COLUMBIA BANKING SYSTEM INC
Form 10-Q
November 04, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2013.

¨ 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 0-20288

COLUMBIA BANKING SYSTEM, INC.
(Exact name of issuer as specified in its charter)

Washington (State or other jurisdiction of incorporation or organization)	91-1422237 (I.R.S. Employer Identification Number)
1301 “A” Street Tacoma, Washington (Address of principal executive offices)	98402-2156 (Zip Code)

(253) 305-1900
(Issuer’s telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)

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. Yes ý 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). Yes ý No ¨

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

Large accelerated filer	ý	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 ¨ No ý

The number of shares of common stock outstanding at October 31, 2013 was 51,269,655.

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PART I - FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS
CONSOLIDATED BALANCE SHEETS
Columbia Banking System, Inc.
(Unaudited)

			September 30, 2013	December 31, 2012
ASSETS			(in thousands)	
Cash and due from banks			$200,282	$124,573
Interest-earning deposits with banks			54,470	389,353
Total cash and cash equivalents			254,752	513,926
Securities available for sale at fair value (amortized cost of $1,572,523 and $969,359, respectively)			1,569,651	1,001,665
Federal Home Loan Bank stock at cost			32,833	21,819
Loans held for sale			840	2,563
Loans, excluding covered loans, net of unearned income of ($75,293) and ($7,767), respectively			4,193,732	2,525,710
Less: allowance for loan and lease losses			55,844	52,244
Loans, excluding covered loans, net			4,137,888	2,473,466
Covered loans, net of allowance for loan losses of ($22,737) and ($30,056), respectively			302,160	391,337
Total loans, net			4,440,048	2,864,803
FDIC loss-sharing asset			53,559	96,354
Interest receivable			24,114	14,268
Premises and equipment, net			158,375	118,708
Other real estate owned ($12,730 and $16,311 covered by FDIC loss-share, respectively)			36,273	26,987
Goodwill			345,231	115,554
Other intangible assets, net			27,509	15,721
Other assets			207,112	113,967
Total assets			$7,150,297	$4,906,335
LIABILITIES AND SHAREHOLDERS' EQUITY				
Deposits:				
Noninterest-bearing			$2,110,887	$1,321,171
Interest-bearing			3,838,080	2,720,914
Total deposits			5,948,967	4,042,085
Federal Home Loan Bank advances			34,632	6,644
Securities sold under agreements to repurchase			25,000	25,000
Other liabilities			95,901	68,598
Total liabilities			6,104,500	4,142,327
Commitments and contingent liabilities				
Shareholders' equity:				
	September 30, 2013	December 31, 2012		
Preferred stock (no par value)				
Authorized shares	2,000	—		
Issued and outstanding	9	—	2,217	—
Common stock (no par value)				

Authorized shares	63,033	63,033		
Issued and outstanding	51,271	39,686	858,596	581,471
Retained earnings			188,192	162,388
Accumulated other comprehensive income (loss)			(3,208)	20,149
Total shareholders' equity			1,045,797	764,008
Total liabilities and shareholders' equity			$7,150,297	$4,906,335

See accompanying Notes to unaudited Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF INCOME
Columbia Banking System, Inc.
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands except per share amounts)			
Interest Income				
Loans	$74,125	$52,600	$196,990	$168,875
Taxable securities	4,935	4,218	14,059	14,414
Tax-exempt securities	2,483	2,422	7,289	7,442
Federal funds sold and deposits in banks	56	229	290	564
Total interest income	81,599	59,469	218,628	191,295
Interest Expense				
Deposits	929	1,339	3,072	4,679
Federal Home Loan Bank advances	135	745	(493)	2,229
Prepayment charge on Federal Home Loan Bank advances	—	—	1,548	—
Other borrowings	120	120	615	358
Total interest expense	1,184	2,204	4,742	7,266
Net Interest Income	80,415	57,265	213,886	184,029
Provision for loan and lease losses	4,260	2,875	5,260	11,125
Provision (recapture) for losses on covered loans	(947)	(3,992)	(1,679)	23,381
Net interest income after provision (recapture) for loan and lease losses	77,102	58,382	210,305	149,523
Noninterest Income				
Service charges and other fees	13,357	7,609	34,511	22,222
Merchant services fees	2,070	2,054	5,934	6,167
Investment securities gains, net	—	—	462	62
Bank owned life insurance	904	747	2,610	2,177
Change in FDIC loss-sharing asset	(11,826)	(12,951)	(35,446)	(14,787)
Other	3,117	1,630	8,017	4,650
Total noninterest income	7,622	(911)	16,088	20,491
Noninterest Expense				
Compensation and employee benefits	33,287	21,523	90,597	64,484
Occupancy	9,264	4,886	21,560	15,310
Merchant processing	951	921	2,660	2,724
Advertising and promotion	1,165	1,341	3,195	3,342
Data processing and communications	4,285	2,499	10,503	7,263
Legal and professional fees	2,421	2,783	9,975	6,221
Taxes, licenses and fees	1,446	1,124	4,037	3,594
Regulatory premiums	1,372	775	3,406	2,560
Net benefit of operation of other real estate owned	(777)	(1,069)	(6,106)	(536)
Amortization of intangibles	1,666	1,093	4,388	3,362
FDIC clawback liability expense (recovery)	(188)	334	242	100
Other	9,822	4,726	22,810	16,689
Total noninterest expense	64,714	40,936	167,267	125,113
Income before income taxes	20,010	16,535	59,126	44,901
Income tax provision	6,734	4,655	19,083	12,220
Net Income	$13,276	$11,880	$40,043	$32,681

Earnings per common share				
Basic	$0.26	$0.30	$0.84	$0.82
Diluted	$0.25	$0.30	$0.83	$0.82
Dividends paid per common share	$0.10	$0.30	$0.30	$0.89
Weighted average number of common shares outstanding	50,834	39,289	47,032	39,248
Weighted average number of diluted common shares outstanding	52,297	39,291	47,947	39,251

See accompanying Notes to unaudited Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Columbia Banking System, Inc.
(Unaudited)

	Three Months Ended September 30,	
	2013	2012
	(in thousands)	
Net income as reported	$13,276	$11,880
Other comprehensive income, net of tax:		
Net unrealized holding gain from available for sale securities arising during the period, net of tax of ($3,235) and ($1,432)	5,943	2,631
Amortization of unrecognized net actuarial loss included in net periodic pension cost, net of tax of ($33) and ($7)	59	13
Other comprehensive income	6,002	2,644
Total comprehensive income	$19,278	$14,524

	Nine Months Ended September 30,	
	2013	2012
	(in thousands)	
Net income as reported	$40,043	$32,681
Other comprehensive income (loss), net of tax:		
Unrealized gain (loss) from securities:		
Net unrealized holding gain (loss) from available for sale securities arising during the period, net of tax of $12,238 and ($1,345)	(22,480)	3,355
Reclassification adjustment of net gain from sale of available for sale securities included in income, net of tax of $163 and $23	(299)	(39)
Net unrealized gain (loss) from securities, net of reclassification adjustment	(22,779)	3,316
Pension plan liability adjustment:		
Net unrealized loss from unfunded defined benefit plan liability arising during the period, net of tax of $412 and $0	(756)	—
Amortization of unrecognized net actuarial loss included in net periodic pension cost, net of tax of ($98) and ($31)	178	29
Pension plan liability adjustment, net	(578)	29
Other comprehensive income (loss)	(23,357)	3,345
Total comprehensive income	$16,686	$36,026

See accompanying Notes to unaudited Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Columbia Banking System, Inc.
(Unaudited)

	Preferred Stock		Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Number of Shares	Amount	Number of Shares	Amount			
	(in thousands)						
Balance at January 1, 2012	—	$—	39,506	$579,136	$155,069	$ 25,133	$759,338
Net income	—	—	—	—	32,681	—	32,681
Other comprehensive income	—	—	—	—	—	3,345	3,345
Issuance of common stock - stock option and other plans	—	—	40	713	—	—	713
Issuance of common stock - restricted stock awards, net of canceled awards	—	—	143	1,152	—	—	1,152
Cash dividends paid on common stock	—	—	—	—	(35,252)	—	(35,252)
Balance at September 30, 2012	—	$—	39,689	$581,001	$152,498	$ 28,478	$761,977
Balance at January 1, 2013	—	$—	39,686	$581,471	$162,388	$ 20,149	$764,008
Net income	—	—	—	—	40,043	—	40,043
Other comprehensive loss	—	—	—	—	—	(23,357)	(23,357)
Issuance of preferred stock, common stock and warrants	9	2,217	11,380	273,964	—	—	276,181
Activity in deferred compensation plan	—	—	—	517	—	—	517
Issuance of common stock - stock option and other plans	—	—	68	1,154	—	—	1,154
Issuance of common stock - restricted stock awards, net of canceled awards	—	—	153	1,881	—	—	1,881
Purchase and retirement of common stock	—	—	(16)	(391)	—	—	(391)
Preferred dividends	—	—	—	—	(20)	—	(20)
Cash dividends paid on common stock	—	—	—	—	(14,219)	—	(14,219)
Balance at September 30, 2013	9	$2,217	51,271	$858,596	$188,192	$ (3,208)	$1,045,797

See accompanying Notes to unaudited Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS
Columbia Banking System, Inc.
(Unaudited)

	Nine Months Ended September 30,	
	2013	2012
	(in thousands)	
Cash Flows From Operating Activities		
Net Income	$40,043	$32,681
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan and lease losses on noncovered and covered loans	3,581	34,506
Stock-based compensation expense	1,881	1,152
Depreciation, amortization and accretion	30,216	45,873
Investment securities gain, net	(462)	(62)
Net realized gain on sale of other assets	(107)	(35)
Net realized gain on sale of other real estate owned	(8,745)	(8,604)
Write-down on other real estate owned	1,929	7,001
Net change in:		
Loans held for sale	1,723	(1,452)
Interest receivable	(9,846)	(1,300)
Interest payable	(88)	(374)
Other assets	1,805	(5,223)
Other liabilities	(2,114)	(3,881)
Net cash provided by operating activities	59,816	100,282
Cash Flows From Investing Activities		
Loans originated and acquired, net of principal collected	(166,905)	(72,180)
Purchases of:		
Securities available for sale	(292,744)	(87,346)
Premises and equipment	(10,087)	(12,404)
Proceeds from:		
FDIC reimbursement on loss-sharing asset	7,871	49,194
Sales of securities available for sale	166,881	3,845
Principal repayments and maturities of securities available for sale	241,388	163,584
Sales of other assets	1,117	25
Sales of covered other real estate owned	19,222	25,202
Sales of other real estate and other personal property owned	10,779	15,069
Capital improvements on other real estate properties	—	(11)
Acquisition of intangible assets	(919)	—
Net cash paid in acquisition	(154,170)	—
Other investing activities	(522)	—
Net cash (used in) provided by investing activities	(178,089)	84,978
Cash Flows From Financing Activities		
Net increase (decrease) in deposits	23,475	123,326
Proceeds from:		
Federal Home Loan Bank advances	1,144,100	—
Federal Reserve Bank borrowings	50	—
Exercise of stock options	1,154	713
Payments for:		
Repayment of Federal Home Loan Bank advances	(1,244,000)	(5,744)

