COLUMBIA BANKING SYSTEM INC
Form 10-Q
November 05, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2015.
¨ 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 October 31, 2015 was 57,730,550.

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

			September 30, 2015	December 31, 2014
ASSETS			(in thousands)	
Cash and due from banks			$149,610	$171,221
Interest-earning deposits with banks			22,578	16,949
Total cash and cash equivalents			172,188	188,170
Securities available for sale at fair value (amortized cost of $2,004,728 and $2,087,069, respectively)			2,027,424	2,098,257
Federal Home Loan Bank stock at cost			10,242	33,365
Loans held for sale			6,637	1,116
Loans, net of unearned income of ($45,436) and ($59,374), respectively			5,746,511	5,445,378
Less: allowance for loan and lease losses			69,049	69,569
Loans, net			5,677,462	5,375,809
FDIC loss-sharing asset			8,146	15,174
Interest receivable			30,486	27,802
Premises and equipment, net			168,495	172,090
Other real estate owned			19,456	22,190
Goodwill			382,762	382,537
Other intangible assets, net			25,229	30,459
Other assets			227,457	231,877
Total assets			$8,755,984	$8,578,846
LIABILITIES AND SHAREHOLDERS' EQUITY				
Deposits:				
Noninterest-bearing			$3,386,968	$2,651,373
Interest-bearing			3,927,837	4,273,349
Total deposits			7,314,805	6,924,722
Federal Home Loan Bank advances			6,540	216,568
Securities sold under agreements to repurchase			73,182	105,080
Other borrowings			—	8,248
Other liabilities			107,321	96,053
Total liabilities			7,501,848	7,350,671
Commitments and contingent liabilities				
Shareholders' equity:				
	September 30, 2015	December 31, 2014		
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	63,033		
Issued and outstanding	57,729	57,437	989,088	985,839
Retained earnings			250,005	234,498
Accumulated other comprehensive income			12,826	5,621

Total shareholders’ equity	1,254,136	1,228,175
Total liabilities and shareholders’ equity	$8,755,984	$8,578,846

See accompanying Notes to unaudited Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in thousands except per share amounts)			
Interest Income				
Loans	$72,242	$65,903	$214,808	$198,448
Taxable securities	7,472	8,545	22,258	21,679
Tax-exempt securities	2,920	2,624	8,972	7,913
Deposits in banks	31	61	84	105
Total interest income	82,665	77,133	246,122	228,145
Interest Expense				
Deposits	756	713	2,244	2,194
Federal Home Loan Bank advances	78	80	391	309
Other borrowings	137	120	419	358
Total interest expense	971	913	3,054	2,861
Net Interest Income	81,694	76,220	243,068	225,284
Provision for loan and lease losses	2,831	980	6,242	5,019
Net interest income after provision for loan and lease losses	78,863	75,240	236,826	220,265
Noninterest Income				
Service charges and other fees	15,893	14,254	46,636	40,980
Merchant services fees	2,422	2,104	6,802	6,014
Investment securities gains, net	236	33	1,300	552
Bank owned life insurance	1,086	956	3,370	2,897
Change in FDIC loss-sharing asset	(1,635)	(4,816)	(2,979)	(14,685)
Other	4,497	3,399	11,599	8,807
Total noninterest income	22,499	15,930	66,728	44,565
Noninterest Expense				
Compensation and employee benefits	35,175	32,559	112,721	94,961
Occupancy	8,101	7,445	24,781	24,276
Merchant processing	1,090	1,080	3,146	3,058
Advertising and promotion	1,354	1,027	3,480	2,746
Data processing and communications	3,796	4,269	13,022	11,469
Legal and professional fees	2,173	2,905	7,527	7,377
Taxes, licenses and fees	1,344	1,156	4,003	3,387
Regulatory premiums	1,084	1,195	3,626	3,444
Net cost (benefit) of operation of other real estate owned	240	(1,256)	(1,569)	(1,207)
Amortization of intangibles	1,695	1,456	5,230	4,516
Other	8,015	8,146	23,305	21,105
Total noninterest expense	64,067	59,982	199,272	175,132
Income before income taxes	37,295	31,188	104,282	89,698
Income tax provision	11,515	9,605	32,195	27,044
Net Income	$25,780	$21,583	$72,087	$62,654
Earnings per common share				
Basic	$0.45	$0.41	$1.25	$1.20

Diluted	$0.45	$0.41	$1.25	$1.18
Dividends paid per common share	$0.34	$0.28	$0.98	$0.64
Weighted average number of common shares outstanding	57,051	52,112	57,007	51,772
Weighted average number of diluted common shares outstanding	57,064	52,516	57,021	52,479

See accompanying Notes to unaudited Consolidated Financial Statements.

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

	Three Months Ended September 30,	
	2015	2014
	(in thousands)	
Net income	$25,780	$21,583
Other comprehensive income (loss), net of tax:		
Unrealized gain (loss) from securities:		
Net unrealized holding gain (loss) from available for sale securities arising during the period, net of tax of ($5,765) and $2,310	10,126	(4,057)
Reclassification adjustment of net gain from sale of available for sale securities included in income, net of tax of $85 and $12	(151)	(21)
Net unrealized gain (loss) from securities, net of reclassification adjustment	9,975	(4,078)
Pension plan liability adjustment:		
Amortization of unrecognized net actuarial loss included in net periodic pension cost, net of tax of ($35) and ($13)	62	23
Pension plan liability adjustment, net	62	23
Other comprehensive income (loss)	10,037	(4,055)
Total comprehensive income	$35,817	$17,528

