COLUMBIA BANKING SYSTEM INC
Form 10-K
February 28, 2019
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018 or
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
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
Tacoma, Washington 98402
(Address of principal executive offices) (Zip code)
Registrant's Telephone Number, Including Area Code: (253) 305-1900

Securities Registered Pursuant to Section 12(b) of the Act:
Common Stock, No Par Value
(Title of class)
Securities Registered Pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes x No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (17 C.F.R. 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.
x Large Accelerated Filer Accelerated Filer Non-accelerated Filer 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.
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No x

The aggregate market value of Common Stock held by non-affiliates of the registrant at June 30, 2018 was $2,967,255,859 based on the closing sale price of the Common Stock on that date.

The number of shares of registrant's Common Stock outstanding at January 31, 2019 was 73,267,025.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Registrant's definitive 2019 Annual Meeting Proxy Statement.	Part III

COLUMBIA BANKING SYSTEM, INC.
FORM 10-K ANNUAL REPORT
DECEMBER 31, 2018

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K 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 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 sections titled “Risk Factors,” “Business” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this 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 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;
- the effect of changes to LIBOR (“London Interbank Offering Rate”);
- 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;
- failure to maintain effective internal controls over financial reporting or disclosure controls and procedures;
- 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.

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PART I

ITEM 1. BUSINESS

General

Columbia Banking System, Inc. (referred to in this report as "we," "our," "the Company" and "Columbia") is a registered bank holding company whose wholly owned banking subsidiary is Columbia State Bank ("Columbia Bank" or "the Bank"). Established in 1993 in Tacoma, Washington, we provide a full range of banking services to small and medium-sized businesses, professionals and individuals throughout Washington, Oregon and Idaho. The Company's subsidiary Columbia Trust Company ("Columbia Trust") is an Oregon trust company that provides agency, fiduciary and other related trust services with offices in Washington, Oregon and Idaho.

Columbia Bank has locations throughout Washington, Oregon and Idaho. The vast majority of Columbia Bank's loans and deposits are within its service areas. Columbia Bank is a Washington state-chartered commercial bank, the deposits of which are insured in whole or in part by the FDIC. Columbia Bank is subject to regulation by the FDIC, the Washington State Department of Financial Institutions Division of Banks, the Oregon Department of Consumer and Business Services Division of Finance and Corporate Securities, and the Idaho Department of Finance. Although Columbia Bank is not a member of the Federal Reserve System, the Board of Governors of the Federal Reserve System ("Federal Reserve") has certain supervisory authority over the Company, which can also affect Columbia Bank.

Business Overview

Having celebrated our 25th anniversary in 2018, our goal is to continue to be a leading Northwest regional community banking company while consistently increasing shareholder value. We continue to build on our reputation for exceptional customer satisfaction in order to be recognized as the bank of choice for individual and business customers in all markets we serve.

We have established a network of 150 branches in Washington, Oregon and Idaho as of December 31, 2018, from which we intend to grow market share. We operate 74 branches in 21 counties in the state of Washington, 62 branches in 16 counties in Oregon and 14 branches in 10 counties in Idaho.

Our branch system funds our lending activities and allows us to better serve both retail and business depositors. We believe this approach enables us to expand lending activities while attracting a stable core deposit base and enhancing utilization of our full range of products and services. To support our strategy of market penetration and increased profitability, while continuing our personalized banking approach, we have invested in experienced banking and administrative personnel and have incurred related costs in the creation of our branch network. Our branch system and other delivery channels are continually evaluated as an important component of ongoing efforts to improve efficiencies without compromising customer service. We are taking major steps towards enhancing our digitally enabled bank that puts the client first and ensures they can bank when, how and where they choose.

Business Strategy

Our business strategy is to provide our customers with the financial sophistication and product depth of a regional banking company while retaining the appeal and service level of a community bank. We continually evaluate our existing business processes while focusing on maintaining asset quality and a diversified loan and deposit portfolio. We continue to build our strong core deposit base, expanding total revenue and controlling expenses in an effort to gain operational efficiencies and increase our return on average equity. As a result of our strong commitment to highly personalized, relationship-oriented customer service, our diverse products, our strategic branch locations and the long-standing community presence of our managers and staff, we believe we are well positioned to attract and retain new customers and to increase our market share of loans, deposits, investments and other financial services. We are dedicated to increasing market share in the communities we serve by continuing to leverage our existing branch network and considering business combinations that are consistent with our expansion strategy throughout the Northwest. We have grown our franchise over the past decade through a combination of acquisitions and organic growth.

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Products & Services

We place the highest priority on customer service and assist our clients in making informed decisions when selecting from the products and services we offer. We continually review our product and service offerings to ensure that we provide our customers with the tools to meet their financial needs. A more complete listing of all the services and products available to our customers can be found on our website: www.columbiabank.com. Some of the core products and services we offer include:

Personal Banking	Business Banking	Wealth Management
• Checking and Savings Accounts	• Checking and Savings Accounts	• Financial Services
• Debit and Credit Cards	• Debit and Credit Cards	• Private Banking
• Digital Banking	• Business Loans	• Trust and Investment Services
• Personal Loans	• Professional Banking	
• Home Loans	• Treasury Management	
• Foreign Currency	• Merchant Card Services	
	• International Banking	

Personal Banking: We offer our personal banking customers an assortment of account products including noninterest and interest-bearing checking, savings, money market and certificate of deposit accounts. Overdraft protection is also available with direct links to the customer’s checking account. Personal banking customers may also choose from a variety of loan products including home mortgages for purchases and refinances, home equity loans and lines of credit, and other personal loans. Eligible personal banking customers with checking accounts are provided a Visa® Debit Card. Further, a variety of Visa® Credit Cards are available to eligible personal banking customers.

In addition, Columbia Connect, our personal digital banking platform, allows our personal banking customers to safely and securely conduct their banking business 24 hours a day, 7 days a week across all of their devices. Columbia Connect has simple navigation and provides access to frequently used features such as depositing checks, paying bills, transferring funds, or locating the nearest Columbia Bank branch or ATM.

Business Banking: A variety of checking, savings, interest bearing money market and certificate of deposit accounts are offered to business banking customers to satisfy all their banking needs. In addition to these core banking products, we provide a breadth of services to support the complete financial needs of small and middle market businesses including Business Debit and Credit Cards, Business Loans, Professional Banking, Treasury Management, Merchant Card Services, and International Banking.

Business Debit and Credit Cards

Our business banking customers are offered a selection of Visa® Cards including the Business Debit Card that works like a check wherever Visa® is accepted. We also partner with Elan Financial Services to offer a variety of Visa® Credit Cards that come with important business features including expense management tools, free employee cards and added security benefits. A specialty community card for nonprofit organizations and municipalities is also available.

Business Loans

We offer a variety of loan products tailored to meet the diverse needs of business banking customers. Business loan products include agricultural loans, asset-based loans, builder and other commercial real estate loans, and loans guaranteed by the Small Business Administration. In addition, we offer a suite of Business Edge loans designed for small businesses looking to expand, purchase equipment, or in need of working capital.

Professional Banking

Columbia Professional Bankers are uniquely qualified to help dentists, physicians and veterinarians acquire, build and grow their practice. We offer tailored banking solutions delivered by experienced bankers with the industry knowledge necessary to meet their business’s unique needs.

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Treasury Management

Columbia Bank's diversified Treasury Management Programs are tailored to meet specific banking needs of each individual business. We combine technology with integrated operations and local expertise for safe, powerful, flexible solutions. Columbia's clients, of all sizes, choose from a full range of transaction and Treasury Management tools to gain more control over their money. Treasury Management solutions include Business Online and Mobile Banking, Business Bill Pay, Automated Clearing House (ACH) collections and payments, Remote Deposit Capture, and a variety tools to protect against fraud and manage excess funds.

Merchant Card Services

Since 2017, we have partnered with Vantiv to provide businesses with a broad range of payment acceptance solutions to meet their customer's needs. Our Merchant Card Services powered by Vantiv provide businesses with sophisticated technology, competitive pricing and best-in-class service for their merchant needs.

International Banking

Columbia International Banking offers a range of financial services to help our business customers explore global markets and conduct international trade smoothly and expediently. We are proud to provide small and mid-size businesses with the same caliber of expertise and personalized service that national banks usually limit to large businesses. Our experience with foreign currency exchange, letters of credit, foreign collections and trade finance services can help companies open the door to new markets and suppliers overseas.

Wealth Management: We offer tailored solutions to individuals, families and professional businesses in the areas of financial services and private banking, as well as trust and investment services.

CB Financial Services

CB Financial Services(1) offers a comprehensive array of financial solutions that focuses on wealth management by delivering personalized service and experience through dedicated financial advisors serving various geographical areas.

Financial Services solutions include:

Financial Planning: Asset Allocation, Net Worth Analysis, Estate Planning & Preservation(2), Education Funding, Wealth Transfer.

Wealth Management: Professional Asset Management, Tailored Investment Strategies, and Professional Money Managers.

Insurance Solutions: Long-Term Care, Life, and Disability Insurance.

Individual Retirement Solutions: Retirement Planning, Retirement Income Strategies, and Traditional and Roth IRAs.

Business Solutions: Business Retirement Plans, Key Person Insurance, Business Succession Planning, and Deferred Compensation Plans.

Private Banking

Columbia Private Banking offers affluent clientele and their businesses complex financial solutions, such as deposit and treasury management services, credit services, and wealth management strategies. Each private banker coordinates a relationship team of experienced financial professionals to meet the unique needs of each discerning customer.

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(1) Securities and insurance products are offered through Cetera Investment Services LLC (doing insurance business in California as CFGIS Insurance Agency), member FINRA/SIPC. Advisory services are offered through Cetera Investment Advisers LLC. Neither firm is affiliated with the financial institution where investment services are offered.

* Investment products are not FDIC insured * No bank guarantee * Not a deposit * Not insured by any federal government agency * May lose value.

(2) For a comprehensive review of your personal situation, always consult a tax or legal advisor. Neither Cetera, nor any of its representatives may give legal or tax advice.

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Trust and Investment Services: Through our Columbia Trust Company subsidiary, we offer a wide range of high quality fiduciary, investment and administrative trust services, coupled with local, personalized attention to the unique requirements of each trust. Services include Personal Trusts, Special Needs (Supplemental) Trusts, Estate Settlement Services, Investment Agency and Charitable Management Services. A more complete listing of all the services and products available to our customers can be found on Columbia Trust's website: www.columbiatrustcompany.com. Information contained on Columbia Trust's website is not incorporated by reference into this report.

Competition

Our industry is highly competitive. Several other financial institutions with greater resources compete for banking business in our market areas. These competitors have the ability to make larger loans, finance extensive advertising and promotional campaigns, access international financial markets and allocate their investment assets to regions of highest yield and demand. In addition to competition from other banking institutions, we continue to compete with non-banking companies such as credit unions, brokerage houses, financial technology companies and other financial services companies. We compete for deposits, loans, and other financial services by offering our customers similar breadth of products as our larger competitors while delivering a more personalized service level.

Employees

As of December 31, 2018, the Company employed 2,137 full-time equivalent employees. We value our employees and pride ourselves on providing a professional work environment accompanied by comprehensive pay and benefit programs. We are committed to providing flexible and value-added benefits to our employees through a "Total Compensation Philosophy" which incorporates all compensation and benefits. Our continued commitment to employees was demonstrated by Columbia Bank being honored as one of the Puget Sound Business Journal's "Washington's Best Workplaces" for the 12th consecutive year.

Available Information

We file annual reports on Form 10-K, quarterly reports on Form 10-Q, periodic reports on Form 8-K, proxy statements and other information with the United States Securities and Exchange Commission (the "SEC"). The public may obtain copies of these reports and any amendments at the SEC's Internet site, www.sec.gov.

Additionally, reports filed with the SEC can be obtained free of charge through our website at www.columbiabank.com. These reports are made available through our website as soon as reasonably practicable after they are filed electronically with the SEC. Information contained on our website is not incorporated by reference into this report.

Supervision and Regulation

The following discussion provides an overview of certain elements of the extensive regulatory framework applicable to the Company and Columbia State Bank, which operates under the name Columbia Bank in Washington, Oregon and Idaho. This regulatory framework is primarily designed for the protection of depositors, customers, federal deposit insurance funds and the banking system as a whole, rather than specifically for the protection of shareholders or non-depository creditors. Due to the breadth and growth of this regulatory framework, our costs of compliance continue to increase in order to monitor and satisfy these requirements.

To the extent that this section describes statutory and regulatory provisions, it is qualified by reference to those provisions. These statutes and regulations, as well as related policies, are subject to change by Congress, state legislatures and federal and state regulators. Changes in statutes, regulations or regulatory policies applicable to us, including the interpretation or implementation thereof, cannot be predicted, but may have a material effect on our business, financial condition, or results of operations. In light of the 2008 financial crisis, numerous changes to the statutes, regulations or regulatory policies applicable to us have been made or proposed. The full extent to which these changes will impact our business is not yet known. In addition, recent political developments, including the change in the presidential administration in the United States, have added additional uncertainty to the implementation, scope and timing of regulatory reforms. However, our continued efforts to monitor and comply with new regulatory requirements add to the complexity and cost of our business.

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Federal and State Bank Holding Company Regulation

General. The Company is a bank holding company as defined in the Bank Holding Company Act of 1956, as amended (the “BHCA”), and is therefore subject to regulation, supervision and examination by the Federal Reserve. In general, the BHCA limits the business of bank holding companies to owning or controlling banks and engaging in other activities closely related to banking. The Company must file reports with and provide the Federal Reserve such additional information as it may require. Under the Financial Services Modernization Act of 1999, a bank holding company may apply to the Federal Reserve to become a financial holding company, and thereby engage (directly or through a subsidiary) in certain expanded activities deemed financial in nature, such as securities and insurance underwriting. As of the date of this report, we have not elected to be treated as a financial holding company.

Holding Company Bank Ownership. The BHCA requires every bank holding company to obtain the prior approval of the Federal Reserve before (i) acquiring, directly or indirectly, ownership or control of any voting shares of another bank or bank holding company if, after such acquisition, it would own or control more than 5% of such shares; (ii) acquiring all or substantially all of the assets of another bank or bank holding company; or (iii) merging or consolidating with another bank holding company. In addition, under the Bank Merger Act of 1960, as amended, the prior approval of the FDIC is required for the Bank to merge with another bank or purchase all or substantially all of the assets or assume any of the deposits of another FDIC-insured depository institution. In reviewing applications seeking approval of merger and acquisition transactions, bank regulators consider, among other things, the competitive effect and public benefits of the transactions, the capital position and managerial resources of the combined organization, the risks to the stability of the U.S. banking or financial system, the applicant’s performance record under the Community Reinvestment Act of 1977 (the “CRA”), the applicant’s compliance with fair housing and other consumer protection laws and the effectiveness of all organizations involved in combating money laundering activities. In addition, failure to implement or maintain adequate compliance programs could cause bank regulators not to approve an acquisition where regulatory approval is required or to prohibit an acquisition even if approval is not required.

Holding Company Control of Nonbanks. With some exceptions, the BHCA also prohibits a bank holding company from acquiring or retaining direct or indirect ownership or control of more than 5% of the voting shares of any company which is not a bank or bank holding company, or from engaging directly or indirectly in activities other than those of banking, managing or controlling banks, or providing services for its subsidiaries. The principal exceptions to these prohibitions involve certain non-bank activities that, by statute or by Federal Reserve regulation or order, have been identified as activities so closely related to the business of banking as to be a proper incident thereto, such as Columbia Trust.

Tying Arrangements. We are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit, sale or lease of property or furnishing of services. For example, with certain exceptions, neither the Company nor its subsidiaries may condition an extension of credit to a customer on either (i) a requirement that the customer obtain additional services provided by us; or (ii) an agreement by the customer to refrain from obtaining other services from a competitor.

Support of Subsidiary Banks. Under Federal Reserve policy, as codified by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), the Company is required to act as a source of financial and managerial strength to Columbia Bank, including at times when we may not be in a financial position to provide such resources, and it may not be in our, or our shareholders’, best interests to do so. This means that the Company is required to commit resources, as necessary, to support Columbia Bank. Any capital loans a bank holding company makes to its subsidiary banks are subordinate to deposits and to certain other indebtedness of those subsidiary banks.

State Law Restrictions. As a Washington corporation, the Company is subject to certain limitations and restrictions under applicable Washington corporate law. For example, state law restrictions in Washington include limitations and restrictions relating to indemnification of directors, distributions to shareholders, transactions involving directors, officers or interested shareholders, maintenance of books, records, and minutes, and observance of certain corporate formalities.

Federal and State Regulation of Columbia Bank

General. The deposits of Columbia Bank, a Washington chartered commercial bank with branches in Washington, Oregon and Idaho, are insured by the FDIC. As a result, Columbia Bank is subject to supervision and regulation by the Washington Department of Financial Institutions' Division of Banks and the FDIC. These agencies have the authority to prohibit banks from engaging in what they believe constitute unsafe or unsound banking practices. Furthermore, under the Federal Deposit Insurance Act ("FDIA"), insurance of deposits may be terminated by the FDIC if the FDIC finds that the insured depository institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. With respect to branches of Columbia Bank in Oregon and Idaho, the Bank is also subject to certain laws and regulations governing its activities in those states.

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Consumer Protection. The Bank is subject to a variety of federal and state consumer protection laws and regulations that govern its relationship with consumers, including laws and regulations that impose certain disclosure requirements and regulate the manner in which we take deposits, make and collect loans, and provide other services. Failure to comply with these laws and regulations may subject the Bank to various penalties, including but not limited to, enforcement actions, injunctions, fines, civil monetary penalties, criminal penalties, punitive damages, and the loss of certain contractual rights. Columbia Bank has established a compliance management system designed to ensure consumer protection.

Community Reinvestment. The CRA requires that, in connection with examinations of financial institutions within their jurisdiction, the Federal Reserve or the FDIC evaluate the record of the financial institution in meeting the credit needs of its local communities, including low and moderate-income neighborhoods, consistent with the safe and sound operation of the institution. A bank’s community reinvestment record is also considered by the applicable banking agencies in evaluating mergers, acquisitions and applications to open a branch or facility. The Bank’s failure to comply with the CRA could, among other things, result in the denial or delay in connection with such transactions. The Bank received a rating of “satisfactory” in its most recently completed CRA examination.

Anti-Money Laundering and Anti-Terrorism. The Bank Secrecy Act (the “BSA”) requires all financial institutions, including banks to, among other things, establish a risk-based system of internal controls reasonably designed to prevent money laundering and the financing of terrorism. It includes a variety of recordkeeping and reporting requirements (such as cash and suspicious activity reporting) as well as due diligence/know-your-customer documentation requirements.

The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, intended to combat terrorism, was renewed with certain amendments in 2006 (the “Patriot Act”). The Patriot Act further augments and strengthens the requirements set forth in the BSA. The Patriot Act, in relevant part, (i) prohibits banks from providing correspondent accounts directly to foreign shell banks; (ii) imposes due diligence requirements on banks opening or holding accounts for foreign financial institutions or wealthy foreign individuals; (iii) requires financial institutions to establish an anti-money-laundering compliance program; and (iv) eliminates civil liability for persons who file suspicious activity reports. The Patriot Act also includes provisions providing the government with power to investigate terrorism, including expanded government access to bank account records. An institution that fails to meet these standards may be subject to regulatory sanctions, including limitations on growth. Columbia Bank has established compliance programs designed to comply with the BSA and the Patriot Act.

Transactions with Affiliates; Insider Credit Transactions. Transactions between the Bank and its subsidiaries, on the one hand, and the Company or any other subsidiary, on the other hand, are regulated under federal banking law. The Federal Reserve Act imposes quantitative and qualitative requirements and collateral requirements on covered transactions by the Bank with, or for the benefit of, its affiliates. In addition, subsidiary banks of a bank holding company are subject to restrictions on extensions of credit to the holding company or its subsidiaries, on investments in securities of the holding company or its subsidiaries and on the use of their securities as collateral for loans to any borrower. These regulations and restrictions may limit the Company’s ability to obtain funds from Columbia Bank for its cash needs, including funds for payment of dividends, interest and operational expenses.

Banks are also subject to certain restrictions imposed by the Federal Reserve Act on extensions of credit to executive officers, directors, principal shareholders or any related interests of such persons. Extensions of credit (i) must be made on substantially the same terms, including interest rates and collateral, and follow credit underwriting procedures that are at least as stringent as those prevailing at the time for comparable transactions with persons not related to the lending bank; and (ii) must not involve more than the normal risk of repayment or present other unfavorable features. Banks are also subject to certain lending limits and restrictions on overdrafts to insiders. A violation of these restrictions may result in the assessment of substantial civil monetary penalties, regulatory enforcement actions, and other regulatory sanctions. The Columbia Bank board has established controls to ensure compliance with regulatory expectations around affiliated transactions.

Regulation of Management. Federal law (i) sets forth circumstances under which officers or directors of a bank may be removed by the institution’s federal supervisory agency; (ii) places restraints on lending by a bank to its executive officers, directors, principal shareholders, and their related interests; and (iii) generally prohibits management personnel of a bank from serving as directors or in other management positions of another financial institution whose assets exceed a specified amount or which has an office within a specified geographic area.

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Safety and Soundness Standards. Certain non-capital safety and soundness standards are also imposed upon banks. These standards cover internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, such other operational and managerial standards as the agency determines to be appropriate, and standards for asset quality, earnings and stock valuation. An institution that fails to meet these standards may be subject to regulatory sanctions, including limitations on growth. Columbia Bank has established policies and risk management activities designed to ensure the safety and soundness of the Bank.

Interstate Banking and Branching

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the “Interstate Act”) together with the Dodd-Frank Act relaxed prior interstate branching restrictions under federal law by permitting, subject to regulatory approval, state and federally chartered commercial banks to establish branches in states where the laws permit banks chartered in such states to establish branches. The Interstate Act requires regulators to consult with community organizations before permitting an interstate institution to close a branch in a low-income area. Federal banking agency regulations prohibit banks from using their interstate branches primarily for deposit production and the federal banking agencies have implemented a loan-to-deposit ratio screen to ensure compliance with this prohibition.

Dividends and Stress Testing

Columbia is a legal entity separate and distinct from the Bank and its other subsidiaries. As a bank holding company, Columbia is subject to certain restrictions on its ability to pay dividends under applicable banking laws and regulations. Federal bank regulators are authorized to determine under certain circumstances relating to the financial condition of a bank holding company or a bank that the payment of dividends would be an unsafe or unsound practice and to prohibit payment thereof. In particular, federal bank regulators have stated that paying dividends that deplete a banking organization’s capital base to an inadequate level would be an unsafe and unsound banking practice and that banking organizations should generally pay dividends only out of current operating earnings. In addition, in the current financial and economic environment, the Federal Reserve has indicated that bank holding companies should carefully review their dividend policy and has discouraged payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong. A significant portion of our income comes from dividends from the Bank, which is also the primary source of our liquidity. In addition to the restrictions discussed above, the Bank is subject to limitations under Washington law regarding the level of dividends that it may pay to us. Washington law limits a bank’s ability to pay dividends that are greater than the bank’s retained earnings without approval of the applicable banking agency.

In October 2012, as required by the Dodd-Frank Act, the Federal Reserve and the FDIC published final rules regarding company-run stress testing. These rules require bank holding companies and banks with average total consolidated assets greater than $10 billion over a specified period of time to conduct an annual company-run stress test of capital, consolidated earnings and losses under one base and at least two stress scenarios provided by the federal bank regulators. In May 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act (“EGRRCPA”) was enacted. On January 8, 2019, the Federal Reserve issued proposed rules to amend its stress testing requirements. This followed a similar proposal issued by the FDIC on December 18, 2018. Under the proposed rules, consistent with the requirements imposed by the EGRRCPA, the minimum threshold requiring bank holding companies and state-chartered banks to conduct company-run stress tests would be increased from $10 billion to $250 billion, and would generally require firms above the threshold to conduct company-run stress tests once every other year. We are unable to predict at this time what impact the amendment will have on the Company or the Bank, and any such impact will depend on the final form of the proposed rules. Although the proposed rules would increase the asset size requirement to above our current asset size, we do intend to continue to perform stress testing.

Regulatory Capital Requirements

The Federal Reserve monitors the capital adequacy of the Company on a consolidated basis, and the FDIC and the Washington Department of Financial Institutions’ Division of Banks monitor the capital adequacy of the Bank. The risk-based capital standards currently applicable to the Company and the Bank, parts of which are subject to phase-in, are based on the December 2010 final capital framework for strengthening international capital standards, known as Basel III, of the Basel Committee on Banking Supervision (the “Basel Committee”). We believe that, as of December

31, 2018, we and the Bank would meet all capital adequacy requirements under the Capital Rules, as described below, on a fully phased-in basis as if such requirements were then in effect.

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Prior to January 1, 2015, the risk-based capital standards applicable to the Company and the Bank were based on the 1988 Capital Accord, known as Basel I, of the Basel Committee. In July 2013, the federal bank regulators approved final rules implementing Basel III and various provisions of the Dodd-Frank Act (the "Capital Rules"). The Capital Rules substantially revised the risk-based capital requirements applicable to bank holding companies and banks, including us and the Bank, compared to the risk-based capital rules in effect at December 31, 2014. The Capital Rules revised the components of capital and addressed other issues affecting the numerator in regulatory capital ratio calculations. The Capital Rules also addressed risk weights and other issues affecting the denominator in regulatory capital ratio calculations, including by replacing the prior risk-weighting approach derived from Basel I with a more risk-sensitive approach based, in part, on the standardized approach adopted by the Basel Committee in its 2004 capital accords, known as Basel II. The Capital Rules also implemented the requirements of Section 939A of the Dodd-Frank Act to remove references to credit ratings from the federal bank regulators' rules. Subject to a phase-in period for various provisions, the Capital Rules, became effective for us and for the Bank on January 1, 2015.

The Capital Rules, among other things (i) include a capital measure called Common Equity Tier 1 ("CET1"), (ii) specify that Tier 1 capital consists of CET1 and "Additional Tier 1 capital" instruments meeting specified requirements, (iii) define CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) expand the scope of the deductions/adjustments to capital as compared to existing regulations.

Under the Capital Rules, the minimum capital ratios as of January 1, 2015 are (i) 4.5% CET1 to risk-weighted assets, (ii) 6% Tier 1 capital (that is, CET1 plus Additional Tier 1 capital) to risk-weighted assets and (iii) 8% total capital (that is, Tier 1 capital plus Tier 2 capital) to risk-weighted assets.

Subject to a transition schedule that was fully phased in on January 1, 2019, the Capital Rules also require an institution to establish a capital conservation buffer of CET1 in an amount above the minimum risk-based capital requirements for "adequately capitalized" institutions equal to 2.5% of total risk-weighted assets. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall and the institution's "eligible retained income" (that is, four quarter trailing net income, net of distributions and tax effects not reflected in net income).

The Capital Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, certain deferred tax assets and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1. Implementation of the deductions and other adjustments to CET1 began on January 1, 2015 and was fully phased in as of January 1, 2019. The Capital Rules also generally preclude certain hybrid securities, such as trust preferred securities, from being counted as Tier 1 capital for most bank holding companies. However, bank holding companies such as us who had less than $15 billion in assets as of December 31, 2009 (and who continue to have less than $15 billion in assets) are permitted to include trust preferred securities issued prior to May 19, 2010 as Additional Tier 1 capital under the Capital Rules.

The Capital Rules also prescribe a new standardized approach for risk weightings that expands the risk-weighting categories from four Basel I-derived categories (0%, 20%, 50% and 100%) to a much larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities to 600% for certain equity exposures and resulting in higher risk weights for a variety of asset categories.

In December 2017, the Basel Committee published standards that it described as the finalization of the Basel III post-crisis regulatory reforms. The standards are commonly referred to as "Basel IV." Among other things, these standards revise the Basel Committee's standardized approach for credit risk (including by recalibrating risk weights and introducing new capital requirements for certain "unconditionally cancellable commitments," such as home equity lines of credit) and provides a new standardized approach for operational risk capital. Under the Basel framework, these standards will generally be effective on January 1, 2022, with an aggregate output floor phasing in through January 1, 2027. Under the current U.S. capital rules, operational risk capital requirements and a capital floor apply only to advanced approach institutions. The impact of Basel IV on the Company and the Bank will depend on the manner in which it is implemented by the federal bank regulators.

With respect to the Bank, the Capital Rules also revise the prompt corrective action regulations pursuant to Section 38 of the FDIA. See “Prompt Corrective Action Framework.”

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Prompt Corrective Action Framework

The FDIA requires the federal bank regulators to take prompt corrective action in respect of depository institutions that fail to meet specified capital requirements. The FDIA establishes five capital categories ("well-capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized"), and the federa bank regulators are required to take certain mandatory supervisory actions, and are authorized to take other discretionary actions, with respect to institutions that are undercapitalized, significantly undercapitalized or critically undercapitalized. The severity of these mandatory and discretionary supervisory actions depends upon the capital category in which the institution is placed. Generally, subject to a narrow exception, the FDIA requires the regulator to appoint a receiver or conservator for an institution that is critically undercapitalized.

Under the rules currently in effect and as modified by the Capital Rules, an insured depository institution generally would be classified in the following categories based on the capital measures indicated:

"Well-capitalized"	"Adequately capitalized"
Total capital ratio of at least 10%,	Total capital ratio of at least 8%,
Tier 1 capital ratio of at least 8%,	Tier 1 capital ratio of at least 6%
CET1 ratio of at least 6.5%	CET1 ratio of at least 4.5%, and
Tier 1 leverage ratio of at least 5%, and	Tier 1 leverage ratio of at least 4%.
Not subject to any order or written directive requiring a specific capital level.	
"Undercapitalized"	"Significantly undercapitalized"
Total capital ratio of less than 8%,	Total capital ratio of less than 6%,
Tier 1 capital ratio of less than 6%	Tier 1 capital ratio of less than 4%
CET1 ratio of less than 4.5%, or	CET1 ratio of less than 3%, or
Tier 1 leverage ratio of less than 4%.	Tier 1 leverage ratio of less than 3%.
"Critically undercapitalized"	
Tangible equity to average quarterly tangible assets of 2% or less.	

An institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. A bank's capital category is determined solely for the purpose of applying prompt corrective action regulations, and the capital category may not constitute an accurate representation of the bank's overall financial condition or prospects for other purposes.

As of December 31, 2018, we and the Bank met the capital requirements to be well-capitalized with CET1 capital ratios of 12.7401% and 12.9576%, respectively, Tier 1 capital ratios of 12.7401% and 12.9576%, respectively, total capital ratios of 13.9920% and 13.8494%, respectively, and Tier 1 leverage ratios of 10.2444% and 10.4185%, respectively.

An institution that is categorized as undercapitalized, significantly undercapitalized or critically undercapitalized is required to submit an acceptable capital restoration plan to its appropriate federal bank regulator. Under the FDIA, in order for the capital restoration plan to be accepted by the appropriate federal banking agency, a bank holding company must guarantee that a subsidiary depository institution will comply with its capital restoration plan, subject to certain limitations. The bank holding company must also provide appropriate assurances of performance. The obligation of a controlling bank holding company under the FDIA to fund a capital restoration plan is limited to the lesser of 5% of an undercapitalized subsidiary's assets or the amount required to meet regulatory capital requirements. An undercapitalized institution is also generally prohibited from increasing its average total assets, making acquisitions and capital distributions, establishing any branches or engaging in any new line of business, except in accordance with an accepted capital restoration plan or with the approval of the FDIC. Institutions that are undercapitalized or significantly undercapitalized and either fail to submit an acceptable capital restoration plan or fail to implement an approved capital restoration plan may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets and cessation of receipt of deposits from correspondent banks. Critically undercapitalized depository institutions failing to submit or implement an acceptable capital restoration plan are subject to appointment of a receiver or conservator.

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Brokered Deposits

The FDIA prohibits an insured depository institution from accepting brokered deposits or offering interest rates on any deposits significantly higher than the prevailing rate in the bank's normal market area or nationally (depending upon where the deposits are solicited), unless it is well-capitalized or is adequately capitalized and receives a waiver from the FDIC. A depository institution that is adequately capitalized and accepts brokered deposits under a waiver from the FDIC may not pay an interest rate on any deposit in excess of 75 basis points over certain prevailing market rates.

On December 18, 2018, the FDIC issued an advance notice of proposed rulemaking in connection with the FDIC's comprehensive review of its regulatory approach to brokered deposits to solicit comment on all aspects of the FDIC's brokered deposit regulations. The Company is not able to predict at this time whether any regulatory changes will be adopted as a result of the FDIC's notice, or what impact if any, such changes would have on the Bank.

Regulatory Oversight and Examination

The Federal Reserve conducts periodic inspections of bank holding companies. The supervisory objectives of the inspection program are to ascertain whether the financial strength of the bank holding company is being maintained on an ongoing basis and to determine the effects or consequences of transactions between a holding company or its non-banking subsidiaries and its subsidiary banks.

Banks are subject to periodic examinations by their primary regulators. Bank examinations have evolved from reliance on transaction testing in assessing a bank's condition to a risk-focused approach. These examinations are extensive and cover the entire breadth of operations of the bank. Generally, FDIC safety and soundness examinations for a bank of our size are completed on an annual basis through the execution of a quarterly focal review process. The FDIC and state bank regulatory agencies complete these examinations on a combined schedule.