Repayment of Federal Reserve Bank borrowings	(50)	—
Common stock dividends	(14,219)	(35,252)
Preferred stock dividends	(20)	—
Repayment of long-term subordinated debt	(51,000)	—
Purchase and retirement of common stock	(391)	—
Net cash used in financing activities	(140,901)	83,043
Increase (Decrease) in cash and cash equivalents	(259,174)	268,303
Cash and cash equivalents at beginning of period	513,926	294,289
Cash and cash equivalents at end of period	$254,752	$562,592
Supplemental Information:		
Cash paid during the year for:		
Cash paid for interest	$4,830	$7,640
Cash paid for income tax	$20,221	$9,605
Non-cash investing and financing activities		
Assets acquired in business combinations	$2,522,078	$—
Liabilities assumed in business combinations	$2,091,727	$—
Loans transferred to other real estate owned	$17,279	$15,024
Share-based consideration issued for acquisitions	$276,181	$—

See accompanying Notes to unaudited Consolidated Financial Statements.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
Columbia Banking System, Inc.
1. Basis of Presentation and Significant Accounting Policies
Basis of Presentation
The interim unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with instructions to Form 10-Q and Article 10 of Regulation S-X. The consolidated financial statements include the accounts of the Company, and its wholly owned banking subsidiary Columbia Bank (the "Bank"), and West Coast Trust. All intercompany transactions and accounts have been eliminated in consolidation. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair statement of the results for the interim periods presented have been included. The results of operations for the nine months ended September 30, 2013 are not necessarily indicative of results to be anticipated for the year ending December 31, 2013. The accompanying interim unaudited consolidated financial statements should be read in conjunction with the financial statements and related notes contained in the Company's 2012 Annual Report on Form 10-K.
Significant Accounting Policies
The significant accounting policies used in preparation of our consolidated financial statements are disclosed in our 2012 Annual Report on Form 10-K. There have not been any changes in our significant accounting policies compared to those contained in our 2012 Form 10-K disclosure for the year ended December 31, 2012, except for the adoption of ASU 2012-06 as noted below.
2. Accounting Pronouncements Recently Issued
In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The Update clarifies when it is appropriate for an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. ASU 2013-11 is effective for interim and annual periods beginning after December 15, 2013. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date, however, retrospective application is also permitted. Adoption of the new guidance is not expected to have a significant impact on the Company's consolidated financial statements.
In February 2013, the FASB issued ASU No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The Update requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component and to present either on the face of the statement where net income is presented, or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required to be reclassified to net income in its entirety in the same reporting period. The amendments are effective for annual and interim reporting periods beginning on or after December 15, 2012. The Company adopted the ASU 2013-02 reporting requirements during the interim reporting period beginning on January 1, 2013 with no impact to the Company's financial condition or results of operations. See Note 12 to the Consolidated Financial Statements of this report for new disclosures related to accumulated other comprehensive income.
In October 2012, the FASB issued ASU 2012-06, Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution. ASU 2012-06 clarifies that when a reporting entity recognizes an indemnification asset as a result of a government-assisted acquisition of a financial institution and there is a subsequent change in the amount of cash flows expected to be collected on the indemnified asset, the reporting entity should subsequently measure the indemnification asset on the same basis as the underlying loans by taking into account the contractual limitations of the Loss-Sharing Agreement ("LSA"). For amortization of changes in value, the reporting entity should use the term of the indemnification agreement if it is shorter than the term of the acquired loans. ASU 2012-06 is effective for interim and annual periods beginning after December 15, 2012. The Company adopted the ASU as of January 1, 2013. As a result of the adoption of the ASU, an additional $9.9 million of indemnification asset amortization was recorded during the nine months

ending September 30, 2013, resulting in a reduction of $6.4 million in net income and $0.13 in diluted earnings per share.

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3. Business Combinations

West Coast Bancorp

On April 1, 2013, the Company completed its acquisition of West Coast Bancorp ("West Coast"). The Company acquired 100% of the voting equity interests of West Coast. The primary reason for the acquisition was to expand the Company's geographic footprint consistent with its ongoing strategy.

The assets acquired and liabilities assumed have been accounted for under the acquisition method of accounting (formerly the purchase method). The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the April 1, 2013 acquisition date. The amounts for other assets, other liabilities and goodwill have been retrospectively adjusted during the current period to reflect the removal of a liability that was recorded by West Coast, as well as the associated impacts to the deferred tax asset (other assets) and goodwill. The adjustment recorded in the current period was a decrease to other liabilities of $1.8 million, a decrease to other assets of $622 thousand and a decrease to goodwill of $1.1 million and no impact to previously reported net income. Initial accounting for deferred taxes, the mortgage repurchase liability and payment system intangible remain incomplete as of September 30, 2013. The amounts currently recognized in the financial statements have been determined provisionally as the completion of a fair value analysis for these items is still in progress.

The application of the acquisition method of accounting resulted in the recognition of goodwill of $229.7 million and a core deposit intangible of $15.3 million, or 0.89% of core deposits. The goodwill represents the excess purchase price over the estimated fair value of the net assets acquired. The goodwill is not deductible for income tax purposes.

The table below summarizes the amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed:

	April 1, 2013 (in thousands)
Purchase price as of April 1, 2013	$540,791
Recognized amounts of identifiable assets acquired and (liabilities assumed), at fair value:	
Cash and cash equivalents	$110,440
Investment securities	730,842
Federal Home Loan Bank stock	11,824
Acquired loans	1,407,798
Premises and equipment	35,884
Other real estate owned	14,708
Core deposit intangible	15,257
Other assets	76,088
Deposits	(1,883,407)
Federal Home Loan Bank advances	(128,885)
Junior subordinated debentures	(51,000)
Other liabilities	(28,435)
Total fair value of identifiable net assets	311,114
Goodwill	$229,677

See Note 9, Goodwill and other intangible assets, for further discussion of the accounting for goodwill and other intangible assets.

The operating results of the Company include the operating results produced by the acquired assets and assumed liabilities for the period April 1, 2013 to September 30, 2013. Disclosure of the amount of West Coast's revenue and net income (excluding integration costs) included in Columbia's consolidated income statement is impracticable due to the integration of the operations and accounting for this acquisition.

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The following table presents certain unaudited pro forma information for illustrative purposes only, for the nine month periods ended September 30, 2013 and 2012 as if West Coast had been acquired on January 1, 2012. The unaudited estimated pro forma information combines the historical results of West Coast with the Company's consolidated historical results and includes certain adjustments reflecting the estimated impact of certain fair value adjustments for the respective periods. The pro forma information is not indicative of what would have occurred had the acquisition occurred on January 1, 2012. In particular, no adjustments have been made to eliminate the impact of other-than-temporary impairment losses and losses recognized on the sale of securities that may not have been necessary had the investments securities been recorded at fair value as of January 1, 2012. The unaudited pro forma information does not consider any changes to the provision for credit losses resulting from recording loan assets at fair value. Additionally, Columbia expects to achieve further operating cost savings and other business synergies, including revenue growth, as a result of the acquisition which are not reflected in the pro forma amounts that follow. As a result, actual amounts will differ from the unaudited pro forma information presented.

	Unaudited Pro Forma Nine Months Ended September 30,	
	2013	2012
	(in thousands)	
Total revenues (net interest income plus noninterest income)	$252,392	$322,941
Net income	$53,053	$67,162
Earnings per share - basic	$1.04	$1.29
Earnings per share - diluted	$1.01	$1.29

In connection with the West Coast acquisition, Columbia recognized $17.6 million of acquisition-related expenses for the nine month period ended September 30, 2013. The acquisition-related expenses were excluded from the table above.

4. Securities

The following table summarizes the amortized cost, gross unrealized gains and losses and the resulting fair value of securities available for sale:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
September 30, 2013				
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	$866,128	$12,538	$(16,997)	$861,669
State and municipal securities	344,053	13,824	(2,982)	354,895
U.S. government agency and government-sponsored enterprise securities	335,989	483	(8,942)	327,530
U.S. government securities	21,074	—	(657)	20,417
Other securities	5,279	27	(166)	5,140
Total	$1,572,523	$26,872	$(29,744)	$1,569,651
December 31, 2012				
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	$561,076	$16,719	$(5,426)	$572,369
State and municipal securities	265,070	20,893	(388)	285,575
U.S. government agency and government-sponsored enterprise securities	120,085	851	(435)	120,501
U.S. government securities	19,804	39	(15)	19,828

Other securities	3,324	104	(36)	3,392
Total	$969,359	$38,606	$(6,300)	$1,001,665

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The scheduled contractual maturities of investment securities available for sale at September 30, 2013 are presented as follows:

	September 30, 2013	
	Amortized Cost	Fair Value
	(in thousands)	
Due within one year	$23,249	$23,493
Due after one year through five years	278,538	278,715
Due after five years through ten years	463,423	459,080
Due after ten years	802,034	803,223
Other securities with no stated maturity	5,279	5,140
Total investment securities available-for-sale	$1,572,523	$1,569,651

The following table summarizes, as of September 30, 2013, the carrying value of securities pledged as collateral to secure public deposits, borrowings and other purposes as permitted or required by law:

	Carrying Amount
	(in thousands)
To Washington and Oregon State to secure public deposits	$267,646
To Federal Reserve Bank to secure borrowings	44,526
Other securities pledged	43,325
Total securities pledged as collateral	$355,497

The following table shows the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2013 and December 31, 2012:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
September 30, 2013						
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	$385,222	$(12,567)	$64,044	$(4,430)	$449,266	$(16,997)
State and municipal securities	101,176	(2,935)	807	(47)	101,983	(2,982)
U.S. government agency and government-sponsored enterprise securities	290,257	(8,942)	—	—	290,257	(8,942)
U.S. government securities	20,217	(657)	—	—	20,217	(657)
Other securities	2,286	(24)	2,813	(142)	5,099	(166)
Total	$799,158	$(25,125)	$67,664	$(4,619)	$866,822	$(29,744)
December 31, 2012						
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	$167,739	$(5,090)	$12,204	$(336)	$179,943	$(5,426)
State and municipal securities	20,413	(383)	210	(5)	20,623	(388)
U.S. government agency and government-sponsored enterprise securities	56,600	(435)	—	—	56,600	(435)
U.S. government securities	9,914	(15)	—	—	9,914	(15)

Other securities	—	—	964	(36)	964	(36)
Total	$254,666	$(5,923)	$13,378	$(377)	$268,044	$(6,300)

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At September 30, 2013, there were 67 U.S. government agency and government-sponsored enterprise mortgage-backed securities & collateralized mortgage obligations securities in an unrealized loss position, of which six were in a continuous loss position for 12 months or more. The decline in fair value is attributable to changes in interest rates relative to where these investments fall within the yield curve and their individual characteristics. Because the Company does not intend to sell these securities nor does the Company consider it more likely than not that it will be required to sell these securities before the recovery of amortized cost basis, which may be upon maturity, the Company does not consider these investments to be other-than-temporarily impaired at September 30, 2013.

At September 30, 2013, there were 109 state and municipal government securities in an unrealized loss position, of which two were in a continuous loss position for 12 months or more. The unrealized losses on state and municipal securities were caused by interest rate changes or widening of market spreads subsequent to the purchase of the individual securities. Management monitors published credit ratings of these securities for adverse changes. As of September 30, 2013, none of the rated obligations of state and local government entities held by the Company had a below investment grade credit rating. Because the credit quality of these securities are investment grade and the Company does not intend to sell these securities nor does the Company consider it more likely than not that it will be required to sell these securities before the recovery of amortized cost basis, which may be upon maturity, the Company does not consider these investments to be other-than-temporarily impaired at September 30, 2013.

At September 30, 2013, there were 29 U.S. government agency and government-sponsored enterprise securities in an unrealized loss position, none of which were in a continuous loss position for 12 months or more. The decline in fair value is attributable to changes in interest rates relative to where these investments fall within the yield curve and their individual characteristics. Because the Company does not currently intend to sell these securities nor does the Company consider it more likely than not that it will be required to sell these securities before the recovery of amortized cost basis, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at September 30, 2013.

