

Edgar Filing: COLUMBIA BANKING SYSTEM INC - Form 10-Q

COLUMBIA BANKING SYSTEM INC

Form 10-Q

May 03, 2019

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INCfalse3610.220.4200000100190001900001458000240004300007891000971300000Revised from amounts previously reported to correct an immaterial misclassification of a \$25.0 million repayment of the term repurchase agreement within Net decrease in sweep repurchase agreements for the three months ended March 31, 2018. There were no changes to net cash flows from operating, investing or financing activities as a result of this change.

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iso4217:USD xbrli:shares colb:Modifications colb:contract xbrli:pure

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

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended March 31, 2019.**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 0-20288**

**COLUMBIA BANKING SYSTEM, INC.**

(Exact name of registrant as specified in its charter)

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

**1301 A Street** **98402-2156**  
**Tacoma, Washington**

(Address of principal executive offices) (Zip Code)  
**(253) 305-1900**

(Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

**Common Stock, No Par Value** **COLB** **NASDAQ Global Select Market**

(Title of each class) (Trading symbol) (Name of each exchange on which registered)

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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Emerging growth company

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

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

Yes  No

The number of shares of common stock outstanding at April 30, 2019 was 73,555,751.

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Table of Contents**PART I - FINANCIAL INFORMATION****Glossary of Acronyms, Abbreviations, and Terms**

The acronyms, abbreviations, and terms listed below are used in various sections of the Form 10-Q, including “Item 1. Financial Statements” and “Item 2. Management Discussion and Analysis of Financial Condition and Results of Operations.”

|                       |   |                            |   |
|-----------------------|---|----------------------------|---|
| <b>ALLL</b>           | Allowance for loan and lease losses   | <b>FDIC</b>                | Federal Deposit Insurance Corporation     |
| <b>ASC</b>            | Accounting Standards Codification   | <b>FHLB</b>                | Federal Home Loan Bank of Des Moines      |
| <b>ASU</b>            | Accounting Standards Update   | <b>FRB</b>                 | Federal Reserve Bank                      |
| <b>ATM</b>            | Automated Teller Machine  | <b>LIBOR</b>               | London Interbank Offering Rate            |
| <b>Basel III</b>      | A comprehensive capital framework and rules for U.S. banking organizations approved by the FRB and the FDIC in 2013 | <b>NIM</b>                 | Net Interest Margin                       |
| <b>B&amp;O</b>        | Business and Occupation   | <b>OPPO</b>                | Other Personal Property Owned             |
| <b>CDI</b>            | Core Deposit Intangible   | <b>OREO</b>                | Other Real Estate Owned                   |
| <b>CECL</b>           | Current Expected Credit Loss  | <b>Pacific Continental</b> | Pacific Continental Corporation           |
| <b>CDARS®</b>         | Certificate of Deposit Account Registry Service   | <b>PCI</b>                 | Purchased Credit Impaired                 |
| <b>CET1</b>           | Common Equity Tier 1  | <b>REASD</b>               | Real Estate Appraisal Services Department |
| <b>CEO</b>            | Chief Executive Officer   | <b>SBA</b>                 | Small Business Administration             |
| <b>CFO</b>            | Chief Financial Officer   | <b>SEC</b>                 | Securities and Exchange Commission        |
| <b>Dodd-Frank Act</b> | Dodd-Frank Wall Street Reform and Consumer Protection Act   | <b>TDRs</b>                | Troubled Debt Restructurings              |
| <b>EPS</b>            | Earnings Per Share  | <b>GAAP</b>                | Generally Accepted Accounting Principles  |
| <b>FASB</b>           | Financial Accounting Standards Board  |                            |   |

Table of Contents**Item 1. FINANCIAL STATEMENTS  
CONSOLIDATED BALANCE SHEETS***Columbia Banking System, Inc.**(Unaudited)*

|  | <b>March 31,<br/>2019</b> | <b>December 31,<br/>2018</b> |           |
|--|---------------------------|------------------------------|-----------|
| <b>ASSETS</b>                                    | <i>(in thousands)</i>     |                              |           |
| Cash and due from banks                          | \$ 178,591                | \$ 260,180                   |           |
| Interest-earning deposits with banks             | 33,482                    | 17,407                       |           |
| Total cash and cash equivalents                  | 212,073                   | 277,587                      |           |
| Debt securities available for sale at fair value | 3,027,270                 | 3,167,448                    |           |
| FHLB stock at cost                               | 25,600                    | 25,960                       |           |
| Loans held for sale                              | 4,017                     | 3,849                        |           |
| Loans, net of unearned income                    | 8,520,798                 | 8,391,511                    |           |
| Less: ALLL                                       | 83,274                    | 83,369                       |           |
| Loans, net                                       | 8,437,524                 | 8,308,142                    |           |
| Interest receivable                              | 46,835                    | 45,323                       |           |
| Premises and equipment, net                      | 168,139                   | 168,788                      |           |
| OREO   | 6,075                     | 6,019                        |           |
| Goodwill   | 765,842                   | 765,842                      |           |
| Other intangible assets, net                     | 43,189                    | 45,937                       |           |
| Other assets                                     | 327,872                   | 280,250                      |           |
| Total assets                                     | \$ 13,064,436             | \$ 13,095,145                |           |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>      |                           |                              |           |
| Deposits:  |                           |                              |           |
| Noninterest-bearing                              | \$ 5,106,568              | \$ 5,227,216                 |           |
| Interest-bearing                                 | 5,262,441                 | 5,230,910                    |           |
| Total deposits                                   | 10,369,009                | 10,458,126                   |           |
| FHLB advances                                    | 390,510                   | 399,523                      |           |
| Securities sold under agreements to repurchase   | 23,018                    | 61,094                       |           |
| Subordinated debentures                          | 35,416                    | 35,462                       |           |
| Other liabilities                                | 157,863                   | 107,291                      |           |
| Total liabilities                                | 10,975,816                | 11,061,496                   |           |
| Commitments and contingent liabilities (Note 11) |                           |                              |           |
| Shareholders' equity:                            |                           |                              |           |
|  | <b>March 31,<br/>2019</b> | <b>December 31,<br/>2018</b> |           |
|  | <i>(in thousands)</i>     |                              |           |
| Preferred stock (no par value)                   |                           |                              |           |
| Authorized shares                                | 2,000                     | 2,000                        |           |
| Common stock (no par value)                      |                           |                              |           |
| Authorized shares                                | 115,000                   | 115,000                      |           |
| Issued and outstanding                           | 73,565                    | 73,249                       | 1,642,977 |
| Retained earnings                                |                           |                              | 1,642,246 |
|  |                           |                              | 442,597   |
| Accumulated other comprehensive income (loss)    |                           |                              | 426,708   |
|  |                           |                              | 3,046     |
| Total shareholders' equity                       | 2,088,620                 | 2,033,649                    | (35,305 ) |
| Total liabilities and shareholders' equity       | \$ 13,064,436             | \$ 13,095,145                |           |

See accompanying Notes to unaudited Consolidated Financial Statements.

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Table of Contents**CONSOLIDATED STATEMENTS OF INCOME***Columbia Banking System, Inc.**(Unaudited)*

|   | <b>Three Months Ended</b>                      |                 |
|---|--|-----------------|
|   | <b>March 31,</b>                               |                 |
|   | <b>2019</b>                                    | <b>2018</b>     |
|   | <i>(in thousands except per share amounts)</i> |                 |
| <b><i>Interest Income</i></b>                                 |  |                 |
| Loans   | \$ 108,416                                     | \$ 103,027      |
| Taxable securities  | 17,415   | 12,708          |
| Tax-exempt securities   | 2,969  | 3,064           |
| Deposits in banks   | 88   | 345             |
| Total interest income   | 128,888  | 119,144         |
| <b><i>Interest Expense</i></b>                                |  |                 |
| Deposits  | 4,498  | 2,509           |
| FHLB advances   | 2,685  | 570             |
| Subordinated debentures                                       | 468  | 468             |
| Other borrowings  | 215  | 116             |
| Total interest expense  | 7,866  | 3,663           |
| <b><i>Net Interest Income</i></b>                             | <b>121,022</b>                                 | <b>115,481</b>  |
| Provision for loan and lease losses                           | 1,362  | 5,852           |
| Net interest income after provision for loan and lease losses | 119,660  | 109,629         |
| <b><i>Noninterest Income</i></b>                              |  |                 |
| Deposit account and treasury management fees                  | 8,980  | 8,740           |
| Card revenue  | 3,662  | 5,813           |
| Financial services and trust revenue                          | 2,957  | 2,730           |
| Loan revenue  | 2,389  | 3,186           |
| Bank owned life insurance                                     | 1,519  | 1,426           |
| Investment securities gains, net                              | 1,847  | 22              |
| Other   | 342  | 1,226           |
| Total noninterest income                                      | 21,696   | 23,143          |
| <b><i>Noninterest Expense</i></b>                             |  |                 |
| Compensation and employee benefits                            | 52,085   | 50,570          |
| Occupancy   | 8,809  | 10,121          |
| Data processing   | 4,669  | 5,270           |
| Legal and professional fees                                   | 4,573  | 3,237           |
| Amortization of intangibles                                   | 2,748  | 3,188           |
| B&O taxes (1)   | 1,876  | 1,317           |
| Advertising and promotion                                     | 974  | 1,429           |
| Regulatory premiums   | 984  | 937             |
| Net cost of operation of OREO                                 | 113  | 1               |
| Other (1)   | 7,869  | 9,917           |
| Total noninterest expense                                     | 84,700   | 85,987          |
| Income before income taxes                                    | 56,656   | 46,785          |
| Income tax provision  | 10,785   | 6,815           |
| <b><i>Net Income</i></b>                                      | <b>\$45,871</b>                                | <b>\$39,970</b> |
| Earnings per common share                                     |  |                 |
| Basic   | \$0.63   | \$0.55          |

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|  |        |        |
|--|--------|--------|
| Diluted  | \$0.63 | \$0.55 |
| Weighted average number of common shares outstanding         | 72,521 | 72,300 |
| Weighted average number of diluted common shares outstanding | 72,524 | 72,305 |

(1) Beginning the first quarter of 2019, B&O taxes are reported separately from other taxes, licenses and fees, which are now reported under "other noninterest expense." Prior periods have been reclassified to conform to current period presentation.

See accompanying Notes to unaudited Consolidated Financial Statements.

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Table of Contents**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME***Columbia Banking System, Inc.**(Unaudited)*

|   | <b>Three Months Ended</b> |             |
|---|---------------------------|-------------|
|   | <b>March 31,</b>          |             |
|   | <b>2019</b>               | <b>2018</b> |
|   | <i>(in thousands)</i>     |             |
| Net income  | \$45,871                  | \$39,970    |
| Other comprehensive income (loss), net of tax:  |                           |             |
| Unrealized gain (loss) from securities:   |                           |             |
| Net unrealized holding gain (loss) from available for sale debt securities arising during the period, net of tax of (\$9,713) and \$7,891         | 32,063                    | (26,048 )   |
| Reclassification adjustment of net (gain) loss from sale of available for sale debt securities included in income, net of tax of (\$430) and \$24 | 1,417                     | (78 )       |
| Net unrealized gain (loss) from securities, net of reclassification adjustment  | 33,480                    | (26,126 )   |
| Pension plan liability adjustment:  |                           |             |
| Amortization of unrecognized net actuarial loss included in net periodic pension cost, net of tax of (\$19) and (\$19)                            | 61                        | 61          |
| Pension plan liability adjustment, net  | 61                        | 61          |
| Unrealized gain from cash flow hedging instruments:   |                           |             |
| Net unrealized gain in cash flow hedging instruments arising during the period, net of tax of (\$1,458) and \$0                                   | 4,810                     | —           |
| Net unrealized gain from cash flow hedging instruments, net of reclassification adjustment  | 4,810                     | —           |
| Other comprehensive income (loss)   | 38,351                    | (26,065 )   |
| Total comprehensive income  | \$84,222                  | \$13,905    |

See accompanying Notes to unaudited Consolidated Financial Statements.

Table of Contents**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY***Columbia Banking System, Inc.**(Unaudited)*

|   | Common Stock                                   |              | Retained   | Accumulated   | Total         |
|---|--|--------------|------------|---------------|---------------|
|   | Number of                                      | Amount       | Earnings   | Other         | Shareholders' |
|   | Shares   |              |            | Comprehensive | Equity        |
|   |  |              |            | Income (Loss) |               |
|   | <i>(in thousands except per share amounts)</i> |              |            |               |               |
| <b>Balance at January 1, 2019</b>   | 73,249   | \$ 1,642,246 | \$ 426,708 | \$ (35,305 )  | \$ 2,033,649  |
| Adjustment to opening retained earnings pursuant to adoption of ASU 2016-02 | —  | —            | 782        | —             | 782           |
| Net income  | —  | —            | 45,871     | —             | 45,871        |
| Other comprehensive income  | —  | —            | —          | 38,351        | 38,351        |
| Issuance of common stock - stock option and other plans                     | 25   | 878          | —          | —             | 878           |
| Issuance of common stock - restricted stock awards, net of canceled awards  | 355  | 2,285        | —          | —             | 2,285         |
| Purchase and retirement of common stock                                     | (64 )  | (2,432 )     | —          | —             | (2,432 )      |
| Cash dividends declared on common stock (\$0.42 per share)                  | —  | —            | (30,764 )  | —             | (30,764 )     |
| <b>Balance at March 31, 2019</b>  | 73,565   | \$ 1,642,977 | \$ 442,597 | \$ 3,046      | \$ 2,088,620  |
| <b>Balance at January 1, 2018</b>   | 73,020   | \$ 1,634,705 | \$ 337,442 | \$ (22,225 )  | \$ 1,949,922  |
| Adjustment to opening retained earnings pursuant to adoption of ASU 2016-01 | —  | —            | (203 )     | 157           | (46 )         |
| Net income  | —  | —            | 39,970     | —             | 39,970        |
| Other comprehensive loss  | —  | —            | —          | (26,065 )     | (26,065 )     |
| Issuance of common stock - stock option and other plans                     | 17   | 719          | —          | —             | 719           |
| Activity in deferred compensation plan                                      | —  | 3            | —          | —             | 3             |
| Issuance of common stock - restricted stock awards, net of canceled awards  | 263  | 2,064        | —          | —             | 2,064         |
| Purchase and retirement of common stock                                     | (60 )  | (2,575 )     | —          | —             | (2,575 )      |
| Cash dividends declared on common stock (\$0.22 per share)                  | —  | —            | (16,069 )  | —             | (16,069 )     |
| <b>Balance at March 31, 2018</b>  | 73,240   | \$ 1,634,916 | \$ 361,140 | \$ (48,133 )  | \$ 1,947,923  |

See accompanying Notes to unaudited Consolidated Financial Statements.

Table of Contents**CONSOLIDATED STATEMENTS OF CASH FLOWS***Columbia Banking System, Inc.**(Unaudited)*

|  | <b>Three Months Ended</b> |             |
|--|---------------------------|-------------|
|  | <b>March 31,</b>          |             |
|  | <b>2019</b>               | <b>2018</b> |
|  | <i>(in thousands)</i>     |             |
| <b>Cash Flows From Operating Activities</b>  |                           |             |
| Net income   | \$45,871                  | \$39,970    |
| Adjustments to reconcile net income to net cash provided by operating activities         |                           |             |
| Provision for loan and lease losses  | 1,362                     | 5,852       |
| Stock-based compensation expense   | 2,285                     | 2,064       |
| Depreciation, amortization and accretion   | 8,182                     | 7,618       |
| Investment securities gains, net   | (1,847 )                  | (22 )       |
| Net realized (gain) loss on sale of premises and equipment and loans held for investment | 1                         | (630 )      |
| Net realized loss on sale and valuation adjustments of OREO                              | 209                       | 135         |
| Originations of loans held for sale  | (21,542 )                 | (27,553 )   |
| Proceeds from sales of loans held for sale   | 21,374                    | 29,007      |
| Net change in:   |                           |             |
| Interest receivable  | (1,512 )                  | (914 )      |
| Interest payable   | 1,154                     | 452         |
| Other assets   | (5,244 )                  | 2,530       |
| Other liabilities  | 2,179                     | (15,014 )   |
| Net cash provided by operating activities  | 52,472                    | 43,495      |
| <b>Cash Flows From Investing Activities</b>  |                           |             |
| Loans originated, net of principal collected   | (80,407 )                 | 17,688      |
| Purchases of:  |                           |             |
| Debt securities available for sale   | (3,710 )                  | (27,497 )   |
| Loans held for investment  | (49,039 )                 | —           |
| Premises and equipment   | (1,788 )                  | (2,099 )    |
| FHLB stock   | (57,280 )                 | (45,080 )   |
| Proceeds from:   |                           |             |
| Sales of debt securities available for sale  | 83,968                    | 19,761      |
| Principal repayments and maturities of debt securities available for sale                | 100,876                   | 82,643      |
| Sales of premises and equipment and loans held for investment                            | 11                        | 3,721       |
| Redemption of FHLB stock   | 57,640                    | 43,880      |
| Sales of OREO and OPPO   | 150                       | 2,062       |
| Net cash provided by investing activities  | 50,421                    | 95,079      |
| <b>Cash Flows From Financing Activities</b>  |                           |             |
| Net decrease in deposits   | (89,027 )                 | (136,466 )  |
| Net decrease in sweep repurchase agreements (1)  | (38,076 )                 | (29,812 )   |
| Proceeds from:   |                           |             |
| FHLB advances  | 1,432,000                 | 1,127,000   |
| Exercise of stock options  | 878                       | 719         |
| Payments for:  |                           |             |
| Repayment of FHLB advances   | (1,441,000)               | (1,097,000) |
| Common stock dividends   | (30,750 )                 | (16,069 )   |
| Repayment of junior subordinated debentures  | —                         | (8,248 )    |
| Repayment of term repurchase agreement (1)   | —                         | (25,000 )   |

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|  |            |            |
|--|------------|------------|
| Purchase and retirement of common stock          | (2,432 )   | (2,575 )   |
| Net cash used in financing activities            | (168,407 ) | (187,451 ) |
| Decrease in cash and cash equivalents            | (65,514 )  | (48,877 )  |
| Cash and cash equivalents at beginning of period | 277,587    | 342,533    |
| Cash and cash equivalents at end of period       | \$212,073  | \$293,656  |

(1) Revised from amounts previously reported to correct an immaterial misclassification of a \$25.0 million repayment of the term repurchase agreement within Net decrease in sweep repurchase agreements for the three months ended March 31, 2018. There were no changes to net cash flows from operating, investing or financing activities as a result of this change.

