UMPQUA HOLDINGS CORP
Form 10-Q
August 06, 2013

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: June 30, 2013
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: 111,904,138 shares outstanding as of July 31, 2013

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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)

	June 30, 2013	December 31, 2012
ASSETS		
Cash and due from banks	$143,409	$223,532
Interest bearing deposits	659,817	315,053
Temporary investments	1,768	5,202
Total cash and cash equivalents	804,994	543,787
Investment securities		
Trading, at fair value	3,863	3,747
Available for sale, at fair value	2,083,755	2,625,229
Held to maturity, at amortized cost	3,741	4,541
Loans held for sale, at fair value	173,994	320,132
Non-covered loans and leases	6,787,117	6,681,080
Allowance for non-covered loan and lease losses	(85,836)	(85,391)
Net non-covered loans and leases	6,701,281	6,595,689
Covered loans and leases, net of allowance of $14,367 and $18,275	419,059	477,078
Restricted equity securities	32,112	33,443
Premises and equipment, net	170,145	162,667
Goodwill and other intangible assets, net	682,971	685,331
Mortgage servicing rights, at fair value	38,192	27,428
Non-covered other real estate owned	13,235	17,138
Covered other real estate owned	3,484	10,374
FDIC indemnification asset	36,263	52,798
Other assets	225,119	236,061
Total assets	$11,392,208	$11,795,443
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest bearing	$2,218,536	$2,278,914
Interest bearing	6,737,789	7,100,361
Total deposits	8,956,325	9,379,275
Securities sold under agreements to repurchase	176,447	137,075
Term debt	252,543	253,605
Junior subordinated debentures, at fair value	86,159	85,081
Junior subordinated debentures, at amortized cost	102,060	110,985
Other liabilities	103,322	105,383
Total liabilities	9,676,856	10,071,404
COMMITMENTS AND CONTINGENCIES (NOTE 10)		
SHAREHOLDERS' EQUITY		
Common stock, no par value, 200,000,000 shares authorized; issued and outstanding: 111,898,620 in 2013 and 111,889,959 in 2012	1,512,657	1,512,400
Retained earnings	203,058	187,293
Accumulated other comprehensive (loss) income	(363)	24,346

Total shareholders' equity	1,715,352	1,724,039
Total liabilities and shareholders' equity	$11,392,208	$11,795,443

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 June 30,		Six months ended June 30,	
	2013	2012	2013	2012
INTEREST INCOME				
Interest and fees on non-covered loans	$78,434	$77,637	$156,979	$155,296
Interest and fees on covered loans	14,750	16,935	29,330	34,278
Interest and dividends on investment securities:				
Taxable	8,103	16,535	16,747	34,655
Exempt from federal income tax	2,237	2,291	4,525	4,568
Dividends	90	28	114	34
Interest on temporary investments and interest bearing deposits	401	168	653	405
Total interest income	104,015	113,594	208,348	229,236
INTEREST EXPENSE				
Interest on deposits	5,864	8,169	11,742	17,014
Interest on securities sold under agreement to repurchase and federal funds purchased	33	79	64	159
Interest on term debt	2,305	2,305	4,578	4,609
Interest on junior subordinated debentures	1,920	2,029	3,882	4,087
Total interest expense	10,122	12,582	20,266	25,869
Net interest income	93,893	101,012	188,082	203,367
PROVISION FOR NON-COVERED LOAN AND LEASE LOSSES	2,993	6,638	9,981	9,805
(RECAPTURE OF) PROVISION FOR COVERED LOAN AND LEASE LOSSES	(3,072)	1,406	(2,840)	1,375
Net interest income after provision for (recapture of) loan and lease losses	93,972	92,968	180,941	192,187
NON-INTEREST INCOME				
Service charges on deposit accounts	7,478	7,190	14,470	13,856
Brokerage commissions and fees	3,662	3,532	7,298	6,476
Mortgage banking revenue, net	24,289	15,641	47,857	28,723
Gain on investment securities, net	8	1,030	15	1,178
Loss on junior subordinated debentures carried at fair value	(547)	(547)	(1,089)	(1,095)
Change in FDIC indemnification asset	(8,294)	(4,040)	(13,367)	(5,885)
Other income	7,901	6,120	13,328	12,910
Total non-interest income	34,497	28,926	68,512	56,163
NON-INTEREST EXPENSE				
Salaries and employee benefits	52,067	49,979	103,572	97,072
Net occupancy and equipment	15,059	13,580	29,794	27,078
Communications	2,827	2,845	6,030	5,787
Marketing	1,296	1,761	2,157	2,751
Services	6,001	6,631	11,894	12,793
Supplies	660	644	1,378	1,309
FDIC assessments	1,672	1,886	3,323	3,854

Net (gain) loss on non-covered other real estate owned	(146)	889	(276)	4,076
Net (gain) loss on covered other real estate owned	(62)	169	222	2,623
Intangible amortization	1,205	1,211	2,409	2,423
Merger related expenses	810	153	2,341	253
Other expenses	6,542	7,188	10,849	14,613
Total non-interest expense	87,931	86,936	173,693	174,632
Income before provision for income taxes	40,538	34,958	75,760	73,718
Provision for income taxes	14,285	11,681	26,146	24,938
Net income	$26,253	$23,277	$49,614	$48,780

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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 June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Net income	$26,253	$23,277	$49,614	$48,780
Dividends and undistributed earnings allocated to participating securities	197	162	380	329
Net earnings available to common shareholders	$26,056	$23,115	$49,234	$48,451
Earnings per common share:				
Basic	$0.23	$0.21	$0.44	$0.43
Diluted	$0.23	$0.21	$0.44	$0.43
Weighted average number of common shares outstanding:				
Basic	111,954	111,897	111,946	111,943
Diluted	112,145	112,078	112,133	112,120

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 June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Net income	$26,253	$23,277	$49,614	$48,780
Available for sale securities:				
Unrealized losses arising during the period	(36,793)	(6,050)	(41,220)	(4,029)
Reclassification adjustment for net gains realized in earnings (net of tax expense $3 and $412 for the three months ended June 30, 2013 and 2012, respectively, and net of tax expense of $6 and $471 for the six months ended June 30, 2013 and 2012, respectively)	(5)	(618)	(9)	(707)
Income tax benefit related to unrealized losses	14,717	2,420	16,488	1,612
Net change in unrealized losses	(22,081)	(4,248)	(24,741)	(3,124)
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 $10 and $25 for the three months ended June 30, 2013 and 2012, respectively, and net of tax benefit of $21 and $53 for the six months ended June 30, 2013 and 2012, respectively)	14	38	32	79
Net change in unrealized losses related to factors other than credit	14	38	32	79
Other comprehensive income, net of tax	(22,067)	(4,210)	(24,709)	(3,045)
Comprehensive income	$4,186	$19,067	$24,905	$45,735

