16 % |
| Savings deposits | 1,402,942 | 446 | 0.04 % | 1,227,309 | 437 | 0.05 % |
| Time deposits | 2,663,321 | 20,419 | 1.03 % | 2,505,992 | 15,789 | 0.84 % |
| Total interest-bearing deposits | 13,104,218 | 32,341 | 0.33 % | 12,631,564 | 25,952 | 0.27 % |
| Repurchase agreements and federal funds purchased | 354,955 | 432 | 0.16 % | 335,132 | 100 | 0.04 % |
| Term debt | 852,285 | 10,663 | 1.67 % | 900,137 | 11,592 | 1.72 % |
| Junior subordinated debentures | 364,387 | 13,266 | 4.87 % | 358,216 | 11,500 | 4.29 % |
| Total interest-bearing liabilities | 14,675,845 | $56,702 | 0.52 % | 14,225,049 | $49,144 | 0.46 % |
| Non-interest-bearing deposits | 6,065,119 | | | 5,508,255 | | |
| Other liabilities | 246,036 | | | 286,924 | | |
| Total liabilities | 20,987,000 | | | 20,020,228 | | |
| Common equity | 3,960,180 | | | 3,893,218 | | |
| Total liabilities and shareholders' equity | $24,947,180 | | | $23,913,446 | | |
| NET INTEREST INCOME | | $642,692 | | | $640,229 | |
| NET INTEREST SPREAD | | | 3.73 % | | | 3.97 % |
| AVERAGE YIELD ON EARNING ASSETS (1), (2) | | | 4.25 % | | | 4.43 % |
| INTEREST EXPENSE TO EARNING ASSETS | | | 0.34 % | | | 0.31 % |
| NET INTEREST INCOME TO EARNING ASSETS OR NET INTEREST MARGIN (1), (2) | | | 3.91 % | | | 4.12 % |

(1) Non-accrual loans and leases are included in the average balance.

(2) Tax-exempt income has been adjusted to a tax equivalent basis at a 35% tax rate. The amount of such adjustment was an addition to recorded income of approximately $3.4 million for both the nine months ended of September 30, 2017 and 2016.

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The following tables set 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 the three and nine months ended September 30, 2017 as compared to the same period in 2016. Changes in tax equivalent interest income and expense, which are not attributable specifically to either volume or rate, are allocated proportionately between both variances.

Rate/Volume Analysis

| (in thousands) | Three Months Ended September 30, 2017 compared to 2016 Increase (decrease) in interest income and expense due to changes in | | |
|---|---|---|---|
| | Volume | Rate | Total |
| INTEREST-EARNING ASSETS: | | | |
| Loans held for sale | $(597) | $120 | $(477) |
| Loans and leases | 13,863 | (2,102) | 11,761 |
| Taxable securities | 3,003 | 222 | 3,225 |
| Non-taxable securities (1) | (31) | (63) | (94) |
| Temporary investments and interest bearing cash | (1,179) | 1,023 | (156) |
| Total (1) | 15,059 | (800) | 14,259 |
| INTEREST-BEARING LIABILITIES: | | | |
| Interest bearing demand deposits | 45 | 436 | 481 |
| Money market deposits | (71) | 890 | 819 |
| Savings deposits | 20 | 4 | 24 |
| Time deposits | 450 | 1,279 | 1,729 |
| Repurchase agreements | (1) | 50 | 49 |
| Term debt | (206) | 139 | (67) |
| Junior subordinated debentures | 70 | 620 | 690 |
| Total | 307 | 3,418 | 3,725 |
| Net increase in net interest income (1) | $14,752 | $(4,218) | $10,534 |

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

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| (in thousands) | Nine Months Ended September 30, 2017 compared to 2016 Increase (decrease) in interest income and expense due to changes in | | |
|---|---|---|---|
| | Volume | Rate | Total |
| INTEREST-EARNING ASSETS: | | | |
| Loans held for sale | $(189) | $(563) | $(752) |
| Loans and leases | 30,059 | (27,247) | 2,812 |
| Taxable securities | 8,884 | (1,509) | 7,375 |
| Non-taxable securities (1) | 98 | (105) | (7) |
| Temporary investments and interest bearing cash | (901) | 1,494 | 593 |
| Total (1) | 37,951 | (27,930) | 10,021 |
| INTEREST-BEARING LIABILITIES: | | | |
| Interest bearing demand deposits | 120 | 589 | 709 |
| Money market | 4 | 1,037 | 1,041 |
| Savings | 59 | (50) | 9 |
| Time deposits | 1,040 | 3,590 | 4,630 |
| Repurchase agreements | 6 | 326 | 332 |
| Term debt | (607) | (322) | (929) |
| Junior subordinated debentures | 202 | 1,564 | 1,766 |
| Total | 824 | 6,734 | 7,558 |
| Net increase in net interest income (1) | $37,127 | $(34,664) | $2,463 |

