UMPQUA HOLDINGS CORP
Form 10-Q
May 07, 2014

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

FORM 10-Q

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the quarterly period ended: March 31, 2014
or
[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the transition period from to .

Commission File Number: 001-34624

Umpqua Holdings Corporation

(Exact Name of Registrant as Specified in Its Charter)

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

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

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

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

[X] Yes [ ] No

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

[X] Yes [ ] No

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

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

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

[ ] Yes [X] No

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

Common stock, no par value: 216,936,489 shares outstanding as of April 30, 2014

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

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

	March 31, 2014	December 31, 2013
ASSETS		
Cash and due from banks	$196,963	$178,685
Interest bearing deposits	887,620	611,224
Temporary investments	525	514
Total cash and cash equivalents	1,085,108	790,423
Investment securities		
Trading, at fair value	4,498	5,958
Available for sale, at fair value	1,701,730	1,790,978
Held to maturity, at amortized cost	5,465	5,563
Loans held for sale, at fair value	73,106	104,664
Non-covered loans and leases	7,411,108	7,354,403
Allowance for non-covered loan and lease losses	(86,709)	(85,314)
Net non-covered loans and leases	7,324,399	7,269,089
Covered loans, net of allowance of $10,320 and $9,771	342,263	363,992
Restricted equity securities	29,948	30,685
Premises and equipment, net	180,199	177,680
Goodwill and other intangible assets, net	775,488	776,683
Mortgage servicing rights, at fair value	49,220	47,765
Non-covered other real estate owned	22,034	21,833
Covered other real estate owned	1,746	2,102
FDIC indemnification asset	18,362	23,174
Bank owned life insurance	97,589	96,938
Deferred tax asset, net	11,393	16,627
Other assets	116,178	111,958
Total assets	$11,838,726	$11,636,112
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest bearing	$2,465,606	$2,436,477
Interest bearing	6,807,977	6,681,183
Total deposits	9,273,583	9,117,660
Securities sold under agreements to repurchase	262,483	224,882
Term debt	250,964	251,494
Junior subordinated debentures, at fair value	87,800	87,274
Junior subordinated debentures, at amortized cost	101,818	101,899
Other liabilities	127,602	125,477
Total liabilities	10,104,250	9,908,686
COMMITMENTS AND CONTINGENCIES (NOTE 10)		
SHAREHOLDERS' EQUITY		
Common stock, no par value, shares authorized: 400,000,000 in 2014 and 200,000,000 in 2013; issued and outstanding: 112,319,525 in 2014 and	1,514,969	1,514,485

111,973,203 in 2013		
Retained earnings	219,686	217,917
Accumulated other comprehensive loss	(179)	(4,976)
Total shareholders' equity	1,734,476	1,727,426
Total liabilities and shareholders' equity	$11,838,726	$11,636,112

See notes to condensed consolidated financial statements

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

(in thousands, except per share amounts)

	Three months ended March 31,	
	2014	2013
INTEREST INCOME		
Interest and fees on non-covered loans and leases	$91,268	$78,545
Interest and fees on covered loans and leases	12,718	14,580
Interest and dividends on investment securities:		
Taxable	9,291	8,644
Exempt from federal income tax	2,112	2,288
Dividends	50	24
Interest on temporary investments and interest bearing deposits	441	252
Total interest income	115,880	104,333
INTEREST EXPENSE		
Interest on deposits	3,848	5,878
Interest on securities sold under agreement to repurchase and federal funds purchased	41	31
Interest on term debt	2,273	2,273
Interest on junior subordinated debentures	1,880	1,962
Total interest expense	8,042	10,144
Net interest income	107,838	94,189
PROVISION FOR NON-COVERED LOAN AND LEASE LOSSES	5,400	6,988
PROVISION FOR COVERED LOAN LOSSES	571	232
Net interest income after provision for loan and lease losses	101,867	86,969
NON-INTEREST INCOME		
Service charges on deposit accounts	7,767	6,992
Brokerage commissions and fees	3,725	3,636
Mortgage banking revenue, net	10,439	23,568
Gain on investment securities, net	—	7
Loss on junior subordinated debentures carried at fair value	(542)	(542)
Change in FDIC indemnification asset	(4,840)	(5,073)
Other income	6,458	5,427
Total non-interest income	23,007	34,015
NON-INTEREST EXPENSE		
Salaries and employee benefits	53,218	51,505
Net occupancy and equipment	16,501	14,735
Communications	2,902	3,203
Marketing	1,005	861
Services	5,990	5,893
Supplies	896	718
FDIC assessments	1,863	1,651
Net gain on non-covered other real estate owned	(18)	(130)
Net (gain) loss on covered other real estate owned	(46)	284
Intangible amortization	1,194	1,204
Merger related expenses	5,983	1,531
Other expenses	7,030	4,307

Total non-interest expense	96,518	85,762
Income before provision for income taxes	28,356	35,222
Provision for income taxes	9,592	11,861
Net income	$18,764	$23,361

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

(in thousands, except per share amounts)

	Three months ended March 31,	
	2014	2013
Net income	$18,764	$23,361
Dividends and undistributed earnings allocated to participating securities	113	183
Net earnings available to common shareholders	$18,651	$23,178
Earnings per common share:		
Basic	$0.17	$0.21
Diluted	$0.17	$0.21
Weighted average number of common shares outstanding:		
Basic	112,170	111,937
Diluted	112,367	112,118

See notes to condensed consolidated financial statements

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

(in thousands)

	Three months ended March 31,	
	2014	2013
Net income	$18,764	$23,361
Available for sale securities:		
Unrealized gains (losses) arising during the period	7,979	(4,425)
Reclassification adjustment for net gains realized in earnings (net of tax expense of $3 for the three months ended March 31, 2013)	—	(4)
Income tax (expense) benefit related to unrealized losses	(3,192)	1,770
Net change in unrealized gains (losses)	4,787	(2,659)
Held to maturity securities:		
Accretion of unrealized losses related to factors other than credit to investment securities held to maturity (net of tax benefit of $6 and $12 for the three months ended March 31, 2014 and 2013, respectively)	10	17
Net change in unrealized losses related to factors other than credit	10	17
Other comprehensive income (loss), net of tax	4,797	(2,642)
Comprehensive income	$23,561	$20,719

See notes to condensed consolidated financial statements

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

(in thousands, except shares)

