TURKCELL ILETISIM HIZMETLERI A S
Form 6-K
April 13, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 UNDER
THE SECURITIES EXCHANGE ACT OF 1934

Report on Form 6-K dated April 13, 2015

Commission File Number: 001-15092

TURKCELL ILETISIM HIZMETLERI A.S.
(Translation of registrant's name in English)

Turkcell Plaza
Mesrutiyet Caddesi No. 71
34430 Tepebasi
Istanbul, Turkey

(Address of Principal Executive Offices)

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

Form 20-F Q Form 40-F £

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

Yes £ No Q

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

Yes £ No Q

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

Yes £ No Q

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-__________

Enclosure: A press release dated April 13, 2015 announcing changes in Turkcell's management.

Istanbul, April 13, 2015

Announcement Regarding the Changes in Management

Subject: Statement made pursuant to Communiqué II-15.1 of the Capital Markets Board

Selen Kocabaş who currently serves as the Chief Corporate Business Officer, Tayfun Çataltepe currently serving as the Chief Regulations, Legal & Wholesale Business Officer and Tolga Cem Seyfeli who currently serves as the Chief Legal Officer have decided to resign from their positions, effective from April 17, 2015.

We thank them for their valuable contributions to the Company over the past years and wish them every success in their future careers.

For more information:

Turkcell Investor Relations

investor.relations@turkcell.com.tr

Tel: + 90 212 313 1888

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, Turkcell Iletisim Hizmetleri A.S. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TURKCELL ILETISIM HIZMETLERI A.S.

Date: April 13, 2015	By:	/s/Murat Dogan Erden
	Name:	Murat Dogan Erden
	Title:	Chief Financial Officer

TURKCELL ILETISIM HIZMETLERI A.S.

Date: April 13, 2015	By:	/s/Nihat Narin
	Name:	Nihat Narin
	Title:	Investor Relations Director

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Junior subordinated debentures, at fair value
$

280,669

$
—

$
—

$
280,669

Derivatives

Interest rate forward sales commitments
2,142

—

2,142

—

Interest rate swaps
29,380

—

29,380

—

Foreign currency derivative
373

—

373

—

Total liabilities measured at fair value
$
312,564

$
—

$
31,895

$
280,669

(1) Other investment securities includes securities held by Umpqua Investments as trading debt securities.

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(in thousands)	December 31, 2017			
Description	Total	Level 1	Level 2	Level 3
FINANCIAL ASSETS:				
Trading securities				
Obligations of states and political subdivisions	$273	$—	$273	$—
Equity securities	11,982	11,982	—	—
Investment securities available for sale				
U.S. Treasury and agencies	39,698	—	39,698	—
Obligations of states and political subdivisions	308,456	—	308,456	—
Residential mortgage-backed securities and collateralized mortgage obligations	2,665,645	—	2,665,645	—
Investments in mutual funds and other securities	51,970	51,970		—
Loans held for sale, at fair value	259,518	—	259,518	—
Residential mortgage servicing rights, at fair value	153,151	—	—	153,151
Derivatives				
Interest rate lock commitments	4,752	—	—	4,752
Interest rate forward sales commitments	286	—	286	—
Interest rate swaps	26,081	—	26,081	—
Foreign currency derivative	1,137	—	1,137	—
Total assets measured at fair value	$3,522,949	$63,952	$3,301,094	$157,903
FINANCIAL LIABILITIES:				
Junior subordinated debentures, at fair value	$277,155	$—	$—	$277,155
Derivatives				
Interest rate forward sales commitments	567	—	567	—
Interest rate swaps	7,229	—	7,229	—
Foreign currency derivative	1,492	—	1,492	—
Total liabilities measured at fair value	$286,443	$—	$9,288	$277,155

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

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.

Residential Mortgage Servicing Rights— The fair value of MSR 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 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.

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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 a 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 June 30, 2018, the Bank has assessed the significance of the impact of the CVA on the overall valuation of its interest rate swap positions and has determined that the CVA are not significant to the overall valuation of its interest rate swap derivatives. As a result, the Bank has classified its interest rate swap derivative valuations in Level 2 of the fair value hierarchy.

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

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 June 30, 2018:

Financial Instrument	Valuation Technique	Unobservable Input	Weighted Average
Residential mortgage servicing rights	Discounted cash flow		
		Constant Prepayment Rate	11.75%
		Discount Rate	9.69%
Interest rate lock commitment	Internal Pricing Model		
		Pull-through rate	88.92%
Junior subordinated debentures	Discounted cash flow		
		Credit Spread	4.97%

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. 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 instrument-specific credit risk adjusted spread relative to the spread currently utilized to measure the Company's junior subordinated debentures at fair value as of June 30, 2018, 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 six months ended June 30, 2018 and 2017:
(in thousands)

Three Months Ended June 30,	Beginning Balance	Change included in earnings	Change in fair values included in comprehensive income (loss)	Purchases and issuances	Sales and settlements	Ending Balance	Net change in unrealized gains or (losses) relating to items held at end of period
2018							
Residential mortgage servicing rights	$ 164,760	$ (5,403)	$ —	$ 6,860	$ —	$ 166,217	$ (1,771)
Interest rate lock commitment, net	5,874	249	—	8,099	(7,440)	6,782	6,782
Junior subordinated debentures, at fair value	278,410	4,283	1,513	—	(3,537)	280,669	5,796
2017							
Residential mortgage servicing rights	$ 142,344	$ (8,331)	$ —	$ 7,819	$ —	$ 141,832	$ (4,268)
Interest rate lock commitment, net	6,294	580	—	11,315	(13,443)	4,746	4,746
Junior subordinated debentures, at fair value	263,605	4,872	—	—	(3,054)	265,423	4,872

(in thousands)

Six Months Ended June 30,	Beginning Balance	Change included in earnings	Change in fair values included in comprehensive income (loss)	Purchases and issuances	Sales and settlements	Ending Balance	Net change in unrealized gains or (losses) relating to items held at end of period
2018							
Residential mortgage servicing rights	$ 153,151	$ (324)	$ —	$ 13,390	$ —	$ 166,217	$ 6,663
Interest rate lock commitment, net	4,752	(1,004)	—	14,532	(11,498)	6,782	6,782
Junior subordinated debentures, at fair value	277,155	8,058	3,196	—	(7,740)	280,669	11,254
2017							
Residential mortgage servicing rights	$ 142,973	$ (16,001)	$ —	$ 14,860	$ —	$ 141,832	$ (8,224)
Interest rate lock commitment, net	4,076	1,377	—	21,964	(22,671)	4,746	4,746
Junior subordinated debentures, at fair value	262,209	9,552	—	—	(6,338)	265,423	9,552

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. 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.

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For 2017, the Company recorded gains (losses) on junior subordinated debentures carried at fair value in non-interest income. As discussed in Note 1, Summary of Significant Accounting Policies, the Company applied new guidance to the accounting for the gain/loss on fair value of the junior subordinated debentures. For the three and six months ended June 30, 2018, the change in fair value is attributable to the change in the instrument specific credit risk of the junior subordinated debentures, accordingly, the losses on fair value of junior subordinated debentures for the three and six months ended June 30, 2018 of $1.5 million and $3.2 million, respectively, are recorded net of tax as an other comprehensive loss of $1.1 million and $2.4 million, respectively.

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.

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)	June 30, 2018			
	Total	Level 1	Level 2	Level 3
Loans and leases	$50,160	$ —	$ —	$50,160
Other real estate owned	720	—	—	720
	$50,880	$ —	$ —	$50,880

(in thousands)	December 31, 2017			
	Total	Level 1	Level 2	Level 3
Loans and leases	$75,121	$ —	$ —	$75,121
Other real estate owned	68	—	—	68
	$75,189	$ —	$ —	$75,189

The following table presents the losses resulting from nonrecurring fair value adjustments for the three and six months ended June 30, 2018 and 2017:

(in thousands)	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Loans and leases	$13,682	$11,914	$27,721	$23,156
Other real estate owned	61	40	66	107
Total loss from nonrecurring measurements	$13,743	$11,954	$27,787	$23,263

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, but in some cases, the value of the collateral may be estimated as having little to no value. 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.

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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.

