UMPQUA HOLDINGS CORP
Form 10-Q
August 06, 2015

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

FORM 10-Q

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the quarterly period ended: June 30, 2015
or
[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the transition period from to .

Commission File Number: 001-34624

Umpqua Holdings Corporation

(Exact Name of Registrant as Specified in Its Charter)

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

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

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

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

[X] Yes [ ] No

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

[X] Yes [ ] No

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

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

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

[ ] Yes [X] No

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

Common stock, no par value: 220,352,319 shares outstanding as of July 31, 2015

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

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

	June 30, 2015	December 31, 2014
ASSETS		
Noninterest bearing cash	$364,256	$282,455
Interest bearing cash and temporary investments (restricted cash of $49,982 and $47,717)	515,691	1,322,716
Total cash and cash equivalents	879,947	1,605,171
Investment securities		
Trading, at fair value	10,005	9,999
Available for sale, at fair value	2,557,245	2,298,555
Held to maturity, at amortized cost	4,807	5,211
Loans held for sale ($413,219 and $286,802, at fair value)	419,704	286,802
Loans and leases	15,974,197	15,327,732
Allowance for loan and lease losses	(127,071)	(116,167)
Net loans and leases	15,847,126	15,211,565
Restricted equity securities	46,917	119,334
Premises and equipment, net	331,208	317,834
Goodwill	1,788,640	1,786,225
Other intangible assets, net	51,120	56,733
Residential mortgage servicing rights, at fair value	127,206	117,259
Other real estate owned	23,038	37,942
FDIC indemnification asset	432	4,417
Bank owned life insurance	295,551	294,296
Deferred tax asset, net	181,245	230,442
Other assets	229,140	228,118
Total assets	$22,793,331	$22,609,903
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest bearing	$4,927,526	$4,744,804
Interest bearing	12,217,520	12,147,295
Total deposits	17,145,046	16,892,099
Securities sold under agreements to repurchase	325,711	313,321
Term debt	889,997	1,006,395
Junior subordinated debentures, at fair value	252,214	249,294
Junior subordinated debentures, at amortized cost	101,415	101,576
Other liabilities	274,769	269,592
Total liabilities	18,989,152	18,832,277
COMMITMENTS AND CONTINGENCIES (NOTE 9)		
SHAREHOLDERS' EQUITY		
Common stock, no par value, shares authorized: 400,000,000 in 2015 and 2014; issued and outstanding: 220,279,738 in 2015 and 220,161,120 in 2014	3,517,557	3,519,316
Retained earnings	281,573	246,242

Accumulated other comprehensive income	5,049	12,068
Total shareholders' equity	3,804,179	3,777,626
Total liabilities and shareholders' equity	$22,793,331	$22,609,903

See notes to condensed consolidated financial statements

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

(in thousands, except per share amounts)	Three Months Ended June 30, 2015	2014	Six Months Ended June 30, 2015	2014
INTEREST INCOME				
Interest and fees on loans and leases	$217,828	$208,992	$432,491	$312,978
Interest and dividends on investment securities:				
Taxable	11,268	12,728	22,819	22,019
Exempt from federal income tax	2,657	2,697	5,377	4,809
Dividends	168	128	269	178
Interest on temporary investments and interest bearing deposits	549	422	1,374	863
Total interest income	232,470	224,967	462,330	340,847
INTEREST EXPENSE				
Interest on deposits	7,381	6,075	14,484	9,923
Interest on securities sold under agreement to repurchase	43	203	91	244
Interest on term debt	3,492	3,364	6,956	5,637
Interest on junior subordinated debentures	3,406	3,066	6,743	4,946
Total interest expense	14,322	12,708	28,274	20,750
Net interest income	218,148	212,259	434,056	320,097
PROVISION FOR LOAN AND LEASE LOSSES	11,254	14,696	23,891	20,667
Net interest income after provision for loan and lease losses	206,894	197,563	410,165	299,430
NON-INTEREST INCOME				
Service charges on deposits	14,825	15,371	29,121	23,138
Brokerage revenue	4,648	4,566	9,417	8,291
Residential mortgage banking revenue, net	40,014	24,341	68,241	34,780
Gain on investment securities, net	19	976	135	976
Gain on loan sales	8,711	557	15,439	1,074
Loss on junior subordinated debentures carried at fair value	(1,572)	(1,369)	(3,127)	(1,911)
Change in FDIC indemnification asset	(1,199)	(5,601)	(2,485)	(10,441)
BOLI income	2,023	1,967	4,804	2,703
Other income	12,930	4,658	22,449	10,094
Total non-interest income	80,399	45,466	143,994	68,704
NON-INTEREST EXPENSE				
Salaries and employee benefits	110,786	95,560	218,709	148,778
Occupancy and equipment, net	34,868	28,746	67,018	45,247
Communications	5,894	4,166	10,688	7,068
Marketing	2,049	1,157	5,076	2,162
Services	10,790	12,402	24,778	18,391
FDIC assessments	3,155	2,575	6,369	4,438
Loss on other real estate owned, net	480	258	2,294	194
Intangible amortization	2,807	2,808	5,613	4,002
Merger related expenses	21,797	57,531	35,879	63,514
Other expenses	9,271	8,928	18,571	16,855
Total non-interest expense	201,897	214,131	394,995	310,649
Income before provision for income taxes	85,396	28,898	159,164	57,485

