COLUMBIA BANKING SYSTEM INC
Form 10-Q
May 05, 2016

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 March 31, 2016.
¨ 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 registrant 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 April 30, 2016 was 58,004,075.

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

			March 31, 2016	December 31, 2015
ASSETS			(in thousands)	
Cash and due from banks			$150,683	$166,929
Interest-earning deposits with banks			38,248	8,373
Total cash and cash equivalents			188,931	175,302
Securities available for sale at fair value (amortized cost of $2,156,999 and $2,157,610, respectively)			2,186,166	2,157,694
Federal Home Loan Bank stock at cost			10,241	12,722
Loans held for sale			3,681	4,509
Loans, net of unearned income of ($39,410) and ($42,373), respectively			5,877,283	5,815,027
Less: allowance for loan and lease losses			69,264	68,172
Loans, net			5,808,019	5,746,855
FDIC loss-sharing asset			5,954	6,568
Interest receivable			29,304	27,877
Premises and equipment, net			158,101	164,239
Other real estate owned			12,427	13,738
Goodwill			382,762	382,762
Other intangible assets, net			21,994	23,577
Other assets			228,352	235,854
Total assets			$9,035,932	$8,951,697
LIABILITIES AND SHAREHOLDERS' EQUITY				
Deposits:				
Noninterest-bearing			$3,553,468	$3,507,358
Interest-bearing			4,043,481	3,931,471
Total deposits			7,596,949	7,438,829
Federal Home Loan Bank advances			6,521	68,531
Securities sold under agreements to repurchase			73,839	99,699
Other liabilities			97,835	102,510
Total liabilities			7,775,144	7,709,569
Commitments and contingent liabilities (Note 10)				
Shareholders' equity:				
	March 31, 2016	December 31, 2015		
Preferred stock (no par value)	(in thousands)			
Authorized shares	2,000	2,000		
Issued and outstanding	9	9	2,217	2,217
Common stock (no par value)				
Authorized shares	115,000	115,000		
Issued and outstanding	58,008	57,724	991,026	990,281
Retained earnings			255,202	255,925
Accumulated other comprehensive income (loss)			12,343	(6,295)

Total shareholders' equity	1,260,788	1,242,128
Total liabilities and shareholders' equity	$9,035,932	$8,951,697

See accompanying Notes to unaudited Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2016	2015 (1)
	(in thousands except per share amounts)	
Interest Income		
Loans	$70,316	$70,822
Taxable securities	8,017	7,526
Tax-exempt securities	2,803	3,042
Deposits in banks	38	27
Total interest income	81,174	81,417
Interest Expense		
Deposits	742	748
Federal Home Loan Bank advances	124	159
Other borrowings	138	146
Total interest expense	1,004	1,053
Net Interest Income	80,170	80,364
Provision for loan and lease losses	5,254	1,209
Net interest income after provision for loan and lease losses	74,916	79,155
Noninterest Income		
Deposit account and treasury management fees (1)	6,989	6,860
Card revenue (1)	5,652	5,363
Financial services and trust revenue (1)	2,821	3,124
Loan revenue (1)	2,262	2,603
Merchant processing revenue	2,102	2,040
Bank owned life insurance	1,116	1,078
Investment securities gains, net	373	721
Change in FDIC loss-sharing asset	(1,103)	150
Other (1)	434	828
Total noninterest income	20,646	22,767
Noninterest Expense		
Compensation and employee benefits	36,319	39,100
Occupancy	10,173	7,993
Merchant processing expense	1,033	977
Advertising and promotion	842	931
Data processing	4,146	4,984
Legal and professional fees	1,325	2,507
Taxes, licenses and fees	1,290	1,232
Regulatory premiums	1,141	1,221
Net cost (benefit) of operation of other real estate owned	104	(1,246)
Amortization of intangibles	1,583	1,817
Other	7,118	7,218
Total noninterest expense	65,074	66,734
Income before income taxes	30,488	35,188

Income tax provision	9,229	10,827
Net Income	$21,259	$24,361
Earnings per common share		
Basic	$0.37	$0.42
Diluted	$0.37	$0.42
Dividends paid per common share	$0.38	$0.30
Weighted average number of common shares outstanding	57,114	56,965
Weighted average number of diluted common shares outstanding	57,125	56,978

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(1) Reclassified to conform to the current period's presentation. Reclassifications consisted of disaggregating fee revenue previously presented in 'Service charges and other fees' and certain revenue previously presented in 'Other' into the presentation above. The Company made these reclassifications to provide additional information about its sources of noninterest income. There was no change to total noninterest income as previously reported as a result of these reclassifications.

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 March 31,	
	2016	2015
	(in thousands)	
Net income	$21,259	$24,361
Other comprehensive income (loss), net of tax:		
Unrealized gain from securities:		
Net unrealized holding gain from available for sale securities arising during the period, net of tax of ($10,686) and ($5,338)	18,770	9,376
Reclassification adjustment of net gain from sale of available for sale securities included in income, net of tax of $135 and $262	(238)	(459)
Net unrealized gain from securities, net of reclassification adjustment	18,532	8,917
Pension plan liability adjustment:		
Net unrealized loss from unfunded defined benefit plan liability arising during the period, net of tax of $0 and $159	—	(280)
Amortization of unrecognized net actuarial loss included in net periodic pension cost, net of tax of ($61) and ($16)	106	28
Pension plan liability adjustment, net	106	(252)
Other comprehensive income	18,638	8,665
Total comprehensive income	$39,897	$33,026

