HERITAGE FINANCIAL CORP /WA/
Form 10-Q
July 31, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2013

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number 0-29480

HERITAGE FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Washington **(State or other jurisdiction of** **incorporation or organization)**	**91-1857900** **(I.R.S. Employer** **Identification No.)**
201 Fifth Avenue SW, Olympia, WA **(Address of principal executive offices)**	**98501** **(Zip Code)**

(360) 943-1500

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 x 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 definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	x
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 x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the last practicable date:

As of July 19, 2013 there were 16,742,667 common shares outstanding, with no par value, of the registrant.

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HERITAGE FINANCIAL CORPORATION

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FORWARD LOOKING STATEMENT

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Forward Looking Statements

Safe Harbor statement under the Private Securities Litigation Reform Act of 1995: This Form 10-Q contains forward-looking statements that are subject to risks and uncertainties, including, but not limited to: our ability to successfully integrate any assets, liabilities, customers, systems, and management personnel we have acquired including the Valley Community Bancshares, Northwest Commercial Bank, Cowlitz Bank and Pierce Commercial Bank transactions, or may in the future acquire, into our operations, and our ability to realize related revenue synergies and cost savings within expected time frames or at all, and any goodwill charges related thereto and costs or difficulties relating to the integration matters, including but not limited to customer and employee retention, which might be greater than expected; the credit risks of lending activities, including changes in the level and trend of loan delinquencies and write-offs and changes in our allowance for loan losses and provision for loan losses that may be impacted by deterioration in the housing and commercial real estate markets, which may lead to increased losses and non-performing assets in our loan portfolio, and may result in our allowance for loan losses no longer being adequate to cover actual losses, and require us to increase our allowance for loan losses; changes in general economic conditions, either nationally or in our market areas; changes in the levels of general interest rates, and the relative differences between short and long term interest rates, deposit interest rates, our net interest margin and funding sources; risks related to acquiring assets in or entering markets in which we have not previously operated and may not be familiar; fluctuations in the demand for loans, the number of unsold homes and other properties and fluctuations in real estate values in our market areas; results of examinations of us by the Federal Reserve and of our bank subsidiary by the Federal Deposit Insurance Corporation (the FDIC), the Washington State Department of Financial Institutions, Division of Banks (the Washington DFI) or other regulatory authorities, including the possibility that any such regulatory authority may, among other things, require us to increase our allowance for loan losses, write-down assets, change our regulatory capital position or affect our ability to borrow funds or maintain or increase deposits, or impose additional requirements and restrictions on us, any of which could adversely affect our liquidity and earnings; legislative or regulatory changes that adversely affect our business including changes in regulatory policies and principles, or the interpretation of regulatory capital or other rules as a result of Basel III; our ability to control operating costs and expenses; the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act and implementing regulations; further increases in premiums for deposit insurance; the use of estimates in determining fair value of certain of our assets, which estimates may prove to be incorrect and result in significant declines in valuation; difficulties in reducing risk associated with the loans on our condensed consolidated statement of financial condition; staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our workforce and potential associated charges; failure or security breach of computer systems on which we depend; our ability to retain key members of our senior management team; costs and effects of litigation, including settlements and judgments; our ability to implement our expansion strategy of pursuing acquisitions and de novo branching; increased competitive pressures among financial service companies; changes in consumer spending, borrowing and savings habits; the availability of resources to address changes in laws, rules, or regulations or to respond to regulatory actions; adverse changes in the securities markets; inability of key third-party providers to perform their obligations to us; changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies or the Financial Accounting Standards Board, including additional guidance and interpretation on accounting issues and details of the implementation of new accounting methods; other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, products and services; and other risks detailed from time to time in our filings with the Securities and Exchange Commission (SEC).

The Company cautions readers not to place undue reliance on any forward-looking statements. Moreover, you should treat these statements as speaking only as of the date they are made and based only on information then actually known to the Company. The Company does not undertake and specifically disclaims any obligation to revise any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements. These risks could cause our actual results for the remainder of 2013 and beyond to differ materially from those expressed in any forward-looking statements by, or on behalf of, us, and could negatively affect the Company s operating and stock price performance.

As used throughout this report, the terms we , our , us , or the Company refer to Heritage Financial Corporation and its consolidated subsidiar unless the context otherwise requires.

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ITEM 1. HERITAGE FINANCIAL CORPORATION

HERITAGE FINANCIAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Dollars in thousands)

(Unaudited)

	June 30, 2013	December 31, 2012
ASSETS		
Cash on hand and in banks	$ 31,062	$ 37,180
Interest earning deposits	63,060	69,906
Cash and cash equivalents	94,122	107,086
Investment securities available for sale	143,155	144,293
Investment securities held to maturity (fair value of $13,546 and $11,010)	13,078	10,099
Loans held for sale		1,676
Originated loans receivable, net	932,488	874,485
Less: Allowance for loan losses	(17,822)	(19,125)
Originated loans receivable, net of allowance for loan losses	914,666	855,360
Purchased covered loans receivable, net of allowance for loan losses of ($5,769 and $4,352)	74,957	83,978
Purchased non-covered loans receivable, net of allowance for loan losses of ($4,789 and $5,117)	96,830	59,006
Total loans receivable, net	1,086,453	998,344
Federal Deposit Insurance Corporation (FDIC) indemnification asset	4,753	7,100
Other real estate owned ($316 and $260 covered by FDIC loss share, respectively)	3,796	5,666
Premises and equipment, net	27,356	24,755
Federal Home Loan Bank (FHLB) stock, at cost	5,482	5,495
Accrued interest receivable	4,822	4,821
Prepaid expenses and other assets	10,910	8,288
Deferred income taxes, net	17,683	13,819
Other intangible assets, net	1,013	1,086
Goodwill	13,012	13,012
Total assets	$ 1,425,635	$ 1,345,540
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits	$ 1,196,531	$ 1,117,971
Securities sold under agreement to repurchase	16,360	16,021
Accrued expenses and other liabilities	12,219	12,610
Total liabilities	1,225,110	1,146,602
Stockholders equity:		
Preferred stock, no par value, 2,500,000 shares authorized; no shares issued and outstanding at June 30, 2013 and December 31, 2012		
Common stock, no par value, 50,000,000 shares authorized; 15,207,784 and 15,117,980 shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively	122,519	121,832
Retained earnings	78,515	75,362
Accumulated other comprehensive (loss) income, net	(509)	1,744

Total stockholders equity		200,525		198,938
Total liabilities and stockholders equity	$	1,425,635	$	1,345,540

See accompanying Notes to Condensed Consolidated Financial Statements.

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HERITAGE FINANCIAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except for per share amounts)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
INTEREST INCOME:				
Interest and fees on loans	$ 16,028	$ 16,465	$ 32,747	$ 33,483
Taxable interest on investment securities	404	604	777	1,256
Nontaxable interest on investment securities	345	267	680	523
Interest and dividends on other interest earning assets	82	53	139	116
Total interest income	16,859	17,389	34,343	35,378
INTEREST EXPENSE:				
Deposits	909	1,163	1,847	2,440
Other borrowings	10	16	19	34
Total interest expense	919	1,179	1,866	2,474
Net interest income	15,940	16,210	32,477	32,904
Provision for loan losses on originated loans	345	200	840	200
Provision for loan losses on purchased loans	963	419	1,326	310
Net interest income after provision for loan losses	14,632	15,591	30,311	32,394
NONINTEREST INCOME:				
Bargain purchase gain on bank acquisition			399	
Service charges and other fees	1,432	1,394	2,785	2,720
Merchant Visa income, net	211	182	384	352
Change in FDIC indemnification asset	281	(19)	14	(195)
Other income	433	507	1,059	1,095
Total noninterest income	2,357	2,064	4,641	3,972
NONINTEREST EXPENSE:				
Impairment loss on investment securities	24	62	26	98
Less: Portion recorded as other comprehensive loss		(38)		(38)
Impairment loss on investment securities, net	24	24	26	60
Compensation and employee benefits	7,617	7,287	15,206	14,485
Occupancy and equipment	1,995	1,832	3,915	3,617
Data processing	720	668	1,856	1,259
Marketing	386	369	712	772
Professional services	640	628	1,670	1,182
State and local taxes	305	320	584	630
Federal deposit insurance premium	275	263	507	538
Other real estate owned, net	5	196	(98)	452
Other expense	1,040	1,283	2,349	2,473
Total noninterest expense	13,007	12,870	26,727	25,468

Income before income taxes	3,982	4,785	8,225	10,898
Income tax expense	1,292	1,591	2,650	3,534
Net income	$ 2,690	$ 3,194	$ 5,575	$ 7,364
Basic earnings per common share	$ 0.18	$ 0.21	$ 0.37	$ 0.48
Diluted earnings per common share	$ 0.18	$ 0.21	$ 0.37	$ 0.48
Dividends declared per common share:	$ 0.08	$ 0.28	$ 0.16	$ 0.34

See accompanying Notes to Condensed Consolidated Financial Statements.