At September 30, 2013, there were four U.S. government securities in an unrealized loss position, none of which were in a continuous loss position for 12 months or more. The decline in fair value is attributable to changes in interest rates relative to where these investments fall within the yield curve and their individual characteristics. Because the Company does not currently intend to sell this security nor does the Company consider it more likely than not that it will be required to sell this security before the recovery of amortized cost basis, which may be maturity, the Company does not consider this investment to be other-than-temporarily impaired at September 30, 2013.

At September 30, 2013, there were two other securities in an unrealized loss position, of which one security, a mortgage-backed securities fund, was in a continuous unrealized loss position for 12 months or more. The decline in fair value is attributable to changes in interest rates and the additional risk premium investors are demanding for investment securities with these characteristics. The Company does not consider this investment to be other-than-temporarily impaired at September 30, 2013 as it has the intent and ability to hold the investment for sufficient time to allow for recovery in the market value.

5. Noncovered Loans

Noncovered loans include loans originated through our branch network and loan departments as well as acquired loans that are not subject to FDIC loss-sharing agreements.

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The following is an analysis of the noncovered loan portfolio by major types of loans (net of unearned income):

	September 30, 2013	December 31, 2012
Noncovered loans:	(in thousands)	
Commercial business	$1,569,343	$1,155,158
Real estate:		
One-to-four family residential	106,686	43,922
Commercial and multifamily residential	2,048,910	1,061,201
Total real estate	2,155,596	1,105,123
Real estate construction:		
One-to-four family residential	53,158	50,602
Commercial and multifamily residential	128,120	65,101
Total real estate construction	181,278	115,703
Consumer	362,808	157,493
Less: Net unearned income	(75,293)	(7,767)
Total noncovered loans, net of unearned income	4,193,732	2,525,710
Less: Allowance for loan and lease losses	(55,844)	(52,244)
Total noncovered loans, net	$4,137,888	$2,473,466
Loans held for sale	$840	$2,563

At September 30, 2013 and December 31, 2012, the Company had no material foreign activities. Substantially all of the Company's loans and unfunded commitments are geographically concentrated in its service areas within the states of Washington and Oregon.

The Company has granted loans to officers and directors of the Company and related interests. These loans are made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than the normal risk of collectability. The aggregate dollar amount of these loans was $14.1 million at September 30, 2013 and $14.2 million at December 31, 2012. During the first nine months of 2013, advances on related party loans totaled $1.9 million and repayments totaled $2.0 million.

At September 30, 2013 and December 31, 2012, $649.8 million and $443.4 million of commercial and residential real estate loans were pledged as collateral on Federal Home Loan Bank borrowings and additional borrowing capacity. The Company has also pledged $49.4 million and $13.8 million of commercial loans to the Federal Reserve Bank for additional borrowing capacity at September 30, 2013 and December 31, 2012, respectively.

The following is an analysis of noncovered, nonaccrual loans as of September 30, 2013 and December 31, 2012:

	September 30, 2013		December 31, 2012	
	Recorded Investment Nonaccrual Loans	Unpaid Principal Balance Nonaccrual Loans	Recorded Investment Nonaccrual Loans	Unpaid Principal Balance Nonaccrual Loans
Noncovered loans:	(in thousands)			
Commercial business				
Secured	$11,839	$ 18,194	$9,037	$ 17,821
Unsecured	156	181	262	262
Real estate:				
One-to-four family residential	2,220	4,058	2,349	2,672
Commercial & multifamily residential				
Commercial land	890	1,299	4,076	7,491
Income property	7,756	11,560	8,520	10,815
Owner occupied	5,379	7,271	6,608	7,741
Real estate construction:				
One-to-four family residential				

Land and acquisition	3,226	8,134	3,084	6,704
Residential construction	459	1,941	1,816	2,431
Consumer	4,036	6,012	1,643	1,940
Total	$35,961	$ 58,650	$37,395	$ 57,877

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The following is an aging of the recorded investment of the noncovered loan portfolio as of September 30, 2013 and December 31, 2012:

	Current Loans	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Nonaccrual Loans	Total Loans
September 30, 2013	(in thousands)						
Noncovered loans:							
Commercial business							
Secured	$1,465,682	$6,520	$3,306	$1	$9,827	$11,839	$1,487,348
Unsecured	74,756	72	4	—	76	156	74,988
Real estate:							
One-to-four family residential	99,413	2,232	224	—	2,456	2,220	104,089
Commercial & multifamily residential							
Commercial land	133,942	—	—	—	—	890	134,832
Income property	1,125,012	7,687	—	—	7,687	7,756	1,140,455
Owner occupied	728,002	5,465	2,048	—	7,513	5,379	740,894
Real estate construction:							
One-to-four family residential							
Land and acquisition	9,014	—	—	—	—	3,226	12,240
Residential construction	39,928	—	—	—	—	459	40,387
Commercial & multifamily residential							
Income property	88,040	—	—	—	—	—	88,040
Owner occupied	39,064	—	—	—	—	—	39,064
Consumer	325,614	1,375	369	1	1,745	4,036	331,395
Total	$4,128,467	$23,351	$5,951	$2	$29,304	$35,961	$4,193,732

	Current Loans	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Nonaccrual Loans	Total Loans
December 31, 2012	(in thousands)						
Noncovered loans:							
Commercial business							
Secured	$1,091,770	$4,259	$1,485	$—	$5,744	$9,037	$1,106,551
Unsecured	44,817	252	12	—	264	262	45,343
Real estate:							
One-to-four family residential	41,508	193	142	—	335	2,349	44,192
Commercial & multifamily residential							
Commercial land	42,818	311	122	—	433	4,076	47,327
Income property	603,339	2,726	227	—	2,953	8,520	614,812
Owner occupied	387,525	1,040	—	—	1,040	6,608	395,173
Real estate construction:							
One-to-four family residential							

Land and acquisition	15,412	—	—	—	—	3,084	18,496
Residential construction	29,848	—	—	—	—	1,816	31,664
Commercial & multifamily residential							
Income property	28,342	—	—	—	—	—	28,342
Owner occupied	36,211	—	—	—	—	—	36,211
Consumer	155,207	387	362	—	749	1,643	157,599
Total	$2,476,797	$9,168	$2,350	$—	$11,518	$ 37,395	$2,525,710

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The following is an analysis of impaired loans as of September 30, 2013 and December 31, 2012:

	Recorded Investment of Loans Collectively Measured for Contingency Provision	Recorded Investment of Loans Individually Measured for Specific Impairment	Impaired Loans With Recorded Allowance			Impaired Loans Without Recorded Allowance	
			Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance
September 30, 2013	(in thousands)						
Noncovered loans:							
Commercial business							
Secured	$1,482,076	$ 5,272	$573	$ 637	$ 241	$4,698	$5,900
Unsecured	74,945	43	43	43	43	—	—
Real estate:							
One-to-four family residential	102,547	1,542	335	358	103	1,207	2,127
Commercial & multifamily residential							
Commercial land	134,266	566	—	—	—	566	899
Income property	1,131,432	9,023	—	—	—	9,023	13,319
Owner occupied	730,787	10,107	601	599	26	9,507	13,207
Real estate construction:							
One-to-four family residential							
Land and acquisition	9,744	2,496	115	114	73	2,381	3,149
Residential construction	40,387	—	—	—	—	—	—
Commercial & multifamily residential							
Income property	88,040	—	—	—	—	—	—
Owner occupied	39,064	—	—	—	—	—	—
Consumer	331,273	122	—	—	—	122	121
Total	$4,164,561	$ 29,171	$1,667	$ 1,751	$ 486	$27,504	$38,722

	Recorded Investment of Loans Collectively Measured for Contingency Provision	Recorded Investment of Loans Individually Measured for Specific Impairment	Impaired Loans With Recorded Allowance			Impaired Loans Without Recorded Allowance	
			Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance
December 31, 2012	(in thousands)						
Noncovered loans:							
Commercial business							
Secured	$1,101,689	$ 4,862	$690	$ 1,994	$ 113	$4,172	$6,769
Unsecured	45,251	92	92	92	92	—	—
Real estate:							
One-to-four family residential	42,103	2,089	345	364	112	1,744	1,902
Commercial & multifamily residential							
Commercial land	44,672	2,655	—	—	—	2,655	5,727
Income property	606,656	8,156	2,670	2,727	1,040	5,486	7,860

Owner occupied	383,269	11,904	608	610	38	11,296	14,642
Real estate construction:							
One-to-four family residential							
Land and acquisition	15,677	2,819	—	—	—	2,819	4,813
Residential construction	29,707	1,957	—	—	—	1,957	2,570
Commercial & multifamily residential							
Income property	28,342	—	—	—	—	—	—
Owner occupied	36,211	—	—	—	—	—	—
Consumer	157,472	127	—	—	—	127	127
Total	$2,491,049	$ 34,661	$4,405	$5,787	$ 1,395	$30,256	$44,410

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The following table provides additional information on impaired loans for the three and nine month periods indicated.

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2013		2012		2013		2012	
	Average Recorded Investment on Impaired Loans	Interest Recognized on Impaired Loans	Average Recorded Investment on Impaired Loans	Interest Recognized on Impaired Loans	Average Recorded Investment on Impaired Loans	Interest Recognized on Impaired Loans	Average Recorded Investment on Impaired Loans	Interest Recognized on Impaired Loans
Noncovered loans:	(in thousands)							
Commercial business								
Secured	$6,631	$ (25)	$10,306	$ 6	$5,774	$ 12	$10,008	$ 14
Unsecured	47	1	118	1	68	2	118	5
Real estate:								
One-to-four family residential	1,537	16	2,014	(9)	1,677	47	2,140	—
Commercial & multifamily residential								
Commercial land	1,456	48	3,079	—	2,085	48	3,242	—
Income property	10,358	22	7,577	55	9,534	168	7,830	60
Owner occupied	9,822	231	13,185	244	10,721	740	13,668	762
Real estate construction:								
One-to-four family residential								
Land and acquisition	2,889	1	3,213	—	2,794	4	4,876	—
Residential construction	—	—	2,792	12	526	—	3,539	17
Commercial & multifamily residential								
Income property	—	—	1,877	—	—	—	3,961	—
Consumer	423	2	1,045	11	275	5	1,359	33
Total	$33,163	$ 296	$45,206	$ 320	$33,454	$ 1,026	$50,741	$ 891

There were no Troubled Debt Restructurings ("TDR") during the three months ended September 30, 2013 or nine months ended September 30, 2012. The following is an analysis of loans classified as TDR during the nine months ended September 30, 2013:

	Nine months ended September 30, 2013		
	Number of TDR Modifications	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Noncovered loans:	(dollars in thousands)		
Commercial business:			
Secured	1	$ 343	$ 343
Real estate:			
Commercial and multifamily residential:			
Commercial land	1	137	137

Income property	3	943	943
Owner occupied	1	172	172
Real estate construction:			
One-to-four family residential:			
Land and acquisition	1	117	117
Total	7	$ 1,712	$ 1,712

The Company's loans classified as TDR are loans that have been modified or the borrower has been granted special concessions due to financial difficulties that, if not for the challenges of the borrower, the Company would not otherwise consider. The Company had commitments to lend $1.7 million and $236 thousand of additional funds on loans classified as TDR as of September 30, 2013 and December 31, 2012, respectively. The TDR modifications or concessions are made to increase the likelihood that these borrowers with financial difficulties will be able to satisfy their debt obligations as amended. Credit losses for loans classified as TDR are measured on the same basis as impaired loans. For impaired loans, an allowance is

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established when the collateral value less selling costs (or discounted cash flows or observable market price) of the impaired loan is lower than the recorded investment of that loan. The Company did not have any loans modified as TDR within the past twelve months that have defaulted during the nine months ended September 30, 2013.