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, 2016	9	$2,217	57,724	$990,281	$255,925	$ (6,295)	$1,242,128
Net income	——		—	—	21,259	—	21,259
Other comprehensive income	——		—	—	—	18,638	18,638
Issuance of common stock - stock option and other plans	——		20	598	—	—	598
Issuance of common stock - restricted stock awards, net of canceled awards	——		299	1,180	—	—	1,180
Purchase and retirement of common stock	——		(35)	(1,033)	—	—	(1,033)
Preferred dividends	——		—	—	(39)	—	(39)
Cash dividends paid on common stock	——		—	—	(21,943)	—	(21,943)
Balance at March 31, 2016	9	$2,217	58,008	$991,026	$255,202	$ 12,343	$1,260,788
Balance at January 1, 2015	9	$2,217	57,437	$985,839	$234,498	$ 5,621	$1,228,175
Net income	——		—	—	24,361	—	24,361
Other comprehensive income	——		—	—	—	8,665	8,665
Issuance of common stock - stock option and other plans	——		17	428	—	—	428
Issuance of common stock - restricted stock awards, net of canceled awards	——		273	862	—	—	862
Purchase and retirement of common stock	——		(28)	(781)	—	—	(781)
Preferred dividends	——		—	—	(31)	—	(31)
Cash dividends paid on common stock	——		—	—	(17,236)	—	(17,236)
Balance at March 31, 2015	9	$2,217	57,699	$986,348	$241,592	$ 14,286	$1,244,443

See accompanying Notes to unaudited Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2016	2015 (1)
	(in thousands)	
Cash Flows From Operating Activities		
Net income	$21,259	$24,361
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan and lease losses	5,254	1,209
Stock-based compensation expense	1,180	862
Depreciation, amortization and accretion	10,798	7,735
Investment securities gain, net	(373)	(721)
Net realized (gain) loss on sale of other assets	106	(306)
Net realized (gain) loss on sale and valuation adjustments of other real estate owned (1)	90	(1,539)
Originations of loans held for sale (1)	(19,174)	(14,890)
Proceeds from sales of loans held for sale (1)	20,002	12,461
Net change in:		
Interest receivable	(1,427)	(1,286)
Interest payable	(55)	(79)
Other assets	(3,731)	(4,531)
Other liabilities	(4,619)	3,680
Net cash provided by operating activities	29,310	26,956
Cash Flows From Investing Activities		
Loans originated and acquired, net of principal collected	(64,056)	(12,443)
Purchases of:		
Securities available for sale	(95,686)	(11,362)
Premises and equipment	(445)	(4,032)
Federal Home Loan Bank stock	(10,520)	—
Proceeds from:		
FDIC reimbursement on loss-sharing asset	258	1,138
Sales of securities available for sale	38,876	57,243
Principal repayments and maturities of securities available for sale	52,422	54,451
Sales of premises and equipment and loans held for investment	1,911	7,384
Redemption of Federal Home Loan Bank stock (1)	13,001	361
Sales of other real estate and other personal property owned (1)	1,326	5,067
Payments to FDIC related to loss-sharing asset	(611)	(479)
Net cash provided by (used in) investing activities	(63,524)	97,328
Cash Flows From Financing Activities		
Net increase in deposits	158,120	150,243
Net decrease in sweep repurchase agreements	(25,860)	(8,228)
Proceeds from:		
Federal Home Loan Bank advances	165,000	624,000
Exercise of stock options	598	428
Payments for:		
Repayment of Federal Home Loan Bank advances	(227,000)	(804,000)
Common stock dividends	(21,943)	(17,236)
Preferred stock dividends	(39)	(31)

Repayment of other borrowings	—	(8,248)
Purchase and retirement of common stock	(1,033)	(781)
Net cash provided by (used in) financing activities	47,843	(63,853)
Increase in cash and cash equivalents	13,629	60,431
Cash and cash equivalents at beginning of period	175,302	188,170
Cash and cash equivalents at end of period	$188,931	$248,601
Supplemental Information:		
Cash paid during the period for:		
Cash paid for interest	$1,059	$1,132
Cash paid for income tax	$6,350	$13
Non-cash investing and financing activities		
Loans transferred to other real estate owned	$105	$4,692

(1) Reclassified to conform to the current period’s presentation. There were no changes to cash flows from operating, investing, or financing activities as a result of these reclassifications.

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 Columbia Banking System, Inc. (“we”, “our”, “Columbia” or the “Company”) and its subsidiaries, including its wholly owned banking subsidiary Columbia State Bank (“Columbia Bank” or the “Bank”) and Columbia Trust Company (“Columbia 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 three months ended March 31, 2016 are not necessarily indicative of results to be anticipated for the year ending December 31, 2016. The accompanying interim unaudited consolidated financial statements should be read in conjunction with the financial statements and related notes contained in the Company’s 2015 Annual Report on Form 10-K.

Because of reclassifications, changes occurred in the manner in which certain comparative period noninterest income items were presented in the unaudited consolidated statements of income. Specifically, fee revenue previously presented as ‘Service charges and other fees’ and certain fee revenue previously presented as ‘Other’ were reclassified to conform to the current period presentation. The Company made these presentation changes to provide additional information about its sources of noninterest income. There was no change to total noninterest income as previously reported as a result of these reclassifications.

Significant Accounting Policies

The significant accounting policies used in preparation of our consolidated financial statements are disclosed in our 2015 Annual Report on Form 10-K. There have not been any changes in our significant accounting policies compared to those contained in our 2015 Form 10-K disclosure for the year ended December 31, 2015.

2. Accounting Pronouncements Recently Issued

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-09, Improvements to Employee Share-Based Payment Accounting. The amendments included in this ASU simplify several aspects of the accounting for employee share-based payment transactions including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The amendments in ASU 2016-09 are effective for the first interim or annual period beginning after December 15, 2016. Early adoption is permitted. The Company is assessing the impact that this guidance will have on its consolidated financial statements as well as whether to early adopt this ASU.