HERITAGE FINANCIAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
Comprehensive Income	**2013**	**2012**	**2013**	**2012**
Net income	$ 2,690	$ 3,194	$ 5,575	$ 7,364
Change in fair value of securities available for sale, net of tax of $(1,049), $194, $(1,232) and $17	(1,947)	360	(2,289)	33
Other-than-temporary impairment on securities held to maturity, net of tax of $0 $(13), $0 and $(13)		(25)		(25)
Accretion of other-than-temporary impairment in securities held to maturity, net of tax of $12, $14, $19 and $28	22	26	36	52
Other comprehensive (loss) income	$ (1,925)	$ 361	$ (2,253)	$ 60
Comprehensive income	$ 765	$ 3,555	$ 3,322	$ 7,424

See accompanying Notes to Condensed Consolidated Financial Statements.

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HERITAGE FINANCIAL CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY FOR THE SIX MONTHS ENDED

JUNE 30, 2013

(Dollars and shares in thousands, except for per share amounts)

(Unaudited)

	Number of common shares	Common stock	Retained earnings	Accumulated other comprehensive income (loss), net	Total stock holders equity
Balance at December 31, 2012	15,118	$ 121,832	$ 75,362	$ 1,744	$ 198,938
Restricted and unrestricted stock awards issued, net of forfeitures	99				
Stock option compensation expense		42			42
Exercise of stock options (including excess tax benefits from nonqualified stock options)	3	37			37
Restricted stock compensation expense		722			722
Excess tax benefits from restricted stock		68			68
Common stock repurchased and retired	(12)	(182)			(182)
Net income			5,575		5,575
Other comprehensive loss, net of tax				(2,253)	(2,253)
Cash dividends declared on common stock ($0.16 per share)			(2,422)		(2,422)
Balance at June 30, 2013	15,208	$ 122,519	$ 78,515	$ (509)	$ 200,525

See accompanying Notes to Condensed Consolidated Financial Statements.

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HERITAGE FINANCIAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the six months ended June 30, 2013 and 2012

(Dollars in thousands)

(Unaudited)

	Six Months Ended June 30, 2013	2012
Cash flows from operating activities:		
Net income	$ 5,575	$ 7,364
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,572	1,868
Changes in net deferred loan fees, net of amortization	397	36
Provision for loan losses	2,166	510
Net change in accrued interest receivable, prepaid expenses and other assets, accrued expenses and other liabilities	(378)	(3,621)
Recognition of compensation related to ESOP shares and share based payment	722	620
Stock option compensation expense	42	60
Tax provision realized from stock options exercised, share based payment and dividends on unallocated ESOP shares	(68)	44
Amortization of intangible assets	229	214
Deferred income tax	222	217
Bargain purchase gain on bank acquisition	(399)	
Impairment loss on investment of securities	26	60
Origination of loans held for sale	(6,784)	(7,568)
Gain on sale of loans	(142)	(116)
Proceeds from sale of loans	8,602	8,338
Valuation adjustment on other real estate owned	(22)	483
(Gain) loss on other real estate owned, net	(232)	2
Loss on sale of premises and equipment, net		2
Net cash provided by operating activities	12,528	8,513
Cash flows from investing activities:		
Loans originated, net of principal payments	(39,426)	(4,012)
Maturities of investment securities available for sale	31,369	25,989
Maturities of investment securities held to maturity	784	1,037
Purchase of investment securities available for sale	(32,508)	(32,113)
Purchase of investment securities held to maturity	(3,733)	
Purchase of premises and equipment	(3,451)	(1,215)
Proceeds from sales of other real estate owned	4,666	891
Proceeds from redemption of FHLB stock	101	
Net cash received from acquisitions	748	
Net cash used in investing activities	(41,450)	(9,423)
Cash flows from financing activities:		
Net increase (decrease) in deposits	18,118	(22,698)
Common stock cash dividends paid	(2,422)	(2,157)
Net increase (decrease) in securities sold under agreement to repurchase	339	(9,435)

Proceeds from exercise of stock options	37	11
Tax provision realized from stock options exercised, share based payment and dividends on unallocated ESOP shares	68	(44)
Repurchase of common stock	(182)	(5,270)
Net cash provided by (used in) financing activities	15,958	(39,593)
Net decrease in cash and cash equivalents	(12,964)	(40,503)
Cash and cash equivalents at beginning of period	107,086	123,759
Cash and cash equivalents at end of period	$ 94,122	$ 83,256
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 1,874	$ 2,531
Cash paid for income taxes	3,074	7,372
Seller-financed sale of other real estate owned	250	
Loans transferred to other real estate owned	513	5,526
Assets acquired (liabilities assumed) in acquisitions:		
Investment securities available for sale	2,753	
Purchased non-covered loans receivable	51,509	
Other real estate owned	2,279	
Premises and equipment	214	
FHLB stock	88	
Accrued interest receivable	232	
Prepaid expenses and other assets	1,175	
Deferred income taxes, net	2,873	
Core deposit intangible	156	
Deposits	(60,442)	
Accrued expenses and other liabilities	(1,186)	

See accompanying Notes to Condensed Consolidated Financial Statements.

HERITAGE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three and Six Months Ended June 30, 2013 and 2012

(Unaudited)

(1) Description of Business and Basis of Presentation

(a) Description of Business

Heritage Financial Corporation (the Company) is a bank holding company incorporated in the State of Washington in August 1997. The Company is primarily engaged in the business of planning, directing and coordinating the business activities of its wholly owned subsidiary Heritage Bank (the Bank). The Bank is a Washington-chartered commercial bank and its deposits are insured by the FDIC under the Deposit Insurance Fund (DIF). The Bank is headquartered in Olympia, Washington and conducts business from its forty-two, including the eight branches acquired in the Valley Acquisition effective July 15, 2013, branch offices located throughout Washington state and the greater Portland, Oregon area. The Bank s business consists primarily of lending and deposit relationships with small businesses and their owners in its market areas and attracting deposits from the general public. The Bank also makes real estate construction and land development loans and consumer loans and originates first mortgage loans on residential properties located in western and central Washington State and the greater Portland, Oregon area.

The Company has expanded its footprint during the past three years through acquisitions beginning with the FDIC-assisted acquisition of Cowlitz Bank, a Washington state-chartered bank headquartered in Longview, Washington effective on July 30, 2010. Heritage Bank entered into a definitive agreement with the FDIC, pursuant to which Heritage Bank acquired certain assets and assumed certain liabilities of Cowlitz Bank (the Cowlitz Acquisition). The Cowlitz Acquisition included nine branches of Cowlitz Bank, including its division Bay Bank, which opened as branches of Heritage Bank as of August 2, 2010. It also included the Trust Services Division of Cowlitz Bank. Effective November 5, 2010, Heritage Bank entered into a definitive agreement with the FDIC, pursuant to which Heritage Bank acquired certain assets and assumed certain liabilities of Pierce Commercial Bank, a Washington state-chartered bank headquartered in Tacoma, Washington (the Pierce Commercial Acquisition). The Pierce Commercial Acquisition included one branch, which opened as a branch of Heritage Bank as of November 8, 2010. On September 14, 2012, the Company announced that it had entered into a definitive agreement along with its financial institution subsidiary, Heritage Bank, to acquire Northwest Commercial Bank (NCB) a full service commercial bank headquartered in Lakewood, Washington (the NCB Acquisition). NCB operated two branch locations in Lakewood and Auburn, Washington. The NCB Acquisition was completed on January 9, 2013, with the merger of NCB into Heritage Bank. See Note 2, Business Combination. The Cowlitz Acquisition, Pierce Commercial Acquisition and NCB Acquisition are collectively referred to as the Cowlitz, Pierce and NCB Acquisitions.

On March 11, 2013, the Company announced it had entered into a definitive agreement to acquire Valley Community Bancshares, Inc. and its wholly-owned subsidiary, Valley Bank, both headquartered in Puyallup, Washington (the Valley Acquisition). The Valley Acquisition was completed on July 15, 2013. For additional information, see Note 14, Subsequent Event.

Finally, on April 8, 2013, the Company announced the proposed merger of its two wholly-owned bank subsidiaries Central Valley Bank and Heritage Bank, with Central Valley Bank merging into Heritage Bank. The common control merger was completed on June 19, 2013 and on a consolidated basis had no accounting impact on the Company. Central Valley Bank is now operating as a division of Heritage Bank.

(b) Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with Generally Accepted Accounting Principles (GAAP), for interim financial information, pursuant to the rules and regulations of the SEC. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. These Condensed Consolidated Financial Statements and accompanying Notes should be read with our December 31, 2012 audited Consolidated Financial Statements and the accompanying Notes included in our Annual Report on Form 10-K (2012 Annual Form 10-K). In our opinion, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. In preparing the Condensed Consolidated Financial Statements, we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. Actual results could differ from those estimates. Estimates related to the allowance for loan losses, other than temporary impairments in the fair value of investment securities, expected cash flows of purchased loans and related indemnification asset, fair value measurements, stock-based compensation, impairment of goodwill and other intangible assets and income taxes are particularly subject to change.