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

Provision for Loan and Lease Losses

The provision for loan and lease losses was $12.0 million and $34.3 million for the three and nine months ended September 30, 2017, respectively, as compared to $13.1 million and $28.5 million, respectively, for the same periods in 2016. As an annualized percentage of average outstanding loans and leases, the provision for loan and lease losses recorded for the three and nine months ended September 30, 2017 was 0.26% and 0.25%, respectively, as compared to 0.30% and 0.22%, respectively, in the same periods in 2016.

The decrease in the provision for the three months ended September 30, 2017 as compared to the same prior year period is primarily attributable to a decrease in net charge-offs during the quarter. Net charge-offs on loans were $9.4 million for the three months ended September 30, 2017, or 0.20% of average loans and leases (annualized), as compared to net charge-offs of $10.4 million, or 0.24% of average loans and leases (annualized), for the three months ended September 30, 2016. The increase in the provision for loan and lease losses for the nine months ended September 30, 2017, compared to the same period of the prior year was primarily attributable to strong growth in the loan portfolio, as well as an increase in net charge-offs. Net charge-offs were $28.8 million for the nine months ended September 30, 2017, or 0.21% of average loans and leases (annualized), as compared to net charge-offs of $25.1 million, or 0.20% of average loans and leases (annualized), for the nine months ended September 30, 2016. For the third quarter of 2017, $1.1 million of the provision for loan and lease losses was related to previously acquired loans that were not purchased credit impaired. For the third quarter of 2016, $505,000 of the provision for loan and lease was related to previously acquired loans that were not purchased credit impaired.

The Company recognizes the charge-off of impairment reserves on impaired loans in the period they arise for collateral-dependent loans.  Therefore, the non-accrual loans of $44.6 million as of September 30, 2017 have 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.

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Non-Interest Income

Non-interest income for the three months ended September 30, 2017 was $75.4 million, a decrease of $5.3 million, or 7%, as compared to the same period in 2016. Non-interest income for the nine months ended September 30, 2017 was $206.7 million, an increase of $5.4 million, or 3%, as compared to the same period in 2016. The following table presents the key components of non-interest income for the three and nine months ended September 30, 2017 and 2016:

| Non-Interest Income (in thousands) | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | 2016 | Change Amount | Change Percent | 2017 | 2016 | Change Amount | Change Percent |
| Service charges on deposits | $15,849 | $15,762 | $87 | 1 % | $46,056 | $45,945 | $111 | — % |
| Brokerage revenue | 3,832 | 4,129 | (297) | (7)% | 11,857 | 12,803 | (946) | (7)% |
| Residential mortgage banking revenue, net | 33,430 | 47,206 | (13,776) | (29)% | 94,158 | 99,415 | (5,257) | (5)% |
| Gain on investment securities, net | (6) | — | (6) | nm | 27 | 858 | (831) | (97)% |
| Gain on loan sales, net | 7,969 | 1,285 | 6,684 | 520 % | 13,033 | 9,296 | 3,737 | 40 % |
| Loss on junior subordinated debentures carried at fair value | (1,590) | (1,590) | — | — % | (4,717) | (4,734) | 17 | — % |
| BOLI income | 2,041 | 2,116 | (75) | (4)% | 6,199 | 6,407 | (208) | (3)% |
| Other income | 13,877 | 11,802 | 2,075 | 18 % | 40,133 | 31,330 | 8,803 | 28 % |
| Total | $75,402 | $80,710 | $(5,308) | (7)% | $206,746 | $201,320 | $5,426 | 3 % |