The Consumer Financial Protection Bureau (the "CFPB") has primary examination and enforcement authority over institutions with assets of $10 billion or more, including the Bank, with respect to various federal consumer protection laws, and we are subject to continued examination by the FDIC on certain consumer regulations. State authorities are also responsible for monitoring our compliance with all state consumer laws.

The frequency of consumer compliance and CRA examinations is linked to the size of the institution and its compliance and CRA ratings at its most recent examinations. However, the examination authority of the Federal Reserve and the FDIC allows them to examine supervised banks as frequently as deemed necessary based on the condition of the bank or as a result of certain triggering events.

Corporate Governance and Accounting

The Sarbanes-Oxley Act of 2002 ("SOX") addresses, among other things, corporate governance, auditing and accounting, enhanced and timely disclosure of corporate information, and penalties for non-compliance. Generally, SOX (i) requires chief executive officers and chief financial officers to certify to the accuracy of periodic reports filed with the SEC; (ii) imposes specific and enhanced corporate disclosure requirements; (iii) accelerates the time frame for reporting of insider transactions and periodic disclosures by public companies; (iv) requires companies to adopt and disclose information about corporate governance practices, including whether or not they have adopted a code of ethics for senior financial officers and whether the audit committee includes at least one "audit committee financial expert;" and (v) requires the SEC, based on certain enumerated factors, to regularly and systematically review corporate filings.

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Deposit Insurance

The Bank's deposits are insured under the FDIA, up to the maximum applicable limits and are subject to deposit insurance assessments designed to tie what banks pay for deposit insurance to the risks they pose. The Dodd-Frank Act broadened the base for FDIC insurance assessments. Under the FDIC's assessment system for determining payments to the Deposit Insurance Fund (the "DIF"), insured depository institutions with more than $10 billion in assets ("large IDIs") are assessed under a complex "scorecard" methodology that seeks to capture both the probability that an individual large IDI will fail and the magnitude of the impact on the DIF if such a failure occurs. The assessment base of a large IDI is its total assets less tangible equity. In addition, the Dodd-Frank Act raised the minimum designated reserve ratio (the FDIC is required to set the reserve ratio each year) of the Deposit Insurance Fund (the "DIF") from 1.15% to 1.35%; required that the DIF meet that minimum ratio of insured deposits by 2020; and eliminated the requirement that the FDIC pay dividends to insured depository institutions when the reserve ratio exceeds certain thresholds. The rule imposed a surcharge on the assessments of depository institutions with $10 billion or more in assets beginning in the third quarter of 2016. The surcharge continued through September 30, 2018, when the reserve ratio reached 1.36% of insured deposits, exceeding the statutorily required minimum reserve ratio of 1.35%.

The Dodd-Frank Act

As a result of the financial crisis, on July 21, 2010, the Dodd-Frank Act was signed into law. The Dodd-Frank Act significantly changed the bank regulatory structure and is affecting the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies, including the Company and Columbia Bank. The full impact of the Dodd-Frank Act may not be known for years. Some of the provisions of the Dodd-Frank Act that may impact our business are summarized below.

Corporate Governance. The Dodd-Frank Act requires publicly traded companies to provide their shareholders with (i) a non-binding shareholder vote on executive compensation, (ii) a non-binding shareholder vote on the frequency of such vote, (iii) disclosure of "golden parachute" arrangements in connection with specified change in control transactions, and (iv) a non-binding shareholder vote on golden parachute arrangements in connection with these change in control transactions.

Risk Committee. The Dodd-Frank Act required bank holding companies with in excess of $10 billion in total consolidated assets to establish a dedicated risk committee of the board of directors responsible for overseeing enterprise wide risk management policies. The Company has established such a risk committee; however, the EGRRCPA amended the risk committee provision to require risk committees for bank holding companies with $50 billion or more in total consolidated assets.

Prohibition Against Charter Conversions of Troubled Institutions. The Dodd-Frank Act generally prohibits a depository institution from converting from a state to federal charter, or vice versa, while it is subject to an enforcement action unless the bank seeks prior approval from its regulator and complies with specified procedures to ensure compliance with the enforcement action.

Consumer Financial Protection Bureau. As described above, we are subject to oversight and examination by the CFPB because our total consolidated assets exceed $10 billion.

Repeal of Demand Deposit Interest Prohibition. The Dodd-Frank Act repealed the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts.

The Volcker Rule. The Dodd-Frank Act prohibits banks and their affiliates from engaging in proprietary trading and investing in and sponsoring hedge funds and private equity funds. The statutory provision is commonly called the "Volcker Rule." The Volcker Rule does not significantly impact the operations of the Company and the Bank, as we do not have any significant engagement in the businesses prohibited by the Volcker Rule.

Interchange Fees. Under the Durbin Amendment to the Dodd-Frank Act, the Federal Reserve adopted rules establishing standards for assessing whether the interchange fees that may be charged with respect to certain electronic debit transactions are "reasonable and proportional" to the costs incurred by issuers for processing such transactions.

Interchange fees, or “swipe” fees, are charges that merchants pay to us and other card-issuing banks for processing electronic payment transactions. Under the final rules, the maximum permissible interchange fee is equal to no more than 21 cents plus 5 basis points of the transaction value for many types of debit interchange transactions. The Federal Reserve also adopted a rule to allow a debit card issuer to recover one cent per transaction for fraud prevention purposes if the issuer complies with certain fraud-related requirements required by the Federal Reserve. The Federal Reserve also has rules governing routing and exclusivity that require issuers to offer two unaffiliated networks for routing transactions on each debit or prepaid product.

Incentive Compensation

The Dodd-Frank Act requires the federal bank regulators and the SEC to establish joint regulations or guidelines prohibiting incentive-based payment arrangements at specified regulated entities, including us and the Bank, having at least $1 billion in total assets that encourage inappropriate risks by providing an executive officer, employee, director or principal stockholder with excessive compensation, fees, or benefits or that could lead to material financial loss to the entity. In addition, these regulators must establish regulations or guidelines requiring enhanced disclosure to regulators of incentive-based compensation arrangements.

In June 2010, the Federal Reserve and FDIC issued comprehensive final guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization’s incentive compensation arrangements should (i) provide incentives that appropriately balance risk and financial results in a manner that does not encourage employees to expose their organizations to imprudent risk, (ii) be compatible with effective internal controls and risk management and (iii) be supported by strong corporate governance, including active and effective oversight by the organization’s board of directors.

During the second quarter of 2016, the U.S. financial regulators, including the Federal Reserve and the SEC, proposed revised rules on incentive-based payment arrangements at specified regulated entities having at least $1 billion in total assets. The proposed revised rules would establish general qualitative requirements applicable to all covered entities, which would include (i) prohibiting incentive arrangements that encourage inappropriate risks by providing excessive compensation; (ii) prohibiting incentive arrangements that encourage inappropriate risks that could lead to a material financial loss; (iii) establishing requirements for performance measures to appropriately balance risk and reward; (iv) requiring board of director oversight of incentive arrangements; and (v) mandating appropriate record-keeping. Under the proposed rule, larger financial institutions with total consolidated assets of at least $50 billion would also be subject to additional requirements applicable to such institutions’ “senior executive officers” and “significant risk-takers.” If the rules are adopted in the form proposed, they may restrict our flexibility with respect to the manner in which we structure compensation and adversely affect our ability to compete for talent.

The Federal Reserve will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as us, that are not “large, complex banking organizations.” These reviews will be tailored to each organization based on the scope and complexity of the organization’s activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the organization’s supervisory ratings, which can affect the organization’s ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk management control or governance processes, pose a risk to the organization’s safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

Proposed Legislation

Proposed legislation relating to the banking industry is introduced in almost every legislative session. Certain of such legislation could dramatically affect the regulation of the banking industry. We cannot predict if any such legislation will be adopted or if it is adopted how it would affect the business of Columbia Bank or the Company. Recent history has demonstrated that new legislation or changes to existing laws or regulations usually results in a greater compliance burden and therefore generally increases the cost of doing business.

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Effects of Government Monetary Policy

Our earnings and growth are affected not only by general economic conditions, but also by the fiscal and monetary policies of the federal government, particularly the Federal Reserve. The Federal Reserve implements national monetary policy for such purposes as curbing inflation and combating recession, but its open market operations in U.S. government securities, control of the discount rate applicable to borrowings from the Federal Reserve, and establishment of reserve requirements against certain deposits, influence the growth of bank loans, investments and deposits, and also affect interest rates charged on loans or paid on deposits. The nature and impact of future changes in monetary policies and their impact on us cannot be predicted with certainty.

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ITEM 1A. RISK FACTORS

The following is a discussion of what we currently believe are the most significant risks and uncertainties that may affect our business, financial condition and future results.

National and global economic and other conditions could adversely affect our future results of operations or market price of our stock.

Our business is directly impacted by factors such as economic, political and market conditions, broad trends in industry and finance, changes in government monetary and fiscal policies and inflation, foreign policy, and financial market volatility, all of which are beyond our control. Global economies continue to face significant challenges to achieving normalized economic growth rates and there are continuing concerns related to the level of U.S. government debt and fiscal actions that may be taken to address that debt. There can be no assurance that economic conditions will continue to improve, and these conditions could worsen. Any deterioration in the economies of the nation as a whole or in our markets would have an adverse effect, which could be material, on our business, financial condition, results of operations and prospects, and could also cause the market price of our stock to decline. While it is impossible to predict how long challenging economic conditions may exist, a slow or fragile recovery could continue to present risks into the future for the industry and our company.

Economic conditions in the market areas we serve may adversely impact our earnings and could increase our credit risk associated with our loan portfolio, the value of our investment portfolio and the availability of deposits.

Substantially all of our loan and deposit customers are businesses and individuals in Washington, Oregon and Idaho, and soft economies in these market areas could have a material adverse effect on our business, financial condition, results of operations and prospects. A deterioration in the market areas we serve could result in the following consequences, any of which would have an adverse impact, which could be material, on our business, financial condition, results of operations and prospects:

- loan delinquencies may increase;
- problem assets and foreclosures may increase;
- collateral for loans made may decline in value, in turn reducing customers’ borrowing power, reducing the value of assets and collateral associated with existing loans;
- certain securities within our investment portfolio could become other than temporarily impaired, requiring a write-down through earnings to fair value, thereby reducing equity;
- low cost or non-interest bearing deposits may decrease; and
- demand for our loan and other products and services may decrease.

Concentrations within our loan portfolio could result in increased credit risk in a challenging economy.

While our loan portfolio is diversified across business sectors, it is concentrated in commercial real estate and commercial business loans. These types of loans generally are viewed as having more risk of default than residential real estate loans or certain other types of loans or investments. In fact, the FDIC has issued pronouncements alerting banks of its concern about heavy loan concentrations. Because our loan portfolio contains commercial real estate and commercial business loans with relatively large balances, the deterioration of one or a few of these loans may cause a significant increase in our non-performing loans. An increase in non-performing loans could result in a loss of earnings from these loans, an increase in the provision for loan losses, or an increase in loan charge-offs, any of which would have an adverse impact, which could be material, on our business, financial condition, results of operations and prospects.

A large percentage of our loan portfolio is secured by real estate, in particular commercial real estate. Deterioration in the real estate market or other segments of our loan portfolio would lead to additional losses.

At December 31, 2018, 60% of our total gross loans, were secured by real estate. Any renewed downturn in the economies or real estate values in the markets we serve could have a material adverse effect on both borrowers’ ability to repay their loans and the value of the real property securing such loans. Our ability to recover on defaulted loans would then be diminished, and we would be more likely to suffer losses on defaulted loans, any or all of which would have an adverse impact, which could be material, on our business, financial condition, results of operations and prospects.

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A failure in or breach of our operational or security systems, or those of our third party service providers, including as a result of cyber-attacks, could disrupt our business, result in unintentional disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and cause losses.

As a financial institution, our operations rely heavily on the secure processing, storage and transmission of confidential and other information on our computer systems and networks. Any failure, interruption or breach in security or operational integrity of these systems could result in failures or disruptions in our online banking system, customer relationship management, general ledger, deposit and loan servicing and other systems. The security and integrity of our systems could be threatened by a variety of interruptions or information security breaches, including those caused by computer hacking, cyber attacks, electronic fraudulent activity or attempted theft of financial assets. We may not be able to anticipate, detect, or implement effective preventative measures against all potential threats, particularly because the techniques used by cyber criminals change frequently, often are not recognized until launched and can be initiated from a variety of sources. We cannot assure you that any such failures, interruption or security breaches will not occur, or if they do occur, that they will be adequately addressed. While we have certain protective policies and procedures in place, the nature and sophistication of the threats continue to evolve. We may be required to expend significant additional resources in the future to modify and enhance our protective measures.

Due to the complexity and interconnectedness of information technology systems, the process of enhancing our systems can itself create a risk of systems disruptions and security issues. Additionally, we face the risk of operational disruption, failure, termination or capacity constraints of any of the third parties that facilitate our business activities, including exchanges, clearing agents, clearing houses or other financial intermediaries. Such parties could also be the source of an attack on, or breach of, our operational systems. Any failures, interruptions or security breaches in our information systems could damage our reputation, result in a loss of customer business, result in a violation of privacy or other laws, or expose us to civil litigation, regulatory fines or losses not covered by insurance, all of which could have a material adverse impact on our business, financial condition, results of operations and prospects.

Our allowance for loan and lease losses (“ALLL”) may not be adequate to cover future loan losses, which could adversely affect earnings.

We maintain an ALLL in an amount that we believe is adequate to provide for losses inherent in our loan portfolio. While we strive to carefully monitor credit quality and to identify loans that may become non-performing, at any time there are loans in the portfolio that could result in losses, but that have not been identified as non-performing or potential problem loans. We cannot be sure that we will be able to identify deteriorating loans before they become non-performing assets, or that we will be able to limit losses on those loans that have been identified. Additionally, the process for determining the ALLL requires different, subjective and complex judgments about the future impact from current economic conditions that might impair the ability of borrowers to repay their loans. As a result, future significant increases to the ALLL may be necessary.

Future increases to the ALLL may be required based on changes in the composition of the loans comprising the portfolio, deteriorating values in underlying collateral (most of which consists of real estate) and changes in the financial condition of borrowers, such as may result from changes in economic conditions, or as a result of actual future events differing from assumptions used by management in determining the ALLL. Additionally, banking regulators, as an integral part of their supervisory function, periodically review our ALLL. These regulatory agencies may require us to increase the ALLL. Any increase in the ALLL would have an adverse effect, which could be material, on our financial condition and results of operations.

Nonperforming assets take significant time to resolve and could adversely affect our results of operations and financial condition.

Our nonperforming assets adversely affect our net income in various ways. We do not record interest income on nonaccrual loans, thereby adversely affecting our income and increasing loan administration costs. Assets acquired by foreclosure or similar proceedings are recorded at fair value less estimated costs to sell. The valuation of these foreclosed assets is periodically updated and resulting losses, if any, are charged to earnings in the period in which they are identified. An increase in the level of nonperforming assets also increases our risk profile and may impact the capital levels our regulators believe is appropriate in light of such risks. We utilize various techniques such as loan sales, workouts, and restructurings to manage our problem assets. Decreases in the value of these problem assets, the underlying collateral, or in the borrowers’ performance or financial condition would have an adverse impact, which could be material, on our business, financial condition, results of operations and prospects. In addition, the resolution of nonperforming assets requires significant commitments of time from management and staff, which can be detrimental to performance of their other responsibilities. We may experience increases in nonperforming loans in the future.

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Acquisitions and the integration of acquired businesses subject us to various risks and may not result in all of the benefits anticipated, future acquisitions may be dilutive to current shareholders and future acquisitions may be delayed, impeded or prohibited due to regulatory issues.

We have in the past and expect in the future seek to grow our business by acquiring other businesses. Our acquisitions may not have the anticipated positive results, including results relating to: correctly assessing the asset quality of the assets being acquired; the total cost of integration including management attention and resources; the time required to complete the integration successfully; the amount of longer-term cost savings; being able to profitably deploy funds acquired in an acquisition; or the overall performance of the combined entity.

In addition, unexpected contingent liabilities can arise from the businesses we acquire. Integration of an acquired business can be complex and costly, sometimes including combining relevant accounting and data processing systems, financial reporting and management and internal controls, as well as managing relevant relationships with employees, clients, suppliers and other business partners. Integration efforts could divert management attention and resources, which could adversely affect these systems, processes or controls and our operations or results.

Acquisitions may also result in business disruptions that cause us to lose customers or cause customers to remove their accounts from us and move their business to competing financial institutions. It is possible that the integration process related to acquisitions could result in the disruption of our ongoing businesses or inconsistencies in standards, controls, procedures and policies that could adversely affect our ability to maintain relationships with clients, customers, depositors and employees. The loss of key employees in connection with an acquisition could adversely affect our ability to successfully conduct our business.

We may engage in additional future acquisitions involving the issuance of additional common stock and/or cash. Any such acquisitions and related issuances of stock may have a dilutive effect on earnings per share, book value per share or the percentage ownership of current shareholders. The use of cash as consideration in any such acquisitions could impact our capital position and may require us to raise additional capital.

Furthermore, notwithstanding our recent acquisitions, we cannot provide any assurance as to the extent to which we can continue to grow through acquisitions as this will depend on the availability of prospective target opportunities at valuations we find attractive and other factors. Among other things, acquisitions by financial institutions are subject to approval by a variety of federal and state regulatory agencies. Regulatory approvals could be delayed, impeded, restrictively conditioned or denied due to existing or new regulatory issues we have, or may have, with regulatory agencies. In addition, the Northwest is experiencing intensified consolidation and we face significant competition from numerous other financial services institutions for attractive acquisition candidates, as many of these competitors will have greater financial resources than we do.

Our assumptions regarding the fair value of assets acquired could be inaccurate, which could materially and adversely affect our business, financial condition, results of operations, and future prospects.

Management makes various assumptions and judgments about the collectability of acquired loans, including the creditworthiness of borrowers and the value of the real estate and other assets serving as collateral for the repayment of secured loans. If our assumptions are incorrect, significant earnings volatility can occur and credit loss provisions may be needed to respond to different economic conditions or adverse developments in the acquired loan portfolio. Any increase in future loan losses could have a material adverse impact on our business, financial condition, results of operations and prospects.

Our management of capital could adversely affect profitability measures and the market price of our common stock and could dilute the holders of our outstanding common stock.

Our capital ratios are significantly higher than regulatory minimums. We may lower our capital ratios through either selective acquisitions that meet our disciplined criteria, organic loan growth, investment in securities, or a combination of all three. We continually evaluate opportunities to expand our business through strategic acquisitions. There can be no assurance that we will be able to negotiate future acquisitions on terms acceptable to us.

Conversely, there may be circumstances under which it would be prudent to consider alternatives for raising capital to take advantage of significant acquisition opportunities or in response to changing economic conditions. In addition, we may need to raise additional capital in the future to have sufficient capital resources and liquidity to meet our commitments and fund our business needs and future growth, particularly if the quality of our assets or earnings were to deteriorate significantly. We may not be able to raise additional capital when needed on terms acceptable to us or at all. Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at the time, which are outside our control, and our financial performance. Further, if we need to raise capital in the future, we may have to do so when many other financial institutions are also seeking to raise capital and would then have to compete with those institutions for investors.

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An inability to raise additional capital on acceptable terms when needed could have a material adverse effect on our business, financial condition, results of operations and prospects. In addition, any capital raising alternatives could dilute the holders of our outstanding common stock and may adversely affect the market price of our common stock.
Conditions in the financial markets may limit access to additional funding to meet liquidity needs.
We may need or want to raise additional capital in the future to provide us with sufficient capital resources and liquidity to meet our commitments and business needs, particularly if our asset quality or earnings were to deteriorate significantly. Our ability to raise additional capital will depend on, among other things, conditions in the capital markets at that time, which are outside of our control, and our financial performance. Economic conditions and any loss of confidence in financial institutions generally may increase our cost of funding and limit access to certain customary sources of capital.
There can be no assurance that capital will be available on acceptable terms or at all. Any occurrence that may limit our access to the capital markets, such as a decline in the confidence of equity or debt purchasers, or counterparties participating in capital markets, may adversely affect our capital costs and our ability to raise capital and, potentially, our liquidity. Also, if we need to raise capital in the future, we may have to do so when many other financial institutions are also seeking to raise capital and would have to compete with those institutions for investors. An inability to raise additional capital on acceptable terms when needed could have a materially adverse effect on our business, financial condition and results of operations.
If the goodwill we have recorded in connection with acquisitions becomes impaired, it could have a material adverse impact on our earnings and shareholders' equity.
Accounting standards require that we account for acquisitions using the acquisition method of accounting. Under acquisition accounting, if the purchase price of an acquired company exceeds the fair value of its net assets, the excess is carried on the acquirer's balance sheet as goodwill. In accordance with generally accepted accounting principles, our goodwill is evaluated for impairment on an annual basis or more frequently if events or circumstances indicate that a potential impairment exists. Such evaluation may be based on a variety of factors, including the quoted price of our common stock, market prices of common stock of other banking organizations, common stock trading multiples, discounted cash flows, and data from comparable acquisitions. Future evaluations of goodwill may result in impairment and ensuing write-downs, which could have a material adverse impact on our earnings and shareholders' equity.
Fluctuating interest rates could adversely affect our business.
Significant increases in market interest rates on loans, or the perception that an increase may occur, could adversely affect both our ability to originate new loans and our ability to grow. Conversely, decreases in interest rates could result in an acceleration of loan prepayments. An increase in market interest rates could also adversely affect the ability of our floating-rate borrowers to meet their higher payment obligations. If this occurred, it could cause an increase in nonperforming assets and charge offs, which could adversely affect our business.
Further, our profitability is dependent to a large extent upon net interest income, which is the difference (or "spread") between the interest earned on loans, securities and other interest-earning assets and the interest paid on deposits, borrowings, and other interest-bearing liabilities. Because of the differences in maturities and repricing characteristics of our interest-earning assets and interest-bearing liabilities, changes in interest rates do not produce equivalent changes in interest income earned on interest-earning assets and interest paid on interest-bearing liabilities. Accordingly, fluctuations in interest rates could adversely affect our interest rate spread, and, in turn, our profitability.
Interest rates on our outstanding financial instruments might be subject to change based on regulatory developments, which could adversely affect our revenue, expenses, and the value of those financial instruments.
LIBOR and certain other "benchmarks" are the subject of recent national, international, and other regulatory guidance and proposals for reform. These reforms may cause such benchmarks to perform differently than in the past or have other consequences which cannot be predicted. On July 27, 2017, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, publicly announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021. It is unclear whether, at that time, LIBOR will cease to exist or if new methods of calculating LIBOR will be established. If LIBOR ceases to exist or if the methods of calculating LIBOR change from current methods for any reason, interest rates on our loans, deposits, derivatives, and other financial instruments tied to LIBOR rates, as

well as the revenue and expenses associated with those financial instruments, may be adversely affected. Further, any uncertainty regarding the continued use and reliability of LIBOR as a benchmark interest rate could adversely affect the value of our loans, deposits, derivatives, and other financial instruments tied to LIBOR rates.

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Our business depends on our ability to successfully manage credit risk.

The operation of our business requires us to manage credit risk. As a lender, we are exposed to the risk that our borrowers will be unable to repay their loans according to their terms, and that the collateral securing repayment of their loans, if any, may not be sufficient to ensure repayment. In addition, there are risks inherent in making any loan, including risks with respect to the period of time over which the loan may be repaid, risks relating to proper loan underwriting, risks resulting from changes in economic and industry conditions and risks inherent in dealing with individual borrowers. In order to successfully manage credit risk, we must, among other things, maintain disciplined and prudent underwriting standards and ensure that our bankers follow those standards. The weakening of these standards for any reason, such as an attempt to attract higher yielding loans, a lack of discipline or diligence by our employees in underwriting and monitoring loans, the inability of our employees to adequately adapt policies and procedures to changes in economic or any other conditions affecting borrowers and the quality of our loan portfolio, may result in loan defaults, foreclosures and additional charge-offs and may necessitate that we increase our ALLL, each of which could adversely affect our net income. As a result, our inability to successfully manage credit risk could have a material adverse effect on our business, financial condition, results of operations and prospects.

We operate in a highly regulated environment and changes to or increases in, or supervisory enforcement of, banking or other laws and regulations or governmental fiscal or monetary policies could adversely affect us.

We are subject to extensive regulation, supervision and examination by federal and state banking authorities. In addition, as a publicly-traded company, we are subject to regulation by the SEC. Any change in applicable regulations or federal, state or local legislation or in policies or interpretations or regulatory approaches to compliance and enforcement, income tax laws and accounting principles could have a substantial impact on us and our operations. Changes in laws and regulations may also increase our expenses by imposing additional fees or taxes or restrictions on our operations. Additional legislation and regulations that could significantly affect our powers, authority and operations may be enacted or adopted in the future, which could have a material adverse effect on our business, financial condition, results of operations and prospects. Failure to appropriately comply with any such laws, regulations or principles could result in sanctions by regulatory agencies or damage to our reputation, all of which could adversely affect our business, financial condition or results of operations. For example, the Dodd-Frank Act was enacted in July 2010. Among other provisions, the legislation (i) created the Consumer Financial Protection Bureau (the “CFPB”) with broad powers to regulate consumer financial products such as credit cards and mortgages, (ii) created a Financial Stability Oversight Council comprised of the heads of other regulatory agencies, (iii) resulted in new capital requirements from federal banking agencies, (iv) placed new limits on electronic debit card interchange fees and (v) required the SEC and national stock exchanges to adopt significant new corporate governance and executive compensation reforms, some of which have yet to be promulgated. The Dodd-Frank Act and regulations that have been adopted thereunder have increased the overall costs of regulatory compliance, and further Dodd-Frank Act related regulations may lead to additional costs. In addition, the CFPB has broad rulemaking authority and is the principal federal regulatory agency responsible for the supervision and enforcement of a wide range of consumer protection laws for banks with greater than $10 billion in assets.

The Capital Rules implementing Basel III were fully phased in as of January 1, 2019. The Capital Rules could have an adverse impact on our financial position and future earnings due to, among other things, the increased capital requirements. In addition, if we fail to maintain appropriate levels of capital or liquidity, we could become subject to formal or informal enforcement actions that may impose restrictions on our business, including limiting our lending activities or our ability to expand, requiring us to raise additional capital (which may be dilutive to shareholders) or requiring regulatory approval to pay dividends or otherwise return capital to shareholders.

Further, regulators have significant discretion and authority to prevent or remedy unsafe or unsound practices or violations of laws or regulations by financial institutions and holding companies in the performance of their supervisory and enforcement duties. The exercise of regulatory authority may have an adverse impact, which could be material, on our business, financial condition, results of operations and prospects. Additionally, our business is affected significantly by the fiscal and monetary policies of the U.S. federal government and its agencies, including the Federal Reserve.

We cannot accurately predict the full effects of recent legislation or the various other governmental, regulatory, monetary and fiscal initiatives which have been and may be enacted on the financial markets, on the Company and on the Bank. The terms and costs of these activities, or any worsening of current financial market and economic conditions, could materially and adversely affect our business, financial condition and results of operations, as well as the trading price of our common stock.

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We may be required, in the future, to recognize impairment with respect to investment securities.

Our securities portfolio currently includes securities with unrecognized losses. At December 31, 2018, gross unrealized losses in our securities portfolio were $56.0 million. We may continue to observe declines in the fair market value of these securities. Securities issued by certain states and municipalities have recently come under scrutiny due to concerns about credit quality. Although management believes the credit quality of the Company’s state and municipal securities portfolio to be good, there can be no assurance that the credit quality of these securities will not decline in the future. We evaluate the securities portfolio for any other than temporary impairment each reporting period, as required by generally accepted accounting principles in the United States. There can be no assurance, however, that future evaluations of the securities portfolio will not require us to recognize impairment charges with respect to these and other holdings. For example, it is possible that government-sponsored programs to allow mortgages to be refinanced to lower rates could materially adversely impact the yield on our portfolio of mortgage-backed securities, since a significant portion of our investment portfolio is composed of such securities.

Substantial competition in our market areas could adversely affect us.

Commercial banking is a highly competitive business. We compete with other commercial banks, savings and loan associations, credit unions and finance, insurance and other non-depository companies operating in our market areas. We also experience competition, especially for deposits, from Internet-based banking institutions, which have grown rapidly in recent years. We are subject to substantial competition for loans and deposits from other financial institutions. Some of our competitors are not subject to the same degree of regulation and restriction as we are and/or have greater financial resources than we do. Some of our competitors may have liquidity issues, which could impact the pricing of deposits, loans and other financial products in our markets. Our inability to effectively compete in our market areas could have a material adverse impact on our business, financial condition, results of operations and prospects.

We may not be able to attract or retain key employees.

Our success depends in significant part on the skills of our management team and our ability to retain, recruit and motivate key officers and employees. We expect our future success to be driven in large part by the relationships maintained with our clients by our executives and other key employees. Leadership changes will occur from time to time, and we cannot predict whether significant resignations or other departures will occur or whether we will be able to recruit additional qualified personnel. Competition for senior executives and skilled personnel in the financial services and banking industry is intense, which means the cost of hiring, incentivizing and retaining skilled personnel may continue to increase. We need to continue to attract and retain key personnel and to recruit qualified individuals to succeed existing key personnel to ensure the continued growth and successful operation of our business. The unexpected loss of any such employees, or the inability to recruit and retain qualified personnel in the future, could have a material adverse impact on our business, financial condition, results of operations and prospects. In addition, the scope and content of U.S. banking regulators' regulations and policies on incentive compensation, as well as changes to these regulations and policies, could adversely affect our ability to hire, retain and motivate our key employees.

Changes in accounting standards could materially impact our financial statements.

From time to time, the Financial Accounting Standards Board (the “FASB”) and the SEC change the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can materially impact how we record and report our financial condition and results of operations.

In June 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-13, Measurement of Credit Losses on Financial Instruments. The amendments in this ASU introduce a new impairment model based on current expected credit losses (“CECL”) rather than incurred losses. The CECL model would apply to most debt instruments, including loan receivables and loan commitments.

Unlike the incurred loss models in existing GAAP, the CECL model does not specify a threshold for the recognition of an impairment allowance. Rather, the Company would recognize an impairment allowance equal to its current estimate of expected credit losses for financial instruments as of the end of the reporting period. Measuring expected credit losses will most likely be a significant challenge for all entities, including the Company. In addition, to estimate expected credit losses, the Company could incur one-time and recurring costs, some of which may be related to system changes and data collection.

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Further, the impairment allowance measured under a CECL model could differ materially from the impairment allowance measured under the Company’s incurred loss model. To initially apply the proposed amendments, for most debt instruments, the Company would record a cumulative-effect adjustment to its Consolidated Balance Sheets as of the beginning of the first reporting period in which the guidance is effective (a modified retrospective approach).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.

There can be no assurance as to the level of dividends we may pay on our common stock.

Holders of our common stock are only entitled to receive such dividends as our board of directors may declare out of funds legally available for such payments. Although we have historically declared cash dividends on our common stock, we are not required to do so and there may be circumstances under which we would eliminate our common stock dividend in the future. This could adversely affect the market price of our common stock.

We rely on dividends and other payments from our bank for substantially all of our revenue.

We are a separate and distinct legal entity from the Bank, and we receive substantially all of our operating cash flows from dividends and other payments from the Bank. These dividends and payments are the principal source of funds to pay dividends on our capital stock and interest and principal on any debt we may have. Various federal and state laws and regulations limit the amount of dividends that the Bank may pay to us. Also, our right to participate in a distribution of assets upon a subsidiary’s liquidation or reorganization is subject to the prior claims of the subsidiary’s creditors. In the event the Bank is unable to pay dividends to us, we may not be able to service debt, pay obligations, or pay dividends on our common stock. The inability to receive dividends from the Bank could have a material adverse impact on our business, financial condition, results of operations and prospects.

Our ability to sustain or improve upon existing performance is dependent upon our ability to respond to technological change, and we may have fewer resources than some of our competitors to continue to invest in technological improvements.

The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Many of our competitors have substantially greater resources to invest in technological improvements than we do. Our future success will depend, in part, upon our ability to address the needs of our clients by using technology to provide products and services that will satisfy client demands for convenience, as well as to create additional efficiencies in our operations. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. In addition, the implementation of technological changes and upgrades to maintain current systems and integrate new ones may also cause service interruptions, transaction processing errors and system conversion delays and may cause us to fail to comply with applicable laws. There can be no assurance that we will be able to successfully manage the risks associated with our increased dependency on technology.

We may be exposed to environmental liabilities in connection with real properties acquired.

During the ordinary course of business, we may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If previously unknown or undisclosed hazardous or toxic substances are discovered, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require us to incur substantial expenses which may materially reduce the affected property’s value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement polices with respect to existing laws may increase our exposure to environmental liability. Although we have policies and procedures to perform an environmental review at the time of underwriting a loan secured by real property, and also before initiating any foreclosure action on real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our financial condition and results of operations.

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Significant legal or regulatory actions could subject us to substantial uninsured liabilities and reputational harm and have a material adverse effect on our business and results of operations.

