COLUMBIA BANKING SYSTEM INC
Form 10-K
March 03, 2014
Table of Contents

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

FORM 10-K

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2013 or

o 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 ý 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 ý

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨

Indicate by check mark 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, or a non-accelerated filer, or a smaller reporting company. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act (check one):

ý Large Accelerated Filer ¨ Accelerated Filer ¨ Non-accelerated Filer ¨ Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý

The aggregate market value of Common Stock held by non-affiliates of the registrant at June 30, 2013 was $1,204,816,739 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, 2014 was 51,282,776.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Registrant’s definitive 2014 Annual Meeting Proxy Statement.	Part III

Table of Contents

COLUMBIA BANKING SYSTEM, INC.
FORM 10-K ANNUAL REPORT
DECEMBER 31, 2013

TABLE OF CONTENTS

PART I

Item 1.	Business	2
Item 1A.	Risk Factors	12
Item 1B.	Unresolved Staff Comments	18
Item 2.	Properties	19
Item 3.	Legal Proceedings	19
Item 4.	Mine Safety Disclosures	20

PART II

Item 5.	Market for the Registrant’s Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities	21
Item 6.	Selected Financial Data	24
Item 7.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	27
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	56
Item 8.	Financial Statements and Supplementary Data	58
Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	113
Item 9A.	Controls and Procedures	113
Item 9B.	Other Information	115

PART III

Item 10.	Directors, Executive Officers and Corporate Governance	116
Item 11.	Executive Compensation	116
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	116
Item 13.	Certain Relationships and Related Transactions, and Director Independence	116
Item 14.	Principal Accounting Fees and Services	116

PART IV

Item 15.	Exhibits, Financial Statement Schedules	117

Signatures	118
Index to Exhibits	119

Table of Contents

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. These forward-looking statements include, but are not limited to, statements about our plans, objectives, expectations and intentions that are not historical facts, and other statements identified by words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “should,” “projects,” “seeks,” “estimates” or words of si meaning. These 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, these 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:

- local and national 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 local housing/real estate markets where we operate and make loans could face challenges;
- the risks presented by an uncertain 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 inability to smoothly integrate West Coast Bancorp with Columbia and retain customers and employees;
- the efficiencies and enhanced financial and operating performance we expect to realize from investments in personnel, acquisitions and infrastructure may not be realized;
- interest rate changes could significantly reduce net interest income and negatively affect funding sources;
- projected business increases following strategic expansion or opening of new branches could be lower than expected;
- changes in the scope and cost of 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;
- competition among financial institutions could increase significantly;
- continued consolidation in the Pacific Northwest financial services industry resulting in the creation of larger financial institutions who 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;
- the reputation of the financial services industry could deteriorate, which could adversely affect our ability to access markets for funding and to acquire and retain customers;
- our ability to effectively manage credit risk, interest rate risk, market risk, operational risk, legal risk, liquidity risk and regulatory and compliance risk; and
- our profitability measures could be adversely affected if we are unable to effectively manage our capital.

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 these forward-looking statements. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required under federal securities laws.

Table of Contents

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”). Headquartered in Tacoma, Washington, we provide a full range of banking services to small and medium-sized businesses, professionals and individuals. As part of the acquisition of West Coast Bancorp on April 1, 2013, the Company also acquired West Coast Trust Company, Inc. (“West Coast Trust”), an Oregon trust company that provides agency, fiduciary and other related trust services with offices in Portland and Salem, Oregon.

Columbia Bank was established in 1993 to take advantage of commercial banking business opportunities in our principal market area. The opportunities to capture commercial banking market share were due to increased consolidations of banks, primarily through acquisitions by out-of-state bank holding companies, which created dislocation of customers.

At December 31, 2013 Columbia Bank had 142 branch locations in Washington and Oregon. Substantially all of Columbia Bank’s loans, loan commitments and core 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 Federal Deposit Insurance Corporation (“FDIC”). Columbia Bank is subject to regulation by the FDIC, the Washington State Department of Financial Institutions Division of Banks, and the Oregon Department of Consumer and Business Services Division of Finance and Corporate Securities. Although Columbia Bank is not a member of the Federal Reserve System, the Board of Governors of the Federal Reserve System has certain supervisory authority over the Company, which can also affect Columbia Bank.

Business Overview

Our goal is to continue to be a leading Pacific Northwest regional community banking company while consistently increasing shareholder value. We continue to build on our reputation for excellent customer service in order to be recognized as the bank of choice for retail deposit customers, small to medium-sized businesses and affluent households in all markets we serve.

We have established a network of 142 branches in Washington and Oregon as of December 31, 2013 from which we intend to grow market share. We operate 65 branches in western Washington, 15 branches in eastern Washington, 52 branches in western Oregon, and 10 branches in eastern Oregon. Washington counties include: Adams, Asotin, Benton, Clallam, Clark, Cowlitz, Franklin, Grant, Jefferson, King, Kitsap, Klickitat, Mason, Pierce, Skagit, Snohomish, Spokane, Thurston, Walla Walla, Whatcom, Whitman and Yakima. Oregon counties include Clackamas, Clatsop, Deschutes, Hood River, Jefferson, Lane, Lincoln, Marion, Multnomah, Polk, Tillamook, Umatilla, Wasco, Washington and Yamhill.

Our branch system funds our lending activities and allows for increased contact with customers, better serving 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.

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 diverse loan and deposit portfolios, building our strong core deposit base, expanding total revenue and controlling expenses in an effort to increase our return on average equity and gain operational efficiencies. As a result of our strong commitment to highly personalized, relationship-oriented customer service, our varied products, our strategic branch locations and the long-standing community presence of our managers, banking officers and branch personnel, 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 committed to increasing market share in the communities we serve by continuing to leverage our existing branch network, adding new branches in key locations and considering business combinations that are consistent with our expansion strategy throughout the Pacific Northwest. We have grown our franchise over the past decade through a combination of acquisitions and organic growth.

Table of Contents

To that end, on April 1, 2013, the Company completed its acquisition of West Coast Bancorp ("West Coast"). The Company acquired approximately $2.63 billion in assets, including $1.41 billion in loans measured at fair value, and approximately $1.88 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.

Products & Services

We place the highest priority on customer service and assist our customers in making informed decisions when selecting from the products and services we offer. We continuously 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

- Checking and Saving Accounts
- Consumer Lending
- Electronic Bill Pay
- Online Banking
- Mobile Banking
- Residential Lending
- VISA® Card Services

Business Banking

- Agricultural Lending
- Cash Management
- Checking and Saving Accounts
- Commercial & Industrial Lending
- International Banking
- Merchant Card Services
- Mobile Banking
- Municipal Lending
- Online Banking
- Real Estate and Real Estate Construction Lending
- Remote Deposit Capture
- SBA Lending
- Small Business Services
- VISA® Card Services

Wealth Management

- Investment Services through CB Financial Services
- Private Banking
- Professional Banking
- Trust Services

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 are also provided with a variety of borrowing products including fixed and variable rate home equity loans and lines of credit, home mortgages for purchases and refinances, personal loans, and other consumer loans. Eligible personal banking customers with checking accounts are provided a Visa® Debit Card which can be used both to make purchases and as an ATM card. A variety of Visa® Credit Cards are also available to eligible personal banking customers.

Online Banking

Columbia Bank’s Premier Personal Online Banking provides simple navigation, access to important information and frequently used features, as well as the foundation for a best-in-class mobile banking solution. Our online banking service, Columbia Online™, provides our personal banking customers with the ability to safely and securely conduct their banking business 24 hours a day, 7 days a week.

3

Table of Contents

Business Banking: We offer our business banking customers the foundation of a variety of checking, savings, interest bearing money market and certificate of deposit accounts 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 Wealth Management, Cash Management, Professional Banking, International Banking, VISA Credit Cards, Merchant Services and Commercial Lending.

Cash Management

Columbia Bank's diversified Cash 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 customers, of all sizes, choose from a full range of transaction and Cash Management tools to gain more control over and make more from their money. Services include Commercial Online Banking, Positive Pay fraud protection, Automated Clearing House (ACH) payments, and Remote Deposit Capture.

Our Cash Management professionals work with businesses to find the best combination of services to meet their needs. This customized, modular approach ensures their business banking operations are cost-effective now, with flexibility for future growth.

Commercial Lending

We offer a variety of loan products tailored to meet the various needs of business banking customers. Commercial loan products include accounts receivable and inventory financing as well as Small Business Administration ("SBA") financing. We also offer commercial real estate loan products for construction and development or permanent financing. Real estate lending activities have been focused on construction and permanent loans for both owner occupants and investor oriented real estate properties. Commercial banking has been directed toward meeting the credit and related deposit needs of various sized businesses and professional practice organizations operating in our primary market areas.

International Banking

Columbia Bank's International services division offers a range of financial services to help forward-thinking independent businesses 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 independent companies open the door to new markets and suppliers overseas.

Merchant Card Services

Business clients that use Columbia's Merchant Card Services have the ability to accept Visa®, MasterCard® and Discover® sales drafts for deposit directly into their business checking account. Merchants are provided with a comprehensive accounting system tailored to their needs, which includes month-to-date credit card deposit information on a transaction statement. Internet access is available, allowing business customers to review merchant statements, authorized, captured, cleared and settled transactions. Columbia offers state-of-the-art point of sale solutions to suit our customers' needs for card acceptance, including terminals, mobile platforms, virtual terminals and on-line applications.

Business VISA® Debit and Credit Cards

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

Table of Contents

Wealth Management: We offer tailored solutions to high net-worth individuals, families and professional businesses in the areas of private banking, professional banking, financial services and trust and estate services.

CB Financial Services

Located at Columbia State Bank, 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.

Comprehensive solutions include:

Individual and Business Retirement Solutions: 401(k) plans, SEPs, IRAs, SIMPLE, Profit Sharing, Non-Qualified Deferred Compensation Plans, Money Pension Plans, Exit Planning Strategies.

Insurance Solutions: Long-Term Care, Disability, Life Insurance (Key Man Life Insurance, Buy-Sell Agreements).

Wealth Management: Professional Asset Management, Strategic Asset Allocation, Fixed Income (Bond) Investing (Municipal, Corporate, Government), Exchange Traded Funds (ETFs), Annuities, Mutual Funds, Equities.

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

Private Banking

Columbia Private Banking offers affluent clientele and their businesses complex financial solutions, such as deposit and cash 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.

Professional Banking

Columbia Professional Bankers are uniquely qualified to help medical and dental professionals acquire, build and grow their practice. We offer tailored banking and investment solutions delivered by experienced bankers with the industry knowledge necessary to meet their business's unique needs. No matter what the needs are now or in the years to come, we guide professionals through all their financial options to make their banking as easy and personal as possible.

Trust and Investment Services

Trust services are provided through Columbia Bank Trust and West Coast Trust. 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.

Our highly skilled and experienced professionals are fully dedicated to providing the information, diligence and care to help our customers achieve their financial goals and plan for a better future.

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(1) Securities and insurance products are offered through Cetera Investment Services LLC (doing insurance business in CA 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.

Table of Contents

Competition

Our industry remains highly competitive despite uncertain economic conditions. 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 promotion 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 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 with faster transaction turnaround time.

Market Areas

With the acquisition of West Coast, Columbia ranked seventh in deposit market share(1) in both Washington and Oregon, with 2013 state deposit market share of 3.00% and 3.94% respectively. We continue to pursue initiatives that will improve our operating efficiency through the combination of increased revenues and lower expenses. These initiatives have led to consolidation of branches and operating systems. At year-end we had 142 branches, down from a combined 159 branches in September 2012 when we announced the West Coast acquisition.

Washington: Approximately 26%, or 21 of our 80 Washington branches are located in Pierce County, with an estimated 2013 population of 815,000 residents. At June 30, 2013 our Pierce County branch locations' share of the county's total deposit market was over 18%(1), ranking first among our competition. Also located in Pierce County is our Company headquarters in the city of Tacoma and two nearby operational facilities. Some of the most significant contributors to the Pierce County economy are the Port of Tacoma, whose activities are related to more than 43,000 jobs in the county and well over 110,000 in the state of Washington; Joint Base Lewis-McChord is the third largest employer in Pierce County, accounting for over 20% of the County's total employment, and the manufacturing industry which supplies the Boeing Company.

We operate 12 branch locations in King County, including Seattle, Bellevue and Redmond. King County, which is Washington's most highly populated county at over two million residents, is a market that has significant growth potential for our Company. At June 30, 2013 we ranked 14th in our share of the King County deposit market or just over 1%(1); and continue to make inroads within this market through the strategic outreach of our banking teams. The north King County economy is primarily made up of the aerospace, construction, computer software and biotechnology industries. South King County, with its close proximity to Pierce County, is considered a natural extension of our primary market area. The economy of south King County is predominantly comprised of residential communities supported by light industrial, retail, aerospace and distributing and warehousing industries.

Columbia ranks first in market share in Pierce County, Bainbridge Island, the Enumclaw Plateau and Cowlitz County(1). We also have locations in Adams, Asotin, Benton, Clallam, Clark, Franklin, Grant, Jefferson, Kitsap, Klickitat, Lewis, Mason, Skagit, Snohomish, Spokane, Thurston, Walla Walla, Whatcom, Whitman, and Yakima counties.

Oregon: With the acquisition of West Coast in April 2013, we significantly expanded our market area in Oregon, bringing our total to 62 branch locations in the state at the end of 2013. Approximately 21%, or 13 of our 62 Oregon branches are located in Clackamas and Multnomah counties. Both counties are part of the Portland metropolitan area, the most populous in the state, and another area with significant growth potential for Columbia. At June 30, 2013, our combined Clackamas and Multnomah branch locations share of the counties' total deposit market was 7.2%(1), up from 0.78% for the prior year. The principal industries in the metropolitan area include manufacturing, transportation, wholesale and retail trade, and tourism. Oregon has no sales tax, and attracts shoppers from southwest Washington.

Approximately 19% of our Oregon branches are in Marion County, the location of Salem, the state capital. Our total deposit market share in this county was 15.1%(1) at June 30, 2013. While government is the county's primary employer, Marion County is the leader in agricultural production among all other counties in the state.

Columbia ranks first in deposit market share in Clatsop (29%), Hood River (23%), Lincoln (22%) and Wasco counties(1). Other Oregon counties we serve include Clackamas, Deschutes, Jefferson, Lane, Marion, Multnomah, Polk, Tillamook, Umatilla, Washington and Yamhill. Columbia Bank ranks seventh(1) in total deposit market share in

Oregon, with just under 4% of the deposit market share.

For additional information regarding our branches, see Item 2. "Properties" of this report.

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(1) Source: FDIC Annual Summary of Deposit Report as of June 30, 2013.

Table of Contents

Employees

As of December 31, 2013 the Company employed approximately 1,695 full-time equivalent employees, a 41% increase from 1,198 employees at December 31, 2012. The increase was primarily due to the acquisition of West Coast during the second quarter of 2013. We value our employees and pride ourselves on providing a professional work environment accompanied by comprehensive 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 seventh 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 ("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 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 intended to be 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 and Oregon. This regulatory framework is primarily designed for the protection of depositors, federal deposit insurance funds and the banking system as a whole, rather than specifically for the protection of shareholders. 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, could have a material effect on our business or operations. In light of the 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. However, our continued efforts to monitor and comply with new regulatory requirements add to the complexity and cost of our business.

Federal Bank Holding Company Regulation

General. The Company is a bank holding company as defined in the Bank Holding Company Act of 1956, as amended ("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.

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.

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 closely related to the business of banking or of managing or controlling banks.

Table of Contents

Transactions with Affiliates. Subsidiary banks of a bank holding company are subject to restrictions imposed by the Federal Reserve Act on extensions of credit to the holding company or its subsidiaries, on investments in their securities 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.

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 and the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”), the Company is expected to act as a source of financial and managerial strength to Columbia Bank. This means that the Company is required to commit, as necessary, resources 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 and Oregon, 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. With respect to branches of Columbia Bank in Oregon, the Bank is also subject to supervision and regulation by the Oregon Department of Consumer and Business Services, as well as the FDIC. These agencies have the authority to prohibit banks from engaging in what they believe constitute unsafe or unsound banking practices.

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.

Community Reinvestment. The Community Reinvestment Act ("CRA") of 1977 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.

Insider Credit Transactions. 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.

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.

Table of Contents

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.

Interstate Banking and Branching

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (“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

The principal source of the Company's cash is from dividends received from Columbia Bank, which are subject to government regulation and limitations. Regulatory authorities may prohibit banks and bank holding companies from paying dividends in a manner that would constitute an unsafe or unsound banking practice or would reduce the amount of its capital below that necessary to meet minimum applicable regulatory capital requirements. Washington law also limits a bank's ability to pay dividends that are greater than the bank's retained earnings without approval of the applicable banking agency. Basel III introduces additional limitations on banks’ ability to issue dividends by imposing a capital conservation buffer requirement.

Capital Adequacy

Regulatory Capital Guidelines. Federal bank regulatory agencies use capital adequacy guidelines in the examination and regulation of bank holding companies and banks. The guidelines are “risk-based,” meaning that they are designed to make capital requirements more sensitive to differences in risk profiles among banks and bank holding companies.

Tier I and Tier II Capital. Under the guidelines, an institution's capital is divided into two broad categories, Tier I capital and Tier II capital. Tier I capital generally consists of common stockholders' equity (including surplus and undivided profits), qualifying non-cumulative perpetual preferred stock, and qualified minority interests in the equity accounts of consolidated subsidiaries. Tier I capital generally excludes goodwill and intangible assets, net unrealized gains and losses on available for sale securities and accumulated net gains and losses on cash flow hedges. Tier II capital generally consists of the allowance for loan losses, hybrid capital instruments and qualifying subordinated debt. The sum of Tier I capital and Tier II capital represents an institution's total capital. The guidelines require that at least 50% of an institution's total capital consist of Tier I capital.

Risk-based Capital Ratios. The adequacy of an institution's capital is gauged primarily with reference to the institution's risk-weighted assets. The guidelines assign risk weightings to an institution's assets in an effort to quantify the relative risk of each asset and to determine the minimum capital required to support that risk. An institution's risk-weighted assets are then compared with its Tier I capital and total capital to arrive at a Tier I risk-based ratio and a total risk-based ratio, respectively. The guidelines provide that an institution must have a minimum Tier I risk-based ratio of 4% and a minimum total risk-based ratio of 8%.

Leverage Ratio. The guidelines also employ a leverage ratio, which is Tier I capital as a percentage of average total assets, less intangibles. The principal objective of the leverage ratio is to constrain the maximum degree to which a bank holding company may leverage its equity capital base. The minimum leverage ratio is 3%; however, for all but the most highly rated bank holding companies and for bank holding companies seeking to expand, regulators expect an additional cushion of at least 1% to 2%.

Prompt Corrective Action. Under the guidelines, an institution is assigned to one of five capital categories depending on its total risk-based capital ratio, Tier I risk-based capital ratio, and leverage ratio, together with certain subjective factors. The categories range from “well capitalized” to “critically undercapitalized.” Institutions that are “undercapitalized” or lower are subject to certain mandatory supervisory corrective actions. At each successively lower capital category,

an insured bank is subject to increased restrictions on its operations. During these challenging economic times, the federal banking regulators have actively enforced these provisions. Some of the thresholds have been revised under Basel III, which will become effective for insured depository institutions in 2015.

Table of Contents

Basel III. Basel III updates and revises significantly the current international bank capital accords (so-called “Basel I” and “Basel II”). Basel III is intended to be implemented by participating countries for large, internationally active banks. However, standards consistent with Basel III will be formally implemented in the United States through a series of regulations, some of which may apply to other banks. In addition to the standards agreed to by the Basel III Committee, the U.S. implementing rules also incorporate certain provisions of the Dodd-Frank Act. Among other things, Basel III:

- Creates “Tier 1 Common Equity,” a new measure of regulatory capital closer to pure tangible common equity than the present Tier 1 definition;
- Establishes a required minimum risk-based capital ratio for Tier 1 Common Equity at 4.5 percent and adds a 2.5 percent capital conservation buffer;
- Increases the required Tier 1 Capital risk-based ratio to 6.0 percent and the required total capital risk-based capital ratio to 8.0 percent;
- Increases the required leverage ratio to 4.0 percent; and
- Allows for permanent grandfathering of non-qualified instruments, such as trust preferred securities, issued prior to May 19, 2010 for depository institutions holding companies with less than $15 billion in total assets as of year-end 2009, subject to a limit of 25 percent of Tier 1 capital.

The full impact of the Basel III rules cannot be determined at this time as many regulations are still being written and the implementation of currently released regulations for banks not subject to the advanced approach rule, such as the Company and Columbia Bank, will not begin until January 1, 2015. Certain aspects of Basel III will be phased in over a period of time after January 1, 2015. Management believes that, as of December 31, 2013, the Company would meet all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis as if such requirements were currently in effect.

Regulatory Oversight and Examination

The Federal Reserve conducts periodic inspections of bank holding companies, which are performed both onsite and offsite. 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. For holding companies under $10 billion in assets, the inspection type and frequency varies depending on asset size, complexity of the organization, and the holding company's rating at its last inspection.

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, safety and soundness examinations occur on an 18-month cycle for banks under $500 million in total assets that are well capitalized and without regulatory issues, and 12-months otherwise. Examinations alternate between the federal and state bank regulatory agency or may occur on a combined schedule. 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

Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act of 2002 (the “Act”) addresses, among other things, corporate governance, auditing and accounting, enhanced and timely disclosure of corporate information, and penalties for non-compliance. Generally, the Act (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.

Anti-Money Laundering and Anti-terrorism

Bank Secrecy Act and USA Patriot Act of 2001. The Bank Secrecy Act (the "BSA") requires all financial institutions, including banks and securities broker-dealers, 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.

Table of Contents

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. Columbia Bank has established compliance programs designed to comply with the BSA and USA Patriot Act requirements.

Financial Services Modernization

Gramm-Leach-Bliley Act of 1999. The Gramm-Leach-Bliley Financial Services Modernization Act of 1999 (the "GLBA") brought about significant changes to the laws affecting banks and bank holding companies. Generally, the GLBA (i) repeals historical restrictions on preventing banks from affiliating with securities firms; (ii) provides a uniform framework for the activities of banks, savings institutions and their holding companies; (iii) broadens the activities that may be conducted by national banks and banking subsidiaries of bank holding companies; (iv) provides an enhanced framework for protecting the privacy of consumer information and requires notification to consumers of bank privacy policies; and (v) addresses a variety of other legal and regulatory issues affecting both day-to-day operations and long-term activities of financial institutions. Bank holding companies that qualify and elect to become financial holding companies can engage in a wider variety of financial activities than permitted under previous law, particularly with respect to insurance and securities underwriting activities.

Deposit Insurance

The Bank's deposits are insured under the Federal Deposit Insurance Act, 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. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution. 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 ("DIF") from 1.15% to 1.35%; required that the DIF meet that minimum ratio of insured deposits by 2020; and eliminates the requirement that the FDIC pay dividends to insured depository institutions when the reserve ratio exceeds certain thresholds. The FDIC has established a higher reserve ratio of 2% as a long-term goal beyond what is required by statute. The deposit insurance assessments to be paid by Columbia Bank could increase as a result.

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.

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 the 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. The Dodd-Frank Act created a new, independent federal agency called the Bureau of Consumer Financial Protection (“CFPB”). The CFPB has broad rulemaking, supervision and enforcement authority for a wide range of consumer protection laws applicable to banks and thrifts with greater than $10 billion in

assets. Smaller institutions are subject to certain rules promulgated by the CFPB but will continue to be examined and supervised by their federal banking regulators for compliance purposes. The CFPB has issued numerous additional regulations that will likely become industry best practice and increase the compliance burden of Columbia Bank.

Table of Contents

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

Proposed Legislation

General. Proposed legislation 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.

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.

ITEM 1A. RISK FACTORS

Our business exposes us to certain risks. 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.

A continued slow or fragile economic recovery could adversely affect our future results of operations or market price of our stock.

The national and global economy and the financial services sector in particular continue to face significant challenges. We cannot accurately predict how quickly or strongly the economy will recover from the recent recession, which has adversely impacted the markets we serve. The U.S. economy has also experienced substantial volatility in the financial markets. Any further 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 and the value of our investment portfolio.

Substantially all of our loans are to businesses and individuals in Washington and Oregon, and continuing soft economies in these market areas could have a material adverse effect on our business, financial condition, results of operations and prospects. While housing prices have stabilized, unemployment remains relatively high in both Washington and Oregon. A deterioration in the market areas we serve could result in the following consequences, any of which could 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 further 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.

Table of Contents

Our loan portfolio mix, which has loans secured by real estate, could result in increased credit risk in a challenging economy.

Our loan portfolio 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 could have a material adverse impact on our results of operations and financial condition.

Any 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.

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 adversely affect our results of operations and financial condition.

Our nonperforming assets adversely affect our net income in various ways. Until economic and market conditions improve to pre-recession levels, we expect to continue to incur additional losses relating to elevated levels of nonperforming loans. 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 the lower of carrying value or 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, could adversely affect our business, results of operations and financial condition. 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 further increases in nonperforming loans in the future.

Our acquisitions and the integration of acquired businesses may not result in all of the benefits anticipated, and future acquisitions may be dilutive to current shareholders.

We have in the past and may 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.

We also may encounter difficulties in obtaining required regulatory approvals and 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 and management 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 our operations or results.

Given the continued market volatility and uncertainty, notwithstanding our loss-sharing arrangements with the FDIC, we may experience increased credit costs or need to take additional markdowns and allowances for loan losses on the assets and loans acquired that could adversely affect our financial condition and results of operations in the future.

We may also experience difficulties in complying with the technical requirements of our loss-sharing agreements with the FDIC, which could result in some assets which we acquire in FDIC-assisted transactions losing their coverage under such agreements.

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 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 the competition for such opportunities from other parties.

The long-term success of our acquisition of West Coast will depend upon our ability to successfully continue to integrate the two organizations.

On April 1, 2013, we completed the acquisition of West Coast. The long-term success of our acquisition of West Coast will depend upon, among other things, the ability to continue to successfully integrate the organizations and their cultures. If we are not able to achieve this objective, the anticipated benefits of the acquisition may not be realized fully, or may take longer than expected to be realized.

Our decisions 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 the 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 effect on our operating results.

Table of Contents

Our management of capital could adversely affect profitability measures, the market price of our common stock, and 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. Although we are periodically engaged in discussions with other potential acquisition candidates, we are not currently a party to any purchase or merger agreement. 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. 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. Any capital raising alternatives could dilute the holders of our outstanding common stock and may adversely affect the market price of our common stock.

If the goodwill we have recorded in connection with acquisitions becomes impaired, it could have an 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-down, which could be material, resulting in an 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.

We operate in a highly regulated environment and changes of 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 Securities and Exchange Commission. 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 financial condition and results of operations. 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.

Table of Contents

In that regard, the Dodd-Frank Wall Street Reform and Consumer Protection Act was enacted in July 2010. Among other provisions, the legislation (i) created a new Bureau of Consumer Financial Protection 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) will lead to new capital requirements from federal banking agencies, (iv) places new limits on electronic debit card interchange fees and (v) requires the Securities and Exchange Commission and national stock exchanges to adopt significant new corporate governance and executive compensation reforms. The new legislation and regulations are expected to increase the overall costs of regulatory compliance. In addition, the CFPB has broad rulemaking, supervision and enforcement authority for a wide range of consumer protection laws applicable to banks with greater than $10 billion in assets. Should Columbia grow to more than $10 billion in assets it could see a substantial increase in the cost and burden of compliance for Columbia Bank. Basel III is expected to be phased in between 2013 and 2019. Basel III sets forth more robust global regulatory standards on capital adequacy, qualifying capital instruments, leverage ratios, market liquidity risk, and stress testing, which may be stricter than standards currently in place. The implementation of these new standards could have an adverse impact on our financial position and future earnings due to, among other things, the increased minimum Tier 1 capital ratio requirements that will be implemented. The new legislation and regulations are expected to increase the overall costs of regulatory compliance.

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. Recently, these powers have been utilized more frequently due to the serious national, regional and local economic conditions we are facing. The exercise of regulatory authority may have a negative impact on our financial condition and results of operations. 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 Board.

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.

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

Our securities portfolio currently includes securities with unrecognized losses. 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 of America. There can be no assurance, however, that future evaluations of the securities portfolio will not require us to recognize further 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, 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 have severe liquidity issues, which could impact the pricing of deposits in our marketplace. If we are unable to effectively compete in our market areas, our business, results of operations and prospects could be adversely affected.

16

Table of Contents

We may not be able to attract or retain key 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. The unexpected loss of key employees could have a material adverse effect on our business and possibly result in reduced revenues and earnings.
We strive to attract and retain key executives, senior management and staff. Competition to attract the best professionals in the industry can be intense which may limit our ability to hire new professionals. Revenues and net income could be adversely affected in the event of the unexpected loss of key personnel.
Changes in accounting standards could materially impact our financial statements.
From time to time the Financial Accounting Standards Board and the SEC change the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be very difficult to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in our restating prior period financial statements.
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.
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. 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. There can be no assurance that we will be able to successfully manage the risks associated with our increased dependency on technology.
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 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.
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.

