

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2017 .

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

For the transition period from to .

Commission File Number 0-20288

COLUMBIA BANKING SYSTEM, INC.

(Exact name of registrant as specified in its charter)

Washington

(State or other jurisdiction of
incorporation or organization)

91-1422237

(I.R.S. Employer
Identification Number)

1301 A Street

Tacoma, Washington

(Address of principal executive offices)

98402-2156

(Zip Code)

(253) 305-1900

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☐

Emerging growth company ☐

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

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

Yes ☐ No ☒

The number of shares of common stock outstanding at October 31, 2017 was 58,373,165 .

TABLE OF CONTENTS

	<u>Page</u>
PART I — FINANCIAL INFORMATION	
Item 1.	<u>Financial Statements (unaudited)</u>
	<u>Consolidated Balance Sheets - September 30, 2017 and December 31, 2016</u>
	<u>1</u>
	<u>Consolidated Statements of Income - three and nine months ended September 30, 2017 and 2016</u>
	<u>2</u>
	<u>Consolidated Statements of Comprehensive Income - three and nine months ended September 30, 2017 and 2016</u>
	<u>3</u>
	<u>Consolidated Statements of Changes in Shareholders' Equity - nine months ended September 30, 2017 and 2016</u>
	<u>4</u>
	<u>Consolidated Statements of Cash Flows - nine months ended September 30, 2017 and 2016</u>
	<u>5</u>
	<u>Notes to Unaudited Consolidated Financial Statements</u>
	<u>7</u>
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
	<u>35</u>
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>
	<u>53</u>
Item 4.	<u>Controls and Procedures</u>
	<u>53</u>
PART II — OTHER INFORMATION	
Item 1.	<u>Legal Proceedings</u>
	<u>54</u>
Item 1A.	<u>Risk Factors</u>
	<u>54</u>
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>
	<u>54</u>
Item 3.	<u>Defaults Upon Senior Securities</u>
	<u>54</u>
Item 4.	<u>Mine Safety Disclosures</u>
	<u>54</u>
Item 5.	<u>Other Information</u>
	<u>54</u>
Item 6.	<u>Exhibits</u>
	<u>55</u>
	<u>Signatures</u>
	<u>56</u>

PART I - FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS
CONSOLIDATED BALANCE SHEETS

Columbia Banking System, Inc.
(Unaudited)

	September 30, 2017	December 31, 2016
ASSETS		
	<i>(in thousands)</i>	
Cash and due from banks	\$ 186,116	\$ 193,038
Interest-earning deposits with banks	136,578	31,200
Total cash and cash equivalents	322,694	224,238
Securities available for sale at fair value (amortized cost of \$2,215,335 and \$2,299,037, respectively)	2,207,873	2,278,577
Federal Home Loan Bank stock at cost	10,240	10,240
Loans held for sale	7,802	5,846
Loans, net of unearned income of (\$29,229) and (\$33,718), respectively	6,512,006	6,213,423
Less: allowance for loan and lease losses	71,616	70,043
Loans, net	6,440,390	6,143,380
FDIC loss-sharing asset	—	3,535
Interest receivable	36,163	30,074
Premises and equipment, net	143,351	150,342
Other real estate owned	3,682	5,998
Goodwill	382,762	382,762
Other intangible assets, net	13,845	17,631
Other assets	245,776	256,984
Total assets	\$ 9,814,578	\$ 9,509,607
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	\$ 4,119,950	\$ 3,944,495
Interest-bearing	4,221,767	4,114,920
Total deposits	8,341,717	8,059,415
Federal Home Loan Bank advances	6,465	6,493
Securities sold under agreements to repurchase	40,933	80,822
Other liabilities	97,035	111,865
Total liabilities	8,486,150	8,258,595
Commitments and contingent liabilities (Note 10)		
Shareholders' equity:		
	September 30, 2017	December 31, 2016
	<i>(in thousands)</i>	
Preferred stock (no par value)		
Authorized shares	2,000	2,000
Issued and outstanding	—	9
Common stock (no par value)		
Authorized shares	115,000	115,000
Issued and outstanding	58,376	58,042
Retained earnings	330,474	271,957
Accumulated other comprehensive loss	(5,933)	(18,999)
Total shareholders' equity	1,328,428	1,251,012
Total liabilities and shareholders' equity	\$ 9,814,578	\$ 9,509,607

See accompanying Notes to unaudited Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

Columbia Banking System, Inc.
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
<i>(in thousands except per share amounts)</i>				
Interest Income				
Loans	\$ 78,641	\$ 74,956	\$ 228,340	\$ 216,923
Taxable securities	8,718	8,988	29,172	25,834
Tax-exempt securities	2,718	2,799	8,125	8,397
Deposits in banks	226	15	268	81
Total interest income	90,303	86,758	265,905	251,235
Interest Expense				
Deposits	1,083	823	2,778	2,352
Federal Home Loan Bank advances	163	229	979	594
Other borrowings	128	134	383	407
Total interest expense	1,374	1,186	4,140	3,353
Net Interest Income	88,929	85,572	261,765	247,882
Provision (recapture) for loan and lease losses	(648)	1,866	5,304	10,760
Net interest income after provision (recapture) for loan and lease losses	89,577	83,706	256,461	237,122
Noninterest Income				
Deposit account and treasury management fees	7,685	7,222	22,368	21,304
Card revenue	6,735	6,114	18,660	17,817
Financial services and trust revenue	2,645	2,746	8,520	8,347
Loan revenue	3,154	2,949	9,736	8,013
Merchant processing revenue	—	2,352	4,283	6,726
Bank owned life insurance	1,290	1,073	4,003	3,459
Investment securities gains	—	572	—	1,174
Change in FDIC loss-sharing asset	—	(104)	(447)	(2,197)
Gain on sale of merchant card services portfolio	14,000	—	14,000	—
Other	1,558	242	4,938	1,109
Total noninterest income	37,067	23,166	86,061	65,752
Noninterest Expense				
Compensation and employee benefits	39,983	38,476	119,201	112,086
Occupancy	8,085	8,219	22,853	26,044
Merchant processing expense	—	1,161	2,196	3,312
Advertising and promotion	969	1,993	2,923	3,878
Data processing	4,122	4,275	13,071	12,350
Legal and professional fees	2,880	2,264	9,196	5,366
Taxes, licenses and fees	1,505	1,491	3,494	4,079
Regulatory premiums	782	776	2,299	2,985
Net cost (benefit) of operation of other real estate owned	271	(249)	422	(61)
Amortization of intangibles	1,188	1,460	3,786	4,526
Other	7,752	7,398	25,949	21,563
Total noninterest expense	67,537	67,264	205,390	196,128
Income before income taxes	59,107	39,608	137,132	106,746
Income tax provision	18,338	12,124	40,032	32,598
Net Income	\$ 40,769	\$ 27,484	\$ 97,100	\$ 74,148
Earnings per common share				
Basic	\$ 0.70	\$ 0.47	\$ 1.67	\$ 1.28
Diluted	\$ 0.70	\$ 0.47	\$ 1.67	\$ 1.28
Dividends paid per common share	\$ 0.22	\$ 0.39	\$ 0.66	\$ 1.14
Weighted average number of common shares outstanding	57,566	57,215	57,459	57,173

