

COLUMBIA BANKING SYSTEM INC
Form 10-Q
August 07, 2018

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2018.

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 | 91-1422237 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |

| | |
|--|----------------|
| 1301 A Street | 98402-2156 |
| Tacoma, Washington | (Zip Code) |
| (Address of principal executive offices) | (253) 305-1900 |
| (Registrant'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 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 No

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

| | |
|--|--|
| <input type="checkbox"/> Large accelerated filer | <input type="checkbox"/> Accelerated filer |
| <input type="checkbox"/> Non-accelerated filer (Do not check if a smaller reporting company) | <input type="checkbox"/> Smaller reporting company |

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes No

The number of shares of common stock outstanding at July 31, 2018 was 73,270,683.

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PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

Columbia Banking System, Inc.

(Unaudited)

| | June 30, 2018 | December 31, 2017 |
|--|------------------|----------------------|
| (in thousands) | | |
| ASSETS | | |
| Cash and due from banks | \$224,370 | \$244,615 |
| Interest-earning deposits with banks | 39,169 | 97,918 |
| Total cash and cash equivalents | 263,539 | 342,533 |
| Debt securities available for sale at fair value | 2,646,208 | 2,737,751 |
| Equity securities at fair value | 4,963 | 5,080 |
| Federal Home Loan Bank stock at cost | 13,960 | 10,440 |
| Loans held for sale | 6,773 | 5,766 |
| Loans, net of unearned income | 8,454,107 | 8,358,657 |
| Less: allowance for loan and lease losses | 80,150 | 75,646 |
| Loans, net | 8,373,957 | 8,283,011 |
| Interest receivable | 43,105 | 40,881 |
| Premises and equipment, net | 168,315 | 169,490 |
| Other real estate owned | 7,080 | 13,298 |
| Goodwill | 765,842 | 765,842 |
| Other intangible assets, net | 51,897 | 58,173 |
| Other assets | 282,947 | 284,621 |
| Total assets | \$12,628,586 | \$12,716,886 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Deposits: | | |
| Noninterest-bearing | \$4,953,993 | \$5,081,901 |
| Interest-bearing | 5,430,011 | 5,450,184 |
| Total deposits | 10,384,004 | 10,532,085 |
| Federal Home Loan Bank advances | 99,549 | 11,579 |
| Securities sold under agreements to repurchase | 46,229 | 79,059 |
| Subordinated debentures | 35,555 | 35,647 |
| Junior subordinated debentures | — | 8,248 |
| Other liabilities | 98,368 | 100,346 |
| Total liabilities | 10,663,705 | 10,766,964 |
| Commitments and contingent liabilities (Note 12) | | |
| Shareholders' equity: | | |
| | June 30, 2018 | December 31, 2017 |
| | (in thousands) | |
| Common stock (no par value) | | |
| Authorized shares | 115,000 | 115,000 |
| Issued and outstanding | 73,245 | 73,020 |
| Retained earnings | 1,636,903 | 1,634,705 |
| Accumulated other comprehensive loss | 383,899 | 337,442 |
| Total shareholders' equity | (55,921) | (22,225) |
| Total liabilities and shareholders' equity | 1,964,881 | 1,949,922 |
| Total liabilities and shareholders' equity | \$12,628,586 | \$12,716,886 |

See accompanying Notes to unaudited Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF INCOME

Columbia Banking System, Inc.

(Unaudited)

| | Three Months Ended | | Six Months Ended | |
|---|---|----------|------------------|-----------|
| | June 30, | | June 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| | (in thousands except per share amounts) | | | |
| Interest Income | | | | |
| Loans | \$105,412 | \$75,579 | \$208,439 | \$149,699 |
| Taxable securities | 11,923 | 9,468 | 24,631 | 20,454 |
| Tax-exempt securities | 3,063 | 2,716 | 6,127 | 5,407 |
| Deposits in banks | 151 | 23 | 496 | 42 |
| Total interest income | 120,549 | 87,786 | 239,693 | 175,602 |
| Interest Expense | | | | |
| Deposits | 2,572 | 908 | 5,081 | 1,695 |
| Federal Home Loan Bank advances | 815 | 591 | 1,385 | 816 |
| Subordinated debentures | 468 | — | 936 | — |
| Other borrowings | 20 | 126 | 136 | 255 |
| Total interest expense | 3,875 | 1,625 | 7,538 | 2,766 |
| Net Interest Income | 116,674 | 86,161 | 232,155 | 172,836 |
| Provision for loan and lease losses | 3,975 | 3,177 | 9,827 | 5,952 |
| Net interest income after provision for loan and lease losses | 112,699 | 82,984 | 222,328 | 166,884 |
| Noninterest Income | | | | |
| Deposit account and treasury management fees | 8,683 | 7,396 | 17,423 | 14,683 |
| Card revenue | 6,616 | 6,202 | 12,429 | 11,925 |
| Financial services and trust revenue | 3,219 | 3,036 | 5,949 | 5,875 |
| Loan revenue | 3,054 | 2,989 | 6,240 | 6,582 |
| Merchant processing revenue | — | 2,264 | — | 4,283 |
| Bank owned life insurance | 1,712 | 1,433 | 3,138 | 2,713 |
| Investment securities losses, net | (33) | — | (11) | — |
| Change in FDIC loss-sharing asset | — | (173) | — | (447) |
| Other | 441 | 988 | 1,667 | 3,380 |
| Total noninterest income | 23,692 | 24,135 | 46,835 | 48,994 |
| Noninterest Expense | | | | |
| Compensation and employee benefits | 48,949 | 38,393 | 99,519 | 79,218 |
| Occupancy | 9,276 | 7,577 | 19,397 | 14,768 |
| Merchant processing expense | — | 1,147 | — | 2,196 |
| Advertising and promotion | 1,622 | 1,137 | 3,051 | 1,954 |
| Data processing | 5,221 | 4,741 | 10,491 | 8,949 |
| Legal and professional fees | 4,171 | 2,947 | 7,408 | 6,316 |
| Taxes, licenses and fees | 1,560 | 748 | 2,985 | 1,989 |
| Regulatory premiums | 937 | 741 | 1,874 | 1,517 |
| Net cost (benefit) of operation of other real estate owned | 758 | (1) | 759 | 151 |
| Amortization of intangibles | 3,088 | 1,249 | 6,276 | 2,598 |
| Other | 9,061 | 10,188 | 18,870 | 18,197 |
| Total noninterest expense | 84,643 | 68,867 | 170,630 | 137,853 |
| Income before income taxes | 51,748 | 38,252 | 98,533 | 78,025 |
| Income tax provision | 9,999 | 11,120 | 16,814 | 21,694 |
| Net Income | \$41,749 | \$27,132 | \$81,719 | \$56,331 |

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| | | | | |
|--|--------|--------|--------|--------|
| Earnings per common share | | | | |
| Basic | \$0.57 | \$0.47 | \$1.12 | \$0.97 |
| Diluted | \$0.57 | \$0.47 | \$1.12 | \$0.97 |
| Dividends declared per common share | \$0.26 | \$0.22 | \$0.48 | \$0.44 |
| Weighted average number of common shares outstanding | 72,385 | 57,520 | 72,343 | 57,437 |
| Weighted average number of diluted common shares outstanding | 72,390 | 57,525 | 72,347 | 57,442 |

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 June 30, | |
|--|--------------------------------|----------|
| | 2018 | 2017 |
| | (in thousands) | |
| Net income | \$41,749 | \$27,132 |
| Other comprehensive income (loss), net of tax: | | |
| Unrealized gain (loss) from securities: | | |
| Net unrealized holding gain (loss) from available for sale debt securities arising during the period, net of tax of \$2,376 and (\$3,435) | (7,845) | 6,033 |
| Reclassification adjustment of net gain from sale of available for sale debt securities included in income, net of tax of \$1 and \$0 | (4) | — |
| Net unrealized gain (loss) from securities, net of reclassification adjustment | (7,849) | 6,033 |
| Pension plan liability adjustment: | | |
| Amortization of unrecognized net actuarial loss included in net periodic pension cost, net of tax of (\$19) and (\$26) | 61 | 45 |
| Pension plan liability adjustment, net | 61 | 45 |
| Other comprehensive income (loss) | (7,788) | 6,078 |
| Total comprehensive income | \$33,961 | \$33,210 |
| | | |
| | Six Months Ended June 30, | |
| | 2018 | 2017 |
| | (in thousands) | |
| Net income | \$81,719 | \$56,331 |
| Other comprehensive income (loss), net of tax | | |
| Unrealized gain (loss) from securities: | | |
| Net unrealized holding gain (loss) from available for sale debt securities arising during the period, net of tax of \$10,267 and (\$4,404) | (33,893) | 7,735 |
| Reclassification adjustment of net gain from sale of available for sale debt securities included in income, net of tax of \$25 and \$0 | (82) | — |
| Net unrealized gain (loss) from securities, net of reclassification adjustment | (33,975) | 7,735 |
| Pension plan liability adjustment: | | |
| Reduction in unfunded defined benefit plan liability during the period, net of tax of \$0 and (\$2,622) | — | 4,604 |
| Amortization of unrecognized net actuarial loss included in net periodic pension cost, net of tax of (\$38) and (\$75) | 122 | 132 |
| Pension plan liability adjustment, net | 122 | 4,736 |
| Other comprehensive income (loss) | (33,853) | 12,471 |
| Total comprehensive income | \$47,866 | \$68,802 |
| 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 Number of Shares (in thousands) | Amount | Common Stock Number of Shares | Amount | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total Shareholders' Equity |
|---|---|----------|-------------------------------------|-------------|----------------------|--|----------------------------------|
| Balance at January 1, 2018 | — | \$— | 73,020 | \$1,634,705 | \$337,442 | \$ (22,225) | \$1,949,922 |
| Adjustment to opening retained earnings pursuant to adoption of ASU 2016-01 | — | — | — | — | (157) | 157 | — |
| Net income | — | — | — | — | 81,719 | — | 81,719 |
| Other comprehensive loss | — | — | — | — | — | (33,853) | (33,853) |
| Issuance of common stock - stock option and other plans | — | — | 19 | 736 | — | — | 736 |
| Activity in deferred compensation plan | — | — | — | 6 | — | — | 6 |
| Issuance of common stock - restricted stock awards, net of canceled awards | — | — | 268 | 4,083 | — | — | 4,083 |
| Purchase and retirement of common stock | — | — | (62) | (2,627) | — | — | (2,627) |
| Cash dividends declared on common stock | — | — | — | — | (35,105) | — | (35,105) |
| Balance at June 30, 2018 | — | \$— | 73,245 | \$1,636,903 | \$383,899 | \$ (55,921) | \$1,964,881 |
| Balance at January 1, 2017 | 9 | \$2,217 | 58,042 | \$995,837 | \$271,957 | \$ (18,999) | \$1,251,012 |
| Adjustment to opening retained earnings pursuant to adoption of ASU 2016-09 | — | — | — | 184 | (117) | — | 67 |
| Net income | — | — | — | — | 56,331 | — | 56,331 |
| Other comprehensive income | — | — | — | — | — | 12,471 | 12,471 |
| Issuance of common stock - stock option and other plans | — | — | 28 | 1,155 | — | — | 1,155 |
| Issuance of common stock - restricted stock awards, net of canceled awards | — | — | 235 | 4,114 | — | — | 4,114 |
| Preferred stock conversion to common stock | (9) | (2,217) | 102 | 2,217 | — | — | — |
| Purchase and retirement of common stock | — | — | (54) | (2,215) | — | — | (2,215) |
| Cash dividends declared on common stock | — | — | — | — | (25,621) | — | (25,621) |
| Balance at June 30, 2017 | — | \$— | 58,353 | \$1,001,292 | \$302,550 | \$ (6,528) | \$1,297,314 |

See accompanying Notes to unaudited Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

Columbia Banking System, Inc.

(Unaudited)

| | Six Months Ended June 30, | |
|--|------------------------------|------------|
| | 2018 | 2017 |
| | (in thousands) | |
| Cash Flows From Operating Activities | | |
| Net income | \$81,719 | \$56,331 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Provision for loan and lease losses | 9,827 | 5,952 |
| Stock-based compensation expense | 4,083 | 4,114 |
| Depreciation, amortization and accretion | 16,788 | 13,968 |
| Investment securities losses, net | 11 | — |
| Net realized (gain) loss on sale of premises and equipment, loans held for investment and other assets | 141 | (176) |
| Net realized loss on sale and valuation adjustments of other real estate owned | 803 | 221 |
| Gain on bank owned life insurance death benefit | — | (1,945) |
| Termination of FDIC loss share agreements charge | — | 2,409 |
| Originations of loans held for sale | (67,311) | (65,902) |
| Proceeds from sales of loans held for sale | 66,304 | 64,830 |
| Net change in: | | |
| Interest receivable | (2,224) | (782) |
| Interest payable | (36) | 35 |
| Other assets | 6,367 | (12,580) |
| Other liabilities | (2,017) | (9,230) |
| Net cash provided by operating activities | 114,455 | 57,245 |
| Cash Flows From Investing Activities | | |
| Loans originated, net of principal collected | (100,485) | (216,541) |
| Purchases of: | | |
| Debt securities available for sale | (215,612) | (114,309) |
| Premises and equipment | (5,011) | (1,947) |
| Federal Home Loan Bank stock | (89,720) | (86,840) |
| Proceeds from: | | |
| FDIC reimbursement on loss-sharing asset | — | 26 |
| Sales of debt securities available for sale | 32,330 | — |
| Principal repayments and maturities of debt securities available for sale | 219,683 | 131,472 |
| Sales of premises and equipment and loans held for investment | 6,236 | 8,133 |
| Redemption of Federal Home Loan Bank stock | 86,200 | 80,720 |
| Sales of other real estate and other personal property owned | 5,821 | 1,719 |
| Bank owned life insurance death benefit | 5,074 | 8,538 |
| Payment to FDIC to terminate loss-sharing agreements | — | (4,666) |
| Payments to FDIC related to loss-sharing asset | — | (210) |
| Net cash used in investing activities | (55,484) | (193,905) |
| Cash Flows From Financing Activities | | |
| Net (decrease) increase in deposits | (147,891) | 13,078 |
| Net decrease in sweep repurchase agreements | (32,830) | (14,927) |
| Proceeds from: | | |
| Federal Home Loan Bank advances | 2,243,000 | 2,171,000 |

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| | | |
|---|-------------|-------------|
| Federal Reserve Bank borrowings | 10 | 10 |
| Exercise of stock options | 736 | 1,155 |
| Payments for: | | |
| Repayment of Federal Home Loan Bank advances | (2,155,000) | (2,018,000) |
| Repayment of Federal Reserve Bank borrowings | (10) | (10) |
| Common stock dividends | (35,105) | (25,621) |
| Repayment of junior subordinated debentures | (8,248) | — |
| Purchase and retirement of common stock | (2,627) | (2,215) |
| Net cash provided by (used in) financing activities | (137,965) | 124,470 |
| Decrease in cash and cash equivalents | (78,994) | (12,190) |
| Cash and cash equivalents at beginning of period | 342,533 | 224,238 |
| Cash and cash equivalents at end of period | \$263,539 | \$212,048 |

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CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued

Columbia Banking System, Inc.

(Unaudited)

| | Six Months Ended June 30, 2018 2017 (in thousands) | |
|---|---|----------|
| Supplemental Information: | | |
| Cash paid during the period for: | | |
| Interest | \$7,573 | \$2,731 |
| Income tax | \$3,621 | \$22,881 |
| Non-cash investing and financing activities | | |
| Loans transferred to other real estate owned | \$406 | \$— |
| Premises and equipment expenditures incurred but not yet paid | \$40 | \$— |

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, Significant Accounting Policies and Reclassifications

Basis of Presentation

The interim unaudited Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with instructions to Form 10-Q and Article 10 of Regulation S-X. The Consolidated Financial Statements include the accounts of Columbia Banking System, Inc. (“we”, “our”, “Columbia” or the “Company”) and its subsidiaries, including its wholly owned banking subsidiary Columbia State Bank (“Columbia Bank” or the “Bank”) and Columbia Trust Company (“Columbia Trust”). All intercompany transactions and accounts have been eliminated in consolidation. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair statement of the results for the interim periods presented have been included. The results of operations for the six months ended June 30, 2018 are not necessarily indicative of results to be anticipated for the year ending December 31, 2018. The accompanying interim unaudited Consolidated Financial Statements should be read in conjunction with the financial statements and related notes contained in the Company’s 2017 Annual Report on Form 10-K.

Significant Accounting Policies

The significant accounting policies used in preparation of our Consolidated Financial Statements are disclosed in our 2017 Annual Report on Form 10-K. There have not been any changes in our significant accounting policies compared to those contained in our 2017 Form 10-K disclosure for the year ended December 31, 2017.

Reclassifications

Certain amounts reported in prior periods have been reclassified in the Consolidated Financial Statements to conform to the current presentation. The reclassifications have no effect on net income or stockholders’ equity as previously reported.

2. Accounting Pronouncements Recently Issued

In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-15, Classification of Certain Cash Receipts and Cash Payments. The amendments in this ASU provide specific guidance on several statement of cash flow classification issues to reduce diversity in practice. The amendments in ASU 2016-15 are effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. The Company has reclassified items in the Statement of Cash Flows for the six months ended June 30, 2017 to conform with its current presentation based on its adoption of ASU 2016-15.

In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments. The amendments included in this ASU require an entity to reflect its current estimate of all expected credit losses for assets held at an amortized cost basis. For available for sale debt securities, credit losses will be measured in a manner similar to current GAAP, however, this ASU will require that credit losses be presented as an allowance rather than as a write-down. The amendments in ASU 2016-13 are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, and are required to be adopted through a modified retrospective approach, with a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the ASU is effective.

Currently, the Company cannot reasonably estimate the impact that adoption of ASU 2016-13 will have on its Consolidated Financial Statements; however, the impact may be significant. That assessment is based upon the fact that, unlike the incurred loss models in existing GAAP, the current expected credit loss (“CECL”) model in ASU 2016-13 does not specify a threshold for the recognition of an impairment allowance. Rather, the Company will recognize an impairment allowance equal to its estimate of lifetime expected credit losses, adjusted for prepayments, for in-scope financial instruments as of the end of the reporting period. Accordingly, the impairment allowance measured under the CECL model could increase significantly from the impairment allowance measured under the Company’s existing incurred loss model. Significant CECL implementation matters to be addressed by the Company include selecting loss estimation methodologies, identifying, sourcing and storing data, addressing data gaps, defining a reasonable and supportable forecast period, selecting historical loss information which will be reverted to,

documenting the CECL estimation process, assessing the impact to internal controls over financial reporting, capital planning and seeking process approval from audit and regulatory stakeholders.