nm = Not Meaningful

Residential mortgage banking revenue for the three and nine months ended September 30, 2017 as compared to the same periods of 2016 decreased by $13.8 million and $5.3 million, respectively. The decrease for the three and nine month periods was due primarily to higher average mortgage rates during the periods which resulted in a decrease in production as well as a decline in the gain on sale margin. The decrease for the three month period was primarily driven by a decline in mortgage originations, along with a lower gain on sale margin, which decreased to 3.68% for the three months ended September 30, 2017, compared to 4.08% in the same period of the prior year. The decrease is also partially due to higher negative MSR fair value adjustment of $9.2 million for the three months ended September 30, 2017, as compared to the negative MSR fair value adjustment of $7.8 million for the three months ended September 30, 2016. The decrease for the nine month period was primarily driven by a decrease in the gain on sale margin to 3.50% for the nine months ended September 30, 2017, compared to 3.96% in the same period of the prior year. This was partially offset by a lower negative fair value adjustment of $25.2 million on the MSR asset relative to the negative fair value adjustment of $42.4 million for the nine months ended September 30, 2016. Closed for-sale mortgage volume for the three and nine months ended September 30, 2017 was $891.1 million and $2.6 billion, respectively, compared to $1.1 billion and $2.9 billion for the three and nine months ended September 30, 2016, respectively.

The gain on loan sales for the three and nine months ended September 30, 2017 increased by $6.7 million and $3.7 million, respectively, due to the mix and volume of loans sold during the periods.

Other income for the three and nine months ended September 30, 2017 compared to the same period in the prior year increased by $2.1 million and $8.8 million, respectively. The increase for the three month period was primarily related to increases in merchant processing fees and BOLI death benefit proceeds during the period. The increase for the nine months ended September 30, 2017, as compared to the same period of 2016, was primarily related to the change in debt capital market swap derivatives revenues which increased by $5.8 million during the period.

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Non-Interest Expense

Non-interest expense for the three months ended September 30, 2017 was $188.4 million, an increase of $7.2 million, or 4% as compared to the same period in 2016. Non-interest expense for the nine months ended September 30, 2017 was $555.1 million, an increase of $1.4 million, or less than 1%. The following table presents the key elements of non-interest expense for the three and nine months ended September 30, 2017 and 2016:

Non-Interest Expense

| (in thousands) | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | 2016 | Change Amount | Change Percent | 2017 | 2016 | Change Amount | Change Percent |
| Salaries and employee benefits | $108,732 | $105,341 | $3,391 | 3 % | $323,766 | $319,424 | $4,342 | 1 % |
| Occupancy and equipment, net | 37,648 | 38,181 | (533) | (1)% | 113,276 | 114,326 | (1,050) | (1)% |
| Communications | 4,549 | 5,107 | (558) | (11)% | 14,512 | 15,966 | (1,454) | (9)% |
| Marketing | 1,950 | 2,124 | (174) | (8)% | 6,057 | 7,978 | (1,921) | (24)% |
| Services | 9,578 | 9,983 | (405) | (4)% | 32,269 | 32,183 | 86 | — % |
| FDIC assessments | 4,405 | 4,109 | 296 | 7 % | 12,939 | 11,523 | 1,416 | 12 % |
| Gain on other real estate owned, net | (99) | (14) | (85) | 607 % | (474) | (82) | (392) | 478 % |
| Intangible amortization | 1,689 | 1,867 | (178) | (10)% | 5,067 | 6,755 | (1,688) | (25)% |
| Merger related expenses | 6,664 | 2,011 | 4,653 | 231 % | 9,324 | 12,095 | (2,771) | (23)% |
| Goodwill impairment | — | — | — | — % | — | 142 | (142) | (100)% |
| Other expenses | 13,238 | 12,478 | 760 | 6 % | 38,353 | 33,377 | 4,976 | 15 % |
| Total | $188,354 | $181,187 | $7,167 | 4 % | $555,089 | $553,687 | $1,402 | — % |

Salaries and employee benefits costs increased by $3.4 million and $4.3 million for the three and nine months ended September 30, 2017, respectively, as compared to the same periods in the prior year. The increase for the three and nine months ended is primarily related to increases in certain employee benefits and salaries, primarily due to an increase in full-time equivalent employees.

Marketing expense decreased by $174,000 and $1.9 million for the three and nine months ended September 30, 2017, respectively, as compared to the same periods in the prior year, primarily related to costs associated with branding initiatives in early 2016.

We incur significant expenses in connection with the completion and integration of bank acquisitions that are not capitalizable. These merger expenses are recorded in accordance with a Board approved accounting policy with respect to merger related charges, including internal and external charges. These expenses include acquisition related expenses, certain facility closure related costs, customer communications, restructuring expenses (including associate severance and retention charges) and expenses related to conversions of systems, including consulting costs. The merger related expenses incurred in 2017 and 2016 relate to the merger with Sterling. Merger related expenses increased by $4.7 million for the three months ended September 30, 2017, as compared to the same period in the prior year, primarily related to costs associated with final work on a non-customer facing system conversion.