Provision for income taxes	30,612	11,356	57,251	21,292
Net income	$54,784	$17,542	$101,913	$36,193

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

(in thousands, except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income	$54,784	$17,542	$101,913	$36,193
Dividends and undistributed earnings allocated to participating securities	93	83	177	196
Net earnings available to common shareholders	$54,691	$17,459	$101,736	$35,997
Earnings per common share:				
Basic	$0.25	$0.09	$0.46	$0.23
Diluted	$0.25	$0.09	$0.46	$0.23
Weighted average number of common shares outstanding:				
Basic	220,463	196,312	220,406	154,473
Diluted	221,150	197,638	221,088	155,276

See notes to condensed consolidated financial statements

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

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income	$54,784	$17,542	$101,913	$36,193
Available for sale securities:				
Unrealized (losses) gains arising during the period	(24,303)	21,935	(11,563)	29,914
Reclassification adjustment for net gains realized in earnings (net of tax expense of $7 and $375 for the three months ended June 30, 2015 and 2014, respectively, and net of tax expense of $54 and $375 for the six months ended June 30, 2015 and 2014, respectively)	(10)	(585)	(81)	(585)
Income tax benefit (expense) related to unrealized gains	9,721	(8,774)	4,625	(11,966)
Net change in unrealized (losses) gains	(14,592)	12,576	(7,019)	17,363
Held to maturity securities:				
Accretion of unrealized losses related to factors other than credit to investment securities held to maturity (net of tax benefit of $0 and $31 for the three months ended June 30, 2015 and 2014, respectively, and net of tax benefit of $0 and $37 for the six months ended June 30, 2015 and 2014, respectively)	—	47	—	57
Net change in unrealized losses related to factors other than credit	—	47	—	57
Other comprehensive (loss) income, net of tax	(14,592)	12,623	(7,019)	17,420
Comprehensive income	$40,192	$30,165	$94,894	$53,613

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

(in thousands, except shares)	Common Stock Shares	Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE AT JANUARY 1, 2014	111,973,203	$1,514,485	$217,917	$(4,976)	$1,727,426
Cumulative effect adjustment			(3,509)		(3,509)
Restated balance at January 1, 2014			214,408		1,723,917
Net income, retrospectively adjusted			147,658		147,658
Other comprehensive income, net of tax				17,044	17,044
Stock issued in connection with merger [1]	104,385,087	1,989,030			1,989,030
Stock-based compensation		15,292			15,292
Stock repurchased and retired	(403,828)	(7,183)			(7,183)
Issuances of common stock under stock plans and related net tax benefit [2]	4,206,658	7,692			7,692
Cash dividends on common stock ($0.60 per share)			(115,824)		(115,824)
Balance at December 31, 2014	220,161,120	$3,519,316	$246,242	$12,068	$3,777,626
BALANCE AT JANUARY 1, 2015	220,161,120	$3,519,316	$246,242	$12,068	$3,777,626
Net income			101,913		101,913
Other comprehensive loss, net of tax				(7,019)	(7,019)
Stock-based compensation		7,985			7,985
Stock repurchased and retired	(595,811)	(11,307)			(11,307)
Issuances of common stock under stock plans and related net tax benefit	714,429	1,563			1,563
Cash dividends on common stock ($0.30 per share)			(66,582)		(66,582)
Balance at June 30, 2015	220,279,738	$3,517,557	$281,573	$5,049	$3,804,179

(1) The amount of common stock issued in connection with the merger is net of $784,000 of issuance costs.
(2) The shares issued include 2,889,896 of warrants exercised.