Table of Contents**CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued***Columbia Banking System, Inc.**(Unaudited)*

**Three Months  
Ended March 31,  
2019    2018**  
*(in thousands)*

**Supplemental Information:**

|               |         |         |
|---------------|---------|---------|
| Interest paid | \$6,712 | \$3,211 |
|---------------|---------|---------|

|                                   |          |      |
|-----------------------------------|----------|------|
| Income taxes paid, net of refunds | \$(146 ) | \$24 |
|-----------------------------------|----------|------|

**Non-cash investing and financing activities**

|                           |       |       |
|---------------------------|-------|-------|
| Loans transferred to OREO | \$386 | \$406 |
|---------------------------|-------|-------|

|   |      |     |
|---|------|-----|
| Premises and equipment expenditures incurred but not yet paid | \$35 | \$— |
|---|------|-----|

|  |      |     |
|--|------|-----|
| Change in dividends payable on unvested shares included in other liabilities | \$14 | \$— |
|--|------|-----|

See accompanying Notes to unaudited Consolidated Financial Statements.

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**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

*Columbia Banking System, Inc.*

**1. Basis of Presentation, Significant Accounting Policies and Reclassifications**

*Basis of Presentation*

The interim unaudited Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with instructions to Form 10-Q and Article 10 of Regulation S-X. The Consolidated Financial Statements include the accounts of Columbia Banking System, Inc. (“we”, “our”, “Columbia” or the “Company”) and its subsidiaries, including its wholly owned banking subsidiary Columbia State Bank (“Columbia Bank” or the “Bank”) and Columbia Trust Company (“Columbia Trust”). All intercompany transactions and accounts have been eliminated in consolidation. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair statement of the results for the interim periods presented have been included. The results of operations for the three months ended March 31, 2019 are not necessarily indicative of results to be anticipated for the year ending December 31, 2019. The accompanying interim unaudited Consolidated Financial Statements should be read in conjunction with the financial statements and related notes contained in the Company’s 2018 Annual Report on Form 10-K.

*Significant Accounting Policies*

The significant accounting policies used in preparation of our Consolidated Financial Statements are disclosed in our 2018 Annual Report on Form 10-K. There have not been any changes in our significant accounting policies compared to those contained in our 2018 Form 10-K disclosure for the year ended December 31, 2018.

*Reclassifications*

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

**2. Accounting Pronouncements Recently Adopted or Issued**

*Accounting Standards Adopted in 2019*

In February 2016, the FASB issued ASU 2016-02, *Leases*. The amendments included in this ASU create a new accounting model for both lessees and lessors. The new guidance requires lessees to recognize lease liabilities, initially measured as the present value of future lease payments, and corresponding right-of-use assets for all leases with lease terms greater than 12 months. The new lease model differs from the old lease accounting model, as the old model does not require such lease liabilities and corresponding right-of-use assets to be recorded for operating leases. The amendments in ASU 2016-02 must be adopted using the modified retrospective approach and will be effective for the first interim or annual period beginning after December 15, 2018. The FASB subsequently issued ASU 2018-11, which allows for an additional (optional) transition method. The Company adopted the new standard effective January 1, 2019 utilizing the transition method allowed under ASU 2018-11 and did not restate comparative periods. The Company elected the package of practical expedients permitted under the transition guidance, which allowed us to carryforward our historical lease classifications and our assessment on whether a contract is or contains a lease. We also elected to keep leases with an initial term of 12 months or less off the balance sheet. The adoption of the new standard resulted in an increase in other assets and an increase in other liabilities of \$49.2 million and \$48.2 million, respectively. The Company recognized a cumulative effect adjustment of \$782 thousand to increase the beginning balance of retained earnings related to previous deferred gains on sale-leaseback transactions.

*Recently Issued Accounting Standards, Not Yet Adopted*

In August 2018, the FASB issued ASU 2018-15, *Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract*. The amendments in this ASU align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The amendments also require the entity to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement, including reasonably certain renewal periods. The amendments in ASU 2018-15 are effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. Early



adoption is permitted, including adoption in any interim period. The Company is assessing the impact that this guidance will have on its Consolidated Financial Statements.

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

Currently, the Company cannot reasonably estimate the impact that adoption of ASU 2016-13 will have on its Consolidated Financial Statements; however, the impact may be significant. That assessment is based upon the fact that, unlike the incurred loss models in existing GAAP, the CECL model in ASU 2016-13 does not specify a threshold for the recognition of an impairment allowance. Rather, the Company will recognize an impairment allowance equal to its estimate of lifetime expected credit losses, adjusted for prepayments, for in-scope financial instruments as of the end of the reporting period. Accordingly, the impairment allowance measured under the CECL model could increase significantly from the impairment allowance measured under the Company's existing incurred loss model. The Company has engaged a third-party vendor to assist in the CECL calculation and has developed an internal governance framework to oversee the CECL implementation. Other significant CECL implementation matters being addressed by the Company include selecting loss estimation methodologies, identifying, sourcing and storing data, addressing data gaps, defining a reasonable and supportable forecast period, selecting historical loss information, assessing the impact to internal controls over financial reporting, and capital planning.

**3. Securities**

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

|   | Amortized<br>Cost     | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value  |
|---|-----------------------|------------------------------|-------------------------------|-------------|
|   | <i>(in thousands)</i> |                              |                               |             |
| <b>March 31, 2019</b>   |                       |                              |                               |             |
| U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations | \$2,156,810           | \$24,904                     | \$(26,100)                    | \$2,155,614 |
| State and municipal securities  | 534,218               | 4,833                        | (2,561)                       | 536,490     |
| U.S. government agency and government-sponsored enterprise securities   | 335,536               | 1,321                        | (1,940)                       | 334,917     |
| U.S. government securities  | 251                   | —                            | (2)                           | 249         |
| Total   | \$3,026,815           | \$31,058                     | \$(30,603)                    | \$3,027,270 |
| <b>December 31, 2018</b>  |                       |                              |                               |             |
| U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations | \$2,222,521           | \$9,236                      | \$(43,467)                    | \$2,188,290 |
| State and municipal securities  | 579,755               | 2,328                        | (7,760)                       | 574,323     |
| U.S. government agency and government-sponsored enterprise securities   | 408,088               | 1,235                        | (4,736)                       | 404,587     |
| U.S. government securities  | 251                   | —                            | (3)                           | 248         |
| Total   | \$3,210,615           | \$12,799                     | \$(55,966)                    | \$3,167,448 |

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

|  | <b>Three Months Ended</b> |             |
|--|---------------------------|-------------|
|  | <b>March 31,</b>          |             |
|  | <b>2019</b>               | <b>2018</b> |
|  | <i>(in thousands)</i>     |             |
| Proceeds from sales of debt securities available for sale              | \$83,968                  | \$19,761    |
| Gross realized gains from sales of debt securities available for sale  | \$1,847                   | \$148       |
| Gross realized losses from sales of debt securities available for sale | —                         | (46 )       |
| Other securities losses, net (1)                                       | —                         | (80 )       |
| Investment securities gains, net                                       | \$1,847                   | \$22        |

(1) Other securities losses, net includes net unrealized loss activity associated with equity securities for the period ended March 31, 2018. There were no sales of equity securities during the periods presented.

The scheduled contractual maturities of debt securities available for sale at March 31, 2019 are presented as follows:

|  | <b>March 31, 2019</b> |                   |
|--|-----------------------|-------------------|
|  | <b>Amortized Cost</b> | <b>Fair Value</b> |
|  | <i>(in thousands)</i> |                   |
| Due within one year                      | \$111,449             | \$111,405         |
| Due after one year through five years    | 528,884               | 526,821           |
| Due after five years through ten years   | 1,324,754             | 1,341,174         |
| Due after ten years                      | 1,061,728             | 1,047,870         |
| Total debt securities available for sale | \$3,026,815           | \$3,027,270       |

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

|   | <b>March 31,</b>  |
|---|-------------------|
|   | <b>2019</b>       |
|   | <i>(in</i>        |
|   | <i>thousands)</i> |
| Washington and Oregon State to secure public deposits | \$277,815         |
| FRB to secure borrowings                              | 54,717            |
| Other securities pledged                              | 140,755           |
| Total securities pledged as collateral                | \$473,287         |

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The following table shows the gross unrealized losses and fair value of the Company's debt securities available for sale with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at March 31, 2019 and December 31, 2018:

|   | Less than 12 Months   |                   | 12 Months or More |                   | Total        |                   |
|---|-----------------------|-------------------|-------------------|-------------------|--------------|-------------------|
|   | Fair Value            | Unrealized Losses | Fair Value        | Unrealized Losses | Fair Value   | Unrealized Losses |
|   | <i>(in thousands)</i> |                   |                   |                   |              |                   |
| <b>March 31, 2019</b>   |                       |                   |                   |                   |              |                   |
| U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations | \$ 1,879              | \$ (7 )           | \$ 1,250,289      | \$ (26,093 )      | \$ 1,252,168 | \$ (26,100 )      |
| State and municipal securities  | 3,312                 | (1 )              | 209,604           | (2,560 )          | 212,916      | (2,561 )          |
| U.S. government agency and government-sponsored enterprise securities   | —                     | —                 | 253,752           | (1,940 )          | 253,752      | (1,940 )          |
| U.S. government securities  | —                     | —                 | 248               | (2 )              | 248          | (2 )              |
| Total   | \$ 5,191              | \$ (8 )           | \$ 1,713,893      | \$ (30,595 )      | \$ 1,719,084 | \$ (30,603 )      |
| <b>December 31, 2018</b>  |                       |                   |                   |                   |              |                   |
| U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations | \$ 154,622            | \$ (972 )         | \$ 1,301,387      | \$ (42,495 )      | \$ 1,456,009 | \$ (43,467 )      |
| State and municipal securities  | 106,292               | (581 )            | 280,496           | (7,179 )          | 386,788      | (7,760 )          |
| U.S. government agency and government-sponsored enterprise securities   | 15,392                | (45 )             | 291,435           | (4,691 )          | 306,827      | (4,736 )          |
| U.S. government securities  | —                     | —                 | 247               | (3 )              | 247          | (3 )              |
| Total   | \$ 276,306            | \$ (1,598 )       | \$ 1,873,565      | \$ (54,368 )      | \$ 2,149,871 | \$ (55,966 )      |

At March 31, 2019, there were 407 U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations securities in an unrealized loss position, of which 401 were in a continuous loss position for 12 months or more. The decline in fair value is attributable to changes in interest rates relative to where these investments fall within the yield curve and their individual characteristics. Because the Company does not intend to sell these securities nor does the Company consider it more likely than not that it will be required to sell these securities before the recovery of amortized cost basis, which may be upon maturity, the Company does not consider these investments to be other-than-temporarily impaired at March 31, 2019.

At March 31, 2019, there were 246 state and municipal government securities in an unrealized loss position, of which 243 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 March 31, 2019, none of the rated obligations of state and local government entities held by the Company had a below investment grade credit rating. Because the credit quality of these securities are investment grade and the Company does not intend to sell these securities nor does the Company consider it more likely than not that it will be required to sell these securities before the recovery of amortized cost basis, which may be upon maturity, the Company does not consider these investments to be other-than-temporarily impaired at March 31, 2019.

At March 31, 2019, there were 36 U.S. government agency and government-sponsored enterprise securities in an unrealized loss position, all of which were in a continuous loss position for 12 months or more. The decline in fair value is attributable to changes in interest rates relative to where these investments fall within the yield curve and their individual characteristics. Because the Company does not currently intend to sell these securities nor does the Company consider it more likely than not that it will be required to sell these securities before the recovery of amortized cost basis, which may be upon maturity, the Company does not consider these investments to be other-than-temporarily impaired at March 31, 2019.

At March 31, 2019, there was one U.S. government security in an unrealized loss position, which was also in a continuous loss position for more than 12 months. The decline in fair value is attributable to changes in interest rates relative to where this investment falls within the yield curve and its individual characteristics. Because the Company does not currently intend to sell this security nor does the Company consider it more likely than not that it will be required to sell this security before the recovery of amortized cost basis, which may be upon maturity, the Company

does not consider this investment to be other-than-temporarily impaired at March 31, 2019.

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The Company's loan portfolio includes originated and purchased loans. Originated loans and purchased loans for which there was no evidence of credit deterioration at their acquisition date and it was probable that we would be able to collect all contractually required payments are referred to collectively as loans, excluding PCI loans. Purchased loans for which there was, at acquisition date, evidence of credit deterioration since their origination and it was probable that we would be unable to collect all contractually required payments are referred to as PCI loans.

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

|  | March 31, 2019                   |              |              | December 31, 2018                |              |              |
|--|----------------------------------|--------------|--------------|----------------------------------|--------------|--------------|
|  | Loans,<br>excluding<br>PCI loans | PCI<br>Loans | Total        | Loans,<br>excluding<br>PCI loans | PCI<br>Loans | Total        |
|  | <i>(in thousands)</i>            |              |              |                                  |              |              |
| Commercial business                    | \$ 3,509,472                     | \$ 9,914     | \$ 3,519,386 | \$ 3,438,422                     | \$ 9,240     | \$ 3,447,662 |
| Real estate:                           |                                  |              |              |                                  |              |              |
| One-to-four family residential         | 282,673                          | 7,494        | 290,167      | 238,367                          | 8,017        | 246,384      |
| Commercial and multifamily residential | 3,917,833                        | 61,661       | 3,979,494    | 3,846,027                        | 62,910       | 3,908,937    |
| Total real estate                      | 4,200,506                        | 69,155       | 4,269,661    | 4,084,394                        | 70,927       | 4,155,321    |
| Real estate construction:              |                                  |              |              |                                  |              |              |
| One-to-four family residential         | 207,900                          | 147          | 208,047      | 217,790                          | 153          | 217,943      |
| Commercial and multifamily residential | 240,458                          | 519          | 240,977      | 284,394                          | 534          | 284,928      |
| Total real estate construction         | 448,358                          | 666          | 449,024      | 502,184                          | 687          | 502,871      |
| Consumer                               | 312,886                          | 8,522        | 321,408      | 318,945                          | 8,906        | 327,851      |
| Less: Net unearned income              | (38,681 )                        | —            | (38,681 )    | (42,194 )                        | —            | (42,194 )    |
| Total loans, net of unearned income    | 8,432,541                        | 88,257       | 8,520,798    | 8,301,751                        | 89,760       | 8,391,511    |
| Less: ALLL                             | (80,029 )                        | (3,245 )     | (83,274 )    | (79,758 )                        | (3,611 )     | (83,369 )    |
| Total loans, net                       | \$ 8,352,512                     | \$ 85,012    | \$ 8,437,524 | \$ 8,221,993                     | \$ 86,149    | \$ 8,308,142 |
| Loans held for sale                    | \$ 4,017                         | \$ —         | \$ 4,017     | \$ 3,849                         | \$ —         | \$ 3,849     |

At March 31, 2019 and December 31, 2018, the Company had no material foreign activities. Substantially all of the Company's loans and unfunded commitments are geographically concentrated in its service areas within the states of Washington, Oregon and Idaho.