We are from time to time subject to claims and proceedings related to our operations. These claims and legal actions, which could include supervisory or enforcement actions by our regulators, or criminal proceedings by prosecutorial authorities, could involve large monetary claims, including civil money penalties or fines imposed by government authorities and significant defense costs. To mitigate the cost of some of these claims, we maintain insurance coverage in amounts and with deductibles that we believe are appropriate for our operations. However, our insurance coverage does not cover any civil money penalties or fines imposed by government authorities and may not cover all other claims that might be brought against us or continue to be available to us at a reasonable cost. As a result, we may be exposed to substantial uninsured liabilities, which could adversely affect our business, prospects, results of operations and financial condition. Substantial legal liability or significant regulatory action against us could cause significant reputational harm to us and/or could have a material adverse impact on our business, financial condition, results of operations and prospects. Because we primarily serve individuals and businesses located in the Northwest, any negative impact resulting from reputational harm, including any impact on our ability to attract and retain customers and employees, likely would be greater than if our business were more geographically diverse.

We are subject to a variety of operational risks, including reputational risk, legal risk and compliance risk, and the risk of fraud or theft by employees or outsiders, which may adversely affect our business and results of operations.

We are exposed to many types of operational risks, including reputational risk, legal and compliance risk, the risk of fraud or theft by employees or outsiders, and unauthorized transactions by employees or operational errors, including clerical or record-keeping errors or those resulting from faulty or disabled computer or telecommunications systems. If personal, non-public, confidential or proprietary information of customers in our possession were to be mishandled or misused, we could suffer significant regulatory consequences, reputational damage and financial loss. Such mishandling or misuse could include, for example, if such information were erroneously provided to parties who are not permitted to have the information, either by fault of our systems, employees, or counterparties, or where such information is intercepted or otherwise inappropriately taken by third parties.

Because the nature of the financial services business involves a high volume of transactions, certain errors may be repeated or compounded before they are discovered and successfully rectified. Our necessary dependence upon automated systems to record and process transactions and our large transaction volume may further increase the risk that technical flaws or employee tampering or manipulation of those systems will result in losses that are difficult to detect. We also may be subject to disruptions of our operating systems arising from events that are wholly or partially beyond our control (for example, computer viruses or electrical or telecommunications outages, natural disasters, disease pandemics or other damage to property or physical assets) which may give rise to disruption of service to customers and to financial loss or liability. We are further exposed to the risk that our external vendors may be unable to fulfill their contractual obligations (or will be subject to the same risk of fraud or operational errors by their respective employees as we are) and to the risk that we (or our vendors') business continuity and data security systems prove to be inadequate. The occurrence of any of these risks could result in a diminished ability of us to operate our business (for example, by requiring us to expend significant resources to correct the defect), as well as potential liability to clients, reputational damage and regulatory intervention, which could have a material adverse impact on our business, financial condition, results of operations and prospects.

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Failure to maintain effective internal control over financial reporting or disclosure controls and procedures may adversely affect our business and results of operations.

Management regularly reviews and updates our internal control over financial reporting, disclosure controls and procedures, and corporate governance policies and procedures. We maintain controls and procedures to mitigate risks such as processing system failures or errors and customer or employee fraud, and we maintain insurance coverage for certain of these risks. Any system of controls and procedures, however well designed and operated, is based in part on certain assumptions and provides only reasonable, not absolute, assurances that the objectives of the system are met. Events could occur which are not prevented or detected by our internal controls, are not insured against, or are in excess of our insurance limits. Any failure or circumvention of our controls and procedures, or failure to comply with regulations related to controls and procedures, could have an adverse effect on our business, financial condition, results of operations and prospects.

Our business is subject to the risks of earthquakes, tsunamis, floods, fires and other natural catastrophic events.

A major catastrophe, such as an earthquake, tsunami, flood, fire or other natural disaster could result in a prolonged interruption of our business. For example, our headquarters are located in Tacoma, Washington and we have operations throughout the Northwest, a geographical region that has been or may be affected by earthquake, tsunami and flooding activity. Because we primarily serve individuals and businesses in the Northwest, a natural disaster likely would have a greater impact on our business, operations and financial condition than if our business were more geographically diverse. The occurrence of any of these natural disasters could negatively impact our performance by disrupting our operations or the operations of our customers, which could have a material adverse effect on our financial condition, results of operations and cash flows.

We have various anti-takeover measures that could impede a takeover.

Our articles of incorporation include certain provisions that could make it more difficult to acquire us by means of a tender offer, a proxy contest, merger or otherwise. These provisions include certain non-monetary factors that our board of directors may consider when evaluating a takeover offer, and a requirement that any “Business Combination” be approved by the affirmative vote of no less than 66 2/3% of the total shares attributable to persons other than a “Control Person.” These provisions may have the effect of lengthening the time required for a person to acquire control of us through a tender offer, proxy contest or otherwise, and may deter any potentially hostile offers or other efforts to obtain control of us. This could deprive our shareholders of opportunities to realize a premium for their Columbia common stock, even in circumstances where such action is favored by a majority of our shareholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

The Company's principal properties include our corporate headquarters which is located at 13th & A Street, Tacoma, Washington, two operations facilities in Pierce County, Washington, one operations facility in Vancouver, Washington, and one operations facility in Wilsonville, Oregon.

The Company's branch network as of December 31, 2018 is made up of 150 branches located throughout several Washington, Oregon and Idaho counties compared to 155 branches at December 31, 2017. The number of branches per state, as well as whether they are owned or operated under a lease agreement is detailed in the following table:

	Number of Branches	Occupancy Type Owned	Leased
Washington branches	74	56	18
Oregon branches	62	34	28
Idaho branches	14	10	4
Total Columbia Bank branches	150	100	50

For additional information concerning our premises and equipment and lease obligations, see Notes 8 and 17 respectively, to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this report.

ITEM 3. 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 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Common Stock and Dividends

The Company’s common stock is traded on the NASDAQ Global Select Market under the symbol “COLB.” At January 31, 2019, the number of shareholders of record was 3,217. This figure does not represent the actual number of beneficial owners of common stock because shares are frequently held in “street name” by securities dealers and others for the benefit of individual owners who may vote the shares.

At December 31, 2018, a total of 5,514 stock options were outstanding. Additional information about stock options and other equity compensation plans is included in Note 22 to the Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data” of this report.

Equity Compensation Plan Information

The following table provides information as of December 31, 2018, regarding securities issued and to be issued under our equity compensation plans that were in effect during 2018:

	Year Ended December 31, 2018		
	Number of Shares to be Issued Upon Exercise of Outstanding Options and Rights (1)	Weighted Average Exercise Price of Outstanding Options and Rights	Number of Shares Remaining Available for Future Issuance Under Equity Compensation Plans (2)
Equity compensation plans approved by security holders	5,514	$ 9.91	3,376,314
Equity compensation plans not approved by security holders	—	—	—

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(1) Includes shares to be issued upon exercise of options under the West Coast Bancorp (‘West Coast”) plan, which was assumed as a result of the 2013 West Coast acquisition.

(2) Includes 3,015,957 shares available for future issuance under the current stock option and equity compensation plan and 360,357 shares available for purchase under the Employee Stock Purchase Plan as of December 31, 2018.

The following table provides information about repurchases of common stock by the Company during the quarter ended December 31, 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) (3)	Maximum Number of Remaining Shares That May Be Purchased at Period End Under the Plan (2) (3)
10/1/2018 - 10/31/2018	115	$ 36.26	—	2,900,000
11/1/2018 - 11/30/2018	—	—	—	2,900,000
12/1/2018 - 12/31/2018	305	40.68	—	—
	420	$ 39.47	—	

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(1) Common shares repurchased by the Company during the quarter relate to shares withheld to pay taxes due upon vesting of restricted stock.

(2) On September 27, 2017, the board of directors approved a stock repurchase program. The program, which expired on November 30, 2018, authorized the Company to repurchase up to 2.9 million shares of its outstanding common stock.

(3) On November 14, 2018, as modified on January 23, 2019, the board of directors approved a stock repurchase program to repurchase up to 2.9 million shares, up to a maximum aggregate purchase price of $100.0 million.

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Five-Year Stock Performance Graph

The following graph shows a five-year comparison of the total return to shareholders of Columbia's common stock, the NASDAQ Composite Index (which is a broad nationally recognized index of stock performance by companies listed on the Nasdaq Stock Market) and the KBW Regional Banking Index (comprised of 50 banks and bank holding companies headquartered throughout the country, including Columbia).

The definition of total return includes appreciation in market value of the stock as well as the actual cash and stock dividends paid to shareholders. The graph assumes that the value of the investment in Columbia's common stock, the NASDAQ Composite and the KBW Regional Banking Index was $100 on December 31, 2013, and that all dividends were reinvested.

Index	Period Ending					
	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018
Columbia Banking System, Inc.	100.00	104.17	128.05	185.13	183.94	158.09
NASDAQ Composite	100.00	114.75	122.74	133.62	173.22	168.30
KBW Regional Banking Index	100.00	102.42	108.48	150.80	153.45	126.59

Source: Bloomberg LP, New York City, NY

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ITEM 6. SELECTED FINANCIAL DATA

Five-Year Summary of Selected Consolidated Financial Data (1)

	2018	2017 (2)	2016	2015	2014 (3)
	(dollars in thousands except per share amounts)				
For the Year					
Interest income	$497,069	$374,746	$337,969	$328,891	$308,042
Interest expense	$18,230	$6,757	$4,350	$4,004	$3,994
Net interest income	$478,839	$367,989	$333,619	$324,887	$304,048
Provision for loan and lease losses	$14,769	$8,631	$10,778	$8,591	$6,727
Noninterest income	$88,256	$109,642	$88,082	$91,473	$59,750
Noninterest expense	$340,490	$291,017	$261,142	$266,149	$239,286
Net income	$172,882	$112,828	$104,866	$98,827	$81,574
Net income applicable to common shareholders	$172,882	$112,828	$104,709	$98,690	$81,478
Per Common Share					
Earnings (Basic)	$2.36	$1.86	$1.81	$1.71	$1.53
Earnings (Diluted)	$2.36	$1.86	$1.81	$1.71	$1.52
Book Value	$27.76	$26.70	$21.52	$21.48	$21.34
Averages					
Total assets	$12,725,086	$10,134,306	$9,311,621	$8,655,243	$7,468,091
Interest-earning assets	$11,241,321	$9,098,276	$8,363,309	$7,685,734	$6,561,047
Loans	$8,409,373	$6,682,259	$6,052,389	$5,609,261	$4,782,369
Securities, including Federal Home Loan Bank stock	$2,790,700	$2,350,844	$2,269,121	$2,031,859	$1,708,575
Deposits	$10,410,404	$8,482,350	$7,774,309	$7,146,828	$6,187,342
Shareholders’ equity	$1,969,179	$1,410,056	$1,269,801	$1,246,952	$1,109,581
Financial Ratios					
Net interest margin (tax equivalent)	4.33 %	4.18 %	4.12 %	4.35 %	4.76 %
Return on average assets	1.36 %	1.11 %	1.13 %	1.14 %	1.09 %
Return on average common equity	8.78 %	8.00 %	8.26 %	7.93 %	7.36 %
Average equity to average assets	15.47 %	13.91 %	13.64 %	14.41 %	14.86 %
At Year End					
Total assets	$13,095,145	$12,716,886	$9,509,607	$8,951,697	$8,578,846
Loans	$8,391,511	$8,358,657	$6,213,423	$5,815,027	$5,445,378
Allowance for loan and lease losses	$83,369	$75,646	$70,043	$68,172	$69,569
Securities, including Federal Home Loan Bank stock	$3,193,408	$2,753,271	$2,288,817	$2,170,416	$2,131,622
Deposits	$10,458,126	$10,532,085	$8,059,415	$7,438,829	$6,924,722
Core deposits	$9,973,840	$10,039,557	$7,749,568	$7,238,713	$6,753,142
Shareholders’ equity	$2,033,649	$1,949,922	$1,251,012	$1,242,128	$1,228,175
Nonperforming Assets					
Nonaccrual loans	$54,842	$66,189	$27,756	$21,464	$31,352
Other real estate owned and other personal property owned	6,049	13,298	5,998	13,738	22,225
Total nonperforming assets	$60,891	$79,487	$33,754	$35,202	$53,577
Nonperforming loans to year end loans	0.65 %	0.79 %	0.45 %	0.37 %	0.58 %
Nonperforming assets to year end assets	0.46 %	0.63 %	0.35 %	0.39 %	0.62 %
	0.99 %	0.91 %	1.13 %	1.17 %	1.28 %

Allowance for loan and lease losses to year end loans					
Net loan charge-offs	$7,046	$3,028	$8,907	$9,988	$9,612
Other nonfinancial data					
Full-time equivalent employees	2,137	2,120	1,819	1,868	1,934
Banking branches	150	155	143	149	154

(1) These unaudited schedules were derived from our audited financial statements and provide selected financial information concerning the Company that should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of this report.

(2) During 2017, Columbia acquired Pacific Continental Corporation. See Note 2 to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this report for further information regarding this acquisition.

(3) During 2014, Columbia acquired Intermountain Community Bancorp.

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Consolidated Five-Year Financial Data (1)

	Years ended December 31,				
	2018	2017 (2)	2016	2015	2014 (3)
	(in thousands, except per share amounts)				
Interest Income:					
Loans	$428,197	$324,229	$291,465	$286,166	$268,279
Taxable securities	55,969	38,659	35,167	30,774	28,754
Tax-exempt securities	12,201	11,045	11,121	11,842	10,830
Deposits in banks	702	813	216	109	179
Total interest income	497,069	374,746	337,969	328,891	308,042
Interest Expense:					
Deposits	12,105	4,800	3,134	2,977	3,005
Federal Home Loan Bank advances	3,750	1,078	671	474	396
Subordinated debentures	1,871	304	—	—	—
Other borrowings	504	575	545	553	593
Total interest expense	18,230	6,757	4,350	4,004	3,994
Net Interest Income	478,839	367,989	333,619	324,887	304,048
Provision for loan and lease losses	14,769	8,631	10,778	8,591	6,727
Net interest income after provision for loan and lease losses	464,070	359,358	322,841	316,296	297,321
Noninterest income	88,256	109,642	88,082	91,473	59,750
Noninterest expense	340,490	291,017	261,142	266,149	239,286
Income before income taxes	211,836	177,983	149,781	141,620	117,785
Provision for income taxes	38,954	65,155	44,915	42,793	36,211
Net Income	$172,882	$112,828	$104,866	$98,827	$81,574
Less: Dividends on preferred stock	—	—	157	137	96
Net Income Applicable to Common Shareholders	$172,882	$112,828	$104,709	$98,690	$81,478
Per Common Share					
Earnings basic	$2.36	$1.86	$1.81	$1.71	$1.53
Earnings diluted	$2.36	$1.86	$1.81	$1.71	$1.52
Average number of common shares outstanding (basic)	72,385	59,882	57,184	57,019	52,618
Average number of common shares outstanding (diluted)	72,390	59,888	57,193	57,032	53,183
Total assets at year end	$13,095,145	$12,716,886	$9,509,607	$8,951,697	$8,578,846
Long-term obligations	$35,462	$35,647	$—	$—	$—
Cash dividends declared per common share	$1.14	$0.88	$1.53	$1.34	$0.94

(1) These unaudited schedules were derived from our audited financial statements and provide selected financial information concerning the Company that should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of this report.

(2) During 2017, Columbia acquired Pacific Continental Corporation. See Note 2 to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this report for further information regarding this acquisition.

(3) During 2014, Columbia acquired Intermountain Community Bancorp.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion should be read in conjunction with our Consolidated Financial Statements and related notes in "Item 8. Financial Statements and Supplementary Data" of this report. 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 for the previous year.

Critical Accounting Policies

We have established certain accounting policies in preparing our Consolidated Financial Statements that are in accordance with accounting principles generally accepted in the United States. Our significant accounting policies are presented in Note 1 to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this report. Certain of these policies require the use of judgments, estimates and economic assumptions which may prove inaccurate or are subject to variation that may significantly affect our reported results of operations and financial position for the periods presented or in future periods. Management believes that the judgments, estimates and economic assumptions used in the preparation of the Consolidated Financial Statements are appropriate given the factual circumstances at the time. We consider the following policies to be most critical in understanding the judgments that are involved in preparing our Consolidated Financial Statements.

Allowance for Loan and Lease Losses

The allowance for loan and lease losses (the "allowance") is an accounting estimate of incurred credit losses in our loan portfolio at the balance sheet date. The primary components of the allowance are 1) loans collectively evaluated for impairment in accordance with the FASB Accounting Standards Codification ("ASC") Topic 450, Contingencies (ASC 450), 2) loans individually determined to be impaired in accordance with the FASB ASC Subtopic 310-10, Receivables: Overall (ASC 310-10) and 3) loans acquired with deteriorated credit quality in accordance with FASB ASC Subtopic 310-30, Receivables: Loans and Debt Securities Acquired with Deteriorated Credit Quality (ASC 310-30).

The measure of estimated credit losses for the ASC 450 component is based upon the loss experience over a historical base period adjusted for a loss emergence period. The loss emergence period is an estimate of the period that it takes, on average, for us to identify the amount of loss incurred for a loan that has suffered a loss-causing event. Management then considers the effects of the following qualitative factors to ensure our allowance reflects the inherent losses in the loan portfolio:

- Economic and business conditions;
- Concentration of credit;
- Lending management and staff;
- Lending policies and procedures;
- Loss and recovery trends;
- Nature and volume of the portfolio;
- Trends in problem loans, loan delinquencies and nonaccrual loans;
- Quality of internal loan review; and
- External factors.

These qualitative factors have a high degree of subjectivity and changes in any of the factors could have a significant impact on our calculation of the allowance. The qualitative adjustment by loan segment is based upon management's assessment of inherent losses within a range between the weighted historical loss factor by segment and the maximum consecutive quarterly losses in the relevant loss emergence period by segment over the historical base period.

The measure of estimated credit losses for the ASC 310-10 component begins if, based upon current information and events, we believe it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement or when a loan has been modified in a troubled debt restructuring. When a loan has been identified as impaired, the amount of impairment will be measured using discounted cash flows, except when it is determined that the remaining source of repayment for the loan is the operation or liquidation of the underlying collateral. In these cases, the current fair value of the collateral, reduced by costs to sell, will be used in place of discounted cash

flows. As a final alternative, the observable market price of the debt may be used to assess impairment. Predominantly, the Company uses the fair value of collateral approach based upon a reliable valuation.
Our allowance policy and the judgments, estimates and economic assumptions involved are described in greater detail in the “Allowance for Loan and Lease Losses and Unfunded Commitments and Letters of Credit” section of this discussion and in Note 1 to the Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data” of this report.

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Business Combinations

The Company applies the acquisition method of accounting for business combinations. Under the acquisition method, the acquiring entity in a business combination recognizes the assets acquired and liabilities assumed at their acquisition date fair values. Management utilizes prevailing valuation techniques appropriate for the asset or liability being measured in determining these fair values. Any excess of the purchase price over amounts allocated to assets acquired, including identifiable intangible assets, and liabilities assumed is recorded as goodwill. Where amounts allocated to assets acquired and liabilities assumed is greater than the purchase price, a bargain purchase gain is recognized. Acquisition-related costs are expensed as incurred.

Valuation and Recoverability of Goodwill

Goodwill represented $765.8 million of our $13.10 billion in total assets as of December 31, 2018. The Company has a single reporting unit. We review goodwill for impairment annually, during the third quarter, and also test for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of our reporting unit below its carrying amount. Such events and circumstances may include among others: a significant adverse change in legal factors or in the general business climate; significant decline in our stock price and market capitalization; unanticipated competition; the testing for recoverability of a significant asset group within the reporting unit; and an adverse action or assessment by a regulator. Any adverse change in these factors could have a significant impact on the recoverability of goodwill and could have a material impact on our Consolidated Financial Statements.

Under the Intangibles – Goodwill and Other topic of the FASB ASC, the testing for impairment may begin with an assessment of qualitative factors to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount. When required, the goodwill impairment test involves a two-step process. In step one, we would test goodwill for impairment by comparing the fair value of the reporting unit with its carrying amount. If the fair value of the reporting unit exceeds the carrying amount of the reporting unit, goodwill is not deemed to be impaired, and no further testing is necessary. If the carrying amount of the reporting unit were to exceed the fair value of the reporting unit, we would perform a second test to measure the amount of impairment loss, if any. To measure the amount of any impairment loss, we would determine the implied fair value of goodwill in the same manner as if the reporting unit were being acquired in a business combination. Specifically, we would allocate the fair value of the reporting unit to all of the assets and liabilities of the reporting unit in a hypothetical calculation that would determine the implied fair value of goodwill. If the implied fair value of goodwill is less than the recorded goodwill, we would record an impairment charge for the difference.

The accounting estimates related to our goodwill require us to make considerable assumptions about fair values. Our assumptions regarding fair values require significant judgment about economic and industry factors and the growth and earnings prospects of the Bank. Changes in these judgments, either individually or collectively, may have a significant effect on the estimated fair values.

Based on the results of the annual goodwill impairment test, we determined that no goodwill impairment charges were required as our single reporting unit’s fair value exceeded its carrying amount. As of December 31, 2018, we determined there were no events or circumstances which would more likely than not reduce the fair value of our reporting unit below its carrying amount.

Please refer to Note 9 to the Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data” of this report for further discussion.

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2018 Financial Summary

Income Statement

- Consolidated net income for 2018 was $172.9 million, or $2.36 per diluted common share, compared with net income of $112.8 million, or $1.86 per diluted common share, in 2017.
- Net interest income for 2018 increased 30% to $478.8 million compared to $368.0 million for 2017. Interest income was $497.1 million in 2018, compared to $374.7 million in 2017. The increase was primarily due to income from higher average loan and securities balances acquired in the 2017 Pacific Continental acquisition. Interest expense increased $11.5 million compared to 2017, due to higher rates on interest-bearing liabilities and higher borrowing balances.
- Provision for loan and lease losses was $14.8 million in 2018, compared to $8.6 million in 2017. Provision expense for the current year was driven by net charge-offs and growth in the loan portfolio.
- Noninterest income was $88.3 million for 2018, a decrease from $109.6 million for 2017. Noninterest income was lower in 2018 than in 2017 primarily due to the $14.0 million one-time gain on the sale of our merchant card services portfolio in 2017. The decrease was also attributable to lower card revenue.
- Noninterest expense increased $49.5 million, or 17% to $340.5 million for 2018 due primarily to higher compensation and employee benefits resulting from the Pacific Continental acquisition.

Balance Sheet

- Total assets at December 31, 2018 were $13.10 billion, up 3%, or $378.3 million from $12.72 billion at the end of 2017.
- The Company is well-capitalized with a total risk-based capital ratio of 13.9920% at December 31, 2018.
- Investment securities at December 31, 2018 were $3.17 billion, up 15% from $2.74 billion at December 31, 2017.
- Loans were $8.39 billion, an increase of $32.9 million from $8.36 billion at the end of 2017.
- The allowance for loan and lease losses increased to $83.4 million at December 31, 2018 compared to $75.6 million at December 31, 2017 due to management’s on-going assessment of the credit quality of the loan portfolio. The Company’s allowance was 0.99% of total loans, compared with 0.91% at the end of 2017.
- Nonperforming assets totaled $60.9 million at December 31, 2018, down from $79.5 million at December 31, 2017. The decrease in nonperforming assets was due to a decrease of $11.3 million in nonaccrual loans and a decrease in Other Real Estate Owned (“OREO”) compared to December 31, 2017. Nonperforming assets to year end assets decreased to 0.46% at December 31, 2018 compared to 0.63% at December 31, 2017.
- Deposits totaled $10.46 billion at December 31, 2018 compared to $10.53 billion at December 31, 2017.
- Core deposits totaled $9.97 billion at December 31, 2018, compared to $10.04 billion at December 31, 2017. Core deposits represented 95% of total deposits at December 31, 2018 and 2017.
- Federal Home Loan Bank (“FHLB”) advances were $399.5 million at December 31, 2018, an increase of $387.9 million compared to December 31, 2017.

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Business Combinations

On November 1, 2017, the Company completed its acquisition of Pacific Continental. The Company acquired approximately $2.94 billion in assets, including $1.87 billion in loans measured at fair value and $2.12 billion in deposits. See Note 2 to the Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data” of this report for further information regarding this acquisition.

On November 1, 2014, the Company completed its acquisition of Intermountain. The Company acquired approximately $964.4 million in assets, including $502.6 million in loans measured at fair value and $736.8 million in deposits.

RESULTS OF OPERATIONS

Summary

A summary of the Company’s results of operations for each of the last three years ended December 31 follows:

	Year ended 2018	Increase (Decrease) Amount	%	Year ended 2017	Increase (Decrease) Amount	%	Year ended 2016
	(dollars in thousands, except per share amounts)						
Interest income	$497,069	$122,323	33	$374,746	$36,777	11	$337,969
Interest expense	18,230	11,473	170	6,757	2,407	55	4,350
Net interest income	478,839	110,850	30	367,989	34,370	10	333,619
Provision for loan and lease losses	14,769	6,138	71	8,631	(2,147)	(20)	10,778
Noninterest income	88,256	(21,386)	(20)	109,642	21,560	24	88,082
Noninterest expense:							
Compensation and employee benefits	200,199	30,525	18	169,674	19,392	13	150,282
Other expense	140,291	18,948	16	121,343	10,483	9	110,860
Total	340,490	49,473	17	291,017	29,875	11	261,142
Income before income taxes	211,836	33,853	19	177,983	28,202	19	149,781
Provision for income taxes	38,954	(26,201)	(40)	65,155	20,240	45	44,915
Net income	$172,882	$60,054	53	$112,828	$7,962	8	$104,866
Less: earnings allocated to participating securities	1,892	388	26	1,504	(52)	(3)	1,556
Earnings allocated to common shareholders	$170,990	$59,666	54	$111,324	$8,014	8	$103,310
Earnings per common share, diluted	$2.36	$0.50	27	$1.86	$0.05	3	$1.81

Net Interest Income

Net interest income is the difference between interest income and interest expense. Net interest income on a fully taxable-equivalent basis expressed as a percentage of average total interest-earning assets is referred to as the net interest margin, which represents the average net effective yield on interest-earning assets.

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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, net interest spread, net interest margin and the ratio of average interest-earning assets to interest-earning liabilities:

Net Interest Income Summary

	2018				2017				2016			
	Average Balances	Interest Earned/ Paid	Average Rate		Average Balances	Interest Earned/ Paid	Average Rate		Average Balances	Interest Earned/ Paid	Average Rate	
	(dollars in thousands)											
ASSETS												
Loans, net (1)(2)(3)	$8,409,373	$432,781	5.15	%	$6,682,259	$330,400	4.94	%	$6,052,389	$296,283	4.90	%
Taxable securities (4)	2,275,892	55,969	2.46	%	1,886,128	38,659	2.05	%	1,804,004	35,167	1.95	%
Tax exempt securities (3)	514,808	15,445	3.00	%	464,716	16,992	3.66	%	465,117	17,109	3.68	%
Interest-earning deposits with banks	41,248	702	1.70	%	65,173	813	1.25	%	41,799	216	0.52	%
Total interest-earning assets	11,241,321	504,897	4.49	%	9,098,276	386,864	4.25	%	8,363,309	348,775	4.17	%
Other earning assets	224,595				181,792				156,871			
Noninterest-earning assets	1,259,170				854,238				791,441			
Total assets	$12,725,086				$10,134,306				$9,311,621			
LIABILITIES AND SHAREHOLDERS’ EQUITY												
Certificates of deposit	$452,756	$2,206	0.49	%	$406,406	$656	0.16	%	$426,296	$522	0.12	%
Savings accounts	885,433	138	0.02	%	774,340	96	0.01	%	698,687	71	0.01	%
Interest-bearing demand	1,256,205	2,562	0.20	%	1,031,719	950	0.09	%	952,135	695	0.07	%
Money market accounts	2,773,208	7,199	0.26	%	2,158,656	3,098	0.14	%	1,993,283	1,846	0.09	%
Total interest-bearing deposits	5,367,602	12,105	0.23	%	4,371,121	4,800	0.11	%	4,070,401	3,134	0.08	%
Federal Home Loan Bank and Federal Reserve Bank advances	166,577	3,750	2.25	%	79,788	1,078	1.35	%	79,673	671	0.84	%
Subordinated debentures	35,553	1,871	5.26	%	5,905	304	5.15	%	—	—	—	%
Other borrowings and interest-bearing liabilities	45,095	504	1.12	%	55,913	575	1.03	%	77,022	545	0.71	%
Total interest-bearing liabilities	5,614,827	18,230	0.32	%	4,512,727	6,757	0.15	%	4,227,096	4,350	0.10	%

Noninterest-bearing deposits	5,042,802		4,111,229		3,703,908	
Other noninterest-bearing liabilities	98,278		100,294		110,816	
Shareholders’ equity	1,969,179		1,410,056		1,269,801	
Total liabilities & shareholders’ equity	$12,725,086		$10,134,306		$9,311,621	
Net interest income (tax equivalent)	$486,667		$380,107		$344,425	
Net interest spread (tax equivalent)		4.17 %		4.10 %		4.07 %
Net interest margin (tax equivalent)		4.33 %		4.18 %		4.12 %
Average interest-earning assets to average interest-bearing liabilities		200.21 %		201.61 %		197.85 %

(1) Nonaccrual loans have been included in the table as loans carrying a zero yield. Amortized net deferred loan fees and unearned net discounts on acquired loans were included in the interest income calculations. The amortization of net deferred loan fees was $9.3 million in 2018, $7.1 million in 2017 and $5.3 million in 2016. The accretion of net unearned discounts on certain acquired loans was $10.9 million in 2018, $8.7 million in 2017, and $12.0 million in 2016.

(2) Incremental accretion on purchased credit impaired loans is also included in loan interest earned. The incremental accretion income on purchased credit impaired loans was $1.6 million in 2018, $4.1 million in 2017 and $6.0 million in 2016.

(3) Yields on fully taxable equivalent basis. The tax equivalent yield adjustment to interest earned on loans was $4.6 million, $6.2 million and $4.8 million for the years ended December 31, 2018, 2017, and 2016, respectively. The tax equivalent yield adjustment to interest earned on tax exempt securities was $3.2 million, $5.9 million and $6.0 million for the years ended December 31, 2018, 2017, and 2016, respectively.

(4) During the twelve months ended December 31, 2017, the Company recorded a $1.8 million adjustment to premium amortization, which decreased interest income on taxable securities.

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Net interest income is impacted by the volume (changes in volume multiplied by prior rate), interest rate (changes in rate multiplied by prior volume) and the mix of interest-earning assets and interest-bearing liabilities. The following table shows changes in net interest income on a fully taxable-equivalent basis between 2018 and 2017, as well as between 2017 and 2016 broken down between volume and rate. 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:

Changes in Net Interest Income

	2018 Compared to 2017 Increase (Decrease) Due to			2017 Compared to 2016 Increase (Decrease) Due to		
	Volume	Rate	Total	Volume	Rate	Total
	(in thousands)					
Interest Income						
Loans, net (1)	$88,408	$13,973	$102,381	$31,116	$3,001	$34,117
Taxable securities	8,800	8,510	17,310	1,640	1,852	3,492
Tax-exempt securities (1)	1,709	(3,256)	(1,547)	(15)	(102)	(117)
Interest earning deposits with banks	(353)	242	(111)	169	428	597
Interest income	$98,564	$19,469	$118,033	$32,910	$5,179	$38,089
Interest Expense						
Deposits:						
Certificates of deposit	$83	$1,467	$1,550	$(25)	$159	$134
Savings accounts	15	27	42	8	17	25
Interest-bearing demand	245	1,367	1,612	62	193	255
Money market accounts	1,069	3,032	4,101	164	1,088	1,252
Total interest on deposits	1,412	5,893	7,305	209	1,457	1,666
Federal Home Loan Bank advances	1,657	1,015	2,672	1	406	407
Subordinated debentures	1,560	7	1,567	304	—	304
Other borrowings and interest-bearing liabilities	(130)	59	(71)	(45)	75	30
Interest expense	$4,499	$6,974	$11,473	$469	$1,938	$2,407
	$94,065	$12,495	$106,560	$32,441	$3,241	$35,682

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(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 $4.7 million and $3.3 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 net interest margin (tax equivalent) by 7 basis points.

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Incremental accretion income represents the amount of interest income recorded on acquired loans above the contractual rate stated in the individual loan notes. The additional interest income stems from the net discount established at the time these loan portfolios were acquired. 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:

	Year Ended December 31, 2018	Year Ended December 31, 2017	Year Ended December 31, 2016
	(in thousands)		
Incremental accretion income due to:			
Federal Deposit Insurance Corporation purchased credit impaired loans	$1,635	$4,107	$5,972
Other acquired loans	10,921	8,689	11,983
Total incremental accretion income	$12,556	$12,796	$17,955
Net interest margin (tax equivalent)	4.33 %	4.18 %	4.12 %
Operating net interest margin (tax equivalent) (1)	4.30 %	4.15 %	4.01 %

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(1) Operating net interest margin (tax equivalent) is a Non-GAAP financial measure. See Non-GAAP financial measures section of "Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operations."

Comparison of 2018 with 2017

Taxable-equivalent net interest income totaled $486.7 million in 2018, compared with $380.1 million for 2017. The increase in net interest income during 2018 resulted from the increase in the size of the loan and securities portfolios, primarily due to the Pacific Continental acquisition. The increase in net interest income was partially offset by higher interest rates paid on interest-bearing liabilities combined with higher balances of interest-bearing liabilities due to the acquisition.