17

Table of Contents

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 have material adverse financial effects or cause significant reputational harm to us, which in turn could seriously harm our business prospects.

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, or 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 adversely affect our business, financial condition and results of operations, perhaps materially.

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.

18

Table of Contents

ITEM 2. PROPERTIES

The Company's principal Columbia Bank properties include our corporate headquarters which is located at 13th & A Street, Tacoma, Washington, and two operations facilities in Lakewood, Washington.

The Company's branch network as of December 31, 2013 is made up of 142 branches located throughout several Washington and Oregon counties compared to 99 branches at December 31, 2012. The number of branches per county, as well as whether it is owned or operated under a lease agreement is detailed in the following table.

	Number of	Occupancy Type	
County	Branches	Owned	Leased
Pierce	21	16	5
King	13	8	5
Kitsap	6	3	3
Snohomish	5	5	—
Thurston	4	3	1
Skagit	3	3	—
Clark	3	—	3
Other Washington counties	25	23	2
Total Washington branches	80	61	19
Marion	12	4	8
Washington	9	1	8
Clackamas	7	1	6
Multnomah	6	1	5
Lincoln	5	3	2
Clatsop	4	4	—
Deschutes	3	2	1
Polk	3	2	1
Yamhill	3	2	1
Other Oregon counties	10	8	2
Total Oregon branches	62	28	34
Total Columbia Bank branches	142	89	53

For additional information concerning our premises and equipment and lease obligations, see Notes 9 and 16, respectively, to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this report.

ITEM 3. LEGAL PROCEEDINGS

On June 24, 2009, West Coast Trust, which as a result of our recent acquisition of West Coast Bancorp ("West Coast") is now a subsidiary of the Company, was served with an Objection to Personal Representative's Petition and Petition for Surcharge of Personal Representative in Linn County Circuit Court. The petition was filed by the beneficiaries of the estate of Archie Q. Adams, for which West Coast Trust acts as the personal representative. The petitioners allege a breach of fiduciary duty with respect to West Coast Trust's prior sale of real property owned by the Adams estate and sought relief in the form of a surcharge to West Coast Trust of $215.6 million, the amount of the alleged loss to the estate. West Coast Trust filed a motion to dismiss on July 2, 2009, which was granted in a letter ruling dated September 15, 2009. Petitioners appealed and briefs have been filed. Appeals Court oral arguments were heard in November, 2012, and the Company has not yet received the Appeals Court decision. The Company believes the appeal and underlying petition are without merit.

Table of Contents

On October 3, 2012, a class action complaint was filed in the Circuit Court of the State of Oregon for the County of Multnomah against West Coast, its directors, and the Company challenging the merger: Gary M. Klein v. West Coast Bancorp, et al., Case No. 1210-12431. The complaint names as defendants West Coast, all of the former members of West Coast's board of directors, and the Company. The complaint alleges that the West Coast directors breached their fiduciary duties to West Coast and West Coast shareholders by agreeing to the merger at an unfair price. The complaint also alleges that the merger was being driven by an unfair process, that the directors approved provisions in the merger agreement that constitute preclusive deal protection devices, that certain large shareholders of West Coast were using the merger as an opportunity to sell their illiquid holdings in West Coast, and that West Coast directors and officers would obtain personal benefits from the merger not shared equally by other West Coast shareholders. The complaint further alleges that West Coast and the Company aided and abetted the directors' alleged breaches of their fiduciary duties. Thereafter, a second lawsuit challenging the merger was filed in the Circuit Court of the State of Oregon for Clackamas County: Leoni v. West Coast Bancorp et al., Case No. CV12100728. The two lawsuits have been consolidated for all purposes in the Circuit Court of the State of Oregon for Multnomah County.

While the Company believes that the claims in both complaints were without merit, the Company agreed, in order to avoid the expense and burden of continued litigation and pursuant to the terms of the proposed settlement, to make certain supplemental disclosures in the joint proxy statement/prospectus related to the merger. Accordingly, prior to the closing of the merger on April 1, 2013, West Coast and the other defendants in the two actions entered into a memorandum of understanding to settle both actions. Pursuant to the memorandum of understanding, Plaintiffs' counsel has conducted certain confirmatory discovery, and the Company approved the form of a stipulation of settlement, which has been executed by the parties. The stipulation of settlement is subject to customary conditions, including court approval following notice to West Coast's stockholders. On February 18, 2014, the Circuit Court of the State of Oregon for Multnomah County conducted a final hearing to consider the fairness, reasonableness, and adequacy of the settlement and entered an order approving settlement. The order resolves and releases all claims in all actions that were or could have been brought challenging any aspect of the merger, the merger agreement, and any disclosure made in connection therewith, pursuant to terms that will be disclosed to stockholders before final approval of the settlement.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

Table of Contents

PART II

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

Quarterly Common Stock Prices and Dividends

Our common stock is traded on the NASDAQ Global Select Market under the symbol “COLB”. Quarterly high and low sales prices and dividend information for the last two years are presented in the following table. The prices shown do not include retail mark-ups, mark-downs or commissions:

			Cash Dividends Declared		
2013	High	Low	Regular	Special	Total Cash Dividends Declared
First quarter	$22.08	$18.27	$0.10	$—	$0.10
Second quarter	$23.88	$19.85	0.10	—	0.10
Third quarter	$25.59	$23.17	0.10	—	0.10
Fourth quarter	$28.37	$23.53	0.11	—	0.11
For the year	$28.37	$18.27	$0.41	$—	$0.41

			Cash Dividends Declared		
2012	High	Low	Regular	Special	Total Cash Dividends Declared
First quarter	$23.35	$19.65	$0.08	$0.29	$0.37
Second quarter	$23.52	$17.38	0.08	0.14	0.22
Third quarter	$19.85	$17.22	0.09	0.21	0.30
Fourth quarter	$19.15	$16.18	0.09	—	0.09
For the year	$23.52	$16.18	$0.34	$0.64	$0.98

On December 31, 2013, the last sale price for our stock on the NASDAQ Global Select Market was $27.49. At January 31, 2014, the number of shareholders of record was 2,358. 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, 2013, a total of 116,197 stock options were outstanding. Additional information about stock options and other equity compensation plans is included in Note 21 to the Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data” of this report.

The payment of future cash dividends is at the discretion of our Board and subject to a number of factors, including results of operations, general business conditions, growth, financial condition and other factors deemed relevant to capital management strategies by the Board of Directors. 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.

Subsequent to year end, on January 23, 2014 the Company declared a quarterly cash dividend of $0.12 per share payable on February 19, 2014, to shareholders of record at the close of business on February 5, 2014.

Table of Contents

Equity Compensation Plan Information

The following table provides information as of December 31, 2013, regarding securities issued and to be issued under our equity compensation plans that were in effect during 2013:

	Year ended December 31, 2013		
	Number of Shares to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (1)(2)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Shares Remaining Available for Future Issuance Under Equity Compensation Plans (3)
Equity compensation plans approved by security holders	116,197	$ 65.01	945,704
Equity compensation plans not approved by security holders	—	—	—

(1) Includes shares to be issued upon exercise of options under plans of West Coast Bancorp, Bank of Astoria, Mountain Bank Holding Company and Town Center Bancorp, which were assumed as a result of their acquisitions.
(2) Consists of shares that are subject to outstanding options.
(3) Includes 369,792 shares available for future issuance under the stock option and equity compensation plan and 575,912 shares available for purchase under the Employee Stock Purchase Plan as of December 31, 2013.

The following table provides information about repurchases of common stock by the Company during the quarter ended December 31, 2013:

Period	Total Number of Common Shares Purchased (1)	Average Price Paid per Common Share	Total number of Shares Purchased as Part of Publicly Announced Plan (2)	Maximum Number of Remaining Shares That May Be Purchased at Period End Under the Plan
10/1/2013 - 10/31/2013	1,531	$24.70	—	2,000,000
11/1/2013 - 11/30/2013	—	—	—	2,000,000
12/1/2013 - 12/31/2013	—	—	—	2,000,000
	1,531	$24.70	—	

(1) All common share repurchases during the quarter relate to shares withheld to pay taxes due upon vesting of restricted stock. During the three months ended December 31, 2013, no shares were repurchased pursuant to the Company’s publicly announced corporate stock repurchase plan described in (2) below.
(2) The repurchase plan, which was approved by the Board and announced in 2011, originally authorized the repurchase of up to 2 million shares.

Table of Contents

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), the SNL Bank NASDAQ (comprised of banks listed on the NASDAQ exchange) and the SNL Columbia Peer Group (comprised of banks with assets of $1 billion to $5 billion, all of which are located in the western United States). As the Company has recently increased in total assets beyond the $1 to $5 billion range, the comparison to the SNL Columbia Peer Group is being replaced by a comparison to the SNL Bank NASDAQ.

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, the SNL Bank NASDAQ and the SNL Columbia Peer Group was $100 on December 31, 2008, and that all dividends were reinvested.

Index	Period Ending					
	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013
Columbia Banking System, Inc.	100.00	136.52	178.07	165.46	161.94	252.60
NASDAQ Composite	100.00	145.36	171.74	170.38	200.63	281.22
SNL Bank NASDAQ	100.00	81.12	95.71	84.92	101.22	145.48
SNL Columbia Peer Group	100.00	86.58	93.69	76.46	95.84	128.04

Source: SNL Financial LC, Charlottesville, VA

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

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

	2013	2012	2011	2010	2009
	(dollars in thousands except per share amounts)				
For the Year					
Interest income	$296,935	$248,504	$251,271	$185,879	$143,035
Interest expense	$5,840	$9,577	$14,535	$21,092	$27,683
Net interest income	$291,095	$238,927	$236,736	$164,787	$115,352
Provision for loan and lease losses, excluding covered loans	$3,160	$13,475	$7,400	$41,291	$63,500
Noninterest income (loss)	$26,700	$27,058	$(9,283)	$52,781	$29,690
Noninterest expense	$230,886	$162,913	$155,759	$137,147	$94,488
Net income (loss)	$60,016	$46,143	$48,037	$30,784	$(3,968)
Net income (loss) applicable to common shareholders	$59,984	$46,143	$48,037	$25,837	$(8,371)
Per Common Share					
Earnings (loss) (Basic)	$1.24	$1.16	$1.22	$0.73	$(0.38)
Earnings (loss) (Diluted)	$1.21	$1.16	$1.21	$0.72	$(0.38)
Book Value	$20.50	$19.25	$19.23	$17.97	$16.13
Averages					
Total assets	$6,558,517	$4,826,283	$4,509,010	$4,248,590	$3,084,421
Interest-earning assets	$5,754,543	$4,246,724	$3,871,424	$3,583,728	$2,783,862
Loans, including covered loans	$4,140,826	$2,900,520	$2,607,266	$2,485,650	$2,124,574
Securities	$1,474,744	$1,011,294	$928,891	$720,152	$584,028
Deposits	$5,420,577	$3,875,666	$3,541,399	$3,270,923	$2,378,176
Core deposits	$5,146,776	$3,609,467	$3,218,425	$2,828,246	$1,945,039
Shareholders' equity	$979,099	$761,185	$730,726	$668,469	$462,127
Financial Ratios					
Net interest margin	5.16%	5.77%	6.27%	4.76%	4.33%
Return on average assets	0.92%	0.96%	1.07%	0.72%	(0.13)%
Return on average common equity	6.14%	6.06%	6.57%	4.15%	(2.16)%
Efficiency ratio (tax equivalent) (2)	66.16%	69.17%	70.68%	67.56%	61.53%
Average equity to average assets	14.93%	15.77%	16.21%	15.73%	14.98%
At Year End					
Total assets	$7,161,582	$4,906,335	$4,785,945	$4,256,363	$3,200,930
Covered assets, net	$289,790	$407,648	$560,055	$531,504	$—
Loans, excluding covered loans	$4,219,451	$2,525,710	$2,348,371	$1,915,754	$2,008,884
Allowance for noncovered loan and lease losses	$52,280	$52,244	$53,041	$60,993	$53,478
Securities	$1,696,640	$1,023,484	$1,050,325	$781,774	$631,645
Deposits	$5,959,475	$4,042,085	$3,815,529	$3,327,269	$2,482,705
Core deposits	$5,696,357	$3,802,366	$3,510,435	$2,998,482	$2,072,821
Shareholders' equity	1,053,249	764,008	759,338	706,878	528,139
Nonperforming Assets, Excluding Covered Assets					
Nonaccrual loans	34,015	37,395	53,483	89,163	110,431
Other real estate owned and other personal property owned	23,918	11,108	31,905	30,991	19,037
	$57,933	$48,503	$85,388	$120,154	$129,468

Total nonperforming assets, excluding covered assets										
Nonperforming loans to year end loans, excluding covered loans	0.81	%	1.48	%	2.28	%	4.65	%	5.50	%
Nonperforming assets to year end assets, excluding covered assets	0.84	%	1.08	%	2.02	%	3.23	%	4.04	%
Allowance for loan and lease losses to year end loans, excluding covered loans (3)	1.24	%	2.07	%	2.26	%	3.18	%	2.66	%
Allowance for loan and lease losses to nonperforming loans, excluding covered loans	153.70	%	139.71	%	99.17	%	68.41	%	48.43	%
Net loan charge-offs	$3,124		$14,272		$15,352		$33,776		$52,769	
Other nonfinancial data										
Full-time equivalent employees	1,695		1,198		1,256		1,092		715	
Banking branches	142		99		102		84		52	

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(1) These unaudited schedules 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) Noninterest expense, excluding net benefit of operation of other real estate and other personal property, FDIC clawback liability and acquisition-related expenses, divided by the sum of (1)net interest income on a tax equivalent basis, excluding incremental accretion income on the acquired loan portfolio, premium amortization on acquired securities, interest reversals on nonaccrual loans, and prepayment expenses on FHLB advances, and (2)noninterest income on a tax equivalent basis, excluding gain/loss on investment securities and the change in FDIC loss-sharing asset.

(3) The allowance for loan and lease losses to nonperforming loans, excluding covered loans was impacted by including recently acquired loans in the ratio, which had a fair value discount applied as of the acquisition date. Please refer to the section titled “Allowance for Loan and Lease Losses and Unfunded Commitments and Letters of Credit” in

Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operation, of this report for further discussion.

Table of Contents

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Consolidated Five-Year Financial Data (1)

	Years ended December 31,				
	2013	2012	2011	2010	2009
	(in thousands, except per share amounts)				
Interest Income:					
Loans	$266,284	$219,433	$218,420	$157,292	$117,062
Taxable securities	20,459	18,276	21,870	18,276	17,300
Tax-exempt securities	9,837	9,941	10,142	9,348	8,458
Federal funds sold and deposits with banks	355	854	839	963	215
Total interest income	296,935	248,504	251,271	185,879	143,035
Interest Expense:					
Deposits	3,962	5,887	10,478	16,733	23,250
Federal Home Loan Bank advances	(404)	2,608	2,980	2,841	2,759
Prepayment charge on Federal Home Loan Bank advances	1,548	603	—	—	—
Long-term obligations	—	—	579	1,029	1,197
Other borrowings	734	479	498	489	477
Total interest expense	5,840	9,577	14,535	21,092	27,683
Net Interest Income	291,095	238,927	236,736	164,787	115,352
Provision for noncovered loan and lease losses	3,160	13,475	7,400	41,291	63,500
Provision (recapture) for losses on covered loans	(3,261)	25,892	(1,648)	6,055	—
Net interest income after provision	291,196	199,560	230,984	117,441	51,852
Noninterest income (loss)	26,700	27,058	(9,283)	52,781	29,690
Noninterest expense	230,886	162,913	155,759	137,147	94,488
Income (loss) before income taxes	87,010	63,705	65,942	33,075	(12,946)
Provision (benefit) for income taxes	26,994	17,562	17,905	2,291	(8,978)
Net Income (Loss)	$60,016	$46,143	$48,037	$30,784	$(3,968)
Less: Dividends on preferred stock	32	—	—	4,947	4,403
Net Income (Loss) Applicable to Common Shareholders	$59,984	$46,143	$48,037	$25,837	$(8,371)
Per Common Share					
Earnings (loss) basic	$1.24	$1.16	$1.22	$0.73	$(0.38)
Earnings (loss) diluted	$1.21	$1.16	$1.21	$0.72	$(0.38)
Average number of common shares outstanding (basic)	47,993	39,260	39,103	35,209	21,854
Average number of common shares outstanding (diluted)	49,051	39,263	39,180	35,392	21,854
Total assets at year end	$7,161,582	$4,906,335	$4,785,945	$4,256,363	$3,200,930
Long-term obligations	$—	$—	$—	$25,735	$25,669
Cash dividends declared per common share	$0.41	$0.98	$0.27	$0.04	$0.07

(1) These unaudited schedules 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 Operation" of this report.

25

Table of Contents

Selected Quarterly Financial Data (1)

The following table presents selected unaudited consolidated quarterly financial data for each quarter of 2013 and 2012. The information contained in this table reflects all adjustments, which, in the opinion of management, are necessary for a fair presentation of the results of the interim periods.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year Ended December 31,
	(in thousands, except per share amounts)				
2013					
Total interest income	$54,761	$82,268	$81,599	$78,307	$296,935
Total interest expense	1,279	2,279	1,184	1,098	5,840
Net interest income	53,482	79,989	80,415	77,209	291,095
Provision for noncovered loan and lease losses	(1,000)	2,000	4,260	(2,100)	3,160
Provision (recapture) for losses on covered loans	980	(1,712)	(947)	(1,582)	(3,261)
Noninterest income (loss)	1,658	6,808	7,622	10,612	26,700
Noninterest expense	38,049	64,504	64,714	63,619	230,886
Income before income taxes	17,111	22,005	20,010	27,884	87,010
Provision for income taxes	4,935	7,414	6,734	7,911	26,994
Net income	$12,176	$14,591	$13,276	$19,973	$60,016
Per Common Share (2)					
Earnings (basic)	$0.31	$0.28	$0.26	$0.39	$1.24
Earnings (diluted)	$0.31	$0.28	$0.25	$0.38	$1.21
2012					
Total interest income	$69,712	$62,114	$59,469	$57,209	$248,504
Total interest expense	2,649	2,413	2,204	2,311	9,577
Net interest income	67,063	59,701	57,265	54,898	238,927
Provision for noncovered loan and lease losses	4,500	3,750	2,875	2,350	13,475
Provision (recapture) for losses on covered loans	15,685	11,688	(3,992)	2,511	25,892
Noninterest income (loss)	9,574	11,828	(911)	6,567	27,058
Noninterest expense	44,352	39,825	40,936	37,800	162,913
Income before income taxes	12,100	16,266	16,535	18,804	63,705
Provision for income taxes	3,198	4,367	4,655	5,342	17,562
Net income	$8,902	$11,899	$11,880	$13,462	$46,143
Per Common Share (2)					
Earnings (basic)	$0.22	$0.30	$0.30	$0.34	$1.16
Earnings (diluted)	$0.22	$0.30	$0.30	$0.34	$1.16

(1) These unaudited schedules 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 Operation” of this report.

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

Table of Contents

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

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 (“ALLL”) is established to absorb known and inherent losses in our loan and lease portfolio. Our methodology in determining the appropriate level of the ALLL includes components for a general valuation allowance in accordance with the Contingencies topic of the Financial Accounting Standards Board Accounting Standards Codification (“FASB ASC”), a specific valuation allowance in accordance with the Receivables topic of the FASB ASC and an unallocated component. Both quantitative and qualitative factors are considered in determining the appropriate level of the ALLL. Quantitative factors include historical loss experience, delinquency and charge-off trends and the evaluation of specific loss estimates for problem loans. Qualitative factors include existing general economic and business conditions in our market areas as well as the duration of the current business cycle. Changes in any of the factors mentioned could have a significant impact on our calculation of the ALLL. Our ALLL policy and the judgments, estimates and economic assumptions involved are described in greater detail in the “Allowance for Noncovered 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.

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 100 percent of 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.

Acquired Impaired Loans

Loans acquired at a discount for which it is probable that all contractual payments will not be received are generally accounted for under ASC Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality (“ASC 310-30”). In addition, certain acquired loans with evidence of deteriorated credit quality may be accounted for under this topic even if it is not yet probable that all contractual payments will not be received. These loans are recorded at fair value at the time of acquisition. Estimated credit losses are included in the determination of fair value, therefore, an allowance for loan losses is not recorded on the acquisition date. The excess of expected cash flows at acquisition over the initial investment in acquired loans (“accretable yield”) is recorded as interest income over the life of the loans if the timing and amount of the future cash flows is reasonably estimable. Subsequent to acquisition, the Company aggregates individual loans with common risk characteristics into pools of loans. Increases in estimated cash flows

over those expected at the acquisition date are recognized as interest income, prospectively. Decreases in expected cash flows after the acquisition date are recognized by recording an allowance for loan losses.

Table of Contents

Loans accounted for under ASC 310-30 are generally considered accruing and performing loans as the loans accrete interest income over the estimated life of the loan when cash flows are reasonably estimable. Accordingly, acquired impaired loans that are contractually past due are still considered to be accruing and performing loans. If the timing and amount of future cash flows is not reasonably estimable, the loans may be classified as nonaccrual loans and the purchase price discount on those loans is not recorded as interest income until the timing and amount of future cash flows can be reasonably estimated.

FDIC Loss-sharing Asset

In conjunction with certain of the FDIC-assisted acquisitions, the Bank entered into loss-sharing agreements with the FDIC. At the date of the acquisitions, the Company elected to account for amounts receivable under the loss-sharing agreements as an indemnification asset in accordance with the Business Combinations topic of the FASB ASC. Subsequent to initial recognition, the FDIC loss-sharing asset is reviewed quarterly and adjusted for any changes in expected cash flows. These adjustments are measured on the same basis as the related covered assets. Any decrease in expected cash flows due to an increase in expected credit losses will increase the FDIC loss-sharing asset and any increase in expected future cash flows due to a decrease in expected credit losses will decrease the FDIC loss-sharing asset. Increases and decreases to the FDIC loss-sharing asset are recorded as adjustments to noninterest income.

Valuation and Recoverability of Goodwill

Goodwill represented $344.0 million of our $7.16 billion in total assets and $1.05 billion in total shareholders’ equity as of December 31, 2013. The Company has one, 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, as well as our views regarding 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, 2013 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.

Even though we determined that there was no goodwill impairment during 2013, additional adverse changes in the operating environment for the financial services industry may result in a future impairment charge.

Please refer to Note 10 to the Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data” of this report for further discussion.

Table of Contents

2013 Highlights

- Consolidated net income for 2013 was $60.0 million, or $1.21 per diluted common share, compared with a net income of $46.1 million, or $1.16 per diluted common share, in 2012.
- Net interest income for 2013 increased 22% to $291.1 million compared to $238.9 million for 2012. Interest income was $296.9 million in 2013, compared to $248.5 million in 2012. The increase was primarily due to the interest and accretion income related to the West Coast acquisition, which closed on April 1, 2013. Interest expense decreased $3.7 million due to lower average cost of interest-bearing deposits and lower Federal Home Loan Bank advance balances during the year.
- Provision expense on noncovered loans was $3.2 million in 2013, compared to $13.5 million in 2012, a decrease of 77%. Provision expense on covered loans was a recapture of $3.3 million in 2013, compared to a provision of $25.9 million in 2012. The noncovered loan provision for the current year and prior year approximated net charge-offs for the respective period. The provision recapture on covered loans during the current year was due to increased expected future cash flows as remeasured during the current year when compared to the prior year's remeasurement.
- Noninterest income was $26.7 million for 2013, a small decrease from $27.1 million for 2012. The decrease was primarily due to the adverse change of $20.6 million in the change in the FDIC loss-sharing asset, partially offset by increases of 18.4 million in service charges and other fees and $3.7 million in other noninterest expense.
- Noninterest expense increased $68.0 million, or 42% to $230.9 million for 2013 due to additional ongoing noninterest expense resulting from the West Coast acquisition as well as the acquisition-related expenses of $25.5 million recorded in 2013, compared to only $1.8 million for the prior year period.
- Total assets at December 31, 2013 were $7.16 billion, up 46% from $4.91 billion at the end of 2012, primarily due to the acquisition of West Coast.
- Investment securities available for sale totaled $1.66 billion at December 31, 2013 compared to $1.00 billion at December 31, 2012.
- Loans, excluding covered loans, were $4.22 billion, up 67% from $2.53 billion at the end of 2012. The increase from December 31, 2012 was due in large part to the acquisition of West Coast, which added $1.41 billion in loans.
- The allowance for noncovered loan and lease losses was relatively unchanged at $52.3 million at December 31, 2013 compared to $52.2 million at December 31, 2012 due to improved loan quality on a substantially larger loan portfolio. The Company's allowance amounts to 1.24% of total noncovered loans, compared with 2.07% at the end of 2012. This ratio was impacted by including recently acquired loans in the ratio, which had a fair value discount applied as of the acquisition date. Please refer to the section titled "Allowance for Loan and Lease Losses and Unfunded Commitments and Letters of Credit" for further discussion.
- Nonperforming assets totaled $57.9 million at December 31, 2013, up from $48.5 million at December 31, 2012. The increase in nonperforming assets was primarily due to the nonperforming assets acquired from West Coast, which consisted of $9.4 million of nonaccrual loans and $6.9 million of other real estate owned at December 31, 2013. However, nonperforming assets to year end assets, excluding covered loans, decreased to 0.84% at December 31, 2013 compared to 1.48% at December 31, 2012. Net loan charge-offs were $3.1 million in 2013, compared with $14.3 million in 2012.
- Deposits totaled $5.96 billion at December 31, 2013 compared to $4.04 billion at December 31, 2012. Core deposits totaled $5.70 billion at December 31, 2013, comprising 96% of total deposits compared to $3.80 billion, or 94%, of total deposits at December 31, 2012.
- The Company is well capitalized with a total risk-based capital ratio of 14.68% at December 31, 2013 compared to 20.62% at December 31, 2012. The decrease in the total risk-based capital ratio was due to the deployment of capital for the acquisition of West Coast.
- The number of branches increased from 99 at December 31, 2012 to 142 at December 31, 2013 due to the acquisition of West Coast.

Business Combinations

On April 1, 2013, the Company completed its acquisition of West Coast. The Company acquired approximately $2.63 billion in assets, including $1.41 billion in loans measured at fair value, and approximately $1.88 billion in deposits. See Note 2 to the Consolidated Financial Statements in "Item 8. Financial Statements" of this report for further information regarding this acquisition.

On August 5, 2011, the Bank acquired certain assets and assumed certain liabilities of the Bank of Whitman from the FDIC in an FDIC-assisted transaction. The Bank and the FDIC entered into a modified whole bank purchase and assumption agreement without loss share. The bank acquired approximately $437.5 million in assets, including $200.0 million in loans measured at fair value, and approximately $401.1 million in deposits located in nine branches in eastern Washington. The Bank participated in a competitive bid process in which the accepted bid included no deposit premium on non-brokered deposits and a negative bid of $30.0 million on net assets acquired.

On May 27, 2011, the Bank acquired certain assets and assumed certain liabilities of First Heritage Bank from the FDIC in an FDIC-assisted transaction. The Bank acquired approximately $165.0 million in assets and approximately $159.5 million in deposits located in five branches in the King and Snohomish counties of Washington. First Heritage Bank's loans and other real estate assets acquired of approximately $89.7 million are subject to a loss-sharing agreement with the FDIC. The Bank participated in a competitive bid process in which the accepted bid included a 0.75% deposit premium on non-brokered deposits and a negative bid of $10.5 million on net assets acquired.

On May 20, 2011, the Bank acquired certain assets and assumed certain liabilities of Summit Bank from the FDIC, in an FDIC-assisted transaction. The Bank acquired approximately $131.1 million in assets and approximately $123.3 million in deposits located in three branches in the northern Puget Sound region of Washington. Summit Bank's loans and other real estate assets acquired of approximately $71.9 million are subject to a loss-sharing agreement with the FDIC. The Bank participated in a competitive bid process in which the accepted bid included a 0.75% deposit premium on non-brokered deposits and a negative bid of $9.5 million on net assets acquired.