	Nine Months Ended September 30,	
	2015	2014
	(in thousands)	
Net income	$72,087	$62,654
Other comprehensive income, net of tax:		
Unrealized gain from securities:		
Net unrealized holding gain from available for sale securities arising during the period, net of tax of ($4,647) and ($6,731)	8,161	11,830
Reclassification adjustment of net gain from sale of available for sale securities included in income, net of tax of $471 and $200	(829)	(352)
Net unrealized gain from securities, net of reclassification adjustment	7,332	11,478
Pension plan liability adjustment:		
Net unrealized loss from unfunded defined benefit plan liability arising during the period, net of tax of $159 and $0	(280)	—
Amortization of unrecognized net actuarial loss included in net periodic pension cost, net of tax of ($87) and ($40)	153	71
Pension plan liability adjustment, net	(127)	71
Other comprehensive income	7,205	11,549
Total comprehensive income	$79,292	$74,203

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, 2015	9	$2,217	57,437	$985,839	$234,498	$ 5,621	$1,228,175
Net income	—	—	—	—	72,087	—	72,087
Other comprehensive income	—	—	—	—	—	7,205	7,205
Issuance of common stock - stock option and other plans	—	—	46	1,194	—	—	1,194
Issuance of common stock - restricted stock awards, net of canceled awards	—	—	277	2,934	—	—	2,934
Purchase and retirement of common stock	—	—	(31)	(879)	—	—	(879)
Preferred dividends	—	—	—	—	(100)	—	(100)
Cash dividends paid on common stock	—	—	—	—	(56,480)	—	(56,480)
Balance at September 30, 2015	9	$2,217	57,729	$989,088	$250,005	$ 12,826	$1,254,136
Balance at January 1, 2014	9	$2,217	51,265	$860,562	$202,514	$ (12,044)	$1,053,249
Net income	—	—	—	—	62,654	—	62,654
Other comprehensive income	—	—	—	—	—	11,549	11,549
Issuance of common stock - cashless exercise of warrants	—	—	1,140	—	—	—	—
Activity in deferred compensation plan	—	—	—	(1)	—	—	(1)
Issuance of common stock - stock option and other plans	—	—	40	915	—	—	915
Issuance of common stock - restricted stock awards, net of canceled awards	—	—	228	2,041	—	—	2,041
Purchase and retirement of common stock	—	—	(24)	(605)	—	—	(605)
Preferred dividends	—	—	—	—	(66)	—	(66)
Cash dividends paid on common stock	—	—	—	—	(33,525)	—	(33,525)
Balance at September 30, 2014	9	$2,217	52,649	$862,912	$231,577	$ (495)	$1,096,211

See accompanying Notes to unaudited Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2015	2014 (1)
	(in thousands)	
Cash Flows From Operating Activities		
Net income	$72,087	$62,654
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan and lease losses	6,242	5,019
Stock-based compensation expense	2,934	2,041
Depreciation, amortization and accretion	21,892	21,956
Investment securities gain, net	(1,300)	(552)
Net realized (gain) loss on sale of other assets	(241)	566
Net realized gain on sale and valuation adjustments of other real estate owned (1)	(1,798)	(1,735)
Net realized gain on sale of branches	—	(565)
Originations of loans held for sale (1)	(57,249)	(18,137)
Proceeds from sales of loans held for sale (1)	52,983	18,424
Net gain on sale of loans held for sale (1)	(1,255)	(501)
Net change in:		
Interest receivable	(2,684)	(3,092)
Interest payable	(136)	(61)
Other assets	(1,618)	(5,567)
Other liabilities	11,012	6,749
Net cash provided by operating activities	100,869	87,199
Cash Flows From Investing Activities		
Loans originated and acquired, net of principal collected	(314,768)	(310,185)
Purchases of:		
Securities available for sale	(218,734)	(127,728)
Premises and equipment	(7,351)	(10,530)
Federal Home Loan Bank stock	(7,360)	—
Proceeds from:		
FDIC reimbursement on loss-sharing asset	4,195	4,607
Sales of securities available for sale	82,776	55,834
Principal repayments and maturities of securities available for sale	204,322	134,882
Sales of premises and equipment, Federal Home Loan Bank stock and loans held for investment	44,615	1,470
Sales of other real estate and other personal property owned (1)	13,254	24,688
Payments to FDIC related to loss-sharing asset	(1,472)	(3,384)
Net cash paid in branch sale	—	(16,788)
Net cash used in investing activities	(200,523)	(247,134)
Cash Flows From Financing Activities		
Net increase in deposits	390,083	307,103
Net decrease in sweep repurchase agreements	(31,898)	—
Proceeds from:		
Federal Home Loan Bank advances	1,467,000	1,308,000
Federal Reserve Bank borrowings	1,010	800
Exercise of stock options	1,194	915

Payments for:		
Repayment of Federal Home Loan Bank advances	(1,677,000)	(1,338,000)
Repayment of Federal Reserve Bank borrowings	(1,010)	(800)
Common stock dividends	(56,480)	(33,525)
Preferred stock dividends	(100)	(66)
Repayment of other borrowings	(8,248)	—
Purchase and retirement of common stock	(879)	(605)
Net cash provided by financing activities	83,672	243,822
Increase (decrease) in cash and cash equivalents	(15,982)	83,887
Cash and cash equivalents at beginning of period	188,170	179,561
Cash and cash equivalents at end of period	$172,188	$263,448

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

	Nine Months Ended September 30,	
	2015	2014 (1)
	(in thousands)	
Supplemental Information:		
Cash paid during the period for:		
Cash paid for interest	$3,190	$2,922
Cash paid for income tax	$19,054	$11,230
Non-cash investing and financing activities		
Loans transferred to other real estate owned	$8,751	$8,930

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(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 West Coast Trust Company, Inc. (“West Coast Trust”). All intercompany transactions and accounts have been eliminated in consolidation. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair statement of the results for the interim periods presented have been included. The results of operations for the nine months ended September 30, 2015 are not necessarily indicative of results to be anticipated for the year ending December 31, 2015. The accompanying interim unaudited consolidated financial statements should be read in conjunction with the financial statements and related notes contained in the Company’s 2014 Annual Report on Form 10-K.