The Company's net interest margin (tax equivalent) increased from 4.18% for the year ended December 31, 2017 to 4.33% for the current year due primarily to higher yields on loans as well as higher loan volumes, partially offset by both the rise in the rates paid on deposits and other interest-bearing liabilities as well as the balance in these liabilities. The Company's operating net interest margin (tax equivalent) increased from 4.15% for the year ended December 31, 2017 to 4.30% for the current year due to higher volumes and rates on loans.

For a discussion of the methodologies used by management in recording interest income on loans, please see Note 1 to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this report.

Comparison of 2017 with 2016

Taxable-equivalent net interest income totaled $380.1 million in 2017, compared with $344.4 million for 2016. The increase in net interest income during 2017 resulted from the increase in the size of the loan and securities portfolios, primarily due to the Pacific Continental acquisition, partially offset by lower incremental accretion income from acquired loans.

The Company's net interest margin (tax equivalent) increased from 4.12% for the year ended December 31, 2016 to 4.18% for the year ended December 31, 2017 due primarily to higher yields on loans as well as higher loan volumes, partially offset by the decreased impact of accretion income on the loan portfolio. The Company's operating net interest margin (tax equivalent) increased from 4.01% for the year ended December 31, 2016 to 4.15% for 2017 due to higher volumes and rates on loans.

Provision for Loan and Lease Losses

The Company accounts for the credit risk associated with lending activities through its "Allowance for loan and lease losses" and "Provision for loan and lease losses." The provision is the expense recognized in the Consolidated Statements of Income to adjust the allowance to the levels deemed appropriate by management, as determined through its application of the Company's allowance methodology procedures. For discussion of the methodology used by management in determining the adequacy of the ALLL, see the "Allowance for Loan and Lease Losses and Unfunded Commitments and Letters of Credit" and "Critical Accounting Policies" sections of this discussion.

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The Company recorded provision expense of $14.8 million, $8.6 million and $10.8 million in 2018, 2017 and 2016, respectively. The provision recorded in 2018 included a large charge-off on an agricultural loan as well as management's ongoing assessment of the credit quality of the Company's loan portfolio. Factors affecting the provision include net charge-offs, credit quality migration, and size and composition of the loan portfolio and changes in the economic environment during the period. See "Allowance for Loan and Lease Losses and Unfunded Commitments and Letters of Credit" section of this discussion for further information on factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for loan and lease losses.
For the years ended December 31, 2018, 2017 and 2016, net loan charge-offs amounted to $7.0 million, $3.0 million, and $8.9 million, respectively.
Noninterest Income
The following table presents the significant components of noninterest income and the related dollar and percentage change from period to period:

	Years ended December 31,						
	2018	$ Change	% Change	2017	$ Change	% Change	2016
	(dollars in thousands)						
Deposit account and treasury management fees	$36,072	$5,691	19 %	$30,381	$1,881	7 %	$28,500
Card revenue (1)	19,719	(5,908)	(23)%	25,627	2,007	8 %	23,620
Financial services and trust revenue	12,135	657	6 %	11,478	212	2 %	11,266
Loan revenue	11,866	(533)	(4)%	12,399	1,432	13 %	10,967
Merchant processing revenue	—	(4,283)	(100)%	4,283	(4,449)	(51)%	8,732
Bank owned life insurance (BOLI)	6,007	627	12 %	5,380	834	18 %	4,546
Investment securities gains (losses), net	(89)	(78)	709 %	(11)	(1,192)	(101)%	1,181
Change in Federal Deposit Insurance Corporation loss-sharing asset	—	447	(100)%	(447)	2,138	(83)%	(2,585)
Gain on sale of merchant card services portfolio	—	(14,000)	(100)%	14,000	14,000	100 %	—
Other	2,546	(4,006)	(61)%	6,552	4,697	253 %	1,855
Total noninterest income	$88,256	$(21,386)	(20)%	$109,642	$21,560	24 %	$88,082

(1) Beginning January 1, 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 year ended December 31, 2018, $5.0 million of such expenses were netted from "Card revenue."

Comparison of 2018 with 2017
The $21.4 million decrease in noninterest income was principally from the $14.0 million one-time gain on sale of the merchant card services portfolio in 2017. 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." The decrease was also attributable to lower card revenue as we became subject to the interchange fee cap imposed under the Dodd-Frank Act on July 1, 2018, and the change to net presentation of interchange revenue pursuant to the adoption of new revenue recognition accounting guidance, which became effective on January 1, 2018. Specifically, $5.0 million of payment card network expenses for 2018 that would have historically been presented in "other noninterest expense" are now presented in "card revenue." Partially offsetting these decreases to noninterest income was an increase in deposit account and treasury management fees of $5.7 million, or 19%.

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Comparison of 2017 with 2016

The $21.6 million increase in noninterest income was principally from the $14 million gain on sale of the merchant card services portfolio on July 1, 2017. With that sale, we transitioned the delivery of those services from in-house to an outsourced model to better serve our business clients via a broader selection of competitive, best-in-class payment processing solutions. Subsequent to the sale, we ceased recording revenue in “Merchant processing revenue” and began recording our share of net merchant services revenue in “Card revenue.” For the year ended December 31, 2017, that revenue share was $1.1 million. Also contributing to the increase was higher other noninterest income, principally from a BOLI benefit of $4.2 million in 2017, compared to a BOLI benefit of $254 thousand in 2016. Finally, as a result of our termination of loss-sharing in 2017, the change in FDIC loss-sharing asset improved from a charge of $2.6 million in 2016 to a charge of $447 thousand in 2017. However, we also recognized in noninterest expense a $2.4 million charge related to loss-sharing termination.

Noninterest Expense

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

	Years ended December 31,						
	2018	$ Change	% Change	2017	$ Change	% Change	2016
	(dollars in thousands)						
Compensation and employee benefits	$200,199	$30,525	18 %	$169,674	$19,392	13 %	$150,282
All other noninterest expense:							
Occupancy	36,576	4,169	13 %	32,407	(1,327)	(4)%	33,734
Merchant processing expense	—	(2,196)	(100)%	2,196	(2,134)	(49)%	4,330
Advertising and promotion	5,584	1,118	25 %	4,466	(132)	(3)%	4,598
Data processing	20,235	2,030	11 %	18,205	1,717	10 %	16,488
Legal and professional services	18,044	2,893	19 %	15,151	7,262	92 %	7,889
Taxes, license and fees	6,061	1,288	27 %	4,773	(412)	(8)%	5,185
Regulatory premiums	3,710	527	17 %	3,183	(594)	(16)%	3,777
Net cost of operation of other real estate owned	1,218	750	160 %	468	(83)	(15)%	551
Amortization of intangibles	12,236	5,903	93 %	6,333	387	7 %	5,946
Other (1)	36,627	2,466	7 %	34,161	5,799	20 %	28,362
Total all other noninterest expense	140,291	18,948	16 %	121,343	10,483	9 %	110,860
Total noninterest expense	$340,490	$49,473	17 %	$291,017	$29,875	11 %	$261,142

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(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 twelve months ended December 31, 2018 includes $5.0 million of payment card network expenses that would have historically been presented in other noninterest expense.

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

	Years ended December 31,		
	2018	2017	2016
	(in thousands)		
Acquisition-related expenses:			
Compensation and employee benefits	$3,620	$8,014	$35
Occupancy	1,619	1,912	2,383
Advertising and promotion	537	467	—
Data processing	963	1,555	18
Legal and professional fees	1,028	4,618	291
Taxes, licenses and fees	—	10	—
Other	894	620	—
Total impact of acquisition-related costs to noninterest expense	$8,661	$17,196	$2,727
Acquisition-related expenses by transaction:			
Intermountain	—	—	2,436
Pacific Continental (1)	8,661	17,196	291
Total impact of acquisition-related costs to noninterest expense	$8,661	$17,196	$2,727

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(1) The Company completed the acquisition of Pacific Continental on November 1, 2017. See Note 2 to the Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data” of this report for further information regarding this acquisition.

Comparison of 2018 with 2017

Noninterest expense was $340.5 million in 2018, an increase of $49.5 million, or 17%, over 2017. Included in noninterest expense were $8.7 million of acquisition-related expenses compared to $17.2 million in 2017. After removing the effect of acquisition-related expenses, noninterest expense increased $58.0 million due to higher compensation and employee benefits, amortization of intangibles, legal and professional fees, and other expenses. The increases in compensation and employee benefits and amortization of intangibles were driven by increases in salaries, benefits, and payroll taxes and amortization of core deposit intangibles. These increases were primarily due to the Pacific Continental acquisition, as 2018 included the full year of the acquired bank expenses compared to the inclusion of only two months of expenses in 2017. The increase in legal and professional fees was driven mainly by an increase in treasury management and legal fees related to nonperforming loans. Other noninterest expenses increased due to increases in software expense and sponsorships and other charitable contributions. These increases were partially offset by a decrease in merchant processing expense. As a result of the 2017 sale of our merchant card services portfolio, we no longer directly incur merchant processing costs.

Comparison of 2017 with 2016

Noninterest expense was $291.0 million in 2017, an increase of $29.9 million, or 11%, over 2016. This increase was driven by higher acquisition-related expenses in 2017 of $17.2 million compared to $2.7 million in 2016. After removing the effect of acquisition-related expenses, noninterest expense increased $15.4 million due to higher compensation and employee benefits stemming from additional personnel costs associated with the Pacific Continental acquisition. Also contributing to the increase was a $2.4 million charge related to termination of FDIC loss-sharing agreements which was recognized in other noninterest expense. Finally, legal and professional fees were higher due to costs from our investment in a customer relationship management application and the search to fill certain executive level positions. These increases were partially offset by a decrease in merchant processing expense. As a result of the 2017 sale of our merchant card services portfolio, we no longer directly incur merchant processing costs.

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Income Tax

For the years ended December 31, 2018, 2017 and 2016, we recorded income tax provisions of $39.0 million, $65.2 million and $44.9 million, respectively. The effective tax rate was 18% in 2018, 37% in 2017 and 30% in 2016. Our effective tax rate for 2018 was positively impacted by the Tax Cuts and Jobs Act which was enacted on December 22, 2017. On January 1, 2018, the Tax Cuts and Jobs Act reduced the federal tax rate for corporations from 35% to 21% and changed or limited certain deductions. Our effective tax rate for 2017 was impacted by the re-measurement of our deferred tax assets pursuant to the enactment of the Tax Cuts and Jobs Act. As a result of the lower corporate tax rate, during 2017, we recorded a re-measurement charge of $12.2 million to reduce our deferred tax assets. For 2018 and 2016, our effective tax rates were less than the 21% and 35% federal statutory rates, respectively, primarily due to tax-exempt municipal investment securities income, tax-exempt earnings from bank owned life insurance, and income from loans with favorable tax attributes. For additional information, see Note 23 to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this report.

Financial Condition

Our total assets increased 3% to $13.10 billion at December 31, 2018 from $12.72 billion at December 31, 2017. Increases in debt securities available for sale, loans and FHLB stock were partially offset by decreases in cash and cash equivalents and other intangible assets. Our available-for-sale debt securities portfolio increased $429.7 million as a result of purchases of securities throughout the year. The loan portfolio, net of the allowance for loan losses, increased $25.1 million as new loan production outpaced loan payoffs and our FHLB stock increased $15.5 million as a result of the required purchase of FHLB stock related to the increase in our FHLB advances. Partially offsetting these increases were decreases in cash and cash equivalents and other intangible assets of $64.9 million and $12.2 million, respectively. Cash and cash equivalents decreased $64.9 million while other intangible assets decreased $12.2 million due to the amortization of the of the core deposit intangible resulting from the acquisition of Pacific Continental Bank.

FHLB advances increased $387.9 million to $399.5 million to supplement the growth in our loan and securities portfolios. Deposit balances decreased $74.0 million, or 1%, to $10.46 billion and securities sold under agreements to repurchase decreased $18.0 million, or 23% to $61.1 million. Total shareholders' equity increased $83.7 million to $2.03 billion.

Investment Portfolio

We invest in securities to generate revenue for the Company, to manage liquidity while minimizing interest rate risk and to provide collateral for certain public deposits and short-term borrowings. The amortized cost amounts represent the Company's original cost for the investments, adjusted for accumulated amortization or accretion of any yield adjustments related to the security. The estimated fair values are the amounts we believe the securities could be sold for as of the dates indicated. At December 31, 2018 gross unrealized losses in our securities portfolio were $56.0 million related to 892 separate available for sale securities. Based on past experience with these types of securities and our own financial performance, we do not currently intend to sell any securities in a loss position nor does available evidence suggest it is more likely than not that management will be required to sell any securities currently in a loss position before the recovery of the amortized cost basis. We review these investments for other-than-temporary impairment on an ongoing basis.

Our investment portfolio increased $429.7 million from the prior year due to purchases of $965.6 million offset by maturities, repayments and sales of $498.0 million, $20.3 million in premium amortization and a $17.6 million increase in net unrealized loss of the investment portfolio.

At December 31, 2018, U.S. government agency and government-sponsored enterprise mortgage-backed securities ("MBS") and collateralized mortgage obligations ("CMO") comprised 69% of our investment portfolio, state and municipal securities were 18%, and government agency and government-sponsored enterprise securities were 13%. Our entire investment portfolio is categorized as available for sale and carried on our balance sheet at fair value. The average duration of our investment portfolio was approximately 4 years and 7 months at December 31, 2018. This duration takes into account calls, where appropriate, and consensus prepayment speeds.

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The following table presents the contractual maturities and weighted average yield of our investment portfolio:

	December 31, 2018		
	Amortized Cost	Fair Value	Yield
	(dollars in thousands)		
U.S. government agency and government-sponsored enterprise mortgage-backed securities & collateralized mortgage obligations (1)			
Due through 1 year	$1,377	$1,374	0.37%
Over 1 through 5 years	148,173	145,168	2.95%
Over 5 through 10 years	1,080,202	1,075,363	3.59%
Over 10 years	992,769	966,385	3.27%
Total	$2,222,521	$2,188,290	3.40%
State and municipal securities (2)			
Due through 1 year	$65,240	$65,438	3.51%
Over 1 through 5 years	174,650	174,088	2.58%
Over 5 through 10 years	217,128	215,092	2.88%
Over 10 years	122,737	119,705	3.34%
Total	$579,755	$574,323	2.96%
U.S. government agency and government-sponsored enterprise securities (1)			
Due through 1 year	$63,724	$63,181	1.40%
Over 1 through 5 years	243,559	240,344	2.13%
Over 5 through 10 years	100,805	101,062	2.86%
Total	$408,088	$404,587	2.20%
U.S. government securities (1)			
Due through 1 year	$251	$248	1.39%
Total	$251	$248	1.39%

(1) The maturities reported for mortgage-backed securities, collateralized mortgage obligations, government agency, government-sponsored enterprise, and government securities are based on contractual maturities and principal amortization.

(2) Yields on fully taxable equivalent basis.

For further information on our investment portfolio, see Note 4 to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this report.

Federal Home Loan Bank Stock

The FHLB of Des Moines stock is composed of two sub-classes: membership stock and activity based stock. Membership stock is stock we are required to purchase and hold as a condition of membership in the FHLB. The Company's membership stock purchase requirement is measured as a percentage of our year-end assets, subject to a $10 million cap. Activity based stock is stock we are required to purchase and hold in order to obtain an advance or participate in FHLB mortgage programs. The Company's activity based stock purchase requirement is measured as a percentage of our advance proceeds. At December 31, 2018 the Company held $26.0 million of FHLB Class B stock, $10.0 million of which was membership stock and the remaining $16.0 million was activity based. The FHLB stock is issued, transferred, redeemed, and repurchased at a par value of $100.

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Loan Portfolio

The 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 our loan portfolio by type of loan for the dates indicated:

	December 31,									
	2018	% of Total	2017	% of Total	2016	% of Total	2015	% of Total	2014	% of Total
	(dollars in thousands)									
Commercial business	$3,438,422	41.0 %	$3,377,324	40.4 %	$2,551,054	41.1 %	$2,362,575	40.6 %	$2,119,565	38.9
Real estate:										
One-to-four family residential	238,367	2.8 %	188,396	2.3 %	170,331	2.7 %	176,295	3.0 %	175,571	3.2
Commercial and multifamily residential	3,846,027	45.8 %	3,825,739	45.8 %	2,719,830	43.7 %	2,491,736	42.9 %	2,363,541	43.5
Total real estate	4,084,394	48.6 %	4,014,135	48.1 %	2,890,161	46.4 %	2,668,031	45.9 %	2,539,112	46.7
Real estate construction:										
One-to-four family residential	217,790	2.6 %	200,518	2.4 %	121,887	2.0 %	135,874	2.3 %	116,866	2.1
Commercial and multifamily residential	284,394	3.4 %	371,931	4.4 %	209,118	3.4 %	167,413	2.9 %	134,443	2.5
Total real estate construction	502,184	6.0 %	572,449	6.8 %	331,005	5.4 %	303,287	5.2 %	251,309	4.6
Consumer	318,945	3.8 %	334,190	4.0 %	329,261	5.3 %	342,601	5.9 %	364,182	6.7
Purchased credit impaired	89,760	1.1 %	112,670	1.3 %	145,660	2.3 %	180,906	3.1 %	230,584	4.2
Subtotal	8,433,705	100.5 %	8,410,768	100.6 %	6,247,141	100.5 %	5,857,400	100.7 %	5,504,752	101.
Less: Net unearned income	(42,194)	(0.5)%	(52,111)	(0.6)%	(33,718)	(0.5)%	(42,373)	(0.7)%	(59,374)	(1.1
Loans, net of unearned income (before Allowance for Loan and Lease Losses)	$8,391,511	100.0 %	$8,358,657	100.0 %	$6,213,423	100.0 %	$5,815,027	100.0 %	$5,445,378	100.
	$3,849		$5,766		$5,846		$4,509		$1,116	

Loans held
for sale

At December 31, 2018, total loans, gross of the ALLL were $8.39 billion compared with $8.36 billion in the prior year, an increase of $32.9 million, or 0.4% from the previous year. The increase in the loan portfolio was the result of organic loan production, partially offset by contractual payments and prepayments. Total loans, net of the ALLL represented 63% and 65% of total assets at December 31, 2018 and 2017, respectively.

Commercial Business 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.

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.

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Purchased Credit Impaired Loans ("PCI 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"). The Company did not acquire any loans accounted for under ASC 310-30 during 2018 or 2017.
Net unearned income: The following table provides additional detail related to the net discount of acquired and purchased loans, excluding PCI loans, by acquisition for the periods indicated:

	2018	2017	2016
Acquisition:	(in thousands)		
Pacific Continental	$18,526	$24,556	$—
Intermountain	2,303	3,892	6,599
West Coast	4,578	7,995	13,957
Other	725	(134)	(315)
Total net discount at period end	$26,132	$36,309	$20,241

For additional information on our loan portfolio, including amounts pledged as collateral on borrowings, see Note 5 to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this report.
Maturities and Sensitivities of Loans to Changes in Interest Rates
The following table presents the maturity distribution of our commercial and real estate construction loan portfolios and the sensitivity of these loans due after one year to changes in interest rates as of December 31, 2018:

	Maturing Due Through 1 Year	Over 1 Through 5 Years	Over 5 Years	Total
	(in thousands)			
Commercial business	$1,172,226	$1,024,819	$1,250,617	$3,447,662
Real estate construction	276,663	65,474	160,734	502,871
Total	$1,448,889	$1,090,293	$1,411,351	$3,950,533
Fixed rate loans due after 1 year		$727,902	$947,788	$1,675,690
Variable rate loans due after 1 year		362,391	463,563	825,954
Total		$1,090,293	$1,411,351	$2,501,644

Risk Elements
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, 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 "Allowance for Loan and Lease Losses and Unfunded Commitments and Letters of Credit" section and Note 1 to the Consolidated Financial Statements in "Item 8. Financial Statements and

Supplementary Data" of this report.

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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.

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) OPPO, if applicable. Nonperforming assets totaled $60.9 million, or 0.46% of year end assets at December 31, 2018, compared to $79.5 million, or 0.63% of year end assets at December 31, 2017.

The following table sets forth information with respect to our nonaccrual loans, total nonperforming assets, accruing loans past-due 90 days or more and potential problem loans:

	December 31,				
	2018	2017	2016	2015	2014
	(dollars in thousands)				
Nonaccrual:					
Commercial business	$35,513	$45,460	$11,555	$9,437	$16,799
Real estate:					
One-to-four family residential	1,158	785	568	820	2,822
Commercial and multifamily residential	14,904	13,941	11,187	9,513	7,847
Real estate construction:					
One-to-four family residential	318	1,854	563	928	465
Commercial and multifamily residential	—	—	—	—	480
Consumer	2,949	4,149	3,883	766	2,939
Total nonaccrual loans:	54,842	66,189	27,756	21,464	31,352
Other real estate owned and other personal property owned	6,049	13,298	5,998	13,738	22,225
Total nonperforming assets	$60,891	$79,487	$33,754	$35,202	$53,577
Accruing loans past-due 90 days or more	$—	$581	$—	$—	$1,386
Forgone interest on nonperforming loans	$3,615	$2,400	$1,919	$1,287	$2,196
Interest recognized on nonperforming loans	$1,138	$971	$237	$202	$1,327
Potential problem loans	$26,613	$41,642	$31,744	$23,654	$7,846
Allowance for loan and lease losses	$83,369	$75,646	$70,043	$68,172	$69,569
Nonperforming loans to year end loans	0.65 %	0.79 %	0.45 %	0.37 %	0.58 %
Nonperforming assets to year end assets	0.46 %	0.63 %	0.35 %	0.39 %	0.62 %

At December 31, 2018, nonperforming loans decreased to 0.65% of year end loans, down from 0.79% of year end loans at December 31, 2017. The largest decrease in nonperforming loans was in commercial business loans, which decreased from $45.5 million, or 69% of nonperforming loans at December 31, 2017 to $35.5 million, or 65% of nonperforming loans at year end 2018.

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The following table summarizes activity in nonperforming loans for the period indicated:

	Years Ended December 31,	
	2018	2017
	(in thousands)	
Balance, beginning of period	$66,189	$27,756
Established through acquisitions	—	9,413
Loans placed on nonaccrual or restructured	55,384	62,450
Advances	1,285	412
Charge-offs	(9,025)	(2,182)
Loans returned to accrual status	(11,483)	(8,566)
Repayments (including interest applied to principal)	(47,036)	(23,022)
Transfers to Other Real Estate Owned/Other Personal Property Owned	(472)	(72)
Balance, end of period	$54,842	$66,189

Loans are considered impaired when based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement or when a loan has been modified in a troubled debt restructuring. A loan is classified as a troubled debt restructuring when a borrower is experiencing financial difficulties that lead to a restructuring of the loan, and the Company grants concessions to the borrower in the restructuring that it would not otherwise consider. These concessions may include interest rate reductions, principal forgiveness, extension of maturity date and other actions intended to minimize potential losses. Generally, a nonaccrual loan that is restructured remains on nonaccrual status for a period of six months to demonstrate that the borrower can meet the restructured terms. If the borrower's performance under the new terms is not reasonably assured, the loan remains classified as a nonaccrual loan.

The assessment for impairment occurs when and while such loans are designated as classified per the Company's internal risk rating system or when and while such loans are on nonaccrual. All nonaccrual loans greater than $500,000 and all troubled debt restructured loans are considered impaired and analyzed individually on a quarterly basis. Classified loans with an outstanding balance greater than $500,000 are evaluated for potential impairment on a quarterly basis. The Company's policy is to record cash receipts on impaired loans first as reductions in principal and then as interest income.

The following table summarizes impaired loan financial data at December 31, 2018 and 2017:

	December 31,	
	2018	2017
	(in thousands)	
Impaired loans	$49,104	$69,205
Impaired loans with specific allocations	$13,351	$12,848
Amount of the specific allocations	$2,132	$2,360

Impaired loans with a carrying amount of $49.1 million at December 31, 2018 were subject to specific allocations of allowance for loan and lease losses of $2.1 million and partial charge-offs of $1.6 million during the year. Collateral dependent impaired loans without specific allocations at December 31, 2018 and 2017 either had collateral which exceeded the carrying value of the loans or reflected a partial charge-off to the market value of collateral (less costs to sell), as of the most recent appraisal date. Restructured loans accruing interest totaled $15.3 million and $16.4 million at December 31, 2018 and 2017, respectively.

When a loan with unique risk characteristics has been identified as being impaired, the amount of impairment will be measured by the Company using discounted cash flows, except when it is determined that the remaining source of repayment for the loan is the operation or liquidation of the underlying collateral. In these cases, the current fair value of the collateral, reduced by costs to sell, will be used in place of discounted cash flows. As a final alternative, the observable market price of the debt may be used to assess impairment. Predominately, the Company uses the fair value of collateral approach based upon a reliable valuation.

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When a loan secured by real estate migrates to nonperforming and impaired status and it does not have a market valuation less than one year old, the Company secures an updated market valuation by a third-party appraiser that is reviewed by the Company's on-staff appraiser. Subsequently, the asset will be appraised annually by a third-party appraiser or the Company's on-staff appraiser. The evaluation may occur more frequently if management determines that there has been increased market deterioration within a specific geographical location. Upon receipt and verification of the market valuation, the Company will record the loan at the lower of cost or market (less costs to sell) by recording a charge-off to the allowance for loan and lease losses or by designating a specific reserve in accordance with accounting principles generally accepted in the United States.

For additional information on our nonperforming loans, see Note 5 to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this report.

Other Real Estate Owned and Other Personal Property Owned: As of December 31, 2018, there was $6.0 million in OREO and OPPO, which was primarily comprised of property from foreclosed real estate loans which decreased $7.3 million from $13.3 million at December 31, 2017. The decrease was primarily driven by $7.8 million in OREO sales. Properties acquired by foreclosure or deed in lieu of foreclosure are transferred to OREO and are recorded at fair value less estimated costs to sell, at the date of transfer of the property. If the carrying value exceeds the fair value at the time of the transfer, the difference is charged to the allowance for loan and lease losses. The fair value of the OREO property is based upon current appraisal. Subsequent losses that result from the ongoing periodic valuation of these properties are charged to the net cost of operation of OREO expense in the period in which they are identified. In general, improvements to the OREO are capitalized and holding costs are charged to the net cost of operation of OREO as incurred.

Potential Problem Loans: Potential problem loans are loans which are currently performing and are not on nonaccrual status, restructured or impaired, but about which there are significant doubts as to the borrower's future ability to comply with repayment terms and which may later be included in nonaccrual, past due, restructured or impaired loans. Potential problem loans totaled $26.6 million at year end 2018, compared to $41.6 million at year end 2017.

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

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.

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Analysis of the ALLL

The following table provides an analysis of our loan loss experience by loan type for the last five years:

Changes in Allowance for Loan and Lease Losses and
Unfunded Commitments and Letters of Credit

	December 31,				
	2018	2017	2016	2015	2014
	(dollars in thousands)				
Beginning balance, loans excluding PCI loans	$68,739	$59,528	$54,446	$53,233	$52,280
Beginning balance, PCI loans	6,907	10,515	13,726	16,336	20,174
Beginning balance	75,646	70,043	68,172	69,569	72,454
Charge-offs:					
Commercial business	(11,719)	(7,613)	(10,068)	(8,266)	(4,289)
Real estate:					
One-to-four family residential	—	(460)	(35)	(376)	(230)
Commercial and multifamily residential	(780)	(287)	(89)	(505)	(2,993)
Real estate construction:					
One-to-four family residential	—	(14)	(88)	—	—
Consumer	(1,194)	(1,474)	(1,238)	(2,066)	(2,774)
PCI loans	(4,862)	(6,812)	(9,944)	(13,854)	(14,436)
Total charge-offs	(18,555)	(16,660)	(21,462)	(25,067)	(24,722)
Recoveries:					
Commercial business	3,427	4,836	2,645	2,336	3,007
Real estate:					
One-to-four family residential	408	568	171	307	159
Commercial and multifamily residential	1,031	675	1,402	3,975	940
Real estate construction:					
One-to-four family residential	1,616	178	291	193	1,930
Commercial and multifamily residential	—	1	109	8	—
Consumer	1,180	1,187	933	931	1,353
PCI loans	3,847	6,187	7,004	7,329	7,721
Total recoveries	11,509	13,632	12,555	15,079	15,110
Net charge-offs	(7,046)	(3,028)	(8,907)	(9,988)	(9,612)
Provision for loan and lease losses, loans excluding PCI loans	17,050	11,614	11,049	4,676	3,850
Provision (recapture) for loan and lease losses, PCI loans	$(2,281)	$(2,983)	$(271)	$3,915	$2,877
Provision for loan and lease losses	$14,769	$8,631	$10,778	$8,591	$6,727
Ending balance, loans excluding PCI loans	$79,758	$68,739	$59,528	$54,446	$53,233
Ending balance, PCI loans	$3,611	$6,907	$10,515	$13,726	$16,336
Ending balance	$83,369	$75,646	$70,043	$68,172	$69,569
Loans outstanding at end of period (1)	$8,391,511	$8,358,657	$6,213,423	$5,815,027	$5,445,378
Average amount of loans outstanding (1)	$8,409,373	$6,682,259	$6,052,389	$5,609,261	$4,782,369
Allowance for loan and lease losses to period-end loans	0.99%	0.91%	1.13%	1.17%	1.28%
Net charge-offs to average loans outstanding	0.08%	0.05%	0.15%	0.18%	0.20%
Allowance for unfunded commitments and letters of credit					

Beginning balance	$3,130	$2,705	$2,930	$2,655	$2,505
Net changes in the allowance for unfunded commitments and letters of credit	1,200	425	(225)	275	150
Ending balance	$4,330	$3,130	$2,705	$2,930	$2,655

(1) Excludes loans held for sale.

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At December 31, 2018, our ALLL was $83.4 million, or 0.99% 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.

We have used the same methodology for ALLL calculations during 2018, 2017 and 2016. Adjustments to the percentages of the ALLL allocated to loan categories are made based on trends with respect to delinquencies and problem loans within each loan class. The Bank reviews the ALLL quantitative and qualitative methodology on a quarterly basis and makes adjustments when appropriate. We continue to make revisions to our ALLL as necessary to maintain adequate reserves. The Bank carefully monitors the loan portfolio and continues to emphasize the importance of credit quality while continuously strengthening loan monitoring systems and controls.

Allocation of the ALLL

The table below sets forth the allocation of the ALLL by loan category:

	December 31,														
	2018			2017			2016			2015			2014		
Balance at End of Period Applicable to:	Amount	% of Total Loans*		Amount	% of Total Loans*		Amount	% of Total Loans*		Amount	% of Total Loans*		Amount	% of Total Loans*	
	(dollars in thousands)														
Commercial business	$45,814	40.8	%	$31,341	40.2	%	$37,010	41.0	%	$33,620	40.5	%	$26,850	38.8	%
Real estate and construction:															
One-to-four family residential	6,678	5.4	%	5,373	4.6	%	1,584	4.7	%	1,988	5.3	%	5,338	5.3	%
Commercial and multifamily residential	20,912	48.9	%	26,862	49.9	%	17,174	46.8	%	14,738	45.4	%	16,021	45.4	%
Consumer	5,301	3.8	%	5,163	4.0	%	3,534	5.2	%	3,531	5.7	%	3,180	6.3	%
Purchase credit impaired	3,611	1.1	%	6,907	1.3	%	10,515	2.3	%	13,726	3.1	%	16,336	4.2	%
Unallocated	1,053	—	%	—	—	%	226	—	%	569	—	%	1,844	—	%
Total	$83,369	100.0	%	$75,646	100.0	%	$70,043	100.0	%	$68,172	100.0	%	$69,569	100.0	%

* Represents the total of all outstanding loans in each category as a percent of total loans outstanding.

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Deposits

The following table sets forth the composition of the Company's deposits by significant category:

	December 31,		
	2018	2017	2016
	(in thousands)		
Core deposits:			
Demand and other noninterest-bearing	$5,227,216	$5,081,901	$3,944,495
Interest-bearing demand	1,244,254	1,265,212	985,293
Money market	2,367,964	2,543,712	1,791,283
Savings	890,557	861,941	723,667
Certificates of deposit, less than $250,000	243,849	286,791	304,830
Total core deposits	9,973,840	10,039,557	7,749,568
Certificates of deposit, $250,000 or more	89,473	100,399	79,424
Certificates of deposit insured by CDARS®(1)	23,580	25,374	22,039
Brokered certificates of deposit	57,930	78,481	—
Reciprocal money market accounts (1)	313,692	289,031	208,348
Subtotal	10,458,515	10,532,842	8,059,379
Valuation adjustment resulting from acquisition accounting	(389)	(757)	36
Total deposits	$10,458,126	$10,532,085	$8,059,415

(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 EGRRCPA in May 2018, these items are no longer considered brokered deposits.

Deposits totaled $10.46 billion at December 31, 2018 compared to $10.53 billion at December 31, 2017. Core deposits, which include noninterest-bearing deposits and interest-bearing deposits, excluding time deposits of $250,000 and over, brokered deposits, and reciprocal money market accounts, provide a stable source of low cost funding. Core deposits decreased to $9.97 billion at December 31, 2018 compared with $10.04 billion at December 31, 2017. We anticipate growth in our core deposits through both the addition of new customers and our current client base.

At December 31, 2018, brokered deposits, other wholesale deposits, and reciprocal money market accounts (excluding public deposits) totaled $395.2 million or 3.8% of total deposits compared to $392.9 million or 3.7% of total deposits, at year-end 2017. The brokered certificates of deposit were assumed in our acquisition of Pacific Continental. The reciprocal money market account program, which is similar to 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. These extended deposit insurance programs are generally available only to existing customers and are not used as a means of generating additional liquidity.