In February 2016, the FASB issued ASU 2016-02, Leases. The amendments included in this ASU create a new accounting model for both lessees and lessors. The new guidance requires lessees to recognize lease liabilities and corresponding right-of-use assets for all leases with lease terms greater than 12 months. The amendments in ASU 2016-02 must be adopted using the modified retrospective approach and will be effective for the first interim or annual period beginning after December 15, 2018. Early adoption is permitted. The Company is assessing the impact that this guidance will have on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in ASU 2016-01 require all equity investments to be measured at fair value with changes in the fair value recognized through net income. The amendments in ASU 2016-01 also require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. In addition, the amendments in this Update eliminate the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet for public business entities. The amendments in ASU 2016-01 are effective for the first interim or annual period beginning after December 15, 2017. The Company is assessing the impact that this guidance will have on its consolidated financial statements but does not expect the impact to be material.

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In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. The guidance in this update supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the industry topics of the codification. For public companies, this update was to be effective for interim and annual periods beginning after December 15, 2016. However, in August 2015, the FASB issued ASU 2015-14, which delayed the effective date of ASU 2014-09 by one year and permits companies to voluntarily adopt the new standard as of the original effective date. In March 2016, the FASB issued ASU 2016-08 and ASU 2016-10 to provide implementation guidance for ASU 2014-09. The Company is assessing the impact that this guidance will have on its consolidated financial statements but does not expect the impact to be material.

3. 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)			
March 31, 2016				
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	$1,319,714	$ 14,247	$(3,861)	$1,330,100
State and municipal securities	477,544	14,257	(414)	491,387
U.S. government agency and government-sponsored enterprise securities	353,910	5,031	—	358,941
U.S. government securities	547	—	—	547
Other securities	5,284	53	(146)	5,191
Total	$2,156,999	$ 33,588	$(4,421)	$2,186,166
December 31, 2015				
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	$1,296,955	$ 4,525	$(14,991)	$1,286,489
State and municipal securities	480,417	12,690	(938)	492,169
U.S. government agency and government-sponsored enterprise securities	354,515	1,113	(1,846)	353,782
U.S. government securities	20,439	—	(302)	20,137
Other securities	5,284	24	(191)	5,117
Total	$2,157,610	$ 18,352	$(18,268)	$2,157,694

Proceeds from sales of securities available for sale were $38.9 million and $57.2 million for the three months ended March 31, 2016 and 2015, respectively. The following table provides the gross realized gains and losses on the sales of securities for the periods indicated:

	Three Months Ended March 31,	
	2016	2015
	(in thousands)	
Gross realized gains	$373	$730
Gross realized losses	—	(9)
Net realized gains	$373	$721

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The scheduled contractual maturities of investment securities available for sale at March 31, 2016 are presented as follows:

	March 31, 2016	
	Amortized Cost	Fair Value
	(in thousands)	
Due within one year	$39,056	$39,243
Due after one year through five years	435,423	440,733
Due after five years through ten years	711,190	723,977
Due after ten years	966,046	977,022
Other securities with no stated maturity	5,284	5,191
Total investment securities available-for-sale	$2,156,999	$2,186,166

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

	March 31, 2016 (in thousands)
Washington and Oregon State to secure public deposits	$ 339,424
Federal Reserve Bank to secure borrowings	48,879
Other securities pledged	156,551
Total securities pledged as collateral	$ 544,854

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 March 31, 2016 and December 31, 2015:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
March 31, 2016						
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	$95,313	$(533)	$190,975	$(3,328)	$286,288	$(3,861)
State and municipal securities	25,702	(125)	19,010	(289)	44,712	(414)
U.S. government agency and government-sponsored enterprise securities	4,063	—	500	—	4,563	—
Other securities	—	—	2,810	(146)	2,810	(146)
Total	$125,078	$(658)	$213,295	$(3,763)	$338,373	$(4,421)
December 31, 2015						
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	$664,509	$(7,610)	$214,325	$(7,381)	$878,834	$(14,991)
State and municipal securities	48,261	(358)	31,383	(580)	79,644	(938)
U.S. government agency and government-sponsored enterprise securities	193,400	(1,128)	40,034	(718)	233,434	(1,846)
U.S. government securities	10,343	(136)	9,794	(166)	20,137	(302)

Other securities	2,300	(15)	2,780	(176)	5,080	(191)
Total	$918,813	$(9,247)	$298,316	$(9,021)	$1,217,129	$(18,268)

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At March 31, 2016, there were 74 U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations securities in an unrealized loss position, of which 45 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 March 31, 2016.

At March 31, 2016, there were 40 state and municipal government securities in an unrealized loss position, of which 20 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 March 31, 2016, 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 March 31, 2016.

At March 31, 2016, there were two U.S. government agency and government-sponsored enterprise securities in an unrealized loss position, of which one was 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 upon maturity, the Company does not consider these investments to be other-than-temporarily impaired at March 31, 2016.

At March 31, 2016, there was one other security in an unrealized loss position, which 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 March 31, 2016 as it has the intent and ability to hold the investment for sufficient time to allow for recovery in the market value.

4. Loans

The Company’s loan portfolio includes originated and purchased loans. Originated loans and purchased loans for which there was no evidence of credit deterioration at their acquisition date and it was probable that we would be able to collect all contractually required payments are referred to collectively as loans, excluding purchased credit impaired loans. Purchased loans for which there was, at acquisition date, evidence of credit deterioration since their origination and it was probable that we would be unable to collect all contractually required payments are referred to as purchased credit impaired loans, or “PCI loans.”