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The following table provides a breakout of Merger related expenses for the three and nine months ended September 30, 2017 and 2016:

| (in thousands) | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2017 | September 30, 2016 | September 30, 2017 | September 30, 2016 |
| Legal and professional | $6,362 | $ 1,566 | $7,590 | $ 5,086 |
| Premises and Equipment | 106 | 230 | 980 | 4,660 |
| Personnel | 198 | 139 | 754 | 1,396 |
| Communication | — | 23 | — | 290 |
| Other | (2 ) | 53 | — | 663 |
| Total merger related expenses | $6,664 | $ 2,011 | $9,324 | $ 12,095 |

Other non-interest expense increased by $760,000 and $5.0 million for the three and nine months ended September 30, 2017, respectively, as compared to the same periods in the prior year. The increase for the nine months ended September 30, 2017, as compared to the prior period, is primarily due to $1.7 million in net non-performing loan expenses as well as an increase of $2.0 million in brokered money market fees, related to the increase in brokered deposits during the period.

Income Taxes

The Company's consolidated effective tax rate as a percentage of pre-tax income for the three and nine months ended September 30, 2017 was 35.8% and 36.0%, respectively, as compared to 35.8% and 36.0% for the three and nine months ended September 30, 2016, respectively. The effective tax rates differed from the federal statutory rate of 35% and the apportioned state rate of 5% (net of the federal tax benefit) principally because of the relative amount of income earned in each state jurisdiction, non-taxable income arising from bank-owned life insurance, income on tax-exempt investment securities, stock-based compensation and tax credits arising from low income housing investments.

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FINANCIAL CONDITION

Investment Securities

Trading securities were $11.9 million at September 30, 2017, up from $11.0 million at December 31, 2016.

Investment securities available for sale were $3.0 billion as of September 30, 2017, compared to $2.7 billion at December 31, 2016. The increase was due to the Company deploying excess cash by purchasing $783.4 million in investments, offset by sales and paydowns of $437.0 million.

Investment securities held to maturity were $3.9 million as of September 30, 2017, as compared to $4.2 million at December 31, 2016. The change primarily related to paydowns and maturities of investment securities held to maturity of $392,000.

The following tables present the available for sale and held to maturity investment securities portfolio by major type as of September 30, 2017 and December 31, 2016:

Investment Securities Composition

| (dollars in thousands) | Investment Securities Available for Sale | | | |
|---|---|---|---|---|
| | September 30, 2017 | | December 31, 2016 | |
| | Fair Value | % | Fair Value | % |
| U.S. Treasury and agencies | $40,026 | 1 % | $— | — % |
| Obligations of states and political subdivisions | 297,794 | 10 % | 307,697 | 11 % |
| Residential mortgage-backed securities and collateralized mortgage obligations | 2,707,555 | 89 % | 2,391,553 | 89 % |
| Investments in mutual funds and other equity securities | 1,983 | — % | 1,970 | — % |
| Total | $3,047,358 | 100% | $2,701,220 | 100% |

| (dollars in thousands) | Investment Securities Held to Maturity | | | |
|---|---|---|---|---|
| | September 30, 2017 | | December 31, 2016 | |
| | Amortized Cost | % | Amortized Cost | % |
| Residential mortgage-backed securities and collateralized mortgage obligations | $3,905 | 100% | $4,216 | 100% |
| Total | $3,905 | 100% | $4,216 | 100% |

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

Gross unrealized losses in the available for sale investment portfolio were $24.6 million at September 30, 2017. This consisted primarily of unrealized losses on residential mortgage-backed securities and collateralized mortgage obligations of $23.7 million. The unrealized losses were primarily caused by interest rate increases subsequent to the purchase of the securities, and not credit quality. In the opinion of management, these securities are considered only temporarily impaired due to changes in market interest rates or the widening of market spreads subsequent to the initial purchase of the securities, and not due to concerns regarding the underlying credit of the issuers or the underlying collateral.

Restricted Equity Securities

Restricted equity securities were $45.5 million at September 30, 2017 and December 31, 2016. Of the $45.5 million at September 30, 2017, $44.0 million represented the Bank's investment in the FHLBs of Des Moines and San Francisco. FHLB stock is carried at par and does not have a readily determinable fair value. Ownership of FHLB stock is restricted to the FHLB and member institutions, and can only be purchased and redeemed at par.