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 June 30, 2018 and December 31, 2017:

(in thousands)	June 30, 2018			December 31, 2017		
	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	$432,642	$418,442	$ 14,200	$259,518	$250,721	$ 8,797

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 six months ended June 30, 2018, the Company recorded a net increase in fair value of $5.7 million and $5.4 million, respectively. For the three and six months ended June 30, 2017, the Company recorded a net increase in fair value of $2.2 million and $7.1 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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Note 15 – Revenue from Contracts with Customers

All of the Company's revenue from contracts with customers in the scope of ASC 606 is recognized in Non-Interest Income with the exception of the (gain) loss on other real estate owned, which is included in Non-Interest Expense. The following table presents the Company's sources of Non-Interest Income for the three and six months ended June 30, 2018. Items outside of the scope of ASC 606 are noted as such.

(in thousands)	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
Non-interest income:		
Service charges on deposits		
Account maintenance fees	$4,183	$8,323
Transaction-based and overdraft service charges	6,444	12,700
Debit/ATM interchange fees	4,893	9,492
Total service charges on deposits	15,520	30,515
Brokerage revenue	4,161	8,355
Residential mortgage banking revenue (a)	33,163	71,601
Gain on sale of investment securities, net (a)	14	14
Unrealized holding losses on equity securities (a)	(1,432)	(1,432)
Gain on loan sales, net (a)	1,348	2,578
BOLI income (a)	2,060	4,130
Other income		
Merchant fee income	1,221	2,062
Credit card and interchange income	1,787	3,480
Remaining other income (a)	13,809	28,915
Total other income	16,817	34,457
Total non-interest income	$71,651	$150,218

(a) Not within scope of ASC 606

Deposit service charges

Umpqua earns fees from its deposit customers for account maintenance, transaction-based and overdraft services. Account maintenance fees consist primarily of account fees and analyzed account fees charged on deposit accounts on a monthly basis. The performance obligation is satisfied and the fees are recognized on a monthly basis as the service period is completed. Transaction-based fees on deposits accounts are charged to deposit customers for specific services provided to the customer, such as non-sufficient funds fees, overdraft fees, and wire fees. The performance obligation is completed as the transaction occurs and the fees are recognized at the time each specific service is provided to the customer.

Debit and ATM interchange fee income and expenses

Debit and ATM interchange income represent fees earned when a debit card issued by Umpqua is used. Umpqua earns interchange fees from debit cardholder transactions through the Visa payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. The performance obligation is satisfied and the fees are earned when the cost of the transaction is charged to the cardholders’ debit card. Certain expenses directly associated with the credit and debit card are recorded on a net basis with the interchange income.

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Brokerage revenue

As of the three and six months ended June 30, 2018, Umpqua had revenues of $4.2 million and $8.4 million, respectively, for the performance of brokerage services for its clients through Umpqua Investments. Brokerage fees consist of transaction fees earned from asset management, trade execution and administrative fees from investments. Asset management fees are variable, since they are based on the underlying portfolio value, which is subject to market conditions and amounts invested by clients. Asset management fees are recognized over the period that services are provided, and when the portfolio values are known or can be estimated at the end of each quarter. Brokerage transaction fees are fixed and determinable, based on security type and trade volume, and are recognized upon trade execution. In addition, revenues are earned from selling insurance and annuity policies. The amount of revenue earned is determined by the value and type of each instrument sold and is recognized when the policy is in force.

Merchant fee income

Merchant fee income represents fees earned by Umpqua for card payment services provided to its merchant customers. Umpqua outsources these services to a third party to provide card payment services to these merchants. The third party provider passes the payments made by the merchants through to Umpqua. Umpqua, in turn, pays the third party provider for the services it provides to the merchants. These payments to the third party provider are recorded as expenses as a net reduction against fee income. In addition, a portion of the payment received represents interchange fees which are passed through to the card issuing bank. Income is primarily earned based on the dollar volume and number of transactions processed. The performance obligation is satisfied and the related fee is earned when each payment is accepted by the processing network. For the three and six months ended June 30, 2018, Umpqua had merchant processing fee revenue of $1.2 million and $2.1 million, respectively, included in other income.

Credit card and interchange income and expenses

Credit card interchange income represent fees earned when a credit card issued by the Company is used. Similar to the debit card interchange, Umpqua earns an interchange fee for each transaction made with Umpqua's branded credit cards. The performance obligation is satisfied and the fees are earned when the cost of the transaction is charged to the cardholders' credit card. Certain expenses and rebates directly related to the credit card interchange contract are recorded net to the interchange income. For the three and six months ended June 30, 2018, credit card and interchange income included in other income was $1.8 million and $3.5 million, respectively.

Gain/loss on other real estate owned, net

Umpqua records a gain or loss from the sale of other real estate owned when control of the property transfers to the buyer, which generally occurs at the time of an executed deed of trust. When Umpqua finances the sale of other real estate owned to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the other real estate owned asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on sale, Umpqua adjusts the transaction price and related gain or loss on sale if a significant financing component is present.

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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; the Company's liquidity position; dividends; NextGen initiatives; investments in data, analytics and technology; 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; mortgage servicing rights values; tax rates 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 we believe differentiates 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.

Pivotus Ventures, Inc., a subsidiary of Umpqua Holdings Corporation, develops new bank platforms designed to positively impact the customer experience.

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

The presentation within has been revised to reflect the effects of the Correction of the Prior Period Balances disclosed in Note 1 to the Condensed Consolidated Financial Statements.

Executive Overview

Significant items for the three and six months ended June 30, 2018 were as follows:

Financial Performance

- Net earnings available to common shareholders per diluted common share were $0.30 and $0.66 for the three and six months ended June 30, 2018, respectively, compared to $0.26 and $0.47 for the three and six months ended June 30, 2017, respectively.

- Net interest margin, on a tax equivalent basis, was 3.89% and 3.96% for the three and six months ended June 30, 2018, respectively, as compared to 3.94% and 3.91% for the three and six months ended June 30, 2017, respectively. The decrease in net interest margin for the three months ended June 30, 2018, compared to the same period in the prior year, was due to an increase in the cost of interest-bearing liabilities and a lower yield on taxable securities, offset by higher average yields on the loan and lease portfolio. The increase in net interest margin for the six months ended June 30, 2018, was primarily driven by higher average yields on the loan and lease portfolio, offset by an increase in the cost of interest-bearing liabilities and a lower yield on taxable securities. The increase in the cost of interest-bearing liabilities was attributable to an increase in average rates paid on interest-bearing deposits, as well as a higher percentage mix of time deposits, relative to prior periods.

- Residential mortgage banking revenue was $33.2 million and $71.6 million for the three and six months ended June 30, 2018, respectively, as compared to $33.9 million and $60.7 million for the three and six months ended

June 30, 2017, 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 3.35% for the three months ended June 30, 2018, compared to 3.53% in the same period of the prior year. This decrease was partially offset by a lower loss on the fair value of the MSR asset, which decreased to $5.4 million for the three months ended June 30, 2018, as compared to a loss of $8.3 million, for the three months ended June 30, 2017. The increase in residential mortgage banking income for the six month period was primarily driven by a lower loss on the fair value of the MSR asset, which decreased to $324,000, compared to a loss of $16.0 million for the six months ended June 30, 2017. This was offset by a decrease in the gain on sale margin to 3.34% for the six months ended June 30, 2018, compared to 3.41% in the same period of the prior year.

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- Total gross loans and leases were $19.6 billion as of June 30, 2018, an increase of $620.3 million, as compared to December 31, 2017. The increase reflects balanced growth across the Company's commercial term, leasing, multifamily, and residential mortgage loan portfolios, partially offset by a decline in consumer loans attributable to the continued wind down of our indirect auto loan business.

- Total deposits were $20.7 billion as of June 30, 2018, an increase of $796.2 million, compared to December 31, 2017. This increase was primarily attributable to growth in time and non-interest bearing demand deposits, partially offset by lower money market balances.

- Total consolidated assets were $26.5 billion as of June 30, 2018, compared to $25.7 billion at December 31, 2017.