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The following is an analysis of the loan portfolio by segment (net of unearned income):

	March 31, 2016			December 31, 2015		
	Loans, excluding PCI loans	PCI Loans	Total	Loans, excluding PCI loans	PCI Loans	Total
	(in thousands)					
Commercial business	$2,401,193	$34,474	$2,435,667	$2,362,575	$34,848	$2,397,423
Real estate:						
One-to-four family residential	175,050	22,720	197,770	176,295	23,938	200,233
Commercial and multifamily residential	2,520,352	93,979	2,614,331	2,491,736	99,389	2,591,125
Total real estate	2,695,402	116,699	2,812,101	2,668,031	123,327	2,791,358
Real estate construction:						
One-to-four family residential	133,447	2,163	135,610	135,874	2,278	138,152
Commercial and multifamily residential	183,548	1,618	185,166	167,413	1,630	169,043
Total real estate construction	316,995	3,781	320,776	303,287	3,908	307,195
Consumer	329,902	18,247	348,149	342,601	18,823	361,424
Less: Net unearned income	(39,410)	—	(39,410)	(42,373)	—	(42,373)
Total loans, net of unearned income	5,704,082	173,201	5,877,283	5,634,121	180,906	5,815,027
Less: Allowance for loan and lease losses	(56,200)	(13,064)	(69,264)	(54,446)	(13,726)	(68,172)
Total loans, net	$5,647,882	$160,137	$5,808,019	$5,579,675	$167,180	$5,746,855
Loans held for sale	$3,681	$—	$3,681	$4,509	$—	$4,509

At March 31, 2016 and December 31, 2015, 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, Oregon and Idaho.

The Company has made loans to executive 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 $9.9 million at March 31, 2016 and $10.0 million at December 31, 2015. During the first three months of 2016, there were $55 thousand in advances and $96 thousand in repayments.

At March 31, 2016 and December 31, 2015, $2.21 billion and $2.22 billion of commercial and residential real estate loans were pledged as collateral on Federal Home Loan Bank of Des Moines ("FHLB") borrowings and additional borrowing capacity. The Company has also pledged $50.2 million and $50.1 million of commercial loans to the Federal Reserve Bank for additional borrowing capacity at March 31, 2016 and December 31, 2015, respectively.

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The following is an analysis of nonaccrual loans as of March 31, 2016 and December 31, 2015:

	March 31, 2016		December 31, 2015	
	Recorded Investment Nonaccrual Loans	Unpaid Principal Balance Nonaccrual Loans	Recorded Investment Nonaccrual Loans	Unpaid Principal Balance Nonaccrual Loans
	(in thousands)			
Commercial business:				
Secured	$22,452	$ 31,039	$9,395	$ 15,688
Unsecured	107	331	42	256
Real estate:				
One-to-four family residential	730	1,702	820	1,866
Commercial & multifamily residential:				
Commercial land	238	247	349	332
Income property	2,897	3,185	2,843	3,124
Owner occupied	4,982	7,473	6,321	8,943
Real estate construction:				
One-to-four family residential:				
Land and acquisition	205	231	362	385
Residential construction	563	563	566	679
Consumer	4,717	4,985	766	990
Total	$36,891	$ 49,756	$21,464	$ 32,263

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Loans, excluding purchased credit impaired loans

The following is an aging of the recorded investment of the loan portfolio as of March 31, 2016 and December 31, 2015:

	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
March 31, 2016	(in thousands)						
Commercial business:							
Secured	$2,277,121	$4,148	$ 311	$ —	$4,459	$ 22,452	$2,304,032
Unsecured	91,785	684	—	—	684	107	92,576
Real estate:							
One-to-four family residential	170,846	686	62	—	748	730	172,324
Commercial & multifamily residential:							
Commercial land	218,925	—	—	—	—	238	219,163
Income property	1,321,566	—	—	—	—	2,897	1,324,463
Owner occupied	946,635	4,577	—	—	4,577	4,982	956,194
Real estate construction:							
One-to-four family residential:							
Land and acquisition	12,915	—	—	—	—	205	13,120
Residential construction	119,125	—	—	—	—	563	119,688
Commercial & multifamily residential:							
Income property	86,584	—	—	—	—	—	86,584
Owner occupied	94,743	—	—	—	—	—	94,743
Consumer	314,197	1,541	740	—	2,281	4,717	321,195
Total	$5,654,442	$11,636	$ 1,113	$ —	$12,749	$ 36,891	$5,704,082

	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, 2015	(in thousands)						
Commercial business:							
Secured	$2,241,069	$11,611	$ 617	$ —	$12,228	$ 9,395	$2,262,692
Unsecured	94,867	39	—	—	39	42	94,948
Real estate:							
One-to-four family residential	170,913	1,637	66	—	1,703	820	173,436
Commercial & multifamily residential:							
Commercial land	212,740	69	—	—	69	349	213,158
Income property	1,305,502	1,750	684	—	2,434	2,843	1,310,779
Owner occupied	939,396	599	—	—	599	6,321	946,316
Real estate construction:							
One-to-four family residential:							
Land and acquisition	14,388	—	—	—	—	362	14,750
Residential construction	119,809	—	—	—	—	566	120,375
Commercial & multifamily residential:							
Income property	83,634	—	—	—	—	—	83,634
Owner occupied	81,671	—	—	—	—	—	81,671
Consumer	328,219	2,597	780	—	3,377	766	332,362

Total	$5,592,208	$18,302	$2,147	$—	$20,449	$21,464	$5,634,121

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The following is an analysis of impaired loans as of March 31, 2016 and December 31, 2015:

March 31, 2016	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
	(in thousands)						
Commercial business:							
Secured	$2,285,351	$ 18,681	$11,861	$11,996	$ 2,500	$6,820	$12,314
Unsecured	92,576	—	—	—	—	—	—
Real estate:							
One-to-four family residential	171,660	664	—	—	—	664	1,093
Commercial & multifamily residential:							
Commercial land	219,163	—	—	—	—	—	—
Income property	1,322,410	2,053	—	—	—	2,053	2,257
Owner occupied	951,216	4,978	—	—	—	4,978	7,390
Real estate construction:							
One-to-four family residential:							
Land and acquisition	12,810	310	—	—	—	310	334
Residential construction	119,126	562	—	—	—	562	562
Commercial & multifamily residential:							
Income property	86,584	—	—	—	—	—	—
Owner occupied	94,743	—	—	—	—	—	—
Consumer	319,628	1,567	15	15	15	1,552	1,634
Total	$5,675,267	$ 28,815	$11,876	$12,011	$ 2,515	$16,939	$25,584

December 31, 2015	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
	(in thousands)						
Commercial business:							
Secured	$2,257,168	$ 5,524	$690	$718	$ 321	$4,834	$6,455
Unsecured	94,948	—	—	—	—	—	—
Real estate:							
One-to-four family residential	172,150	1,286	314	339	314	972	1,397
Commercial & multifamily residential:							
Commercial land	213,158	—	—	—	—	—	—
Income property	1,308,673	2,106	—	—	—	2,106	2,311
Owner occupied	940,261	6,055	—	—	—	6,055	8,528
Real estate construction:							
One-to-four family residential:							
Land and acquisition	14,283	467	—	—	—	467	490
Residential construction	119,813	562	335	335	3	227	227

Commercial & multifamily residential:							
Income property	83,634	—	—	—	—	—	—
Owner occupied	81,671	—	—	—	—	—	—
Consumer	332,282	80	15	15	15	65	139
Total	$5,618,041	$ 16,080	$1,354	$1,407	$ 653	$14,726	$19,547

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The following table provides additional information on impaired loans for the three month periods indicated:

	Three Months Ended March 31,			
	2016		2015	
	Average Recorded Investment Impaired Loans	Interest Recognized on Impaired Loans	Average Recorded Investment Impaired Loans	Interest Recognized on Impaired Loans
	(in thousands)			
Commercial business:				
Secured	$12,103	$ 17	$10,698	$ 7
Unsecured	—	—	1	—
Real estate:				
One-to-four family residential	975	6	3,162	13
Commercial & multifamily residential:				
Commercial land	—	—	235	—
Income property	2,080	3	4,168	10
Owner occupied	5,516	7	7,938	234
Real estate construction:				
One-to-four family residential:				
Land and acquisition	388	1	544	1
Residential construction	562	—	446	—
Consumer	824	2	404	2
Total	$22,448	$ 36	$27,596	$ 267

The following is an analysis of loans classified as troubled debt restructurings ("TDR") during the three months ended March 31, 2016 and 2015:

	Three months ended March 31, 2016			Three months ended March 31, 2015		
	Number of TDR Modifications	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of TDR Modifications	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(dollars in thousands)					
Commercial business:						
Secured	3	$ 1,370	$ 1,370	—	$ —	$ —
Commercial and multifamily residential:						
Owner occupied	1	250	250	—	—	—
Consumer	4	497	497	—	—	—
Total	8	$ 2,117	$ 2,117	—	$ —	$ —

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 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. The concessions granted in the restructurings summarized in the table above largely consisted of maturity extensions, interest rate modifications or a combination of both. In limited circumstances, a reduction in the principal balance of the loan could also be made as a concession. Credit losses for loans classified as TDR are measured on the same basis as impaired loans. For impaired loans, an allowance is 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 had commitments to lend $7 thousand of additional funds on loans classified as TDR as of March 31, 2016. The Company had no such commitments at December 31, 2015. The Company did not have any loans modified as TDR that defaulted within twelve months of being modified as TDR during the three month periods ended March 31, 2016 and 2015.

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Purchased Credit Impaired Loans

Purchased credit impaired ("PCI") 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. 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.

The excess of cash flows expected to be collected over the initial fair value of purchased credit impaired 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.

The following is an analysis of our PCI loans, net of related allowance for losses and remaining valuation discounts as of March 31, 2016 and December 31, 2015:

	March 31, 2016	December 31, 2015
	(in thousands)	
Commercial business	$38,209	$ 38,784
Real estate:		
One-to-four family residential	25,766	27,195
Commercial and multifamily residential	100,384	106,308
Total real estate	126,150	133,503
Real estate construction:		
One-to-four family residential	2,200	2,326
Commercial and multifamily residential	1,809	1,834
Total real estate construction	4,009	4,160
Consumer	20,226	20,903
Subtotal of PCI loans	188,594	197,350
Less:		
Valuation discount resulting from acquisition accounting	15,393	16,444
Allowance for loan losses	13,064	13,726
PCI loans, net of allowance for loan losses	$160,137	$ 167,180

The following table shows the changes in accretable yield for PCI loans for the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31, 2016	2015
	(in thousands)	
Balance at beginning of period	$58,981	$73,849
Accretion	(4,229)	(6,319)
Disposals	94	(1,093)
Reclassifications from nonaccretable difference	1,761	2,289
Balance at end of period	$56,607	$68,726

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

Loans, excluding PCI loans

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 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 calculated quarterly using quantitative and qualitative information about specific loan classes. The minimum required level with respect to which an entity develops a methodology to determine its ALLL is by general categories of loans, such as commercial business, real estate, and consumer. However, the Company's methodology in determining its ALLL 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.