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Loans and Leases

Loans and Leases, net

Total loans and leases outstanding at September 30, 2017 were $18.7 billion, an increase of $1.2 billion as compared to year-end 2016. The increase included net new loan and lease originations of $1.4 billion, partially offset by loans sold of $205.9 million, charge-offs of $40.2 million and transfers to other real estate owned of $2.9 million during the period.

The following table presents the concentration distribution of the loan and lease portfolio, net of deferred fees and costs, as of September 30, 2017 and December 31, 2016.

| Loan and Lease Concentrations<br>(dollars in thousands) | September 30, 2017 | | | December 31, 2016 | | |
|---|---|---|---|---|---|---|
| | Amount | Percentage | | Amount | Percentage | |
| Commercial real estate | | | | | | |
| Non-owner occupied term, net | $3,475,243 | 18.6 | % | $3,330,442 | 19.0 | % |
| Owner occupied term, net | 2,467,995 | 13.2 | % | 2,599,055 | 14.9 | % |
| Multifamily, net | 2,993,203 | 16.0 | % | 2,858,956 | 16.3 | % |
| Construction & development, net | 521,666 | 2.8 | % | 463,625 | 2.7 | % |
| Residential development, net | 186,400 | 1.0 | % | 142,984 | 0.8 | % |
| Commercial | | | | | | |
| Term, net | 1,819,664 | 9.7 | % | 1,508,780 | 8.6 | % |
| LOC & other, net | 1,134,045 | 6.1 | % | 1,116,259 | 6.4 | % |
| Leases and equipment finance, net | 1,137,732 | 6.1 | % | 950,588 | 5.4 | % |
| Residential | | | | | | |
| Mortgage, net | 3,094,361 | 16.6 | % | 2,887,971 | 16.5 | % |
| Home equity loans & lines, net | 1,079,931 | 5.8 | % | 1,011,844 | 5.8 | % |
| Consumer & other, net | 767,522 | 4.1 | % | 638,159 | 3.6 | % |
| Total, net of deferred fees and costs | $18,677,762 | 100.0 | % | $17,508,663 | 100.0 | % |

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Asset Quality and Non-Performing Assets

Non-Performing Assets

The following table summarizes our non-performing assets and restructured loans as of September 30, 2017 and December 31, 2016:

| (in thousands) | September 30, 2017 | December 31, 2016 |
|---|---|---|
| Loans and leases on non-accrual status | $44,573 | $27,765 |
| Loans and leases past due 90 days or more and accruing (1) | 29,073 | 28,369 |
| Total non-performing loans and leases | 73,646 | 56,134 |
| Other real estate owned | 4,160 | 6,738 |
| Total non-performing assets | $77,806 | $62,872 |
| Restructured loans (2) | $45,813 | $40,667 |
| Allowance for loan and lease losses | $139,503 | $133,984 |
| Reserve for unfunded commitments | 3,932 | 3,611 |
| Allowance for credit losses | $143,435 | $137,595 |
| Asset quality ratios: | | |
| Non-performing assets to total assets | 0.30 % | 0.25 % |
| Non-performing loans and leases to total loans and leases | 0.39 % | 0.32 % |
| Allowance for loan and leases losses to total loans and leases | 0.75 % | 0.77 % |
| Allowance for credit losses to total loans and leases | 0.77 % | 0.79 % |
| Allowance for credit losses to total non-performing loans and leases | 195 % | 245 % |

(1) Excludes government guaranteed GNMA mortgage loans that Umpqua has the right but not the obligation to repurchase that are past due 90 days or more totaling $12.3 million and $10.9 million at September 30, 2017 and December 31, 2016, respectively.
(2) Represents accruing restructured loans performing according to their restructured terms.

The purchased non-credit impaired loans had remaining credit discount that is expected to accrete into interest income over the life of the loans of $29.8 million and $43.9 million, as of September 30, 2017 and December 31, 2016, respectively. The purchased credit impaired loan pools had remaining discount of $35.9 million and $45.7 million, as of September 30, 2017 and December 31, 2016, respectively.

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

Restructured Loans

At September 30, 2017 and December 31, 2016, impaired loans of $45.8 million and $40.7 million, respectively, were classified as performing restructured loans. The restructurings were granted in response to borrower financial difficulty, and generally provide for a temporary modification of loan repayment terms. The performing restructured loans on accrual status represent principally the only impaired loans accruing interest at September 30, 2017. In order for a new 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.

A further 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.