At December 31, 2018, public deposits held by the Company totaled $456.6 million compared to $467.3 million at December 31, 2017. Uninsured public deposit balances decreased from $405.8 million at December 31, 2017 to $394.8 million at December 31, 2018. The Company is required to collateralize 50% of Washington state and 40% of Oregon state public deposits. For additional information regarding the collateral for these deposits, see Note 4 to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this report.

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The following table sets forth the amount outstanding of time certificates of deposit and other time deposits in amounts of $100,000 or more (which represent CDARS® accounts and brokered time deposits) by time remaining until maturity and percentage of total deposits:

	December 31, 2018			
Amounts maturing in:	Time Certificates of Deposit of $100,000 or More		Other Time Deposits of $100,000 or More	
	Amount	Percent of Total Deposits	Amount	Percent of Total Deposits
	(dollars in thousands)			
Three months or less	$74,858	0.7 %	$ 22,175	0.2 %
Over 3 through 6 months	17,495	0.2 %	14,632	0.1 %
Over 6 through 12 months	29,850	0.3 %	11,824	0.1 %
Over 12 months	37,718	0.3 %	31,930	0.4 %
Total	$159,921	1.5 %	$ 80,561	0.8 %

The following table sets forth the average amount of and the average rate paid on each significant deposit category:

	Years ended December 31,					
	2018		2017		2016	
	Average Deposits	Rate	Average Deposits	Rate	Average Deposits	Rate
	(dollars in thousands)					
Interest bearing demand	$1,256,205	0.20%	$1,031,719	0.09%	$952,135	0.07%
Money market	2,773,208	0.26%	2,158,656	0.14%	1,993,283	0.09%
Savings	885,433	0.02%	774,340	0.01%	698,687	0.01%
Certificates of deposit	452,756	0.49%	406,406	0.16%	426,296	0.12%
Total interest-bearing deposits	5,367,602	0.23%	4,371,121	0.11%	4,070,401	0.08%
Demand and other non-interest bearing	5,042,802		4,111,229		3,703,908	
Total average deposits	$10,410,404		$8,482,350		$7,774,309	

Borrowings

Borrowed funds provide an additional source of funding for loan growth. Our borrowed funds consist primarily of borrowings from the FHLB Des Moines and Federal Reserve Bank ("FRB") as well as securities repurchase agreements. FHLB and FRB borrowings are secured by our loan portfolio and investment securities. Securities repurchase agreements are secured by investment securities. For additional information on our borrowings, see Notes 11, 12, 13, and 14, to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this report.

Off-Balance Sheet Arrangements

In the normal course of business, the Company is a party to financial instruments with off-balance sheet risk. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount reflected in the Consolidated Balance Sheets.

Exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The Company evaluates each client's creditworthiness on a case-by-case basis.

Commitments to extend credit are agreements to lend to a client as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

The Company had off-balance sheet loan commitments aggregating $2.62 billion at both December 31, 2018 and 2017. Standby letters of credit were $28.3 million at December 31, 2018, a decrease from $51.3 million at December 31, 2017. In addition, there were no commitments under commercial letters of credit used to facilitate customers’ trade transactions and other off-balance sheet liabilities at December 31, 2018, while there were $159 thousand at December 31, 2017.

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Contractual Obligations & Commitments

We are party to many contractual financial obligations, including repayment of borrowings, operating and equipment lease payments, and commitments to extend credit. The table below presents certain future financial obligations of the Company:

	Payments due within time period at December 31, 2018				
	0-12 Months	1-3 Years	4-5 Years	Due after Five Years	Total
	(in thousands)				
Operating & equipment leases	$10,947	$18,495	$14,898	$18,703	$63,043
Total deposits (1)	10,335,628	95,010	23,581	3,907	10,458,126
Federal Home Loan Bank advances (1)	392,000	—	2,000	5,000	399,000
Subordinated debentures (1)	—	—	—	35,000	35,000
Other borrowings (1)	61,094	—	—	—	61,094
Total	$10,799,669	$113,505	$40,479	$62,610	$11,016,263

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(1) In the banking industry, interest-bearing obligations are principally used to fund interest-earning assets. As such, interest charges on contractual obligations were excluded from reported amounts, as the potential cash outflows would have corresponding cash inflows from interest-earning assets.

For additional information regarding future financial commitments, see Note 17 to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this report.

Liquidity and Sources of Funds

In general, our primary sources of funds are net income, loan repayments, maturities and principal payments on investment securities, customer deposits, advances from the FHLB, securities repurchase agreements and other borrowings. These funds are used to make loans, purchase investments, meet deposit withdrawals and maturing liabilities and cover operational expenses. Scheduled loan repayments and core deposits have proved to be a relatively stable source of funds while other deposit inflows and unscheduled loan prepayments are influenced by interest rate levels, competition and general economic conditions. We manage liquidity through monitoring sources and uses of funds on a daily basis and had unused credit lines with the FHLB and the FRB of $1.62 billion and $107.1 million, respectively, at December 31, 2018, that are available to us as a supplemental funding source. The holding company's sources of funds are dividends from its banking subsidiary which are used to fund dividends to shareholders and cover operating expenses.

In addition, we have a shelf registration statement on file with the SEC 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.

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Capital

Our shareholders' equity increased to $2.03 billion at December 31, 2018, from $1.95 billion at December 31, 2017. Shareholders' equity was 15.53% and 15.33% of total assets at December 31, 2018 and 2017. Dividends per common share were $1.14 and $0.88, for the years ended December 31, 2018 and 2017.

Regulatory Capital. In July 2013, the federal bank regulators approved the Capital Rules (as discussed in "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, which was completed as of January 1, 2019. We believe that, as of December 31, 2018, we and the Bank would meet all capital adequacy requirements under the Capital Rules on a fully phased-in basis as if all such requirements were then in effect.

Basel III also introduced a new capital conservation buffer, composed entirely of CET1, on top of the minimum risk-weighted asset ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets, Tier 1 to risk-weighted assets or total capital to risk-weighted assets above the minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall. The implementation of the capital conservation buffer began on January 1, 2016 at a 0.625% level and increased by 0.625% on each subsequent January 1 until reaching 2.5% on January 1, 2019. The Company and the Bank will be required to maintain such additional capital conservation buffer of 2.5% of CET1, effectively resulting in minimum ratios of (i) CET1 to risk-weighted assets of at least 7%, (ii) Tier 1 capital to risk-weighted assets of at least 8.5%, and (iii) total capital to risk-weighted assets of at least 10.5%.

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 December 31, 2018 and 2017.

The following table sets forth the Company's and the Bank's capital ratios at December 31, 2018 and 2017:

	Company		Columbia Bank		Requirements	
	2018	2017	2018	2017	Adequately Capitalized	Well-Capitalized
Common Equity Tier 1 risk-based capital ratio	12.7401%	11.7421%	12.9576%	12.0133%	4.50%	6.50%
Tier 1 risk-based capital ratio	12.7401%	11.8196%	12.9576%	12.0133%	6.00%	8.00%
Total risk-based capital ratio	13.9920%	12.9796%	13.8494%	12.8123%	8.00%	10.00%
Leverage ratio	10.2444%	10.9611%	10.4185%	10.8186%	4.00%	5.00%

Stock Repurchase Program

On November 14, 2018, as modified on January 23, 2019, the board of directors approved a stock repurchase program to repurchase up to 2.9 million shares, up to a maximum aggregate purchase price of $100.0 million.

Dividends

The following table sets forth the dividends paid per common share and the dividend payout ratio (dividends paid per common share divided by diluted earnings per share):

	Years ended December 31,		
	2018	2017	2016
Dividends paid per common share	$1.14	$0.88	$1.53
Dividend payout ratio (1)	48%	47%	85%

(1) Dividends paid per common share as a percentage of earnings per diluted common share

For additional information regarding dividends declared during 2018 and 2017, including special dividends declared, see "Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities" of this report.

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Subsequent to year end, on January 24, 2019 the Company declared a quarterly cash dividend of $0.28 per share and a special cash dividend of $0.14 payable on February 20, 2019, to shareholders of record at the close of business on February 6, 2019.

Applicable federal and Washington state regulations restrict capital distributions, including dividends, by the Company's banking subsidiary. Such restrictions are tied to the institution's capital levels after giving effect to distributions. Our ability to pay cash dividends is substantially dependent upon receipt of dividends from the Bank. In addition, the payment of cash dividends is subject to Federal regulatory requirements for capital levels and other restrictions. In this regard, current guidance from the Federal Reserve provides, among other things, that dividends per share on the Company's common stock generally should not exceed earnings per share, measured over the previous four fiscal quarters.

Reference "Item 6. Selected Financial Data" of this report for our return on average assets, return on average equity and average equity to average assets ratios for all reported periods.

Non-GAAP Financial Measures

In addition to capital ratios defined by banking regulators, the Company considers various measures when evaluating capital utilization and adequacy, including:

- Tangible common equity to tangible assets, and
- Tangible common equity to risk-weighted assets.

The Company believes these measures are useful because they reflect the level of capital available to withstand unexpected market conditions. Additionally, presentation of these measures allows readers to compare certain aspects of the Company's capitalization to other organizations. These ratios differ from capital measures defined by banking regulators principally in that the numerator excludes shareholders' equity associated with preferred securities, the nature and extent of which varies across organizations. Additionally, these measures present capital adequacy inclusive and exclusive of accumulated other comprehensive income. These calculations are intended to complement the capital ratios defined by banking regulators for both absolute and comparative purposes.

Because generally accepted accounting principles in the United States of America ("GAAP") do not include capital ratio measures, the Company believes there are no comparable GAAP financial measures to these tangible common equity ratios. The following table reconciles the Company's calculation of these measures to amounts reported under GAAP. Despite the importance of these measures to the Company, there are no standardized definitions for them 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.

	December 31,	
	2018	2017
	(dollars in thousands)	
Shareholders' equity	$2,033,649	$1,949,922
Goodwill	(765,842)	(765,842)
Other intangible assets, net	(45,937)	(58,173)
Tangible common equity (a)	1,221,870	1,125,907
Total assets	13,095,145	12,716,886
Goodwill	(765,842)	(765,842)
Other intangible assets, net	(45,937)	(58,173)
Tangible assets (b)	$12,283,366	$11,892,871
Risk-weighted assets, determined in accordance with prescribed regulatory requirements (c)	$9,838,148	$9,864,129
Ratios		
Tangible common equity to tangible assets (a)/(b)	9.95%	9.47%
Tangible common equity to risk-weighted assets (a)/(c)	12.42%	11.41%

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The Company also considers operating net interest margin (tax equivalent) to be a useful measurement as it 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 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:

	Years ended December 31,		
	2018	2017	2016
Operating net interest margin non-GAAP reconciliation:	(dollars in thousands)		
Net interest income (tax equivalent) (1)	$486,667	$380,107	$344,425
Adjustments to arrive at operating net interest income (tax equivalent):			
Incremental accretion income on FDIC purchased credit impaired loans	(1,635)	(4,107)	(5,972)
Incremental accretion income on other acquired loans	(10,921)	(8,689)	(11,983)
Premium amortization on acquired securities	7,736	6,636	7,738
Correction of immaterial error - securities premium amortization	—	1,771	—
Interest reversals on nonaccrual loans	1,564	1,766	1,072
Operating net interest income (tax equivalent) (1)	$483,411	$377,484	$335,280
Average interest earning assets	$11,241,321	$9,098,276	$8,363,309
Net interest margin (tax equivalent) (1)	4.33 %	4.18 %	4.12 %
Operating net interest margin (tax equivalent) (1)	4.30 %	4.15 %	4.01 %

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(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 $7.8 million, $12.1 million and $10.8 million for the years ended December 31, 2018, 2017 and 2016, respectively. The amount of our tax equivalent adjustment for 2018 was impacted by the lower federal corporate tax rate. As a result, for the twelve months ended December 31, 2018, our tax equivalent adjustments for tax exempt loans was lower by $4.7 million and tax exempt securities was lower by $3.3 million, than they would have been utilizing the prior federal corporate tax rate. This change in federal corporate tax rate negatively impacted our year-to-date net interest margin (tax equivalent) by 7 basis points.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Sensitivity

We are exposed to interest rate risk, which is the risk that changes in prevailing interest rates will adversely affect assets, liabilities, capital, income and expenses at different times or in different amounts. Generally, there are four sources of interest rate risk as described below:

Repricing risk—Repricing risk is the risk of adverse consequences from a change in interest rates that arises because of differences in the timing of when those interest rate changes affect an institution's assets and liabilities.

Basis risk—Basis risk is the risk of adverse consequence resulting from unequal changes in the spread between two or more rates for different instruments with the same maturity.

Yield curve risk—Yield curve risk is the risk of adverse consequence resulting from unequal changes in the spread between two or more rates for different maturities for the same instrument.

Option risk—In banking, option risks are known as borrower options to prepay loans and depositor options to make deposits, withdrawals, and early redemptions. Option risk arises whenever bank products give customers the right, but not the obligation, to alter the quantity or the timing of cash flows.

An Asset/Liability Management Committee is responsible for developing, monitoring and reviewing asset/liability processes, interest rate risk exposures, strategies and tactics and reporting to the board of directors. It is the responsibility of the board of directors to establish policies and interest rate limits and approve these policies and interest rate limits annually. It is the responsibility of management to execute the approved policies, develop and implement risk management strategies and to report to the board of directors on a regular basis. We maintain an asset/liability management policy that provides guidelines for controlling exposure to interest rate risk. The policy guidelines direct management to assess the impact of changes in interest rates upon both earnings and capital. The guidelines establish limits for interest rate risk sensitivity.

Interest Rate Risk Sensitivity

A number of measures are used to monitor and manage interest rate risk, including income simulations, interest sensitivity (gap) analysis and economic value of equity sensitivity. 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. Key assumptions in the model include prepayment speeds on loans and investment securities, decay rates on non-maturity deposits, investment security, loan, deposit and borrowing volumes and pricing. These assumptions are inherently uncertain and, as a result, the net interest income projections should be viewed as an estimate of the net interest income sensitivity at the time of the analysis. 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.

Based on the results of the simulation model as of December 31, 2018, we would expect decreases in net interest income of $7.1 million and $31.3 million in year one and year two, respectively, if interest rates gradually decrease from current rates by 100 basis points. We would expect an increase in net interest income of $6.2 million and $31.0 million in year one and year two, respectively, if interest rates gradually increase from current rates by 200 basis points.

On January 23, 2019, the Company entered into an interest rate collar derivative transaction with a $500.0 million notional based on one month LIBOR. The Company has designated this as a cash flow hedge. This transaction was entered into to minimize the decrease in net interest income if interest rates decline over the next five years.

The analysis of an institution's interest rate gap (the difference between the repricing of interest-earning assets and interest-bearing liabilities during a given period of time) is one standard tool for the measurement of the exposure to interest rate risk. We believe that because interest rate gap analysis does not address all factors that can affect earnings performance, it should be used in conjunction with other methods of evaluating interest rate risk.

The table on the following page sets forth the estimated maturity or repricing, and the resulting interest rate gap of our interest-earning assets and interest-bearing liabilities at December 31, 2018. The amounts in the table are derived from our internal data and are based upon regulatory reporting formats. Therefore, they may not be consistent with financial information appearing elsewhere herein that has been prepared in accordance with accounting principles generally accepted in the United States.

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The estimates for net interest income sensitivity and interest rate gap could be significantly affected by external factors such as changes in prepayment assumptions, early withdrawal of deposits and competition. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while other types may lag changes in market interest rates. Additionally, certain assets, such as adjustable-rate mortgages, have features that restrict changes in the interest rates of such assets both on a short-term basis and over the lives of such assets. Further, in the event of a change in market interest rates, prepayment and early withdrawal levels could deviate significantly from those assumed in calculating the tables. Finally, the ability of many borrowers to service their adjustable-rate debt may decrease in the event of a substantial increase in market interest rates.

	Estimated Maturity or Repricing				
December 31, 2018	0-3 months	4-12 months	Over 1 year through 5 years	Due after 5 years	Total
	(dollars in thousands)				
Interest-Earning Assets					
Interest-earning deposits	$17,407	$—	$—	$—	$17,407
Loans, net of deferred fees	3,082,077	986,472	3,239,351	1,083,611	8,391,511
Loans held for sale	3,849	—	—	—	3,849
Investments	218,867	368,907	1,482,294	1,123,340	3,193,408
Total interest-earning assets	$3,322,200	$1,355,379	$4,721,645	$2,206,951	11,606,175
Allowance for loan and lease losses					(83,369)
Cash and due from banks					260,180
Premises and equipment, net					168,788
Other assets					1,143,371
Total assets					$13,095,145
Interest-Bearing Liabilities					
Interest-bearing non-maturity deposits	$4,816,467	$—	$—	$—	$4,816,467
Time deposits	137,504	154,774	118,258	3,907	414,443
Subordinated debentures	—	—	35,462	—	35,462
Borrowings	453,094	—	2,000	5,523	460,617
Total interest-bearing liabilities	$5,407,065	$154,774	$155,720	$9,430	5,726,989
Other liabilities					5,334,507
Total liabilities					11,061,496
Shareholders' equity					2,033,649
Total liabilities and shareholders' equity					$13,095,145
Interest-bearing liabilities as a percent of total interest-earning assets	46.59%	1.33%	1.34%	0.08%	
Rate sensitivity gap	$(2,084,865)	$1,200,605	$4,565,925	$2,197,521	
Cumulative rate sensitivity gap	$(2,084,865)	$(884,260)	$3,681,665	$5,879,186	
Rate sensitivity gap as a percentage of interest-earning assets	(17.96)%	10.34%	39.34%	18.93%	
Cumulative rate sensitivity gap as a percentage of interest-earning assets	(17.96)%	(7.62)%	31.72%	50.66%	

Impact of Inflation and Changing Prices

The impact of inflation on our operations is increased operating costs. Unlike most industrial companies, virtually all the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates generally have a more significant impact on a financial institution's performance than the effect of general levels of inflation. Although interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services, increases in inflation generally have resulted in increased interest rates.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of Columbia Banking System, Inc.

Opinion on the Financial Statements

We have audited the accompanying Consolidated Balance Sheets of Columbia Banking System, Inc. and its subsidiaries (the “Company”) as of December 31, 2018 and 2017, the related Consolidated Statements of Income, Comprehensive Income, Changes in Shareholders’ Equity, and Cash Flows for each of the three years in the period ended December 31, 2018, and the related notes. In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 27, 2019, expressed an unqualified opinion on the Company’s internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP
February 27, 2019
Seattle, Washington

We have served as the Company’s auditor since 1997.

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COLUMBIA BANKING SYSTEM, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2018	December 31, 2017
	(in thousands)	
ASSETS		
Cash and due from banks	$260,180	$244,615
Interest-earning deposits with banks	17,407	97,918
Total cash and cash equivalents	277,587	342,533
Debt securities available for sale at fair value	3,167,448	2,737,751
Equity securities at fair value	—	5,080
Federal Home Loan Bank stock at cost	25,960	10,440
Loans held for sale	3,849	5,766
Loans, net of unearned income	8,391,511	8,358,657
Less: allowance for loan and lease losses	83,369	75,646
Loans, net	8,308,142	8,283,011
Interest receivable	45,323	40,881
Premises and equipment, net	168,788	169,490
Other real estate owned	6,019	13,298
Goodwill	765,842	765,842
Other intangible assets, net	45,937	58,173
Other assets	280,250	284,621
Total assets	$13,095,145	$12,716,886
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	$5,227,216	$5,081,901
Interest-bearing	5,230,910	5,450,184
Total deposits	10,458,126	10,532,085
Federal Home Loan Bank advances	399,523	11,579
Securities sold under agreements to repurchase	61,094	79,059
Subordinated debentures	35,462	35,647
Junior subordinated debentures	—	8,248
Other liabilities	107,291	100,346
Total liabilities	11,061,496	10,766,964
Commitments and contingent liabilities (Note 17)		
Shareholders' equity:		

	Shares December 31, 2018	Shares December 31, 2017	2018	2017
	(in thousands)			
Preferred stock (no par value)				
Authorized shares	2,000	2,000		
Common stock (no par value)				
Authorized shares	115,000	115,000		
Issued and outstanding	73,249	73,020	1,642,246	1,634,705
Retained earnings			426,708	337,442
Accumulated other comprehensive loss			(35,305)	(22,225)
Total shareholders' equity			2,033,649	1,949,922
Total liabilities and shareholders' equity			$13,095,145	$12,716,886

See accompanying Notes to Consolidated Financial Statements.

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COLUMBIA BANKING SYSTEM, INC.
CONSOLIDATED STATEMENTS OF INCOME

	Years ended December 31,		
	2018	2017	2016
	(in thousands except per share amounts)		
Interest Income			
Loans	$428,197	$324,229	$291,465
Taxable securities	55,969	38,659	35,167
Tax-exempt securities	12,201	11,045	11,121
Deposits in banks	702	813	216
Total interest income	497,069	374,746	337,969
Interest Expense			
Deposits	12,105	4,800	3,134
Federal Home Loan Bank advances	3,750	1,078	671
Subordinated debentures	1,871	304	—
Other borrowings	504	575	545
Total interest expense	18,230	6,757	4,350
Net Interest Income	478,839	367,989	333,619
Provision for loan and lease losses	14,769	8,631	10,778
Net interest income after provision for loan and lease losses	464,070	359,358	322,841
Noninterest Income			
Deposit account and treasury management fees	36,072	30,381	28,500
Card revenue	19,719	25,627	23,620
Financial services and trust revenue	12,135	11,478	11,266
Loan revenue	11,866	12,399	10,967
Merchant processing revenue	—	4,283	8,732
Bank owned life insurance	6,007	5,380	4,546
Investment securities gains (losses), net	(89)	(11)	1,181
Gain on sale of merchant card services portfolio	—	14,000	—
Change in Federal Deposit Insurance Corporation ("FDIC") loss-sharing asset	—	(447)	(2,585)
Other	2,546	6,552	1,855
Total noninterest income	88,256	109,642	88,082
Noninterest Expense			
Compensation and employee benefits	200,199	169,674	150,282
Occupancy	36,576	32,407	33,734
Merchant processing expense	—	2,196	4,330
Advertising and promotion	5,584	4,466	4,598
Data processing	20,235	18,205	16,488
Legal and professional fees	18,044	15,151	7,889
Taxes, licenses and fees	6,061	4,773	5,185
Regulatory premiums	3,710	3,183	3,777
Net cost of operation of other real estate owned	1,218	468	551
Amortization of intangibles	12,236	6,333	5,946
Other	36,627	34,161	28,362
Total noninterest expense	340,490	291,017	261,142
Income before income taxes	211,836	177,983	149,781
Income tax provision	38,954	65,155	44,915
Net Income	$172,882	$112,828	$104,866

Earnings Per Common Share			
Basic	$2.36	$1.86	$1.81
Diluted	$2.36	$1.86	$1.81
Weighted average number of common shares outstanding	72,385	59,882	57,184
Weighted average number of diluted common shares outstanding	72,390	59,888	57,193

See accompanying Notes to Consolidated Financial Statements.

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COLUMBIA BANKING SYSTEM, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years ended December 31,		
	2018	2017	2016
	(in thousands)		
Net income	$172,882	$112,828	$104,866
Other comprehensive income (loss), net of tax:			
Unrealized loss from securities:			
Net unrealized holding loss from available for sale securities arising during the period, net of tax of $4,067, $1,932 and $7,025	(13,425)	(3,391)	(12,338)
Reclassification adjustment of net gain (loss) from sale of available for sale securities included in income, net of tax of $25, ($4) and $429	(81)	7	(752)
Net unrealized loss from securities, net of reclassification adjustment	(13,506)	(3,384)	(13,090)
Pension plan liability adjustment:			
Unrecognized net actuarial gain (loss) and plan amendments during the period, net of tax of ($7), ($2,287) and $22	24	4,017	(39)
Less: amortization of unrecognized net actuarial losses included in net periodic pension cost, net of tax of ($74), ($127) and ($243)	245	223	425
Pension plan liability adjustment, net	269	4,240	386
Other comprehensive income (loss)	(13,237)	856	(12,704)
Comprehensive income	$159,645	$113,684	$92,162

See accompanying Notes to Consolidated Financial Statements.

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COLUMBIA BANKING SYSTEM, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Preferred Stock		Common Stock				
	Number of Shares	Amount	Number of Shares	Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	(in thousands, except per share amounts)						
Balance at January 1, 2016	9	$2,217	57,724	$990,281	$255,925	$ (6,295)	$1,242,128
Net income	—	—	—	—	104,866	—	104,866
Other comprehensive loss	—	—	—	—	—	(12,704)	(12,704)
Issuance of common stock - stock option and other plans	—	—	50	1,349	—	—	1,349
Issuance of common stock - restricted stock awards, net of canceled awards	—	—	306	5,009	—	—	5,009
Activity in deferred compensation plan	—	—	—	(11)	—	—	(11)
Tax benefit associated with share-based compensation	—	—	—	334	—	—	334
Purchase and retirement of common stock	—	—	(38)	(1,125)	—	—	(1,125)
Preferred dividends ($1.53 per common share equivalent)	—	—	—	—	(157)	—	(157)
Cash dividends declared on common stock ($1.53 per share)	—	—	—	—	(88,677)	—	(88,677)
Balance at December 31, 2016	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
Adjustment pursuant to adoption of ASU 2018-02				—	4,082	(4,082)	—
Net income	—	—	—	—	112,828	—	112,828
Other comprehensive income	—	—	—	—	—	856	856
Issuance of common stock - acquisition related	—	—	14,642	636,385	—	—	636,385
Issuance of common stock - stock option and other plans	—	—	49	1,980	—	—	1,980
Issuance of common stock - restricted stock awards, net of canceled awards	—	—	241	7,745	—	—	7,745
Preferred stock conversion to common stock	(9)	(2,217)	102	2,217	—	—	—
Activity in deferred compensation plan	—	—	—	1	—	—	1
Purchase and retirement of common stock	—	—	(56)	(2,299)	—	—	(2,299)
Cash settlement of acquired equity awards	—	—	—	(7,345)	—	—	(7,345)
Cash dividends declared on common stock ($0.88 per share)	—	—	—	—	(51,308)	—	(51,308)
Balance at December 31, 2017	—	$—	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	—	—	—	—	172,882	—	172,882
Other comprehensive loss	—	—	—	—	—	(13,237)	(13,237)
Issuance of common stock - stock option and other plans	—	—	46	1,857	—	—	1,857
Issuance of common stock - restricted stock awards, net of canceled awards	—	—	246	8,354	—	—	8,354
Activity in deferred compensation plan	—	—	—	7	—	—	7
Purchase and retirement of common stock	—	—	(63)	(2,677)	—	—	(2,677)
Cash dividends declared on common stock ($1.14 per share)	—	—	—	—	(83,459)	—	(83,459)
Balance at December 31, 2018	—	$—	73,249	$1,642,246	$426,708	$ (35,305)	$2,033,649

See accompanying Notes to Consolidated Financial Statements.

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COLUMBIA BANKING SYSTEM, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2018	2017	2016
	(in thousands)		
Cash Flows From Operating Activities			
Net income	$172,882	$112,828	$104,866
Adjustments to reconcile net income to net cash provided by operating activities			
Provision for loan and lease losses	14,769	8,631	10,778
Stock-based compensation expense	8,354	7,745	5,009
Depreciation, amortization and accretion	32,971	31,101	34,542
Investment securities loss (gain), net	89	11	(1,181)
Net realized loss (gain) on sale of premises and equipment and loans held for investment	316	(139)	157
Net realized loss on sale and valuation adjustments of other real estate owned	1,218	495	629
Gain on sale of merchant card services portfolio	—	(14,000)	—
Gain on bank owned life insurance death benefit	—	(4,193)	—
Termination of FDIC loss share agreements charge	—	2,409	—
Originations of loans held for sale	(133,945)	(133,460)	(110,467)
Proceeds from sales of loans held for sale	135,862	133,540	109,130
Deferred income tax expense	108	22,431	1,846
Net change in:			
Interest receivable	(4,442)	(2,980)	(2,197)
Interest payable	164	131	(93)
Other assets	2,176	(25,471)	(15,917)
Other liabilities	6,679	(10,554)	8,745
Net cash provided by operating activities	237,201	128,525	145,847
Cash Flows From Investing Activities			
Loans originated, net of principal collected	2,069	(273,927)	(402,146)
Purchases of:			
Debt securities available for sale	(965,585)	(355,607)	(569,825)
Loans held for investment	(46,969)	—	—
Premises and equipment	(11,328)	(6,495)	(4,520)
Federal Home Loan Bank stock	(197,440)	(92,040)	(59,599)
Proceeds from:			
FDIC reimbursement on loss-sharing asset	—	26	927
Sales of debt securities available for sale	32,330	30,403	124,142
Sales of equity securities	4,808	—	—
Principal repayments and maturities of securities available for sale	465,747	283,874	284,218
Sales of premises and equipment and loans held for investment	16,030	12,422	9,643
Sale of merchant card services portfolio	—	14,000	—
Redemption of Federal Home Loan Bank stock	181,920	98,924	62,081
Sales of other real estate and other personal property owned	7,261	2,590	8,158
Bank owned life insurance death benefit	5,074	10,745	—
Payment to FDIC to terminate loss-sharing agreements	—	(4,666)	—
Payments to FDIC related to loss-sharing asset	—	(210)	(1,632)
Net cash received in business combinations	—	80,472	—
Net cash used in investing activities	(506,083)	(199,489)	(548,553)

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COLUMBIA BANKING SYSTEM, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED

	Years Ended December 31,		
	2018	2017	2016
	(in thousands)		
Cash Flows From Financing Activities			
Net increase (decrease) in deposits	(73,591)	353,797	620,785
Net increase (decrease) in sweep repurchase agreements	7,035	(3,380)	(18,877)
Proceeds from:			
Exercise of stock options	1,857	1,980	1,349
Federal Home Loan Bank advances	4,936,000	2,301,000	1,392,000
Federal Reserve Bank borrowings	5,010	10	10
Payments for:			
Repayment of Federal Home Loan Bank advances	(4,548,000)	(2,397,000)	(1,454,000)
Repayment of Federal Reserve Bank borrowings	(5,010)	(10)	(10)
Preferred stock dividends	—	—	(157)
Common stock dividends	(83,440)	(51,308)	(88,677)
Repayment of junior subordinated debentures	(8,248)	(6,186)	—
Repayment of term repurchase agreement	(25,000)	—	—
Cash settlement of acquired equity awards	—	(7,345)	—
Purchase and retirement of common stock	(2,677)	(2,299)	(1,125)
Excess tax benefit from stock-based compensation	—	—	344
Net cash provided by financing activities	203,936	189,259	451,642
Increase (decrease) in cash and cash equivalents	(64,946)	118,295	48,936
Cash and cash equivalents at beginning of period	342,533	224,238	175,302
Cash and cash equivalents at end of period	$277,587	$342,533	$224,238
Supplemental Information:			
Cash paid during the year for:			
Interest	$18,066	$6,626	$4,444
Income tax	$24,067	$59,071	$32,723
Non-cash investing and financing activities			
Loans transferred to other real estate owned	$1,200	$106	$1,047
Share-based consideration issued in business combinations	$—	$636,385	$—
Premises and equipment expenditures incurred but not yet paid	$195	$—	$—
Change in dividends payable on unvested shares included in other liabilities	$19	$—	$—

See accompanying Notes to Consolidated Financial Statements.

COLUMBIA BANKING SYSTEM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2018, 2017 and 2016

1. Summary of Significant Accounting Policies and Reclassifications

Organization

Columbia Banking System, Inc. (the “Corporation,” “we,” “our,” “Columbia” or the “Company”) is the holding company for Columbia State Bank (“Columbia Bank” or the “Bank”) and Columbia Trust Company (“Columbia Trust”). The Bank provides a full range of financial services through 150 branch locations, including 74 in the State of Washington, 62 in Oregon and 14 in Idaho. Columbia Trust provides fiduciary, agency, trust and related services, and life insurance products. Because the Bank comprises substantially all of the business of the Corporation, references to the “Company” mean the Corporation, the Bank and Columbia Trust together. The Corporation is approved as a bank holding company pursuant to the Gramm-Leach-Bliley Act of 1999.

The Company’s accounting and reporting policies conform to accounting principles generally accepted in the United States of America (“GAAP”) and practices in the financial services industry. To prepare the financial statements in conformity with GAAP, management must make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and income and expenses during the reporting period. Circumstances and events that differ significantly from those underlying our estimates and assumptions could cause actual financial results to differ from our estimates. The most significant estimates included in the financial statements relate to the allowance for loan and lease losses, business combinations and goodwill impairment.

The Company has applied its accounting policies and estimation methods consistently in all periods presented in these financial statements (to the periods in which they applied).

Consolidation

The Consolidated Financial Statements of the Company include the accounts of the Corporation and its subsidiaries, including the Bank and Columbia Trust. Intercompany balances and transactions have been eliminated in consolidation.

Cash and cash equivalents

Cash and cash equivalents include cash and due from banks, and interest-bearing balances due from correspondent banks and the Federal Reserve Bank (“FRB”). Cash equivalents have a maturity of 90 days or less at the time of purchase.