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 three months ended March 31, 2016 and 2015. 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 make revisions to its ALLL as necessary to maintain adequate reserves. The Company carefully monitors the loan portfolio and continues to emphasize the importance of credit quality.

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.

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PCI Loans

Purchased credit impaired loans that have common risk characteristics are aggregated into loan pools. When required, we record impairment, at the pool-level, to adjust the pool's carrying value to its net present value of expected future cash flows. Quarterly, we re-measure expected loan pool cash flows. If, due to credit deterioration, the present value of expected cash flows is less than carrying value, we reduce the loan pool's carrying value by adjusting the ALLL with an impairment charge to earnings which is recorded as provision for loan losses. If credit quality improves and the present value of expected cash flows exceeds carrying value, we increase the loan pool's carrying value by recapturing previously recorded ALLL, if any. See Note 4, Loans, for further discussion of the accounting for PCI loans.

Credit losses attributable to draws on purchased credit impaired loans, advanced subsequent to the loan purchase date, are accounted for under ASC 450-20 and those amounts are also subject to the Company's internal and external credit review. An ALLL is estimated in a similar manner as loans, excluding PCI loans, and a provision for loan losses is charged to earnings as necessary.

The following tables show a detailed analysis of the ALLL for the three months ended March 31, 2016 and 2015:

	Beginning Balance	Charge-offs	Recoveries	Provision (Recovery)	Ending Balance	Specific Reserve	General Allocation
Three months ended March 31, 2016	(in thousands)						
Commercial business:							
Secured	$32,321	$ (3,770)	$ 611	$ 2,952	$32,114	$2,500	$ 29,614
Unsecured	1,299	(3)	51	(47)	1,300	—	1,300
Real estate:							
One-to-four family residential	916	—	41	(303)	654	—	654
Commercial & multifamily residential:							
Commercial land	1,178	—	—	84	1,262	—	1,262
Income property	6,616	—	61	725	7,402	—	7,402
Owner occupied	5,550	—	8	528	6,086	—	6,086
Real estate construction:							
One-to-four family residential:							
Land and acquisition	339	—	51	250	640	—	640
Residential construction	733	—	203	513	1,449	—	1,449
Commercial & multifamily residential:							
Income property	388	—	1	326	715	—	715
Owner occupied	1,006	—	—	204	1,210	—	1,210
Consumer	3,531	(266)	165	(62)	3,368	15	3,353
Purchased credit impaired	13,726	(2,866)	1,551	653	13,064	—	13,064
Unallocated	569	—	—	(569)	—	—	—
Total	$68,172	$ (6,905)	$ 2,743	$ 5,254	$69,264	$2,515	$ 66,749

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Three months ended March 31, 2015	Beginning Balance	Charge-offs	Recoveries	Provision (Recovery)	Ending Balance	Specific Reserve	General Allocation
	(in thousands)						
Commercial business:							
Secured	$25,923	$ (1,386)	$ 512	$ 712	$25,761	$ 24	$ 25,737
Unsecured	927	(40)	106	19	1,012	—	1,012
Real estate:							
One-to-four family residential	2,281	(8)	12	(921)	1,364	115	1,249
Commercial & multifamily residential:							
Commercial land	799	—	—	28	827	—	827
Income property	9,159	—	3,252	(3,971)	8,440	—	8,440
Owner occupied	5,007	—	9	596	5,612	24	5,588
Real estate construction:							
One-to-four family residential:							
Land and acquisition	1,197	—	2	(173)	1,026	67	959
Residential construction	1,860	—	26	(96)	1,790	—	1,790
Commercial & multifamily residential:							
Income property	622	—	3	202	827	—	827
Owner occupied	434	—	—	65	499	—	499
Consumer	3,180	(891)	273	273	2,835	—	2,835
Purchased credit impaired	16,336	(4,100)	1,686	2,609	16,531	—	16,531
Unallocated	1,844	—	—	1,866	3,710	—	3,710
Total	$69,569	$ (6,425)	$ 5,881	$ 1,209	$70,234	$ 230	$ 70,004

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Changes in the allowance for unfunded commitments and letters of credit, a component of other liabilities in the consolidated balance sheet, are summarized as follows:

	Three Months Ended March 31,			
	2016		2015	
	(in thousands)			
Balance at beginning of period	$	2,930	$	2,655
Net changes in the allowance for unfunded commitments and letters of credit	—		—	
Balance at end of period	$	2,930	$	2,655

Risk Elements

The extension of credit in the form of loans or other credit products to individuals and businesses is one of our principal business 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 and 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 rated 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 rated 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 ALLL 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. Loans risk rated as Substandard reflect loans where a loss is possible if loan weaknesses are not corrected. Doubtful rated loans have a high probability of loss, however, the amount of loss has not yet been determined. Loss rated 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 loan portfolio, excluding PCI loans, as of March 31, 2016 and December 31, 2015:

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
March 31, 2016	(in thousands)					
Loans, excluding PCI loans:						
Commercial business:						
Secured	$2,185,283	$54,957	$ 63,792	$ —	$ —	$2,304,032
Unsecured	91,737	277	562	—	—	92,576
Real estate:						
One-to-four family residential	170,788	461	1,075	—	—	172,324
Commercial and multifamily residential:						
Commercial land	213,936	4,804	423	—	—	219,163
Income property	1,306,718	6,394	11,351	—	—	1,324,463
Owner occupied	933,090	7,978	15,126	—	—	956,194
Real estate construction:						
One-to-four family residential:						
Land and acquisition	12,915	—	205	—	—	13,120
Residential construction	118,843	—	845	—	—	119,688
Commercial and multifamily residential:						
Income property	86,584	—	—	—	—	86,584
Owner occupied	90,807	—	3,936	—	—	94,743
Consumer	313,249	—	7,946	—	—	321,195
Total	$5,523,950	$74,871	$ 105,261	$ —	$ —	5,704,082
Less:						
Allowance for loan and lease losses						56,200
Loans, excluding PCI loans, net						$5,647,882