See notes to condensed consolidated financial statements

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

(in thousands)	Six Months Ended June 30, 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$101,913	$36,193
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of investment premiums, net	12,011	9,163
Gain on sale of investment securities, net	(135)	(976)
Gain (loss) on sale of other real estate owned, net	(193)	78
Valuation adjustment on other real estate owned	2,487	115
Provision for loan and lease losses	23,891	20,667
Change in cash surrender value of bank owned life insurance	(5,439)	(2,717)
Change in FDIC indemnification asset	2,485	10,441
Depreciation and amortization	24,411	14,701
Increase in residential mortgage servicing rights	(20,101)	(7,770)
Change in residential mortgage servicing rights carried at fair value	10,154	4,113
Change in junior subordinated debentures carried at fair value	2,920	2,631
Stock-based compensation	7,985	8,682
Net (increase) decrease in trading account assets	(6)	1,036
Gain on sale of loans	(77,395)	(27,833)
Change in loans held for sale carried at fair value	282	(12,594)
Origination of loans held for sale	(1,859,380)	(828,083)
Proceeds from sales of loans held for sale	1,794,637	782,745
Excess tax benefits from the exercise of stock options	(529)	(1,719)
Change in other assets and liabilities:		
Net increase (decrease) in other assets	57,040	(23,289)
Net increase in other liabilities	4,468	37,487
Net cash provided by operating activities	81,506	23,071
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities available for sale	(619,131)	(346,844)
Proceeds from investment securities available for sale	337,088	943,104
Proceeds from investment securities held to maturity	344	365
Redemption of restricted equity securities	72,417	2,755
Net loan and lease originations	(817,613)	(461,231)
Proceeds from sales of loans	164,868	159,439
Proceeds from disposals of furniture and equipment	3,483	52
Purchases of premises and equipment	(43,582)	(22,656)
Net payments to FDIC indemnification asset	(1,205)	(2,376)
Proceeds from bank owned life insurance	4,184	187
Proceeds from sales of other real estate owned	15,187	7,298
Net cash paid in branch divestiture	—	(130,627)
Cash acquired in merger, net of cash consideration paid	—	116,867
Net cash (used) provided by investing activities	$(883,960)	$266,333

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

(in thousands)	Six Months Ended June 30, 2015	2014
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposit liabilities	$255,823	$335,788
Net increase (decrease) in securities sold under agreements to repurchase	12,390	(494,603)
Repayment of term debt	(114,999)	(47,004)
Dividends paid on common stock	(66,235)	(33,883)
Excess tax benefits from stock based compensation	529	1,719
Proceeds from stock options exercised	1,029	5,193
Retirement of common stock	(11,307)	(6,617)
Net cash provided (used) by financing activities	77,230	(239,407)
Net (decrease) increase in cash and cash equivalents	(725,224)	49,997
Cash and cash equivalents, beginning of period	1,605,171	790,423
Cash and cash equivalents, end of period	$879,947	$840,420
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$33,054	$21,957
Income taxes	$17,223	$6,486
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Change in unrealized gains on investment securities available for sale, net of taxes	$(7,019)	$17,363
Change in unrealized losses on investment securities held to maturity related to factors other than credit, net of taxes	$—	$57
Cash dividend declared on common stock and payable after period-end	$33,098	$32,674
Transfer of loans to other real estate owned	$2,577	$3,398
Transfer from FDIC indemnification asset to due from FDIC and other	$1,500	$1,440
Acquisitions:		
Assets acquired, including goodwill of $1,024,335	$—	$9,877,740
Liabilities assumed	$—	$8,769,608

See notes to condensed consolidated financial statements

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 – Summary of Significant Accounting Policies

The accounting and financial reporting policies of Umpqua Holdings Corporation conform to accounting principles generally accepted in the United States of America. The accompanying interim condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material inter-company balances and transactions have been eliminated. The condensed consolidated financial statements have not been audited. A more detailed description of our accounting policies is included in the 2014 Annual Report filed on Form 10-K. These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes contained in the 2014 Annual Report filed on Form 10-K. All references in this report to "Umpqua," "we," "our," "us," the "Company" or similar references mean Umpqua Holdings Corporation, and include our consolidated subsidiaries where the context so requires. References to "Bank" refer to our subsidiary Umpqua Bank, an Oregon state-chartered commercial bank, and references to "Umpqua Investments" refer to our subsidiary Umpqua Investments, Inc., a registered broker-dealer and investment adviser. The Bank also has a wholly-owned subsidiary, Financial Pacific Leasing Inc., a commercial equipment leasing company.

In preparing these condensed consolidated financial statements, the Company has evaluated events and transactions subsequent to June 30, 2015 for potential recognition or disclosure. In management's opinion, all accounting adjustments necessary to accurately reflect the financial position and results of operations on the accompanying financial statements have been made. These adjustments include normal and recurring accruals considered necessary for a fair and accurate presentation. The results for interim periods are not necessarily indicative of results for the full year or any other interim period. Certain reclassifications of prior period amounts have been made to conform to current classifications. Umpqua identified an error related to the classification of the accretion on certain acquired loans reported in the Consolidated Statement of Cash Flows for the six months ended June 30, 2014. The accretion amounts were included in the cash flows from operating activities in the "Depreciation, amortization and accretion" line item, instead of the cash flows from investing activities in the "Net change in loans" line item. Management evaluated the materiality of the error from qualitative and quantitative perspectives and concluded that the error was immaterial to the prior period financial statements taken as a whole. Consequently, the Consolidated Statement of Cash Flows contained in this Report has been revised for the six months ended June 30, 2014. This change resulted in a decrease of $26.7 million to cash flows from operating activities and an increase of the same amount to cash flows from investing activities for the six months ended June 30, 2014. This change did not affect net income, the balance sheet, or shareholders' equity for any period.