Weighted average number of diluted common shares outstanding	57,571	57,225	57,465	57,183
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See accompanying Notes to unaudited Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Columbia Banking System, Inc.
(Unaudited)

	Three Months Ended	
	September 30,	
	2017	2016
	<i>(in thousands)</i>	
Net income	\$ 40,769	\$ 27,484
Other comprehensive income (loss), net of tax:		
Unrealized gain from securities:		
Net unrealized holding gain (loss) from available for sale securities arising during the period, net of tax of (\$312) and \$2,305	549	(4,049)
Reclassification adjustment of net gain from sale of available for sale securities included in income, net of tax of \$0 and \$208	—	(364)
Net unrealized gain (loss) from securities, net of reclassification adjustment	549	(4,413)
Pension plan liability adjustment:		
Amortization of unrecognized net actuarial loss included in net periodic pension cost, net of tax of (\$26) and (\$60)	46	107
Pension plan liability adjustment, net	46	107
Other comprehensive income (loss)	595	(4,306)
Total comprehensive income	\$ 41,364	\$ 23,178

	Nine Months Ended	
	September 30,	
	2017	2016
	<i>(in thousands)</i>	
Net income	\$ 97,100	\$ 74,148
Other comprehensive income (loss), net of tax:		
Unrealized gain (loss) from securities:		
Net unrealized holding gain from available for sale securities arising during the period, net of tax of (\$4,716) and (\$13,225)	8,284	23,229
Reclassification adjustment of net gain from sale of available for sale securities included in income, net of tax of \$0 and \$426	—	(748)
Net unrealized gain from securities, net of reclassification adjustment	8,284	22,481
Pension plan liability adjustment:		
Reduction in unfunded defined benefit plan liability during the period, net of tax of (\$2,622) and \$0	4,604	—
Amortization of unrecognized net actuarial loss included in net periodic pension cost, net of tax of (\$101) and (\$182)	178	319
Pension plan liability adjustment, net	4,782	319
Other comprehensive income	13,066	22,800
Total comprehensive income	\$ 110,166	\$ 96,948

See accompanying Notes to unaudited Consolidated Financial Statements.

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

	Preferred Stock		Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Number of Shares	Amount	Number of Shares	Amount			
	(in thousands)						
Balance at January 1, 2017	9	\$ 2,217	58,042	\$ 995,837	\$ 271,957	\$ (18,999)	\$ 1,251,012
Adjustment to opening retained earnings pursuant to adoption of ASU 2016-09	—	—	—	184	(117)	—	67
Net income	—	—	—	—	97,100	—	97,100
Other comprehensive income	—	—	—	—	—	13,066	13,066
Issuance of common stock - stock option and other plans	—	—	49	1,980	—	—	1,980
Issuance of common stock - restricted stock awards, net of canceled awards	—	—	238	5,915	—	—	5,915
Preferred stock conversion to common stock	(9)	(2,217)	102	2,217	—	—	—
Purchase and retirement of common stock	—	—	(55)	(2,246)	—	—	(2,246)
Cash dividends paid on common stock	—	—	—	—	(38,466)	—	(38,466)
Balance at September 30, 2017	—	\$ —	58,376	\$ 1,003,887	\$ 330,474	\$ (5,933)	\$ 1,328,428
Balance at January 1, 2016	9	\$ 2,217	57,724	\$ 990,281	\$ 255,925	\$ (6,295)	\$ 1,242,128
Net income	—	—	—	—	74,148	—	74,148
Other comprehensive income	—	—	—	—	—	22,800	22,800
Issuance of common stock - stock option and other plans	—	—	47	1,304	—	—	1,304
Issuance of common stock - restricted stock awards, net of canceled awards	—	—	310	3,626	—	—	3,626
Purchase and retirement of common stock	—	—	(38)	(1,113)	—	—	(1,113)
Preferred dividends	—	—	—	—	(117)	—	(117)
Cash dividends paid on common stock	—	—	—	—	(66,041)	—	(66,041)
Balance at September 30, 2016	9	\$ 2,217	58,043	\$ 994,098	\$ 263,915	\$ 16,505	\$ 1,276,735

See accompanying Notes to unaudited Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Columbia Banking System, Inc.

(Unaudited)

	Nine Months Ended September 30,	
	2017	2016
	(in thousands)	
Cash Flows From Operating Activities		
Net income	\$ 97,100	\$ 74,148
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan and lease losses	5,304	10,760
Stock-based compensation expense	5,915	3,626
Depreciation, amortization and accretion	21,483	27,796
Investment securities gains	—	(1,174)
Net realized (gain) loss on sale of premises and equipment, loans held for investment and other assets	(189)	186
Net realized loss on sale and valuation adjustments of other real estate owned	489	101
Gain on sale of merchant card services portfolio	(14,000)	—
Termination of FDIC loss share agreements charge	2,409	—
Originations of loans held for sale	(99,130)	(76,645)
Proceeds from sales of loans held for sale	97,174	77,793
Net change in:		
Interest receivable	(6,089)	(3,729)
Interest payable	(21)	(84)
Other assets	3,359	(7,714)
Other liabilities	(2,624)	13,416
Net cash provided by operating activities	111,180	118,480
Cash Flows From Investing Activities		
Loans originated and acquired, net of principal collected	(304,831)	(450,914)
Purchases of:		
Securities available for sale	(130,906)	(502,602)
Premises and equipment	(4,380)	(2,705)
Federal Home Loan Bank stock	(92,040)	(57,799)
Proceeds from:		
FDIC reimbursement on loss-sharing asset	26	878
Sales of securities available for sale	—	120,800
Principal repayments and maturities of securities available for sale	200,470	199,677
Sales of premises and equipment and loans held for investment	12,157	7,391
Sale of merchant card services portfolio	14,000	—
Redemption of Federal Home Loan Bank stock	92,040	57,881
Sales of other real estate and other personal property owned	1,901	5,845
Payment to FDIC to terminate loss-sharing agreements	(4,666)	—
Payments to FDIC related to loss-sharing asset	(210)	(855)
Net cash used in investing activities	(216,439)	(622,403)
Cash Flows From Financing Activities		
Net increase in deposits	282,336	619,162
Net decrease in sweep repurchase agreements	(39,889)	(30,510)
Proceeds from:		
Federal Home Loan Bank advances	2,301,000	1,347,000
Federal Reserve Bank borrowings	10	10
Exercise of stock options	1,980	1,304
Payments for:		
Repayment of Federal Home Loan Bank advances	(2,301,000)	(1,349,000)
Repayment of Federal Reserve Bank borrowings	(10)	(10)
Common stock dividends	(38,466)	(66,041)
Preferred stock dividends	—	(117)