Table of Contents

RESULTS OF OPERATIONS

Summary

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

	Year ended 2013	Increase (Decrease) Amount	%	Year ended 2012	Increase (Decrease) Amount	%	Years ended December 31, 2011	2010	2009
	(dollars in thousands, except per share amounts)								
Interest income	$296,935	$48,431	19	$248,504	$(2,767)	(1)	$251,271	$185,879	$143,035
Interest expense	5,840	(3,737)	(39)	9,577	(4,958)	(34)	14,535	21,092	27,683
Net interest income	291,095	52,168	22	238,927	2,191	1	236,736	164,787	115,352
Provision for loan and lease losses	3,160	(10,315)	(77)	13,475	6,075	82	7,400	41,291	63,500
Provision (recapture) for losses on covered loans	(3,261)	(29,153)	(113)	25,892	27,540	(1,671)	(1,648)	6,055	—
Noninterest income (loss)	26,700	(358)	(1)	27,058	36,341	(391)	(9,283)	52,781	29,690
Noninterest expense:									
Compensation and employee benefits	125,432	39,998	47	85,434	3,882	5	81,552	69,780	47,275
Other expense	105,454	27,975	36	77,479	3,272	4	74,207	67,367	47,213
Total	230,886	67,973	42	162,913	7,154	5	155,759	137,147	94,488
Income (loss) before income taxes	87,010	23,305	37	63,705	(2,237)	(3)	65,942	33,075	(12,946)
Provision (benefit) for income taxes	26,994	9,432	54	17,562	(343)	(2)	17,905	2,291	(8,978)
Net income (loss)	$60,016	$13,873	30	$46,143	$(1,894)	(4)	$48,037	$30,784	$(3,968)
Less: Dividends on preferred stock	32	32	—	—	—	—	—	4,947	4,403
Net income (loss) applicable to common shareholders	$59,984	$13,841	30	$46,143	$(1,894)	(4)	$48,037	$25,837	$(8,371)
Earnings (loss) per common share, diluted	$1.21	$0.05	4	$1.16	$(0.05)	(4)	$1.21	$0.72	$(0.38)

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.

Table of Contents

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 rate paid on 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

	2013				2012				2011			
	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, excluding covered loans, net [1][3]	$3,783,925	$213,191	5.63	%	$2,413,307	$131,413	5.45	%	$2,064,568	$126,520	6.13	%
Covered loans, net [2]	356,901	53,712	15.05	%	487,213	88,785	18.22	%	542,698	92,467	17.04	%
Taxable securities	1,155,066	20,459	1.77	%	740,418	18,276	2.47	%	675,010	21,870	3.24	%
Tax exempt securities [3]	319,678	15,262	4.77	%	270,876	15,423	5.69	%	253,881	15,736	6.20	%
Interest-earning deposits with banks and federal funds sold	138,973	355	0.26	%	334,910	854	0.26	%	335,267	839	0.25	%
Total interest-earning assets	5,754,543	302,979	5.27	%	4,246,724	254,751	6.00	%	3,871,424	257,432	6.65	%
Other earning assets	111,228				76,327				57,518			
Noninterest-earning assets	692,746				503,232				580,068			
Total assets	$6,558,517				$4,826,283				$4,509,010			
LIABILITIES AND SHAREHOLDERS' EQUITY												
Certificates of deposit	$535,656	$1,998	0.37	%	$543,349	$3,257	0.60	%	$636,074	$5,093	0.80	%
Savings accounts	445,666	94	0.02	%	298,223	77	0.03	%	247,073	152	0.06	%
Interest-bearing demand	1,048,482	587	0.06	%	790,887	869	0.11	%	704,484	1,393	0.20	%
Money market accounts	1,566,539	1,283	0.08	%	1,051,171	1,684	0.16	%	969,548	3,840	0.40	%
Total interest-bearing deposits	3,596,343	3,962	0.11	%	2,683,630	5,887	0.22	%	2,557,179	10,478	0.41	%
Federal Home Loan Bank advances [4]	51,030	1,144	2.24	%	100,337	3,211	3.20	%	120,419	2,980	2.47	%
Long-term subordinated debt	—	—	—	%	—	—	—	%	14,746	579	3.93	%
Other borrowings and interest-bearing liabilities	35,772	734	2.05	%	25,000	479	1.92	%	24,899	498	2.00	%

Total interest-bearing liabilities	3,683,145	5,840	0.16	%	2,808,967	9,577	0.34	%	2,717,243	14,535	0.53	%
Noninterest-bearing deposits	1,824,234				1,192,036				984,220			
Other noninterest-bearing liabilities	72,039				64,095				76,821			
Shareholders' equity	979,099				761,185				730,726			
Total liabilities & shareholders' equity	$6,558,517				$4,826,283				$4,509,010			
Net interest income		$297,139				$245,174				$242,897		
Net interest spread			5.11	%			5.66	%			6.12	%
Net interest margin			5.16	%			5.77	%			6.27	%
Average interest-earning assets to average interest-bearing liabilities			156.24	%			151.18	%			142.48	%

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(1) Nonaccrual loans were included in loans. Amortized net deferred loan fees and net unearned discounts on certain acquired loans were included in the interest income calculations. The amortization of net deferred loan fees was $3.3 million in 2013, $2.1 million in 2012 and $1.3 million in 2011. The accretion of net unearned discounts on certain acquired loans was $28.4 million in 2013, $5.9 million in 2012, and $14.3 million in 2011.

(2) Incremental accretion on acquired impaired loans is included in covered loan interest earned. The incremental accretion income on acquired impaired loans was $29.8 million in 2013, $55.3 million in 2012 and $53.1 million in 2011.

(3) Yields on fully taxable equivalent basis, based on a marginal tax rate of 35%. The tax equivalent yield adjustment to interest earned on noncovered loans was $619 thousand, $765 thousand and $567 thousand for the years ended December 31, 2013, 2012, and 2011, respectively. The tax equivalent yield adjustment to interest earned on tax exempt securities was $5.4 million, $5.5 million and $5.6 million for the years ended December 31, 2013, 2012, and 2011, respectively.

(4) Federal Home Loan Bank advances includes prepayment charges of $1.5 million and $603 thousand in 2013 and 2012, respectively. No prepayment charges were recorded on Federal Home Loan Bank advances during 2011. As a result of the 2013 prepayment, the Company recorded $874 thousand in premium amortization, which partially offset the impact of the prepayment charge.

Table of Contents

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 2013 and 2012, as well as between 2012 and 2011 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

	2013 Compared to 2012 Increase (Decrease) Due to			2012 Compared to 2011 Increase (Decrease) Due to		
	Volume	Rate	Total	Volume	Rate	Total
	(in thousands)					
Interest Income						
Loans, excluding covered loans, net	$77,073	$4,705	$81,778	$19,937	$(15,044)	$4,893
Covered loans, net	(21,242)	(13,831)	(35,073)	(9,845)	6,163	(3,682)
Taxable securities	8,313	(6,130)	2,183	1,973	(5,567)	(3,594)
Tax-exempt securities	2,542	(2,703)	(161)	1,015	(1,328)	(313)
Interest earning deposits with banks and federal funds sold	(500)	1	(499)	(1)	16	15
Interest income	$66,186	$(17,958)	$48,228	$13,079	$(15,760)	$(2,681)
Interest Expense						
Deposits:						
Certificates of deposit	$(45)	$(1,214)	$(1,259)	$(674)	$(1,162)	$(1,836)
Savings accounts	33	(16)	17	27	(102)	(75)
Interest-bearing demand	228	(510)	(282)	155	(679)	(524)
Money market accounts	624	(1,025)	(401)	299	(2,455)	(2,156)
Total interest on deposits	840	(2,765)	(1,925)	(193)	(4,398)	(4,591)
Federal Home Loan Bank advances	(1,284)	(783)	(2,067)	(550)	781	231
Long-term subordinated debt	—	—	—	(579)	—	(579)
Other borrowings and interest-bearing liabilities	219	36	255	—	(19)	(19)
Interest expense	$(225)	$(3,512)	$(3,737)	$(1,322)	$(3,636)	$(4,958)
	$66,411	$(14,446)	$51,965	$14,401	$(12,124)	$2,277

Comparison of 2013 with 2012

Taxable-equivalent net interest income totaled $297.1 million in 2013, compared with $245.2 million for 2012. The increase in net interest income during 2013 resulted from the increase in the size of the noncovered loan portfolio as well as lower rates paid on deposits. These increases were partially offset by decreased balances and lower incremental accretion on covered loans. The incremental accretion income represents the amount of income recorded on the acquired loans above the contractual rate stated in the individual loan rates. The additional income stems from the discount established at the time these loan portfolios were acquired, and increases net interest income.

Table of Contents

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, 2013		Year Ended December 31, 2012		Year ended December 31, 2011	
	(in thousands)					
Incremental accretion income due to:						
FDIC acquired impaired loans	$29,815		$55,305		$53,079	
Other FDIC acquired loans	2,211		5,872		14,281	
Other acquired loans	26,200		—		—	
Total incremental accretion income	$58,226		$61,177		$67,360	
Net interest margin	5.16	%	5.77	%	6.27	%
Operating net interest margin (1)	4.32	%	4.36	%	4.53	%

(1) Operating net interest margin is a Non-GAAP measurement. See Non-GAAP measures section of Item 7, Management's Discussion and Analysis.

The Company's net interest margin decreased from 5.77% for the year ended December 31, 2012 to 5.16% for the current year due to a decrease in yield on securities as well as the decreased impact of accretion income on the loan portfolio. Although total accretion income was comparable to the prior year period, the impact to the net interest margin was greater for the prior year period due to the lower average interest-earning assets for the prior year period. The Company's operating net interest margin has remained stable from the prior year period, decreasing only 4 basis points due to the combination of lower rates on loans as well as securities due to the overall decreasing trend in rates. For a discussion of the methodologies used by management in recording interest income on loans please see "Critical Accounting Policies" section of this discussion and Note 1 to the Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data” of this report.

Comparison of 2012 with 2011

Taxable-equivalent net interest income totaled $245.2 million in 2012, compared with $242.9 million for 2011. The increase in net interest income during 2012 resulted primarily from the increase in the size of the noncovered loan portfolio as well as lower rates paid on deposits.

The Company's net interest margin decreased from 6.27% for the year ended December 31, 2011 to 5.77% for the year ended December 31, 2012. The operating net interest margin also decreased from 4.53% in 2011 to 4.36% for 2012. The decreases were due to the combination of lower rates on noncovered loans as well as securities due to the overall decreasing trend in rates. The net interest margin also decreased due to lower accretion income on the acquired loan portfolios. The Company recorded $61.2 million in accretion income in 2012 compared to $67.4 million in 2011.

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 over the methodology used by management in determining the adequacy of the ALLL see the following “Allowance for Loan and Lease Losses and Unfunded Commitments and Letters of Credit” and “Critical Accounting Policies” sections of this discussion.

For noncovered loans, the Company recorded expense of $3.2 million and $13.5 million through the provision for loan and lease losses in 2013 and 2012, respectively. The provision recorded in 2013 reflects management’s ongoing assessment of the credit quality of the Company’s noncovered loan portfolio, which is impacted by various economic trends, including the slow recovery of the Pacific Northwest economy. Additional factors affecting the provision include credit quality migration, 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.

34

Table of Contents

For the years ended December 31, 2013, 2012 and 2011, net noncovered loan charge-offs amounted to $3.1 million, $14.3 million, and $15.4 million, respectively. Loans in the commercial business portfolio accounted for 80% of the 2013 net charge-offs compared to 60% of the 2012 net charge-offs.
Impairment valuation adjustments and allowance for loan and lease losses on acquired loans, including those subject to the Company's loss-share agreements with the FDIC, are accounted for separately from the allowance for loan and lease losses. The Company recorded a recapture of $3.3 million through the provision for losses on covered loans in 2013 compared to a provision of $25.9 million on covered loans in 2012. The provision recapture recorded in 2013 was due to increased expected future cash flows as remeasured during the current period which were in excess of those expected from the remeasurement of cash flows during the prior period. The $3.3 million in provision recapture is partially offset by a $2.6 million charge to the change in FDIC loss-sharing asset, resulting in a positive pre-tax earnings impact of $652 thousand.
Noninterest Income (Loss)

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

	Years ended December 31,						
	2013	$ Change	% Change	2012	$ Change	% Change	2011
	(dollars in thousands)						
Service charges and other fees	$48,351	$18,353	61 %	$29,998	$3,366	13 %	$26,632
Gain on bank acquisitions, net of tax	—	—	— %	—	(1,830)	(100)%	1,830
Merchant services fees	8,812	658	8 %	8,154	769	10 %	7,385
Investment securities gains (losses)	462	(3,271)	(88)%	3,733	6,549	(233)%	(2,816)
Bank owned life insurance (BOLI)	3,570	709	25 %	2,861	673	31 %	2,188
Other	10,522	3,743	55 %	6,779	1,785	36 %	4,994
Noninterest income before change in FDIC loss-sharing asset	71,717	20,192	39 %	51,525	11,312	28 %	40,213
Change in FDIC loss-sharing asset	(45,017)	(20,550)	84 %	(24,467)	25,029	(51)%	(49,496)
Total noninterest income (loss)	$26,700	$(358)	(1)%	$27,058	$36,341	(391)%	$(9,283)

Comparison of 2013 with 2012
The $20.2 million increase in noninterest income excluding the change in FDIC loss-sharing asset from the prior year was primarily due to the increase of $18.4 million in service charges and other fees as well as an increase of $3.7 million in other noninterest income. The increase in service charges and other fees as well as other noninterest income was due to the increased customer base from the West Coast acquisition. These increases were partially offset by a decrease in investment securities gains primarily due to the $3.0 million impairment charge recorded during 2011 on a single municipal obligation for which we received full repayment during 2012, resulting in a gain of approximately $3.0 million.
The change in the FDIC loss-sharing asset recognizes the decreased amount that Columbia expects to collect from the FDIC under the terms of its loss-sharing agreements. The Company remeasures contractual and expected cash flows of covered loans on a quarterly basis. When the quarterly remeasurement results in an increase in expected future cash flows due to a decrease in expected credit losses the nonaccretable difference decreases and the accretable yield of the related loan pool is increased and recognized as interest income over the life of the loan portfolio. As a result of the improved expected cash flows, the FDIC loss-sharing asset is reduced first by the amount of any impairment previously recorded and, second, by increased amortization over the remaining life of the related loan portfolio. For additional information on the FDIC loss-sharing asset, please see the "Loss-sharing Asset" section of Management's Discussion and Analysis and Note 8 to the Consolidated Financial Statements in "Item 8. Financial Statements and

Supplementary Data” of this report.

Table of Contents

Other Noninterest Income: The following table presents selected items of “other noninterest income” and the related dollar and percentage change from period to period:

	Years ended December 31,						
	2013	$ Change	% Change	2012 (1)	$ Change	% Change	2011 (1)
	(dollars in thousands)						
Mortgage banking	1,788	562	46%	1,226	497	68%	729
Small Business Administration premiums	1,100	493	81%	607	556	1,090%	51
Letter of credit fees	439	47	12%	392	(23)	(6)%	415
Currency exchange income	376	12	3%	364	18	5%	346
Miscellaneous fees on loans	2,719	1,339	97%	1,380	154	13%	1,226
Interest rate swap income	459	(63)	(12)%	522	189	57%	333
Credit card fees	1,287	962	296%	325	65	25%	260
Miscellaneous	2,354	391	20%	1,963	329	20%	1,634
Total other noninterest income	$10,522	$3,743	55%	$6,779	$1,785	36%	$4,994

(1) Reclassified to conform to the current period's presentation.

The increase in other noninterest income was due to increases in several components of noninterest income, including miscellaneous fees on loans, credit card fees, mortgage banking income and Small Business Administration premiums. The increase in miscellaneous loan fees was primarily a result of the larger loan portfolio due to the acquisition of West Coast as well as a general increase in prepayment fees.

Comparison of 2012 with 2011

Noninterest income before the change in FDIC loss-sharing asset for the year ended December 31, 2012 was $51.5 million, an increase of $11.3 million from 2011. The increase in noninterest income before the change in FDIC loss-sharing asset from the prior year was primarily due to the increase in investment securities gains resulting from the full payment received in 2012 from a municipal bond that was impaired during 2011. Also contributing to the total increase in noninterest income from 2011 to 2012 was a reduction in the charge to the change in FDIC loss-sharing asset from $49.5 million in 2011 to $24.5 million in 2012.

For additional information on the FDIC loss-sharing asset, please see the “Loss-sharing Asset” section of Management’s Discussion and Analysis and Note 8 to the Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data” of this report.

Noninterest Expense

Noninterest expense was $230.9 million in 2013, an increase of $68.0 million, or 42%, over 2012. Noninterest expense increased $7.2 million, or 5%, in 2012 over 2011.

Table of Contents

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,						
	2013	$ Change	% Change	2012	$ Change	% Change	2011
	(dollars in thousands)						
Compensation and employee benefits	$125,432	$39,998	47 %	$85,434	$3,882	5 %	$81,552
All other noninterest expense:							
Occupancy	33,054	13,023	65 %	20,031	1,068	6 %	18,963
Merchant processing	3,551	(61)	(2)%	3,612	(86)	(2)%	3,698
Advertising and promotion	4,090	440	12 %	3,650	(36)	(1)%	3,686
Data processing	14,076	4,362	45 %	9,714	1,230	14 %	8,484
Legal and professional services	12,338	3,423	38 %	8,915	2,429	37 %	6,486
Taxes, license and fees	5,033	297	6 %	4,736	290	7 %	4,446
Regulatory premiums	4,706	1,322	39 %	3,384	(953)	(22)%	4,337
Net cost of operation of noncovered other real estate owned	1,249	(3,517)	(74)%	4,766	(2,650)	(36)%	7,416
Net benefit of operation of covered other real estate owned	(8,650)	(1,915)	28 %	(6,735)	1,703	(20)%	(8,438)
Amortization of intangibles	6,045	1,600	36 %	4,445	126	3 %	4,319
FDIC clawback expense (recovery)	278	332	(615)%	(54)	(3,710)	(101)%	3,656
Other	29,684	8,669	41 %	21,015	3,861	23 %	17,154
Total all other noninterest expense	105,454	27,975	36 %	77,479	3,272	4 %	74,207
Total noninterest expense	$230,886	$67,973	42 %	$162,913	$7,154	5 %	$155,759

Comparison of 2013 with 2012

Compensation and employee benefits expense increased to $125.4 million, or 47%, in 2013 from $85.4 million in 2012 primarily due to the added personnel costs associated with the West Coast acquisition.

The remaining noninterest expense categories increased $28.0 million, or 36%, between 2012 and 2013. The increase was primarily due to $25.5 million in acquisition-related expenses incurred during 2013 related to the acquisition of West Coast, for which there were only $1.8 million incurred during 2012, as well as additional ongoing noninterest expense related to the acquisition.

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,	
	2013	2012
	(in thousands)	
Noninterest Expense		
Compensation and employee benefits	$8,440	$—
Occupancy	4,684	—
Advertising and promotion	877	2
Data processing and communications	767	—
Legal and professional fees	4,766	1,760
Other	5,954	18
Total impact of acquisition-related costs to noninterest expense	$25,488	$1,780

37

Table of Contents

Other Noninterest Expense: The following table presents selected items of "other noninterest expense" and the related dollar and percentage change from period to period:

	Years ended December 31,						
	2013	$ Change	% Change	2012	$ Change	% Change	2011
	(dollars in thousands)						
CRA partnership investment expense	$739	$130	21 %	$609	$11	2 %	$598
Software support & maintenance	2,960	1,386	88 %	1,574	212	16 %	1,362
Federal Reserve Bank processing fees	214	(2)	(1)%	216	(118)	(35)%	334
Supplies	1,568	436	39 %	1,132	(144)	(11)%	1,276
Postage	3,463	1,375	66 %	2,088	(43)	(2)%	2,131
Sponsorships & charitable contributions	1,162	382	49 %	780	(343)	(31)%	1,123
Travel	1,960	592	43 %	1,368	120	10 %	1,248
Investor relations	459	281	158 %	178	4	2 %	174
Insurance	1,801	771	75 %	1,030	194	23 %	836
Director expenses	634	83	15 %	551	94	21 %	457
Employee expenses	1,049	310	42 %	739	103	16 %	636
ATM Network	2,005	874	77 %	1,131	73	7 %	1,058
Miscellaneous	11,670	2,051	21 %	9,619	3,698	62 %	5,921
Total other noninterest expense	$29,684	$8,669	41 %	$21,015	$3,861	23 %	$17,154

Other noninterest expense increased $8.7 million primarily due to acquisition-related costs of $6.0 million recorded to other noninterest expense during 2013 compared to only $18 thousand in 2012.

Comparison of 2012 with 2011

Compensation and employee benefits expense increased to $85.4 million, or 5% in 2012 from $81.6 million in 2011 reflecting a full year of staffing increases in 2012 related to the three FDIC-assisted acquisitions that occurred in 2011. The remaining noninterest expense categories increased $3.3 million, or 4%, between 2011 and 2012. The increase was primarily due to the $2.4 million increase in legal and professional fees, which included $1.8 million in acquisition-related costs.

Income Tax

For the years ended December 31, 2013, 2012 and 2011 we recorded income tax provisions of $27.0 million, $17.6 million and $17.9 million, respectively. The effective tax rate was 31% in 2013, 28% in 2012 and 27% in 2011. For additional information, see Note 22 to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this report.

Our effective tax rate increased during the current year primarily due to the acquisition of West Coast. The majority of West Coast's operations were located in the State of Oregon which has a state income tax. As a result, a larger portion of our income was subject to state income taxes. In addition, certain acquisition-related costs were not tax deductible which also increased our effective tax rate. However, our effective tax rate continues to be less than our federal statutory rate of 35% primarily due to the amount of tax-exempt municipal securities held in the investment portfolio, tax-exempt earnings on bank owned life insurance, and tax credits received on investments in affordable housing partnerships.

Table of Contents

Financial Condition

Our total assets increased 46% to $7.16 billion at December 31, 2013 from $4.91 billion at December 31, 2012, primarily due to the acquisition of West Coast. Interest-earning deposits with banks decreased $374.8 million as the Company accumulated cash in overnight funds near the end of 2012 in anticipation of payment of the cash portion of the West Coast acquisition consideration. Our investment portfolio increased $662.4 million or 66%, due to the acquisition of West Coast. The net loan portfolio increased $1.58 billion to $4.44 billion, primarily due to the acquisition of West Coast, which added $1.41 billion in loans. The FDIC loss-sharing asset decreased $56.5 million or 59% to $39.8 million at December 31, 2013. The decrease in the FDIC loss-sharing asset was primarily due to $9.2 million in cash received from the FDIC and $36.7 million in amortization. Premises and equipment, net increased $36.0 million or 30%, as our number of branches increased due to the acquisition of West Coast. Deposit balances increased $1.92 billion to $5.96 billion, primarily due to the acquisition of West Coast, which added $1.88 billion in deposits. FHLB advances increased $30.0 million to $36.6 million.

Investment Portfolio

We invest in securities to generate revenues 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. As of December 31, 2013 we had 253 available for sale securities in an unrealized loss position. Based on past experience with these types of securities and our own financial performance, we do not currently intend to sell any impaired securities nor does available evidence suggest it is more likely than not that management will be required to sell any impaired securities before the recovery of the amortized cost basis. We review these investments for other-than-temporary impairment on an ongoing basis.

Purchases during 2013 totaled $458.0 million while maturities, repayments and sales totaled $460.9 million compared to purchases of $322.3 million and maturities, repayments and sales of $221.0 million during 2012. In addition to the purchases during 2013, $730.8 million of securities were acquired through the acquisition of West Coast.

At December 31, 2013 U.S. government agency and government-sponsored enterprise mortgage-backed securities (“MBS”) and collateralized mortgage obligations (“CMO”) comprised 57% of our investment portfolio, state and municipal securities were 22%, government agency and government-sponsored enterprise securities were 20%, and government securities were 1%. 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 0 months at December 31, 2013. This duration takes into account calls, where appropriate, and consensus prepayment speeds.

During the fourth quarter of 2012, the Company received full payment on a municipal bond that was determined to be other-than-temporarily impaired during December 2011. The $2.95 million gain related to this security was recorded in the line item Investment securities gains (losses), net in the Consolidated Statements of Income.

Table of Contents

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

	December 31, 2013			
	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	$248	$247	3.10	%
Over 1 through 5 years	$19,115	$19,971	4.39	%
Over 5 through 10 years	233,632	232,653	2.09	%
Over 10 years	708,447	695,537	1.88	%
Total	$961,442	$948,408	1.98	%
State and municipal securities (2)				
Due through 1 year	$12,881	$13,043	4.36	%
Over 1 through 5 years	58,538	60,040	3.37	%
Over 5 through 10 years	124,430	125,017	3.80	%
Over 10 years	161,164	166,370	5.82	%
Total	$357,013	$364,470	4.67	%
U.S. government agency and government-sponsored enterprise securities (1)				
Due through 1 year	$750	$749	0.20	%
Over 1 through 5 years	225,173	221,582	0.87	%
Over 5 through 10 years	109,748	103,708	1.41	%
Total	$335,671	$326,039	1.04	%
U.S. government securities (1)				
Due through 1 year	$200	$200	0.18	%
Over 1 through 5 years	1,049	1,049	0.20	%
Over 5 through 10 years	19,832	18,865	1.15	%
Total	$21,081	$20,114	1.09	%

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(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, based on a marginal tax rate of 35%.

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

FHLB Stock

As a condition of membership in the Federal Home Loan Bank of Seattle ("FHLB"), the Company is required to purchase and hold a certain amount of FHLB stock. Our stock purchase requirement is based, in part, upon the outstanding principal balance of advances from the FHLB and is calculated in accordance with the Capital Plan of the FHLB. Our FHLB stock has a par value of $100 and is redeemable at par for cash.

FHLB stock is carried at cost and is subject to recoverability testing per the Financial Services – Depository and Lending topic of the FASB ASC. The FHLB is currently classified as adequately capitalized by the Federal Housing Finance Agency ("Finance Agency"). Accordingly, as of December 31, 2013 we did not recognize an impairment charge related to our FHLB stock holdings. We will continue to monitor the financial condition of the FHLB as it relates to, among other things, the recoverability of our investment.

Table of Contents

Loan Portfolio

We are 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,									
	2013	% of Total	2012	% of Total	2011	% of Total	2010	% of Total	2009	% of Total
	(dollars in thousands)									
Commercial business	$1,561,782	37.0 %	$1,155,158	45.7 %	$1,031,721	43.9 %	$795,369	41.5 %	$744,440	37.1
Real estate:										
One-to-four family residential	108,317	2.6 %	43,922	1.7 %	64,491	2.8 %	49,383	2.6 %	63,364	3.1
Commercial and multifamily residential	2,080,075	49.2 %	1,061,201	42.0 %	998,165	42.5 %	794,329	41.5 %	856,260	42.6
Total real estate	2,188,392	51.8 %	1,105,123	43.7 %	1,062,656	45.3 %	843,712	44.1 %	919,624	45.7
Real estate construction:										
One-to-four family residential	54,155	1.3 %	50,602	2.0 %	50,208	2.1 %	67,961	3.5 %	107,620	5.3
Commercial and multifamily residential	126,390	3.0 %	65,101	2.7 %	36,768	1.6 %	30,185	1.6 %	41,829	2.1
Total real estate construction	180,545	4.3 %	115,703	4.7 %	86,976	3.7 %	98,146	5.1 %	149,449	7.4
Consumer	357,014	8.5 %	157,493	6.2 %	183,235	7.8 %	182,017	9.5 %	199,987	10.0
Subtotal	4,287,733	101.6 %	2,533,477	100.3 %	2,364,588	100.7 %	1,919,244	100.2 %	2,013,500	100.
Less deferred loan fees and other	(68,282)	(1.6)%	(7,767)	(0.3)%	(16,217)	(0.7)%	(3,490)	(0.2)%	(4,616)	(0.2
Total loans not covered under FDIC loss-share agreements, net of deferred fees	4,219,451	100.0 %	2,525,710	100.0 %	2,348,371	100.0 %	1,915,754	100.0 %	2,008,884	100.
Loans covered under FDIC loss-share										

agreements					
Covered loans	277,671	391,337	531,929	517,061	—
Total loans, net (before Allowance for Loan and Lease Losses)	$4,497,122	$2,917,047	$2,880,300	$2,432,815	$2,008,884
Loans held for sale	$735	$2,563	$2,148	$754	$—

At December 31, 2013, total loans were $4.50 billion compared with $2.92 billion in the prior year, an increase of $1.58 billion or 54%. The noncovered loan portfolio increased $1.69 billion, or 67% from the previous year. The increase in the noncovered loan portfolio was primarily due to the acquisition of West Coast, which added $1.41 billion in loans. Net covered loans were $277.7 million at December 31, 2013 compared with $391.3 million in the prior year, a decrease of $113.7 million or 29%. Total loans represented 62% and 58% of total assets at December 31, 2013 and 2012, 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.