	Common Stock		Retained	Accumulated Other Comprehensive	
	Shares	Amount	Earnings	Income (Loss)	Total
BALANCE AT JANUARY 1, 2013	111,889,959	$1,512,400	$187,293	$24,346	$1,724,039
Net income			98,361		98,361
Other comprehensive loss, net of tax				(29,322)	(29,322)
Comprehensive income					$69,039
Stock-based compensation		5,017			5,017
Stock repurchased and retired	(584,677)	(9,360)			(9,360)
Issuances of common stock under stock plans and related net tax benefit	667,921	6,428			6,428
Cash dividends on common stock ($0.60 per share)			(67,737)		(67,737)
Balance at December 31, 2013	111,973,203	$1,514,485	$217,917	$(4,976)	$1,727,426
BALANCE AT JANUARY 1, 2014	111,973,203	$1,514,485	$217,917	$(4,976)	$1,727,426
Net income			18,764		18,764
Other comprehensive income, net of tax				4,797	4,797
Comprehensive income					$23,561
Stock-based compensation		1,534			1,534
Stock repurchased and retired	(256,894)	(4,614)			(4,614)
Issuances of common stock under stock plans and related net tax benefit	603,216	3,564			3,564
Cash dividends on common stock ($0.15 per share)			(16,995)		(16,995)
Balance at March 31, 2014	112,319,525	$1,514,969	$219,686	$(179)	$1,734,476

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

	Three months ended March 31, 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$18,764	$23,361
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of investment premiums, net	4,000	11,042
Gain on sale of investment securities, net	—	(7)
Gain on sale of non-covered other real estate owned	(117)	(499)
Gain on sale of covered other real estate owned	(46)	(270)
Valuation adjustment on non-covered other real estate owned	99	369
Valuation adjustment on covered other real estate owned	—	554
Provision for non-covered loan and lease losses	5,400	6,988
Provision for covered loan losses	571	232
Proceeds from bank owned life insurance	187	1,173
Change in cash surrender value of bank owned life insurance	(838)	(1,980)
Change in FDIC indemnification asset	4,840	5,073
Depreciation, amortization and accretion	4,280	4,497
Increase in mortgage servicing rights	(2,408)	(6,403)
Change in mortgage servicing rights carried at fair value	953	1,734
Change in junior subordinated debentures carried at fair value	526	535
Stock-based compensation	1,534	1,185
Net decrease in trading account assets	1,460	564
Gain on sale of loans	(9,684)	(28,484)
Change in loans held for sale carried at fair value	(324)	10,798
Origination of loans held for sale	(213,060)	(471,175)
Proceeds from sales of loans held for sale	254,109	675,150
Excess tax benefits from the exercise of stock options	(892)	(27)
Change in other assets and liabilities:		
Net (increase) decrease in other assets	(791)	14,337
Net increase (decrease) in other liabilities	2,077	(14,007)
Net cash provided by operating activities	70,640	234,740
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities available for sale	—	(51,191)
Proceeds from investment securities available for sale	93,176	264,313
Proceeds from investment securities held to maturity	167	402
Redemption of restricted equity securities	737	660
Net non-covered loan and lease originations	(80,709)	(3,363)
Net covered loan paydowns	19,378	17,346
Proceeds from sales of non-covered loans	22,272	17,515
Proceeds from disposals of furniture and equipment	30	112
Purchases of premises and equipment	(8,162)	(5,166)
Net (payments) proceeds from FDIC indemnification asset	(812)	1,710
Proceeds from sales of non-covered other real estate owned	1,512	4,284
Proceeds from sales of covered other real estate owned	402	3,935

Net cash provided by investing activities	$47,991	$250,557

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

(in thousands)

	Three months ended March 31,	
	2014	2013
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in deposit liabilities	$155,999	$(307,500)
Net increase in securities sold under agreements to repurchase	37,601	5,735
Repayment of junior subordinated debentures	—	(8,764)
Dividends paid on common stock	(16,936)	—
Excess tax benefits from stock based compensation	892	27
Proceeds from stock options exercised	3,112	34
Retirement of common stock	(4,614)	(428)
Net cash provided (used) by financing activities	176,054	(310,896)
Net increase in cash and cash equivalents	294,685	174,401
Cash and cash equivalents, beginning of period	790,423	543,787
Cash and cash equivalents, end of period	$1,085,108	$718,188
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$9,032	$11,181
Income taxes	$1,456	$1,100
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Change in unrealized losses (gains) on investment securities available for sale, net of taxes	$4,787	$(2,659)
Change in unrealized losses on investment securities held to maturity related to factors other than credit, net of taxes	$10	$17
Cash dividend declared on common stock and payable after period-end	$16,947	$11,288
Transfer of non-covered loans to non-covered other real estate owned	$1,878	$5,689
Transfer of covered loans to covered other real estate owned	$—	$1,741
Transfer of covered loans to non-covered loans	$1,780	$7,899
Transfer (to) from FDIC indemnification asset (from) to due from FDIC and other	$(28)	$1,679
Receivable from sales of covered other real estate owned	$185	$—

See notes to condensed consolidated financial statements

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 – Summary of Significant Accounting Policies

The accounting and financial reporting policies of Umpqua Holdings Corporation (referred to in this report as “we”, “our” or “the Company”) conform to accounting principles generally accepted in the United States of America. The accompanying interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material inter-company balances and transactions have been eliminated. The consolidated financial statements have not been audited. A more detailed description of our accounting policies is included in the 2013 Annual Report filed on Form 10-K. These interim condensed consolidated financial statements should be read in conjunction with the financial statements and related notes contained in the 2013 Annual Report filed on Form 10-K. References to "Bank" refer to our subsidiary Umpqua Bank, an Oregon state-chartered commercial bank, and references to "Umpqua Investments" refer to our subsidiary Umpqua Investments, Inc., a registered broker-dealer and investment adviser. The Bank also has a wholly-owned subsidiary, Financial Pacific Leasing Inc., a commercial equipment leasing company.

In preparing these financial statements, the Company has evaluated events and transactions subsequent to March 31, 2014 for potential recognition or disclosure. In management’s opinion, all accounting adjustments necessary to accurately reflect the financial position and results of operations on the accompanying financial statements have been made. These adjustments include normal and recurring accruals considered necessary for a fair and accurate presentation. The results for interim periods are not necessarily indicative of results for the full year or any other interim period. Certain reclassifications of prior period amounts have been made to conform to current classifications.

Note 2 – Business Combinations

Sterling Financial Corporation
As of the close of business on April 18, 2014, the Company completed its merger with Sterling Financial Corporation, a Washington corporation ("Sterling"). The results of Sterling's operations will be included in the Company's financial results beginning April 19, 2014 and the combined company's banking operations will operate under the Umpqua Bank name and brand. As of December 31, 2013, Sterling had total assets of $10.3 billion, $7.3 billion in loans, and $7.1 billion in deposits.