Our results of operations for the three and nine month periods ended September 30, 2015 include the acquisition of Intermountain Community Bancorp (“Intermountain”) for the entire period. However, the results of operations for the prior year periods do not include the acquisition. See Note 3, Business Combinations, for further information regarding this acquisition.

Significant Accounting Policies

The significant accounting policies used in preparation of our consolidated financial statements are disclosed in our 2014 Annual Report on Form 10-K. There have not been any changes in our significant accounting policies compared to those contained in our 2014 Form 10-K disclosure for the year ended December 31, 2014.

2. Accounting Pronouncements Recently Issued

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“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. The Company is currently assessing the impact that this guidance will have on its consolidated financial statements, but does not expect the guidance to have a material impact on the Company’s consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16, Simplifying the Accounting for Measurement-Period Adjustments. the amendments in ASU 2015-16 require that the acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amount is determined. The acquirer is required to also record, in the same period’s financial statements, the effect on earnings as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. In addition, an entity is required to present separately on the face of the income statement or disclose in the notes to the financial statements the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The amendments in ASU 2015-16 are effective for years beginning after December 15, 2015. Early adoption is permitted for reporting periods for which financial statements have not been issued. The Company adopted the amendments in ASU 2015-16 during the current quarter.

3. Business Combinations

On November 1, 2014, the Company completed its acquisition of Intermountain. The Company paid $131.9 million in total consideration to acquire 100% of the equity interests of Intermountain. The primary reason for the acquisition was to expand the Company’s geographic footprint into the state of Idaho, consistent with its ongoing growth strategy.

The assets acquired and liabilities assumed have been accounted for under the acquisition method of accounting. The assets and liabilities, both tangible and intangible, were recorded at their fair values as of the November 1, 2014 acquisition date. Initial accounting for deferred taxes was provisionally measured as of November 1, 2014. During the current quarter, the provisionally measured deferred taxes were finalized. The resulting adjustment was a decrease in other assets of $225 thousand

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and a corresponding increase in goodwill of $225 thousand. There was no impact to earnings as a result of these adjustments. These adjustments were recorded as current period adjustments pursuant to the Company’s early adoption of ASU 2015-16. The application of the acquisition method of accounting resulted in recognition of goodwill of $38.8 million and a core deposit intangible of $10.9 million, or 1.75% of core deposits. The goodwill represents the excess purchase price over the fair value of the net assets acquired. The goodwill is not deductible for income tax purposes.
The table below summarizes the amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed:

	November 1, 2014 (in thousands)
Purchase price as of November 1, 2014	$131,935
Recognized amounts of identifiable assets acquired and (liabilities assumed), at fair value:	
Cash and cash equivalents	$47,283
Investment securities	299,458
Federal Home Loan Bank stock	2,124
Acquired loans	502,595
Interest receivable	4,656
Premises and equipment	20,696
Other real estate owned	2,752
Core deposit intangible	10,900
Other assets	35,128
Deposits	(736,795)
Other borrowings	(22,904)
Securities sold under agreements to repurchase	(59,043)
Other liabilities	(13,725)
Total fair value of identifiable net assets	93,125
Goodwill	$38,810

See Note 9, Goodwill and Other Intangible Assets, for further discussion of the accounting for goodwill and other intangible assets.
The operating results of the Company reported herein include the operating results produced by the acquired assets and assumed liabilities for the period January 1, 2015 to September 30, 2015. Disclosure of the amount of Intermountain’s revenue and net income (excluding integration costs) included in Columbia’s consolidated income statement is impracticable due to the integration of the operations and accounting for this acquisition.

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For illustrative purposes only, the following table presents certain unaudited pro forma information for the nine month period ended September 30, 2014. This unaudited pro forma information was calculated as if Intermountain had been acquired as of the beginning of the year prior to the date of acquisition. The unaudited pro forma information combines the historical results of Intermountain with the Company's consolidated historical results and includes certain adjustments reflecting the estimated impact of certain fair value adjustments for the respective period. The pro forma information is not indicative of what would have occurred had the acquisition occurred as of the beginning of the year prior to the acquisition. In particular, no adjustments have been made to eliminate the impact of other-than-temporary impairment losses and losses recognized on the sale of securities that may not have been necessary had the investment securities been recorded at fair value as of the beginning of the year prior to the date of acquisition. The unaudited pro forma information does not consider any changes to the provision for credit losses resulting from recording loan assets at fair value. Additionally, Columbia expects to achieve further operating cost savings and other business synergies, including revenue growth, as a result of the acquisition which are not reflected in the pro forma amounts that follow. As a result, actual amounts would have differed from the unaudited pro forma information presented.

	Unaudited Pro Forma Nine Months Ended September 30, 2014
	(in thousands except per share)
Total revenues (net interest income plus noninterest income)	$300,151
Net income	$66,788
Earnings per share - basic	$1.19
Earnings per share - diluted	$1.18

In connection with the Intermountain acquisition, Columbia recognized $428 thousand and $9.0 million in acquisition-related expenses for the three and nine month periods ended September 30, 2015, respectively, and recognized $459 thousand in acquisition-related expenses for the three and nine month periods ended September 30, 2014. In addition, related to the acquisition of West Coast Bancorp ("West Coast") which was completed on April 1, 2013, Columbia recognized $72 thousand in acquisition-related expenses for the nine month period ended September 30, 2015, and $2.8 million and $4.4 million in acquisition-related expenses for the three and nine month periods ended September 30, 2014, respectively.