Table of Contents

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 and Oregon.
Covered Loans: Covered 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. These loans are generically referred to as covered because they are generally subject to one of the loss-sharing agreements between the Company and the FDIC. The loss-sharing agreements relating to the 2010 FDIC-assisted transactions limit the Company’s losses to 20% of the contractual balance outstanding up to a stated threshold amount of $206.0 million for Columbia River Bank and $66.0 million for American Marine Bank. If losses exceed the stated threshold, the Company’s share of the remaining losses decreases to 5%. The loss-sharing agreements relating to the 2011 FDIC-assisted transactions limit the Company's losses to 20% of the contractual balance outstanding. The loss-sharing provisions of the 2010 and 2011 agreements for commercial and single family residential mortgage loans are in effect for five years and ten years, respectively, from the acquisition dates and the loss recovery provisions for such loans are in effect for eight years and ten years, respectively, from the acquisition dates. At December 31, 2013, approximately 96% of covered loans were subject to an FDIC loss-sharing agreements and approximately 90% were accounted for as acquired, impaired loans.
The following table is a rollforward of acquired, impaired loans accounted for under ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality for the years ended December 31, 2013 and 2012:

	Contractual Cash Flows	Nonaccretable Difference	Accretable Yield	Carrying Amount
	(in thousands)			
Balance at December 31, 2011	$835,556	$(91,317)	$(259,669)	$484,570
Principal reductions and interest payments	(175,837)	—	—	(175,837)
Accretion of loan discount	—	—	86,671	86,671
Changes in contractual and expected cash flows due to remeasurement	(73,483)	51,084	(6,746)	(29,145)
Disposals	(30,128)	2,862	12,856	(14,410)
Balance at December 31, 2012	$556,108	$(37,371)	$(166,888)	$351,849
Principal reductions and interest payments	(147,191)	—	—	(147,191)
Accretion of loan discount	—	—	51,816	51,816
Changes in contractual and expected cash flows due to remeasurement	(27,405)	25,039	4,267	1,901
Disposals	(17,176)	477	6,898	(9,801)
Balance at December 31, 2013	$364,336	$(11,855)	$(103,907)	$248,574

For additional information on our loan portfolio, including amounts pledged as collateral on borrowings, see Note 5 and Note 8 to the Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data” of this report.

Table of Contents

Maturities and Sensitivities of Loans to Changes in Interest Rates

The following table presents the maturity distribution of our covered and noncovered 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, 2013:

	Maturing Due Through 1 Year	Over 1 Through 5 Years	Over 5 Years	Total
	(in thousands)			
Commercial business	$641,237	$470,689	$450,373	$1,562,299
Real estate construction	128,239	28,644	23,662	180,545
Total	$769,476	$499,333	$474,035	$1,742,844
Fixed rate loans due after 1 year		$274,103	$328,323	$602,426
Variable rate loans due after 1 year		225,230	145,712	370,942
Total		$499,333	$474,035	$973,368

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 the following “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.

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. 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 Loans: The Consolidated Financial Statements are prepared according to the accrual basis of accounting. This includes the recognition of interest income on the loan portfolio, unless a loan is placed on nonaccrual status, which occurs when there are serious doubts about the collectability of principal or interest. Our policy is generally to discontinue the accrual of interest on all loans past due 90 days or more and place them on nonaccrual status. Loans accounted for under ASC 310-30 are generally considered accruing and performing as the loans accrete interest income over the estimated lives of the loans when cash flows are reasonably estimable. Accordingly, impaired loans accounted for under ASC 310-30 that are contractually past due are still considered to be

accruing and performing loans.

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) in most cases restructured loans, for which concessions, including the reduction of interest rates below a rate otherwise available to that borrower or the deferral of interest or principal, have been granted due to the borrower’s weakened financial condition (interest on restructured loans is accrued at the restructured rates

Table of Contents

when it is anticipated that no loss of original principal will occur); (iii) other real estate owned; and (iv) other personal property owned, if applicable. Nonperforming assets totaled $57.9 million, or 0.84% of year-end assets at December 31, 2013, compared to $48.5 million, or 1.08% of year end assets at December 31, 2012.
The following table sets forth information with respect to our noncovered, nonperforming loans, other real estate owned, other personal property owned, total nonperforming assets, accruing loans past-due 90 days or more, and potential problem loans:

	December 31,				
	2013	2012	2011	2010	2009
	(dollars in thousands)				
Nonaccrual:					
Commercial business	$12,609	$9,299	$10,243	$32,367	$18,979
Real estate:					
One-to-four family residential	2,667	2,349	2,696	2,996	1,860
Commercial and multifamily residential	11,043	19,204	19,485	23,192	24,354
Real estate construction:					
One-to-four family residential	3,705	4,900	10,785	18,004	47,653
Commercial and multifamily residential	—	—	7,067	7,584	16,230
Consumer	3,991	1,643	3,207	5,020	1,355
Total nonaccrual loans:	34,015	37,395	53,483	89,163	110,431
Noncovered real estate owned and other personal property owned	23,918	11,108	31,905	30,991	19,037
Total nonperforming assets	$57,933	$48,503	$85,388	$120,154	$129,468
Accruing loans past-due 90 days or more	$—	$—	$—	$—	$—
Forgone interest on nonperforming loans	$2,860	$3,388	$5,326	$6,389	$7,637
Interest recognized on nonperforming loans	$1,306	$1,114	$1,017	$2,035	$2,437
Potential problem loans	$13,356	$5,915	$10,618	$3,793	$11,423
Allowance for loan and lease losses	$52,280	$52,244	$53,041	$60,993	$53,478
Allowance for loan and lease losses to nonperforming loans	153.70 %	139.71 %	99.17 %	68.41 %	48.43 %
Nonperforming loans to year end loans	0.81 %	1.48 %	2.28 %	4.65 %	5.50 %
Nonperforming assets to year end assets	0.84 %	1.08 %	2.02 %	3.23 %	4.04 %

At December 31, 2013 nonperforming loans decreased to 0.81% of year end loans, down from 1.48% of year end loans at December 31, 2012. Nonperforming commercial business loans increased from $9.3 million, or 25% of nonperforming loans at December 31, 2012 to $12.6 million or 37% of nonperforming loans at year end 2013. The increase in nonperforming commercial business loans was primarily the result of the West Coast acquisition. The nonperforming residential construction loan sector declined to $3.7 million during 2013, down from $4.9 million, or 13% of nonperforming loans at December 31, 2012. Nonperforming commercial real estate loans improved as well, declining from $19.2 million at December 31, 2012 to $11.0 million at year end 2013.
Other Real Estate Owned: As of December 31, 2013 there was $23.8 million in noncovered other real estate owned ("OREO") which is comprised of property from foreclosed real estate loans, an increase of $13.1 million from $10.7 million at December 31, 2012. The increase was primarily driven by the addition of $14.7 million of OREO from the West Coast acquisition. Additionally, as of December 31, 2013 the Company held $12.1 million in OREO covered under FDIC loss-sharing agreements which are excluded from nonperforming assets. 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.

Table of Contents

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 $13.4 million at year end 2013, compared to $5.9 million at year end 2012.
The following table summarizes activity in noncovered, nonperforming loans for the period indicated:

	Years Ended December 31,	
	2013	2012
	(in thousands)	
Balance, beginning of period	$37,395	$53,483
Established through acquisitions	18,858	—
Loans placed on nonaccrual or restructured	31,549	32,325
Advances	86	827
Charge-offs	(6,745)	(12,572)
Loans returned to accrual status	(16,944)	(6,700)
Repayments (including interest applied to principal)	(20,767)	(23,452)
Transfers to OREO/OPPO	(9,417)	(6,516)
Balance, end of period	$34,015	$37,395

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 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 noncovered, impaired loan financial data at December 31, 2013 and 2012:

	December 31,	
	2013	2012
	(in thousands)	
Impaired loans	$26,389	$34,661
Impaired loans with specific allocations	$8,199	$4,405
Amount of the specific allocations	$1,690	$1,395

Impaired loans with a carrying amount of $26.4 million at December 31, 2013 were subject to specific allocations of allowance for loan and lease losses of $1.7 million and partial charge-offs of $20 thousand during the year. Collateral dependent impaired loans without specific allocations at December 31, 2013 and 2012 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 $11.5 million and $8.5 million at December 31, 2013 and 2012, 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 primary (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.

Table of Contents

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 6 to our Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this report.

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

We maintain an allowance for loan and lease losses ("ALLL") to absorb losses inherent in the loan portfolio. The size of the ALLL is determined through quarterly assessments of the probable estimated losses in the loan portfolio. Our methodology for making such assessments and determining the adequacy of the ALLL includes the following key elements:

1. General valuation allowance consistent with the Contingencies topic of the FASB ASC.
2. Classified loss reserves on specific relationships. Specific allowances for identified problem loans are determined in accordance with the Receivables topic of the FASB ASC.
3. The unallocated allowance provides for other credit losses inherent in our loan portfolio that may not have been contemplated in the general and specific components of the allowance. This unallocated amount generally comprises less than 5% of the allowance. The unallocated amount is reviewed periodically based on trends in credit losses, the results of credit reviews and overall economic trends.

On a quarterly basis our Chief Credit Officer reviews with Executive Management and the Board of Directors the various additional factors that management considers when determining the adequacy of the ALLL, including economic and business condition reviews. Factors which influenced management's judgment in determining the amount of the additions to the ALLL charged to operating expense include the following as of the applicable balance sheet dates:

- Existing general economic and business conditions affecting our market place
- Credit quality trends
- Historical loss experience
- Seasoning of the loan portfolio
- Bank regulatory examination results
- Findings of internal credit examiners
- Duration of current business cycle
- Specific loss estimates for problem loans

The ALLL is increased by provisions for loan and lease losses ("provision") charged to expense, and is reduced by loans charged off, net of recoveries or recapture of previous provision. While we believe the best information available is used by us to determine the ALLL, changes in market conditions could result in adjustments to the ALLL, affecting net income, if circumstances differ from the assumptions used in determining the ALLL.

In addition to the ALLL, we maintain an allowance for unfunded commitments and letters of credit. We report this allowance as a liability on our Consolidated Balance Sheet. We determine this amount using estimates of the probability of the ultimate funding and losses related to those credit exposures. This methodology is similar to the methodology we use for determining the adequacy of our ALLL. For additional information on our allowance for unfunded commitments and letters of credit, see Note 6 to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this report.

Table of Contents

Analysis of the ALLL

The following table provides an analysis of our noncovered 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,				
	2013	2012	2011	2010	2009
	(dollars in thousands)				
Beginning balance	$52,244	$53,041	$60,993	$53,478	$42,747
Charge-offs:					
Commercial business	(4,942)	(10,173)	(7,909)	(14,879)	(12,930)
Real estate:					
One-to-four family residential	(228)	(549)	(717)	(406)	(395)
Commercial and multifamily residential	(2,543)	(5,474)	(3,687)	(6,173)	(1,309)
Real estate construction:					
One-to-four family residential	(133)	(1,606)	(2,487)	(10,856)	(27,711)
Commercial and multifamily residential	—	(93)	(2,213)	(3,107)	(9,297)
Consumer	(2,242)	(2,534)	(3,918)	(3,982)	(2,879)
Total charge-offs	(10,088)	(20,429)	(20,931)	(39,403)	(54,521)
Recoveries:					
Commercial business	2,444	1,548	2,598	2,389	750
Real estate:					
One-to-four family residential	270	285	80	15	68
Commercial and multifamily residential	1,033	1,599	459	125	25
Real estate construction:					
One-to-four family residential	2,665	1,488	2,091	1,673	833
Commercial and multifamily residential	—	66	—	775	—
Consumer	552	1,171	351	650	76
Total recoveries	6,964	6,157	5,579	5,627	1,752
Net charge-offs	(3,124)	(14,272)	(15,352)	(33,776)	(52,769)
Provision for loan and lease losses	3,160	13,475	7,400	41,291	63,500
Ending balance	$52,280	$52,244	$53,041	$60,993	$53,478
Loans outstanding at end of period (1)	$4,219,451	$2,525,710	$2,348,371	$1,915,754	$2,008,884
Average amount of loans outstanding (1)	$3,782,891	$2,411,493	$2,065,014	$2,102,863	$2,124,574
Allowance for loan and lease losses to period-end loans (2)	1.24%	2.07%	2.26%	3.18%	2.66%
Net charge-offs to average loans outstanding	0.08%	0.59%	0.74%	1.61%	2.48%
Allowance for unfunded commitments and letters of credit					
Beginning balance	$1,915	$1,535	$1,165	$775	$500
Net changes in the allowance for unfunded commitments and letters of credit	590	380	370	390	275

Ending balance	$2,505	$1,915	$1,535	$1,165	$775

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(1) Excludes loans held for sale and covered loans.

(2) The allowance as a percentage of period-end loans at December 31, 2013 was impacted by including acquired loans in the ratio, please see further discussion on this topic on the ensuing page.

47

Table of Contents

At December 31, 2013, our allowance for loan and lease losses for noncovered loans was $52.3 million, or 1.24% of total noncovered loans (excluding loans held for sale). This compares with an allowance of $52.2 million, or 2.07% of total noncovered loans (excluding loans held for sale) at December 31, 2012. The decrease in the allowance percentage compared to the prior year was impacted by including acquired loans in the ratio, for which only a small allowance was estimated at December 31, 2013 given management's judgment that current net acquisition accounting adjustments still significantly address the estimated credit losses in acquired loans. Excluding acquired loans, the allowance at December 31, 2013 represented 1.58% of noncovered loans. This decrease compared to December 31, 2012 reflects organic loan growth as well as improvements in core asset quality during current year.

We have used the same methodology for ALLL calculations during 2013, 2012 and 2011. 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. The Bank maintains a conservative approach to credit quality and will continue to prudently add to our ALLL as necessary in order 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:

Balance at End of Period Applicable to:	December 31, 2013		2012		2011		2010		2009	
	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	$31,723	36.4 %	$28,023	45.6 %	$25,434	43.9 %	$22,549	41.5 %	$21,969	37.1 %
Real estate and construction:										
One-to-four family residential	2,684	3.8 %	2,500	3.7 %	3,849	4.9 %	7,161	6.1 %	9,087	8.5 %
Commercial and multifamily residential	13,671	51.5 %	18,273	44.5 %	20,345	43.4 %	25,880	42.8 %	19,703	44.4 %
Consumer	2,547	8.3 %	2,437	6.2 %	2,719	7.8 %	2,120	9.5 %	1,282	10.0 %
Unallocated	1,655	— %	1,011	— %	694	— %	3,283	— %	1,437	— %
Total	$52,280	100.0 %	$52,244	100.0 %	$53,041	100.0 %	$60,993	100.0 %	$53,478	100.0 %

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

FDIC Loss-sharing Asset

The Company has elected to account for amounts receivable under loss-sharing agreements with the FDIC as an indemnification asset in accordance with the Business Combinations topic of the FASB ASC. The FDIC indemnification asset is initially recorded at fair value, based on the discounted expected future cash flows under the loss-sharing agreements.

Subsequent to initial recognition, the FDIC indemnification asset is reviewed quarterly and adjusted for any changes in expected cash flows. These adjustments are measured on the same basis as the related covered loans. Any decrease in expected cash flows on the covered loans due to an increase in expected credit losses will increase the FDIC indemnification asset and any increase in expected future cash flows on the covered loans due to a decrease in

expected credit losses will decrease the FDIC indemnification asset. Changes in the estimated cash flows on covered assets that are immediately recognized in income generally result in a similar immediate adjustment to the loss-sharing asset while changes in expected cash flows on covered assets that are accounted for as an adjustment to yield generally result in adjustments to the amortization or accretion rate for the loss-sharing asset. Increases and decreases to the FDIC loss-sharing asset are recorded as adjustments to noninterest income.

At December 31, 2013, the FDIC loss-sharing asset was comprised of a $37.9 million FDIC indemnification asset and a $2.0 million FDIC receivable. The FDIC receivable represents amounts due from the FDIC for claims related to covered losses the Company has incurred less amounts due back to the FDIC relating to shared recoveries.

Table of Contents

The following table summarizes the activity related to the FDIC loss-sharing asset for the twelve months ended December 31, 2013 and 2012:

	Year Ended December 31,	
	2013	2012
	(in thousands)	
Balance at beginning of period	$96,354	$175,071
Adjustments not reflected in income:		
Cash received from the FDIC	(9,246)	(54,649)
FDIC reimbursable losses, net	(2,245)	399
Adjustments reflected in income:		
Amortization, net	(36,729)	(42,940)
Loan impairment (recapture)	(2,609)	20,714
Sale of other real estate	(6,177)	(7,789)
Write-downs of other real estate	364	5,190
Other	134	358
Balance at end of period	$39,846	$96,354

For additional information on the FDIC loss-sharing asset, please see Note 8 to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this report.

Deposits

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

	December 31,		
	2013	2012	2011
	(in thousands)		
Core deposits:			
Demand and other noninterest-bearing	$2,171,703	$1,321,171	$1,156,610
Interest-bearing demand	1,170,006	870,821	735,340
Money market	1,569,261	1,043,459	1,031,664
Savings	496,444	314,371	283,416
Certificates of deposit less than $100,000	288,943	252,544	303,405
Total core deposits	5,696,357	3,802,366	3,510,435
Certificates of deposit greater than $100,000	201,498	212,924	262,731
Certificates of deposit insured through CDARS®	19,488	26,720	42,080
Brokered money market accounts	41,765	—	—
Subtotal	5,959,108	4,042,010	3,815,246
Premium resulting from acquisition date fair value adjustment	367	75	283
Total deposits	$5,959,475	$4,042,085	$3,815,529

Deposits totaled $5.96 billion at December 31, 2013 compared to $4.04 billion at December 31, 2012. Core deposits, which include noninterest-bearing deposits and interest-bearing deposits excluding time deposits of $100,000 and over, provide a stable source of low cost funding. Core deposits increased to $5.70 billion at December 31, 2013 compared with $3.80 billion at December 31, 2012. We anticipate continued growth in our core deposits through both the addition of new customers and our current client base.

At December 31, 2013 brokered and other wholesale deposits (excluding public deposits) totaled $61.3 million or 1.0% of total deposits compared to $26.7 million or 0.7% of total deposits, at year-end 2012. The increase in brokered deposits is attributed to an increase in participation in the brokered 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.

Table of Contents

At December 31, 2013 public deposits held by the Company totaled $289.0 million compared to $297.8 million at December 31, 2012. Uninsured public deposit balances increased from $232.7 million at December 31, 2012 to $244.9 million at December 31, 2013. The Company is required to fully collateralize Washington state public deposits and 50% of Oregon state public deposits.

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) by time remaining until maturity and percentage of total deposits:

Amounts maturing in:	December 31, 2013					
	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	$68,253	1.1	%	$13,965	0.2	%
Over 3 through 6 months	34,007	0.6	%	1,051	—	%
Over 6 through 12 months	51,770	0.9	%	3,376	0.1	%
Over 12 months	47,468	0.8	%	—	—	%
Total	$201,498	3.4	%	$18,392	0.3	%

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

	Years ended December 31,								
	2013			2012			2011		
	Average Deposits	Rate		Average Deposits	Rate		Average Deposits	Rate	
	(dollars in thousands)								
Interest bearing demand	$1,048,482	0.06	%	$790,887	0.11	%	$704,484	0.20	%
Money market	1,566,539	0.08	%	1,051,171	0.16	%	969,548	0.40	%
Savings	445,666	0.02	%	298,223	0.03	%	247,073	0.06	%
Certificates of deposit	535,656	0.37	%	543,349	0.60	%	636,074	0.80	%
Total interest-bearing deposits	3,596,343	0.11	%	2,683,630	0.22	%	2,557,179	0.41	%
Demand and other non-interest bearing	1,824,234			1,192,036			984,220		
Total average deposits	$5,420,577			$3,875,666			$3,541,399		

Borrowings

Borrowed funds provide an additional source of funding for loan growth. Our borrowed funds consist primarily of borrowings from the Federal Home Loan ("FHLB") 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 and commercial loans.

Table of Contents

The Company has not had FRB borrowings in the last three years. The following table sets forth the details of FHLB advances:

	Years ended December 31,		
	2013	2012	2011
	(dollars in thousands)		
FHLB Advances			
Balance at end of year	$36,606	$6,644	$119,009
Average balance during the year	$51,030	$100,337	$120,419
Maximum month-end balance during the year	$190,631	$118,967	$127,426
Weighted average rate during the year	1.12 %	2.79 %	2.76 %
Weighted average rate at December 31	1.09 %	5.42 %	2.81 %

For additional information on our borrowings, including amounts pledged as collateral, see Notes 12 and 13 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 $1.37 billion at December 31, 2013, an increase from $888.5 million at December 31, 2012. Standby letters of credit were $36.7 million and $19.5 million at December 31, 2013 and 2012, respectively. In addition, commitments under commercial letters of credit used to facilitate customers' trade transactions and other off-balance sheet liabilities amounted to $2.7 million and $46 thousand at December 31, 2013 and 2012, respectively.

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, 2013				
	0-12 Months	1-3 Years	4-5 Years	Due after Five Years	Total
	(in thousands)				
Operating & equipment leases	$8,033	$11,634	$6,753	$13,105	$39,525
Total deposits [1]	5,840,166	98,345	20,750	214	5,959,475
Federal Home Loan Bank advances [1]	30,000	—	1,000	5,000	36,000
Other borrowings [1]	—	—	25,000	—	25,000
Total	$5,878,199	$109,979	$53,503	$18,319	$6,060,000

(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 16 to our Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data” of this report.

Table of Contents

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 Federal Reserve Bank of $1.04 billion and $85.5 million, respectively, at December 31, 2013, 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.

Capital

Our shareholders' equity increased to $1.05 billion at December 31, 2013, from $764.0 million at December 31, 2012, primarily due to shares issued in conjunction with the acquisition of West Coast. Shareholders' equity was 14.71% and 15.57% of total assets at December 31, 2013 and 2012.

Regulatory Capital. Banking regulations require bank holding companies to maintain a minimum "leverage" ratio of core capital to adjusted quarterly average total assets of at least 3%. In addition, banking regulators have adopted risk-based capital guidelines, under which risk percentages are assigned to various categories of assets and off-balance sheet items to calculate a risk-adjusted capital ratio. Tier I capital generally consists of common shareholders' equity, less goodwill and certain identifiable intangible assets, while Tier II capital includes the allowance for loan losses, subject to certain limitations. Regulatory minimum risk-based capital guidelines require Tier I capital of 4% of risk-adjusted assets and total capital (combined Tier I and Tier II) of 8% to be considered "adequately capitalized". Federal Deposit Insurance Corporation 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 Tier I risk-adjusted capital ratio of at least 6%, 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. The Company and its banking subsidiary qualified as "well-capitalized" at December 31, 2013 and 2012.

The following table sets forth the Company's and its banking subsidiary's capital ratios at December 31, 2013 and 2012:

	Company		Columbia Bank		Requirements	
	2013	2012	2013	2012	Adequately capitalized	Well-Capitalized
Total risk-based capital ratio	14.68 %	20.62 %	13.52 %	17.87 %	8 %	10 %
Tier 1 risk-based capital ratio	13.43 %	19.35 %	12.27 %	16.60 %	4 %	6 %
Leverage ratio	10.19 %	12.78 %	9.29 %	11.07 %	4 %	5 %

Stock Repurchase Program

In October 2011, the Board of Directors approved a stock repurchase program authorizing the Company to repurchase up to 2 million shares of its outstanding shares of common stock. The Company may purchase the shares from time to time in the open market or in private transactions, under conditions which allow such repurchases to be accretive to earnings per share while maintaining capital ratios that exceed the guidelines for a well-capitalized financial institution. This repurchase program supersedes and replaces the prior stock repurchase program adopted in February 2002.

Table of Contents

Dividends

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

	Years ended December 31,		
	2013	2012	2011
Dividends paid per common share	$0.41	$0.98	$0.27
Dividend payout ratio (1)	34 %	84 %	22 %

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

For quarterly detail of dividends declared during 2013 and 2012, including special one-time dividends declared, see "Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities" of this report.

Subsequent to year end, on January 23, 2014 the Company declared a regular quarterly cash dividend of $0.12 per share payable on February 19, 2014, to shareholders of record at the close of business on February 5, 2014.

Applicable federal, Washington state and Oregon 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 our banking subsidiary. 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.

Table of Contents

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 important 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. Also, there may be limits in the usefulness of these measures to investors. As a result, the Company encourages readers to consider its consolidated financial statements in their entirety and not to rely on any single financial measure.

	December 31, 2013		December 31, 2012	
	(dollars in thousands)			
Shareholders' equity	$1,053,249		$764,008	
Goodwill	(343,952	)	(115,554	)
Core deposit intangible	(25,852	)	(15,721	)
Preferred stock	(2,217	)	—	
Tangible common equity (a)	681,228		632,733	
Total assets	7,161,582		4,906,335	
Goodwill	(343,952	)	(115,554	)
Core deposit intangible	(25,852	)	(15,721	)
Tangible assets (b)	$6,791,778		$4,775,060	
Risk-weighted assets, determined in accordance with prescribed regulatory requirements (c)	$5,178,748		$3,165,528	
Ratios				
Tangible common equity to tangible assets (a)/(b)	10.03	%	13.25	%
Tangible common equity to risk-weighted assets (a)/(c)	13.15	%	19.99	%

Table of Contents

The Company also considers operating net interest margin to be an important measurement as it more closely reflects the ongoing operating performance of the Company. Despite the importance 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. Also, there may be limits in the usefulness of this measure to investors. As a result, 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 to the net interest margin.

	Years Ended December 31,		
	2013	2012	2011
Net interest margin	5.16 %	5.77 %	6.27 %
Adjustments to net interest margin to arrive at operating net interest margin:			
Incremental accretion income on FDIC acquired impaired loans	(0.52)%	(1.30)%	(1.37)%
Incremental accretion income on other FDIC acquired loans	(0.04)%	(0.14)%	(0.37)%
Incremental accretion income on other acquired loans	(0.46)%	— %	— %
Premium amortization on acquired securities	0.13 %	— %	— %
Interest reversals on nonaccrual loans	0.02 %	0.02 %	— %
Prepayment charges on FHLB advances	0.03 %	0.01 %	— %
Operating net interest margin	4.32 %	4.36 %	4.53 %

Table of Contents

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. Ultimate responsibility for effective asset/liability management rests with the Board. 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, 2013, we would expect a decrease in net interest income of $3.0 million if interest rates gradually decrease from current rates by 100 basis points and an increase in net interest income of $8.8 million if interest rates gradually increase from current rates by 200 basis points over a twelve-month period.

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, 2013. 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.

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.

Table of Contents

	Estimated Maturity or Repricing				
December 31, 2013	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	$14,531	$—	$—	$—	$14,531
Loans, net of deferred fees	1,823,177	634,813	1,841,043	198,089	4,497,122
Loans held for sale	735	—	—	—	735
Investments	83,329	167,872	872,202	573,237	1,696,640
Total interest-earning assets	$1,921,772	$802,685	$2,713,245	$771,326	6,209,028
Allowance for loan and lease losses					(52,280)
Cash and due from banks					165,030
Premises and equipment, net					154,732
Other assets					685,072
Total assets					$7,161,582
Interest-Bearing Liabilities					
Interest-bearing non-maturity deposits	$3,277,476	$—	$—	$—	$3,277,476
Time deposits	157,262	234,512	118,522	—	510,296
Borrowings	30,000	—	26,000	5,606	61,606
Total interest-bearing liabilities	$3,464,738	$234,512	$144,522	$5,606	3,849,378
Other liabilities					2,258,955
Total liabilities					6,108,333
Shareholders’ equity					1,053,249
Total liabilities and shareholders’ equity					$7,161,582
Interest-bearing liabilities as a percent of total interest-earning assets	55.80%	3.78%	2.33%	0.09%	
Rate sensitivity gap	$(1,542,966)	$568,173	$2,568,723	$765,720	
Cumulative rate sensitivity gap	$(1,542,966)	$(974,793)	$1,593,930	$2,359,650	
Rate sensitivity gap as a percentage of interest-earning assets	(24.85)%	9.15%	41.37%	12.33%	
Cumulative rate sensitivity gap as a percentage of interest-earning assets	(24.85)%	(15.70)%	25.67%	38.00%	

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.