The structure of the transaction is as follows:

- Sterling merged with and into the Company (the "Merger") with the Company as the surviving corporation in the Merger;
- Immediately following the Merger, Sterling's wholly owned subsidiary, Sterling Savings Bank merged with and into the Bank (the "Bank Merger"), with the Bank as the surviving bank in the Bank Merger;
- Holders of shares of common stock of Sterling have the right to receive 1.671 shares of the Company's common stock and $2.18 in cash for each share of Sterling common stock;
- Holders of outstanding warrants of Sterling, which represent the right to purchase a corresponding share of common stock of Sterling, have the right to receive 1.671 shares of the Company's common stock and $2.18 in cash for each warrant when exercised;
- Holders of outstanding options to purchase shares of Sterling common stock converted into 1.7896 options to purchase the Company's common stock, subject to vesting conditions;
- Holders of outstanding restricted stock units of Sterling common stock converted into 1.7896 restricted stock units of the Company, subject to vesting conditions;

Aggregate consideration for the Merger is estimated at $2.1 billion and includes the following:

- Cash of $136.2 million
- Common stock issued of $1.9 billion;
- Warrants issued of $52.8 million;
- Restricted stock units and stock options of $8.8 million.

The primary reason for the Merger is to continue the Company's growth strategy, including expanding our geographic footprint in markets throughout the West Coast. Six stores are expected to be divested to Banner Bank in the second quarter of 2014. The Company expects to repay securities sold under agreements to repurchase acquired of $500.0 million, funded through the sale of acquired investment securities in the second quarter of 2014.

The Merger will be accounted for using the purchase acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration exchanged will be recorded at fair value as of the acquisition date. Preliminary fair values for all assets and liabilities are not reported herein as the Company is still in the process of determining the preliminary fair

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values. The Company expects to disclose preliminary assets acquired and liabilities assumed, including fair value adjustments, as well as supplemental pro forma information, in the Company's June 30, 2014 Form 10-Q. Goodwill will not be deductible for income tax purposes as the merger is accounted for as a tax-free exchange for tax purposes.

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

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

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

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

The operations of FinPac are included in our operating results from July 1, 2013, and added revenue of $15.7 million, non-interest expense of $3.9 million , and net income of $4.2 million net of tax, for the three months ended March 31, 2014. FinPac's results of operations prior to the acquisition are not included in our operating results. There are no merger related expenses for the three months ended March 31, 2014.

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

	FinPac July 1, 2013	
Cost basis net assets	$61,446	
Cash payment paid	(156,110	)
Fair value adjustments:		

Non-covered loans and leases, net	6,881
Other intangible assets	(8,516)
Other assets	(1,650)
Term debt	(400)
Other liabilities	1,572
Goodwill	$(96,777)

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The statement of assets acquired and liabilities assumed at their fair values of FinPac are presented below.
(in thousands)

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

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

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

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

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(in thousands, except per share data)

	Three months ended March 31, 2013				
	Company	FinPac (a)	Pro Forma Adjustments		Pro Forma Combined
Net interest income	$94,189	$12,547	$(1,224	) (b)	$105,512
Provision for non-covered loan and lease losses	6,988	2,577	—	(c)	9,565
Provision for covered loan losses	232	—	—		232
Non-interest income	34,015	790	—		34,805
Non-interest expense	85,762	3,832	(203	) (d)	89,391
Income before provision for income taxes	35,222	6,928	(1,021	)	41,129
Provision for income taxes	11,861	2,716	(357	) (e)	14,220
Net income	23,361	4,212	(664	)	26,909
Dividends and undistributed earnings allocated to participating securities	183	—	28		211
Net earnings available to common shareholders	$23,178	$4,212	$(692	)	$26,698
Earnings per share:					
Basic	$0.21				$0.24
Diluted	$0.21				$0.24
Average shares outstanding:					
Basic	111,937				111,937
Diluted	112,118				112,118

(a) FinPac amounts represent results from January 1, 2013 to March 31, 2013.
(b) Adjustment of interest income from loans and leases due to the estimated loss of income from the write-off of FinPac's loan mark (related to a prior acquisition) and the amortization of the new interest rate mark and the accretion of the acquisition accounting adjustment relating to the credit mark. The amortization period will be the contractual lives of the loans and leases, which is approximately four years, and will be amortized into income using the effective yield method.
(c) As acquired loans and leases are recorded at fair value, Umpqua would expect a reduction in the historical provision for loan and leases losses from FinPac; however, no adjustment to the historical amount of FinPac provision for loan and lease losses is reflected.
(d) Adjustment to reflect additional compensation expense related to restricted stock granted to FinPac management and the removal of FinPac director compensation and travel fees, and FinPac management fees of the Financial Pacific Holdings, LLC entity which was not acquired.
(e) Income tax effect of pro forma adjustments at 35%.

Note 3 – Investment Securities

The following table presents the amortized costs, unrealized gains, unrealized losses and approximate fair values of investment securities at March 31, 2014 and December 31, 2013:

March 31, 2014

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(in thousands)

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
AVAILABLE FOR SALE:				
U.S. Treasury and agencies	$242	$20	$(1)	$261
Obligations of states and political subdivisions	222,195	8,781	(1,297)	229,679
Residential mortgage-backed securities and collateralized mortgage obligations	1,477,553	14,077	(21,814)	1,469,816
Investments in mutual funds and other equity securities	1,959	15	—	1,974
	$1,701,949	$22,893	$(23,112)	$1,701,730
HELD TO MATURITY:				
Residential mortgage-backed securities and collateralized mortgage obligations	$5,465	$333	$(8)	$5,790
	$5,465	$333	$(8)	$5,790

December 31, 2013
(in thousands)

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

Investment securities that were in an unrealized loss position as of March 31, 2014 and December 31, 2013 are presented in the following tables, based on the length of time individual securities have been in an unrealized loss position. In the opinion of management, these securities are considered only temporarily impaired due to changes in market interest rates or the widening of market spreads subsequent to the initial purchase of the securities, and not due to concerns regarding the underlying credit of the issuers or the underlying collateral.

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March 31, 2014
(in thousands)

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
AVAILABLE FOR SALE:						
U.S. Treasury and agencies	$—	$—	$25	$1	$25	$1
Obligations of states and political subdivisions	38,975	1,165	1,767	132	40,742	1,297
Residential mortgage-backed securities and						
collateralized mortgage obligations	412,636	9,553	284,346	12,261	696,982	21,814
Total temporarily impaired securities	$451,611	$10,718	$286,138	$12,394	$737,749	$23,112
HELD TO MATURITY:						
Residential mortgage-backed securities and						
collateralized mortgage obligations	$169	$8	$—	$—	$169	$8
Total temporarily impaired securities	$169	$8	$—	$—	$169	$8

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

December 31, 2013
(in thousands)

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

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

The unrealized losses on obligations of political subdivisions were caused by changes in market interest rates or the widening of market spreads subsequent to the initial purchase of these securities. Management monitors published credit ratings of these securities and no adverse ratings changes have occurred since the date of purchase of obligations of political subdivisions which are in an unrealized loss position as of March 31, 2014. Because the decline in fair value is attributable to changes in interest rates or widening market spreads and not credit quality, and because the Bank does not intend to sell the securities in this class and it is not likely that the Bank will be required to sell these securities before recovery of their amortized cost basis, which may include holding each security until maturity, the unrealized losses on these investments are not considered OTTI.