6. Allowance for Noncovered Loan and Lease Losses and Unfunded Commitments and Letters of Credit

We maintain an allowance for loan and lease losses (“ALLL”) to absorb losses inherent in the loan portfolio. The size of the ALLL is determined through quarterly assessments of the probable estimated losses in the loan portfolio. Our methodology for making such assessments and determining the adequacy of the ALLL includes the following key elements:

1. General valuation allowance consistent with the Contingencies topic of the FASB Accounting Standards Codification ("ASC").
2. Classified loss reserves on specific relationships. Specific allowances for identified problem loans are determined in accordance with the Receivables topic of the FASB ASC.
3. The unallocated allowance provides for other factors inherent in our loan portfolio that may not have been contemplated in the general and specific components of the allowance. This unallocated amount generally comprises less than 5% of the allowance. The unallocated amount is reviewed quarterly based on trends in credit losses, the results of credit reviews and overall economic trends.

The general valuation allowance is systematically calculated quarterly using quantitative and qualitative information about specific loan classes. The minimum required level an entity develops a methodology to determine its allowance for loan and lease losses is by general categories of loans, such as commercial business, real estate, and consumer. However, the Company’s methodology in determining its allowance for loan and lease losses is prepared in a more detailed manner at the loan class level, utilizing specific categories such as commercial business secured, commercial business unsecured, real estate commercial land, and real estate income property multifamily.

The quantitative information uses historical losses from a specific loan class and incorporates the loan’s risk rating migration from origination to the point of loss based upon the consideration of an appropriate look back period. A loan’s risk rating is primarily determined based upon the borrower’s ability to fulfill its debt obligation from a cash flow perspective. In the event there is financial deterioration of the borrower, the borrower’s other sources of income or repayment are also considered, including recent appraisal values for collateral dependent loans. The qualitative information takes into account general economic and business conditions affecting our marketplace, seasoning of the loan portfolio, duration of the business cycle, etc. to ensure our methodologies reflect the current economic environment and other factors as using historical loss information exclusively may not give an accurate estimate of inherent losses within the Company’s loan portfolio.

The $4.3 million provision expense reflects a change in estimate for the allowance for loan losses for loans acquired in the West Coast Bank transaction. The change was the result of moving from the initial fair value accounting for those loans, which included a net loan discount of $88.8 million, to our standard allowance methodology. Our standard allowance methodology takes into account the $19.7 million in net loan discount accretion recorded in earnings subsequent to the acquisition. The provision resulted in a $2.8 million reduction to net income and reduced earnings per diluted common share by $0.05 and $0.06 for the current quarter and year-to-date period, respectively.

When a loan is deemed to be impaired, the Company has to determine if a specific valuation allowance is required for that loan. The specific valuation allowance is a reserve, calculated at the individual loan level, for each loan determined to be both impaired and containing a value less than its recorded investment. The Company measures the impairment based on the discounted expected future cash flows, observable market price, or the fair value of the collateral less selling costs if the loan is collateral dependent or if foreclosure is probable. The specific reserve for each loan is equal to the difference between the recorded investment in the loan and its determined impairment value.

The ALLL is increased by provisions for loan and lease losses (“provision”) charged to expense, and is reduced by loans charged off, net of recoveries or a recovery of previous provisions. While the Company’s management believes the best information available is used to determine the ALLL, changes in market conditions could result in adjustments to the ALLL, affecting net income, if circumstances differ from the assumptions used in determining the ALLL.

We have used the same methodology for ALLL calculations during the nine months ended September 30, 2013 and 2012. Adjustments to the percentages of the ALLL allocated to loan categories are made based on trends with respect to delinquencies and problem loans within each class of loans. The Company reviews the ALLL quantitative and qualitative methodology on a quarterly basis and makes adjustments when appropriate. The Company continues to strive towards maintaining a conservative approach to credit quality and will continue to prudently adjust our ALLL as necessary in order to maintain adequate reserves. The Company carefully monitors the loan portfolio and continues to emphasize the importance of credit quality.

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Once it is determined that all or a portion of a loan balance is uncollectable, and the amount can be reasonably estimated, the uncollectable portion of the loan is charged-off.
The following tables show a detailed analysis of the allowance for loan and lease losses for noncovered loans for the three and nine months ended September 30, 2013 and 2012:

	Beginning Balance	Charge-offs	Recoveries	Provision (Recovery)	Ending Balance	Specific Reserve	General Allocation
Three months ended September 30, 2013	(in thousands)						
Noncovered loans:							
Commercial business							
Secured	$30,572	$(392)	$743	$3,187	$34,110	$241	$33,869
Unsecured	821	(363)	111	491	1,060	43	1,017
Real estate:							
One-to-four family residential	672	(47)	39	677	1,341	103	1,238
Commercial & multifamily residential							
Commercial land	691	(9)	126	(260)	548	—	548
Income property	9,695	(132)	154	85	9,802	—	9,802
Owner occupied	4,515	(516)	52	637	4,688	26	4,662
Real estate construction:							
One-to-four family residential							
Land and acquisition	769	—	366	(410)	725	73	652
Residential construction	204	—	95	426	725	—	725
Commercial & multifamily residential							
Income property	241	—	—	17	258	—	258
Owner occupied	80	—	—	(12)	68	—	68
Consumer	2,455	(453)	112	405	2,519	—	2,519
Unallocated	983	—	—	(983)	—	—	—
Total	$51,698	$(1,912)	$1,798	$4,260	$55,844	$486	$55,358

	Beginning Balance	Charge-offs	Recoveries	Provision (Recovery)	Ending Balance	Specific Reserve	General Allocation
Nine months ended September 30, 2013	(in thousands)						
Noncovered loans:							
Commercial business							
Secured	$27,270	$(2,236)	$1,135	$7,941	$34,110	$241	$33,869
Unsecured	753	(794)	184	917	1,060	43	1,017
Real estate:							
One-to-four family residential	694	(191)	180	658	1,341	103	1,238
Commercial & multifamily residential							
Commercial land	460	(20)	153	(45)	548	—	548
Income property	11,033	(950)	260	(541)	9,802	—	9,802
Owner occupied	6,362	(1,084)	96	(686)	4,688	26	4,662
Real estate construction:							
One-to-four family residential							
Land and acquisition	1,171	(32)	2,541	(2,955)	725	73	652
Residential construction	635	(101)	108	83	725	—	725

Commercial & multifamily residential							
Income property	316	—	—	(58)	258	—	258
Owner occupied	102	—	—	(34)	68	—	68
Consumer	2,437	(1,262)	353	991	2,519	—	2,519
Unallocated	1,011	—	—	(1,011)	—	—	—
Total	$52,244	$(6,670)	$5,010	$ 5,260	$55,844	$486	$55,358

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	Beginning Balance	Charge-offs	Recoveries	Provision (Recovery)	Ending Balance	Specific Reserve	General Allocation
Three months ended September 30, 2012	(in thousands)						
Noncovered loans:							
Commercial business							
Secured	$26,505	$(3,744)	$194	$3,007	$25,962	$315	$25,647
Unsecured	772	(31)	83	(56)	768	100	668
Real estate:							
One-to-four family residential	673	(49)	157	(216)	565	69	496
Commercial & multifamily residential							
Commercial land	270	(55)	—	207	422	1	421
Income property	8,726	(436)	357	387	9,034	—	9,034
Owner occupied	9,037	(101)	89	(694)	8,331	245	8,086
Real estate construction:							
One-to-four family residential							
Land and acquisition	1,651	(307)	404	(279)	1,469	—	1,469
Residential construction	1,197	(18)	—	3	1,182	—	1,182
Commercial & multifamily residential							
Income property	755	—	63	(456)	362	—	362
Owner occupied	68	—	—	23	91	—	91
Consumer	2,049	(500)	350	267	2,166	—	2,166
Unallocated	493	—	—	682	1,175	—	1,175
Total	$52,196	$(5,241)	$1,697	$2,875	$51,527	$730	$50,797

	Beginning Balance	Charge-offs	Recoveries	Provision (Recovery)	Ending Balance	Specific Reserve	General Allocation
Nine months ended September 30, 2012	(in thousands)						
Noncovered loans:							
Commercial business							
Secured	$24,745	$(8,126)	$1,184	$8,159	$25,962	$315	$25,647
Unsecured	689	(52)	130	1	768	100	668
Real estate:							
One-to-four family residential	654	(499)	202	208	565	69	496
Commercial & multifamily residential							
Commercial land	488	(437)	—	371	422	1	421
Income property	9,551	(3,959)	710	2,732	9,034	—	9,034
Owner occupied	9,606	(712)	628	(1,191)	8,331	245	8,086
Real estate construction:							
One-to-four family residential							
Land and acquisition	2,331	(809)	827	(880)	1,469	—	1,469
Residential construction	864	(617)	79	856	1,182	—	1,182
Commercial & multifamily residential							
Income property	665	(93)	64	(274)	362	—	362
Owner occupied	35	—	—	56	91	—	91

Consumer	2,719	(1,968)	809	606	2,166	—	2,166
Unallocated	694	—	—	481	1,175	—	1,175
Total	$53,041	$(17,272)	$4,633	$ 11,125	$51,527	$730	$50,797

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Changes in the allowance for unfunded commitments and letters of credit are summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands)			
Balance at beginning of period	$2,465	$1,665	$1,915	$1,535
Net changes in the allowance for unfunded commitments and letters of credit	200	250	750	380
Balance at end of period	$2,665	$1,915	$2,665	$1,915

Risk Elements

The extension of credit in the form of loans to individuals and businesses is one of our principal commerce activities. Our policies and applicable laws and regulations require risk analysis as well as ongoing portfolio and credit management. We manage our credit risk through lending limit constraints, credit review, approval policies and extensive, ongoing internal monitoring. We also manage credit risk through diversification of the loan portfolio by type of loan, type of industry, type of borrower and by limiting the aggregation of debt to a single borrower.

Risk ratings are reviewed and updated whenever appropriate, with more periodic reviews as the risk and dollar value of loss on the loan increases. In the event full collection of principal and interest is not reasonably assured, the loan is appropriately downgraded and, if warranted, placed on nonaccrual status even though the loan may be current as to principal and interest payments. Additionally, we assess whether an impairment of a loan warrants specific reserves or a write-down of the loan.

Pass loans are generally considered to have sufficient sources of repayment in order to repay the loan in full in accordance with all terms and conditions. Special mention loans have potential weaknesses that, if left uncorrected, may result in deterioration of the repayment prospects for the asset or in the Company's credit position at some future date. Loans with a risk rating of Substandard or worse are reported as classified loans in our allowance for loan and lease losses analysis. We review these loans to assess the ability of our borrowers to service all interest and principal obligations and, as a result, the risk rating may be adjusted accordingly. Substandard loans reflect loans where a loss is possible if loan weaknesses are not corrected. Doubtful loans have a high probability of loss, however, the amount of loss has not yet been determined. Loss loans are considered uncollectable and when identified, are charged off.