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Columbia Banking System, Inc.
Tacoma, Washington

We have audited the accompanying consolidated balance sheets of Columbia Banking System, Inc. and its subsidiaries (the "Company") as of December 31, 2013 and 2012, and 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, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Columbia Banking System, Inc. and its subsidiaries as of December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, 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), the Company's internal control over financial reporting as of December 31, 2013, based on the criteria established in Internal Control—Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2014 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP
Seattle, Washington
February 28, 2014

Table of Contents

COLUMBIA BANKING SYSTEM, INC.
CONSOLIDATED BALANCE SHEETS

			December 31, 2013	December 31, 2012
			(in thousands)	
ASSETS				
Cash and due from banks			$165,030	$124,573
Interest-earning deposits with banks			14,531	389,353
Total cash and cash equivalents			179,561	513,926
Securities available for sale at fair value (amortized cost of $1,680,491 and $969,359, respectively)			1,664,111	1,001,665
Federal Home Loan Bank stock at cost			32,529	21,819
Loans held for sale			735	2,563
Loans, excluding covered loans, net of unearned income of ($68,282) and ($7,767), respectively			4,219,451	2,525,710
Less: allowance for loan and lease losses			52,280	52,244
Loans, excluding covered loans, net			4,167,171	2,473,466
Covered loans, net of allowance for loan losses of ($20,174) and ($30,056), respectively			277,671	391,337
Total loans, net			4,444,842	2,864,803
FDIC loss-sharing asset			39,846	96,354
Interest receivable			22,206	14,268
Premises and equipment, net			154,732	118,708
Other real estate owned ($12,093 and $16,311 covered by FDIC loss-share, respectively)			35,927	26,987
Goodwill			343,952	115,554
Other intangible assets, net			25,852	15,721
Other assets			217,289	113,967
Total assets			$7,161,582	$4,906,335
LIABILITIES AND SHAREHOLDERS' EQUITY				
Deposits:				
Noninterest-bearing			$2,171,703	$1,321,171
Interest-bearing			3,787,772	2,720,914
Total deposits			5,959,475	4,042,085
Federal Home Loan Bank advances			36,606	6,644
Securities sold under agreements to repurchase			25,000	25,000
Other liabilities			87,252	68,598
Total liabilities			6,108,333	4,142,327
Commitments and contingent liabilities (Note 16)				
Shareholders' equity:				
	December 31, 2013	December 31, 2012		
Preferred stock (no par value)				
Authorized shares	2,000	—		
Issued and outstanding	9	—	2,217	—
Common stock (no par value)				
Authorized shares	63,033	63,033		
Issued and outstanding	51,265	39,686	860,562	581,471

Retained earnings	202,514	162,388
Accumulated other comprehensive income (loss)	(12,044)	20,149
Total shareholders' equity	1,053,249	764,008
Total liabilities and shareholders' equity	$7,161,582	$4,906,335

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

COLUMBIA BANKING SYSTEM, INC.
CONSOLIDATED STATEMENTS OF INCOME

	Years ended December 31,		
	2013	2012	2011
	(in thousands except per share)		
Interest Income			
Loans	$266,284	$219,433	$218,420
Taxable securities	20,459	18,276	21,870
Tax-exempt securities	9,837	9,941	10,142
Federal funds sold and deposits in banks	355	854	839
Total interest income	296,935	248,504	251,271
Interest Expense			
Deposits	3,962	5,887	10,478
Federal Home Loan Bank advances	(404)	2,608	2,980
Prepayment charge on Federal Home Loan Bank advances	1,548	603	—
Long-term obligations	—	—	579
Other borrowings	734	479	498
Total interest expense	5,840	9,577	14,535
Net Interest Income	291,095	238,927	236,736
Provision for loan and lease losses	3,160	13,475	7,400
Provision (recapture) for losses on covered loans	(3,261)	25,892	(1,648)
Net interest income after provision (recapture) for loan and lease losses	291,196	199,560	230,984
Noninterest Income (Loss)			
Service charges and other fees	48,351	29,998	26,632
Gain on bank acquisitions, net of tax	—	—	1,830
Merchant services fees	8,812	8,154	7,385
Investment securities gains (losses), net	462	3,733	(2,816)
Bank owned life insurance	3,570	2,861	2,188
Change in FDIC loss-sharing asset	(45,017)	(24,467)	(49,496)
Other	10,522	6,779	4,994
Total noninterest income (loss)	26,700	27,058	(9,283)
Noninterest Expense			
Compensation and employee benefits	125,432	85,434	81,552
Occupancy	33,054	20,031	18,963
Merchant processing	3,551	3,612	3,698
Advertising and promotion	4,090	3,650	3,686
Data processing	14,076	9,714	8,484
Legal and professional fees	12,338	8,915	6,486
Taxes, licenses and fees	5,033	4,736	4,446
Regulatory premiums	4,706	3,384	4,337
Net cost (benefit) of operation of other real estate owned	(7,401)	(1,969)	(1,022)
Amortization of intangibles	6,045	4,445	4,319
FDIC clawback liability expense (recovery)	278	(54)	3,656
Other	29,684	21,015	17,154
Total noninterest expense	230,886	162,913	155,759
Income before income taxes	87,010	63,705	65,942
Provision for income taxes	26,994	17,562	17,905
Net Income	$60,016	$46,143	$48,037
Earnings Per Common Share			

Basic	$1.24	$1.16	$1.22
Diluted	$1.21	$1.16	$1.21
Weighted average number of common shares outstanding	47,993	39,260	39,103
Weighted average number of diluted common shares outstanding	49,051	39,263	39,180

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

COLUMBIA BANKING SYSTEM, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years ended December 31,		
	2013	2012	2011
	(in thousands)		
Net income	$60,016	$46,143	$48,037
Other comprehensive income (loss), net of tax:			
Unrealized gain (loss) from securities:			
Net unrealized holding gain (loss) from available for sale securities arising during the period, net of tax of $17,498, $1,902 and ($7,462)	(30,727)	(2,609)	13,285
Reclassification adjustment of net gain from sale of available for sale securities included in income, net of tax of $163, $1,316 and $48	(299)	(2,417)	(85)
Net unrealized gain (loss) from securities, net of reclassification adjustment	(31,026)	(5,026)	13,200
Cash flow hedging instruments:			
Reclassification adjustment of net gain included in income, net of tax of $0, $0, and $79	—	—	(143)
Net change in cash flow hedging instruments	—	—	(143)
Pension plan liability adjustment:			
Unrecognized net actuarial loss during the period, net of tax of $780, $0 and $154	(1,432)	—	(260)
Less: amortization of unrecognized net actuarial gains and losses included in net periodic pension cost, net of tax of ($135), ($38) and ($31)	265	42	55
Pension plan liability adjustment, net	(1,167)	42	(205)
Other comprehensive income (loss)	(32,193)	(4,984)	12,852
Comprehensive income	$27,823	$41,159	$60,889

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

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, 2011	—	$—	39,338	$576,905	$117,692	$ 12,281	$706,878
Net income	—	—	—	—	48,037	—	48,037
Other comprehensive income	—	—	—	—	—	12,852	12,852
Issuance of common stock - stock option and other plans	—	—	51	848	—	—	848
Issuance of common stock - restricted stock awards, net of canceled awards	—	—	119	1,635	—	—	1,635
Tax benefit deficiency associated with share-based compensation	—	—	—	(220)	—	—	(220)
Purchase and retirement of common stock	—	—	(2)	(32)	—	—	(32)
Cash dividends paid on common stock ($0.27 per share)	—	—	—	—	(10,660)	—	(10,660)
Balance at December 31, 2011	—	$—	39,506	$579,136	$155,069	$ 25,133	$759,338
Net income	—	—	—	—	46,143	—	46,143
Other comprehensive loss	—	—	—	—	—	(4,984)	(4,984)
Issuance of common stock - stock option and other plans	—	—	40	713	—	—	713
Issuance of common stock - restricted stock awards, net of canceled awards	—	—	140	1,622	—	—	1,622
Cash dividends paid on common stock ($0.98 per share)	—	—	—	—	(38,824)	—	(38,824)
Balance at December 31, 2012	—	$—	39,686	$581,471	$162,388	$ 20,149	$764,008
Net income	—	—	—	—	60,016	—	60,016
Other comprehensive loss	—	—	—	—	—	(32,193)	(32,193)
Issuance of preferred stock, common stock and warrants	9	2,217	11,380	273,964	—	—	276,181
Activity in deferred compensation plan	—	—	—	517	—	—	517
	—	—	73	1,243	—	—	1,243

Issuance of common stock - stock option and other plans							
Issuance of common stock - restricted stock awards, net of canceled awards	—	—	144	2,693	—	—	2,693
Tax benefit associated with share-based compensation	—	—	—	1,103	—	—	1,103
Purchase and retirement of common stock	—	—	(18)	(429)	—	—	(429)
Preferred dividends ($0.31 per common share equivalent)	—	—	—	—	(32)	—	(32)
Cash dividends paid on common stock ($0.41 per share)	—	—	—	—	(19,858)	—	(19,858)
Balance at December 31, 2013	9	$2,217	51,265	$860,562	$202,514	$ (12,044)	$1,053,249

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

COLUMBIA BANKING SYSTEM, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2013	2012	2011
	(in thousands)		
Cash Flows From Operating Activities			
Net Income	$60,016	$46,143	$48,037
Adjustments to reconcile net income to net cash provided by operating activities			
Provision (recapture) for loan and lease losses and losses on covered loans	(101)	39,367	5,752
Stock-based compensation expense	2,844	1,622	1,635
Depreciation, amortization and accretion	40,431	57,305	46,121
Gain on FDIC-assisted bank acquisitions	—	—	(1,830)
Investment securities (gain) loss, net	(462)	(3,733)	2,816
Net realized (gain) loss on sale of other assets	(48)	(456)	79
Net realized gain on sale of other real estate owned	(10,539)	(11,634)	(9,310)
Gain on termination of cash flow hedging instruments	—	—	(222)
Write-down on other real estate owned	2,035	8,300	6,307
Deferred income tax expense (benefit)	5,413	(3,656)	(3,783)
Net change in:			
Loans held for sale	1,828	(415)	(1,394)
Interest receivable	(7,938)	1,019	(1,243)
Interest payable	(122)	(629)	(403)
Other assets	(3,385)	(2,113)	(19,248)
Other liabilities	(10,336)	3,779	13,110
Net cash provided by operating activities	79,636	134,899	86,424
Cash Flows From Investing Activities			
Loans originated and acquired, net of principal collected	(161,827)	(92,088)	(110,577)
Purchases of:			
Securities available for sale	(457,985)	(322,342)	(453,043)
Premises and equipment	(13,133)	(17,137)	(15,088)
Proceeds from:			
FDIC reimbursement on loss-sharing asset	9,246	54,649	54,200
Sales of securities available for sale	166,881	95,165	72,523
Principal repayments and maturities of securities available for sale	293,940	236,749	148,583
Sales of loans held for investment and other assets	4,031	4,414	46
Sales of covered other real estate owned	22,046	33,315	20,619
Sales of other real estate and other personal property owned	14,407	15,689	12,278
Termination of trust subsidiaries	—	—	774
Additions to OREO	(3,577)	(11)	(735)
Decrease in Small Business Administration secured borrowings	—	—	(642)
Acquisition of intangible assets	(919)	—	—
Net cash (paid) received in business combinations	(154,170)	—	247,792
Net cash provided by (used in) investing activities	(281,060)	8,403	(23,270)
Cash Flows From Financing Activities			
Net increase (decrease) in deposits	33,983	226,556	(204,586)
Proceeds from:			
Exercise of stock options	1,092	713	848

Federal Home Loan Bank advances	1,215,100	100	100
Federal Reserve Bank borrowings	50	100	100
Payments for:			
Repayment of Federal Home Loan Bank advances	(1,313,000)	(112,210)	(42,989)
Repayment of Federal Reserve Bank borrowings	(50)	(100)	(100)
Preferred stock dividends	(32)	—	—
Common stock dividends	(19,858)	(38,824)	(10,660)
Repayment of long-term subordinated debt	(51,000)	—	(25,774)
Purchase and retirement of common stock	(429)	—	(32)
Excess tax benefit from stock-based compensation	1,203	—	98
Net cash provided by (used in) financing activities	(132,941)	76,335	(282,995)
Increase (decrease) in cash and cash equivalents	(334,365)	219,637	(219,841)
Cash and cash equivalents at beginning of period	513,926	294,289	514,130
Cash and cash equivalents at end of period	$179,561	$513,926	$294,289
Supplemental Information:			
Cash paid during the year for:			
Cash paid for interest	$5,962	$10,206	$14,938
Cash paid for income tax	$26,754	$11,927	$23,025
Non-cash investing and financing activities			
Assets acquired in FDIC-assisted acquisitions (excluding cash and cash equivalents)	$—	$—	$485,870
Liabilities assumed in FDIC-assisted acquisitions	$—	$—	$731,832
Loans transferred to other real estate owned	$18,100	$21,627	$24,357
Share-based consideration issued in business combinations	$276,181	$—	$—

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

COLUMBIA BANKING SYSTEM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2013, 2012 and 2011

1. Summary of Significant Accounting Policies

Organization

Columbia Banking System, Inc. (the "Corporation") is the holding company for Columbia State Bank (the "Bank") and West Coast Trust Company, Inc. ("West Coast Trust"). The Bank provides a full range of financial services through 142 branch locations, including 80 in the State of Washington and 62 in Oregon. West Coast 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 and the Bank 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, acquired impaired loans, Federal Deposit Insurance Corporation loss sharing asset 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), except for the adoption of Accounting Standards Update ("ASU") 2012-06 as noted below under the heading "Accounting Pronouncements."

Consolidation

The consolidated financial statements of the Company include the accounts of the Corporation and its subsidiaries, including the Bank and West Coast 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. Cash and 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 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 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.

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’s investment in Federal Home Loan Bank (“FHLB”) stock is carried at par value because the shares can only be redeemed with the FHLB at par. The Company is required to maintain a minimum level of investment in FHLB stock based on specific percentages of its outstanding mortgages and FHLB advances. Stock redemptions are at the discretion of the FHLB or of the Company, upon five years’ prior notice for FHLB Class B stock or six months notice for FHLB Class A stock to the FHLB. FHLB stock is carried at cost and is subject to recoverability testing per the Financial Services—Depository and Lending topic of the FASB Accounting Standards Codification (“ASC”).

Loans

Loans are generally carried at the unpaid principal balance, net of premiums, unearned discounts and net deferred loan fees. Net deferred loan fees include deferred unamortized fees less direct incremental loan origination costs. Net deferred loan fees, premiums and unearned discounts on loans are recognized in interest income using either the interest method or straight-line method over the terms of the loans, adjusted for actual prepayments. 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 recognition of net deferred loan fees, premiums and unearned discounts ceases. Thereafter, interest collected on the loan is accounted for on the cash collection or cost recovery method until qualifying for return to accrual status. Generally, a loan may be returned to accrual status when the delinquent principal and interest are brought current in accordance with the terms of the loan agreement for a minimum period of six months and future payments are reasonably assured.

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 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.

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 primary (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 for loan and lease losses or by designating a specific reserve. The Company’s policy is to record cash receipts received on impaired loans first as reductions to principal and then to interest income.

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.

Acquired Impaired 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, formerly SOP 03-3 Accounting for Certain Loans or Debt Securities Acquired in a Transfer. 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.

Table of Contents

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 covered 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.

Covered Loans—The term covered loans refers to acquired loans that are covered under a loss-sharing agreement with the FDIC. At December 31, 2013, approximately 96% of covered loans were subject to an FDIC loss-sharing agreements and approximately 90% were accounted for as acquired, impaired loans. See Acquired Impaired Loans for further discussion.

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 16 in the Notes to Consolidated Financial Statements.

Allowance 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 application of the Company's allowance methodology procedures. The provision for loan and lease losses reflects management's judgment of the adequacy of the allowance for loan and lease losses. 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.

The allowance for loan and lease losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, and estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of general, specific, and unallocated components. The general component covers loans not specifically measured for impairment and is based on historical loss experience adjusted for qualitative factors. The specific component relates to loans that are impaired. For impaired loans an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The unallocated allowance provides for other credit losses inherent in the Company's loan portfolio that may not have been contemplated in the general and specific components of the allowance. This unallocated amount generally comprises less than 5% of the allowance. The unallocated amount is reviewed periodically based on trends in credit losses, the results of credit reviews and overall economic trends.

Allowance for 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.

Allowance for Loan Losses on Covered Loans

The Company updates its cash flow projections for covered 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 remeasurement date. Loss severity factors are based upon either actual charge-off data within the loan pools or industry averages and recovery lags are based upon the collateral within the loan pools.

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

Table of Contents

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 operating expenses. 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 in satisfaction of loans. 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. 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.

Covered OREO—Covered OREO includes acquired OREO that is covered under a loss-sharing agreement with the FDIC. These assets were recorded at their fair value on acquisition date. Covered OREO is reported in Other real estate owned in the Consolidated Balance Sheets. Covered OREO is reported exclusive of expected reimbursement cash flows from the FDIC. Upon transferring covered loan collateral to covered OREO status, valuation adjustments arising from acquisition accounting on the related loan are also transferred to covered OREO. Valuation adjustments arising from acquisition accounting on covered OREO result in a reduction of the covered OREO carrying amount and a corresponding increase in the expected FDIC reimbursement, with the estimated net loss to the Company, if any, charged against earnings.

FDIC Loss-sharing Asset

The acquisition date fair value of the reimbursement the Company expected to receive from the FDIC under loss-sharing agreements was recorded in the FDIC loss-sharing asset on the Consolidated Balance Sheet. Subsequent to initial recognition, the FDIC loss-sharing asset is reviewed quarterly and adjusted for any changes in expected cash flows. These adjustments are measured on the same basis as the related covered assets. Any decrease in expected cash flows for the covered assets due to an increase in expected credit losses will increase the FDIC loss-sharing asset and any increase in expected future cash flows for the covered assets due to a decrease in expected credit losses will decrease the FDIC loss-sharing asset. Changes in the estimated cash flows on covered assets that are immediately recognized in income generally result in a similar immediate adjustment to the loss-sharing asset while changes in expected cash flows on covered assets that are accounted for as an adjustment to yield generally result in adjustments to the amortization or accretion rate for the loss-sharing asset. Increases and decreases to the FDIC loss-sharing asset are recorded as adjustments to noninterest income.

Goodwill and Intangibles

Net assets of companies acquired in purchase transactions are recorded at fair value at the date of acquisition. Identified intangibles are amortized on an accelerated basis over the period benefited. Goodwill is not amortized but is reviewed for potential impairment during the third quarter on an annual basis 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.

Intangible assets are evaluated for impairment if events and circumstances indicate a possible impairment. Such evaluation of other intangible assets is based on undiscounted cash flow projections. At December 31, 2013, intangible assets included on the consolidated balance sheets consist of a core deposit intangible amortized using an accelerated method with an original estimated life 10 years.

Income Taxes

The provision for income taxes includes current and deferred income tax expense on net income adjusted for permanent and temporary differences such as interest income on state and municipal securities and affordable housing 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.

Advertising

Advertising costs are generally expensed as incurred.

Earnings per Common Share

The Company's capital structure includes convertible preferred shares, common shares, restricted common shares, common share options, and warrants to purchase common shares. Restricted common shares participate in dividends declared on common shares at the same rate as common shares. Preferred shares participate in dividends declared on common shares on an "as if converted" basis. Accordingly, the Company calculates earnings per common share (“EPS”) using the two-class method under the Earnings per Share topic of the FASB ASC. 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. Common shares outstanding include common stock and vested restricted stock awards. 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 options and warrants 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 stock awards which generally vest over a four- or five-year period during which time the holder receives dividends and has full voting rights. Restricted stock is valued at the closing price of the Company’s stock on the date of an award.

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 treatment of changes in the fair value of derivatives depends on the character of the transaction.

The Company enters into derivative contracts to add stability to interest income and to manage its exposure to changes in interest rates. On the date the Company enters into a derivative contract, the derivative instrument is designated as: (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (a “fair value” hedge); (2) a hedge of

the variability in expected future cash flows associated with an existing recognized asset or liability or a probable forecasted transaction (a “cash flow” hedge); or (3) held for other economic purposes (an “economic” hedge) and not formally designated as part of qualifying hedging relationships under authoritative guidance.
In a fair value hedge, changes in the fair value of the hedging derivative are recognized in earnings and offset by recognizing changes in the fair value of the hedged item attributable to the risk being hedged. To the extent that the hedge is ineffective, the changes in fair value will not offset and the difference is reflected in earnings.
In a cash flow hedge, the effective portion of the change in the fair value of the hedging derivative is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings during the same period in which the hedged item affects earnings. The change in fair value of any ineffective portion of the hedging derivative is recognized immediately in earnings. When a cash flow hedge is discontinued, the net derivative gain or loss continues to be reported in accumulated other comprehensive income unless it is probable that the forecasted transactions will not occur by the end of the originally specified time period. The net derivative gain or loss from a discontinued cash flow hedge is reclassified into earnings during the originally specified time period in which the forecasted transactions were to occur.
The Company formally documents the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategy before initiating a hedge. To qualify for hedge accounting, the derivatives and related hedged items must be designated as a hedge. For hedging relationships in which effectiveness is measured, the correlations between the hedging instruments and hedged items are assessed at inception of the hedge and on an ongoing basis, which includes determining whether the hedge relationship is expected to be highly effective in offsetting changes in fair value or cash flows of hedged items.
Derivatives used for other economic purposes are used as economic hedges in which the Company has not attempted to achieve the highly effective hedge accounting standard under authoritative guidance. The changes in fair value of these instruments are recognized immediately in earnings.
Accounting Pronouncements
During the year ended December 31, 2013, the following Accounting Standards Updates were issued or became effective:
In July 2013, the Financial Accounting Standards Board ("FASB") issued ASU No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The Update clarifies when it is appropriate for an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. ASU 2013-11 is effective for interim and annual periods beginning after December 15, 2013. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date, however, retrospective application is also permitted. Adoption of the new guidance is not expected to have a significant impact on the Company's consolidated financial statements.
In February 2013, the FASB issued ASU No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The Update requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component and to present either on the face of the statement where net income is presented, or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required to be reclassified to net income in its entirety in the same reporting period. The amendments are effective for annual and interim reporting periods beginning on or after December 15, 2012. The Company adopted the ASU 2013-02 reporting requirements during the interim reporting period beginning on January 1, 2013 with no impact to the Company's financial condition or results of operations. See Note 18 to the Consolidated Financial Statements of this report for new disclosures related to accumulated other comprehensive income.
In October 2012, the FASB issued ASU 2012-06, Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution. ASU 2012-06 clarifies that when a reporting entity recognizes an indemnification asset as a result of a government-assisted acquisition of a financial institution and there is a subsequent change in the amount of cash flows expected to be

collected on the indemnified asset, the reporting entity should subsequently measure the indemnification asset on the same basis as the underlying loans by taking into account the contractual limitations of the Loss-Sharing Agreement ("LSA"). For amortization of changes in value, the reporting entity should use the term of the LSA if it is shorter than the term of the acquired loans. ASU 2012-06 is effective for interim and annual periods beginning after December 15, 2012. The Company adopted the ASU as of January 1, 2013. As a result of the adoption of the ASU, an additional $12.3 million of indemnification asset amortization was recorded during the year ending December 31, 2013, resulting in a reduction of $8.0 million in net income and $0.16 in diluted earnings per share.

Table of Contents

In December 2011, the FASB issued ASU 2011-11, Disclosures about Offsetting Assets and Liabilities (Topic 210). ASU 2011-11 requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. ASU 2011-11 is effective for interim and annual periods beginning on or after January 1, 2013 and should be applied retrospectively for all comparative periods presented. Subsequent to December 31, 2012, the FASB issued ASU 2013-01 which clarifies the scope of ASU 2011-11. Adoption of the new guidance is not expected to have a significant impact on the Company's consolidated financial statements. See Note 14 to the Consolidated Financial Statements of this report for new disclosures related to balance sheet offsetting.

2. Business Combinations

West Coast Bancorp

On April 1, 2013, the Company completed its acquisition of West Coast Bancorp ("West Coast"). The Company acquired 100% of the voting equity interests of West Coast. The primary reason for the acquisition was to expand the Company's geographic footprint consistent with its ongoing growth strategy.

The assets acquired and liabilities assumed have been accounted for under the acquisition method of accounting (formerly the purchase method). The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the April 1, 2013 acquisition date. Subsequent to the acquisition date, the amounts for other assets, other liabilities and goodwill have been retrospectively adjusted to reflect the removal of a liability that was recorded by West Coast, as well as the associated impacts to the deferred tax asset (other assets) and goodwill. The subsequent adjustment recorded was a decrease to other liabilities of $3.3 million, a decrease to other assets of $890 thousand and a decrease to goodwill of $2.4 million and no impact to previously reported net income.

The application of the acquisition method of accounting resulted in the recognition of goodwill of $228.4 million and a core deposit intangible of $15.3 million, or 0.89% of core deposits. The goodwill represents the excess purchase price over the estimated fair value of the net assets acquired. The goodwill is generally 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:

	April 1, 2013 (in thousands)
Purchase price as of April 1, 2013	$540,791
Recognized amounts of identifiable assets acquired and (liabilities assumed), at fair value:	
Cash and cash equivalents	$110,440
Investment securities	730,842
Federal Home Loan Bank stock	11,824
Acquired loans	1,407,798
Premises and equipment	35,884
Other real estate owned	14,708
Core deposit intangible	15,257
Other assets	75,820
Deposits	(1,883,407)
Federal Home Loan Bank advances	(128,885)
Junior subordinated debentures	(51,000)
Other liabilities	(26,888)
Total fair value of identifiable net assets	312,393
Goodwill	$228,398

See Note 10, Goodwill and Other Intangible Assets, for further discussion of the accounting for goodwill and other intangible assets.

Table of Contents

The operating results of the Company include the operating results produced by the acquired assets and assumed liabilities for the period April 1, 2013 to December 31, 2013. Disclosure of the amount of West Coast's revenue and net income (excluding integration costs) included in Columbia's consolidated income statement is impracticable due to the integration of the operations and accounting for this acquisition.

The following table presents certain unaudited pro forma information for illustrative purposes only, for the years ended December 31, 2013 and 2012 as if West Coast had been acquired on January 1, 2012. The unaudited estimated pro forma information combines the historical results of West Coast 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 on January 1, 2012. 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 investments securities been recorded at fair value as of January 1, 2012. 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 will differ from the unaudited pro forma information presented.

	Unaudited Pro Forma Years Ended December 31,	
	2013	2012
	(in thousands)	
Total revenues (net interest income plus noninterest income)	$337,712	$420,167
Net income	$76,496	$91,261
Earnings per share - basic	$1.50	$1.79
Earnings per share - diluted	$1.46	$1.74

In connection with the West Coast acquisition, Columbia recognized $25.5 million of acquisition-related expenses for the year ended December 31, 2013 and $1.8 million for the year ended December 31, 2012. The acquisition-related expenses were excluded from the table above.

Bank of Whitman

On August 5, 2011 the Bank acquired certain assets and assumed certain liabilities of the Bank of Whitman from the FDIC in an FDIC-assisted transaction. The Bank and the FDIC entered into a modified whole bank purchase and assumption agreement without loss share.

The Bank of Whitman was a full service community bank headquartered in Colfax, Washington. We entered into this transaction to acquire 9 branches total in Adams, Asotin, Grant, Spokane, Walla Walla, and Whitman counties to assist us with filling in our geographic footprint in eastern Washington. We believe participating with the FDIC in this assisted transaction was, from an economical standpoint, advantageous to expansion through de novo branching.

The assets acquired and liabilities assumed have been accounted for under the acquisition method of accounting (formerly the purchase method). The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the August 5, 2011 acquisition date. The application of the acquisition method of accounting resulted in the recognition of a bargain purchase gain, net of tax, of $1.8 million, which is included in the Gain on bank acquisition line item in the Consolidated Statements of Income, and a core deposit intangible of $3.9 million. The bargain purchase gain represents the excess of the estimated fair value of the assets acquired over the estimated fair value of the liabilities assumed and is influenced significantly by the FDIC-assisted transaction process. The core deposit intangible asset recognized is deductible for income tax purposes.

The operating results of the Company include the operating results produced by the acquired assets and assumed liabilities for the period August 6, 2011 to December 31, 2013. Due to the exclusion of the majority of the non-performing loans and 11 branch locations, as well as the significant amount of fair value adjustments, historical results of the Bank of Whitman are not meaningful to the Company's results and thus no proforma information is presented.

Table of Contents

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

	August 5, 2011 (in thousands)
Assets	
Cash and due from banks	$52,072
Investment securities	16,298
Federal Reserve Bank and Federal Home Loan Bank stock	3,977
Acquired loans	200,041
Accrued interest receivable	1,975
Premises and equipment	86
FDIC receivable	156,710
Core deposit intangible	3,943
Other assets	2,447
Total assets acquired	$437,549
Liabilities	
Deposits	$401,127
Federal Home Loan Bank advances	32,949
Accrued interest payable	213
Deferred tax liability	1,034
Other liabilities	396
Total liabilities assumed	435,719
Net assets acquired (after tax gain)	$1,830

First Heritage Bank

On May 27, 2011 the Bank acquired certain assets and assumed certain liabilities of First Heritage Bank from the FDIC in an FDIC-assisted transaction. As part of the Purchase and Assumption Agreement, the Bank and the FDIC entered into loss-sharing agreements (each, a “loss-sharing agreement” and collectively, the “loss-sharing agreements”), whereby the FDIC will cover a substantial portion of any future losses on loans (and related unfunded commitments), OREO and certain accrued interest on loans for up to 90 days. We refer to the acquired loans and OREO subject to the loss-sharing agreements collectively as “covered assets.” Under the terms of the loss-sharing agreements, the FDIC will absorb 80% of losses and share in 80% of loss recoveries. The loss-sharing provisions of the agreements for commercial and single family residential mortgage loans are in effect for five years and ten years, respectively, from the May 27, 2011 acquisition date and the loss recovery provisions for such loans are in effect for eight years and ten years, respectively, from the acquisition date.

First Heritage Bank was a full service community bank headquartered in Snohomish, Washington that operated five branch locations in King and Snohomish Counties. We entered into this transaction to assist us with filling in our geographic footprint between Seattle and Bellingham, Washington and to support our recently expanded Bellingham banking team. We believe participating with the FDIC in this assisted transaction was, from an economical standpoint, advantageous to expansion through de novo branching.