Securities

Securities are classified based on management’s intention on the date of purchase. All securities are classified as available for sale and are presented at fair value. Unrealized gains or losses on securities available for sale are excluded from net income but are included as separate components of other comprehensive income, net of taxes. Purchase premiums or discounts on securities available for sale are amortized or accreted into income using the interest method over the terms of the individual securities. The Company performs a quarterly assessment to determine whether a decline in fair value below amortized cost is other-than-temporary. Amortized cost includes adjustments made to the cost of an investment for accretion, amortization, collection of cash and previous other-than-temporary impairment recognized in earnings. Other-than-temporary impairment exists when it is probable that the Company will be unable to recover the entire amortized cost basis of the security.

In performing the quarterly assessment for debt securities, management considers whether or not the Company expects to recover the entire amortized cost basis of the security. In addition, management also considers whether it is more likely than not that it will not have to sell the security before recovery of its cost basis. If the Company intends to sell a security or it is more likely than not it will be required to sell a security prior to recovery of its cost basis, the entire amount of impairment is recognized in earnings. If the Company does not intend to sell the security or it is not more likely than not it will be required to sell the security prior to recovery of its cost basis, the credit loss component of impairment is recognized in earnings and impairment associated with non-credit factors, such as market liquidity, is recognized in “Other comprehensive income (loss), net of tax.” A credit loss is the difference between the cost basis of the security and the present value of cash flows expected to be collected, discounted at the security’s effective interest rate at the date of acquisition. The cost basis of an other-than-temporarily impaired security is written down by the amount of impairment recognized in earnings. The new cost basis is not adjusted for subsequent recoveries in fair value. However, the difference between the new amortized cost basis and the cash flows expected to be collected is accreted as interest income. The total other-than-temporary impairment, if any, is presented in the Consolidated Statements of Income with a reduction for the amount of other-than-temporary impairment that is recognized in “Other Comprehensive Income,” if any.

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Realized gains or losses on sales of securities available for sale are recorded using the specific identification method.

Federal Home Loan Bank Stock

The Company holds shares of Class B stock issued by the Federal Home Loan Bank ("FHLB") of Des Moines, which has been designated as FHLB membership stock or FHLB activity based stock in accordance with the capital plan of the FHLB. Membership stock is stock we are required to purchase and hold as a condition of membership in the FHLB. The Company's membership stock purchase requirement is measured as a percentage of our year-end assets, subject to a $10 million cap. Class B stock may be redeemed, subject to certain limitations, on five years' written notice to the FHLB. Activity based stock is stock we are required to purchase and hold in order to obtain an advance or participate in FHLB mortgage programs. The Company's activity based stock purchase requirement is measured as a percentage of our advance proceeds. Our FHLB stock is carried at par value because the shares are issued, transferred, redeemed, and repurchased by the FHLB at a par value of $100. The FHLB stock is subject to recoverability testing per the Financial Services-Depository and Lending topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC").

Loans

Loans, excluding purchased credit impaired loans, are generally carried at the unpaid principal balance, net of purchase premiums, purchase discounts and net deferred loan fees. Net deferred loan fees include nonrefundable loan origination fees less direct loan origination costs. Net deferred loan fees, purchase premiums and purchase discounts are amortized into interest income using either the interest method or straight-line method over the terms of the loans, adjusted for actual prepayments. The interest method is used for all loans except revolving loans, for which the straight-line method is used. Interest income is accrued as earned. Fees related to lending activities, other than the origination or purchase of loans, are recognized as noninterest income during the period the related services are performed.

Nonaccrual loans—Loans are placed on nonaccrual status when a loan becomes contractually past due 90 days with respect to interest or principal unless the loan is both well secured and in the process of collection, or if full collection of interest or principal becomes uncertain. When a loan is placed on nonaccrual status, any accrued and unpaid interest receivable is reversed and the amortization of net deferred loan fees, premiums and discounts ceases. The interest payments received on nonaccrual loans are generally accounted for on the cost-recovery method whereby the interest payment is applied to the principal balances. Loans may be returned to accrual status when improvements in credit quality eliminate the doubt as to the full collectability of both interest and principal and a period of sustained performance has occurred.

Impaired loans—Loans are considered impaired when based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement or when a loan has been modified in a troubled debt restructuring. The assessment for impairment occurs when and while such loans are designated as classified per the Company's internal risk rating system or when and while such loans are on nonaccrual. All nonaccrual loans greater than $500,000 and all troubled debt restructured loans are considered impaired and analyzed individually on a quarterly basis. Classified loans with an outstanding balance greater than $500,000 are evaluated for potential impairment on a quarterly basis.

Restructured Loans—A loan is classified as a troubled debt restructuring when a borrower is experiencing financial difficulties that lead to a restructuring of the loan, and the Company grants concessions to the borrower in the restructuring that it would not otherwise consider. These concessions may include interest rate reductions, principal forgiveness, extension of maturity date and other actions intended to minimize potential losses. Generally, a nonaccrual loan that is restructured remains on nonaccrual status for a period of six months to demonstrate that the borrower can meet the restructured terms. If the borrower's performance under the new terms is not reasonably assured, the loan remains classified as a nonaccrual loan.

Purchased Credit Impaired Loans ("PCI Loans")—Loans acquired with evidence of credit deterioration since origination for which it is probable that all contractually required payments will not be collected are accounted for under ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality. In addition, because of the significant discounts associated with certain of the acquired loan portfolios, the Company elected to account for those certain acquired loans under ASC 310-30.

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In situations where such loans have similar risk characteristics, loans are aggregated into pools to estimate cash flows. A pool is accounted for as a single asset with a single interest rate, cumulative loss rate and cash flow expectation. Expected cash flows at the acquisition date in excess of the fair value of loans are considered to be accretable yield, which is recognized as interest income over the life of the loan pool using a level yield method if the timing and amount of the future cash flows of the pool is reasonably estimable. Subsequent to the acquisition date, any increases in cash flow over those expected at purchase date in excess of fair value are recorded as interest income prospectively. Any subsequent decreases in cash flow over those expected at purchase date due to credit deterioration are recognized by recording an allowance for losses on purchased credit impaired loans. Any disposals of loans, including sales of loans, payments in full or foreclosures result in the removal of the loan from the loan pool at the carrying amount.

Unfunded loan commitments—Unfunded commitments are generally related to providing credit facilities to clients of the Bank and are not actively traded financial instruments. These unfunded commitments are disclosed as financial instruments with off-balance sheet risk in Note 17, "Commitments and Contingent Liabilities."

Allowance for Loan and Lease Losses

The allowance for loan and lease losses (the "allowance") 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.

Loans Collectively Evaluated for Impairment—This measure of estimated credit losses is based upon the loss experience over a historical base period adjusted for a loss emergence period. The loss emergence period is an estimate of the period that it takes, on average, for us to identify the amount of loss incurred for a loan that has suffered a loss-causing event. Management then considers the effects of the following qualitative factors to ensure our allowance reflects the inherent losses in the loan portfolio:

- Economic and business conditions;
- Concentration of credit;
- Lending management and staff;
- Lending policies and procedures;
- Loss and recovery trends;
- Nature and volume of the portfolio;
- Trends in problem loans, loan delinquencies and nonaccrual loans;
- Quality of internal loan review; and
- External factors.

These qualitative factors have a high degree of subjectivity and changes in any of the factors could have a significant impact on our calculation of the allowance. The qualitative adjustment by loan segment is based upon management's assessment of inherent losses within a range between the weighted historical loss factor by segment and the maximum consecutive quarterly losses in the relevant loss emergence period by segment over the historical base period.

Loan and lease losses are charged against the allowance when management believes the collectability of a loan balance is unlikely. Subsequent recoveries, if any, are credited to the allowance.

Loans Individually Evaluated for Impairment—This measure of estimated credit losses begins if, based upon current information and events, we believe it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement or when a loan has been modified in a troubled debt restructuring. When a loan has been identified as impaired, the amount of impairment will be measured using discounted cash flows, except when it is determined that the remaining source of repayment for the loan is the operation or liquidation of the underlying collateral. In these cases, the current fair value of the collateral, reduced by costs to sell, will be used in place of discounted cash flows. As a final alternative, the observable market price of the debt may be used to assess impairment. Predominantly, the Company uses the fair value of collateral approach based upon a reliable valuation. When the measurement of the impaired loan is less than the recorded amount of the loan, an impairment is recognized by recording a charge-off to the allowance or by designating a specific reserve.

Purchased Credit Impaired Loans—The Company updates its cash flow projections for purchased credit impaired loans accounted for under ASC 310-30 on a quarterly basis. Assumptions utilized in this process include projections related to probability of default, loss severity, prepayment and recovery lag. Projections related to probability of default and prepayment are calculated utilizing a loan migration analysis. The loan migration analysis is a matrix of probability that is used to estimate the probability of a loan pool transitioning into a particular delinquency state given its delinquency state at the re-measurement 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.

Any decreases in expected cash flows after the acquisition date and subsequent measurement periods are recognized by recording a provision for loan losses. See "Purchased Credit Impaired Loans" for further discussion.

Unfunded Commitments and Letters of Credit—The allowance for unfunded commitments is maintained at a level believed by management to be sufficient to absorb estimated probable losses related to these unfunded credit facilities. The determination of the adequacy of the allowance is based on periodic evaluations of the unfunded credit facilities including an assessment of the probability of commitment usage, credit risk factors for loans outstanding to these same customers, and the terms and expiration dates of the unfunded credit facilities. The allowance for unfunded commitments is included in "Other liabilities" on the Consolidated Balance Sheets, with changes to the balance charged against noninterest expense.

Premises and Equipment

Land, buildings, leasehold improvements and equipment are stated at cost less accumulated depreciation and amortization. Gains or losses on dispositions are reflected in current operations. Expenditures for improvements and major renewals are capitalized, and ordinary maintenance, repairs and small purchases are charged to "Occupancy" in the Consolidated Statements of Income. Depreciation and amortization are computed based on the straight-line method over the estimated useful lives of the various classes of assets. The ranges of useful lives for the principal classes of assets are as follows:

Buildings and building improvements	5 to 39 years
Leasehold improvements	Term of lease or useful life, whichever is shorter
Furniture, fixtures and equipment	3 to 7 years
Vehicles	5 years
Computer software	3 to 5 years

Software

Capitalized software is stated at cost, less accumulated amortization. Amortization is computed on a straight-line basis and charged to expense over the estimated useful life of the software, which is generally three years. Capitalized software is included in "Premises and equipment, net" in the Consolidated Balance Sheets.

Other Real Estate Owned

Other real estate owned ("OREO") is composed of real estate acquired by the Company through either foreclosure or deed in lieu of foreclosure in satisfaction of debt. At acquisition, OREO is recorded at fair value less estimated costs to sell. Any fair value adjustments at 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. The fair value of the OREO is based upon a current appraisal or a letter of intent to purchase. Losses that result from the ongoing periodic valuation of these properties are charged to the net cost of operation of OREO in the period in which they are identified. Improvements to the OREO are capitalized and holding costs are charged to the net cost of operation of OREO as incurred.

Goodwill and Intangibles

Net assets of companies acquired in a business combination are recorded at fair value at the date of acquisition. Any excess of the purchase price over the fair value of net assets acquired, including identified intangible assets, is recognized as goodwill. Goodwill is reviewed for potential impairment annually, during the third quarter, or, more frequently, if events or circumstances indicate a potential impairment, at the reporting unit level. A reporting unit is an operating segment or one level below an operating segment for which discrete financial information is available and regularly reviewed by management. The Company consists of a single reporting unit. If the fair value of the reporting unit, including goodwill, is determined to be less than the carrying amount of the reporting unit, a further test is required to measure the amount of impairment. If an impairment loss exists, the carrying amount of goodwill is adjusted to a new cost basis. Subsequent reversal of a previously recognized goodwill impairment loss is prohibited.

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Identified intangible assets are amortized on an accelerated basis over the period benefited. Intangible assets are also evaluated for impairment if events and circumstances indicate a possible impairment. Such evaluation is based on undiscounted cash flow projections. At December 31, 2018, intangible assets included in the Consolidated Balance Sheets principally consisted of core deposit intangibles with an original estimated life of 10 years.

Income Taxes

The provision for income taxes includes current and deferred income tax expense on net income adjusted for temporary and permanent differences such as interest income from state and municipal securities and investments in affordable housing tax credits. Deferred tax assets and liabilities are recognized for the expected future tax consequences of existing temporary differences between the financial reporting and tax reporting basis of assets and liabilities using enacted tax laws and rates. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. On a quarterly basis, management evaluates deferred tax assets to determine if these tax benefits are expected to be realized in future periods. This determination is based on facts and circumstances, including the Company’s current and future tax outlook. To the extent a deferred tax asset is no longer considered “more likely than not” to be realized, a valuation allowance is established.

We recognize the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. We recognize interest and penalties related to unrecognized tax benefits in “Provision for income taxes” in the Consolidated Statements of Income.

Advertising

Advertising costs are generally expensed as incurred.

Earnings per Common Share

The Company’s capital structure includes common shares, restricted common share awards, common share options, and, during 2016 and a portion of 2017, convertible preferred shares. Restricted common share awards participate in dividends declared on common shares at the same rate as common shares. Convertible preferred shares participated in dividends declared on common shares on an “as if converted” basis. Restricted common share awards and convertible preferred shares are considered participating securities under the Earnings per Share topic of the FASB ASC.

The Company calculates earnings per common share (“EPS”) using the two-class method. The two-class method is an earnings allocation formula that treats a participating security as having rights to earnings that otherwise would have been available to common shareholders but does not require the presentation of basic and diluted EPS for securities other than common shares. Under the two-class method, basic EPS is computed by dividing earnings allocated to common shareholders by the weighted average number of common shares outstanding for the period. Earnings allocated to common shareholders represents net income reduced by earnings allocated to participating securities. Diluted EPS is computed in the same manner as basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if certain shares issuable upon exercise of common share options were included unless those additional shares would have been anti-dilutive. For the diluted EPS computation, the treasury stock method is applied and compared to the two-class method and whichever method results in a more dilutive impact is utilized to calculate diluted EPS.

Share-Based Payment

The Company accounts for stock options and stock awards in accordance with the Compensation—Stock Compensation topic of the FASB ASC. Authoritative guidance requires the Company to measure the cost of employee services received in exchange for an award of equity instruments, such as stock options or stock awards, based on the fair value of the award on the grant date. This cost must be recognized in the Consolidated Statements of Income over the vesting period of the award.

The Company issues restricted common share awards which generally vest over a four-year period and have full voting rights. Pursuant to our new equity incentive plan approved in 2018, for any awards issued under the new plan, the holder accrues dividends, which are paid out when the shares vest. For any awards granted prior to the new plan, the holder receives dividends whether or not the shares have vested. Restricted stock is valued at the closing price of the Company’s stock on the date of an award.

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Derivatives and Hedging Activities

In accordance with the Derivatives and Hedging topic of the FASB ASC, the Company recognizes derivatives as assets or liabilities on the Consolidated Balance Sheets at their fair value. The Company periodically enters into interest rate contracts with customers and offsetting contracts with third parties. As these interest rate contracts are not designated as hedges under the Derivatives and Hedging topic of the FASB ASC, the changes in fair value of these instruments are recognized immediately in earnings.

Accounting Pronouncements Recently Issued

In August 2018, the FASB issued Accounting Standards Update ("ASU") 2018-15, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract. The amendments in this ASU align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The amendments also require the entity to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement, including reasonably certain renewal periods. The amendments in ASU 2018-15 are effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period. The Company is assessing the impact that this guidance will have on its Consolidated Financial Statements.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The amendments in this ASU better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. To meet that objective, the amendments expand and refine hedge accounting for both nonfinancial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The amendments in this ASU also make certain targeted improvements to simplify the application of hedge accounting guidance and ease the administrative burden of hedge documentation requirements and assessing hedge effectiveness. The amendments in ASU 2017-12 are effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period. The Company will follow the amendments in this ASU for its new hedge activity as described in Note 28, "Subsequent Events."

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. The Company has engaged a third-party vendor to assist in the CECL calculation and has an internal governance framework to oversee the CECL implementation. Other significant CECL implementation matters being 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.

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. The FASB has subsequently issued ASU 2018-11, which allows for an additional (optional) transition method, and ASU 2018-20, which provides additional guidance on implementations issues for lessors. Early adoption is permitted. During 2017, the Company selected a third-party lease accounting application to assist in the implementation of this new guidance. During 2018, the Company assessed the impact to our internal controls over financial reporting and documented the new lease accounting process. The Company will adopt the new standard effective January 1, 2019 utilizing the transition method allowed under ASU 2018-11 and will not restate comparative periods. We will elect the package of practical expedients permitted under the transition guidance, which allows us to carryforward our historical lease classification and our assessment on whether a contract is or contains a lease. We will also elect to keep leases with an initial term of 12 months or less off the balance sheet. We expect the adoption of the new standard will result in an increase in other assets and an increase in other liabilities of $49.2 million and $48.2 million, respectively, on January 1, 2019. Additionally, the Company will recognize a cumulative effect adjustment upon adoption to increase the beginning balance of retained earnings by $1.0 million on January 1, 2019 for the remaining deferred gains on sale-leaseback transactions which occurred prior to the date of adoption. We do not expect a material impact to our Consolidated Statement of Income as a result of this ASU.

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 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 20, “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 year ended December 31, 2018; however, additional disclosures were incorporated in the footnotes upon adoption. See Note 27, “Revenue from Contracts with Customers,” for more information.

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.

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2. Business Combinations

Pacific Continental Corporation

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.

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 9, "Goodwill and Other Intangible Assets," for further discussion of the accounting for goodwill and other intangible assets.

The operating results of the Company reported herein include the operating results produced by the acquired assets and assumed liabilities for the period November 1, 2017 to December 31, 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 years ended December 31, 2017 and 2016. 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 for the Years Ended December 31,	
	2017	2016
	(in thousands, except per share amounts)	
Total revenues (net interest income plus noninterest income)	$571,944	$520,419
Net income	$149,859	$124,550
Earnings per share - basic	$2.23	$1.86
Earnings per share - diluted	$2.23	$1.86

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:

	Years ended December 31,		
	2018	2017	2016
	(in thousands)		
Noninterest Expense			
Compensation and employee benefits	$3,620	$8,014	$—
Occupancy	1,619	1,912	—
Advertising and promotion	537	467	—
Data processing	963	1,555	—
Legal and professional fees	1,028	4,618	291
Taxes, licenses and fees	—	10	—
Other	894	620	—
Total impact of acquisition-related costs to noninterest expense	$8,661	$17,196	$291

3. Cash and Cash Equivalents

The Company is required to maintain an average reserve balance with the FRB or maintain such reserve balance in the form of cash. The average required reserve balance for the years ended December 31, 2018 and 2017 was approximately $110.2 million and $76.5 million, respectively, and was met by holding cash and maintaining an average balance with the FRB.

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4. Securities

At December 31, 2018 the Company's securities portfolio primarily consisted of securities issued by the U.S. government, U.S. government agencies, U.S. government-sponsored enterprises and state and municipalities. All of the Company's mortgage-backed securities and collateralized mortgage obligations are issued by U.S. government agencies and U.S. government-sponsored enterprises and are implicitly guaranteed by the U.S. government. The Company had no other issuances in its portfolio which exceeded ten percent of shareholders' equity.

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
December 31, 2018	(in thousands)			
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	$2,222,521	$ 9,236	$(43,467)	$2,188,290
State and municipal securities	579,755	2,328	(7,760)	574,323
U.S. government agency and government-sponsored enterprise securities	408,088	1,235	(4,736)	404,587
U.S. government securities	251	—	(3)	248
Total	$3,210,615	$ 12,799	$(55,966)	$3,167,448
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 both gross realized gains and losses on the sales and calls of debt securities available for sale as well as other securities gains and losses for the periods indicated:

	Years Ended December 31,		
	2018	2017	2016
	(in thousands)		
Proceeds from sales and calls of debt securities available for sale	$32,330	$30,403	$124,142
Gross realized gains from sales of debt securities available for sale	$235	$111	$1,181
Gross realized losses from sales of debt securities available for sale	(129)	(122)	—
Other securities losses, net (1)	(195)	—	—
Investment securities gains (losses), net	$(89)	$(11)	$1,181

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(1) Other securities losses, net includes net unrealized loss activity associated with equity securities.

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The following table provides the unrealized gains and losses on equity securities at the reporting date:

	Year Ended December 31, 2018 (in thousands)
Net gains and losses recognized during the period on equity securities	$ 195
Less: Net gains and losses recognized during the period on equity securities sold during the period.	(195)
Unrealized gains and losses recognized during the reporting period on equity securities still held at the reporting date.	$ —

The scheduled contractual maturities of debt securities available for sale at December 31, 2018 are presented as follows:

	December 31, 2018	
	Amortized Cost	Fair Value
	(in thousands)	
Due within one year	$130,592	$130,241
Due after one year through five years	566,382	559,600
Due after five years through ten years	1,398,135	1,391,517
Due after ten years	1,115,506	1,086,090
Total debt securities available for sale	$3,210,615	$3,167,448

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:

	December 31,	
	2018	2017
	(in thousands)	
Washington and Oregon State to secure public deposits	$276,343	$245,222
Federal Reserve Bank to secure borrowings	52,303	52,917
Other securities pledged	138,492	121,244
Total securities pledged as collateral	$467,138	$419,383

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The following tables show 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 December 31, 2018 and 2017:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2018	(in thousands)					
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	$154,622	$(972)	$1,301,387	$(42,495)	$1,456,009	(43,467)
State and municipal securities	106,292	(581)	280,496	(7,179)	386,788	(7,760)
U.S. government agency and government-sponsored enterprise securities	15,392	(45)	291,435	(4,691)	306,827	(4,736)
U.S. government securities	—	—	247	(3)	247	(3)
Total	$276,306	$(1,598)	$1,873,565	$(54,368)	$2,149,871	$(55,966)
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 December 31, 2018, there were 442 U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations securities in an unrealized loss position, of which 397 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 December 31, 2018.

At December 31, 2018, there were 408 state and municipal government securities in an unrealized loss position, of which 313 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 December 31, 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 is investment grade and 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 December 31, 2018.

At December 31, 2018, there were 41 U.S. government agency and government-sponsored enterprise securities in an unrealized loss position, of which 39 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 December 31, 2018.

At December 31, 2018, there was one U.S. government security in an unrealized loss position, which was in a continuous loss position for 12 months or more. The decline in fair value is attributable to changes in interest rates relative to where this investment falls within the yield curve and its individual characteristics. Because the Company does not currently intend to sell this security nor does the Company consider it more likely than not that it will be required to sell this security before the recovery of amortized cost basis, which may be upon maturity, the Company does not consider this investment to be other-than-temporarily impaired at December 31, 2018.

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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):

	December 31, 2018			2017		
	Loans, excluding PCI loans	PCI Loans	Total	Loans, excluding PCI loans	PCI Loans	Total
	(in thousands)					
Commercial business	$3,438,422	$9,240	$3,447,662	$3,377,324	$12,628	$3,389,952
Real estate:						
One-to-four family residential	238,367	8,017	246,384	188,396	12,395	200,791
Commercial and multifamily residential	3,846,027	62,910	3,908,937	3,825,739	75,594	3,901,333
Total real estate	4,084,394	70,927	4,155,321	4,014,135	87,989	4,102,124
Real estate construction:						
One-to-four family residential	217,790	153	217,943	200,518	177	200,695
Commercial and multifamily residential	284,394	534	284,928	371,931	607	372,538
Total real estate construction	502,184	687	502,871	572,449	784	573,233
Consumer	318,945	8,906	327,851	334,190	11,269	345,459
Less: Net unearned income	(42,194)	—	(42,194)	(52,111)	—	(52,111)
Total loans, net of unearned income	8,301,751	89,760	8,391,511	8,245,987	112,670	8,358,657
Less: Allowance for loan and lease losses	(79,758)	(3,611)	(83,369)	(68,739)	(6,907)	(75,646)
Total loans, net	$8,221,993	$86,149	$8,308,142	$8,177,248	$105,763	$8,283,011
Loans held for sale	$3,849	$—	$3,849	$5,766	$—	$5,766

At December 31, 2018 and 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 $9.6 million and $10.0 million at December 31, 2018 and 2017, respectively. During 2018, advances on related party loans totaled $14 thousand and repayments on related party loans totaled $342 thousand.

At December 31, 2018 and 2017, $3.22 billion and $2.25 billion of commercial and residential real estate loans were pledged as collateral on FHLB advances. The Company has also pledged $82.0 million and $70.2 million of commercial loans to the FRB for additional borrowing capacity at December 31, 2018 and 2017, respectively.

Nonaccrual loans totaled $54.8 million and $66.2 million at December 31, 2018 and 2017, respectively. The amount of interest income foregone as a result of these loans being placed on nonaccrual status totaled $3.6 million for 2018, $2.4 million for 2017 and $1.9 million for 2016. There were no loans 90 days past due and still accruing interest as of December 31, 2018 and 2017. At December 31, 2018 and 2017, there were $2.1 million and $2.0 million, respectively, of commitments of additional funds for loans accounted for on a nonaccrual basis.

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The following is an analysis of nonaccrual loans as of December 31, 2018 and 2017:

	December 31,			
	2018		2017	
	Recorded Investment Nonaccrual Loans	Unpaid Principal Balance Nonaccrual Loans	Recorded Investment Nonaccrual Loans	Unpaid Principal Balance Nonaccrual Loans
	(in thousands)			
Commercial business:				
Secured	$35,504	$ 45,072	$45,410	$ 56,865
Unsecured	9	9	50	49
Real estate:				
One-to-four family residential	1,158	1,178	785	1,182
Commercial and multifamily residential:				
Commercial land	2,261	2,270	2,628	2,623
Income property	2,721	3,062	4,284	5,410
Owner occupied	9,922	10,300	7,029	7,270
Real estate construction:				
One-to-four family residential:				
Land and acquisition	318	318	25	26
Residential construction	—	—	1,829	1,828
Consumer	2,949	3,149	4,149	4,633
Total	$54,842	$ 65,358	$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 December 31, 2018 and 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
December 31, 2018	(in thousands)						
Commercial business:							
Secured	$3,267,709	$5,864	$3,624	$ —	$9,488	$ 35,504	$3,312,701
Unsecured	111,868	240	—	—	240	9	112,117
Real estate:							
One-to-four family residential	233,941	694	233	—	927	1,158	236,026
Commercial and multifamily residential:							
Commercial land	283,416	—	—	—	—	2,261	285,677
Income property	1,910,505	5,009	2,241	—	7,250	2,721	1,920,476
Owner occupied	1,606,085	1,744	—	—	1,744	9,922	1,617,751
Real estate construction:							
One-to-four family residential:							
Land and acquisition	4,099	—	—	—	—	318	4,417
Residential construction	212,303	93	—	—	93	—	212,396
Commercial and multifamily residential:							
Income property	194,912	—	—	—	—	—	194,912
Owner occupied	79,805	7,258	—	—	7,258	—	87,063
Consumer	314,008	1,057	201	—	1,258	2,949	318,215
Total	$8,218,651	$21,959	$6,299	$ —	$28,258	$ 54,842	$8,301,751

	Current Loans	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Nonaccrual Loans	Total Loans
December 31, 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 and 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 and 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 the impaired loans (see Note 1, "Summary of Significant Accounting Policies,") as of December 31, 2018 and 2017:

	Recorded Investment of Loans Collectively Measured for Contingency Provision	Recorded Investment of Loans Individually Measured for Specific Impairment	Impaired Loans With Recorded Allowance			Impaired Loans Without Recorded Allowance	
			Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance
December 31, 2018	(in thousands)						
Commercial business:							
Secured	$3,286,416	$ 26,285	$6,350	$8,460	$ 2,023	$19,935	$24,404
Unsecured	112,097	20	20	20	—	—	—
Real estate:							
One-to-four family residential	235,138	888	325	798	8	563	575
Commercial and multifamily residential:							
Commercial land	283,451	2,226	—	—	—	2,226	2,272
Income property	1,917,522	2,954	99	165	1	2,855	3,011
Owner occupied	1,605,042	12,709	3,231	4,666	69	9,478	9,750
Real estate construction:							
One-to-four family residential:							
Land and acquisition	4,417	—	—	—	—	—	—
Residential construction	212,396	—	—	—	—	—	—
Commercial and multifamily residential:							
Income property	194,912	—	—	—	—	—	—
Owner occupied	87,063	—	—	—	—	—	—
Consumer	314,193	4,022	3,326	3,584	31	696	704
Total	$8,252,647	$ 49,104	$13,351	$17,693	$ 2,132	$35,753	$40,716

	Recorded Investment of Loans Collectively Measured for Contingency Provision	Recorded Investment of Loans Individually Measured for Specific Impairment	Impaired Loans With Recorded Allowance			Impaired Loans Without Recorded Allowance	
			Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance
December 31, 2017	(in thousands)						
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 and 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
Commercial and 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 years ended December 31, 2018, 2017 and 2016:

	Years Ended December 31,					
	2018		2017		2016	
	Average Recorded Investment on Impaired Loans	Interest Recognized on Impaired Loans	Average Recorded Investment on Impaired Loans	Interest Recognized on Impaired Loans	Average Recorded Investment on Impaired Loans	Interest Recognized on Impaired Loans
	(in thousands)					
Commercial business						
Secured	$39,701	$ 81	$20,282	$ 60	$9,368	$ 79
Unsecured	191	2	5	—	—	—
Real estate:						
One-to-four family residential	748	42	730	49	743	10
Commercial & multifamily residential						
Commercial land	2,371	34	2,079	—	425	—
Income property	3,284	130	4,314	51	2,492	26
Owner occupied	9,730	720	5,335	445	5,084	—
Real estate construction:						
One-to-four family residential						
Land and acquisition	—	—	3	—	199	—
Residential construction	484	—	309	—	472	—
Commercial & multifamily residential						
Owner occupied	3,240	—	1,620	203	—	—
Consumer	5,712	129	5,973	163	2,710	122
Total	$65,461	$ 1,138	$40,650	$ 971	$21,493	$ 237

The following is an analysis of loans classified as troubled debt restructurings ("TDR") for the years ended December 31, 2018, 2017 and 2016:

	Years Ended December 31,								
	2018			2017			2016		
	Number of TDR Modifications	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of TDR Modifications	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of TDR Modifications	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(dollars in thousands)								
Commercial business:									
Secured	12	$ 18,379	$ 18,379	10	$ 5,655	$ 5,655	9	$ 2,131	$ 2,131
Unsecured	—	—	—	1	26	26	—	—	—
Real estate:									
One-to-four family residential	—	—	—	3	583	583	3	203	203
Commercial and multifamily residential:									
Commercial land	—	—	—	1	687	687	—	—	—
Income property	1	891	891	1	1,152	1,152	—	—	—
Owner occupied	—	—	—	1	78	78	1	250	250
Commercial and multifamily residential:									

Owner occupied	—	—	—	1	4,050	4,050	—	—	—
Consumer	21	2,777	2,777	42	5,891	5,891	41	5,095	5,093
Total	34	$ 22,047	$ 22,047	60	$ 18,122	$ 18,122	54	$ 7,679	$ 7,677

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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 Company had $2.1 million of commitments to lend additional funds on loans classified as TDR as of December 31, 2018 as compared to $506 thousand of similar commitments at December 31, 2017. 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 did not have any loans modified as TDR that defaulted within 12 months of being modified as TDR’s during the years ended December 31, 2018, 2017, and 2016.

Purchased Credit Impaired Loans (“PCI Loans”)

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

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

Inputs to the determination of expected cash flows include cumulative default and prepayment data as well as loss severity and recovery lag information. Cumulative default and prepayment data are calculated via a transition matrix. The transition matrix is a matrix of probability values that specifies the probability of a loan pool transitioning into a particular delinquency state (e.g. 0-30 days past due, 31 to 60 days, etc.) given its delinquency state at the re-measurement 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.

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

	December 31,	
	2018	2017
	(in thousands)	
Commercial business	$9,672	$13,753
Real estate:		
One-to-four family residential	9,848	14,610
Commercial and multifamily residential	66,340	79,211
Total real estate	76,188	93,821
Real estate construction:		
One-to-four family residential	153	177
Commercial and multifamily residential	507	595
Total real estate construction	660	772
Consumer	9,765	12,412
Subtotal of purchased credit impaired loans	96,285	120,758
Less:		
Valuation discount resulting from acquisition accounting	6,525	8,088
Allowance for loan losses	3,611	6,907
PCI loans, net of valuation discounts and allowance for loan losses	$86,149	$105,763

The following table shows the changes in accretable yield for acquired loans for the years ended December 31, 2018, 2017, and 2016:

	Years Ended December 31,		
	2018	2017	2016
	(in thousands)		
Balance at beginning of period	$31,176	$45,191	$58,981
Accretion	(8,194)	(12,357)	(16,266)
Disposals	(387)	(158)	(148)
Reclassifications from (to) nonaccretable difference	(646)	(1,500)	2,624
Balance at end of period	$21,949	$31,176	$45,191

The Company did not acquire any loans accounted for under ASC 310-30 during 2018 or 2017.

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

We record an 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 the allowance calculation for the years ended December 31, 2018 and 2017.