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The following is an analysis of the credit quality of our noncovered loan portfolio as of September 30, 2013 and December 31, 2012:

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
September 30, 2013	(in thousands)					
Noncovered loans:						
Commercial business:						
Secured	$1,362,097	$38,018	$87,232	$—	$1	$1,487,348
Unsecured	74,705	23	260	—	—	74,988
Real estate:						
One-to-four family residential	94,947	1,687	7,455	—	—	104,089
Commercial and multifamily residential:						
Commercial land	128,624	2,140	4,068	—	—	134,832
Income property	1,097,644	7,304	35,357	—	150	1,140,455
Owner occupied	721,373	1,521	18,000	—	—	740,894
Real estate construction:						
One-to-four family residential:						
Land and acquisition	8,003	172	4,065	—	—	12,240
Residential construction	34,950	3,980	1,457	—	—	40,387
Commercial and multifamily residential:						
Income property	87,791	—	249	—	—	88,040
Owner occupied	39,064	—	—	—	—	39,064
Consumer	324,274	331	6,789	—	1	331,395
Total	$3,973,472	$55,176	$164,932	$—	$152	4,193,732
Less:						
Allowance for loan and lease losses						55,844
Noncovered loans, net						$4,137,888

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
December 31, 2012	(in thousands)					
Noncovered loans:						
Commercial business:						
Secured	$1,011,722	$29,222	$65,607	$—	$—	$1,106,551
Unsecured	44,788	26	529	—	—	45,343
Real estate:						
One-to-four family residential	40,346	406	3,440	—	—	44,192
Commercial and multifamily residential:						
Commercial land	43,401	—	3,926	—	—	47,327
Income property	581,671	3,688	29,453	—	—	614,812
Owner occupied	357,063	1,848	36,262	—	—	395,173
Real estate construction:						
One-to-four family residential:						
Land and acquisition	12,741	1,351	4,404	—	—	18,496
Residential construction	28,705	1,142	1,817	—	—	31,664
Commercial and multifamily residential:						

Income property	28,342	—	—	—	—	28,342
Owner occupied	36,211	—	—	—	—	36,211
Consumer	151,049	75	6,475	—	—	157,599
Total	$2,336,039	$37,758	$151,913	$—	$—	2,525,710
Less:						
Allowance for loan and lease losses						52,244
Noncovered loans, net						$2,473,466

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7. Changes in Noncovered Other Real Estate Owned ("OREO")

The following tables set forth activity in noncovered OREO for the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands)			
Noncovered OREO:				
Balance at beginning of period	$24,339	$13,925	$10,676	$22,893
Established through acquisitions	—	—	14,708	—
Transfers in, net of write-downs ($48, $24, $90 and $24, respectively)	4,413	139	9,190	6,527
OREO improvements	—	—	—	11
Additional OREO write-downs	(1,066)	(458)	(1,636)	(4,232)
Proceeds from sale of OREO property	(4,673)	(3,170)	(10,295)	(15,069)
Gain on sale of OREO, net	530	439	900	745
Total noncovered OREO at end of period	$23,543	$10,875	$23,543	$10,875

8. Covered Assets and FDIC Loss-sharing Asset

Covered Assets

Covered assets consist of loans and OREO acquired in certain FDIC-assisted acquisitions during 2010 and 2011, for which the Bank entered into loss-sharing agreements, whereby the FDIC will cover a substantial portion of future losses on loans (and related unfunded loan commitments), OREO and certain accrued interest on loans during the terms of the agreements. Under the terms of the loss-sharing agreements, the FDIC will absorb 80% of losses and share in 80% of loss recoveries up to specified amounts. With respect to loss-sharing agreements for two acquisitions completed in 2010, after those specified amounts, the FDIC will absorb 95% of losses and share in 95% of loss recoveries. The loss-sharing provisions of the agreements for commercial and single-family mortgage loans are in effect for five and ten years, respectively, from the acquisition dates and the loss recovery provisions are in effect for eight and ten years, respectively, from the acquisition dates.

Ten years and forty-five days after the acquisition dates, the Bank shall pay to the FDIC a clawback in the event the losses from the acquisitions fail to reach stated levels. The amount of the clawback is determined by a formula specified in each individual loss-sharing agreement. As of September 30, 2013, the net present value of the Bank’s estimated clawback liability is $3.8 million, which is included in other liabilities on the consolidated balance sheets.

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The following is an analysis of our covered loans, net of related allowance for losses as of September 30, 2013 and December 31, 2012:

	September 30, 2013	December 31, 2012
Covered loans:	(dollars in thousands)	
Commercial business	$87,366	$125,373
Real estate:		
One-to-four family residential	44,966	57,150
Commercial and multifamily residential	181,634	233,106
Total real estate	226,600	290,256
Real estate construction:		
One-to-four family residential	16,018	25,398
Commercial and multifamily residential	7,146	15,251
Total real estate construction	23,164	40,649
Consumer	37,212	44,516
Subtotal of covered loans	374,342	500,794
Less:		
Valuation discount resulting from acquisition accounting	49,445	79,401
Allowance for loan losses	22,737	30,056
Covered loans, net of allowance for loan losses	$302,160	$391,337

Acquired impaired loans are accounted for under ASC 310-30 and initially measured at fair value based on expected future cash flows over the life of the loans. Acquired loans that have common risk characteristics are aggregated into pools. The Company remeasures contractual and expected cash flows, at the pool-level, on a quarterly basis. Contractual cash flows are calculated based upon the loan pool terms after applying a prepayment factor. Calculation of the applied prepayment factor for contractual cash flows is the same as described below for expected cash flows. Inputs to the determination of expected cash flows include cumulative default and prepayment data as well as loss severity and recovery lag information. Cumulative default and prepayment data are calculated via a transition matrix. The transition matrix is a matrix of probability values that specifies the probability of a loan pool transitioning into a particular delinquency state (e.g. 0-30 days past due, 31 to 60 days, etc.) given its delinquency state at the remeasurement date. Loss severity factors are based upon either actual charge-off data within the loan pools or industry averages and recovery lags are based upon the collateral within the loan pools.

Acquired impaired loans are also subject to the Company’s internal and external credit review and are risk rated using the same criteria as loans originated by the Company. However, risk ratings are not a clear indicator of losses on acquired loans as the loans were acquired with a significant discount and a majority of the losses are recoverable from the FDIC under the loss-sharing agreements.

Losses attributable to draws on acquired loans, advanced subsequent to the loan acquisition date, are accounted for under ASC 450-20 and those amounts are also subject to the Company’s internal and external credit review. An allowance for loan losses is estimated in a similar manner as the originated loan portfolio, and a provision for loan losses is charged to earnings as necessary.

The excess of cash flows expected to be collected over the initial fair value of acquired loans is referred to as the accretable yield and is accreted into interest income over the estimated life of the acquired loans using the effective yield method. Other adjustments to the accretable yield include changes in the estimated remaining life of the acquired loans, changes in expected cash flows and changes of indices for acquired loans with variable interest rates.

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The following table shows the changes in accretable yield for acquired loans for the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands)			
Balance at beginning of period	$140,511	$214,061	$166,888	$259,669
Accretion	(12,243)	(19,571)	(40,240)	(69,045)
Disposals	(5,772)	(3,146)	(621)	(8,218)
Reclassifications from nonaccretable difference	(3,013)	(2,861)	(6,544)	6,077
Balance at end of period	$119,483	$188,483	$119,483	$188,483

During the nine months ended September 30, 2013, the Company recorded a provision recapture for losses on covered loans of $1.7 million. Of this amount, $929 thousand was impairment recapture calculated in accordance with ASC 310-30 and $750 thousand was a provision recapture to adjust the allowance for loss calculated under ASC 450-20 for draws on acquired loans. The impact to earnings of the $1.7 million of provision recapture for covered loans was partially offset through noninterest income by a $1.3 million unfavorable adjustment to the change FDIC loss-sharing asset line item.

The changes in the ALLL for covered loans for the three and nine months ended September 30, 2013 and 2012 are summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands)			
Balance at beginning of period	$26,135	$31,784	$30,056	$4,944
Loans charged off	(5,006)	(977)	(10,031)	(2,574)
Recoveries	2,555	2,342	4,391	3,406
Provision (recovery) for loan losses	(947)	(3,992)	(1,679)	23,381
Balance at end of period	$22,737	$29,157	$22,737	$29,157

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The following is an analysis of the credit quality of our covered loan portfolio as of September 30, 2013 and 2012:

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
September 30, 2013	(in thousands)					
Covered loans:						
Commercial business:						
Secured	$56,973	$2,859	$24,025	$—	$—	$83,857
Unsecured	3,018	396	95	—	—	3,509
Real estate:						
One-to-four family residential	36,419	1,854	6,693	—	—	44,966
Commercial and multifamily residential:						
Commercial land	11,978	205	7,796	—	—	19,979
Income property	59,736	3,966	11,907	—	—	75,609
Owner occupied	73,045	114	12,887	—	—	86,046
Real estate construction:						
One-to-four family residential:						
Land and acquisition	4,688	2,759	2,398	—	—	9,845
Residential construction	2,587	—	3,586	—	—	6,173
Commercial and multifamily residential:						
Income property	3,847	—	1,936	—	—	5,783
Owner occupied	1,083	—	280	—	—	1,363
Consumer	33,421	35	3,729	27	—	37,212
Total	$286,795	$12,188	$75,332	$27	$—	374,342
Less:						
Valuation discount resulting from acquisition accounting						49,445
Allowance for loan losses						22,737
Covered loans, net						$302,160

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
December 31, 2012	(in thousands)					
Covered loans:						
Commercial business:						
Secured	$71,621	$1,823	$45,150	$—	$—	$118,594
Unsecured	4,988	—	1,791	—	—	6,779
Real estate:						
One-to-four family residential	44,782	1,344	11,024	—	—	57,150
Commercial and multifamily residential:						
Commercial land	16,336	—	10,292	—	—	26,628
Income property	81,205	864	23,315	—	—	105,384
Owner occupied	82,222	3,318	15,554	—	—	101,094
Real estate construction:						
One-to-four family residential:						
Land and acquisition	4,817	3,273	5,743	—	—	13,833
Residential construction	6,050	—	5,515	—	—	11,565
Commercial and multifamily residential:						

Income property	4,419	—	7,901	—	—	12,320
Owner occupied	1,107	—	1,824	—	—	2,931
Consumer	38,973	381	5,162	—	—	44,516
Total	$356,520	$11,003	$133,271	$—	$—	500,794
Less:						
Valuation discount resulting from acquisition accounting						79,401
Allowance for loan losses						30,056
Covered loans, net						$391,337

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The following table sets forth activity in covered OREO at carrying value for the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands)			
Covered OREO:				
Balance at beginning of period	$12,854	$19,079	$16,311	$28,126
Transfers in	3,559	3,096	8,089	8,497
Additional OREO write-downs	(199)	(730)	(293)	(2,769)
Proceeds from sale of OREO property	(5,408)	(6,822)	(19,222)	(25,202)
Net gain on sale of OREO	1,924	1,888	7,845	7,859
Total covered OREO at end of period	$12,730	$16,511	$12,730	$16,511

The covered OREO is subject to loss-sharing agreements with the FDIC in which the FDIC will share in 80% of additional write-downs, as well as gains and losses on covered OREO sales, or 95%, if applicable, of additional write-downs, as wells as gains and losses on covered OREO sales if the minimum loss share thresholds are met.

FDIC Loss-sharing Asset

At September 30, 2013, the FDIC loss-sharing asset is comprised of a $48.4 million FDIC indemnification asset and a $5.2 million FDIC receivable. The indemnification represents the cash flows the Company expects to collect from the FDIC under the loss-sharing agreements and the FDIC receivable represents the reimbursable amounts from the FDIC that have not yet been received.

For covered loans, the Company remeasures contractual and expected cash flows on a quarterly basis. When the quarterly remeasurement process results in a decrease in expected cash flows due to an increase in expected credit losses, impairment is recorded. As a result of this impairment, the indemnification asset is increased to reflect anticipated future cash to be received from the FDIC. Consistent with the loss-sharing agreements between the Company and the FDIC, the amount of the increase to the indemnification asset is measured as 80% of the resulting impairment.

