

Section 1: 10-K405 (FORM 10-K405)

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

[X] Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 [Fee Required]

For the fiscal year ended December 31, 2001 or

[_] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 [No Fee Required]

Commission File Number 0-20288

Columbia Banking System, Inc.
(Exact name of registrant as specified in its charter)

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

1301 "A" Street
Tacoma, Washington 98401
(Address of principal executive offices) (Zip code)

Registrant's Telephone Number, Including Area Code: (253) 305-1900

Securities Registered Pursuant to Section 12(b) of the Act: None

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

Common Stock, No Par Value
(Title of class)

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (17 C.F.R. 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of Common Stock held by non-affiliates of registrant at January 31, 2002 was \$150,302,187. The number of shares of registrant's Common Stock outstanding at January 31, 2002 was 12,619,831.

Documents incorporated by reference and parts of Form 10-K into which incorporated:

Registrant's definitive Proxy Statement Dated February 26, 2002..... Part III

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COLUMBIA BANKING SYSTEM, INC

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NOTE REGARDING FORWARD LOOKING STATEMENTS

This Annual Report and Form 10-K includes forward looking statements, which management believes are a benefit to shareholders. These forward looking statements describe Columbia's management's expectations regarding future events and developments such as future operating results, growth in loans and deposits, continued success of Columbia's style of banking and the strength of the local economy. The words "will," "believe," "expect," "should," and "anticipate" and words of similar construction are intended in part to help identify forward looking statements. Future events are difficult to predict, and the expectations described above are necessarily subject to risk and uncertainty that may cause actual results to differ materially and adversely. In addition to discussions about risks and uncertainties set forth from time to time in Columbia's filings with the SEC, factors that may cause actual results to differ materially from those contemplated by such forward looking statements include, among others, the following possibilities: (1) local and national general and economic conditions, including the impact of the events of September 11, 2001, are less favorable than expected or have a more direct and pronounced effect on Columbia than expected and adversely affect Columbia's ability to continue its internal growth at historical rates and maintain the quality of its earning assets; (2) changes in interest rates reduce interest margins more than expected and negatively affect funding sources; (3) projected business increases following strategic expansion or opening or acquiring new branches are lower than expected; (4) costs or difficulties related to the integration of acquisitions are greater than expected; (5) competitive pressure among financial institutions increases significantly; (6) legislation or regulatory requirements or changes adversely affect the businesses in which Columbia is engaged.

THE COMPANY

General

Columbia Banking System, Inc. (the "Company") is a registered bank holding company whose wholly owned subsidiary, Columbia State Bank ("Columbia Bank"), conducts a full-service commercial banking business. Headquartered in Tacoma, Washington, the Company provides a full range of banking services to small and medium-sized businesses, professionals and other individuals through 32 banking offices located in the Tacoma metropolitan area and contiguous parts of the Puget Sound region of Washington, as well as the Longview and Woodland communities in southwestern Washington. Substantially all of the Company's loans, loan commitments and core deposits are geographically concentrated in its service areas. Columbia Bank is a Washington state-chartered commercial bank, the deposits of which are insured by the Federal Deposit Insurance Corporation (the "FDIC"). The Bank is subject to regulation by the FDIC and the Washington State Department of Financial Institutions Division of Banks. Although Columbia Bank is not a member of the Federal Reserve System, the Board of Governors of the Federal Reserve System has certain supervisory authority over the Company, which can also affect Columbia Bank.

The Company was reorganized and additional management was added in 1993 in order to take advantage of commercial banking business opportunities resulting from increased consolidation of banks in the Company's principal market area, primarily through acquisitions by out-of-state holding companies, and the resulting dislocation of customers. Since the reorganization, the Company has grown from four branch offices at January 1, 1993 to 32 branch offices at December 31, 2001 and has plans to open additional branches in 2002 as discussed below. The Company's rate of growth moderated in 2001 as discussed in the Management Discussion and Analysis of Financial Condition and Results of Operations presented later in this report. Even including the slower growth performance in 2001, in the five years ended December 31, 2001, the Company has achieved significant growth in profitability, assets, loans, deposits and core deposits, as shown in the following chart.

At/For Year Ended Five Year Compounded December 31, 2001 Annual Growth Rate		

(dollars in thousands)		
Net Income....	\$ 12,513	22%
Assets.....	1,498,294	16
Loans.....	1,170,633	17
Total Deposits	1,306,750	17
Core Deposits.	846,546	21

Business Overview

The Company's goal is to become the leading super community banking company headquartered in the Pacific Northwest while establishing a significant presence in selected northwest markets. Strategic business combinations may augment internal growth. The Company intends to build on its reputation for excellent customer service in order to be recognized in all markets it serves as the bank of choice for retail deposit customers, small to medium-sized businesses and affluent households. The Company's intent is to achieve superior

financial performance at the earliest practical date, consistent with development of its northwest franchise.

Management believes the ongoing consolidation among financial institutions in the northwest part of the U.S. has created significant gaps in the ability of large banks operating in the states comprising that area to serve certain customers, particularly the Company's target customer base of small and medium-sized businesses, professionals and other individuals. The Company's business strategy is to provide its customers with the financial sophistication and breadth of products of a regional banking company while retaining the appeal and service level of a community bank. Management believes that as a result of the Company's strong commitment to highly personalized relationship-oriented customer service, its varied products, its strategic branch locations and the long-standing community presence of its managers, lending officers and branch personnel, it is well positioned to attract new customers and to increase its market share of loans, deposits, and other financial services in the markets it now serves and in areas contiguous to those markets. The Company has closely followed the significant changes to federal banking laws in late 1999 which allow financial institutions to engage in a broader range of activities than previously permitted. That legislation also authorizes the creation of financial holding companies to facilitate such expanded activity. As the Company pursues its growth strategy, it is likely that the Company will utilize the new financial holding company structure to accommodate an expansion of its products and services.

The Company intends to effect its growth strategy through a combination of growth at existing branch offices, new branch openings (usually following the hiring of an experienced branch manager and/or lending officer with strong community ties and banking relationships), Columbia On Call(TM) telephone banking, Columbia OnLine(TM) internet banking, development of complementary lines of business, and acquisitions. In particular, the Company anticipates continued growth in Pierce County, and growth and expansion north into King County, south into Thurston County and northwest into Kitsap County. Beginning in 2000 and continuing in 2001, the Company focused on expanding its presence within the Seattle and "Eastside" areas of King County. The Company hired additional bankers with extensive knowledge and experience in those markets. These bankers are expected to be instrumental in expanding the Company's private banking, commercial banking and retail presence in the King County area. During the year 2001, the Company established a retail banking office in Issaquah. In early 2002, a downtown Seattle and a Redmond office will open.

The Company has 32 branches as of December 31, 2001: 19 in Pierce County, 8 in King County, 3 in Cowlitz County, 1 in Kitsap County, and 1 in Thurston County. Since beginning its major Pierce County expansion in August 1993, the Company has expanded from 4 branches primarily through internal growth. Construction was completed on a permanent West Olympia facility in February 2001. The Company, through its wholly-owned subsidiary, Columbia Bank, opened four Pierce County branches in 2001. In May 2001 it opened the 84th & Pacific branch, and in October 2001 it opened branches at 11th and Martin Luther King Way and at Bonney Lake. The Company also opened a branch on the ground floor of its new headquarters at 13th & "A" Street in July 2001. The Company's plan to significantly increase its presence in the King County market resulted in the addition of the Issaquah branch in June 2001. In Cowlitz County the Triangle Mall branch in Longview was closed in November 2001 with operations consolidated to the Commerce and 30th Avenue branches. In addition to the new Seattle and Redmond offices previously mentioned, the Company's growth plans for 2002 include an expansion of the Summit branch and a more visible replacement facility in Fife. New branches normally do not contribute to net income for many months after opening.

In April 2001, the Company moved to its new headquarters in the "Columbia Bank Center" at 13th & "A" Street in downtown Tacoma. The Company leases three floors of this new building, of which it occupies two floors for its executive offices and several loan and support departments, and one floor is subleased. The Company retains its prior headquarters building at Broadway Plaza where its Main Office, currently known as the "Broadway Plaza Branch" is located. Until additional space is needed, the Company intends to lease to others all floors of the five story, Broadway Plaza building except for the first floor where the Broadway Plaza Branch is located and some additional space on the 2nd and 4th floors.

In order to fund its lending activities and to allow for increased contact with customers, the Company has established a branch system catering primarily to retail depositors, supplemented by business customer deposits and other borrowings. The Company believes this mix of funding sources will enable it to expand lending activities rapidly while attracting a stable core deposit base. In order to support its strategy of growth, without compromising its personalized banking approach or its commitment to asset quality, the Company has made significant investments in experienced branch, lending and administrative personnel and has incurred significant costs related to its branch expansion. Although the Company's expense ratios have improved since 1993, management anticipates that the expense ratios will remain relatively high by industry standards for the foreseeable future due to the Company's growth strategy and emphasis on convenience and personal service. Management has consistently emphasized control of noninterest expense consistent with its expansion strategy. See the discussion of noninterest expense for further detail.

In addition to the ongoing expansion of its branch network, the Company continuously reviews new products and services to give its customers more financial service options. Also, new technology and services are reviewed for business development and cost saving purposes. The Company's online banking service Columbia On-Line (TM) was in operation for its first full year in 2001. Customers are able to conduct a full range of services on a real time basis, including balance inquiries, transfers, bill paying, loan information, and check image viewing. This online service has also enhanced the delivery of cash management services to its commercial customers.

Market Area

The economy of the Company's principal market areas, while primarily

dependent upon aerospace, foreign trade and natural resources, including agriculture and timber, has become more diversified over the past decade as a result of the success of software companies such as Microsoft and the establishment of numerous research and biotechnology firms. Additionally, four military bases are located in the market areas. The Washington economy and that of the Puget Sound region generally have experienced strong growth and stability in recent years; however, those economies slowed during 2001. Commercial airline and aerospace industries began to contract in the Puget Sound region, most noticeably after the September 11 terrorism attacks. Boeing Company press releases showed a decrease of its commercial airplane deliveries of approximately 2% in 2001 and an estimated decline between 25% and 27% in 2002 from deliveries forecasted prior to the terrorist attacks. Consequently Boeing announced employment layoffs approximating 30,000 by mid-2002, starting in December 2001. The full impact and timing of airline and aerospace industry job reductions on the Puget Sound economy are not yet known; however, economic activity in many areas served by the Company has weakened. The retail industry also experienced a decline in the last months of 2001 as consumer confidence waned. Growth is anticipated in the biotechnology industry, which is concentrated in the southwest corner of the state and in the Puget Sound region. Also, the recent military build-up after the events of September 11 is expected to have a positive economic impact on the area in light of the large military bases located in the area. The timing of an economic recovery for the Puget Sound region has been estimated by local economists as early as the first half of 2002 and as late as 2003.

Pierce County, the area in which the Company's expansion in recent years has been primarily focused and the location of Tacoma, is located in the South Puget Sound region. With 19 branch offices in Pierce County at the end of 2001, the Company has positioned itself to increase its market share in this County of approximately

713,000 residents, the second most populous county in Washington State. With two large military installations (McChord Air Force and Fort Lewis Army bases), government related employment represents approximately 20% of the County's total employment.

King County to the north of Tacoma is Washington's most populous county and the location of Seattle, the State's largest city. The County has approximately 1.75 million residents. Bellevue, where the Company had two banking offices at year-end 2001, is located in an area known as the "Eastside," a metropolitan area with a population of approximately 240,000 that includes several King County cities located east of Seattle. A large portion of that economy is linked to the aerospace, construction, computer software and biotechnology industries. Microsoft is headquartered northeast of Bellevue and several biotech firms are located on the Eastside. In recent years, the area has experienced relatively rapid growth in population and employment, though the declining prospects of certain technology companies in 2000 and 2001 has halted that growth. Household incomes in the Eastside are among the highest in Washington. The Company's aggressive expansion in Seattle, Bellevue, and other areas of the Eastside is intended to produce an increase in the Company's share of this market, the largest banking market in the State.

The Company has five branches in south King County, an area of several residential communities whose employment base is supported by light industrial, aerospace, and forest products industries. With its close proximity to Tacoma, the south King County market area is considered an important natural extension of the Company's Pierce County market area. The Weyerhaeuser Corporation maintains its world headquarters in Federal Way, which is located in south King County adjacent to the King/Pierce County line. The Auburn and Kent Valley areas to the east of Federal Way are high residential and commercial growth markets and considered by management to be natural areas of expansion for the Company.

The Company's market area also includes the Longview and Woodland communities in southwest Washington. The population of Cowlitz County, in which Longview and Woodland are located, is approximately 94,000. Cowlitz County's economy has become more diversified in recent years including biotechnology companies, but remains materially dependent on the forest products industry and, as a result, is relatively vulnerable to the cyclical downturns of that industry as well as environmental disputes.

The Washington state capital of Olympia, with a population of approximately 42,500, and the neighboring community of Lacey, with a population of approximately 31,600, are the principal cities in Thurston County. The County has an approximate population of 210,000. The area enjoys a stable economic climate due largely to state government employment and the proximity of the Fort Lewis Army Base and McChord Air Force Base. According to the Washington State Almanac (an annual publication of demographic information of Washington State counties and cities), approximately 39% of the average employment in Thurston County was through federal, state, and local government agencies. The area also has a significant population of retired military personnel.

Kitsap County, with a population of approximately 233,000 (sixth largest in the State), is home to the Bremerton Naval Shipyard, and the Trident Submarine Base. Directly west of Seattle across Puget Sound, commuters and visitors are able to travel by ferry in 30 to 60 minutes to jobs and entertainment in Seattle from residences in Kitsap County. According to the Washington State Almanac, approximately 36% of the average employment in Kitsap County is government related.

Competition

The Company anticipates continuing opportunities to arise from the effects of substantial consolidation among financial institutions in Washington that has occurred to date. Federal law allows mergers or other combinations, relocations of a bank's main office and branching across state lines. Several other financial institutions, which have greater resources than the Company, compete for banking business in the Company's market area. Among the advantages of some of these institutions are their ability to make larger loans, finance extensive advertising and promotion campaigns, access international money markets and allocate their investment assets to regions of highest yield and

demand. The Company currently does not have a significant

market share of the deposit-taking or lending activities in the areas in which it conducts operations, other than in Pierce and Cowlitz Counties where its share of bank deposits has grown substantially over the last several years. In June 2001, the Federal Deposit Insurance Corporation (FDIC) market share report classified the Company with 17.5% of the deposit market share in Pierce County, which placed the Company second in the County. The Company has also grown to hold the second highest market share in Cowlitz County, with 15.8% market share. Although the Company has been able to compete effectively in its market areas to date, there can be no assurance that it will be able to continue to do so in the future.

In addition to competition from other banking institutions, the Company continues to experience increased competition from non-banking companies such as credit unions, financial services companies and brokerage houses. Recent amendments to the federal banking laws to eliminate certain barriers between banking and commercial firms are expected to result in even greater competition in the future.

Looking Forward--2002 Performance Goals

The Company anticipates that business conditions in its principal market areas will be less than robust but will still provide good opportunities to expand in 2002. Management expects that growth will be centered in the Pierce County and King County market areas. Periods of concern about slowing economic growth often provide community oriented banks that have good credit quality and extensive knowledge of the local economy, such as the Company, with attractive opportunities to acquire desirable new business relationships from larger banks. These opportunities will be pursued while applying rigorous credit discipline and thorough analysis to ensure quality growth. Management expects the expansion in King County to be a significant contributor to both loan and deposit growth in 2002. The trend of improving margins experienced after the first quarter of 2001 is expected to continue but moderate in 2002 as deposit repricing slows. In 2002, commercial loans are expected to increase in volume and rates are expected to rise modestly as a majority of these loans reprice with the prime rate.

The following 2002 performance goals anticipate short-term interest rates increasing slightly faster than long-term rates with the steepness of the yield curve (which shows the spread between short and long-term interest rates) moderating somewhat toward the second half of 2002. The Company is expected to benefit from this rate environment due to its short-term asset sensitive position. In addition, management expects to place more emphasis on the treasury function in 2002 than historically has been the case for the Company. Management expects earnings per share in 2002 to be in a range of \$1.10 to \$1.20. A more pronounced change in interest rates than is currently expected, further significant declines in the economy, or substantial credit deterioration in the loan portfolio could reduce the anticipated performance of the Company. Columbia's performance goals for 2002, based on current economic and market conditions, include the following:

- Average Loan Growth in the 4-6% Range
- Average Deposit Growth in the 8-10% Range
- Revenue Growth of 8-10%
- Return on Average Equity of Approximately 12.5%
- Return on Average Assets of Approximately 1.0%
- Efficiency Ratio Less Than 66%
- Earnings Per Share Growth 15-25%

COLUMBIA BANKING SYSTEM, INC.

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

	2001	2000	1999	1998	1997
	-----	-----	-----	-----	-----
	(dollars in thousands except per share amounts)				
For the Year					
Net interest income.....	\$ 58,205	\$ 58,268	\$ 49,509	\$ 41,960	\$ 35,231
Provision for loan losses.....	5,800	9,800	2,400	1,900	4,726
Noninterest income.....	17,451	11,587	10,146	8,182	10,624
Noninterest expense.....	50,954	44,753	39,644	32,794	29,066
Net income.....	12,513	10,070	11,670	10,201	9,275
Per Share					
Basic earnings.....	\$ 0.97	\$ 0.78	\$ 0.91	\$ 0.80	\$ 0.74
Diluted earnings.....	0.96	0.76	0.89	0.78	0.72
Book value.....	9.46	8.72	7.74	7.01	6.24
Averages					
Total Assets.....	\$1,460,263	\$1,375,600	\$1,131,416	\$ 939,274	\$764,728
Interest-earning assets.....	1,343,410	1,265,716	1,039,628	863,193	711,484
Loans.....	1,218,906	1,149,013	927,373	748,587	613,671
Securities.....	100,343	97,585	99,149	83,657	71,424
Total deposits.....	1,281,748	1,197,653	994,096	813,685	656,206
Core deposits.....	718,262	654,095	605,651	476,128	373,307
Shareholders' equity.....	120,403	107,555	94,718	84,680	64,384
Financial Ratios					
Net interest margin.....	4.36%	4.62%	4.78%	4.87%	4.96%
Return on average assets.....	0.86	0.73	1.03	1.09	1.21
Return on average equity.....	10.39	9.36	12.32	12.05	14.41
Efficiency ratio.....	68.92	64.07	66.46	65.40	65.74
Average equity to average assets.....	8.25	7.82	8.37	9.02	8.42

At Year-End					
Total assets.....	\$1,498,294	\$1,496,495	\$1,237,157	\$1,059,919	\$864,555
Loans.....	1,170,633	1,192,520	1,048,006	828,639	685,889
Allowance for loan losses.....	14,734	18,791	9,967	9,002	8,440
Total deposits.....	1,306,750	1,327,023	1,043,544	938,345	740,430
Core deposits.....	846,546	695,343	624,220	582,589	433,228
Shareholders' equity.....	118,966	113,823	99,214	89,566	78,353
Number of full-time equivalent employees.....	580	513	469	439	327
Number of banking offices.....	32	28	27	25	21
Nonperforming assets:					
Nonaccrual loans.....	\$ 17,635	\$ 12,506	\$ 4,360	\$ 3,603	\$ 1,462
Restructured loans.....	716	1,136	187	1,783	20
Real estate owned.....	197	1,291	1,263	901	231
Total nonperforming assets.....	\$ 18,548	\$ 14,933	\$ 5,810	\$ 6,287	\$ 1,713
	=====	=====	=====	=====	=====
Nonperforming loans to period-end loans.....	1.57%	1.14%	0.43%	0.65%	0.22%
Nonperforming assets to period-end assets.....	1.24%	1.00%	0.47%	0.59%	0.20%
Allowance for loan losses to period end loans...	1.26%	1.58%	0.95%	1.09%	1.23%
Allowance for loan losses to nonperforming loans	80.29%	137.74%	219.19%	167.14%	569.50%
Net loan charge-offs.....	\$ 9,857	\$ 976	\$ 1,435	\$ 1,338	\$ 1,568
Risk-Based Capital Ratios:					
Tier I capital.....	10.55%	8.58%	9.12%	9.89%	10.77%
Total capital.....	11.65	9.54	10.01	10.88	11.93
Leverage ratio.....	9.72	7.77	8.46	8.72	9.33

FINANCIAL DATA SUPPLEMENT

CONSOLIDATED FIVE-YEAR STATEMENTS OF OPERATIONS (1)

Columbia Banking System, Inc.

	Years ended December 31,				
	2001	2000	1999	1998	1997
	(dollars in thousands, except per share amounts)				
Interest Income:					
Loans.....	\$ 97,650	\$ 102,838	\$ 77,807	\$ 66,858	\$ 56,176
Securities available for sale.....	5,596	5,650	5,619	4,696	3,800
Securities held to maturity.....	265	268	287	419	628
Deposits with banks.....	1,061	1,240	639	1,654	1,457
Total interest income.....	104,572	109,996	84,352	73,627	62,061
Interest Expense:					
Deposits.....	43,763	47,662	32,898	29,759	24,775
Federal Home Loan Bank advances.....	1,690	3,630	1,939	1,908	1,971
Trust preferred obligations.....	635				
Other borrowings.....	279	436	6		84
Total interest expense.....	46,367	51,728	34,843	31,667	26,830
Net Interest Income.....	58,205	58,268	49,509	41,960	35,231
Provision for loan losses.....	5,800	9,800	2,400	1,900	4,726
Net interest income after provision for loan losses.....	52,405	48,468	47,109	40,060	30,505
Noninterest income.....	17,451	11,587	10,146	8,182	7,106
Key man life insurance proceeds.....					3,518
Noninterest expense.....	50,954	44,753	39,644	32,794	27,832
Merger expenses.....					1,234
Noninterest expense.....	50,954	44,753	39,644	32,794	29,066
Income before income tax.....	18,902	15,302	17,611	15,448	12,063
Provision for income tax.....	6,389	5,232	5,941	5,247	2,788
Net Income.....	\$ 12,513	\$ 10,070	\$ 11,670	\$ 10,201	\$ 9,275
	=====	=====	=====	=====	=====
Net Income Per Common Share:					
Basic.....	\$ 0.97	\$ 0.78	\$ 0.91	\$ 0.80	\$ 0.74
Diluted.....	0.96	0.76	0.89	0.78	0.72
Average number of common shares outstanding (basic).....	12,893	12,846	12,817	12,763	12,547
Average number of common shares outstanding (diluted).....	13,068	13,170	13,120	13,162	12,915
	=====	=====	=====	=====	=====
Total assets at end of period.....	\$1,498,294	\$1,496,495	\$1,237,157	\$1,059,919	\$864,555
Long-term obligations.....	61,367	4,500	3,000	25,000	39,000
Cash dividends.....					
	=====	=====	=====	=====	=====

(1) These unaudited schedules provide selected financial information concerning the Company that should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations in this Annual Report.