The Company has made loans to executive officers and directors of the Company and related interests. These loans are made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than the normal risk of collectability. The aggregate dollar amount of these loans was \$9.5 million and \$9.6 million at March 31, 2019 and December 31, 2018, respectively. During the first three months of 2019, there were no advances and \$99 thousand in repayments. At March 31, 2019 and December 31, 2018, \$3.24 billion and \$3.22 billion of commercial and residential real estate loans were pledged as collateral on FHLB borrowings and additional borrowing capacity. The Company has also pledged \$86.1 million and \$82.0 million of commercial loans to the FRB for additional borrowing capacity at March 31, 2019 and December 31, 2018, respectively.

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The following is an analysis of nonaccrual loans as of March 31, 2019 and December 31, 2018:

|                                       | March 31, 2019                                |  | December 31, 2018                             |  |
|---------------------------------------|---|--|---|--|
|                                       | Recorded<br>Investment<br>Nonaccrual<br>Loans | Unpaid Principal<br>Balance<br>Nonaccrual<br>Loans | Recorded<br>Investment<br>Nonaccrual<br>Loans | Unpaid Principal<br>Balance<br>Nonaccrual<br>Loans |
| <i>(in thousands)</i>                 |   |  |   |  |
| Commercial business:                  |   |  |   |  |
| Secured                               | \$35,577                                      | \$ 46,496  | \$35,504                                      | \$ 45,072  |
| Unsecured                             | —   | —  | 9   | 9  |
| Real estate:                          |   |  |   |  |
| One-to-four family residential        | 923   | 1,018  | 1,158   | 1,178  |
| Commercial & multifamily residential: |   |  |   |  |
| Commercial land                       | 2,570   | 2,577  | 2,261   | 2,270  |
| Income property                       | 1,108   | 1,118  | 2,721   | 3,062  |
| Owner occupied                        | 9,623   | 9,960  | 9,922   | 10,300   |
| Real estate construction:             |   |  |   |  |
| One-to-four family residential:       |   |  |   |  |
| Land and acquisition                  | —   | —  | 318   | 318  |
| Consumer                              | 2,814   | 3,062  | 2,949   | 3,149  |
| Total                                 | \$52,615                                      | \$ 64,231  | \$54,842                                      | \$ 65,358  |

Table of Contents**Loans, excluding PCI loans**

The following is an aging of the recorded investment of the loan portfolio as of March 31, 2019 and December 31, 2018:

|                                       | Current<br>Loans | 30 - 59<br>Days<br>Past Due | 60 - 89<br>Days<br>Past Due | Greater<br>than 90<br>Days Past<br>Due | Total<br>Past<br>Due | Nonaccrual<br>Loans | Total<br>Loans |
|---------------------------------------|------------------|-----------------------------|-----------------------------|--|----------------------|---------------------|----------------|
| <b>March 31, 2019</b>                 |                  |                             |                             |  |                      |                     |                |
| <i>(in thousands)</i>                 |                  |                             |                             |  |                      |                     |                |
| Commercial business:                  |                  |                             |                             |  |                      |                     |                |
| Secured                               | \$3,337,206      | \$ 6,848                    | \$ 1,603                    | \$ —                                   | \$8,451              | \$ 35,577           | \$3,381,234    |
| Unsecured                             | 114,087          | 32                          | 1,098                       | —                                      | 1,130                | —                   | 115,217        |
| Real estate:                          |                  |                             |                             |  |                      |                     |                |
| One-to-four family residential        | 280,727          | 680                         | —                           | —                                      | 680                  | 923                 | 282,330        |
| Commercial & multifamily residential: |                  |                             |                             |  |                      |                     |                |
| Commercial land                       | 292,125          | 225                         | —                           | —                                      | 225                  | 2,570               | 294,920        |
| Income property                       | 1,959,361        | 2,140                       | —                           | —                                      | 2,140                | 1,108               | 1,962,609      |
| Owner occupied                        | 1,627,738        | 1,123                       | 75                          | —                                      | 1,198                | 9,623               | 1,638,559      |
| Real estate construction:             |                  |                             |                             |  |                      |                     |                |
| One-to-four family residential:       |                  |                             |                             |  |                      |                     |                |
| Land and acquisition                  | 3,619            | —                           | —                           | —                                      | —                    | —                   | 3,619          |
| Residential construction              | 203,318          | —                           | —                           | —                                      | —                    | —                   | 203,318        |
| Commercial & multifamily residential: |                  |                             |                             |  |                      |                     |                |
| Income property                       | 163,674          | —                           | —                           | —                                      | —                    | —                   | 163,674        |
| Owner occupied                        | 74,736           | —                           | —                           | —                                      | —                    | —                   | 74,736         |
| Consumer                              | 308,069          | 1,234                       | 208                         | —                                      | 1,442                | 2,814               | 312,325        |
| Total                                 | \$8,364,660      | \$ 12,282                   | \$ 2,984                    | \$ —                                   | \$15,266             | \$ 52,615           | \$8,432,541    |

|                                       | Current<br>Loans | 30 - 59<br>Days<br>Past Due | 60 - 89<br>Days<br>Past Due | Greater<br>than 90<br>Days Past<br>Due | Total<br>Past<br>Due | Nonaccrual<br>Loans | Total<br>Loans |
|---------------------------------------|------------------|-----------------------------|-----------------------------|--|----------------------|---------------------|----------------|
| <b>December 31, 2018</b>              |                  |                             |                             |  |                      |                     |                |
| <i>(in thousands)</i>                 |                  |                             |                             |  |                      |                     |                |
| Commercial business:                  |                  |                             |                             |  |                      |                     |                |
| Secured                               | \$3,267,709      | \$ 5,864                    | \$ 3,624                    | \$ —                                   | \$9,488              | \$ 35,504           | \$3,312,701    |
| Unsecured                             | 111,868          | 240                         | —                           | —                                      | 240                  | 9                   | 112,117        |
| Real estate:                          |                  |                             |                             |  |                      |                     |                |
| One-to-four family residential        | 233,941          | 694                         | 233                         | —                                      | 927                  | 1,158               | 236,026        |
| Commercial & multifamily residential: |                  |                             |                             |  |                      |                     |                |
| Commercial land                       | 283,416          | —                           | —                           | —                                      | —                    | 2,261               | 285,677        |
| Income property                       | 1,910,505        | 5,009                       | 2,241                       | —                                      | 7,250                | 2,721               | 1,920,476      |
| Owner occupied                        | 1,606,085        | 1,744                       | —                           | —                                      | 1,744                | 9,922               | 1,617,751      |
| Real estate construction:             |                  |                             |                             |  |                      |                     |                |
| One-to-four family residential:       |                  |                             |                             |  |                      |                     |                |
| Land and acquisition                  | 4,099            | —                           | —                           | —                                      | —                    | 318                 | 4,417          |
| Residential construction              | 212,303          | 93                          | —                           | —                                      | 93                   | —                   | 212,396        |
| Commercial & multifamily residential: |                  |                             |                             |  |                      |                     |                |
| Income property                       | 194,912          | —                           | —                           | —                                      | —                    | —                   | 194,912        |
| Owner occupied                        | 79,805           | 7,258                       | —                           | —                                      | 7,258                | —                   | 87,063         |
| Consumer                              | 314,008          | 1,057                       | 201                         | —                                      | 1,258                | 2,949               | 318,215        |
| Total                                 | \$8,218,651      | \$ 21,959                   | \$ 6,299                    | \$ —                                   | \$28,258             | \$ 54,842           | \$8,301,751    |





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The following is an analysis of impaired loans as of March 31, 2019 and December 31, 2018:

|  | <b>Recorded Investment of Loans Collectively for Contingency Provision</b> | <b>Recorded Investment of Loans Measured for Specific Impairment</b> | <b>Impaired Loans With Recorded Allowance</b> |                                 |                          | <b>Impaired Loans Without Recorded Allowance</b> |                                 |
|--|--|--|---|---------------------------------|--------------------------|--|---------------------------------|
|  |  |  | <b>Recorded Investment</b>                    | <b>Unpaid Principal Balance</b> | <b>Related Allowance</b> | <b>Recorded Investment</b>                       | <b>Unpaid Principal Balance</b> |
| <b>March 31, 2019</b><br>(in thousands)    |  |  |   |                                 |                          |  |                                 |
| Commercial business:                       |  |  |   |                                 |                          |  |                                 |
| Secured                                    | \$3,351,027  | \$ 30,207  | \$5,426                                       | \$ 6,189                        | \$ 2,829                 | \$24,781   | \$ 30,656                       |
| Unsecured                                  | 115,199  | 18   | —   | —                               | —                        | 18   | 18                              |
| Real estate:                               |  |  |   |                                 |                          |  |                                 |
| One-to-four family residential             | 281,466  | 864  | 313   | 793                             | 8                        | 551  | 568                             |
| Commercial & multifamily residential:      |  |  |   |                                 |                          |  |                                 |
| Commercial land                            | 292,055  | 2,865  | —   | —                               | —                        | 2,865  | 2,909                           |
| Income property                            | 1,961,287  | 1,322  | —   | —                               | —                        | 1,322  | 1,333                           |
| Owner occupied                             | 1,622,007  | 16,552   | 3,181   | 4,640                           | 52                       | 13,371   | 13,617                          |
| Real estate construction:                  |  |  |   |                                 |                          |  |                                 |
| One-to-four family residential:            |  |  |   |                                 |                          |  |                                 |
| Land and acquisition                       | 3,619  | —  | —   | —                               | —                        | —  | —                               |
| Residential construction                   | 203,318  | —  | —   | —                               | —                        | —  | —                               |
| Commercial & multifamily residential:      |  |  |   |                                 |                          |  |                                 |
| Income property                            | 163,674  | —  | —   | —                               | —                        | —  | —                               |
| Owner occupied                             | 74,736   | —  | —   | —                               | —                        | —  | —                               |
| Consumer                                   | 308,870  | 3,455  | 2,558   | 2,703                           | 22                       | 897  | 1,012                           |
| <b>Total</b>                               | <b>\$8,377,258</b>   | <b>\$ 55,283</b>   | <b>\$ 11,478</b>                              | <b>\$ 14,325</b>                | <b>\$ 2,911</b>          | <b>\$ 43,805</b>                                 | <b>\$ 50,113</b>                |
|  | <b>Recorded Investment of Loans Collectively for Contingency Provision</b> | <b>Recorded Investment of Loans Measured for Specific Impairment</b> | <b>Impaired Loans With Recorded Allowance</b> |                                 |                          | <b>Impaired Loans Without Recorded Allowance</b> |                                 |
|  |  |  | <b>Recorded Investment</b>                    | <b>Unpaid Principal Balance</b> | <b>Related Allowance</b> | <b>Recorded Investment</b>                       | <b>Unpaid Principal Balance</b> |
| <b>December 31, 2018</b><br>(in thousands) |  |  |   |                                 |                          |  |                                 |
| Commercial business:                       |  |  |   |                                 |                          |  |                                 |
| Secured                                    | \$3,286,416  | \$ 26,285  | \$ 6,350                                      | \$ 8,460                        | \$ 2,023                 | \$ 19,935  | \$ 24,404                       |
| Unsecured                                  | 112,097  | 20   | 20  | 20                              | —                        | —  | —                               |
| Real estate:                               |  |  |   |                                 |                          |  |                                 |
| One-to-four family residential             | 235,138  | 888  | 325   | 798                             | 8                        | 563  | 575                             |
| Commercial & multifamily residential:      |  |  |   |                                 |                          |  |                                 |
| Commercial land                            | 283,451  | 2,226  | —   | —                               | —                        | 2,226  | 2,272                           |
| Income property                            | 1,917,522  | 2,954  | 99  | 165                             | 1                        | 2,855  | 3,011                           |
| Owner occupied                             | 1,605,042  | 12,709   | 3,231   | 4,666                           | 69                       | 9,478  | 9,750                           |
| Real estate construction:                  |  |  |   |                                 |                          |  |                                 |
| One-to-four family residential:            |  |  |   |                                 |                          |  |                                 |
| Land and acquisition                       | 4,417  | —  | —   | —                               | —                        | —  | —                               |
| Residential construction                   | 212,396  | —  | —   | —                               | —                        | —  | —                               |
| Commercial & multifamily residential:      |  |  |   |                                 |                          |  |                                 |
| Income property                            | 194,912  | —  | —   | —                               | —                        | —  | —                               |
| Owner occupied                             | 87,063   | —  | —   | —                               | —                        | —  | —                               |
| Consumer                                   | 314,193  | 4,022  | 3,326   | 3,584                           | 31                       | 696  | 704                             |

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|       |             |           |          |           |          |          |           |
|-------|-------------|-----------|----------|-----------|----------|----------|-----------|
| Total | \$8,252,647 | \$ 49,104 | \$13,351 | \$ 17,693 | \$ 2,132 | \$35,753 | \$ 40,716 |
|-------|-------------|-----------|----------|-----------|----------|----------|-----------|

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

|                                       | Three Months Ended March 31,               |                                    |  |                                    |
|---------------------------------------|--|------------------------------------|--|------------------------------------|
|                                       | 2019                                       |                                    | 2018                                       |                                    |
|                                       | Average Recorded Investment Impaired Loans | Interest Recognized Impaired Loans | Average Recorded Investment Impaired Loans | Interest Recognized Impaired Loans |
|                                       | <i>(in thousands)</i>                      |                                    |  |                                    |
| Commercial business:                  |  |                                    |  |                                    |
| Secured                               | \$28,246                                   | \$ 12                              | \$42,306                                   | \$ 12                              |
| Unsecured                             | 19   | —                                  | 24   | —                                  |
| Real estate:                          |  |                                    |  |                                    |
| One-to-four family residential        | 876  | 6                                  | 881  | 7                                  |
| Commercial & multifamily residential: |  |                                    |  |                                    |
| Commercial land                       | 2,546                                      | 7                                  | 2,569                                      | —                                  |
| Income property                       | 2,138                                      | 19                                 | 4,292                                      | 31                                 |
| Owner occupied                        | 14,630                                     | 118                                | 8,622                                      | 84                                 |
| Real estate construction:             |  |                                    |  |                                    |
| One-to-four family residential:       |  |                                    |  |                                    |
| Residential construction              | —  | —                                  | 1,210                                      | —                                  |
| Commercial & multifamily residential: |  |                                    |  |                                    |
| Owner occupied                        | —  | —                                  | 4,050                                      | 51                                 |
| Consumer                              | 3,738                                      | 27                                 | 6,623                                      | 54                                 |
| Total                                 | \$52,193                                   | \$ 189                             | \$70,577                                   | \$ 239                             |

The following is an analysis of loans classified as TDR during the three months ended March 31, 2019 and 2018:

|   | Three months ended March 31, 2019 |                                       | Three months ended March 31, 2018 |                                       |
|---|-----------------------------------|---------------------------------------|-----------------------------------|---------------------------------------|
|   | Number of TDR Modifications       | Post-Modification Recorded Investment | Number of TDR Modifications       | Post-Modification Recorded Investment |
|   | <i>(dollars in thousands)</i>     |                                       |                                   |                                       |
| Commercial business:                    |                                   |                                       |                                   |                                       |
| Secured                                 | 2                                 | \$ 616                                | 1                                 | \$ 450                                |
| Real estate:                            |                                   |                                       |                                   |                                       |
| Commercial and multifamily residential: |                                   |                                       |                                   |                                       |
| Income property                         | 1                                 | 217                                   | —                                 | —                                     |
| Commercial and multifamily residential: |                                   |                                       |                                   |                                       |
| Income property                         | —                                 | —                                     | 1                                 | 891                                   |
| Consumer                                | —                                 | —                                     | 7                                 | 1,143                                 |
| Total                                   | 3                                 | \$ 833                                | 9                                 | \$ 2,484                              |

The Company's loans classified as TDR are loans that have been modified or the borrower has been granted special concessions due to financial difficulties that, if not for the challenges of the borrower, the Company would not otherwise consider. The TDR modifications or concessions are made to increase the likelihood that these borrowers with financial difficulties will be able to satisfy their debt obligations as amended. The concessions granted in the restructurings, summarized in the table above, largely consisted of maturity extensions, interest rate modifications or a combination of both. In limited circumstances, a reduction in the principal balance of the loan could also be made as a concession. Credit losses for loans classified as TDR are measured on the same basis as impaired loans. For impaired

loans, an allowance is established when the collateral value less selling costs (or discounted cash flows or observable market price) of the impaired loan is lower than the recorded investment of that loan.