Alternatively, when the quarterly remeasurement results in an increase in expected future cash flows due to a decrease in expected credit losses, the nonaccretable difference decreases and the effective yield of the related loan portfolio is increased. As a result of the improved expected cash flows, the indemnification asset would be reduced first by the amount of any impairment previously recorded and, second, by increased amortization over the remaining life of the related loss-sharing agreement.

The following table shows a detailed analysis of the FDIC loss-sharing asset for the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands)			
Balance at beginning of period	$67,374	$140,003	$96,354	$175,071
Adjustments not reflected in income				
Cash received from the FDIC	(1,484)	(14,881)	(7,871)	(49,194)
FDIC reimbursable losses, net	(505)	(494)	522	587
Adjustments reflected in income				
Amortization, net	(9,890)	(9,694)	(29,470)	(33,418)
Loan impairment (recapture)	(758)	(3,193)	(1,343)	18,705
Sale of other real estate	(1,479)	(1,315)	(5,076)	(4,881)
Write-downs of other real estate	220	1,141	373	4,503
Other	81	110	70	304
Balance at end of period	$53,559	$111,677	$53,559	$111,677

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9. Goodwill and Other Intangible Assets

In accordance with the Intangibles – Goodwill and Other topic of the FASB ASC, goodwill is not amortized but is reviewed for potential impairment at the reporting unit level. Management analyzes its goodwill for impairment on an annual basis on July 31 and between annual tests in certain circumstances such as material adverse changes in legal, business, regulatory and economic factors. An impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value. During the current quarter, the Company performed an impairment assessment as of July 31, 2013, and concluded that there was no impairment.

The core deposit intangible ("CDI") is evaluated for impairment if events and circumstances indicate a possible impairment. The CDI is amortized on an accelerated basis over an estimated life of approximately 10 years.

The following table sets forth activity for goodwill and other intangible assets for the period:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands)			
Goodwill				
Goodwill at beginning of period (1)	$345,231	$115,554	$115,554	$115,554
Established through acquisitions	—	—	229,677	—
Goodwill at end of period	345,231	115,554	345,231	115,554
Other intangible assets, net				
Core deposit intangible:				
Gross core deposit intangible balance at beginning of period	47,698	32,441	32,441	32,441
Accumulated amortization at beginning of period	(19,441)	(14,545)	(16,720)	(12,275)
Core deposit intangible, net at beginning of period	28,257	17,896	15,721	20,166
Established through acquisitions	—	—	15,257	—
CDI current period amortization	(1,667)	(1,093)	(4,388)	(3,363)
Total core deposit intangible, net at end of period	26,590	16,803	26,590	16,803
Intangible assets not subject to amortization	919	—	919	—
Other intangible assets, net at end of period	27,509	16,803	27,509	16,803
Total goodwill and other intangible assets at end of period	$372,740	$132,357	$372,740	$132,357

(1) Goodwill at beginning of period has been retrospectively adjusted for the three months ended September 30, 2013 due to adjustments to provisional amounts made related to the West Coast acquisition. See Note 3 to the Consolidated Financial Statements of this report for more information regarding this acquisition.

The following table provides the estimated future amortization expense of core deposit intangibles for the remaining three months ending December 31, 2013 and the succeeding four years:

	Amount (in thousands)
Year ending December 31,	
2013	$1,657
2014	5,963
2015	4,934
2016	4,195
2017	3,361

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10. Derivatives and Hedging Activities

The Company periodically enters into certain commercial loan interest rate swap agreements in order to provide commercial loan customers the ability to convert from variable to fixed interest rates. Under these agreements, the Company enters into a variable-rate loan agreement with a customer in addition to a swap agreement. This swap agreement effectively converts the customer's variable rate loan into a fixed rate. The Company then enters into a corresponding swap agreement with a third party in order to offset its exposure on the variable and fixed components of the customer agreement. As the interest rate swap agreements with the customers and third parties are not designated as hedges under the Derivatives and Hedging topic of the FASB ASC, the instruments are marked to market in earnings. The notional amount of open interest rate swap agreements at September 30, 2013 and December 31, 2012 was $164.5 million and $177.0 million, respectively. There was no impact to the statement of income for the three or nine month periods ending September 30, 2013 and 2012.

The following table presents the fair value of derivatives not designated as hedging instruments at September 30, 2013 and December 31, 2012:

	Asset Derivatives				Liability Derivatives			
	September 30, 2013		December 31, 2012		September 30, 2013		December 31, 2012	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
	(in thousands)							
Interest rate contracts	Other assets	$ 10,187	Other assets	$ 14,921	Other liabilities	$ 10,187	Other liabilities	$ 14,921

11. Shareholders' Equity

Preferred Stock. In conjunction with the acquisition of West Coast, the Company issued 8,782 shares of mandatorily convertible cumulative participating preferred stock, Series B. The Series B Preferred Stock is not subject to the operation of a sinking fund. The Series B Preferred Stock is not redeemable by the Company and is perpetual with no maturity. The holders of Series B Preferred Stock have no general voting rights. If the Company declares and pays a dividend to its common shareholders, it must declare and pay to its holders of Series B Preferred Stock, on the same date, a dividend in an amount per share of the Series B Preferred Stock that is intended to provide such holders dividends in the amount they would have received if shares of Series B Preferred Stock had been converted into Common Stock as of that date. The outstanding shares of Series B Preferred Stock are convertible into 102,363 shares of Company Common Stock.

Dividends. On January 24, 2013 the Company declared a quarterly cash dividend of $0.10 per share payable on February 20, 2013 to shareholders of record at the close of business February 6, 2013. On April 24, 2013, the Company declared a quarterly cash dividend of $0.10 per common share, and common share equivalent for holders of preferred stock, payable on May 22, 2013 to shareholders of record at the close of business May 8, 2013. On July 25, 2013 the Company declared a quarterly cash dividend of $0.10 per share, and common share equivalent for holders of preferred stock, payable on August 21, 2013 to shareholders of record at the close of business August 7, 2013. Subsequent to quarter end, on October 24, 2013, the Company declared a quarterly cash dividend of $0.11 per share, and common share equivalent for holders of preferred stock, payable on November 20, 2013 to shareholders of record at the close of business November 6, 2013. The payment of cash dividends is subject to Federal regulatory requirements for capital levels and other restrictions. In addition, the cash dividends paid by Columbia Bank to the Company are subject to both Federal and State regulatory requirements.

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12. Accumulated Other Comprehensive Income (Loss)

The following table shows changes in accumulated other comprehensive income (loss) by component for the three and nine month periods ended September 30, 2013:

	Unrealized Gains and Losses on Available-for-Sale Securities (1)	Unrealized Gains and Losses on Pension Plan Liability (1)	Total (1)
Three months ended September 30, 2013	(in thousands)		
Beginning balance	$(7,804)	$(1,406)	$(9,210)
Other comprehensive loss before reclassifications	5,943	—	5,943
Amounts reclassified from accumulated other comprehensive income (2)	—	59	59
Net current-period other comprehensive loss	5,943	59	6,002
Ending balance	$(1,861)	$(1,347)	$(3,208)
Nine months ended September 30, 2013			
Beginning balance	$20,918	$(769)	$20,149
Other comprehensive loss before reclassifications	(22,480)	(756)	(23,236)
Amounts reclassified from accumulated other comprehensive income (2)	(299)	178	(121)
Net current-period other comprehensive loss	(22,779)	(578)	(23,357)
Ending balance	$(1,861)	$(1,347)	$(3,208)

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(1) All amounts are net of tax. Amounts in parenthesis indicate debits.

(2) See following table for details about these reclassifications.

The following table shows details regarding the reclassifications from accumulated other comprehensive income for the three and nine month periods ended September 30, 2013:

	Amount Reclassified from Accumulated Other Comprehensive Income		Affected line Item in the Consolidated Statement of Income
	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013	
	(in thousands)		
Unrealized gains and losses on available-for-sale securities			
	$—	$462	Investment securities gains, net
	—	462	Total before tax
	—	(163)	Income tax provision
	$—	$299	Net of tax
Amortization of pension plan liability			
Actuarial losses	$(92)	$(276)	Compensation and employee benefits
	(92)	(276)	Total before tax
	33	98	Income tax benefit
	$(59)	$(178)	Net of tax

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13. Fair Value Accounting and Measurement

The Fair Value Measurements and Disclosures topic of the FASB ASC defines fair value, establishes a consistent framework for measuring fair value and expands disclosure requirements about fair value. We hold fixed and variable rate interest-bearing securities, investments in marketable equity securities and certain other financial instruments, which are carried at fair value. Fair value is determined based upon quoted prices when available or through the use of alternative approaches, such as matrix or model pricing, when market quotes are not readily accessible or available. The valuation techniques are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our own market assumptions. These two types of inputs create the following fair value hierarchy:

Level 1 – Quoted prices for identical instruments in active markets that are accessible at the measurement date.

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable.

Fair values are determined as follows:

Securities at fair value are priced using a combination of market activity, industry recognized information sources, yield curves, discounted cash flow models and other factors. These fair value calculations are considered a Level 2 input method under the provisions of the Fair Value Measurements and Disclosures topic of the FASB ASC for all securities other than U.S. Treasury notes, which are considered a Level 1 input method.

Interest rate contract positions are valued in models, which use as their basis, readily observable market parameters and are classified within Level 2 of the valuation hierarchy.

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The following table sets forth the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis at September 30, 2013 and December 31, 2012 by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement:

	Fair value	Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
September 30, 2013	(in thousands)			
Assets				
Securities available for sale				
U.S. government agency and government-sponsored enterprise mortgage-back securities and collateralized mortgage obligations	$861,669	$—	$861,669	$—
State and municipal debt securities	354,895	—	354,895	—
U.S. government agency and government-sponsored enterprise securities	327,530	—	327,530	—
U.S. government securities	20,417	20,417	—	—
Other securities	5,140	—	5,140	—
Total securities available for sale	$1,569,651	$20,417	$1,549,234	$—
Other assets (Interest rate contracts)	$10,187	$—	$10,187	$—
Liabilities				
Other liabilities (Interest rate contracts)	$10,187	$—	$10,187	$—

	Fair value	Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
December 31, 2012	(in thousands)			
Assets				
Securities available for sale				
U.S. government agency and government-sponsored enterprise mortgage-back securities and collateralized mortgage obligations	$572,369	$—	$572,369	$—
State and municipal debt securities	285,575	—	285,575	—
U.S. government agency and government-sponsored enterprise securities	120,501	—	120,501	—
U.S. government securities	19,828	19,828	—	—
Other securities	3,392	—	3,392	—
Total securities available for sale	$1,001,665	$19,828	$981,837	$—
Other assets (Interest rate contracts)	$14,921	$—	$14,921	$—
Liabilities				
Other liabilities (Interest rate contracts)	$14,921	$—	$14,921	$—

There were no transfers between Level 1 and Level 2 of the valuation hierarchy during the nine month periods ended September 30, 2013 and 2012. The Company recognizes transfers between levels of the valuation hierarchy based on the valuation level at the end of the reporting period.

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Nonrecurring Measurements

Certain assets and liabilities are measured at fair value on a nonrecurring basis after initial recognition such as loans measured for impairment and OREO. The following methods were used to estimate the fair value of each such class of financial instrument:

Impaired loans—A loan is considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due (both interest and principal) according to the contractual terms of the loan agreement. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, a loan's observable market price, or the fair market value of the collateral less estimated costs to sell if the loan is a collateral-dependent loan. Generally, the Company utilizes the fair market value of the collateral to measure impairment. The impairment evaluations are performed in conjunction with the ALLL process on a quarterly basis by officers in the Special Credits group, which reports to the Chief Credit Officer. The Real Estate Appraisal Services Department ("REASD"), which also reports to the Chief Credit Officer, is responsible for obtaining appraisals from third-parties or performing internal evaluations. If an appraisal is obtained from a third-party, the REASD reviews the appraisal to evaluate the adequacy of the appraisal report, including its scope, methods, accuracy, and reasonableness.