The assets acquired and liabilities assumed have been accounted for under the acquisition method of accounting (formerly the purchase method). The assets and liabilities, both tangible and intangible, were initially provisionally recorded at their estimated fair values as of the May 27, 2011 acquisition date pending completion of valuation adjustments related to acquired loans, OREO, the indemnification asset, and other assets. The initial amounts recorded for acquired loans, OREO, the indemnification asset, and other assets were $81.9 million, $8.3 million, $38.1 million, and $1.7 million, respectively. At December 31, 2011 these amounts were retrospectively adjusted resulting in a $369 thousand decrease to acquired loans, a $61 thousand decrease to OREO, a $427 thousand increase to the indemnification asset, and a $1.9 million increase to other assets. The application of the acquisition method of accounting resulted in the recognition of $4.0 million of goodwill and a core deposit intangible of $1.3 million. The goodwill represents the excess of the estimated fair value of the liabilities assumed over the estimated fair value of the

assets acquired and is influenced significantly by the FDIC-assisted transaction process.
The operating results of the Company include the operating results produced by the acquired assets and assumed liabilities for the period May 28, 2011 to December 31, 2013. Due primarily to the significant amount of fair value adjustments and the FDIC loss-sharing agreements put in place, historical results of First Heritage Bank are not meaningful to the Company's results and thus no proforma information is presented.

Table of Contents

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

	May 27, 2011 (in thousands)
Assets	
Cash and due from banks	$4,688
Interest-earning deposits with banks	6,689
Investment securities	5,303
Federal Home Loan Bank stock	477
Acquired loans	81,488
Accrued interest receivable	476
Premises and equipment	5,339
FDIC receivable	4,751
Other real estate owned covered by loss sharing	8,225
Goodwill	4,023
Core deposit intangible	1,337
FDIC indemnification asset	38,531
Other assets	3,657
Total assets acquired	$164,984
Liabilities	
Deposits	$159,525
Federal Home Loan Bank advances	5,003
Accrued interest payable	421
Other liabilities	35
Total liabilities assumed	$164,984

Summit Bank

On May 20, 2011 the Bank acquired certain assets and assumed certain liabilities of Summit Bank from the Federal Deposit Insurance Corporation (“FDIC”) in an FDIC-assisted transaction. As part of the Purchase and Assumption Agreement, the Bank and the FDIC entered into loss-sharing agreements (each, a “loss-sharing agreement” and collectively, the “loss-sharing agreements”), whereby the FDIC will cover a substantial portion of any future losses on loans (and related unfunded commitments), OREO and certain accrued interest on loans for up to 90 days. We refer to the acquired loans and OREO subject to the loss-sharing agreements collectively as “covered assets.” Under the terms of the loss-sharing agreements, the FDIC will absorb 80% of losses and share in 80% of loss recoveries. The loss-sharing provisions of the agreements for commercial and single family residential mortgage loans are in effect for five years and ten years, respectively, from the May 20, 2011 acquisition date and the loss recovery provisions for such loans are in effect for eight years and ten years, respectively, from the acquisition date.

Summit Bank was a full service community bank headquartered in Burlington, Washington that operated three branch locations in Skagit County. We entered into this transaction to assist us with filling in our geographic footprint between Seattle and Bellingham, Washington and to support our recently expanded Bellingham banking team. We believe participating with the FDIC in this assisted transaction was, from an economical standpoint, advantageous to expansion through de novo branching.

The assets acquired and liabilities assumed have been accounted for under the acquisition method of accounting (formerly the purchase method). The assets and liabilities, both tangible and intangible, were initially provisionally recorded at their estimated fair values as of the May 20, 2011 acquisition date pending completion of valuation adjustments related to acquired loans, OREO, the indemnification asset, and other assets. The initial amounts recorded for acquired loans, OREO, the indemnification asset, and other assets were $71.4 million, $2.7 million, $27.2 million, and $786 thousand, respectively. At December 31, 2011 these amounts were retrospectively adjusted resulting in a

$1.7 million decrease to acquired loans, a $509 thousand decrease to OREO, a $3.0 million increase to the indemnification asset, and a $1.0 million increase to other assets. The application of the acquisition method of accounting resulted in the recognition of $1.9 million of goodwill and a core deposit intangible of $509 thousand. The goodwill represents the excess of the estimated fair value of the liabilities assumed over the estimated fair value of the assets acquired and is influenced significantly by the FDIC-assisted transaction process.

Table of Contents

The operating results of the Company include the operating results produced by the acquired assets and assumed liabilities for the period May 21, 2011 to December 31, 2013. Due primarily to the significant amount of fair value adjustments and the FDIC loss-sharing agreements put in place, historical results of Summit Bank are not meaningful to the Company's results and thus no pro forma information is presented.
The table below displays the amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed:

	May 20, 2011 (in thousands)
Assets	
Cash and due from banks	$1,837
Interest-earning deposits with banks and federal funds sold	14,198
Investment securities	871
Federal Home Loan Bank stock	406
Acquired loans	69,783
Accrued interest receivable	429
Premises and equipment	42
FDIC receivable	6,984
Other real estate owned covered by loss sharing	2,162
Goodwill	1,892
Core deposit intangible	509
FDIC indemnification asset	30,203
Other assets	1,813
Total assets acquired	$131,129
Liabilities	
Deposits	$123,279
Federal Home Loan Bank advances	7,772
Accrued interest payable	71
Other liabilities	7
Total liabilities assumed	$131,129

3. Cash and Cash Equivalents

The Company is required to maintain an average reserve balance with the Federal Reserve Bank or maintain such reserve balance in the form of cash. The average required reserve balance for the years ended December 31, 2013 and 2012 was approximately $36.3 million and $28.6 million, respectively, and was met by holding cash and maintaining an average balance with the Federal Reserve Bank.

4. Securities

At December 31, 2013 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.

Table of Contents

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2013	(in thousands)			
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	$961,442	$10,640	$(23,674)	$948,408
State and municipal securities	357,013	11,450	(3,993)	364,470
U.S. government agency and government-sponsored enterprise securities	335,671	434	(10,066)	326,039
U.S. government securities	21,081	—	(967)	20,114
Other securities	5,284	27	(231)	5,080
Total	$1,680,491	$22,551	$(38,931)	$1,664,111
December 31, 2012				
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	$561,076	$16,719	$(5,426)	$572,369
State and municipal securities	265,070	20,893	(388)	285,575
U.S. government agency and government-sponsored enterprise securities	120,085	851	(435)	120,501
U.S. government securities	19,804	39	(15)	19,828
Other securities	3,324	104	(36)	3,392
Total	$969,359	$38,606	$(6,300)	$1,001,665

Gross realized losses amounted to $170 thousand, $714 thousand, and $250 thousand for the years ended December 31, 2013, 2012 and 2011, respectively. Gross realized gains amounted to $632 thousand, $4.4 million, and $384 thousand for the years ended December 31, 2013, 2012 and 2011, respectively. The following table summarizes the amortized cost and fair value of securities available for sale by contractual maturity groups:

	December 31, 2013	
	Amortized Cost	Fair Value
	(in thousands)	
Due within one year	$14,079	$14,239
Due after one year through five years	303,875	302,641
Due after five years through ten years	487,643	480,244
Due after ten years	869,610	861,907
Other securities with no stated maturity	$5,284	$5,080
Total investment securities available-for-sale	$1,680,491	$1,664,111

The following table summarizes, as of December 31, 2013 and 2012, the carrying value of securities pledged as collateral to secure public deposits, borrowings and other purposes as permitted or required by law:

	December 31, 2013	December 31, 2012
	(in thousands)	
Washington and Oregon State to secure public deposits	$277,012	$281,006
Federal Reserve Bank to secure borrowings	42,694	47,634
Other securities pledged	43,081	46,090
Total securities pledged as collateral	$362,787	$374,730

Table of Contents

The following tables show the gross unrealized losses and fair value of the Company’s investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2013 and 2012:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2013	(in thousands)					
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	$492,921	$(10,991)	$121,303	$(12,684)	$614,224	(23,675)
State and municipal securities	112,400	(3,069)	13,815	(923)	126,215	(3,992)
U.S. government agency and government-sponsored enterprise securities	260,001	(8,063)	28,447	(2,003)	288,448	(10,066)
U.S. government securities	20,114	(967)	—	—	20,114	(967)
Other securities	2,257	(58)	2,783	(173)	5,040	(231)
Total	$887,693	$(23,148)	$166,348	$(15,783)	$1,054,041	$(38,931)
December 31, 2012						
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	$167,739	$(5,090)	$12,204	$(336)	$179,943	$(5,426)
State and municipal securities	20,413	(383)	210	(5)	20,623	(388)
U.S. government agency and government-sponsored enterprise securities	56,600	(435)	—	—	56,600	(435)
U.S. government securities	9,914	(15)	—	—	9,914	(15)
Other securities	—	—	964	(36)	964	(36)
Total	$254,666	$(5,923)	$13,378	$(377)	$268,044	$(6,300)

At December 31, 2013, there were 84 U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations securities in an unrealized loss position, of which 11 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 maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2013.

At December 31, 2013, there were 131 state and municipal government securities in an unrealized loss position, of which 11 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, 2013 none of the rated obligations of state and local government entities held by the Company had an adverse credit rating. Because the credit quality of these securities are 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 maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2013.

At December 31, 2013, there were 31 U.S. government agency and government-sponsored enterprise securities in an unrealized loss position, of which three 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 maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2013.
At December 31, 2013, there were five U.S. government securities in an unrealized loss position, which were not in a continuous loss position for 12 months or more. The decline in fair value is attributable to changes in interest rates relative to where 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 maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2013.

Table of Contents

At December 31, 2013, there were two other securities in an unrealized loss position, of which one security, a mortgage-backed securities fund, was in a continuous unrealized loss position for 12 months or more. The decline in fair value is attributable to changes in interest rates and the additional risk premium investors are demanding for investment securities with these characteristics. The Company does not consider this investment to be other-than-temporarily impaired at December 31, 2013 as it has the intent and ability to hold the investment for sufficient time to allow for recovery in the market value.

Securities Deemed to be Other-Than-Temporarily Impaired

During the fourth quarter of 2012, the Company received full payment on a municipal bond that was determined to be other-than-temporarily impaired during 2011 for which the Company recorded impairment of $3.0 million in 2011. The 2011 impairment and the 2012 gain related to this security are recorded in the line item Investment securities gains(losses), net in the Consolidated Statements of Income.

5. Noncovered Loans

Noncovered loans include loans originated through our branch network and loan departments as well as acquired loans that are not subject to FDIC loss-share agreements.

The following is an analysis of the noncovered loan portfolio by major types of loans (net of unearned income):

	December 31, 2013	December 31, 2012
	(in thousands)	
Noncovered loans:		
Commercial business	$1,561,782	$1,155,158
Real estate:		
One-to-four family residential	108,317	43,922
Commercial and multifamily residential	2,080,075	1,061,201
Total real estate	2,188,392	1,105,123
Real estate construction:		
One-to-four family residential	54,155	50,602
Commercial and multifamily residential	126,390	65,101
Total real estate construction	180,545	115,703
Consumer	357,014	157,493
Less: Net unearned income	(68,282)	(7,767)
Total noncovered loans, net of unearned income	4,219,451	2,525,710
Less: Allowance for loan and lease losses	(52,280)	(52,244)
Total noncovered loans, net	$4,167,171	$2,473,466
Loans held for sale	$735	$2,563

At December 31, 2013 and 2012, 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 and Oregon.

The Company has granted loans to 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 $14.2 million and $14.2 million at December 31, 2013 and 2012, respectively. During 2013, advances and repayments on related party loans totaled $2.0 million.

At December 31, 2013 and 2012, $1.08 billion and $443.4 million of commercial and residential real estate loans were pledged as collateral on Federal Home Loan Bank advances. The Company has also pledged $45.2 million and $13.8 million of commercial loans to the Federal Reserve Bank for additional borrowing capacity at December 31, 2013 and 2012, respectively.

Nonaccrual loans totaled $34.0 million and $37.4 million at December 31, 2013 and 2012, respectively. The amount of interest income foregone as a result of these loans being placed on nonaccrual status totaled $2.9 million for 2013, $3.4 million for 2012 and $5.3 million for 2011. There were no loans 90 days past due and still accruing interest as of

December 31, 2013 and December 31, 2012. At December 31, 2013 and 2012, there were $28 thousand and $346 thousand, respectively, of commitments of additional funds for loans accounted for on a nonaccrual basis.

Table of Contents

The following is an analysis of noncovered, nonaccrual loans as of December 31, 2013 and 2012:

	December 31, 2013		December 31, 2012	
	Recorded Investment Nonaccrual Loans	Unpaid Principal Balance Nonaccrual Loans	Recorded Investment Nonaccrual Loans	Unpaid Principal Balance Nonaccrual Loans
Noncovered loans:	(in thousands)			
Commercial business:				
Secured	$12,433	$ 19,186	$9,037	$ 17,821
Unsecured	176	202	262	262
Real estate:				
One-to-four family residential	2,667	4,678	2,349	2,672
Commercial and multifamily residential:				
Commercial land	442	783	4,076	7,491
Income property	4,267	5,383	8,520	10,815
Owner occupied	6,334	7,486	6,608	7,741
Real estate construction:				
One-to-four family residential:				
Land and acquisition	3,246	6,601	3,084	6,704
Residential construction	459	1,928	1,816	2,431
Consumer	3,991	6,187	1,643	1,940
Total	$34,015	$ 52,434	$37,395	$ 57,877

Table of Contents

The following is an aging of the recorded investment of the noncovered loan portfolio as of December 31, 2013 and 2012:

	Current Loans	30 - 59 Days Past Due	60 - 89 Days Past Due	Total Past Due	Nonaccrual Loans	Total Loans
December 31, 2013	(in thousands)					
Noncovered loans:						
Commercial business:						
Secured	$1,457,820	$12,713	$681	$13,394	$ 12,433	$1,483,647
Unsecured	72,255	156	17	173	176	72,604
Real estate:						
One-to-four family residential	100,591	1,993	641	2,634	2,667	105,892
Commercial and multifamily residential:						
Commercial land	142,034	—	358	358	442	142,834
Income property	1,138,732	144	3,289	3,433	4,267	1,146,432
Owner occupied	749,561	4,714	—	4,714	6,334	760,609
Real estate construction:						
One-to-four family residential:						
Land and acquisition	8,225	199	—	199	3,246	11,670
Residential construction	41,533	—	—	—	459	41,992
Commercial and multifamily residential:						
Income property	86,521	—	—	—	—	86,521
Owner occupied	38,916	—	—	—	—	38,916
Consumer	322,685	835	823	1,658	3,991	328,334
Total	$4,158,873	$20,754	$5,809	$26,563	$ 34,015	$4,219,451

	Current Loans	30 - 59 Days Past Due	60 - 89 Days Past Due	Total Past Due	Nonaccrual Loans	Total Loans
December 31, 2012	(in thousands)					
Noncovered loans:						
Commercial business:						
Secured	$1,091,770	$4,259	$1,485	$5,744	$ 9,037	$1,106,551
Unsecured	44,817	252	12	264	262	45,343
Real estate:						
One-to-four family residential	41,508	193	142	335	2,349	44,192
Commercial and multifamily residential:						
Commercial land	42,818	311	122	433	4,076	47,327
Income property	603,339	2,726	227	2,953	8,520	614,812
Owner occupied	387,525	1,040	—	1,040	6,608	395,173
Real estate construction:						
One-to-four family residential:						
Land and acquisition	15,412	—	—	—	3,084	18,496
Residential construction	29,848	—	—	—	1,816	31,664
Commercial and multifamily residential:						

Income property	28,342	—	—	—	—	28,342
Owner occupied	36,211	—	—	—	—	36,211
Consumer	155,207	387	362	749	1,643	157,599
Total	$2,476,797	$9,168	$2,350	$11,518	$ 37,395	$2,525,710

Table of Contents

The following is an analysis of impaired loans (see Note 1) as of December 31, 2013 and 2012:

	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, 2013	(in thousands)						
Noncovered loans:							
Commercial business:							
Secured	$1,478,560	$ 5,087	$2,866	$2,885	$ 343	$2,221	$2,560
Unsecured	72,569	35	35	35	35	—	—
Real estate:							
One-to-four family residential	104,272	1,620	442	479	138	1,178	2,119
Commercial and multifamily residential:							
Commercial land	142,719	115	—	—	—	115	398
Income property	1,140,019	6,413	918	933	26	5,495	7,885
Owner occupied	749,601	11,008	3,802	3,817	1,073	7,206	10,464
Real estate construction:							
One-to-four family residential:							
Land and acquisition	9,726	1,944	113	113	71	1,831	2,587
Residential construction	41,992	—	—	—	—	—	—
Commercial and multifamily residential:							
Income property	86,521	—	—	—	—	—	—
Owner occupied	38,916	—	—	—	—	—	—
Consumer	328,167	167	23	27	4	144	210
Total	$4,193,062	$ 26,389	$8,199	$8,289	$ 1,690	$18,190	$26,223

	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, 2012	(in thousands)						
Noncovered loans:							
Commercial business:							
Secured	$1,101,689	$ 4,862	$690	$1,994	$ 113	$4,172	$6,769
Unsecured	45,251	92	92	92	92	—	—
Real estate:							
One-to-four family residential	42,103	2,089	345	364	112	1,744	1,902

Commercial and multifamily residential:							
Commercial land	44,672	2,655	—	—	—	2,655	5,727
Income property	606,656	8,156	2,670	2,727	1,040	5,486	7,860
Owner occupied	383,269	11,904	608	610	38	11,296	14,642
Real estate construction:							
One-to-four family residential							
Land and acquisition	15,677	2,819	—	—	—	2,819	4,813
Residential construction	29,707	1,957	—	—	—	1,957	2,570
Commercial and multifamily residential:							
Income property	28,342	—	—	—	—	—	—
Owner occupied	36,211	—	—	—	—	—	—
Consumer	157,472	127	—	—	—	127	127
Total	$2,491,049	$ 34,661	$4,405	$5,787	$ 1,395	$30,256	$44,410

Table of Contents

The following table provides additional information on impaired loans for the years ended December 31, 2013, 2012 and 2011:

	Year ended December 31, 2013		Year Ended December 31, 2012		Year ended December 31, 2011	
	Average Recorded Investment Impaired Loans	Interest Recognized on Impaired Loans	Average Recorded Investment Impaired Loans	Interest Recognized on Impaired Loans	Average Recorded Investment Impaired Loans	Interest Recognized on Impaired Loans
Noncovered loans:	(in thousands)					
Commercial business						
Secured	$5,636	$19	$8,978	$9	$15,578	$511
Unsecured	61	3	113	6	138	—
Real estate:						
One-to-four family residential	1,665	63	2,130	—	2,494	—
Commercial & multifamily residential						
Commercial land	1,691	—	3,124	—	4,263	—
Income property	8,910	238	7,895	77	8,881	59
Owner occupied	10,779	971	13,315	1,004	15,254	18
Real estate construction:						
One-to-four family residential						
Land and acquisition	2,624	6	4,465	—	8,972	116
Residential construction	420	—	3,223	11	4,535	—
Commercial & multifamily residential						
Income property	—	—	3,169	—	7,065	—
Consumer	253	6	1,112	7	3,880	15
Total	$32,039	$1,306	$47,524	$1,114	$71,060	$719

Table of Contents

The following is an analysis of loans classified as Troubled Debt Restructurings ("TDR") for the years ended December 31, 2013, 2012 and 2011:

	Year ended December 31, 2013			Year Ended December 31, 2012			Year ended December 31, 2011		
	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
Noncovered loans:	(dollars in thousands)								
Commercial business:									
Secured	2	$ 190	$ 190	1	$ 195	$ 194	6	$ 659	$ 659
Real estate:									
One-to-four family residential	1	113	113	—	—	—	1	369	369
Commercial and multifamily residential:									
Commercial land	1	137	137	—	—	—	—	—	—
Income property	4	1,186	1,186	1	4,279	2,650	2	1,280	1,280
Owner occupied	1	172	172	—	—	—	—	—	—
Real estate construction:									
One-to-four family residential:									
Land and acquisition	1	117	117	—	—	—	—	—	—
Residential construction	—	—	—	—	—	—	1	36	36
Consumer	2	53	53	—	—	—	—	—	—
Total	12	$ 1,968	$ 1,968	2	$ 4,474	$ 2,844	10	$ 2,344	$ 2,344

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 commitments to lend $0 and $236 thousand of additional funds on loans classified as TDR as of December 31, 2013 and 2012, respectively. 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. 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 during the years ended December 31, 2013, 2012, and 2011.

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

We maintain an allowance for loan and lease losses ("ALLL") to absorb losses inherent in the loan portfolio. The size of the ALLL is determined through quarterly assessments of the probable estimated losses in the loan portfolio. Our methodology for making such assessments and determining the adequacy of the ALLL includes the following key elements:

1. General valuation allowance consistent with the Contingencies topic of the FASB ASC.
2. Classified loss reserves on specific relationships. Specific allowances for identified problem loans are determined in accordance with the Receivables topic of the FASB ASC.
3. The unallocated allowance provides for other factors inherent in our loan portfolio that may not have been contemplated in the general and specific components of the allowance. This unallocated amount generally comprises less than 5% of the allowance. The unallocated amount is reviewed quarterly based on trends in credit losses, the results of credit reviews and overall economic trends.

Table of Contents

The general valuation allowance is systematically calculated quarterly using quantitative and qualitative information about specific loan classes. The minimum required level an entity develops a methodology to determine its allowance for loan and lease losses is by general categories of loans, such as commercial business, real estate, and consumer. However, the Company's methodology in determining its allowance for loan and lease losses is prepared in a more detailed manner at the loan class level, utilizing specific categories such as commercial business secured, commercial business unsecured, real estate commercial land, and real estate income property multifamily. The quantitative information uses historical losses from a specific loan class and incorporates the loan's risk rating migration from origination to the point of loss based upon the consideration of an appropriate look back period.

A loan's risk rating is primarily determined based upon the borrower's ability to fulfill its debt obligation from a cash flow perspective. In the event there is financial deterioration of the borrower, the borrower's other sources of income or repayment are also considered, including recent appraisal values for collateral dependent loans. The qualitative information takes into account general economic and business conditions affecting our marketplace, seasoning of the loan portfolio, duration of the business cycle, etc. to ensure our methodologies reflect the current economic environment and other factors as using historical loss information exclusively may not give an accurate estimate of inherent losses within the Company's loan portfolio.

When a loan is deemed to be impaired, the Company has to determine if a specific valuation allowance is required for that loan. The specific valuation allowance is a reserve, calculated at the individual loan level, for each loan determined to be both, impaired and containing a value less than its recorded investment. The Company measures the impairment based on the discounted expected future cash flows, observable market price, or the fair value of the collateral less selling costs if the loan is collateral dependent or if foreclosure is probable. The specific reserve for each loan is equal to the difference between the recorded investment in the loan and its determined impairment value.

The ALLL is increased by provisions for loan and lease losses ("provision") charged to expense, and is reduced by loans charged off, net of recoveries. While the Company's management believes the best information available is used to determine the ALLL, changes in market conditions could result in adjustments to the ALLL, affecting net income, if circumstances differ from the assumptions used in determining the ALLL.

We have used the same methodology for ALLL calculations during 2013, 2012 and 2011. Adjustments to the percentages of the ALLL allocated to loan categories are made based on trends with respect to delinquencies and problem loans within each class of loans. The Company reviews the ALLL quantitative and qualitative methodology on a quarterly basis and makes adjustments when appropriate. The Company continues to strive towards maintaining a conservative approach to credit quality and will continue to prudently adjust our ALLL as necessary in order to maintain adequate reserves. The Company carefully monitors the loan portfolio and continues to emphasize the importance of credit quality.

Once it is determined that all or a portion of a loan balance is uncollectable, and the amount can be reasonably estimated, the uncollectable portion of the loan is charged-off.

Table of Contents

The following tables show a detailed analysis of the allowance for loan and lease losses for noncovered loans for the years ended December 31, 2013, 2012 and 2011:

	Beginning Balance	Charge-offs	Recoveries	Provision (Recovery)	Ending Balance	Specific Reserve	General Allocation
Year ended December 31, 2013	(in thousands)						
Noncovered loans:							
Commercial business:							
Secured	$27,270	$(4,148)	$1,512	$6,393	$31,027	$343	$30,684
Unsecured	753	(794)	932	(195)	696	35	661
Real estate:							
One-to-four family residential	694	(228)	270	516	1,252	138	1,114
Commercial and multifamily residential:							
Commercial land	460	(20)	169	(120)	489	—	489
Income property	11,033	(1,405)	489	(883)	9,234	26	9,208
Owner occupied	6,362	(1,118)	375	(2,014)	3,605	1,073	2,532
Real estate construction:							
One-to-four family residential:							
Land and acquisition	1,171	(32)	2,553	(3,082)	610	71	539
Residential construction	635	(101)	112	176	822	—	822
Commercial and multifamily residential:							
Income property	316	—	—	(31)	285	—	285
Owner occupied	102	—	—	(44)	58	—	58
Consumer	2,437	(2,242)	552	1,800	2,547	4	2,543
Unallocated	1,011	—	—	644	1,655	—	1,655
Total	$52,244	$(10,088)	$6,964	$3,160	$52,280	$1,690	$50,590

	Beginning Balance	Charge-offs	Recoveries	Provision (Recovery)	Ending Balance	Specific Reserve	General Allocation
Year Ended December 31, 2012	(in thousands)						
Noncovered loans:							
Commercial business:							
Secured	$24,745	$(10,029)	$1,354	$11,200	$27,270	$113	$27,157
Unsecured	689	(144)	194	14	753	92	661
Real estate:							
One-to-four family residential	654	(549)	285	304	694	112	582
Commercial and multifamily residential:							
Commercial land	488	(526)	63	435	460	—	460
Income property	9,551	(4,030)	905	4,607	11,033	1,040	9,993
Owner occupied	9,606	(918)	631	(2,957)	6,362	38	6,324
Real estate construction:							
One-to-four family residential:							
Land and acquisition	2,331	(989)	1,059	(1,230)	1,171	—	1,171
Residential construction	864	(617)	429	(41)	635	—	635
Commercial and multifamily residential:							
Income property	665	(93)	66	(322)	316	—	316
Owner occupied	35	—	—	67	102	—	102

Consumer	2,719	(2,534)	1,171	1,081	2,437	—	2,437
Unallocated	694	—	—	317	1,011	—	1,011
Total	$53,041	$(20,429)	$6,157	$ 13,475	$52,244	$1,395	$50,849

Table of Contents

	Beginning Balance	Charge-offs	Recoveries	Provision (Recovery)	Ending Balance	Specific Reserve	General Allocation
Year ended December 31, 2011	(in thousands)						
Noncovered loans:							
Commercial business:							
Secured	$21,811	$(7,270)	$1,154	$ 9,050	$24,745	$954	$23,791
Unsecured	738	(639)	1,444	(854)	689	97	592
Real estate:							
One-to-four family residential	1,100	(717)	80	191	654	96	558
Commercial and multifamily residential:							
Commercial land	634	(660)	12	502	488	—	488
Income property	15,210	(1,407)	414	(4,666)	9,551	63	9,488
Owner occupied	9,692	(1,620)	33	1,501	9,606	185	9,421
Real estate construction:							
One-to-four family residential:							
Land and acquisition	3,769	(1,419)	1,978	(1,997)	2,331	—	2,331
Residential construction	2,292	(1,068)	113	(473)	864	59	805
Commercial and multifamily residential:							
Income property	274	(2,213)	—	2,604	665	—	665
Owner occupied	70	—	—	(35)	35	—	35
Consumer	2,120	(3,918)	351	4,166	2,719	30	2,689
Unallocated	3,283	—	—	(2,589)	694	—	694
Total	$60,993	$(20,931)	$5,579	$ 7,400	$53,041	$1,484	$51,557

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

	Years Ended December 31,		
	2013	2012	2011
	(in thousands)		
Beginning balance	$1,915	$1,535	$1,165
Net changes in the allowance for unfunded commitments and letters of credit	590	380	370
Ending balance	$2,505	$1,915	$1,535

Risk Elements

The extension of credit in the form of loans to individuals and businesses is one of our principal commerce 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, type of borrower and by limiting the aggregation of debt to a single borrower.

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

Pass loans are generally considered to have sufficient sources of repayment in order to repay the loan in full in accordance with all terms and conditions. Special mention loans have potential weaknesses that, if left uncorrected, may result in deterioration of the repayment prospects for the asset or in the Company's credit position at some future date. Loans with a risk rating of Substandard or worse are reported as classified loans in our allowance for loan and

lease losses analysis. We review these loans to assess the ability of our borrowers to service all interest and principal obligations and, as a result, the risk rating may be adjusted accordingly. Substandard loans reflect loans where a loss is possible if loan weaknesses are not corrected. Doubtful loans have a high probability of loss, however, the amount of loss has not yet been determined. Loss loans are considered uncollectable and when identified, are charged off.