All of the available for sale residential mortgage-backed securities and collateralized mortgage obligations portfolio in an unrealized loss position at March 31, 2014 are issued or guaranteed by governmental agencies. The unrealized losses on

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residential mortgage-backed securities and collateralized mortgage obligations were caused by changes in market interest rates or the widening of market spreads subsequent to the initial purchase of these securities, and not concerns regarding the underlying credit of the issuers or the underlying collateral. It is expected that these securities will not be settled at a price less than the amortized cost of each investment. Because the decline in fair value is attributable to changes in interest rates or widening market spreads and not credit quality, and because the Bank does not intend to sell the securities in this class and it is not likely that the Bank will be required to sell these securities before recovery of their amortized cost basis, which may include holding each security until contractual maturity, these investments are not considered OTTI.

We review investment securities on an ongoing basis for the presence of OTTI or permanent impairment, taking into consideration current market conditions, fair value in relationship to cost, extent and nature of the change in fair value, issuer rating changes and trends, whether we intend to sell a security or if it is likely that we will be required to sell the security before recovery of our amortized cost basis of the investment, which may be maturity, and other factors. For debt securities, if we intend to sell the security or it is likely that we will be required to sell the security before recovering its cost basis, the entire impairment loss would be recognized in earnings as an OTTI. If we do not intend to sell the security and it is not likely that we will be required to sell the security but we do not expect to recover the entire amortized cost basis of the security, only the portion of the impairment loss representing credit losses would be recognized in earnings. The credit loss on a security is measured as the difference between the amortized cost basis and the present value of the cash flows expected to be collected. Projected cash flows are discounted by the original or current effective interest rate depending on the nature of the security being measured for potential OTTI. The remaining impairment related to all other factors, the difference between the present value of the cash flows expected to be collected and fair value, is recognized as a charge to other comprehensive income ("OCI"). Impairment losses related to all other factors are presented as separate categories within OCI. For investment securities held to maturity, this amount is accreted over the remaining life of the debt security prospectively based on the amount and timing of future estimated cash flows. The accretion of the OTTI amount recorded in OCI will increase the carrying value of the investment, and would not affect earnings. If there is an indication of additional credit losses the security is re-evaluated according to the procedures described above.

The following table presents the maturities of investment securities at March 31, 2014:

(in thousands)

	Available For Sale		Held To Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
AMOUNTS MATURING IN:				
Three months or less	$9,295	$9,337	$—	$—
Over three months through twelve months	61,111	62,068	291	309
After one year through five years	960,569	975,746	279	487
After five years through ten years	614,744	597,870	427	485
After ten years	54,271	54,735	4,468	4,509
Other investment securities	1,959	1,974	—	—
	$1,701,949	$1,701,730	$5,465	$5,790

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

There were gross realized gains on the sale of securities available for sale of none and $7,000 for the three months ended March 31, 2014 and 2013.

The following table presents, as of March 31, 2014, investment securities which were pledged to secure borrowings, public deposits, and repurchase agreements as permitted or required by law:

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(in thousands)

	Amortized Cost	Fair Value
To Federal Home Loan Bank to secure borrowings	$8,783	$9,089
To state and local governments to secure public deposits	933,911	928,206
Other securities pledged principally to secure repurchase agreements	347,901	342,649
Total pledged securities	$1,290,595	$1,279,944

Note 4 – Non-Covered Loans and Leases

The following table presents the major types of non-covered loans and leases, net of deferred costs, net of $4.7 million and net of deferred fees, net of $495,000, recorded on the balance sheet as of March 31, 2014 and December 31, 2013, respectively:

(in thousands)

	March 31, 2014	December 31, 2013
Commercial real estate		
Non-owner occupied term, net	$2,311,952	$2,328,260
Owner occupied term, net	1,282,482	1,259,583
Multifamily, net	400,927	403,537
Construction & development, net	229,262	245,231
Residential development, net	89,510	88,413
Commercial		
Term, net	735,004	770,845
LOC & other, net	1,005,800	987,360
Leases and equipment finance, net	388,418	361,591
Residential		
Mortgage, net	651,042	597,201
Home equity loans & lines, net	268,497	264,269
Consumer & other, net	48,214	48,113
Total loans and leases, net of deferred fees and costs	7,411,108	7,354,403

As of March 31, 2014, loans totaling $5.4 billion were pledged to secure borrowings and available lines of credit.

At March 31, 2014 and December 31, 2013, non-covered loans accounted for under ASC 310-30 were $23.1 million and $21.9 million, respectively.

Note 5 – Allowance for Non-Covered Loan and Lease Loss and Credit Quality

The Bank has a management Allowance for Loan and Lease Losses (“ALLL”) Committee, which is responsible for, among other things, regularly reviewing the ALLL methodology, including loss factors, and ensuring that it is designed and applied in accordance with generally accepted accounting principles. The ALLL Committee reviews and approves loans and leases recommended for impaired status. The ALLL Committee also approves removing loans from impaired status. The Bank's Audit and Compliance Committee provides board oversight of the ALLL process and reviews and approves the ALLL methodology on a quarterly basis.

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

Formula Allowance

The Bank performs regular credit reviews of the loan and lease portfolio to determine the credit quality and adherence to underwriting standards. When loans and leases are originated, they are assigned a risk rating that is reassessed periodically

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

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

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

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

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

Specific Allowance

Regular credit reviews of the portfolio also identify loans that are considered potentially impaired. Potentially impaired loans are referred to the ALLL Committee which reviews and approves designated loans as impaired. A loan is considered impaired, when based on current information and events, we determine that we will probably not be able to collect all amounts due according to the loan contract, including scheduled interest payments. When we identify a loan as impaired, we measure the impairment using discounted cash flows, except when the sole remaining source of the repayment for the loan is the liquidation of the collateral. In these cases, we use the current fair value of the collateral, less selling costs, instead of discounted cash flows. If we determine that the value of the impaired loan is less than the recorded investment in the loan, we either recognize an impairment reserve as a specific allowance to be provided for in the allowance for loan and lease losses or charge-off the impaired balance on collateral dependent loans if it is determined that such amount represents a confirmed loss. Loans determined to be impaired with a specific allowance are excluded from the formula allowance so as not to double-count the loss exposure. The non-accrual impaired loans as of period end have already been partially charged-off to their estimated net realizable value, and are expected to be resolved over the coming quarters with no additional material loss, absent further decline in market prices.