The following table shows the impact of the acquisition-related expenses related to the acquisition of Intermountain for the three and nine month periods ended September 30, 2015 to the various components of noninterest expense:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Noninterest Expense				
Compensation and employee benefits	$—	$—	$3,308	$—
Occupancy	181	—	1,484	—
Advertising and promotion	40	27	383	27
Data processing and communications	42	—	1,780	—
Legal and professional fees	71	388	1,089	388
Other	94	44	929	44
Total impact of acquisition-related costs to noninterest expense	$428	$459	$8,973	$459

See Note 2, Business Combinations, in Item 8 of our 2014 Form 10-K for additional details related to the Intermountain acquisition.

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4. Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
September 30, 2015				
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	$1,157,054	$12,610	$(5,132)	$1,164,532
State and municipal securities	476,650	13,574	(755)	489,469
U.S. government agency and government-sponsored enterprise securities	345,309	2,922	(375)	347,856
U.S. government securities	20,431	1	(32)	20,400
Other securities	5,284	31	(148)	5,167
Total	$2,004,728	$29,138	$(6,442)	$2,027,424
December 31, 2014				
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	$1,160,378	$10,219	$(8,210)	$1,162,387
State and municipal securities	483,578	14,432	(1,526)	496,484
U.S. government agency and government-sponsored enterprise securities	416,919	856	(4,069)	413,706
U.S. government securities	20,910	—	(411)	20,499
Other securities	5,284	20	(123)	5,181
Total	$2,087,069	$25,527	$(14,339)	$2,098,257

Proceeds from sales of securities available-for-sale were $10.6 million and $25.1 million for the three months ended September 30, 2015 and 2014, respectively, and were $82.8 million and $55.8 million for the nine months ended September 30, 2015 and 2014, respectively. The following table provides the gross realized gains and losses on the sales of securities for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Gross realized gains	$236	$33	$1,310	$552
Gross realized losses	—	—	(10)	—
Net realized gains	$236	$33	$1,300	$552

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The scheduled contractual maturities of investment securities available for sale at September 30, 2015 are presented as follows:

	September 30, 2015	
	Amortized Cost	Fair Value
	(in thousands)	
Due within one year	$22,054	$22,320
Due after one year through five years	418,087	421,722
Due after five years through ten years	543,698	553,422
Due after ten years	1,015,605	1,024,793
Other securities with no stated maturity	5,284	5,167
Total investment securities available-for-sale	$2,004,728	$2,027,424

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:

	September 30, 2015
	(in thousands)
Washington and Oregon State to secure public deposits	$328,476
Federal Reserve Bank to secure borrowings	55,578
Other securities pledged	149,032
Total securities pledged as collateral	$533,086

The following table shows the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2015 and December 31, 2014:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
September 30, 2015						
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	$124,092	$(804)	$204,165	$(4,328)	$328,257	$(5,132)
State and municipal securities	37,808	(161)	29,960	(594)	67,768	(755)
U.S. government agency and government-sponsored enterprise securities	500	(1)	54,892	(374)	55,392	(375)
U.S. government securities	—	—	9,925	(32)	9,925	(32)
Other securities	—	—	2,807	(148)	2,807	(148)
Total	$162,400	$(966)	$301,749	$(5,476)	$464,149	$(6,442)
December 31, 2014						
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	$258,825	$(1,287)	$279,015	$(6,924)	$537,840	$(8,211)
State and municipal securities	71,026	(543)	44,148	(982)	115,174	(1,525)
U.S. government agency and government-sponsored enterprise securities	105,250	(518)	216,221	(3,551)	321,471	(4,069)
U.S. government securities	—	—	19,450	(411)	19,450	(411)

Other securities	2,313	(2)	2,834	(121)	5,147	(123)
Total	$437,414	$(2,350)	$561,668	$(11,989)	$999,082	$(14,339)

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At September 30, 2015, there were 75 U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations securities in an unrealized loss position, of which 38 were in a continuous loss position for 12 months or more. The decline in fair value is attributable to changes in interest rates relative to where these investments fall within the yield curve and their individual characteristics. Because the Company does not intend to sell these securities nor does the Company consider it more likely than not that it will be required to sell these securities before the recovery of amortized cost basis, which may be upon maturity, the Company does not consider these investments to be other-than-temporarily impaired at September 30, 2015.

At September 30, 2015, there were 57 state and municipal government securities in an unrealized loss position, of which 28 were in a continuous loss position for 12 months or more. The unrealized losses on state and municipal securities were caused by interest rate changes or widening of market spreads subsequent to the purchase of the individual securities. Management monitors published credit ratings of these securities for adverse changes. As of September 30, 2015, none of the rated obligations of state and local government entities held by the Company had a below investment grade credit rating. Because the credit quality of these securities are investment grade and the Company does not intend to sell these securities nor does the Company consider it more likely than not that it will be required to sell these securities before the recovery of amortized cost basis, which may be upon maturity, the Company does not consider these investments to be other-than-temporarily impaired at September 30, 2015.

At September 30, 2015, there were six U.S. government agency and government-sponsored enterprise securities in an unrealized loss position, five of which were in a continuous loss position for 12 months or more. The decline in fair value is attributable to changes in interest rates relative to where these investments fall within the yield curve and their individual characteristics. Because the Company does not currently intend to sell these securities nor does the Company consider it more likely than not that it will be required to sell these securities before the recovery of amortized cost basis, which may be upon maturity, the Company does not consider these investments to be other-than-temporarily impaired at September 30, 2015.

At September 30, 2015, there was one U.S. government security in an unrealized loss position which 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 this investment falls within the yield curve and its individual characteristics. Because the Company does not currently intend to sell this security nor does the Company consider it more likely than not that it will be required to sell this security before the recovery of amortized cost basis, which may be upon maturity, the Company does not consider this investment to be other-than-temporarily impaired at September 30, 2015.