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The Company had commitments to lend \$1.3 million of additional funds on loans classified as TDR as of March 31, 2019. The Company had \$2.1 million of such commitments at December 31, 2018. During the three months ended March 31, 2019, the Company had one \$26 thousand consumer loan that defaulted within 12 months of being modified as a TDR. The defaulted TDR loan is collateralized and was included with the loans individually measured for specific impairment. The Company did not experience any similar defaults during the three months ended March 31, 2018.

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

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

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

The following is an analysis of our PCI loans, net of related ALLL and remaining valuation discounts as of March 31, 2019 and December 31, 2018:

|   | March 31,<br>2019     | December 31,<br>2018 |
|---|-----------------------|----------------------|
|   | <i>(in thousands)</i> |                      |
| Commercial business   | \$10,270              | \$ 9,672             |
| Real estate:  |                       |                      |
| One-to-four family residential                                      | 9,258                 | 9,848                |
| Commercial and multifamily residential                              | 64,958                | 66,340               |
| Total real estate   | 74,216                | 76,188               |
| Real estate construction:   |                       |                      |
| One-to-four family residential                                      | 147                   | 153                  |
| Commercial and multifamily residential                              | 491                   | 507                  |
| Total real estate construction                                      | 638                   | 660                  |
| Consumer  | 9,294                 | 9,765                |
| Subtotal of PCI loans   | 94,418                | 96,285               |
| Less:   |                       |                      |
| Valuation discount resulting from acquisition accounting            | 6,161                 | 6,525                |
| ALLL  | 3,245                 | 3,611                |
| PCI loans, net of valuation discounts and allowance for loan losses | \$85,012              | \$ 86,149            |

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The following table shows the changes in accretable yield for PCI loans for the three months ended March 31, 2019 and 2018:

|   | <b>Three Months Ended</b> |             |
|---|---------------------------|-------------|
|   | <b>March 31,</b>          |             |
|   | <b>2019</b>               | <b>2018</b> |
|   | <i>(in thousands)</i>     |             |
| Balance at beginning of period                  | \$21,949                  | \$31,176    |
| Accretion                                       | (1,577 )                  | (2,265 )    |
| Disposals                                       | 103                       | (159 )      |
| Reclassifications from nonaccretable difference | 1,374                     | 603         |
| Balance at end of period                        | \$21,849                  | \$29,355    |

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

We record an ALLL to recognize management's estimate of credit losses incurred in the loan portfolio at each balance sheet date. We have used the same methodology for the ALLL calculation during the three months ended March 31, 2019 and 2018.

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The following tables show a detailed analysis of the ALLL for the three months ended March 31, 2019 and 2018:

|  | <b>Beginning<br/>Balance</b> | <b>Charge-offs</b> | <b>Recoveries</b> | <b>Provision<br/>(Recapture)</b> | <b>Ending<br/>Balance</b> | <b>Specific<br/>Reserve</b> | <b>General<br/>Allocation</b> |
|--|------------------------------|--------------------|-------------------|----------------------------------|---------------------------|-----------------------------|-------------------------------|
| <b>Three months ended March 31, 2019</b> <i>(in thousands)</i> |                              |                    |                   |                                  |                           |                             |                               |
| Commercial business:   |                              |                    |                   |                                  |                           |                             |                               |
| Secured  | \$43,188                     | \$ (1,249 )        | \$ 323            | \$ 1,355                         | \$43,617                  | \$ 2,829                    | \$ 40,788                     |
| Unsecured  | 2,626                        | —                  | 157               | (288 )                           | 2,495                     | —                           | 2,495                         |
| Real estate:   |                              |                    |                   |                                  |                           |                             |                               |
| One-to-four family residential                                 | 593                          | (2 )               | 17                | 8                                | 616                       | 8                           | 608                           |
| Commercial & multifamily residential:                          |                              |                    |                   |                                  |                           |                             |                               |
| Commercial land  | 3,947                        | —                  | 7                 | 634                              | 4,588                     | —                           | 4,588                         |
| Income property  | 4,044                        | —                  | 23                | 951                              | 5,018                     | —                           | 5,018                         |
| Owner occupied   | 4,533                        | —                  | 1                 | 432                              | 4,966                     | 52                          | 4,914                         |
| Real estate construction:                                      |                              |                    |                   |                                  |                           |                             |                               |
| One-to-four family residential:                                |                              |                    |                   |                                  |                           |                             |                               |
| Land and acquisition   | 549                          | —                  | 59                | (201 )                           | 407                       | —                           | 407                           |
| Residential construction                                       | 5,536                        | (170 )             | 1                 | 99                               | 5,466                     | —                           | 5,466                         |
| Commercial & multifamily residential:                          |                              |                    |                   |                                  |                           |                             |                               |
| Income property  | 5,784                        | —                  | —                 | (1,267 )                         | 4,517                     | —                           | 4,517                         |
| Owner occupied   | 2,604                        | —                  | —                 | (384 )                           | 2,220                     | —                           | 2,220                         |
| Consumer   | 5,301                        | (478 )             | 238               | 484                              | 5,545                     | 22                          | 5,523                         |
| PCI  | 3,611                        | (1,089 )           | 705               | 18                               | 3,245                     | —                           | 3,245                         |
| Unallocated  | 1,053                        | —                  | —                 | (479 )                           | 574                       | —                           | 574                           |
| <b>Total</b>   | <b>\$83,369</b>              | <b>\$ (2,988 )</b> | <b>\$ 1,531</b>   | <b>\$ 1,362</b>                  | <b>\$83,274</b>           | <b>\$ 2,911</b>             | <b>\$ 80,363</b>              |
| <b>Three months ended March 31, 2018</b> <i>(in thousands)</i> |                              |                    |                   |                                  |                           |                             |                               |
| Commercial business:   |                              |                    |                   |                                  |                           |                             |                               |
| Secured  | \$29,341                     | \$ (2,414 )        | \$ 553            | \$ 9,851                         | \$37,331                  | \$ 5,657                    | \$ 31,674                     |
| Unsecured  | 2,000                        | (63 )              | 249               | 409                              | 2,595                     | 2                           | 2,593                         |
| Real estate:   |                              |                    |                   |                                  |                           |                             |                               |
| One-to-four family residential                                 | 701                          | —                  | 172               | (315 )                           | 558                       | 22                          | 536                           |
| Commercial & multifamily residential:                          |                              |                    |                   |                                  |                           |                             |                               |
| Commercial land  | 4,265                        | —                  | 6                 | (526 )                           | 3,745                     | —                           | 3,745                         |
| Income property  | 5,672                        | (223 )             | 141               | (888 )                           | 4,702                     | —                           | 4,702                         |
| Owner occupied   | 5,459                        | —                  | 12                | (722 )                           | 4,749                     | 5                           | 4,744                         |
| Real estate construction:                                      |                              |                    |                   |                                  |                           |                             |                               |
| One-to-four family residential:                                |                              |                    |                   |                                  |                           |                             |                               |
| Land and acquisition   | 963                          | —                  | 16                | (67 )                            | 912                       | —                           | 912                           |
| Residential construction                                       | 3,709                        | —                  | 3                 | 924                              | 4,636                     | —                           | 4,636                         |
| Commercial & multifamily residential:                          |                              |                    |                   |                                  |                           |                             |                               |
| Income property  | 7,053                        | —                  | —                 | 421                              | 7,474                     | —                           | 7,474                         |
| Owner occupied   | 4,413                        | —                  | —                 | (2,490 )                         | 1,923                     | —                           | 1,923                         |
| Consumer   | 5,163                        | (264 )             | 260               | 57                               | 5,216                     | 171                         | 5,045                         |
| PCI  | 6,907                        | (1,343 )           | 1,224             | (1,123 )                         | 5,665                     | —                           | 5,665                         |
| Unallocated  | —                            | —                  | —                 | 321                              | 321                       | —                           | 321                           |
| <b>Total</b>   | <b>\$75,646</b>              | <b>\$ (4,307 )</b> | <b>\$ 2,636</b>   | <b>\$ 5,852</b>                  | <b>\$79,827</b>           | <b>\$ 5,857</b>             | <b>\$ 73,970</b>              |





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

|   | <b>Three Months Ended</b> |             |
|---|---------------------------|-------------|
|   | <b>March 31,</b>          |             |
|   | <b>2019</b>               | <b>2018</b> |
|   | <i>(in thousands)</i>     |             |
| Balance at beginning of period  | \$4,330                   | \$3,130     |
| Net changes in the allowance for unfunded commitments and letters of credit | (550 )                    | 1,200       |
| Balance at end of period  | \$3,780                   | \$4,330     |

**Risk Elements**

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

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

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

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The following is an analysis of the credit quality of our loan portfolio, excluding PCI loans, as of March 31, 2019 and December 31, 2018:

|   | Pass        | Special<br>Mention | Substandard | Doubtful | Loss | Total        |
|---|-------------|--------------------|-------------|----------|------|--------------|
| <b>March 31, 2019</b>                   |             |                    |             |          |      |              |
| <i>(in thousands)</i>                   |             |                    |             |          |      |              |
| Loans, excluding PCI loans:             |             |                    |             |          |      |              |
| Commercial business:                    |             |                    |             |          |      |              |
| Secured                                 | \$3,217,555 | \$58,919           | \$104,760   | \$       | —\$  | —\$3,381,234 |
| Unsecured                               | 115,089     | 26                 | 102         | —        | —    | 115,217      |
| Real estate:                            |             |                    |             |          |      |              |
| One-to-four family residential          | 281,107     | —                  | 1,223       | —        | —    | 282,330      |
| Commercial and multifamily residential: |             |                    |             |          |      |              |
| Commercial land                         | 286,993     | 2,472              | 5,455       | —        | —    | 294,920      |
| Income property                         | 1,918,999   | 1,560              | 42,050      | —        | —    | 1,962,609    |
| Owner occupied                          | 1,578,780   | 13,724             | 46,055      | —        | —    | 1,638,559    |
| Real estate construction:               |             |                    |             |          |      |              |
| One-to-four family residential:         |             |                    |             |          |      |              |
| Land and acquisition                    | 3,619       | —                  | —           | —        | —    | 3,619        |
| Residential construction                | 203,318     | —                  | —           | —        | —    | 203,318      |
| Commercial and multifamily residential: |             |                    |             |          |      |              |
| Income property                         | 163,674     | —                  | —           | —        | —    | 163,674      |
| Owner occupied                          | 74,148      | —                  | 588         | —        | —    | 74,736       |
| Consumer                                | 307,950     | —                  | 4,375       | —        | —    | 312,325      |
| Total                                   | \$8,151,232 | \$76,701           | \$204,608   | \$       | —\$  | —\$8,432,541 |
| Less:                                   |             |                    |             |          |      |              |
| ALLL                                    |             |                    |             |          |      | 80,029       |
| Loans, excluding PCI loans, net         |             |                    |             |          |      | \$8,352,512  |
|   | Pass        | Special<br>Mention | Substandard | Doubtful | Loss | Total        |
| <b>December 31, 2018</b>                |             |                    |             |          |      |              |
| <i>(in thousands)</i>                   |             |                    |             |          |      |              |
| Loans, excluding PCI loans:             |             |                    |             |          |      |              |
| Commercial business:                    |             |                    |             |          |      |              |
| Secured                                 | \$3,160,910 | \$48,779           | \$103,007   | \$ 5     | \$   | —\$3,312,701 |
| Unsecured                               | 112,091     | 21                 | —           | 5        | —    | 112,117      |
| Real estate:                            |             |                    |             |          |      |              |
| One-to-four family residential          | 234,416     | —                  | 1,610       | —        | —    | 236,026      |
| Commercial and multifamily residential: |             |                    |             |          |      |              |
| Commercial land                         | 276,348     | 5,082              | 4,247       | —        | —    | 285,677      |
| Income property                         | 1,876,925   | 36,998             | 6,553       | —        | —    | 1,920,476    |
| Owner occupied                          | 1,556,852   | 14,964             | 45,935      | —        | —    | 1,617,751    |
| Real estate construction:               |             |                    |             |          |      |              |
| One-to-four family residential:         |             |                    |             |          |      |              |
| Land and acquisition                    | 4,099       | —                  | 318         | —        | —    | 4,417        |
| Residential construction                | 212,225     | —                  | 171         | —        | —    | 212,396      |
| Commercial and multifamily residential: |             |                    |             |          |      |              |
| Income property                         | 194,912     | —                  | —           | —        | —    | 194,912      |
| Owner occupied                          | 87,063      | —                  | —           | —        | —    | 87,063       |
| Consumer                                | 313,817     | —                  | 4,398       | —        | —    | 318,215      |
| Total                                   | \$8,029,658 | \$105,844          | \$166,239   | \$ 10    | \$   | —\$8,301,751 |
| Less:                                   |             |                    |             |          |      |              |

|                                 |             |
|---------------------------------|-------------|
| ALLL                            | 79,758      |
| Loans, excluding PCI loans, net | \$8,221,993 |

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The following is an analysis of the credit quality of our PCI loan portfolio as of March 31, 2019 and December 31, 2018:

|  | Pass     | Special<br>Mention | Substandard | Doubtful | Loss  | Total     |
|--|----------|--------------------|-------------|----------|-------|-----------|
| <b>March 31, 2019</b>                                    |          |                    |             |          |       |           |
| <i>(in thousands)</i>                                    |          |                    |             |          |       |           |
| PCI loans:   |          |                    |             |          |       |           |
| Commercial business:                                     |          |                    |             |          |       |           |
| Secured  | \$8,749  | \$ —               | \$ 804      | \$ —     | —\$ — | —\$9,553  |
| Unsecured  | 717      | —                  | —           | —        | —     | 717       |
| Real estate:   |          |                    |             |          |       |           |
| One-to-four family residential                           | 8,565    | —                  | 693         | —        | —     | 9,258     |
| Commercial and multifamily residential:                  |          |                    |             |          |       |           |
| Commercial land  | 9,974    | 141                | 71          | —        | —     | 10,186    |
| Income property  | 19,350   | —                  | —           | —        | —     | 19,350    |
| Owner occupied   | 28,662   | —                  | 6,760       | —        | —     | 35,422    |
| Real estate construction:                                |          |                    |             |          |       |           |
| One-to-four family residential:                          |          |                    |             |          |       |           |
| Land and acquisition                                     | 146      | —                  | 1           | —        | —     | 147       |
| Commercial and multifamily residential:                  |          |                    |             |          |       |           |
| Income property  | 491      | —                  | —           | —        | —     | 491       |
| Consumer   | 8,908    | —                  | 386         | —        | —     | 9,294     |
| Total  | \$85,562 | \$ 141             | \$ 8,715    | \$ —     | —\$ — | —\$94,418 |
| Less:  |          |                    |             |          |       |           |
| Valuation discount resulting from acquisition accounting |          |                    |             |          |       | 6,161     |
| ALLL   |          |                    |             |          |       | 3,245     |
| PCI loans, net   |          |                    |             |          |       | \$85,012  |
|  | Pass     | Special<br>Mention | Substandard | Doubtful | Loss  | Total     |
| <b>December 31, 2018</b>                                 |          |                    |             |          |       |           |
| <i>(in thousands)</i>                                    |          |                    |             |          |       |           |
| PCI loans:   |          |                    |             |          |       |           |
| Commercial business:                                     |          |                    |             |          |       |           |
| Secured  | \$8,041  | \$ —               | —\$ 840     | \$ —     | —\$ — | —\$8,881  |
| Unsecured  | 692      | —                  | 99          | —        | —     | 791       |
| Real estate:   |          |                    |             |          |       |           |
| One-to-four family residential                           | 9,633    | —                  | 215         | —        | —     | 9,848     |
| Commercial and multifamily residential:                  |          |                    |             |          |       |           |
| Commercial land  | 10,363   | —                  | —           | —        | —     | 10,363    |
| Income property  | 19,680   | —                  | —           | —        | —     | 19,680    |
| Owner occupied   | 35,944   | —                  | 353         | —        | —     | 36,297    |
| Real estate construction:                                |          |                    |             |          |       |           |
| One-to-four family residential:                          |          |                    |             |          |       |           |
| Land and acquisition                                     | 151      | —                  | 2           | —        | —     | 153       |
| Commercial and multifamily residential:                  |          |                    |             |          |       |           |
| Income property  | 507      | —                  | —           | —        | —     | 507       |
| Consumer   | 9,326    | —                  | 439         | —        | —     | 9,765     |
| Total  | \$94,337 | \$ —               | —\$ 1,948   | \$ —     | —\$ — | —\$96,285 |
| Less:  |          |                    |             |          |       |           |
| Valuation discount resulting from acquisition accounting |          |                    |             |          |       | 6,525     |
| ALLL   |          |                    |             |          |       | 3,611     |
| PCI loans, net   |          |                    |             |          |       | \$86,149  |



Table of Contents**6. Other Real Estate Owned**

The following tables set forth activity in OREO for the three months ended March 31, 2019 and 2018:

|                                     | Three Months Ended    |          |
|-------------------------------------|-----------------------|----------|
|                                     | March 31,             |          |
|                                     | 2019                  | 2018     |
|                                     | <i>(in thousands)</i> |          |
| Balance, beginning of period        | \$6,019               | \$13,298 |
| Transfers in                        | 386                   | 406      |
| Valuation adjustments               | (195 )                | (92 )    |
| Proceeds from sale of OREO property | (121 )                | (2,062 ) |
| Loss on sale of OREO, net           | (14 )                 | (43 )    |
| Balance, end of period              | \$6,075               | \$11,507 |

At March 31, 2019, there were \$311 thousand in foreclosed residential real estate properties held as OREO and the recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process was \$678 thousand.