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
December 31, 2015	(in thousands)					
Loans, excluding PCI loans:						
Commercial business:						
Secured	$2,146,729	$59,746	$ 56,217	$ —	$ —	$2,262,692
Unsecured	93,347	278	1,323	—	—	94,948
Real estate:						
One-to-four family residential	171,945	52	1,439	—	—	173,436
Commercial and multifamily residential:						
Commercial land	207,768	4,966	424	—	—	213,158
Income property	1,296,043	5,889	8,847	—	—	1,310,779
Owner occupied	918,986	9,668	17,662	—	—	946,316
Real estate construction:						
One-to-four family residential:						
Land and acquisition	14,388	—	362	—	—	14,750
Residential construction	119,243	—	1,132	—	—	120,375
Commercial and multifamily residential:						
Income property	83,634	—	—	—	—	83,634
Owner occupied	81,270	—	401	—	—	81,671
Consumer	328,286	—	4,076	—	—	332,362
Total	$5,461,639	$80,599	$ 91,883	$ —	$ —	5,634,121

Less:	
Allowance for loan and lease losses	54,446
Loans, excluding PCI loans, net	$5,579,675

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The following is an analysis of the credit quality of our PCI loan portfolio as of March 31, 2016 and December 31, 2015:

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
March 31, 2016	(in thousands)					
PCI loans:						
Commercial business:						
Secured	$31,706	$ 99	$ 5,297	$ —	$ —	$37,102
Unsecured	1,106	—	1	—	—	1,107
Real estate:						
One-to-four family residential	23,766	—	2,000	—	—	25,766
Commercial and multifamily residential:						
Commercial land	8,037	—	623	—	—	8,660
Income property	33,558	—	3,970	—	—	37,528
Owner occupied	52,487	—	1,709	—	—	54,196
Real estate construction:						
One-to-four family residential:						
Land and acquisition	1,143	—	315	—	—	1,458
Residential construction	414	—	328	—	—	742
Commercial and multifamily residential:						
Income property	1,283	—	—	—	—	1,283
Owner occupied	526	—	—	—	—	526
Consumer	19,531	—	695	—	—	20,226
Total	$173,557	$ 99	$ 14,938	$ —	$ —	188,594
Less:						
Valuation discount resulting from acquisition accounting						15,393
Allowance for loan losses						13,064
PCI loans, net						$160,137

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
December 31, 2015	(in thousands)					
PCI loans:						
Commercial business:						
Secured	$31,468	$ 101	$ 5,995	$ —	$ —	$37,564
Unsecured	1,218	—	2	—	—	1,220
Real estate:						
One-to-four family residential	25,018	—	2,177	—	—	27,195
Commercial and multifamily residential:						
Commercial land	8,234	—	664	—	—	8,898
Income property	36,426	—	5,916	—	—	42,342
Owner occupied	53,071	261	1,736	—	—	55,068
Real estate construction:						
One-to-four family residential:						
Land and acquisition	1,086	—	479	—	—	1,565
Residential construction	427	—	334	—	—	761
Commercial and multifamily residential:						
Income property	1,303	—	—	—	—	1,303
Owner occupied	531	—	—	—	—	531
Consumer	20,122	—	781	—	—	20,903

Total	$178,904	$ 362	$ 18,084	$ —	$ — 197,350
Less:					
Valuation discount resulting from acquisition accounting					16,444
Allowance for loan losses					13,726
PCI loans, net					$167,180

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6. Other Real Estate Owned ("OREO")

The following tables set forth activity in OREO for the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31,	
	2016	2015
	(in thousands)	
Balance, beginning of period	$13,738	$22,190
Transfers in	105	4,692
Valuation adjustments	(137)	(197)
Proceeds from sale of OREO property	(1,326)	(5,122)
Gain on sale of OREO, net	47	1,736
Balance, end of period	$12,427	$23,299

At March 31, 2016, the carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession was $2.2 million and the recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process was $1.3 million.

7. FDIC Loss-sharing Asset and Covered Assets

We are a party to eight loss-sharing agreements with the FDIC relating to four FDIC-assisted acquisitions. Such agreements cover a substantial portion of losses incurred on acquired covered loans and OREO. The loss-sharing agreements relate to the acquisitions of (1) Columbia River Bank in January 2010, (2) American Marine Bank in January 2010, (3) Summit Bank in May 2011, and (4) First Heritage Bank in May 2011. 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 non-single family and single family mortgage loans are in effect for five and ten years, respectively and the loss recovery provisions are in effect for eight and ten years, respectively. The loss-sharing provisions for the Columbia River Bank and American Marine Bank non-single family covered assets were effective through the end of the first quarter of 2015. In addition, the loss-sharing provisions for the Summit Bank and First Heritage Bank non-single family covered assets will be expiring at the end of the second quarter of 2016. Accordingly, further activity will be limited to recoveries through the first quarter of 2018 and second quarter of 2019, respectively, for assets covered by these loss-sharing agreements.

Ten years and forty-five days after the applicable acquisition dates, the Bank must 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 March 31, 2016, the net present value of the Bank's estimated clawback liability was $5.4 million, which was included in other liabilities on the consolidated balance sheets.