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

Unallocated Allowance

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

- Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses;
- Changes in international, national, regional, and local economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments;

• Changes in the nature and volume of the portfolio and in the terms of loans and leases;
• Changes in the experience and ability of lending management and other relevant staff;
• Changes in the volume and severity of past due loans, the volume of nonaccrual loans and leases, and the volume and severity of adversely classified or graded loans;
• Changes in the quality of the institution’s loan and lease review system;
• Changes in the value of underlying collateral for collateral-depending loans;
• The existence and effect of any concentrations of credit, and changes in the level of such concentrations; and
• The effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the institutions’ existing portfolio.

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

Management believes that the ALLL was adequate as of March 31, 2014. There is, however, no assurance that future loan and lease losses will not exceed the levels provided for in the ALLL and could possibly result in additional charges to the provision for loan and lease losses. In addition, bank regulatory authorities, as part of their periodic examination of the Bank, may require additional charges to the provision for loan and lease losses in future periods if warranted as a result of their review. Approximately 74% of our loan and lease portfolio is secured by real estate, and a significant decline in real estate market values may require an increase in the allowance for loan and lease losses. The recent U.S. recession, the housing market downturn, and declining real estate values in our markets have negatively impacted aspects of our loan and lease portfolio. A continued deterioration in our markets may adversely affect our loan and lease portfolio and may lead to additional charges to the provision for loan and lease losses.

The reserve for unfunded commitments (“RUC”) is established to absorb inherent losses associated with our commitment to lend funds, such as with a letter or line of credit. The adequacy of the ALLL and RUC are monitored on a regular basis and are based on management's evaluation of numerous factors. For each portfolio segment, these factors include:

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

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

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

The following table summarizes activity related to the allowance for non-covered loan and lease losses by non-covered loan and lease portfolio segment for three months ended March 31, 2014 and 2013:

(in thousands)

	Three months ended March 31, 2014					
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Unallocated	Total
Balance, beginning of period	$53,433	$24,191	$6,827	$863	$—	$85,314
Charge-offs	(1,895)	(3,350)	(132)	(188)	—	(5,565)
Recoveries	439	981	47	93	—	1,560
(Recapture) provision	(130)	4,940	449	141	—	5,400
Balance, end of period	$51,847	$26,762	$7,191	$909	$—	$86,709

	Three months ended March 31, 2013					
	Commercial			Consumer		

	Real Estate	Commercial	Residential	& Other	Unallocated	Total
Balance, beginning of period	$54,909	$22,925	$6,925	$632	$—	$85,391
Charge-offs	(1,454)	(6,174)	(904)	(193)	—	(8,725)
Recoveries	470	367	92	109	—	1,038
Provision	1,170	4,543	1,106	169	—	6,988
Balance, end of period	$55,095	$21,661	$7,219	$717	$—	$84,692

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The following table presents the allowance and recorded investment in non-covered loans and leases by portfolio segment and balances individually or collectively evaluated for impairment as of March 31, 2014 and 2013:

(in thousands)

	March 31, 2014					
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Unallocated	Total
Allowance for non-covered loans and leases:						
Collectively evaluated for impairment	$50,504	$26,747	$7,191	$909	$—	$85,351
Individually evaluated for impairment	1,343	15	—	—	—	1,358
Total	$51,847	$26,762	$7,191	$909	$—	$86,709
Non-covered loans and leases:						
Collectively evaluated for impairment	$4,222,943	$2,114,681	$919,539	$48,214		$7,305,377
Individually evaluated for impairment	91,190	14,541	—	—		105,731
Total	$4,314,133	$2,129,222	$919,539	$48,214		$7,411,108

(in thousands)

	March 31, 2013					
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Unallocated	Total
Allowance for non-covered loans and leases:						
Collectively evaluated for impairment	$53,158	$21,645	$7,219	$717	$—	$82,739
Individually evaluated for impairment	1,937	16	—	—	—	1,953
Total	$55,095	$21,661	$7,219	$717	$—	$84,692
Non-covered loans and leases:						
Collectively evaluated for impairment	$4,071,110	$1,668,522	$748,115	$41,173		$6,528,920
Individually evaluated for impairment	114,553	19,375	338	—		134,266
Total	$4,185,663	$1,687,897	$748,453	$41,173		$6,663,186

The non-covered loan and lease balances are net of deferred loans costs, net of $4.7 million at March 31, 2014 and net of deferred fees, net of $11.6 million at March 31, 2013.

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Summary of Reserve for Unfunded Commitments Activity

The following table presents a summary of activity in the RUC and unfunded commitments for the three months ended March 31, 2014 and 2013:

(in thousands)

	Three months ended March 31, 2014				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Balance, beginning of period	$220	$900	$232	$84	$1,436
Net change to other expense	(26)	(14)	11	10	(19)
Balance, end of period	$194	$886	$243	$94	$1,417

	Three months ended March 31, 2013				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Balance, beginning of period	$172	$807	$173	$71	$1,223
Net change to other expense	(13)	43	9	7	46
Balance, end of period	$159	$850	$182	$78	$1,269

(in thousands)

	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Unfunded loan and lease commitments:					
March 31, 2014	$213,675	$969,475	$353,498	$59,017	$1,595,665
March 31, 2013	$183,996	$984,672	$270,510	$54,240	$1,493,418

Non-covered loans and leases sold

In the course of managing the loan and lease portfolio, at certain times, management may decide to sell loans and leases. The following table summarizes loans and leases sold by loan portfolio during the three months ended March 31, 2014 and 2013:

(In thousands)

	Three months ended March 31,	
	2014	2013
Commercial real estate		
Non-owner occupied term	$3,193	$—
Owner occupied term	2,147	2,850
Construction & development	—	3,515
Residential development	605	23
Commercial		
Term	15,996	11,127
Residential		
Mortgage	331	—
Total	$22,272	$17,515

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Asset Quality and Non-Performing Loans and Leases