**7. Goodwill and Other Intangible Assets**

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

The CDI is evaluated for impairment if events and circumstances indicate a possible impairment. The CDI is amortized on an accelerated basis over an estimated life of 10 years.

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

|   | Three Months Ended March |           |
|---|--------------------------|-----------|
|   | 31,                      |           |
|   | 2019                     | 2018      |
|   | <i>(in thousands)</i>    |           |
| <b>Goodwill</b>   |                          |           |
| Total goodwill  | \$765,842                | \$765,842 |
| <b>Other intangible assets, net</b>                         |                          |           |
| CDI:  |                          |           |
| Gross CDI balance at beginning of period                    | 105,473                  | 105,473   |
| Accumulated amortization at beginning of period             | (60,455 )                | (48,219 ) |
| CDI, net at beginning of period                             | 45,018                   | 57,254    |
| CDI current period amortization                             | (2,748 )                 | (3,188 )  |
| Total CDI, net at end of period                             | 42,270                   | 54,066    |
| Intangible assets not subject to amortization               | 919                      | 919       |
| Other intangible assets, net at end of period               | 43,189                   | 54,985    |
| Total goodwill and other intangible assets at end of period | \$809,031                | \$820,827 |

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The following table provides the estimated future amortization expense of our CDI for the remaining nine months ending December 31, 2019 and the succeeding four years:

| Year<br>ending<br>December<br>31,<br>(in<br>thousands) |          |
|--|----------|
| 2019   | \$ 7,731 |
| 2020   | 8,724    |
| 2021   | 7,264    |
| 2022   | 5,880    |
| 2023   | 4,552    |

**8. Subordinated Debentures**

On November 1, 2017, with its acquisition of Pacific Continental, the Company assumed \$35.0 million in aggregate principal amount of fixed-to-floating rate subordinated debentures. These debentures are callable at par on June 30, 2021, have a stated maturity of June 30, 2026 and bear interest at a fixed annual rate of 5.875% per year, from and including June 27, 2016, but excluding June 30, 2021. From and including June 30, 2021 through the maturity date or early redemption date, the interest rate will reset quarterly to an annual interest rate equal to the then-current three-month LIBOR rate plus 4.715%.

**9. Junior Subordinated Debentures**

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

**10. Derivatives, Hedging Activities and Balance Sheet Offsetting**

The Company is exposed to certain risks arising from both its business and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk, primarily by managing the amount, sources, and duration of its assets and liabilities and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to the Company's loan portfolio.

The Company's objectives in using interest rate derivatives are to add stability to interest income and to manage its exposure to interest rate movements. To accomplish this objective, the Company uses interest rate collars as part of its interest rate risk management strategy. Interest rate collars designated as cash flow hedges involve the payments of variable-rate amounts if interest rates rise above the cap strike rate on the contract and receipts of variable-rate amounts if interest rates fall below the floor strike rate on the contract. These derivative contracts are used to hedge the variable cash flows associated with existing variable-rate assets.

With respect to derivatives designated and that qualify as cash flow hedges of interest rate risk, the gain or loss on the derivative is recorded in Accumulated Other Comprehensive Income and subsequently reclassified into interest income in the same period(s) during which the hedged transaction affects earnings. Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest income as interest payments are received on the Company's variable-rate assets. During the next 12 months, the Company estimates that there will be no additional amounts reclassified as a decrease to interest income.





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In addition, 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 March 31, 2019 and December 31, 2018 was \$369.8 million and \$366.7 million, respectively. During the three months ended March 31, 2019, there was no mark-to-market gain or loss recorded to "Other" noninterest expense. During the three months ended March 31, 2018, a mark-to-market gain of \$6 thousand was recorded to "Other" noninterest expense.

The following table presents the fair value of derivatives, as well as their classification on the Balance Sheet at March 31, 2019 and December 31, 2018:

|   | Asset Derivatives      |            |                        |            | Liability Derivatives  |            |                        |            |
|---|------------------------|------------|------------------------|------------|------------------------|------------|------------------------|------------|
|   | March 31, 2019         |            | December 31, 2018      |            | March 31, 2019         |            | December 31, 2018      |            |
|   | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| <i>(in thousands)</i>                                     |                        |            |                        |            |                        |            |                        |            |
| <b>Derivatives designated as hedging instruments:</b>     |                        |            |                        |            |                        |            |                        |            |
| Interest rate collar                                      | Other assets           | \$ 6,268   | Other assets           | \$ —       | Other liabilities      | \$ —       | Other liabilities      | \$ —       |
| <b>Derivatives not designated as hedging instruments:</b> |                        |            |                        |            |                        |            |                        |            |
| Interest rate swap contracts                              | Other assets           | \$ 8,815   | Other assets           | \$ 7,033   | Other liabilities      | \$ 8,815   | Other liabilities      | \$ 7,033   |

The table below presents the effect of cash flow hedge accounting on Accumulated Other Comprehensive Income at March 31, 2019 and December 31, 2018:

|                      | Amount of Gain or (Loss) Recognized in Accumulated Other Comprehensive Income on Derivative Three Months Ended March 31, |      | Location of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income into Income | Amount of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income into Income Three Months Ended March 31, |      |
|----------------------|--|------|---|--|------|
|                      | 2019   | 2018 |   | 2019   | 2018 |
| Interest rate collar | \$ 6,268   | \$ — | Interest income   | \$ —   | \$ — |

The notional amount of the interest rate collar was \$500.0 million at March 31, 2019. We recorded no income statement impact for the interest rate collar for the three months ended March 31, 2019 and 2018.

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The Company is party to interest rate swap contracts, interest rate collar 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 contracts, collar agreements and repurchase agreements in the Consolidated Balance Sheets and the respective collateral received or pledged in the form of cash or other financial instruments. 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<br>Amounts<br>of<br>Recognized<br>Assets/Liabilities | Gross<br>Amounts<br>Offset in the<br>Consolidated<br>Balance<br>Sheets | Net Amounts of<br>Assets/Liabilities<br>Presented in the<br>Consolidated<br>Balance Sheets | Gross Amounts Not<br>Offset in the<br>Consolidated<br>Balance Sheets<br>Collateral Net<br>Posted Amount |          |
|---|--|--|--|---|----------|
| <b>March 31, 2019</b><br>(in thousands) |  |  |  |   |          |
| <b>Assets</b>                           |  |  |  |   |          |
| Interest rate swap contracts            | \$8,815  | \$ —   | \$ 8,815   | \$ —  | \$ 8,815 |
| Interest rate collar                    | \$6,268  | \$ —   | \$ 6,268   | \$ —  | 6,268    |
| <b>Liabilities</b>                      |  |  |  |   |          |
| Interest rate swap contracts            | \$8,815  | \$ —   | \$ 8,815   | \$(5,573)   | \$ 3,242 |
| Repurchase agreements                   | \$23,018   | \$ —   | \$ 23,018  | \$(23,018)  | \$ —     |
| <b>December 31, 2018</b>                |  |  |  |   |          |
| <b>Assets</b>                           |  |  |  |   |          |
| Interest rate swap contracts            | \$7,033  | \$ —   | \$ 7,033   | \$ —  | \$ 7,033 |
| <b>Liabilities</b>                      |  |  |  |   |          |
| Interest rate swap contracts            | \$7,033  | \$ —   | \$ 7,033   | \$(3,235)   | \$ 3,798 |
| Repurchase agreements                   | \$61,094   | \$ —   | \$ 61,094  | \$(61,094)  | \$ —     |

The Company's agreements with each of its derivative counterparties provide that if the Company defaults or is capable of being declared in default on any of its indebtedness, then the Company could also be declared in default on its derivative obligations.

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

|   | Remaining contractual maturity of the agreements |               |              |                      | Total     |
|---|--|---------------|--------------|----------------------|-----------|
|   | Overnight and continuous                         | Up to 30 days | 30 - 90 days | Greater than 90 days |           |
| <b>March 31, 2019</b><br>(in thousands)   |  |               |              |                      |           |
| Class of collateral pledged for repurchase agreements   |  |               |              |                      |           |
| U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations | \$23,018   | \$ —          | \$ —         | \$ —                 | —\$23,018 |
| Gross amount of recognized liabilities for repurchase agreements  |  |               |              |                      | 23,018    |
| Amounts related to agreements not included in offsetting disclosure   |  |               |              |                      | \$ —      |

The collateral utilized for the Company's repurchase agreements is subject to market fluctuations as well as prepayments of principal. The Company monitors the risk of the fair value of its pledged collateral falling below acceptable amounts based on the type of the underlying repurchase agreement. The pledged collateral related to the Company's \$23.0 million sweep repurchase agreements, which mature on an overnight basis, is monitored on a daily basis as the underlying sweep accounts can have frequent transaction activity and the amount of pledged collateral is adjusted as necessary.

**11. Commitments and Contingent Liabilities**

*Lease Commitments:* The Company's lease commitments consist primarily of leased locations under various non-cancellable operating leases that expire between 2019 and 2043. The majority of the leases contain renewal options and provisions for increases in rental rates based on an agreed upon index or predetermined escalation schedule.

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The following table shows the details of the Company's operating lease right of use asset and the associated lease liability for the period indicated:

| <b>Item</b>               | <b>Balance Sheet Location</b> | <b>March 31,<br/>2019<br/>(in<br/>thousands)</b> |
|---------------------------|-------------------------------|--|
| Operating lease asset     | Other assets                  | \$48,211   |
| Operating lease liability | Other liabilities             | \$54,246   |

At March 31, 2019 the Company's operating leases have a weighted-average remaining lease term of 7.7 years and a weighted average discount rate of 3.2%. Cash paid for amounts included in the measurement of operating lease liabilities was \$2.8 million for the three months ended March 31, 2019. Right-of-use assets obtained in exchange for new operating lease liabilities during the three months ended March 31, 2019 were \$1.4 million.

The following table shows the components of net lease costs:

| <b>Item</b>          | <b>Statement of Income Location</b> | <b>Three<br/>Months<br/>Ended<br/>March 31,<br/>2019<br/>(in<br/>thousands)</b> |
|----------------------|-------------------------------------|---|
| Operating lease cost | Occupancy                           | \$2,820   |
| Variable lease cost  | Occupancy                           | 506   |
| Sublease income      | Occupancy                           | (315 )  |
| Net lease cost       |                                     | \$3,011   |

The following table shows future minimum payments for operating leases for the remaining nine months of 2019 and subsequent years:

|   | <b>Year ending<br/>December<br/>31,<br/>(in<br/>thousands)</b> |
|---|--|
| 2019                                    | \$8,297  |
| 2020                                    | 9,920  |
| 2021                                    | 8,883  |
| 2022                                    | 8,256  |
| 2023                                    | 6,949  |
| Thereafter                              | 19,561   |
| Total future minimum lease payments     | 61,866   |
| Amounts representing interest           | (7,620 )   |
| Present value of minimum lease payments | \$54,246   |

Future minimum lease payments for the Company's operating leases as of December 31, 2018, prior to the adoption of new lease guidance were as follows:

|      | <b>Year Ending<br/>December 31,<br/>(in thousands)</b> |
|------|--|
| 2019 | \$ 10,947  |
| 2020 | 9,766  |
| 2021 | 8,729  |
| 2022 | 8,102  |
| 2023 | 6,796  |

Thereafter 18,703  
Total minimum payments \$ 63,043

*Financial Instruments with Off-Balance Sheet Risk:* In the normal course of business, the Company makes loan commitments (typically unfunded loans and unused lines of credit) and issues standby letters of credit to accommodate the financial needs of its customers. At March 31, 2019 and December 31, 2018, the Company's loan commitments amounted to \$2.66 billion and \$2.62 billion, respectively.

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Standby letters of credit commit the Company to make payments on behalf of customers under specified conditions. Historically, no significant losses have been incurred by the Company under standby letters of credit. Both arrangements have credit risk essentially the same as that involved in extending loans to customers and are subject to the Company's normal credit policies, including collateral requirements, where appropriate. Standby letters of credit were \$27.6 million and \$28.3 million at March 31, 2019 and December 31, 2018, respectively. In addition, there were no commitments under commercial letters of credit used to facilitate customers' trade transactions and other off-balance sheet liabilities at March 31, 2019 and December 31, 2018, 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.

**12. Shareholders' Equity***Dividends:*

The following table summarizes year-to-date dividend activity as of March 31, 2019:

| Declared         | Regular Cash Dividends Per Common Share | Special Cash Dividends Per Common Share | Record Date      | Paid Date         |
|------------------|---|---|------------------|-------------------|
| January 24, 2019 | \$ 0.28                                 | \$ 0.14                                 | February 6, 2019 | February 20, 2019 |

Subsequent to quarter end, on April 25, 2019, the Company declared a regular quarterly cash dividend of \$0.28 per common share and a special cash dividend of \$0.14 per common share payable on May 22, 2019 to shareholders of record at the close of business on May 8, 2019.

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

**13. Accumulated Other Comprehensive Income**

The following table shows changes in accumulated other comprehensive income (loss) by component for the three month periods ended March 31, 2019 and 2018:

|  | Unrealized Gains and Losses on Available-for-Sale Securities (1) | Unrealized Gains and Losses on Pension Plan Liability (1) | Unrealized Gains and Losses on Hedging Instruments (1) | Total (1)   |
|--|--|---|--|-------------|
| <i>(in thousands)</i>  |  |   |  |             |
| <b>Three months ended March 31, 2019</b>                           |  |   |  |             |
| Beginning balance  | \$(33,128 )  | \$(2,177 )  | \$ —   | \$(35,305 ) |
| Other comprehensive income before reclassifications                | 32,063   | —   | 4,810  | 36,873      |
| Amounts reclassified from accumulated other comprehensive loss (2) | 1,417  | 61  | —  | 1,478       |
| Net current-period other comprehensive income                      | 33,480   | 61  | 4,810  | 38,351      |
| Ending balance   | \$352  | \$(2,116 )  | \$ 4,810   | \$3,046     |
| <b>Three months ended March 31, 2018</b>                           |  |   |  |             |
| Beginning balance  | \$(19,779 )  | \$(2,446 )  | \$ —   | \$(22,225 ) |
| Adjustment pursuant to adoption of ASU 2016-01                     | 157  | —   | —  | 157         |
| Other comprehensive loss before reclassifications                  | (26,048 )  | —   | —  | (26,048 )   |
| Amounts reclassified from accumulated other comprehensive loss (2) | (78 )  | 61  | —  | (17 )       |
| Net current-period other comprehensive income (loss)               | (26,126 )  | 61  | —  | (26,065 )   |
| Ending balance   | \$(45,748 )  | \$(2,385 )  | \$ —   | \$(48,133 ) |

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

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

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The following table shows details regarding the reclassifications from accumulated other comprehensive income (loss) for the three month periods ended March 31, 2019 and 2018:

|   | Amount<br>Reclassified from<br>Accumulated<br>Other<br>Comprehensive<br>Income (Loss)<br>Three Months<br>Ended March 31, |          | Affected line Item in the Consolidated<br>Statement of Income |
|---|--|----------|---|
|   | 2019   | 2018     |   |
| <i>(in thousands)</i>   |  |          |   |
| Unrealized gains and losses on available for sale debt securities |  |          |   |
| Investment securities (gains) losses, net                         | \$ (1,847 )  | \$ 102   | Investment securities gains, net                              |
|   | (1,847 )   | 102      | Total before tax  |
|   | 430  | (24 )    | Income tax provision  |
|   | \$ (1,417 )  | \$ 78    | Net of tax  |
| Amortization of pension plan liability                            |  |          |   |
| Actuarial losses  | \$ (80 )   | \$ (80 ) | Compensation and employee benefits                            |
|   | (80 )  | (80 )    | Total before tax  |
|   | 19   | 19       | Income tax provision  |
|   | \$ (61 )   | \$ (61 ) | Net of tax  |

**14. Fair Value Accounting and Measurement**

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

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

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

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

Fair values are determined as follows:

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

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

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The following table sets forth the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis at March 31, 2019 and December 31, 2018 by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement:

|   | Fair Value  | Fair Value Measurements at Reporting Date Using |              |         |
|---|-------------|---|--------------|---------|
|   |             | Level 1   | Level 2      | Level 3 |
| <b>March 31, 2019</b>   |             |   |              |         |
| <i>(in thousands)</i>   |             |   |              |         |
| <b>Assets</b>   |             |   |              |         |
| Debt securities available for sale:   |             |   |              |         |
| U.S. government agency and government-sponsored enterprise mortgage-back securities and collateralized mortgage obligations | \$2,155,614 | \$ —  | \$ 2,155,614 | \$ —    |
| State and municipal debt securities   | 536,490     | —   | 536,490      | —       |
| U.S. government agency and government-sponsored enterprise securities   | 334,917     | —   | 334,917      | —       |
| U.S. government securities  | 249         | 249   | —            | —       |
| Total debt securities available for sale  | \$3,027,270 | \$ 249  | \$ 3,027,021 | \$ —    |
| Other assets:   |             |   |              |         |
| Interest rate contracts   | \$8,815     | \$ —  | \$ 8,815     | \$ —    |
| Interest rate collar  | 6,268       | —   | 6,268        | —       |
| <b>Liabilities</b>  |             |   |              |         |
| Other liabilities:  |             |   |              |         |
| Interest rate contracts   | \$8,815     | \$ —  | \$ 8,815     | \$ —    |
| <b>December 31, 2018</b>  |             |   |              |         |
| <i>(in thousands)</i>   |             |   |              |         |
| <b>Assets</b>   |             |   |              |         |
| Debt securities available for sale:   |             |   |              |         |
| U.S. government agency and government-sponsored enterprise mortgage-back securities and collateralized mortgage obligations | \$2,188,290 | \$ —  | \$ 2,188,290 | \$ —    |
| State and municipal debt securities   | 574,323     | —   | 574,323      | —       |
| U.S. government agency and government-sponsored enterprise securities   | 404,587     | —   | 404,587      | —       |
| U.S. government securities  | 248         | 248   | —            | —       |
| Total debt securities available for sale  | \$3,167,448 | \$ 248  | \$ 3,167,200 | \$ —    |
| Other assets:   |             |   |              |         |
| Interest rate contracts   | \$7,033     | \$ —  | \$ 7,033     | \$ —    |
| <b>Liabilities</b>  |             |   |              |         |
| Other liabilities:  |             |   |              |         |
| Interest rate contracts   | \$7,033     | \$ —  | \$ 7,033     | \$ —    |

There were no transfers between Level 1 and Level 2 of the valuation hierarchy during the three month periods ended March 31, 2019 and 2018. 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. The impairment evaluations are performed in conjunction with the allowance process on a quarterly basis by officers in the Special Credits group, which reports to the Chief Credit Officer. The 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.

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

|                | Fair Value at<br>March<br>31, 2019 | Fair Value Measurements at Reporting Date Using |         |          | Losses During the<br>Three Months Ended<br>March 31, 2019 |
|----------------|------------------------------------|---|---------|----------|---|
|                |                                    | Level 1   | Level 2 | Level 3  |   |
|                | <i>(in thousands)</i>              |   |         |          |   |
| Impaired loans | \$3,840                            | \$ —  | \$ —    | \$ 3,840 | \$ 2,597  |
| OREO           | 530                                | —   | —       | 530      | 195   |
|                | \$4,370                            | \$ —  | \$ —    | \$ 4,370 | \$ 2,792  |
|                | Fair Value at<br>March<br>31, 2018 | Fair Value Measurements at Reporting Date Using |         |          | Losses During the<br>Three Months Ended<br>March 31, 2018 |
|                |                                    | Level 1   | Level 2 | Level 3  |   |
|                | <i>(in thousands)</i>              |   |         |          |   |
| Impaired loans | \$7,820                            | \$ —  | \$ —    | \$ 7,820 | \$ 5,058  |
| OREO           | 160                                | —   | —       | 160      | 51  |
|                | \$7,980                            | \$ —  | \$ —    | \$ 7,980 | \$ 5,109  |

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 ALLL. The losses on OREO disclosed above represent the write-downs taken at foreclosure that were charged to the ALLL, as well as subsequent changes in any valuation allowances from updated appraisals that were recorded 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, along with the valuation techniques used, are shown in the following table:

|   | Fair Value at<br>March 31, 2019<br><i>(dollars in thousands)</i> | Valuation Technique             | Unobservable Input            | Range (Weighted Average)<br>(1) |
|---|--|---------------------------------|-------------------------------|---------------------------------|
| Impaired loans - collateral-dependent (3) | \$3,840  | Fair Market Value of Collateral | Adjustment to Stated Value    | 0.00% - 100.00%<br>(44.53%)     |
| OREO                                      | \$530  | Fair Market Value of Collateral | Adjustment to Appraisal Value | N/A (2)                         |

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

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

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

|   | Fair Value<br>at March 31,<br>2018<br><i>(dollars in thousands)</i> | Valuation Technique             | Unobservable Input            | Range<br>(Weighted<br>Average) (1) |
|---|---|---------------------------------|-------------------------------|------------------------------------|
| Impaired loans - collateral-dependent (3) | \$ 7,512  | Fair Market Value of Collateral | Adjustment to Stated Value    | 0.00% -<br>100.00%<br>(41.33%)     |
| Impaired loans - other (4)                | \$ 308  | Discounted Cash Flow            | Discount Rate                 | 6.00%                              |
| OREO                                      | \$ 160  | Fair Market Value of Collateral | Adjustment to Appraisal Value | N/A (2)                            |

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

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

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

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

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The following tables summarize carrying amounts and estimated fair values of selected financial instruments by level within the fair value hierarchy at March 31, 2019 and December 31, 2018:

|                                      |            | <b>March 31, 2019</b> |              |                |                |                |
|--------------------------------------|------------|-----------------------|--------------|----------------|----------------|----------------|
|                                      |            | <b>Carrying</b>       | <b>Fair</b>  | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
|                                      |            | <b>Amount</b>         | <b>Value</b> |                |                |                |
|                                      |            | <i>(in thousands)</i> |              |                |                |                |
| <b><u>Assets</u></b>                 |            |                       |              |                |                |                |
| Cash and due from banks              | \$ 178,591 | \$ 178,591            | \$ 178,591   | \$ —           | \$ —           | —              |
| Interest-earning deposits with banks | 33,482     | 33,482                | 33,482       | —              | —              | —              |
| Debt securities available for sale   | 3,027,270  | 3,027,270             | 249          | 3,027,021      | —              | —              |
| FHLB stock                           | 25,600     | 25,960                | —            | 25,960         | —              | —              |
| Loans held for sale                  | 4,017      | 4,017                 | —            | 4,017          | —              | —              |
| Loans                                | 8,437,524  | 8,541,649             | —            | —              | 8,541,649      | —              |
| Interest rate contracts              | 8,815      | 8,815                 | —            | 8,815          | —              | —              |
| Interest rate collar                 | 6,268      | 6,268                 | —            | 6,268          | —              | —              |
| <b><u>Liabilities</u></b>            |            |                       |              |                |                |                |
| Time deposits                        | \$ 411,945 | \$ 406,652            | \$ —         | \$ 406,652     | \$ —           | —              |
| FHLB advances                        | 390,510    | 390,988               | —            | 390,988        | —              | —              |
| Repurchase agreements                | 23,018     | 23,018                | —            | 23,018         | —              | —              |
| Subordinated debentures              | 35,416     | 36,053                | —            | 36,053         | —              | —              |
| Interest rate contracts              | 8,815      | 8,815                 | —            | 8,815          | —              | —              |

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

Table of Contents**15. Earnings Per Common Share**

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

The following table sets forth the computation of basic and diluted EPS for the three months ended March 31, 2019 and 2018:

|   | <b>Three Months Ended</b>                      |             |
|---|--|-------------|
|   | <b>March 31,</b>                               |             |
|   | <b>2019</b>                                    | <b>2018</b> |
|   | <i>(in thousands except per share amounts)</i> |             |
| <b>Basic EPS:</b>   |  |             |
| Net income  | \$45,871                                       | \$39,970    |
| Less: Earnings allocated to participating securities:   |  |             |
| Nonvested restricted shares   | 456  | 437         |
| Earnings allocated to common shareholders   | \$45,415                                       | \$39,533    |
| Weighted average common shares outstanding  | 72,521   | 72,300      |
| Basic earnings per common share   | \$0.63   | \$0.55      |
| <b>Diluted EPS:</b>   |  |             |
| Earnings allocated to common shareholders   | \$45,415                                       | \$39,533    |
| Weighted average common shares outstanding  | 72,521   | 72,300      |
| Dilutive effect of equity awards  | 3  | 5           |
| Weighted average diluted common shares outstanding  | 72,524   | 72,305      |
| Diluted earnings per common share   | \$0.63   | \$0.55      |
| Potentially dilutive share options that were not included in the computation of diluted EPS because to do so would be anti-dilutive | —  | 12          |

**16. Revenue from Contracts with Customers**

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

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

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

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

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

*Practical expedients*

The Company applies the practical expedient in paragraph 606-10-32-18 and does not adjust the consideration from customers for the effects of a significant financing component if at contract inception the period between when the entity transfers the goods or services and when the customer pays for that good or service will be one year or less. The Company pays sales commissions to its employees in accordance with certain incentive plans and in connection with obtaining certain contracts with customers. The Company applies the practical expedient in paragraph 340-40-25-4 and expenses such sales commissions when incurred if the amortization period of the asset the Company otherwise would have recognized is one year or less. Sales commissions are included in compensation and employee benefits expense.

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

*Disaggregation of revenue*

The following table shows the disaggregation of revenue from contracts with customers for the three month periods ended March 31, 2019 and 2018:

|  | <b>Three Months Ended</b> |             |
|--|---------------------------|-------------|
|  | <b>March 31,</b>          |             |
|  | <b>2019</b>               | <b>2018</b> |
|  | <i>(in thousands)</i>     |             |
| Noninterest income:                          |                           |             |
| Revenue from contracts with customers:       |                           |             |
| Deposit account and treasury management fees | \$8,980                   | \$8,740     |
| Card revenue                                 | 3,662                     | 5,813       |
| Financial services and trust revenue         | 2,957                     | 2,730       |
| Total revenue from contracts with customers  | 15,599                    | 17,283      |
| Other sources of noninterest income          | 6,097                     | 5,860       |
| Total noninterest income                     | \$21,696                  | \$23,143    |

## **Item MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS**

### **2. OF OPERATIONS**

This discussion should be read in conjunction with the unaudited Consolidated Financial Statements of Columbia Banking System, Inc. (referred to in this report as "we", "our", "Columbia" and "the Company") and notes thereto presented elsewhere in this report and with the December 31, 2018 audited Consolidated Financial Statements and its accompanying notes included in our Annual Report on Form 10-K. In the following discussion, unless otherwise noted, references to increases or decreases in average balances in items of income and expense for a particular period and balances at a particular date refer to the comparison with corresponding amounts for the period or date one year

earlier.

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**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

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

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

forward-looking statements, whether as a result of new information, future events or otherwise, except as required under federal securities laws.

**CRITICAL ACCOUNTING POLICIES**

Management has identified the accounting policies related to the ALLL, business combinations and the valuation and recoverability of goodwill as critical to an understanding of our financial statements. These policies and related estimates are discussed in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” under the headings “Allowance for Loan and Lease Losses,” “Business Combinations” and “Valuation and Recoverability of Goodwill” in our 2018 Annual Report on Form 10-K. There have not been any material changes in our critical accounting policies as compared to those disclosed in our 2018 Annual Report on Form 10-K.

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**RESULTS OF OPERATIONS**

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

**Earnings Summary**

*Comparison of current quarter to prior year period*

The Company reported net income for the first quarter of \$45.9 million or \$0.63 per diluted common share, compared to \$40.0 million or \$0.55 per diluted common share for the first quarter of 2018. Net interest income for the three months ended March 31, 2019 was \$121.0 million, an increase of \$5.5 million from the prior year period. The increase was a combination of higher rates on earning assets and higher volumes of loans and taxable securities.

The provision for loan and lease losses for the first quarter of 2019 was \$1.4 million compared to \$5.9 million during the first quarter of 2018. The higher provision expense recorded in the first quarter of 2018 was due to weaknesses in certain loans within the agricultural loan portfolio and net charge-off activity, partially offset by a provision recapture for PCI loans during that period.

Noninterest income for the current quarter was \$21.7 million, a decrease of \$1.4 million from the prior year period.

The decrease was primarily due to lower card revenue during the quarter as we became subject to the interchange fee cap imposed under the Dodd-Frank Act. In addition, loan revenue decreased compared to the first quarter of 2018.

Partially offsetting these decreases was a \$1.8 million gain on the sale of securities during the quarter.

Total noninterest expense for the quarter ended March 31, 2019 was \$84.7 million, a decrease of \$1.3 million from the prior year period. After removing acquisition-related expenses of \$4.3 million from the first quarter of 2018, year over year noninterest expense increased \$3.0 million, or 4%. This increase was primarily driven by higher compensation and employee benefits, legal and professional expenses partially offset by a decrease in other expenses.

Table of Contents**Net Interest Income**

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

|   | Three Months Ended March 31,<br>2019 |                           |                     | Three Months Ended March 31,<br>2018 |                           |                     |
|---|--------------------------------------|---------------------------|---------------------|--------------------------------------|---------------------------|---------------------|
|   | Average<br>Balances                  | Interest<br>Earned / Paid | Average<br>Rate (3) | Average<br>Balances                  | Interest<br>Earned / Paid | Average<br>Rate (3) |
| <i>(dollars in thousands)</i>                     |                                      |                           |                     |                                      |                           |                     |
| <b>ASSETS</b>                                     |                                      |                           |                     |                                      |                           |                     |
| Loans, net (1)(2)                                 | \$8,406,664                          | \$ 109,715                | 5.29 %              | \$8,348,740                          | \$ 104,091                | 5.06 %              |
| Taxable securities                                | 2,637,436                            | 17,415                    | 2.68 %              | 2,158,039                            | 12,708                    | 2.39 %              |
| Tax exempt securities (2)                         | 502,765                              | 3,758                     | 3.03 %              | 524,211                              | 3,878                     | 3.00 %              |
| Interest-earning deposits with banks              | 14,762                               | 88                        | 2.42 %              | 91,763                               | 345                       | 1.52 %              |
| Total interest-earning assets                     | 11,561,627                           | 130,976                   | 4.59 %              | 11,122,753                           | 121,022                   | 4.41 %              |
| Other earning assets                              | 232,077                              |                           |                     | 218,126                              |                           |                     |
| Noninterest-earning assets                        | 1,254,337                            |                           |                     | 1,262,265                            |                           |                     |
| Total assets                                      | \$13,048,041                         |                           |                     | \$12,603,144                         |                           |                     |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>       |                                      |                           |                     |                                      |                           |                     |
| Certificates of deposit                           | \$406,539                            | \$ 576                    | 0.57 %              | \$479,729                            | \$ 526                    | 0.44 %              |
| Savings accounts                                  | 897,335                              | 44                        | 0.02 %              | 878,170                              | 41                        | 0.02 %              |
| Interest-bearing demand                           | 1,258,054                            | 953                       | 0.31 %              | 1,252,823                            | 535                       | 0.17 %              |
| Money market accounts                             | 2,664,468                            | 2,925                     | 0.45 %              | 2,795,008                            | 1,407                     | 0.20 %              |
| Total interest-bearing deposits                   | 5,226,396                            | 4,498                     | 0.35 %              | 5,405,730                            | 2,509                     | 0.19 %              |
| FHLB advances                                     | 499,428                              | 2,685                     | 2.18 %              | 125,660                              | 570                       | 1.84 %              |
| Subordinated debentures                           | 35,438                               | 468                       | 5.36 %              | 35,623                               | 468                       | 5.33 %              |
| Other borrowings and interest-bearing liabilities | 41,703                               | 215                       | 2.09 %              | 60,840                               | 116                       | 0.77 %              |
| Total interest-bearing liabilities                | 5,802,965                            | 7,866                     | 0.55 %              | 5,627,853                            | 3,663                     | 0.26 %              |
| Noninterest-bearing deposits                      | 5,044,620                            |                           |                     | 4,928,750                            |                           |                     |
| Other noninterest-bearing liabilities             | 155,624                              |                           |                     | 97,266                               |                           |                     |
| Shareholders' equity                              | 2,044,832                            |                           |                     | 1,949,275                            |                           |                     |
| Total liabilities & shareholders' equity          | \$13,048,041                         |                           |                     | \$12,603,144                         |                           |                     |
| Net interest income (tax equivalent)              |                                      | \$ 123,110                |                     |                                      | \$ 117,359                |                     |
| Net interest margin (tax equivalent)              |                                      |                           | 4.32 %              |                                      |                           | 4.28 %              |

Nonaccrual loans have been included in the tables as loans carrying a zero yield. Amortized net deferred loan fees and net unearned discounts on acquired loans were included in the interest income calculations. The amortization (1) of net deferred loan fees was \$2.2 million for the three months ended March 31, 2019 and 2018. The incremental accretion income on acquired loans was \$2.0 million and \$3.7 million for the three months ended March 31, 2019 and 2018, respectively.