At March 31, 2016, the FDIC loss-sharing asset was comprised of a $4.6 million FDIC indemnification asset and a $1.4 million FDIC receivable. The indemnification asset represents the net present value of cash flows the Company expects to collect from the FDIC under the loss-sharing agreements and the FDIC receivable represents amounts from the FDIC for which the Company has requested reimbursement but has not yet received reimbursement.

For PCI 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, for loans covered by loss-sharing agreements with respect to which the loss-sharing provisions are still effective, 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, for loans covered by loss-sharing agreements with respect to which the loss-sharing provisions are still effective, 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.

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The following table shows a detailed analysis of the FDIC loss-sharing asset for the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31,	
	2016	2015
	(in thousands)	
Balance at beginning of period	$6,568	$15,174
Adjustments not reflected in income:		
Cash (received from) paid to the FDIC, net	353	(659)
FDIC reimbursable recoveries, net	136	(21)
Adjustments reflected in income:		
Amortization, net	(1,332)	(2,294)
Loan impairment	147	1,532
Sale of other real estate	144	(420)
Write-downs of other real estate	18	1,071
Other	(80)	261
Balance at end of period	$5,954	$14,644

The following table presents information about the composition of the FDIC loss-sharing asset, the clawback liability, and the non-single family and the single family covered assets as of the date indicated:

	March 31, 2016				
	Columbia River Bank	American Marine Bank	Summit Bank	First Heritage Bank	Total
	(in thousands)				
FDIC loss-sharing asset	$537	$2,404	$1,799	$1,214	$5,954
Clawback liability	$3,420	$1,264	$—	$734	$5,418
Non-single family covered assets	$66,682	$11,321	$8,381	$14,779	$101,163
Single family covered assets	$7,764	$22,561	$6,046	$1,735	$38,106
Loss-sharing expiration dates:					
Non-single family	First Quarter 2015	First Quarter 2015	Second Quarter 2016	Second Quarter 2016	
Single family	First Quarter 2020	First Quarter 2020	Second Quarter 2021	Second Quarter 2021	
Loss recovery expiration dates:					
Non-single family	First Quarter 2018	First Quarter 2018	Second Quarter 2019	Second Quarter 2019	
Single family	First Quarter 2020	First Quarter 2020	Second Quarter 2021	Second Quarter 2021	

8. 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.

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 10 years.

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

	Three Months Ended March 31,	
	2016	2015
	(in thousands)	
Goodwill		
Total goodwill	$382,762	$382,537
Other intangible assets, net		
Core deposit intangible:		
Gross core deposit intangible balance at beginning of period	58,598	58,598
Accumulated amortization at beginning of period	(35,940)	(29,058)
Core deposit intangible, net at beginning of period	22,658	29,540
CDI current period amortization	(1,583)	(1,817)
Total core deposit intangible, net at end of period	21,075	27,723
Intangible assets not subject to amortization	919	919
Other intangible assets, net at end of period	21,994	28,642
Total goodwill and other intangible assets at end of period	$404,756	$411,179

The following table provides the estimated future amortization expense of core deposit intangibles for the remaining nine months ending December 31, 2016 and the succeeding four years:

	Amount (in thousands)
Year ending December 31,	
2016	$ 4,363
2017	4,913
2018	3,855
2019	2,951
2020	2,048

9. Derivatives and Balance Sheet Offsetting

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 March 31, 2016 and December 31, 2015 was $267.5 million and $264.4 million, respectively. During the three months ended March 31, 2016 and 2015, mark-to-market losses of $8 thousand and $5 thousand, respectively were recorded to other noninterest expense.

The following table presents the fair value of derivatives not designated as hedging instruments at March 31, 2016 and December 31, 2015:

	Asset Derivatives				Liability Derivatives			
	March 31, 2016		December 31, 2015		March 31, 2016		December 31, 2015	
	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	$ 18,641	Other assets	$ 12,438	Other liabilities	$ 18,689	Other liabilities	$ 12,478

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The Company is party to interest rate contracts and repurchase agreements that are subject to enforceable master netting arrangements or similar agreements. Under these agreements, the Company may have the right to net settle multiple contracts with the same counterparty. The following tables show the gross interest rate swap agreements and repurchase agreements in the consolidated balance sheets and the respective collateral received or pledged in the form of other financial instruments, which are generally marketable securities. The collateral amounts in these tables are limited to the outstanding balances of the related asset or liability. Therefore, instances of overcollateralization are not shown.

	Gross Amounts of Recognized Assets/Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Assets/Liabilities Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets	
				Collateral Posted	Net Amount
March 31, 2016	(in thousands)				
Assets					
Interest rate contracts	$18,641	$ —	$ 18,641	$—	$18,641
Liabilities					
Interest rate contracts	$18,689	$ —	$ 18,689	$(18,689)	$—
Repurchase agreements	$73,839	$ —	$ 73,839	$(73,839)	$—
December 31, 2015					
Assets					
Interest rate contracts	$12,438	$ —	$ 12,438	$—	$12,438
Liabilities					
Interest rate contracts	$12,478	$ —	$ 12,478	$(12,478)	$—
Repurchase agreements	$99,699	$ —	$ 99,699	$(99,699)	$—

The following table presents the class of collateral pledged for repurchase agreements as well as the remaining contractual maturity of the repurchase agreements:

	Remaining contractual maturity of the agreements				
	Overnight and continuous	Up to 30 days	30 - 90 days	Greater than 90 days	Total
March 31, 2016	(in thousands)				
Class of collateral pledged for repurchase agreements					
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	$48,839	$ —	$ —	$25,000	$73,839
Gross amount of recognized liabilities for repurchase agreements					73,839
Amounts related to agreements not included in offsetting disclosure					