CONSOLIDATED FIVE-YEAR SUMMARY OF AVERAGE BALANCES
AND NET INTEREST REVENUE

	2001			2000		
	Average Balances(1)	Interest	Average Rate	Average Balances(1)	Interest	Average Rate
(dollars in thousands)						
Interest-Earning Assets						
Loans:						
Commercial business.....	\$ 484,382	\$ 38,128	7.87%	\$ 475,807	\$ 45,280	9.52%
Real estate (2):						
One- to four-family residential.....	109,006	8,401	7.71	108,063	9,389	8.69
Five or more family residential and commercial properties.....	517,463	41,859	8.09	463,002	38,431	8.30
Consumer.....	108,055	9,262	8.57	102,141	9,737	9.53
Total loans.....	1,218,906	97,650	8.01	1,149,013	102,837	8.95
Securities (3).....	100,343	6,251	6.23	97,585	6,152	6.30
Interest-earning deposits with banks.....	24,161	1,061	4.39	19,118	1,240	6.49
Total interest-earning assets.....	1,343,410	104,962	7.81	1,265,716	110,229	8.71
Other earning assets.....	8,025					
Non-earning assets.....	108,828			109,884		
Total assets.....	\$1,460,263			\$1,375,600		
Interest-Bearing Liabilities						
Certificates of deposit.....	\$ 563,486	\$ 31,274	5.55%	\$ 543,558	\$ 33,053	6.08%
Savings accounts.....	51,380	733	1.43	46,722	937	2.01
Interest-bearing demand and money market accounts.....	439,916	11,756	2.67	399,561	13,672	3.42
Total interest-bearing deposits.....	1,054,782	43,763	4.15	989,841	47,662	4.82
Federal Home Loan Bank advances.....	32,655	1,690	5.17	54,813	3,630	6.62
Trust preferred obligations.....	9,008	635	7.05			
Other borrowings.....	4,163	279	6.71	5,245	436	8.31
Total interest-bearing liabilities.....	1,100,608	46,367	4.21	1,049,899	51,728	4.93
Demand and other noninterest-bearing deposits.....	226,966			207,812		
Other noninterest-bearing liabilities.....	12,286			10,334		
Shareholders' equity.....	120,403			107,555		
Total liabilities and shareholders' equity.....	\$1,460,263			\$1,375,600		
Net interest revenue (3).....		\$ 58,595			\$ 58,501	
Net interest spread.....			3.60%			3.78%
Net interest margin.....			4.36%			4.62%
Average interest-earning assets to average interest- bearing liabilities.....			122.06%			120.56%

(1) Nonaccrual loans were included in their respective loan categories. Amortized net deferred loan fees were included in the interest income calculations. The amortization of net deferred loan fees was \$1.8 million in 2001, \$1.4 million in 2000, \$962,000 in 1999, \$503,000 in 1998, and \$2,000 in 1997.

(2) Real estate average balances include real estate construction loans.

(3) Yields on fully taxable equivalent basis, based on a marginal tax rate of 35% for calendar years 2001 and 2000, and 34% for all prior years presented.

CONSOLIDATED FIVE-YEAR SUMMARY OF AVERAGE BALANCES
AND NET INTEREST REVENUE--(Continued)

	1999			1998			1997		
	Average Balances(1)	Interest	Average Rate	Average Balances(1)	Interest	Average Rate	Average Balances(1)	Interest	Average Rate
(dollars in thousands)									
Interest-Earning Assets									
Loans:									
Commercial business.....	\$ 371,549	\$32,338	8.70%	\$307,174	\$28,039	9.13%	\$218,560	\$20,172	9.23%
Real estate (2):									
One- to four-family residential.....	90,233	7,437	8.24	96,999	8,512	8.78	109,659	10,936	9.97
Five or more family residential and commercial properties.....	374,788	29,985	8.00	264,314	23,008	8.70	217,412	18,727	8.61
Consumer.....	90,803	8,047	8.86	80,100	7,299	9.11	68,040	6,341	9.32
Total loans.....	927,373	77,807	8.39	748,587	66,858	8.93	613,671	56,176	9.15
Securities (3).....	99,149	6,085	6.14	83,657	5,221	6.24	71,424	4,513	6.32
Interest-earning deposits with banks.....	13,106	639	4.87	30,949	1,654	5.35	26,389	1,456	5.52
Total interest-earning assets.....	1,039,628	84,531	8.13	863,193	73,733	8.54	711,484	62,145	8.73
Non-earning assets.....	91,788			76,081			53,244		
Total assets.....	\$1,131,416			\$939,274			\$764,728		

Interest-Bearing Liabilities									
Certificates of deposit.....	\$ 388,445	\$20,332	5.23%	\$337,557	\$18,917	5.60%	\$282,899	\$16,017	5.66%
Savings accounts.....	45,478	936	2.06	39,768	997	2.51	38,301	1,054	2.75
Interest-bearing demand and money market accounts.....	376,079	11,630	3.09	287,007	9,845	3.43	223,514	7,704	3.45
	-----	-----	-----	-----	-----	-----	-----	-----	-----
Total interest-bearing deposits.....	810,002	32,898	4.06	664,332	29,759	4.48	544,714	24,775	4.55
Federal Home Loan Bank advances.....	35,684	1,939	5.43	34,538	1,908	5.52	35,597	1,971	5.54
Trust preferred obligations.....									
Other borrowings.....	109	6	5.16				1,681	84	5.02
	-----	-----	-----	-----	-----	-----	-----	-----	-----
Total interest-bearing liabilities.....	845,795	34,843	4.12	698,870	31,667	4.53	581,992	26,830	4.61
Demand and other noninterest-bearing deposits.....	184,094			149,353			111,492		
Other noninterest-bearing liabilities....	6,809			6,371			6,860		
Shareholders' equity.....	94,718			84,680			64,384		
	-----			-----			-----		
Total liabilities and shareholders' equity.....	\$1,131,416			\$939,274			\$764,728		
	=====			=====			=====		
Net interest revenue (3).....		\$49,688			\$42,066			\$35,315	
		=====			=====			=====	
Net interest spread.....			4.01%			4.01%			4.12%
			=====			=====			=====
Net interest margin.....			4.78%			4.87%			4.96%
			=====			=====			=====
Average interest-earning assets to average interest-bearing liabilities....			122.92%			123.51%			122.25%
			=====			=====			=====

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

Columbia Banking System, Inc.

This discussion should be read in conjunction with the consolidated condensed financial statements of the Company, and notes thereto presented elsewhere in this report. In the following discussion, unless otherwise noted, references to increases or decreases in average balances in items of income and expense for a particular period and balances at a particular date refer to the comparison with corresponding amounts for the period or date one year earlier.

Results of Operations

The results of operations of the Company are dependent to a large degree on the Company's net interest income. The Company also generates noninterest income through service charges and fees, merchant services fees, and income from mortgage banking operations. The Company's operating expenses consist primarily of compensation and employee benefit expense, and occupancy expense. Like most financial institutions, the Company's 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.

Net income for the year increased 24% to \$12.5 million compared to net income of \$10.1 million in 2000 and \$11.7 million in 1999. On a diluted per share basis, 2001 net income was \$0.96 per share, compared with net income of \$0.76 per share in 2000, and \$0.89 per share in 1999. This improvement in 2001 net income resulted from the Company's lower provision for loan losses as compared to the unusually high level of the provision in 2000.

Net Interest Income. Net interest income decreased \$63,000, or (0.1%), in 2001 compared with an increase of \$8.8 million, or 18%, in 2000. The reduction in 2001 net interest income was primarily the result of interest rates declining steadily during the year. The rapid decline of rates resulted in loans repricing more quickly than deposit funding during the first half of 2001 and deposits repricing more quickly in the last half of 2001. The year 2000 increases in net interest income largely were due to the overall growth of the Company and a rising interest rate environment. Average interest-earning assets increased \$77.7 million in 2001, and \$226.1 million in 2000, while average interest-bearing liabilities increased \$50.7 million in 2001, and \$204.1 million in 2000.

Net interest margin (net interest income divided by average interest-earning assets) decreased to 4.36% in 2001, compared with 4.62% in 2000. Average interest-earning assets increased to \$1.34 billion, or 6%, during fiscal year 2001, compared with \$1.27 billion for fiscal year 2000. The average yield on interest-earning assets decreased to 7.81% in 2001 from 8.71% in fiscal year 2000. In comparison, average interest-bearing liabilities increased to \$1.1 billion, or 5%, and the average cost of interest-bearing liabilities decreased to 4.21% from 4.93% in fiscal year 2000.

During fiscal year 2001, the Board of Governors of the Federal Reserve System reduced the federal funds target rate eleven times, cutting the funds rate from 6.5% at the beginning of the year to 1.75% in December 2001. Loan and investment interest declined in a similar manner, as the "prime rate" was reduced throughout the year. Although deposit yields were decreased as management responded to the reductions in the prime rate, those reductions were delayed for fixed maturity time deposits such as certificates of deposit ("CD"s) while approximately 40% of the loan yields were tied to the prime rate and repriced immediately. The relatively quick repricing of existing loans, versus the slower repricing of deposits, caused the yields on average interest-earning assets to decline more rapidly than the cost of average interest-bearing liabilities during the first half of the year. As a result, the Company's net interest margin declined in the first quarter of 2001 and gradually improved later in the year. Rather than commit to long term deposit rates in a market of declining interest rates, the Company chose to focus on its core deposit growth and substantially changed its mix of deposits as average core deposits increased \$64.2 million or 10%, while average CD balances

increased \$20 million or 4%. Lower interest rates

created greater demand for refinanced and new property loans, however, this was balanced by decreased loan demand in the business arena.

Provision for Loan Losses. The Company's provision for loan losses was \$5.8 million for 2001, compared with \$9.8 million for 2000 and \$2.4 million for 1999. For the years ended December 31, 2001, 2000, and 1999, net loan charge-offs amounted to \$9.9 million, \$976,000 and \$1.4 million, respectively. The 2001 charge-offs included \$6.0 million of a troubled loan that was fully reserved for at year-end 2000. The remaining \$3.9 million balance of the charge-offs in 2001 was centered in several smaller relationships that were identified throughout the year, and were charged down or charged off. During 2001, the allowance for loan losses balance decreased \$4.1 million to \$14.7 million as compared with an increase of \$8.8 million to \$18.8 million at the end of 2000 and \$10.0 million at year-end 1999.

The allowance for loan losses as a percentage of loans (excluding loans held for sale at each date) decreased to 1.26% at December 31, 2001 as compared to 1.58% and 0.95% of loans at December 31, 2000 and 1999, respectively. At year-end 2001, the allowance for loan losses to nonperforming loans was 80.29% compared to 137.74% at December 31, 2000. The decline in the loan loss allowance as a percentage of loans was due to the decreased balance of the loan loss allowance from charge-offs during 2001, of which \$6 million was specifically reserved for in 2000. The decrease in the percentage of the allowance to nonperforming loans is the result of two large credit relationships being placed on nonaccrual in the fourth quarter of 2001. These two credit relationships are collateralized by real estate and other tangible assets and, in the opinion of management, represent limited loss exposure. Management is carefully monitoring current weaknesses within the local and national economies, and potential weaknesses within the existing loan portfolio, and will increase the Company's loan loss allowance as circumstances warrant. During 2001, management strengthened loan monitoring systems and controls including the separation of the credit administration function and the loan production function. These steps are expected to improve the Company's ability to more closely monitor credit quality as 2002 progresses.

Noninterest Income. Total noninterest income, excluding the gain on sale of securities, increased \$4.1 million, or 36%, in 2001, compared with \$1.4 million, or 14%, in 2000. Lower long-term interest rates contributed to additional noninterest income from increased residential mortgage loan originations, while growth in core deposits bolstered service charge and other fee noninterest income. Merchant services income also contributed to increased noninterest income during 2001. Income from mortgage banking improved by \$1.9 million, or 251%, compared to a decline of \$307,000, or 29%, in 2000. Service charges and other fees increased \$887,000 or 14% compared with 2000 and merchant service fees increased \$782,000 or 21%. In accordance with the Company's investment strategy, management monitors market conditions with a view to realize gains on its available for sale securities portfolio as market conditions allow. Treasury activity in 2001 contributed an additional \$1.7 million toward noninterest income from gains on sales of securities.

Noninterest Expense. Total noninterest expense increased \$6.2 million, or 14%, in 2001 and \$5.1 million, or 13%, in 2000. The increase in 2001 was primarily due to personnel and occupancy costs associated with the Company's expansion in the major metropolitan areas of King and Pierce counties. The Company reduced its data processing and merchant processing costs as growth and its technology investments created opportunities to realize scale efficiencies. The Company's efficiency ratio (noninterest expense divided by the sum of net interest income plus noninterest income) was 68.92% for 2001 compared with 64.07% for 2000, reflecting the Company's slower growth of revenue in 2001 while noninterest expense increased at the same rate as 2000 due in part to the Company's expansion. Management anticipates that the ratios will remain relatively high by industry standards for the foreseeable future due to the Company's growth strategy.

Credit Risk Management

The extension of credit in the form of loans or other credit substitutes to individuals and businesses is a major portion of the Company's principal business activity. Company policies and applicable laws and

regulations require risk analysis as well as ongoing portfolio and credit management. The Company manages its credit risk through lending limit constraints, credit review, approval policies and extensive, ongoing internal monitoring. The Company also manages credit risk through diversification of the loan portfolio by type of loan, type of industry, type of borrower, and by limiting the aggregation of debt limits to a single borrower.

In analyzing its existing portfolio, the Company reviews its consumer and residential loan portfolios by risk rating and analyzes 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, private banking, 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. The Company reviews these loans to assess the ability of the borrower to service all of its 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 non-accrual status even though the loan may be current as to principal and interest payments. Additionally, the Company assesses whether an impairment of a loan as provided in SFAS No. 114, "Accounting by Creditors for Impairment of a Loan", warrants specific reserves or a write-down of the loan. See "Provision and Allowance For Loan Losses" on page 16 and Note 5 to the consolidated financial statements.

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

Several modifications to the credit process were implemented in 2001. The most significant change was the separation of the credit administration function from that of loan production. The Executive Vice-President and Chief Credit Officer manages the credit process while the Executive Vice-President, Corporate Banking, is responsible for loan production. Both the Chief Credit Officer and the EVP, Corporate Banking, report directly to the President of Columbia Bank.

Loan Portfolio Analysis

The Company is a full service commercial bank, which originates a wide variety of loans. Consistent with the trend begun in 1993, the Company continues to concentrate its lending efforts on originating commercial business and commercial real estate loans. The Company also has increased its capacity to originate residential real estate loans, both from retail and wholesale sources.

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

	December 31,									
	2001	% of Total	2000	% of Total	1999	% of Total	1998	% of Total	1997	% of Total
	(in thousands)									
Commercial business.....	\$ 466,638	39.9%	\$ 496,125	41.6%	\$ 426,060	40.6%	\$332,638	40.1%	\$270,946	39.5%
Real estate:										
One-to-four family residential.....	52,852	4.5	55,922	4.7	64,669	6.2	61,132	7.4	71,095	10.4
Five or more family residential and commercial properties.....	432,419	37.0	428,884	36.0	377,708	36.0	291,868	35.2	206,628	30.1
Total real estate.....	485,271	41.5	484,806	40.7	442,377	42.2	353,000	42.6	277,723	40.5
Real estate construction:										
One-to-four family residential.....	20,693	1.8	33,548	2.8	32,742	3.1	26,444	3.2	29,695	4.3
Five or more family residential and commercial properties.....	91,080	7.7	74,451	6.3	45,886	4.4	23,213	2.8	33,806	4.9
Total real estate construction.....	111,773	9.5	107,999	9.1	78,628	7.5	49,657	6.0	63,501	9.2
Consumer.....	109,845	9.4	106,633	8.9	103,296	9.9	94,572	11.4	74,710	10.9
Subtotal.....	1,173,527	100.3	1,195,563	100.3	1,050,361	100.2	829,867	100.1	686,880	100.1
Less deferred loan fees and other.....	(2,894)	(0.3)	(3,043)	(0.3)	(2,355)	(0.2)	(1,228)	(0.1)	(991)	(0.1)
Total loans.....	\$1,170,633	100.0%	\$1,192,520	100.0%	\$1,048,006	100.0%	\$828,639	100.0%	\$685,889	100.0%
Loans held for sale.....	\$ 29,364		\$ 14,843		\$ 5,479		\$ 10,023		\$ 4,377	

Total loans (excluding loans held for sale) at December 31, 2001, decreased \$22 million, or 2%, from year-end 2000. Commercial business loans and one-to-four family real estate construction contributed a majority of the decrease, offset by growth in both construction and real estate of five or more family residential and commercial properties.

Commercial Loans: Commercial loans decreased \$29.5 million, or 6%, to \$466.6 million from year-end 2000, representing 40% of total loans compared with 42% of total loans at December 31, 2000. Management is committed to providing competitive commercial lending in the Company's primary market areas. Management believes slowdowns in commercial lending during 2001 were due to decreased confidence of business owners as the economy slowed during the year. The Company expects to continue to expand its commercial lending products and to emphasize in particular its relationship banking with businesses, business owners and affluent individuals.

Real Estate Loans: Residential one-to-four family loans decreased \$3.1 million to \$52.9 million at December 31, 2001, representing 5% of total loans, compared with \$55.9 million, or 5% of total loans at December 31, 2000. These loans are used by the Company to collateralize advances from the Federal Home Loan Bank (FHLB). The Company's underwriting standards require that one-to-four family portfolio loans generally be owner-occupied and that loan amounts not exceed 80% (90% with private mortgage insurance) of the appraised value or cost, whichever is lower, of the underlying collateral at origination. Generally, management's policy is to originate for sale to third parties residential loans secured by properties located within the Company's primary market areas. The Company may retain larger percentages of such originated loans as market conditions dictate.

The Company makes multi-family and commercial real estate loans in its primary market areas. Multi-family and commercial real estate lending increased \$3.5 million, or 1%, to \$432.4 million at December 31, 2001, representing 37%

of total loans, from \$428.9 million, or 36% of total loans at December 31, 2000. Multi-family and commercial real estate lending during 2001 reflects a mix of owner occupied and income property transactions. Generally, multi-family and commercial real estate loans are made to borrowers who have existing banking relationships with the Company. The Company's underwriting standards generally require that the loan-to-value ratio for multi-family and commercial loans not exceed 75% of appraised value or cost, whichever is lower, and that commercial properties maintain debt coverage ratios (net operating income divided by annual debt servicing) of 1.2 or better. Underwriting standards can be influenced by competition. The Company endeavors to maintain the highest practical underwriting standards while balancing the need to remain competitive in its lending practices.

Real Estate Construction Loans: The Company originates a variety of real estate construction loans. One-to-four family residential construction loans are originated for the construction of custom homes (where the home buyer is the borrower) and provides financing to builders for the construction of pre-sold homes and speculative residential construction. Construction loans on one-to-four family residences decreased \$12.9 million to \$20.7 million at December 31, 2001, representing 2% of total loans, from \$33.5 million, or 3% of total loans at December 31, 2000. Multi-family and commercial real estate construction loans increased \$16.6 million to \$91.1 million at December 31, 2001, representing 8% of total loans, from \$74.5 million, or 6% of total loans at December 31, 2000. The Company endeavors to limit its construction lending risk through adherence to strict underwriting procedures.

Consumer Loans: At December 31, 2001, the Company had \$109.8 million of consumer loans outstanding, representing 9% of total loans, as compared with \$106.6 million, and 9% of total loans at December 31, 2000. Consumer loans made by the Company include automobile loans, boat and recreational vehicle financing, home equity and home improvement loans and miscellaneous personal loans.

Foreign Outstanding: The Company is not involved with loans to foreign companies and foreign countries.

Loan Growth by Market Area: Commencing in 1993 and continuing for several years, management's growth strategy concentrated on the Tacoma/Pierce County market. In 1999, management added to its market area with growth in Thurston and Kitsap counties. Beginning in late 2000, the Company began aggressively pursuing growth in King County and continues this focus as it commits additional resources to the Seattle and adjoining metropolitan markets in 2002.

Loan Maturities: The following table presents, (i) the aggregate maturities of loans in each major reportable category named below of the Company's loan portfolio and (ii) the aggregate amounts of variable and fixed rate loans that mature after one year.

December 31, 2001	Maturing			
	Due	Over 1 but	Over 5	Total
	Through	Through 5	Years	
	1 Year	Years	Years	
(in thousands)				
Commercial business.....	\$281,686	\$129,717	\$ 55,235	\$466,638
Real estate construction	39,691	19,555	52,527	111,773
Total.....	\$321,377	\$149,272	\$107,762	\$578,411
	=====	=====	=====	=====
Fixed rate loans.....	\$ 35,792	\$ 68,295	\$ 36,862	\$140,949
Variable rate loans.....	285,585	80,977	70,900	437,462
Total.....	\$321,377	\$149,272	\$107,762	\$578,411
	=====	=====	=====	=====

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 collectibility of principal or interest; (ii) in most cases restructured loans, for which concessions, including the reduction of interest rates below a rate otherwise available to that borrower or the deferral of interest or principal, have been granted due to the borrower's weakened financial condition (interest on restructured loans is accrued at the restructured rates when it is anticipated that no loss of original principal will occur); and (iii) real estate owned.

