UMPQUA HOLDINGS CORP
Form 10-Q
November 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: September 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: 111,929,202 shares outstanding as of October 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)

	September 30, 2013	December 31, 2012
ASSETS		
Cash and due from banks	$193,188	$223,532
Interest bearing deposits	503,369	315,053
Temporary investments	534	5,202
Total cash and cash equivalents	697,091	543,787
Investment securities		
Trading, at fair value	4,012	3,747
Available for sale, at fair value	1,910,082	2,625,229
Held to maturity, at amortized cost	5,766	4,541
Loans held for sale, at fair value	113,993	320,132
Non-covered loans and leases	7,228,904	6,681,080
Allowance for non-covered loan and lease losses	(84,694)	(85,391)
Net non-covered loans and leases	7,144,210	6,595,689
Covered loans, net of allowance of $11,918 and $18,275	397,083	477,078
Restricted equity securities	31,444	33,443
Premises and equipment, net	173,876	162,667
Goodwill and other intangible assets, net	778,094	685,331
Mortgage servicing rights, at fair value	41,853	27,428
Non-covered other real estate owned	18,249	17,138
Covered other real estate owned	2,980	10,374
FDIC indemnification asset	29,427	52,798
Other assets	221,137	236,061
Total assets	$11,569,297	$11,795,443
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest bearing	$2,421,008	$2,278,914
Interest bearing	6,646,232	7,100,361
Total deposits	9,067,240	9,379,275
Securities sold under agreements to repurchase	215,310	137,075
Term debt	252,017	253,605
Junior subordinated debentures, at fair value	86,718	85,081
Junior subordinated debentures, at amortized cost	101,979	110,985
Other liabilities	120,038	105,383
Total liabilities	9,843,302	10,071,404
COMMITMENTS AND CONTINGENCIES (NOTE 10)		
SHAREHOLDERS' EQUITY		
Common stock, no par value, 200,000,000 shares authorized; issued and outstanding: 111,928,762 in 2013 and 111,889,959 in 2012	1,513,225	1,512,400
Retained earnings	209,597	187,293
Accumulated other comprehensive income	3,173	24,346

Total shareholders' equity	1,725,995	1,724,039
Total liabilities and shareholders' equity	$11,569,297	$11,795,443

See notes to condensed consolidated financial statements

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

(in thousands, except per share amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
INTEREST INCOME				
Interest and fees on non-covered loans and leases	$93,706	$78,090	$250,685	$233,386
Interest and fees on covered loans and leases	11,837	20,325	41,167	54,603
Interest and dividends on investment securities:				
Taxable	7,882	13,057	24,629	47,712
Exempt from federal income tax	2,200	2,302	6,725	6,870
Dividends	51	3	165	37
Interest on temporary investments and interest bearing deposits	284	331	937	736
Total interest income	115,960	114,108	324,308	343,344
INTEREST EXPENSE				
Interest on deposits	4,845	7,623	16,587	24,637
Interest on securities sold under agreement to repurchase and federal funds purchased	35	73	99	232
Interest on term debt	2,338	2,335	6,916	6,944
Interest on junior subordinated debentures	1,933	2,037	5,815	6,124
Total interest expense	9,151	12,068	29,417	37,937
Net interest income	106,809	102,040	294,891	305,407
PROVISION FOR NON-COVERED LOAN AND LEASE LOSSES	3,008	7,078	12,989	16,883
(RECAPTURE OF) PROVISION FOR COVERED LOAN LOSSES	(1,904)	2,927	(4,744)	4,302
Net interest income after provision for (recapture of) loan and lease losses	105,705	92,035	286,646	284,222
NON-INTEREST INCOME				
Service charges on deposit accounts	8,374	7,122	22,844	20,978
Brokerage commissions and fees	3,854	3,186	11,152	9,662
Mortgage banking revenue, net	15,071	24,346	62,928	53,069
Gain on investment securities, net	3	21	18	1,199
Loss on junior subordinated debentures carried at fair value	(554)	(554)	(1,643)	(1,649)
Change in FDIC indemnification asset	(6,474)	(4,759)	(19,841)	(10,644)
Other income	5,870	4,317	19,198	17,227
Total non-interest income	26,144	33,679	94,656	89,842
NON-INTEREST EXPENSE				
Salaries and employee benefits	53,699	49,543	157,271	146,615
Net occupancy and equipment	16,019	13,441	45,813	40,519
Communications	2,772	2,740	8,802	8,527
Marketing	1,596	1,104	3,753	3,855
Services	6,445	5,910	18,339	18,703
Supplies	742	627	2,120	1,936
FDIC assessments	1,709	1,699	5,032	5,553