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The following tables show a detailed analysis of the allowance for loans for the years ended December 31, 2018, 2017 and 2016:

	Beginning Balance	Charge-offs	Recoveries	Provision (Recapture)	Ending Balance	Specific Reserve	General Allocation
Year Ended December 31, 2018	(in thousands)						
Commercial business:							
Secured	$29,341	$(11,560)	$3,024	$22,383	$43,188	$2,023	$41,165
Unsecured	2,000	(159)	403	382	2,626	—	2,626
Real estate:							
One-to-four family residential	701	—	408	(516)	593	8	585
Commercial and multifamily residential:							
Commercial land	4,265	—	99	(417)	3,947	—	3,947
Income property	5,672	(780)	912	(1,760)	4,044	1	4,043
Owner occupied	5,459	—	20	(946)	4,533	69	4,464
Real estate construction:							
One-to-four family residential:							
Land and acquisition	963	—	726	(1,140)	549	—	549
Residential construction	3,709	—	890	937	5,536	—	5,536
Commercial and multifamily residential:							
Income property	7,053	—	—	(1,269)	5,784	—	5,784
Owner occupied	4,413	—	—	(1,809)	2,604	—	2,604
Consumer	5,163	(1,194)	1,180	152	5,301	31	5,270
Purchased credit impaired	6,907	(4,862)	3,847	(2,281)	3,611	—	3,611
Unallocated	—	—	—	1,053	1,053	—	1,053
Total	$75,646	$(18,555)	$11,509	$14,769	$83,369	$2,132	$81,237

	Beginning Balance	Charge-offs	Recoveries	Provision (Recapture)	Ending Balance	Specific Reserve	General Allocation
Year Ended December 31, 2017	(in thousands)						
Commercial business:							
Secured	$36,050	$(7,524)	$4,283	$(3,468)	$29,341	$1,867	$27,474
Unsecured	960	(89)	553	576	2,000	3	1,997
Real estate:							
One-to-four family residential	599	(460)	568	(6)	701	103	598
Commercial and multifamily residential:							
Commercial land	1,797	—	53	2,415	4,265	—	4,265
Income property	7,342	(287)	498	(1,881)	5,672	185	5,487
Owner occupied	6,439	—	124	(1,104)	5,459	3	5,456
Real estate construction:							
One-to-four family residential:							
Land and acquisition	316	(14)	72	589	963	—	963
Residential construction	669	—	106	2,934	3,709	—	3,709
Commercial and multifamily residential:							
Income property	404	—	1	6,648	7,053	—	7,053
Owner occupied	1,192	—	—	3,221	4,413	—	4,413
Consumer	3,534	(1,474)	1,187	1,916	5,163	199	4,964

Purchased credit impaired	10,515	(6,812)	6,187	(2,983)	6,907	—	6,907
Unallocated	226	—	—	(226)	—	—	—
Total	$70,043	$(16,660)	$13,632	$8,631	$75,646	$2,360	$73,286

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Year Ended December 31, 2016	Beginning Balance	Charge-offs	Recoveries	Provision (Recapture)	Ending Balance	Specific Reserve	General Allocation
	(in thousands)						
Commercial business:							
Secured	$32,321	$(9,993)	$ 2,483	$ 11,239	$36,050	$ 664	$ 35,386
Unsecured	1,299	(75)	162	(426)	960	—	960
Real estate:							
One-to-four family residential	916	(35)	171	(453)	599	12	587
Commercial and multifamily residential:							
Commercial land	1,178	(26)	2	643	1,797	—	1,797
Income property	6,616	—	966	(240)	7,342	27	7,315
Owner occupied	5,550	(63)	434	518	6,439	—	6,439
Real estate construction:							
One-to-four family residential:							
Land and acquisition	339	(88)	57	8	316	1	315
Residential construction	733	—	234	(298)	669	—	669
Commercial and multifamily residential:							
Income property	388	—	109	(93)	404	—	404
Owner occupied	1,006	—	—	186	1,192	—	1,192
Consumer	3,531	(1,238)	933	308	3,534	57	3,477
Purchased credit impaired	13,726	(9,944)	7,004	(271)	10,515	—	10,515
Unallocated	569	—	—	(343)	226	—	226
Total	$68,172	$(21,462)	$ 12,555	$ 10,778	$70,043	$ 761	$ 69,282

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:

	Years Ended December 31,		
	2018	2017	2016
	(in thousands)		
Beginning balance	$3,130	$2,705	$2,930
Net changes in the allowance for unfunded commitments and letters of credit	1,200	425	(225)
Ending balance	$4,330	$3,130	$2,705

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 December 31, 2018 and 2017:

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
December 31, 2018	(in thousands)					
Loans, excluding PCI loans						
Commercial business:						
Secured	$3,160,910	$48,779	$ 103,007	$ 5	$ —	$3,312,701
Unsecured	112,091	21	—	5	—	112,117
Real estate:						
One-to-four family residential	234,416	—	1,610	—	—	236,026
Commercial and multifamily residential:						
Commercial land	276,348	5,082	4,247	—	—	285,677
Income property	1,876,925	36,998	6,553	—	—	1,920,476
Owner occupied	1,556,852	14,964	45,935	—	—	1,617,751
Real estate construction:						
One-to-four family residential:						
Land and acquisition	4,099	—	318	—	—	4,417
Residential construction	212,225	—	171	—	—	212,396
Commercial and multifamily residential:						
Income property	194,912	—	—	—	—	194,912
Owner occupied	87,063	—	—	—	—	87,063
Consumer	313,817	—	4,398	—	—	318,215
Total	$8,029,658	$105,844	$ 166,239	$ 10	$ —	8,301,751
Less:						
Allowance for loan losses						79,758
Loans, excluding PCI loans, net						$8,221,993

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
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 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 December 31, 2018 and 2017:

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
December 31, 2018	(in thousands)					
PCI loans:						
Commercial business:						
Secured	$8,041	$ —	$ 840	$ —	$ —	$8,881
Unsecured	692	—	99	—	—	791
Real estate:						
One-to-four family residential	9,633	—	215	—	—	9,848
Commercial and multifamily residential:						
Commercial land	10,363	—	—	—	—	10,363
Income property	19,680	—	—	—	—	19,680
Owner occupied	35,944	—	353	—	—	36,297
Real estate construction:						
One-to-four family residential:						
Land and acquisition	151	—	2	—	—	153
Residential construction	—	—	—	—	—	—
Commercial and multifamily residential:						
Income property	507	—	—	—	—	507
Owner occupied	—	—	—	—	—	—
Consumer	9,326	—	439	—	—	9,765
Total	$94,337	$ —	$ 1,948	$ —	$ —	96,285
Less:						
Valuation discount resulting from acquisition accounting						6,525
Allowance for loan losses						3,611
PCI loans, net						$86,149

	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
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

The following table sets forth activity in OREO for the periods indicated:

	Years Ended December 31,	
	2018	2017
	(in thousands)	
Balance, beginning of period	$13,298	$5,998
Established through acquisitions	—	10,279
Transfers in	1,200	106
Valuation adjustments	(698)	(364)
Proceeds from sale of OREO property	(7,261)	(2,590)
Loss on sale of OREO, net	(520)	(131)
Balance, end of period	$6,019	$13,298

At December 31, 2018, the carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession was $60 thousand and the recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process was $514 thousand.

8. Premises and Equipment

Real and personal property and software, less accumulated depreciation and amortization, were as follows:

	December 31,	
	2018	2017
	(in thousands)	
Land	$54,185	$54,510
Buildings	108,890	110,216
Leasehold improvements	27,859	24,184
Furniture and equipment	32,292	30,486
Vehicles	511	473
Computer software	19,358	20,384
Total cost	243,095	240,253
Less accumulated depreciation and amortization	(74,307)	(70,763)
Total	$168,788	$169,490

Total depreciation and amortization expense was $10.4 million, $9.8 million, and $11.8 million, for the years ended December 31, 2018, 2017, and 2016, respectively.

9. 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 and between annual tests in certain circumstances such as upon 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 Company performed its annual impairment assessment as of July 31, 2018 and concluded that there was no impairment. As of December 31, 2018, we determined there were no events or circumstances which would more likely than not reduce the fair value of our reporting unit below its carrying amount. The core deposit intangible (“CDI”) is evaluated for impairment if events and circumstances indicate a possible impairment. The CDI is amortized on an accelerated basis over an estimated life of 10 years.

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

	Years Ended December 31,		
	2018	2017	2016
	(in thousands)		
Goodwill, beginning of period	$765,842	$382,762	$382,762
Established through acquisitions (1)	—	383,080	—
Total goodwill, end of period	765,842	765,842	382,762
Other intangible assets, net			
Core deposit intangible:			
Gross core deposit intangible balance, beginning of period	105,473	58,598	58,598
Accumulated amortization, beginning of period	(48,219)	(41,886)	(35,940)
Core deposit intangible, net, beginning of period	57,254	16,712	22,658
Established through acquisition (1)	—	46,875	—
CDI current period amortization	(12,236)	(6,333)	(5,946)
Total core deposit intangible, end of period	45,018	57,254	16,712
Intangible assets not subject to amortization	919	919	919
Other intangible assets, net at end of period	45,937	58,173	17,631
Total goodwill and intangible assets, end of period	$811,779	$824,015	$400,393

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(1) See Note 2, "Business Combinations," for additional information regarding the goodwill related to the acquisition of Pacific Continental on November 1, 2017.

The following table provides the estimated future amortization expense of core deposit intangibles for the succeeding five years:

	Years Ending December 31, (in thousands)
2019	$ 10,479
2020	8,724
2021	7,264
2022	5,880
2023	4,552

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10. Deposits

Year-end deposits are summarized in the following table:

	December 31, 2018	2017
	(in thousands)	
Core deposits:		
Demand and other noninterest-bearing	$5,227,216	$5,081,901
Interest-bearing demand	1,244,254	1,265,212
Money market	2,367,964	2,543,712
Savings	890,557	861,941
Certificates of deposit, less than $250,000	243,849	286,791
Total core deposits	9,973,840	10,039,557
Certificates of deposit, $250,000 or more	89,473	100,399
Certificates of deposit insured by CDARS®(1)	23,580	25,374
Brokered certificates of deposit	57,930	78,481
Reciprocal money market accounts (1)	313,692	289,031
Subtotal	10,458,515	10,532,842
Valuation adjustment resulting from acquisition accounting	(389)	(757)
Total deposits	$10,458,126	$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.

Overdrafts of $4.0 million and $1.6 million were reclassified as loan balances at December 31, 2018 and 2017, respectively.

The following table shows the amount and maturity of time deposits:

	Years Ending December 31,
	(in thousands)
2019	$ 292,334
2020	71,405
2021	23,604
2022	12,761
2023	10,820
Thereafter	3,908
Total	$ 414,832

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11. Federal Home Loan Bank and Federal Reserve Bank Borrowings

FEDERAL HOME LOAN BANK

The Company has entered into borrowing arrangements with the FHLB of Des Moines to borrow funds under a short-term floating rate fed funds overnight advance program and fixed-term loan agreements. All borrowings are secured by stock of the FHLB and a blanket pledge of qualifying loans receivable. The Company had a borrowing capacity with the FHLB of $1.62 billion and $1.43 billion for the years ended December 31, 2018 and 2017, respectively. See Note 5, "Loans," for the carrying value of pledged loans.

At December 31, 2018, FHLB advances were scheduled to mature as follows:

	Federal Home Loan Bank Advances		
	Fixed rate advances		
	Weighted Average Rate		Amount
	(dollars in thousands)		
Within 1 year	2.64	%	$ 392,000
Over 1 through 5 years	3.85	%	2,000
Due after 10 years	5.37	%	5,000
Total			399,000
Valuation adjustment from acquisition accounting			523
Total			$ 399,523

The maximum, average outstanding and year-end balances and average interest rates on advances from the FHLB were as follows for the years ended December 31, 2018, 2017 and 2016:

	Years ended December 31,					
	2018		2017		2016	
	(dollars in thousands)					
Balance at end of period	$399,523		$11,579		$6,493	
Average balance during period	$166,563		$79,788		$79,673	
Maximum month-end balance during period	$399,523		$317,480		$250,515	
Weighted average rate during period	2.29	%	1.33	%	0.80	%
Weighted average rate at December 31	2.68	%	4.08	%	5.42	%

FEDERAL RESERVE BANK

The Company is also eligible to borrow under the FRB's primary credit program, including the Term Auction Facility auctions. All borrowings are secured by certain pledged available for sale investment securities. While the Company had no borrowings as of December 31, 2018, or at the end of each month in 2018, there were overnight borrowings resulting in average borrowings of $14 thousand for the year. The Company had no borrowings in 2017 or 2016. The Company pledges securities and loans for borrowing capacity at the FRB and had a borrowing capacity with the FRB of $107.1 million and $100.1 million for the years ended December 31, 2018 and 2017, respectively. See Note 4, "Securities," for the carrying value of pledged investment securities and Note 5, "Loans," for the carrying value of pledged loans.

12. Securities Sold Under Agreements to Repurchase

Securities Sold Under Agreements to Repurchase - Term

The Company had previously entered into wholesale repurchase agreements with certain brokers. At December 31, 2017, the Company held $25.0 million in wholesale repurchase agreements with an interest rate of 1.88%. These agreements were settled on the repurchase date of March 19, 2018.

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Securities Sold Under Agreements to Repurchase - Sweep

These sweep repurchase agreements are generally short-term agreements. These agreements are treated as financing transactions and the obligations to repurchase securities sold are reflected as a liability in the Consolidated Financial Statements. The dollar amount of securities underlying the agreements remains in the applicable asset account of the Consolidated Financial Statements. These agreements had a balance of $61.1 million and a weighted average interest rate of 1.99% at December 31, 2018. All of these repurchase agreements in existence at December 31, 2018 mature on a daily basis. Securities available for sale with a carrying amount of $75.6 million at December 31, 2018 were pledged as collateral for the sweep repurchase agreement borrowings.

13. 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 (“London Interbank Offering Rate”) plus 471.5 basis points.

14. 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 and the remaining $8.2 million of obligations were redeemed in January of 2018.

15. 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 loan. 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 December 31, 2018 and 2017 was $366.7 million and $384.7 million, respectively. Mark-to-market gains of $8 thousand for 2018 and $16 thousand for both 2017 and for 2016 were recorded to “Other” noninterest expense.

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

	Asset Derivatives				Liability Derivatives			
	2018		2017		2018		2017	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
		(in thousands)						
Interest rate contracts	Other assets	$7,033	Other assets	$ 6,707	Other liabilities	$ 7,033	Other liabilities	$ 6,714

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The Company is party to interest rate swap agreements 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 cash or 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
December 31, 2018	(in thousands)				
Assets					
Interest rate contracts	$7,033	$ —	$ 7,033	$—	$ 7,033
Liabilities					
Interest rate contracts	$7,033	$ —	$ 7,033	$(3,235)	$ 3,798
Repurchase agreements	$61,094	$ —	$ 61,094	$(61,094)	$ —
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:

	Remaining contractual maturity of the agreements				
	Overnight and continuous	Up to 30 days	30 - 90 days	Greater than 90 days	Total
December 31, 2018	(in thousands)				
Class of collateral pledged for repurchase agreements					
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	$61,094	$ —	$ —	$ —	$61,094
Gross amount of recognized liabilities for repurchase agreements					61,094
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 $61.1 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.

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16. Employee Benefit Plans

401(k) Plan

The Company maintains defined contribution and profit sharing plans in conformity with the provisions of section 401(k) of the Internal Revenue Code. The Columbia Bank 401(k) and Profit Sharing Plan (the “401(k) Plan”), permits Columbia Bank employees who are at least 18 years of age to contribute up to 75% of their eligible compensation to the 401(k) Plan starting on the first day of the month following their hire date. On a per pay period basis the Company is required to match 50% of employee contributions up to 3% of each employee’s eligible compensation. The Company contributed $3.3 million during 2018, $2.7 million during 2017, and $2.4 million during 2016, in matching funds to the 401(k) Plan. Additionally, as determined annually by the board of directors of the Company, the 401(k) Plan provides for a non-matching discretionary profit sharing contribution. The Company’s discretionary profit sharing contributions were $7.0 million during 2018, $5.7 million during 2017 and $5.1 million during 2016.

Employee Stock Purchase Plan

The Company maintains an “Employee Stock Purchase Plan” (the “ESP Plan”) in which substantially all employees of the Company are eligible to participate. The ESP Plan provides participants the opportunity to purchase common stock of the Company at a discounted price. Under the ESP Plan, participants can purchase common stock of the Company for 90% of the lowest price on either the first or last day in each of two six month look-back periods. The look-back periods are January 1st through June 30th and July 1st through December 31st of each calendar year. The 10% discount is recognized by the Company as compensation expense and does not have a material impact on net income or earnings per common share. Participants of the ESP Plan purchased 50,750 shares for $2.0 million in 2018, 38,387 shares for $1.5 million in 2017 and 50,116 shares for $1.8 million in 2016. At December 31, 2018 there were 360,357 shares available for purchase under the ESP Plan.

Supplemental Compensation Plan

The Company maintains supplemental compensation arrangements (“Unit Plans”) to provide benefits for certain employees. The Unit Plans generally vest over a 10 year period and provide a fixed annual benefit over the subsequent 10 year period. At December 31, 2018 and 2017, the liability associated with these plans was $4.2 million and $4.6 million, respectively. Expense associated with these plans for the years ended December 31, 2018, 2017 and 2016 was $337 thousand, $452 thousand and $467 thousand, respectively.

Supplemental Executive Retirement Plan

The Company maintains a supplemental executive retirement plan (the “SERP”), a nonqualified deferred compensation plan that provides retirement benefits to certain highly compensated executives. The SERP is unsecured and unfunded and there are no program assets. The SERP projected benefit obligation, which represents the vested net present value of future payments to individuals under the plan is accrued over the estimated remaining term of employment of the participants and has been determined by actuarial valuation using a discount rate of 4.30% for 2018 and 3.80% for 2017. Additional assumptions and features of the plan are a normal retirement age of 65 and a 2% annual cost of living benefit adjustment. The projected benefit obligation is included in “Other liabilities” on the Consolidated Balance Sheets.

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The following table reconciles the accumulated liability for the projected benefit obligation:

	December 31,	
	2018	2017
	(in thousands)	
Balance, beginning of year	$20,553	$26,263
Change in actuarial gain	(31)	(6,453)
Plan amendments	—	148
Benefit expense	1,701	1,600
Benefit payments	(936)	(1,005)
Balance, end of year	$21,287	$20,553

The benefits expected to be paid in conjunction with the SERP are presented in the following table:

	Years Ending December 31, (in thousands)
2019	$ 963
2020	1,971
2021	2,095
2022	1,135
2023	1,236
2024 through 2028	8,236
Total	$ 15,636

17. 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 2019 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. As of December 31, 2018, minimum future rental payments, exclusive of taxes and other charges, of these leases were:

	Years Ending December 31, (in thousands)
2019	$ 10,947
2020	9,766
2021	8,729
2022	8,102
2023	6,796
Thereafter	18,703
Total minimum payments	$ 63,043

Total rental expense on buildings and equipment, net of rental income of $1.2 million, $791 thousand and $992 thousand, was $9.6 million, $7.9 million and $8.7 million, for the years ended December 31, 2018, 2017 and 2016, respectively.

Sale-leaseback transactions: On August 11, 2017, the Company sold one of its Idaho facilities and leased back the portion of the facility utilized for branch operations. The lease term is through August 2027, with monthly payments of approximately $26 thousand. The resulting gain on sale of $509 thousand was deferred in accordance with the Leases topic of the FASB ASC and is being amortized over the life of the respective lease. At December 31, 2018, the deferred gain was $444 thousand and is included in “Other liabilities” on the Consolidated Balance Sheets.

On August 24, 2016, the Company sold one of its Washington facilities and leased back the portion of the facility utilized for branch operations. The lease term is through August 2026, with monthly payments of approximately $12 thousand. The resulting gain on sale of $742 thousand was deferred in accordance with the Leases topic of the FASB ASC and is being amortized over the life of the respective lease. At December 31, 2018, the deferred gain was $575 thousand and is included in “Other liabilities” on the Consolidated Balance Sheets.

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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.

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. At both December 31, 2018 and 2017, the Company’s loan commitments were $2.62 billion. Standby letters of credit were $28.3 million and $51.3 million at December 31, 2018 and 2017, respectively. In addition, there were no commitments under commercial letters of credit used to facilitate customers’ trade transactions and other off-balance sheet liabilities at December 31, 2018 and $159 thousand at December 31 2017.

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.

18. Shareholders’ Equity

Dividends.

The following summarizes the dividend activity for the year ended December 31, 2018:

Declared	Regular Cash Dividends Per Common Share	Special Cash Dividends Per Common Share	Record Date	Paid Date
January 25, 2018	$ 0.22	$ —	February 7, 2018	February 21, 2018
April 25, 2018	$ 0.26	$ —	May 9, 2018	May 23, 2018
July 25, 2018	$ 0.26	$ —	August 8, 2018	August 22, 2018
October 25, 2018	$ 0.26	$ 0.14	November 7, 2018	November 21, 2018

Subsequent to year end, on January 24, 2019, the Company declared a regular quarterly cash dividend of $0.28 per share and a special cash dividend of $0.14 per share payable on February 20, 2019, to shareholders of record at the close of business on February 6, 2019.

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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19. Accumulated Other Comprehensive Loss

The following table shows changes in accumulated other comprehensive income (loss) by component for the years ended December 31, 2018, 2017 and 2016:

	Unrealized Gains and Losses on Available for Sale Securities (1)	Unrealized Gains and Losses on Pension Plan Liability (1)	Total (1)
Year Ended December 31, 2018	(in thousands)		
Beginning balance	$(19,779)	$ (2,446)	$(22,225)
Adjustment pursuant to adoption of ASU 2016-01	157	—	157
Other comprehensive income (loss) before reclassifications	(13,425)	24	(13,401)
Amounts reclassified from accumulated other comprehensive loss (2)	(81)	245	164
Net current-period other comprehensive income (loss)	(13,506)	269	(13,237)
Ending balance	$(33,128)	$ (2,177)	$(35,305)
Year Ended December 31, 2017			
Beginning balance	$(12,704)	$ (6,295)	$(18,999)
Other comprehensive income (loss) before reclassifications	(3,391)	4,017	626
Amounts reclassified from accumulated other comprehensive loss (2)	7	223	230
Net current-period other comprehensive income (loss)	(3,384)	4,240	856
Adjustment pursuant to adoption of ASU 2018-02	(3,691)	(391)	(4,082)
Ending balance	$(19,779)	$ (2,446)	$(22,225)
Year Ended December 31, 2016			
Beginning balance	$386	$ (6,681)	$(6,295)
Other comprehensive loss before reclassifications	(12,338)	(39)	(12,377)
Amounts reclassified from accumulated other comprehensive loss (2)	(752)	425	(327)
Net current-period other comprehensive income (loss)	(13,090)	386	(12,704)
Ending balance	$(12,704)	$ (6,295)	$(18,999)

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

(2) See following table for details about these reclassifications.

In December 2017, the Company made an election to reclassify income tax effects related to the Tax Cuts and Jobs Act of $4.1 million from accumulated other comprehensive income to retained earnings. The Company uses the portfolio approach to account for the tax consequences of amounts reported in OCI.

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The following table shows details regarding the reclassifications from accumulated other comprehensive income for the years ended December 31, 2018, 2017 and 2016:

	Amount Reclassified from Accumulated Other Comprehensive Income			Affected line Item in the Consolidated Statement of Income
	Years Ended December 31,			
	2018	2017	2016	
	(in thousands)			
Unrealized gains and losses on available for sale debt securities	$106	$(11)	$1,181	Investment securities gains (losses), net
	106	(11)	1,181	Total before tax
	(25)	4	(429)	Income tax benefit (provision)
	$81	$(7)	$752	Net of tax
Amortization of pension plan liability actuarial losses	$(319)	$(350)	$(668)	Compensation and employee benefits
	(319)	(350)	(668)	Total before tax
	74	127	243	Income tax benefit
	$(245)	$(223)	$(425)	Net of tax

20. 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 other 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 December 31, 2018 and 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 at December 31, 2018	Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
	(in thousands)			
Assets				
Debt securities available for sale				
U.S. government agency and sponsored enterprise mortgage-back securities and collateralized mortgage obligations	$2,188,290	$ —	$ 2,188,290	$ —
State and municipal securities	574,323	—	574,323	—
U.S. government agency and government-sponsored enterprise securities	404,587	—	404,587	—
U.S. government securities	248	248	—	—
Total debt securities available for sale	$3,167,448	$ 248	$ 3,167,200	$ —
Other assets (Interest rate contracts)	$7,033	$ —	$ 7,033	$ —
Liabilities				
Other liabilities (Interest rate contracts)	$7,033	$ —	$ 7,033	$ —

	Fair value at December 31, 2017	Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
	(in thousands)			
Assets				
Debt securities available for sale				
U.S. government agency and 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 year ended December 31, 2018. During the year ended December 31, 2017, there was a transfer of $5.1 million out of Level 2 of the valuation hierarchy and a corresponding transfer into Level 1 of the valuation hierarchy related to the Company's equity securities. 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 ALLL 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 ALLL, or in the event of a write-up without previous losses charged to the ALLL, 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 table sets forth the Company's assets that were measured using fair value estimates on a nonrecurring basis during the years ended December 31, 2018 and 2017:

	Fair value at December 31, 2018	Fair Value Measurements at Reporting Date Using			Losses During the Year Ended December 31, 2018
		Level 1	Level 2	Level 3	
	(in thousands)				
Impaired loans	$11,555	$ —	$ —	$ 11,555	$ 1,821
	$11,555	$ —	$ —	$ 11,555	$ 1,821

	Fair value at December 31, 2017	Fair Value Measurements at Reporting Date Using			Losses During the Year Ended December 31, 2017
		Level 1	Level 2	Level 3	
	(in thousands)				
Impaired loans	$6,577	$ —	$ —	$ 6,577	$ 2,507
OREO	1,423	—	—	1,423	239
	$8,000	$ —	$ —	$ 8,000	$ 2,746

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 during 2018 and 2017, along with the valuation techniques used, are shown in the following tables:

	Fair value at December 31, 2018	Valuation Technique	Unobservable Input	Range (Weighted Average) (1)
	(dollars in thousands)			
Impaired loans - collateral-dependent (2)	$8,394	Fair Market Value of Collateral	Adjustment to Stated Value	0.00% - 70.04% (7.02%)
Impaired loans - other (3)	$3,161	Discounted Cash Flow	Discount Rate	0.34 %

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

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

(3) As there was only one impaired loan remeasured using discounted cash flows, a range of discounts could not be provided.

	Fair value at December 31, 2017	Valuation Technique	Unobservable Input	Range (Weighted Average) (1)
	(dollars in thousands)			
Impaired loans - collateral-dependent (3)	$3,519	Fair Market Value of Collateral	Adjustment to Stated Value	N/A (2)
Impaired loans - other	$3,058	Discounted Cash Flow	Discount Rate	3.75% - 7.75% (4.12%)
OREO	$1,423	Fair Market Value of Collateral	Adjustment to Appraisal Value	N/A (2)

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(1) Discount rate used in discounted cash flow valuation.

(2) Quantitative disclosures are not provided for collateral-dependent impaired loans and OREO because there were no adjustments made to the appraisal values or stated values during the current period.

(3) Collateral consists of real property and a government agency guarantee.

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The following tables summarize carrying amounts and estimated fair values of selected financial instruments for the periods indicated:

	December 31, 2018				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
	(in thousands)				
Assets					
Cash and due from banks	$260,180	$260,180	$260,180	$—	$ —
Interest-earning deposits with banks	17,407	17,407	17,407	—	—
Debt securities available for sale	3,167,448	3,167,448	248	3,167,200	—
Federal Home Loan Bank stock	25,960	25,960	—	25,960	—
Loans held for sale	3,849	3,849	—	3,849	—
Loans	8,308,142	8,316,946	—	—	8,316,946
Interest rate contracts	7,033	7,033	—	7,033	—
Liabilities					
Time deposits	$414,443	$407,659	$—	$407,659	$ —
Federal Home Loan Bank advances	399,523	400,085	—	400,085	—
Repurchase agreements	61,094	61,094	—	61,094	—
Subordinated debentures	35,462	34,897	—	34,897	—
Interest rate contracts	7,033	7,033	—	7,033	—

	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	—	—
Federal Home Loan Bank 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					
Time deposits	$490,288	$483,095	$—	$483,095	$ —
Federal Home Loan Bank 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	—

21. 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.

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The following table sets forth the computation of basic and diluted earnings per share for the periods indicated:

	Years Ended December 31,		
	2018	2017	2016
	(in thousands except per share amounts)		
Basic EPS:			
Net income	$172,882	$112,828	$104,866
Less: Earnings allocated to participating securities			
Preferred shares	—	3	185
Nonvested restricted shares	1,892	1,501	1,371
Earnings allocated to common shareholders	$170,990	$111,324	$103,310
Weighted average common shares outstanding	72,385	59,882	57,184
Basic earnings per common share	$2.36	$1.86	$1.81
Diluted EPS:			
Earnings allocated to common shareholders	$170,990	$111,324	$103,310
Weighted average common shares outstanding	72,385	59,882	57,184
Dilutive effect of equity awards and warrants	5	6	9
Weighted average diluted common shares outstanding	72,390	59,888	57,193
Diluted earnings per common share	$2.36	$1.86	$1.81
Potentially dilutive share options that were not included in the computation of diluted EPS because to do so would be anti-dilutive	4	13	19

22. Share-Based Payments

At December 31, 2018, the Company had one equity compensation plan (the “Plan”), which is shareholder approved, that provides for the granting of share options and shares to eligible employees and directors up to 3,050,000 shares.

Share Awards: Restricted share awards provide for the immediate issuance of shares of Company common stock to the recipient, with such shares held in escrow until certain service conditions are met, generally four years of continual service. Recipients of restricted shares do not pay any cash consideration to the Company for the shares and the holders of the restricted shares have voting rights. For share awards issued under our new equity incentive plan approved in 2018, the holder accrues dividends, which are paid out when the shares vest. For any awards granted prior to the new plan, the holder receives dividends whether or not the shares have vested. The fair value of share awards is equal to the fair market value of the Company’s common stock on the date of grant.

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A summary of changes in the Company's nonvested shares and related information for the years ended December 31, 2018, 2017 and 2016 is presented below:

	Shares	Weighted Average Grant-Date Fair Value
Nonvested at January 1, 2016	665,702	$ 25.80
Granted	335,593	$ 28.40
Vested	(153,235)	$ 23.80
Forfeited	(29,305)	$ 27.13
Nonvested at December 31, 2016	818,755	$ 27.19
Granted	337,384	$ 38.51
Vested	(253,509)	$ 25.67
Forfeited	(96,924)	$ 28.97
Nonvested at December 31, 2017	805,706	$ 32.23
Granted	306,592	$ 41.47
Vested	(237,146)	$ 28.78
Forfeited	(61,012)	$ 35.92
Nonvested at December 31, 2018	814,140	$ 36.43

As of December 31, 2018, there was $20.5 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted average period of 2.3 years. The total fair value, as measured on the date of vesting, of shares vested during the years ended December 31, 2018, 2017, and 2016 was $6.7 million, $6.5 million, and $3.6 million, respectively.

Share Options: Option awards are generally granted with an exercise price equal to the market price of the Company's stock at the date of grant; those option awards generally vest based on three years of continual service and are exercisable for a five-year period after vesting. Option awards granted have a 10-year maximum term.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model. The fair value of all options is amortized on a straight-line basis over the requisite service periods, which are generally the vesting periods. The expected life of options granted represents the period of time that they are expected to be outstanding. The expected life is determined based on historical experience with similar awards, giving consideration to the contractual terms and vesting schedules. Expected volatilities of our common stock are estimated at the date of grant based on the historical volatility of the stock. The volatility factor is based on historical stock prices over the most recent period commensurate with the estimated expected life of the award. The risk-free interest rate is based on the U.S. Treasury curve in effect at the time of the award. The expected dividend yield is based on dividend trends and the market value of the Company's stock price at the time of the award.

A summary of option activity under the Plan as of December 31, 2018, and changes during the year then ended is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value ($000)
Balance at December 31, 2017	18,326	$ 38.88		
Expired	(11,700)	$ 54.63		
Exercised	(1,112)	$ 16.84		
Balance at December 31, 2018	5,514	$ 9.91	0.3	$ 145
Vested or expected to vest at December 31, 2018	5,514	$ 9.91	0.3	$ 145
Total Exercisable at December 31, 2018	5,514	$ 9.91	0.3	$ 145

The total intrinsic value of options exercised during the years ended December 31, 2018, 2017, and 2016 was $29 thousand, $67 thousand, and $232 thousand, respectively. There were no options granted during the years ended December 31, 2018, 2017, and 2016. There were no options that vested during the years ended December 2018, 2017, and 2016.

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As of December 31, 2018, outstanding stock options consist of the following:

Ranges of Exercise Prices	Number of Option Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price of Option Shares	Number of Exercisable Option Shares	Weighted Average Exercise Price of Exercisable Option Shares
$0.00 - $9.99	5,514	0.3	$ 9.91	5,514	$ 9.91

It is the Company's policy to issue new shares for share option exercises and share awards. The Company expenses awards of share options and shares on a straight-line basis over the related vesting term of the award. For the years ended December 31, 2018, 2017 and 2016, the Company recognized pre-tax share-based compensation expense of $8.4 million, $7.7 million and $5.0 million, respectively.