Other real estate owned and other personal property owned ("OPPO")—OREO and OPPO are real and personal property that the Bank has taken ownership of in partial or full satisfaction of a loan or loans. OREO and OPPO are generally measured based on the item's fair market value as indicated by an appraisal or a letter of intent to purchase. OREO and OPPO are recorded at the lower of carrying amount or fair value less estimated costs to sell. This amount becomes the property's new basis. Any write-downs based on the property fair value less estimated costs to sell at the date of acquisition are charged to the allowance for loan and lease losses. Management periodically reviews OREO and OPPO in an effort to ensure the property is carried at the lower of its new basis or fair value, net of estimated costs to sell. Any write-downs subsequent to acquisition are charged to earnings. The initial and subsequent write-down evaluations are performed by officers in the Special Credits group, which reports to the Chief Credit Officer. The REASD obtains appraisals from third-parties for OREO and OPPO and performs internal evaluations. If an appraisal is obtained from a third-party, the REASD reviews the appraisal to evaluate the adequacy of the appraisal report, including its scope, methods, accuracy, and reasonableness.

The following tables set forth the Company's assets that were measured using fair value estimates on a nonrecurring basis at September 30, 2013 and 2012.

	Fair value at September 30, 2013	Fair Value Measurements at Reporting Date Using			Losses During the Three Months Ended September 30, 2013	Losses During the Nine Months Ended September 30, 2013
		Level 1	Level 2	Level 3		
	(in thousands)					
Noncovered OREO	$3,714	$ —	$ —	$ 3,714	$ (1,040)	$ (1,084)
Covered OREO	544	—	—	544	(183)	(248)
	$4,258	$ —	$ —	$ 4,258	$ (1,223)	$ (1,332)

	Fair value at September 30, 2012	Fair Value Measurements at Reporting Date Using			Gains (Losses) During the Three Months Ended September 30, 2012	Losses During the Nine Months Ended September 30, 2012
		Level 1	Level 2	Level 3		
	(in thousands)					
Impaired loans	$6,094	$ —	$ —	$ 6,094	$ 509	$ (3,377)
Noncovered OREO	1,807	—	—	1,807	(458)	(3,117)
Covered OREO	1,021	—	—	1,021	(481)	(1,025)
	—	—	—	—	—	(1,990)

Noncovered OPPO	$8,922	$ —	$ —	$ 8,922	$ (430)	$ (9,509)

The losses on impaired loans disclosed above represent the amount of the specific reserve and/or charge-offs during the period applicable to loans held at period end. The amount of the specific reserve is included in the allowance for loan and lease losses. The losses on OREO and OPPO disclosed above represent the write-downs taken at foreclosure that were charged to the allowance for loan and lease losses, as well as subsequent write-downs from updated appraisals that were charged to earnings.

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Quantitative information about Level 3 fair value measurements

The range and weighted-average of the significant unobservable inputs used to fair value our Level 3 nonrecurring assets, along with the valuation techniques used, are shown in the following table:

	Fair value at September 30, 2013	Valuation Technique	Unobservable Input	Range (Weighted Average) (1)
	(dollars in thousands)			
Noncovered OREO	$3,714	Fair Market Value of Collateral	Adjustment to Appraisal Value	N/A (2)
Covered OREO	544	Fair Market Value of Collateral	Adjustment to Appraisal Value	N/A (2)

(1) Discount applied to appraisal value, letter of intent to purchase, or stated value (in the case of accounts receivable and inventory).

(2) Quantitative disclosures are not provided for noncovered OREO and covered OREO because there were no adjustments made to the appraisal value during the current period.

	Fair value at September 30, 2012	Valuation Technique	Unobservable Input	Range (Weighted Average) (1)
	(dollars in thousands)			
Impaired loans - real estate collateral	$4,148	Fair Market Value of Collateral	Adjustment to Appraisal Value	N/A (2)
Impaired loans - other collateral (3)	1,946	Fair Market Value of Collateral	Adjustment to Stated value	0% - 70% (27%)
Noncovered OREO	1,807	Fair Market Value of Collateral	Adjustment to Appraisal Value	N/A (2)
Covered OREO	1,021	Fair Market Value of Collateral	Adjustment to Appraisal Value	N/A (2)
Noncovered OPPO	—	Fair Market Value of Collateral	Adjustment to Appraisal Value	N/A (2)

(1) Discount applied to appraisal value, letter of intent to purchase, or stated value (in the case of accounts receivable and inventory).

(2) Quantitative disclosures are not provided for impaired loans collateralized by real estate, noncovered OREO, covered OREO and noncovered OPPO because there were no adjustments made to the appraisal value during the current period.

(3) Other collateral consists of accounts receivable and inventory

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Fair value of financial instruments

Because broadly traded markets do not exist for most of the Company's financial instruments, the fair value calculations attempt to incorporate the effect of current market conditions at a specific time. These determinations are subjective in nature, involve uncertainties and matters of significant judgment and do not include tax ramifications; therefore, the results cannot be determined with precision, substantiated by comparison to independent markets and may not be realized in an actual sale or immediate settlement of the instruments. There may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results. For all of these reasons, the aggregation of the fair value calculations presented herein do not represent, and should not be construed to represent, the underlying value of the Company.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and due from banks and interest-earning deposits with banks—The fair value of financial instruments that are short-term or reprice frequently and that have little or no risk are considered to have a fair value that approximates carrying value (Level 1).

Securities available for sale—Securities at fair value, other than U.S. Treasury Notes, are priced using a combination of market activity, industry recognized information sources, yield curves, discounted cash flow models and other factors (Level 2). U.S. Treasury Notes are priced using quotes in active markets (Level 1).

Federal Home Loan Bank stock—The fair value is based upon the par value of the stock which equates to its carrying value (Level 2).

Loans—Loans are not recorded at fair value on a recurring basis. Nonrecurring fair value adjustments are periodically recorded on impaired loans that are measured for impairment based on the fair value of collateral. For most performing loans, fair value is estimated using expected duration and lending rates that would have been offered on September 30, 2013 or December 31, 2012, for loans which mirror the attributes of the loans with similar rate structures and average maturities. The fair values resulting from these calculations are reduced by an amount representing the change in estimated fair value attributable to changes in borrowers' credit quality since the loans were originated. For nonperforming loans, fair value is estimated by applying a valuation discount based upon loan sales data from the FDIC. For covered loans, fair value is estimated by discounting the expected future cash flows using a lending rate that would have been offered on September 30, 2013 (Level 3).

FDIC loss-sharing asset —The fair value of the FDIC loss-sharing asset is estimated based on discounting the expected future cash flows using an estimated market rate (Level 3).

Interest rate contracts—Interest rate swap positions are valued in models, which use as their basis, readily observable market parameters (Level 2).

Deposits—For deposits with no contractual maturity, the fair value is equal to the carrying value (Level 1). The fair value of fixed maturity deposits is based on discounted cash flows using the difference between the deposit rate and current market rates for deposits of similar remaining maturities (Level 2).

FHLB advances—The fair value of Federal Home Loan Bank of Seattle (the "FHLB") advances is estimated based on discounting the future cash flows using the market rate currently offered (Level 2).

Repurchase Agreements—The fair value of securities sold under agreement to repurchase is estimated based on discounting the future cash flows using the market rate currently offered (Level 2).

Other Financial Instruments—The majority of our commitments to extend credit and standby letters of credit carry current market interest rates if converted to loans, as such, carrying value is assumed to equal fair value.

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The following tables summarize carrying amounts and estimated fair values of selected financial instruments as well as assumptions used by the Company in estimating fair value at September 30, 2013 and December 31, 2012:

	September 30, 2013				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
	(in thousands)				
Assets					
Cash and due from banks	$200,282	$200,282	$200,282	$—	$—
Interest-earning deposits with banks	54,470	54,470	54,470	—	—
Securities available for sale	1,569,651	1,569,651	20,417	1,549,234	—
FHLB stock	32,833	32,833	—	32,833	—
Loans held for sale	840	840	—	840	—
Loans	4,440,048	4,397,456	—	—	4,397,456
FDIC loss-sharing asset	53,559	17,353	—	—	17,353
Interest rate contracts	10,187	10,187	—	10,187	—
Liabilities					
Deposits	$5,948,967	$5,948,473	$5,413,557	$534,916	$—
FHLB Advances	34,632	33,301	—	33,301	—
Repurchase agreements	25,000	26,207	—	26,207	—
Interest rate contracts	10,187	10,187	—	10,187	—

	December 31, 2012				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
	(in thousands)				
Assets					
Cash and due from banks	$124,573	$124,573	$124,573	$—	$—
Interest-earning deposits with banks	389,353	389,353	389,353	—	—
Securities available for sale	1,001,665	1,001,665	19,828	981,837	—
FHLB stock	21,819	21,819	—	21,819	—
Loans held for sale	2,563	2,563	—	2,563	—
Loans	2,864,803	2,944,317	—	—	2,944,317
FDIC loss-sharing asset	96,354	26,543	—	—	26,543
Interest rate contracts	14,921	14,921	—	14,921	—
Liabilities					
Deposits	$4,042,085	$4,043,221	$3,549,821	$493,400	$—
FHLB Advances	6,644	5,894	—	5,894	—
Repurchase agreements	25,000	26,464	—	26,464	—
Interest rate contracts	14,921	14,921	—	14,921	—

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14. Earnings per Common Share

The Company applies the two-class method of computing basic and diluted EPS. Under the two-class method, EPS is determined for each class of common stock and participating security according to dividends declared and participation rights in undistributed earnings. The Company grants restricted shares under share-based compensation plans that qualify as participating securities. Additionally, the Company issued preferred shares in the West Coast acquisition that also qualify as participating securities.

The following table sets forth the computation of basic and diluted earnings per share for the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands except per share)			
Basic EPS:				
Net income	$13,276	$11,880	$40,043	$32,681
Less: Earnings allocated to participating securities				
Preferred shares	27	—	58	—
Nonvested restricted shares	109	113	355	336
Earnings allocated to common shareholders	$13,140	$11,767	$39,630	$32,345
Weighted average common shares outstanding	50,834	39,289	47,032	39,248
Basic earnings per common share	$0.26	$0.30	$0.84	$0.82
Diluted EPS:				
Earnings allocated to common shareholders	$13,142	$11,767	$39,635	$32,345
Weighted average common shares outstanding	50,834	39,289	47,032	39,248
Dilutive effect of equity awards	1,463	2	915	3
Weighted average diluted common shares outstanding	52,297	39,291	47,947	39,251
Diluted earnings per common share	$0.25	$0.30	$0.83	$0.82
Potentially dilutive share options that were not included in the computation of diluted EPS because to do so would be anti-dilutive	138	53	99	46

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion should be read in conjunction with the unaudited consolidated financial statements of Columbia Banking System, Inc. (referred to in this report as "we", "our", and "the Company") and notes thereto presented elsewhere in this report and with the December 31, 2012 audited consolidated financial statements and its accompanying notes included in our Annual Report on Form 10-K. In the following discussion, unless otherwise noted, references to increases or decreases in average balances in items of income and expense for a particular period and balances at a particular date refer to the comparison with corresponding amounts for the period or date one year earlier.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, statements about our plans, objectives, expectations and intentions that are not historical facts, and other statements identified by words such as "expects," "anticipates," "intends," "plans," "believes," "should," "projects," "seeks," "estimates" or words of similar r
These forward-looking statements are based on current beliefs and expectations of management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. In addition to the factors set forth in the sections "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this report, the following factors, among others, could cause actual results to differ materially from the anticipated results:

- local and national economic conditions could be less favorable than expected or could have a more direct and pronounced effect on us than expected and adversely affect our ability to continue internal growth and maintain the quality of our earning assets;
- the local housing/real estate markets where we operate and make loans could continue to face challenges;
- the risks presented by a continued challenging economy, including the uncertainty regarding ongoing budget talks in congress, which could adversely affect credit quality, collateral values, including real estate collateral, investment values, liquidity and loan originations and loan portfolio delinquency rates;
- the inability to smoothly integrate West Coast Bancorp with Columbia and retain customers and employees;
- the efficiencies and enhanced financial and operating performance we expect to realize from investments in personnel, acquisitions and infrastructure may not be realized;
- interest rate changes could significantly reduce net interest income and negatively affect funding sources;
- projected business increases following strategic expansion or opening of new branches could be lower than expected;
- our reliance on FHLB advances and FRB borrowings as additional sources of short and long-term funding;
- changes in the scope and cost of FDIC insurance and other coverages;
- the impact of FDIC-assisted loans on our earnings;
- changes in accounting principles, policies, and guidelines applicable to bank holding companies and banking;
- competition among financial institutions could increase significantly;
- consolidation in the Pacific Northwest financial services industry resulting in the creation of larger financial institutions who may have greater resources could change the competitive landscape;
- the goodwill we have recorded in connection with acquisitions could become impaired, which may have an adverse impact on our earnings and capital;
- the reputation of the financial services industry could deteriorate, which could adversely affect our ability to access markets for funding and to acquire and retain customers;
- our ability to effectively manage credit risk, interest rate risk, market risk, operational risk, legal risk, liquidity risk and regulatory and compliance risk; and
- our profitability measures could be adversely affected if we are unable to effectively manage our capital.

You should take into account that forward-looking statements speak only as of the date of this report. Given the described uncertainties and risks, we cannot guarantee our future performance or results of operations and you should not place undue reliance on these forward-looking statements. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required under federal securities laws.

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CRITICAL ACCOUNTING POLICIES

Management has identified the accounting policies related to the allowance for loan and lease losses, business combinations, acquired impaired loans, FDIC loss sharing asset and the valuation and recoverability of goodwill as critical to an understanding of our financial statements. These policies and related estimates are discussed in “Item 7. Management Discussion and Analysis of Financial Condition and Results of Operation” under the headings “Allowance for Loan and Lease Losses”, “Business Combinations”, “Acquired Impaired Loans”, "FDIC Loss Sharing Asset” and “Valuation and Recoverability of Goodwill” in our 2012 Annual Report on Form 10-K. There have not been any material changes in our critical accounting policies as compared to those disclosed in our 2012 Annual Report on Form 10-K.

RESULTS OF OPERATIONS

Our results of operations are dependent to a large degree on our net interest income. We also generate noninterest income through service charges and fees, merchant services fees, and bank owned life insurance. Our operating expenses consist primarily of compensation and employee benefits, occupancy, merchant card processing, data processing and legal and professional fees. Like most financial institutions, our interest income and cost of funds are affected significantly by general economic conditions, particularly changes in market interest rates, and by government policies and actions of regulatory authorities.

On April 1, 2013, the Company completed its acquisition of West Coast. The Company acquired approximately $2.63 billion in assets, including $1.41 billion in loans measured at fair value, and approximately $1.88 billion in deposits. See Note 3 to the Consolidated Financial Statements in "Item 1. Financial Statements (unaudited)" of this report for further information regarding this acquisition.

Earnings Summary

The Company reported net income for the third quarter of $13.3 million or $0.25 per diluted common share, compared to $11.9 million or $0.30 per diluted common share for the third quarter of 2012. For the first nine months of 2013, the Company reported net income of $40.0 million, or $0.83 per diluted common share, compared to $32.7 million, or $0.82 per diluted common share for the first nine months of 2012.

The increase in net income for the current quarter was attributable to higher net interest income and noninterest income as a result of the West Coast acquisition, partially offset by higher provision for loan losses and higher noninterest expense due to the West Coast acquisition. The increase in net income for the current year-to-date period from the prior year periods was attributable to higher net interest income as a result of the West Coast acquisition, coupled with lower provision for loan losses, partially offset by an increase in noninterest expense due to the West Coast acquisition.

Comparison of current quarter to prior year period

Revenue (net interest income plus noninterest income) for the three months ended September 30, 2013 was $88.0 million, 56% more than the same period in 2012. The increase in revenue was a result of higher loan interest income and noninterest income due to the West Coast acquisition. For a more complete discussion of this topic, please refer to the net interest income section contained in the ensuing pages.

The provision for loan and lease losses for the third quarter of 2013 was $4.3 million for the noncovered loan portfolio and a provision recapture of $947 thousand for the covered loan portfolio compared to a provision of $2.9 million for the noncovered loan portfolio and a provision recapture of $4.0 million for the covered loan portfolio during the third quarter of 2012. The provision for the noncovered portfolio was the result of moving from the initial fair value accounting for the acquired West Coast loans to our standard allowance methodology and the recapture of provision for the covered loan portfolio was due to an increase in expected future cash flows as remeasured during the current quarter when compared to the prior quarter's remeasurement.

Total noninterest expense for the quarter ended September 30, 2013 was $64.7 million, up from $40.9 million for the third quarter of 2012. The increase from the prior-year period was primarily due to acquisition-related expenses as well as ongoing noninterest expense resulting from the West Coast transaction.

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The increase in net income was negatively impacted by a reduction to the pretax earnings impact of the FDIC acquired loan portfolio. The following table illustrates the impact to earnings associated with the Company's FDIC acquired loan portfolios for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2012	2012
	(in thousands)			
Incremental accretion income on FDIC acquired loans	$7,329	$11,873	$25,249	$49,306
Recapture (provision) for losses on covered loans	947	3,992	1,679	(23,381)
Change in FDIC loss-sharing asset	(11,826)	(12,951)	(35,446)	(14,787)
FDIC clawback liability recovery (expense)	188	(334)	(242)	(100)
Pre-tax earnings impact of FDIC acquired loan portfolios	$(3,362)	$2,580	$(8,760)	$11,038

Comparison of current year-to-date to prior year period

Revenue (net interest income plus noninterest income) for the nine months ended September 30, 2013 was $230.0 million, compared to $204.5 million for the same period in 2012. The increase in revenue was a result of higher loan interest income and noninterest income due to the West Coast acquisition. For a more complete discussion of this topic, please refer to the net interest income section contained in the ensuing pages.

The provision for loan and lease losses for the nine months ended September 30, 2013 was $5.3 million for the noncovered loan portfolio and a provision recapture of $1.7 million for the covered loan portfolio compared to provisions of $11.1 million for the noncovered loan portfolio and $23.4 million for the covered loan portfolio during the first nine months of 2012. The $5.3 million provision for the noncovered loan portfolio was the result of moving from the initial fair value accounting for the acquired West Coast loans to our standard allowance methodology as well as net charge offs experienced during the period. The $1.7 million in provision recapture for losses on covered loans was primarily due to increased expected future cash flows as remeasured during the current period when compared to the prior period's remeasurement.

Total noninterest expense for the nine months ended September 30, 2013 was $167.3 million, a 34% increase from the first nine months of 2012. The increase from the prior-year period was primarily due to acquisition-related expenses as well as ongoing noninterest expense resulting from the West Coast transaction.

Net Interest Income

Comparison of current quarter to prior year period

Net interest income for the third quarter of 2013 was $80.4 million, an increase of 40% from $57.3 million for the same quarter in 2012. The increase in net interest income was primarily due to the loan interest income and loan discount accretion income related to the acquisition of West Coast.

Incremental accretion income from acquired impaired loans decreased $4.2 million from the prior year period. In addition, the discount accretion on other FDIC acquired loans decreased $347 thousand from the prior year period. These decreases were primarily due to the decreases in the FDIC acquired loan balances resulting from repayments. However, these decreases were more than offset during the current quarter by an increase in discount accretion related to the recently acquired West Coast loan portfolio, which had $10.0 million in discount accretion for the current quarter. For additional information on the Company's accounting policies related to recording interest income on loans, please refer to “Item 8. Financial Statements and Supplementary Data” in our 2012 Annual Report on Form 10-K.

The Company's net interest margin decreased to 5.37% in the third quarter of 2013, from 5.52% for the same quarter last year, primarily due to the smaller impact of the acquired loan accretion income for the current period. Although the dollar amount of the accretion income was actually higher in the current period, the impact to the net interest margin was greater for the prior year period due to the lower average interest-earning assets balance for the prior year period. The Company's operating net interest margin was 4.41% for the current quarter, an increase of 1 basis point compared to the same period in the prior year.

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Comparison of current year-to-date to prior year period

Net interest income for the nine months ended September 30, 2013 was $213.9 million, an increase of 16% from $184.0 million for the same period in 2012. The Company's net interest margin and operating net interest margin decreased to 5.21% and 4.33%, respectively, for the first nine months of 2013, from 5.99% and 4.43%, respectively, for the same prior year period. The increase in net interest income was primarily due to increased loan and securities portfolios resulting from the acquisition of West Coast, which closed on April 1, 2013. The decrease in margin was primarily due to accretion income on the acquired loan portfolios, which were lower in the current period. As shown in the table below, although the Company recorded $19.7 million in discount accretion related to the recently acquired West Coast loan portfolio, the overall incremental accretion income for the nine months ended September 30, 2013 was $4.4 million lower than what was recorded in the prior year period. The modest decrease of 10 basis points in the operating net interest margin was due to the combination of lower rates on loans as well as securities due to the overall decreasing trend in rates.

The following table shows the impact to interest income of incremental accretion income as well as the net interest margin and operating net interest margin for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2012	2012
	(dollars in thousands)			
Incremental accretion income due to:				
FDIC acquired impaired loans	$7,063	$11,260	$23,275	$44,455
Other FDIC acquired loans	266	613	1,974	4,851
Other acquired loans	10,025	—	19,660	—
Incremental accretion income	$17,354	$11,873	$44,909	$49,306
Net interest margin	5.37 %	5.52 %	5.21 %	5.99 %
Operating net interest margin (1)	4.41 %	4.40 %	4.33 %	4.43 %

(1) Operating net interest margin is a non-GAAP measurement. See Non-GAAP measures section of Item 2, Management's Discussion and Analysis.

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The following table sets forth the average balances of all major categories of interest-earning assets and interest-bearing liabilities, the total dollar amounts of interest income on interest-earning assets and interest expense on interest-bearing liabilities, the average yield earned on interest-earning assets and average rate paid on interest-bearing liabilities by category and in total net interest income and net interest margin:

	Three Months Ended September 30, 2013			Three Months Ended September 30, 2012		
	Average Balances	Interest Earned / Paid	Average Rate	Average Balances	Interest Earned / Paid	Average Rate
	(dollars in thousands)					
ASSETS						
Loans, excluding covered loans, net (1) (2)	$4,166,904	$61,567	5.91 %	$2,444,065	$32,747	5.36 %
Covered loans, net (1)	337,136	12,685	15.05 %	475,455	20,042	16.86 %
Taxable securities	1,183,635	4,935	1.67 %	716,522	4,218	2.35 %
Tax exempt securities (2)	328,657	3,852	4.69 %	267,293	3,758	5.62 %
Interest-earning deposits with banks and federal funds sold	85,628	56	0.26 %	360,079	229	0.25 %
Total interest-earning assets	6,101,960	$83,095	5.45 %	4,263,414	$60,994	5.72 %
Other earning assets	124,477			76,371		
Noninterest-earning assets	822,427			488,317		
Total assets	$7,048,864			$4,828,102		