Net (gain) loss on non-covered other real estate owned	(27)	2,168	(303)	6,244
Net (gain) loss on covered other real estate owned	(68)	461	154	3,084
Intangible amortization	1,186	1,189	3,595	3,612
Merger related expenses	4,856	85	7,197	338
Other expenses	6,675	8,007	17,524	22,620
Total non-interest expense	95,604	86,974	269,297	261,606
Income before provision for income taxes	36,245	38,740	112,005	112,458
Provision for income taxes	12,768	13,587	38,914	38,525
Net income	$23,477	$25,153	$73,091	$73,933

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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 September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Net income	$23,477	$25,153	$73,091	$73,933
Dividends and undistributed earnings allocated to participating securities	196	170	576	499
Net earnings available to common shareholders	$23,281	$24,983	$72,515	$73,434
Earnings per common share:				
Basic	$0.21	$0.22	$0.65	$0.66
Diluted	$0.21	$0.22	$0.65	$0.65
Weighted average number of common shares outstanding:				
Basic	111,912	111,899	111,934	111,928
Diluted	112,195	112,151	112,154	112,159

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 September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Net income	$23,477	$25,153	$73,091	$73,933
Available for sale securities:				
Unrealized gains (losses) arising during the period	5,878	1,863	(35,342)	(2,167)
Reclassification adjustment for net gains realized in earnings (net of tax expense $1 and $8 for the three months ended September 30, 2013 and 2012, respectively, and net of tax expense of $7 and $480 for the nine months ended September 30, 2013 and 2012, respectively)	(2)	(13)	(11)	(719)
Income tax (expense) benefit related to unrealized losses	(2,351)	(745)	14,137	867
Net change in unrealized gains (losses)	3,525	1,105	(21,216)	(2,019)
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 $7 and $23 for the three months ended September 30, 2013 and 2012, respectively, and net of tax benefit of $29 and $76 for the nine months ended September 30, 2013 and 2012, respectively)	11	35	43	114
Net change in unrealized losses related to factors other than credit	11	35	43	114
Other comprehensive income (loss), net of tax	3,536	1,140	(21,173)	(1,905)
Comprehensive income	$27,013	$26,293	$51,918	$72,028

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

(in thousands, except shares)

	Common Stock		Retained	Accumulated Other Comprehensive	
	Shares	Amount	Earnings	Income	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			73,091		73,091
Other comprehensive loss, net of tax				(21,173)	(21,173)
Comprehensive income					$51,918
Stock-based compensation		3,531			3,531
Stock repurchased and retired	(319,164)	(4,704)			(4,704)
Issuances of common stock under stock plans and related net tax benefit	357,967	1,998			1,998
Cash dividends on common stock ($0.45 per share)			(50,787)		(50,787)
Balance at September 30, 2013	111,928,762	$1,513,225	$209,597	$3,173	$1,725,995