Application of new accounting guidance
As of January 1, 2015, Umpqua adopted the Financial Accounting Standards Board's ("FASB") Accounting Standard Update ("ASU") No. 2014-01, Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects. Application of ASU No. 2014-01 provides for a consistent accounting method for our investments in qualified affordable housing projects using a proportional amortization method. As required by ASU No. 2014-01, the new accounting methodology has been retrospectively applied resulting in changes to other non-interest income, tax expense, and net income, deferred tax asset, other assets, and retained earnings in the prior periods presented. The effect of this change was a decrease in net income of $110,000 and $220,000 for the three and six months ended June 30, 2015, respectively. The effect of this change on the revised June 30, 2014 income statements was an increase in net income of $321,000 for the three months ended June 30, 2014 and an increase of $208,000 for the six months ended June 30, 2014. Retained earnings as of January 1, 2014, has been adjusted down by $3.5 million for the effect of the retroactive application of the new standard.

As of January 1, 2015, Umpqua applied FASB ASU No. 2014-04, Receivables -Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. ASU 2014-04 clarifies when a repossession or foreclosure has occurred. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. As of June 30, 2015, Umpqua had $1.6 million of foreclosed residential real estate property held as other real estate owned. Umpqua's recorded investment in consumer mortgage loans collateralized by residential real estate property in process of foreclosure was $6.7 million as of June 30, 2015.

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Note 2 – Business Combinations

Sterling Financial Corporation
As of the close of business on April 18, 2014, the Company completed its merger with Sterling Financial Corporation, a Washington corporation ("Sterling"). The results of Sterling's operations are included in the Company's financial results beginning April 19, 2014 and the combined company's banking operations are operating under the Umpqua Bank name and brand.

The structure of the transaction was as follows:

- Sterling merged with and into the Company (the "Merger" or the "Sterling Merger") with the Company as the surviving corporation in the Merger;
- Immediately following the Merger, Sterling's wholly owned banking subsidiary, Sterling Savings Bank, merged with and into the Bank (the "Bank Merger"), with the Bank as the surviving bank in the Bank Merger;
- Holders of shares of common stock of Sterling had the right to receive 1.671 shares of the Company's common stock and $2.18 in cash for each share of Sterling common stock;
- Each outstanding warrant issued by Sterling converted into a warrant exercisable for 1.671 shares of the Company's common stock and $2.18 in cash for each warrant when exercised;
- Each outstanding option to purchase a share of Sterling common stock converted into an option to purchase 1.7896 shares of the Company's common stock, subject to vesting conditions; and
- Each outstanding restricted stock unit in respect of Sterling common stock converted into a restricted stock unit in respect of 1.7896 shares of the Company common stock, subject to vesting conditions.

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A summary of the consideration paid, the assets acquired and liabilities assumed in the Merger are presented below:
(in thousands)

	Sterling April 18, 2014	
Fair value of consideration to Sterling shareholders:		
Cash paid		$136,200
Liability recorded for warrants' cash payment per share		6,453
Fair value of common shares issued		1,939,497
Fair value of warrants, common stock options, and restricted stock exchanged		50,317
Total consideration		2,132,467
Fair value of assets acquired:		
Cash and cash equivalents	$253,067	
Investment securities	1,378,300	
Loans held for sale	214,911	
Loans and leases	7,123,168	
Premises and equipment	116,576	
Residential mortgage servicing rights	62,770	
Other intangible assets	54,562	
Other real estate owned	8,666	
Bank owned life insurance	193,246	
Deferred tax asset	300,015	
Accrued interest receivable	23,553	
Other assets	148,906	
Total assets acquired	9,877,740	
Fair value of liabilities assumed:		
Deposits	7,086,052	
Securities sold under agreements to repurchase	584,746	
Term debt	854,737	
Junior subordinated debentures	156,171	
Other liabilities	87,902	
Total liabilities assumed	$8,769,608	
Net assets acquired		1,108,132
Goodwill		$1,024,335

The primary reason for the Merger was to continue the Company's growth strategy, including expanding our geographic footprint in markets throughout the West Coast. All of the goodwill recorded has been attributed to the Community Banking segment and reporting unit. None of the goodwill will be deductible for income tax purposes.

Subsequent to acquisition, the Company repaid securities sold under agreements to repurchase acquired of $500.0 million, funded through the sale of acquired investment securities in the second quarter of 2014. On June 20, 2014, the Company completed the required divestiture of six stores acquired in the Merger to another financial institution. The divestiture of the six stores included $211.5 million of deposits and $88.3 million of loans. The assets were sold at a discount of $7.0 million, which was recorded by Sterling prior to the Merger.
As of April 18, 2014, the unpaid principal balance on purchased non-impaired loans was $7.0 billion. The fair value of the purchased non-impaired loans was $6.7 billion, resulting in a discount of $230.5 million being recorded on these loans.

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The following table presents the acquired purchased impaired loans as of the acquisition date:

(in thousands)	Purchased impaired
Contractually required principal payments	$604,136
Nonaccretable difference	(95,614)
Cash flows expected to be collected	508,522
Accretable yield	(110,757)
Fair value of purchased impaired loans	$397,765

The operations of Sterling are included in our operating results beginning on April 19, 2014, and contributed an estimated net interest income of $107.3 million and $221.3 million and net income of $29.1 million and $63.0 million for the three and six months ended June 30, 2015, respectively.