Purchase and retirement of common stock	(2,246)	(1,113)
Net cash provided by financing activities	203,715	520,685
Increase in cash and cash equivalents	98,456	16,762
Cash and cash equivalents at beginning of period	224,238	175,302
Cash and cash equivalents at end of period	\$ 322,694	\$ 192,064

CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued
Columbia Banking System, Inc.
(Unaudited)

	Nine Months Ended September 30,	
	2017	2016
	(in thousands)	
Supplemental Information:		
Cash paid during the period for:		
Cash paid for interest	\$ 4,161	\$ 3,437
Cash paid for income tax	\$ 37,701	\$ 20,825
Non-cash investing and financing activities		
Loans transferred to other real estate owned	\$ 74	\$ 1,202

See accompanying Notes to unaudited Consolidated Financial Statements.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Columbia Banking System, Inc.

1. Basis of Presentation, Significant Accounting Policies and Recent Developments

Basis of Presentation

The interim unaudited Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with instructions to Form 10-Q and Article 10 of Regulation S-X. The Consolidated Financial Statements include the accounts of Columbia Banking System, Inc. (“we”, “our”, “Columbia” or the “Company”) and its subsidiaries, including its wholly owned banking subsidiary Columbia State Bank (“Columbia Bank” or the “Bank”) and Columbia Trust Company (“Columbia Trust”). All intercompany transactions and accounts have been eliminated in consolidation. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair statement of the results for the interim periods presented have been included. The results of operations for the nine months ended September 30, 2017 are not necessarily indicative of results to be anticipated for the year ending December 31, 2017. The accompanying interim unaudited Consolidated Financial Statements should be read in conjunction with the financial statements and related notes contained in the Company’s 2016 Annual Report on Form 10-K.

Significant Accounting Policies

The significant accounting policies used in preparation of our Consolidated Financial Statements are disclosed in our 2016 Annual Report on Form 10-K. There have not been any changes in our significant accounting policies compared to those contained in our 2016 Form 10-K disclosure for the year ended December 31, 2016.

Recent Developments

In July 2017, we entered into an asset purchase agreement (the “Agreement”) with a third-party by which we sold our merchant card services portfolio. In addition, we transitioned our delivery of those services from in-house to an outsourced model to better serve our business clients via a broad selection of competitive, best-in-class payment processing solutions. The carrying amount of both assets and liabilities subject to the Agreement was zero. In the current quarter, we recorded a \$14.0 million gain on sale of the merchant card services portfolio. Under the new business model, we share with the buyer in net merchant services revenue and no longer directly incur merchant processing expenses. Our net revenue share from merchant services is presented in “Card Revenue” in the Consolidated Statements of Income. For the third quarter of 2017, that net revenue share was \$438 thousand.

2. Accounting Pronouncements Recently Issued

In May 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2017-09, *Scope of Modification Accounting*. The amendments in this ASU provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The amendments in ASU 2017-09 are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted. The adoption of ASU 2017-09 is not expected to have a material impact on the Company’s consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, *Premium Amortization on Purchased Callable Debt Securities*. The amendments included in this ASU change guidance on the amortization period of premiums on certain purchased callable debt securities. Specifically, the amendments shorten the premium amortization period to the earliest call date. The amendments in ASU 2017-08 are effective for fiscal years and interim periods within those years, beginning after December 15, 2018. Early adoption is permitted. The Company early adopted the amendments of ASU 2017-08 during the first quarter of 2017. The impact of the adoption of ASU 2017-08 to net income and opening retained earnings was not material.

In January 2017, the FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment*. The amendments in this are intended to reduce the cost and complexity of the goodwill impairment test by eliminating the second step of the goodwill impairment test. An entity will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit’s carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The new guidance does not amend the optional qualitative assessment of goodwill impairment. The amendments in ASU 2017-04 are effective for annual or interim periods beginning after December 15, 2019. Early adoption is permitted. The adoption of ASU 2017-04 is not expected to have a material impact on the Company’s consolidated financial statements.

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

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

In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*. The amendments included in this ASU simplify several aspects of the accounting for employee share-based payment transactions including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. The Company adopted the amendments of ASU 2016-09 during the first quarter of 2017. Adoption of amended forfeiture guidance resulted in an opening period adjustment decreasing retained earnings \$117 thousand and increasing common stock \$184 thousand. Adoption of the amended excess tax benefit guidance resulted in an income tax benefit of \$22 thousand for the three months ended September 30, 2017 and an income tax benefit of \$1.3 million or \$0.02 per diluted common share for the nine months ended September 30, 2017.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The amendments included in this ASU create a new accounting model for both lessees and lessors. The new guidance requires lessees to recognize lease liabilities, initially measured as the present value of future lease payments, and corresponding right-of-use assets for all leases with lease terms greater than 12 months. This model differs from the current lease accounting model, which does not require such lease liabilities and corresponding right-of-use assets to be recorded for operating leases. The amendments in ASU 2016-02 must be adopted using the modified retrospective approach and will be effective for the first interim or annual period beginning after December 15, 2018. Early adoption is permitted. Significant implementation matters to be addressed by the Company include selecting a third-party lease accounting application, assessing the impact to its Consolidated Financial Statements and internal controls over financial reporting and documenting the new lease accounting process. See Note 17, “Commitments and Contingent Liabilities” to our 2016 Form 10-K, for more information regarding the minimum future payments related to our operating leases.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. The guidance in this update will replace most existing revenue recognition guidance in GAAP when it becomes effective. For public companies, this update was to be effective for interim and annual periods beginning after December 15, 2016. However, in August 2015, the FASB issued ASU 2015-14, which delayed the effective date of ASU 2014-09 by one year and permits companies to voluntarily adopt the new standard as of the original effective date. The FASB subsequently issued ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2017-13 to provide implementation guidance and practical expedients related to ASU 2014-09. The Company’s revenue is comprised of interest income on financial assets, which is excluded from the scope of this new guidance, and non-interest income. The adoption of ASU 2017-04 is not expected to have a material impact on the Company’s consolidated financial statements.

3. Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<i>(in thousands)</i>				
September 30, 2017				
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	\$ 1,391,636	\$ 3,143	\$ (17,362)	\$ 1,377,417
State and municipal securities	476,702	9,047	(2,261)	483,488
U.S. government agency and government-sponsored enterprise securities	341,462	1,372	(1,230)	341,604
U.S. government securities	251	—	(1)	250
Other securities	5,284	82	(252)	5,114
Total	<u>\$ 2,215,335</u>	<u>\$ 13,644</u>	<u>\$ (21,106)</u>	<u>\$ 2,207,873</u>
December 31, 2016				
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	\$ 1,486,690	\$ 2,760	\$ (23,718)	\$ 1,465,732
State and municipal securities	473,914	6,343	(5,197)	475,060
U.S. government agency and government-sponsored enterprise securities	332,348	1,065	(1,511)	331,902
U.S. government securities	801	—	(1)	800
Other securities	5,284	63	(264)	5,083
Total	<u>\$ 2,299,037</u>	<u>\$ 10,231</u>	<u>\$ (30,691)</u>	<u>\$ 2,278,577</u>

The following table provides the proceeds and gross realized gains and losses on the sales of securities for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
<i>(in thousands)</i>				
Proceeds from sales of available for sale securities	\$ —	\$ 37,390	\$ —	\$ 120,800
Gross realized gains	\$ —	\$ 572	\$ —	\$ 1,174
Gross realized losses	—	—	—	—
Net realized gains	<u>\$ —</u>	<u>\$ 572</u>	<u>\$ —</u>	<u>\$ 1,174</u>

The scheduled contractual maturities of investment securities available for sale at September 30, 2017 are presented as follows:

	September 30, 2017	
	Amortized Cost	Fair Value
<i>(in thousands)</i>		
Due within one year	\$ 108,477	\$ 108,462
Due after one year through five years	506,439	509,784
Due after five years through ten years	672,288	671,188
Due after ten years	922,847	913,325
Other securities with no stated maturity	5,284	5,114
Total investment securities available-for-sale	<u>\$ 2,215,335</u>	<u>\$ 2,207,873</u>

[Table of Contents](#)

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

	September 30, 2017
	(in thousands)
Washington and Oregon State to secure public deposits	\$ 242,188
Federal Reserve Bank to secure borrowings	54,723
Other securities pledged	122,392
Total securities pledged as collateral	\$ 419,303

The following table shows the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2017 and December 31, 2016 :

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
September 30, 2017						
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	\$ 537,162	\$ (4,765)	\$ 456,330	\$ (12,597)	\$ 993,492	\$ (17,362)
State and municipal securities	75,499	(700)	45,328	(1,561)	120,827	(2,261)
U.S. government agency and government-sponsored enterprise securities	173,027	(665)	21,517	(565)	194,544	(1,230)
U.S. government securities	250	(1)	—	—	250	(1)
Other securities	2,278	(36)	2,740	(216)	5,018	(252)
Total	<u>\$ 788,216</u>	<u>\$ (6,167)</u>	<u>\$ 525,915</u>	<u>\$ (14,939)</u>	<u>\$ 1,314,131</u>	<u>\$ (21,106)</u>
December 31, 2016						
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	\$ 1,029,116	\$ (18,788)	\$ 159,046	\$ (4,930)	\$ 1,188,162	\$ (23,718)
State and municipal securities	211,342	(5,064)	3,384	(133)	214,726	(5,197)
U.S. government agency and government-sponsored enterprise securities	218,811	(1,511)	—	—	218,811	(1,511)
U.S. government securities	251	(1)	—	—	251	(1)
Other securities	2,263	(51)	2,743	(213)	5,006	(264)
Total	<u>\$ 1,461,783</u>	<u>\$ (25,415)</u>	<u>\$ 165,173</u>	<u>\$ (5,276)</u>	<u>\$ 1,626,956</u>	<u>\$ (30,691)</u>

At September 30, 2017, there were 168 U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations securities in an unrealized loss position, of which 84 were in a continuous loss position for 12 months or more. The decline in fair value is attributable to changes in interest rates relative to where these investments fall within the yield curve and their individual characteristics. Because the Company does not intend to sell these securities nor does the Company consider it more likely than not that it will be required to sell these securities before the recovery of amortized cost basis, which may be upon maturity, the Company does not consider these investments to be other-than-temporarily impaired at September 30, 2017.

At September 30, 2017, there were 107 state and municipal government securities in an unrealized loss position, of which 40 were in a continuous loss position for 12 months or more. The unrealized losses on state and municipal securities were caused by interest rate changes or widening of market spreads subsequent to the purchase of the individual securities. Management monitors published credit ratings of these securities for adverse changes. As of September 30, 2017, none of the rated obligations of state and local government entities held by the Company had a below investment grade credit rating. Because the credit quality of these securities are investment grade and the Company does not intend to sell these securities nor does the Company consider it more likely than not that it will be required to sell these securities before the recovery of amortized cost basis, which may be upon maturity, the Company does not consider these investments to be other-than-temporarily impaired at September 30, 2017.

At September 30, 2017, there were 22 U.S. government agency and government-sponsored enterprise securities in an unrealized loss position, of which five were in a continuous loss position for 12 months or more. The decline in fair value is attributable to changes in interest rates relative to where these investments fall within the yield curve and their individual characteristics. Because the Company does not currently intend to sell these securities nor does the Company consider it more likely than not that it will be required to sell these securities before the recovery of amortized cost basis, which may be upon maturity, the Company does not consider these investments to be other-than-temporarily impaired at September 30, 2017.

At September 30, 2017, there was one U.S. government security in an unrealized loss position, which was not in a continuous loss position for 12 months or more. The decline in fair value is attributable to changes in interest rates relative to where this investment falls within the yield curve and its individual characteristics. Because the Company does not currently intend to sell this security nor does the Company consider it more likely than not that it will be required to sell this security before the recovery of amortized cost basis, which may be upon maturity, the Company does not consider this investment to be other-than-temporarily impaired at September 30, 2017.