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

	Nine months ended September 30,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$73,091	$73,933
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of investment premiums, net	27,984	33,023
Gain on sale of investment securities, net	(18)	(1,199)
(Gain) loss on sale of non-covered other real estate owned	(751)	481
Gain on sale of covered other real estate owned	(549)	(1,031)
Valuation adjustment on non-covered other real estate owned	448	5,763
Valuation adjustment on covered other real estate owned	703	4,115
Provision for non-covered loan and lease losses	12,989	16,883
(Recapture of) provision for covered loan losses	(4,744)	4,302
Proceeds from bank owned life insurance	1,173	—
Change in FDIC indemnification asset	19,841	10,644
Depreciation, amortization and accretion	13,292	11,848
Increase in mortgage servicing rights	(15,182)	(11,923)
Change in mortgage servicing rights carried at fair value	757	5,618
Change in junior subordinated debentures carried at fair value	1,637	1,633
Stock-based compensation	3,531	2,981
Net increase in trading account assets	(265)	(744)
Gain on sale of loans	(52,899)	(50,668)
Change in loans held for sale carried at fair value	11,099	(11,324)
Origination of loans held for sale	(1,368,902)	(1,359,520)
Proceeds from sales of loans held for sale	1,614,097	1,294,321
Excess tax benefits from the exercise of stock options	(40)	(51)
Change in other assets and liabilities:		
Net decrease (increase) in other assets	34,007	(9,348)
Net (decrease) increase in other liabilities	(11,983)	22,493
Net cash provided by operating activities	359,316	42,230
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities available for sale	(51,191)	(784,797)
Purchases of investment securities held to maturity	(2,126)	(931)
Proceeds from investment securities available for sale	702,910	1,018,791
Proceeds from investment securities held to maturity	1,073	511
Redemption of restricted equity securities	1,999	1,216
Net non-covered loan and lease originations	(352,390)	(391,733)
Net covered loan paydowns	68,819	85,510
Proceeds from sales of non-covered loans	60,298	13,496
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	330	1,700
Purchases of premises and equipment	(25,575)	(17,155)
Net proceeds from FDIC indemnification asset	4,621	26,615

Proceeds from sales of non-covered other real estate owned	13,940	18,834
Proceeds from sales of covered other real estate owned	9,794	11,523
Net cash paid in acquisition	(149,658)	—
Net cash provided (used) by investing activities	283,419	(13,395)

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

(in thousands)

	Nine months ended September 30, 2013	2012
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net decrease in deposit liabilities	(311,708)	(136,519)
Net increase in securities sold under agreements to repurchase	78,235	36,446
Repayment of term debt	(211,204)	—
Repayment of junior subordinated debentures	(8,764)	—
Dividends paid on common stock	(33,837)	(25,919)
Excess tax benefits from stock based compensation	40	51
Proceeds from stock options exercised	2,511	324
Retirement of common stock	(4,704)	(5,378)
Net cash used by financing activities	(489,431)	(130,995)
Net increase (decrease) in cash and cash equivalents	153,304	(102,160)
Cash and cash equivalents, beginning of period	543,787	598,766
Cash and cash equivalents, end of period	$697,091	$496,606
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$32,419	$40,653
Income taxes	$27,711	$31,825
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Change in unrealized losses on investment securities available for sale, net of taxes	$(21,216)	$(2,019)
Change in unrealized losses on investment securities held to maturity related to factors other than credit, net of taxes	$43	$114
Cash dividend declared on common stock and payable after period-end	$16,930	$10,140
Transfer of non-covered loans to non-covered other real estate owned	$14,747	$10,167
Transfer of covered loans to covered other real estate owned	$2,554	$3,227
Transfer of covered loans to non-covered loans	$13,366	$14,367
Transfer from FDIC indemnification asset to due from FDIC and other	$3,530	$19,939
Acquisitions:		
Assets acquired	$376,071	$—
Liabilities assumed	$219,961	$—

See notes to condensed consolidated financial statements

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 – Summary of Significant Accounting Policies

The accounting and financial reporting policies of Umpqua Holdings Corporation (referred to in this report as “we”, “our” or “the Company”) conform to accounting principles generally accepted in the United States of America. The accompanying interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material inter-company balances and transactions have been eliminated. The consolidated financial statements have not been audited. A more detailed description of our accounting policies is included in the 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. References to "Bank" refer to our subsidiary Umpqua Bank, an Oregon state-chartered commercial bank, and references to "Umpqua Investments" refer to our subsidiary Umpqua Investments, Inc., a registered broker-dealer and investment adviser.