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Allowance for Loan and Lease Losses and Reserve for Unfunded Commitments

The ALLL totaled $139.5 million at September 30, 2017, an increase of $5.5 million from $134.0 million at December 31, 2016. The following table shows the activity in the ALLL for the three and nine months ended September 30, 2017 and 2016:

Allowance for Loan and Lease Losses

| (in thousands) | Three months ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Balance, beginning of period | $136,867 | $131,042 | $133,984 | $130,322 |
| Charge-offs | (13,222) | (13,088) | (40,168) | (33,620) |
| Recoveries | 3,861 | 2,647 | 11,361 | 8,487 |
| Net charge-offs | (9,361) | (10,441) | (28,807) | (25,133) |
| Provision for loan and lease losses | 11,997 | 13,091 | 34,326 | 28,503 |
| Balance, end of period | $139,503 | $133,692 | $139,503 | $133,692 |
| As a percentage of average loans and leases (annualized): | | | | |
| Net charge-offs | 0.20 % | 0.24 % | 0.21 % | 0.20 % |
| Provision for loan and lease losses | 0.26 % | 0.30 % | 0.25 % | 0.22 % |
| Recoveries as a percentage of charge-offs | 29.20 % | 20.22 % | 28.28 % | 25.24 % |

The increase in allowance for loan and lease losses as of September 30, 2017 compared to the same periods of the prior year was primarily the result of growth in our loan and lease portfolios. 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 sets forth the allocation of the allowance for loan and lease losses and percent of loans in each category to total loans and leases as of September 30, 2017 and December 31, 2016:

| (dollars in thousands) | September 30, 2017 | | December 31, 2016 | |
|---|---|---|---|---|
| | Amount | % Loans to total loans | Amount | % Loans to total loans |
| Commercial real estate | $46,891 | 51.6% | $47,795 | 53.7% |
| Commercial | 61,574 | 21.9% | 58,840 | 20.4% |
| Residential | 18,965 | 22.4% | 17,946 | 22.3% |
| Consumer & other | 12,073 | 4.1 % | 9,403 | 3.6 % |
| Allowance for loan and lease losses | $139,503 | | $133,984 | |

At September 30, 2017, the recorded investment in loans classified as impaired totaled $73.0 million, with a corresponding valuation allowance (included in the allowance for loan and lease losses) of $1.2 million. The valuation allowance on impaired loans represents the impairment reserves on performing current and former restructured loans and nonaccrual loans. At December 31, 2016, the total recorded investment in impaired loans was $54.0 million, with a corresponding valuation allowance (included in the allowance for loan and lease losses) of $867,000.

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The following table presents a summary of activity in the RUC:

Summary of Reserve for Unfunded Commitments Activity

| (in thousands) | Three months ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Balance, beginning of period | $3,816 | $3,531 | $3,611 | $3,574 |
| Net charge to other expense | 116 | 5 | 321 | (38) |
| Balance, end of period | $3,932 | $3,536 | $3,932 | $3,536 |

We believe that the ALLL and RUC at September 30, 2017 are sufficient to absorb losses inherent in the loan and lease portfolio and credit commitments outstanding as of that date based on the best information available. This assessment, based in part on historical levels of net charge-offs, loan and lease growth, and a detailed review of the quality of the loan and lease portfolio, involves uncertainty and judgment. Therefore, the adequacy of the ALLL and RUC cannot be determined with precision and may be subject to change in future periods. In addition, bank regulatory authorities, as part of their periodic examination of the Bank, may require additional charges to the provision for loan and lease losses in future periods if warranted as a result of their review.

Residential Mortgage Servicing Rights

The following table presents the key elements of our residential mortgage servicing rights portfolio for the three and nine months ended September 30, 2017 and 2016:

Summary of Residential Mortgage Servicing Rights

| (in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Balance, beginning of period | $141,832 | $112,095 | $142,973 | $131,817 |
| Additions for new MSR capitalized | 8,626 | 10,177 | 23,486 | 25,020 |
| Changes in fair value: | | | | |
| Due to changes in model inputs or assumptions (1) | (4,861) | (5,386) | (13,040) | (22,473) |
| Other (2) | (4,372) | (2,440) | (12,194) | (19,918) |
| Balance, end of period | $141,225 | $114,446 | $141,225 | $114,446 |

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

Information related to our residential serviced loan portfolio as of September 30, 2017 and December 31, 2016 was as follows:

| (dollars in thousands) | September 30, 2017 | December 31, 2016 |
|---|---|---|
| Balance of loans serviced for others | $15,007,942 | $14,327,368 |
| MSR as a percentage of serviced loans | 0.94% | 1.00% |

Mortgage servicing rights are adjusted to fair value quarterly with the change recorded in mortgage banking revenue.