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In February 2016, the FASB issued ASU 2016-02, Leases. The amendments included in this ASU create a new accounting model for both lessees and lessors. The new guidance requires lessees to recognize lease liabilities, initially measured as the present value of future lease payments, and corresponding right-of-use assets for all leases with lease terms greater than 12 months. This model differs from the current lease accounting model, which does not require such lease liabilities and corresponding right-of-use assets to be recorded for operating leases. The amendments in ASU 2016-02 must be adopted using the modified retrospective approach and will be effective for the first interim or annual period beginning after December 15, 2018. Early adoption is permitted. During 2017, the Company selected a third-party lease accounting application to assist in the implementation of this new guidance. Significant implementation matters to be addressed by the Company include assessing the impact to our internal controls over financial reporting and documenting the new lease accounting process. We do not expect a material impact to our Consolidated Statement of Income as a result of this ASU. See Note 18, “Commitments and Contingent Liabilities” to our 2017 Form 10-K, for more information regarding the minimum future payments related to our operating leases.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in ASU 2016-01 require all equity investments to be measured at fair value with changes in the fair value recognized through net income. The amendments in ASU 2016-01 also require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. In addition, the amendments in this update eliminate the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet for public business entities. The amendments in ASU 2016-01 are effective for the first interim or annual period beginning after December 15, 2017. The Company adopted the amendments of ASU 2016-01 effective January 1, 2018 and recorded a cumulative effect adjustment of \$157 thousand to retained earnings related to the unrealized holding losses on equity securities with readily determinable fair value included in accumulated other comprehensive loss. The Company also added a separate line item on the Consolidated Balance Sheet for equity securities at fair value and reclassified amounts previously included in securities available for sale at fair value to conform to current period presentation. In addition, as required by the ASU, the fair value disclosure for loans is computed using an exit price notion and deposits with no stated maturity are no longer included in the fair value disclosures in Note 15, “Fair Value Accounting and Measurement.”

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which provides revenue recognition guidance that is intended to create greater consistency with respect to how and when revenue from contracts with customers is shown in the income statement. The guidance requires that revenue from contracts with customers be recognized when transfer of control over goods or services is passed to customers in the amount of consideration expected to be received. Subsequent Accounting Standard Updates have been issued clarifying the original pronouncement (ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20). The majority of the Company’s revenue is comprised of interest income from financial assets, which is specifically outside the scope of ASU 2014-09.

On January 1, 2018, we adopted the accounting guidance in ASU 2014-09 and all the related amendments (“Topic 606”) using the modified retrospective method for all contracts that have not been completed (i.e. open contracts). Therefore, the comparative information has not been adjusted and continues to be reported under Topic 605. There was no cumulative effect adjustment as of January 1, 2018, and there were no material changes to the timing or amount of revenue recognized for the six months ended June 30, 2018; however, additional disclosures were incorporated in the footnotes upon adoption. See Note 17, “Revenue from Contracts with Customers,” for more information.

3. Business Combinations

On November 1, 2017, the Company completed its acquisition of Pacific Continental Corporation (“Pacific Continental”) and its wholly-owned banking subsidiary Pacific Continental Bank. The Company acquired 100% of the equity interests of Pacific Continental. The primary reasons for the acquisition were to expand in the Eugene, Oregon market and improve branch network efficiencies in the Seattle and Portland markets.

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, 2017 acquisition date. The application of the acquisition method of accounting resulted in the recognition of goodwill of \$383.1 million and a core deposit intangible of \$46.9 million, or 2.34% of core deposits. The goodwill represents the excess of the purchase price over the fair value of the net assets acquired. The goodwill is not deductible for income tax purposes.

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

| | November 1, 2017 (in thousands) |
|---|------------------------------------|
| Merger consideration | \$ 637,103 |
| Identifiable net assets acquired, at fair value | |
| Assets acquired | |
| Cash and cash equivalents | \$81,190 |
| Investment securities | 449,291 |
| Federal Home Loan Bank stock | 7,084 |
| Loans | 1,873,987 |
| Interest receivable | 7,827 |
| Premises and equipment | 27,343 |
| Other real estate owned | 10,279 |
| Core deposit intangible | 46,875 |
| Other assets | 50,638 |
| Total assets acquired | 2,554,514 |
| Liabilities assumed | |
| Deposits | (2,118,982) |
| Federal Home Loan Bank advances | (101,127) |
| Subordinated debentures | (35,678) |
| Junior subordinated debentures | (14,434) |
| Securities sold under agreements to repurchase | (1,617) |
| Other liabilities | (28,653) |
| Total liabilities assumed | (2,300,491) |
| Total fair value of identifiable net assets | 254,023 |
| Goodwill | \$ 383,080 |

See Note 8, "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, 2018 to June 30, 2018. Disclosure of the amount of Pacific Continental's revenue and net income (excluding integration costs) included in Columbia's Consolidated Statements of Income 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 six months ended June 30, 2017. This unaudited, estimated pro forma financial information was calculated as if Pacific Continental had been acquired as of the beginning of the year prior to the date of acquisition. This unaudited pro forma information combines the historical results of Pacific Continental with the Company's consolidated historical results and includes certain adjustments reflecting the estimated impact of certain fair value adjustments for the respective periods. The pro forma information is not indicative of what would have occurred had the acquisition occurred 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 Six Months Ended June 30, 2017 (in thousands except per share) |
|--|--|
| Total revenues (net interest income plus noninterest income) | \$ 278,119 |
| Net income | \$ 72,199 |
| Earnings per share - basic | \$ 1.00 |
| Earnings per share - diluted | \$ 1.00 |

The following table shows the impact of the acquisition-related expenses related to the acquisition of Pacific Continental for the periods indicated to the various components of noninterest expense:

| | Three Months Ended June 30, 2018 | | Six Months Ended June 30, 2017 | |
|--|--|---------|--------------------------------------|---------|
| | 2018 | 2017 | 2018 | 2017 |
| | (in thousands) | | | |
| Noninterest Expense | | | | |
| Compensation and employee benefits | \$931 | \$— | \$2,487 | \$— |
| Occupancy | 586 | 351 | 1,590 | 352 |
| Advertising and promotion | 22 | 11 | 534 | 17 |
| Data processing | 634 | 473 | 921 | 473 |
| Legal and professional fees | 216 | 119 | 791 | 1,430 |
| Taxes, licenses and fees | — | 3 | — | 3 |
| Other | 433 | 66 | 764 | 112 |
| Total impact of acquisition-related costs to noninterest expense | \$2,822 | \$1,023 | \$7,087 | \$2,387 |

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4. Securities

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

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|-------------------|------------------------------|-------------------------------|--------------|
| June 30, 2018 | (in thousands) | | | |
| U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations | \$ 1,732,779 | \$ 567 | \$(56,354) | \$ 1,676,992 |
| State and municipal securities | 584,587 | 2,984 | (9,876) | 577,695 |
| U.S. government agency and government-sponsored enterprise securities | 398,428 | 74 | (7,228) | 391,274 |
| U.S. government securities | 251 | — | (4) | 247 |
| Total | \$ 2,716,045 | \$ 3,625 | \$(73,462) | \$ 2,646,208 |
| December 31, 2017 | | | | |
| U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations | \$ 1,752,236 | \$ 1,815 | \$(27,326) | \$ 1,726,725 |
| State and municipal securities | 593,940 | 6,023 | (3,959) | 596,004 |
| U.S. government agency and government-sponsored enterprise securities | 416,894 | 642 | (2,762) | 414,774 |
| U.S. government securities | 251 | — | (3) | 248 |
| Total | \$ 2,763,321 | \$ 8,480 | \$(34,050) | \$ 2,737,751 |

The following table provides the proceeds and gross realized gains and losses on sales of debt securities available for sale as well as other securities gains and losses for the periods indicated:

| | Three Months Ended June 30, 2018 | Six Months Ended June 30, 2018 | Three Months Ended June 30, 2017 | Six Months Ended June 30, 2017 |
|--|---|---|---|---|
| Proceeds from sales of debt securities available for sale | \$ 12,569 | \$ — | -\$32,330 | \$ — |
| Gross realized gains from sales of debt securities available for sale | \$ 87 | \$ — | -\$235 | \$ — |
| Gross realized losses from sales of debt securities available for sale | (83) | — | (129) | — |
| Other securities losses, net (1) | (37) | — | (117) | — |
| Investment securities losses, net | \$(33) | \$ — | -\$ (11) | \$ — |

(1) Other securities losses, net includes net unrealized loss activity associated with equity securities. There were no sales of equity securities during the periods presented.

The scheduled contractual maturities of debt securities available for sale at June 30, 2018 are presented as follows:

| | Amortized Cost | Fair Value |
|--|----------------|--------------|
| June 30, 2018 | (in thousands) | |
| Due within one year | \$ 127,209 | \$ 127,133 |
| Due after one year through five years | 620,100 | 609,400 |
| Due after five years through ten years | 885,040 | 862,508 |
| Due after ten years | 1,083,696 | 1,047,167 |
| Total debt securities available for sale | \$ 2,716,045 | \$ 2,646,208 |

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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:

| | |
|---|---------------------------------------|
| | June 30, 2018 (in thousands) |
| Washington and Oregon State to secure public deposits | \$ 244,565 |
| Federal Reserve Bank to secure borrowings | 52,370 |
| Other securities pledged | 93,194 |
| Total securities pledged as collateral | \$ 390,129 |

The following table shows the gross unrealized losses and fair value of the Company's debt securities available for sale 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 June 30, 2018 and December 31, 2017:

| | Less than 12 Months | | 12 Months or More | | Total | |
|---|---------------------|-------------------|-------------------|-------------------|-------------|-------------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | (in thousands) | | | | | |
| June 30, 2018 | | | | | | |
| U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations | \$906,188 | \$(22,365) | \$722,422 | \$(33,989) | \$1,628,610 | \$(56,354) |
| State and municipal securities | 306,897 | (5,536) | 76,988 | (4,340) | 383,885 | (9,876) |
| U.S. government agency and government-sponsored enterprise securities | 261,185 | (4,942) | 109,734 | (2,286) | 370,919 | (7,228) |
| U.S. government securities | 247 | (4) | — | — | 247 | (4) |
| Total | \$1,474,517 | \$(32,847) | \$909,144 | \$(40,615) | \$2,383,661 | \$(73,462) |
| December 31, 2017 | | | | | | |
| U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations | \$816,678 | \$(6,710) | \$717,211 | \$(20,616) | \$1,533,889 | \$(27,326) |
| State and municipal securities | 220,019 | (1,723) | 75,172 | (2,236) | 295,191 | (3,959) |
| U.S. government agency and government-sponsored enterprise securities | 184,046 | (1,006) | 155,983 | (1,756) | 340,029 | (2,762) |
| U.S. government securities | 249 | (3) | — | — | 249 | (3) |
| Total | \$1,220,992 | \$(9,442) | \$948,366 | \$(24,608) | \$2,169,358 | \$(34,050) |

At June 30, 2018, there were 452 U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations securities in an unrealized loss position, of which 129 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 June 30, 2018.

At June 30, 2018, there were 422 state and municipal government securities in an unrealized loss position, of which 73 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 June 30, 2018, 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 June 30, 2018.

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At June 30, 2018, there were 48 U.S. government agency and government-sponsored enterprise securities in an unrealized loss position, of which 12 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 June 30, 2018.

At June 30, 2018, there was one U.S. government security in an unrealized loss position, which was not 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 June 30, 2018.

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."

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

| | June 30, 2018 | | | December 31, 2017 | | |
|---|--|--------------|-------------|----------------------------------|-----------|-------------|
| | Loans, excluding PCI loans (in thousands) | PCI Loans | Total | Loans, excluding PCI loans | PCI Loans | Total |
| Commercial business | \$3,538,492 | \$12,258 | \$3,550,750 | \$3,377,324 | \$12,628 | \$3,389,952 |
| Real estate: | | | | | | |
| One-to-four family residential | 180,522 | 10,200 | 190,722 | 188,396 | 12,395 | 200,791 |
| Commercial and multifamily residential | 3,758,207 | 68,299 | 3,826,506 | 3,825,739 | 75,594 | 3,901,333 |
| Total real estate | 3,938,729 | 78,499 | 4,017,228 | 4,014,135 | 87,989 | 4,102,124 |
| Real estate construction: | | | | | | |
| One-to-four family residential | 206,181 | 165 | 206,346 | 200,518 | 177 | 200,695 |
| Commercial and multifamily residential | 387,951 | 571 | 388,522 | 371,931 | 607 | 372,538 |
| Total real estate construction | 594,132 | 736 | 594,868 | 572,449 | 784 | 573,233 |
| Consumer | 326,402 | 10,289 | 336,691 | 334,190 | 11,269 | 345,459 |
| Less: Net unearned income | (45,430) | — | (45,430) | (52,111) | — | (52,111) |
| Total loans, net of unearned income | 8,352,325 | 101,782 | 8,454,107 | 8,245,987 | 112,670 | 8,358,657 |
| Less: Allowance for loan and lease losses | (75,368) | (4,782) | (80,150) | (68,739) | (6,907) | (75,646) |
| Total loans, net | \$8,276,957 | \$97,000 | \$8,373,957 | \$8,177,248 | \$105,763 | \$8,283,011 |
| Loans held for sale | \$6,773 | \$— | \$6,773 | \$5,766 | \$— | \$5,766 |

At June 30, 2018 and December 31, 2017, the Company had no material foreign activities. Substantially all of the Company's loans and unfunded commitments are geographically concentrated in its service areas within the states of Washington, Oregon and Idaho.

The Company has made loans to executive officers and directors of the Company and related interests. These loans are made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than the normal risk of collectability. The aggregate dollar amount of these loans was \$9.8 million and \$10.0 million at June 30, 2018 and December 31, 2017, respectively. During the first six months of 2018, there were \$14 thousand in advances and \$199 thousand in

repayments.

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At June 30, 2018 and December 31, 2017, \$3.21 billion and \$2.25 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 \$78.5 million and \$70.2 million of commercial loans to the Federal Reserve Bank for additional borrowing capacity at June 30, 2018 and December 31, 2017, respectively. The following is an analysis of nonaccrual loans as of June 30, 2018 and December 31, 2017:

| | June 30, 2018 | | December 31, 2017 | |
|---------------------------------------|---|--|---|--|
| | Recorded Investment Nonaccrual Loans | Unpaid Principal Balance Nonaccrual Loans | Recorded Investment Nonaccrual Loans | Unpaid Principal Balance Nonaccrual Loans |
| | (in thousands) | | | |
| Commercial business: | | | | |
| Secured | \$52,006 | \$ 68,552 | \$45,410 | \$ 56,865 |
| Unsecured | 30 | 30 | 50 | 49 |
| Real estate: | | | | |
| One-to-four family residential | 976 | 1,356 | 785 | 1,182 |
| Commercial & multifamily residential: | | | | |
| Commercial land | 2,603 | 2,618 | 2,628 | 2,623 |
| Income property | 1,552 | 1,808 | 4,284 | 5,410 |
| Owner occupied | 6,963 | 7,290 | 7,029 | 7,270 |
| Real estate construction: | | | | |
| One-to-four family residential: | | | | |
| Land and acquisition | 318 | 318 | 25 | 26 |
| Residential construction | 71 | 71 | 1,829 | 1,828 |
| Consumer | 4,985 | 5,368 | 4,149 | 4,633 |
| Total | \$69,504 | \$ 87,411 | \$66,189 | \$ 79,886 |

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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 June 30, 2018 and December 31, 2017:

| | 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 |
|---------------------------------------|------------------|-----------------------------|-----------------------------|--|----------------------|---------------------|----------------|
| June 30, 2018 | (in thousands) | | | | | | |
| Commercial business: | | | | | | | |
| Secured | \$3,342,422 | \$9,542 | \$3,449 | \$ — | \$12,991 | \$52,006 | \$3,407,419 |
| Unsecured | 114,190 | 1,622 | 492 | — | 2,114 | 30 | 116,334 |
| Real estate: | | | | | | | |
| One-to-four family residential | 176,917 | 746 | 175 | — | 921 | 976 | 178,814 |
| Commercial & multifamily residential: | | | | | | | |
| Commercial land | 279,067 | — | — | — | — | 2,603 | 281,670 |
| Income property | 1,848,626 | 1,170 | 102 | — | 1,272 | 1,552 | 1,851,450 |
| Owner occupied | 1,589,500 | 6,695 | 584 | — | 7,279 | 6,963 | 1,603,742 |
| Real estate construction: | | | | | | | |
| One-to-four family residential: | | | | | | | |
| Land and acquisition | 6,252 | — | — | — | — | 318 | 6,570 |
| Residential construction | 197,359 | 1,243 | — | — | 1,243 | 71 | 198,673 |
| Commercial & multifamily residential: | | | | | | | |
| Income property | 297,215 | 5,586 | — | — | 5,586 | — | 302,801 |
| Owner occupied | 79,694 | — | — | — | — | — | 79,694 |
| Consumer | 317,985 | 1,339 | 849 | — | 2,188 | 4,985 | 325,158 |
| Total | \$8,249,227 | \$27,943 | \$5,651 | \$ — | \$33,594 | \$69,504 | \$8,352,325 |
| December 31, 2017 | (in thousands) | | | | | | |
| Commercial business: | | | | | | | |
| Secured | \$3,185,321 | \$2,530 | \$2,400 | \$ — | \$4,930 | \$45,410 | \$3,235,661 |
| Unsecured | 123,524 | 100 | 501 | — | 601 | 50 | 124,175 |
| Real estate: | | | | | | | |
| One-to-four family residential | 184,256 | 1,111 | 402 | — | 1,513 | 785 | 186,554 |
| Commercial & multifamily residential: | | | | | | | |
| Commercial land | 292,680 | 92 | — | 581 | 673 | 2,628 | 295,981 |
| Income property | 1,898,655 | 2,426 | 971 | — | 3,397 | 4,284 | 1,906,336 |
| Owner occupied | 1,590,004 | 2,485 | 468 | — | 2,953 | 7,029 | 1,599,986 |
| Real estate construction: | | | | | | | |
| One-to-four family residential: | | | | | | | |
| Land and acquisition | 9,882 | — | — | — | — | 25 | 9,907 |
| Residential construction | 187,862 | — | — | — | — | 1,829 | 189,691 |
| Commercial & multifamily residential: | | | | | | | |
| Income property | 293,028 | — | — | — | — | — | 293,028 |
| Owner occupied | 72,443 | — | — | — | — | — | 72,443 |
| Consumer | 325,928 | 1,446 | 702 | — | 2,148 | 4,149 | 332,225 |

| | | | | | | | |
|-------|-------------|----------|---------|-------|----------|----------|-------------|
| Total | \$8,163,583 | \$10,190 | \$5,444 | \$581 | \$16,215 | \$66,189 | \$8,245,987 |
|-------|-------------|----------|---------|-------|----------|----------|-------------|