Credit Quality

- Non-performing assets decreased to $90.0 million, or 0.34% of total assets, as of June 30, 2018, as compared to $94.1 million, or 0.37% of total assets, as of December 31, 2017. Non-performing loans were $77.9 million, or 0.40% of total loans, as of June 30, 2018, as compared to $82.3 million, or 0.43% of total loans, as of December 31, 2017.

- The provision for loan and lease losses was $13.3 million and $27.0 million for the three and six months ended June 30, 2018, as compared to the $10.7 million and $22.3 million recognized for the three and six months ended June 30, 2017. The increase for the three and six months ended June 30, 2018, compared to the same periods of the prior year, was primarily attributable to strong growth in the loan and lease portfolio, along with higher net charge-offs. For the three and six months ended June 30, 2018, net charge-offs were $10.7 million and $23.0 million, respectively, or 0.22% and 0.24%, respectively, of average loans and leases (annualized), as compared to $10.1 million and $19.4 million, respectively, or 0.23% and 0.22%, respectively of average loans and leases (annualized), for the three and six months ended June 30, 2017.

Capital and Growth Initiatives

- The Company's total risk based capital was 13.5% and its Tier 1 common to risk weighted assets ratio was 10.7% as of June 30, 2018. As of December 31, 2017, the Company's total risk based capital ratio was 14.1% and its Tier 1 common to risk weighted assets ratio was 11.1%.

- Cash dividends declared in the second quarter of 2018 were $0.20 per common share, an increase of 25% from the comparable period of the prior year's cash dividend of $0.16 per common share.

- For the three months ended June 30, 2018, the Company repurchased 327,000 shares of common stock for $8.0 million.

- In late 2017, the Company launched "Umpqua Next-Gen," an initiative designed to modernize and evolve the Bank focusing on operational excellence, balanced growth and human-digital programs in 2018. As part of this initiative, the Company evaluated every part of how we operate and evolve to deliver a highly differentiated and compelling banking experience. During the six months ended June 30, 2018, Umpqua consolidated 31 stores and completed an organizational simplification and design exercise to streamline and align functions and bring associates closer to our customers. As previously announced, a portion of the savings generated will be re-invested into technology, data and analytics, including new customer-focused technologies, associate training, a re-designed corporate website, digital marketing efforts, and new online account origination capabilities.

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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, 2017 included in the Form 10-K filed with the SEC on February 23, 2018. 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 if management believes 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 the ultimate designation of 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 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 June 30, 2018, 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 June 30, 2018. 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 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, 2017. 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.

Results of Operations

Overview

For the three and six months ended June 30, 2018, net earnings available to common shareholders were $66.0 million, or $0.30 per diluted common share and $145.0 million, or $0.66 per diluted common share, respectively, as compared to net earnings available to common shareholders of $57.2 million, or $0.26 per diluted common share, and $103.3 million, or $0.47 per diluted common share, for the three and six months ended June 30, 2017, respectively. The increase in net earnings for the three months ended June 30, 2018 compared to the same period of the prior year was attributable to an increase in net interest income and lower income tax expense, offset by an increase in non-interest expense. The increase in net interest income was driven primarily by higher average yields on interest-earning assets, specifically within the loan and lease portfolio, offset by a higher cost of funds. The decrease in the provision for income taxes was due to the Tax Cuts and Jobs Act passed in December 2017, resulting in an effective tax rate of 24.7% for the three months ended June 30, 2018, as compared to an effective tax rate of 35.8% for the three months ended June 30, 2017. The increase in non-interest expense was driven by severance and other charges related to the organization simplification and design and procurement phases of Umpqua Next-Gen.

The increase in net earnings for the six months ended June 30, 2018 compared to the same period of the prior year was attributable to an increase in net interest income, non-interest income and lower income tax expense, offset by an increase in non-interest expense. The increase in net interest income was driven primarily by higher average yields on interest-earning assets, specifically within the loan and lease portfolio, offset by a higher cost of funds. The increase in non-interest income was driven primarily by higher residential mortgage banking revenues, as well as an increase in swap revenues of $4.0 million as compared to the six months ended June 30, 2017. In addition, there were no losses related to junior subordinated debentures carried at fair value included in earnings as the fair value adjustment for the instrument-specific credit risk was included in other comprehensive loss in 2018. The decrease in the provision for income taxes was due to the Tax Cuts and Jobs Act passed in December 2017, resulting in an effective tax rate of 24.3% for the six months ended June 30, 2018, as compared to an effective tax rate of 36.2% for the six months ended June 30, 2017. The increase in non-interest expense was driven by severance and other charges related to the organization simplification and design and procurement phases of Umpqua Next-Gen, as well as an increase in exit and disposal costs related to store consolidations during the period.

The following table presents the return on average assets, average common shareholders' equity and average tangible common shareholders' equity for the three and six months ended June 30, 2018 and 2017. 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.

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Return on Average Assets, Common Shareholders' Equity and Tangible Common Shareholders' Equity

(dollars in thousands)	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Return on average assets	1.02 %	0.93 %	1.13 %	0.84 %
Return on average common shareholders' equity	6.64 %	5.86 %	7.34 %	5.33 %
Return on average tangible common shareholders' equity	12.18 %	10.96 %	13.50 %	10.00 %
Calculation of average common tangible shareholders' equity:				
Average common shareholders' equity	$3,988,825	$3,915,104	$3,981,948	$3,904,996
Less: average goodwill and other intangible assets, net	(1,815,529)	(1,822,032)	(1,816,294)	(1,822,910)
Average tangible common shareholders' equity	$2,173,296	$2,093,072	$2,165,654	$2,082,086

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

The following table provides a reconciliation of ending shareholders' equity (GAAP) to ending tangible common equity (non-GAAP), and ending assets (GAAP) to ending tangible assets (non-GAAP) as of June 30, 2018 and December 31, 2017:

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

(dollars in thousands)	June 30, 2018	December 31, 2017
Total shareholders' equity	$3,981,087	$3,969,367
Subtract:		
Goodwill	1,787,651	1,787,651
Other intangible assets, net	27,047	30,130
Tangible common shareholders' equity	$2,166,389	$2,151,586
Total assets	$26,480,601	$25,680,447
Subtract:		
Goodwill	1,787,651	1,787,651
Other intangible assets, net	27,047	30,130
Tangible assets	$24,665,903	$23,862,666
Tangible common equity ratio	8.78 %	9.02 %

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.

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Net Interest Income

Net interest income is the largest source of our income. Net interest income for the three and six months ended June 30, 2018 was $224.9 million and $449.9 million, respectively, an increase of $12.2 million and $30.4 million, respectively, compared to the same periods in 2017. The increase in net interest income for the three and six months ended June 30, 2018 as compared to the same periods in 2017, reflects higher average loans and leases, driven by strong growth during the periods, and higher average loan and lease yields. The increase was partially offset by increased volumes of interest-bearing liabilities and an increase in the average cost of funds due to rising market rates.

The net interest margin (net interest income as a percentage of average interest-earning assets) on a fully tax equivalent basis was 3.89% and 3.96% for the three and six months ended June 30, 2018, a decrease of 5 basis points and an increase of 5 basis points, respectively, as compared to the same periods in 2017. The decrease in net interest margin for the three months ended June 30, 2018, primarily resulted from an increase in the cost of interest-bearing liabilities and a lower yield on taxable securities, offset by higher average yields on the loan and lease portfolio. The increase in net interest margin for the six months ended June 30, 2018, was primarily the result of higher average yields on the loan and lease portfolio, offset by an increase in the cost of interest-bearing liabilities and a lower yield on taxable securities. The yield on loans and leases increased by 21 basis points and 18 basis points, respectively, for the three and six months ended June 30, 2018, as compared to the same periods in 2017.