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Goodwill and Other Intangibles Assets

At September 30, 2017 and December 31, 2016, we had goodwill of $1.8 billion. Goodwill is recorded in connection with business combinations and represents the excess of the purchase price over the estimated fair value of the net assets acquired. There were no changes to goodwill during the three and nine months ended September 30, 2017.

At September 30, 2017, we had other intangible assets of $31.8 million, as compared to $36.9 million at December 31, 2016. As part of a business acquisition, the fair value of identifiable intangible assets such as core deposits, which include all deposits except certificates of deposit, are recognized at the acquisition date. Intangible assets with definite useful lives are amortized to their estimated residual values over their respective estimated useful lives, and are also reviewed for impairment. We amortize other intangible assets on an accelerated or straight-line basis over an estimated ten to fifteen year life. The decrease from December 31, 2016 relates to the amortization of the other intangible assets of $5.1 million for the nine months ended September 30, 2017.

Deposits

Total deposits were $19.9 billion at September 30, 2017, an increase of $830.9 million, as compared to December 31, 2016. The increase is attributable to growth in demand, savings, and time deposit accounts.

The following table presents the deposit balances by major category as of September 30, 2017 and December 31, 2016:

| (dollars in thousands) | September 30, 2017 | | | December 31, 2016 | | |
|---|---|---|---|---|---|---|
| | Amount | Percentage | | Amount | Percentage | |
| Non-interest bearing demand | $6,571,471 | 33 | % | $5,861,469 | 31 | % |
| Interest bearing demand | 2,394,240 | 12 | % | 2,296,532 | 12 | % |
| Money market | 6,700,261 | 34 | % | 6,932,717 | 36 | % |
| Savings | 1,444,801 | 7 | % | 1,325,757 | 7 | % |
| Time, $100,000 or greater | 1,846,180 | 9 | % | 1,702,982 | 9 | % |
| Time, less than $100,000 | 894,957 | 5 | % | 901,528 | 5 | % |
| Total | $19,851,910 | 100 | % | $19,020,985 | 100 | % |

The Company's brokered deposits, including Certificate of Deposit Account Registry Service ("CDARS"), totaled $1.0 billion at September 30, 2017 and December 31, 2016.

Borrowings

At September 30, 2017, the Bank had outstanding $321.5 million of securities sold under agreements to repurchase and no outstanding federal funds purchased balances. The Bank had outstanding term debt of $852.3 million at September 30, 2017. Term debt outstanding as of September 30, 2017 decreased $91,000 since December 31, 2016. Advances from the FHLB amounted to $851.8 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 0.94% to 7.10% and mature in 2017 through 2033.

Junior Subordinated Debentures

We had junior subordinated debentures with carrying values of $367.6 million and $363.1 million at September 30, 2017 and December 31, 2016, respectively. The increase is due to the change in fair value for the junior subordinated debentures selected to be carried at fair value. As of September 30, 2017, the majority of the junior subordinated debentures had interest rates that are adjustable on a quarterly basis based on a spread over three month

LIBOR. Interest expense for junior subordinated debentures increased for the three and nine month periods ended September 30, 2017 compared to the same periods in 2016, primarily resulting from increases in the LIBOR rate during the periods.

Liquidity and Cash Flow

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

We monitor the sources and uses of funds on a daily basis to maintain an acceptable liquidity position. One source of funds includes public deposits. Individual state laws require banks to collateralize public deposits, typically as a percentage of their public deposit balance in excess of FDIC insurance. Public deposits represented 7.3% of total deposits at September 30, 2017 and 8.6% of total deposits at December 31, 2016. 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 $6.1 billion at September 30, 2017, 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 $521.2 million, subject to certain collateral requirements, namely the amount of certain pledged loans. The Bank had uncommitted federal funds line of credit agreements with additional financial institutions totaling $450.0 million at September 30, 2017. Availability of these 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 $125.5 million of dividends paid by the Bank to the Company in the nine months ended September 30, 2017. There are statutory and regulatory provisions that could limit the ability of the Bank to pay dividends to the Company. We believe that such restrictions will not have an adverse impact on the ability of the Company to fund its quarterly cash dividend distributions to common shareholders and meet its ongoing cash obligations, which consist principally of debt service on the outstanding junior subordinated debentures. As of September 30, 2017, the Company did not have any borrowing arrangements of its own.