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The following is an analysis of impaired loans as of June 30, 2018 and December 31, 2017:

| | Recorded Investment of Loans Collectively for Contingency Provision (in thousands) | Recorded Investment of Loans Measured for Specific Impairment (in thousands) | Impaired Loans With Recorded Allowance | | | Impaired Loans Without Recorded Allowance | |
|--|---|--|---|--------------------------------|----------------------|--|--------------------------------|
| | | | Recorded Investment | Unpaid Principal Balance | Related Allowance | Recorded Investment | Unpaid Principal Balance |
| June 30, 2018 | | | | | | | |
| Commercial business: | | | | | | | |
| Secured | \$3,360,586 | \$ 46,833 | \$2,731 | \$ 3,120 | \$ 67 | \$44,102 | \$53,050 |
| Unsecured | 115,468 | 866 | — | — | — | 866 | 4,906 |
| Real estate: | | | | | | | |
| One-to-four family residential | 178,121 | 693 | 346 | 742 | 8 | 347 | 809 |
| Commercial & multifamily residential: | | | | | | | |
| Commercial land | 279,408 | 2,262 | — | — | — | 2,262 | 2,277 |
| Income property | 1,849,318 | 2,132 | — | — | — | 2,132 | 2,195 |
| Owner occupied | 1,594,762 | 8,980 | 3,299 | 4,717 | 86 | 5,681 | 5,858 |
| Real estate construction: | | | | | | | |
| One-to-four family residential: | | | | | | | |
| Land and acquisition | 6,570 | — | — | — | — | — | — |
| Residential construction | 198,673 | — | — | — | — | — | — |
| Commercial & multifamily residential: | | | | | | | |
| Income property | 302,801 | — | — | — | — | — | — |
| Owner occupied | 75,644 | 4,050 | — | — | — | 4,050 | 4,050 |
| Consumer | 318,608 | 6,550 | 5,302 | 5,590 | 95 | 1,248 | 1,319 |
| Total | \$8,279,959 | \$ 72,366 | \$11,678 | \$14,169 | \$ 256 | \$60,688 | \$74,464 |
| December 31, 2017 | | | | | | | |
| Commercial business: | | | | | | | |
| Secured | \$3,195,649 | \$ 40,012 | \$3,808 | \$ 3,937 | \$ 1,867 | \$36,204 | \$42,314 |
| Unsecured | 124,150 | 25 | 25 | 24 | 3 | — | — |
| Real estate: | | | | | | | |
| One-to-four family residential | 185,659 | 895 | 867 | 1,408 | 103 | 28 | 337 |
| Commercial & multifamily residential: | | | | | | | |
| Commercial land | 293,694 | 2,287 | — | — | — | 2,287 | 2,282 |
| Income property | 1,901,313 | 5,023 | 2,768 | 3,328 | 185 | 2,255 | 2,601 |
| Owner occupied | 1,591,298 | 8,688 | 77 | 80 | 3 | 8,611 | 10,077 |
| Real estate construction: | | | | | | | |
| One-to-four family residential: | | | | | | | |
| Land and acquisition | 9,907 | — | — | — | — | — | — |
| Residential construction | 188,481 | 1,210 | — | — | — | 1,210 | 1,210 |

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Commercial & multifamily residential:

| | | | | | | | |
|-----------------|-------------|-----------|----------|----------|----------|----------|----------|
| Income property | 293,028 | — | — | — | — | — | — |
| Owner occupied | 68,393 | 4,050 | — | — | — | 4,050 | 4,050 |
| Consumer | 325,210 | 7,015 | 5,303 | 5,568 | 199 | 1,712 | 1,864 |
| Total | \$8,176,782 | \$ 69,205 | \$12,848 | \$14,345 | \$ 2,360 | \$56,357 | \$64,735 |

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

| | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | |
|---------------------------------------|-----------------------------|-----------------------------|---------------------------|-----------------------------|---------------------------|-----------------------------|---------------------------|-----------------------------|
| | 2018 | | 2017 | | 2018 | | 2017 | |
| | Average Interest Recorded | Average Interest Recognized | Average Interest Recorded | Average Interest Recognized | Average Interest Recorded | Average Interest Recognized | Average Interest Recorded | Average Interest Recognized |
| | Investment | Investment | Investment | Investment | Investment | Investment | Investment | Investment |
| | Impaired Loans | Impaired Loans | Impaired Loans | Impaired Loans | Impaired Loans | Impaired Loans | Impaired Loans | Impaired Loans |
| | (in thousands) | | | | | | | |
| Commercial business: | | | | | | | | |
| Secured | \$45,716 | \$ 85 | \$15,590 | \$ 50 | \$43,815 | \$ 97 | \$13,332 | \$ 69 |
| Unsecured | 444 | 1 | — | — | 304 | 1 | — | — |
| Real estate: | | | | | | | | |
| One-to-four family residential | 780 | 12 | 648 | 21 | 818 | 18 | 608 | 22 |
| Commercial & multifamily residential: | | | | | | | | |
| Commercial land | 2,557 | — | 2,549 | — | 2,467 | — | 1,936 | — |
| Income property | 2,846 | 32 | 3,676 | 7 | 3,572 | 62 | 3,925 | 6 |
| Owner occupied | 8,768 | 124 | 3,453 | 192 | 8,741 | 209 | 4,107 | 192 |
| Real estate construction: | | | | | | | | |
| One-to-four family residential: | | | | | | | | |
| Land and acquisition | — | — | — | — | — | — | 5 | — |
| Residential construction | 605 | — | — | — | 807 | — | 112 | — |
| Commercial & multifamily residential: | | | | | | | | |
| Owner occupied | 4,050 | 51 | — | — | 4,050 | 102 | — | — |
| Consumer | 6,391 | 34 | 5,584 | 31 | 6,599 | 77 | 5,461 | 57 |
| Total | \$72,157 | \$ 339 | \$31,500 | \$ 301 | \$71,173 | \$ 566 | \$29,486 | \$ 346 |

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The following is an analysis of loans classified as troubled debt restructurings (“TDR”) during the three and six months ended June 30, 2018 and 2017:

| | Three months ended June 30, 2018 | | | Three months ended June 30, 2017 | | |
|---|--------------------------------------|---|---|--------------------------------------|---|---|
| | Number of TDR Modifications Recorded | Post-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Number of TDR Modifications Recorded | Post-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
| (dollars in thousands) | | | | | | |
| Commercial business: | | | | | | |
| Secured | 7 | \$ 2,644 | \$ 2,644 | 2 | \$ 1,422 | \$ 1,422 |
| Real estate: | | | | | | |
| One-to-four family residential | — | — | — | 1 | 382 | 382 |
| Consumer | 8 | 1,274 | 1,274 | 8 | 815 | 815 |
| Total | 15 | \$ 3,918 | \$ 3,918 | 11 | \$ 2,619 | \$ 2,619 |
| | | | | | | |
| | Six months ended June 30, 2018 | | | Six months ended June 30, 2017 | | |
| | Number of TDR Modifications Recorded | Post-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Number of TDR Modifications Recorded | Post-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
| (dollars in thousands) | | | | | | |
| Commercial business: | | | | | | |
| Secured | 8 | \$ 3,094 | \$ 3,094 | 5 | \$ 1,778 | \$ 1,778 |
| Real estate: | | | | | | |
| One-to-four family residential | — | — | — | 1 | 382 | 382 |
| Commercial and multifamily residential: | | | | | | |
| Income property | 1 | 891 | 891 | — | — | — |
| Consumer | 15 | 2,417 | 2,417 | 18 | 2,361 | 2,361 |
| Total | 24 | \$ 6,402 | \$ 6,402 | 24 | \$ 4,521 | \$ 4,521 |

The Company’s loans classified as TDR are loans that have been modified or the borrower has been granted special concessions due to financial difficulties that, if not for the challenges of the borrower, the Company would not otherwise consider. The TDR modifications or concessions are made to increase the likelihood that these borrowers with financial difficulties will be able to satisfy their debt obligations as amended. The concessions granted in the restructurings summarized in the table above largely consisted of maturity extensions, interest rate modifications or a combination of both. In limited circumstances, a reduction in the principal balance of the loan could also be made as a concession. Credit losses for loans classified as TDR are measured on the same basis as impaired loans. For impaired loans, an allowance is established when the collateral value less selling costs (or discounted cash flows or observable market price) of the impaired loan is lower than the recorded investment of that loan.

The Company had commitments to lend \$651 thousand of additional funds on loans classified as TDR as of June 30, 2018. The Company had \$506 thousand of such commitments at December 31, 2017. The Company did not have any loans modified as TDR that defaulted within 12 months of being modified as TDR during the three and six months ended June 30, 2018 and 2017.

Purchased Credit Impaired Loans

Purchased credit impaired (“PCI”) loans are accounted for under ASC 310-30 and initially measured at fair value based on expected future cash flows over the life of the loans. Loans that have common risk characteristics are aggregated into pools. The Company remeasures contractual and expected cash flows, at the pool-level, on a quarterly basis.

Contractual cash flows are calculated based upon the loan pool terms after applying a prepayment factor. Calculation of the applied prepayment factor for contractual cash flows is the same as described below for expected cash flows.

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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, which utilizes probability values of a loan pool transitioning into a particular delinquency state (e.g. 0-30 days past due, 31 to 60 days, etc.) given its delinquency state at the remeasurement date. Loss severity factors are based upon either actual charge-off data within the loan pools or industry averages, and recovery lags are based upon the collateral within the loan pools.

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

The following is an analysis of our PCI loans, net of related allowance for losses and remaining valuation discounts as of June 30, 2018 and December 31, 2017:

| | June 30, December 31, | |
|--|-----------------------|------------|
| | 2018 | 2017 |
| | (in thousands) | |
| Commercial business | \$12,921 | \$ 13,753 |
| Real estate: | | |
| One-to-four family residential | 12,202 | 14,610 |
| Commercial and multifamily residential | 72,019 | 79,211 |
| Total real estate | 84,221 | 93,821 |
| Real estate construction: | | |
| One-to-four family residential | 166 | 177 |
| Commercial and multifamily residential | 557 | 595 |
| Total real estate construction | 723 | 772 |
| Consumer | 11,310 | 12,412 |
| Subtotal of PCI loans | 109,175 | 120,758 |
| Less: | | |
| Valuation discount resulting from acquisition accounting | 7,393 | 8,088 |
| Allowance for loan losses | 4,782 | 6,907 |
| PCI loans, net of allowance for loan losses | \$97,000 | \$ 105,763 |

The following table shows the changes in accretable yield for PCI loans for the three and six months ended June 30, 2018 and 2017:

| | Three Months | | Six Months Ended | |
|--|----------------|----------|------------------|----------|
| | Ended June 30, | | June 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| | (in thousands) | | | |
| Balance at beginning of period | \$29,355 | \$38,444 | \$31,176 | \$45,191 |
| Accretion | (1,937) | (2,882) | (4,202) | (7,064) |
| Disposals | (7) | — | (166) | (158) |
| Reclassifications from (to) nonaccretable difference | (2,061) | 144 | (1,458) | (2,263) |
| Balance at end of period | \$25,350 | \$35,706 | \$25,350 | \$35,706 |

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

We record an allowance for loan and lease losses (the "allowance") to recognize management's estimate of credit losses incurred in the loan portfolio at each balance sheet date. We have used the same methodology for allowance calculations during the six months ended June 30, 2018 and 2017.

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The following tables show a detailed analysis of the allowance for the three and six months ended June 30, 2018 and 2017:

| | Beginning Balance | Charge-offs | Recoveries | Provision (Recapture) | Ending Balance | Specific Reserve | General Allocation |
|--|----------------------|--------------|------------|--------------------------|-------------------|---------------------|-----------------------|
| Three months ended June 30, 2018 (in thousands) | | | | | | | |
| Commercial business: | | | | | | | |
| Secured | \$37,331 | \$ (5,751) | \$ 1,487 | \$ 7,283 | \$40,350 | \$ 67 | \$ 40,283 |
| Unsecured | 2,595 | (24) | 56 | (184) | 2,443 | — | 2,443 |
| Real estate: | | | | | | | |
| One-to-four family residential | 558 | — | 196 | (293) | 461 | 8 | 453 |
| Commercial & multifamily residential: | | | | | | | |
| Commercial land | 3,745 | — | 78 | (545) | 3,278 | — | 3,278 |
| Income property | 4,702 | — | 558 | (1,158) | 4,102 | — | 4,102 |
| Owner occupied | 4,749 | — | 4 | (397) | 4,356 | 86 | 4,270 |
| Real estate construction: | | | | | | | |
| One-to-four family residential: | | | | | | | |
| Land and acquisition | 912 | — | 12 | (76) | 848 | — | 848 |
| Residential construction | 4,636 | — | 2 | (66) | 4,572 | — | 4,572 |
| Commercial & multifamily residential: | | | | | | | |
| Income property | 7,474 | — | — | (107) | 7,367 | — | 7,367 |
| Owner occupied | 1,923 | — | — | 376 | 2,299 | — | 2,299 |
| Consumer | 5,216 | (232) | 270 | 38 | 5,292 | 95 | 5,197 |
| Purchased credit impaired | 5,665 | (1,235) | 927 | (575) | 4,782 | — | 4,782 |
| Unallocated | 321 | — | — | (321) | — | — | — |
| Total | \$79,827 | \$ (7,242) | \$ 3,590 | \$ 3,975 | \$80,150 | \$ 256 | \$ 79,894 |
| Six months ended June 30, 2018 (in thousands) | | | | | | | |
| Commercial business: | | | | | | | |
| Secured | \$29,341 | \$ (8,165) | \$ 2,040 | \$ 17,134 | \$40,350 | \$ 67 | \$ 40,283 |
| Unsecured | 2,000 | (87) | 305 | 225 | 2,443 | — | 2,443 |
| Real estate: | | | | | | | |
| One-to-four family residential | 701 | — | 368 | (608) | 461 | 8 | 453 |
| Commercial & multifamily residential: | | | | | | | |
| Commercial land | 4,265 | — | 84 | (1,071) | 3,278 | — | 3,278 |
| Income property | 5,672 | (223) | 699 | (2,046) | 4,102 | — | 4,102 |
| Owner occupied | 5,459 | — | 16 | (1,119) | 4,356 | 86 | 4,270 |
| Real estate construction: | | | | | | | |
| One-to-four family residential: | | | | | | | |
| Land and acquisition | 963 | — | 28 | (143) | 848 | — | 848 |
| Residential construction | 3,709 | — | 5 | 858 | 4,572 | — | 4,572 |
| Commercial & multifamily residential: | | | | | | | |
| Income property | 7,053 | — | — | 314 | 7,367 | — | 7,367 |
| Owner occupied | 4,413 | — | — | (2,114) | 2,299 | — | 2,299 |
| Consumer | 5,163 | (496) | 530 | 95 | 5,292 | 95 | 5,197 |
| Purchased credit impaired | 6,907 | (2,578) | 2,151 | (1,698) | 4,782 | — | 4,782 |
| Unallocated | — | — | — | — | — | — | — |
| Total | \$75,646 | \$ (11,549) | \$ 6,226 | \$ 9,827 | \$80,150 | \$ 256 | \$ 79,894 |

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| | Beginning Balance | Charge-offs | Recoveries | Provision (Recapture) | Ending Balance | Specific Reserve | General Allocation |
|--|----------------------|-------------|------------|--------------------------|-------------------|---------------------|-----------------------|
| Three months ended June 30, 2017 (in thousands) | | | | | | | |
| Commercial business: | | | | | | | |
| Secured | \$35,672 | \$ (3,600) | \$ 2,903 | \$ 4,564 | \$39,539 | \$ 3,425 | \$ 36,114 |
| Unsecured | 1,188 | — | 41 | (82) | 1,147 | — | 1,147 |
| Real estate: | | | | | | | |
| One-to-four family residential | 645 | (153) | 223 | (87) | 628 | 4 | 624 |
| Commercial & multifamily residential: | | | | | | | |
| Commercial land | 2,288 | — | — | 68 | 2,356 | — | 2,356 |
| Income property | 6,803 | — | 60 | (9) | 6,854 | 25 | 6,829 |
| Owner occupied | 6,534 | — | 67 | (89) | 6,512 | — | 6,512 |
| Real estate construction: | | | | | | | |
| One-to-four family residential: | | | | | | | |
| Land and acquisition | 509 | — | 27 | (175) | 361 | — | 361 |
| Residential construction | 1,109 | — | 31 | 237 | 1,377 | — | 1,377 |
| Commercial & multifamily residential: | | | | | | | |
| Income property | 782 | — | — | 203 | 985 | — | 985 |
| Owner occupied | 1,768 | — | — | (386) | 1,382 | — | 1,382 |
| Consumer | 3,360 | (465) | 248 | 408 | 3,551 | 45 | 3,506 |
| Purchased credit impaired | 9,395 | (1,800) | 1,204 | (738) | 8,061 | — | 8,061 |
| Unallocated | 968 | — | — | (737) | 231 | — | 231 |
| Total | \$71,021 | \$ (6,018) | \$ 4,804 | \$ 3,177 | \$72,984 | \$ 3,499 | \$ 69,485 |
| | Beginning Balance | Charge-offs | Recoveries | Provision (Recapture) | Ending Balance | Specific Reserve | General Allocation |
| Six months ended June 30, 2017 (in thousands) | | | | | | | |
| Commercial business: | | | | | | | |
| Secured | \$36,050 | \$ (4,709) | \$ 3,200 | \$ 4,998 | \$39,539 | \$ 3,425 | \$ 36,114 |
| Unsecured | 960 | (18) | 109 | 96 | 1,147 | — | 1,147 |
| Real estate: | | | | | | | |
| One-to-four family residential | 599 | (460) | 340 | 149 | 628 | 4 | 624 |
| Commercial & multifamily residential: | | | | | | | |
| Commercial land | 1,797 | — | — | 559 | 2,356 | — | 2,356 |
| Income property | 7,342 | — | 95 | (583) | 6,854 | 25 | 6,829 |
| Owner occupied | 6,439 | — | 110 | (37) | 6,512 | — | 6,512 |
| Real estate construction: | | | | | | | |
| One-to-four family residential: | | | | | | | |
| Land and acquisition | 316 | (14) | 47 | 12 | 361 | — | 361 |
| Residential construction | 669 | — | 40 | 668 | 1,377 | — | 1,377 |
| Commercial & multifamily residential: | | | | | | | |
| Income property | 404 | — | — | 581 | 985 | — | 985 |
| Owner occupied | 1,192 | — | — | 190 | 1,382 | — | 1,382 |
| Consumer | 3,534 | (893) | 533 | 377 | 3,551 | 45 | 3,506 |
| Purchased credit impaired | 10,515 | (3,739) | 2,348 | (1,063) | 8,061 | — | 8,061 |
| Unallocated | 226 | — | — | 5 | 231 | — | 231 |
| Total | \$70,043 | \$ (9,833) | \$ 6,822 | \$ 5,952 | \$72,984 | \$ 3,499 | \$ 69,485 |

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Changes in the allowance for unfunded commitments and letters of credit, a component of “Other liabilities” in the Consolidated Balance Sheets, are summarized as follows:

| | Three Months Ended June 30, 2018 | | Six Months Ended June 30, 2017 | |
|---|---|---------|---|---------|
| | 2017 | 2018 | 2018 | 2017 |
| | (in thousands) | | | |
| Balance at beginning of period | \$4,330 | \$3,555 | \$3,130 | \$2,705 |
| Net changes in the allowance for unfunded commitments and letters of credit | (650) | — | 550 | 850 |
| Balance at end of period | \$3,680 | \$3,555 | \$3,680 | \$3,555 |