In preparing these financial statements, the Company has evaluated events and transactions subsequent to September 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

Sterling Financial Corporation
On September 11, 2013, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Sterling Financial Corporation, a Washington corporation ("Sterling"). The Merger Agreement provides that Sterling will merge with and into the Company (the "Merger"), with the Company as the surviving corporation in the Merger. Immediately following the Merger, Sterling's wholly owned subsidiary, Sterling Savings Bank, will merge with and into the Bank (the "Bank Merger"), with the Bank as the surviving bank in the Bank Merger. Holders of shares of common stock of Sterling will have the right to receive 1.671 shares of the Company's common stock and $2.18 in cash for each share of Sterling common stock.

The completion of the Merger is subject to customary conditions, including (1) adoption of the Merger Agreement by Sterling's shareholders and by the Company's shareholders, (2) approval of an amendment to the Company's articles of incorporation to increase the number of authorized shares of the Company's common stock, (3) authorization for listing on the NASDAQ of the shares of the Company's common stock to be issued in the Merger, (4) the receipt of required regulatory approvals for the Merger and the Bank Merger from the Federal Reserve Board, Federal Deposit Insurance Corporation and Oregon and Washington state bank regulators, in each case without the imposition of any materially burdensome regulatory condition, (5) effectiveness of the registration statement on Form S-4 for the Company's common stock to be issued in the Merger, and (6) the absence of any order, injunction or other legal restraint preventing the completion of the Merger or making the completion of the Merger illegal. Each party's obligation to complete the Merger is also subject to certain additional customary conditions. The Merger Agreement provides certain termination rights for both the Company and Sterling and further provides that, upon termination of the Merger Agreement under certain circumstances, the Company or Sterling, as applicable, will be obligated to pay the other party a termination fee of $75 million.

The Merger is expected to be completed in the first half of 2014. A summary of the terms of the Merger Agreement and other related agreements are summarized in, and the Merger Agreement has been filed as an exhibit to, the Current Report on Form 8-K filed by the Company with the Securities and Exchange Commission on September 17, 2013.

Financial Pacific Holding Corp.

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

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

- The Bank acquired all of the outstanding stock of FPHC, a shell holding company, which is the sole shareholder of FinPac Leasing, the primary operating subsidiary of FinPac that engages in equipment leasing and financing activities, 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 Leasing is also the sole shareholder of FPF II, which no longer engages in any activities or holds any assets and is anticipated 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. There is no tax deductible goodwill or other intangibles.

The operations of FinPac are included in our operating results from July 1, 2013, and added revenue of $14.8 million, non-interest expense of $3.5 million , and net income of $6.0 million net of tax, for the three and nine months ended September 30, 2013. FinPac's results of operations prior to the acquisition are not included in our operating results. Merger related expenses of $629,000 and $1.4 million for the three and nine months ended September 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:
(in thousands)

	FinPac July 1, 2013	
Cost basis net assets	$61,446	
Cash payment paid	(156,110	)
Fair value adjustments:		
Non-covered loans and leases, net	6,881	
Other intangible assets	(8,516	)
Other assets	(1,650	)
Term debt	(400	)
Other liabilities	1,355	
Goodwill	$(96,994	)

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)

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	FinPac July 1, 2013
Assets Acquired:	
Cash and equivalents	$6,452
Non-covered loans and leases, net	264,336
Premises and equipment	491
Goodwill	96,994
Other assets	7,798
Total assets acquired	$376,071
Liabilities Assumed:	
Term debt	211,204
Other liabilities	8,757
Total liabilities assumed	219,961
Net Assets Acquired	$156,110

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

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

The following tables present unaudited pro forma results of operations for the three and nine months ended September 30, 2013 and 2012 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 September 30, 2013				
	Company	FinPac (a)	Pro Forma Adjustments		Pro Forma Combined
Net interest income	$92,311	$14,498	$(1,121)	(b)	$105,688
Provision for non-covered loan and lease losses	1,228	1,780	1,524	(d)	4,532
Recapture of provision for covered loan losses	(1,904)	—	—		(1,904)
Non-interest income	25,815	329	—		26,144
Non-interest expense	92,108	3,496	(474)	(c)	95,130
Income before provision for income taxes	26,694	9,551	(2,171)		34,074
Provision for income taxes	9,169	3,599	(868)	(e)	11,900
Net income	17,525	5,952	(1,303)		22,174
Dividends and undistributed earnings allocated to participating securities	196	—	52		248
Net earnings available to common shareholders	$17,329	$5,952	$(1,355)		$21,926
Earnings per share:					
Basic	$0.15				$0.20
Diluted	$0.15				$0.20
Average shares outstanding:					
Basic	111,912				111,912
Diluted	112,195				112,195