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 six months ended June 30, 2018 and 2017:

Average Rates and Balances

(dollars in thousands)	Three Months Ended June 30, 2018			Three Months Ended June 30, 2017		
	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	$326,427	$3,967	4.86 %	$392,183	$3,193	3.26 %
Loans and leases (1)	19,387,537	238,156	4.91 %	17,956,675	210,469	4.70 %
Taxable securities	2,723,406	8,932	1.31 %	3,008,079	15,580	2.07 %
Non-taxable securities (2)	279,158	2,539	3.64 %	292,553	3,397	4.64 %
Temporary investments and interest-bearing cash	458,133	2,080	1.82 %	125,886	324	1.03 %
Total interest-earning assets	23,174,661	$255,674	4.41 %	21,775,376	$232,963	4.29 %
Allowance for loan and lease losses	(144,598)			(137,445)		
Other assets	3,046,079			3,113,265		
Total assets	$26,076,142			$24,751,196		
INTEREST-BEARING LIABILITIES:						
Interest-bearing demand deposits	$2,322,359	$1,565	0.27 %	$2,311,555	$798	0.14 %
Money market deposits	6,332,372	5,896	0.37 %	6,682,937	2,975	0.18 %
Savings deposits	1,456,625	252	0.07 %	1,401,238	146	0.04 %
Time deposits	3,633,733	13,546	1.50 %	2,641,334	6,722	1.02 %
Total interest-bearing deposits	13,745,089	21,259	0.62 %	13,037,064	10,641	0.33 %
Repurchase agreements and federal funds purchased	285,338	155	0.22 %	405,892	321	0.32 %
Term debt	801,768	3,478	1.74 %	852,254	3,662	1.72 %
Junior subordinated debentures	367,705	5,400	5.89 %	364,440	4,437	4.88 %
Total interest-bearing liabilities	15,199,900	$30,292	0.80 %	14,659,650	$19,061	0.52 %
Non-interest-bearing deposits	6,645,689			5,951,670		
Other liabilities	241,728			224,772		
Total liabilities	22,087,317			20,836,092		
Common equity	3,988,825			3,915,104		
Total liabilities and shareholders' equity	$26,076,142			$24,751,196		
NET INTEREST INCOME		$225,382			$213,902	
NET INTEREST SPREAD			3.61 %			3.77 %
AVERAGE YIELD ON EARNING ASSETS (1), (2)			4.41 %			4.29 %
INTEREST EXPENSE TO EARNING ASSETS			0.52 %			0.35 %
NET INTEREST INCOME TO EARNING ASSETS OR NET INTEREST MARGIN (1), (2)			3.89 %			3.94 %

(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 21% tax rate for 2018 and a 35% tax rate for 2017. The amount of such adjustment was an addition to recorded income of approximately $482,000 for the three

months ended June 30, 2018 as compared to $1.2 million for the same period in 2017.

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(dollars in thousands)	Six Months Ended June 30, 2018			Six Months Ended June 30, 2017		
	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	$296,992	$6,782	4.57 %	$371,989	$6,588	3.54 %
Loans and leases (1)	19,239,586	464,829	4.87 %	17,744,708	413,124	4.69 %
Taxable securities	2,758,235	25,099	1.82 %	2,866,614	29,899	2.09 %
Non-taxable securities (2)	282,860	5,179	3.66 %	289,515	6,806	4.70 %
Temporary investments and interest bearing cash	381,328	3,244	1.72 %	463,245	1,881	0.82 %
Total interest-earning assets	22,959,001	$505,133	4.44 %	21,736,071	$458,298	4.25 %
Allowance for loan and lease losses	(143,509)			(136,834)		
Other assets	3,041,198			3,120,893		
Total assets	$25,856,690			$24,720,130		
INTEREST-BEARING LIABILITIES:						
Interest-bearing demand deposits	$2,322,793	$2,775	0.24 %	$2,288,870	$1,443	0.13 %
Money market deposits	6,618,629	11,609	0.35 %	6,776,705	5,644	0.17 %
Savings deposits	1,459,824	414	0.06 %	1,383,124	274	0.04 %
Time deposits	3,218,477	22,071	1.38 %	2,629,472	12,928	0.99 %
Total interest-bearing deposits	13,619,723	36,869	0.55 %	13,078,171	20,289	0.31 %
Repurchase agreements and federal funds purchased	294,150	218	0.15 %	366,498	351	0.19 %
Term debt	802,031	6,839	1.72 %	852,302	7,172	1.70 %
Junior subordinated debentures	370,556	10,332	5.62 %	363,627	8,638	4.79 %
Total interest-bearing liabilities	15,086,460	$54,258	0.73 %	14,660,598	$36,450	0.50 %
Non-interest-bearing deposits	6,548,566			5,917,984		
Other liabilities	239,716			236,552		
Total liabilities	21,874,742			20,815,134		
Common equity	3,981,948			3,904,996		
Total liabilities and shareholders' equity	$25,856,690			$24,720,130		
NET INTEREST INCOME		$450,875			$421,848	
NET INTEREST SPREAD			3.71 %			3.75 %
AVERAGE YIELD ON EARNING ASSETS (1), (2)			4.44 %			4.25 %
INTEREST EXPENSE TO EARNING ASSETS			0.48 %			0.34 %
NET INTEREST INCOME TO EARNING ASSETS OR NET INTEREST MARGIN (1), (2)			3.96 %			3.91 %

(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 21% tax rate for 2018 and a 35% tax rate for 2017. The amount of such adjustment was an addition to recorded income of approximately $1.0 million for the six months ended June 30, 2018 as compared to $2.3 million for the same period in 2017.

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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 six months ended June 30, 2018 as compared to the same periods in 2017. 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 June 30, 2018 compared to 2017 Increase (decrease) in interest income and expense due to changes in		
	Volume	Rate	Total
INTEREST-EARNING ASSETS:			
Loans held for sale	$(600)	$1,374	$774
Loans and leases	17,599	10,088	27,687
Taxable securities	(1,364)	(5,284)	(6,648)
Non-taxable securities (1)	(150)	(708)	(858)
Temporary investments and interest bearing cash	1,360	396	1,756
Total (1)	16,845	5,866	22,711
INTEREST-BEARING LIABILITIES:			
Interest bearing demand deposits	4	763	767
Money market deposits	(164)	3,085	2,921
Savings deposits	6	100	106
Time deposits	3,051	3,773	6,824
Repurchase agreements	(80)	(86)	(166)
Term debt	(219)	35	(184)
Junior subordinated debentures	40	923	963
Total	2,638	8,593	11,231
Net increase in net interest income (1)	$14,207	$(2,727)	$11,480

(1) Tax exempt income has been adjusted to a tax equivalent basis at a 21% tax rate for 2018 and a 35% tax rate for 2017.

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(in thousands)	Six Months Ended June 30, 2018 compared to 2017 Increase (decrease) in interest income and expense due to changes in		
	Volume	Rate	Total
INTEREST-EARNING ASSETS:			
Loans held for sale	$(1,472)	$1,666	$194
Loans and leases	35,711	15,994	51,705
Taxable securities	(1,097)	(3,703)	(4,800)
Non-taxable securities (1)	(153)	(1,474)	(1,627)
Temporary investments and interest bearing cash	(384)	1,747	1,363
Total (1)	32,605	14,230	46,835
INTEREST-BEARING LIABILITIES:			
Interest bearing demand deposits	21	1,311	1,332
Money market	(134)	6,099	5,965
Savings	16	124	140
Time deposits	3,311	5,832	9,143
Repurchase agreements	(62)	(71)	(133)
Term debt	(427)	94	(333)
Junior subordinated debentures	167	1,527	1,694
Total	2,892	14,916	17,808
Net increase in net interest income (1)	$29,713	$(686)	$29,027

(1) Tax exempt income has been adjusted to a tax equivalent basis at a 21% tax rate for 2018 and a 35% tax rate for 2017.

Provision for Loan and Lease Losses

The provision for loan and lease losses was $13.3 million and $27.0 million, respectively, for the three and six months ended June 30, 2018, as compared to $10.7 million and $22.3 million, respectively, for the same periods in 2017. As an annualized percentage of average outstanding loans and leases, the provision for loan and lease losses recorded for the three and six months ended June 30, 2018 was 0.28%, as compared to 0.24% and 0.25%, respectively, in the same periods in 2017.

The increase in the provision for the three and six months ended June 30, 2018 as compared to the same prior year periods is primarily attributable to growth in the loan and lease portfolio, as well as an increase in net charge-offs. Net charge-offs on loans were $10.7 million and $23.0 million for the three and six months ended June 30, 2018, respectively, or 0.22% and 0.24%, respectively, of average loans and leases (annualized), as compared to net charge-offs of $10.1 million and $19.4 million, respectively, or 0.23% and 0.22%, respectively of average loans and leases (annualized), for the three and six months ended June 30, 2017. The majority of net charge-offs relate to losses realized in the lease portfolio, which is included in the commercial loan portfolio.