The following tables set forth, at the dates indicated, information with respect to nonaccrual loans, restructured loans, total nonperforming loans (nonaccrual loans plus restructured loans), real estate owned, total nonperforming assets, accruing loans past-due 90 days or more, and potential problem loans of the Company:

	December 31,				
	2001	2000	1999	1998	1997
(in thousands)					

Nonaccrual:

One-to-four family residential.....	\$ 593	\$ 410	\$ 23	\$ 722	\$ 661
Commercial real estate.....	1,415	698	1,784	1,542	
Commercial business.....	15,393	11,091	2,176	1,214	728

Consumer.....	234	307	377	125	73
	-----	-----	-----	-----	-----
Total nonaccrual loans.....	17,635	12,506	4,360	3,603	1,462
Restructured:					
One-to-four family residential.....				15	20
One-to-four family residential construction..	716	1,136	122	1,768	
Commercial business.....			65		
	-----	-----	-----	-----	-----
Total restructured loans.....	716	1,136	187	1,783	20
	-----	-----	-----	-----	-----
Total nonperforming loans.....	\$18,351	\$13,642	\$ 4,547	\$ 5,386	\$ 1,482
	=====	=====	=====	=====	=====
Real estate owned.....	197	1,291	1,263	901	231
	-----	-----	-----	-----	-----
Total nonperforming assets.....	\$18,548	\$14,933	\$ 5,810	\$ 6,287	\$ 1,713
	=====	=====	=====	=====	=====
Accruing loans past-due 90 days or more.....				\$ 40	
				=====	
Potential problem loans.....	\$ 4,746	\$ 1,631	\$ 2,234	\$ 1,862	\$ 669
Allowance for loan losses.....	14,734	18,791	9,967	9,002	8,440
Allowance for loan losses to total loans.....	1.26%	1.58%	0.95%	1.09%	1.23%
Allowance for loan losses to nonperforming loans	80.29%	137.74%	219.19%	167.14%	569.50%
Nonperforming loans to loans.....	1.57%	1.14%	0.43%	0.65%	0.22%
Nonperforming assets to total assets.....	1.24%	1.00%	0.47%	0.59%	0.20%
	=====	=====	=====	=====	=====

The consolidated financial statements are prepared according to the accrual basis of accounting. This includes the recognition of interest income on the loan portfolio, unless a loan is placed on a nonaccrual basis, which occurs when there are serious doubts about the collectibility of principal or interest. The policy of the Company generally is to discontinue the accrual of interest on all loans past due 90 days or more and place them on nonaccrual status.

Potential problem loans are loans which are currently performing and are not nonaccrual, restructured or impaired loans, but about which there are sufficient doubts as to the borrower's ability to comply with present repayment terms in the future and which may later be included in nonaccrual, past due, restructured or impaired loans. Nonaccrual loans and other nonperforming assets are centered in a small number of lending relationships which management considers adequately reserved. Generally, these relationships are well collateralized though loss of principal on certain of these loans will remain in question until the loans are paid or collateral is liquidated. Substantially, all nonperforming loans are to borrowers within the State of Washington.

Real estate owned (REO), which is comprised of property from foreclosed real estate loans, decreased \$1.1 million to \$197,000 at December 31, 2001 compared to \$1.3 million at December 31, 2000. During fiscal year 2001, the Company foreclosed and transferred to REO a net \$1.1 million after write downs of \$410,000 on two loans collateralized by real estate. The \$1.1 net addition to REO concerned one commercial and one residential real estate loan. During the year, the Company completed the sale on two foreclosed properties and realized a one-time gain of \$373,000 partially offsetting the writedowns for the year. At December 31, 2001, REO consisted of three foreclosed properties.

Total nonperforming assets totaled \$18.5 million, or 1.24% of period-end assets at December 31, 2001, compared to \$14.9 million, or 1.00% of period-end assets at December 31, 2000.

Nonperforming loans were \$18.4 million, or 1.57% of total loans (excluding loans held for sale) at December 31, 2001, compared to \$13.6 million, or 1.14% of total loans at December 31, 2000 due principally to increases in the commercial business and commercial real estate categories.

Provision and Allowance for Loan Losses

The Company maintains an allowance for loan losses to absorb losses inherent in the loan portfolio. The size of the allowance is determined through quarterly assessments of the probable estimated losses in the loan portfolio. The Company's methodology for making such assessments and determining the adequacy of the allowance includes the following key elements:

1. General Valuation Allowance consistent with SFAS No. 5, "Accounting for Contingencies."
2. Criticized / Classified Loss Reserves on specific relationships.
3. Specific allowances for identified problem loans in accordance with SFAS No. 114, "Accounting by Creditors for Impairment of a Loan."

On a quarterly basis (semi-annual in the case of economic and business conditions reviews) the Chief Credit Officer of the Company reviews with Executive Management and the Board of Directors the various additional factors that management considers when determining the adequacy of the allowance. These factors include the following as of the applicable balance sheet date:

1. Existing general economic and business conditions affecting the Company's market place
2. Credit quality trends, including trends in nonperforming loans
3. Collateral values
4. Seasoning of the loan portfolio
5. Bank regulatory examination results
6. Findings of internal credit examiners

7. Duration of current business cycle

The allowance is increased by provisions charged to operations, and is reduced by loans charged off, net of recoveries.

While management believes it uses the best information available to determine the allowance for loan losses, unforeseen market conditions could result in adjustments to the allowance, and net income could be significantly affected, if circumstances differ substantially from the assumptions used in determining the allowance.

At December 31, 2001, the Company's allowance for loan losses was \$14.7 million, or 1.26% of the total loan portfolio, excluding loans held for sale, and 80.29% of nonperforming loans. This compares with an

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allowance of \$18.8 million, or 1.58% of the total loan portfolio, and 137.7% of nonperforming loans, at December 31, 2000. In the fourth quarter of 2000, deterioration of a single large credit relationship with a principal amount of \$8.0 million caused the Company to place \$6 million of the loan balance on nonaccrual, include it in impaired loans, and specifically allocate \$6 million of the \$18.8 million allowance as a reserve against charge-off of that loan. In the third quarter of 2001, with a slowing economy causing collection of the nonaccrual balance to be even more uncertain, management decided to charge-off the \$6 million specifically reserved for at year-end 2000. In addition, through the balance of 2001, the Company charged-off a net \$3.9 million in loans from other borrowers. These loans were reserved for by the general valuation allowance balance. The decrease in the allowance as a percentage of loans was due to the unusually large net charge-offs of \$9.9 million in 2001 partially offset by \$5.8 million in loan loss provisions during fiscal year 2001. For the years ended December 31, 2000 and 1999, net loan charge-offs amounted to \$976,000 and \$1.4 million, respectively. During 2001, the allowance for loan losses balance decreased \$4.1 million compared with increases of \$8.8 million in 2000 and \$1.0 million in 1999.

During the year 2000, the Company refined its allowance calculations to reflect historical performance of the loan portfolio during the prior five years. Adjustments to the percentages of the allowance allocated to loan categories were made based on trends with respect to delinquencies and problem loans within each pool of loans. During 2001, the Company continued using this methodology for allowance calculations. In addition, the provision for loan losses was increased to reflect management's assessment of economic and business conditions. There were no other significant changes during 2001 in estimation methods or assumptions that affected the Company's methodology for assessing the appropriateness of the allowance.

Management anticipates that normal growth of the loan portfolio, coupled with credit weakness that could occur as a result of a continued slowdown in the local economy may require continued additions to the allowance for loan losses during the year 2002 in excess of historical contributions.

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The following table provides an analysis of net losses by loan type for the last five years.

	December 31,				
	2001	2000	1999	1998	1997
	(dollars in thousands)				
Total loans, net at end of period (1).....	\$1,170,633	\$1,192,520	\$1,048,006	\$828,639	\$685,889
Daily average loans.....	1,218,906	1,149,013	927,373	748,587	613,671
Balance of allowance for loan losses at beginning of period.....	\$ 18,791	\$ 9,967	\$ 9,002	\$ 8,440	\$ 5,282
Charge-offs:					
Commercial business.....	(9,681)	(1,448)	(1,006)	(1,195)	(1,025)
Five or more family residential and commercial properties.....	(11)				
One- to four-family residential construction.....	(109)	(21)	(314)	(57)	(364)
Consumer.....	(247)	(309)	(299)	(333)	(270)
Total charge-offs.....	(10,048)	(1,778)	(1,619)	(1,585)	(1,659)
Recoveries:					
Commercial business.....	138	756	118	175	43
One- to four-family residential.....					1
One- to four-family residential construction.....		8			
Consumer.....	53	38	66	72	47
Total recoveries.....	191	802	184	247	91
Net charge-offs.....	(9,857)	(976)	(1,435)	(1,338)	(1,568)
Provision charged to expense.....	5,800	9,800	2,400	1,900	4,726
Balance of allowance for loan losses at end of period.....	\$ 14,734	\$ 18,791	\$ 9,967	\$ 9,002	\$ 8,440
Net charge-off to average loans outstanding.....	0.81%	0.08%	0.16%	0.18%	0.26%
Allowance for loan losses to total loans.....	1.26	1.58	0.95	1.09	1.23
Allowance for loan losses to nonperforming loans.....	80.29	137.74	219.19	167.14	569.50

(1) Excludes loans held for sale

Loan Loss Allowance Allocation

The table below shows the allocation of the Allowance for Loan Losses for the last five years. The allocation is based on an evaluation of loan problems, historical ratios of loan losses and other factors, which may affect future loan losses in the categories of loans shown.

December 31,										
Balance at End of Period Applicable to: -----	2001		2000		1999		1998		1997	
	% of		% of		% of		% of		% of	
	Amount	Total Loans*	Amount	Total Loans*	Amount	Total Loans*	Amount	Total Loans*	Amount	Total Loans*
(dollars in thousands)										
Commercial business.....	\$11,254	39.9%	\$15,650	41.3%	\$6,388	40.4%	\$5,540	40.0%	\$4,109	39.4%
Real estate and construction:										
One- to- four family residential.....	779	6.3	754	7.5	969	9.3	972	10.6	1,041	14.7
Five or more family residential and commercial properties.....	1,834	44.4	1,892	42.3	1,990	40.4	2,008	38.0	1,414	35.0
Consumer.....	867	9.4	369	8.9	339	9.9	482	11.4	334	10.9
Unallocated.....			126		281				1,542	
Total.....	\$14,734	100.0%	\$18,791	100.0%	\$9,967	100.0%	\$9,002	100.0%	\$8,440	100.0%
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

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

Securities

The Company's securities (securities available for sale and securities held to maturity) increased by \$41.6 million to \$152.3 million from year-end 2000 to year-end 2001. The Company sold \$108.7 million of securities for realized gains of \$1.7 million during 2001. Purchases during the year totaled \$173.9 million while maturities and prepayments totaled \$25.0 million. U.S. Treasury and government agency securities comprise 9% of the investment portfolio, with mortgage-backed securities at 64% and state and municipal securities at 24%. Agency backed mortgage securities comprise approximately 59% of the mortgage backed securities holdings. The average maturity of the securities portfolio was 4 years, 4 months at December 31, 2001.

Approximately 95% of the Company's securities are classified as available for sale and carried at fair value. These securities are used by management as part of its asset/liability management strategy and may be sold in response to changes in interest rates and/or significant prepayment risk. For further information on investment securities, including gross unrealized gains and losses in the portfolio and gross realized gains and losses on sales of securities, see Note 4 to the consolidated financial statements.

Premises and Equipment

In 2001, fixed assets increased \$3.9 million, or 8% from 2000. The net change includes purchases of \$8.9 million, disposals of \$1.6 million and depreciation expense of \$3.4 million. The Company's capital expenditures in 2002 are anticipated to be approximately \$6.8 million. Such expenditures are expected to include approximately \$3.6 million for new buildings and for remodeling existing structures, and \$3.2 million for new furniture, equipment, and software.

Liquidity and Sources of Funds

The Company's primary sources of funds are customer deposits and advances from the FHLB. 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.

Deposit Activities

The Company experienced an overall average deposit increase of 7% in 2001 as compared to 20% growth in 2000. The Company focused on increasing average overall deposits through core deposit growth. Both interest and non-interest bearing demand deposits increased during 2001, which, combined with the growth of savings and money market deposits, resulted in net growth of average core deposits by 10%. Due to uncertain market and economic conditions, many customers chose to move funds into a core deposit account or withdraw funds, rather than renew certificates of deposit or "CDs" as their CDs came to term. Average CDs grew 4% during 2001. At year-end 2001 total deposits decreased \$20 million to \$1.31 billion compared with \$1.33 billion at December 31, 2000. During 2001 there was a substantial shift in the deposit mix as year end core deposits increased \$151.2 million, or 22%, while CDs declined \$171.5 million, or 27%, compared with deposit totals at December 31, 2000. Average core deposits increased by \$64.2 million or 10% while average CD's increased \$19.9 million or 4%. Average interest-bearing and noninterest-bearing demand deposits increased 10% and 9%, respectively, in 2001 and increased 6% and 13%, respectively in 2000.

Average deposits are summarized in the following table:

	Years Ended December 31,				
	2001	2000	1999	1998	1997
(in thousands)					
Demand and other noninterest-bearing \$	226,966	\$ 207,812	\$184,094	\$149,353	\$111,492
Interest-bearing demand(1).....	439,916	399,561	376,079	287,007	223,514
Savings.....	51,380	46,722	45,478	39,768	38,301
Certificates of deposit.....	563,486	543,558	388,445	337,557	282,899
Total interest-bearing deposits.....	1,054,782	989,841	810,002	664,332	544,714
Total average deposits.....	\$1,281,748	\$1,197,653	\$994,096	\$813,685	\$656,206
	=====	=====	=====	=====	=====

(1) Interest-bearing demand deposits include interest-bearing checking accounts and money market accounts.

Average deposit rates

The following table presents the weighted average interest rate for each major category of interest-bearing deposits:

	Years Ended December 31,				
	2001	2000	1999	1998	1997

Interest-bearing demand(1).....	2.67%	3.42%	3.09%	3.43%	3.45%
Savings.....	1.43	2.01	2.06	2.51	2.75
Certificates of deposit.....	5.55	6.08	5.23	5.60	5.66
	----	----	----	----	----
Total interest-bearing deposits.	4.15%	4.82%	4.06%	4.48%	4.55%
	=====	=====	=====	=====	=====

(1) Interest-bearing demand deposits include interest-bearing checking accounts and money market accounts.

The Company has established a branch system catering primarily to retail depositors, supplemented by business customer deposits and other borrowings. The branch system deposits are intended to provide a stable core funding base for the Company. Together with that stable core deposit base, management's strategy for funding growth is also to make use of brokered and other wholesale deposits. The Company's use of brokered and other wholesale deposits decreased in 2001. In the future, management anticipates resuming use of such deposits to fund increasing loan demand or treasury functions. During 2001, total deposits decreased \$20 million to \$1.3 billion at December 31, 2001. Brokered and other wholesale deposits (excluding public deposits) decreased \$12.8 million to \$40.2 million, or 3.1% of total deposits, at December 31, 2001 and \$53.0 million, or 4.0% of total deposits, at December 31, 2000.

Brokered and other wholesale deposits are summarized below. The average interest rate for these deposits was 6.30% and 6.35% at December 31, 2001 and 2000, respectively.

	December 31,			
	2001		2000	
Amount maturing:	Percent of Total		Percent of Total	
	Amount	Deposits	Amount	Deposits

(dollars in thousands)				
Due through 1 year.....	\$19,618	1.50%	\$12,787	0.96%
After 1 but through 3 years.....	20,539	1.57%	35,124	2.65%
After 3 but through 5 years.....			5,071	0.38%
	-----	----	-----	----
Total brokered and other wholesale deposits.....	\$40,157	3.07%	\$52,982	3.99%
	=====	=====	=====	=====

For information regarding maturities of CD's greater than \$100,000 please see Note 8 to the consolidated financial statements.

Borrowings

During 2001, the Company participated in a pooled trust preferred offering. In connection with the transaction, the Company, through its subsidiary trust, issued \$22.0 million of 30 year floating rate capital securities. The capital securities constitute guaranteed preferred beneficial interests in debentures issued by the Company. The debentures had an initial rate of 7.29% and a rate of 5.85% at December 31, 2001. The floating rate is based on the 3-month LIBOR plus 3.58% and is adjusted quarterly. The Company may call the debt at five years for a premium and at ten years at par, allowing the Company to retire the debt early if conditions are favorable. The Company used \$8.0 million of the proceeds from the trust preferred offering to retire outstanding short-term debt and \$9.0 million to repurchase 660,000 shares of its outstanding common stock per its stock repurchase program announced in August 2001.

The Company relies on FHLB advances to supplement its funding sources, and the FHLB serves as another source of long-term borrowings. In addition, the Company uses short-term borrowings from the FHLB when necessary. FHLB advances are secured by one-to-four family real estate mortgages and certain other assets. At December 31, 2001, the Company had FHLB advances of \$40.0 million at an interest rate of 2.3%. At December 31, 2001 the maximum borrowing line from the FHLB was \$224.7 million. Management anticipates that the Company will continue to rely on the same sources of funds in the future, and will use those funds primarily to make loans and purchase securities.

The details of short-term borrowings were as follows:

	Years Ended December 31,		
	2001	2000	1999
	(in thousands)		
Short-term borrowings			
Balance at year-end.....		\$ 40,000	\$83,700
Average balance during the year.....	\$30,683	54,813	12,763
Maximum month-end balance during the year	62,600	101,000	83,700
Weighted average rate during the year....	5.37%	6.62%	5.34%
Weighted average rate at December 31,....	2.10	6.90	5.70

Interest Rate Sensitivity

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

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

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

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

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

The Company maintains an asset/liability management policy that provides guidelines for controlling exposure to interest rate risk. The guidelines direct management to assess the impact of changes in interest rates upon both earnings and capital. The guidelines further provide that in the event of an increase in interest rate risk beyond preestablished limits, management will consider steps to reduce interest rate risk to acceptable levels.

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

The following table sets forth the estimated maturity or repricing, and the resulting interest rate gap of the Company's interest-earning assets and interest-bearing liabilities at December 31, 2001. The amounts in the table are derived from the Company's internal data and are based upon regulatory reporting formats. Therefore, they may not be consistent with financial information appearing elsewhere herein that has been prepared in accordance with generally accepted accounting principles. The amounts could be significantly affected by external factors such as changes in prepayment assumptions, early withdrawal of deposits and competition. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while other types may lag behind changes in market interest rates. Additionally, certain assets, such as adjustable-rate mortgages, have features, which restrict changes in the interest rates of such assets both on a short-term basis and over the lives of such assets. Further, in the event of a change in market interest rates, prepayment and early withdrawal levels could deviate significantly from those assumed in calculating the tables. Finally, the ability of many borrowers to service their adjustable-rate debt may decrease in the event of a substantial increase in market interest rates.

	Estimated Maturity or Repricing				
-	0-3	4-12	1-5	5-10	More than

December 31, 2001	months	months	years	years	10 years	Total
-----	-----	-----	-----	-----	-----	-----
(dollars in thousands)						
Interest-Earning Assets						
Interest-earning deposits.....	\$ 9,361					\$ 9,361
Securities.....	910	\$ 1,165	\$ 10,768	\$16,268	\$132,351	161,462
Loans:						
Business and commercial real estate.....	459,032	43,349	260,442	21,863	26,955	811,641
One- to four-family and owner-occupied residential real estate.....	74,008	47,168	117,806	6,138	12,393	257,513
Consumer.....	55,102	6,555	27,426	13,157	10,829	113,069
Total interest-earning assets.....	\$598,413	\$ 98,237	\$ 416,442	\$57,426	\$182,528	\$1,353,046
	=====	=====	=====	=====	=====	=====
Noninterest-earning assets.....		17,774			127,474	145,248
Total assets.....	\$598,413	\$ 116,011	\$ 416,442	\$57,426	\$310,002	1,498,294
	=====	=====	=====	=====	=====	=====
Percent of total interest-earning assets.....	44.23%	7.26%	30.78%	4.24%	13.49%	100.00%
	=====	=====	=====	=====	=====	=====
Interest-Bearing Liabilities						
Deposits:						
Money market checking.....	\$131,290	\$ 131,290	\$ 131,289			\$ 393,869
NOW accounts.....	30,825		123,299			154,124
Savings accounts.....	18,527			\$18,527	\$ 18,528	55,582
Time certificates of deposit.....	178,387	236,192	45,625			460,204
FHLB advances.....			40,000			40,000
Trust preferred obligations.....	22,000					22,000
Total interest-bearing liabilities.....	\$381,029	\$ 367,482	\$340,213	\$18,527	\$ 18,528	\$1,125,779
	=====	=====	=====	=====	=====	=====
Noninterest-bearing liabilities and equity.....	194,665		48,307		129,543	372,515
Total liabilities and equity.....	\$575,694	\$ 367,482	\$ 388,520	\$18,527	\$148,071	\$1,498,294
	=====	=====	=====	=====	=====	=====
Interest-bearing liabilities as a percent of total interest-earning assets.....	28.16%	27.16%	25.14%	1.37%	1.37%	83.20%
	=====	=====	=====	=====	=====	=====
Rate sensitivity gap.....	\$217,384	\$(269,245)	\$ 76,229	\$38,899	\$164,000	\$ 227,267
Cumulative rate sensitivity gap.....	217,384	(51,861)	24,368	63,267	227,267	
	=====	=====	=====	=====	=====	=====
Rate sensitivity gap as a percentage of interest-earning assets.....	16.07%	(19.90)%	5.64%	2.87%	12.12%	16.80%
Cumulative rate sensitivity gap as a percentage of interest-earning assets.....	16.07%	(3.83)%	1.80%	4.68%	16.80%	
	=====	=====	=====	=====	=====	=====

Interest Rate Sensitivity on Net Interest Income

A number of measures are used to monitor and manage interest rate risk, including income simulations and interest sensitivity (gap) analyses. An income simulation model is the primary tool used by the Company to assess the direction and magnitude of changes in net interest income resulting from changes in interest rates. Key assumptions in the model include prepayment speeds on mortgage-related assets, cash flows and maturities of other investment securities, loan and deposit volumes and pricing. These assumptions are inherently uncertain 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.

Based on the results of the simulation model as of December 31, 2001 the Company would expect an increase in net interest income of \$600,000 and an increase in net interest income of \$1.7 million if interest rates gradually decrease or increase, respectively, from current rates by 100 basis points over a twelve-month period. Based on the results of the simulation model as of December 31, 2000, the Company would expect a decrease in net interest income of \$923,000 and a decrease in net interest income of \$665,000 if interest rates gradually decrease or increase, respectively, from current rates by 100 basis points over a twelve-month period. The simulation analysis assumes rates on core deposits lag increases and decreases of interest rates, generally.

The following table sets forth the amounts of the changes in consolidated net interest income attributable to changes in volume and changes in interest rates for the Company. 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.