Tax-exempt income is calculated on a tax equivalent basis. The tax equivalent yield adjustment to interest earned on loans was \$1.3 million and \$1.1 million for the three months ended March 31, 2019 and 2018, respectively. The (2) tax equivalent yield adjustment to interest earned on tax exempt securities was \$789 thousand and \$814 thousand for the three month periods ended March 31, 2019 and 2018, respectively.

Beginning January 2019, average rates were calculated using the actual number of days on an Actual/Actual basis. (3) This change was done to provide more meaningful trend information, on a quarterly basis, for our NIM regardless of the number of days in the quarter. Prior periods, which were previously reported on a 30/360 basis, have been restated to conform to the current basis.



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

|   | <b>Three Months Ended March 31,<br/>2019</b> |             |              |
|---|--|-------------|--------------|
|   | <b>Compared to 2018</b>                      |             |              |
|   | <b>Increase (Decrease) Due to</b>            |             |              |
|   | <b>Volume</b>                                | <b>Rate</b> | <b>Total</b> |
|   | <i>(in thousands)</i>                        |             |              |
| <b>Interest Income</b>                            |  |             |              |
| Loans, net  | \$727  | \$4,897     | \$5,624      |
| Taxable securities                                | 3,045  | 1,662       | 4,707        |
| Tax exempt securities                             | (160 )                                       | 40          | (120 )       |
| Interest earning deposits with banks              | (392 )                                       | 135         | (257 )       |
| Interest income                                   | \$3,220                                      | \$6,734     | \$9,954      |
| <b>Interest Expense</b>                           |  |             |              |
| Deposits:   |  |             |              |
| Certificates of deposit                           | \$(88 )                                      | \$138       | \$50         |
| Savings accounts                                  | 1  | 2           | 3            |
| Interest-bearing demand                           | 2  | 416         | 418          |
| Money market accounts                             | (69 )  | 1,587       | 1,518        |
| Total interest on deposits                        | (154 )                                       | 2,143       | 1,989        |
| FHLB advances                                     | 1,991  | 124         | 2,115        |
| Other borrowings and interest-bearing liabilities | (22 )  | 121         | 99           |
| Interest expense                                  | \$1,815                                      | \$2,388     | \$4,203      |

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:

|  | <b>Three Months Ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2019</b>                             | <b>2018</b> |
|  | <i>(dollars in thousands)</i>           |             |
| Incremental accretion income due to:     |   |             |
| FDIC PCI loans                           | \$288                                   | \$329       |
| Other acquired loans                     | 1,747                                   | 3,370       |
| Incremental accretion income             | \$2,035                                 | \$3,699     |
| Net interest margin (tax equivalent) (1) | 4.32                                    | % 4.28      |
| Operating net interest margin (1)(2)     | 4.33                                    | % 4.24      |

(1) Beginning January 2019, net interest margin (tax equivalent) and operating net interest margin (tax equivalent) were calculated using the actual number of days and on an Actual/Actual basis. This change was done to provide more meaningful trend information, on a quarterly basis, for our NIM regardless of the number of days in the quarter. Prior periods, which were previously reported on a 30/360 basis, have been restated to conform to the current basis.

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

Table of Contents*Comparison of current quarter to prior year period*

Net interest income for the first quarter of 2019 was \$121.0 million, up from \$115.5 million for the same quarter in 2018. The increase was primarily due to a combination of higher rates on earning assets and higher volumes of loans and taxable securities. The Company's net interest margin (tax equivalent) increased to 4.32% in the first quarter of 2019, from 4.28% for the prior year period. This increase was due to higher yields on loans and taxable securities and higher volumes of these interest-earning assets, partially offset by higher average FHLB advances. The Company's operating net interest margin (tax equivalent) (see footnote 2 in prior table) increased to 4.33%, or 9 basis points from 4.24% during the first quarter of 2018 due to higher rates on interest-earning assets, which more than offset the increase in rates on interest-bearing liabilities.

**Provision for Loan and Lease Losses***Comparison of current quarter to prior year period*

During the first quarter of 2019, the Company recorded a \$1.4 million net provision compared to a \$5.9 million net provision during the first quarter of 2018. The net provision for loan and lease losses recorded during the current quarter included management's ongoing assessment of the credit quality of the Company's loan portfolio. Factors affecting the provision include net charge-offs, credit quality migration, and size and composition of the loan portfolio and changes in the economic environment during the quarter. The amount of provision was calculated in accordance with the Company's methodology for determining the ALLL, discussed in Note 5 to the Consolidated Financial Statements in "Item 1. Financial Statements (unaudited)" of this report.

**Noninterest Income**

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

|  | Three Months Ended March 31,  |          |           |          |
|--|-------------------------------|----------|-----------|----------|
|  | 2019                          | 2018     | \$ Change | % Change |
|  | <i>(dollars in thousands)</i> |          |           |          |
| Deposit account and treasury management fees | \$8,980                       | \$8,740  | \$240     | 3 %      |
| Card revenue                                 | 3,662                         | 5,813    | (2,151 )  | (37 )%   |
| Financial services and trust revenue         | 2,957                         | 2,730    | 227       | 8 %      |
| Loan revenue                                 | 2,389                         | 3,186    | (797 )    | (25 )%   |
| Bank owned life insurance                    | 1,519                         | 1,426    | 93        | 7 %      |
| Investment securities gains, net             | 1,847                         | 22       | 1,825     | 100 %    |
| Other  | 342                           | 1,226    | (884 )    | (72 )%   |
| Total noninterest income                     | \$21,696                      | \$23,143 | \$(1,447) | (6 )%    |

*Comparison of current quarter to prior year period*

Noninterest income was \$21.7 million for the first quarter of 2019, compared to \$23.1 million for the same period in 2018. The decrease was due to lower card revenue during the current quarter because, as of July 1, 2018, we became subject to the interchange fee cap imposed under the Dodd-Frank Act. In addition, loan revenue decreased compared to the first quarter of 2018 due to lower gains recorded on the sale of SBA loans coupled with lower interest rate swap fee income. Other noninterest income also declined as a result of a gain on the sale of a credit card portfolio that was recorded during the first quarter of 2018. Partially offsetting these decreases were \$1.8 million in gains on the sale of investments during the current quarter.

Table of Contents**Noninterest Expense**

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

|                                    | Three Months Ended March 31,  |          |           |          |   |
|------------------------------------|-------------------------------|----------|-----------|----------|---|
|                                    | 2019                          | 2018     | \$ Change | % Change |   |
|                                    | <i>(dollars in thousands)</i> |          |           |          |   |
| Compensation and employee benefits | \$52,085                      | \$50,570 | \$1,515   | 3        | % |
| Occupancy                          | 8,809                         | 10,121   | (1,312)   | (13)     | % |
| Data processing                    | 4,669                         | 5,270    | (601)     | (11)     | % |
| Legal and professional services    | 4,573                         | 3,237    | 1,336     | 41       | % |
| Amortization of intangibles        | 2,748                         | 3,188    | (440)     | (14)     | % |
| B&O taxes (1)                      | 1,876                         | 1,317    | 559       | 42       | % |
| Advertising and promotion          | 974                           | 1,429    | (455)     | (32)     | % |
| Regulatory premiums                | 984                           | 937      | 47        | 5        | % |
| Net cost of operation of OREO      | 113                           | 1        | 112       | 100      | % |
| Other (1)                          | 7,869                         | 9,917    | (2,048)   | (21)     | % |
| Total noninterest expense          | \$84,700                      | \$85,987 | \$(1,287) | (1)      | % |

(1) Beginning the first quarter of 2019, B&O taxes are reported separately from other taxes, licenses and fees, which are now reported under "other noninterest expense." Prior periods have been reclassified to conform to current period presentation.

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

|  | Three<br>Months<br>Ended<br>March 31,<br>2019<br>2018<br>(in<br>thousands) |
|--|--|
| <b>Acquisition-related expenses:</b>                                   |  |
| Compensation and employee benefits                                     | \$-\$1,556   |
| Occupancy  | —1,004   |
| Data processing  | —287   |
| Legal and professional fees  | —574   |
| Advertising and promotion  | —512   |
| Other  | —332   |
| Total impact of acquisition-related expense to noninterest expense (1) | \$-\$4,265   |

(1) There were no acquisition-related expenses recorded during the three months ended March 31, 2019. All of the acquisition-related expenses in 2018 were related to the 2017 acquisition of Pacific Continental.

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

Total noninterest expense for the first quarter of 2019 was \$84.7 million, a decrease of \$1.3 million from the prior year period. After removing the acquisition-related expenses of \$4.3 million from the first quarter of 2018, year over year noninterest expense increased \$3.0 million, or 4%. This increase was primarily driven by higher compensation and employee benefits and legal and professional expenses partially offset by a decrease in other expenses. Other expenses decreased as a result of a \$550 thousand recapture of the loan loss reserves on off-balance sheet liabilities during the current quarter compared to an expense of \$1.2 million during the first quarter of 2018.



Table of Contents**Income Taxes**

We recorded an income tax provision of \$10.8 million for the first quarter of 2019, compared to a provision of \$6.8 million for the same period in 2018, with effective tax rates of 19% for the first quarter of 2019 and 15% for the same period in 2018. Our effective tax rate remains lower than the statutory tax rate due to tax-exempt income from municipal securities, bank owned life insurance and certain loan receivables. In addition, the current period's rate reflects the tax benefit of discrete items, such as share-based compensation, that were higher in the first quarter of 2018. For additional information, please refer to the Company's annual report on Form 10-K for the year ended December 31, 2018.

**FINANCIAL CONDITION**

Total assets were \$13.06 billion at March 31, 2019, a decrease of \$30.7 million from December 31, 2018. Cash and cash equivalents decreased \$65.5 million. Loans increased \$129.3 million during the current year, which was primarily the result of increased loan production. Debt securities available for sale were \$3.03 billion at March 31, 2019, a decrease of \$140.2 million from December 31, 2018 as earning assets rotated into loans. Total liabilities were \$10.98 billion as of March 31, 2019, a decrease of \$85.7 million from December 31, 2018. The decline was primarily due to a decrease in deposits.

**Investment Securities**

At March 31, 2019, the Company's investment portfolio primarily consisted of debt securities available for sale totaling \$3.03 billion compared to \$3.17 billion at December 31, 2018. The decrease in the debt securities portfolio from year-end is due to \$183.0 million in maturities, repayments and sales and \$4.5 million in premium amortization, partially offset by a \$43.6 million increase in net unrealized gain and \$3.7 million in purchases. The average duration of our debt securities investment portfolio was approximately 4 years and 4 months at March 31, 2019. This duration takes into account calls, where appropriate, and consensus prepayment speeds.

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

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

When there are credit losses associated with an impaired debt security and the Company does not have the intent to sell the security and it is more likely than not that it will not have to sell the security before recovery of its cost basis, the Company will separate the amount of the impairment into the amount that is credit-related and the amount related to non-credit factors. The credit-related impairment is recognized in earnings and the non-credit-related impairment is recognized in accumulated other comprehensive income.

At March 31, 2019, the market value of debt securities available for sale had a net unrealized gain of \$455 thousand compared to a net unrealized loss of \$43.2 million at December 31, 2018. The change in valuation was the result of fluctuations in market interest rates during the three months ended March 31, 2019. At March 31, 2019, the Company had \$1.72 billion of debt securities available for sale with gross unrealized losses of \$30.6 million; however, we did not consider these investment securities to be other-than-temporarily impaired.

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

|   | March 31,<br>2019     | December 31,<br>2018 |
|---|-----------------------|----------------------|
|   | <i>(in thousands)</i> |                      |
| <b>Debt securities available for sale:</b>  |                       |                      |
| U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations | \$2,155,614           | \$2,188,290          |
| State and municipal securities  | 536,490               | 574,323              |
| U.S. government agency and government-sponsored enterprise securities   | 334,917               | 404,587              |
| U.S. government securities  | 249                   | 248                  |
| <b>Total debt securities available for sale</b>   | <b>\$3,027,270</b>    | <b>\$3,167,448</b>   |

For further information on our investment portfolio, see Note 3 of the Consolidated Financial Statements in "Item 1. Financial Statements (unaudited)" of this report.

**Credit Risk Management**

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

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

We review these loans to assess the ability of our borrowers to service all interest and principal obligations and, as a result, the risk rating may be adjusted accordingly. In the event that full collection of principal and interest is not reasonably assured, the loan is appropriately downgraded and, if warranted, placed on nonaccrual status even though the loan may be current as to principal and interest payments. Additionally, we assess whether an impairment of a loan warrants specific reserves or a write-down of the loan. For additional discussion on our methodology in managing credit risk within our loan portfolio, see the "Allowance for Loan and Lease Losses" section in this Management's Discussion and Analysis and Note 1 to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of the Company's 2018 Annual Report on Form 10-K.

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

Table of Contents**Loan Portfolio Analysis**

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

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

|   | March 31, 2019 | % of Total | December 31, 2018 | % of Total |
|---|----------------|------------|-------------------|------------|
| <i>(dollars in thousands)</i>               |                |            |                   |            |
| <b>Commercial business</b>                  | \$3,509,472    | 41.2 %     | \$3,438,422       | 41.0 %     |
| <b>Real estate:</b>                         |                |            |                   |            |
| One-to-four family residential              | 282,673        | 3.3 %      | 238,367           | 2.8 %      |
| Commercial and multifamily residential      | 3,917,833      | 46.1 %     | 3,846,027         | 45.8 %     |
| Total real estate                           | 4,200,506      | 49.4 %     | 4,084,394         | 48.6 %     |
| <b>Real estate construction:</b>            |                |            |                   |            |
| One-to-four family residential              | 207,900        | 2.4 %      | 217,790           | 2.6 %      |
| Commercial and multifamily residential      | 240,458        | 2.8 %      | 284,394           | 3.4 %      |
| Total real estate construction              | 448,358        | 5.2 %      | 502,184           | 6.0 %      |
| <b>Consumer</b>                             | 312,886        | 3.7 %      | 318,945           | 3.8 %      |
| <b>PCI</b>                                  | 88,257         | 1.0 %      | 89,760            | 1.1 %      |
| Subtotal                                    | 8,559,479      | 100.5 %    | 8,433,705         | 100.5 %    |
| Less: Net unearned income                   | (38,681 )      | (0.5 )%    | (42,194 )         | (0.5 )%    |
| Loans, net of unearned income (before ALLL) | \$8,520,798    | 100.0 %    | \$8,391,511       | 100.0 %    |
| Loans held for sale                         | \$4,017        |            | \$3,849           |            |

Total loans increased \$129.3 million from year-end 2018 primarily the result of organic loan production, partially offset by principal pay downs. The loan portfolio continues to be diversified, with the intent to mitigate risk by monitoring concentration in any one sector. The \$38.7 million in unearned income recorded at March 31, 2019 was comprised of \$22.7 million in net purchase discounts and \$16.0 million in net deferred loan fees. The \$42.2 million in unearned income recorded at December 31, 2018 consisted of \$26.1 million in net purchase discounts and \$16.1 million in net deferred loan fees.

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

|                                  | March 31, 2019 | December 31, 2018 |
|----------------------------------|----------------|-------------------|
| <i>(in thousands)</i>            |                |                   |
| <b>Acquisition:</b>              |                |                   |
| Pacific Continental              | \$17,327       | \$18,526          |
| Intermountain                    | 2,188          | 2,303             |
| West Coast                       | 4,145          | 4,578             |
| Other                            | (959 )         | 725               |
| Total net discount at period end | \$22,701       | \$26,132          |

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

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



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

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

**Foreign Loans:** The Company has no material foreign activities. Substantially all of the Company's loans and unfunded commitments are geographically concentrated in its service areas within the states of Washington, Oregon and Idaho.