The following table provides a breakout of Merger related expense for the three and six months ended June 30, 2015.

(in thousands)	Three Months Ended June 30, 2015	Six Months Ended June 30, 2015
Personnel	$3,363	$7,730
Legal and professional	13,826	17,739
Premises and Equipment	2,248	5,265
Communication	998	1,432
Other	1,362	3,713
Total Merger related expense	$21,797	$35,879

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The following table presents unaudited pro forma results of operations for the three and six months ended June 30, 2014, as if the Sterling Merger had occurred on January 1, 2013. The pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the results that would have been obtained had the acquisition actually occurred on January 1, 2013. The pro forma results include the impact of certain purchase accounting adjustments including accretion of loan discount, intangible assets amortization and deposit and borrowing premium accretion. These purchase accounting adjustments increased pro forma net income by $32.6 million and $48.8 million for the three and six months ended June 30, 2014.

(in thousands, except per share data)	Pro Forma		
	Three Months Ended June 30, 2014	Six Months Ended June 30, 2014	
Net interest income	$234,197	$456,963	(1), (2), (3)
Provision for loan and lease losses	14,696	20,667	
Non-interest income	49,720	94,969	(4), (5), (6)
Non-interest expense	197,278	385,766	(7), (8)
Income before provision for income taxes	71,943	145,499	
Provision for income taxes	28,742	55,159	
Net income	43,201	90,340	
Dividends and undistributed earnings allocated to participating securities	83	196	
Net earnings available to common shareholders	$43,118	$90,144	
Earnings per share:			
Basic	$0.20	$0.42	
Diluted	$0.20	$0.41	
Average shares outstanding:			
Basic	216,960	216,700	
Diluted	220,531	219,748	

(1) Includes $5.1 million and $31.9 million of incremental loan discount accretion for the three and six months ended June 30, 2014.
(2) Includes a reduction of interest income of $305,000 and $1.8 million related to investment securities premiums amortization for the three and six months ended June 30, 2014.
(3) Includes a reduction of interest expense of $1.0 million and $5.9 million related to deposit and borrowing premiums amortization for the three and six months ended June 30, 2014.
(4) Includes a reduction of service charges on deposits of $288,000 and $1.7 million as a result of passing the $10 billion asset threshold for the three and six months ended June 30, 2014.
(5) Includes a loss on junior subordinated debentures carried at fair value of $190,000 and $1.1 million for the three and six months ended June 30, 2014.
(6) Includes the reversal of the $7.0 million loss on the required divestiture of six Sterling stores in connection with the Merger for the six months ended June 30, 2014.
(7) Includes a net increase of $347,000 and $2.1 million of incremental core deposit intangible amortization for the three and six months ended June 30, 2014.
(8) Includes a net decrease of $48.9 million and $43.5 million of merger expenses for the three and six months ended June 30, 2014.

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Note 3 – Investment Securities

The following table presents the amortized costs, unrealized gains, unrealized losses and approximate fair values of investment securities at June 30, 2015 and December 31, 2014:

(in thousands)	June 30, 2015			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
AVAILABLE FOR SALE:				
U.S. Treasury and agencies	$213	$14	$—	$227
Obligations of states and political subdivisions	318,129	11,983	(1,177)	328,935
Residential mortgage-backed securities and collateralized mortgage obligations	2,228,677	14,747	(17,404)	2,226,020
Investments in mutual funds and other equity securities	2,016	47	—	2,063
	$2,549,035	$26,791	$(18,581)	$2,557,245
HELD TO MATURITY:				
Residential mortgage-backed securities and collateralized mortgage obligations	$4,807	$504	$(1)	$5,310
	$4,807	$504	$(1)	$5,310

(in thousands)	December 31, 2014			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
AVAILABLE FOR SALE:				
U.S. Treasury and agencies	$213	$16	$—	$229
Obligations of states and political subdivisions	325,189	14,056	(841)	338,404
Residential mortgage-backed securities and collateralized mortgage obligations	1,951,514	17,398	(11,060)	1,957,852
Investments in mutual funds and other equity securities	2,016	54	—	2,070
	$2,278,932	$31,524	$(11,901)	$2,298,555
HELD TO MATURITY:				
Residential mortgage-backed securities and collateralized mortgage obligations	$5,088	$358	$(15)	$5,431
Other investment securities	123	—	—	123
	$5,211	$358	$(15)	$5,554

Investment securities that were in an unrealized loss position as of June 30, 2015 and December 31, 2014 are presented in the following tables, based on the length of time individual securities have been in an unrealized loss position. In the opinion of management, these securities are considered only temporarily impaired due to changes in market interest rates or the widening of market spreads subsequent to the initial purchase of the securities, and not due to concerns regarding the underlying credit of the issuers or the underlying collateral.