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

(in thousands, except shares)

	Common Stock Shares	Amount	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
BALANCE AT JANUARY 1, 2012	112,164,891	$1,514,913	$123,726	$33,774	$1,672,413
Net income			101,891		101,891
Other comprehensive loss, net of tax				(9,428)	(9,428)
Comprehensive income					$92,463
Stock-based compensation		4,041			4,041
Stock repurchased and retired	(596,000)	(7,436)			(7,436)
Issuances of common stock under stock plans and related net tax benefit	321,068	882			882
Cash dividends on common stock ($0.34 per share)			(38,324)		(38,324)
Balance at December 31, 2012	111,889,959	$1,512,400	$187,293	$24,346	$1,724,039
BALANCE AT JANUARY 1, 2013	111,889,959	$1,512,400	$187,293	$24,346	$1,724,039
Net income			49,614		49,614
Other comprehensive loss, net of tax				(24,709)	(24,709)
Comprehensive income					$24,905
Stock-based compensation		2,222			2,222
Stock repurchased and retired	(208,009)	(2,811)			(2,811)
Issuances of common stock under stock plans and related net tax benefit	216,670	846			846
Cash dividends on common stock ($0.30 per share)			(33,849)		(33,849)
Balance at June 30, 2013	111,898,620	$1,512,657	$203,058	$(363)	$1,715,352

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

(in thousands)

	Six months ended June 30, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$49,614	$48,780
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of investment premiums, net	20,486	21,778
Gain on sale of investment securities, net	(15)	(1,178)
Gain on sale of non-covered other real estate owned	(713)	(643)
Gain on sale of covered other real estate owned	(457)	(723)
Valuation adjustment on non-covered other real estate owned	437	4,719
Valuation adjustment on covered other real estate owned	679	3,346
Provision for non-covered loan and lease losses	9,981	9,805
(Recapture of) provision for covered loan and lease losses	(2,840)	1,375
Proceeds from bank owned life insurance	1,173	—
Change in FDIC indemnification asset	13,367	5,885
Depreciation, amortization and accretion	8,921	7,949
Increase in mortgage servicing rights	(11,110)	(6,281)
Change in mortgage servicing rights carried at fair value	346	1,952
Change in junior subordinated debentures carried at fair value	1,078	1,007
Stock-based compensation	2,222	1,942
Net increase in trading account assets	(116)	(992)
Gain on sale of loans	(47,116)	(22,101)
Change in loans held for sale carried at fair value	16,801	(5,993)
Origination of loans held for sale	(1,000,688)	(786,697)
Proceeds from sales of loans held for sale	1,174,397	703,875
Excess tax benefits from the exercise of stock options	(49)	(49)
Change in other assets and liabilities:		
Net decrease (increase) in other assets	26,744	(1,218)
Net (decrease) increase in other liabilities	(20,189)	11,199
Net cash provided (used) by operating activities	242,953	(2,263)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities available for sale	(51,191)	(419,078)
Proceeds from investment securities available for sale	530,898	727,750
Proceeds from investment securities held to maturity	914	363
Redemption of restricted equity securities	1,331	869
Net non-covered loan and lease originations	(160,345)	(239,262)
Net covered loan and lease paydowns	47,744	56,468
Proceeds from sales of non-covered loans	53,264	5,964
Proceeds from insurance settlement on loss of property	575	1,425
Proceeds from fee on termination of merger transaction	—	1,600
Proceeds from disposals of furniture and equipment	139	1,508
Purchases of premises and equipment	(16,514)	(12,197)

Net proceeds from FDIC indemnification asset	3,065	21,418
Proceeds from sales of non-covered other real estate owned	11,210	12,208
Proceeds from sales of covered other real estate owned	8,126	8,733
Net cash provided by investing activities	429,216	167,769

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

(in thousands)

	Six months ended June 30, 2013	2012
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net decrease in deposit liabilities	(422,723)	(104,348)
Net increase in securities sold under agreements to repurchase	39,372	24,736
Repayment of junior subordinated debentures	(8,764)	—
Dividends paid on common stock	(16,931)	(15,777)
Excess tax benefits from stock based compensation	49	49
Proceeds from stock options exercised	846	78
Retirement of common stock	(2,811)	(5,234)
Net cash used by financing activities	(410,962)	(100,496)
Net increase in cash and cash equivalents	261,207	65,010
Cash and cash equivalents, beginning of period	543,787	598,766
Cash and cash equivalents, end of period	$804,994	$663,776
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$21,825	$27,573
Income taxes	$13,100	$13,800
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Change in unrealized losses on investment securities available for sale, net of taxes	$(24,741)	$(3,124)
Change in unrealized losses on investment securities held to maturity related to factors other than credit, net of taxes	$32	$79
Cash dividend declared on common stock and payable after period-end	$16,907	$10,139
Transfer of non-covered loans to non-covered other real estate owned	$7,032	$8,993
Transfer of covered loans to covered other real estate owned	$2,554	$1,346
Transfer of covered loans to non-covered loans	$10,560	$9,299
Transfer from FDIC indemnification asset to due from FDIC and other	$3,168	$16,399
Receivable from sales of covered other real estate owned	$1,096	$290

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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, Umpqua Bank (“Bank”), and Umpqua Investments, Inc. (“Umpqua Investments”). 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 2012 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 2012 Annual Report filed on Form 10-K.

In preparing these financial statements, the Company has evaluated events and transactions subsequent to June 30, 2013 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

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 not included in the consolidated financial statements as of June 30, 2013.

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

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

The acquisition provides diversification, and a scalable platform that is consistent with expansion initiatives that the Bank has completed over the last three years, including growth in the business banking, agricultural lending and home builder lending groups. The transaction leverages excess capital of the Company and deploys excess liquidity into significantly higher yielding assets, provides growth and diversification, and is anticipated to increase profitability.

The assets acquired and liabilities assumed are not included in the consolidated financial statements, including segment reporting, as of June 30, 2013 as the acquisition occurred on July 1, 2013. There is no tax deductible goodwill. Merger related expenses of $654,000 and $796,000 for the three and six months ended June 30, 2013 have been incurred in connection with the acquisition of FinPac and are recognized within the merger related expenses line item on the Consolidated Statements of Income.