At September 30, 2015, 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 September 30, 2015 as it has the intent and ability to hold the investment for sufficient time to allow for recovery in the market value.

5. 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 major types of loans (net of unearned income):

	September 30, 2015			December 31, 2014		
	Loans, excluding PCI loans	PCI Loans	Total	Loans, excluding PCI loans	PCI Loans	Total
	(in thousands)					
Commercial business	$2,354,731	$39,919	$2,394,650	$2,119,565	$44,505	$2,164,070
Real estate:						
One-to-four family residential	177,108	25,122	202,230	175,571	26,993	202,564
Commercial and multifamily residential	2,449,847	101,382	2,551,229	2,363,541	128,769	2,492,310
Total real estate	2,626,955	126,504	2,753,459	2,539,112	155,762	2,694,874
Real estate construction:						
One-to-four family residential	136,783	2,401	139,184	116,866	4,021	120,887
Commercial and multifamily residential	134,097	2,007	136,104	134,443	2,321	136,764
Total real estate construction	270,880	4,408	275,288	251,309	6,342	257,651
Consumer	348,315	20,235	368,550	364,182	23,975	388,157
Less: Net unearned income	(45,436)	—	(45,436)	(59,374)	—	(59,374)
Total loans, net of unearned income	5,555,445	191,066	5,746,511	5,214,794	230,584	5,445,378
Less: Allowance for loan and lease losses	(55,059)	(13,990)	(69,049)	(53,233)	(16,336)	(69,569)
Total loans, net	$5,500,386	$177,076	$5,677,462	$5,161,561	$214,248	$5,375,809
Loans held for sale	$6,637	$—	$6,637	$1,116	$—	$1,116

At September 30, 2015 and December 31, 2014, 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 $10.1 million at September 30, 2015 and $13.2 million at December 31, 2014. During the first nine months of 2015, there were $6 thousand in advances and $3.1 million in repayments.

At September 30, 2015 and December 31, 2014, $2.17 billion and $1.08 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 $52.1 million and $46.0 million of commercial loans to the Federal Reserve Bank for additional borrowing capacity at September 30, 2015 and December 31, 2014, respectively.

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The following is an analysis of nonaccrual loans as of September 30, 2015 and December 31, 2014:

	September 30, 2015		December 31, 2014	
	Recorded Investment Nonaccrual Loans	Unpaid Principal Balance Nonaccrual Loans	Recorded Investment Nonaccrual Loans	Unpaid Principal Balance Nonaccrual Loans
	(in thousands)			
Commercial business:				
Secured	$9,512	$ 15,560	$16,552	$ 21,453
Unsecured	638	732	247	269
Real estate:				
One-to-four family residential	2,012	3,430	2,822	5,680
Commercial & multifamily residential:				
Commercial land	700	786	821	1,113
Income property	1,923	1,997	3,200	5,521
Owner occupied	1,694	1,840	3,826	5,837
Real estate construction:				
One-to-four family residential:				
Land and acquisition	575	591	95	112
Residential construction	897	1,040	370	370
Commercial & multifamily residential:				
Owner occupied	470	489	480	489
Consumer	659	902	2,939	3,930
Total	$19,080	$ 27,367	$31,352	$ 44,774

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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 September 30, 2015 and December 31, 2014:

	Current Loans	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Nonaccrual Loans	Total Loans
September 30, 2015	(in thousands)						
Commercial business:							
Secured	$2,251,545	$3,734	$1,177	$—	$4,911	$9,512	$2,265,968
Unsecured	82,826	247	28	—	275	638	83,739
Real estate:							
One-to-four family residential	170,390	1,053	662	—	1,715	2,012	174,117
Commercial & multifamily residential:							
Commercial land	206,597	735	380	—	1,115	700	208,412
Income property	1,318,021	1,492	1,028	—	2,520	1,923	1,322,464
Owner occupied	894,172	204	244	—	448	1,694	896,314
Real estate construction:							
One-to-four family residential:							
Land and acquisition	13,960	—	—	—	—	575	14,535
Residential construction	120,410	—	—	—	—	897	121,307
Commercial & multifamily residential:							
Income property	63,182	—	—	—	—	—	63,182
Owner occupied	67,793	980	—	—	980	470	69,243
Consumer	333,275	2,167	63	—	2,230	659	336,164
Total	$5,522,171	$10,612	$3,582	$—	$14,194	$19,080	$5,555,445

	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, 2014	(in thousands)						
Commercial business:							
Secured	$2,004,418	$5,137	$6,149	$1,372	$12,658	$16,552	$2,033,628
Unsecured	79,661	185	—	—	185	247	80,093
Real estate:							
One-to-four family residential	167,197	1,700	45	—	1,745	2,822	171,764
Commercial & multifamily residential:							
Commercial land	187,470	1,454	34	—	1,488	821	189,779
Income property	1,294,982	3,031	786	—	3,817	3,200	1,301,999
Owner occupied	839,689	937	289	—	1,226	3,826	844,741
Real estate construction:							

One-to-four family residential:							
Land and acquisition	15,462	953	—	—	953	95	16,510
Residential construction	97,821	326	—	4	330	370	98,521
Commercial & multifamily residential:							
Income property	73,783	—	—	—	—	—	73,783
Owner occupied	57,470	—	994	—	994	480	58,944
Consumer	341,032	933	118	10	1,061	2,939	345,032
Total	$5,158,985	$14,656	$8,415	$1,386	$24,457	$31,352	$5,214,794

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The following is an analysis of impaired loans as of September 30, 2015 and December 31, 2014:

	Recorded Investment of Loans Collectively Measured for Contingency Provision	Recorded Investment of Loans Individually Measured for Specific Impairment	Impaired Loans With Recorded Allowance			Impaired Loans Without Recorded Allowance	
			Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance
September 30, 2015	(in thousands)						
Commercial business:							
Secured	$2,260,544	$ 5,424	$1,402	$1,412	$ 1,020	$4,022	$5,312
Unsecured	83,739	—	—	—	—	—	—
Real estate:							
One-to-four family residential	171,669	2,448	317	341	84	2,131	2,903
Commercial & multifamily residential:							
Commercial land	208,412	—	—	—	—	—	—
Income property	1,320,287	2,177	—	—	—	2,177	2,336
Owner occupied	889,085	7,229	571	571	17	6,658	9,137
Real estate construction:							
One-to-four family residential:							
Land and acquisition	13,854	681	106	106	64	575	591
Residential construction	120,414	893	—	—	—	893	893
Commercial & multifamily residential:							
Income property	63,182	—	—	—	—	—	—
Owner occupied	69,243	—	—	—	—	—	—
Consumer	336,136	28	14	15	14	14	85
Total	$5,536,565	$ 18,880	$2,410	$2,445	$ 1,199	$16,470	$21,257

	Recorded Investment of Loans Collectively Measured for Contingency Provision	Recorded Investment of Loans Individually Measured for Specific Impairment	Impaired Loans With Recorded Allowance			Impaired Loans Without Recorded Allowance	
			Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance
December 31, 2014	(in thousands)						
Commercial business:							
Secured	$2,023,104	$ 10,524	$99	$99	$ 25	$10,425	$12,410
Unsecured	80,091	2	2	2	2	—	—
Real estate:							
One-to-four family residential	169,619	2,145	424	465	120	1,721	2,370
Commercial & multifamily residential:							
Commercial land	189,779	—	—	—	—	—	—
Income property	1,295,650	6,349	—	—	—	6,349	10,720
Owner occupied	835,895	8,846	582	582	27	8,264	12,732

Real estate construction:							
One-to-four family residential:							
Land and acquisition	16,401	109	109	109	67	—	—
Residential construction	98,521	—	—	—	—	—	—
Commercial & multifamily residential:							
Income property	73,783	—	—	—	—	—	—
Owner occupied	58,944	—	—	—	—	—	—
Consumer	344,908	124	—	—	—	124	201
Total	$5,186,695	$ 28,099	$1,216	$1,257	$ 241	$26,883	$38,433

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2015		2014		2015		2014	
	Average Recorded Investment on Impaired Loans	Interest Recognized on Impaired Loans	Average Recorded Investment on Impaired Loans	Interest Recognized on Impaired Loans	Average Recorded Investment on Impaired Loans	Interest Recognized on Impaired Loans	Average Recorded Investment on Impaired Loans	Interest Recognized on Impaired Loans
	(in thousands)							
Commercial business:								
Secured	$6,507	$ 3	$6,869	$ 17	$8,602	$ 10	$6,550	$ 50
Unsecured	—	—	15	—	1	—	23	1
Real estate:								
One-to-four family residential	3,315	11	2,307	14	3,238	35	2,082	37
Commercial & multifamily residential:								
Commercial land	—	—	94	—	118	—	102	—
Income property	2,061	10	7,345	69	3,114	27	6,891	205
Owner occupied	6,665	65	9,117	239	7,302	533	9,629	715
Real estate construction:								
One-to-four family residential:								
Land and acquisition	825	1	111	1	685	4	840	4
Residential construction	893	—	—	—	670	—	—	—
Consumer	27	1	142	2	216	3	152	7
Total	$20,293	$ 91	$26,000	$ 342	$23,946	$ 612	$26,269	$ 1,019

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The following is an analysis of loans classified as troubled debt restructurings ("TDR") during the three and nine months ended September 30, 2015 and 2014:

	Three months ended September 30, 2015			Three months ended September 30, 2014		
	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	4	$ 2,903	$ 2,903	—	$ —	$ —
Real estate:						
Commercial and multifamily residential:						
Owner occupied	—	—	—	1	1,496	1,496
Total	4	$ 2,903	$ 2,903	1	$ 1,496	$ 1,496

	Nine months ended September 30, 2015			Nine months ended September 30, 2014		
	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	4	$ 2,903	$ 2,903	4	$ 759	$ 759
Real estate:						
One-to-four family residential	1	30	30	2	494	494
Commercial and multifamily residential:						
Income property	—	—	—	1	143	126
Owner occupied	—	—	—	1	1,496	1,496
Total	5	$ 2,933	$ 2,933	8	$ 2,892	$ 2,875

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 completed in the three and nine month periods ending September 30, 2015 and 2014 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 no commitments to lend additional funds on loans classified as TDR as of September 30, 2015 and December 31, 2014. The Company did not have any loans modified as TDR that defaulted within twelve months of being modified as TDR during the three and nine month periods ended September 30, 2015 and 2014.

Purchased Credit Impaired Loans ("PCI Loans")

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

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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 September 30, 2015 and December 31, 2014:

	September 30, 2015	December 31, 2014
	(in thousands)	
Commercial business	$44,234	$50,334
Real estate:		
One-to-four family residential	28,575	31,981
Commercial and multifamily residential	108,895	140,398
Total real estate	137,470	172,379
Real estate construction:		
One-to-four family residential	2,447	4,353
Commercial and multifamily residential	2,225	2,588
Total real estate construction	4,672	6,941
Consumer	22,477	26,814
Subtotal of PCI loans	208,853	256,468
Less:		
Valuation discount resulting from acquisition accounting	17,787	25,884
Allowance for loan losses	13,990	16,336
PCI loans, net of allowance for loan losses	$177,076	$214,248

The following table shows the changes in accretable yield for PCI loans for the three and nine months ended September 30, 2015 and 2014:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Balance at beginning of period	$67,283	$92,511	$73,849	$103,907
Accretion	(5,049)	(8,034)	(17,105)	(28,658)
Disposals	256	(357)	(1,796)	(3,183)
Reclassifications from nonaccretable difference	350	(3,589)	7,892	8,465
Balance at end of period	$62,840	$80,531	$62,840	$80,531

6. 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.