At September 30, 2017, there were two other securities in an unrealized loss position, of which one was in a continuous unrealized loss position for 12 months or more. The decline in fair value is attributable to changes in interest rates and the additional risk premium investors are demanding for investment securities with these characteristics. The Company does not consider these investments to be other-than-temporarily impaired at September 30, 2017 as it has the intent and ability to hold these investments for sufficient time to allow for recovery in the market value.

4. Loans

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

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

	September 30, 2017			December 31, 2016		
	Loans, excluding PCI loans	PCI Loans	Total	Loans, excluding PCI loans	PCI Loans	Total
<i>(in thousands)</i>						
Commercial business	\$ 2,735,206	\$ 13,662	\$ 2,748,868	\$ 2,551,054	\$ 20,185	\$ 2,571,239
Real estate:						
One-to-four family residential	176,487	14,325	190,812	170,331	17,862	188,193
Commercial and multifamily residential	2,825,794	79,336	2,905,130	2,719,830	89,231	2,809,061
Total real estate	3,002,281	93,661	3,095,942	2,890,161	107,093	2,997,254
Real estate construction:						
One-to-four family residential	145,419	377	145,796	121,887	832	122,719
Commercial and multifamily residential	213,939	958	214,897	209,118	1,565	210,683
Total real estate construction	359,358	1,335	360,693	331,005	2,397	333,402
Consumer	323,913	11,819	335,732	329,261	15,985	345,246
Less: Net unearned income	(29,229)	—	(29,229)	(33,718)	—	(33,718)
Total loans, net of unearned income	6,391,529	120,477	6,512,006	6,067,763	145,660	6,213,423
Less: Allowance for loan and lease losses	(64,272)	(7,344)	(71,616)	(59,528)	(10,515)	(70,043)
Total loans, net	\$ 6,327,257	\$ 113,133	\$ 6,440,390	\$ 6,008,235	\$ 135,145	\$ 6,143,380
Loans held for sale	\$ 7,802	\$ —	\$ 7,802	\$ 5,846	\$ —	\$ 5,846

At September 30, 2017 and December 31, 2016, the Company had no material foreign activities. Substantially all of the Company's loans and unfunded commitments are geographically concentrated in its service areas within the states of Washington, Oregon and Idaho.

The Company has made loans to executive officers and directors of the Company and related interests. These loans are made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than the normal risk of collectability. The aggregate dollar amount of these loans was \$10.1 million at both September 30, 2017 and December 31, 2016 . During the first nine months of 2017 , there were \$203 thousand in advances and \$253 thousand in repayments.

At September 30, 2017 and December 31, 2016 , \$2.26 billion and \$2.29 billion of commercial and residential real estate loans were pledged as collateral on Federal Home Loan Bank of Des Moines (“FHLB”) borrowings and additional borrowing capacity. The Company has also pledged \$69.8 million and \$54.2 million of commercial loans to the Federal Reserve Bank for additional borrowing capacity at September 30, 2017 and December 31, 2016 , respectively.

The following is an analysis of nonaccrual loans as of September 30, 2017 and December 31, 2016 :

	September 30, 2017		December 31, 2016	
	Recorded Investment Nonaccrual Loans	Unpaid Principal Balance Nonaccrual Loans	Recorded Investment Nonaccrual Loans	Unpaid Principal Balance Nonaccrual Loans
<i>(in thousands)</i>				
Commercial business:				
Secured	\$ 25,187	\$ 35,843	\$ 11,524	\$ 21,503
Unsecured	26	1,342	31	303
Real estate:				
One-to-four family residential	816	2,904	568	1,302
Commercial & multifamily residential:				
Commercial land	2,333	2,629	934	922
Income property	3,586	4,702	4,005	4,247
Owner occupied	3,224	4,712	6,248	9,030
Real estate construction:				
One-to-four family residential:				
Land and acquisition	26	803	14	102
Residential construction	213	2,568	549	549
Consumer	4,906	5,418	3,883	4,331
Total	<u>\$ 40,317</u>	<u>\$ 60,921</u>	<u>\$ 27,756</u>	<u>\$ 42,289</u>

Loans, excluding purchased credit impaired loans

The following is an aging of the recorded investment of the loan portfolio as of September 30, 2017 and December 31, 2016 :

	Current Loans	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Nonaccrual Loans	Total Loans
September 30, 2017							
<i>(in thousands)</i>							
Commercial business:							
Secured	\$ 2,607,265	\$ 2,292	\$ 1,302	\$ —	\$ 3,594	\$ 25,187	\$ 2,636,046
Unsecured	93,879	1	18	—	19	26	93,924
Real estate:							
One-to-four family residential	171,936	330	1,408	—	1,738	816	174,490
Commercial & multifamily residential:							
Commercial land	283,321	—	—	—	—	2,333	285,654
Income property	1,375,163	1,493	2,656	—	4,149	3,586	1,382,898
Owner occupied	1,135,584	1,410	390	—	1,800	3,224	1,140,608
Real estate construction:							
One-to-four family residential:							
Land and acquisition	6,787	—	—	—	—	26	6,813
Residential construction	137,707	—	—	—	—	213	137,920
Commercial & multifamily residential:							
Income property	172,112	—	—	—	—	—	172,112
Owner occupied	39,561	—	—	—	—	—	39,561
Consumer	315,688	552	357	—	909	4,906	321,503
Total	<u>\$ 6,339,003</u>	<u>\$ 6,078</u>	<u>\$ 6,131</u>	<u>\$ —</u>	<u>\$ 12,209</u>	<u>\$ 40,317</u>	<u>\$ 6,391,529</u>
December 31, 2016							
<i>(in thousands)</i>							
Commercial business:							
Secured	\$ 2,439,250	\$ 806	\$ 10	\$ —	\$ 816	\$ 11,524	\$ 2,451,590
Unsecured	94,118	287	301	—	588	31	94,737
Real estate:							
One-to-four family residential	164,416	2,448	500	—	2,948	568	167,932
Commercial & multifamily residential:							
Commercial land	269,816	64	—	—	64	934	270,814
Income property	1,365,150	480	111	—	591	4,005	1,369,746
Owner occupied	1,052,078	1,652	—	—	1,652	6,248	1,059,978
Real estate construction:							
One-to-four family residential:							
Land and acquisition	11,542	—	—	—	—	14	11,556
Residential construction	109,080	—	—	—	—	549	109,629
Commercial & multifamily residential:							
Income property	103,779	—	—	—	—	—	103,779
Owner occupied	103,480	—	—	—	—	—	103,480
Consumer	318,369	2,035	235	—	2,270	3,883	324,522
Total	<u>\$ 6,031,078</u>	<u>\$ 7,772</u>	<u>\$ 1,157</u>	<u>\$ —</u>	<u>\$ 8,929</u>	<u>\$ 27,756</u>	<u>\$ 6,067,763</u>