Risk Elements

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

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

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

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The following is an analysis of the credit quality of our loan portfolio, excluding PCI loans, as of June 30, 2018 and December 31, 2017:

| | Pass | Special Mention | Substandard | Doubtful | Loss | Total |
|---|----------------|--------------------|-------------|----------|------|--------------|
| June 30, 2018 | (in thousands) | | | | | |
| Loans, excluding PCI loans: | | | | | | |
| Commercial business: | | | | | | |
| Secured | \$3,216,924 | \$68,549 | \$121,946 | \$ | —\$ | —\$3,407,419 |
| Unsecured | 115,808 | 2 | 524 | — | — | 116,334 |
| Real estate: | | | | | | |
| One-to-four family residential | 176,717 | 28 | 2,069 | — | — | 178,814 |
| Commercial and multifamily residential: | | | | | | |
| Commercial land | 273,742 | 1,916 | 6,012 | — | — | 281,670 |
| Income property | 1,818,431 | 18,938 | 14,081 | — | — | 1,851,450 |
| Owner occupied | 1,569,877 | 4,715 | 29,150 | — | — | 1,603,742 |
| Real estate construction: | | | | | | |
| One-to-four family residential: | | | | | | |
| Land and acquisition | 6,252 | — | 318 | — | — | 6,570 |
| Residential construction | 198,602 | — | 71 | — | — | 198,673 |
| Commercial and multifamily residential: | | | | | | |
| Income property | 299,739 | — | 3,062 | — | — | 302,801 |
| Owner occupied | 75,644 | — | 4,050 | — | — | 79,694 |
| Consumer | 316,642 | — | 8,516 | — | — | 325,158 |
| Total | \$8,068,378 | \$94,148 | \$189,799 | \$ | —\$ | —\$8,352,325 |
| Less: | | | | | | |
| Allowance for loan and lease losses | | | | | | 75,368 |
| Loans, excluding PCI loans, net | | | | | | \$8,276,957 |
| December 31, 2017 | (in thousands) | | | | | |
| Loans, excluding PCI loans: | | | | | | |
| Commercial business: | | | | | | |
| Secured | \$3,049,031 | \$64,600 | \$122,030 | \$ | —\$ | —\$3,235,661 |
| Unsecured | 123,621 | — | 554 | — | — | 124,175 |
| Real estate: | | | | | | |
| One-to-four family residential | 183,312 | 1,186 | 2,056 | — | — | 186,554 |
| Commercial and multifamily residential: | | | | | | |
| Commercial land | 283,673 | 5,204 | 7,104 | — | — | 295,981 |
| Income property | 1,857,832 | 17,181 | 31,323 | — | — | 1,906,336 |
| Owner occupied | 1,546,775 | 7,380 | 45,831 | — | — | 1,599,986 |
| Real estate construction: | | | | | | |
| One-to-four family residential: | | | | | | |
| Land and acquisition | 9,882 | — | 25 | — | — | 9,907 |
| Residential construction | 187,863 | — | 1,828 | — | — | 189,691 |
| Commercial and multifamily residential: | | | | | | |
| Income property | 293,028 | — | — | — | — | 293,028 |
| Owner occupied | 68,393 | — | 4,050 | — | — | 72,443 |
| Consumer | 323,129 | — | 9,096 | — | — | 332,225 |
| Total | \$7,926,539 | \$95,551 | \$223,897 | \$ | —\$ | —\$8,245,987 |

Less:

Allowance for loan and lease losses

68,739

Loans, excluding PCI loans, net

\$8,177,248

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The following is an analysis of the credit quality of our PCI loan portfolio as of June 30, 2018 and December 31, 2017:

| | Pass | Special Mention | Substandard | Doubtful | Loss | Total |
|--|----------------|--------------------|-------------|----------|-------|------------|
| June 30, 2018 | (in thousands) | | | | | |
| PCI loans: | | | | | | |
| Commercial business: | | | | | | |
| Secured | \$11,024 | \$ — | —\$ 1,101 | \$ — | —\$ — | —\$12,125 |
| Unsecured | 796 | — | — | — | — | 796 |
| Real estate: | | | | | | |
| One-to-four family residential | 11,448 | — | 754 | — | — | 12,202 |
| Commercial and multifamily residential: | | | | | | |
| Commercial land | 10,901 | — | — | — | — | 10,901 |
| Income property | 20,816 | — | 129 | — | — | 20,945 |
| Owner occupied | 39,322 | — | 851 | — | — | 40,173 |
| Real estate construction: | | | | | | |
| One-to-four family residential: | | | | | | |
| Land and acquisition | 161 | — | 5 | — | — | 166 |
| Residential construction | — | — | — | — | — | — |
| Commercial and multifamily residential: | | | | | | |
| Income property | 557 | — | — | — | — | 557 |
| Owner occupied | — | — | — | — | — | — |
| Consumer | 10,909 | — | 401 | — | — | 11,310 |
| Total | \$105,934 | \$ — | —\$ 3,241 | \$ — | —\$ — | —\$109,175 |
| Less: | | | | | | |
| Valuation discount resulting from acquisition accounting | | | | | | 7,393 |
| Allowance for loan losses | | | | | | 4,782 |
| PCI loans, net | | | | | | \$97,000 |
| | Pass | Special Mention | Substandard | Doubtful | Loss | Total |
| December 31, 2017 | (in thousands) | | | | | |
| PCI loans: | | | | | | |
| Commercial business: | | | | | | |
| Secured | \$11,918 | \$ — | \$ 723 | \$ — | —\$ — | —\$12,641 |
| Unsecured | 1,045 | — | 67 | — | — | 1,112 |
| Real estate: | | | | | | |
| One-to-four family residential | 13,817 | — | 793 | — | — | 14,610 |
| Commercial and multifamily residential: | | | | | | |
| Commercial land | 9,460 | 349 | — | — | — | 9,809 |
| Income property | 25,981 | — | 35 | — | — | 26,016 |
| Owner occupied | 42,617 | — | 769 | — | — | 43,386 |
| Real estate construction: | | | | | | |
| One-to-four family residential: | | | | | | |
| Land and acquisition | 169 | — | 8 | — | — | 177 |
| Residential construction | — | — | — | — | — | — |
| Commercial and multifamily residential: | | | | | | |
| Income property | 595 | — | — | — | — | 595 |
| Owner occupied | — | — | — | — | — | — |
| Consumer | 11,705 | — | 707 | — | — | 12,412 |

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| | | | | | | |
|--|-----------|--------|----------|----|-----|-----------|
| Total | \$117,307 | \$ 349 | \$ 3,102 | \$ | —\$ | —120,758 |
| Less: | | | | | | |
| Valuation discount resulting from acquisition accounting | | | | | | 8,088 |
| Allowance for loan losses | | | | | | 6,907 |
| PCI loans, net | | | | | | \$105,763 |

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7. Other Real Estate Owned (“OREO”)

The following tables set forth activity in OREO for the three and six months ended June 30, 2018 and 2017:

| | Three Months | | Six Months Ended | |
|-------------------------------------|----------------|---------|------------------|----------|
| | Ended June 30, | | June 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| | (in thousands) | | | |
| Balance, beginning of period | \$11,507 | \$4,519 | \$13,298 | \$5,998 |
| Transfers in | — | — | 406 | — |
| Valuation adjustments | (110) | (33) | (202) | (226) |
| Proceeds from sale of OREO property | (3,759) | (444) | (5,821) | (1,719) |
| Gain (loss) on sale of OREO, net | (558) | 16 | (601) | 5 |
| Balance, end of period | \$7,080 | \$4,058 | \$7,080 | \$4,058 |

At June 30, 2018, there were \$60 thousand in foreclosed residential real estate properties held as OREO and the recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process was \$1.6 million.

8. Goodwill and Other Intangible Assets

In accordance with the Intangibles – Goodwill and Other topic of the FASB ASC, goodwill is not amortized but is reviewed for potential impairment at the reporting unit level. Management analyzes its goodwill for impairment on an annual basis on July 31 and between annual tests in certain circumstances such as material adverse changes in legal, business, regulatory and economic factors. An impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value.

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

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

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|-----------|------------------|-----------|
| | June 30, | | June 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| | (in thousands) | | | |
| Goodwill | | | | |
| Total goodwill (1) | \$765,842 | \$382,762 | \$765,842 | \$382,762 |
| Other intangible assets, net | | | | |
| Core deposit intangible: | | | | |
| Gross core deposit intangible balance at beginning of period | 105,473 | 58,598 | 105,473 | 58,598 |
| Accumulated amortization at beginning of period | (51,407) | (43,235) | (48,219) | (41,886) |
| Core deposit intangible, net at beginning of period | 54,066 | 15,363 | 57,254 | 16,712 |
| CDI current period amortization | (3,088) | (1,249) | (6,276) | (2,598) |
| Total core deposit intangible, net at end of period | 50,978 | 14,114 | 50,978 | 14,114 |
| Intangible assets not subject to amortization | 919 | 919 | 919 | 919 |
| Other intangible assets, net at end of period | 51,897 | 15,033 | 51,897 | 15,033 |
| Total goodwill and other intangible assets at end of period | \$817,739 | \$397,795 | \$817,739 | \$397,795 |

(1) See Note 3, “Business Combinations,” for additional information regarding goodwill and intangible assets recorded related to the acquisition of Pacific Continental on November 1, 2017.

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The following table provides the estimated future amortization expense of core deposit intangibles for the remaining six months ending December 31, 2018 and the succeeding four years:

| Year ending December 31, | Amount (in thousands) |
|--------------------------|-----------------------------|
| 2018 | \$ 5,960 |
| 2019 | 10,479 |
| 2020 | 8,724 |
| 2021 | 7,264 |
| 2022 | 5,880 |

9. Subordinated Debentures

On November 1, 2017, with its acquisition of Pacific Continental, the Company assumed \$35.0 million in aggregate principal amount of fixed-to-floating rate subordinated debentures (the "Notes"). The Notes are callable at par on June 30, 2021, have a stated maturity of June 30, 2026 and bear interest at a fixed annual rate of 5.875% per year, from and including June 27, 2016, but excluding June 30, 2021. From and including June 30, 2021 through the maturity date or early redemption date, the interest rate will reset quarterly to an annual interest rate equal to the then-current three-month LIBOR plus 471.5 basis points.

10. Junior Subordinated Debentures

On November 1, 2017, with its acquisition of Pacific Continental, the Company assumed \$14.4 million of trust preferred obligations. The Company redeemed \$6.2 million of these obligations during 2017. The remaining \$8.2 million of obligations were redeemed in January 2018.

11. Derivatives and Balance Sheet Offsetting

The Company periodically enters into certain commercial loan interest rate swap agreements in order to provide commercial loan customers the ability to convert from variable to fixed interest rates. Under these agreements, the Company enters into a variable-rate loan agreement with a customer in addition to a swap agreement. This swap agreement effectively converts the customer's variable rate loan into a fixed rate. The Company then enters into a corresponding swap agreement with a third-party in order to offset its exposure on the variable and fixed components of the customer agreement. As the interest rate swap agreements with the customers and third parties are not designated as hedges under the Derivatives and Hedging topic of the FASB ASC, the instruments are marked to market in earnings. The notional amount of open interest rate swap agreements at June 30, 2018 and December 31, 2017 was \$368.4 million and \$384.7 million, respectively. During the three and six months ended June 30, 2018, mark-to-market gains of \$2 thousand and \$8 thousand, respectively, were recorded to "Other" noninterest expense. During the three and six months ended June 30, 2017, mark-to-market gains of \$2 thousand and \$6 thousand, respectively, were recorded to "Other" noninterest expense.

The following table presents the fair value of derivatives not designated as hedging instruments at June 30, 2018 and December 31, 2017:

| | Asset Derivatives | | Liability Derivatives | |
|-------------------------|-------------------|-------------------|-----------------------|-------------------|
| | June 30, 2018 | December 31, 2017 | June 30, 2018 | December 31, 2017 |
| | Balance Sheet | Balance Sheet | Balance Sheet | Balance Sheet |
| | Location | Location | Location | Location |
| | Fair Value | Fair Value | Fair Value | Fair Value |
| | (in thousands) | | | |
| Interest rate contracts | Other assets | Other assets | Other liabilities | Other liabilities |
| | \$ 8,624 | \$ 6,707 | \$ 8,624 | \$ 6,714 |

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

| | Gross Amounts of Recognized Assets/Liabilities | Gross Amounts Offset in the Consolidated Balance Sheets | Net Amounts of Assets/Liabilities Presented in the Consolidated Balance Sheets | Gross Amounts Not Offset in the Consolidated Balance Sheets | Collateral Posted | Net Amount |
|-------------------------|--|---|--|---|-------------------|------------|
| June 30, 2018 | (in thousands) | | | | | |
| Assets | | | | | | |
| Interest rate contracts | \$8,624 | \$ | —\$ 8,624 | \$— | | \$ 8,624 |
| Liabilities | | | | | | |
| Interest rate contracts | \$8,624 | \$ | —\$ 8,624 | \$(1,708) | | \$ 6,916 |
| Repurchase agreements | \$46,229 | \$ | —\$ 46,229 | \$(46,229) | | \$ — |

December 31, 2017

Assets

Interest rate contracts \$6,707 \$ —\$ 6,707 \$— \$ 6,707

Liabilities

Interest rate contracts \$6,714 \$ —\$ 6,714 \$(6,714) \$ —

Repurchase agreements \$79,059 \$ —\$ 79,059 \$(79,059) \$ —

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

| Class of collateral pledged for repurchase agreements | Remaining contractual maturity of the agreements | | | | Total |
|---|--|---------------|--------------|----------------------|-----------|
| | Overnight and continuous days | Up to 30 days | 30 - 90 days | Greater than 90 days | |
| U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations | \$46,229 | \$ — | \$ — | \$ — | —\$46,229 |
| Gross amount of recognized liabilities for repurchase agreements | | | | | 46,229 |
| Amounts related to agreements not included in offsetting disclosure | | | | | \$— |

The collateral utilized for the Company's repurchase agreements is subject to market fluctuations as well as prepayments of principal. The Company monitors the risk of the fair value of its pledged collateral falling below acceptable amounts based on the type of the underlying repurchase agreement. The pledged collateral related to the Company's \$46.2 million sweep repurchase agreements, which mature on an overnight basis, is monitored on a daily basis as the underlying sweep accounts can have frequent transaction activity and the amount of pledged collateral is adjusted as necessary.

12. Commitments and Contingent Liabilities

Lease Commitments: The Company's lease commitments consist primarily of leased locations under various non-cancellable operating leases that expire between 2018 and 2043. The majority of the leases contain renewal

options and provisions for increases in rental rates based on an agreed upon index or predetermined escalation schedule.

Financial Instruments with Off-Balance Sheet Risk: In the normal course of business, the Company makes loan commitments (typically unfunded loans and unused lines of credit) and issues standby letters of credit to accommodate the financial needs of its customers. At June 30, 2018 and December 31, 2017, the Company's loan commitments amounted to \$2.46 billion and \$2.62 billion, respectively.

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Standby letters of credit commit the Company to make payments on behalf of customers under specified conditions. Historically, no significant losses have been incurred by the Company under standby letters of credit. Both arrangements have credit risk essentially the same as that involved in extending loans to customers and are subject to the Company's normal credit policies, including collateral requirements, where appropriate. Standby letters of credit were \$42.5 million and \$51.3 million at June 30, 2018 and December 31, 2017, respectively. In addition, commitments under commercial letters of credit used to facilitate customers' trade transactions and other off-balance sheet liabilities amounted to \$113 thousand and \$159 thousand at June 30, 2018 and December 31, 2017, respectively. Legal Proceedings: The Company and its subsidiaries are from time to time defendants in and are threatened with various legal proceedings arising from their regular business activities. Management, after consulting with legal counsel, is of the opinion that the ultimate liability, if any, resulting from these pending or threatened actions and proceedings will not have a material effect on the financial statements of the Company.

13. Shareholders' Equity

Dividends: On January 25, 2018, the Company declared a regular quarterly cash dividend of \$0.22 per common share payable on February 21, 2018 to shareholders of record at the close of business on February 7, 2018.

On April 25, 2018, the Company declared a regular quarterly cash dividend of \$0.26 per common share payable on May 23, 2018 to shareholders of record at the close of business on May 9, 2018.

Subsequent to quarter end, on July 25, 2018, the Company declared a regular quarterly cash dividend of \$0.26 per common share payable on August 22, 2018 to shareholders of record at the close of business on August 8, 2018.

The payment of cash dividends is subject to federal regulatory requirements for capital levels and other restrictions. In addition, the cash dividends paid by Columbia Bank to the Company are subject to both federal and state regulatory requirements.