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Certain prior period amounts have been reclassified to conform to the current year s presentation. Reclassifications had no effect on prior period net income or stockholders equity.

(c) Significant Accounting Policies

The significant accounting policies used in preparation of our Condensed Consolidated Financial Statements are disclosed in our 2012 Annual Form 10-K. There have not been any material changes in our significant accounting policies from those contained in our 2012 Annual Form 10-K disclosure for the year ended December 31, 2012.

(d) Recently Issued Accounting Pronouncements

Financial Accounting Standards Board (FASB) Accounting Standards Updated (ASU) 2011-11, *Disclosures about Offsetting Assets and Liabilities*, was issued in December 2011 to require an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The adoption of the Update did not have a material effect on the Company s Condensed Consolidated Financial Statements at the date of adoption.

FASB ASU 2012-06, *Business Combinations (Topic 805): Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution*, was issued in October 2012. The objective of the Update is to address the diversity in practice about how to interpret the terms on the same basis and contractual limitations when subsequently measuring an indemnification asset. This Update is effective for fiscal years and interim periods beginning on or after December 15, 2012. Early adoption was permitted, and adoption was to be applied prospectively to indemnification assets existing as of the date of adoption. The adoption of this Update did not have a material effect on the Company s Condensed Consolidated Financial Statements at the date of adoption as the Company previously accounted for its indemnification asset in a manner consistent with the Update.

FASB ASU 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, was issued in February 2013. The Update requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income (loss) by component and to present either on the face of the statement where net income is presented, or in the notes, significant amounts reclassified out of accumulated other comprehensive income (loss) by the respective line items of net income, but only if the amount reclassified is required to be reclassified to net income in its entirety in the same reporting period. The amendments are effective for annual and interim reporting periods beginning on or after December 15, 2012. The adoption of this Update did not have a material effect on the Company s Condensed Consolidated Financial Statements. The additional disclosures are included in Note 7, Accumulated Other Comprehensive Income (Loss).

(2) Business Combination

On September 14, 2012, the Company announced that it had entered into a definitive agreement along with its wholly-owned bank subsidiary, Heritage Bank, to acquire NCB headquartered in Lakewood, Washington. NCB was a full service commercial bank that operated two branch locations in Lakewood and Auburn, Washington. Prior to the closing of the transaction, NCB redeemed its outstanding preferred stock of approximately $2.0 million issued to the U.S. Department of Treasury in connection with its participation in the Troubled Asset Relief Program Capital Purchase Plan. The NCB Acquisition was completed on January 9, 2013, and NCB was merged into Heritage Bank. After the NCB Acquisition, the NCB Lakewood branch was consolidated into one of Heritage Bank s full service banking offices in Lakewood, Washington.

In connection with the NCB Acquisition, the Company paid a cash consideration of $3.0 million, or $5.50 per NCB share, to NCB shareholders on January 9, 2013. In addition, per the merger agreement, the NCB shareholders had the ability to potentially receive an additional cash payment based on an earn-out structure from the sale of an NCB asset included in other real estate owned. This contingent payment was factored into the liabilities assumed as of the January 9, 2013 acquisition date. This asset was sold during the three months ended June 30, 2013, and the proceeds from the sale in the amount of $491,000 were paid to the NCB shareholders subsequent to June 30, 2013. The payment of these proceeds did not impact the recorded bargain purchase gain on bank acquisition.

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The acquisition of the net assets constitutes a business acquisition as defined by FASB Accounting Standards Codification (ASC) 805, *Business Combinations*. The Business Combinations topic establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired and the liabilities assumed. Accordingly, the estimated fair values of the acquired assets, including the identifiable intangible assets, and the assumed liabilities in the acquisition were measured and recorded as of the acquisition date.

A statement of the fair value of the assets acquired and liabilities assumed in the NCB Acquisition was as follows:

	Northwest Commercial Bank January 9, 2013 (In thousands)	
Assets		
Cash on hand and in banks	$	2,463
Interest earning deposits		1,252
Investment securities available for sale		2,753
Purchased non-covered loans receivable		51,509
Other real estate owned		2,279
Premises and equipment		214
FHLB stock		88
Accrued interest receivable		232
Core deposit intangible		156
Prepaid expenses and other assets		1,175
Deferred income taxes, net		2,873
Total assets acquired	$	64,994
Liabilities		
Deposits	$	60,442
Accrued expenses and other liabilities		1,186
Total liabilities assumed		61,628
Net assets acquired	$	3,366

The cost basis of net assets transferred to Heritage Bank was $6.1 million. A bargain purchase gain on bank acquisition of $399,000 was recognized by the Company in the Condensed Consolidated Statement of Income for the six months ended June 30, 2013. A summary of the net assets purchased and the estimated fair value adjustments and resulting bargain purchase gain recognized from the NCB Acquisition was as follows:

	Northwest Commercial Bank January 9, 2013 (In thousands)	
Cost basis of net assets on acquisition date	$	6,113
Cash consideration paid		(2,967)
Fair value adjustments:		
Interest earning deposits		7
Investment securities		(2)
Purchased non-covered loans, net		(3,299)
Other real estate owned		(1,301)
Premises and equipment		(69)

Core deposit intangible		156
Prepaid expenses and other assets		(479)
Deferred income tax, net		2,873
Certificates of deposit		(11)
Accrued expenses and other liabilities		(622)
Bargain purchase gain recognized from the acquisition	$	399

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The bargain purchase gain on bank acquisition represents the excess of the estimated fair value of the net assets acquired and liabilities assumed over the value of the consideration paid. The bargain purchase gain was influenced significantly by the net deferred tax asset acquired in the NCB Acquisition. NCB had significant net operating losses and as a result of its estimate of whether or not it was more likely than not that the net deferred tax asset would be realized, had recorded a full valuation allowance on the net deferred tax asset. The Company, however, has reviewed the net deferred tax asset and determined it is more likely than not that the net deferred tax asset would be realized by the Company.

The operating results of the Company for the three and six months ended June 30, 2013 include the operating results produced by the net assets acquired from the NCB Acquisition since the January 9, 2013 acquisition date. The Company has considered the requirement of FASB ASC 805 related to the contribution of the NCB Acquisition to the Company s results of operations. The table below presents only the significant results for the acquired business from the acquisition date.

	Northwest Commercial Bank	
	Three Months Ended June 30, 2013	January 10, 2013 to June 30, 2013
	(In thousands)	
Interest income: Interest and fees on loans (1)	$ 595	$ 1,160
Interest income: Interest and fees on loan (2)	366	1,462
Interest expense: Deposits	(81)	(157)
Provision for loan losses on purchased loans:	(250)	(250)
Noninterest income:	35	473
Noninterest expense:	(196)	(1,224)
Net effect, pre-tax	$ 469	$ 1,464

(1) Includes the contractual interest income on the purchased other loans.
(2) Includes the accretion of the purchased impaired loans and the amortization of the discount on the purchased other loans.

The Company also considered the pro forma requirements of FASB ASC 805 and deemed it not necessary to provide pro forma financial statements as required under the standard as the NCB Acquisition was not material to the Company. The Company believes that the historical NCB operating results are not significant to be meaningful to the Company s results of operations.

There were no acquisitions completed by the Company during the year ended December 31, 2012.

(3) Loans Receivable

The Company originates loans in the ordinary course of business. These loans are identified as originated loans. Disclosures related to the Company s recorded investment in originated loans receivable generally exclude accrued interest receivable and net deferred loan origination fees and costs because they are insignificant. The Company has also acquired loans through FDIC-assisted and open bank transactions. Loans acquired in a business acquisition are designated as purchased loans. The Company refers to the purchased loans subject to the FDIC shared-loss agreements as covered loans, and those loans without shared-loss agreements are referred to as non-covered loans. Loans purchased with evidence of credit deterioration since origination for which it is probable that not all contractually required payments will be collected are accounted for under FASB ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. These loans are identified as purchased impaired loans. Loans purchased that are not accounted for under FASB ASC 310-30 are accounted for under FASB ASC 310-20, *Receivables Nonrefundable fees and Other Costs*. These loans are identified as purchased other loans.

(a) Loan Origination/Risk Management

The Company originates loans in one of the four segments of the total loan portfolio: commercial business, real estate construction and land development, one-to-four family residential, and consumer. Within these segments are classes of loans to which management monitors and assesses credit risk in the loan portfolios. The Company has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies, and nonperforming and potential problem loans. The Company also conducts external loan reviews and validates the credit risk assessment on a periodic basis and presents the results of these reviews to management. The loan review process complements and reinforces the risk identification and assessment decisions made by loan officers and credit personnel, as well as the Company s policies and procedures.