(a) FinPac amounts represent results from July 1, 2013 to September 30, 2013.
(b) Consists of change in yields due to fair value adjustments.
(c) Consists of merger related expenses of $629,000 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)

	Nine months ended September 30, 2013				
	Company	FinPac (a)	Pro Forma Adjustments		Pro Forma Combined
Net interest income	$280,393	$40,024	$(1,513)	(b)	$318,904
Provision for non-covered loan and lease losses	11,209	5,052	4,565	(d)	20,826
Recapture of provision for covered loan losses	(4,744)	—	—		(4,744)
Non-interest income	94,327	1,641	—		95,968
Non-interest expense	265,801	11,784	(1,802)	(c)	275,783
Income before provision for income taxes	102,454	24,829	(4,276)		123,007
Provision for income taxes	35,315	9,434	(1,710)	(e)	43,039
Net income	67,139	15,395	(2,566)		79,968
Dividends and undistributed earnings allocated to participating securities	576	—	110		686
Net earnings available to common shareholders	$66,563	$15,395	$(2,676)		$79,282
Earnings per share:					
Basic	$0.59				$0.71
Diluted	$0.59				$0.71
Average shares outstanding:					
Basic	111,934				111,934
Diluted	112,154				112,154

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(a) FinPac amounts represent results from January 1, 2013 to September 30, 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 $1.4 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 September 30, 2012				
	Company	FinPac (a)	Pro Forma Adjustments		Pro Forma Combined
Net interest income	$102,040	$12,030	$1,167	(b)	$115,237
Provision for non-covered loan and lease losses	7,078	2,516	1,361	(d)	10,955
Provision for covered loan losses	2,927	—	—		2,927
Non-interest income	33,679	749	—		34,428
Non-interest expense	86,974	3,836	(303)	(c)	90,507
Income before provision for income taxes	38,740	6,427	109		45,276
Provision for income taxes	13,587	2,425	44	(e)	16,056
Net income	25,153	4,002	65		29,220
Dividends and undistributed earnings allocated to participating securities	170	—	27		197
Net earnings available to common shareholders	$24,983	$4,002	$38		$29,023
Earnings per share:					
Basic	$0.22				$0.26
Diluted	$0.22				$0.26
Average shares outstanding:					
Basic	111,899				111,899
Diluted	112,151				112,151

(a) FinPac amounts represent results from July 1, 2012 to September 30, 2012.
(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)

	Nine months ended September 30, 2012				
	Company	FinPac (a)	Pro Forma Adjustments		Pro Forma Combined
Net interest income	$305,407	$35,897	$3,509	(b)	$344,813
Provision for non-covered loan and lease losses	16,883	8,213	415	(d)	25,511
Provision for covered loan losses	4,302	—	—		4,302
Non-interest income	89,842	2,751	—		92,593
Non-interest expense	261,606	11,545	(910	) (c)	272,241
Income before provision for income taxes	112,458	18,890	4,004		135,352
Provision for income taxes	38,525	7,131	1,601	(e)	47,257
Net income	73,933	11,759	2,403		88,095
Dividends and undistributed earnings allocated to participating securities	499	—	96		595
Net earnings available to common shareholders	$73,434	$11,759	$2,307		$87,500
Earnings per share:					
Basic	$0.66				$0.78
Diluted	$0.65				$0.78
Average shares outstanding:					
Basic	111,928				111,928
Diluted	112,159				112,159

(a) FinPac amounts represent results from January 1, 2012 to September 30, 2012.
(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%.