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

A loan is considered impaired when, based on current information and events, we determine it is probable that we will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Generally, when non-covered loans are identified as impaired, they are moved to the Special Assets Division. When we identify a loan as impaired, we measure the loan for potential impairment using discounted cash flows, except when the sole remaining source of the repayment for the loan is the liquidation of the collateral. In these cases, we will use the current fair value of collateral, less selling costs. The starting point for determining the fair value of collateral is through obtaining external appraisals. Generally, external appraisals are updated every 12 months. We obtain appraisals from a pre-approved list of independent, third party, local appraisal firms. Approval and addition to the list is based on experience, reputation, character, consistency and knowledge of the respective real estate market. At a minimum, it is ascertained that the appraiser is: (a) currently licensed in the state in which the property is located, (b) is experienced in the appraisal of properties similar to the property being appraised, (c) is actively engaged in the appraisal work, (d) has knowledge of current real estate market conditions and financing trends, (e) is reputable, and (f) is not on Freddie Mac’s or the Bank’s Exclusionary List of appraisers and brokers. In certain cases appraisals will be reviewed by our Real Estate Valuation Services Group to ensure the quality of the appraisal and the expertise and independence of the appraiser. Upon receipt and review, an external appraisal is utilized to measure a loan for potential impairment. Our impairment analysis documents the date of the appraisal used in the analysis, whether the officer preparing the report deems it current, and, if not, allows for internal valuation adjustments with justification. Typical justified adjustments might include discounts for continued market deterioration subsequent to appraisal date, adjustments for the release of collateral contemplated in the appraisal, or the value of other collateral or consideration not contemplated in the appraisal. An appraisal over one year old in most cases will be considered stale dated and an updated or new appraisal will be required. Any adjustments from appraised value to net realizable value are detailed and justified in the impairment analysis, which is reviewed and approved by senior credit quality officers and the Bank's ALLL Committee. Although an external appraisal is the primary source to value collateral dependent loans, we may also utilize values obtained through purchase and sale agreements, negotiated short sales, broker price opinions, or the sales price of the note. These alternative sources of value are used only if deemed to be more representative of value based on updated information regarding collateral resolution. Impairment analyses are updated, reviewed and approved on a quarterly basis at or near the end of each reporting period. Appraisals or other alternative sources of value received subsequent to the reporting period, but prior to our filing of periodic reports, are considered and evaluated to ensure our periodic filings are materially correct and not misleading. Based on these processes, we do not believe there are significant time lapses for the recognition of additional loan loss provisions or charge-offs from the date they become known.

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

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

Loans and leases are reported as past due when installment payments, interest payments, or maturity payments are past due based on contractual terms. All loans determined to be impaired are individually assessed for impairment except for impaired

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homogeneous loans which are collectively evaluated for impairment in accordance with FASB ASC 450, Contingencies ("ASC 450"). The specific factors considered in determining that a loan is impaired include borrower financial capacity, current economic, business and market conditions, collection efforts, collateral position and other factors deemed relevant. Generally, impaired loans are placed on non-accrual status and all cash receipts are applied to the principal balance. Continuation of accrual status and recognition of interest income is generally limited to performing restructured loans.

The Bank has written down impaired, non-accrual loans as of March 31, 2014 to their estimated net realizable value, and expects resolution with no additional material loss, absent a further decline in market prices.

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

The following table summarizes our non-covered non-accrual loans and leases and loans and leases past due, by loan and lease class, as of March 31, 2014 and December 31, 2013:

(in thousands)

	March 31, 2014						
	Greater than 30 to 59 Days Past Due	60 to 89 Days Past Due	90 Days and Greater and Accruing	Total Past Due	Non-accrual	Current & Other (1)	Total non-covered Loans and Leases
Commercial real estate							
Non-owner occupied term, net	$1,736	$533	$369	$2,638	$15,948	$2,293,366	$2,311,952
Owner occupied term, net	625	466	36	1,127	5,449	1,275,906	1,282,482
Multifamily, net	3,855	1,145	—	5,000	355	395,572	400,927
Construction & development, net	—	—	—	—	—	229,262	229,262
Residential development, net	—	—	—	—	195	89,315	89,510
Commercial							
Term, net	1,427	8,832	—	10,259	11,964	712,781	735,004
LOC & other, net	423	2,023	—	2,446	1,025	1,002,329	1,005,800
Leases and equipment finance, net	1,828	1,556	—	3,384	2,948	382,086	388,418
Residential							
Mortgage, net	3,418	—	1,503	4,921	—	646,121	651,042
Home equity loans & lines, net	483	955	287	1,725	—	266,772	268,497
Consumer & other, net	100	11	74	185	—	48,029	48,214
Total, net of deferred fees and costs	$13,895	$15,521	$2,269	$31,685	$37,884	$7,341,539	$7,411,108

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

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(in thousands)

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

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

Non-Covered Impaired Loans

Loans with no related allowance reported generally represent non-accrual loans. The Bank recognizes the charge-off of impairment reserves on impaired loans in the period it arises for collateral dependent loans. Therefore, the non-accrual loans as of March 31, 2014 have already been written-down to their estimated net realizable value and are expected to be resolved with no additional material loss, absent further decline in market prices. The valuation allowance on impaired loans primarily represents the impairment reserves on performing restructured loans, and is measured by comparing the present value of expected future cash flows on the restructured loans discounted at the interest rate of the original loan agreement to the loan's carrying value.

At March 31, 2014 and December 31, 2013, impaired loans of $67.9 million and $68.8 million, respectively, were classified as accruing restructured loans. The restructurings were granted in response to borrower financial difficulty by providing for a modification of loan repayment terms. The restructured loans on accrual status represent the only impaired loans accruing interest at each respective date. In order for a restructured loan to be considered for accrual status, the loan's collateral coverage generally will be greater than or equal to 100% of the loan balance, the loan is current on payments, and the borrower must either prefund an interest reserve or demonstrate the ability to make payments from a verified source of cash flow. The Bank had obligations of $3.8 million to lend additional funds on restructured loans as of March 31, 2014.

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The following table summarizes our non-covered impaired loans by loan class as of March 31, 2014 and December 31, 2013:

(in thousands)

	March 31, 2014		
	Unpaid Principal Balance	Recorded Investment	Related Allowance
With no related allowance recorded:			
Commercial real estate			
Non-owner occupied term, net	$25,814	$24,995	$—
Owner occupied term, net	5,741	5,449	—
Multifamily, net	521	355	—
Construction & development, net	9,455	8,435	—
Residential development, net	6,684	6,684	—
Commercial			
Term, net	19,549	11,964	—
LOC & other, net	3,720	1,025	—
Residential			
Mortgage, net	—	—	—
Home equity loans & lines, net	—	—	—
Consumer & other, net	—	—	—
With an allowance recorded:			
Commercial real estate			
Non-owner occupied term, net	28,706	28,706	764
Owner occupied term, net	7,731	7,731	491
Multifamily, net	—	—	—
Construction & development, net	1,091	1,091	5
Residential development, net	7,744	7,744	83
Commercial			
Term, net	300	300	11
LOC & other, net	1,252	1,252	4
Residential			
Mortgage, net	—	—	—
Home equity loans & lines, net	—	—	—
Consumer & other, net	—	—	—
Total:			
Commercial real estate, net	93,487	91,190	1,343
Commercial, net	24,821	14,541	15
Residential, net	—	—	—
Consumer & other, net	—	—	—
Total, net of deferred fees and costs	$118,308	$105,731	$1,358