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

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(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	19,214
Other intangible assets	(8,516)
Deferred tax assets	(4,995)
Term debt	(527)
Other liabilities	176
Goodwill	$(89,312)

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

	FinPac July 1, 2013
Assets Acquired:	
Cash and equivalents	$6,452
Non-covered loans and leases, net	276,669
Premises and equipment	491
Goodwill	89,312
Other assets	4,453
Total assets acquired	$377,377
Liabilities Assumed:	
Term debt	211,331
Other liabilities	9,936
Total liabilities assumed	221,267
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 principal payments	$350,403
Purchase adjustment for credit, interest rate, and liquidity	$18,740
Balance of non-covered loans and leases, net	$276,669

The following tables present unaudited pro forma results of operations for the three and six months ended June 30, 2012 and 2013 as if the acquisition of FinPac had occurred on January 1, 2012. The proforma results have been prepared for comparative purposes only and are not necessarily indicative of the results that would have been obtained had the acquisitions actually occurred on January 1, 2012.

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(in thousands, except per share data)

	Three months ended June 30, 2013				
	Company	FinPac (a)	Pro Forma Adjustments		Pro Forma Combined
Net interest income	$93,893	$11,943	$(100)	(b)	$105,736
Provision for non-covered loan and lease losses	2,993	218	2,393	(d)	5,604
Recapture of provision for covered loan and lease losses	(3,072)	—	—		(3,072)
Non-interest income	34,497	522	—		35,019
Non-interest expense	87,931	3,435	(910)	(c)	90,456
Income before provision for income taxes	40,538	8,812	(1,583)		47,767
Provision for income taxes	14,285	3,327	(633)	(e)	16,979
Net income	26,253	5,485	(950)		30,788
Dividends and undistributed earnings allocated to participating securities	197	—	34		231
Net earnings available to common shareholders	$26,056	$5,485	$(984)		$30,557
Earnings per share:					
Basic	$0.23				$0.27
Diluted	$0.23				$0.27
Average shares outstanding:					
Basic	111,954				111,954
Diluted	112,145				112,145

(a) FinPac amounts represent results from April 1, 2013 to June 30, 2013. Acquisition date is July 1, 2013.
(b) Consists of interest expense benefit of FinPac utilizing Bank funding, and change in yields due to fair value adjustments.
(c) Consists of merger related expenses of $0.7 million at the Bank, additional expense related to restricted stock, and FinPac amortization of intangible assets, director compensation and travel, and management fees.
(d) Consists of adjustment to FinPac provision for credit losses due to purchase accounting adjustments.
(e) Income tax effect of pro forma adjustments at 40%.

(in thousands, except per share data)

	Six months ended June 30, 2013				
	Company	FinPac (a)	Pro Forma Adjustments		Pro Forma Combined
Net interest income	$188,082	$23,875	$(464)	(b)	$211,493
Provision for non-covered loan and lease losses	9,981	2,878	3,182	(d)	16,041
Recapture of provision for covered loan and lease losses	(2,840)	—	—		(2,840)
Non-interest income	68,512	1,312	—		69,824
Non-interest expense	173,693	6,997	(1,340)	(c)	179,350
Income before provision for income taxes	75,760	15,312	(2,306)		88,766
Provision for income taxes	26,146	5,848	(923)	(e)	31,071
Net income	49,614	9,464	(1,383)		57,695
Dividends and undistributed earnings allocated to participating securities	380	—	62		442
Net earnings available to common shareholders	$49,234	$9,464	$(1,445)		$57,253
Earnings per share:					
Basic	$0.44				$0.51
Diluted	$0.44				$0.51
Average shares outstanding:					
Basic	111,946				111,946

Diluted	112,133	112,133

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(a) FinPac amounts represent results from January 1, 2013 to June 30, 2013. Acquisition date is July 1, 2013.
(b) Consists of interest expense benefit of FinPac utilizing Bank funding, and change in yields due to fair value adjustments.
(c) Consists of merger related expenses of $0.8 million at the Bank, additional expense related to restricted stock, and FinPac amortization of intangible assets, director compensation and travel, and management fees.
(d) Consists of adjustment to FinPac provision for credit losses due to purchase accounting adjustments.
(e) Income tax effect of pro forma adjustments at 40%.

(in thousands, except per share data)

	Three months ended June 30, 2012				
	Company	FinPac (a)	Pro Forma Adjustments		Pro Forma Combined
Net interest income	$101,012	$11,671	$(806)	(b)	$111,877
Provision for non-covered loan and lease losses	6,638	2,866	1,168	(d)	10,672
Provision for covered loan and lease losses	1,406	—	—		1,406
Non-interest income	28,926	1,209	—		30,135
Non-interest expense	86,936	3,754	(303)	(c)	90,387
Income before provision for income taxes	34,958	6,260	(1,671)		39,547
Provision for income taxes	11,681	2,364	(668)	(e)	13,377
Net income	23,277	3,896	(1,003)		26,170
Dividends and undistributed earnings allocated to participating securities	162	—	20		182
Net earnings available to common shareholders	$23,115	$3,896	$(1,023)		$25,988
Earnings per share:					
Basic	$0.21				$0.23
Diluted	$0.21				$0.23
Average shares outstanding:					
Basic	111,897				111,897
Diluted	112,078				112,078

(a) FinPac amounts represent results from April 1, 2012 to June 30, 2012. Acquisition date is July 1, 2013.
(b) Consists of interest expense benefit of FinPac utilizing Bank funding, and change in yields due to fair value adjustments.
(c) Consists of additional expense related to restricted stock, and FinPac amortization of intangible assets, director compensation and travel, and management fees.
(d) Consists of adjustment to FinPac provision for credit losses due to purchase accounting adjustments.
(e) Income tax effect of pro forma adjustments at 40%.