23. Income Tax

The components of income tax expense are as follows:

	Years Ended December 31,		
	2018	2017	2016
	(in thousands)		
Current expense			
Federal	$33,400	$39,708	$41,365
State	5,446	3,016	1,704
Total current tax expense	$38,846	$42,724	$43,069
Deferred tax expense (benefit)			
Federal	$(291)	$21,524	$550
State	399	907	1,296
Total deferred tax expense	108	22,431	1,846
Total	$38,954	$65,155	$44,915

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Significant components of the Company’s deferred tax assets and liabilities are as follows:

	December 31,	
	2018	2017
	(in thousands)	
Deferred tax assets:		
Allowance for loan and lease losses	$20,578	$18,315
Deferred compensation	9,501	9,539
Stock options and restricted stock	1,850	1,438
OREO	288	521
Nonaccrual interest	446	163
Unrealized loss on investment securities	10,129	5,992
Net operating losses and credit carryforwards	5,356	7,259
Other	733	985
Total deferred tax assets	48,881	44,212
Deferred tax liabilities:		
Asset purchase tax basis difference	(7,229)	(5,709)
Federal Home Loan Bank stock dividends	(790)	(782)
Deferred loan fees	(4,399)	(4,505)
Purchase accounting	(9,245)	(9,088)
Depreciation	(2,609)	(1,581)
Other	(195)	(2,036)
Total deferred tax liabilities	(24,467)	(23,701)
Net deferred tax asset	$24,414	$20,511

A reconciliation of the Company’s effective income tax rate with the federal statutory tax rate is as follows:

	Years Ended December 31,					
	2018		2017		2016	
	Amount	Percent	Amount	Percent	Amount	Percent
	(dollars in thousands)					
Income tax based on statutory rate	$44,485	21 %	$62,262	35 %	$52,424	35 %
Increase (decrease) resulting from:						
Tax exempt instruments	(6,423)	(3)%	(8,485)	(5)%	(7,433)	(5)%
Bank owned life insurance	(1,261)	(1)%	(3,351)	(2)%	(1,680)	(1)%
Acquisition costs	—	— %	825	1 %	—	— %
Deferred tax asset revaluation	—	— %	12,210	7 %	—	— %
State income tax, net of federal benefit	4,931	2 %	2,550	1 %	1,950	1 %
Other, net	(2,778)	(1)%	(856)	— %	(346)	— %
Income tax provision	$38,954	18 %	$65,155	37 %	$44,915	30 %

As of December 31, 2018 and 2017, we had no unrecognized tax benefits. Our policy is to recognize interest and penalties on unrecognized tax benefits in “Provision for income taxes” in the Consolidated Statements of Income. There were no amounts related to interest and penalties recognized for the years ended December 31, 2018 and 2017. As a result of recent acquisitions, the Company has net operating loss carryforwards in the federal, Idaho and Oregon jurisdictions of $20.2 million, $18.7 million and $132 thousand, respectively, which begin to expire in 2024, and no federal credit carryforwards.

The Tax Cuts and Jobs Act was signed into law on December 22, 2017. The law included significant changes to the U.S. corporate tax system, including a Federal corporate rate reduction from 35% to 21%. In 2017, the Company applied the newly enacted corporate federal income tax rate of 21% resulting in a $12.2 million increase in tax expense from the re-measurement of its net deferred tax assets.

24. Regulatory Capital Requirements

The Company (on a consolidated basis) and its banking subsidiary are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company and its banking subsidiary's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and its banking subsidiary must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Basel III capital requirements became effective on January 1, 2015. The capital requirements, among other things (i) specify that Tier 1 capital consists of "Common Equity Tier 1," or CET1, and "Additional Tier 1 capital" instruments meeting specified requirements, (ii) define CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iii) expand the scope of the deductions/adjustments to capital as compared to existing regulations. Under the requirements that are now effective, the minimum capital ratios are (i) 4.5% CET1 to risk-weighted assets, (ii) 6% Tier 1 capital to risk-weighted assets, (iii) 8% total capital to risk-weighted assets and (iv) 4% Tier 1 capital to average total assets (Tier 1 leverage). The Company and the Bank have made the one-time election to opt-out of including accumulated other comprehensive income items in regulatory capital calculations.

The Capital Rules also require a capital conservation buffer designed to absorb losses during periods of economic stress. The capital conservation buffer is composed entirely of CET1, on top of these minimum risk-weighted asset ratios. In addition, the Capital Rules provide for a countercyclical capital buffer applicable only to certain covered institutions. We do not expect the countercyclical capital buffer to be applicable to us or the Bank. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and was fully phased in over a three-year period (increasing by 0.625% on each subsequent January 1, until it reached 2.5% on January 1, 2019). As a result, the Company and the Bank are now required to maintain such additional capital conservation buffer of 2.5% of CET1, effectively resulting in minimum ratios of (i) 7% CET1 to risk-weighted assets, (ii) 8.5% Tier 1 capital to risk-weighted assets, and (iii) 10.5% total capital to risk-weighted assets. At December 31, 2018, the capital conservation buffer for the Company and the Bank was 5.9920% and 5.8494%, respectively. As of December 31, 2018, we and the Bank met all capital adequacy requirements under the 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. To qualify as "well-capitalized," banks must have a CET1 risk-adjusted capital ratio of 6.5%, a Tier I risk-adjusted capital ratio of at least 8%, a total risk-adjusted capital ratio of at least 10% and a leverage ratio of at least 5%. Failure to qualify as "well-capitalized" can negatively impact a bank's ability to expand and to engage in certain activities.

As of December 31, 2018, the most recent notification from the Federal Deposit Insurance Corporation categorized Columbia Bank as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well- capitalized, an institution must maintain minimum CET1 risk-based, Tier 1 risk-based, total risk-based and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since the notification that management believes have changed Columbia Bank's category.

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The Company and its banking subsidiary's actual capital amounts and ratios as of December 31, 2018 and 2017 are presented in the following table:

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required Plus Capital Conservation Buffer Phase-In		Minimum Required Plus Capital Conservation Buffer Fully Phased-In		To Be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(dollars in thousands)									
December 31, 2018										
CET1 Capital (to risk-weighted assets):										
The Company	$1,253,394	12.7401%	$442,717	4.50%	$627,182	6.38%	$688,670	7.00 %	N/A	N/A
Columbia Bank	$1,274,317	12.9576%	$442,552	4.50%	$626,948	6.38%	$688,414	7.00 %	$639,241	6.50 %
Tier 1 Capital (to risk-weighted assets):										
The Company	$1,253,394	12.7401%	$590,289	6.00%	$774,754	7.88%	$836,243	8.50 %	N/A	N/A
Columbia Bank	$1,274,317	12.9576%	$590,069	6.00%	$774,465	7.88%	$835,931	8.50 %	$786,759	8.00 %
Total Capital (to risk-weighted assets):										
The Company	$1,376,555	13.9920%	$787,052	8.00%	$971,517	9.88%	$1,033,006	10.50%	N/A	N/A
Columbia Bank	$1,362,016	13.8494%	$786,759	8.00%	$971,155	9.88%	$1,032,621	10.50%	$983,448	10.00%
Tier 1 Capital Leverage (to average assets):										
The Company	$1,253,394	10.2444%	$489,399	4.00%	$489,399	4.00%	$489,399	4.00 %	N/A	N/A
Columbia Bank	$1,274,317	10.4185%	$489,254	4.00%	$489,254	4.00%	$489,254	4.00 %	$611,567	5.00 %
December 31, 2017										
CET1 Capital (to risk-weighted assets):										
The Company	$1,158,252	11.7421%	$443,886	4.50%	$567,187	5.75%	$690,489	7.00 %	N/A	N/A
Columbia Bank	$1,184,476	12.0133%	$443,687	4.50%	$566,933	5.75%	$690,180	7.00 %	$640,881	6.50 %
Tier 1 Capital (to risk-weighted assets):										
The Company	$1,165,903	11.8196%	$591,848	6.00%	$715,149	7.25%	$838,451	8.50 %	N/A	N/A
Columbia Bank	$1,184,476	12.0133%	$591,582	6.00%	$714,829	7.25%	$838,075	8.50 %	$788,777	8.00 %

Total Capital (to risk-weighted assets):										
The Company	$1,280,326	12.9796%	$789,130	8.00%	$912,432	9.25%	$1,035,734	10.50%	N/A	N/A
Columbia Bank	$1,263,252	12.8123%	$788,777	8.00%	$912,023	9.25%	$1,035,269	10.50%	$985,971	10.00%
Tier 1 Capital Leverage (to average assets):										
The Company	$1,165,903	10.9611%	$425,469	4.00%	$425,469	4.00%	$425,469	4.00 %	N/A	N/A
Columbia Bank	$1,184,476	10.8186%	$437,939	4.00%	$437,939	4.00%	$437,939	4.00 %	$547,423	5.00 %

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25. Parent Company Financial Information

Condensed Balance Sheets—Parent Company Only

	December 31,	
	2018	2017
	(in thousands)	
Assets		
Cash and due from banking subsidiary	$945	$533
Interest-earning deposits	7,226	8,765
Total cash and cash equivalents	8,171	9,298
Investment in banking subsidiary	2,049,855	1,971,788
Investment in other subsidiaries	5,312	5,157
Goodwill	4,729	4,729
Other assets	1,595	3,426
Total assets	$2,069,662	$1,994,398
Liabilities and Shareholders' Equity		
Subordinated debentures	$35,462	$35,647
Junior subordinated debentures	—	8,248
Other liabilities	551	581
Total liabilities	36,013	44,476
Shareholders' equity	2,033,649	1,949,922
Total liabilities and shareholders' equity	$2,069,662	$1,994,398

Condensed Statements of Income—Parent Company Only

	Years Ended December 31,		
	2018	2017	2016
	(in thousands)		
Income			
Dividend from banking subsidiary	$85,250	$66,800	$83,500
Interest-earning deposits	12	2	4
Other income	56	8	8
Total income	85,318	66,810	83,512
Expense			
Compensation and employee benefits	978	732	543
Subordinated debentures interest expense	1,871	304	—
Other borrowings interest expense	4	60	—
Other expense	2,058	3,090	1,608
Total expenses	4,911	4,186	2,151
Income before income tax benefit and equity in undistributed earnings of subsidiaries	80,407	62,624	81,361
Income tax benefit	(1,017)	(548)	(748)
Income before equity in undistributed earnings of subsidiaries	81,424	63,172	82,109
Equity in undistributed earnings of subsidiaries	91,458	49,656	22,757
Net income	$172,882	$112,828	$104,866

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Condensed Statements of Cash Flows—Parent Company Only

	Years Ended December 31,		
	2018	2017	2016
	(in thousands)		
Operating Activities			
Net income	$172,882	$112,828	$104,866
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiaries	(91,458)	(49,656)	(22,757)
Stock-based compensation expense	8,354	7,745	5,009
Net changes in other assets and liabilities	1,622	1,672	(394)
Net cash provided by operating activities	91,400	72,589	86,724
Investing Activities			
Net cash paid in business combinations	—	(580)	—
Net cash provided by investing activities	—	(580)	—
Financing Activities			
Preferred stock dividends	—	—	(157)
Common stock dividends	(83,459)	(51,308)	(88,677)
Repayment of junior subordinated debentures	(8,248)	(6,186)	—
Cash settlement of acquired equity awards	—	(7,345)	—
Purchase and retirement of common stock	(2,677)	(2,299)	(1,125)
Proceeds from exercise of stock options	1,857	1,980	1,349
Excess tax benefit associated with share-based compensation	—	—	344
Net cash used in financing activities	(92,527)	(65,158)	(88,266)
Increase (decrease) in cash and cash equivalents	(1,127)	6,851	(1,542)
Cash and cash equivalents at beginning of year	9,298	2,447	3,989
Cash and cash equivalents at end of year	$8,171	$9,298	$2,447
Supplemental disclosure of noncash investing and financing activities			
Share-based consideration issued in business combinations	$—	$636,385	$—

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26. Summary of Quarterly Financial Information (Unaudited)

Quarterly financial information for the years ended December 31, 2018 and 2017 is summarized as follows:

	Fourth Quarter (1)	Third Quarter (2)	Second Quarter	First Quarter	Year Ended December 31,
	(in thousands, except per share amounts)				
2018					
Total interest income	$129,801	$127,575	$120,549	$119,144	$ 497,069
Total interest expense	5,913	4,779	3,875	3,663	18,230
Net interest income	123,888	122,796	116,674	115,481	478,839
Provision for loan and lease losses	1,789	3,153	3,975	5,852	14,769
Noninterest income	20,402	21,019	23,692	23,143	88,256
Noninterest expense	87,019	82,841	84,643	85,987	340,490
Income before income taxes	55,482	57,821	51,748	46,785	211,836
Provision for income taxes	10,734	11,406	9,999	6,815	38,954
Net income	$44,748	$46,415	$41,749	$39,970	$ 172,882
Per common share (3)					
Earnings (basic)	$0.61	$0.63	$0.57	$0.55	$ 2.36
Earnings (diluted)	$0.61	$0.63	$0.57	$0.55	$ 2.36
2017					
Total interest income	$108,841	$90,303	$87,786	$87,816	$ 374,746
Total interest expense	2,617	1,374	1,625	1,141	6,757
Net interest income	106,224	88,929	86,161	86,675	367,989
Provision (recapture) for loan and lease losses	3,327	(648)	3,177	2,775	8,631
Noninterest income	23,581	37,067	24,135	24,859	109,642
Noninterest expense	85,627	67,537	68,867	68,986	291,017
Income before income taxes	40,851	59,107	38,252	39,773	177,983
Provision for income taxes	25,123	18,338	11,120	10,574	65,155
Net income	$15,728	$40,769	$27,132	$29,199	$ 112,828
Per common share (3)					
Earnings (basic)	$0.23	$0.70	$0.47	$0.50	$ 1.86
Earnings (diluted)	$0.23	$0.70	$0.47	$0.50	$ 1.86

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(1) During the fourth quarter of 2017, Columbia acquired Pacific Continental and also recorded a charge through provision for income taxes related to the re-measurement of our deferred tax assets pursuant to the newly enacted Tax Cuts and Jobs Act. See Note 2, "Business Combinations," for further information regarding this acquisition. See Note 23, "Income Tax," for further information regarding the re-measurement of our deferred tax assets.

(2) During the third quarter of 2017, Columbia sold its merchant card services portfolio.

(3) Due to averaging of shares, quarterly earnings per share may not add up to the totals reported for the full year.

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27. 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 outside the 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.

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.

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The following table shows the disaggregation of revenue from contracts with customers for the period indicated:

	Year Ended December 31, 2018 (dollars in thousands)
Noninterest income:	
Revenue from contracts with customers:	
Deposit account and treasury management fees	$ 36,072
Card revenue	19,719
Financial services and trust revenue	12,135
Total revenue from contracts with customers	67,926
Other sources of noninterest income	20,330
Total noninterest income	$ 88,256

28. Subsequent Events

On January 23, 2019, as part of its interest rate sensitivity management, the Company entered into an interest rate collar derivative transaction with a $500.0 million notional based on 1 month LIBOR. The Company has designated this as a cash flow hedge transaction.

On November 14, 2018, as modified on January 23, 2019, the board of directors approved a stock repurchase program to repurchase up to 2.9 million shares, up to a maximum aggregate purchase price of $100.0 million.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. 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 Security Exchange Commission’s rules and forms.

Internal Control Over Financial Reporting

Management’s Annual Report On Internal Control Over Financial Reporting

The Company’s management is responsible for establishing and maintaining adequate internal control over financial reporting. The internal control system has been designed to provide reasonable assurance to the Company’s management and board of directors regarding the preparation and fair presentation of the Company’s published financial statements. Internal control over financial reporting includes maintaining records that in reasonable detail accurately and fairly reflect the Company’s transactions; providing reasonable assurance that transactions are recorded as necessary for preparation of the Company’s financial statements; providing reasonable assurance that receipts and expenditures are made in accordance with management authorization; and providing reasonable assurance that unauthorized acquisition, use or disposition of company assets that could have a material effect on the Company’s financial statements would be prevented or detected on a timely basis. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of the Company’s financial statements would be prevented or detected.

The Company’s management assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2018. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in Internal Control-Integrated Framework (2013). Based on such evaluation, management has concluded that the Company’s internal control over financial reporting is effective as of December 31, 2018. There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during our most recently completed fiscal quarter that materially affected or are reasonably likely to materially affect internal control over financial reporting.

Our independent registered public accounting firm has issued an attestation report on our internal control over financial reporting, which appears in this annual report on Form 10-K.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of Columbia Banking System, Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Columbia Banking System, Inc. and its subsidiaries (the “Company”) as of December 31, 2018, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Because management’s assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), management’s assessment and our audit of the Company’s internal control over financial reporting included controls over the preparation of the schedules equivalent to the basic financial statements in accordance with the instructions for the Federal Financial Institutions Examination Council Instructions for Consolidated Reports of Condition and Income for Schedules RC, RI, and RI-A. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO. We have not examined and, accordingly, we do not express an opinion or any other form of assurance on management’s statement referring to compliance with laws and regulations.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2018 of the Company and our report dated February 27, 2019, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP
February 27, 2019
Seattle, Washington

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ITEM 9B. OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information regarding “Directors, Executive Officers and Corporate Governance” will be set forth in the Company’s 2019 Annual Proxy Statement (the “Proxy Statement”), which will be filed with the SEC within 120 days of the end of our 2018 fiscal year and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

Information regarding “Executive Compensation” will be set forth in the Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information regarding “Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters” will be set forth in the Proxy Statement and is incorporated herein by reference. Information relating to securities authorized for issuance under the Company’s equity compensation plans is included in Part II of this Annual Report on Form 10-K under “Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.”

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information regarding “Certain Relationships and Related Transactions, and Director Independence” will be set forth in the Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information regarding “Principal Accounting Fees and Services” will be set forth in the Proxy Statement and is incorporated herein by reference.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements:

The Consolidated Financial Statements and related documents set forth in "Item 8. Financial Statements and Supplementary Data" of this report are filed as part of this report.

(2) Financial Statements Schedules:

All other schedules to the Consolidated Financial Statements required by Regulation S-X are omitted because they are not applicable, not material or because the information is included in the Consolidated Financial Statements and related notes in "Item 8. Financial Statements and Supplementary Data" of this report.

(3) Exhibits:

The response to this portion of Item 15 is submitted as a separate section of this report appearing immediately following the signature page and entitled "Index to Exhibits."

ITEM 16. FORM 10-K SUMMARY

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 27th day of February 2019.

COLUMBIA BANKING
SYSTEM, INC.
(Registrant)

By: /s/ HADLEY S. ROBBINS
Hadley S. Robbins
President and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated, on the 27th day of February 2019.

Principal Executive Officer:

By: /s/ HADLEY S. ROBBINS
Hadley S. Robbins
President and
Chief Executive Officer

Principal Financial Officer:

By: /s/ GREGORY A. SIGRIST
Gregory A. Sigrist
Executive Vice President and
Chief Financial Officer

Principal Accounting Officer:

By: /s/ BROCK M. LAKELY
Brock M. Lakely
Senior Vice President and
Chief Accounting Officer

Hadley S. Robbins, pursuant to a power of attorney that is being filed with the Annual Report on Form 10-K, has signed this report on February 27, 2019 as attorney in fact for the following directors who constitute a majority of the board of directors.

[David A. Dietzler]	[Michelle M. Lantow]
[Craig D. Eerkes]	[Randal L. Lund]
[Ford Elsaesser]	[S. Mae Fujita Numata]
[Mark A. Finkelstein]	[Elizabeth W. Seaton]
[John P. Folsom]	[Janine T. Terrano]
[Eric S. Forrest]	[William T. Weyerhaeuser]
[Thomas M. Hulbert]	

/s/ HADLEY S. ROBBINS
Hadley S. Robbins
Attorney-in-fact

February 27, 2019

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INDEX TO EXHIBITS

Exhibit No.	Exhibit
2.1 *	Agreement and Plan of Merger, by and among Columbia Banking System, Inc., Pacific Continental Corporation and Coast Merger Sub, Inc., dated January 9 2017 (1)
3.1	Amended and Restated Articles of Incorporation (2)
3.2	Articles of Amendment of the Amended and Restated Articles of Incorporation (3)
3.3	Articles of Amendment of the Amended and Restated Articles of Incorporation (4)
3.4	Articles of Amendment of the Amended and Restated Articles of Incorporation (5)
3.5	Amended and Restated Bylaws (6)
4.1	Specimen of common stock certificate (7)
4.2	Pursuant to Item 601(b) (4) (iii) (A) of Regulation S-K, copies of instruments defining the rights of holders of long-term debt and preferred securities are not filed. The Company agrees to furnish a copy thereof to the Securities and Exchange Commission upon request.
10.1**	Amended and Restated Stock Option and Equity Compensation Plan (8)
10.2**	Form of Stock Option Agreement (9)
10.3**	Form of Restricted Stock Agreement (9)
10.4**	Form of Stock Appreciation Right Agreement (9)
10.5**	Form of Restricted Stock Unit Agreement (9)
10.6**	Form of Long-Term Restricted Stock Agreement (10)
10.7**	Amended and Restated Employee Stock Purchase Plan (11)
10.8	Office Lease, dated as of December 15, 1999, between the Company and Haub Brothers Enterprises Trust (12)
10.9**	Employment Agreement between the Bank, the Company and Hadley S. Robbins effective June 28, 2017 (13)
10.10**	Employment Agreement between the Bank, the Company and Melanie J. Dressel effective August 1, 2004 (14)
10.11**	Amendment to Employment Agreement between the Bank, the Company and Melanie J. Dressel effective February 1, 2009 (15)
10.12**	

	Amendment to Employment Agreement effective December 31, 2008 among the Bank, the Company and Melanie J. Dressel (16)
10.13**	Amendment to Employment Agreement effective February 27, 2015 among the Bank, the Company and Melanie J. Dressel (17)
10.14**	Change in Control Agreement between the Bank and Kent L. Roberts dated December 4, 2011 (18)
10.15**	Change in Control Agreement between the Bank and Mark W. Nelson dated as of October 23, 2012 (19)
10.16**	Change in Control Agreement between the Bank and Clint E. Stein dated as of October 24, 2012 (19)

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INDEX TO EXHIBITS, CONTINUED

Exhibit No.	Exhibit
10.17**	Form of Long-Term Care Agreement between the Bank, the Company, and each of the following directors: Mr. Folsom, Mr. Hulbert, Mr. Matson, Mr. Rodman, Mr. Weyerhaeuser and Mr. Will (20)
10.18**	Second Amended and Restated Executive Supplemental Compensation Agreements dated as of May 27, 2009 among the Company, Columbia State Bank and Melanie J. Dressel (21)
10.19**	Second Amended and Restated Executive Supplemental Compensation Agreements dated as of May 27, 2009 among the Company, Columbia State Bank and Mark W. Nelson (21)
10.20**	First Amendment to the Second Amended and Restated Executive Supplemental Compensation Agreement, by and between the Bank and Melanie J. Dressel, effective February 27, 2015 (17)
10.21**	Amended and Restated 401 Plus Plan (Deferred Compensation Plan) dated December 14, 2011 for directors and key employees (18)
10.22**	Form of Supplemental Compensation Agreement between the Bank and Mssrs. Andrew L. McDonald and Clint E. Stein, respectively (9)
10.23**	Form of Indemnification Agreement between the Company and its directors (16)
10.24**	First Amended and Restated Columbia State Bank Supplemental Executive Retirement Plan Agreement, by and between the Bank and Clint E. Stein, effective February 27, 2015 (17)
10.25**	First Amended and Restated Columbia State Bank Supplemental Executive Retirement Plan Agreement, by and between the Bank and Andrew L. McDonald, effective February 27, 2015 (17)
10.26**	Change in Control Agreement between the Bank and Hadley S. Robbins dated February 4, 2014 (effective March 1, 2014) (22)
10.27**	West Coast Bancorp 2002 Stock Incentive Plan (23)
10.28**	West Coast Bancorp 2012 Omnibus Incentive Plan (23)
10.29**	2014 Stock Option and Equity Compensation Plan (24)
10.30**	2014 Form of Restricted Stock Agreement (24)
10.31**	2014 Form of Stock Option Agreement (24)
10.32**	2014 Form of Stock Appreciation Rights Agreement (24)
10.33**	2014 Form of Restricted Stock Unit Agreement (24)
10.34**	2014 Form of Cash Award Agreement (24)
10.35**	

	First Amended and Restated Columbia State Bank Supplemental Executive Retirement Plan Agreement, by and between the Bank and David C. Lawson, effective February 27, 2015 (17)
10.36**	Change in Control Agreement between the Bank and Andrew L. McDonald dated June 1, 2014 (25)
10.37**	Employment Agreement among the Bank, the Company and Hadley S. Robbins dated September 25, 2012 (26)
10.39**	First Amendment to the Restated and Amended West Coast Bank Supplemental Executive Retirement Plan Agreement, by and among the Company (as successor-in-interest to the West Coast Bancorp), Bank (as successor-in-interest to West Coast Bank) and Hadley S. Robbins, effective February 27, 2015 (17)

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INDEX TO EXHIBITS, CONTINUED

Exhibit No.	Exhibit
10.40**	Columbia State Bank Supplemental Executive Retirement Plan Agreement, by and between the Bank and Hadley S. Robbins, effective February 27, 2015 (17)
10.41**	Columbia State Bank Supplemental Executive Retirement Plan Agreement, by and between the Bank and Kumi Baruffi, effective February 27, 2015 (17)
10.42**	Columbia State Bank Endorsement Method Split Dollar Agreement (Base Salary Benefit), dated October 30, 2015, by and between Columbia State Bank and Melanie J. Dressel (27)
10.43**	Columbia State Bank Endorsement Method Split Dollar Agreement (SERP Benefit), dated October 30, 2015 by and between Columbia State Bank and Melanie J. Dressel (27)
10.44**	Change in Control Agreement between the Bank and Kumi Baruffi dated September 1, 2014 (28)
10.45**	Amended and Restated Columbia Banking System, Inc. 2005 401 Plus Plan (Deferred Compensation Plan), dated October 26, 2016 for directors and key employees (29)
10.46**	Columbia Banking System, Inc. 2016 401 Plus Plan (Deferred Compensation Plan), dated October 26, 2016 for directors and key employees (29)
10.47**	First Amendment to the Columbia State Bank Supplemental Executive Retirement Plan Agreement, by and between the Bank and Kumi Baruffi, effective November 15, 2017 (31)
10.48**	First Amendment to the First Amended and Restated Columbia State Bank Supplemental Executive Retirement Plan Agreement, by and between the Bank and David Lawson, effective November 15, 2017 (31)
10.49**	First Amendment to the First Amended and Restated Columbia State Bank Supplemental Executive Retirement Plan Agreement, by and between the Bank and Andrew L. McDonald, effective November 15, 2017 (31)
10.50**	First Amendment to the Columbia State Bank Supplemental Executive Retirement Plan Agreement, by and between the Bank and Hadley S. Robbins, effective November 15, 2017 (31)
10.51**	First Amendment to the First Amended and Restated Columbia State Bank Supplemental Executive Retirement Plan Agreement, by and between the Bank and Clinton E. Stein, effective November 15, 2017 (31)
10.52**	Employment Offer (Greg Sigrist), dated April 20, 2018 (32)
10.53**	2018 Equity Incentive Plan (33)
10.54**	Employment Offer (Lisa Dow), dated January 3, 2018 (34)
10.55**	Change in Control Agreement between the Bank and Greg Sigrist dated as of June 4, 2018 (34)

10.56**	Change in Control Agreement between the Bank and Lisa Dow dated as of January 24, 2018 (34)
10.57**	Columbia State Bank Endorsement Method Split Dollar Agreement (SERP Benefit), dated July 25, 2018 by and between Columbia State Bank and Gregory A. Sigrist (35)
10.58**	Columbia State Bank Endorsement Method Split Dollar Agreement (Base Salary Benefit), dated July 25, 2018 by and between Columbia State Bank and Gregory A. Sigrist (35)
10.59**	Columbia State Bank Supplemental Executive Retirement Plan Agreement, by and between the Bank and Gregory A. Sigrist, effective July 25th, 2018 (35)

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INDEX TO EXHIBITS, CONTINUED

Exhibit No.	Exhibit
10.60**	First Amendment to Amended and Restated Employee Stock Purchase Plan (35)
10.61**+	Change in Control Agreement between the Bank and David C. Lawson, dated December 11, 2018
10.62**+	Amended and Restated Executive Supplemental Income Agreement, by and between the Company and Lisa Dow, dated December 26, 2018
14	Code of Ethics (30)
21+	Subsidiaries of the Company
23+	Consent of Deloitte & Touche LLP
24+	Power of Attorney
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 Filed Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101+	The following financial information from Columbia Banking System, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2018 is formatted in XBRL: (i) Audited Consolidated Balance Sheets, (ii) Audited Consolidated Statements of Income, (iii) Audited Consolidated Statements of Comprehensive Income, (iv) Audited Consolidated Statements of Changes in Shareholders' Equity, (v) Audited Consolidated Statements of Cash Flows, and (vi) Notes to Audited Consolidated Financial Statements.

(1) Incorporated by reference to Exhibit 2.1 of the Company’s Current Report on Form 8-K filed January 10, 2017
(2) Incorporated by reference to Exhibit 3.1 of the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2005
(3) Incorporated by reference to Exhibit 3.1 of the Company’s Current Report on Form 8-K filed November 21, 2008
(4) Incorporated by reference to Exhibit 3.1 of the Company’s Current Report on Form 8-K filed April 2, 2013
(5) Incorporated by reference to Exhibit 4.4 of the Company’s S-3 Registration Statement (File No. 333-206125) filed August 6, 2015
(6) Incorporated by reference to Exhibit 3.2 of the Company’s Current Report on Form 8-K filed on February 2, 2010
(7) Incorporated by reference to Exhibit 4.3 of the Company’s S-3 Registration Statement (File No. 333-156350) filed December 19, 2008
(8) Incorporated by reference to Exhibit 99.1 of the Company’s S-8 Registration Statement (File No. 333-160370) filed July 1, 2009
(9) Incorporated by reference to Exhibits 10.2-10.5 and 10.16 of the Company’s Annual Report on Form 10-K for the year ended December 31, 2007
(10) Incorporated by reference to Exhibit 10.1 of the Company’s Current Report on Form 8-K filed January 5, 2010
(11) Incorporated by reference to Exhibit 10.7 of the Company’s Annual Report on Form 10-K for the year ended December 31, 2010
(12) Incorporated by reference to Exhibit 10.5 of the Company’s Annual Report on Form 10-K for the year ended December 31, 2000
(13) Incorporated by reference to Exhibits 10.1 of the Company’s 8-K filed June 29, 2017
(14) Incorporated by reference to Exhibit 10.2 of the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2004
(15) Incorporated by reference to Exhibit 3.1 of the Company’s Current Report on Form 8-K filed February 19, 2009
(16) Incorporated by reference to Exhibits 10.2 and 10.4 of the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2009
(17) Incorporated by reference to Exhibits 10.1-10.8 of the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2015
(18) Incorporated by reference to Exhibits 10.14 and 10.15 of the Company’s Annual Report on Form 10-K for the year ended December 31, 2011
(19) Incorporated by reference to Exhibits 10.1 and 10.2 of the Company’s Current Report on Form 8-K filed October 29, 2012
(20) Incorporated by reference to Exhibit 10.3 of the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2001
(21) Incorporated by reference to Exhibits 10.1 and 10.3 of the Company’s Current Report on Form 8-K filed on June 2, 2009
(22) Incorporated by reference to Exhibit 10.23 of the Company’s Annual Report on Form 10-K for the year ended December 31, 2013
(23) Incorporated by reference to Exhibits 99.1 and 99.2 of the Company’s S-8 Registration Statement (File No. 333-187690) filed April 2, 2013
(24) Incorporated by reference to Exhibits 99.1-99.6 of the Company’s S-8 Registration Statement (File No. 333-195456) filed April 23, 2014
(25) Incorporated by reference to Exhibit 10.1 of the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2014
(26) Incorporated by reference to Exhibit 10.33 of the Company’s Annual Report on Form 10-K for the year ended December 31, 2014
(27) Incorporated by reference to Exhibits 10.1 and 10.2 of the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2015
(28)

Incorporated by reference to Exhibit 10.42 of the Company’s Annual Report on Form 10-K for the year ended December 31, 2015

(29) Incorporated by reference to Exhibits 10.1 and 10.2 of the Company’s Current Report on Form 8-K filed October 28, 2016

(30) Incorporated by reference to Exhibit 14 of the Company’s Annual Report on Form 10-K for the year ended December 31, 2003

(31) Incorporated by reference to Exhibits 10.47-10.51 of the Company’s Annual Report on Form 10-K for the year ended December 31, 2017

(32) Incorporated by reference to Exhibit 10.1 of the Company’s Current Report on Form 8-K filed on May 4, 2018

(33) Incorporated by reference to Exhibit 99.1 of the Company’s S-8 Registration Statement (File No. 333-225955) filed June 28, 2018

(34) Incorporated by reference to Exhibits 10.1, 10.3, and 10.4 of the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2018

(35) Incorporated by reference to Exhibits 10.1-10.4 of the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2018

* The schedules to this agreement have been omitted in accordance with Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule or exhibit will be furnished supplementally to the SEC upon request; provided, however, that the registrant may request confidential treatment of omitted items.

** Management contract or compensatory plan or arrangement

+ Filed herewith