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 $43.4 million as of June 30, 2018 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 June 30, 2018 was $71.7 million, an increase of $532,000, or 1%, as compared to the same period in 2017. Non-interest income for the six months ended June 30, 2018 was $150.2 million, an increase of $18.9 million, or 14% as compared to the same period in 2017. The following table presents the key components of non-interest income for the three and six months ended June 30, 2018 and 2017:

Non-Interest Income

(in thousands)	Three Months Ended June 30,				Six Months Ended June 30,			
	2018	2017	Change Amount	Change Percent	2018	2017	Change Amount	Change Percent
Service charges on deposits	$15,520	$15,478	$ 42	— %	$30,515	$30,207	$308	1 %
Brokerage revenue	4,161	3,903	258	7 %	8,355	8,025	330	4 %
Residential mortgage banking revenue, net	33,163	33,894	(731)	(2)%	71,601	60,728	10,873	18 %
Gain on sale of investment securities, net	14	35	(21)	(60)%	14	33	(19)	(58)%
Unrealized holding losses on equity securities	(1,432)	—	(1,432)	nm	(1,432)	—	(1,432)	nm
Gain on loan sales, net	1,348	3,310	(1,962)	(59)%	2,578	5,064	(2,486)	(49)%
Loss on junior subordinated debentures carried at fair value	—	(1,572)	1,572	(100)%	—	(3,127)	3,127	(100)%
BOLI income	2,060	2,089	(29)	(1)%	4,130	4,158	(28)	(1)%
Other income	16,817	13,982	2,835	20 %	34,457	26,256	8,201	31 %
Total	$71,651	$71,119	$ 532	1 %	$150,218	$131,344	$18,874	14 %

nm = Not Meaningful

Residential mortgage banking revenue for the three and six months ended June 30, 2018 as compared to the same periods of 2017 decreased by $731,000 and increased by $10.9 million, 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 3.35% for the three months ended June 30, 2018, compared to 3.53% in the same period of the prior year. This decrease was partially offset by a lower loss on fair value of the MSR asset of $5.4 million for the three months ended June 30, 2018, as compared to the loss on fair value of $8.3 million for the three months ended June 30, 2017. The increase for the six month period was primarily driven by a lower loss on fair value of the MSR asset of $324,000 relative to the loss on fair value of $16.0 million for the six months ended June 30, 2017. This was offset by a decrease in the gain on sale margin to 3.34% for the six months ended June 30, 2018, compared to 3.41% in the same period of the prior year.

For the three and six months ended June 30, 2018, the unrealized holding losses on equity securities of $1.4 million were reported in earnings rather than in other comprehensive losses, net of tax, due to a change in accounting principle that requires equity securities to be recorded at fair value with changes in fair value reported in net income.

The gain on loan sales for the three and six months ended June 30, 2018 decreased by $2.0 million and $2.5 million due to the mix and volume of loans sold during the periods.

For the three and six months ended June 30, 2018, the losses on junior subordinated debentures carried at fair value of $1.5 million and $3.2 million, respectively, were recorded net of tax as other comprehensive losses of $1.1 million and $2.4 million, respectively, rather than reported in earnings as in prior periods due to a change in accounting principle for liabilities elected to be recorded at fair value.

Other income for the three and six months ended June 30, 2018 compared to the same periods in the prior year increased by $2.8 million and $8.2 million, respectively. The increase was primarily related to the debt capital market swap derivatives revenues which increased by $1.2 million and $4.0 million, respectively, during the periods. Also included in other income for the six months ended June 30, 2018 is a $1.0 million gain on the early redemption by the Company of two junior subordinated debentures, and a $1.2 million gain on residual value of leased assets, contributing to the increase in other income.

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Non-Interest Expense

Non-interest expense for the three and six months ended June 30, 2018 was $195.6 million and $381.7 million, an increase of $11.6 million and $15.0 million, respectively, or 6% and 4% as compared to the same periods in 2017. The following table presents the key elements of non-interest expense for the three and six months ended June 30, 2018 and 2017:

Non-Interest Expense

(in thousands)	Three Months Ended June 30,				Six Months Ended June 30,			
	2018	2017	Change Amount	Change Percent	2018	2017	Change Amount	Change Percent
Salaries and employee benefits	$113,340	$108,561	$4,779	4 %	$219,891	$215,034	$4,857	2 %
Occupancy and equipment, net	37,584	36,955	629	2 %	76,245	75,628	617	1 %
Communications	4,447	4,859	(412)	(8)%	8,880	9,963	(1,083)	(11)%
Marketing	3,088	2,374	714	30 %	4,888	4,107	781	19 %
Services	16,627	11,386	5,241	46 %	31,688	22,691	8,997	40 %
FDIC assessments	4,692	4,447	245	6 %	9,172	8,534	638	7 %
Gain on other real estate owned, net	(92)	(457)	365	(80)%	(130)	(375)	245	(65)%
Intangible amortization	1,542	1,689	(147)	(9)%	3,083	3,378	(295)	(9)%
Merger related expenses	—	1,640	(1,640)	(100)%	—	2,660	(2,660)	(100)%
Other expenses	14,344	12,567	1,777	14 %	27,968	25,115	2,853	11 %
Total	$195,572	$184,021	$11,551	6 %	$381,685	$366,735	$14,950	4 %

Salaries and employee benefits costs increased by $4.8 million and $4.9 million for the three and six months ended June 30, 2018, respectively, as compared to the same periods in the prior year, primarily related to employee severance due to organizational simplification efforts during 2018. Retirement benefits also increased due to the profit sharing contribution accruals in 2018.

Services expense increased by $5.2 million and $9.0 million for the three and six months ended June 30, 2018, respectively, as compared to the same periods in the prior year, primarily related to consulting fees in 2018 to help identify and implement organizational simplification and efficiencies, including procurement, occupancy optimization, and providing a more efficient customer experience.

The merger related expenses of $1.6 million and $2.7 million for the three and six months ended June 30, 2017 relate to the merger with Sterling and were the result of costs associated with the final work on a non-customer facing system conversion. There were no merger related expenses in 2018.

Other non-interest expense increased by $1.8 million and $2.9 million for the three and six months ended June 30, 2018, respectively, as compared to the same periods in the prior year. The increase is primarily due to exit or disposal costs which increased by $1.8 million and $3.9 million during the three and six months ended June 30, 2018, respectively, related to 31 store closures during the six months ended June 30, 2018. This was offset by a decrease in litigation settlement losses of $872,000, for the six months ended June 30, 2018, as compared to the same period in 2017.

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Income Taxes

The Company's consolidated effective tax rate as a percentage of pre-tax income for the three and six months ended June 30, 2018 was 24.7% and 24.3%, respectively, as compared to 35.8% and 36.2% for the three and six months ended June 30, 2017, respectively. The effective tax rates for the current periods differed from the federal statutory rate of 21% and the apportioned state rate of 6% (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, non-deductible FDIC premiums and tax credits arising from low-income housing investments.

FINANCIAL CONDITION

Investment Securities

Equity and other securities were $64.3 million at June 30, 2018, up from $12.3 million at December 31, 2017. The increase reflects the prospective change in classification of equity securities that were previously classified as available for sale.

Investment securities available for sale were $2.9 billion as of June 30, 2018, compared to $3.1 billion at December 31, 2017. The decrease was due to sales and paydowns of $227.9 million, a decrease in fair value of investment securities available for sale of $46.2 million and the reclassification of equity securities previously classified as available for sale, offset by purchases of $134.1 million of investment securities.

Investment securities held to maturity were $3.6 million as of June 30, 2018, as compared to $3.8 million at December 31, 2017. The change primarily related to paydowns and maturities of investment securities held to maturity of $278,000.