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

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

**Nonperforming Assets**

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

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

|   | March 31, 2019                | December 31, 2018 |      |   |
|---|-------------------------------|-------------------|------|---|
|   | <i>(dollars in thousands)</i> |                   |      |   |
| <b>Nonperforming assets</b>               |                               |                   |      |   |
| Nonaccrual loans:                         |                               |                   |      |   |
| Commercial business                       | \$35,577                      | \$35,513          |      |   |
| Real estate:                              |                               |                   |      |   |
| One-to-four family residential            | 923                           | 1,158             |      |   |
| Commercial and multifamily residential    | 13,301                        | 14,904            |      |   |
| Total real estate                         | 14,224                        | 16,062            |      |   |
| Real estate construction:                 |                               |                   |      |   |
| One-to-four family residential            | —                             | 318               |      |   |
| Consumer                                  | 2,814                         | 2,949             |      |   |
| Total nonaccrual loans                    | 52,615                        | 54,842            |      |   |
| OREO and OPPO                             | 6,075                         | 6,049             |      |   |
| Total nonperforming assets                | \$58,690                      | \$60,891          |      |   |
| Loans, net of unearned income             | \$8,520,798                   | \$8,391,511       |      |   |
| Total assets                              | \$13,064,436                  | \$13,095,145      |      |   |
| Nonperforming loans to period end loans   | 0.62                          | %                 | 0.65 | % |
| Nonperforming assets to period end assets | 0.45                          | %                 | 0.46 | % |

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At March 31, 2019, nonperforming assets were \$58.7 million, compared to \$60.9 million at December 31, 2018. Nonperforming assets decreased \$2.2 million during the three months ended March 31, 2019, primarily due to decreases in nonaccrual real estate loans. For further information on OREO, see Note 6 of the Consolidated Financial Statements in “Item 1. Financial Statements (unaudited)” of this report.

**Allowance for Loan and Lease Losses**

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

At March 31, 2019, our ALLL was \$83.3 million, or 0.98% of total loans (excluding loans held for sale). This compares with an ALLL of \$83.4 million, or 0.99% of total loans (excluding loans held for sale) at December 31, 2018 and an ALLL of \$79.8 million or 0.96% of total loans (excluding loans held for sale) at March 31, 2018.

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

|  | Three Months Ended March 31,  |             |
|--|-------------------------------|-------------|
|  | 2019                          | 2018        |
|  | <i>(dollars in thousands)</i> |             |
| Beginning balance, loans excluding PCI loans                           | \$79,758                      | \$68,739    |
| Beginning balance, PCI loans   | 3,611                         | 6,907       |
| Beginning balance  | 83,369                        | 75,646      |
| Charge-offs:   |                               |             |
| Commercial business  | (1,249 )                      | (2,477 )    |
| One-to-four family residential   | (2 )                          | —           |
| Commercial and multifamily residential                                 | —                             | (223 )      |
| One-to-four family residential construction                            | (170 )                        | —           |
| Consumer   | (478 )                        | (264 )      |
| PCI loans  | (1,089 )                      | (1,343 )    |
| Total charge-offs  | (2,988 )                      | (4,307 )    |
| Recoveries:  |                               |             |
| Commercial business  | 480                           | 802         |
| One-to-four family residential   | 17                            | 172         |
| Commercial and multifamily residential                                 | 31                            | 159         |
| One-to-four family residential construction                            | 60                            | 19          |
| Consumer   | 238                           | 260         |
| PCI loans  | 705                           | 1,224       |
| Total recoveries   | 1,531                         | 2,636       |
| Net charge-offs  | (1,457 )                      | (1,671 )    |
| Provision for loan and lease losses, loans excluding PCI loans         | 1,344                         | 6,975       |
| Provision (recapture) for loan and lease losses, PCI loans             | 18                            | (1,123 )    |
| Provision for loan and lease losses                                    | 1,362                         | 5,852       |
| Ending balance, loans excluding PCI loans                              | 80,029                        | 74,162      |
| Ending balance, PCI loans  | 3,245                         | 5,665       |
| Ending balance   | \$83,274                      | \$79,827    |
| Total loans, net at end of period, excluding loans held of sale        | \$8,520,798                   | \$8,339,631 |
| ALLL to period-end loans   | 0.98                          | % 0.96 %    |
| <b>ALLL for unfunded commitments and letters of credit</b>             |                               |             |
| Beginning balance  | \$4,330                       | \$3,130     |
| Net changes in the ALLL for unfunded commitments and letters of credit | (550 )                        | 1,200       |
| Ending balance   | \$3,780                       | \$4,330     |

Table of Contents**Liquidity and Sources of Funds**

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

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

*Deposit Activities*

Our deposit products include a wide variety of transaction accounts, savings accounts and time deposit accounts. Core deposits (demand deposit, savings, money market accounts and certificates of deposit less than \$250,000) decreased \$74.9 million from year-end 2018, shown in the table below.

We have established a branch system to serve our consumer and business depositors. In addition, management's strategy for funding asset growth is to make use of brokered and other wholesale deposits on an as-needed basis. The Company participates in the CDARS® program. CDARS® is a network that allows participating banks to offer extended FDIC deposit insurance coverage on time deposits. The Company also participates in a similar program to offer extended FDIC deposit insurance coverage on money market accounts. These extended deposit insurance programs are generally available only to existing customers and are not used as a means of generating additional liquidity. At March 31, 2019, brokered deposits, reciprocal money market accounts and other wholesale deposits (excluding public deposits) totaled \$368.4 million, or 3.6% of total deposits, compared to \$395.2 million or 3.8% at year-end 2018. These deposits have varied maturities.

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

|  | March 31, 2019                |            | December 31, 2018 |            |
|--|-------------------------------|------------|-------------------|------------|
|  | Balance                       | % of Total | Balance           | % of Total |
|  | <i>(dollars in thousands)</i> |            |                   |            |
| Core deposits:   |                               |            |                   |            |
| Demand and other noninterest-bearing                       | \$5,106,568                   | 49.2 %     | \$5,227,216       | 50.0 %     |
| Interest-bearing demand                                    | 1,270,047                     | 12.2 %     | 1,244,254         | 11.9 %     |
| Money market   | 2,389,024                     | 23.0 %     | 2,367,964         | 22.6 %     |
| Savings  | 897,329                       | 8.7 %      | 890,557           | 8.5 %      |
| Certificates of deposit, less than \$250,000               | 236,014                       | 2.3 %      | 243,849           | 2.3 %      |
| Total core deposits  | 9,898,982                     | 95.4 %     | 9,973,840         | 95.3 %     |
| Certificates of deposit, \$250,000 or more                 | 101,965                       | 1.0 %      | 89,473            | 0.9 %      |
| Certificates of deposit insured by CDARS®                  | 22,890                        | 0.2 %      | 23,580            | 0.2 %      |
| Brokered certificates of deposit                           | 51,375                        | 0.5 %      | 57,930            | 0.6 %      |
| Reciprocal money market accounts                           | 294,096                       | 2.9 %      | 313,692           | 3.0 %      |
| Subtotal   | 10,369,308                    | 100.0 %    | 10,458,515        | 100.0 %    |
| Valuation adjustment resulting from acquisition accounting | (299 )                        |            | (389 )            |            |
| Total deposits   | \$10,369,009                  |            | \$10,458,126      |            |



Table of Contents*Borrowings*

We rely on FHLB advances and FRB borrowings as another source of both short and long-term funding. FHLB advances and FRB borrowings are secured by investment securities, and residential, commercial and commercial real estate loans. At March 31, 2019, we had FHLB advances of \$390.5 million compared to \$399.5 million at December 31, 2018.

We also utilize wholesale and retail repurchase agreements to supplement our funding sources. Our wholesale repurchase agreements are secured by mortgage-backed securities. At March 31, 2019 and December 31, 2018, we had deposit customer sweep-related repurchase agreements of \$23.0 million and \$61.1 million, respectively, which mature on a daily basis. Management anticipates we will continue to rely on FHLB advances, FRB borrowings and wholesale and retail repurchase agreements in the future and we will use those funds primarily to make loans and purchase securities.

**Contractual Obligations, Commitments & Off-Balance Sheet Arrangements**

We are party to many contractual financial obligations, including repayment of borrowings, operating and equipment lease payments, off-balance sheet commitments to extend credit and investments in affordable housing partnerships. At March 31, 2019, we had commitments to extend credit of \$2.68 billion compared to \$2.65 billion at December 31, 2018.

**Capital Resources**

Shareholders' equity at March 31, 2019 was \$2.09 billion, compared to \$2.03 billion at December 31, 2018.

Shareholders' equity was 16% of total period-end assets at both March 31, 2019 and December 31, 2018.

*Regulatory Capital*

In July 2013, the federal bank regulators approved the Capital Rules (as discussed in our 2018 Annual Report on Form 10-K, "Item 1. Business—Supervision and Regulation and —Regulatory Capital Requirements"), which implement the Basel III capital framework and various provisions of the Dodd-Frank Act. We and the Bank were required to comply with these rules as of January 1, 2015, subject to the phase-in of certain provisions, which was completed as of January 1, 2019. We believe that, as of March 31, 2019, we and the Bank meet all capital adequacy requirements under the Capital Rules on a fully phased-in basis.

FDIC regulations set forth the qualifications necessary for a bank to be classified as "well-capitalized," primarily for assignment of FDIC insurance premium rates. Failure to qualify as "well-capitalized" can negatively impact a bank's ability to expand and to engage in certain activities. The Company and the Bank qualified as "well-capitalized" at March 31, 2019 and December 31, 2018.

The following table presents the capital ratios and the capital conservation buffer, as applicable, for the Company and its banking subsidiary at March 31, 2019 and December 31, 2018:

|                                 | Company           |                      | Columbia Bank     |                      |
|---------------------------------|-------------------|----------------------|-------------------|----------------------|
|                                 | March 31,<br>2019 | December 31,<br>2018 | March 31,<br>2019 | December 31,<br>2018 |
| CET1 risk-based capital ratio   | 12.7759 %         | 12.7401 %            | 12.7042 %         | 12.9576 %            |
| Tier 1 risk-based capital ratio | 12.7759 %         | 12.7401 %            | 12.7042 %         | 12.9576 %            |
| Total risk-based capital ratio  | 14.0053 %         | 13.9920 %            | 13.5787 %         | 13.8494 %            |
| Leverage ratio                  | 10.3718 %         | 10.2444 %            | 10.3058 %         | 10.4185 %            |
| Capital conservation buffer     | 6.0053 %          | 5.9920 %             | 5.5787 %          | 5.8494 %             |

*Stock Repurchase Program*

As described in our Annual Report on Form 10-K for the year ended December 31, 2018, our board of directors approved a stock repurchase program to repurchase up to 2.9 million shares, up to a maximum aggregate purchase price of \$100.0 million. The Company intends to purchase the shares from time to time in the open market or in private transactions, under conditions which allow such repurchases to be accretive to EPS while maintaining capital ratios that exceed the guidelines for a well-capitalized financial institution.

Table of Contents**Non-GAAP Financial Measures**

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

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

|  | <b>Three Months Ended March 31,</b> |               |
|--|-------------------------------------|---------------|
|  | <b>2019</b>                         | <b>2018</b>   |
|  | <i>(dollars in thousands)</i>       |               |
| <b>Operating net interest margin non-GAAP reconciliation:</b>            |                                     |               |
| Net interest income (tax equivalent) (1)                                 | \$ 123,110                          | \$ 117,359    |
| Adjustments to arrive at operating net interest income (tax equivalent): |                                     |               |
| Incremental accretion income on FDIC PCI loans                           | (288 )                              | (329 )        |
| Incremental accretion income on other acquired loans                     | (1,747 )                            | (3,370 )      |
| Premium amortization on acquired securities                              | 1,779                               | 2,075         |
| Interest reversals on nonaccrual loans                                   | 626                                 | 417           |
| Operating net interest income (tax equivalent) (1)                       | \$ 123,480                          | \$ 116,152    |
| Average interest earning assets  | \$ 11,561,627                       | \$ 11,122,753 |
| Net interest margin (tax equivalent) (1)(2)                              | 4.32                                | % 4.28 %      |
| Operating net interest margin (tax equivalent) (1)(2)                    | 4.33                                | % 4.24 %      |

(1) Tax-exempt interest income has been adjusted to a tax equivalent basis. The amount of such adjustment was an addition to net interest income of \$2.1 million and \$1.9 million for the three months ended March 31, 2019 and 2018, respectively.

(2) Beginning January 2019, net interest margin (tax equivalent) and operating net interest margin (tax equivalent) were calculated using the actual number of days and on an Actual/Actual basis. This change was done to provide more meaningful trend information, on a quarterly basis, for our NIM regardless of the number of days in the quarter. Prior periods, which were previously reported on a 30/360 basis, have been restated to conform to the current basis.

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**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

A number of measures are used to monitor and manage interest rate risk, including income simulations and interest sensitivity (gap) analysis. An income simulation model is the primary tool used to assess the direction and magnitude of changes in net interest income resulting from changes in interest rates. Basic assumptions in the model include prepayment speeds on mortgage-related assets, cash flows and maturities of other investment securities, loan and deposit volumes and pricing. These assumptions are inherently subjective and, as a result, the model cannot precisely estimate net interest income or precisely predict the impact of higher or lower interest rates on net interest income. Actual results will differ from simulated results due to timing, magnitude and frequency of interest rate changes and changes in market conditions and management strategies, among other factors. At March 31, 2019, based on the measures used to monitor and manage interest rate risk, there has not been a material change in the Company's interest rate risk since December 31, 2018. For additional information, refer to Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's 2018 Annual Report on Form 10-K.

**Item 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

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

**Changes in Internal Control Over Financial Reporting**

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

Table of Contents**PART II - OTHER INFORMATION****Item 1. LEGAL PROCEEDINGS**

The Company and its subsidiaries are party to routine litigation arising in the ordinary course of business. Management believes that, based on information currently known to it, any liabilities arising from such litigation will not have a material adverse impact on the Company's financial conditions, results of operations or cash flows.

**Item 1A. RISK FACTORS**

Refer to Item 1A of Part I of the Company's Annual Report on Form 10-K for the year ended December 31, 2018 for a discussion of risk factors relating to the Company's business. The Company believes that there has been no material change in its risk factors as previously disclosed in the Company's Form 10-K.

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

(a) Not applicable

(b) Not applicable

(c) The following table provides information about repurchases of common stock by the Company during the quarter ended March 31, 2019:

| 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 Yet Be Purchased Under the Plan (2) |
|----------------------|---|-------------------------------------|---|---|
| 1/1/2019 - 1/31/2019 | 377   | \$ 36.65                            | —   | 2,900,000   |
| 2/1/2019 - 2/28/2019 | 156   | 36.32                               | —   | 2,900,000   |
| 3/1/2019 - 3/31/2019 | 63,803                                      | 37.81                               | —   | 2,900,000   |
|                      | 64,336                                      | \$ 37.80                            | —   |   |

(1) Common shares repurchased by the Company during the quarter consisted of cancellation of 64,336 shares of common stock to pay the shareholders' withholding taxes.

(2) As described in our Annual Report on Form 10-K for the year ended December 31, 2018, our board of directors approved a stock repurchase program to repurchase up to 2.9 million shares, up to a maximum aggregate purchase price of \$100.0 million.

**Item 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**Item 4. MINE SAFETY DISCLOSURES**

Not applicable.

**Item 5. OTHER INFORMATION**

None.

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**Item 6. EXHIBITS**

- 10.1+ \*\* Change in Control Agreement between the Bank and Clint E. Stein dated as of October 24, 2017
- 10.2+ \*\* Columbia State Bank Supplemental Executive Retirement Plan Agreement, by and between the Bank and Lisa Dow, effective March 11, 2018
- 10.3+ \*\* Columbia State Bank Endorsement Method Split Dollar Agreement (SERP Benefit), by and between the Bank and Lisa Dow, effective February 25, 2019
- 10.4+ \*\* First Amendment to the Columbia State Bank Endorsement Split Dollar Agreement (SERP Benefit), by and between the Bank and Lisa Dow, effective February 25, 2019
- 31.1+ Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2+ Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32+ Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101.INS+ XBRL Instance Document - The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
- 101.SCH+ XBRL Taxonomy Extension Schema
- 101.CAL+ XBRL Taxonomy Extension Calculation Linkbase
- 101.LAB+ XBRL Taxonomy Extension Label Linkbase
- 101.PRE+ XBRL Taxonomy Extension Presentation Linkbase
- 101.DEF+ XBRL Taxonomy Extension Definition Linkbase
- \*\* Management contract or compensatory plan or arrangement  
+ Filed herewith

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SIGNATURES

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

COLUMBIA BANKING  
SYSTEM, INC.

Date: May 3, 2019 By /s/ HADLEY S. ROBBINS  
Hadley S. Robbins  
President and  
Chief Executive Officer  
(Principal Executive Officer)

Date: May 3, 2019 By /s/ GREGORY A. SIGRIST  
Gregory A. Sigrist  
Executive Vice President and  
Chief Financial Officer  
(Principal Financial Officer)

Date: May 3, 2019 By /s/ BROCK M. LAKELY  
Brock M. Lakely  
Senior Vice President and  
Chief Accounting Officer  
(Principal Accounting Officer)