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,		Nine Months Ended September 30,	
	2017	2016	2017	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

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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

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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	—	—	—				