The following tables present the available for sale and held to maturity investment securities portfolio by major type as of June 30, 2018 and December 31, 2017:

Investment Securities Composition

(dollars in thousands)	Investment Securities Available for Sale			
	June 30, 2018		December 31, 2017	
	Fair Value	%	Fair Value	%
U.S. Treasury and agencies	$39,464	1 %	$39,698	1 %
Obligations of states and political subdivisions	292,514	10 %	308,456	10 %
Residential mortgage-backed securities and collateralized mortgage obligations	2,522,420	89 %	2,665,645	87 %
Investments in mutual funds and other securities	—	— %	51,970	2 %
Total	$2,854,398	100%	$3,065,769	100%

(dollars in thousands)	Investment Securities Held to Maturity			
	June 30, 2018		December 31, 2017	
	Amortized Cost	%	Amortized Cost	%
Residential mortgage-backed securities and collateralized mortgage obligations	$3,586	100%	$3,803	100%
Total	$3,586	100%	$3,803	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.

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Gross unrealized losses in the available for sale investment portfolio were $83.3 million at June 30, 2018. This consisted primarily of unrealized losses on residential mortgage-backed securities and collateralized mortgage obligations of $79.0 million. The unrealized losses were caused by changes in market interest rates or the widening of market spreads subsequent to the initial purchase of these securities and are not due to the underlying credit of the issuers. 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 $42.3 million at June 30, 2018 and $43.5 million at December 31, 2017, the majority of which represents the Bank's investment in the FHLB of Des Moines. The decrease is attributable to the redemption of Pacific Coast Banker's Bank stock. FHLB stock is carried at par and does not have a readily determinable fair value. Ownership of FHLB stock is restricted to the FHLB and member institutions, and can only be purchased and redeemed at par.

Loans and Leases

Loans and Leases, net

Total loans and leases outstanding at June 30, 2018 were $19.6 billion, an increase of $620.3 million as compared to year-end 2017. The increase is principally attributable to net new loan and lease originations of $687.5 million, partially offset by loans sold of $39.0 million, charge-offs of $30.6 million and transfers to other real estate owned of $1.9 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 June 30, 2018 and December 31, 2017.

Loan and Lease Concentrations (dollars in thousands)	June 30, 2018			December 31, 2017		
	Amount	Percentage		Amount	Percentage	
Commercial real estate						
Non-owner occupied term, net	$3,518,982	17.9	%	$3,483,197	18.3	%
Owner occupied term, net	2,473,734	12.6	%	2,476,654	13.0	%
Multifamily, net	3,185,923	16.3	%	3,060,616	16.1	%
Construction & development, net	568,562	2.9	%	540,696	2.8	%
Residential development, net	183,114	0.9	%	165,941	0.9	%
Commercial						
Term, net	2,106,658	10.7	%	1,944,925	10.2	%
Lines of credit & other, net	1,152,853	5.9	%	1,166,275	6.1	%
Leases & equipment finance, net	1,265,843	6.4	%	1,167,503	6.1	%
Residential						
Mortgage, net	3,405,775	17.3	%	3,182,888	16.7	%
Home equity loans & lines, net	1,132,329	5.8	%	1,097,877	5.8	%
Consumer & other, net	645,721	3.3	%	732,620	4.0	%
Total, net of deferred fees and costs	$19,639,494	100.0	%	$19,019,192	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 June 30, 2018 and December 31, 2017:

(dollars in thousands)	June 30, 2018	December 31, 2017
Loans and leases on non-accrual status	$43,392	$ 51,355
Loans and leases past due 90 days or more and accruing (1)	34,535	30,963
Total non-performing loans and leases	77,927	82,318
Other real estate owned	12,101	11,734
Total non-performing assets	$90,028	$ 94,052
Restructured loans (2)	$27,167	$ 32,168
Allowance for loan and lease losses	$144,556	$ 140,608
Reserve for unfunded commitments	4,130	3,963
Allowance for credit losses	$148,686	$ 144,571
Asset quality ratios:		
Non-performing assets to total assets	0.34 %	0.37 %
Non-performing loans and leases to total loans and leases	0.40 %	0.43 %
Allowance for loan and leases losses to total loans and leases	0.74 %	0.74 %
Allowance for credit losses to total loans and leases	0.76 %	0.76 %
Allowance for credit losses to total non-performing loans and leases	191 %	176 %

(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 $9.2 million and $12.4 million at June 30, 2018 and December 31, 2017, respectively.
(2) Represents accruing restructured loans performing according to their restructured terms.

The purchased non-credit impaired loans had remaining discount that is expected to accrete into interest income over the life of the loans of $29.5 million and $36.7 million, as of June 30, 2018 and December 31, 2017, respectively. The purchased credit impaired loan pools had remaining discount of $28.0 million and $33.2 million, as of June 30, 2018 and December 31, 2017, 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 June 30, 2018 and December 31, 2017, impaired loans of $27.2 million and $32.2 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. 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 $144.6 million at June 30, 2018, an increase of $3.9 million from $140.6 million at December 31, 2017. The following table shows the activity in the ALLL for the three and six months ended June 30, 2018 and 2017:

Allowance for Loan and Lease Losses

(dollars in thousands)	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Balance, beginning of period	$141,933	$136,292	$140,608	$133,984
Charge-offs	(14,815)	(13,944)	(30,627)	(26,946)
Recoveries	4,119	3,862	7,600	7,500
Net charge-offs	(10,696)	(10,082)	(23,027)	(19,446)
Provision for loan and lease losses	13,319	10,657	26,975	22,329
Balance, end of period	$144,556	$136,867	$144,556	$136,867
As a percentage of average loans and leases (annualized):				
Net charge-offs	0.22 %	0.23 %	0.24 %	0.22 %
Provision for loan and lease losses	0.28 %	0.24 %	0.28 %	0.25 %
Recoveries as a percentage of charge-offs	27.80 %	27.70 %	24.81 %	27.83 %

The increase in allowance for loan and lease losses as of June 30, 2018 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. 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 June 30, 2018 and December 31, 2017:

(dollars in thousands)	June 30, 2018		December 31, 2017	
	Amount	% Loans to total loans	Amount	% Loans to total loans
Commercial real estate	$47,285	50.6%	$45,765	51.1%
Commercial	65,765	23.0%	63,305	22.4%
Residential	20,275	23.1%	19,360	22.5%
Consumer & other	11,231	3.3 %	12,178	4.0 %
Allowance for loan and lease losses	$144,556		$140,608	

At June 30, 2018, the recorded investment in loans classified as impaired totaled $46.0 million, with a corresponding valuation allowance (included in the allowance for loan and lease losses) of $821,000. The valuation allowance on impaired loans represents the impairment reserves on performing current and former restructured loans and nonaccrual loans. At December 31, 2017, the total recorded investment in impaired loans was $59.9 million, with a corresponding valuation allowance (included in the allowance for loan and lease losses) of $535,000.

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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		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Balance, beginning of period	$4,129	$3,495	$3,963	$3,611
Net charge to other expense	1	321	167	205
Balance, end of period	$4,130	$3,816	$4,130	$3,816

We believe that the ALLL and RUC at June 30, 2018 are sufficient to absorb losses inherent in the loan and lease portfolio and credit commitments outstanding as of that date based on the 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 six months ended June 30, 2018 and 2017:

Summary of Residential Mortgage Servicing Rights

(in thousands)	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Balance, beginning of period	$164,760	$142,344	$153,151	$142,973
Additions for new MSR capitalized	6,860	7,819	13,390	14,860
Changes in fair value:				
Due to changes in model inputs or assumptions (1)	962	(4,573)	15,895	(8,179)
Other (2)	(6,365)	(3,758)	(16,219)	(7,822)
Balance, end of period	$166,217	$141,832	$166,217	$141,832

(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 June 30, 2018 and December 31, 2017 was as follows:

(dollars in thousands)	June 30, 2018	December 31, 2017
Balance of loans serviced for others	$15,508,182	$15,336,597
MSR as a percentage of serviced loans	1.07%	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 June 30, 2018 and December 31, 2017, 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 six months ended June 30, 2018.

At June 30, 2018, we had other intangible assets of $27.0 million, as compared to $30.1 million at December 31, 2017. 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, 2017 relates to the amortization of the other intangible assets of $3.1 million for the six months ended June 30, 2018.

Deposits

Total deposits were $20.7 billion at June 30, 2018, an increase of $796.2 million, as compared to December 31, 2017. The increase is attributable to growth in time deposits in addition to an increase in non-interest bearing demand, partially offset by lower money market balances attributable to planned public and brokered funds run-off.