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(in thousands, except per share data)

	Six months ended June 30, 2012				
	Company	FinPac (a)	Pro Forma Adjustments		Pro Forma Combined
Net interest income	$203,367	$23,105	$(1,790)	(b)	$224,682
Provision for non-covered loan and lease losses	9,805	6,075	(1,324)	(d)	14,556
Provision for covered loan and lease losses	1,375	—	—		1,375
Non-interest income	56,163	2,002	—		58,165
Non-interest expense	174,632	7,353	(607)	(c)	181,378
Income before provision for income taxes	73,718	11,679	141		85,538
Provision for income taxes	24,938	4,412	56	(e)	29,406
Net income	48,780	7,267	85		56,132
Dividends and undistributed earnings allocated to participating securities	329	—	50		379
Net earnings available to common shareholders	$48,451	$7,267	$35		$55,753
Earnings per share:					
Basic	$0.43				$0.50
Diluted	$0.43				$0.50
Average shares outstanding:					
Basic	111,943				111,943
Diluted	112,120				112,120

(a) FinPac amounts represent results from January 1, 2012 to June 30, 2012. Acquisition date is July 1, 2013.
(b) Consists of interest expense benefit of FinPac utilizing Bank funding, and change in yields due to fair value adjustments.
(c) Consists of additional expense related to restricted stock, and FinPac amortization of intangible assets, director compensation and travel, and management fees.
(d) Consists of adjustment to FinPac provision for credit losses due to purchase accounting adjustments.
(e) Income tax effect of pro forma adjustments at 40%.

On November 14, 2012, the Company acquired all of the assets and liabilities of Circle Bancorp ("Circle"), which has been accounted for under the acquisition method of accounting for cash consideration of $24.9 million, including the redemption of all common and preferred shares and outstanding warrants and options. The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the acquisition dates, and are subject to change for up to one year after the closing date of the acquisition. This acquisition was consistent with the Company's overall banking expansion strategy and provided further opportunity to enter growth markets in the San Francisco Bay Area of California. Upon completion of the acquisition, all Circle Bank branches operated under the Umpqua Bank name. The acquisition added Circle Bank's network of six branches in Corte Madera, Novato, Petaluma, San Francisco, San Rafael and Santa Rosa, California to Umpqua Bank's network of locations in California, Oregon, Washington and Nevada. The application of the acquisition method of accounting resulted in the recognition of $12.6 million of goodwill. There is no tax deductible goodwill or other intangibles.

The operations of Circle are included in our operating results from November 15, 2012, and added revenue of $4.0 million and $9.1 million, non-interest expense of $1.2 million and $3.9 million, and net gain of $1.6 million and $2.9 million net of tax, for the three and six months ended June 30, 2013. Circle's results of operations prior to the acquisition are not included in our operating results. Merger-related expenses of $58,000 and $949,000 for the three and six months ended June 30, 2013 have been incurred in connection with the acquisition of Circle and recognized within the merger related expenses line item on the Consolidated Statements of Income.
A summary of the net assets acquired and the estimated fair value adjustments of Circle are presented below:

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(in thousands)

	Circle Bank November 14, 2012
Cost basis net assets	$17,127
Cash payment paid	(24,860)
Fair value adjustments:	
Non-covered loans and leases, net	(2,622)
Other intangible assets	830
Non-covered other real estate owned	(487)
Deposits	(904)
Term debt	(2,404)
Other	723
Goodwill	$(12,597)

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

	Circle Bank November 14, 2012
Assets Acquired:	
Cash and equivalents	$39,328
Investment securities	793
Non-covered loans and leases, net	246,665
Premises and equipment	7,695
Restricted equity securities	2,491
Goodwill	12,597
Other intangible assets	830
Non-covered other real estate owned	1,602
Other assets	5,784
Total assets acquired	$317,785
Liabilities Assumed:	
Deposits	$250,408
Junior subordinated debentures	8,764
Term debt	55,404
Other liabilities	3,209
Total liabilities assumed	$317,785

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

	November 14, 2012
Contractually required principal payments	$242,999
Purchase adjustment for credit, interest rate, and liquidity	(2,149)
Balance of performing non-covered loans	$240,850

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

(in thousands)

	November 14, 2012	December 31, 2012	June 30, 2013
Contractually required principal payments	$12,252	$12,231	$9,194
Carrying balance of acquired purchase credit impaired non-covered loans	$5,815	$5,809	$4,109

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

Note 3 – Investment Securities

The following table presents the amortized costs, unrealized gains, unrealized losses and approximate fair values of investment securities at June 30, 2013 and December 31, 2012:

June 30, 2013
(in thousands)

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
AVAILABLE FOR SALE:				
U.S. Treasury and agencies	$263	$23	$(1)	$285
Obligations of states and political subdivisions	237,413	8,226	(3,439)	242,200
Residential mortgage-backed securities and collateralized mortgage obligations	1,844,452	13,854	(19,278)	1,839,028
Other debt securities	139	99	—	238
Investments in mutual funds and other equity securities	1,959	45	—	2,004
	$2,084,226	$22,247	$(22,718)	$2,083,755
HELD TO MATURITY:				
Residential mortgage-backed securities and collateralized mortgage obligations	$3,741	$178	$(29)	$3,890
	$3,741	$178	$(29)	$3,890

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December 31, 2012
(in thousands)

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

Investment securities that were in an unrealized loss position as of June 30, 2013 and December 31, 2012 are presented in the following tables, based on the length of time individual securities have been in an unrealized loss position. In the opinion of management, these securities are considered only temporarily impaired due to changes in market interest rates or the widening of market spreads subsequent to the initial purchase of the securities, and not due to concerns regarding the underlying credit of the issuers or the underlying collateral.

June 30, 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	$—	$—	$45	$1	$45	$1
Obligations of states and political subdivisions	61,350	3,439	—	—	61,350	3,439
Residential mortgage-backed securities and collateralized mortgage obligations	648,150	16,742	260,972	2,536	909,122	19,278
Total temporarily impaired securities	$709,500	$20,181	$261,017	$2,537	$970,517	$22,718
HELD TO MATURITY:						
Residential mortgage-backed securities and collateralized mortgage obligations	$280	$26	$51	$3	$331	$29
Total temporarily impaired securities	$280	$26	$51	$3	$331	$29

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.

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December 31, 2012
(in thousands)

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

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

The unrealized losses on obligations of political subdivisions were caused by changes in market interest rates or the widening of market spreads subsequent to the initial purchase of these securities. Management monitors published credit ratings of these securities and no adverse ratings changes have occurred since the date of purchase of obligations of political subdivisions which are in an unrealized loss position as of June 30, 2013. Because the decline in fair value is attributable to changes in interest rates or widening market spreads and not credit quality, and because the Bank does not intend to sell the securities in this class and it is not likely that the Bank will be required to sell these securities before recovery of their amortized cost basis, which may include holding each security until maturity, the unrealized losses on these investments are not considered other-than-temporarily impaired.