A discussion of the risk characteristics of each portfolio segment is as follows:

Commercial Business:

There are three significant classes of loans in the commercial portfolio segment, including commercial and industrial loans, owner-occupied commercial real estate, and non-owner occupied commercial real estate. The owner and non-owner occupied commercial real estate are both considered commercial real estate loans. As the commercial and industrial loans carry different risk characteristics than the commercial real estate loans, they are discussed separately below.

Commercial and industrial. Commercial and industrial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial and industrial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may include a personal guarantee; however, some short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

Commercial real estate. The Company originates commercial real estate loans within its primary market areas. These loans are subject to underwriting standards and processes similar to commercial and industrial loans, in addition to those of real estate loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate involves more risk than other classes of loans in that the lending typically involves higher loan principal amounts, and payments on loans secured by real estate properties are dependent on successful operation and management of the properties. Repayment of these loans may be more adversely affected by conditions in the real estate market or the economy.

One-to-Four Family Residential:

The majority of the Company s one-to-four family residential loans are secured by single-family residences located in its primary market areas. The Company s underwriting standards require that single-family portfolio loans generally are owner-occupied and do not exceed 80% of the lower of appraised value at origination or cost of the underlying collateral. Terms of maturity typically range from 15 to 30 years. Historically, the Company sold most single-family loans in the secondary market.

Real Estate Construction and Land Development:

The Company originates construction loans for one-to-four family residential and for five or more family residential and commercial properties. The one-to-four family residential construction loans generally include construction of custom homes whereby the home buyer is the borrower. The Company also provides financing to builders for the construction of pre-sold homes and, in selected cases, to builders for the construction of speculative residential property. Substantially all construction loans are short-term in nature and priced with a variable rate of interest. Construction lending can involve a higher level of risk than other types of lending because funds are advanced partially based upon the value of the project, which is uncertain prior to the project s completion. Because of the uncertainties inherent in estimating construction costs as well as the market value of a completed project and the effects of governmental regulation of real property, the Company s estimates with regards to the total funds required to complete a project and the related loan-to-value ratio may vary from actual results. As a result, construction loans often involve the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project and the ability of the borrower to sell or lease the property or refinance the indebtedness. If the Company s estimate of the value of a project at completion proves to be overstated, it may have inadequate security for repayment of the loan and may incur a loss if the borrower does not repay the loan. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property or an interim loan commitment from the Company until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions and the availability of long-term financing.

Consumer:

The Company originates consumer loans and lines of credit that are both secured and unsecured. The underwriting process for this segment of loans ensures a qualifying primary and secondary source of repayment. Underwriting standards for home equity loans are significantly influenced by statutory requirements, which include, but are not limited to, a maximum loan-to-value percentage of 80%, collection remedies, the number of such loans a borrower can have at one time and documentation requirements. To monitor and manage consumer loan risk, policies and procedures are developed and modified, as needed. The majority of the consumer loans are relatively small amounts spread across many individual borrowers which minimizes the credit risk. Additionally, trend reports are reviewed by management on a regular basis.

Originated loans receivable at June 30, 2013 and December 31, 2012 consisted of the following portfolio segments and classes:

	June 30, 2013	December 31, 2012
	(In thousands)	
Commercial business:		
Commercial and industrial	$ 284,291	$ 277,240
Owner-occupied commercial real estate	187,964	188,494
Non-owner occupied commercial real estate	337,009	265,835
Total commercial business	809,264	731,569
One-to-four family residential	39,603	38,848
Real estate construction and land development:		
One-to-four family residential	22,153	25,175
Five or more family residential and commercial properties	37,234	52,075
Total real estate construction and land development	59,387	77,250
Consumer	26,727	28,914
Gross originated loans receivable	934,981	876,581
Net deferred loan fees	(2,493)	(2,096)
Originated loans receivable, net	932,488	874,485
Allowance for loan losses	(17,822)	(19,125)
Originated loans receivable, net of allowance for loan losses	$ 914,666	$ 855,360

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The recorded investment of purchased covered loans receivable at June 30, 2013 and December 31, 2012 consisted of the following portfolio segments and classes:

	June 30, 2013	December 31, 2012
	(In thousands)	
Commercial business:		
Commercial and industrial	$ 20,432	$ 25,781
Owner-occupied commercial real estate	30,283	34,796
Non-owner occupied commercial real estate	18,670	13,028
Total commercial business	69,385	73,605
One-to-four family residential	4,936	5,027
Real estate construction and land development:		
One-to-four family residential	1,885	4,433
Five or more family residential and commercial properties		
Total real estate construction and land development	1,885	4,433
Consumer	4,520	5,265
Gross purchased covered loans receivable	80,726	88,330
Allowance for loan losses	(5,769)	(4,352)
Purchased covered loans receivable, net	$ 74,957	$ 83,978

The June 30, 2013 and December 31, 2012 gross recorded investment balance of purchased impaired covered loans accounted for under FASB ASC 310-30 was $52.2 million and $59.0 million, respectively. The gross recorded investment balance of purchased other covered loans was $28.5 million and $29.3 million at June 30, 2013 and December 31, 2012, respectively. At June 30, 2013 and December 31, 2012, the recorded investment balance of purchased covered loans which are no longer covered under the FDIC loss-sharing agreements was $4.3 million and $3.5 million, respectively.

Funds advanced on the purchased covered loans subsequent to acquisition, referred to as subsequent advances, are included in the purchased covered loan balances as these subsequent advances are covered under the loss-sharing agreements. These subsequent advances are not accounted for under FASB ASC 310-30. The total balance of subsequent advances on the purchased covered loans was $9.0 million and $6.9 million as of June 30, 2013 and December 31, 2012, respectively.

The recorded investment of purchased non-covered loans receivable at June 30, 2013 and December 31, 2012 consisted of the following portfolio segments and classes:

	June 30, 2013	December 31, 2012
	(In thousands)	
Commercial business:		
Commercial and industrial	$ 37,279	$ 24,763
Owner-occupied commercial real estate	25,741	13,211
Non-owner occupied commercial real estate	21,051	11,019
Total commercial business	84,071	48,993
One-to-four family residential	3,767	3,040
Real estate construction and land development:		
One-to-four family residential	551	513
Five or more family residential and commercial properties	2,509	864

Total real estate construction and land development	3,060	1,377
Consumer	10,721	10,713
Gross purchased non-covered loans receivable	101,619	64,123
Allowance for loan losses	(4,789)	(5,117)
Purchased non-covered loans receivable, net	$ 96,830	$ 59,006

The loans purchased in the NCB Acquisition on January 9, 2013 are included in the purchased non-covered loans receivable balances shown above as of June 30, 2013. The estimated fair value of the purchased non-covered loans totaled $51.5 million at the NCB Acquisition date. The gross recorded investment balance of the NCB purchased impaired loans and the NCB purchased other loans was $4.7 million and $40.2 million at June 30, 2013, respectively.

The June 30, 2013 and December 31, 2012 gross recorded investment balance of purchased impaired non-covered loans accounted for under FASB ASC 310-30 was $41.7 million and $42.0 million, respectively. The recorded investment balance of purchased other non-covered loans was $60.0 million and $22.1 million at June 30, 2013 and December 31, 2012, respectively.

(b) Concentrations of Credit

Most of the Company s lending activity occurs within Washington State, and to a lesser extent Oregon State. The Company s primary market areas include Thurston, Pierce, King, Mason, Cowlitz and Clark counties in Washington and Multnomah County in Oregon, as well as other contiguous markets. The majority of the Company s loan portfolio consists of commercial and industrial, non-owner occupied commercial real estate, and owner occupied commercial real estate. As of June 30, 2013 and December 31, 2012, there were no concentrations of loans related to any single industry in excess of 10% of the Company s total loans.

(c) Credit Quality Indicators

As part of the on-going monitoring of the credit quality of the Company s loan portfolio, management tracks certain credit quality indicators including trends related to (i) the risk grade of the loans, (ii) the level of classified loans, (iii) net charge-offs, (iv) nonperforming loans, and (v) the general economic conditions of the United States of America, and specifically the states of Washington and Oregon. The Company utilizes a risk grading matrix to assign a risk grade to each of its loans. Loans are graded on a scale of 0 to 9, and a W . A description of the general characteristics of the risk grades is as follows:

Grades 0 to 5: These grades are considered pass grade and includes loans with negligible to above average but acceptable risk. These borrowers generally have strong to acceptable capital levels and consistent earnings and debt service capacity. Loans with the higher grades within the pass category may include borrowers who are experiencing unusual operating difficulties, but have acceptable payment performance to date. Increased monitoring of financials and/or collateral may be appropriate. Loans with this grade show no immediate loss exposure.