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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 nine months ended September 30, 2015 and 2014. Adjustments to the percentages of the ALLL allocated to loan categories are made based on trends with respect to delinquencies and problem loans within each class of loans. The Company reviews the ALLL quantitative and qualitative methodology on a quarterly basis and makes adjustments when appropriate. The Company continues to strive towards maintaining a conservative approach to credit quality and will continue to make revisions to our 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.

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 5, 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.

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The following tables show a detailed analysis of the ALLL for the three and nine months ended September 30, 2015 and 2014:

	Beginning Balance	Charge-offs	Recoveries	Provision (Recovery)	Ending Balance	Specific Reserve	General Allocation
Three months ended September 30, 2015	(in thousands)						
Commercial business:							
Secured	$27,708	$(2,439)	$530	$5,189	$30,988	$1,020	$29,968
Unsecured	857	(131)	93	471	1,290	—	1,290
Real estate:							
One-to-four family residential	1,355	—	261	(420)	1,196	84	1,112
Commercial & multifamily residential:							
Commercial land	1,581	—	130	123	1,834	—	1,834
Income property	8,197	(83)	273	22	8,409	—	8,409
Owner occupied	5,801	(115)	14	473	6,173	17	6,156
Real estate construction:							
One-to-four family residential:							
Land and acquisition	497	—	98	(206)	389	64	325
Residential construction	958	—	7	(250)	715	—	715
Commercial & multifamily residential:							
Income property	407	—	2	(68)	341	—	341
Owner occupied	441	—	—	(31)	410	—	410
Consumer	3,182	(311)	297	49	3,217	14	3,203
Purchased credit impaired	16,174	(3,198)	1,533	(519)	13,990	—	13,990
Unallocated	2,099	—	—	(2,002)	97	—	97
Total	$69,257	$(6,277)	$3,238	$2,831	$69,049	$1,199	$67,850

	Beginning Balance	Charge-offs	Recoveries	Provision (Recovery)	Ending Balance	Specific Reserve	General Allocation
Nine months ended September 30, 2015	(in thousands)						
Commercial business:							
Secured	$25,923	$(5,847)	$1,242	$9,670	$30,988	$1,020	$29,968
Unsecured	927	(235)	208	390	1,290	—	1,290
Real estate:							
One-to-four family residential	2,281	(297)	288	(1,076)	1,196	84	1,112
Commercial & multifamily residential:							
Commercial land	799	—	130	905	1,834	—	1,834
Income property	9,159	(126)	3,532	(4,156)	8,409	—	8,409
Owner occupied	5,007	(115)	36	1,245	6,173	17	6,156
Real estate construction:							
One-to-four family residential:							
Land and acquisition	1,197	—	101	(909)	389	64	325
Residential construction	1,860	—	40	(1,185)	715	—	715
Commercial & multifamily residential:							
Income property	622	—	7	(288)	341	—	341

Owner occupied	434	—	—	(24)	410	—	410
Consumer	3,180	(1,521)	707	851	3,217	14	3,203
Purchased credit impaired	16,336	(10,174)	5,262	2,566	13,990	—	13,990
Unallocated	1,844	—	—	(1,747)	97	—	97
Total	$69,569	$(18,315)	$11,553	$ 6,242	$69,049	$1,199	$67,850

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	Beginning Balance	Charge-offs	Recoveries	Provision (Recovery)	Ending Balance	Specific Reserve	General Allocation
Three months ended September 30, 2014	(in thousands)						
Commercial business:							
Secured	$25,519	$(1,348)	$333	$243	$24,747	$39	$24,708
Unsecured	754	—	23	112	889	11	878
Real estate:							
One-to-four family residential	1,083	—	63	230	1,376	124	1,252
Commercial & multifamily residential:							
Commercial land	470	—	51	(124)	397	—	397
Income property	10,511	—	83	(784)	9,810	—	9,810
Owner occupied	4,990	(7)	5	(193)	4,795	31	4,764
Real estate construction:							
One-to-four family residential:							
Land and acquisition	403	—	3	876	1,282	68	1,214
Residential construction	677	—	18	1,103	1,798	—	1,798
Commercial & multifamily residential:							
Income property	414	—	—	535	949	—	949
Owner occupied	166	—	—	168	334	—	334
Consumer	2,643	(620)	340	502	2,865	—	2,865
Purchased credit impaired	19,801	(3,236)	1,888	(520)	17,933	—	17,933
Unallocated	1,864	—	—	(1,168)	696	—	696
Total	$69,295	$(5,211)	$2,807	$980	$67,871	$273	$67,598

	Beginning Balance	Charge-offs	Recoveries	Provision (Recovery)	Ending Balance	Specific Reserve	General Allocation
Nine months ended September 30, 2014	(in thousands)						
Commercial business:							
Secured	$31,027	$(3,188)	$2,216	$(5,308)	$24,747	$39	$24,708
Unsecured	696	(110)	342	(39)	889	11	878
Real estate:							
One-to-four family residential	1,252	(207)	103	228	1,376	124	1,252
Commercial & multifamily residential:							
Commercial land	489	(29)	70	(133)	397	—	397
Income property	9,234	(1,934)	601	1,909	9,810	—	9,810
Owner occupied	3,605	(1,030)	44	2,176	4,795	31	4,764
Real estate construction:							
One-to-four family residential:							
Land and acquisition	610	—	44	628	1,282	68	1,214
Residential construction	822	—	461	515	1,798	—	1,798
Commercial & multifamily residential:							
Income property	285	—	—	664	949	—	949
Owner occupied	58	—	—	276	334	—	334
Consumer	2,547	(2,256)	931	1,643	2,865	—	2,865