	2001 Compared to 2000			2000 Compared to 1999		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
	Volume	Rate	Total	Volume	Rate	Total
(in thousands)						
Interest Income/(1)/						
Loans:						
Commercial business.....	\$ 832	\$ (7,984)	\$(7,152)	\$ 9,710	\$3,232	\$12,942
One- to four-family residential.....	83	(1,071)	(988)	1,532	420	1,952
Five or more family residential and commercial properties.....	4,374	(946)	3,428	7,286	1,160	8,446
Consumer.....	640	(1,115)	(475)	1,052	638	1,690
	-----	-----	-----	-----	-----	-----
Total loans.....	5,929	(11,116)	(5,187)	19,580	5,450	25,030
Securities.....	175	(76)	99	(92)	159	67
Interest-earning deposits with banks...	799	(978)	(179)	349	252	601

Total interest revenue (TE).....	\$ 6,903	\$(12,170)	\$(5,267)	\$19,837	\$5,861	\$25,698
	=====	=====	=====	=====	=====	=====
Interest Expense						
Deposits:						
Certificates of deposit.....	\$ 1,288	\$ (3,067)	\$(1,779)	\$ 9,054	\$3,667	\$12,721
Savings accounts.....	108	(312)	(204)	15	(14)	1
Interest-bearing demand.....	1,640	(3,556)	(1,916)	755	1,287	2,042
	-----	-----	-----	-----	-----	-----
Total interest on deposits.....	3,036	(6,935)	(3,899)	9,824	4,940	14,764
Federal Home Loan Bank advances.....	(1,259)	(681)	(1,940)	1,201	490	1,691
Other borrowings.....	536	(58)	478	425	5	430
	-----	-----	-----	-----	-----	-----
Total interest expense.....	\$ 2,313	\$ (7,674)	\$(5,361)	\$11,450	\$5,435	\$16,885
	=====	=====	=====	=====	=====	=====

TE = Taxable Equivalent
(1) Nonaccrual loans were included in their respective loan categories. Amortization net deferred loan fees were included in the interest income calculations. The amortization of net deferred loan fees was \$1.8 million in 2001, \$1.4 million in 2000, and \$962,000 in 1999.

Income Tax

For the years ending December 31, 2001, 2000 and 1999, the Company recorded income tax provisions of \$6.4 million, \$5.2 million and \$5.9 million, respectively.

Capital

The Company's shareholders' equity increased to \$119.0 million at December 31, 2001, from \$113.8 million at December 31, 2000 and \$99.2 million at December 31, 1999. The increase is due primarily to net income for the year of \$12.5 million, offset in part by the Company's repurchase of 660,000 shares of its outstanding common stock for a total consideration of \$9.0 million. Shareholders' equity was 7.94%, 7.61%, and 8.02% of total assets at December 31, 2001, 2000 and 1999, respectively.

Banking regulations require bank holding companies to maintain a minimum "leverage" ratio of core capital to adjusted quarterly average total assets of at least 3%. At December 31, 2001, the Company's leverage ratio was 9.72% compared with 7.77% at December 31, 2000 and 8.46% at December 31, 1999. In addition, banking regulators have adopted risk-based capital guidelines, under which risk percentages are assigned to various categories of assets and off-balance sheet items to calculate a risk-adjusted capital ratio. Tier I capital generally consists of common shareholders' equity and trust preferred obligations, less goodwill and certain identifiable intangible assets, while Tier II capital includes the allowance for loan losses and subordinated debt, both subject to certain limitations. Regulatory minimum risk-based capital guidelines require Tier I capital of 4% of risk-adjusted assets and total capital (combined Tier I and Tier II) of 8% to be considered "adequately capitalized". The Company's Tier I and total capital ratios were 10.55% and 11.65%, respectively, at December 31, 2001, compared with 8.58% and 9.54%, respectively, at December 31, 2000.

Federal Deposit Insurance Corporation regulations set forth the qualifications necessary for a bank to be classified as "well capitalized", primarily for assignment of FDIC insurance premium rates. To qualify as "well capitalized," banks must have a Tier I risk-adjusted capital ratio of at least 6%, a total risk-adjusted capital ratio of at least 10%, and a leverage ratio of at least 5%. Failure to qualify as "well capitalized" can negatively impact a bank's ability to expand and to engage in certain activities. Management believes, as of December 31, 2001, that the Bank meets all capital adequacy requirements, and qualifies as "well capitalized" as defined by regulations. Applicable federal and Washington state regulations restrict capital distributions by institutions such as Columbia Bank, including dividends. Such restrictions are tied to the institution's capital levels after giving effect to distributions. The Company's ability to pay cash dividends is substantially dependent upon receipt of dividends from the Bank.

On May 15, 2001, the Company announced a 10% stock dividend payable on June 12, 2001, to shareholders of record on May 29, 2001. Average shares outstanding and net income per share for all periods presented have been retroactively adjusted to give effect to this transaction. On April 25, 2000, the Company announced a 10% stock dividend payable on May 24, 2000, to shareholders of record on May 10, 2000 and on April 28, 1999, the Company announced a 5% stock dividend payable on May 26, 1999, to shareholders of record on May 12, 1999.

During 2001, the Company participated in a pooled trust preferred offering. In connection with the transaction, the Company, through its subsidiary trust, issued \$22.0 million of 30 year floating rate capital securities. The capital securities constitute guaranteed preferred beneficial interests in debentures issued by the Company. The Company has used \$8.0 million of the proceeds from the trust preferred offering to retire outstanding short-term debt and \$9.0 million to repurchase 660,000 shares of its outstanding common stock per its stock repurchase program announced in August 2001. Under the stock repurchase program, the Company systematically purchased 660,000 of its outstanding shares of Common Stock, representing approximately 5% of the 13.1 million common shares outstanding at the time the repurchase program was announced.

Unregistered Securities Offerings

The Company has issued securities in unregistered offerings pursuant to state and federal exemptions from registration during prior years as follows. No underwriters were involved in any of these issuances. The proceeds from each of these offerings, if any, were used for working capital.

Management Restricted Stock Purchases

2001 Issuances. There were no management restricted stock purchases in 2001.

2000 Issuances. In 2000, the Company sold an aggregate of 50,000 shares of restricted common stock to four of its senior Executives, in return for a full recourse promissory note from each executive. These notes are due on or before the seventh anniversary of the note, for the full amount of the purchase price of the shares, with interest payable annually at the fixed rate of 5.87% per annum, the mid-term federal rate established by the Internal Revenue Service and effective in the month of December 2000. Specifically, the Company issued 15,000 shares each to Mr. Gallagher and Ms. Dressel in exchange for a \$196,875 promissory note from each, and 10,000 shares each to Messrs. Russell and Whitney in exchange for a \$131,250 promissory note from each. These issuances were exempt from registration pursuant to Section 4(2) of the Act.

Impact of Inflation and Changing Prices

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

Business Segment Information

The Company is managed along three major lines of business: commercial banking, retail banking, and real estate lending. The treasury function of the Company, although not considered a line of business, is responsible for the management of investments and interest rate risk. For a more detailed discussion of the Company's business segments and financial highlights by lines of business, see Note 16 to the consolidated financial statements.

COLUMBIA BANKING SYSTEM, INC.

SUMMARY OF QUARTERLY FINANCIAL INFORMATION

Quarterly financial information for the years ended December 31, 2001 and 2000 is summarized as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year Ended December 31,
	-----	-----	-----	-----	-----
	(in thousands, except per share amounts)				
2001					
Total interest income.....	\$28,647	\$27,115	\$25,636	\$23,174	\$104,572
Total interest expense.....	14,378	12,744	10,666	8,579	46,367
	-----	-----	-----	-----	-----
Net interest income.....	14,269	14,371	14,970	14,595	58,205
Provision for loan losses.....	900	900	1,250	2,750	5,800
Noninterest income.....	3,325	3,854	4,159	6,113	17,451
Noninterest expense.....	11,932	13,158	12,711	13,153	50,954
	-----	-----	-----	-----	-----
Income before income tax.....	4,762	4,167	5,168	4,805	18,902
Provision for income tax.....	1,633	1,424	1,696	1,636	6,389
	-----	-----	-----	-----	-----
Net income.....	\$ 3,129	\$ 2,743	\$ 3,472	\$ 3,169	\$ 12,513
	=====	=====	=====	=====	=====
Net income per common share:					
Basic.....	\$ 0.24	\$ 0.21	\$ 0.27	\$ 0.25	\$ 0.97
Diluted.....	0.24	0.21	0.26	0.25	0.96
	=====	=====	=====	=====	=====
2000					
Total interest income.....	\$24,813	\$27,010	\$28,348	\$29,825	\$109,996
Total interest expense.....	10,959	12,561	13,495	14,713	51,728
	-----	-----	-----	-----	-----
Net interest income.....	13,854	14,449	14,853	15,112	58,268
Provision for loan losses.....	900	900	900	7,100	9,800
Noninterest income.....	2,593	2,907	3,018	3,069	11,587
Noninterest expense.....	10,823	11,284	11,305	11,341	44,753
	-----	-----	-----	-----	-----
Income (loss) before income tax.	4,724	5,172	5,666	(260)	15,302
Provision for income tax.....	1,628	1,781	1,947	(124)	5,232
	-----	-----	-----	-----	-----
Net income (loss).....	\$ 3,096	\$ 3,391	\$ 3,719	\$ (136)	\$ 10,070
	=====	=====	=====	=====	=====
Net income (loss) per common share:					
Basic.....	\$ 0.24	\$ 0.27	\$ 0.29	\$ (0.01)	\$ 0.78
Diluted.....	0.24	0.26	0.28	(0.01)	0.76
	=====	=====	=====	=====	=====

QUARTERLY COMMON STOCK PRICES AND DIVIDEND PAYMENTS

The Company's common stock trades on The Nasdaq Stock Market under the symbol COLB. Price information generally appears daily in the Nasdaq National Market Issues section of The Wall Street Journal and in most major Pacific Northwest metropolitan newspapers. On December 31, 2001, the last sale price for the Company's stock in the over-the-counter market was \$13.05.

The Company presently intends to retain earnings to support anticipated growth. Accordingly, the Company does not intend to pay cash dividends on its common stock in the foreseeable future. Please refer to the "Capital" section of the "Management Discussion and Analysis of Financial Condition and Results of Operations" and Notes 3 and 12 to the consolidated financial statements, contained elsewhere in this report, for regulatory capital requirements and restrictions on dividends to shareholders.

At January 31, 2002, the number of shareholders of record was 1,368. This figure does not represent the actual number of beneficial owners of common stock because shares are frequently held in "street name" by securities dealers and others for the benefit of individual owners who may vote the shares.

The following are high and low sales prices as reported in Nasdaq according to information furnished by the National Association of Securities Dealers. Prices do not include retail mark-ups, mark-downs or commissions. Effective April 9, 2001 Nasdaq required that all trades be completed in decimal format. The following high and low sales prices are presented in decimal format.

2001	High	Low
----	-----	-----
First quarter (1)...	\$14.94	\$ 9.15
Second quarter.....	14.00	9.77
Third quarter.....	14.47	11.11
Fourth quarter.....	14.50	11.25
For the year.....	\$14.94	\$ 9.15
2000	High	Low
----	-----	-----
First quarter (1)(2)	\$11.78	\$ 9.30
Second quarter (1)..	11.82	9.09
Third quarter (1)...	12.96	10.97
Fourth quarter (1)..	14.15	11.31
For the year.....	\$14.15	\$ 9.09

(1) Restated for a 10% stock dividend paid on June 12, 2001.

(2) Restated for a 10% stock dividend paid on May 24, 2000.

Effects of Governmental Monetary Policies

Profitability in banking depends on interest rate differentials. In general, the difference between the interest earned on a bank's loans, securities and other interest-earning assets and the interest paid on a bank's deposits and other interest-bearing liabilities are the major source of a bank's earnings. Thus, the earnings and growth of the Company are affected not only by general economic conditions, but also by the monetary and fiscal policies of the United States and its agencies, particularly the Federal Reserve. The Federal Reserve System implements national monetary policy for such purposes as controlling inflation and recession by its open-market operations in United States government securities, control of the discount rate applicable to borrowings from the Federal Reserve and the establishment of reserve requirements against certain deposits. The actions of the Federal Reserve in these areas influence growth of bank loans, investments and deposits and also affect interest rates charged on loans and paid on deposits. The nature and impact of future changes in monetary policies and their impact on the Company are not predictable.

Supervision and Regulation

The Company is a bank holding company within the meaning of the Bank Holding Company Act of 1956 ("BHC Act") registered with and subject to examination by the Board of Governors of the Federal Reserve System ("FRB"). The Company's bank subsidiary is a Washington-state chartered commercial bank and is subject to examination, supervision, and regulation by the Washington State Department of Financial Institutions--Division of Banks ("Division"). The FDIC insures Columbia Bank's deposits and in that capacity also regulates Columbia Bank.

The Company's earnings and activities are affected by legislation, by actions of the FRB, the Division, the FDIC and other regulators, and by local legislative and administrative bodies and decisions of courts in Washington State. For example, these include limitations on the ability of Columbia Bank to pay dividends to the Company, numerous federal and state consumer protection laws imposing requirements on the making, enforcement, and collection of consumer loans, and restrictions by regulators on the sale of mutual funds and other uninsured investment products to customers.

Congress enacted major federal financial institution legislation in 1999. Title I of the Gramm-Leach-Bliley Act (the "GLB Act"), which became effective March 11, 2000, allows bank holding companies to elect to become financial holding companies. In addition to the activities previously permitted bank holding companies, financial holding companies may engage in non-banking activities that are financial in nature, such as securities, insurance, and merchant banking activities, subject to certain limitations. It is likely that the Company will utilize the new structure to accommodate an expansion of its products and services.

The activities of bank holding companies, such as the Company, that are not financial holding companies are generally limited to managing or controlling banks. A bank holding company is required to obtain the prior approval of the FRB for the acquisition of more than 5% of the outstanding shares of any class of voting securities or substantially all of the assets of any bank or bank holding company. Nonbank activities of a bank holding company are also generally limited to the acquisition of up to 5% of the voting shares and activities previously determined by the FRB by regulation or order to be closely related to banking, unless prior approval is obtained from the FRB.

The GLB Act also included the most extensive consumer privacy provisions

ever enacted by Congress. These provisions, among other things, require full disclosure of the Company's privacy policy to consumers and mandate offering the consumer the ability to "opt out" of having non-public personal information disclosed to third parties. Pursuant to these provisions, the federal banking regulators have adopted privacy regulations. In addition, the states are permitted to adopt more extensive privacy protections through legislation or regulation.

Additional legislation may be enacted or regulations imposed to further regulate banking and financial services or to limit finance charges or other fees or charges earned in such activities. There can be no assurance whether any such legislation or regulation will place additional limitations on the Company's operations or adversely affect its earnings.

There are various legal restrictions on the extent to which a bank holding company and certain of its nonbank subsidiaries can borrow or otherwise obtain credit from banking subsidiaries or engage in certain other transactions with or involving those banking subsidiaries. With certain exceptions, federal law imposes limitations on, and requires collateral for, extensions of credit by insured depository institutions, such as Columbia Bank, and to their non-bank affiliates, such as the Company.

Subject to certain limitations and restrictions, a bank holding company, with prior approval of the FRB, may acquire an out-of-state bank. Banks in states that do not prohibit out-of-state mergers may merge with the approval of the appropriate federal banking agency. A state bank may establish a de novo branch out of state if such branching is expressly permitted by the other state.

Among other things, applicable federal and state statutes and regulations which govern a bank's activities relate to minimum capital requirements, required reserves against deposits, investments, loans, legal lending

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limits, mergers and consolidations, borrowings, issuance of securities, payment of dividends, establishment of branches and other aspects of its operations. The Division and the FDIC also have authority to prohibit banks under their supervision from engaging in what they consider to be unsafe and unsound practices.

Specifically with regard to the payment of dividends, there are certain limitations on the ability of the Company to pay dividends to its shareholders. It is the policy of the FRB that bank holding companies should pay cash dividends on common stock only out of income available over the past year and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. The policy provides that bank holding companies should not maintain a level of cash dividends that undermines the bank holding company's ability to serve as a source of strength to its banking subsidiaries.

Various federal and state statutory provisions also limit the amount of dividends that subsidiary banks can pay to their holding companies without regulatory approval. Additionally, depending upon the circumstances, the FDIC or the Division could take the position that paying a dividend would constitute an unsafe or unsound banking practice.

Under longstanding FRB policy, a bank holding company is expected to act as a source of financial strength for its subsidiary banks and to commit resources to support such banks. The Company could be required to commit resources to its subsidiary banks in circumstances where it might not do so, absent such policy.

The Company and Columbia Bank are subject to risk-based capital and leverage guidelines issued by federal banking agencies for banks and bank holding companies. These agencies are required by law to take specific prompt corrective actions with respect to institutions that do not meet minimum capital standards and have defined five capital tiers, the highest of which is "well-capitalized."

Columbia Bank is required to file periodic reports with the FDIC and the Division and is subject to periodic examinations and evaluations by those regulatory authorities. These examinations must be conducted every 12 months, except that certain well-capitalized banks may be examined every 18 months. The FDIC and the Division may each accept the results of an examination by the other in lieu of conducting an independent examination.

In the liquidation or other resolution of a failed insured depository institution, deposits in offices and certain claims for administrative expenses and employee compensation are afforded a priority over other general unsecured claims, including non-deposit claims, and claims of a parent company such as the Company. Such priority creditors would include the FDIC, which succeeds to the position of insured depositors.

The Company is also subject to the information, proxy solicitation, insider trading restrictions and other requirements of the Securities Exchange Act of 1934.

The earnings of the Company are affected by general economic conditions and the conduct of monetary policy by the U.S. government.

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EXECUTIVE OFFICERS AND EMPLOYEES

Executive Officers of the Company

The following table sets forth certain information about the executive officers of the Company.

Name	Age	Position	an Officer of the Company Since
-----	---	-----	-----
J. James Gallagher	(1) 63	Director, Vice Chairman and Chief Executive Officer	1998
Melanie J. Dressel	(2) 49	Director, President and Chief Operating Officer--the Company; President and Chief Executive Officer-- Columbia Bank	1993
Donald L. Hirtzel	(3). 55	Executive Vice President, Corporate Banking	2000
H. R. Russell	(4)..... 47	Executive Vice President--Senior Credit Officer	1993
Gary R. Schminkey	(5). 44	Executive Vice President and Chief Financial Officer	1993
Evans Q. Whitney	(6).. 58	Executive Vice President, Retail Banking	1993

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- (1) Mr. Gallagher assumed the position of Chief Executive Officer of the Company on January 1, 2000. Prior to that time and since July 1998, Mr. Gallagher served as Vice Chairman. From January 1994 until his appointment at Columbia, Mr. Gallagher was a principal of Gordon, Thomas, Honeywell, Malanca, Peterson & Daheim, P.L.L.C., a law firm headquartered in Tacoma, Washington, where he served as outside legal counsel for the Company. Mr. Gallagher, who is a former bank regulator, has over 30 years of experience as legal counsel to financial institutions throughout the Northwest.
- (2) Ms. Dressel assumed the position of President and Chief Operating Officer of the Company and Chief Executive Officer of Columbia Bank on January 1, 2000. Prior to that time and since July 1998, Ms. Dressel served Columbia Bank as President and Chief Operating Officer and, since May 1997, as Executive Vice President. Prior to that time and since June 1993, Ms. Dressel served Columbia Bank as Senior Vice President--Private Banking. Ms. Dressel also served as Executive Vice President of the Company since May 1997. She became a Director of the Company in 1998. Ms. Dressel served as Senior Vice President and directed the private banking division of Puget Sound National Bank for nearly five years and was employed by the Bank of California for over 14 years.
- (3) Mr. Hirtzel joined Columbia Bank as an Executive Vice President and Northern Region Manager in 2000. In 2001, he was appointed Executive Vice President, Corporate Banking with responsibilities for production of the commercial bank. Prior to joining Columbia Bank, Mr. Hirtzel was employed by US Bank as its Senior Vice President and Region Manager of Business Banking. A banker for 33 years, Mr. Hirtzel's career has included serving as a team leader of corporate banking in Bellevue, a region manager of business banking for Seattle and the Greater Eastside, an area executive for a group of branches, and a branch manager serving with Rainier Bank, Security Pacific Bank, West One Bank and US Bank through a series of mergers and acquisitions.
- (4) Mr. Russell joined Columbia Bank as Senior Vice President--Commercial Loans in October 1993. He was appointed Executive Vice President--Senior Credit Officer for Columbia Bank in May 1997. Mr. Russell was employed by Puget Sound National Bank and its successor institution for nearly 14 years, having served as Vice President--Commercial Loan Officer from 1991 to 1993.
- (5) Mr. Schminkey joined Columbia Bank as Vice President and Controller in March 1993. In 1994, he was appointed Senior Vice President--Chief Financial Officer of Columbia Bank and the Company and subsequently was appointed Executive Vice President--Chief Financial Officer in December 1998. Mr. Schminkey was employed by PSB, Puget Sound National Bank and its successor institution for nearly 10 years, having served from 1991 to 1993 as Assistant Vice President--Assistant Controller for PSB and during that same period as Vice President--Accounting and Finance for Puget Sound National Bank and its successor institution.

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- (6) Mr. Whitney joined Columbia Bank as Senior Vice President--Human Resources in March 1993. In July 1998, Mr. Whitney was appointed Executive Vice President--Retail Banking--for Columbia Bank and the Company. Mr. Whitney was employed by PSB and Puget Sound National Bank for nearly 27 years, having served as Senior Vice President--Human Resources for PSB and Puget Sound National Bank from 1991 to 1993.

All officers are elected by the Board of Directors and serve at the pleasure of the Board for an unspecified term.

Employees

At December 31, 2001, the Company had 580 full-time equivalent employees. The Company has placed a high priority on staff development. This development involves selective hiring and extensive training (including customer service training). New hires are selected on the basis of both technical skills and customer service capabilities. Emphasis has been placed upon hiring and retaining additional key officers in areas such as lending, administration and finance. None of the Company's employees are covered by a collective bargaining agreement with the Company, and management believes that its relationship with its employees is satisfactory.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Columbia Banking System, Inc. and its subsidiary (the Company) as of December 31, 2001

and 2000, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Columbia Banking System, Inc. and subsidiary as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

/s/ Signature of Deloitte & Touche LLP

Seattle, Washington
February 7, 2002

COLUMBIA BANKING SYSTEM, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years ended December 31,		
	2001	2000	1999
	(in thousands except per-share)		
Interest Income			
Loans.....	\$ 97,650	\$102,838	\$77,807
Securities available for sale.....	5,596	5,650	5,619
Securities held to maturity.....	265	268	287
Deposits in other banks.....	1,061	1,240	639
Total interest income.....	104,572	109,996	84,352
Interest Expense			
Deposits.....	43,763	47,662	32,898
Federal Home Loan Bank advances.....	1,690	3,630	1,939
Trust preferred obligations.....	635		
Other borrowings.....	279	436	6
Total interest expense.....	46,367	51,728	34,843
Net Interest Income.....	58,205	58,268	49,509
Provision for loan losses.....	5,800	9,800	2,400
Net interest income after provision for loan losses.	52,405	48,468	47,109
Noninterest Income			
Service charges and other fees.....	7,182	6,295	5,812
Mortgage banking.....	2,652	756	1,063
Merchant services fees.....	4,453	3,671	2,655
Gain on sale of securities available for sale, net.....	1,720		
Other.....	1,444	865	616
Total noninterest income.....	17,451	11,587	10,146
Noninterest Expense			
Compensation and employee benefits.....	26,826	22,778	19,789
Occupancy.....	7,563	6,092	6,520
Merchant processing.....	1,852	1,989	1,359
Advertising and promotion.....	1,763	1,602	1,712
Data processing.....	1,921	2,294	1,976
Taxes, licenses and fees.....	2,060	2,055	1,485
Other.....	8,969	7,943	6,803
Total noninterest expense.....	50,954	44,753	39,644
Income before income taxes.....	18,902	15,302	17,611
Provision for income taxes.....	6,389	5,232	5,941
Net Income.....	\$ 12,513	\$ 10,070	\$11,670
Net Income Per Common Share:			
Basic.....	\$ 0.97	\$ 0.78	\$ 0.91
Diluted.....	0.96	0.76	0.89
Average number of common shares outstanding.....	12,893	12,846	12,817
Average number of diluted common shares outstanding....	13,068	13,170	13,120

See accompanying notes to consolidated financial statements.