The following is an analysis of impaired loans as of September 30, 2017 and December 31, 2016 :

	Recorded Investment of Loans Collectively Measured for Contingency Provision	Recorded Investment of Loans Individually Measured for Specific Impairment	Impaired Loans With Recorded Allowance			Impaired Loans Without Recorded Allowance		
			Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	
September 30, 2017								
(in thousands)								
Commercial business:								
Secured	\$ 2,614,647	\$ 21,399	\$ —	\$ —	\$ —	\$ 21,399	\$ 26,655	
Unsecured	93,924	—	—	—	—	—	—	
Real estate:								
One-to-four family residential	173,562	928	459	736	26	469	1,030	
Commercial & multifamily residential:								
Commercial land	283,355	2,299	—	—	—	2,299	2,287	
Income property	1,378,127	4,771	519	523	25	4,252	4,570	
Owner occupied	1,134,945	5,663	—	—	—	5,663	8,573	
Real estate construction:								
One-to-four family residential:								
Land and acquisition	6,813	—	—	—	—	—	—	
Residential construction	137,920	—	—	—	—	—	—	
Commercial & multifamily residential:								
Income property	172,112	—	—	—	—	—	—	
Owner occupied	35,511	4,050	—	—	—	4,050	4,050	
Consumer	315,038	6,465	5,692	5,982	51	773	914	
Total	\$ 6,345,954	\$ 45,575	\$ 6,670	\$ 7,241	\$ 102	\$ 38,905	\$ 48,079	
	Recorded Investment of Loans Collectively Measured for Contingency Provision	Recorded Investment of Loans Individually Measured for Specific Impairment	Impaired Loans With Recorded Allowance			Impaired Loans Without Recorded Allowance		
			Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	
December 31, 2016								
(in thousands)								
Commercial business:								
Secured	\$ 2,442,772	\$ 8,818	\$ 2,414	\$ 2,484	\$ 664	\$ 6,404	\$ 12,831	
Unsecured	94,737	—	—	—	—	—	—	
Real estate:								
One-to-four family residential	167,403	529	435	693	12	94	291	
Commercial & multifamily residential:								
Commercial land	270,106	708	—	—	—	708	687	
Income property	1,365,321	4,425	540	544	27	3,885	4,148	
Owner occupied	1,054,564	5,414	—	—	—	5,414	8,102	
Real estate construction:								
One-to-four family residential:								
Land and acquisition	11,542	14	14	102	1	—	—	
Residential construction	109,293	336	—	—	—	336	336	
Commercial & multifamily residential:								
Income property	103,779	—	—	—	—	—	—	
Owner occupied	103,480	—	—	—	—	—	—	
Consumer	319,307	5,215	4,464	4,558	57	751	833	
Total	\$ 6,042,304	\$ 25,459	\$ 7,867	\$ 8,381	\$ 761	\$ 17,592	\$ 27,228	

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2017		2016		2017		2016	
	Average Recorded Investment Impaired Loans	Interest Recognized on Impaired Loans	Average Recorded Investment Impaired Loans	Interest Recognized on Impaired Loans	Average Recorded Investment Impaired Loans	Interest Recognized on Impaired Loans	Average Recorded Investment Impaired Loans	Interest Recognized on Impaired Loans
<i>(in thousands)</i>								
Commercial business:								
Secured	\$ 22,395	\$ 2	\$ 6,909	\$ 15	\$ 15,349	\$ 25	\$ 9,506	\$ 48
Unsecured	—	—	—	—	—	—	—	—
Real estate:								
One-to-four family residential	856	15	617	5	688	37	796	8
Commercial & multifamily residential:								
Commercial land	2,549	—	708	—	2,026	—	354	—
Income property	4,214	21	1,939	8	4,137	27	2,010	19
Owner occupied	4,530	127	4,486	—	4,496	319	5,001	—
Real estate construction:								
One-to-four family residential:								
Land and acquisition	—	—	103	1	4	—	245	4
Residential construction	—	—	449	—	84	—	506	—
Commercial & multifamily residential:								
Owner occupied	2,025	151	—	—	1,012	151	—	—
Consumer	6,054	58	3,345	25	5,712	105	2,084	46
Total	\$ 42,623	\$ 374	\$ 18,556	\$ 54	\$ 33,508	\$ 664	\$ 20,502	\$ 125

The following is an analysis of loans classified as troubled debt restructurings (“TDR”) during the three and nine months ended September 30, 2017 and 2016 :

	Three months ended September 30, 2017				Three months ended September 30, 2016			
	Number of TDR Modifications	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment		Number of TDR Modifications	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	
	(dollars in thousands)							
Commercial business:								
Secured	2	\$ 808	\$ 808		2	\$ 90	\$ 90	
Real estate:								
One-to-four family residential	2	201	201		1	85	85	
Commercial and multifamily residential:								
Income property	1	1,152	1,152		—	—	—	
Owner occupied	1	78	78		—	—	—	
Real estate construction:								
Commercial and multifamily residential:								
Owner occupied	1	4,050	4,050		—	—	—	
Consumer	17	1,672	1,672		10	731	731	
Total	24	\$ 7,961	\$ 7,961		13	\$ 906	\$ 906	

	Nine months ended September 30, 2017			Nine months ended September 30, 2016		
	Number of TDR Modifications	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of TDR Modifications	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(dollars in thousands)					
Commercial business:						
Secured	7	\$ 2,586	\$ 2,586	7	\$ 1,753	\$ 1,753
Real estate:						
One-to-four family residential	3	583	583	2	115	115
Commercial and multifamily residential:						
Income property	1	1,152	1,152	—	—	—
Owner occupied	1	78	78	1	250	250
Real estate construction:						
Commercial and multifamily residential:						
Owner occupied	1	4,050	4,050	—	—	—
Consumer	35	4,033	4,033	28	3,442	3,442
Total	48	\$ 12,482	\$ 12,482	38	\$ 5,560	\$ 5,560

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

The Company had commitments to lend \$529 thousand of additional funds on loans classified as TDR as of September 30, 2017 . The Company had \$508 thousand of such commitments at December 31, 2016 . The Company did not have any loans modified as TDR that defaulted within twelve months of being modified as TDR during the three or nine months ended September 30, 2017 and 2016 .