June 30, 2015 (in thousands)	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
AVAILABLE FOR SALE:						
Obligations of states and political subdivisions	$24,972	$828	$5,988	$349	$30,960	$1,177
Residential mortgage-backed securities and collateralized mortgage obligations	800,673	8,341	324,611	9,063	1,125,284	17,404
Total temporarily impaired securities	$825,645	$9,169	$330,599	$9,412	$1,156,244	$18,581
HELD TO MATURITY:						
Residential mortgage-backed securities and collateralized mortgage obligations	$39	$1	$—	$—	$39	$1
Total temporarily impaired securities	$39	$1	$—	$—	$39	$1

December 31, 2014 (in thousands)	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
AVAILABLE FOR SALE:						
Obligations of states and political subdivisions	$11,100	$547	$8,550	$294	$19,650	$841
Residential mortgage-backed securities and collateralized mortgage obligations	220,577	815	495,096	10,245	715,673	11,060
Total temporarily impaired securities	$231,677	$1,362	$503,646	$10,539	$735,323	$11,901
HELD TO MATURITY:						
Residential mortgage-backed securities and collateralized mortgage obligations	$224	$15	$—	$—	$224	$15
Total temporarily impaired securities	$224	$15	$—	$—	$224	$15

The unrealized losses on obligations of political subdivisions were caused by changes in market interest rates or the widening of market spreads subsequent to the initial purchase of these securities. Management monitors published credit ratings of these securities and no adverse ratings changes have occurred since the date of purchase of obligations of political subdivisions which are in an unrealized loss position as of June 30, 2015. Because the decline in fair value is attributable to changes in interest rates or widening market spreads and not credit quality, and because the Bank does not intend to sell the securities in this class and it is not likely that the Bank will be required to sell these securities before recovery of their amortized cost basis, which may include holding each security until maturity, the unrealized losses on these investments are not considered other-than-temporarily impaired.

All of the available for sale residential mortgage-backed securities and collateralized mortgage obligations portfolio in an unrealized loss position at June 30, 2015 are issued or guaranteed by governmental agencies. The unrealized losses on residential mortgage-backed securities and collateralized mortgage obligations were caused by changes in market interest rates or the widening of market spreads subsequent to the initial purchase of these securities, and not concerns regarding the underlying credit of the issuers or the underlying collateral. It is expected that these securities will not be settled at a price less than the amortized cost of each investment. Because the decline in fair value is attributable to changes in interest rates or widening market spreads and not credit quality, and because the Bank does not intend to sell the securities in this class and it is not likely that the Bank will be required to sell these securities before recovery of their amortized cost basis, which may include holding each security until contractual maturity, these investments are not considered other-than-temporarily impaired.

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The following table presents the maturities of investment securities at June 30, 2015:

(in thousands)	Available For Sale		Held To Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
AMOUNTS MATURING IN:				
Three months or less	$7,053	$7,087	$—	$—
Over three months through twelve months	87,246	88,056	8	12
After one year through five years	1,784,758	1,797,801	310	580
After five years through ten years	517,564	511,962	324	489
After ten years	150,398	150,276	4,165	4,229
Other investment securities	2,016	2,063	—	—
	$2,549,035	$2,557,245	$4,807	$5,310

The amortized cost and fair value of collateralized mortgage obligations and mortgage-backed securities are presented by expected average life, rather than contractual maturity, in the preceding table. Expected maturities may differ from contractual maturities because borrowers have the right to prepay underlying loans without prepayment penalties. The following table presents the gross realized gains and losses on the sale of securities available for sale for the three and six months ended June 30, 2015 and 2014:

(in thousands)	Three Months Ended			
	June 30, 2015		June 30, 2014	
	Gains	Losses	Gains	Losses
Obligations of states and political subdivisions	$—	$—	$3	$1
Residential mortgage-backed securities and collateralized mortgage obligations	226	207	974	—
	$226	$207	$977	$1

	Six Months Ended			
	June 30, 2015		June 30, 2014	
	Gains	Losses	Gains	Losses
Obligations of states and political subdivisions	$—	$—	$3	$1
Residential mortgage-backed securities and collateralized mortgage obligations	542	407	974	—
	$542	$407	$977	$1

The following table presents, as of June 30, 2015, investment securities which were pledged to secure borrowings, public deposits, and repurchase agreements as permitted or required by law:

(in thousands)	Amortized Cost	Fair Value
To Federal Home Loan Bank to secure borrowings	$1,449	$1,482
To state and local governments to secure public deposits	1,678,778	1,687,592
Other securities pledged principally to secure repurchase agreements	485,452	485,077
Total pledged securities	$2,165,679	$2,174,151

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Note 4 – Loans and Leases

The following table presents the major types of loans and leases, net of deferred fees and costs, as of June 30, 2015 and December 31, 2014:

(in thousands)	June 30, 2015	December 31, 2014
Commercial real estate		
Non-owner occupied term, net	$3,294,359	$3,290,610
Owner occupied term, net	2,636,800	2,633,864
Multifamily, net	2,859,884	2,638,618
Construction & development, net	244,354	258,722
Residential development, net	76,734	81,846
Commercial		
Term, net	1,374,528	1,396,089
LOC & other, net	981,897	1,029,620
Leases and equipment finance, net	630,695	523,114
Residential		
Mortgage, net	2,533,042	2,233,735
Home equity loans & lines, net	882,596	852,478
Consumer & other, net	459,308	389,036
Total loans and leases, net of deferred fees and costs	$15,974,197	$15,327,732

The loan balances are net of deferred fees and costs of $38.8 million and $26.3 million as of June 30, 2015 and December 31, 2014, respectively. Net loans include discounts on acquired loans of $161.5 million and $236.6 million as of June 30, 2015 and December 31, 2014, respectively. As of June 30, 2015, loans totaling $9.3 billion were pledged to secure borrowings and available lines of credit.

The outstanding contractual unpaid principal balance of purchased impaired loans, excluding acquisition accounting adjustments, was $657.3 million and $770.9 million at June 30, 2015 and December 31, 2014, respectively. The carrying balance of purchased impaired loans was $485.7 million and $562.9 million at June 30, 2015 and December 31, 2014, respectively.

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The following table presents the changes in the accretable yield for purchased impaired loans for the three and six months ended June 30, 2015 and 2014:

(in thousands)	Three Months Ended June 30, 2015					
	Evergreen	Rainier	Nevada Security	Circle	Sterling	Total
Balance, beginning of period	$7,948	$48,018	$20,630	$721	$108,270	$185,587
Accretion to interest income	(534)	(1,105)	(1,529)	(468)	(6,401)	(10,037)
Disposals	(444)	(969)	(59)	(244)	(5,041)	(6,757)
Reclassifications from (to) nonaccretable difference	230	377	41	416	3,768	4,832
Balance, end of period	$7,200	$46,321	$19,083	$425	$100,596	$173,625

	Three Months Ended June 30, 2014					
	Evergreen	Rainier	Nevada Security	Circle	Sterling	Total
Balance, beginning of period	$16,160	$67,923	$31,491	$1,053	$—	$116,627
Additions	—	—	—	—	110,757	110,757
Accretion to interest income	(4,815)	(6,256)	(4,530)	(88)	(5,902)	(21,591)
Disposals	(3,501)	(7,620)	(2,276)	—	(315)	(13,712)
Reclassifications from nonaccretable difference	2,732	2,562	3,152	—	—	8,446
Balance, end of period	$10,576	$56,609	$27,837	$965	$104,540	$200,527

(in thousands)	Six Months Ended June 30, 2015					
	Evergreen	Rainier	Nevada Security	Circle	Sterling	Total
Balance, beginning of period	$9,466	$49,989	$23,666	$796	$117,782	$201,699
Accretion to interest income	(2,256)	(4,098)	(4,421)	(580)	(11,965)	(23,320)
Disposals	(2,480)	(1,601)	(1,352)	(244)	(7,993)	(13,670)
Reclassifications from (to) nonaccretable difference	2,470	2,031	1,190	453	2,772	8,916
Balance, end of period	$7,200	$46,321	$19,083	$425	$100,596	$173,625

	Six Months Ended June 30, 2014					
	Evergreen	Rainier	Nevada Security	Circle	Sterling	Total
Balance, beginning of period	$20,063	$71,789	$34,632	$1,140	$—	$127,624
Additions	—	—	—	—	110,757	110,757
Accretion to interest income	(8,452)	(10,537)	(8,994)	(175)	(5,902)	(34,060)
Disposals	(4,741)	(8,607)	(3,906)	—	(315)	(17,569)
Reclassifications from nonaccretable difference	3,706	3,964	6,105	—	—	13,775
Balance, end of period	$10,576	$56,609	$27,837	$965	$104,540	$200,527

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Loans acquired in an FDIC-assisted acquisition that are subject to a loss-share agreement are referred to as covered loans. Covered loans are reported exclusive of the cash flow reimbursements expected from the FDIC. The following table summarizes the activity related to the FDIC indemnification asset for the three and six months ended June 30, 2015 and 2014:

(in thousands)	Three Months ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Balance, beginning of period	$1,861	$18,362	$4,417	$23,174
Change in FDIC indemnification asset	(1,199)	(5,601)	(2,485)	(10,441)
Transfers to due from FDIC and other	(230)	(1,468)	(1,500)	(1,440)
Balance, end of period	$432	$11,293	$432	$11,293

Loans and leases sold

In the course of managing the loan and lease portfolio, at certain times, management may decide to sell loans and leases. The following table summarizes loans and leases sold by loan portfolio during the three and six months ended June 30, 2015 and 2014:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Commercial real estate				
Non-owner occupied term, net	$7,181	$11,606	$7,181	$14,799
Owner occupied term, net	16,641	46,097	19,960	48,244
Multifamily, net	—	25,202	435	25,202
Construction & development, net	—	566	—	566
Residential development, net	—	195	—	800
Commercial				
Term, net	1,080	9,873	3,420	25,869
LOC & other, net	—	5,062	—	5,062
Residential				
Mortgage, net	51,680	5,703	118,433	6,034
Home equity loans & lines. net	—	24,445	—	24,445
Consumer & other, net	—	7,344	—	7,344
Total, net of deferred fees and costs	$76,582	$136,093	$149,429	$158,365

Note 5 – Allowance for Loan and Lease Loss and Credit Quality

The Bank's methodology for assessing the appropriateness of the Allowance for Loan and Lease Loss ("ALLL") consists of three key elements: 1) the formula allowance; 2) the specific allowance; and 3) the unallocated allowance. By incorporating these factors into a single allowance requirement analysis, we believe all risk-based activities within the loan and lease portfolios are simultaneously considered.