COLUMBIA BANKING SYSTEM, INC.

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2001	2000
	(in thousands)	
ASSETS		
Cash and due from banks.....	\$ 57,628	\$ 72,292
Interest-earning deposits with banks.....	9,361	48,153
Total cash and cash equivalents.....	66,989	120,445
Securities available for sale at fair value (amortized cost of \$145,550 and \$103,985 respectively).....	144,465	103,287
Securities held to maturity (fair value of \$8,024 and \$7,501 respectively).....	7,856	7,435
FHLB stock.....	9,141	8,539
Loans held for sale.....	29,364	14,843
Loans, net of unearned income of (\$2,894) and (\$3,043), respectively.....	1,170,633	1,192,520
Less: allowance for loan losses.....	14,734	18,791
Loans, net.....	1,155,899	1,173,729
Interest receivable.....	6,405	10,306
Premises and equipment, net.....	52,297	48,357
Real estate owned.....	197	1,291
Other.....	25,681	8,263
Total Assets.....	\$1,498,294	\$1,496,495
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing.....	\$ 242,971	\$ 232,247
Interest-bearing.....	1,063,779	1,094,776
Total deposits.....	1,306,750	1,327,023
Federal Home Loan Bank advances.....	40,000	40,000
Trust preferred obligations.....	21,367	
Other borrowings.....		4,500
Other liabilities.....	11,211	11,149
Total liabilities.....	1,379,328	1,382,672
Commitments and contingent liabilities (Note 14)		
Shareholders' equity:		
Preferred stock (no par value)		
Authorized, 2 million shares; none outstanding		

	December 31,			
	2001	2000		
Common stock (no par value)				
Authorized shares.....	57,173	57,173		
Issued and outstanding.....	12,577	13,059	101,892	92,673
Retained earnings.....			17,779	21,649
Accumulated other comprehensive income (loss)--				
Unrealized losses on securities available for sale, net of tax.			(705)	(499)
Total shareholders' equity.....			118,966	113,823
Total Liabilities and Shareholders' Equity.....			\$1,498,294	\$1,496,495

See accompanying notes to consolidated financial statements.

COLUMBIA BANKING SYSTEM, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Number of Shares	Amount			
			(in thousands)		
Balance at January 1, 1999.....	12,807	\$ 68,612	\$ 20,616	\$ 338	\$ 89,566
Comprehensive income:					
Net income.....			11,670		
Change in unrealized gains (losses) on securities available for sale, net of tax of \$1,713.....				(3,325)	
Total comprehensive income.....					8,345
Issuance of stock under stock option and other plans.....	49	1,303			1,303
Issuance of shares of common stock--5% stock dividend.....		8,370	(8,370)		
Balance at December 31, 1999.....	12,856	\$ 78,285	\$ 23,916	(\$ 2,987)	\$ 99,214
Comprehensive income:					
Net income.....			10,070		
Change in unrealized gains (losses) on securities available for sale, net of tax of \$1,295.....				2,488	
Total comprehensive income.....					12,558
Issuance of stock under stock option and other					

plans.....	203	1,673			1,673
Tax benefits from exercise of stock options.....		378			378
Issuance of shares of common stock--10% stock dividend.....		12,337	(12,337)		
Balance at December 31, 2000.....	13,059	\$ 92,673	\$ 21,649	\$ (499)	\$113,823
Comprehensive income:					
Net income.....			12,513		
Less reclassification of net gains on securities available for sale included in net income, net of tax of \$602.....				1,118	
Change in unrealized gains (losses) on securities available for sale, net of tax of \$491.....				912	
Total comprehensive income.....					12,307
Issuance of stock under stock option and other plans.....	178	1,796			1,796
Issuance of shares of common stock--10% stock dividend.....		16,383	(16,383)		
Retirement of shares of common stock--Stock repurchase plan.....	(660)	(8,960)			(8,960)
Balance at December 31, 2001.....	12,577	\$101,892	\$ 17,779	(\$ 705)	\$118,966
	=====	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

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COLUMBIA BANKING SYSTEM, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	2001	2000	1999
	-----	-----	-----
	(in thousands)		
Operating Activities			
Net income.....	\$ 12,513	\$ 10,070	\$ 11,670
Adjustments to reconcile net income to net cash provided (used) by operating activities:			
Provision for loan losses.....	5,800	9,800	2,400
Deferred income tax expense (benefit).....	1,374	(2,235)	(724)
(Gains) losses on real estate owned.....	(373)	224	4
Depreciation and amortization.....	1,520	1,923	2,270
Net realized (gains) losses on sale of assets.....	(1,693)	16	2
(Increase) decrease in loans held for sale.....	(14,521)	(9,364)	4,544
Decrease (increase) in interest receivable.....	3,901	(2,697)	(1,189)
Net changes in other assets and liabilities.....	(18,562)	3,444	(452)
Net cash (used) provided by operating activities.....	(10,041)	11,181	18,525
Investing Activities			
Proceeds from sales of securities available for sale.....	98,369		
Proceeds from maturities of securities available for sale.....	18,166	83	15,191
Purchase of securities available for sale.....	(66,998)	(19,215)	(8,150)
Proceeds from sales of mortgage-backed securities available for sale	10,376		
Proceeds from maturities of mortgage-backed securities available for sale.....	6,068	727	625
Purchase of mortgage-backed securities available for sale.....	(105,717)		
Proceeds from maturities of securities held to maturity.....	778	933	1,559
Purchases of securities held to maturity.....	(1,200)	(1,286)	(2,287)
Purchases of FHLB stock.....	(602)	(1,623)	(927)
Loans originated and acquired, net of principal collected.....	12,788	(145,113)	(220,761)
Purchases of premises and equipment.....	(8,863)	(12,556)	(5,324)
Proceeds from disposal of premises and equipment.....	1,447	15	10
Proceeds from sale of real estate owned.....	2,543	772	562
Other, net.....			(446)
Net cash used by investing activities.....	(32,845)	(177,263)	(219,948)
Financing Activities			
Net (decrease) increase in deposits.....	(20,273)	283,479	105,199
Net (decrease) increase in other borrowings.....	(4,500)	1,500	3,000
Proceeds from FHLB advances.....	40,000	40,000	83,700
Repayment of FHLB advances.....	(40,000)	(83,700)	(25,000)
Proceeds from trust preferred obligations.....	22,000		
Payment of trust preferred placement fee.....	(661)		
Tax benefits from exercise of stock options.....		378	
Repurchase of common stock.....	(8,960)		
Proceeds from issuance of common stock, net.....	1,796	1,673	1,303
Other, net.....	28		
Net cash (used) provided by financing activities.....	(10,570)	243,330	168,202
(Decrease) increase in cash and cash equivalents.....	(53,456)	77,248	(33,221)
Cash and cash equivalents at beginning of period.....	120,445	43,197	76,418
Cash and cash equivalents at end of period.....	\$ 66,989	\$ 120,445	\$ 43,197
	=====	=====	=====
Supplemental information:			
Cash paid for interest.....	\$ 48,871	\$ 48,411	\$ 33,734
Cash paid for income taxes.....	4,914	7,227	6,586
Noncash investing and financing activities:			
Loans foreclosed and transferred to real estate owned.....	\$ 1,076	\$ 1,024	\$ 921

See accompanying notes to consolidated financial statements.

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COLUMBIA BANKING SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Three Years Ended December 31, 2001

Columbia Banking System, Inc. (the "Company") is a registered bank holding company whose wholly owned subsidiary, Columbia State Bank ("Columbia Bank"), conducts a full-service commercial banking business. Headquartered in Tacoma, Washington, the Company provides a full range of banking services to small and medium-sized businesses, professionals and other individuals through banking offices located in the Tacoma metropolitan area and contiguous parts of the Puget Sound region of Washington, as well as the Longview and Woodland communities in southwestern Washington. Substantially all of the Company's loans, loan commitments and core deposits are geographically concentrated in its service areas.

1. Summary of Significant Accounting Policies

Consolidation

The consolidated financial statements of the Company include the accounts of the corporation and its wholly owned subsidiary after the elimination of all material intercompany transactions and accounts.

Securities Available for Sale

Securities to be held for indefinite periods of time and not intended to be held to maturity or on a long-term basis are classified as available for sale and carried at fair value. Unrealized gains and losses are recorded net of tax as "other comprehensive income (loss)" in the consolidated statements of shareholders' equity. Securities available for sale include securities that management intends to use as part of its asset/liability management strategy and that may be sold in response to changes in interest rates and/or significant prepayment risk.

Securities Held to Maturity

Securities held to maturity are those securities that the Company has both the ability and intent to hold to maturity. Events that may be reasonably anticipated are considered when determining the Company's intent to hold investment securities until maturity. Securities held to maturity are carried at cost, and adjusted for amortization of premiums and accretion of discounts using a method that approximates the interest method.

Other than temporary declines in fair value are recognized as a reduction in current earnings. Gains and losses on the sale of all securities are determined using the specific identification method.

Loans

Loans are stated at their principal amount outstanding, less any unamortized discounts and deferred net loan fees. Loans held for sale are carried at the lower of cost or market value. The amount by which cost exceeds market for loans held for sale is accounted for as a valuation allowance, and changes in the allowance are included in the determination of net income in the period in which the change occurs.

The policy of the Company is to discontinue the accrual of interest on all loans past due 90 days or more and place them on nonaccrual status.

Loan Fee Income

Loan origination fees and direct loan origination costs are deferred and the net amount is recognized as an adjustment to yield over the contractual life of the related loans. Fees related to lending activities other than the origination or purchase of loans are recognized as noninterest income during the period the related services are performed.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level believed to be sufficient to absorb probable losses inherent in the loan portfolio. Management's determination of the adequacy of the allowance is based on a number of factors, including the level of nonperforming loans, loan loss experience, credit concentrations, a review of the quality of the loan portfolio, collateral values and uncertainties in economic conditions.

The Company reviews its consumer and residential loan portfolios by risk rating and analyzing 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. The Company evaluates commercial real estate and commercial business loans for impairment on an individual basis. A loan is considered impaired when it is probable that the Company will be unable to collect all amounts due according to the terms of the loan. Factors involved in determining impairment include, but are not limited to, the financial condition of the borrower, value of the underlying collateral, and current economic conditions. The valuation of impaired loans is based on either the present value of expected future cash flows, discounted at the loan's effective interest rate, or at the loan's observable market price or on the fair value of the collateral if the loan is collateral dependent. The amount by which the recorded investment in the loan exceeds either the present value of expected future cash flows or the value of the impaired loan's collateral when applicable, would be a specifically allocated reserve for loan losses. Any portion of an impaired loan classified as loss under regulatory guidelines is charged-off.

Premises and Equipment

Land, buildings, leasehold improvements and equipment are carried at amortized cost. Buildings and equipment are depreciated over their estimated useful lives using the straight-line method. Leasehold improvements are

amortized over the shorter of their useful lives or lease terms. Gains or losses on dispositions are reflected in operations. Expenditures for improvements and major renewals are capitalized, and ordinary maintenance, repairs and small purchases are charged to operations as incurred.

Real Estate Owned

All real estate acquired in satisfaction of a loan is considered held for disposal and reported as "real estate owned." Real estate owned is carried at the lower of cost or fair value less estimated cost of disposal. Cost at the time of foreclosure is defined as the fair value of the asset less estimated disposal costs.

Income Tax

The provision for income tax is based on income and expense reported for financial statement purposes, using the "asset and liability method" for accounting for deferred income tax. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded against any deferred tax assets for which it is more likely than not that the deferred tax asset will not be realized.

Earnings Per Share

Earnings per share (EPS) are computed using the weighted average number of common and diluted common shares outstanding during the period. Basic EPS is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or

converted into common stock. The only reconciling item affecting the calculation of earnings per share is the inclusion of stock options and restricted stock awards increasing the shares outstanding in diluted earnings per share of 175,000, 324,000, and 303,000 in 2001, 2000, and 1999, respectively.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates are used in determining the level of the allowance for loan losses, carrying value of real estate owned, valuation allowance on deferred tax assets, depreciation of premises and equipment and others.

Statements of Cash Flows

For purposes of the statements of cash flows, cash and cash equivalents include cash and due from banks, interest-earning deposits with banks and federal funds sold with maturities of 90 days or less.

Reclassifications

Certain amounts in the 2000 and 1999 consolidated financial statements have been reclassified to conform to the 2001 presentation. These reclassifications had no effect on net income.

New Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards (SFAS) No. 141, "Business Combinations", and No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under SFAS No. 142, goodwill is no longer subject to amortization over its estimated useful life. The Statement also establishes a new method of testing goodwill for impairment. The Company implemented SFAS No. 142 on January 1, 2002, resulting in the Company discontinuing the amortization of its goodwill. Management believes that the adoption of this Statement will not have a material impact on its financial condition or results of operations.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 143, "Accounting for Asset Retirement Obligations", which takes effect for fiscal years beginning after June 15, 2002. SFAS No. 143 establishes the initial and subsequent accounting for legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal operation of a long-lived asset. The Company will adopt SFAS No. 143 as of January 1, 2003. The adoption of SFAS No. 143 is not expected to materially impact the Company's consolidated results of operations, financial position or cash flows.

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS No. 144 retains the fundamental provisions of SFAS No. 121 but sets forth new criteria for asset classification and broadens the scope of qualifying discontinued operations. The new standard is effective for fiscal years beginning after December 15, 2001. The Company has adopted SFAS No. 144 as of January 1, 2002 and does not expect any material impact to its consolidated results of operations or financial condition.

2. Stock Dividend and Stock Split

On May 15, 2001, the Company announced a 10% stock dividend payable on June 12, 2001, to shareholders of record as of May 29, 2001. On April 25, 2000, the Company announced a 10% stock dividend payable on May 24, 2000, to shareholders of record as of May 10, 2000. On April 28, 1999, the Company announced a 5% stock dividend payable on May 26, 1999, to shareholders of record on May 12, 1999. Average shares outstanding, net income per share, and book value per share for all periods presented have been retroactively adjusted to give effect to these transactions.

3. Restrictions on Subsidiary Cash, Loans and Dividends

Columbia Bank is required to maintain reserve balances with the Federal Reserve Bank. The average required reserves for the year ended December 31, 2001 and 2000, were approximately \$8.6 million and \$9.1 million, respectively. The required reserves are based on specified percentages of the Bank's total average deposits, which are established by the Federal Reserve Board.

Under Federal Reserve regulations, Columbia Bank, generally, is limited as to the amount it may loan to the Company, to 10% of its capital stock and additional paid-in capital. Such loans must be collateralized by specified obligations.

Under Washington State banking regulations, Columbia Bank is limited as to the ability to declare or pay dividends to the Company up to the amount of the Bank's net profits then on hand, less any required transfers to additional paid-in capital.

4. Securities

At December 31, 2001, the Company's securities portfolio included a private collateralized mortgage-backed obligation of \$40 million. There were no other securities of any issuer, other than the U.S. Government and its agencies and corporations, which exceeded ten percent of shareholders' equity.

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

Securities Available for Sale

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value

(in thousands)				

December 31, 2001:				
U.S. Treasury & government agency.	\$ 14,152	\$209	\$ (215)	\$ 14,146
Corporate securities.....	3,171		(67)	3,104
Mortgage-backed securities.....	98,231	66	(839)	97,458
State & municipal securities.....	28,996	184	(424)	28,756
Other securities.....	1,000	1		1,001
	-----	----	-----	-----
Total.....	\$145,550	\$460	\$(1,545)	\$144,465
	=====	=====	=====	=====
December 31, 2000:				
U.S. Treasury & government agency.	\$ 74,458		\$ (976)	\$ 73,482
Corporate securities.....	15,615	\$416		16,031
Mortgage-backed securities.....	9,313		(205)	9,108
State & municipal securities.....	4,599	67		4,666
	-----	----	-----	-----
Total.....	\$103,985	\$483	\$(1,181)	\$103,287
	=====	=====	=====	=====
December 31, 1999:				
U.S. Treasury & government agency.	\$ 74,517	\$ 7	\$(3,902)	\$ 70,622
Mortgage-backed securities.....	10,043		(627)	9,416
Corporate securities.....	994		(3)	991
	-----	----	-----	-----
Total.....	\$ 85,554	\$ 7	\$(4,532)	\$ 81,029
	=====	=====	=====	=====

The Company sold \$108.7 million of securities available for sale during 2001, realizing gains of \$1.7 million. There were no sales of securities available for sale during the years ended December 31, 2000, and 1999.

At December 31, 2001 and 2000, securities available for sale with a fair value of \$58.1 million and \$29.3 million, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law.

The following table summarizes the amortized cost, fair value, and average yield of securities available for sale by contractual maturity groups:

December 31, 2001		

Amortized Cost	Fair Value	Yield

(in thousands)

U.S. Government Agency			
After 1 but through 5 years.....	\$10,202	\$10,227	4.76%
After 5 but through 10 years.....	396	410	6.29%
After 10 years.....	3,554	3,509	7.35%
	-----	-----	----
Total.....	\$14,152	\$14,146	5.45%
	=====	=====	=====
Corporate Securities			
After 10 years.....	\$ 3,171	\$ 3,104	4.94%
	-----	-----	----
Total.....	\$ 3,171	\$ 3,104	4.94%
	=====	=====	=====
Mortgage-Backed Securities (1)			
After 10 years.....	\$98,231	\$97,458	5.31%
	-----	-----	----
Total.....	\$98,231	\$97,458	5.31%
	=====	=====	=====
State and Municipal Securities (2)			
After 1 but through 5 years.....	\$ 488	\$ 514	6.74%
After 5 but through 10 years.....	260	254	5.99%
After 10 years.....	28,248	27,988	6.98%
	-----	-----	----
Total.....	\$28,996	\$28,756	6.97%
	=====	=====	=====
Other Securities			
After 10 years.....	\$ 1,000	\$ 1,001	9.37%
	-----	-----	----
Total.....	\$ 1,000	\$ 1,001	9.37%
	=====	=====	=====

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- (1) The maturities reported for mortgage-backed securities are based on contractual maturities and principal amortization.
- (2) Yields on fully taxable equivalent basis, based on a marginal tax rate of 35%.

The following table summarizes the amortized cost, gross unrealized gains and losses and the resulting fair value of securities held to maturity.

Securities Held to Maturity

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	-----	-----	-----	-----
	(in thousands)			
December 31, 2001:				
State and municipal securities.	\$7,356	\$165		\$7,521
Corporate securities.....	500	3		503
	-----	----	----	-----
Total.....	\$7,856	\$168		\$8,024
	=====	=====	=====	=====
December 31, 2000:				
State and municipal securities.	\$6,937	\$ 64		\$7,001
Corporate securities.....	498	2		500
	-----	----	----	-----
Total.....	\$7,435	\$ 66		\$7,501
	=====	=====	=====	=====
December 31, 1999:				
State and municipal securities.	\$6,587	\$ 12	\$(54)	\$6,545
Corporate securities.....	497		(2)	495
	-----	----	----	-----
Total.....	\$7,084	\$ 12	\$(56)	\$7,040
	=====	=====	=====	=====

The following table summarizes the amortized cost, fair value, and average yield of securities held to maturity by contractual maturity groups:

	December 31, 2001		

	Amortized	Fair	
	Cost	Value	Yield
	-----	-----	-----
	(in thousands)		
State and Municipal Securities (1)			
Due through 1 year.....	\$ 757	\$ 771	6.68%
After 1 but through 5 years.....	2,831	2,919	6.52%
After 5 but through 10 years.....	3,476	3,496	6.18%
After 10 years.....	292	335	9.51%
	-----	-----	----
Total.....	\$7,356	\$7,521	6.49%
	=====	=====	=====
Corporate Securities			
Due through 1 year.....	\$ 500	\$ 503	6.77%
	-----	-----	----
Total.....	\$ 500	\$ 503	6.77%
	=====	=====	=====

-
- (1) Yields on fully taxable equivalent basis, based on a marginal tax rate of 35%.

There were no sales of securities held to maturity during the years ended December 31, 2001, 2000, and 1999.

5. Loans

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

	December 31,	
	2001	2000
	(in thousands)	
Commercial business.....	\$ 466,638	\$ 496,125
Real estate:		
One- to four-family residential.....	52,852	55,922
Five or more family residential and commercial properties.	432,419	428,884
Total real estate.....	485,271	484,806
Real estate construction:		
One- to four-family residential.....	20,693	33,548
Five or more family residential and commercial properties.	91,080	74,451
Total real estate construction.....	111,773	107,999
Consumer.....	109,845	106,633
Subtotal.....	1,173,527	1,195,563
Less deferred loan fees, net and other.....	(2,894)	(3,043)
Total loans, net of unearned income.....	\$1,170,633	\$1,192,520
Loans held for sale.....	\$ 29,364	\$ 14,843

The following table summarizes certain information related to nonperforming loans:

	December 31,		
	2001	2000	1999
	(in thousands)		
Loans accounted for on a nonaccrual basis	\$17,635	\$12,506	\$4,360
Restructured loans.....	716	1,136	187
Total nonperforming loans.....	\$18,351	\$13,642	\$4,547
Originally contracted interest.....	\$ 1,277	\$ 599	\$ 385
Less recorded interest.....	(645)	(133)	(191)
Reduction in interest income.....	\$ 632	\$ 466	\$ 194

At December 31, 2001 and 2000, the recorded investment in impaired loans was \$18.1 million and \$12.9 million, respectively. The difference between total nonperforming loans and impaired loans are those homogeneous loans that are evaluated on a pooled basis. A specific allowance for loan losses was made for impaired loans of \$1.3 million at December 31, 2001, and \$7.0 million at December 31, 2000, while no specific allowance for loan losses for impaired loans was made for the year ended December 31, 1999. The average recorded investment in impaired loans for the periods ended December 31, 2001, 2000 and 1999 was \$11.8 million, \$5.8 million, and \$4.5 million, respectively. Interest income recognized on impaired loans was \$645,000 in 2001, and was an immaterial amount in 2000 and 1999.