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14. Accumulated Other Comprehensive Loss

The following table shows changes in accumulated other comprehensive income (loss) by component for the three and six month periods ended June 30, 2018 and 2017:

| | Unrealized Gains and Losses on Available-for-Sale Securities (1) | Unrealized Gains and Losses on Pension Plan Liability (1) | Total (1) |
|--|---|---|------------|
| (in thousands) | | | |
| Three months ended June 30, 2018 | | | |
| Beginning balance | \$(45,748) | \$ (2,385) | \$(48,133) |
| Other comprehensive loss before reclassifications | (7,845) | — | (7,845) |
| Amounts reclassified from accumulated other comprehensive loss | (4) | 61 | 57 |
| Net current-period other comprehensive income (loss) | (7,849) | 61 | (7,788) |
| Ending balance | \$(53,597) | \$ (2,324) | \$(55,921) |
| Three months ended June 30, 2017 | | | |
| Beginning balance | \$(11,002) | \$ (1,604) | \$(12,606) |
| Other comprehensive income before reclassifications | 6,033 | — | 6,033 |
| Amounts reclassified from accumulated other comprehensive income | — | 45 | 45 |
| Net current-period other comprehensive income | 6,033 | 45 | 6,078 |
| Ending balance | \$(4,969) | \$ (1,559) | \$(6,528) |
| Six months ended June 30, 2018 | | | |
| Beginning balance | \$(19,779) | \$ (2,446) | \$(22,225) |
| Adjustment pursuant to adoption of ASU 2016-01 | 157 | — | 157 |
| Other comprehensive loss before reclassifications | (33,893) | — | (33,893) |
| Amounts reclassified from accumulated other comprehensive income | (82) | 122 | 40 |
| Net current-period other comprehensive income (loss) | (33,975) | 122 | (33,853) |
| Ending balance | \$(53,597) | \$ (2,324) | \$(55,921) |
| Six months ended June 30, 2017 | | | |
| Beginning balance | \$(12,704) | \$ (6,295) | \$(18,999) |
| Other comprehensive income before reclassifications | 7,735 | 4,604 | 12,339 |
| Amounts reclassified from accumulated other comprehensive income | — | 132 | 132 |
| Net current-period other comprehensive income | 7,735 | 4,736 | 12,471 |
| Ending balance | \$(4,969) | \$ (1,559) | \$(6,528) |

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

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The following table shows details regarding the reclassifications from accumulated other comprehensive income (loss) for the three and six month periods ended June 30, 2018 and 2017:

| | Amount Reclassified from Accumulated Other Comprehensive Income (Loss) | | | | Affected line Item in the Statement of Income |
|---|---|--------|--------------------------------------|---------|--|
| | Three Months Ended June 30, 2018 | | Six Months Ended June 30, 2017 | | |
| Unrealized gains and losses on available-for-sale debt securities | | | | | |
| Investment securities gains, net | \$5 | \$— | \$107 | \$— | Investment securities losses, net |
| | 5 | — | 107 | — | Total before tax |
| | (1) | — | (25) | — | Income tax provision |
| | \$4 | \$— | \$82 | \$— | Net of tax |
| Amortization of pension plan liability | | | | | |
| Actuarial losses | \$(80) | \$(71) | \$(160) | \$(207) | Compensation and employee benefits |
| | (80) | (71) | (160) | (207) | Total before tax |
| | 19 | 26 | 38 | 75 | Income tax benefit |
| | \$(61) | \$(45) | \$(122) | \$(132) | Net of tax |

15. Fair Value Accounting and Measurement

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

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

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

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

Fair values are determined as follows:

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

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

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The following table sets forth the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis at June 30, 2018 and December 31, 2017 by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement:

| | Fair value | Fair Value Measurements at Reporting Date Using | | |
|---|----------------|---|--------------|---------|
| | | Level 1 | Level 2 | Level 3 |
| June 30, 2018 | (in thousands) | | | |
| Assets | | | | |
| Debt securities available for sale: | | | | |
| U.S. government agency and government-sponsored enterprise mortgage-back securities and collateralized mortgage obligations | \$1,676,992 | \$ — | \$ 1,676,992 | \$ — |
| State and municipal debt securities | 577,695 | — | 577,695 | — |
| U.S. government agency and government-sponsored enterprise securities | 391,274 | — | 391,274 | — |
| U.S. government securities | 247 | 247 | — | — |
| Total debt securities available for sale | \$2,646,208 | \$ 247 | \$ 2,645,961 | \$ — |
| Equity securities | \$4,963 | \$ 4,963 | \$ — | \$ — |
| Other assets (Interest rate contracts) | \$8,624 | \$ — | \$ 8,624 | \$ — |
| Liabilities | | | | |
| Other liabilities (Interest rate contracts) | \$8,624 | \$ — | \$ 8,624 | \$ — |
| December 31, 2017 | (in thousands) | | | |
| Assets | | | | |
| Debt securities available for sale: | | | | |
| U.S. government agency and government-sponsored enterprise mortgage-back securities and collateralized mortgage obligations | \$1,726,725 | \$ — | \$ 1,726,725 | \$ — |
| State and municipal debt securities | 596,004 | — | 596,004 | — |
| U.S. government agency and government-sponsored enterprise securities | 414,774 | — | 414,774 | — |
| U.S. government securities | 248 | 248 | — | — |
| Total debt securities available for sale | \$2,737,751 | \$ 248 | \$ 2,737,503 | \$ — |
| Equity securities | \$5,080 | \$ 5,080 | \$ — | \$ — |
| Other assets (Interest rate contracts) | \$6,707 | \$ — | \$ 6,707 | \$ — |
| Liabilities | | | | |
| Other liabilities (Interest rate contracts) | \$6,714 | \$ — | \$ 6,714 | \$ — |

There were no transfers between Level 1 and Level 2 of the valuation hierarchy during the six month periods ended June 30, 2018 and 2017. The Company recognizes transfers between levels of the valuation hierarchy based on the valuation level at the end of the reporting period.

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Nonrecurring Measurements

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

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

Other real estate owned—OREO is real property that the Bank has taken ownership of in partial or full satisfaction of a loan or loans. OREO is generally measured based on the property's fair market value as indicated by an appraisal or a letter of intent to purchase. OREO is initially recorded at the fair value less estimated costs to sell. This amount becomes the property's new basis. Any fair value adjustments based on the property's fair value less estimated costs to sell at the date of acquisition are charged to the allowance, or in the event of a write-up without previous losses charged to the allowance, a credit to earnings is recorded. Management periodically reviews OREO in an effort to ensure the property is recorded at its fair value, net of estimated costs to sell. Any fair value adjustments subsequent to acquisition are charged or credited to earnings. The initial and subsequent evaluations are performed by officers in the Special Credits group, which reports to the Chief Credit Officer. The REASD obtains appraisals from third-parties for OREO and performs internal evaluations. If an appraisal is obtained from a third-party, the REASD reviews the appraisal to evaluate the adequacy of the appraisal report, including its scope, methods, accuracy and reasonableness. The following tables set forth information related to the Company's assets that were measured using fair value estimates on a nonrecurring basis during the current and prior year quarterly periods:

| | Fair Value Measurements at Reporting Date Using | | | | Gains During the Three Months Ended June 30, 2018 | Losses During the Six Months Ended June 30, 2018 |
|----------------|---|---------|---------|-----------|--|---|
| | Fair value at June 30, 2018 | Level 1 | Level 2 | Level 3 | | |
| | (in thousands) | | | | | |
| Impaired loans | \$10,792 | \$ — | \$ — | \$ 10,792 | \$ (1,032) | \$ 3,398 |
| | \$10,792 | \$ — | \$ — | \$ 10,792 | \$ (1,032) | \$ 3,398 |
| | Fair Value Measurements at Reporting Date Using | | | | Losses During the Three Months Ended June 30, 2017 | Losses During the Six Months Ended June 30, 2017 |
| | Fair value at June 30, 2017 | Level 1 | Level 2 | Level 3 | | |
| | (in thousands) | | | | | |
| Impaired loans | \$7,019 | \$ — | \$ — | \$ 7,019 | \$ 3,669 | \$ 3,669 |
| OREO | 105 | — | — | 105 | 33 | 33 |
| | \$7,124 | \$ — | \$ — | \$ 7,124 | \$ 3,702 | \$ 3,702 |

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

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Quantitative information about Level 3 fair value measurements

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

| | Fair value at June 30, 2018 (dollars in thousands) | Valuation Technique | Unobservable Input | Range (Weighted Average) (1) |
|---|--|---------------------------------|----------------------------|---------------------------------|
| Impaired loans - collateral-dependent (2) | \$6,933 | Fair Market Value of Collateral | Adjustment to Stated Value | 0.00% - 62.81% (15.72%) |
| Impaired loans - other | \$3,859 | Discounted Cash Flow | Discount Rate | 4.25% - 6.50% (6.12%) |

(1) Discount rate applied to discounted cash flow valuation or discount applied to appraisal value or stated value (in the case of accounts receivable, fixed assets, and inventory).

(2) Collateral consists of accounts receivable, fixed assets, inventory, and real estate.

| | Fair value at June 30, 2017 (dollars in thousands) | Valuation Technique | Unobservable Input | Range (Weighted Average) (1) |
|---|--|---------------------------------|-------------------------------|---------------------------------|
| Impaired loans - collateral-dependent (3) | \$7,019 | Fair Market Value of Collateral | Adjustment to Stated Value | 0.00% - 75.00% (60.59%) |
| OREO | \$105 | Fair Market Value of Collateral | Adjustment to Appraisal Value | N/A (2) |

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

(2) Quantitative disclosures are not provided for OREO because there were no adjustments made to the appraisal values.

(3) Collateral consists of accounts receivable, fixed assets, inventory, and real estate.

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The following tables summarize carrying amounts and estimated fair values of selected financial instruments by level within the fair value hierarchy at June 30, 2018 and December 31, 2017:

| June 30, 2018 | | | | | |
|--------------------------------------|-----------------|--------------|--------------|-----------|-----------|
| | Carrying Amount | Fair Value | Level 1 | Level 2 | Level 3 |
| (in thousands) | | | | | |
| Assets | | | | | |
| Cash and due from banks | \$224,370 | \$224,370 | \$224,370 | \$— | \$— |
| Interest-earning deposits with banks | 39,169 | 39,169 | 39,169 | — | — |
| Debt securities available for sale | 2,646,208 | 2,646,208 | 247 | 2,645,961 | — |
| Equity securities | 4,963 | 4,963 | 4,963 | — | — |
| FHLB stock | 13,960 | 13,960 | — | 13,960 | — |
| Loans held for sale | 6,773 | 6,773 | — | 6,773 | — |
| Loans | 8,373,957 | 8,381,155 | — | — | 8,381,155 |
| Interest rate contracts | 8,624 | 8,624 | — | 8,624 | — |
| Liabilities | | | | | |
| Time deposits | \$450,602 | \$442,561 | \$— | \$442,561 | \$— |
| FHLB advances | 99,549 | 100,102 | — | 100,102 | — |
| Repurchase agreements | 46,229 | 46,229 | — | 46,229 | — |
| Subordinated debentures | 35,555 | 34,986 | — | 34,986 | — |
| Interest rate contracts | 8,624 | 8,624 | — | 8,624 | — |
| December 31, 2017 | | | | | |
| | Carrying Amount | Fair Value | Level 1 | Level 2 | Level 3 |
| (in thousands) | | | | | |
| Assets | | | | | |
| Cash and due from banks | \$244,615 | \$244,615 | \$244,615 | \$— | \$— |
| Interest-earning deposits with banks | 97,918 | 97,918 | 97,918 | — | — |
| Debt securities available for sale | 2,737,751 | 2,737,751 | 248 | 2,737,503 | — |
| Equity securities | 5,080 | 5,080 | 5,080 | — | — |
| FHLB stock | 10,440 | 10,440 | — | 10,440 | — |
| Loans held for sale | 5,766 | 5,766 | — | 5,766 | — |
| Loans | 8,283,011 | 8,055,817 | — | — | 8,055,817 |
| Interest rate contracts | 6,707 | 6,707 | — | 6,707 | — |
| Liabilities | | | | | |
| Deposits | \$10,532,085 | \$10,524,135 | \$10,041,040 | \$483,095 | \$— |
| FHLB advances | 11,579 | 12,281 | — | 12,281 | — |
| Repurchase agreements | 79,059 | 79,070 | — | 79,070 | — |
| Subordinated debentures | 35,647 | 35,895 | — | 35,895 | — |
| Junior subordinated debentures | 8,248 | 8,248 | — | 8,248 | — |
| Interest rate contracts | 6,714 | 6,714 | — | 6,714 | — |

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16. Earnings per Common Share

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

The following table sets forth the computation of basic and diluted earnings per share for the three and six months ended June 30, 2018 and 2017:

| | Three Months Ended June 30, 2018 | | Six Months Ended June 30, 2017 | |
|---|---|----------|---|----------|
| | (in thousands except per share) | | | |
| Basic EPS: | | | | |
| Net income | \$41,749 | \$27,132 | \$81,719 | \$56,331 |
| Less: Earnings allocated to participating securities: | | | | |
| Preferred shares | — | — | — | 3 |
| Nonvested restricted shares | 473 | 362 | 909 | 759 |
| Earnings allocated to common shareholders | \$41,276 | \$26,770 | \$80,810 | \$55,569 |
| Weighted average common shares outstanding | 72,385 | 57,520 | 72,343 | 57,437 |
| Basic earnings per common share | \$0.57 | \$0.47 | \$1.12 | \$0.97 |
| Diluted EPS: | | | | |
| Earnings allocated to common shareholders | \$41,276 | \$26,770 | \$80,810 | \$55,569 |
| Weighted average common shares outstanding | 72,385 | 57,520 | 72,343 | 57,437 |
| Dilutive effect of equity awards | 5 | 5 | 4 | 5 |
| Weighted average diluted common shares outstanding | 72,390 | 57,525 | 72,347 | 57,442 |
| Diluted earnings per common share | \$0.57 | \$0.47 | \$1.12 | \$0.97 |
| Potentially dilutive share options that were not included in the computation of diluted EPS because to do so would be anti-dilutive | 3 | 12 | 7 | 13 |

17. Revenue from Contracts with Customers

Revenue in the scope of Topic 606, Revenue from Contracts with Customers is measured based on the consideration specified in the contract with a customer and excludes amounts collected on behalf of third parties. The vast majority of the Company's revenue is specifically out of scope of Topic 606. For in-scope revenue, the following is a description of principal activities, separated by the timing of revenue recognition from which the Company generates its revenue from contracts with customers.

a. Revenue earned at a point in time - Examples of revenue earned at a point in time are ATM transaction fees, wire transfer fees, overdraft fees, interchange fees and foreign exchange transaction fees. Revenue is primarily based on the number and type of transactions and is generally derived from transactional information accumulated by our systems and is recognized immediately as the transactions occur or upon providing the service to complete the customer's transaction. The Company is the principal in each of these contracts, with the exception of interchange fees, in which case we are acting as the agent and record revenue net of expenses paid to the principal.

b. Revenue earned over time - The Company earns revenue from contracts with customers in a variety of ways where the revenue is earned over a period of time - generally monthly. Examples of this type of revenue are deposit account maintenance fees, investment advisory fees, merchant revenue and safe deposit box fees. Revenue is generally derived from transactional information accumulated by our systems or those of third-parties and is recognized as the related transactions occur or services are rendered to the customer.

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The Company recognizes revenue from contracts with customers when it satisfies its performance obligations. The Company's performance obligations are typically satisfied as services are rendered and our contracts generally do not include multiple performance obligations. As a result, there are no contract balances as payments and services are rendered simultaneously. Payment is generally collected at the time services are rendered, monthly or quarterly. Unsatisfied performance obligations at the report date are not material to our consolidated financial statements. In certain cases, other parties are involved with providing products and services to our customers. If the Company is principal in the transaction (providing goods or services itself), revenues are reported based on the gross consideration received from the customer and any related expenses are reported gross in noninterest expense. If the Company is an agent in the transaction (arranging for another party to provide goods or services), the Company reports its net fee or commission retained as revenue.

Rebates, waivers and reversals are recorded as a reduction of the transaction price either when the revenue is recognized by the Company or at the time the rebate, waiver or reversal is earned by the customer.

Practical expedients

The Company applies the practical expedient in paragraph 606-10-32-18 and does not adjust the consideration from customers for the effects of a significant financing component if at contract inception the period between when the entity transfers the goods or services and when the customer pays for that good or service will be one year or less.

The Company pays sales commissions to its employees in accordance with certain incentive plans and in connection with obtaining certain contracts with customers. The Company applies the practical expedient in paragraph 340-40-25-4 and expenses such sales commissions when incurred if the amortization period of the asset the Company otherwise would have recognized is one year or less. Sales commissions are included in compensation and employee benefits expense.

For the Company's contracts that have an original expected duration of one year or less, the Company uses the practical expedient in paragraph 606-10-50-14 and has not disclosed the amount of the transaction price allocated to unsatisfied performance obligations as of the end of each reporting period or when the Company expects to recognize this revenue.

Disaggregation of revenue

The following table shows the disaggregation of revenue from contracts with customers for the three and six month periods ended June 30, 2018:

| | Three Months Ended June 30, 2018 | Six Months Ended June 30, 2018 |
|--|--|--|
|--|--|--|

(dollars in thousands)

Noninterest income:Revenue from contracts with customers:

| | | |
|--|----------|----------|
| Deposit account and treasury management fees | \$8,683 | \$17,423 |
| Card revenue | 6,616 | 12,429 |
| Financial services and trust revenue | 3,219 | 5,949 |
| Total revenue from contracts with customers | 18,518 | 35,801 |
| Other sources of noninterest income | 5,174 | 11,034 |
| Total noninterest income | \$23,692 | \$46,835 |

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

This discussion should be read in conjunction with the unaudited Consolidated Financial Statements of Columbia Banking System, Inc. (referred to in this report as "we", "our", "Columbia" and "the Company") and notes thereto presented elsewhere in this report and with the December 31, 2017 audited Consolidated Financial Statements and its accompanying notes included in our Annual Report on Form 10-K. In the following discussion, unless otherwise

noted, references to increases or decreases in average balances in items of income and expense for a particular period and balances at a particular date refer to the comparison with corresponding amounts for the period or date one year earlier.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, but are not limited to, statements about our plans, objectives, expectations and intentions that are not historical facts, and statements identified by words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “should,” “projects,” “seeks,” “estimates” or the negative version of those words or other comparable words or phrases of a future or forward-looking nature. Forward-looking statements are based on current beliefs and expectations of management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. In addition to the factors set forth in the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this report and the factors set forth in the section titled “Risk Factors” in the Company’s Form 10-K, the following factors, among others, could cause actual results to differ materially from the anticipated results expressed or implied by forward-looking statements:

- national and global economic conditions could be less favorable than expected or could have a more direct and pronounced effect on us than expected and adversely affect our ability to continue internal growth and maintain the quality of our earning assets;
 - the housing markets where we operate and make loans could face challenges;
 - the risks presented by the economy, which could adversely affect credit quality, collateral values, including real estate collateral, investment values, liquidity and loan originations and loan portfolio delinquency rates;
 - the efficiencies and enhanced financial and operating performance we expect to realize from investments in personnel, acquisitions, and infrastructure may not be realized;
 - interest rate changes could significantly reduce net interest income and negatively affect funding sources;
 - projected business increases following strategic expansion could be lower than expected;
 - changes in the scope and cost of Federal Deposit Insurance Corporation (“FDIC”) insurance and other coverages;
 - the impact of acquired loans on our earnings;
 - changes in accounting principles, policies and guidelines applicable to bank holding companies and banking;
 - changes in laws and regulations affecting our businesses, including changes in the enforcement and interpretation of such laws and regulations by applicable governmental and regulatory agencies;
 - competition among financial institutions and nontraditional providers of financial services could increase significantly;
 - continued consolidation in the Northwest financial services industry resulting in the creation of larger financial institutions that may have greater resources could change the competitive landscape;
 - the goodwill we have recorded in connection with acquisitions could become impaired, which may have an adverse impact on our earnings and capital;
 - our ability to identify and address cyber-security risks, including security breaches, “denial of service attacks,” “hacking” and identity theft;
 - any material failure or interruption of our information and communications systems or inability to keep pace with technological changes;
 - our ability to effectively manage credit risk, interest rate risk, market risk, operational risk, legal risk, liquidity risk and regulatory and compliance risk;
 - the effect of geopolitical instability, including wars, conflicts and terrorist attacks;
 - our profitability measures could be adversely affected if we are unable to effectively manage our capital;
 - natural disasters, including earthquakes, tsunamis, flooding, fires and other unexpected events; and
 - the effects of any damage to our reputation resulting from developments related to any of the items identified above.
- You should take into account that forward-looking statements speak only as of the date of this report. Given the described uncertainties and risks, we cannot guarantee our future performance or results of operations and you should not place undue reliance on forward-looking statements. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required under federal securities laws.