Grade W : This grade is considered pass grade and includes loans on management s watch list and is intended to be utilized on a temporary basis for pass grade borrowers where a potentially significant risk-modifying action is anticipated in the near term.

Grade 6: This grade includes Other Assets Especially Mentioned (OAEM) loans in accordance with regulatory guidelines, and is intended to highlight loans with elevated risks. Loans with this grade show signs of deteriorating profits and capital, and the borrower might not be strong enough to sustain a major setback. The borrower is typically higher than normally leveraged, and outside support might be modest and likely illiquid. The loan is at risk of further decline unless active measures are taken to correct the situation.

Grade 7: This grade includes Substandard loans in accordance with regulatory guidelines, for which the Company has determined have a high credit risk. These loans also have well-defined weaknesses which make payment default or principal exposure likely, but not yet certain. The borrower may have shown serious negative trends in financial ratios and performance. Such loans may be dependent upon collateral liquidation, a secondary source of repayment or an event outside of the normal course of business. Loans with this grade can be placed on accrual or nonaccrual status based on the Company s accrual policy.

Grade 8: This grade includes Doubtful loans in accordance with regulatory guidelines, and the Company has determined these loans to have excessive credit risk. Such loans are placed on nonaccrual status and may be dependent upon collateral having a value that is difficult to determine or upon some near-term event which lacks certainty. Additionally, these loans generally have a specific valuation allowance.

Grade 9: This grade includes Loss loans in accordance with regulatory guidelines, and the Company has determined these loans have the highest risk of loss. Such loans are charged-off or charged-down when payment is acknowledged to be uncertain or when the timing or value of payments cannot be determined. Loss is not intended to imply that the loan or some portion of it will never be paid, nor does it in any way imply that there has been a forgiveness of debt.

Loan grades for all commercial business loans and real estate construction and land development loans are established at the origination of the loan. One-to-four family residential loans and consumer loans (non-commercial loans) are not graded as a 0 to 9 at origination date as these loans are determined to be pass graded loans. These non-commercial loans may subsequently require a 0-9 risk grade if the credit department has evaluated the credit and determined it necessary to classify the loan. Loan grades are reviewed on a quarterly basis, or more frequently if necessary, by the credit department. Typically, an individual loan grade will not be changed from the prior period unless there is a specific indication of credit deterioration or improvement. Credit deterioration is evidenced by delinquency, direct communications with the borrower, or other borrower information that becomes known to management. Credit improvements are evidenced by known facts regarding the borrower or the collateral property.

The loan grades relate to the likelihood of losses in that the higher the grade, the greater the loss potential. Loans with a pass grade may have some inherent losses in the portfolios, but to a lesser extent than the other loan grades. These pass graded loans may also have a zero percent loss based on historical experience and current market trends. The OAEM loan grade is transitory in that the Company is waiting on additional information to determine the likelihood and extent of the potential loss. The likelihood of loss for OAEM graded loans, however, is greater than Watch graded loans because there has been measurable credit deterioration. Loans with a Substandard grade are generally loans for which the Company has individually analyzed for potential impairment. For Doubtful and Loss graded loans, the Company is almost certain of the losses, and the unpaid principal balances are generally charged-off to the realizable value.

The following tables present the balance of the originated loans receivable by credit quality indicator as of June 30, 2013 and December 31, 2012.

	June 30, 2013				
	Pass	OAEM	Substandard	Doubtful	Total
	(In thousands)				
Commercial business:					
Commercial and industrial	$ 260,627	$ 3,001	$ 19,538	$ 1,125	$ 284,291
Owner-occupied commercial real estate	179,149	3,010	5,805		187,964
Non-owner occupied commercial real estate	325,380	4,558	7,071		337,009
Total commercial business	765,156	10,569	32,414	1,125	809,264
One-to-four family residential	38,439	272	892		39,603
Real estate construction and land development:					
One-to-four family residential	12,982	4,476	4,695		22,153
Five or more family residential and commercial properties	34,450		2,784		37,234
Total real estate construction and land development	47,432	4,476	7,479		59,387
Consumer	26,560		167		26,727
Gross originated loans	$ 877,587	$ 15,317	$ 40,952	$ 1,125	$ 934,981

	December 31, 2012				
	Pass	OAEM	Substandard	Doubtful	Total
	(In thousands)				
Commercial business:					
Commercial and industrial	$ 254,593	$ 3,908	$ 18,157	$ 582	$ 277,240
Owner-occupied commercial real estate	181,630	2,658	4,206		188,494
Non-owner occupied commercial real estate	256,077	4,132	5,257	369	265,835
Total commercial business	692,300	10,698	27,620	951	731,569
One-to-four family residential	37,239	920	689		38,848
Real estate construction and land development:					
One-to-four family residential	16,446	1,795	6,934		25,175
Five or more family residential and commercial properties	48,718		3,357		52,075
Total real estate construction and land development	65,164	1,795	10,291		77,250
Consumer	28,748		156	10	28,914
Gross originated loans	$ 823,451	$ 13,413	$ 38,756	$ 961	$ 876,581

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The tables above include $31.2 million and $27.5 million of originated impaired loans as of June 30, 2013 and December 31, 2012, respectively, as detailed in the impaired loans section below. These impaired loans have been individually reviewed for probable losses and have a specific valuation allowance, as necessary. The tables above also include potential problem loans. Potential problem loans are those loans that are currently accruing interest and are not considered impaired, but which management is monitoring because the financial information of the borrower causes concern as to their ability to meet their loan repayment terms. Potential problem originated loans as of June 30, 2013 and December 31, 2012 were $29.2 million and $28.3 million, respectively. The balance of potential problem originated loans guaranteed by a governmental agency was $2.0 million and $3.2 million as of June 30, 2013 and December 31, 2012, respectively. This guarantee reduces the Company s credit exposure.

The following tables present the recorded invested balance of the purchased other loans receivable by credit quality indicator as of June 30, 2013 and December 31, 2012.

	June 30, 2013				
	Pass	OAEM	Substandard (In thousands)	Doubtful	Total
Commercial business:					
Commercial and industrial	$ 23,834	$ 498	$ 1,561	$	$ 25,893
Owner-occupied commercial real estate	31,774	2,341	677		34,792
Non-owner occupied commercial real estate	14,423	723	1,850		16,996
Total commercial business	70,031	3,562	4,088		77,681
One-to-four family residential	760	546			1,306
Real estate construction and land development:					
One-to-four family residential					
Five or more family residential and commercial properties	939				939
Total real estate construction and land development	939				939
Consumer	8,096	183	280		8,559
Gross purchased other loans	$ 79,826	$ 4,291	$ 4,368	$	$ 88,485

	December 31, 2012				
	Pass	OAEM	Substandard (In thousands)	Doubtful	Total
Commercial business:					
Commercial and industrial	$ 11,393	$ 496	$ 92	$	$ 11,981
Owner-occupied commercial real estate	23,685	2,390	335		26,410
Non-owner occupied commercial real estate	3,108	732	973		4,813
Total commercial business	38,186	3,618	1,400		43,204
One-to-four family residential	770	553	61		1,384
Real estate construction and land development:					
One-to-four family residential					
Five or more family residential and commercial properties					
Total real estate construction and land development					

Consumer	6,385	2	346	32	6,765
Gross purchased other loans	$ 45,341	$ 4,173	$ 1,807	$ 32	$ 51,353

The tables above include $2.3 million and $2.2 million of purchased other impaired loans as of June 30, 2013 and December 31, 2012, respectively, as detailed in the impaired loans section below. These purchased other impaired loans have been individually reviewed for potential losses and have a specific valuation allowance, as necessary.

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(d) Nonaccrual loans

Originated nonaccrual loans, segregated by segments and classes of loans, were as follows as of June 30, 2013 and December 31, 2012:

	June 30, 2013(1)	December 31, 2012(1)
	(In thousands)	
Commercial business:		
Commercial and industrial	$ 4,947	$ 4,560
Owner-occupied commercial real estate	1,132	563
Non-owner occupied commercial real estate		369
Total commercial business	6,079	5,492
One-to-four family residential	583	389
Real estate construction and land development:		
One-to-four family residential	2,179	3,063
Five or more family residential and commercial properties	2,785	3,357
Total real estate construction and land development	4,964	6,420
Consumer	120	157
Gross originated nonaccrual loans	$ 11,746	$ 12,458

(1) $2.0 million and $1.2 million of nonaccrual originated loans were guaranteed by governmental agencies at June 30, 2013 and December 31, 2012, respectively.

The recorded investment balance of purchased other nonaccrual loans, segregated by segments and classes of loans, were as follows as of June 30, 2013 and December 31, 2012:

	June 30, 2013(1)	December 31, 2012(1)
	(In thousands)	
Commercial business:		
Commercial and industrial	$ 223	$
Owner-occupied commercial real estate	134	139
Non-owner occupied commercial real estate	437	437
Total commercial business	794	576
One-to-four family residential		61
Consumer	10	163
Gross purchased other nonaccrual loans	$ 804	$ 800

(1) $7,000 and $39,000 of purchased other nonaccrual loans were covered by the FDIC shared-loss agreements at June 30, 2013 and December 31, 2012, respectively.