Purchased Credit Impaired Loans

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

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

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

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

The following is an analysis of our PCI loans, net of related allowance for losses and remaining valuation discounts as of September 30, 2017 and December 31, 2016 :

	September 30, 2017	December 31, 2016
	<i>(in thousands)</i>	
Commercial business	\$ 14,895	\$ 21,606
Real estate:		
One-to-four family residential	16,698	20,643
Commercial and multifamily residential	83,082	94,795
Total real estate	99,780	115,438
Real estate construction:		
One-to-four family residential	377	832
Commercial and multifamily residential	1,059	1,726
Total real estate construction	1,436	2,558
Consumer	13,039	17,649
Subtotal of PCI loans	129,150	157,251
Less:		
Valuation discount resulting from acquisition accounting	8,673	11,591
Allowance for loan losses	7,344	10,515
PCI loans, net of allowance for loan losses	\$ 113,133	\$ 135,145

The following table shows the changes in accretable yield for PCI loans for the three and nine months ended September 30, 2017 and 2016 :

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	<i>(in thousands)</i>			
Balance at beginning of period	\$ 35,706	\$ 52,909	\$ 45,191	\$ 58,981
Accretion	(2,766)	(4,902)	(9,830)	(12,905)
Disposals	—	(178)	(158)	(157)
Reclassifications from (to) nonaccretable difference	(892)	1,034	(3,155)	2,944
Balance at end of period	\$ 32,048	\$ 48,863	\$ 32,048	\$ 48,863

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

We record an allowance for loan and lease losses (the “allowance”) to recognize management’s estimate of credit losses incurred in the loan portfolio at each balance sheet date. We have used the same methodology for allowance calculations during the nine months ended September 30, 2017 and 2016 .

The following tables show a detailed analysis of the allowance for the three and nine months ended September 30, 2017 and 2016 :

	Beginning Balance	Charge-offs	Recoveries	Provision (Recovery)	Ending Balance	Specific Reserve	General Allocation
Three months ended September 30, 2017							
<i>(in thousands)</i>							
Commercial business:							
Secured	\$ 39,539	\$ (1,362)	\$ 550	\$ (969)	\$ 37,758	\$ —	\$ 37,758
Unsecured	1,147	—	138	(298)	987	—	987
Real estate:							
One-to-four family residential	628	—	40	3	671	26	645
Commercial & multifamily residential:							
Commercial land	2,356	—	45	(97)	2,304	—	2,304
Income property	6,854	—	9	241	7,104	25	7,079
Owner occupied	6,512	—	4	306	6,822	—	6,822
Real estate construction:							
One-to-four family residential:							
Land and acquisition	361	—	14	(83)	292	—	292
Residential construction	1,377	—	6	(272)	1,111	—	1,111
Commercial & multifamily residential:							
Income property	985	—	—	279	1,264	—	1,264
Owner occupied	1,382	—	—	(87)	1,295	—	1,295
Consumer	3,551	(263)	343	42	3,673	51	3,622
Purchased credit impaired	8,061	(1,633)	1,389	(473)	7,344	—	7,344
Unallocated	231	—	—	760	991	—	991
Total	<u>\$ 72,984</u>	<u>\$ (3,258)</u>	<u>\$ 2,538</u>	<u>\$ (648)</u>	<u>\$ 71,616</u>	<u>\$ 102</u>	<u>\$ 71,514</u>
	Beginning Balance	Charge-offs	Recoveries	Provision (Recovery)	Ending Balance	Specific Reserve	General Allocation
Nine months ended September 30, 2017							
<i>(in thousands)</i>							
Commercial business:							
Secured	\$ 36,050	\$ (6,071)	\$ 3,750	\$ 4,029	\$ 37,758	\$ —	\$ 37,758
Unsecured	960	(18)	247	(202)	987	—	987
Real estate:							
One-to-four family residential	599	(460)	380	152	671	26	645
Commercial & multifamily residential:							
Commercial land	1,797	—	45	462	2,304	—	2,304
Income property	7,342	—	104	(342)	7,104	25	7,079
Owner occupied	6,439	—	114	269	6,822	—	6,822
Real estate construction:							
One-to-four family residential:							
Land and acquisition	316	(14)	61	(71)	292	—	292
Residential construction	669	—	46	396	1,111	—	1,111
Commercial & multifamily residential:							
Income property	404	—	—	860	1,264	—	1,264
Owner occupied	1,192	—	—	103	1,295	—	1,295
Consumer	3,534	(1,156)	876	419	3,673	51	3,622
Purchased credit impaired	10,515	(5,372)	3,737	(1,536)	7,344	—	7,344
Unallocated	226	—	—	765	991	—	991
Total	<u>\$ 70,043</u>	<u>\$ (13,091)</u>	<u>\$ 9,360</u>	<u>\$ 5,304</u>	<u>\$ 71,616</u>	<u>\$ 102</u>	<u>\$ 71,514</u>

	Beginning Balance	Charge-offs	Recoveries	Provision (Recovery)	Ending Balance	Specific Reserve	General Allocation
Three months ended September 30, 2016							
<i>(in thousands)</i>							
Commercial business:							
Secured	\$ 31,808	\$ (2,128)	\$ 787	\$ 2,008	\$ 32,475	\$ 873	\$ 31,602
Unsecured	1,265	(31)	67	(128)	1,173	—	1,173
Real estate:							
One-to-four family residential	675	—	81	221	977	353	624
Commercial & multifamily residential:							
Commercial land	1,422	—	—	92	1,514	—	1,514
Income property	8,046	—	10	149	8,205	28	8,177
Owner occupied	6,336	—	10	487	6,833	—	6,833
Real estate construction:							
One-to-four family residential:							
Land and acquisition	587	—	2	(134)	455	—	455
Residential construction	1,376	—	19	(393)	1,002	—	1,002
Commercial & multifamily residential:							
Income property	904	—	107	(480)	531	—	531
Owner occupied	1,384	—	—	57	1,441	—	1,441
Consumer	3,559	(383)	399	168	3,743	46	3,697
Purchased credit impaired	11,781	(2,062)	2,216	(433)	11,502	—	11,502
Unallocated	161	—	—	252	413	—	413
Total	<u>\$ 69,304</u>	<u>\$ (4,604)</u>	<u>\$ 3,698</u>	<u>\$ 1,866</u>	<u>\$ 70,264</u>	<u>\$ 1,300</u>	<u>\$ 68,964</u>
	Beginning Balance	Charge-offs	Recoveries	Provision (Recovery)	Ending Balance	Specific Reserve	General Allocation
Nine months ended September 30, 2016							
<i>(in thousands)</i>							
Commercial business:							
Secured	\$ 32,321	\$ (8,798)	\$ 2,126	\$ 6,826	\$ 32,475	\$ 873	\$ 31,602
Unsecured	1,299	(75)	143	(194)	1,173	—	1,173
Real estate:							
One-to-four family residential	916	(35)	142	(46)	977	353	624
Commercial & multifamily residential:							
Commercial land	1,178	(26)	2	360	1,514	—	1,514
Income property	6,616	—	191	1,398	8,205	28	8,177
Owner occupied	5,550	—	26	1,257	6,833	—	6,833
Real estate construction:							
One-to-four family residential:							
Land and acquisition	339	—	55	61	455	—	455
Residential construction	733	—	225	44	1,002	—	1,002
Commercial & multifamily residential:							
Income property	388	—	109	34	531	—	531
Owner occupied	1,006	—	—	435	1,441	—	1,441
Consumer	3,531	(983)	765	430	3,743	46	3,697
Purchased credit impaired	13,726	(7,826)	5,291	311	11,502	—	11,502
Unallocated	569	—	—	(156)	413	—	413
Total	<u>\$ 68,172</u>	<u>\$ (17,743)</u>	<u>\$ 9,075</u>	<u>\$ 10,760</u>	<u>\$ 70,264</u>	<u>\$ 1,300</u>	<u>\$ 68,964</u>