Table of Contents

The following is an analysis of the credit quality of our noncovered loan portfolio as of December 31, 2013 and 2012:

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
December 31, 2013	(in thousands)					
Noncovered loans:						
Commercial business:						
Secured	$1,372,038	$43,309	$68,300	$—	$—	$1,483,647
Unsecured	72,226	199	179	—	—	72,604
Real estate:						
One-to-four family residential	98,626	1,567	5,699	—	—	105,892
Commercial and multifamily residential:						
Commercial land	137,850	—	4,984	—	—	142,834
Income property	1,108,033	5,473	32,926	—	—	1,146,432
Owner occupied	748,725	—	11,884	—	—	760,609
Real estate construction:						
One-to-four family residential:						
Land and acquisition	7,526	—	4,144	—	—	11,670
Residential construction	36,270	2,352	3,370	—	—	41,992
Commercial and multifamily residential:						
Income property	86,206	—	315	—	—	86,521
Owner occupied	38,916	—	—	—	—	38,916
Consumer	321,348	331	6,188	467	—	328,334
Total	$4,027,764	$53,231	$137,989	$467	$—	4,219,451
Less:						
Allowance for loan losses						52,280
Noncovered loans, net						$4,167,171

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
December 31, 2012	(in thousands)					
Noncovered loans:						
Commercial business:						
Secured	$1,011,722	$29,222	$65,607	$—	$—	$1,106,551
Unsecured	44,788	26	529	—	—	45,343
Real estate:						
One-to-four family residential	40,346	406	3,440	—	—	44,192
Commercial and multifamily residential:						
Commercial land	43,401	—	3,926	—	—	47,327
Income property	581,671	3,688	29,453	—	—	614,812
Owner occupied	357,063	1,848	36,262	—	—	395,173
Real estate construction:						
One-to-four family residential:						
Land and acquisition	12,741	1,351	4,404	—	—	18,496
Residential construction	28,705	1,142	1,817	—	—	31,664
Commercial and multifamily residential:						

Income property	28,342	—	—	—	—	28,342
Owner occupied	36,211	—	—	—	—	36,211
Consumer	151,049	75	6,475	—	—	157,599
Total	$2,336,039	$37,758	$151,913	$—	$—	2,525,710
Less:						
Allowance for loan losses						52,244
Noncovered loans, net						$2,473,466

Table of Contents

7. Noncovered Other Real Estate Owned

The following table sets forth activity in noncovered OREO for the period:

	December 31, 2013	December 31, 2012
	(in thousands)	
Noncovered OREO:		
Balance, beginning of period	$10,676	$22,893
Established through acquisitions	14,708	—
Transfers in, net of write-downs ($90 and $205, respectively)	9,273	7,461
Additions to OREO	3,577	11
Additional OREO write-downs	(1,753)	(4,816)
Proceeds from sale of OREO property	(13,903)	(15,689)
Net gain on sale of OREO	1,256	816
Total noncovered OREO, end of period	$23,834	$10,676

8. Covered Assets and FDIC Loss-sharing Asset

Covered Assets

Covered assets consist of loans and OREO acquired in certain FDIC-assisted acquisitions during 2010 and 2011, for which the Bank entered into loss-sharing agreements, whereby the FDIC will cover a substantial portion of future losses on loans (and related unfunded loan commitments), OREO and certain accrued interest on loans during the terms of the agreements. Under the terms of the loss-sharing agreements, the FDIC will absorb 80% of losses and share in 80% of loss recoveries up to specified amounts. With respect to loss-sharing agreements for two acquisitions completed in 2010, after those specified amounts, the FDIC will absorb 95% of losses and share in 95% of loss recoveries. The loss-sharing provisions of the agreements for commercial and single-family mortgage loans are in effect for five and ten years, respectively, from the acquisition dates and the loss recovery provisions are in effect for eight and ten years, respectively, from the acquisition dates.

Ten years and forty-five days after the acquisition dates, the Bank shall pay to the FDIC a clawback in the event the losses from the acquisitions fail to reach stated levels. The amount of the clawback is determined by a formula specified in each individual loss-sharing agreement. As of December 31, 2013 and 2012, the net present value of the Bank's estimated clawback liability is $3.9 million and $3.6 million, respectively, which is included in other liabilities on the Consolidated Balance Sheet.

The following is an analysis of our covered loans, net of related allowance for losses as of December 31, 2013 and 2012:

	December 31, 2013	December 31, 2012
Covered loans:	(dollars in thousands)	
Commercial business	$72,870	$125,373
Real estate:		
One-to-four family residential	41,642	57,150
Commercial and multifamily residential	170,879	233,106
Total real estate	212,521	290,256
Real estate construction:		
One-to-four family residential	14,781	25,398
Commercial and multifamily residential	6,869	15,251
Total real estate construction	21,650	40,649
Consumer	34,101	44,516
Subtotal of covered loans	341,142	500,794
Less:		
Valuation discount resulting from acquisition accounting	43,297	79,401
Allowance for loan losses	20,174	30,056

Covered loans, net of valuation discounts and allowance for loan losses	$277,671	$391,337

Acquired impaired 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. Acquired loans that have common risk characteristics are aggregated into pools. The Company remeasures contractual and expected cash flows, at the pool-level, on a quarterly basis.

Table of Contents

Contractual cash flows are calculated based upon the loan pool terms after applying a prepayment factor. Calculation of the applied prepayment factor for contractual cash flows is the same as described below for expected cash flows. Inputs to the determination of expected cash flows include cumulative default and prepayment data as well as loss severity and recovery lag information. Cumulative default and prepayment data are calculated via a transition matrix. The transition matrix is a matrix of probability values that specifies the probability of a loan pool transitioning into a particular delinquency state (e.g. 0-30 days past due, 31 to 60 days, etc.) given its delinquency state at the remeasurement date. Loss severity factors are based upon either actual charge-off data within the loan pools or industry averages and recovery lags are based upon the collateral within the loan pools.

Acquired impaired loans are also subject to the Company's internal and external credit review and are risk rated using the same criteria as loans originated by the Company. However, risk ratings are not a clear indicator of losses on acquired loans as the loans were acquired with a significant discount and a majority of the losses are recoverable from the FDIC under the loss-sharing agreements.

Losses attributable to draws on acquired loans, advanced subsequent to the loan acquisition date, are accounted for under ASC 450-20 and those amounts are also subject to the Company's internal and external credit review. An allowance for loan losses is estimated in a similar manner as the originated loan portfolio, and a provision for loan losses is charged to earnings as necessary.

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

The following table shows the changes in accretable yield for acquired loans for the years ended December 31, 2013, 2012, and 2011:

	Years Ended December 31,		
	2013	2012	2011
	(in thousands)		
Balance at beginning of period	$166,888	$259,669	$256,572
Additions resulting from acquisitions	—	—	59,810
Accretion	(51,816)	(86,671)	(90,378)
Disposals	(6,898)	(12,856)	(31,483)
Reclassifications from nonaccretable difference	(4,267)	6,746	65,148
Balance at end of period	$103,907	$166,888	$259,669

During the year ended December 31, 2013, the Company recorded a provision recapture for losses on covered loans of $3.3 million. Of this amount, $1.7 million was impairment recapture calculated in accordance with ASC 310-30 and $1.6 million was a provision recapture to adjust the allowance for loss calculated under ASC 450-20 for draws on acquired loans. The impact to earnings of the $3.3 million of provision recapture for covered loans was substantially offset through noninterest income by a charge to the change in FDIC loss-sharing asset. For the year ended December 31, 2012, the Company recorded a provision for loan losses of $25.9 million which was partially offset by an increase to the FDIC loss-sharing asset and for the year ended December 31, 2011, the Company recorded a provision recapture for losses on covered loans of $1.6 million which was partially offset by a charge to the change in FDIC loss-sharing asset.

The changes in the ALLL for covered loans for the years ended December 31, 2013, 2012, and 2011 are summarized as follows:

	Years Ended December 31,		
	2013	2012	2011
	(in thousands)		
Balance at beginning of year	$30,056	$4,944	$6,055
Loans charged off	(13,853)	(5,112)	(1,488)
Recoveries	7,232	4,332	2,025

Provision charged to expense	(3,261)	25,892	(1,648)
Balance at end of year	$20,174	$30,056	$4,944

Table of Contents

The following is an analysis of the credit quality of our covered loan portfolio as of December 31, 2013 and 2012:

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
December 31, 2013	(in thousands)					
Covered loans:						
Commercial business:						
Secured	$48,510	$2,849	$18,291	$—	$—	$69,650
Unsecured	2,732	396	92	—	—	3,220
Real estate:						
One-to-four family residential	35,066	1,842	4,734	—	—	41,642
Commercial and multifamily residential:						
Commercial land	10,778	198	7,589	—	—	18,565
Income property	55,985	3,950	10,657	—	—	70,592
Owner occupied	67,653	111	13,958	—	—	81,722
Real estate construction:						
One-to-four family residential:						
Land and acquisition	4,674	2,739	1,936	—	—	9,349
Residential construction	3,008	—	2,424	—	—	5,432
Commercial and multifamily residential:						
Income property	3,806	—	1,709	—	—	5,515
Owner occupied	1,074	—	280	—	—	1,354
Consumer	30,722	33	3,319	27	—	34,101
Total	$264,008	$12,118	$64,989	$27	$—	341,142
Less:						
Valuation discount resulting from acquisition accounting						43,297
Allowance for loan losses						20,174
Covered loans, net						$277,671

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
December 31, 2012	(in thousands)					
Covered loans:						
Commercial business:						
Secured	$71,621	$1,823	$45,150	$—	$—	$118,594
Unsecured	4,988	—	1,791	—	—	6,779
Real estate:						
One-to-four family residential	44,782	1,344	11,024	—	—	57,150
Commercial and multifamily residential:						
Commercial land	16,336	—	10,292	—	—	26,628
Income property	81,205	864	23,315	—	—	105,384
Owner occupied	82,222	3,318	15,554	—	—	101,094
Real estate construction:						
One-to-four family residential:						
Land and acquisition	4,817	3,273	5,743	—	—	13,833
Residential construction	6,050	—	5,515	—	—	11,565
Commercial and multifamily residential:						

Income property	4,419	—	7,901	—	—	12,320
Owner occupied	1,107	—	1,824	—	—	2,931
Consumer	38,973	381	5,162	—	—	44,516
Total	$356,520	$11,003	$133,271	$—	$—	500,794
Less:						
Valuation discount resulting from acquisition accounting						79,401
Allowance for loan losses						30,056
Covered loans, net						$391,337

89

Table of Contents

The Company did not acquire any loans accounted for under ASC 310-30 during 2013 or 2012.

The following table sets forth activity in covered OREO at carrying value for the years ended December 31, 2013 and 2012:

	December 31, 2013	December 31, 2012
	(in thousands)	
Covered OREO:		
Balance, beginning of period	$16,311	$28,126
Transfers in	8,827	14,166
Additional OREO write-downs	(282)	(3,484)
Proceeds from sale of OREO property	(22,046)	(33,315)
Net gain on sale of OREO	9,283	10,818
Total covered OREO, end of period	$12,093	$16,311

The covered OREO is covered by loss-sharing agreements with the FDIC in which the FDIC will assume 80% of additional write-downs and losses on covered OREO sales, or 95%, if applicable, of additional write-downs and losses on covered OREO sales if the minimum loss share thresholds are met.

FDIC Loss-sharing Asset

At December 31, 2013 and 2012, the FDIC loss-sharing asset is comprised of an FDIC indemnification asset of $37.9 million and $87.7 million, respectively, and an FDIC receivable of $2.0 million and $8.6 million, respectively. The indemnification represents the cash flows the Company expects to collect from the FDIC under the loss-sharing agreements and the FDIC receivable represents the reimbursable amounts from the FDIC that have not yet been received.

For covered loans, the Company remeasures contractual and expected cash flows on a quarterly basis. When the quarterly remeasurement process results in a decrease in expected cash flows due to an increase in expected credit losses, impairment is recorded. As a result of this impairment, the indemnification asset is increased to reflect anticipated future cash to be received from the FDIC. Consistent with the loss-sharing agreements between the Company and the FDIC, the amount of the increase to the indemnification asset is measured as 80% of the resulting impairment.

Alternatively, when the quarterly remeasurement results in an increase in expected future cash flows due to a decrease in expected credit losses, the nonaccretable difference decreases and the effective yield of the related loan portfolio is increased. As a result of the improved expected cash flows, the indemnification asset would be reduced first by the amount of any impairment previously recorded and, second, by increased amortization over the remaining life of the related loss-sharing agreement.

The following table shows a detailed analysis of the FDIC loss-sharing asset for the years ending December 31, 2013 and 2012:

	2013	2012
	(in thousands)	
Balance at beginning of period	$96,354	$175,071
Adjustments not reflected in income:		
Cash received from the FDIC	(9,246)	(54,649)
FDIC reimbursable losses, net	(2,245)	399
Adjustments reflected in income:		
Amortization, net	(36,729)	(42,940)
Loan impairment (recapture)	(2,609)	20,714
Sale of other real estate	(6,177)	(7,789)
Write-downs of other real estate	364	5,190
Other	134	358

Balance at end of period	$39,846	$96,354

90

Table of Contents

9. Premises and Equipment

Land, buildings, and furniture and equipment, less accumulated depreciation and amortization, were as follows:

	December 31,	
	2013	2012
	(in thousands)	
Land	$48,992	$39,441
Buildings	94,878	84,407
Leasehold improvements	14,254	2,684
Furniture and equipment	29,465	24,110
Vehicles	546	438
Computer software	17,490	13,783
Total Cost	205,625	164,863
Less accumulated depreciation and amortization	(50,893)	(46,155)
Total	$154,732	$118,708

Total depreciation and amortization expense was $10.2 million, $6.3 million, and $5.7 million, for the years ended December 31, 2013, 2012, and 2011, respectively.

In conjunction with the acquisition of West Coast, certain facilities owned or leased by the Company were evaluated for ongoing economic benefit. From that evaluation, the decision was made to cease using certain facilities. As a result, a change in estimate was made to shorten the useful lives of $1.4 million of the fixed assets associated with these facilities. The after tax accelerated depreciation for the 2013 closures resulted in a one-time $886 thousand reduction to net income for the current period, or $0.02 per basic and diluted share. For additional information regarding these exit activities, see Note 16, Commitments and Contingent Liabilities.

10. 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 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 an impairment assessment as of July 31, 2013 and concluded that there was no impairment. As of December 31, 2013 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.

Table of Contents

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

	Years Ended December 31,		
	2013	2012	2011
	(in thousands)		
Total goodwill, beginning of period	$115,554	$115,554	$109,639
Established through acquisitions	228,398	—	5,915
Total goodwill, end of period	343,952	115,554	115,554
Other intangible assets, net			
Core deposit intangible:			
Gross core deposit intangible balance, beginning of period	32,441	32,441	26,652
Accumulated amortization, beginning of period	(16,720)	(12,275)	(7,956)
Core deposit intangible, net, beginning of period	15,721	20,166	18,696
Established through acquisitions	15,257	—	5,789
CDI current period amortization	(6,045)	(4,445)	(4,319)
Total core deposit intangible, end of period	24,933	15,721	20,166
Intangible assets not subject to amortization	919	—	—
Other intangible assets, net at end of period	25,852	15,721	20,166
Total goodwill and intangible assets, end of period	$369,804	$131,275	$135,720

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

Years Ending December 31,	(in thousands)
2014	$5,963
2015	4,934
2016	4,195
2017	3,361
2018	2,500

11. Deposits

Year-end deposits are summarized in the following table:

	December 31,	
	2013	2012
	(in thousands)	
Core deposits:		
Demand and other noninterest-bearing	$2,171,703	$1,321,171
Interest-bearing demand	1,170,006	870,821
Money market	1,569,261	1,043,459
Savings	496,444	314,371
Certificates of deposit less than $100,000	288,943	252,544
Total core deposits	5,696,357	3,802,366
Certificates of deposit greater than $100,000	201,498	212,924
Certificates of deposit insured through CDARS®	19,488	26,720
Brokered money market accounts	41,765	—
Subtotal	5,959,108	4,042,010
Valuation adjustment resulting from acquisition accounting	367	75
Total deposits	$5,959,475	$4,042,085

Table of Contents

Overdrafts of $1.1 million and $528 thousand were reclassified as loan balances at December 31, 2013 and 2012, respectively.

The following table shows the amount and maturity of time deposits that had balances of $100,000 or greater:

Years Ending December 31,	(in thousands)
2014	$172,422
2015	28,556
2016	11,834
2017	4,810
2018	2,162
Thereafter	106
Total	$219,890

12. Federal Home Loan Bank and Federal Reserve Bank Borrowings

FEDERAL HOME LOAN BANK

The Company has entered into borrowing arrangements with the FHLB of Seattle to borrow funds under a short-term floating rate cash management advance program and fixed-term loan agreements. All borrowings are secured by stock of the FHLB and a blanket pledge of qualifying loans receivable. At December 31, 2013 FHLB advances were scheduled to mature as follows:

	Federal Home Loan Bank Advances		
	Fixed rate advances		
	Wtd Avg Rate		Amount
	(dollars in thousands)		
Within 1 year	0.23	%	$30,000
Over 1 through 5 years	5.66	%	1,000
Due after 10 years	5.37	%	5,000
Total			36,000
Valuation adjustment from acquisition accounting			606
Total			$36,606

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, 2013, 2012 and 2011:

	Years ended December 31,					
	2013		2012		2011	
	(dollars in thousands)					
Balance at end of year	$36,606		$6,644		$119,009	
Average balance during the year	$51,030		$100,337		$120,419	
Maximum month-end balance during the year	$190,631		$118,967		$127,426	
Weighted average rate during the year	1.12	%	2.79	%	2.76	%
Weighted average rate at December 31	1.09	%	5.42	%	2.81	%

FHLB advances are collateralized by the following:

	December 31,	
	2013	2012
	(in thousands)	
Recorded value of blanket pledge on loans receivable	$1,075,389	$443,419
Total	$1,075,389	$443,419
FHLB borrowing capacity	$1,037,159	$435,189

93

Table of Contents

FEDERAL RESERVE BANK

The Company is also eligible to borrow under the Federal Reserve Bank's primary credit program, including the Term Auction Facility auctions. All borrowings are secured by certain pledged available for sale investment securities. Although the Company has not had FRB borrowings in the last three years, the Company pledges securities and loans for borrowing capacity at the Federal Reserve Bank.

The following table shows amounts pledged to the Federal Reserve Bank:

	December 31, 2013	2012
	(in thousands)	
Fair value of investment securities	$40,210	$45,641
Recorded value of pledged commercial loans	45,242	13,815
Total	$85,452	$59,456
Federal Reserve Bank borrowing capacity	$85,452	$59,456

13. Other Borrowings

Securities Sold Under Agreements to Repurchase

The Company has entered into wholesale repurchase agreements with certain brokers. At December 31, 2013 and 2012, the Company held $25.0 million in wholesale repurchase agreements with an interest rate of 1.88%. Securities available for sale with a carrying amount of $28.2 million at December 31, 2013 were pledged as collateral for the repurchase agreement borrowings. The broker holds the securities while the Company continues to receive the principal and interest payments from the securities. Upon maturity of the agreement, the pledged securities will be returned to the Company.

14. Derivatives and Balance Sheet Offsetting

The Company periodically enters into certain commercial loan interest rate swap agreements in order to provide commercial loan customers the ability to convert from variable to fixed interest rates. Under these agreements, the Company enters into a variable-rate loan agreement with a customer in addition to a swap agreement. This swap agreement effectively converts the customer's variable rate loan into a fixed rate. The Company then enters into a corresponding swap agreement with a third party in order to offset its exposure on the variable and fixed components of the customer agreement. As the interest rate swap agreements with the customers and third parties are not designated as hedges under the Derivatives and Hedging topic of the FASB ASC, the instruments are marked to market in earnings. The notional amount of open interest rate swap agreements at December 31, 2013 and 2012 was $179.5 million and $177.0 million, respectively. There was no impact to the statement of operations for the years ending December 31, 2013, 2012 and 2011.

The following table presents the fair value and balance sheet classification of derivatives not designated as hedging instruments at December 31, 2013 and 2012:

	Asset Derivatives				Liability Derivatives			
	2013		2012		2013		2012	
(in thousands)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest rate contracts	Other assets	$9,044	Other assets	$14,921	Other liabilities	$9,044	Other liabilities	$14,921

Table of Contents

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 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, 2013	(in thousands)				
Assets					
Interest rate contracts	$9,044	$—	$9,044	$—	$9,044
Liabilities					
Interest rate contracts	$9,044	$—	$9,044	$(9,044)	$—
Repurchase agreements	$25,000	$—	$25,000	$(25,000)	$—
December 31, 2012					
Assets					
Interest rate contracts	$14,921	$—	$14,921	$—	$14,921
Liabilities					
Interest rate contracts	$14,921	$—	$14,921	$(14,921)	$—
Repurchase agreements	$25,000	$—	$25,000	$(25,000)	$—

15. 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 eligible Columbia Bank employees, those who are at least 18 years of age and have completed six months of service, to contribute up to 75% of their eligible compensation to the 401(k) Plan. 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. 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 contributed $1.9 million during 2013, $1.4 million during 2012, and $1.2 million during 2011, in matching funds to the 401(k) Plan. The Company's discretionary profit sharing contributions were $4.0 million during 2013, $2.9 million during 2012 and $2.6 million during 2011.

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 32,598 shares for $686 thousand in 2013, 39,393 shares for $725 thousand in 2012 and 39,989 shares for $690 thousand in 2011. At December 31, 2013 there were 575,912 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 4-10 year period and provide a fixed annual benefit over a 5-10 year

period. At December 31, 2013 and 2012 the liability associated with these plans was $4.7 million and $4.7 million, respectively. Expense associated with these plans for the years ended December 31, 2013, 2012 and 2011 was $458 thousand, $677 thousand and $655 thousand, respectively.

Table of Contents

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 the “RP-2000 Annuity Mortality Table” for the mortality assumptions and discount rate of 5.10% for both 2013 and 2012. 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.

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

	December 31,	
	2013	2012
	(in thousands)	
Balance at beginning of year	$11,616	$11,237
Established through acquisitions	3,398	—
Change in actuarial loss	2,212	(80)
Benefit expense	1,880	1,017
Benefit payments	(2,683)	(558)
Balance at end of year	$16,423	$11,616

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

Years Ending December 31,	(in thousands)
2014	$1,702
2015	975
2016	994
2017	1,088
2018	1,355
2019 through 2023	8,852
Total	$14,966

16. Commitments and Contingent Liabilities

Lease Commitments: The Company leases locations as well as equipment under various non-cancellable operating leases that expire between 2014 and 2045. 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, 2013, minimum future rental payments, exclusive of taxes and other charges, of these leases were:

Years Ending December 31,	(in thousands)
2014	$8,033
2015	6,787
2016	4,847
2017	3,642
2018	3,111
Thereafter	13,105
Total minimum payments	$39,525

Total rental expense on buildings and equipment, net of rental income of $673 thousand, $639 thousand and $655 thousand, was $8.5 million, $4.5 million and $4.6 million, for the years ended December 31, 2013, 2012 and 2011, respectively.

Table of Contents

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 December 31, 2013 and 2012, the Company's loan commitments amounted to $1.37 billion and $888.5 million, respectively. Standby letters of credit were $36.7 million and $19.5 million at December 31, 2013 and 2012, respectively. In addition, commitments under commercial letters of credit used to facilitate customers' trade transactions and other off-balance sheet liabilities amounted to $2.7 million and $46 thousand at December 31, 2013 and 2012, respectively.
Legal Proceedings: The Company and its subsidiaries are from time to time defendants in and are threatened with various legal proceedings arising from their regular business activities. Management, after consulting with legal counsel, is of the opinion that the ultimate liability, if any, resulting from these pending or threatened actions and proceedings will not have a material effect on the financial statements of the Company.
Exit or disposal activities: In conjunction with the acquisition of West Coast, certain facilities owned or leased by the Company were evaluated for ongoing economic benefit. From that evaluation, the decision was made to cease using certain facilities. As a result, in addition to recording a cease-use liability at December 31, 2013 of $1.4 million, the Company also made a change in estimate for the useful lives of the fixed assets associated with these facilities, which accelerated depreciation by $1.4 million in the current period. The total current period expense related to the exit activities of $2.8 million was recorded in the noninterest expense line item Occupancy in the Consolidated Statements of Income. The total expected expense related to the exit activities is $4.0 million. The remaining expense of $1.2 million is expected to be incurred in 2014.

17. Shareholders' Equity

Preferred Stock. In conjunction with the acquisition of West Coast, the Company issued 8,782 shares of mandatorily convertible cumulative participating preferred stock, Series B. The Series B Preferred Stock is not subject to the operation of a sinking fund. The Series B Preferred Stock is not redeemable by the Company and is perpetual with no maturity. The holders of Series B Preferred Stock have no general voting rights. If the Company declares and pays a dividend to its common shareholders, it must declare and pay to its holders of Series B Preferred Stock, on the same date, a dividend in an amount per share of the Series B Preferred Stock that is intended to provide such holders dividends in the amount they would have received if shares of Series B Preferred Stock had been converted into Common Stock as of that date. The outstanding shares of Series B Preferred Stock are convertible into 102,363 shares of Company Common Stock.
Warrants to Purchase Common Stock. In conjunction with the acquisition of West Coast, the Company issued Amended and Restated Warrants (the "Warrants") to purchase an aggregate 2,214,639 shares of Company common stock at an exercise price of $8.58 per share or $19.0 million in aggregate. The Company's Amended and Restated Warrants amended and restated Class C Warrants previously issued by West Coast. The Warrants were immediately exercisable and will expire on October 23, 2016.
Dividends. On January 24, 2013, the Company declared a quarterly cash dividend of $0.10 per share payable on February 20, 2013 to shareholders of record as of the close of business on February 6, 2013. On April 24, 2013 the Company declared a quarterly cash dividend of $0.10 per share payable on May 22, 2013 to shareholders of record at the close of business May 8, 2013. On July 25, 2013 the Company declared a quarterly cash dividend of $0.10 per share payable on August 21, 2013 to shareholders of record at the close of business August 7, 2013. On October 24, 2013 the Company declared a quarterly cash dividend of $0.11 per share payable on November 20, 2013 to shareholders of record at the close of business November 6, 2013. Subsequent to year end, on January 23, 2014 the Company declared a quarterly cash dividend of $0.12 per share payable on February 19, 2014, to shareholders of record at the close of business on February 5, 2014.
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.

Table of Contents

Stock Repurchase Program

In 2011, the Board of Directors authorized the repurchase of 2 million shares of Columbia common stock. The Company may purchase the shares from time to time in the open market or in private transactions, under conditions which allow such repurchases to be accretive to earnings per share while maintaining capital ratios that exceed the guidelines for a well-capitalized financial institution. No shares were repurchased under the stock repurchase program during 2013, 2012 or 2011.

18. Accumulated Other Comprehensive Income

The following table shows changes in accumulated other comprehensive income (loss) by component for the year ended December 31, 2013:

	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, 2013	(in thousands)		
Beginning balance	$20,918	$(769)	$20,149
Other comprehensive loss before reclassifications	(30,727)	(1,432)	(32,159)
Amounts reclassified from accumulated other comprehensive income (2)	(299)	265	(34)
Net current-period other comprehensive loss	(31,026)	(1,167)	(32,193)
Ending balance	$(10,108)	$(1,936)	$(12,044)

(1) All amounts are net of tax. Amounts in parenthesis indicate debits.
(2) See following table for details about these reclassifications.

The following table shows details regarding the reclassifications from accumulated other comprehensive income for the year ended December 31, 2013:

	Amount Reclassified from Accumulated Other Comprehensive Income Year Ended December 31, 2013 (in thousands)	Affected line Item in the Consolidated Statement of Income
Unrealized gains and losses on available-for-sale securities		
	$462	Investment securities gains, net
	462	Total before tax
	(163)	Income tax provision
	$299	Net of tax
Amortization of pension plan liability		
Actuarial losses	$(400)	Compensation and employee benefits
	(400)	Total before tax
	135	Income tax benefit
	$(265)	Net of tax

98

Table of Contents

19. 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, 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.

Table of Contents

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, 2013 and 2012 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, 2013 (in thousands)	Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
Assets				
Securities available for sale				
U.S. government agency and sponsored enterprise mortgage-back securities and collateralized mortgage obligations	$948,408	$—	$948,408	$—
State and municipal securities	364,470	—	364,470	—
U.S. government agency and government-sponsored enterprise securities	326,039	—	326,039	—
U.S. government securities	20,114	20,114	—	—
Other securities	5,080	—	5,080	—
Total securities available for sale	$1,664,111	$20,114	$1,643,997	$—
Other assets (Interest rate contracts)	$9,044	$—	$9,044	$—
Liabilities				
Other liabilities (Interest rate contracts)	$9,044	$—	$9,044	$—

	Fair value at December 31, 2012 (in thousands)	Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
Assets				
Securities available for sale				
U.S. government agency and sponsored enterprise mortgage-back securities and collateralized mortgage obligations	$572,369	$—	$572,369	$—
State and municipal debt securities	285,575	—	285,575	—
U.S. government agency and government-sponsored enterprise securities	120,501	—	120,501	—
U.S. government securities	19,828	19,828	—	—
Other securities	3,392	—	3,392	—
Total securities available for sale	$1,001,665	$19,828	$981,837	$—
Other assets (Interest rate contracts)	$14,921	$—	$14,921	$—
Liabilities				
Other liabilities (Interest rate contracts)	$14,921	$—	$14,921	$—

There were no transfers between Level 1 and Level 2 of the valuation hierarchy during the years ended December 31, 2013 and 2012. The Company recognizes transfers between levels of the valuation hierarchy based on the valuation level at the end of the reporting period.