(e) Past due loans

The Company performs an aging analysis of past due loans using the categories of 30-89 days past due and 90 or more days past due. This policy is consistent with regulatory reporting requirements. The balances of originated past due loans, segregated by segments and classes of loans, as of June 30, 2013 and December 31, 2012 were as follows:

	June 30, 2013					
	30-89 Days	90 Days or Greater	Total Past Due	Current (In thousands)	Total	90 Days or More and Still Accruing
Commercial business:						
Commercial and industrial	$ 809	$ 3,102	$ 3,911	$ 280,380	$ 284,291	$
Owner-occupied commercial real estate	340	1,042	1,382	186,582	187,964	

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	June 30, 2013					
	30-89 Days	90 Days or Greater	Total Past Due	Current	Total	90 Days or More and Still Accruing
			(In thousands)			
Non-owner occupied commercial real estate	43		43	336,966	337,009	
Total commercial business	1,192	4,144	5,336	803,928	809,264	
One-to-four family residential	359	225	584	39,019	39,603	
Real estate construction and land development:						
One-to-four family residential	305	2,179	2,484	19,669	22,153	
Five or more family residential and commercial properties				37,234	37,234	
Total real estate construction and land development	305	2,179	2,484	56,903	59,387	
Consumer	175	80	255	26,472	26,727	
Gross originated loans	$ 2,031	$ 6,628	$ 8,659	$ 926,322	$ 934,981	$

	December 31, 2012					
	30-89 Days	90 Days or Greater	Total Past Due	Current	Total	90 Days or More and Still Accruing
			(In thousands)			
Commercial business:						
Commercial and industrial	$ 2,768	$ 2,014	$ 4,782	$ 272,458	$ 277,240	$ 25
Owner-occupied commercial real estate	920	112	1,032	187,462	188,494	
Non-owner occupied commercial real estate	92	369	461	265,374	265,835	
Total commercial business	3,780	2,495	6,275	725,294	731,569	25
One-to-four family residential	239	375	614	38,234	38,848	
Real estate construction and land development:						
One-to-four family residential	847	3,242	4,089	21,086	25,175	179
Five or more family residential and commercial properties		3,018	3,018	49,057	52,075	
Total real estate construction and land development	847	6,260	7,107	70,143	77,250	179
Consumer	68	146	214	28,700	28,914	10
Gross originated loans	$ 4,934	$ 9,276	$ 14,210	$ 862,371	$ 876,581	$ 214

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The balances of purchased other past due loans, segregated by segments and classes of loans, as of June 30, 2013 and December 31, 2012 are as follows:

	June 30, 2013					
	30-89 Days	90 Days or Greater	Total Past Due	Current	Total	90 Days or More and Still Accruing
	(In thousands)					
Commercial business:						
Commercial and industrial	$ 222	$	$ 222	$ 25,671	$ 25,893	$
Owner-occupied commercial real estate	134	265	399	34,393	34,792	265
Non-owner occupied commercial real estate	882	437	1,319	15,677	16,996	
Total commercial business	1,238	702	1,940	75,741	77,681	265
One-to-four family residential				1,306	1,306	
Real estate construction and land development:						
One-to-four family residential						
Five or more family residential and commercial properties				939	939	
Total real estate construction and land development				939	939	
Consumer	530		530	8,029	8,559	
Gross purchased other loans	$ 1,768	$ 702	$ 2,470	$ 86,015	$ 88,485	$ 265

	December 31, 2012					
	30-89 Days	90 Days or Greater	Total Past Due	Current	Total	90 Days or More and Still Accruing
	(In thousands)					
Commercial business:						
Commercial and industrial	$	$	$	$ 11,981	$ 11,981	$
Owner-occupied commercial real estate	662		662	25,748	26,410	
Non-owner occupied commercial real estate		437	437	4,376	4,813	
Total commercial business	662	437	1,099	42,105	43,204	

One-to-four family residential		61	61	1,323	1,384	
Real estate construction and land development:						
One-to-four family residential						
Five or more family residential and commercial properties						
Total real estate construction and land development						
Consumer	75	216	291	6,474	6,765	135
Gross purchased other loans	$ 737	$ 714	$ 1,451	$ 49,902	$ 51,353	$ 135

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(f) Impaired loans

Originated impaired loans (including restructured loans) at June 30, 2013 and December 31, 2012 are set forth in the following tables.

	June 30, 2013				
	Recorded Investment With No Specific Valuation Allowance	Recorded Investment With Specific Valuation Allowance	Total Recorded Investment	Unpaid Contractual Principal Balance	Related Specific Valuation Allowance
	(In thousands)				
Commercial business:					
Commercial and industrial	$ 7,742	$ 5,047	$ 12,789	$ 14,600	$ 1,878
Owner-occupied commercial real estate	1,182	1,414	2,596	2,643	518
Non-owner occupied commercial real estate	2,627	4,173	6,800	6,800	1,333
Total commercial business	11,551	10,634	22,185	24,043	3,729
One-to-four family residential	480	359	839	851	16
Real estate construction and land development:					
One-to-four family residential	1,434	3,831	5,265	6,438	591
Five or more family residential and commercial properties	2,785		2,785	2,785	
Total real estate construction and land development	4,219	3,831	8,050	9,223	591
Consumer	80	40	120	120	7
Gross originated loans	$ 16,330	$ 14,864	$ 31,194	$ 34,237	$ 4,343

	December 31, 2012				
	Recorded Investment With No Specific Valuation Allowance	Recorded Investment With Specific Valuation Allowance	Total Recorded Investment	Unpaid Contractual Principal Balance	Related Specific Valuation Allowance
	(In thousands)				
Commercial business:					
Commercial and industrial	$ 7,797	$ 2,643	$ 10,440	$ 10,741	$ 858
Owner-occupied commercial real estate	633	1,418	2,051	2,134	509
Non-owner occupied commercial real estate	3,031	4,226	7,257	7,257	1,386
Total commercial business	11,461	8,287	19,748	20,132	2,753
One-to-four family residential	422	389	811	811	46
Real estate construction and land development:					
One-to-four family residential	700	2,724	3,424	4,597	792
Five or more family residential and commercial properties		3,357	3,357	3,397	658
Total real estate construction and land development	700	6,081	6,781	7,994	1,450
Consumer	47	110	157	157	110

Gross originated loans	$ 12,630	$ 14,867	$ 27,497	$ 29,094	$ 4,359

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The Company had governmental guarantees of $3.3 million and $1.9 million related to the impaired originated loan balances at June 30, 2013 and December 31, 2012, respectively.

The average recorded investment of originated impaired loans (including restructured loans) for the three and six months ended June 30, 2013 and 2012 are set forth in the following table.

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
	(In thousands)			
Commercial business:				
Commercial and industrial	$ 13,032	$ 12,044	$ 12,168	$ 11,455
Owner-occupied commercial real estate	2,524	1,780	2,366	1,976
Non-owner occupied commercial real estate	6,867	7,406	6,997	7,680
Total commercial business	22,423	21,230	21,531	21,111
One-to-four family residential	1,050	1,165	970	1,054
Real estate construction and land development:				
One-to-four family residential	4,133	4,606	3,897	4,908
Five or more family residential and commercial properties	3,024	4,652	3,135	6,367
Total real estate construction and land development	7,157	9,258	7,032	11,275
Consumer	83	189	108	168
Gross impaired originated loans	$ 30,713	$ 31,842	$ 29,641	$ 33,608

Purchased other loans become impaired when classified as nonaccrual or when modification resulted in a troubled debt restructure. Purchased other impaired loans (including restructured loans) at June 30, 2013 and December 31, 2012 are set forth in the following tables.