Table of Contents**CRITICAL ACCOUNTING POLICIES**

Management has identified the accounting policies related to the allowance for loan and lease losses (the “allowance”), business combinations and the valuation and recoverability of goodwill as critical to an understanding of our financial statements. These policies and related estimates are discussed in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” under the headings “Allowance for Loan and Lease Losses,” “Business Combinations” and “Valuation and Recoverability of Goodwill” in our 2017 Annual Report on Form 10-K. There have not been any material changes in our critical accounting policies as compared to those disclosed in our 2017 Annual Report on Form 10-K.

RESULTS OF OPERATIONS

Our results of operations are dependent to a large degree on our net interest income. We also generate noninterest income from our broad range of products and services including treasury management, wealth management and debit and credit cards. Our operating expenses consist primarily of compensation and employee benefits, occupancy, data processing and legal and professional fees. Like most financial institutions, our interest income and cost of funds are affected significantly by general economic conditions, particularly changes in market interest rates, and by government policies and actions of regulatory authorities.

Earnings Summary**Comparison of current quarter to prior year period**

The Company reported net income for the second quarter of \$41.7 million or \$0.57 per diluted common share, compared to \$27.1 million or \$0.47 per diluted common share for the second quarter of 2017. Net interest income for the three months ended June 30, 2018 was \$116.7 million, an increase of \$30.5 million from the prior year period. The increase was a result of higher interest income on loans primarily due to higher loan volumes from our acquisition of Pacific Continental and the rising rate environment. Noninterest income for the current quarter was \$23.7 million, a decrease of \$443 thousand from the prior year period. The decrease was primarily due to the sale of the merchant card services portfolio in the third quarter of 2017.

The provision for loan and lease losses for the second quarter of 2018 was \$4.0 million compared to a provision of \$3.2 million during the second quarter of 2017. The provision expense recorded in the second quarter of 2018 reflected a \$4.6 million provision for loans, excluding PCI loans, and a \$575 thousand provision recapture from PCI loans.

Total noninterest expense for the quarter ended June 30, 2018 was \$84.6 million, an increase from \$68.9 million for the second quarter of 2017. The increase from the prior year period was primarily due to higher compensation and benefits expense in the current quarter as a result of the recent Pacific Continental acquisition as well as \$1.8 million higher acquisition-related expenses, partially offset by a decrease in merchant processing expense.

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

Net interest income for the six months ended June 30, 2018 was \$232.2 million, an increase of \$59.3 million from the prior year period. The increase was a result of higher interest income on loans primarily due to higher loan volumes from our acquisition of Pacific Continental and the rising rate environment. Noninterest income for the current period was \$46.8 million, a decrease of \$2.2 million from the prior year period. The decrease was primarily due to the previously noted sale of the merchant card services portfolio and a prior year BOLI benefit of \$1.9 million, with no such benefit in the current year period.

The provision for loan and lease losses for the six months ended June 30, 2018 was \$9.8 million compared to a provision of \$6.0 million for the first six months of 2017. The \$9.8 million provision was due to recording a provision of \$11.5 million for loans, excluding PCI loans, and a provision recapture of \$1.7 million related to PCI loans.

Total noninterest expense for the six months ended June 30, 2018 was \$170.6 million, a 24% increase from the prior year period. The increase from the prior year period was primarily driven by increased compensation and employee benefits expense as a result of the recent Pacific Continental acquisition as well as \$4.7 million higher acquisition-related expenses.

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Net Interest Income

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

| | Three Months Ended June 30, 2018 | | | Three Months Ended June 30, 2017 | | |
|---|-------------------------------------|---------------------------|-----------------|-------------------------------------|---------------------------|-----------------|
| | Average Balances | Interest Earned / Paid | Average Rate | Average Balances | Interest Earned / Paid | Average Rate |
| (dollars in thousands) | | | | | | |
| ASSETS | | | | | | |
| Loans, net (1)(2) | \$8,389,230 | \$ 106,526 | 5.08 % | \$6,325,462 | \$ 77,030 | 4.87 % |
| Taxable securities | 2,111,086 | 11,923 | 2.26 % | 1,861,895 | 9,468 | 2.03 % |
| Tax exempt securities (2) | 517,206 | 3,877 | 3.00 % | 454,182 | 4,179 | 3.68 % |
| Interest-earning deposits with banks | 35,285 | 151 | 1.71 % | 10,196 | 23 | 0.90 % |
| Total interest-earning assets | 11,052,807 | \$ 122,477 | 4.43 % | 8,651,735 | \$ 90,700 | 4.19 % |
| Other earning assets | 221,141 | | | 173,044 | | |
| Noninterest-earning assets | 1,255,592 | | | 772,495 | | |
| Total assets | \$12,529,540 | | | \$9,597,274 | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | | |
| Certificates of deposit | \$464,217 | \$ 549 | 0.47 % | \$386,361 | \$ 95 | 0.10 % |
| Savings accounts | 875,529 | 30 | 0.01 % | 755,253 | 19 | 0.01 % |
| Interest-bearing demand | 1,295,409 | 608 | 0.19 % | 983,936 | 192 | 0.08 % |
| Money market accounts | 2,755,714 | 1,385 | 0.20 % | 1,997,585 | 602 | 0.12 % |
| Total interest-bearing deposits | 5,390,869 | 2,572 | 0.19 % | 4,123,135 | 908 | 0.09 % |
| Federal Home Loan Bank advances | 156,512 | 815 | 2.08 % | 195,369 | 591 | 1.21 % |
| Subordinated debentures | 35,577 | 468 | 5.26 % | — | — | — % |
| Other borrowings and interest-bearing liabilities | 28,097 | 20 | 0.28 % | 48,712 | 126 | 1.03 % |
| Total interest-bearing liabilities | 5,611,055 | \$ 3,875 | 0.28 % | 4,367,216 | \$ 1,625 | 0.15 % |
| Noninterest-bearing deposits | 4,873,953 | | | 3,842,733 | | |
| Other noninterest-bearing liabilities | 89,980 | | | 91,761 | | |
| Shareholders' equity | 1,954,552 | | | 1,295,564 | | |
| Total liabilities & shareholders' equity | \$12,529,540 | | | \$9,597,274 | | |
| Net interest income (tax equivalent) | | \$ 118,602 | | | \$ 89,075 | |
| Net interest margin (tax equivalent) | | | 4.29 % | | | 4.12 % |

Nonaccrual loans have been included in the tables as loans carrying a zero yield. Amortized net deferred loan fees and net unearned discounts on acquired loans were included in the interest income calculations. The amortization (1) of net deferred loan fees was \$2.1 million and \$1.8 million for the three month periods ended June 30, 2018 and 2017, respectively. The incremental accretion income on acquired loans was \$3.0 million and \$3.1 million for the three months ended June 30, 2018 and 2017, respectively.

Tax-exempt income is calculated on a tax equivalent basis at a rate of 21% for 2018 and 35% for 2017. The tax equivalent yield adjustment to interest earned on loans was \$1.1 million and \$1.5 million for the three months (2) ended June 30, 2018 and 2017, respectively. The tax equivalent yield adjustment to interest earned on tax exempt securities was \$814 thousand and \$1.5 million for the three month periods ended June 30, 2018 and 2017, respectively.

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

| | Six Months Ended June 30, 2018 | | | Six Months Ended June 30, 2017 | | |
|---|---|---------------------------|-----------------|-----------------------------------|---------------------------|-----------------|
| | Average Balances (dollars in thousands) | Interest Earned / Paid | Average Rate | Average Balances | Interest Earned / Paid | Average Rate |
| ASSETS | | | | | | |
| Loans, net (1)(2) | \$8,369,097 | \$ 210,617 | 5.03 % | \$6,262,190 | \$ 152,544 | 4.87 % |
| Taxable securities | 2,134,433 | 24,631 | 2.31 % | 1,861,762 | 20,454 | 2.20 % |
| Tax exempt securities (2) | 520,689 | 7,755 | 2.98 % | 451,537 | 8,319 | 3.68 % |
| Interest-earning deposits with banks | 63,368 | 496 | 1.57 % | 10,887 | 42 | 0.77 % |
| Total interest-earning assets | 11,087,587 | \$ 243,499 | 4.39 % | 8,586,376 | \$ 181,359 | 4.22 % |
| Other earning assets | 219,642 | | | 175,554 | | |
| Noninterest-earning assets | 1,258,909 | | | 773,897 | | |
| Total assets | \$12,566,138 | | | \$9,535,827 | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | | |
| Certificates of deposit | \$471,930 | \$ 1,075 | 0.46 % | \$392,798 | \$ 190 | 0.10 % |
| Savings accounts | 876,842 | 71 | 0.02 % | 746,988 | 38 | 0.01 % |
| Interest-bearing demand | 1,274,234 | 1,143 | 0.18 % | 978,279 | 351 | 0.07 % |
| Money market accounts | 2,775,253 | 2,792 | 0.20 % | 2,002,817 | 1,116 | 0.11 % |
| Total interest-bearing deposits | 5,398,259 | 5,081 | 0.19 % | 4,120,882 | 1,695 | 0.08 % |
| Federal Home Loan Bank advances | 141,171 | 1,385 | 1.96 % | 138,787 | 816 | 1.18 % |
| Subordinated debentures | 35,600 | 936 | 5.26 % | — | — | — % |
| Other borrowings | 44,378 | 136 | 0.61 % | 56,055 | 255 | 0.91 % |
| Total interest-bearing liabilities | 5,619,408 | \$ 7,538 | 0.27 % | 4,315,724 | \$ 2,766 | 0.13 % |
| Noninterest-bearing deposits | 4,901,200 | | | 3,839,410 | | |
| Other noninterest-bearing liabilities | 93,602 | | | 101,991 | | |
| Shareholders' equity | 1,951,928 | | | 1,278,702 | | |
| Total liabilities & shareholders' equity | \$12,566,138 | | | \$9,535,827 | | |
| Net interest income (tax equivalent) | | \$ 235,961 | | | \$ 178,593 | |
| Net interest margin (tax equivalent) | | | 4.26 % | | | 4.16 % |

Nonaccrual loans have been included in the table as loans carrying a zero yield. Amortized net deferred loan fees and net unearned discounts on acquired loans were included in the interest income calculations. The amortization (1) of net deferred loan fees was \$4.3 million and \$3.4 million for the six months ended June 30, 2018 and 2017, respectively. The incremental accretion income on acquired loans was \$6.7 million and \$7.2 million for the six months ended June 30, 2018 and 2017, respectively.

Tax-exempt income is calculated on a tax equivalent basis at a rate of 21% for 2018 and 35% for 2017. The tax equivalent yield adjustment to interest earned on loans was \$2.2 million and \$2.8 million for the six months ended (2) June 30, 2018 and 2017, respectively. The tax equivalent yield adjustment to interest earned on tax exempt securities was \$1.6 million and \$2.9 million for the six months ended June 30, 2018 and 2017, respectively.

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The following table sets forth the total dollar amount of change in interest income and interest expense. The changes have been segregated for each major category of interest-earning assets and interest-bearing liabilities into amounts attributable to changes in volume and changes in rates. Changes attributable to the combined effect of volume and interest rates have been allocated proportionately to the changes due to volume and the changes due to interest rates:

| | Three Months Ended June 30, 2018 Compared to 2017 Increase (Decrease) Due to Volume Rate Total (in thousands) | | |
|---|--|---------|----------|
| Interest Income | | | |
| Loans, net (1) | \$26,081 | \$3,415 | \$29,496 |
| Taxable securities | 1,344 | 1,111 | 2,455 |
| Tax exempt securities (1) | 534 | (836) | (302) |
| Interest earning deposits with banks | 94 | 34 | 128 |
| Interest income | \$28,053 | \$3,724 | \$31,777 |
| Interest Expense | | | |
| Deposits: | | | |
| Certificates of deposit | \$23 | \$431 | \$454 |
| Savings accounts | 4 | 7 | 11 |
| Interest-bearing demand | 76 | 340 | 416 |
| Money market accounts | 284 | 499 | 783 |
| Total interest on deposits | 387 | 1,277 | 1,664 |
| Federal Home Loan Bank advances | (136) | 360 | 224 |
| Subordinated debentures | 468 | — | 468 |
| Other borrowings and interest-bearing liabilities | (40) | (66) | (106) |
| Interest expense | \$679 | \$1,571 | \$2,250 |

(1) For tax exempt loans and tax exempt securities, the amount of our tax equivalent adjustment for 2018 was impacted by the lower federal corporate tax rate. As a result, our tax equivalent adjustments for tax exempt loans and tax exempt securities were \$1.1 million and \$835 thousand lower, respectively, than they would have been utilizing the prior federal corporate tax rate. This change in federal corporate tax rate negatively impacted our current quarter net interest margin (tax equivalent) by 7 basis points.

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The following table sets forth the total dollar amount of change in interest income and interest expense. The changes have been segregated for each major category of interest-earning assets and interest-bearing liabilities into amounts attributable to changes in volume and changes in rates. Changes attributable to the combined effect of volume and interest rates have been allocated proportionately to the changes due to volume and the changes due to interest rates:

| | Six Months Ended June 30, 2018 | | |
|--------------------------------------|-----------------------------------|---------|----------|
| | Compared to 2017 | | |
| | Increase (Decrease) Due to | | |
| | Volume | Rate | Total |
| | (in thousands) | | |
| Interest Income | | | |
| Loans, net (1) | \$52,870 | \$5,203 | \$58,073 |
| Taxable securities | 3,108 | 1,069 | 4,177 |
| Tax exempt securities (1) | 1,166 | (1,730) | (564) |
| Interest earning deposits with banks | 375 | 79 | 454 |
| Interest income | \$57,519 | \$4,621 | \$62,140 |
| Interest Expense | | | |
| Deposits: | | | |
| Certificates of deposit | \$46 | \$839 | \$885 |
| Savings accounts | 7 | 26 | 33 |
| Interest-bearing demand | 133 | 659 | 792 |
| Money market accounts | 544 | 1,132 | 1,676 |
| Total interest on deposits | 730 | 2,656 | 3,386 |
| Federal Home Loan Bank advances | 14 | 555 | 569 |
| Subordinated debentures | 936 | — | 936 |
| Other borrowings | (47) | (72) | (119) |
| Interest expense | \$1,633 | \$3,139 | \$4,772 |

(1) For tax exempt loans and tax exempt securities, the amount of our tax equivalent adjustment for 2018 was impacted by the lower federal corporate tax rate. As a result, our tax equivalent adjustments for tax exempt loans and tax exempt securities were \$2.2 million and \$1.7 million lower, respectively, than they would have been utilizing the prior federal corporate tax rate. This change in federal corporate tax rate negatively impacted our current year to date net interest margin (tax equivalent) by 7 basis points.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|---------|------------------------------|---------|
| | 2018 | 2017 | 2018 | 2017 |
| | (dollars in thousands) | | | |
| Incremental accretion income due to: | | | | |
| FDIC purchased credit impaired loans | \$326 | \$753 | \$655 | \$2,870 |
| Other acquired loans | 2,690 | 2,356 | 6,060 | 4,304 |
| Incremental accretion income | \$3,016 | \$3,109 | \$6,715 | \$7,174 |
| Net interest margin (tax equivalent) | 4.29 | % 4.12 | % 4.26 | % 4.16 |
| Operating net interest margin (tax equivalent) (1) | 4.27 | % 4.09 | % 4.22 | % 4.09 |

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

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Comparison of current quarter to prior year period

Net interest income for the second quarter of 2018 was \$116.7 million, up from \$86.2 million for the same quarter in 2017. The increase was primarily due to higher average earning asset volumes stemming from the Pacific Continental acquisition and the rising rate environment. The loan yield for the first quarter of 2018 was 5.08% compared to 4.87% for the prior year period. The increased loan yield reflected the current rising rate environment. The Company's net interest margin (tax equivalent) increased to 4.29% in the second quarter of 2018, from 4.12% for the prior year period. This increase was due to higher loan yields as described above offset by a 7 basis point reduction related to a lower federal corporate tax rate. The Company's operating net interest margin (tax equivalent) (see footnote 1 in prior table) increased to 4.27% from 4.09% due to higher loan and security volumes from our acquisition of Pacific Continental.

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

Net interest income for the six months ended June 30, 2018 was \$232.2 million, an increase of 34% from \$172.8 million for the prior year period. The increase in net interest income was primarily due to higher average earning asset volumes stemming from the Pacific Continental acquisition and the rising rate environment mentioned above. The Company's net interest margin (tax equivalent) increased to 4.26% for the first six months of 2018, from 4.16% for the prior year period. The increase in the Company's net interest margin (tax equivalent) was driven by higher earning asset volumes and higher loan yields, offset by a 7 basis point reduction due to the lower federal corporate tax rate. The Company's operating net interest margin (tax equivalent) for the six months ended June 30, 2018 increased to 4.22% from 4.09% also due to higher loan yields and volumes.

Provision for Loan and Lease Losses

Comparison of current quarter to prior year period

During the second quarter of 2018, the Company recorded a \$4.0 million net provision compared to a \$3.2 million net provision during the second quarter of 2017. The \$4.0 million net provision for loan and lease losses recorded during the current quarter was due to a provision recapture of \$575 thousand for PCI loans and provision expense of \$4.6 million for loans, excluding PCI loans. The \$4.6 million provision for loans, excluding PCI loans, was mainly due to net charge-off activity and loan growth. During the current quarter, we recorded a large charge-off in our agricultural portfolio. The provision recapture recorded relating to PCI loans was due to the increase in the present value of expected future cash flows as remeasured during the current quarter, compared to the present value of expected future cash flows measured during the first quarter of 2018. The amount of provision was calculated in accordance with the Company's methodology for determining the allowance, discussed in Note 6 to the Consolidated Financial Statements in "Item 1. Financial Statements (unaudited)" of this report.

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

The provision for loan and lease losses for the six months ended June 30, 2018 was \$9.8 million compared to \$6.0 million during the same period in 2017. The \$9.8 million provision expense for loans recorded for the current year-to-date period included a provision of \$11.5 million for loans, excluding PCI loans, and a provision recapture of \$1.7 million related to PCI loans. The provision of \$11.5 million related to loans, excluding PCI loans, was due to the combination of loan growth and net loan charge-offs experienced in the period. During the current year-to-date period, we recorded a large charge-off in our agricultural portfolio. The \$1.7 million in provision recapture for PCI loans was primarily due to the increase in the present value of expected future cash flows as remeasured during the current period, compared to the present value of expected future cash flows at the end of 2017, net of activity during the period. The amount of provision was calculated in accordance with the Company's methodology for determining the allowance, discussed in Note 6 to the Consolidated Financial Statements in "Item 1. Financial Statements (unaudited)" of this report.