At December 31, 2001 and 2000, there were no commitments for additional funds for loans accounted for on a nonaccrual basis.

At December 31, 2001 and 2000, the Company had no loans to foreign domiciled businesses or foreign countries, or loans related to highly leveraged transactions.

Substantially all of the Company's loans and loan commitments are geographically concentrated in its service areas of the Tacoma metropolitan area and contiguous parts of the Puget Sound region of Washington, as well as the Longview and Woodland communities in southwestern Washington.

The Company and its banking subsidiary have granted loans to officers and directors of the Company and related interests. These loans are made on substantially 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 collectibility. The aggregate dollar amount of these loans was \$17.0 million and \$24.5 million at December 31, 2001 and 2000, respectively. During 2001, \$7.0 million of new related party loans were made, loan balances of \$1.0 million from departures were removed, and repayments totaled \$13.5 million. During 2000, \$3.9 million of new related party loans were made, and repayments totaled \$4.5 million.

6. Allowance for Loan Losses

Transactions in the allowance for loan losses are summarized as follows:

	Years Ended December 31,		
	2001	2000	1999
	(in thousands)		
Balance at beginning of period.....	\$ 18,791	\$ 9,967	\$ 9,002
Loans charged off.....	(10,048)	(1,778)	(1,619)
Recoveries.....	191	802	184
Net charge-offs.....	(9,857)	(976)	(1,435)
Provision charged to operating expense	5,800	9,800	2,400
Balance at end of period.....	\$ 14,734	\$18,791	\$ 9,967
	=====	=====	=====

7. Premises and Equipment

The Company's executive offices and several loan and support departments were relocated to the "Columbia Bank Center" in downtown Tacoma in the second quarter of 2001. The Company leases space in the building as its major tenant. The operating lease agreement is for 62,105 square feet at \$115,000 per month. With an expiration date of January 1, 2016, the lease agreement provides for two renewal options of five years each. The Company purchased the Broadway Plaza building in March of 2000, which prior to the opening of the Columbia Bank Center housed both its executive offices and the Main Office, currently known as the "Broadway Plaza Branch". Until additional space is needed, the Company intends to lease to others all floors of the five story, Broadway Plaza building except for the first floor where the Broadway Plaza Branch is located and some additional space on the 2nd and 4th floors.

As of December 31, 2001, the Company had a total of 32 branch offices, consisting of 11 offices in Tacoma, 4 offices in Puyallup, 3 offices in Auburn, 2 offices in Longview, 2 offices in Bellevue, one office in Woodland, one office in Federal Way, one office in Issaquah, one office in Kent, one office in Milton, one office in Fife, one office in Gig Harbor, one office in Port Orchard, one office in Bonney Lake, and one office in Olympia.

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

	December 31,	
	2001	2000
	(in thousands)	
Land.....	\$ 12,066	\$ 12,621
Buildings.....	33,365	31,086
Leasehold improvements.....	1,518	847
Furniture and equipment.....	20,071	15,990
Vehicles.....	239	234
Computer software.....	2,757	2,600
Total cost.....	70,016	63,378
Less accumulated depreciation and amortization	(17,719)	(15,021)
Total.....	\$ 52,297	\$ 48,357
	=====	=====

Total depreciation and amortization expense on buildings and furniture and equipment was \$3.4 million, \$3.3 million, and \$3.2 million for the years ended December 31, 2001, 2000 and 1999, respectively.

As of December 31, 2001, the Company is obligated under various noncancellable lease agreements for property and equipment (primarily for land and buildings) that require future minimum rental payments, exclusive of taxes and other charges, as follows:

Year Ending December 31, -----	
	(in thousands)
2002.....	\$ 2,480
2003.....	2,456
2004.....	2,369
2005.....	2,379
2006 and thereafter.....	20,361
Total minimum payments.....	\$30,045
	=====

Total rental expense on buildings and equipment was \$2.1 million, \$1.1 million, and \$1.6 million for the years ended December 31, 2001, 2000 and 1999, respectively.

8. Deposits

Year-end deposits are summarized in the following table:

	Years Ended December 31,		
	2001	2000	1999
	(in thousands)		
Demand and other noninterest-bearing.....	\$ 242,971	\$ 232,247	\$ 181,716
Interest-bearing demand.....	154,124	116,653	100,680
Money market.....	393,869	300,462	296,246
Savings.....	55,582	45,981	45,577
Certificates of deposit less than \$100,000...	255,638	358,074	268,755
Certificates of deposit greater than \$100,000	204,566	273,606	150,570
	-----	-----	-----
Total.....	\$1,306,750	\$1,327,023	\$1,043,544
	=====	=====	=====

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The following table shows the amount and maturity of certificates of deposit that had balances of more than \$100,000:

	December 31, 2001

	(in thousands)
Remaining maturity	
3 months and under.....	\$ 82,746
Over 3 through 6 months..	48,995
Over 6 through 12 months.	47,141
Over 12 months.....	25,684

Total.....	\$204,566
	=====

9. Federal Home Loan Bank Advances, Long-term Debt, and Trust Preferred Obligations

The Company had Federal Home Loan Bank (FHLB) advances of \$40.0 million at both December 31, 2001 and 2000. At year-end 2001, the Company held \$21.4 million in trust preferred obligations. The Company had no other long-term debt at December 31, 2001, as compared to other long-term debt of \$4.5 million at December 31, 2000.

FHLB advances, trust preferred obligations and long-term debt are at the following interest rates:

	December 31,
	2001
	2000

	(dollars in thousands)
8.50.....	\$ 4,500
6.90.....	40,000
5.85.....	\$21,367
2.30.....	40,000

Total.	\$61,367
	\$44,500
	=====
	=====

Aggregate maturities of FHLB advances, trust preferred obligations and long-term debt due in years ending after December 31, 2001, are as follows:

	Amount

	(in thousands)
2003.....	\$40,000
After 29 years	21,367

FHLB advances are collateralized by a blanket pledge of residential real estate loans with a recorded value of approximately \$48.2 million at both December 31, 2001 and 2000. Penalties are generally required for prepayments of certain long-term FHLB advances.

During 2001, the Company participated in a pooled trust preferred offering. In connection with the transaction, the Company, through its subsidiary trust, issued \$22.0 million of 30 year floating rate capital securities. The capital securities constitute guaranteed preferred beneficial interests in debentures issued by the Company. The debentures had an initial rate of 7.29% and are at a rate of 5.85% at December 31, 2001. The floating rate is based on the 3-month LIBOR plus 3.58% and is adjusted quarterly. The Company may call the debt at five years for a premium and at ten years at par, allowing the Company to retire the debt early if conditions are favorable. The Company has used \$8.0 million of the proceeds from the trust preferred offering to

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retire outstanding short-term debt and \$9.0 million to repurchase 660,000 shares of its outstanding common stock per its stock repurchase program announced in August 2001.

10. Income Tax

The components of income tax expense are as follows:

	Years Ended December 31,		
	2001	2000	1999
	(in thousands)		
Current.....	\$5,015	\$ 7,467	\$6,665
Deferred (benefit)	1,374	(2,235)	(724)
Total.....	\$6,389	\$ 5,232	\$5,941
	=====	=====	=====

Significant components of the Company's deferred tax assets and liabilities at December 31, 2001 and 2000 are as follows:

	December 31,	
	2001	2000
	(in thousands)	
Deferred tax assets:		
Allowance for loan losses.....	\$ 5,308	\$ 6,667
Unrealized loss on investment securities available for sale.....	380	244
Supplemental executive retirement plan.....	72	
Total deferred tax assets.....	5,760	6,911
Deferred tax liabilities:		
FHLB stock dividends.....	(1,516)	(1,305)
Depreciation.....	(413)	(518)
Other.....		(19)
Total deferred tax liabilities.....	(1,929)	(1,842)
Net deferred tax assets.....	\$ 3,831	\$ 5,069
	=====	=====

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

	Years ended December 31,					
	2001		2000		1999	
	Amount	Percent	Amount	Percent	Amount	Percent
	(dollars in thousands)					
Income tax based on statutory rate.....	\$6,616	35%	\$5,356	35%	\$6,161	35%
Increase (reduction) resulting from:.....						
Tax credits.....	(129)	(1)	(127)	(1)	(68)	(0)
Tax exempt instruments.....	(316)	(1)				
Change in effective graduated tax rate.....					(173)	(1)
Other nondeductible items.....	218	1	3	0	21	0
Income tax.....	\$6,389	34%	\$5,232	34%	\$5,941	34%
	=====	==	=====	==	=====	==

11. Stock Options

The Company has a stock option plan ("the Plan") to provide additional incentives to employees and directors thereby helping to attract and retain the best available personnel. The Company applies Accounting Principles Board (APB) Opinion 25 and related interpretations in accounting for the Plan. Accordingly, no

compensation cost has been recognized for the Plan since the exercise price of all options has been equal to the fair value of the Company's stock at the grant date. At December 31, 2001, a maximum of 1,523,837 option shares were authorized under the Plan, of which 1,497,986 were granted, 550,022 have been exercised, 144,739 have been terminated, and 170,590 were available for future grants. Generally, stock options vest three years after the date of grant and are exercisable for a five-year period after vesting.

At December 31, 2001 and 2000, the Company had stock options outstanding of 803,225 shares and 898,896 shares, respectively, for the purchase of common stock at option prices ranging from \$1.93 to \$20.46 per share. The Company's policy is to recognize compensation expense at the date the options are granted based on the difference, if any, between the then market value of the Company's common stock and the stated option price.

The following table outlines the stock option activity for 2001, 2000 and 1999:

	Number of Option Shares	Weighted-Average Price of Option Shares	Weighted-Average Issue Date Fair Value
----- (in thousands) -----			
Balance at January 1, 1999.....	753,666	\$ 8.16	
Granted.....	113,231	12.67	\$5.43
Exercised.....	(35,961)	5.29	
Terminated.....	(12,388)	11.36	

Balance at December 31, 1999.....	818,548	8.85	
Granted.....	246,914	11.84	6.16
Exercised.....	(141,688)	4.60	
Terminated.....	(24,878)	12.71	

Balance at December 31, 2000.....	898,896	10.21	
Granted.....	78,370	13.35	6.74
Exercised.....	(161,220)	5.29	
Terminated.....	(12,821)	10.93	

Balance at December 31, 2001.....	803,225	\$11.47	
=====			
Total Vested at December 31, 2001	411,356	\$10.63	
=====			

Financial data pertaining to outstanding stock options were as follows:

December 31, 2001 -----						
Ranges of Exercise Prices	Number of Option Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price of Option Shares	Number of Exercisable Option Shares	Weighted-Average Exercise Price of Exercisable Option Shares	

\$ 1.93 - \$ 2.05	17,304	0.1 years	\$ 1.93	17,304	\$ 1.93	
2.06 - 4.09	1,730	2.0	2.32	1,730	2.32	
4.10 - 6.14	77,722	0.7	5.04	77,722	5.04	
6.15 - 8.18	115,426	3.5	7.62	115,426	7.62	
8.19 - 10.23	40,024	5.9	9.12	40,024	9.12	
10.24 - 12.28	258,173	6.5	11.69	28,262	11.00	
12.29 - 14.32	170,459	5.6	13.15	21,921	13.90	
14.33 - 16.37	35,351	4.6	14.64	21,931	14.56	
18.41 - 20.46	87,036	4.4	20.27	87,036	20.27	

	803,225	4.8 years	\$11.47	411,356	\$10.63	
=====						

Had compensation cost for the Company's Plan been determined based on the fair value at the option grant dates, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

Year Ended December 31, -----			
	2001	2000	1999

(dollars in thousands except per share)			
Net income attributable to common stock:			
As reported.....	\$12,513	\$10,070	\$11,670
Pro forma.....	11,950	9,685	11,299
Net income per common share:			
Basic:			
As reported.....	\$ 0.97	\$ 0.78	\$ 0.91
Pro forma.....	0.93	0.75	0.88
Diluted:			
As reported.....	\$ 0.96	\$ 0.76	\$ 0.89
Pro forma.....	0.91	0.74	0.86

The fair value of options granted under the Company's stock option plan is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 2001, 2000 and 1999; expected volatility of 44.54% in 2001, 46.56% in 2000, and 42.00% in 1999; risk-free rates of 4.84% for 2001, 5.23% for 2000, and 5.79% for 1999; no annual dividend yields; and expected lives of five years for fiscal year 1999, and six years for fiscal years 2000, and 2001.

The Company periodically grants restricted stock awards to its named executives. The purpose of such awards is to reward the executives for prior service to the Company and to incent such executives to continue to serve the Company in the future. In each case, the awards provide for the immediate issuance of shares of Company common stock to the executive, with such shares held in escrow until the executive meets certain conditions. In 1998, the Company granted restricted stock awards of 43,313 shares to certain of its named executives. The fair values of the restricted stock awards are amortized over a 5-year period. Amortization expense was approximately \$363,000, \$343,000, and \$330,000 for the years ended December 31, 2001, 2000, and 1999, respectively.

12. Regulatory Capital Requirements

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital to risk-weighted assets (as defined in the regulations) and of Tier 1 capital to average assets (as defined in the regulations). Management believes, as of December 31, 2001 and 2000, that the Company and the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2001, the most recent notification from the Federal Deposit Insurance Corporation categorized Columbia Bank as well capitalized under the regulatory framework for prompt corrective action. To

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be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since the notification that management believes have changed Columbia Bank's category. The Company's and Columbia Bank's actual capital amounts and ratios as of December 31, 2001 and 2000 are also presented in the table.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2001:						
Total Capital (to risk-weighted assets)						
The Company.....	\$155,724	11.65%	\$106,921	8.0%	N.A.	N.A.
Columbia Bank.....	148,210	11.15%	106,366	8.0%	\$132,957	10.0%
Tier 1 Capital (to risk-weighted assets)						
The Company.....	140,990	10.55%	53,460	4.0%	N.A.	N.A.
Columbia Bank.....	133,476	10.04%	53,183	4.0%	79,774	6.0%
Tier 1 Capital (to average assets)						
The Company.....	140,990	9.72%	58,018	4.0%	N.A.	N.A.
Columbia Bank.....	133,476	9.29%	57,465	4.0%	71,832	5.0%
As of December 31, 2000:						
Total Capital (to risk-weighted assets)						
The Company.....	\$127,051	9.5%	\$106,537	8.0%	N.A.	N.A.
Columbia Bank.....	130,445	9.8%	106,412	8.0%	\$133,014	10.0%
Tier 1 Capital (to risk-weighted assets)						
The Company.....	114,260	8.6%	53,268	4.0%	N.A.	N.A.
Columbia Bank.....	117,654	8.8%	53,206	4.0%	79,809	6.0%
Tier 1 Capital (to average assets)						
The Company.....	114,260	7.8%	58,849	4.0%	N.A.	N.A.
Columbia Bank.....	117,654	8.0%	58,796	4.0%	73,495	5.0%

13. Employee Benefit Plan

The Company maintains a defined contribution plan that allows employees to contribute up to 15% of their compensation to the plan. Employees who are at least 20 1/2 years of age and have completed six months of service are eligible to participate in the plan. The Company is required to match 50% of employee contributions up to 3% of each employee's total compensation. The Company contributed approximately \$371,000, \$376,000, and \$316,000 in matching funds to the plan during the years ended December 31, 2001, 2000 and 1999, respectively.

The Company's defined contribution plan provides for a nonmatching, discretionary contribution as determined annually by the Board of Directors of the Company. The Company's discretionary contributions were approximately \$888,000, \$827,000, and \$721,000 for the years ended 2001, 2000, and 1999, respectively.

The Company maintains an "Employee Stock Purchase Plan" ("ESPP"). The Plan was amended by the Board of Directors on January 26, 2000. Under the amended plan, substantially all employees of the Company are eligible to participate in the ESPP. The amended plan provides for offerings every six months at which time Common Stock is issued for cash at a price of the lower of 90% of the fair market value of the stock at the beginning or end of the offering period. Prior to being amended, the ESPP provided for quarterly offerings with a purchase price of 90% of the fair market value of the Common Stock at the end of the offering period. The new offering period took effect March 1, 2000, with a short period starting March 1, 2000 and ending June 30, 2000, and a full six-month offering period beginning July 1, 2000. The first full twelve month offering period corresponded with the 2001 fiscal year. Under the ESPP, employees acquired 20,823 shares for approximately

\$234,000 in 2001. There is no charge to income as a result of issuance of stock under this plan. The discount offered to employees approximates the cost of raising capital and does not have a material effect on net income and earnings per share. At December 31, 2001, 56,782 shares of common stock were available for issuance under this plan.

During the year, the Company implemented a supplemental executive retirement plan (SERP) for five of the top executive officers to provide retirement benefits. The SERP is unsecured and unfunded and there are no program assets. Columbia has purchased life insurance on the above executives and intends to use the cash values of the policies to fund the SERP retirement obligations. Associated with the SERP benefit is a death benefit for each executive's beneficiaries. Beneficiaries are entitled to a split dollar share of proceeds from life insurance policies purchased by the Company. The Company had expenses of \$206,000 during 2001 in connection with this program. The projected benefit obligation will be accrued over the estimated remaining term of employment. The maximum projected benefit obligation is \$8.8 million at year-end 2001, and has been determined by an independent actuarial firm using Income Tax Regulation 1.72-9, "Table 1 Ordinary Life Annuities", for the mortality assumptions and a discount rate of 7.00% in accordance with SFAS No. 87. Additional assumptions and features of the plan are a normal retirement age of 65 and a 2% annual cost of living benefit adjustment.

Also in 2001, a long-term care program for directors was implemented, which provides benefits in the event those individuals become chronically ill. The coverage is for a period of three years up to a lifetime, depending on the age of the director, and the amount of the benefit is based on the director's years of service with the Company after the inception of the long-term care program. The Company paid a one-time premium of \$21,000 in 2001 for the long-term care policies.

During the year, the Company purchased \$16.3 million of "Bank Owned Life Insurance" (BOLI) in connection with the above SERP and long-term care benefit programs.

14. Commitments and Contingent Liabilities

In the normal course of business, the Company makes loan commitments (unfunded loans and unused lines of credit) and issues standby letters of credit to accommodate the financial needs of its customers. Standby letters of credit commit the Company to make payments on behalf of customers under specified conditions. Historically, no significant losses have been incurred by the Company under standby letters of credit. Both arrangements have credit risk essentially the same as that involved in extending loans to customers and are subject to the Company's normal credit policies, including the obtaining of collateral, where appropriate. At December 31, 2001 and 2000, the Company's loan commitments amounted to \$413.5 million and \$349.5 million, respectively. Standby letters of credit were \$12.3 million and \$8.3 million at December 31, 2001 and 2000, respectively. In addition, commitments under commercial letters of credit used to facilitate customers' trade transactions amounted to \$1.7 million and \$7,900 at December 31, 2001 and 2000, respectively.

The Company and its subsidiary 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 position or results of operations of the Company and its subsidiary.

15. Fair Value of Financial Instruments

The following table summarizes carrying amounts and estimated fair values of selected financial instruments as well as assumptions used by the Company in estimating fair value:

		December 31,			
		2001		2000	
	Assumptions Used in Estimating Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(in thousands)					
Assets					
Cash and due from banks.....	Approximately equal to carrying value	\$ 57,628	\$ 57,628	\$ 72,292	\$ 72,292
Interest-earning deposits with banks...	Approximately equal to carrying value	9,361	9,361	48,153	48,153
Securities available for sale.....	Quoted market prices	144,465	144,465	103,287	103,287
Securities held to maturity.....	Quoted market prices	7,856	8,024	7,435	7,501
Loans held for sale.....	Approximately equal to carrying value	29,364	29,419	14,843	14,843
Loans.....	Discounted expected future cash flows, net of allowance for loan losses	1,170,633	1,272,019	1,173,729	1,293,828
Liabilities					
Deposits.....	Fixed-rate certificates of deposit: Discounted expected future cash flows				
	All other deposits: Approximately equal to carrying value	\$1,306,750	\$1,308,994	\$1,327,023	\$1,332,665
Federal Home Loan Bank advances.....	Discounted expected future cash flows	40,000	39,994	40,000	39,981

Trust preferred obligations.....	Discounted expected future cash flows	21,367	21,368		
Other borrowings.....	Discounted expected future cash flows			4,500	4,500

Off-Balance-Sheet Financial Instruments

The fair value of commitments, guarantees and letters of credit at December 31, 2001, approximates the recorded amounts of the related fees, which are not material. The fair value is estimated based upon fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed rate commitments, the fair value estimation takes into consideration an interest rate risk factor. The fair value of guarantees and letters of credit is based on fees currently charged for similar agreements.

16. Business Segment Information

The Company is managed along three major lines of business: commercial banking, retail banking, and real estate lending. The treasury function of the Company, although not considered a line of business, is responsible for the management of investments and interest rate risk.

The principal activities conducted by commercial banking are the origination of commercial business loans and private banking services. Retail banking includes all deposit products, with their related fee income, and all consumer loan products as well as commercial loan products offered in the Company's branch offices. Real estate lending offers single-family residential, multi-family residential, and commercial real estate loans, and the associated loan servicing activities.

Prior to 1999, the Company was managed as one segment, not by discrete operating segments. With the appointment of new executive officers in 1999, the Company began reviewing financial performance along the three major lines described above. The Executive Management Committee, which is the senior decision making group of the Company, is comprised of six members including the Vice Chairman and Chief Executive Officer, the President and Chief Operating Officer, and four Executive Vice Presidents.

The Company generates segment results that include balances directly attributable to business line activities. Overhead and other indirect expenses are not allocated to the major lines of business. The Company's Executive Management Committee manages the major lines collectively, since in the opinion of management, all the lines are interrelated.

The financial results of each segment were derived from the Company's general ledger system. Since the Company is not specifically organized around lines of business, most reportable segments comprise more than one operating segment. Expenses incurred directly by sales and back office support functions are not allocated to the major lines of business.