All of the available for sale residential mortgage-backed securities and collateralized mortgage obligations portfolio in an unrealized loss position at June 30, 2013 are issued or guaranteed by governmental agencies. The unrealized losses on residential mortgage-backed securities and collateralized mortgage obligations were caused by changes in market interest rates or the widening of market spreads subsequent to the initial purchase of these securities, and not concerns regarding the underlying credit of the issuers or the underlying collateral. It is expected that these securities will not be settled at a price less than the amortized cost of each investment. Because the decline in fair value is attributable to changes in interest rates or widening market spreads and not credit quality, and because the Bank does not intend to sell the securities in this class and it is not likely that the Bank will be required to sell these securities before recovery of their amortized cost basis, which may include holding each security until contractual maturity, the unrealized losses on these investments are not considered other-than-temporarily impaired.

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

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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 June 30, 2013:

(in thousands)

	Available For Sale		Held To Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
AMOUNTS MATURING IN:				
Three months or less	$16,890	$16,967	$—	$—
Over three months through twelve months	242,894	244,765	—	—
After one year through five years	1,347,825	1,353,712	63	66
After five years through ten years	382,779	376,209	23	24
After ten years	91,879	90,098	3,655	3,800
Other investment securities	1,959	2,004	—	—
	$2,084,226	$2,083,755	$3,741	$3,890

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

The following table presents the gross realized gains and gross realized losses on the sale of securities available for sale for the three and six months ended June 30, 2013 and 2012:

(in thousands)

	Three months ended June 30, 2013		Three months ended June 30, 2012	
	Gains	Losses	Gains	Losses
U.S. Treasury and agencies	$—	$—	$—	$—
Obligations of states and political subdivisions	—	1	—	—
Residential mortgage-backed securities and collateralized mortgage obligations	—	—	1,484	454
Other debt securities	9	—	—	—
	$9	$1	$1,484	$454

(in thousands)

	Six months ended June 30, 2013		Six months ended June 30, 2012	
	Gains	Losses	Gains	Losses
U.S. Treasury and agencies	$—	$—	$371	$—
Obligations of states and political subdivisions	7	1	2	1
Residential mortgage-backed securities and collateralized mortgage obligations	—	—	1,484	683
Other debt securities	9	—	5	—
	$16	$1	$1,862	$684

The following table presents, as of June 30, 2013, 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	$28,945	$29,565
To state and local governments to secure public deposits	803,949	804,964
Other securities pledged principally to secure repurchase agreements	256,868	254,948
Total pledged securities	$1,089,762	$1,089,477

Note 4 – Non-Covered Loans and Leases

The following table presents the major types of non-covered loans recorded in the balance sheets as of June 30, 2013 and December 31, 2012:

(in thousands)

	June 30, 2013	December 31, 2012
Commercial real estate		
Term & multifamily	$3,930,403	$3,938,443
Construction & development	226,924	202,118
Residential development	66,750	57,209
Commercial		
Term	770,083	797,802
LOC & other	994,659	923,328
Residential		
Mortgage	508,815	476,579
Home equity loans & lines	258,240	260,797
Consumer & other	42,016	37,327
Total	6,797,890	6,693,603
Deferred loan fees, net	(10,773)	(12,523)
Total	$6,787,117	$6,681,080

As of June 30, 2013, loans totaling $5.4 billion were pledged to secure borrowings and available lines of credit.

At June 30, 2013, non-covered loans accounted for under ASC 310-30 were $23.7 million. At December 31, 2012, non-covered accounted for under ASC 310-30 were $19.3 million.

Note 5 – Allowance for Non-Covered Loan 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 and leases from impaired status. The Bank's Audit and Compliance Committee provides board oversight of the ALLL process and reviews and approves the ALLL methodology on a quarterly basis.

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

Formula Allowance

The Bank performs regular credit reviews of the loan and lease portfolio to determine the credit quality and adherence to underwriting standards. When loans and leases are originated, they are assigned a risk rating that is reassessed periodically during the term of the loan 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. 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 risk rating system and loan delinquency, and reflect the increased level of inherent losses associated with more adversely classified loans.

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; regulatory exam results; changes in the level of adversely classified loans (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;
• 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 the volume and severity of adversely classified or graded loans;
• Changes in the quality of the institution's loan review system;
• Changes in the value of underlying collateral for collateral-depending loans;
• The existence and effect of any concentrations of credit, and changes in the level of such concentrations; and
• The effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the institutions' existing portfolio.

These factors are evaluated through a management survey of the Chief Credit Officer, Chief Lending Officers, Special Assets Manager, and Credit Review Manager. The survey requests responses to evaluate current changes in the nine qualitative

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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 June 30, 2013. There is, however, no assurance that future loan losses will not exceed the levels provided for in the ALLL and could possibly result in additional charges to the provision for loan and lease losses. In addition, bank regulatory authorities, as part of their periodic examination of the Bank, may require additional charges to the provision for loan and lease losses in future periods if warranted as a result of their review. Approximately 77% of our loan portfolio is secured by real estate, and a significant decline in real estate market values may require an increase in the allowance for loan and lease losses. The recent U.S. recession, the housing market downturn, and declining real estate values in our markets have negatively impacted aspects of our loan portfolio. A continued deterioration in our markets may adversely affect our loan 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 portfolio;
- The trend in the loan portfolio's risk ratings;
- Current economic conditions;
- Loan concentrations;
- Loan growth rates;
- Past-due and non-performing trends;
- Evaluation of specific loss estimates for all significant problem loans;
- Historical 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 portfolio segment for three and six months ended June 30, 2013 and 2012, respectively:

(in thousands)

	Three months ended June 30, 2013					
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Unallocated	Total
Balance, beginning of period	$55,095	$21,661	$7,219	$717	$—	$84,692
Charge-offs	(2,038)	(1,614)	(728)	(224)	—	(4,604)
Recoveries	1,480	1,086	87	102	—	2,755
Provision	712	454	1,672	155	—	2,993
Balance, end of period	$55,249	$21,587	$8,250	$750	$—	$85,836

	Three months ended June 30, 2012					
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Unallocated	Total
Balance, beginning of period	$58,026	$17,886	$6,106	$862	$3,790	$86,670

Charge-offs	(7,342)	(3,115)	(925)	(220)	—	(11,602)
Recoveries	352	1,388	72	100	—	1,912
Provision	5,305	3,428	1,399	296	(3,790)	6,638
Balance, end of period	$56,341	$19,587	$6,652	$1,038	$—	$83,618