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(in thousands)

	December 31, 2013		
	Unpaid Principal Balance	Recorded Investment	Related Allowance
With no related allowance recorded:			
Commercial real estate			
Non-owner occupied term, net	$19,350	$18,285	$—
Owner occupied term, net	6,674	6,204	—
Multifamily, net	1,416	935	—
Construction & development, net	9,518	8,498	—
Residential development, net	12,347	5,776	—
Commercial			
Term, net	22,750	8,723	—
LOC & other, net	5,886	1,222	—
Residential			
Mortgage, net	—	—	—
Home equity loans & lines, net	—	—	—
Consumer & other, net	—	—	—
With an allowance recorded:			
Commercial real estate			
Non-owner occupied term, net	31,252	31,362	928
Owner occupied term, net	5,202	5,202	198
Multifamily, net	—	—	—
Construction & development, net	1,091	1,091	11
Residential development, net	10,166	11,927	648
Commercial			
Term, net	—	300	8
LOC & other, net	1,258	1,258	4
Residential			
Mortgage, net	—	—	—
Home equity loans & lines, net	—	—	—
Consumer & other, net	—	—	—
Total:			
Commercial real estate, net	97,016	89,280	1,785
Commercial, net	29,894	11,503	12
Residential, net	—	—	—
Consumer & other, net	—	—	—
Total, net of deferred fees and costs	$126,910	$100,783	$1,797

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The following table summarizes our average recorded investment and interest income recognized on impaired non-covered loans by loan class for the three months ended March 31, 2014 and 2013:

(in thousands)

	Three months ended March 31, 2014		Three months ended March 31, 2013	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial real estate				
Non-owner occupied term, net	$21,640	$—	$33,117	$—
Owner occupied term, net	5,826	—	5,676	—
Multifamily, net	645	—	886	—
Construction & development, net	8,467	—	14,649	—
Residential development, net	6,230	—	10,515	—
Commercial				
Term, net	10,343	—	11,795	—
LOC & other, net	1,123	—	5,478	—
Residential				
Mortgage, net	—	—	—	—
Home equity loans & lines, net	—	—	175	—
Consumer & other, net	—	—	2	—
With an allowance recorded:				
Commercial real estate				
Non-owner occupied term, net	30,034	349	31,811	338
Owner occupied term, net	6,467	77	5,918	48
Multifamily, net	—	—	—	—
Construction & development, net	1,091	118	1,746	149
Residential development, net	9,835	159	17,069	163
Commercial				
Term, net	300	4	1,959	42
LOC & other, net	1,255	13	1,033	11
Residential				
Mortgage, net	—	—	145	—
Home equity loans & lines, net	—	—	64	—
Consumer & other, net	—	—	—	—
Total:				
Commercial real estate, net	90,235	703	121,387	698
Commercial, net	13,021	17	20,265	53
Residential, net	—	—	384	—
Consumer & other, net	—	—	2	—
Total, net of deferred fees and costs	$103,256	$720	$142,038	$751

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

Non-Covered Credit Quality Indicators

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

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

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

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

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

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

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

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

Special Mention—A special mention loan or lease, risk rated 7, has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects

for the asset or the institutions credit position at some future date. They contain unfavorable characteristics and are generally undesirable. Loans and leases in this category are currently protected but are potentially weak and constitute an undue and unwarranted credit risk, but not to the point of a substandard classification. A special mention loan or lease has potential weaknesses, which if not checked or corrected, weaken the asset or inadequately protect the Bank's position at some future date. Such weaknesses include:

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

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

Substandard—A substandard asset, risk rated 8, is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard assets, does not have to exist in individual assets classified substandard. Loans and leases are classified as substandard when they have unsatisfactory characteristics causing unacceptable levels of risk. A substandard loan or lease normally has one or more well-defined weaknesses that could jeopardize repayment of the debt. The likely need to liquidate assets to correct the problem, rather than repayment from successful operations is the key distinction between special mention and substandard. The following are examples of well-defined weaknesses:
- Cash flow deficiencies or trends are of a magnitude to jeopardize current and future payments with no immediate relief. A loss is not presently expected, however the outlook is sufficiently uncertain to preclude ruling out the possibility.
- The borrower has been unable to adjust to prolonged and unfavorable industry or economic trends.
- Material underperformance or deviation from plan for real estate loans where absorption of rental/sales units is necessary to properly service the debt and risk is not mitigated by willingness and capacity of owner/guarantor to support interest payments.
- Management character or honesty has become suspect. This includes instances where the borrower has become uncooperative.
- Due to unprofitable or unsuccessful business operations, some form of restructuring of the business, including liquidation of assets, has become the primary source of loan repayment. Cash flow has deteriorated, or been diverted, to the point that sale of collateral is now the Bank’s primary source of repayment (unless this was the original source of repayment). If the collateral is under the Bank’s control and is cash or other liquid, highly marketable securities and properly margined, then a more appropriate rating might be special mention or watch.
- The borrower is bankrupt, or for any other reason, future repayment is dependent on court action.
- There is material, uncorrectable faulty documentation or materially suspect financial information.

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

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

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

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

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

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

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

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

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

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

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

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

The following table summarizes our internal risk rating by loan and lease class for the non-covered loan and lease portfolio as of March 31, 2014 and December 31, 2013:

(in thousands)

	March 31, 2014						
	Pass/Watch	Special Mention	Substandard	Doubtful	Loss	Impaired	Total
Commercial real estate							
Non-owner occupied term, net	$2,068,165	$95,323	$94,763	$—	$—	$53,701	$2,311,952
Owner occupied term, net	1,206,791	28,483	34,028	—	—	13,180	1,282,482
Multifamily, net	385,668	4,280	10,624	—	—	355	400,927
Construction & development, net	212,460	3,957	3,319	—	—	9,526	229,262
Residential development, net	72,328	1,008	1,746	—	—	14,428	89,510
Commercial							
Term, net	692,529	12,513	17,698	—	—	12,264	735,004
LOC & other, net	963,039	26,891	13,593	—	—	2,277	1,005,800
Leases and equipment finance, net	382,086	1,800	1,584	2,480	468	—	388,418

Residential							
Mortgage, net	646,095	3,430	354	—	1,163	—	651,042
Home equity loans & lines, net	266,768	1,441	65	—	223	—	268,497
Consumer & other, net	48,028	111	15	—	60	—	48,214
Total, net of deferred fees and costs	$6,943,957	$179,237	$177,789	$2,480	$1,914	$105,731	$7,411,108

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(in thousands)

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

The percentage of non-covered impaired loans classified as watch, special mention, and substandard was 6.4%, 2.9%, and 90.6%, respectively, as of March 31, 2014. The percentage of non-covered impaired loans classified as watch, special mention, and substandard was 6.4%, 3.7%, and 89.9%, respectively, as of December 31, 2013.