Since SFAS No. 131 requires no segmentation or methodology standardization, the organizational structure of the Company and its business line financial results are not necessarily comparable across companies. As such, the Company's business line performance may not be directly comparable with similar information from other financial institutions.

Financial highlights by lines of business:

Condensed Statement of Operations:

	Year Ended December 31, 2001				
	Commercial Banking	Retail Banking	Real Estate Lending	Other	Total
	(in thousands)				
Net interest income after provision for loan loss	\$ 11,294	\$ 33,237	\$ 12,792	\$ (4,918)	\$ 52,405
Other income.....	687	4,909	2,677	9,178	17,451
Other expense.....	(2,711)	(17,525)	(2,470)	(28,248)	(50,954)
Contribution to overhead and profit.....	\$ 9,270	\$ 20,621	\$ 12,999	\$(23,988)	18,902
Income taxes.....					(6,389)
Net income.....					\$ 12,513
Total assets.....	\$338,339	\$586,767	\$339,175	\$234,013	\$1,498,294
	Year Ended December 31, 2000				
	Commercial Banking	Retail Banking	Real Estate Lending	Other	Total
	(in thousands)				
Net interest income after provision for loan loss	\$ 9,759	\$ 42,606	\$ 5,917	\$ (9,814)	\$ 48,468
Other income.....	638	4,272	767	5910	11,587
Other expense.....	(2,356)	(16,010)	(2,052)	(24,335)	(44,753)
Contribution to overhead and profit.....	\$ 8,041	\$ 30,868	\$ 4,632	\$(28,239)	15,302
Income taxes.....					(5,232)
Net income.....					\$ 10,070

Total assets.....	=====	=====	=====	=====	=====
	\$337,193	\$637,825	\$322,648	\$198,829	\$1,496,495
	=====	=====	=====	=====	=====
Year Ended December 31, 1999					
	-----	-----	-----	-----	-----
	Commercial	Retail	Real Estate		
	Banking	Banking	Lending	Other	Total
	-----	-----	-----	-----	-----
	(in thousands)				
Net interest income after Provision for loan loss	\$ 9,925	\$ 30,979	\$ 7,377	\$ (1,172)	\$ 47,109
Other income.....	522	3,847	1,114	4,663	10,146
Other expense.....	(2,445)	(13,112)	(1,882)	(22,205)	(39,644)
	-----	-----	-----	-----	-----
Contribution to overhead and profit.....	\$ 8,002	\$ 21,714	\$ 6,609	\$(18,714)	17,611
Income taxes.....					(5,941)
	-----	-----	-----	-----	-----
Net income.....					\$ 11,670
	=====	=====	=====	=====	=====
Total assets.....	\$369,390	\$479,272	\$266,051	\$122,444	\$1,237,157
	=====	=====	=====	=====	=====

17. Parent Company Financial Information

Condensed Statement of Operations--Parent Company Only

	Years ended December 31,		
	-----	-----	-----
	2001	2000	1999
	-----	-----	-----
	(in thousands)		
Income			
Interest on loans.....	\$ 57	\$ 23	\$ 21
Interest on securities available for sale.....	48		57
Dividend from bank subsidiary.....		2,000	
Interest-earning deposits:			
Unrelated banks.....	101	13	128
Other.....	53	10	
	-----	-----	-----
Total Income.....	259	2,046	206
Expense			
Compensation and employee benefits.....	673	348	318
Trust preferred obligations.....	635		
Other interest expense.....	279	436	1
Other.....	687	739	312
	-----	-----	-----
Total Expenses.....	2,274	1,523	631
	-----	-----	-----
Income (loss) before income tax benefit and equity in undistributed net income of subsidiary.....	(2,015)	523	(425)
Income tax expense (benefit).....	(705)	(517)	(145)
	-----	-----	-----
Income (loss) before equity in undistributed net income of subsidiary..	(1,310)	1,040	(280)
Equity in undistributed net income of subsidiary.....	13,823	9,030	11,950
	-----	-----	-----
Net Income.....	\$12,513	\$10,070	\$11,670
	=====	=====	=====

Condensed Balance Sheet--Parent Company Only

	December 31,	
	-----	-----
	2001	2000
	-----	-----
	(in thousands)	
Assets		
Cash and due from subsidiary bank.....	\$ 885	\$ 301
Interest-earning deposits with unrelated banks	808	292
	-----	-----
Total cash and cash equivalents.....	1,693	593
Securities available for sale.....	5,037	
Loans.....	656	1,016
Investment in bank subsidiary.....	132,878	117,155
Other assets.....	387	1,317
	-----	-----
Total Assets.....	\$140,651	\$120,081
	=====	=====
Liabilities and Shareholders' Equity		
Trust preferred obligations.....	\$ 21,367	
Other borrowed funds.....		\$ 4,500
Other liabilities.....	318	1,758
	-----	-----
Total liabilities.....	21,685	6,258
Shareholders' equity.....	118,966	113,823
	-----	-----
Total Liabilities and Shareholders' Equity.	\$140,651	\$120,081
	=====	=====

Condensed Statement of Cash Flows--Parent Company Only

	Years ended December 31,		
	2001	2000	1999
	(in thousands)		
Operating Activities			
Net income.....	\$ 12,513	\$10,070	\$ 11,670
Adjustments to reconcile net income to net cash provided (used) by operating activities:			
Equity in undistributed earnings of subsidiary.....	(13,823)	(9,030)	(11,950)
Provision for depreciation and amortization.....	14	14	12
Net changes in other assets and liabilities.....	(455)	1,490	129
Net cash (used) provided by operating activities.....	(1,751)	2,544	(139)
Investing Activities			
Purchase of securities available for sale.....	(5,212)		
Proceeds from maturities of securities available for sale.....			6,000
Loans originated or acquired, net of principal collected.....	360	(656)	
Contribution of capital--bank subsidiary, net.....	(2,000)	(5,000)	(12,980)
Other, net.....			(1,050)
Net cash used by investing activities.....	(6,852)	(5,656)	(8,030)
Financing Activities			
Proceeds from other borrowings.....		1,500	3,000
Payment of other borrowings.....	(4,500)		
Proceeds from trust preferred obligations.....	22,000		
Payment of trust preferred placement fee.....	(661)		
Tax benefits from exercise of stock options.....		378	
Proceeds from issuance of common stock.....	1,796	1,673	1,303
Repurchase of common stock.....	(8,960)		
Other, net.....	28		
Net cash provided by financing activities.....	9,703	3,551	4,303
Increase (decrease) in cash and cash equivalents.....	1,100	439	(3,866)
Cash and cash equivalents at beginning of period.....	593	154	4,020
Cash and cash equivalents at end of period.....	\$ 1,693	\$ 593	\$ 154
	=====	=====	=====

ANNUAL REPORT ON FORM 10-K

Securities and Exchange Commission
Washington, DC 20549
Form 10-K
Annual Report pursuant to Section 13 of 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2001
Commission File Number 0-20288

Columbia Banking System, Inc.
Incorporated in the State of Washington
IRS Employer Identification Number: 91-1422237
Address: 1301 "A" Street
P.O. Box 2156
Tacoma, Washington 98401-2156
Telephone: (253) 305-1900

Columbia (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.

Disclosures of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained to the best of Columbia's knowledge, in the definitive Proxy Statements incorporated by reference in Part III of this Form 10-K, or any amendment of this Form 10-K.

Certain information has been incorporated by reference as described herein into Part III of this report from Columbia's Proxy Statement for the 2002 Annual Meeting of Shareholders.

10-K CROSS REFERENCE INDEX

This Annual Report and Form 10-K incorporate into a single document the requirements of the accounting profession and the Securities and Exchange Commission, including a comprehensive explanation of 2001 results. Only those sections of the Annual Report referenced in the following cross-reference index are incorporated into the Form 10-K.

Form 10-K

Part and Item No.	Caption	Annual Report Page Number	Proxy Statement Page Number*
-----	-----	-----	-----
Part I			
Item 1	Business.....	1-5, 29-30, 32, 42 (Note 4), 47 (Note 8),	

		51 (Note 12),	
		55 (Note 16)	
Item 2	Properties.....	46 (Note 7)	
Item 3	Legal Proceedings.....	53 (Note 14)	
		Not	
Item 4	Submission of Matters to a Vote of Security Holders.....	Applicable	
Part II			
Item 5	Market for the Registrant's Common Stock and Related Stockholder Matters.....	26, 28	
Item 6	Selected Financial Data.....	6-9	
Item 7	Management's Discussion and Analysis of Financial Condition and Results of Operations.....	10-26	
Item 7a	Quantitative and Qualitative Disclosures About Market Risk.....	22-25	
Item 8	Financial Statements and Supplementary Data.....	34-37, 27	
Item 9	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....	Not Applicable	
Part III			
Item 10	Directors and Executive Officers of the Registrant.....	31-32	5-7
Item 11	Executive Compensation *.....		14
Item 12	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.....		4-5
Item 13	Certain Relationships and Related Transactions.....		17-18
Part IV			
Item 14	Exhibits, Financial Statement Schedules, and Reports on Form 8-K	61	

* The Compensation Committee Report on Executive Compensation, the Stock Performance Graph and the Audit Committee Report are not incorporated into this Form 10-K Annual Report on reference.

Exhibits and Reports on Form 8-K

Exhibits:

The following exhibits are either filed herewith or have been previously filed with the Securities and Exchange Commission and are filed with this Form 10-K Annual Report through incorporation by reference:

- . Columbia's Restated Articles of Incorporation
- . Columbia's Restated Bylaws
- . Material Contracts, including certain compensatory plans and agreements
- . Subsidiary of the Company
- . Powers of Attorney of Directors Devine, Dressel, Fabulich, Fine, Folsom, Halleran, Hulbert, Matson, Rodman, Snyder, Weyerhaeuser, and Will.

A more detailed exhibit index has been filed with the SEC. Stockholders may obtain copies of that index, or any of the documents on that index by writing to Columbia Banking System, Inc., Investor Relations, P.O. Box 2156, MS 8300, Tacoma, WA 98401-2156

Reports on Form 8-K:

On November 27, 2001 the Company filed an 8-K dated November 13, 2001 announcing completion of its stock repurchase program originally announced on August 9, 2001.

Independent Auditors

Deloitte & Touche LLP

Transfer Agent and Registrar

American Stock Transfer & Trust Company

Market Makers

Dain Rauscher, Inc.
Hoefer & Arnett, Inc.
Keefe, Bruyette & Woods, Inc.
Knight Securities LP
NDB Capital Markets Corp.
Spear, Leeds & Kellogg Capital Markets

Regulatory and Securities Counsel

Davis Wright Tremaine, LLP

Annual Meeting

Best Western Executive Inn
5700 Pacific Highway East
Fife, Washington
Tuesday, April 2, 2002
1:00 p.m.

Stock Listing

The Company's common stock trades on the Nasdaq National Market tier of The Nasdaq Stock Market(sm) under the symbol: COLB.

Financial Information

Columbia news and financial results are available through the Internet and mail.

Internet: For information about Columbia, including news and financial results, product information and service locations, access our home page on the World Wide Web, at <http://www.columbiabank.com>. You can also view or retrieve copies of Columbia's financial reports on the Internet by connecting to <http://www.sec.gov>.

Immediate access to the Company's quarterly earnings news release via the Internet is provided by Company News on Call at <http://www.prnewswire.com>.

Mail: At your request, we will mail you our quarterly earnings news release, quarterly financial data on Form 10-Q and additional annual reports. To be added to Columbia's mailing list for quarterly earnings news releases, or to request other information, please contact:

Jo Anne Coy
Vice President,
Marketing Director
P.O. Box 2156, MS 8300
Tacoma, WA 98401-2156
Tel (253) 305-1965
Fax (253) 305-0317
E-Mail: jcoy@columbiabank.com

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 13th day of February 2002.

COLUMBIA BANKING SYSTEM, INC.
(Registrant)

By: /S/ J. JAMES GALLAGHER

J. James Gallagher
Vice Chairman and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated, on the 13th day of February 2002.

Principal Executive Officer:

By: /S/ J. JAMES GALLAGHER

J. James Gallagher
Vice Chairman and
Chief Executive Officer

Principal Financial Officer:

/S/ GARY R. SCHMINKEY

Gary R. Schminkey
Executive Vice President and
Chief Financial Officer

J. James Gallagher, pursuant to a power of attorney that is being filed with the Annual Report on Form 10-K, has signed this report on February 13, 2002 as attorney in fact for the following directors who constitute a majority of the Board.

[Richard S. DeVine]	[Thomas M. Hulbert]
[Melanie J. Dressel]	[Thomas L. Matson]
[Jack Fabulich]	[Donald Rodman]
[Jonathan Fine]	[Sidney R. Snyder]
[John P. Folsom]	[William T. Weyerhaeuser]
[John Halleran]	[James M. Will]

/S/ J. JAMES GALLAGHER

J. James Gallagher
Attorney-in-fact

February 13, 2002

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Columbia Banking System, Inc. Board of Directors

Richard S. Devine President Chinook Resources, Inc.	Melanie J. Dressel President & Chief Operating Officer Columbia Banking System, Inc., President & Chief Executive Officer Columbia Bank	Jack Fabulich Honorary Chairman of Parker Paint Manufacturing, Inc. Commissioner Port of Tacoma
Jonathan Fine Chief Executive Officer	John P. Folsom President and	J. James Gallagher Vice Chairman and

United Way of King County	Chief Executive Officer Brown & Brown, Inc.	Chief Executive Officer Columbia Banking System, Inc.
John A. Halleran Private Investor	Thomas M. Hulbert President and Chief Executive Officer Winsor Corporation	Thomas L. Matson Owner and President Tom Matson Dodge, Inc.
Donald Rodman Owner and Executive Officer Rodman Realty	Sidney R. Snyder Vice Chairman Pacific Financial Corporation Washington State Senator Owner of Sid's Food Market	William T. Weyerhaeuser Chairman Columbia Banking System, Inc. Clinical Psychologist Director Potlatch Corporation
James M. Will President Titus-Will Enterprises		

Branch Locations		
PIERCE COUNTY		
1	13th & A 1301 "A" Street Suite 100 Tacoma, WA 98402 (253) 396-6900 Michael Block	3
2	ALLENMORE 1959 South Union Tacoma, WA 98405 (253) 627-6909 Robert Bruback	3
3	BONNEY LAKE 19925 State Rte 410 E Bonney Lake, WA 98390 (253) 863-8500 Keith Brown	
4	BROADWAY PLAZA 1102 Broadway Plaza Tacoma, WA 98402 (253) 305-1940 Michael Block	6
5	EDGEWOOD/MILTON 1250 Meridian E Milton, WA 98354 (253) 952-6646 Dolores Ehli	6
6	FIFE 5501 Pacific Hwy. E Fife, WA 98424 (253) 922-7870 Doug Hedger	
7	FIRCREST 2401 Mildred St. W Fircrest, WA 98466 (253) 566-1172 Dan Patjens	9
8	GIG HARBOR 5303 Point Fosdick Dr. NW Gig Harbor, WA 98335 (253) 858-5105 Chris Gullett	9
9	LAKEWOOD 6202 Mount Tacoma Dr. SW Lakewood, WA 98499 (253) 581-4232 Jay Mayer	
10	MARTIN LUTHER KING 1102 Martin Luther King Jr. Way Tacoma, WA 98405 (253) 597-8000 Julie Borell	12
11	OLD TOWN 2200 North 30th St. Tacoma, WA 98403 (253) 272-0412 Connie Nelson	12
12	PUYALLUP 4220 S. Meridian Puyallup, WA 98373 (253) 770-0770 Stan Ausmus	
13	176th & MERIDIAN 17208 Meridian E Puyallup, WA 98373 (253) 445-6748 Alana Rouff	15
14	SOUTH HILL MALL 3500 S. Meridian Suite 503 Puyallup, WA 98373 (253) 770-8161 Kathleen Knapper	15
15	SPANAWAY 17502 Pacific Ave. S Spanaway, WA 98387 (253) 539-3094 Joy Johnson	
16	STADIUM 601 N. 1st. Tacoma, WA 98403 (253) 597-8811 Monica Stevens	18
17	SUMMIT 10409 Canyon Road E Puyallup, WA 98373 (253) 770-9323 Debra Hamilton	18
18	84th & PACIFIC 201 S. 84th Street Tacoma, WA 98444 (253) 471-7000 Dean Piotrowski	
19	WESTGATE 5727 N. 21st St. Tacoma, WA 98406 (253) 761-8170 Connie Pentecost	
KING COUNTY		
20	AUBURN 25 16th St. NE Auburn, WA 98002 (253) 939-9600 Patty Osthus	21
21	BELLEVUE 777 108th Ave. NE Suite 100 Bellevue, WA 98004 (425) 646-9696 Rebecca Holverson	22
22	BELLEVUE WAY 10350 NE 10th St. Bellevue, WA 98004 (425) 452-7323 Bob MacIsaac	
23	FEDERAL WAY 33370 Pacific Highway S Federal Way, WA 98003 (253) 925-9323 Mike Harris	25
24	FOREST VILLA 2749 Auburn Way S. Auburn, WA 98002 (253) 887-1186 Lillian McGinnis	25
25	ISSAQUAH 775 NW Gilman Blvd. Suite F Issaquah, WA 98027 (425) 369-9200 Kirk Fultz	
26	KENT 504 W. Meeker Kent, WA 98032 (253) 852-8400 Shirley McGregor	27
27	SOUTH AUBURN 4101 A St. SE Auburn, WA 98002 (253) 939-9800 Rod Clemmer	

COWLITZ COUNTY		
28	COMMERCE	29 30th AVENUE
		30 WOODLAND

	1338 Commerce Ave. Longview, WA 98632 (360) 636-9200 Faith Pacheco	2207 30th Ave. Longview, WA 98632 (360) 423-8760 Faith Pacheco	782 Goerig St. Woodland, WA 98674 (360) 225-9421 Carol Rounds
31	KITSAP COUNTY PORT ORCHARD 228 Bravo Terrace Port Orchard, WA 98366 (360) 876-8384 Rob Putas	32	THURSTON COUNTY WEST OLYMPIA 2820 Harrison Ave Olympia, WA 98502 (360) 375-5800 Diane Avery
*	The following branches are scheduled to open during the first quarter of 2002.	* REDMOND 8201 164th Avenue NE Suite 105 Redmond, WA 98052 (425) 558-7500 Judi Lindsay	* 2nd & COLUMBIA 721 Second Avenue Seattle, WA 98104 (206) 223-1000 Kellie Walker

INDEX TO EXHIBITS

Exhibit
No.

- 3.1 Amended and Restated Articles of Incorporation. (6)
- 3.2 Restated Bylaws. (1)
- 4.1 Specimen of common stock certificate. (4)
- 4.2 Pursuant to Item 601(b) (4) (iii) (A) of Regulation S-K, copies of instruments defining the rights of holders of long-term debt and preferred securities are not filed. The Company agrees to furnish a copy thereof to the Securities and Exchange Commission upon request.
- 10.1 Outsourcing agreement as of January 1, 2001 between the Company and Metavante Corporation (5)
- 10.2 Deferred Compensation Plan for directors and certain key employees effective September 22, 1999. (1)
- 10.3 2000 Amended and Restated Stock Option Plan. (2)
- 10.4 Amended and Restated Employee Stock Purchase Plan. (4)
- 10.5 Office Lease, dated as of December 15, 1999, between the Company and Haub Brothers Enterprises Trust. (4)
- 10.6 Amended Employment Agreement between the Bank, the Company and J. James Gallagher effective December 20, 2000. (3) (4)
- 10.7 Amended Employment Agreement between the Bank, the Company and Melanie J. Dressel effective December 20, 2000. (3) (4)
- 10.8 Employment Agreement between the Bank, the Company and Harald R. Russell effective December 20, 2000. (3) (4)
- 10.9 Employment Agreement between the Bank, the Company and Evans Q. Whitney effective December 20, 2000. (5) (4)
- 10.10 Employment Agreement between the Bank, the Company and Donald L. Hirtzel effective October 31, 2000. (8)
- 10.11 Form of Severance Agreement between the Company and Mr. Gary Schminkey effective December 20, 2000. (3) (4)
- 10.12 Form of Promissory Note issued by each of Mr. Gallagher, Ms. Dressel, Mr. Whitney and Mr. Russell to the Company in consideration of the Company's 2000 issuance of restricted stock. (4)
- 10.13 Amended Restricted Stock Award Agreement between the Bank, the Company and J. James Gallagher effective July 1, 1998. (4)
- 10.14 Restricted Stock Award Agreement between the Bank, the Company and Melanie J. Dressel effective January 28, 1998. (4)
- 10.15 Restricted Stock Award Agreement between the Bank, the Company and Harald R. Russell effective January 28, 1998. (4)
- 10.16 Restricted Stock Award Agreement between the Bank, the Company and Evans Q. Whitney effective January 28, 1998. (4)
- 10.17 Executive Summary - The Secura Group. (6)
- 10.18 Form of Long-Term Care Agreement between the Bank, the Company, and each of the following directors: Mr. Devine, Mr. Folsom, Mr. Gallagher, Mr. Halleran, Mr. Hulbert, Mr. Rodman and Mr. Will. (7)

Exhibit
No.

- 10.19 Form of Supplemental Executive Retirement Plan between Columbia Banking System, Inc., Columbia State Bank, its wholly owned subsidiary, and each of the following executive officers effective August 1, 2001: Melanie J. Dressel, J. James Gallagher, H.R. Russell, Gary R. Schminkey, and Evans Q. Whitney. (7)
- 10.20. Form of Amended and Restated Split Dollar Life Insurance Agreement between Columbia Banking System, Inc., Columbia State Bank, its wholly owned subsidiary, and each of the following officers: Melanie J. Dressel, J. James Gallagher, H.R. Russell, Gary R. Schminkey, and Evans Q. Whitney. (8)
- 10.21. Form of Split Dollar Life Insurance Agreement between Columbia Banking System, Inc., Columbia State Bank, its wholly owned subsidiary, and Don L. Hirtzel. (7)
- 21 Subsidiaries of the Company: Columbia State Bank. Columbia (WA) Statutory Trust.
- 23 Consent of Deloitte & Touche, LLP. (8)
- 24 Power of Attorney dated January 23, 2002. (8)

-
- (1) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1999.
 - (2) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000.
 - (3) This document is a management contract containing compensatory arrangements and is required to be filed as an exhibit pursuant to Item 14(c) of Form 10-K.
 - (4) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2000.
 - (5) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001.
 - (6) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001.
 - (7) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001.
 - (8) Filed with this Annual Report on Form 10-K for the year ended December 31, 2001.