As disclosed in the Condensed Consolidated Statements of Cash Flows, net cash provided by operating activities was $247.1 million during the nine months ended September 30, 2017, with the difference between cash provided by operating activities and net income largely consisting of proceeds from the sale of loans held for sale of $2.6 billion, offset by originations of loans held for sale of $2.6 billion. This compares to net cash provided by operating activities of $387.1 million during the nine months ended September 30, 2016, with the difference between cash provided by operating activities and net income largely consisting of originations of loans held for sale of $2.9 billion, offset by proceeds from the sale of loans held for sale of $3.1 billion.

Net cash of $1.5 billion used in investing activities during the nine months ended September 30, 2017, consisted principally of net loan originations of $1.4 billion, purchases of investment securities available for sale of $783.4 million, and purchases of equity securities of $243.2 million, offset by proceeds from investment securities available for sale of $437.0 million, redemption of equity securities of $243.2 million, and proceeds from sale of loans and leases of $218.9 million. This compares to net cash of $808.6 million used in investing activities during the nine months ended September 30, 2016, which consisted principally of net loan originations of $1.2 billion and purchases of investment securities available for sale of $443.1 million, partially offset by proceeds from investment securities available for sale of $461.3 million and proceeds from the sale of loans and leases of $430.0 million.

Net cash of $689.2 million provided by financing activities during the nine months ended September 30, 2017 primarily consisted of $831.8 million increase in net deposits and proceeds from term debt borrowings of $205.0 million, offset by $205.0 million repayment of term debt and the dividends paid on common stock of $105.7 million. This compares to net cash of $1.1 billion provided by financing activities during the nine months ended September 30, 2016, which consisted primarily of $1.2 billion increase in net deposits and proceeds from term debt borrowings of $490.0 million, offset by $475.0 million repayment of term debt and $105.8 million in dividends paid on common stock.

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Although we expect the Bank's and the Company's liquidity positions to remain satisfactory during 2017, it is possible that our deposit growth for 2017 may not be maintained at previous levels due to pricing pressure or store consolidations, 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 8 of the Notes to Condensed Consolidated Financial Statements.

Concentrations of Credit Risk

Information regarding Concentrations of Credit Risk is included in Note 8 of the Notes to Condensed Consolidated Financial Statements.

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Capital Resources

Shareholders' equity at September 30, 2017 was $4.0 billion, an increase of $68.5 million from December 31, 2016. The increase in shareholders' equity during the nine months ended September 30, 2017 was principally due to net income for the period and other comprehensive income, net of tax, offset by declared common dividends.

The following table shows the Company's consolidated and the Bank's capital adequacy ratios compared to the regulatory minimum capital ratio and the regulatory minimum capital ratio needed to qualify as a "well-capitalized" institution, as calculated under regulatory guidelines of the Basel Committee on Banking Supervision to the Basel capital framework ("Basel III") at September 30, 2017 and December 31, 2016:

| (dollars in thousands) | Actual | | For Capital Adequacy purposes | | To be Well Capitalized | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| As of September 30, 2017 | | | | | | |
| Total Capital | | | | | | |
| (to Risk Weighted Assets) | | | | | | |
| Consolidated | $2,798,206 | 14.15% | $1,582,476 | 8.00% | $1,978,095 | 10.00% |
| Umpqua Bank | $2,624,455 | 13.30% | $1,578,766 | 8.00% | $1,973,458 | 10.00% |
| Tier I Capital | | | | | | |
| (to Risk Weighted Assets) | | | | | | |
| Consolidated | $2,193,621 | 11.09% | $1,186,857 | 6.00% | $1,582,476 | 8.00 % |
| Umpqua Bank | $2,481,131 | 12.57% | $1,184,075 | 6.00% | $1,578,766 | 8.00 % |
| Tier I Common | | | | | | |
| (to Risk Weighted Assets) | | | | | | |
| Consolidated | $2,193,621 | 11.09% | $890,143 | 4.50% | $1,285,762 | 6.50 % |
| Umpqua Bank | $2,481,131 | 12.57% | $888,056 | 4.50% | $1,282,748 | 6.50 % |
| Tier I Capital | | | | | | |
| (to Average Assets) | | | | | | |
| Consolidated | $2,193,621 | 9.33 % | $940,481 | 4.00% | $1,175,602 | 5.00 % |
| Umpqua Bank | $2,481,131 | 10.57% | $939,169 | 4.00% | $1,173,962 | 5.00 % |
| As of December 31, 2016 | | | | | | |
| Total Capital | | | | | | |
| (to Risk Weighted Assets) | | | | | | |