Formula Allowance
When loans and leases are originated or acquired, they are assigned a risk rating that is reassessed periodically during the term of the loan or lease through the credit review process. The Bank's risk rating methodology assigns risk ratings ranging from 1 to 10, where a higher rating represents higher risk. The 10 risk rating categories are a primary factor in determining an appropriate amount for the formula allowance.

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

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

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

Risk factors may be changed periodically based on management's evaluation of the following factors: loss experience; changes in the level of non-performing loans and leases; regulatory exam results; changes in the level of adversely classified loans and leases; improvement or deterioration in local economic conditions; and any other factors deemed relevant.

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

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

Management believes that the ALLL was adequate as of June 30, 2015. There is, however, no assurance that future loan and lease losses will not exceed the levels provided for in the ALLL and could possibly result in additional charges to the provision for loan and lease losses.

The reserve for unfunded commitments ("RUC") is established to absorb inherent losses associated with our commitment to lend funds, such as with a letter or line of credit. The adequacy of the ALLL and RUC are monitored on a regular basis and are based on management's evaluation of numerous factors. These factors include the quality of the current loan portfolio; the trend in the loan portfolio's risk ratings; current economic conditions; loan concentrations; loan growth rates; past-due and non-performing trends; evaluation of specific loss estimates for all significant problem loans; historical charge-off and recovery experience; and other pertinent information.

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

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Activity in the Allowance for Loan and Lease Losses

The following table summarizes activity related to the allowance for loan and lease losses by loan and lease portfolio segment for the three and six months ended June 30, 2015 and 2014:

(in thousands)	Three Months Ended June 30, 2015				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Balance, beginning of period	$55,182	$44,200	$16,221	$4,501	$120,104
Charge-offs	(2,102)	(3,714)	(138)	(1,488)	(7,442)
Recoveries	1,265	1,113	108	669	3,155
Provision	3,819	4,098	1,773	1,564	11,254
Balance, end of period	$58,164	$45,697	$17,964	$5,246	$127,071

	Three Months Ended June 30, 2014				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Balance, beginning of period	$57,918	$30,231	$7,823	$1,057	$97,029
Charge-offs	(1,329)	(5,163)	(495)	(345)	(7,332)
Recoveries	770	1,104	140	88	2,102
Provision (recapture)	(439)	9,254	4,485	1,396	14,696
Balance, end of period	$56,920	$35,426	$11,953	$2,196	$106,495

(in thousands)	Six Months Ended June 30, 2015				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Balance, beginning of period	$55,184	$41,216	$15,922	$3,845	$116,167
Charge-offs	(2,829)	(8,278)	(446)	(8,434)	(19,987)
Recoveries	1,488	2,184	139	3,189	7,000
Provision	4,321	10,575	2,349	6,646	23,891
Balance, end of period	$58,164	$45,697	$17,964	$5,246	$127,071

	Six Months Ended June 30, 2014				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Balance, beginning of period	$59,538	$27,028	$7,487	$1,032	$95,085
Charge-offs	(3,570)	(8,681)	(746)	(569)	(13,566)
Recoveries	1,600	2,206	302	201	4,309
Provision (recapture)	(648)	14,873	4,910	1,532	20,667
Balance, end of period	$56,920	$35,426	$11,953	$2,196	$106,495

Provision expense includes amounts related to subsequent deterioration of purchased impaired loans of $0 and $1.6 million for the three and six months ended June 30, 2015, respectively, and $199,000 and $1.0 million for the three and six months ended June 30, 2014, respectively.

The valuation allowance on purchased impaired loans was reduced by recaptured provision of $0 and $185,000 for the three and six months ended June 30, 2015, respectively, and $873,000 and $1.3 million for the three and six months ended June 30, 2014, respectively.

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The following table presents the allowance and recorded investment in loans and leases by portfolio segment as of June 30, 2015 and 2014:

(in thousands)	June 30, 2015				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Allowance for loans and leases:					
Collectively evaluated for impairment	$52,829	$42,854	$17,294	$5,176	$118,153
Individually evaluated for impairment	774	377	—	—	1,151
Loans acquired with deteriorated credit quality	4,561	2,466	670	70	7,767
Total	$58,164	$45,697	$17,964	$5,246	$127,071
Loans and leases:					
Collectively evaluated for impairment	$8,674,769	$2,939,856	$		