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Section 2: EX-10.10 (EMPLOYMENT AGREEMENT EFFECTIVE OCTOBER 31, 2000)

Exhibit 10.10

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") is made and entered by and between Columbia State Bank, a Washington banking corporation ("Columbia Bank") together with Columbia Banking System, Inc., a Washington corporation ("CBSI") (collectively, the "Employer"), and DON L. HIRTZEL (the "Executive"). This Agreement shall become effective as of October 31, 2000.

RECITALS

- A. Executive has until recently been serving as a Senior Vice President and Regional Manager of another financial institution doing business in King County, Washington.
- B. Employer plans to substantially increase its level of business activity in King County and desires to assure itself of the exclusive services of Executive to act as Executive Vice President and Northern Region Manager of Columbia Bank under the terms of this Agreement.
- C. Executive desires to accept this management position under the terms of this Agreement.

In consideration of the mutual promises made in this Agreement, the parties agree as follows:

AGREEMENT

- 1. Employment.

Employer employs Executive and Executive accepts employment with Employer on the terms and conditions set forth in this Agreement.

- 2. Term.

The term of this Agreement will commence as of October 31, 2000, and will continue until December 31, 2003, unless extended or sooner terminated as provided in this Agreement.

- 3. Duties.

- (a) Executive will serve as Executive Vice President of Columbia Bank and Manager of the Northern Region of the Bank, headquartered in the metropolitan area of Seattle/Bellevue, Washington. In such

capacity, and subject to the authority of the Chief Executive Officer and the Boards of Directors of Columbia Bank and CBSI (separately or collectively, the "Board" as applicable), as appropriate, Executive will

render the executive management services and perform such tasks in connection with the affairs of Columbia Bank and CBSI that are normal and customary to the positions that he holds.

- (b) Executive will perform such other duties as may be appropriate to his position and as may be prescribed from time to time by the Chief Executive Officer of the Board, or that are provided in the Bylaws of Columbia Bank of CBSI.
- (c) Executive will devote his best efforts and all necessary time, attention, and effort to the business and affairs of Employer and its affiliates, as such business and affairs now exist or hereafter may be changed or supplemented, in order to properly discharge his responsibilities under this Agreement.

4. Salary, Bonus, and Other Compensation.

4.1 Salary.

- (a) During the term of this Agreement, Employer will pay Executive an annual (calendar year) base salary of not less than \$150,000 per year (payable at the rate of \$12,500 per month) beginning October 31, 2000.
- (b) Columbia Bank will guarantee payment of any portion of Executive's compensation that may be allocated to a subsidiary of CBSI.
- (c) If this Agreement terminates prior to December 31, 2003, then Employer will pay Executive such greater or lesser amount of the agreed compensation as provided in Section 5.

4.2 Bonus.

- (a) Executive will be paid \$50,000 as a signing bonus. The payment will be made on the first business day following January 1, 2001. Executive agrees to forfeit the signing bonus in the event that he terminates his employment without good reason prior to December 31, 2001.
- (b) Executive will be eligible to participate in the bonus pools, if any, that the Board may establish for senior executives, either under an executive incentive plan or otherwise. Executive will be eligible to receive such bonuses up to 35% of base salary if annual financial targets are met.

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4.3 Stock Options and Stock Grant

- (a) Executive will be awarded an option to purchase 15,000 shares of the common stock of CBSI. The exercise price will be the price at the close of business on the effective date of this Agreement. The shares will vest upon completion of three years employment and the Executive will have five years from the date of vesting in which to exercise the options. Earlier vesting will occur in the event that Executive is terminated without cause prior to the term of this Agreement.
- (b) Executive will be awarded 5,000 restricted shares of CBSI common stock. The award will be evidenced by a Restricted Stock Award Agreement in form acceptable to CBSI and will require that the Executive remain a Senior Executive of Employer for five years from the date of grant before the restrictions lapse and that the shares will be held in escrow pending completion of that requirement. If Executive is dismissed without cause before that date, all restrictions will lapse, the escrow will be terminated and the shares will belong to Executive free of all restrictions imposed on behalf of Employer.

4.4 Benefits. In addition to the base salary and bonus payable or potentially payable to Executive pursuant to this Section 4, Executive will be entitled to receive benefits similar to those offered to other senior executives of Employer. During the year 2001, Executive will receive a car allowance of \$4,300, a parking allowance of \$1,920 and \$5,028 reimbursement of country club dues.

5. Termination of Agreement.

5.1 Early Termination.

- (a) This Agreement may be terminated at any time by the Board of Employer or by Executive, and it shall terminate upon Executive's death or disability. Any termination by the Board of Employer other than termination for cause (as defined below) shall not prejudice Executive's right to compensation or other benefits under this Agreement. Except as provided in Section 7, if Executive voluntarily terminates his employment before December 31, 2003, he will be entitled only to such payments as he would have the right to receive upon termination for cause under subsection 5.1(b).

- (b) Except as provided in Section 7, if Employer terminates his Agreement without cause, Employer shall pay Executive upon the effective date of such termination all salary earned, benefits accrued and all reimbursable expenses hereunder incurred through such termination date and, in addition, liquidated damages in an amount equal to the greater of (i) two years' salary, or (ii) salary for the then-remaining term of the Agreement payable hereunder. If Employer terminates this Agreement for cause, Employer shall pay Executive upon the effective date of such termination only such salary earned, benefits accrued and expenses reimbursable hereunder incurred through such termination date. Executive shall have no right to receive compensation or other benefits for any period after termination for cause.
- (c) For purposes of this Agreement, the term "cause" shall mean (i) willful misfeasance or gross negligence in the performance of his duties; (ii) conduct demonstrably and significantly harmful to Employer or a financial institution subsidiary; or (iii) conviction of a felony. For purposes of this Agreement, "disability" shall mean a medically reimbursable physical or mental impairment that may be expected to result in death, or to be of long, continued duration, and that renders Executive incapable of performing the duties required under this Agreement. The Board or the Compensation Committee of the Board ("Committee"), acting in good faith, shall make the final determination of whether Executive is suffering under any disability as herein defined and, for purposes of making such determination, may require Executive to submit himself to a physical examination by a physician mutually agreed upon by Executive and the Board or the Committee at Employer's expense.

5.2 Obligations. Except as otherwise provided in Section 4 or Section 7 or in a particular option grant, Executive's rights, if any, to vested but unexercised stock options will continue for a period of one year after early termination, other than termination for cause and Executive's unvested stock options, if any, shall terminate immediately.

6. Restrictive Covenant.

6.1 Noncompetition.

- (a) Executive agrees that except as otherwise set forth in this Agreement, he will not, during the term of this Agreement and for a period of two years after the later of (i) expiration of the term of this Agreement, or (ii) completion of service as an active officer of CBSI or Columbia Bank, directly or indirectly, become

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interested in, as principal shareholder, director or officer, any financial institution (other than an institution controlled by, controlling, or under common control with Employer and its affiliates) that competes within the State of Washington with Employer or any of its affiliates, with respect to activities of the type performed by such service companies within such service area immediately prior to Executive's termination.

- (b) The restrictions concerning competition after termination as contained in this Section 6.1 shall apply only in the event that Executive voluntarily terminates employment with Employer without good reason. For purposes of this Agreement, termination for "good reason" shall mean termination by Executive as a result of any material breach of this Agreement by Employer, or any substantial diminution of duties of Executive by the Board of either Columbia Bank or CBSI. The provisions restricting competition by Executive may be waived by the Employer.

6.2 Noninterference. During the noncompetition period described in Section 6.1, Executive shall not solicit or attempt to solicit any other employee of Employer or its affiliates to leave the employ of those companies, or in any way interfere with the relationship between Employer and any other employee of Employer or its affiliates.

6.3 Interpretation. If a court or any other administrative body with jurisdiction over a dispute related to this Agreement should determine that the restrictive covenants set forth above is unreasonably broad, the parties authorize such court or administrative body to narrow the covenants so as to make it reasonable, given all relevant circumstances, and to enforce such revised covenants. The covenants in this paragraph shall survive termination of this Agreement.

7. Change of Control.

7.1 Benefits. The parties recognize that a "change of control" of Employer (as defined in Section 7.2) could be detrimental to Executive's continued employment. Accordingly, in order to give further assurances to the Executive to enter into this Agreement, if:

- (a) There is a change of control; and either;
- (b) Within 730 days of such change in control, Executive terminates his employment with Employer; or

- (c) At any time from and after sixty days prior to the public announcement by Employer of a transaction that will result in

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the change of control, Employer (or its successor) terminates Executive's employment without cause, then Executive, as of the date of termination of his employment, subject to the remaining provisions of this Section 7.1, shall be paid or provided with: (i) continued payment of his base salary, the pro-rata portion of any incentive payment expected to be received for the year when termination occurs and all benefits provided for in this Agreement until two years following termination or December 31, 2003, whichever is longer; and (ii) vesting of all stock options and lapse of all restrictions with respect to any restricted stock awards shall occur. The provisions of this Section 7.1 shall survive expiration of the term of the Agreement.

7.2 Definitions. For purposes of this Agreement, the term "change of control" shall mean the occurrence of one or more of the following events:

- (a) One person or entity acquiring or otherwise becoming the owner of twenty-five percent or more of CBSI's outstanding common stock;
- (b) Replacement of a majority of the incumbent directors of CBSI by directors whose elections have not been supported by a majority of the Board of company; or
- (c) Dissolution or sale of fifty percent or more in value of the assets, of either CBSI or Columbia Bank.

8. Miscellaneous.

8.1 This Agreement contains the entire agreement between the parties with respect to Executive's employment with Employer and his covenant not to compete with Employer and its affiliates, and is subject to modification or amendment only upon amendment in writing signed by both parties.

8.2 This Agreement shall bind and inure to the benefit of the heirs, legal representatives, successors, and assigns of the parties, except that Employer's rights and obligations may not be assigned. The provisions of Section 6.1 of this Agreement are intended to confer upon CBSI and its subsidiaries and affiliates the benefits of Executive's covenant not to compete.

8.3 If any provision of this Agreement is invalid or otherwise unenforceable, all other provisions shall remain unaffected and shall be enforceable to the fullest extent permitted by law.

8.4 This Agreement is made with reference to and is intended to be

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construed in accordance with the laws of the State of Washington. Venue for any action arising out of or concerning this Agreement shall lie in Pierce County, Washington. In the event of a dispute under this Agreement not involving injunctive relief, the dispute shall be arbitrated pursuant to the Superior Court Mandatory Arbitration Rules ("MAR") adopted by the Washington State Supreme Court, irrespective of the amount in controversy. This Agreement shall be deemed as stipulation to that effect pursuant to MAR 1.2 and 8.1. The arbitrator, in his or her discretion, may award attorney's fees to the prevailing party or parties.

8.5 Any notice required to be given under this Agreement to either party shall be given by personal service or by depositing a copy thereof in the United States registered or certified mail, postage prepaid, addressed to the following address, or such other address as addressee shall designate in writing:

Employer: 1102 Broadway
Tacoma, WA 98402

Executive: //Address of record//

IN WITNESS WHEREOF, the parties have executed this Agreement effective on October 31, 2000.

COLUMBIA STATE BANK

By: /s/ Melanie J. Dressel

Melanie J. Dressel
Its President and CEO

COLUMBIA BANKING SYSTEM, INC.

By: /s/ J. James Gallagher

J. James Gallagher
Its Vice Chairman and CEO

EXECUTIVE

/s/ Don L. Hirtzel

Don L. Hirtzel

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Section 3: EX-10.20 (FORM OF AMENDED AND RESTATED INSURANCE AGREEMENT)

EXHIBIT 10.20

AMENDED AND RESTATED
COLUMBIA BANKING SYSTEM, INC. AND COLUMBIA STATE BANK
LIFE INSURANCE
ENDORSEMENT METHOD SPLIT DOLLAR AGREEMENT

Insurer: Massachusetts Mutual Life Insurance Company
Policy Number:
Insurer: New York Life Insurance Company
Policy Number:
Insurer: Union Central Life Insurance Company
Policy Number:
Owner: Columbia State Bank
Insured: Executive
Effective Date: August 1, 2001

This Agreement is by and between Columbia Bank System, Inc., Columbia State Bank; it's wholly owned subsidiary (either or both, as applicable, referred to interchangeably as the "Company"), and Executive, a senior executive of the Company.

I. DEFINITIONS

The term "Policy" shall refer to the above-cited policies as well any policies obtained, by means of 1035 exchange, to replace the above-cited policies. Policy definitions shall govern.

II. POLICY TITLE AND OWNERSHIP

The respective rights and duties of the Company and the Insured in the Policy shall be as follows:

Title and ownership shall reside in the Company for its use and for the use of the Insured all in accordance with this Agreement. The Company alone may, to the extent of its interest, exercise the right to borrow or withdraw the Policy cash values or to terminate the Policy. Where the Company and the Insured, mutually agree to exercise the right to increase coverage under the Policy, then, in such event, the rights, duties and benefits of the parties to such increased coverage shall continue to be subject to the terms of this Agreement.

III. BENEFICIARY DESIGNATION

The Insured shall have the right and power to designate beneficiaries to receive his/her share of death proceeds, as provided in this Agreement. Likewise, the Insured shall have the right and power to elect and change a payment option for such beneficiaries.

IV. PREMIUM PAYMENTS

The Company shall pay premiums and the Insured shall not be responsible for any portion thereof.

V. TAXABLE BENEFIT

Annually the Insured will receive a taxable benefit equal to the assumed cost of insurance as required by the Internal Revenue Service. The Company (or its administrator) will report to the Insured such imputed income on Form W-2 or its equivalent.

VI. DIVISION OF DEATH PROCEEDS

The Company shall be entitled to the death proceeds of the Policy except that, subject to Paragraph VII herein, beneficiaries designated by the Insured in accordance with Paragraph III, shall be entitled to a split dollar share of the death proceeds.

1. If, at the time of his or her death, the Insured is employed by the Company, the Insured employee's beneficiary (ies), shall be entitled to an amount, as follows:

- (a) If the Insured employee has not yet attained the age of seventy (70), the lesser of \$1.2 million, or one hundred percent (100%) of the Net At Risk Insurance portion of the proceeds; Net At Risk Insurance portion of the proceeds is the aggregate total proceeds less the cash value of the Policies designated herein;
 - (b) If the Insured employee is seventy (70) or older, but not yet age eighty (80), the lesser of \$1.0 million, or one hundred percent (100%) of the Net At Risk Insurance portion of the proceeds;
 - (c) If the Insured employee dies after the attainment of age eighty (80), the lesser of \$750,000, or one hundred percent (100%) of the Net At Risk Insurance portion of the proceeds.
2. If, at the time of his or her death, the Insured is no longer employed by the Company but, prior to death, was eligible to receive payments under that certain Executive Supplemental Compensation Agreement dated as of August 1, 2001, by and between the Company and the Insured (the SERP Agreement), the Insured's beneficiary (ies), shall be entitled to an amount, as follows. (For purposes of this Paragraph VI, the term

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Applicable Percentage shall refer to the Applicable Percentage as defined in the SERP Agreement and in effect as of the Insured's last date of employment with the Company.)

- (a) If the Insured has not yet attained the age of seventy (70), the Applicable Percentage times the lesser of \$1.2 million, or one hundred percent (100%) of the Net At Risk Insurance portion of the proceeds;
 - (b) If the Insured is seventy (70) or older, but not yet age eighty (80), the Applicable Percentage times the lesser of \$1.0 million, or one hundred percent (100%) of the Net At Risk Insurance portion of the proceeds;
 - (c) If the Insured dies after the attainment of age eighty (80), the Applicable Percentage times the lesser of \$750,000, or one hundred percent (100%) of the Net At Risk Insurance portion of the proceeds.
3. If the Company no longer employs the Insured at the time of death and the Insured was not eligible to receive payments under the SERP Agreement prior to death, the beneficiaries' share of Policy proceeds shall be \$25,000.
4. The Company and the Insured's beneficiaries shall share any interest due on death proceeds in the same pro rata ratio as applies to death proceeds, respectively.
5. In the event that the Policy is terminated other than as a result of a termination of this Agreement pursuant to paragraph X, then the Bank shall pay to the Insured's beneficiary (ies) an amount which will provide a total after-tax death benefit equal to the benefit that the Insured would have received under Section 1 or 2 of this Paragraph VI if the Policy had not been terminated; provided, however, no benefit will be payable under Section 2(c) of this Paragraph VI if at the time of death the Policy is no longer in place due to a change in federal income tax treatment of Policy proceeds or action by bank regulatory authorities.

VII. DIVISION OF CASH SURRENDER VALUE

The Company shall at all times be entitled to an amount equal to the Policy's cash value, as that term is defined in the Policy, less any Policy loans and unpaid interest or cash withdrawals previously incurred by the Company and any applicable Policy surrender charges. Such cash value shall be determined as of the date of surrender of the Policy or death of the Insured as the case may be.

VIII. PREMIUM WAIVER

If the Policy contains a premium waiver provision, any such waived amounts shall be considered for all purposes of this Agreement as having been paid by the Company.

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IX. RIGHTS OF PARTIES WHERE POLICY ENDOWMENT OR ANNUITY ELECTION EXISTS

In the event the Policy involves an endowment or annuity element, the Company's right and interest in any endowment proceeds or annuity benefits shall be determined according to this Agreement, by regarding such endowment proceeds, or the commuted value of such annuity benefits, as the Policy's cash value. Such endowment proceeds or annuity benefits shall be treated like death proceeds for the purposes of division under this Agreement.

X. TERMINATION OF AGREEMENT

This Agreement shall terminate immediately upon the commission of any act by the Insured that results in the termination of the Policy by the Insurer.

Except as provided above, this Agreement shall terminate upon distribution of death benefits in accordance with Paragraph VI above.

XI. PROHIBITION ON ASSIGNMENT

The Insured may not, without the prior written consent of the Company, assign to any individual, trust or other organization, any right, title or interest in the Policy or in any rights, options, privileges or duties created under this Agreement.

XII. AGREEMENT BINDING UPON THE PARTIES

This Agreement shall be binding upon the Insured and the Company, and their respective heirs, successors, personal representatives and assigns, as applicable.

XIII. NAMED FIDUCIARY AND PLAN ADMINISTRATOR

The Company is hereby designated the "Named Fiduciary" until resignation or removal by its Board of Directors. As Named Fiduciary, the Company shall be responsible for the management, control, and administration of this Agreement as established herein. The Named Fiduciary may allocate to others certain aspects of the management and operations responsibilities of this Agreement, including the employment of advisors and the delegation of any ministerial duties to qualified individuals.

XIV. FUNDING POLICY

The funding Policy for this Agreement shall be to maintain the Policy in force by paying, when due, all premiums required.

XV. CLAIM PROCEDURES

Claims shall be directed to The Benefit Marketing Group, Inc., Atlanta Georgia (770-952-1529). If a claim is payable, a benefit check will be issued to the Named Fiduciary. In the event that a claim is not eligible under the Policy, the Insurer will notify the Named Fiduciary of the denial as required by the Policy. If the Named Fiduciary is dissatisfied with the denial of the claim and wishes to contest such claim denial, it should contact the office named above and they will assist in making inquiry to the Insurer. All objections to the Insurer's actions should be in writing and submitted to the office named above for transmittal to the Insurer.

XVI. GENDER AND PLURAL VS SINGULAR

Whenever in this Agreement words are used in the masculine or neuter gender, they shall be read and construed as in the masculine, feminine or neuter gender, whenever they should so apply. When applicable, nouns in the singular shall be read and construed as in the plural and visa versa.

XVII. INSURANCE COMPANY NOT A PARTY TO THIS AGREEMENT

The Insurer shall not be deemed a party to this Agreement, but will be served with an executed copy of this Agreement. Payment or other performance in accordance with the Policy provisions shall fully discharge the Insurer from any and all liability.

IN WITNESS WHEREOF, the Insured and duly authorized Company officer have signed this Agreement as of the above written date.

Columbia Banking System, Inc.	Columbia State Bank
-----	-----
Name: J. James Gallagher	Name: Melanie J. Dressel
Title: Vice Chairman & Chief Executive Officer	Title: President and Chief Executive Officer

Executive

Name: Executive

Executive Name:

BENEFICIARIES DESIGNATION FORM

Primary Designation:

Name	Relationship
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Contingent Designation:

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_____, 2002

Signed: _____
Executive

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Section 4: EX-23 (CONSENT OF DELOITTE & TOUCHE, LLP)

EXHIBIT 23

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement Nos. 33-83676, 33-95766, and 333-40316 of Columbia Banking System, Inc. and subsidiary on Form S-8 of our report dated March 23, 2001, appearing in this Annual Report on Form 10-K of Columbia Banking System, Inc. and subsidiary for the year ended December 31, 2001.

/s/ DELOITTE & TOUCHE LLP

Seattle, Washington
February 25, 2002

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Section 5: EX-24 (POWER OF ATTORNEY DATED JANUARY 23, 2002)

EXHIBIT 24

POWER OF ATTORNEY

The director of Columbia Banking System, Inc. (the "Company"), whose signature appears below, hereby appoints J. James Gallagher and Melanie J. Dressel, or either of them, as his/her attorney to sign, in his/her name and behalf and in any and all capacities stated below, the Company's Form 10-K Annual Report pursuant to Section 13 of the Securities Exchange Act of 1934, and likewise to sign any and all amendments and other documents relating thereto as shall be necessary, such person hereby granting to each such attorney power to act with or without the other and full power of substitution and revocation, and hereby ratifying all that any such attorney or his substitute may do by virtue hereof.

This Power of Attorney has been signed by the following persons in the capacity indicated, on the 23rd day of January, 2002.

Signature -----	Title -----	Signature -----	Title -----
/s/ William T. Weyerhaeuser ----- William T. Weyerhaeuser	Chairman		
/s/ J. James Gallagher ----- J. James Gallagher	Vice Chairman, Chief Executive Officer and Director		
/s/ Melanie J. Dressel ----- Melanie J. Dressel	Chief Operating Officer and Director		
/s/ Richard S. Devine	Director	/s/ Tom M. Hulbert	Director

----- Richard S. Devine		----- Tom M. Hulbert	
/s/ Jack Fabulich ----- Jack Fabulich	Director	/s/ Tom Matson ----- Tom Matson	Director
/s/ Jonathan Fine ----- Jonathan Fine	Director	/s/ Donald Rodman ----- Donald Rodman	Director
/s/ John Folsom ----- John Folsom	Director	/s/ Sid Snyder ----- Sid Snyder	Director
/s/ John Halleran ----- John Halleran	Director	/s/ James M. Will ----- James M. Will	Director

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