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(in thousands)

	Six months ended June 30, 2013					
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Unallocated	Total
Balance, beginning of period	$54,909	$22,925	$6,925	$632	$—	$85,391
Charge-offs	(3,492)	(7,788)	(1,632)	(417)	—	(13,329)
Recoveries	1,950	1,453	179	211	—	3,793
Provision	1,882	4,997	2,778	324	—	9,981
Balance, end of period	$55,249	$21,587	$8,250	$750	$—	$85,836

	Six months ended June 30, 2012					
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Unallocated	Total
Balance, beginning of period	$59,574	$20,485	$7,625	$867	$4,417	$92,968
Charge-offs	(13,114)	(6,958)	(3,513)	(708)	—	(24,293)
Recoveries	1,307	3,448	167	216	—	5,138
Provision	8,574	2,612	2,373	663	(4,417)	9,805
Balance, end of period	$56,341	$19,587	$6,652	$1,038	$—	$83,618

The following table presents the allowance and recorded investment in non-covered loans by portfolio segment and balances individually or collectively evaluated for impairment as of June 30, 2013 and 2012, respectively:

(in thousands)

	June 30, 2013					
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Unallocated	Total
Allowance for non-covered loans and leases:						
Collectively evaluated for impairment	$53,400	$21,583	$8,239	$750	$—	$83,972
Individually evaluated for impairment	1,849	4	11	—	—	1,864
Total	$55,249	$21,587	$8,250	$750	$—	$85,836
Non-covered loans and leases:						
Collectively evaluated for impairment	$4,112,263	$1,749,697	$766,578	$42,016		$6,670,554
Individually evaluated for impairment	111,814	15,045	477	—		127,336
Total	$4,224,077	$1,764,742	$767,055	$42,016		$6,797,890

(in thousands)

	June 30, 2012					
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Unallocated	Total
Allowance for non-covered loans and leases:						
Collectively evaluated for impairment	$55,868	$19,587	$6,649	$1,038	$—	$83,142
Individually evaluated for impairment	473	—	3	—	—	476
Total	$56,341	$19,587	$6,652	$1,038	$—	$83,618

Non-covered loans and leases:					
Collectively evaluated for impairment	$3,782,259	$1,523,403	$638,324	$32,436	$5,976,422
Individually evaluated for impairment	119,860	19,529	919	—	140,308
Total	$3,902,119	$1,542,932	$639,243	$32,436	$6,116,730

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The gross non-covered loan and lease balance excludes deferred loans fees of $10.8 million at June 30, 2013 and $12.3 million at June 30, 2012.

Summary of Reserve for Unfunded Commitments Activity

The following table presents a summary of activity in the reserve for unfunded commitments ("RUC") and unfunded commitments for the three and six months ended June 30, 2013 and 2012, respectively:

(in thousands)

	Three months ended June 30, 2013				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Balance, beginning of period	$159	$850	$182	$78	$1,269
Net change to other expense	37	5	18	(2)	58
Balance, end of period	$196	$855	$200	$76	$1,327

	Three months ended June 30, 2012				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Balance, beginning of period	$97	$778	$163	$64	$1,102
Net change to other expense	10	12	(1)	3	24
Balance, end of period	$107	$790	$162	$67	$1,126

(in thousands)

	Six months ended June 30, 2013				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Balance, beginning of period	$172	$807	$173	$71	$1,223
Net change to other expense	24	48	27	5	104
Balance, end of period	$196	$855	$200	$76	$1,327

	Six months ended June 30, 2012				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Balance, beginning of period	$59	$633	$185	$63	$940
Net change to other expense	48	157	(23)	4	186
Balance, end of period	$107	$790	$162	$67	$1,126

(in thousands)

	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Unfunded loan commitments:					
June 30, 2013	$215,824	$991,765	$292,920	$53,148	$1,553,657
June 30, 2012	$118,624	$896,662	$251,031	$52,768	$1,319,085

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Non-covered loans sold

In the course of managing the loan portfolio, at certain times, management may decide to sell loans. The following table summarizes loans sold by loan portfolio during the three and six months ended June 30, 2013 and 2012, respectively:

(In thousands)

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Commercial real estate				
Term & multifamily	$—	$1,289	$2,850	$4,940
Construction & development	—	—	3,515	—
Residential development	340	—	363	—
Commercial				
Term	35,411	—	46,536	—
LOC & other	—	55	—	832
Residential				
Mortgage	—	192	—	192
Home equity loans & lines	—	—	—	—
Consumer & other	—	—	—	—
Total	$35,751	$1,536	$53,264	$5,964

Asset Quality and Non-Performing Loans

We manage asset quality and control credit risk through diversification of the non-covered loan portfolio and the application of policies designed to promote sound underwriting and loan 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 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 loss experience, estimated loan losses, growth in the loan 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 six to nine 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 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 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 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 consumer 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 June 30, 2013 to their estimated net realizable value, generally based on disposition value, and expects resolution with no additional material loss, absent further decline in market prices.

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Non-Covered Non-Accrual Loans and Loans Past Due

The following table summarizes our non-covered non-accrual loans and loans past due by loan class as of June 30, 2013 and December 31, 2012:

(in thousands)

	June 30, 2013						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days and Accruing	Total Past Due	Nonaccrual	Current & Other (1)	Total Non-covered Loans and Leases
Commercial real estate							
Term & multifamily	$9,817	$3,731	$—	$13,548	$30,586	$3,886,269	$3,930,403
Construction & development	—	—	—	—	—	226,924	226,924
Residential development	827	415	—	1,242	4,845	60,663	66,750
Commercial							
Term	2,985	331	19	3,335	12,060	754,688	770,083
LOC & other	396	49	—	445	1,364	992,850	994,659
Residential							
Mortgage	2,075	545	5,116	7,736	—	501,079	508,815
Home equity loans & lines	273	446	794	1,513	—	256,727	258,240
Consumer & other	61	13	123	197	—	41,819	42,016
Total	$16,434	$5,530	$6,052	$28,016	$48,855	$6,721,019	$6,797,890
Deferred loan fees, net							(10,773)
Total							$6,787,117

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

(in thousands)