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Noninterest Income

The following table presents the significant components of noninterest income and the related dollar and percentage change from period to period:

| | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | |
|--|-----------------------------|----------|--------------|-------------|---------------------------|----------|--------------|-------------|
| | 2018 | 2017 | \$ Change | % Change | 2018 | 2017 | \$ Change | % Change |
| | (dollars in thousands) | | | | | | | |
| Deposit account and treasury management fees | \$8,683 | \$7,396 | \$1,287 | 17 % | \$17,423 | \$14,683 | \$2,740 | 19 % |
| Card revenue (1) | 6,616 | 6,202 | 414 | 7 % | 12,429 | 11,925 | 504 | 4 % |
| Financial services and trust revenue | 3,219 | 3,036 | 183 | 6 % | 5,949 | 5,875 | 74 | 1 % |
| Loan revenue | 3,054 | 2,989 | 65 | 2 % | 6,240 | 6,582 | (342) | (5)% |
| Merchant processing revenue | — | 2,264 | (2,264) | (100)% | — | 4,283 | (4,283) | (100)% |
| Bank owned life insurance | 1,712 | 1,433 | 279 | 19 % | 3,138 | 2,713 | 425 | 16 % |
| Investment securities losses, net | (33) | — | (33) | 100 % | (11) | — | (11) | 100 % |
| Change in FDIC loss-sharing asset | — | (173) | 173 | (100)% | — | (447) | 447 | (100)% |
| Other | 441 | 988 | (547) | (55)% | 1,667 | 3,380 | (1,713) | (51)% |
| Total noninterest income | \$23,692 | \$24,135 | \$(443) | (2)% | \$46,835 | \$48,994 | \$(2,159) | (4)% |

(1) Beginning in the first quarter of 2018 and pursuant to the adoption of new revenue recognition accounting guidance, interchange revenue, included in “Card revenue” above, is presented net of related payment card network expenses. For the three and six months ended June 30, 2018, \$1.2 million and \$2.5 million, respectively, of such expenses were netted from “Card revenue.”

Comparison of current quarter to prior year period

Noninterest income was \$23.7 million for the second quarter of 2018, compared to \$24.1 million for the same period in 2017. The decrease was primarily due to the sale of the merchant card services portfolio in the third quarter of 2017 offset by an increase in treasury management fees. As a result of the merchant card services portfolio sale, we now share with the buyer in merchant services revenue and include such amounts in “Card revenue.” For the current quarter, this net revenue share was \$855 thousand, offset by related payment card network expenses (see footnote 1 in prior table).

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

For the six months ended June 30, 2018, noninterest income was \$46.8 million compared to \$49.0 million for the same period in 2017. The decrease was due to the previously noted sale of the merchant card services portfolio and lower other noninterest income offset by an increase in treasury management fees. For the current year period, the net revenue share of merchant services revenue included in “Card revenue” was \$1.6 million. The decrease in other noninterest income was principally from a prior year period BOLI benefit of \$1.9 million, with no such benefit in the current year period.

Expected impact from Dodd-Frank Wall Street Reform and Consumer Protection Act

As a result of the acquisition of Pacific Continental, we have consolidated assets exceeding \$10 billion, and as of July 1, 2018, we became subject to the interchange fee cap imposed under the Dodd-Frank Wall Street Reform and Consumer Protection Act. We currently anticipate a pre-tax annual impact of approximately \$10 million because we no longer qualify for the small issuer exemption.

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Noninterest Expense

The following table presents the significant components of noninterest expense and the related dollar and percentage change from period to period:

| | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | |
|--|-----------------------------|----------|-----------|----------|---------------------------|-----------|-----------|----------|
| | 2018 | 2017 | \$ Change | % Change | 2018 | 2017 | \$ Change | % Change |
| | (dollars in thousands) | | | | | | | |
| Compensation and employee benefits | \$48,949 | \$38,393 | \$10,556 | 27 % | \$99,519 | \$79,218 | \$20,301 | 26 % |
| Occupancy | 9,276 | 7,577 | 1,699 | 22 % | 19,397 | 14,768 | 4,629 | 31 % |
| Merchant processing expense | — | 1,147 | (1,147) | (100)% | — | 2,196 | (2,196) | (100)% |
| Advertising and promotion | 1,622 | 1,137 | 485 | 43 % | 3,051 | 1,954 | 1,097 | 56 % |
| Data processing | 5,221 | 4,741 | 480 | 10 % | 10,491 | 8,949 | 1,542 | 17 % |
| Legal and professional services | 4,171 | 2,947 | 1,224 | 42 % | 7,408 | 6,316 | 1,092 | 17 % |
| Taxes, license and fees | 1,560 | 748 | 812 | 109 % | 2,985 | 1,989 | 996 | 50 % |
| Regulatory premiums | 937 | 741 | 196 | 26 % | 1,874 | 1,517 | 357 | 24 % |
| Net cost of operation of other real estate owned | 758 | (1) | 759 | 100 % | 759 | 151 | 608 | 403 % |
| Amortization of intangibles | 3,088 | 1,249 | 1,839 | 147 % | 6,276 | 2,598 | 3,678 | 142 % |
| Other (1) | 9,061 | 10,188 | (1,127) | (11)% | 18,870 | 18,197 | 673 | 4 % |
| Total noninterest expense | \$84,643 | \$68,867 | \$15,776 | 23 % | \$170,630 | \$137,853 | \$32,777 | 24 % |

(1) In the first quarter of 2018, there was a change to net presentation of interchange revenue pursuant to the adoption of new revenue recognition accounting guidance on January 1, 2018. As a result, card revenue for the three and six month periods ended June 30, 2018 includes \$1.2 million and \$2.5 million, respectively, of payment card network expenses that would have historically been presented in other noninterest expense.

The following table shows the impact of the acquisition-related expenses for the periods indicated to the various components of noninterest expense:

| | Three Months Ended June 30, 2018 | | Six Months Ended June 30, 2017 | |
|--|----------------------------------|---------|--------------------------------|---------|
| | 2018 | 2017 | 2018 | 2017 |
| | (in thousands) | | | |
| Acquisition-related expenses: | | | | |
| Compensation and employee benefits | \$931 | \$— | \$2,487 | \$— |
| Occupancy | 586 | 351 | 1,590 | 352 |
| Advertising and promotion | 22 | 11 | 534 | 17 |
| Data processing | 634 | 473 | 921 | 473 |
| Legal and professional fees | 217 | 119 | 791 | 1,430 |
| Taxes, licenses and fees | — | 3 | — | 3 |
| Other | 432 | 66 | 764 | 112 |
| Total impact of acquisition-related expense to noninterest expense | \$2,822 | \$1,023 | \$7,087 | \$2,387 |

Comparison of current quarter to prior year period

Total noninterest expense for the second quarter of 2018 was \$84.6 million, an increase of \$15.8 million from the prior year period. The increase was due to higher compensation and benefits expense in the current quarter as a result of the recent Pacific Continental acquisition as well as \$1.8 million higher acquisition-related expenses, partially offset by a decrease in merchant processing expenses stemming from the sale of our merchant card services portfolio in the third quarter of 2017.

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

For the six months ended June 30, 2018, noninterest expense was \$170.6 million, an increase of \$32.8 million, or 24%, from \$137.9 million a year earlier. The increase from the prior year period was driven by higher compensation and employee benefits as a result of the recent Pacific Continental acquisition as well as \$4.7 million higher acquisition-related expenses, partially offset by a decrease in merchant processing expenses stemming from the sale of our merchant card services portfolio in the third quarter of 2017.

Income Taxes

We recorded an income tax provision of \$10.0 million for the second quarter of 2018, compared to a provision of \$11.1 million for the same period in 2017, with effective tax rates of 19% for the second quarter of 2018 and 29% for the same period in 2017. For the six months ended June 30, 2018 and 2017, we recorded income tax provisions of \$16.8 million and \$21.7 million, respectively, with effective tax rates of 17% for the current year and 28% for the prior year period. The decrease in our effective tax rate was principally attributable to the enactment of the Tax Cuts and Jobs Act on December 22, 2017, which reduced the federal corporate tax rate to 21%. The prior year period's effective tax rate reflected the then-enacted 35% corporate tax rate reduced by favorable tax attributes of certain earning assets and discrete tax benefits from share-based compensation. Our effective tax rate remains lower than the statutory tax rate due to tax-exempt income from municipal securities, bank owned life insurance and certain loan receivables. In addition, the current period's rate reflects the tax benefit of discrete items such as share-based compensation. For additional information, please refer to the Company's annual report on Form 10-K for the year ended December 31, 2017.

FINANCIAL CONDITION

Total assets were \$12.63 billion at June 30, 2018, a decrease of \$88.3 million from \$12.72 billion at December 31, 2017. Cash and cash equivalents decreased \$79.0 million. Loans increased \$95.5 million during the current year, which was primarily the result of increased loan production and seasonal line utilization partially offset by payments. Debt securities available for sale were \$2.65 billion at June 30, 2018, a decrease of \$91.5 million from December 31, 2017. Total liabilities were \$10.66 billion as of June 30, 2018, a decrease of \$103.3 million from \$10.77 billion at December 31, 2017. The decline was primarily due to decreased deposits.

Investment Securities

At June 30, 2018, the Company's investment portfolio primarily consisted of debt securities available for sale totaling \$2.65 billion compared to \$2.74 billion at December 31, 2017. The decrease in the debt securities portfolio from year-end is due to \$251.9 million in maturities, repayments and sales, a \$44.3 million increase in net unrealized loss and \$11.0 million in premium amortization, partially offset by \$215.6 million in purchases. The average duration of our debt securities investment portfolio was approximately 4 years and 1 month at June 30, 2018. This duration takes into account calls, where appropriate, and consensus prepayment speeds.

The investment securities are used by the Company as a component of its balance sheet management strategies. From time-to-time, securities may be sold to reposition the portfolio in response to strategies developed by the Company's asset liability management committee. In accordance with our investment strategy, management monitors market conditions with a view to realize gains on its available for sale securities portfolio when prudent.

The Company performs a quarterly assessment of the debt securities available for sale in its investment portfolio that have an unrealized loss to determine whether the decline in the fair value of these securities below their amortized cost basis is other-than-temporary. Impairment is considered other-than-temporary when it becomes probable that the Company will be unable to recover the entire amortized cost basis of its investment. The Company's impairment assessment takes into consideration factors such as the length of time and the extent to which the market value has been less than cost, defaults or deferrals of scheduled interest or principal, external credit ratings and recent downgrades, internal assessment of credit quality, and whether the Company intends to sell the security and whether it is more likely than not it will be required to sell the security prior to recovery of its amortized cost basis. If a decline in fair value is judged to be other-than-temporary, the cost basis of the individual security is written down to fair value which then becomes the new cost basis. The new cost basis is not adjusted for subsequent recoveries in fair value. When there are credit losses associated with an impaired debt security and the Company does not have the intent to sell the security and it is more likely than not that it will not have to sell the security before recovery of its cost basis,

the Company will separate the amount of the impairment into the amount that is credit-related and the amount related to non-credit factors.

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The credit-related impairment is recognized in earnings and the non-credit-related impairment is recognized in accumulated other comprehensive income.

At June 30, 2018, the market value of debt securities available for sale had a net unrealized loss of \$69.8 million compared to a net unrealized loss of \$25.6 million at December 31, 2017. The change in valuation was the result of fluctuations in market interest rates subsequent to purchase. At June 30, 2018, the Company had \$2.38 billion of debt securities available for sale with gross unrealized losses of \$73.5 million; however, we did not consider these investment securities to be other-than-temporarily impaired.

The following table sets forth our securities portfolio by type for the dates indicated:

| | June 30, 2018 | December 31, 2017 |
|---|------------------|----------------------|
| | (in thousands) | |
| Debt securities available for sale: | | |
| U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations | \$ 1,676,992 | \$ 1,726,725 |
| State and municipal securities | 577,695 | 596,004 |
| U.S. government agency and government-sponsored enterprise securities | 391,274 | 414,774 |
| U.S. government securities | 247 | 248 |
| Total debt securities available for sale | \$ 2,646,208 | \$ 2,737,751 |
| Equity securities | 4,963 | 5,080 |
| Total investment securities | \$ 2,651,171 | \$ 2,742,831 |

For further information on our investment portfolio, see Note 4 of the Consolidated Financial Statements in “Item 1. Financial Statements (unaudited)” of this report.

Credit Risk Management

The extension of credit in the form of loans or other credit substitutes to individuals and businesses is one of our principal commerce activities. Our policies, 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.

In analyzing our existing portfolio, we review our consumer and residential loan portfolios by their performance as a pool of loans, since no single loan is individually significant or judged by its risk rating, size or potential risk of loss. In contrast, the monitoring process for the commercial business, real estate construction, and commercial real estate portfolios includes periodic reviews of individual loans with risk ratings assigned to each loan and performance judged on a loan-by-loan basis.

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. In the event that 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. For additional discussion on our methodology in managing credit risk within our loan portfolio, see the “Allowance for Loan and Lease Losses” section in this Management’s Discussion and Analysis and Note 1 to the Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data” of the Company’s 2017 Annual Report on Form 10-K.

Loan policies, credit quality criteria, portfolio guidelines and other controls are established under the guidance of our Chief Credit Officer and approved, as appropriate, by the Board of Directors. Credit Administration, together with the management loan committee, has the responsibility for administering the credit approval process. As another part of its control process, we use an internal credit review and examination function to provide reasonable assurance that loans and commitments are made and maintained as prescribed by our credit policies. This includes a review of documentation when the loan is initially extended and subsequent examination to ensure continued performance and proper risk assessment.

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Loan Portfolio Analysis

Our wholly owned banking subsidiary Columbia State Bank is a full service commercial bank, which originates a wide variety of loans, and focuses its lending efforts on originating commercial business and commercial real estate loans.

The following table sets forth the Company's loan portfolio by type of loan for the dates indicated:

| | June 30, 2018 | % of Total | December 31, 2017 | % of Total |
|--|------------------|---------------|----------------------|---------------|
| (dollars in thousands) | | | | |
| Commercial business | \$3,538,492 | 41.9 % | \$3,377,324 | 40.4 % |
| Real estate: | | | | |
| One-to-four family residential | 180,522 | 2.1 % | 188,396 | 2.3 % |
| Commercial and multifamily residential | 3,758,207 | 44.4 % | 3,825,739 | 45.8 % |
| Total real estate | 3,938,729 | 46.5 % | 4,014,135 | 48.1 % |
| Real estate construction: | | | | |
| One-to-four family residential | 206,181 | 2.4 % | 200,518 | 2.4 % |
| Commercial and multifamily residential | 387,951 | 4.6 % | 371,931 | 4.4 % |
| Total real estate construction | 594,132 | 7.0 % | 572,449 | 6.8 % |
| Consumer | 326,402 | 3.9 % | 334,190 | 4.0 % |
| Purchased credit impaired | 101,782 | 1.2 % | 112,670 | 1.3 % |
| Subtotal | 8,499,537 | 100.5 % | 8,410,768 | 100.6 % |
| Less: Net unearned income | (45,430) | (0.5)% | (52,111) | (0.6)% |
| Loans, net of unearned income (before Allowance for Loan and Lease Losses) | \$8,454,107 | 100.0 % | \$8,358,657 | 100.0 % |
| Loans held for sale | \$6,773 | | \$5,766 | |

Total loans increased \$95.5 million from year-end 2017 primarily the result of organic loan production, partially offset by principal pay downs. The loan portfolio continues to be diversified, with the intent to mitigate risk by monitoring concentration in any one sector. The \$45.4 million in unearned income recorded at June 30, 2018 was comprised of \$30.2 million in net purchase discounts and \$15.2 million in net deferred loan fees. The \$52.1 million in unearned income recorded at December 31, 2017 consisted of \$36.3 million in net purchase discounts and \$15.8 million in net deferred loan fees.

The following table provides additional detail related to the net discount of acquired and purchased loans, excluding PCI loans, by acquisition:

| | June 30, 2018 | December 31, 2017 |
|----------------------------------|------------------|----------------------|
| (in thousands) | | |
| Acquisition: | | |
| Pacific Continental | \$21,318 | \$24,556 |
| Intermountain | 3,144 | 3,892 |
| West Coast | 5,840 | 7,995 |
| Other | (108) | (134) |
| Total net discount at period end | \$30,194 | \$36,309 |

Commercial Loans: We are committed to providing competitive commercial lending in our primary market areas. Management expects a continued focus within its commercial lending products and to emphasize, in particular, relationship banking with businesses and business owners.

Real Estate Loans: One-to-four family residential loans are secured by properties located within our primary market areas and, typically, have loan-to-value ratios of 80% or lower at origination. Our underwriting standards for commercial and multifamily residential loans generally require that the loan-to-value ratio for these loans not exceed 75% of appraised value, cost, or discounted cash flow value, as appropriate, and that commercial properties maintain debt coverage ratios (net operating income divided by annual debt servicing) of 1.2 or better. However, underwriting standards can be influenced by competition and other factors. We endeavor to maintain the highest practical

underwriting standards while balancing the need to remain competitive in our lending practices.

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Real Estate Construction Loans: We originate a variety of real estate construction loans. Underwriting guidelines for these loans vary by loan type but include loan-to-value limits, term limits and loan advance limits, as applicable. Our underwriting guidelines for commercial and multifamily residential real estate construction loans generally require that the loan-to-value ratio not exceed 75% and stabilized debt coverage ratios (net operating income divided by annual debt servicing) of 1.2 or better. As noted above, underwriting standards can be influenced by competition and other factors. However, we endeavor to maintain the highest practical underwriting standards while balancing the need to remain competitive in our lending practices.

Consumer Loans: Consumer loans include automobile loans, boat and recreational vehicle financing, home equity and home improvement loans and miscellaneous personal loans.

Foreign Loans: The Company has 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.

Purchased Credit Impaired Loans: PCI loans are comprised of loans and loan commitments acquired in connection with the 2011 FDIC-assisted acquisitions of First Heritage Bank and Summit Bank, as well as the 2010 FDIC-assisted acquisitions of Columbia River Bank and American Marine Bank. PCI loans are generally accounted for under ASC Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality ("ASC 310-30").

For additional information on our loan portfolio, including amounts pledged as collateral on borrowings, see Note 4 to the Consolidated Financial Statements in "Item 1. Financial Statements (unaudited)" of this report.

Nonperforming Assets

Nonperforming assets consist of: (i) nonaccrual loans, which generally are loans placed on a nonaccrual basis when the loan becomes past due 90 days or when there are otherwise serious doubts about the collectability of principal or interest within the existing terms of the loan, (ii) OREO and (iii) other personal property owned, if applicable.

The following table sets forth, at the dates indicated, information with respect to our nonaccrual loans and total nonperforming assets:

| | June 30, 2018 | December 31, 2017 | |
|---|----------------|----------------------|--------|
| | (in thousands) | | |
| Nonperforming assets | | | |
| Nonaccrual loans: | | | |
| Commercial business | \$52,036 | \$45,460 | |
| Real estate: | | | |
| One-to-four family residential | 976 | 785 | |
| Commercial and multifamily residential | 11,118 | 13,941 | |
| Total real estate | 12,094 | 14,726 | |
| Real estate construction: | | | |
| One-to-four family residential | 389 | 1,854 | |
| Consumer | 4,985 | 4,149 | |
| Total nonaccrual loans | 69,504 | 66,189 | |
| Other real estate owned and other personal property owned | 7,080 | 13,298 | |
| Total nonperforming assets | \$76,584 | \$79,487 | |
| Loans, net of unearned income | \$8,454,107 | \$8,358,657 | |
| Total assets | \$12,628,586 | \$12,716,886 | |
| Nonperforming loans to period end loans | 0.82 | % | 0.79 % |
| Nonperforming assets to period end assets | 0.61 | % | 0.63 % |

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At June 30, 2018, nonperforming assets were \$76.6 million, compared to \$79.5 million at December 31, 2017. Nonperforming assets decreased \$2.9 million during the six months ended June 30, 2018. This decrease was primarily due to \$6.4 million in OREO sales for the period, partially offset by an increase in nonaccrual loans. For further information on OREO, see Note 7 of the Consolidated Financial Statements in “Item 1. Financial Statements (unaudited)” of this report.