Purchased credit impaired	20,174	(11,350)	5,690	3,419	17,933	—	17,933
Unallocated	1,655	—	—	(959)	696	—	696
Total	$72,454	$(20,104)	$10,502	$5,019	$67,871	$273	$67,598

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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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Balance at beginning of period	$2,930	$2,355	$2,655	$2,505
Net changes in the allowance for unfunded commitments and letters of credit	—	150	275	—
Balance at end of period	$2,930	$2,505	$2,930	$2,505

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 loans are generally considered to have sufficient sources of repayment in order to repay the loan in full in accordance with all terms and conditions. Special mention loans have potential weaknesses that, if left uncorrected, may result in deterioration of the repayment prospects for the asset or in the Company’s credit position at some future date. Loans with a risk rating of Substandard or worse are reported as classified loans in our 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. Substandard loans reflect loans where a loss is possible if loan weaknesses are not corrected. Doubtful loans have a high probability of loss, however, the amount of loss has not yet been determined. Loss loans are considered uncollectable and when identified, are charged off.

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The following is an analysis of the credit quality of our loan portfolio, excluding PCI loans, as of September 30, 2015 and December 31, 2014:

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
September 30, 2015	(in thousands)					
Loans, excluding PCI loans:						
Commercial business:						
Secured	$2,162,946	$48,884	$54,138	$—	$—	$2,265,968
Unsecured	81,902	17	1,820	—	—	83,739
Real estate:						
One-to-four family residential	170,685	53	3,379	—	—	174,117
Commercial and multifamily residential:						
Commercial land	200,404	6,850	1,158	—	—	208,412
Income property	1,307,536	6,580	8,348	—	—	1,322,464
Owner occupied	870,085	7,363	18,866	—	—	896,314
Real estate construction:						
One-to-four family residential:						
Land and acquisition	14,379	—	156	—	—	14,535
Residential construction	120,011	—	1,296	—	—	121,307
Commercial and multifamily residential:						
Income property	63,182	—	—	—	—	63,182
Owner occupied	68,371	—	872	—	—	69,243
Consumer	333,721	—	2,443	—	—	336,164
Total	$5,393,222	$69,747	$92,476	$—	$—	5,555,445
Less:						
Allowance for loan and lease losses						55,059
Loans, excluding PCI loans, net						$5,500,386

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
December 31, 2014	(in thousands)					
Loans, excluding PCI loans:						
Commercial business:						
Secured	$1,963,210	$15,790	$54,628	$—	$—	$2,033,628
Unsecured	79,534	—	559	—	—	80,093
Real estate:						
One-to-four family residential	163,914	55	7,795	—	—	171,764
Commercial and multifamily residential:						
Commercial land	183,701	4,217	1,861	—	—	189,779
Income property	1,287,729	5,885	8,385	—	—	1,301,999
Owner occupied	825,694	7,876	11,171	—	—	844,741
Real estate construction:						
One-to-four family residential:						
Land and acquisition	15,307	167	1,036	—	—	16,510
Residential construction	96,031	909	1,581	—	—	98,521
Commercial and multifamily residential:						

Income property	73,783	—	—	—	—	73,783
Owner occupied	58,055	—	889	—	—	58,944
Consumer	339,695	68	5,269	—	—	345,032
Total	$5,086,653	$34,967	$93,174	$—	$—	5,214,794
Less:						
Allowance for loan and lease losses						53,233
Loans, excluding PCI loans, net						$5,161,561

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The following is an analysis of the credit quality of our PCI loan portfolio as of September 30, 2015 and December 31, 2014:

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
September 30, 2015	(in thousands)					
PCI loans:						
Commercial business:						
Secured	$34,524	$198	$8,070	$—	$—	$42,792
Unsecured	1,422	—	20	—	—	1,442
Real estate:						
One-to-four family residential	25,581	—	2,994	—	—	28,575
Commercial and multifamily residential:						
Commercial land	8,711	—	665	—	—	9,376
Income property	39,457	—	7,007	—	—	46,464
Owner occupied	51,073	—	1,982	—	—	53,055
Real estate construction:						
One-to-four family residential:						
Land and acquisition	1,168	—	500	—	—	1,668
Residential construction	767	—	12	—	—	779
Commercial and multifamily residential:						
Income property	1,322	—	—	—	—	1,322
Owner occupied	903	—	—	—	—	903
Consumer	21,369	—	1,108	—	—	22,477
Total	$186,297	$198	$22,358	$—	$—	208,853
Less:						
Valuation discount resulting from acquisition accounting						17,787
Allowance for loan losses						13,990
PCI loans, net						$177,076

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
December 31, 2014	(in thousands)					
PCI loans:						
Commercial business:						
Secured	$37,927	$937	$9,223	$—	$—	$48,087
Unsecured	2,156	—	91	—	—	2,247
Real estate:						
One-to-four family residential	28,822	—	3,159	—	—	31,981
Commercial and multifamily residential:						
Commercial land	9,104	—	6,240	—	—	15,344
Income property	51,435	1,892	7,186	—	—	60,513
Owner occupied	58,629	346	5,566	—	—	64,541
Real estate construction:						
One-to-four family residential:						
Land and acquisition	1,595	—	913	—	—	2,508
Residential construction	741	—	1,104	—	—	1,845

Commercial and multifamily residential:						
Income property	1,435	—	227	—	—	1,662
Owner occupied	926	—	—	—	—	926
Consumer	24,037	—	2,777	—	—	26,814
Total	$216,807	$3,175	$36,486	$—	$—	256,468
Less:						