	June 30, 2013				
	Recorded Investment With No Specific Valuation Allowance	Recorded Investment With Specific Valuation Allowance	Total Recorded Investment	Unpaid Contractual Principal Balance	Related Specific Valuation Allowance
			(In thousands)		
Commercial business:					
Commercial and industrial	$ 291	$ 449	$ 740	$ 739	$ 233
Owner-occupied commercial real estate	163		163	159	
Non-owner occupied commercial real estate	437	530	967	924	13
Total commercial business	891	979	1,870	1,822	246
One-to-four family residential		460	460	431	39
Consumer	7	3	10	11	3
Gross purchased other impaired loans	$ 898	$ 1,442	$ 2,340	$ 2,264	$ 288

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	December 31, 2012				
	Recorded Investment With No Specific Valuation Allowance	Recorded Investment With Specific Valuation Allowance	Total Recorded Investment	Unpaid Contractual Principal Balance	Related Specific Valuation Allowance
			(In thousands)		
Commercial business:					
Commercial and industrial	$ 330	$ 106	$ 436	$ 434	$ 14
Owner-occupied commercial real estate		139	139	135	7
Non-owner occupied commercial real estate	437	536	973	926	18
Total commercial business	767	781	1,548	1,495	39
One-to-four family residential		527	527	489	105
Consumer		163	163	173	157
Gross purchased other impaired loans	$ 767	$ 1,471	$ 2,238	$ 2,157	$ 301

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The average recorded investment of purchased other impaired loans (including restructured loans) for three and six months ended June 30, 2013 and 2012 are set forth in the following table.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
Commercial business:				
Commercial and industrial	$ 589	$ 19	$ 538	$ 12
Owner-occupied commercial real estate	150	72	146	48
Non-owner occupied commercial real estate	968	708	970	472
Total commercial business	1,707	799	1,654	532
One-to-four family residential	461		483	
Consumer	25	409	71	438
Gross impaired purchased other loans	$ 2,193	$ 1,208	$ 2,208	$ 970

For the three and six months ended June 30, 2013 and 2012 no interest income was recognized subsequent to a loan s classification as impaired.

(g) Troubled Debt Restructured Loans

A troubled debt restructured loan (TDR) is a restructuring in which the Bank, for economic or legal reasons related to a borrower s financial difficulties, grants a concession to the borrower that it would not otherwise consider. TDRs are considered impaired and are separately measured for impairment under FASB ASC 310-10-35, whether on accrual or nonaccrual status.

The recorded investment balance and related allowance for loan losses of accruing and non-accruing TDRs as of June 30, 2013 and December 31, 2012 are as follows:

	June 30, 2013		December 31, 2012	
	Accruing TDRs	Non-Accruing TDRs	Accruing TDRs	Non-Accruing TDRs
	(In thousands)			
Originated TDRs	$ 19,448	$ 6,715	$ 15,039	$ 9,311
Allowance for loan losses on originated TDRs	3,632	518	2,131	1,994
Purchased other TDRs	1,535	10	1,437	7
Allowance for loan losses on purchased other TDRs	96	3	76	2

The unfunded commitment to borrowers related to originated TDRs was $3.9 million and $1.5 million as of June 30, 2013 and December 31, 2012, respectively. There were no unfunded commitments to borrowers related to the purchased other TDRs as of June 30, 2013 and December 31, 2012.

Originated loans that were modified as TDRs during the three and six months ended June 30, 2013 and 2012 are set forth in the following tables:

	Three Months Ended June 30,			
	2013		2012	
	Number of Contracts	Outstanding Principal Balance (1)(2)	Number of Contracts	Outstanding Principal Balance (1)(2)
	(Dollars in thousands)			

Commercial business:						
Commercial and industrial	8	$	1,598	13	$	2,083
Total commercial business	8		1,598	13		2,083
Real estate construction and land development:						
One-to-four family residential	24		3,086	1		222
Five or more family residential and commercial properties	1		2,784			
Total real estate construction and land development	25		5,870			
Consumer	1		40			
Total originated TDRs	34	$	7,508	14	$	2,305

	Six Months Ended June 30,			
	2013		2012	
	Number of Contracts (2)	Outstanding Principal Balance (1)(2)	Number of Contracts (2)	Outstanding Principal Balance (1)(2)
	(Dollars in thousands)			
Commercial business:				
Commercial and industrial	18	$ 4,174	22	$ 3,940
Owner-occupied commercial real estate			1	198
Total commercial business	18	4,174	23	4,138
One-to-four family residential	1	256		
Real estate construction and land development:				
One-to-four family residential	24	3,086	3	577
Five or more family residential and commercial properties	1	2,784		
Total real estate construction and land development	25	5,870	3	577
Consumer	1	40		
Total originated TDRs	45	$ 10,340	26	$ 4,715

(1) Number of contracts and outstanding principal balance represent loans which have balances as of period end dates as certain loans may have been paid-down or charged-off during the three and six months ended June 30, 2013 and 2012.

(2) Includes subsequent payments after modifications and reflects the balance as of the end of the period. The Bank s initial recorded investments in the loans did not change as a result of the modifications as the Bank did not forgive any principal or interest balance as part of the modifications.

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Of the 45 loans modified during the six months ended June 30, 2013, eight loans with a total outstanding principal balance of $4.5 million were previously reported as TDRs as of December 31, 2012. Of the 26 loans modified during the six months ended June 30, 2012, nine loans with a total outstanding principal balance of $1.9 million were previously reported as TDRs as of December 31, 2011. The Bank typically grants shorter extension periods to continually monitor the troubled credits despite the fact that the extended date might not be the date the Bank expects the cash flow. The Company does not consider these modifications a subsequent default of a TDR as new loan terms, specifically maturity dates, were granted. The potential losses related to these loans would have been considered in the period the loan was first reported as a TDR and adjusted, as necessary, in the current periods based on more recent information.

Purchased other loans that were modified as TDRs during the three and six months ended June 30, 2013 and 2012 are set forth in the following tables:

	Three Months Ended June 30,			
	2013		2012	
	Number of Contracts	Outstanding Principal Balance (1)(2)	Number of Contracts	Outstanding Principal Balance (1)(2)
	(Dollars in thousands)			
Commercial business:				
Commercial and industrial	1	$ 125		$
Owner occupied commercial real estate	1	29		
Non-owner occupied commercial real estate			1	542
Total commercial business	2	154	1	542
Consumer	1	3		
Total originated TDRs	3	$ 157	1	$ 542

	Six Months Ended June 30,			
	2013		2012	
	Number of Contracts	Outstanding Principal Balance (1)(2)	Number of Contracts	Outstanding Principal Balance (1)(2)
	(Dollars in thousands)			
Commercial business:				
Commercial and industrial	1	$ 125	1	$ 18
Owner occupied commercial real estate	1	29		
Non-owner occupied commercial real estate			1	542
Total commercial business	2	154	2	560
Consumer	1	3		
Total originated TDRs	3	$ 157	2	$ 560

(1) Number of contracts and outstanding principal balance represent loans which have balances as of period end dates as certain loans may have been paid-down or charged-off during the three and six months ended June 30, 2013 and 2012.
(2) Includes subsequent payments after modifications and reflects the balance as of the end of the period. The Bank s initial recorded investments in the loans did not change as a result of the modifications as the Bank did not forgive any principal or interest balance as part of the modifications.

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The majority of the Bank s TDRs are a result of granting extensions to troubled credits which have already been adversely classified. We grant such extensions to reassess the borrower s financial status and to develop a plan for repayment. Certain modifications with extensions also include interest rate reductions, which is the second most prevalent concession. Certain TDRs were additionally re-amortized over a longer period of time. These modifications would all be considered a concession for a borrower that could not obtain similar financing terms from another source other than from the Bank.

The financial effects of each modification will vary based on the specific restructure. For the majority of the Bank s TDRs, the loans were interest-only with a balloon payment at maturity. If the interest rate is not adjusted and the terms are consistent with market, the Bank may not experience any loss associated with the restructure. If, however, the restructure involves forbearance agreements or interest rate modifications, the Bank may not collect all the principal and interest based on the original contractual terms. The Bank estimates the necessary allowance for loan losses on TDRs using the same guidance as used for other impaired loans.

There were no originated or purchased other TDRs that had been modified during the previous twelve months ended that subsequently defaulted during the three and six months ended June 30, 2013 and 2012.

(h) Purchased Impaired Loans

As indicated above, the Company purchased impaired loans from the Cowlitz, Pierce and NCB Acquisitions which are accounted for under FASB ASC 310-30.

The following tables reflect the outstanding balance at June 30, 2013 and December 31, 2012 of the purchased impaired loans by acquisition:

	Cowlitz Bank	
	June 30, 2013	December 31, 2012
	(In thousands)	
Commercial business:		
Commercial and industrial	$ 15,736	$ 21,624
Owner-occupied commercial real estate	15,556	17,157
Non-owner occupied commercial real estate	14,817	12,908
Total commercial business	46,109	51,689
One-to-four family residential	4,107	4,262
Real estate construction and land development:		
One-to-four family residential	1,678	6,122
Five or more family residential and commercial properties		
Total real estate construction and land development	1,678	6,122
Consumer	2,613	3,533
Gross purchased impaired covered loans	$ 54,507	$ 65,606

The total balance of subsequent advances on the purchased impaired covered loans was $5.5 million and $3.8 million as of June 30, 2013 and December 31, 2012, respectively. The Bank has the option to modify certain purchased covered loans which may terminate the FDIC shared-loss coverage on those modified loans. At June 30, 2013 and December 31, 2012, the recorded investment balance of purchased impaired covered loans which are no longer covered under the FDIC shared-loss agreements was $1.6 million and $1.7 million, respectively. The Bank continues to report these loans in the covered portfolio as they are in a pool and they continue to be accounted for under FASB ASC 310-30. The FDIC indemnification asset has been properly adjusted to reflect the change in the loan status.