	December 31, 2012						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days and Accruing	Total Past Due	Nonaccrual	Current & Other (1)	Total Non-covered Loans and Leases
Commercial real estate							
Term & multifamily	$7,747	$2,784	$—	$10,531	$43,290	$3,884,622	$3,938,443
Construction & development	283	—	—	283	4,177	197,658	202,118
Residential development	479	—	—	479	5,132	51,598	57,209
Commercial							
Term	3,009	746	81	3,836	7,040	786,926	797,802
LOC & other	1,647	1,503	—	3,150	7,027	913,151	923,328
Residential							
Mortgage	2,906	602	3,303	6,811	—	469,768	476,579
Home equity loans & lines	1,398	214	758	2,370	49	258,378	260,797
Consumer & other	282	191	90	563	21	36,743	37,327
Total	$17,751	$6,040	$4,232	$28,023	$66,736	$6,598,844	$6,693,603
Deferred loan fees, net							(12,523)
Total							$6,681,080

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

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Non-Covered Impaired Loans

The following table summarizes our non-covered impaired loans by loan class as of June 30, 2013 and December 31, 2012:

(in thousands)

	June 30, 2013		
	Unpaid Principal Balance	Recorded Investment	Related Allowance
With no related allowance recorded:			
Commercial real estate			
Term & multifamily	$48,092	$42,893	$—
Construction & development	9,639	8,619	—
Residential development	8,639	5,106	—
Commercial			
Term	26,816	12,060	—
LOC & other	2,064	1,364	—
Residential			
Mortgage	—	—	—
Home equity loans & lines	161	—	—
Consumer & other	—	—	—
With an allowance recorded:			
Commercial real estate			
Term & multifamily	35,829	35,829	1,326
Construction & development	3,814	3,814	379
Residential development	15,553	15,553	144
Commercial			
Term	351	351	—
LOC & other	1,270	1,270	4
Residential			
Mortgage	477	477	11
Home equity loans & lines	—	—	—
Consumer & other	—	—	—
Total:			
Commercial real estate	121,566	111,814	1,849
Commercial	30,501	15,045	4
Residential	638	477	11
Consumer & other	—	—	—
Total	$152,705	$127,336	$1,864

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(in thousands)

	December 31, 2012		
	Unpaid Principal Balance	Recorded Investment	Related Allowance
With no related allowance recorded:			
Commercial real estate			
Term & multifamily	$49,953	$43,406	$—
Construction & development	18,526	15,638	—
Residential development	9,293	6,091	—
Commercial			
Term	13,729	10,532	—
LOC & other	10,778	7,846	—
Residential			
Mortgage	—	—	—
Home equity loans & lines	50	49	—
Consumer & other	21	21	—
With an allowance recorded:			
Commercial real estate			
Term & multifamily	41,016	41,016	1,198
Construction & development	1,091	1,091	14
Residential development	16,593	16,593	184
Commercial			
Term	—	—	—
LOC & other	—	—	—
Residential			
Mortgage	—	—	—
Home equity loans & lines	126	126	5
Consumer & other	—	—	—
Total:			
Commercial real estate	136,472	123,835	1,396
Commercial	24,507	18,378	—
Residential	176	175	5
Consumer & other	21	21	—
Total	$161,176	$142,409	$1,401

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 June 30, 2013 have already been written-down to their estimated net realizable value, based on disposition 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 June 30, 2013 and December 31, 2012, impaired loans of $73.9 million and $70.6 million were classified as accruing restructured loans, respectively. The restructurings were granted in response to borrower financial difficulty, and generally provide for a temporary modification of loan repayment terms. The restructured loans on accrual status represent the only impaired loans accruing interest 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,

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and the borrower must either prefund an interest reserve or demonstrate the ability to make payments from a verified source of cash flow. The Bank had no obligation to lend additional funds on the restructured loans as of June 30, 2013.

The following table summarizes our average recorded investment and interest income recognized on impaired non-covered loans by loan class for the three and six months ended June 30, 2013 and 2012:

(in thousands)

	Three months ended June 30, 2013		Three months ended June 30, 2012	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial real estate				
Term & multifamily	$38,600	$—	$46,449	$—
Construction & development	10,010	—	18,302	—
Residential development	5,309	—	18,232	—
Commercial				
Term	11,841	—	12,888	—
LOC & other	2,185	—	8,668	—
Residential				
Mortgage	—	—	—	—
Home equity loans & lines	25	—	396	—
Consumer & other	—	—	—	—
With an allowance recorded:				
Commercial real estate				
Term & multifamily	41,175	400	21,915	216
Construction & development	2,452	150	2,742	171
Residential development	15,637	158	16,026	200
Commercial				
Term	1,913	5	—	47
LOC & other	1,270	13	—	—
Residential				
Mortgage	383	59	—	—
Home equity loans & lines	—	—	128	3
Consumer & other	—	—	—	—
Total:				
Commercial real estate	113,183	708	123,666	587
Commercial	17,209	18	21,556	47
Residential	408	59	524	3
Consumer & other	—	—	—	—
Total	$130,800	$785	$145,746	$637

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	Six months ended June 30, 2013		Six months ended June 30, 2012	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial real estate				
Term & multifamily	$40,751	$—	$45,795	$—
Construction & development	12,639	—	19,069	—
Residential development	8,712	—	19,979	—
Commercial				
Term	11,883	—	12,362	—
LOC & other	4,107	—	8,703	—
Residential				
Mortgage	—	—	—	—
Home equity loans & lines	117	—	264	—
Consumer & other	1	—	—	—
With an allowance recorded:				
Commercial real estate				
Term & multifamily	37,095	769	22,147	434
Construction & development	2,435	299	2,742	344
Residential development	16,564	316	19,459	401
Commercial				
Term	1,423	9	617	94
LOC & other	1,112	24	1,325	—
Residential				
Mortgage	255	114	—	—
Home equity loans & lines	42	—	128	3
Consumer & other	—	—	—	—
Total:				
Commercial real estate	118,196	1,384	129,191	1,179
Commercial	18,525	33	23,007	94
Residential	414	114	392	3
Consumer & other	1	—	—	—
Total	$137,136	$1,531	$152,590	$1,276

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

Non-Covered Credit Quality Indicators

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

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

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Low Risk—A low risk loan, 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, risk rated 3, is a desirable loan 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, risk rated 4, is an attractive loan 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, risk rated 5, is a loan 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, 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 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, 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 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 has potential weaknesses, which if not checked or corrected, weaken the asset or inadequately protect the Bank’s position at some future date. Such weaknesses include:

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

Loans 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 are classified as substandard when they have unsatisfactory characteristics causing unacceptable levels of risk. A substandard loan 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 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 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 has no recovery or salvage value, but rather that the loan should be charged off now, even though partial or full recovery may be possible in the future.