Allowance for Loan and Lease Losses

The allowance for loan and lease losses (“ALLL”) is an accounting estimate of incurred credit losses in our loan portfolio at the balance sheet date. The provision for loan and lease losses is the expense recognized in the Consolidated Statements of Income to adjust the allowance to the levels deemed appropriate by management, as measured by the Company’s credit loss estimation methodologies. The allowance for unfunded commitments and letters of credit is maintained at a level believed by management to be sufficient to absorb estimated probable losses related to these unfunded credit facilities at the balance sheet date.

At June 30, 2018, our allowance was \$80.2 million, or 0.95% of total loans (excluding loans held for sale). This compares with an allowance of \$75.6 million, or 0.91% of total loans (excluding loans held for sale) at December 31, 2017 and an allowance of \$73.0 million or 1.14% of total loans (excluding loans held for sale) at June 30, 2017.

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The following table provides an analysis of the Company's allowance for loans at the dates and the periods indicated:

| | Three Months Ended June 30, | | Six Months Ended June 30, | | |
|---|-----------------------------|-------------|---------------------------|-------------|---|
| | 2018 | 2017 | 2018 | 2017 | |
| | (in thousands) | | | | |
| Beginning balance, loans excluding PCI loans | \$74,162 | \$61,626 | \$68,739 | \$59,528 | |
| Beginning balance, PCI loans | 5,665 | 9,395 | 6,907 | 10,515 | |
| Beginning balance | 79,827 | 71,021 | 75,646 | 70,043 | |
| Charge-offs: | | | | | |
| Commercial business | (5,775) | (3,600) | (8,252) | (4,727) | |
| One-to-four family residential | — | (153) | — | (460) | |
| Commercial and multifamily residential | — | — | (223) | — | |
| One-to-four family residential construction | — | — | — | (14) | |
| Consumer | (232) | (465) | (496) | (893) | |
| PCI loans | (1,235) | (1,800) | (2,578) | (3,739) | |
| Total charge-offs | (7,242) | (6,018) | (11,549) | (9,833) | |
| Recoveries: | | | | | |
| Commercial business | 1,543 | 2,944 | 2,345 | 3,309 | |
| One-to-four family residential | 196 | 223 | 368 | 340 | |
| Commercial and multifamily residential | 640 | 127 | 799 | 205 | |
| One-to-four family residential construction | 14 | 58 | 33 | 87 | |
| Consumer | 270 | 248 | 530 | 533 | |
| PCI loans | 927 | 1,204 | 2,151 | 2,348 | |
| Total recoveries | 3,590 | 4,804 | 6,226 | 6,822 | |
| Net charge-offs | (3,652) | (1,214) | (5,323) | (3,011) | |
| Provision for loan and lease losses, loans excluding PCI loans | 4,550 | 3,915 | 11,525 | 7,015 | |
| Provision for loan and lease losses, PCI loans | (575) | (738) | (1,698) | (1,063) | |
| Provision for loan and lease losses | 3,975 | 3,177 | 9,827 | 5,952 | |
| Ending balance, loans excluding PCI loans | 75,368 | 64,923 | 75,368 | 64,923 | |
| Ending balance, PCI loans | 4,782 | 8,061 | 4,782 | 8,061 | |
| Ending balance | \$80,150 | \$72,984 | \$80,150 | \$72,984 | |
| Total loans, net at end of period, excluding loans held of sale | \$8,454,107 | \$6,423,074 | \$8,454,107 | \$6,423,074 | |
| Allowance for loan and lease losses to period-end loans | 0.95 | % 1.14 | % 0.95 | % 1.14 | % |
| Allowance for unfunded commitments and letters of credit | | | | | |
| Beginning balance | \$4,330 | \$3,555 | \$3,130 | \$2,705 | |
| Net changes in the allowance for unfunded commitments and letters of credit | (650) | — | 550 | 850 | |
| Ending balance | \$3,680 | \$3,555 | \$3,680 | \$3,555 | |

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Liquidity and Sources of Funds

Our primary sources of funds are customer deposits. Additionally, we utilize advances from the FHLB of Des Moines (“FHLB”), the Federal Reserve Bank of San Francisco (“FRB”), and sweep repurchase agreements to supplement our funding needs. These funds, together with loan repayments, loan sales, retained earnings, equity and other borrowed funds are used to make loans, to acquire securities and other assets and to fund continuing operations.

In addition, we have a shelf registration statement on file with the Securities and Exchange Commission registering an unspecified amount of any combination of debt or equity securities, depositary shares, purchase contracts, units and warrants in one or more offerings. Specific information regarding the terms of and the securities being offered will be provided at the time of any offering. Proceeds from any future offerings are expected to be used for general corporate purposes, including, but not limited to, the repayment of debt, repurchasing or redeeming outstanding securities, working capital, funding future acquisitions or other purposes identified at the time of any offering.

Deposit Activities

Our deposit products include a wide variety of transaction accounts, savings accounts and time deposit accounts. Core deposits (demand deposit, savings, money market accounts and certificates of deposit less than \$250,000) decreased \$150.9 million, or 2%, from year-end 2017.

We have established a branch system to serve our consumer and business depositors. In addition, management’s strategy for funding asset growth is to make use of brokered and other wholesale deposits on an as-needed basis. The Company participates in the Certificate of Deposit Account Registry Service (CDARS®) program. CDARS® is a network that allows participating banks to offer extended FDIC deposit insurance coverage on time deposits. The Company also participates in a similar program to offer extended FDIC deposit insurance coverage on money market accounts. These extended deposit insurance programs are generally available only to existing customers and are not used as a means of generating additional liquidity. At June 30, 2018, brokered and other wholesale deposits (excluding public deposits) totaled \$404.3 million, or 3.9% of total deposits, compared to \$392.9 million or 3.7% at year-end 2017. The brokered deposits have varied maturities.

The following table sets forth the Company’s deposit base by type of product for the dates indicated:

| | June 30, 2018 | | December 31, 2017 | |
|--|------------------------|------------|-------------------|------------|
| | Balance | % of Total | Balance | % of Total |
| | (dollars in thousands) | | | |
| Core deposits: | | | | |
| Demand and other noninterest-bearing | \$4,953,993 | 47.7 % | \$5,081,901 | 48.2 % |
| Interest-bearing demand | 1,278,686 | 12.3 % | 1,265,212 | 12.0 % |
| Money market | 2,513,648 | 24.2 % | 2,543,712 | 24.2 % |
| Savings | 875,707 | 8.4 % | 861,941 | 8.2 % |
| Certificates of deposit, less than \$250,000 | 266,662 | 2.6 % | 286,791 | 2.7 % |
| Total core deposits | 9,888,696 | 95.2 % | 10,039,557 | 95.3 % |
| Certificates of deposit, \$250,000 or more | 91,578 | 0.9 % | 100,399 | 1.0 % |
| Certificates of deposit insured by CDARS® (1) | 23,492 | 0.2 % | 25,374 | 0.2 % |
| Brokered certificates of deposit (1) | 68,870 | 0.7 % | 78,481 | 0.7 % |
| Reciprocal money market accounts (1) | 311,935 | 3.0 % | 289,031 | 2.8 % |
| Subtotal | 10,384,571 | 100.0 % | 10,532,842 | 100.0 % |
| Discount resulting from acquisition date fair value adjustment | (567) | | (757) | |
| Total deposits | \$10,384,004 | | \$10,532,085 | |

(1) For periods prior to June 30, 2018, CDARS and reciprocal money market accounts were considered to be brokered deposits by regulatory authorities and were reported as such on quarterly Call Reports. With the passage of the The Economic Growth, Regulatory Relief and Consumer Protection Act in May 2018, these items are no longer considered brokered deposits.

Table of Contents**Borrowings**

We rely on FHLB advances and FRB borrowings as another source of both short and long-term funding. FHLB advances and FRB borrowings are secured by investment securities, and residential, commercial and commercial real estate loans. At June 30, 2018, we had FHLB advances of \$99.5 million compared to \$11.6 million at December 31, 2017.

We also utilize wholesale and retail repurchase agreements to supplement our funding sources. Our wholesale repurchase agreements are secured by mortgage-backed securities. At June 30, 2018 and December 31, 2017, we had deposit customer sweep-related repurchase agreements of \$46.2 million and \$54.1 million, respectively, which mature on a daily basis. Management anticipates we will continue to rely on FHLB advances, FRB borrowings and wholesale and retail repurchase agreements in the future and we will use those funds primarily to make loans and purchase securities.

Contractual Obligations, Commitments & Off-Balance Sheet Arrangements

We are party to many contractual financial obligations, including repayment of borrowings, operating and equipment lease payments, off-balance sheet commitments to extend credit and investments in affordable housing partnerships. At June 30, 2018, we had commitments to extend credit of \$2.50 billion compared to \$2.67 billion at December 31, 2017.

Capital Resources

Shareholders' equity at June 30, 2018 was \$1.96 billion, essentially unchanged from December 31, 2017. Shareholders' equity was 16% of total period-end assets at June 30, 2018 and 15% at December 31, 2017.

Regulatory Capital

In July 2013, the federal bank regulators approved the New Capital Rules (as discussed in our 2017 Annual Report on Form 10-K, "Item 1. Business—Supervision and Regulation and —Regulatory Capital Requirements"), which implement the Basel III capital framework and various provisions of the Dodd-Frank Act. We and the Bank were required to comply with these rules as of January 1, 2015, subject to the phase-in of certain provisions. We believe that, as of June 30, 2018, we and the Bank would meet all capital adequacy requirements under the New Capital Rules on a fully phased-in basis as if all such requirements were then in effect.

FDIC regulations set forth the qualifications necessary for a bank to be classified as "well-capitalized," primarily for assignment of FDIC insurance premium rates. Failure to qualify as "well-capitalized" can negatively impact a bank's ability to expand and to engage in certain activities. The Company and the Bank qualified as "well-capitalized" at June 30, 2018 and December 31, 2017.

The following table presents the capital ratios and the capital conservation buffer, as applicable, for the Company and its banking subsidiary at June 30, 2018 and December 31, 2017:

| | Company | | Columbia Bank | | | |
|--|---------------|-------------------|---------------|-------------------|---|---|
| | June 30, 2018 | December 31, 2017 | June 30, 2018 | December 31, 2017 | | |
| Common equity tier 1 (CET1) risk-based capital ratio | 12.2313% | 11.7421% | 12.4867% | 12.0133% | % | % |
| Tier 1 risk-based capital ratio | 12.2313% | 11.8196% | 12.4867% | 12.0133% | % | % |
| Total risk-based capital ratio | 13.4469% | 12.9796% | 13.3405% | 12.8123% | % | % |
| Leverage ratio | 10.1956% | 10.9611% | 10.4109% | 10.8186% | % | % |
| Capital conservation buffer | 5.4469% | 4.9796% | 5.3405% | 4.8123% | % | % |

Stock Repurchase Program

On September 27, 2017, the Board of Directors approved a stock repurchase program. The program authorizes the Company to repurchase up to 2.9 million shares of our outstanding common stock. The Company intends to purchase the shares from time to time in the open market or in private transactions, under conditions which allow such repurchases to be accretive to earnings per share while maintaining capital ratios that exceed the guidelines for a well-capitalized financial institution.

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Non-GAAP Financial Measures

The Company considers operating net interest margin (tax equivalent) to be a useful measurement as it more closely reflects the ongoing operating performance of the Company. Additionally, presentation of the operating net interest margin allows readers to compare certain aspects of the Company's net interest margin to other organizations that may not have had significant acquisitions. Despite the usefulness of the operating net interest margin (tax equivalent) to the Company, there is no standardized definition for it and, as a result, the Company's calculations may not be comparable with other organizations. The Company encourages readers to consider its Consolidated Financial Statements in their entirety and not to rely on any single financial measure.

The following table reconciles the Company's calculation of the operating net interest margin (tax equivalent) to the net interest margin (tax equivalent) for the periods indicated:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|-----------------------------|--------------|---------------------------|--------------|
| | 2018 | 2017 | 2018 | 2017 |
| Operating net interest margin non-GAAP reconciliation: (dollars in thousands) | | | | |
| Net interest income (tax equivalent) (1) | \$ 118,602 | \$ 89,075 | \$ 235,961 | \$ 178,593 |
| Adjustments to arrive at operating net interest income (tax equivalent): | | | | |
| Incremental accretion income on FDIC purchased credit impaired loans | (326) | (753) | (655) | (2,870) |
| Incremental accretion income on other acquired loans | (2,690) | (2,356) | (6,060) | (4,304) |
| Premium amortization on acquired securities | 2,131 | 1,669 | 4,206 | 3,131 |
| Interest reversals on nonaccrual loans | 253 | 747 | 670 | 1,012 |
| Operating net interest income (tax equivalent) (1) | \$ 117,970 | \$ 88,382 | \$ 234,122 | \$ 175,562 |
| Average interest earning assets | \$ 11,052,807 | \$ 8,651,735 | \$ 11,087,587 | \$ 8,586,376 |
| Net interest margin (tax equivalent) (1) | 4.29 | % 4.12 | % 4.26 | % 4.16 |
| Operating net interest margin (tax equivalent) (1) | 4.27 | % 4.09 | % 4.22 | % 4.09 |

(1) Tax-exempt interest income has been adjusted to a tax equivalent basis. The amount of such adjustment was an addition to net interest income of \$1.9 million and \$2.9 million for the three months ended June 30, 2018 and 2017, respectively, and an addition to net interest income of \$3.8 million and \$5.8 million for the six months ended June 30, 2018 and 2017. The amount of our tax equivalent adjustment for 2018 was impacted by the lower federal corporate tax rate. As a result, for the three and six months ended June 30, 2018, our tax equivalent adjustments for tax exempt loans was lower by \$1.1 million and \$2.2 million, respectively, and tax exempt securities was lower by \$835 thousand and \$1.7 million, respectively, than they would have been utilizing the prior federal corporate tax rate. This change in federal corporate tax rate negatively impacted both our current quarter and current year to date net interest margin (tax equivalent) by 7 basis points.

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Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

A number of measures are used to monitor and manage interest rate risk, including income simulations and interest sensitivity (gap) analysis. An income simulation model is the primary tool used to assess the direction and magnitude of changes in net interest income resulting from changes in interest rates. Basic assumptions in the model include prepayment speeds on mortgage-related assets, cash flows and maturities of other investment securities, loan and deposit volumes and pricing. These assumptions are inherently subjective and, as a result, the model cannot precisely estimate net interest income or precisely predict the impact of higher or lower interest rates on net interest income. Actual results will differ from simulated results due to timing, magnitude and frequency of interest rate changes and changes in market conditions and management strategies, among other factors. At June 30, 2018, based on the measures used to monitor and manage interest rate risk, there has not been a material change in the Company's interest rate risk since December 31, 2017. For additional information, refer to Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's 2017 Annual Report on Form 10-K.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

An evaluation was carried out under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934). Based on that evaluation, the CEO and CFO have concluded that as of the end of the period covered by this report, our disclosure controls and procedures are effective in ensuring that the information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934 is (i) accumulated and communicated to our management (including the CEO and CFO) to allow timely decisions regarding required disclosure, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Changes in Internal Control Over Financial Reporting

There was no change in our internal controls over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

The Company and its subsidiaries are party to routine litigation arising in the ordinary course of business.

Management believes that, based on information currently known to it, any liabilities arising from such litigation will not have a material adverse impact on the Company's financial conditions, results of operations or cash flows.

Item 1A. RISK FACTORS

Refer to Item 1A of Part I of the Company's Annual Report on Form 10-K for the year ended December 31, 2017 for a discussion of risk factors relating to the Company's business. The Company believes that there has been no material change in its risk factors as previously disclosed in the Company's Form 10-K.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) Not applicable

(b) Not applicable

(c) The following table provides information about repurchases of common stock by the Company during the quarter ended June 30, 2018:

| Period | Total Number of Common Shares Purchased (1) | Average Price Paid per Common Share | Total Number of Shares Purchased as Part of Publicly Announced Plan (2) | Maximum Number of Shares Remaining That May Yet Be Purchased Under the Plan (2) |
|----------------------|---|-------------------------------------|---|---|
| 4/1/2018 - 4/30/2018 | 458 | \$ 42.53 | — | 2,900,000 |
| 5/1/2018 - 5/31/2018 | 347 | 43.08 | — | 2,900,000 |
| 6/1/2018 - 6/30/2018 | 415 | 41.99 | — | 2,900,000 |
| | 1,220 | \$ 42.50 | — | |

(1) Common shares repurchased by the Company during the quarter consisted of cancellation of 1,220 shares of common stock to pay the shareholders' withholding taxes.

(2) The repurchase plan, which was approved in 2017, authorized the Company to repurchase up to 2.9 million shares of its outstanding common stock.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

None.

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Item 6. EXHIBITS

- 10.1
+ Change in Control Agreement, dated and effective January 24, 2018, by and between the Bank and Lisa Dow
Offer Letter, dated April 20, 2018, by and between Columbia State Bank and Greg Sigrist (incorporated by
10.2 reference to Exhibit 10.1 to Columbia Banking System, Inc.'s Current Report on Form 8-K filed on May 4,
2018)
- 10.3
+ Change in Control Agreement, dated and effective June 4, 2018, by and between the Bank and Gregory Sigrist
- 10.4
+ Offer Letter, dated January 3, 2018, by and between Columbia State Bank and Lisa Dow
- 31.1+ Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2+ Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32+ Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley
Act of 2002

The following financial information from Columbia Banking System, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 is formatted in XBRL: (i) the Unaudited Consolidated Balance Sheets, (ii) the
101+ Unaudited Consolidated Statements of Income, (iii) the Unaudited Consolidated Statements of Comprehensive
Income, (iv) the Unaudited Consolidated Statements of Changes in Shareholders' Equity, (v) the Unaudited
Consolidated Statements of Cash Flows, and (vi) the Notes to Unaudited Consolidated Financial Statements.

+ Filed herewith

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COLUMBIA BANKING
SYSTEM, INC.

Date: August 7, 2018 By /s/ HADLEY S. ROBBINS
Hadley S. Robbins
President and
Chief Executive Officer
(Principal Executive Officer)

Date: August 7, 2018 By /s/ GREGORY A. SIGRIST
Gregory A. Sigrist
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

Date: August 7, 2018 By /s/ BROCK M. LAKELY
Brock M. Lakely
Senior Vice President and
Chief Accounting Officer
(Principal Accounting Officer)