	Pierce Commercial Bank	
	June 30, 2013	December 31, 2012
	(In thousands)	

Commercial business:		
Commercial and industrial	$ 19,945	$ 21,953
Owner-occupied commercial real estate	5,315	5,748
Non-owner occupied commercial real estate	5,525	7,802
Total commercial business	30,785	35,503
One-to-four family residential	4,108	3,303
Real estate construction and land development:		
One-to-four family residential	2,841	3,375
Five or more family residential and commercial properties	712	820
Total real estate construction and land development	3,553	4,195
Consumer	2,602	4,393
Gross purchased impaired non-covered loans	$ 41,048	$ 47,394

		Northwest Commercial Bank June 30, 2013 (1) (In thousands)
Commercial business:		
Commercial and industrial	$	1,624
Owner-occupied commercial real estate		1,890
Non-owner occupied commercial real estate		2,049
Total commercial business		5,563
One-to-four family residential		
Real estate construction and land development:		
One-to-four family residential		
Five or more family residential and commercial properties		700
Total real estate construction and land development		700
Consumer		84
Gross purchased impaired non-covered loans	$	6,347

(1) The NCB Acquisition was completed on January 9, 2013

On the January 9, 2013 acquisition date, the amount by which the undiscounted expected cash flows of the purchased impaired loans exceeded the estimate fair value of the loan is the accretable yield . The accretable yield is then measured at each financial reporting date and represents the difference between the remaining undiscounted expected cash flows and the current carrying value of the purchased impaired loan.

The following table summarizes the accretable yield on the purchased impaired loans resulting from the Cowlitz, Pierce and NCB Acquisitions for the three and six months ended June 30, 2013 and 2012. As the NCB Acquisition was completed on January 9, 2013, there are no balances for the three or six months ended June 30, 2012.

	Three Months Ended June 30, 2013			Six Months Ended June 30, 2013		
	Cowlitz Bank	Pierce Commercial Bank	NCB	Cowlitz Bank	Pierce Commercial Bank	NCB
	(In thousands)					
Balance at the beginning of period (1)	$ 14,108	$ 8,920	$ 684	$ 14,286	$ 7,352	$ 745
Accretion	(1,109)	(1,051)	(29)	(2,463)	(2,333)	(90)
Disposal and other	(443)	(760)	(16)	502	2,062	(16)
Change in accretable yield	713	615		944	643	
Balance at the end of period	$ 13,269	$ 7,724	$ 639	$ 13,269	$ 7,724	$ 639

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	Three Months Ended June 30, 2012		Six Months Ended June 30, 2012	
	Cowlitz Bank	Pierce Commercial Bank	Cowlitz Bank	Pierce Commercial Bank
	(In thousands)			
Balance at the beginning of period	$ 17,824	$ 12,548	$ 19,912	$ 14,638
Accretion	(1,743)	(1,585)	(3,659)	(3,156)
Disposals and other	(147)	(225)	(386)	(744)
Change in accretable yield	630	1,077	697	1,077
Balance at the end of period	$ 16,564	$ 11,815	$ 16,564	$ 11,815

(1) For the NCB Acquisition, the balance at the beginning of the period represents the balance acquired at January 9, 2013. The contractual cash flows were $8.5 million and the expected cash flows were $5.6 million, resulting in a non-accretable difference of $2.9 million. As the fair value of these purchased impaired loans at the January 9, 2013 NCB Acquisition date was $4.9 million, this provides an accretable yield of $745,000.

(4) Allowance for Loan Losses

The allowance for loan losses is maintained at a level deemed appropriate by management to adequately provide for known and inherent risks in the loan portfolio. A summary of the changes in the originated loans allowance for loan losses for the three and six months ended June 30, 2013 and 2012 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
Balance at the beginning of period	$ 17,912	$ 22,563	$ 19,125	$ 22,317
Charge-offs	(662)	(1,961)	(2,489)	(3,295)
Recoveries of loans previously charged-off	227	41	346	1,621
Provision for loan losses	345	200	840	200
Balance at the end of period	$ 17,822	$ 20,843	$ 17,822	$ 20,843

A summary of the changes in the purchased covered loans allowance for loan losses for the three and six months ended June 30, 2013 and 2012 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
Balance at the beginning of period	$ 4,710	$ 4,111	$ 4,352	$ 3,963
Charge-offs	(40)		(40)	(33)
Provision (recapture) for loan losses	1,099	(138)	1,457	43
Balance at the end of period	$ 5,769	$ 3,973	$ 5,769	$ 3,973

A summary of the changes in the purchased noncovered loans allowance for loan losses for the three and six months ended June 30, 2013 and 2012 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
Balance at the beginning of period	$ 4,925	$ 4,121	$ 5,117	$ 4,635
Charge-offs		(11)	(197)	(235)
Provision (recapture) for loan losses	(136)	557	(131)	267
Balance at the end of period	$ 4,789	$ 4,667	$ 4,789	$ 4,667

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The purchased loans acquired in the Cowlitz, Pierce and NCB Acquisitions are subject to the Company s internal and external credit review. If and when credit deterioration occurs subsequent to the acquisition dates, a provision for loan losses will be charged to earnings for the full amount without regard to the FDIC loss-sharing agreement for the covered loan balances. The portion of the estimated loss reimbursable from the FDIC is recorded in noninterest income and increases the FDIC indemnification asset.

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The following table details activity in the allowance for loan losses disaggregated on the basis of the Company s impairment method as of and for the three and six months ended June 30, 2013:

	Commercial and industrial	Owner-occupied commercial real estate	Non-owner occupied commercial real estate	One-to-four family residential	Real estate construction and land development: one-to-four family residential	Real estate construction and land development: five or more family residential and commercial properties	Consumer	Unallocated	Total
					(In thousands)				
Allowance for loan losses for the three months ended June 30, 2013:									
March 31, 2013	$ 10,844	$ 3,841	$ 5,275	$ 1,206	$ 2,655	$ 1,335	$ 1,495	$ 896	$ 27,547
Charge-offs	(541)					(59)	(102)		(702)
Recoveries	35	155				32	5		227
Provision for / (Reallocation of) loan losses	1,840	(271)	1,012	(108)	(448)	(669)	20	(68)	1,308
June 30, 2013	$ 12,178	$ 3,725	$ 6,287	$ 1,098	$ 2,207	$ 639	$ 1,418	$ 828	$ 28,380
Allowance for loan losses for the six months ended June 30, 2013:									
December 31, 2012	$ 9,912	$ 4,021	$ 5,369	$ 1,221	$ 3,131	$ 2,309	$ 1,761	$ 870	$ 28,594
Charge-offs	(2,178)			(52)		(142)	(354)		(2,726)
Recoveries	145	155				32	14		346
Provisions for / (Reallocation of) loan losses	4,299	(451)	918	(71)	(924)	(1,560)	(3)	(42)	2,166
June 30, 2013	$ 12,178	$ 3,725	$ 6,287	$ 1,098	$ 2,207	$ 639	$ 1,418	$ 828	$ 28,380
Allowance for loan losses as of June 30, 2013 allocated to:									
Originated loans individually evaluated for impairment	$ 1,878	$ 518	$ 1,333	$ 16	$ 591	$	$ 7	$	$ 4,343
Originated loans collectively evaluated for impairment	6,484	1,736	2,403	569	448	534	477	828	13,479
Purchased other covered loans individually evaluated for impairment	1			39					40
Purchased other covered loans collectively evaluated for impairment	53	32	8	5			48		146
Purchased other non-covered loans individually evaluated for impairment	232		13				3		248
Purchased other non-covered loans collectively evaluated for	33	36	11				74		154

impairment									
Purchased impaired covered loans collectively evaluated for impairment	1,132	1,043	2,147	246	859		156		5,583
Purchased impaired non-covered loans collectively evaluated for impairment	2,365	360	372	223	309	105	653		4,387
June 30, 2013	$ 12,178	$ 3,725	$ 6,287	$ 1,098	$ 2,207	$ 639	$ 1,418	$ 828	$ 28,380

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The following table details the recorded investment balance of the loan receivables disaggregated on the basis of the Company s impairment method as of June 30, 2013:

	Commercial and industrial	Owner-occupied commercial real estate	Non-owner occupied commercial real estate	One-to-four family residential	Real estate construction and land development: one-to-four family residential	Real estate construction and land development: five or more family residential and commercial properties	Consumer	Total
				(In thousands)				
Originated loans individually evaluated for impairment	$ 12,789	$ 2,596	$ 6,800	$ 839	$ 5,265	$ 2,785	$ 120	$ 31,194
Originated loans collectively evaluated for impairment	271,502	185,368	330,209	38,764	16,888	34,449	26,607	903,787
Purchased other covered loans individually evaluated for impairment	14			460			7	481
Purchased other covered loans collectively evaluated for impairment	7,376							