Circle Bancorp
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 $11.9 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 $4.2 million and $13.3 million, non-interest expense of $1.3 million and $5.2 million, and net income of $1.7 million and $4.5 million net of tax, for the three and nine months ended September 30, 2013. Circle's results of operations prior to the acquisition are not included in our operating results. Merger-related expenses of $32,000 and $981,000 for the three and nine months ended September 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	1,398
Goodwill	$(11,922)

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	11,922
Other intangible assets	830
Non-covered other real estate owned	1,602
Other assets	6,469
Total assets acquired	$317,795
Liabilities Assumed:	
Deposits	$250,408
Junior subordinated debentures	8,764
Term debt	55,404
Other liabilities	3,219
Total liabilities assumed	$317,795

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	(5,760)
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 September 30, 2013 and December 31, 2012:

(in thousands)

	November 14, 2012	December 31, 2012	September 30, 2013
Contractually required principal payments	$12,252	$12,231	$5,606
Carrying balance of acquired purchase credit impaired non-covered loans	$5,815	$5,809	$2,263

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 September 30, 2013 and December 31, 2012:

September 30, 2013
(in thousands)

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
AVAILABLE FOR SALE:				
U.S. Treasury and agencies	$256	$22	$—	$278
Obligations of states and political subdivisions	233,499	9,146	(2,114)	240,531
Residential mortgage-backed securities and collateralized mortgage obligations	1,668,904	18,140	(19,900)	1,667,144
Other debt securities	60	74	—	134
Investments in mutual funds and other equity securities	1,959	36	—	1,995
	$1,904,678	$27,418	$(22,014)	$1,910,082
HELD TO MATURITY:				
Residential mortgage-backed securities and collateralized mortgage obligations	$5,766	$265	$(1)	$6,030
	$5,766	$265	$(1)	$6,030

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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 September 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.

September 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	$—	$—	$—	$—	$—	$—
Obligations of states and political subdivisions	47,814	2,114	—	—	47,814	2,114
Residential mortgage-backed securities and collateralized mortgage obligations	440,921	13,680	264,968	6,220	705,889	19,900
Total temporarily impaired securities	$488,735	$15,794	$264,968	$6,220	$753,703	$22,014
HELD TO MATURITY:						
Residential mortgage-backed securities and collateralized mortgage obligations	$—	$—	$46	$1	$46	$1
Total temporarily impaired securities	$—	$—	$46	$1	$46	$1

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 September 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 September 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 September 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	$18,573	$18,569	$—	$—
Over three months through twelve months	191,763	194,660	338	378
After one year through five years	1,294,846	1,303,726	863	1,085
After five years through ten years	361,759	354,446	89	89
After ten years	35,778	36,687	4,476	4,478
Other investment securities	1,959	1,994	—	—
	$1,904,678	$1,910,082	$5,766	$6,030

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 nine months ended September 30, 2013 and 2012:

(in thousands)

	Three months ended September 30, 2013		Three months ended September 30, 2012	
	Gains	Losses	Gains	Losses
U.S. Treasury and agencies	$—	$—	$—	$—
Obligations of states and political subdivisions	3	—	8	—
Residential mortgage-backed securities and collateralized mortgage obligations	—	—	—	—
Other debt securities	—	—	13	—
	$3	$—	$21	$—

(in thousands)

	Nine months ended September 30, 2013		Nine months ended September 30, 2012	
	Gains	Losses	Gains	Losses
U.S. Treasury and agencies	$—	$—	$371	$—
Obligations of states and political subdivisions	10	1	10	1
Residential mortgage-backed securities and collateralized mortgage obligations	—	—	1,484	683
Other debt securities	9	—	18	—
	$19	$1	$1,883	$684

The following table presents, as of September 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	$16,831	$17,287
To state and local governments to secure public deposits	810,529	808,734
Other securities pledged principally to secure repurchase agreements	307,164	304,093
Total pledged securities	$1,134,524	$1,130,114

Note 4 – Non-Covered Loans and Leases

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

(in thousands)

	September 30, 2013	December 31, 2012
Commercial real estate		
Term & multifamily	$4,005,983	$3,938,443
Construction & development	247,809	202,118
Residential development	78,998	57,209
Commercial		
Term	769,173	797,802
LOC & other	1,283,129	923,328
Residential		
Mortgage	550,200	476,579
Home equity loans & lines	256,202	260,797
Consumer & other	43,621	37,327
Total	7,235,115	6,693,603
Deferred loan fees, net	(6,211)	(12,523)
Total	$7,228,904	$6,681,080

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

At September 30, 2013, non-covered loans accounted for under ASC 310-30 were $24.7 million. At December 31, 2012, non-covered accounted for under ASC 310-30 were $19.3 million.