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

Homogeneous loans 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. The risk rating categories can be generally described by the following groupings for commercial and commercial real estate homogeneous loans:

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

Substandard—A homogeneous substandard loan, risk rated 8, is 60-119 days past due from the required payment date at month-end.

Doubtful—A homogeneous doubtful loan, risk rated 9, is 120-149 days past due from the required payment date at month-end.

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Loss—A homogeneous loss loan, risk rated 10, is 150 days and more past due from the required payment date. These loans are generally charged-off in the month in which the 150 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 class for the non-covered loan portfolio as of June 30, 2013 and December 31, 2012:

(in thousands)

	June 30, 2013						
	Pass/Watch	Special Mention	Substandard	Doubtful	Loss	Impaired	Total
Commercial real estate							
Term & multifamily	$3,544,220	$144,128	$163,333	$—	$—	$78,722	$3,930,403
Construction & development	203,716	8,861	1,914	—	—	12,433	226,924
Residential development	39,217	3,352	3,522	—	—	20,659	66,750
Commercial							
Term	709,542	20,959	27,171	—	—	12,411	770,083
LOC & other	949,054	31,038	11,933	—	—	2,634	994,659
Residential							
Mortgage	500,318	2,630	688	—	4,702	477	508,815
Home equity loans & lines	256,708	737	52	—	743	—	258,240
Consumer & other	41,819	74	74	—	49	—	42,016
Total	$6,244,594	$211,779	$208,687	$—	$5,494	$127,336	$6,797,890
Deferred loan fees, net							(10,773)
Total							$6,787,117

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(in thousands)

	December 31, 2012						
	Pass/Watch	Special Mention	Substandard	Doubtful	Loss	Impaired	Total
Commercial real estate							
Term & multifamily	$3,515,753	$203,643	$134,625	$—	$—	$84,422	$3,938,443
Construction & development	166,660	12,666	6,063	—	—	16,729	202,118
Residential development	25,082	4,379	5,064	—	—	22,684	57,209
Commercial							
Term	718,122	22,255	46,893	—	—	10,532	797,802
LOC & other	880,385	19,521	15,576	—	—	7,846	923,328
Residential							
Mortgage	469,325	3,507	1,120	—	2,627	—	476,579
Home equity loans & lines	258,252	1,612	—	—	758	175	260,797
Consumer & other	36,797	419	57	—	33	21	37,327
Total	$6,070,376	$268,002	$209,398	$—	$3,418	$142,409	$6,693,603
Deferred loan fees, net							(12,523)
Total							$6,681,080

The percentage of non-covered impaired loans classified as watch, special mention, and substandard was 9.9%, 1.9%, and 88.2%, respectively, as of June 30, 2013. The percentage of non-covered impaired loans classified as watch, special mention, and substandard was 9.0%, 1.7%, and 89.3%, respectively, as of December 31, 2012.

Troubled Debt Restructurings

At June 30, 2013 and December 31, 2012, impaired loans of $73.9 million and $70.6 million were classified as accruing restructured loans, respectively. The restructurings were granted in response to borrower financial difficulty, and generally provide for a temporary modification of loan repayment terms. The restructured loans on accrual status represent the only impaired loans accruing interest. In order for a restructured loan to be considered for accrual status, the loan’s collateral coverage generally will be greater than or equal to 100% of the loan balance, the loan is current on payments, and the borrower must either prefund an interest reserve or demonstrate the ability to make payments from a verified source of cash flow. Impaired restructured loans carry a specific allowance and the allowance on impaired restructured loans is calculated consistently across the portfolios.

There were no available commitments for troubled debt restructurings outstanding as of June 30, 2013 and none as of December 31, 2012.

The following tables present troubled debt restructurings by accrual versus non-accrual status and by loan class as of June 30, 2013 and December 31, 2012:

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(in thousands)

	June 30, 2013		
	Accrual Status	Non-Accrual Status	Total Modifications
Commercial real estate			
Term & multifamily	$43,539	$12,424	$55,963
Construction & development	12,433	—	12,433
Residential development	15,814	3,991	19,805
Commercial			
Term	351	4,526	4,877
LOC & other	1,270	—	1,270
Residential			
Mortgage	477	—	477
Home equity loans & lines	—	—	—
Consumer & other	—	—	—
Total	$73,884	$20,941	$94,825

(in thousands)

	December 31, 2012		
	Accrual Status	Non-Accrual Status	Total Modifications
Commercial real estate			
Term & multifamily	$39,613	$16,605	$56,218
Construction & development	12,552	3,516	16,068
Residential development	17,141	4,921	22,062
Commercial			
Term	350	4,641	4,991
LOC & other	820	1,493	2,313
Residential			
Mortgage	—	—	—
Home equity loans & lines	126	—	126
Consumer & other	—	—	—
Total	$70,602	$31,176	$101,778

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

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

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

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

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

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

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

The following tables present newly non-covered restructured loans that occurred during the three and six months ended June 30, 2013 and 2012, respectively:

(in thousands)

	Three months ended June 30, 2013					
	Rate Modifications	Term Modifications	Interest Only Modifications	Payment Modifications	Combination Modifications	Total Modifications
Commercial real estate						
Term & multifamily	$—	$—	$—	$—	$—	$—
Construction & development	—	—	—	—	—	—
Residential development	—	—	—	—	—	—
Commercial						
Term	—	—	—	—	—	—
LOC & other	—	—	—	—	—	—
Residential						
Mortgage	—	—	—	—	189	189
Home equity loans & lines	—	—	—	—	—	—
Consumer & other	—	—	—	—	—	—
Total	$—	$—	$—	$—	$189	$189

	Three months ended June 30, 2012					
	Rate Modifications	Term Modifications	Interest Only Modifications	Payment Modifications	Combination Modifications	Total Modifications
Commercial real estate						
Term & multifamily	$—	$—	$—	$—	$—	$—
Construction & development	—	—	—	—	—	—
Residential development	—	—	—	—	—	—
Commercial						
Term	—	—	—	—	—	—
LOC & other	—	—	—	—	—	—
Residential						
Mortgage	—	—	—	—	—	—
Home equity loans & lines	—	—	—	—	—	—
Consumer & other	—	—	—	—	—	—
Total	$—	$—	$—	$—	$—	$—

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(in thousands)

	Six months ended June 30, 2013					
	Rate Modifications	Term Modifications	Interest Only Modifications	Payment Modifications	Combination	Total