Troubled Debt Restructurings

At March 31, 2014 and December 31, 2013, impaired loans of $67.9 million and $68.8 million, respectively, were classified as accruing restructured loans. The restructurings were granted in response to borrower financial difficulty, and generally provide for a temporary modification of loan repayment terms. The restructured loans on accrual status represent the only impaired loans accruing interest. In order for a restructured loan to be considered for accrual status, the loan's collateral coverage generally will be greater than or equal to 100% of the loan balance, the loan is current on payments, and the borrower must either prefund an interest reserve or demonstrate the ability to make payments from a verified source of cash flow. Impaired restructured loans carry a specific allowance and the allowance on impaired restructured loans is calculated consistently across the portfolios.

There were $3.8 million of available commitments for troubled debt restructurings outstanding as of March 31, 2014 and none as of December 31, 2013.

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The following tables present troubled debt restructurings by accrual versus non-accrual status and by loan class as of March 31, 2014 and December 31, 2013:

(in thousands)

	March 31, 2014		
	Accrual Status	Non-Accrual Status	Total Modifications
Commercial real estate			
Non-owner occupied term, net	$34,684	$—	$34,684
Owner occupied term, net	7,731	—	7,731
Multifamily, net	—	—	—
Construction & development, net	9,527	—	9,527
Residential development, net	14,232	—	14,232
Commercial			
Term, net	—	2,740	2,740
LOC & other, net	1,252	—	1,252
Residential			
Mortgage, net	471	—	471
Home equity loans & lines, net	—	—	—
Consumer & other, net	—	—	—
Total, net of deferred fees and costs	$67,897	$2,740	$70,637

(in thousands)

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

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

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

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

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

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

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

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

There were no new non-covered restructured loans during the three months ended March 31, 2014. The following table presents newly non-covered restructured loans that occurred during the three months ended March 31, 2013:

(in thousands)

	Three months ended March 31, 2013					
	Rate Modifications	Term Modifications	Interest Only Modifications	Payment Modifications	Combination Modifications	Total Modifications
Commercial real estate						
Non-owner occupied term, net	$—	$—	$4,291	$—	$—	$4,291
Owner occupied term, net	—	—	—	—	—	—
Multifamily, net	—	—	—	—	—	—
Construction & development, net	—	—	—	—	—	—
Residential development, net	—	—	—	—	—	—
Commercial						
Term, net	—	—	—	—	—	—
LOC & other, net	—	—	—	—	452	452
Residential						
Mortgage	—	—	—	—	289	289
Home equity loans & lines	—	—	—	—	—	—
Consumer & other	—	—	—	—	—	—
Total, net of deferred fees and costs	$—	$—	$4,291	$—	$741	$5,032

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

There were no financing receivables modified as troubled debt restructurings within the previous 12 months for which there was a payment default during the three months ended March 31, 2014 and 2013.

Note 6 – Covered Assets and Indemnification Asset

Covered Loans
Loans acquired in a FDIC-assisted acquisition that are subject to a loss-share agreement are referred to as “covered loans” and reported separately in our statements of financial condition. Covered loans are reported exclusive of the cash

flow reimbursements expected from the FDIC.

Acquired loans are valued as of acquisition date in accordance with ASC 805. Loans purchased with evidence of credit deterioration since origination for which it is probable that all contractually required payments will not be collected are accounted for under FASB ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality (“ASC 310-30”). Because of the significant fair value discounts associated with the acquired portfolios, the concentration of real estate related loans (to finance or secured by real estate collateral) and the decline in real estate values in the regions serviced, and after considering the underwriting standards of the acquired originating bank, the Company elected to account for all acquired loans under ASC 310-30. Under ASC 805 and ASC 310-30, loans are to be recorded at fair value at acquisition date, factoring in credit losses expected to be incurred over the life of the loan. Accordingly, an allowance for loan losses is not

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carried over or recorded as of the acquisition date. We have aggregated the acquired loans into various loan pools based on multiple layers of common risk characteristics for the purpose of determining their respective fair values as of their acquisition dates, and for applying the subsequent recognition and measurement provisions for income accretion and impairment testing.

The covered loans acquired are, and will continue to be, subject to the Company's internal and external credit review and monitoring. To the extent there is experienced or projected credit deterioration on the acquired loan pools subsequent to amounts estimated at the previous remeasurement date, this deterioration will be measured, and a provision for credit losses will be charged to earnings. Additionally, provision for credit losses will be recorded on advances on covered loans subsequent to acquisition date in a manner consistent with the allowance for non-covered loan and lease losses. These provisions will be mostly offset by an increase to the FDIC indemnification asset through the life of the loss sharing agreement, which is recognized in non-interest income.

Covered Loans

The following table presents the major types of covered loans as of March 31, 2014 and December 31, 2013:

(in thousands)

	March 31, 2014			
	Evergreen	Rainier	Nevada Security	Total
Commercial real estate				
Non-owner occupied term, net	$30,251	$113,584	$55,983	$199,818
Owner occupied term, net	18,532	14,778	16,177	49,487
Multifamily, net	1,973	18,508	7,081	27,562
Construction & development, net	1,511	—	1,935	3,446
Residential development, net	1,856	—	5,357	7,213
Commercial				
Term, net	2,161	740	7,908	10,809
LOC & other, net	2,373	4,930	2,148	9,451
Residential				
Mortgage, net	3,058	16,983	1,762	21,803
Home equity loans & lines, net	2,706	14,366	1,922	18,994
Consumer & other, net	938	3,062	—	4,000
Total, net of deferred fees and costs	$65,359	$186,951	$100,273	$352,583
Allowance for covered loans				(10,320)
Total				$342,263

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

The outstanding contractual unpaid principal balance, excluding purchase accounting adjustments, at March 31, 2014 was $82.1 million, $217.0 million and $133.0 million, for Evergreen, Rainier, and Nevada Security, respectively, as compared to $93.8 million, $224.1 million and $144.5 million, for Evergreen, Rainier, and Nevada Security, respectively, at December 31, 2013.

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

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

The following table presents the changes in the accretable yield for the three months ended March 31, 2014 and 2013 for each respective acquired loan portfolio:

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(in thousands)

	Three months ended March 31, 2014			
	Evergreen	Rainier	Nevada Security	Total
Balance, beginning of period	$20,063	$71,789	$34,632	$126,484
Accretion to interest income	(3,637)	(4,281)	(4,464)	(12,382)
Disposals	(1,240)	(987)	(1,630)	(3,857)
Reclassifications from nonaccretable difference	974	1,402		