The following table presents the deposit balances by major category as of June 30, 2018 and December 31, 2017:

(dollars in thousands)	June 30, 2018			December 31, 2017		
	Amount	Percentage		Amount	Percentage	
Non-interest bearing demand	$6,819,325	33	%	$6,505,628	33	%
Interest bearing demand	2,321,691	11	%	2,384,133	12	%
Money market	6,161,907	30	%	7,037,891	35	%
Savings	1,465,154	7	%	1,446,860	7	%
Time, $100,000 or greater	3,000,638	14	%	1,684,498	8	%
Time, less than $100,000	975,811	5	%	889,290	5	%
Total	$20,744,526	100	%	$19,948,300	100	%

The Company's brokered deposits, including Certificate of Deposit Account Registry Service ("CDARS"), totaled $1.5 billion at June 30, 2018 compared to $930.9 million at December 31, 2017. The growth in brokered time deposits was partially offset by a decline in brokered money market deposits.

Borrowings

At June 30, 2018, the Bank had outstanding $273.7 million of securities sold under agreements to repurchase and no outstanding federal funds purchased balances. The Bank had outstanding term debt consisting of advances from the FHLB of $801.7 million at June 30, 2018, and are secured by investment securities and loans secured by real estate. The FHLB advances have fixed interest rates ranging from 1.16% to 7.10% and mature in 2018 through 2030.

Junior Subordinated Debentures

We had junior subordinated debentures with carrying values of $369.5 million and $377.8 million at June 30, 2018 and December 31, 2017, respectively. The decrease is due to the redemption of the Humboldt Bancorp Statutory Trust I and HB Capital Trust I junior subordinated debentures, which had carrying values of $11.7 million as of December 31, 2017. The decrease is partially offset by the increase in fair value for the junior subordinated debentures elected to be carried at fair value. As of June 30, 2018, substantially all of the junior subordinated debentures had interest rates that are adjustable on a quarterly basis based on a spread over three month LIBOR.

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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% of total deposits at June 30, 2018 and 9% of total deposits at December 31, 2017. 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 $7.0 billion at June 30, 2018, 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 $557.1 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 June 30, 2018. 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 $107.5 million of dividends paid by the Bank to the Company in the six months ended June 30, 2018. 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 disclosed in the Condensed Consolidated Statements of Cash Flows, net cash provided by operating activities was $49.4 million during the six months ended June 30, 2018, with the difference between cash provided by operating activities and net income largely consisting of originations of loans held for sale of $1.5 billion, offset by proceeds from the sale of loans held for sale of $1.4 billion. This compares to net cash provided by operating activities of $84.5 million during the six months ended June 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 $1.7 billion, offset by originations of loans held for sale of $1.7 billion.

Net cash of $550.2 million used in investing activities during the six months ended June 30, 2018, consisted principally of net loan originations of $687.5 million, purchases of investment securities available for sale of $134.1 million, and purchases of restricted equity securities of $45.6 million, offset by proceeds from investment securities available for sale of $227.9 million, redemption of restricted equity securities of $46.8 million and proceeds from sale of loans and leases of $41.6 million. This compares to net cash of $1.3 billion used in investing activities during the six months ended June 30, 2017, which consisted principally of net loan originations of $923.4 million, purchases of investment securities available for sale of $725.5 million, and purchases of restricted equity securities of $236.6

million, offset by proceeds from investment securities available for sale of $297.4 million, redemption of restricted equity securities of $236.6 million and proceeds from the sale of loans and leases of $98.6 million.

Net cash of $669.6 million provided by financing activities during the six months ended June 30, 2018 primarily consisted of $796.6 million increase in net deposits and proceeds from term debt borrowings of $50.0 million, offset by $83.7 million of dividends paid on common stock, $50.7 million repayment of term debt, a net decrease in securities sold under agreements to repurchase of $20.6 million, $12.5 million in the repurchase and retirement of common stock, and $10.6 million repayment on junior subordinated debentures. This compares to net cash of $340.8 million provided by financing activities during the six months ended June 30, 2017, which consisted primarily of $439.6 million increase in net deposits and proceeds from term debt borrowings of $100.0 million, offset by $100.0 million repayment of term debt, $70.5 million in dividends paid on common stock and a net decrease in securities sold under agreements to repurchase of $22.8 million.

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Although we expect the Bank's and the Company's liquidity positions to remain satisfactory during 2018, it is possible that our deposit growth for 2018 may not be maintained at previous levels due to pricing pressure or store consolidations. In addition, 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.

Capital Resources

Shareholders' equity at June 30, 2018 was $4.0 billion, an increase of $11.7 million from December 31, 2017. The increase in shareholders' equity during the six months ended June 30, 2018 was principally due to net income for the period, offset by declared common dividends and other comprehensive loss, net of tax.

The Company's dividend policy considers, among other things, earnings, regulatory capital levels, the overall payout ratio and expected asset growth to determine the amount of dividends declared, if any, on a quarterly basis. There is no assurance that future cash dividends on common shares will be declared or increased. The following table presents cash dividends declared and dividend payout ratios (dividends declared per common share divided by basic earnings per common share) for the three and six months ended June 30, 2018 and 2017:

Cash Dividends and Payout Ratios per Common Share

	Three months ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Dividend declared per common share	$0.20	$0.16	$0.40	$0.32
Dividend payout ratio	67 %	62 %	61 %	68 %

As of June 30, 2018, a total of 10.2 million shares are available for repurchase under the Company's current share repurchase plan. During six months ended June 30, 2018, the Company repurchased 327,000 shares under this plan. The Board of Directors approved an extension of the repurchase plan to July 31, 2019. The timing and amount of future repurchases will depend upon the market price for our common stock, securities laws restricting repurchases, asset growth, earnings, and our capital plan. In addition, our stock plans provide that option and award holders may pay for the exercise price and tax withholdings in part or whole by tendering previously held shares.

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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 June 30, 2018 and December 31, 2017:

(dollars in thousands)	Actual		For Capital Adequacy purposes		To be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 2018						
Total Capital						
(to Risk Weighted Assets)						
Consolidated	$2,829,903	13.54%	$1,671,856	8.00%	$2,089,820	10.00%
Umpqua Bank	$2,678,782	12.83%	$1,669,848	8.00%	$2,087,310	10.00%
Tier I Capital						
(to Risk Weighted Assets)						
Consolidated	$2,230,217	10.67%	$1,253,892	6.00%	$1,671,856	8.00 %
Umpqua Bank	$2,530,182	12.12%	$1,252,386	6.00%	$1,669,848	8.00 %
Tier I Common						
(to Risk Weighted Assets)						
Consolidated	$2,230,217	10.67%	$940,419	4.50%	$1,358,383	6.50 %
Umpqua Bank	$2,530,182	12.12%	$939,290	4.50%	$1,356,752	6.50 %
Tier I Capital						
(to Average Assets)						
Consolidated	$2,230,217	9.19 %	$970,927	4.00%	$1,213,659	5.00 %
Umpqua Bank	$2,530,182	10.43%	$970,303	4.00%	$1,212,879	5.00 %
As of December 31, 2017						
Total Capital						
(to Risk Weighted Assets)						
Consolidated	$2,844,261	14.06%	$1,618,009	8.00%	$2,022,511	10.00%
Umpqua Bank	$2,668,069	13.21%	$1,615,698	8.00%	$2,019,623	10.00%
Tier I Capital						
(to Risk Weighted Assets)						
Consolidated	$2,238,540	11.07%	$1,213,507	6.00%	$1,618,009	8.00 %
Umpqua Bank	$2,523,599	12.50%	$1,211,774	6.00%	$1,615,698	8.00 %
Tier I Common						
(to Risk Weighted Assets)						
Consolidated	$2,238,540	11.07%	$910,130	4.50%	$1,314,632	6.50 %
Umpqua Bank	$2,523,599	12.50%	$908,830	4.50%	$1,312,755	6.50 %
Tier I Capital						
(to Average Assets)						
Consolidated	$2,238,540	9.38 %	$954,403	4.00%	$1,193,003	5.00 %
Umpqua Bank	$2,523,599	10.59%	$953,264	4.00%	$1,191,579	5.00 %

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our assessment of market risk as of June 30, 2018 indicates there are no material changes in the quantitative and qualitative disclosures from those in our Annual Report on Form 10-K for the year ended December 31, 2017.