Table of Contents

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. Generally, the Company utilizes the fair market value of the collateral to measure impairment. 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 and other personal property owned ("OPPO")—OREO and OPPO is real and personal property that the Bank has taken ownership of in partial or full satisfaction of a loan or loans. OREO and OPPO are generally measured based on the item's fair market value as indicated by an appraisal or a letter of intent to purchase. OREO and OPPO are recorded at the lower of the carrying amount or fair value less estimated costs to sell. This amount becomes the property's new basis. Any write-downs based on the property fair value less estimated costs to sell at the date of acquisition are charged to the allowance for loan and lease losses. Management periodically reviews OREO and OPPO in an effort to ensure the property is carried at the lower of its new basis or fair value, net of estimated costs to sell. Any write-downs subsequent to acquisition are charged to earnings. The initial and subsequent write-down 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 OPPO 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 at December 31, 2013 and 2012:

	Fair value at December 31, 2013	Fair Value Measurements at Reporting Date Using			Losses During the Year Ended December 31, 2013
		Level 1	Level 2	Level 3	
	(in thousands)				
Impaired loans	$8,973	$—	$—	$ 8,973	$1,536
Noncovered OREO	5,080	—	—	5,080	994
Covered OREO	613	—	—	613	236
	$14,666	$—	$—	$ 14,666	$2,766

	Fair value at December 31, 2012	Fair Value Measurements at Reporting Date Using			Losses During the Year Ended December 31, 2012
		Level 1	Level 2	Level 3	
	(in thousands)				
Impaired loans	$10,599	$—	$—	$ 10,599	$3,891
Noncovered OREO	10,970	—	—	10,970	3,788
Covered OREO	2,663	—	—	2,663	1,032
Noncovered OPPO	210	—	—	210	39
	$24,442	$—	$—	$ 24,442	$8,750

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 noncovered 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 write-downs from updated appraisals that were charged to earnings.

Table of Contents

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 2013 and 2012, along with the valuation techniques used, are shown in the following tables:

	Fair value at December 31, 2013	Valuation Technique	Unobservable Input	Range (Weighted Average) (1)
	(dollars in thousands)			
Impaired loans	$8,973	Fair Market Value of Collateral	Adjustment to Appraisal Value	N/A (2)
Noncovered OREO	5,080	Fair Market Value of Collateral	Adjustment to Appraisal Value	N/A (2)
Covered OREO	613	Fair Market Value of Collateral	Adjustment to Appraisal Value	N/A (2)

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

(2) Quantitative disclosures are not provided for impaired loans, noncovered OREO and covered OREO because there were no adjustments made to the appraisal value during the current period.

	Fair value at December 31, 2012	Valuation Technique	Unobservable Input	Range (Weighted Average) (1)
	(dollars in thousands)			
Impaired loans	$10,599	Fair Market Value of Collateral	Adjustment to Appraisal Value	N/A (2)
Noncovered OREO	10,970	Fair Market Value of Collateral	Adjustment to Appraisal Value	N/A (2)
Covered OREO	2,663	Fair Market Value of Collateral	Adjustment to Appraisal Value	N/A (2)
Noncovered OPPO	210	Fair Market Value of Collateral	Adjustment to Appraisal Value	N/A (2)

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

(2) Quantitative disclosures are not provided for impaired loans, noncovered OREO, covered OREO and noncovered OPPO because there were no adjustments made to the appraisal value during the current period.

Fair value of financial instruments

Because broadly traded markets do not exist for most of the Company’s financial instruments, the fair value calculations attempt to incorporate the effect of current market conditions at a specific time. These determinations are subjective in nature, involve uncertainties and matters of significant judgment and do not include tax ramifications; therefore, the results cannot be determined with precision, substantiated by comparison to independent markets and may not be realized in an actual sale or immediate settlement of the instruments. There may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results. For all of these reasons, the aggregation of the fair value calculations presented herein do not represent, and should not be construed to represent, the underlying value of the Company.

Table of Contents

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:
Cash and due from banks and interest-earning deposits with banks—The fair value of financial instruments that are short-term or reprice frequently and that have little or no risk are considered to have a fair value that approximates carrying value (Level 1).
Securities available for sale—Securities at fair value, other than U.S. Treasury Notes, are priced using a combination of market activity, industry recognized information sources, yield curves, discounted cash flow models and other factors (Level 2). U.S. Treasury Notes are priced using quotes in active markets (Level 1).
Federal Home Loan Bank stock—The fair value is based upon the par value of the stock which equates to its carrying value (Level 2).
Loans—Loans are not recorded at fair value on a recurring basis. Nonrecurring fair value adjustments are periodically recorded on impaired loans that are measured for impairment based on the fair value of collateral. For most performing loans, fair value is estimated using expected duration and lending rates that would have been offered on December 31, 2013 or 2012 for loans which mirror the attributes of the loans with similar rate structures and average maturities. The fair values resulting from these calculations are reduced by an amount representing the change in estimated fair value attributable to changes in borrowers' credit quality since the loans were originated. For nonperforming loans, fair value is estimated by applying a valuation discount based upon loan sales data from the FDIC. For covered loans, fair value is estimated by discounting the expected future cash flows using a lending rate that would have been offered on December 31, 2013 (Level 3).
FDIC loss-sharing asset —The fair value of the FDIC loss-sharing asset is estimated based on discounting the expected future cash flows using an estimated market rate (Level 3).
Interest rate contracts—Interest rate contracts are valued in models, which use as their basis, readily observable market parameters (Level 2).
Deposits—For deposits with no contractual maturity, the fair value is equal to the carrying value (Level 1). The fair value of fixed maturity deposits is based on discounted cash flows using the difference between the deposit rate and current market rates for deposits of similar remaining maturities (Level 2).
FHLB advances—The fair value of FHLB advances is estimated based on discounting the future cash flows using the market rate currently offered (Level 2).

Repurchase agreements—The fair value of securities sold under agreement to repurchase is estimated based on discounting the future cash flows using the market rate currently offered (Level 2).
Other Financial Instruments—The majority of our commitments to extend credit and standby letters of credit carry current market interest rates if converted to loans, as such, carrying value is assumed to equal fair value.

Table of Contents

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

	December 31, 2013				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
	(in thousands)				
Assets					
Cash and due from banks	$165,030	$165,030	$165,030	$—	$—
Interest-earning deposits with banks	14,531	14,531	14,531	—	—
Securities available for sale	1,664,111	1,664,111	20,114	1,643,997	—
FHLB stock	32,529	32,529	—	32,529	—
Loans held for sale	735	735	—	735	—
Loans	4,444,842	4,605,038	—	—	4,605,038
FDIC loss-sharing asset	39,846	11,248	—	—	11,248
Interest rate contracts	9,044	9,044	—	9,044	—
Liabilities					
Deposits	$5,959,475	$5,958,747	$5,449,546	$509,201	$—
FHLB advances	36,606	35,080	—	35,080	—
Repurchase agreements	25,000	26,361	—	26,361	—
Interest rate contracts	9,044	9,044	—	9,044	—

	December 31, 2012				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
	(in thousands)				
Assets					
Cash and due from banks	$124,573	$124,573	$124,573	$—	$—
Interest-earning deposits with banks	389,353	389,353	389,353	—	—
Securities available for sale	1,001,665	1,001,665	19,828	981,837	—
FHLB stock	21,819	21,819	—	21,819	—
Loans held for sale	2,563	2,563	—	2,563	—
Loans	2,864,803	2,944,317	—	—	2,944,317
FDIC loss-sharing asset	96,354	26,543	—	—	26,543
Interest rate contracts	14,921	14,921	—	14,921	—
Liabilities					
Deposits	$4,042,085	$4,043,221	$3,549,821	$493,400	$—
FHLB advances	6,644	5,894	—	5,894	—
Repurchase agreements	25,000	26,464	—	26,464	—
Interest rate contracts	14,921	14,921	—	14,921	—

20. 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.

Table of Contents

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

	Year Ended December 31,		
	2013	2012	2011
	(in thousands except per share)		
Basic EPS:			
Net income	$60,016	$46,143	$48,037
Less: Earnings allocated to participating securities			
Preferred shares	95	—	—
Nonvested restricted shares	523	443	450
Earnings allocated to common shareholders	$59,398	$45,700	$47,587
Weighted average common shares outstanding	47,993	39,260	39,103
Basic earnings per common share	$1.24	$1.16	$1.22
Diluted EPS:			
Earnings allocated to common shareholders (1)	$59,407	$45,700	$47,588
Weighted average common shares outstanding	47,993	39,260	39,103
Dilutive effect of equity awards and warrants	1,058	3	77
Weighted average diluted common shares outstanding	49,051	39,263	39,180
Diluted earnings per common share	$1.21	$1.16	$1.21
Potentially dilutive share options that were not included in the computation of diluted EPS because to do so would be anti-dilutive	64	9	53

(1) Earnings allocated to common shareholders for basic and diluted EPS may differ under the two-class method as a result of adding common stock equivalents for options and warrants to dilutive shares outstanding, which alters the ratio used to allocate earnings to common shareholders and participating securities for the purposes of calculating diluted EPS.

21. Share-Based Payments

At December 31, 2013, 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 3,113,592 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, have the right to vote all shares subject to such grant, and receive all dividends with respect to such shares, 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.

Table of Contents

A summary of changes in the Company’s nonvested shares and related information for the years ended December 31, 2013, 2012 and 2011 is presented below:

Nonvested Shares	Shares	Weighted Average Grant-Date Fair Value
Nonvested at January 1, 2011	353,283	$21.14
Granted	133,350	$19.45
Vested	(109,033)	$25.72
Forfeited	(14,925)	$18.86
Nonvested at December 31, 2011	362,675	$19.24
Granted	180,841	$21.32
Vested	(118,511)	$21.65
Forfeited	(40,915)	$18.60
Nonvested at December 31, 2012	384,090	$19.54
Granted	203,441	$20.78
Vested	(117,153)	$16.90
Forfeited	(59,780)	$20.24
Nonvested at December 31, 2013	410,598	$20.79

As of December 31, 2013, there was $6.4 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, 2013, 2012, and 2011 was $2.5 million, $2.5 million, and $2.2 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, 2013, and changes during the year then ended is presented below. The options granted during 2013 relate to the acquisition of West Coast.

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value ($000)
Balance at December 31, 2012	25,952	$20.13		
Granted	222,110	$64.11		
Forfeited	(83,284)	$69.27		
Expired	(12,544)	$81.78		

Exercised	(36,037	)	$11.46		
Balance at December 31, 2013	116,197		$65.01	2.8	$550
Total Exercisable at December 31, 2013	116,197		$65.01	2.8	$550

106

Table of Contents

The total intrinsic value of options exercised during the years ended December 31, 2013, 2012, and 2011 was $410 thousand, $5 thousand, and $65 thousand, respectively. No options were granted in 2012 or 2011.
As of December 31, 2013, 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	29,602	5.0	$ 9.91	29,602	$ 9.91
$10.00 - $19.99	2,879	1.0	$ 17.36	2,879	$ 17.36
$30.00 - $39.99	4,051	3.1	$ 30.86	4,051	$ 30.86
$40.00 - $49.99	349	4.5	$ 44.49	349	$ 44.49
$50.00 - $146.41	79,316	2.0	$ 89.14	79,316	$ 89.14
$0.00 - $146.41	116,197	2.8	$ 65.01	116,197	$ 65.01

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 12 months ended December 31, 2013, 2012 and 2011, the Company recognized pre-tax share-based compensation expense of $2.8 million, $1.6 million and $1.6 million, respectively.

22. Income Tax

The components of income tax expense (benefit) are as follows:

	Years Ended December 31,		
	2013	2012	2011
	(in thousands)		
Current tax expense	$21,581	$21,218	$21,688
Deferred tax expense (benefit)	5,413	(3,656)	(3,783)
Total	$26,994	$17,562	$17,905

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

	December 31,	
	2013	2012
	(in thousands)	
Deferred tax assets:		
Allowance for loan and lease losses	$27,196	$30,027
Supplemental executive retirement plan	8,565	6,967
Stock option and restricted stock	917	682
OREO costs	7,929	3,801
Nonaccrual interest	2,354	193
Purchase accounting	15,551	—
Unrealized loss on investment securities	7,176	—
Other	1,741	557
Total deferred tax assets	71,429	42,227
Deferred tax liabilities:		
Asset purchase tax basis difference	(7,754)	(19,408)
FHLB stock dividends	(4,159)	(1,963)
Purchase accounting	—	(745)
Deferred loan fees	(4,512)	(1,755)
Unrealized gain on investment securities	—	(11,150)
Depreciation	(7,076)	(1,870)

Total deferred tax liabilities	(23,501)	(36,891)
Net deferred tax asset	$47,928	$5,336

Table of Contents

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

	Years Ended December 31,					
	2013		2012		2011	
	Amount	Percent	Amount	Percent	Amount	Percent
	(dollars in thousands)					
Income tax based on statutory rate	$30,454	35 %	$22,297	35 %	$23,080	35 %
Reduction resulting from:						
Tax credits	(1,038)	(1)%	(504)	(1)%	(608)	(1)%
Tax exempt instruments	(4,113)	(5)%	(3,906)	(6)%	(3,824)	(6)%
Life insurance proceeds	(1,250)	(1)%	(1,001)	(2)%	(766)	(1)%
Bargain purchase	—	— %	—	— %	(1,036)	(2)%
Acquisition costs	1,362	2 %	—	— %	—	— %
Other, net	1,579	1 %	676	1 %	1,059	2 %
Income tax provision	$26,994	31 %	$17,562	27 %	$17,905	27 %

As of December 31, 2013 and 2012, 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, 2013 and 2012. The tax years subject to examination by federal and state taxing authorities are the years ending December 31, 2013, 2012, 2011 and 2010. As a result of the acquisition of West Coast, the Company has Oregon state net operating loss carryforwards of $25.3 million, which begin to expire in 2023 and Oregon credit carryforwards of $1.7 million, which begin to expire in 2014. The amount of carryforwards that may be utilized annually is limited under Section 382 as a result of the change in control. Management believes that these carryforwards will be used in the normal course of business, and as such, has not recorded a valuation allowance.

23. 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.

Quantitative measures established by regulation to ensure capital adequacy require the Company and its banking subsidiary to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital to risk-weighted assets (as defined in the regulations) and of Tier 1 capital to average assets (as defined in the regulations). Management believes, as of December 31, 2013 and 2012, that the Company and Columbia Bank met all capital adequacy requirements to which they are subject.

Table of Contents

As of December 31, 2013, 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 total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the notification that management believes have changed Columbia Bank's category. The Company and its banking subsidiary's actual capital amounts and ratios as of December 31, 2013 and 2012, are also presented in the following table.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(dollars in thousands)					
As of December 31, 2013						
Total Capital (to risk-weighted assets):						
The Company	$760,349	14.68 %	$414,300	8.0 %	N/A	N/A
Columbia Bank	$700,099	13.52 %	$414,238	8.0 %	$517,797	10.0 %
Tier 1 Capital (to risk-weighted assets):						
The Company	$695,489	13.43 %	$207,150	4.0 %	N/A	N/A
Columbia Bank	$635,248	12.27 %	$207,119	4.0 %	$310,678	6.0 %
Tier 1 Capital (to average assets):						
The Company	$695,489	10.19 %	$272,891	4.0 %	N/A	N/A
Columbia Bank	$635,248	9.29 %	$273,560	4.0 %	$341,950	5.0 %
As of December 31, 2012						
Total Capital (to risk-weighted assets):						
The Company	$652,704	20.62 %	$253,242	8.0 %	N/A	N/A
Columbia Bank	$565,677	17.87 %	$253,244	8.0 %	$316,556	10.0 %
Tier 1 Capital (to risk-weighted assets):						
The Company	$612,584	19.35 %	$126,621	4.0 %	N/A	N/A
Columbia Bank	$525,556	16.60 %	$126,622	4.0 %	$189,933	6.0 %
Tier 1 Capital (to average assets):						
The Company	$612,584	12.78 %	$191,778	4.0 %	N/A	N/A
Columbia Bank	$525,556	11.07 %	$189,986	4.0 %	$237,483	5.0 %

Table of Contents

24. Parent Company Financial Information

Condensed Statements of Income—Parent Company Only

	Years Ended December 31,		
	2013	2012	2011
	(in thousands)		
Income			
Dividend from banking subsidiary	$183,000	$48,950	$—
Interest-earning deposits	68	153	712
Other income	7	—	17
Total income	183,075	49,103	729
Expense			
Compensation and employee benefits	658	182	88
Long-term obligations	—	—	579
Other borrowings	258	—	—
Other expense	4,162	1,193	1,114
Total expenses	5,078	1,375	1,781
Income (loss) before income tax expense (benefit) and equity in undistributed net income of subsidiaries	177,997	47,728	(1,052)
Income tax expense (benefit)	(1,552)	(435)	91
Income (loss) before equity in undistributed net income of subsidiaries	179,549	48,163	(1,143)
Equity in undistributed net income (loss) of subsidiaries	(119,533)	(2,020)	49,180
Net income	$60,016	$46,143	$48,037

Condensed Balance Sheets—Parent Company Only

	December 31,	
	2013	2012
	(in thousands)	
Assets		
Cash and due from banking subsidiary	$3,006	$1,729
Interest-earning deposits	50,678	84,915
Total cash and cash equivalents	53,684	86,644
Investment in banking subsidiary	993,002	676,974
Investment in other subsidiaries	5,037	—
Other assets	1,952	649
Total assets	$1,053,675	$764,267
Liabilities and Shareholders' Equity		
Other liabilities	$426	$259
Total liabilities	426	259
Shareholders' equity	1,053,249	764,008
Total liabilities and shareholders' equity	$1,053,675	$764,267

Table of Contents

Condensed Statements of Cash Flows—Parent Company Only

	Years Ended December 31,		
	2013	2012	2011
	(in thousands)		
Operating Activities			
Net income	$60,016	$46,143	$48,037
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed loss (earnings) of subsidiaries	119,533	2,020	(49,180)
Stock-based compensation expense	2,844	1,622	1,635
Net changes in other assets and liabilities	6,830	(264)	315
Net cash provided by operating activities	189,223	49,521	807
Investing Activities			
Net cash paid in business combinations	(53,159)	—	—
Proceeds from termination of trust subsidiaries	—	—	774
Net cash provided by (used in) investing activities	(53,159)	—	774
Financing Activities			
Preferred stock dividends	(32)	—	—
Common stock dividends	(19,858)	(38,824)	(10,660)
Repayment of long-term subordinated debt	(51,000)	—	(25,774)
Purchase and retirement of common stock	(429)	—	(32)
Proceeds from exercise of stock options	1,092	713	848
Downstream stock offering proceeds to the Bank	(100,000)	—	(50,000)
Excess tax benefit associated with share-based compensation	1,203	—	98
Net cash used in financing activities	(169,024)	(38,111)	(85,520)
Increase (decrease) in cash and cash equivalents	(32,960)	11,410	(83,939)
Cash and cash equivalents at beginning of year	86,644	75,234	159,173
Cash and cash equivalents at end of year	$53,684	$86,644	$75,234

Table of Contents

25. Summary of Quarterly Financial Information (Unaudited)

Quarterly financial information for the years ended December 31, 2013 and 2012 is summarized as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year Ended December 31,
	(in thousands, except per share amounts)				
2013					
Total interest income	$54,761	$82,268	$81,599	$78,307	$296,935
Total interest expense	1,279	2,279	1,184	1,098	5,840
Net interest income	53,482	79,989	80,415	77,209	291,095
Provision (recapture) for loan and lease losses	(1,000)	2,000	4,260	(2,100)	3,160
Provision (recapture) for losses on covered loans	980	(1,712)	(947)	(1,582)	(3,261)
Noninterest income	1,658	6,808	7,622	10,612	26,700
Noninterest expense	38,049	64,504	64,714	63,619	230,886
Income before income taxes	17,111	22,005	20,010	27,884	87,010
Provision for income taxes	4,935	7,414	6,734	7,911	26,994
Net income	$12,176	$14,591	$13,276	$19,973	$60,016
Per common share (1)					
Earnings (basic)	$0.31	$0.28	$0.26	$0.39	$1.24
Earnings (diluted)	$0.31	$0.28	$0.25	$0.38	$1.21
2012					
Total interest income	$69,712	$62,114	$59,469	$57,209	$248,504
Total interest expense	2,649	2,413	2,204	2,311	9,577
Net interest income	67,063	59,701	57,265	54,898	238,927
Provision for loan and lease losses	4,500	3,750	2,875	2,350	13,475
Provision (recapture) for losses on covered loans	15,685	11,688	(3,992)	2,511	25,892
Noninterest income (loss)	9,574	11,828	(911)	6,567	27,058
Noninterest expense	44,352	39,825	40,936	37,800	162,913
Income before income taxes	12,100	16,266	16,535	18,804	63,705
Provision for income taxes	3,198	4,367	4,655	5,342	17,562
Net income	$8,902	$11,899	$11,880	$13,462	$46,143
Per common share (1)					
Earnings (basic)	$0.22	$0.30	$0.30	$0.34	$1.16
Earnings (diluted)	$0.22	$0.30	$0.30	$0.34	$1.16

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

Table of Contents

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 SEC’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.

Management has evaluated the effectiveness of its internal control over financial reporting as of December 31, 2013 based on the control criteria established in a report entitled Internal Control-Integrated Framework (1992), issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on such evaluation, management has concluded that the Company’s internal control over financial reporting is effective as of December 31, 2013. 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 year 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.

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Columbia Banking System, Inc.
Tacoma, Washington

We have audited the internal control over financial reporting of Columbia Banking System, Inc. and its subsidiaries (the "Company") as of December 31, 2013, based on criteria established in Internal Control—Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. 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 Consolidated Reports of Condition and Income for Schedules RC, RI, and RI-A. 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 conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel 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 the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the criteria established in Internal Control—Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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), the consolidated financial statements as of and for the year ended December 31, 2013 of the Company and our report dated February 28, 2014 expressed an unqualified opinion on those financial statements.

/s/ Deloitte & Touche LLP
Seattle, Washington
February 28, 2014

Table of Contents

ITEM 9B. OTHER INFORMATION

None.

Table of Contents

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information regarding "Directors, Executive Officers and Corporate Governance" is set forth under the headings "Proposal No.1: Election of Directors", "Management—Executive Officers Who are Not Directors" and "Corporate Governance" in the Company's 2014 Annual Proxy Statement ("Proxy Statement") and is incorporated herein by reference.

Information regarding "Compliance with Section 16(a) of the Exchange Act" is set forth under the section "Section 16(a) Beneficial Ownership Reporting Compliance" of the Company's Proxy Statement and is incorporated herein by reference. Information regarding the Company's audit committee financial expert is set forth under the heading "Board Structure and Compensation—What Committees has the Board Established" in our Proxy Statement and is incorporated by reference.

On February 25, 2004, consistent with the requirements of the Sarbanes-Oxley Act of 2002, the Company adopted a Code of Ethics applicable to senior financial officers including the principal executive officer. The Code of Ethics was filed as Exhibit 14 to our 2003 Form 10-K Annual Report and can be accessed electronically by visiting the Company's website at www.columbiabank.com.

ITEM 11. EXECUTIVE COMPENSATION

Information regarding "Executive Compensation" is set forth under the headings "Board Structure and Compensation" and "Executive Compensation" of the Company's 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" is set forth under the heading "Stock Ownership" of the Company's Proxy Statement and is incorporated herein by reference.

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

Information regarding "Certain Relationships and Related Transactions, and Director Independence" is set forth under the headings "Certain Relationships and Related Transactions" and "Corporate Governance—Director Independence" of the Company's Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information regarding "Principal Accounting Fees and Services" is set forth under the heading "Independent Registered Public Accounting Firm" of the Company's Proxy Statement and is incorporated herein by reference.

Table of Contents

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."

Table of Contents

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 28th day of February 2014.

COLUMBIA BANKING SYSTEM, INC.
(Registrant)

By: /s/ MELANIE J. DRESSEL
Melanie J. Dressel
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 28th day of February 2014.

Principal Executive Officer:

By: /s/ MELANIE J. DRESSEL
Melanie J. Dressel
President and Chief Executive Officer

Principal Financial and Accounting Officer:

By: /s/ CLINT E. STEIN
Clint E. Stein
Executive Vice President and Chief Financial Officer

Melanie J. Dressel, pursuant to a power of attorney that is being filed with the Annual Report on Form 10-K, has signed this report on February 28, 2014 as attorney in fact for the following directors who constitute a majority of the Board.

[David A. Dietzler]
[John P. Folsom]
[Frederick M. Goldberg]
[Thomas M. Hulbert]
[Michelle M. Lantow]
[S. Mae Numata]
[Daniel C. Regis]
[William T. Weyerhaeuser]
[James M. Will]

/s/ MELANIE J. DRESSEL
Melanie J. Dressel
Attorney-in-fact

February 28, 2014

Table of Contents

INDEX TO EXHIBITS

Exhibit No.	Exhibit
3.1	Amended and Restated Articles of Incorporation (1)
3.2	Amended and Restated Bylaws (2)
4.1	Specimen of common stock certificate (3)
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 (4)
10.2*	Form of Stock Option Agreement (5)
10.3*	Form of Restricted Stock Agreement (5)
10.4*	Form of Stock Appreciation Right Agreement (5)
10.5*	Form of Restricted Stock Unit Agreement (5)
10.6*	Form of Long Term Restricted Stock Agreement (6)
10.7*	Amended and Restated Employee Stock Purchase Plan (7)
10.8	Office Lease, dated as of December 15, 1999, between the Company and Haub Brothers Enterprises Trust (8)
10.9*	Employment Agreement between the Bank, the Company and Melanie J. Dressel effective August 1, 2004 (9)
10.10*	Amendment to Employment Agreement between the Bank, the Company and Melanie J. Dressel effective February 1, 2009 (10)
10.11*	Amendment to Employment Agreement effective December 31, 2008 among the Bank, the Company and Melanie J. Dressel (11)
10.12*	Form of Change in Control Agreement between the Bank and Andrew L. McDonald dated June 1, 2009 (5)
10.13*	Change in Control Agreement between the Bank and Kent L. Roberts dated December 4, 2011 (12)
10.14*	Change in Control Agreement between the Bank and Mark W. Nelson dated as of October 23, 2012 (13)
10.15*	Change in Control Agreement between the Bank and Clint E. Stein dated as of October 24, 2012 (13)

10.16*	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 (14)

119

Table of Contents

Exhibit No.	Exhibit
10.17*	Amended and Restated Executive Supplemental Compensation Agreements dated as of May 27, 2009 among the Company, Columbia State Bank and Melanie J. Dressel and Mark W. Nelson, respectively (15)
10.18*	Amended and Restated 401 Plus Plan (Deferred Compensation Plan) dated December 14, 2011 for directors and key employees (12)
10.19*	Form of Supplemental Compensation Agreement between the Bank and Mssrs. Andrew L. McDonald and Clint E. Stein, respectively (5)
10.20*	Form of Indemnification Agreement between the Company and its directors (11)
10.21*	Supplemental Executive Retirement Plan Agreement between the Company and Clint E. Stein, effective June 1, 2013 (16)
10.22*	Supplemental Executive Retirement Plan Agreement between the Company and Andrew L. McDonald, effective June 1, 2013 (16)
10.23*+	Change in Control Agreement between the Bank and Hadley S. Robbins dated February 4, 2014 (effective March 1, 2014)
10.24*	West Coast Bancorp 2002 Stock Incentive Plan (17)
10.25*	West Coast Bancorp 2012 Omnibus Incentive Plan (17)
14	Code of Ethics (18)
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, 2013 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 3.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013
(2) Incorporated by reference to Exhibit 3.2 of the Company's Current Report on Form 8-K filed on February 2, 2010
(3) Incorporated by reference to Exhibit 4.3 of the Company's S-3 Registration Statement (File No. 333-156350) filed December 19, 2008
(4) Incorporated by reference to Exhibit 99.1 of the Company's S-8 Registration Statement (File No. 333-160370) filed July 1, 2009
(5) Incorporated by reference to Exhibits 10.2-10.5, 10.10 and 10.16 of the Company's Annual Report on Form 10-K for the year ended December 31, 2007
(6) Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed January 5, 2010
(7) Incorporated by reference to Exhibit 10.7 of the Company's Annual Report on Form 10-K for the year ended December 31, 2010
(8) Incorporated by reference to Exhibit 10.5 of the Company's Annual Report on Form 10-K for the year ended December 31, 2000
(9) Incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004
(10) Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed February 19, 2009
(11) 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
(12) 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
(13) Incorporated by reference to Exhibits 10.1 and 10.2 of the Company's Current Report on Form 8-K filed October 29, 2012
(14) Incorporated by reference to Exhibit 10.3 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001
(15) 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
(16) 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, 2013
(17) 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
(18) Incorporated by reference to Exhibit 14 of the Company's Annual Report on Form 10-K for the year ended December 31, 2003

* Management contract or compensatory plan or arrangement
+ Filed herewith