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

The Bank has a management Allowance for Loan and Lease Losses ("ALLL") Committee, which is responsible for, among other things, regularly reviewing the ALLL methodology, including loss factors, and ensuring that it is designed and applied in accordance with generally accepted accounting principles. The ALLL Committee reviews and approves loans and leases recommended for impaired status. The ALLL Committee also approves removing loans 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

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

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

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

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

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

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

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

Unallocated Allowance
The Bank may also maintain an unallocated allowance amount to provide for other credit losses inherent in a loan and lease portfolio that may not have been contemplated in the credit loss factors. This unallocated amount generally comprises less than 5% of the allowance, but may be maintained at higher levels during times of deteriorating economic conditions characterized by falling real estate values. The unallocated amount is reviewed quarterly with consideration of factors including, but not limited to:
• Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses;
• Changes in international, national, regional, and local economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments;

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

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

Management believes that the ALLL was adequate as of September 30, 2013. There is, however, no assurance that future loan and lease losses will not exceed the levels provided for in the ALLL and could possibly result in additional charges to the provision for loan and lease losses. In addition, bank regulatory authorities, as part of their periodic examination of the Bank, may require additional charges to the provision for loan and lease losses in future periods if warranted as a result of their review. Approximately 75% of our loan and lease portfolio is secured by real estate, and a significant decline in real estate market values may require an increase in the allowance for loan and lease losses. The recent U.S. recession, the housing market downturn, and declining real estate values in our markets have negatively impacted aspects of our loan and lease portfolio. A continued deterioration in our markets may adversely affect our loan and lease portfolio and may lead to additional charges to the provision for loan and lease losses.

The reserve for unfunded commitments (“RUC”) is established to absorb inherent losses associated with our commitment to lend funds, such as with a letter or line of credit. The adequacy of the ALLL and RUC are monitored on a regular basis and are based on management's evaluation of numerous factors. For each portfolio segment, these factors include:
• The quality of the current loan and lease portfolio;
• The trend in the loan portfolio's risk ratings;
• Current economic conditions;
• Loan and lease concentrations;
• Loan and lease growth rates;
• Past-due and non-performing trends;
• Evaluation of specific loss estimates for all significant problem loans;
• Historical short (one year), medium (three year), and long-term charge-off rates;
• Recovery experience; and
• Peer comparison loss rates.

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

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

The following table summarizes activity related to the allowance for non-covered loan and lease losses by non-covered loan and lease portfolio segment for three and nine months ended September 30, 2013 and 2012, respectively:

(in thousands)

	Three months ended September 30, 2013					
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Unallocated	Total
Balance, beginning of period	$55,249	$21,587	$8,250	$750	$—	$85,836
Charge-offs	(3,101)	(1,754)	(1,181)	(281)	—	(6,317)
Recoveries	880	1,101	41	145	—	2,167
Provision	565	2,346	(68)	165	—	3,008
Balance, end of period	$53,593	$23,280	$7,042	$779	$—	$84,694

Three months ended September 30, 2012

	Commercial Real Estate	Commercial	Residential	Consumer & Other	Unallocated	Total
Balance, beginning of period	$56,341	$19,587	$6,652	$1,038	$—	$83,618
Charge-offs	(4,892)	(1,782)	(516)	(454)	—	(7,644)
Recoveries	1,020	409	171	107	—	1,707
Provision	2,779	2,540	1,381	331	47	7,078
Balance, end of period	$55,248	$20,754	$7,688	$1,022	$47	$84,759

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(in thousands)

	Nine months ended September 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	(6,595)	(9,541)	(2,813)	(697)	—	(19,646)
Recoveries	2,830	2,554	221	355	—	5,960
Provision	2,449	7,342	2,709	489	—	12,989
Balance, end of period	$53,593	$23,280	$7,042	$779	$—	$84,694

	Nine months ended September 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	(18,007)	(8,741)	(4,030)			