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Item 4. Controls and Procedures

Our management, including our Chief Executive Officer, Chief Financial Officer and Principal Accounting Officer, has concluded that our disclosure controls and procedures are effective in timely alerting them to information relating to us that is required to be included in our periodic filings with the SEC. The disclosure controls and procedures were last evaluated by management as of June 30, 2018.

No change in our internal controls occurred during the second quarter of 2018 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed under "Part I--Item 1A--Risk Factors" in our Form 10-K for the year ended December 31, 2017. These factors could materially and adversely affect our business, financial condition, liquidity, results of operations and capital position, and could cause our actual results to differ materially from our historical results or the results contemplated by the forward-looking statements contained in this report. There have been no material changes from the risk factors described in our Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a)Not applicable

(b)Not applicable

(c)The following table provides information about repurchases of common stock by the Company during the quarter ended June 30, 2018:

Period	Total number of Common Shares Purchased (1)	Average Price Paid per Common Share	Total Number of Shares Purchased as Part of Publicly Announced Plan (2)	Maximum Number of Remaining Shares that May be Purchased at Period End under the Plan
4/1/18 - 4/30/18	334,574	$ 24.38	327,000	10,155,429
5/1/18 - 5/31/18	113	$ 23.61	—	10,155,429
6/1/18 - 6/30/18	167	$ 23.87	—	10,155,429
Total for quarter	334,854	$ 24.38	—	

(1) Common shares repurchased by the Company during the quarter consist of cancellation of 1,551 shares to be issued upon vesting of restricted stock awards and 6,303 shares to be issued upon vesting of restricted stock units to pay withholding taxes. During the three months ended June 30, 2018, 327,000 shares were repurchased pursuant to the Company's publicly announced corporate stock repurchase plan described in (2) below.

(2) The Company's share repurchase plan, which was first approved by its Board of Directors and announced in August 2003, was amended on September 29, 2011 to increase the number of common shares available for repurchase under the plan to 15 million shares. The repurchase program has been extended multiple times by the board with the current expiration date of July 31, 2019. As of June 30, 2018, a total of 10.2 million shares remained available for repurchase. The timing and amount of future repurchases will depend upon the market price for our common stock, laws and regulations restricting repurchases, asset growth, earnings, and our capital plan.

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Item 3. Defaults upon Senior Securities

Not applicable

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

As disclosed in Note 1 to the Condensed Consolidated Financial Statements, a correction of prior period balances has been made in the current 10-Q to reflect the correction of the calculation and corresponding recognition of the accretion of the purchase accounting discount on the loans acquired from Sterling Financial Corporation (ASC 310-20 loans). Management believes that the effect of this restatement is not material to our previously issued consolidated financial statements. We have therefore restated in the accompanying financial statements the previously presented consolidated balance sheet and statement of changes in shareholders equity as of December 31, 2017. We will prospectively correct the prior periods in our future filings of the 2018 Quarterly Report on Form 10-Q as of September 30, 2018, the 2018 Annual Report on Form 10-K and the 2019 Quarterly Report on Form 10-Q as of March 31, 2019. The following is a summary of the adjustment for each period to reflect the impact of the correction on prior periods, noting that only required comparative periods have been revised in this 10-Q.

(in thousands)

Consolidated Statement of Income				
For the year ended December 31,	2014	2015	2016	2017
	As reported	As reported	As reported	As reported
Interest and fees on loans and leases	$763,803	$869,433	$850,067	$865,521
Gain on loan sales, net	15,113	22,380	13,356	16,721
Income before provision for income taxes	230,698	347,127	365,699	341,955
Provision for income taxes	83,040	124,588	132,759	95,936
Net income	147,658	222,539	232,940	246,019

Consolidated Balance Sheets				
As of December 31,	2014	2015	2016	2017
	As reported	As reported	As reported	As reported
Loans and leases	$15,338,794	$16,866,536	$17,508,663	$19,080,184
Deferred tax assets, net	230,442	138,082	34,322	—
Deferred tax liability, net	—	—	—	37,503
Retained earnings	246,242	331,301	422,839	522,520

Consolidated Statement of Income				
For the year ended December 31,	2014	2015	2016	2017
	Adjustment	Adjustment	Adjustment	Adjustment
Interest and fees on loans and leases	$(33,513)	$(31,822)	$(6,476)	$5,797
Gain on loan sales, net	—	1,943	1,788	1,291
Income before provision for income taxes	(33,513)	(29,879)	(4,688)	7,088
Provision for income taxes	(12,902)	(11,649)	(1,816)	10,794
Net income	(20,611)	(18,230)	(2,872)	(3,706)

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Consolidated Balance Sheets				
As of December 31,	2014	2015	2016	2017
	Adjustment	Adjustment	Adjustment	Adjustment
Loans and leases	$(33,513)	$(63,392)	$(68,080)	$(60,992)
Deferred tax assets, net	12,902	24,551	26,367	—
Deferred tax liability, net	—	—	—	(15,573)
Retained earnings	(20,611)	(38,841)	(41,713)	(45,419)

Consolidated Statement of Income				
For the year ended December 31,	2014	2015	2016	2017
	As revised	As revised	As revised	As revised
Interest and fees on loans and leases	$730,290	$837,611	$843,591	$871,318
Gain on loan sales, net	15,113	24,323	15,144	18,012
Income before provision for income taxes	197,185	317,248	361,011	349,043
Provision for income taxes	70,138	112,939	130,943	106,730
Net income	127,047	204,309	230,068	242,313

Consolidated Balance Sheets				
As of December 31,	2014	2015	2016	2017
	As revised	As revised	As revised	As revised
Loans and leases	$15,305,281	$16,803,144	$17,440,583	$19,019,192
Deferred tax assets, net	243,344	162,633	60,689	—
Deferred tax liability, net	—	—	—	21,930
Retained earnings	225,631	292,460	381,126	477,101

Additionally, the impact for the three months ended March 31, 2018 is as follows:

(in thousands)

Condensed Consolidated Statement of Income	For the three months ended March 31, 2018		
	As reported	Adjustment	As revised
Interest and fees on loans and leases	$227,738	$ 1,750	$229,488
Gain on loan sales, net	1,230	—	1,230
Income before provision for income taxes	102,029	1,750	103,779
Provision for income taxes	24,360	447	24,807
Net income	77,669	1,303	78,972

Condensed Consolidated Balance Sheets	For the three months ended March 31, 2018		
	As reported	Adjustment	As revised
Loans and leases	$19,314,589	$ (59,241)	$19,255,348
Deferred tax liability, net	39,277	(15,126)	24,151
Retained earnings	546,330	(44,115)	502,215

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Item 6. Exhibits

Exhibit #	Description
3.1	(a) Restated Articles of Incorporation, as amended
3.2	(b) Bylaws, as amended
4.1	(c) Specimen Common Stock Certificate
4.2	The Company agrees to furnish upon request to the Commission a copy of each instrument defining the rights of holders of senior and subordinated debt of the Company.
31.1	Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002
31.3	Certification of Principal Accounting Officer under Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive Officer, Chief Financial Officer and Principal Accounting Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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

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

(a) Incorporated by reference to Exhibit 3.1 to Form 8-K filed April 23, 2018
(b) Incorporated by reference to Exhibit 3.2 to Form 8-K filed April 21, 2017
(c) Incorporated by reference to Exhibit 4 to the Registration Statement on Form S-8 (No. 333-77259) filed April 28, 1999

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SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

		UMPQUA HOLDINGS CORPORATION (Registrant)
Dated	August 9, 2018	/s/ Cort L. O'Haver Cort L. O'Haver President and Chief Executive Officer
Dated	August 9, 2018	/s/ Ronald L. Farnsworth Ronald L. Farnsworth Executive Vice President/ Chief Financial Officer and Principal Financial Officer
Dated	August 9, 2018	/s/ Neal T. McLaughlin Neal T. McLaughlin Executive Vice President/Treasurer and Principal Accounting Officer

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