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	<i>(in thousands)</i>			
Balance at beginning of period	\$ 3,555	\$ 2,780	\$ 2,705	\$ 2,930
Net changes in the allowance for unfunded commitments and letters of credit	(75)	125	775	(25)
Balance at end of period	<u>\$ 3,480</u>	<u>\$ 2,905</u>	<u>\$ 3,480</u>	<u>\$ 2,905</u>

Risk Elements

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

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

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

The following is an analysis of the credit quality of our loan portfolio, excluding PCI loans, as of September 30, 2017 and December 31, 2016 :

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
September 30, 2017						
<i>(in thousands)</i>						
Loans, excluding PCI loans:						
Commercial business:						
Secured	\$ 2,464,772	\$ 69,577	\$ 101,697	\$ —	\$ —	\$ 2,636,046
Unsecured	92,881	—	1,043	—	—	93,924
Real estate:						
One-to-four family residential	171,362	1,195	1,933	—	—	174,490
Commercial and multifamily residential:						
Commercial land	276,675	5,527	3,452	—	—	285,654
Income property	1,356,196	1,797	24,905	—	—	1,382,898
Owner occupied	1,101,139	14,275	25,194	—	—	1,140,608
Real estate construction:						
One-to-four family residential:						
Land and acquisition	6,787	—	26	—	—	6,813
Residential construction	135,965	406	1,549	—	—	137,920
Commercial and multifamily residential:						
Income property	156,727	15,385	—	—	—	172,112
Owner occupied	35,511	—	4,050	—	—	39,561
Consumer	312,828	—	8,675	—	—	321,503
Total	\$ 6,110,843	\$ 108,162	\$ 172,524	\$ —	\$ —	6,391,529
Less:						
Allowance for loan and lease losses						64,272
Loans, excluding PCI loans, net						\$ 6,327,257
December 31, 2016						
<i>(in thousands)</i>						
Loans, excluding PCI loans:						
Commercial business:						
Secured	\$ 2,289,307	\$ 65,846	\$ 96,437	\$ —	\$ —	\$ 2,451,590
Unsecured	93,721	800	216	—	—	94,737
Real estate:						
One-to-four family residential	164,797	395	2,740	—	—	167,932
Commercial and multifamily residential:						
Commercial land	263,195	3,228	4,391	—	—	270,814
Income property	1,341,978	17,902	9,866	—	—	1,369,746
Owner occupied	1,027,019	6,608	26,351	—	—	1,059,978
Real estate construction:						
One-to-four family residential:						
Land and acquisition	11,541	—	15	—	—	11,556
Residential construction	108,941	—	688	—	—	109,629
Commercial and multifamily residential:						
Income property	103,779	—	—	—	—	103,779
Owner occupied	98,948	88	4,444	—	—	103,480
Consumer	317,728	—	6,794	—	—	324,522
Total	\$ 5,820,954	\$ 94,867	\$ 151,942	\$ —	\$ —	6,067,763
Less:						
Allowance for loan and lease losses						59,528
Loans, excluding PCI loans, net						\$ 6,008,235

The following is an analysis of the credit quality of our PCI loan portfolio as of September 30, 2017 and December 31, 2016 :

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
September 30, 2017	<i>(in thousands)</i>					
PCI loans:						
Commercial business:						
Secured	\$ 13,353	\$ —	\$ 761	\$ —	\$ —	\$ 14,114
Unsecured	714	—	67	—	—	781
Real estate:						
One-to-four family residential	15,883	—	815	—	—	16,698
Commercial and multifamily residential:						
Commercial land	9,854	—	—	—	—	9,854
Income property	26,174	—	—	—	—	26,174
Owner occupied	46,265	—	789	—	—	47,054
Real estate construction:						
One-to-four family residential:						
Land and acquisition	319	—	58	—	—	377
Commercial and multifamily residential:						
Income property	773	—	—	—	—	773
Owner occupied	286	—	—	—	—	286
Consumer	12,321	—	718	—	—	13,039
Total	<u>\$ 125,942</u>	<u>\$ —</u>	<u>\$ 3,208</u>	<u>\$ —</u>	<u>\$ —</u>	<u>129,150</u>
Less:						
Valuation discount resulting from acquisition accounting						8,673
Allowance for loan losses						7,344
PCI loans, net						<u>\$ 113,133</u>
December 31, 2016	<i>(in thousands)</i>					
PCI loans:						
Commercial business:						
Secured	\$ 18,824	\$ 92	\$ 1,954	\$ —	\$ —	\$ 20,870
Unsecured	736	—	—	—	—	736
Real estate:						
One-to-four family residential	19,293	—	1,350	—	—	20,643
Commercial and multifamily residential:						
Commercial land	7,333	—	213	—	—	7,546
Income property	31,042	—	1,678	—	—	32,720
Owner occupied	53,623	—	906	—	—	54,529
Real estate construction:						
One-to-four family residential:						
Land and acquisition	744	—	88	—	—	832
Commercial and multifamily residential:						
Income property	1,217	—	—	—	—	1,217
Owner occupied	509	—	—	—	—	509
Consumer	17,202	—	447	—	—	17,649
Total	<u>\$ 150,523</u>	<u>\$ 92</u>	<u>\$ 6,636</u>	<u>\$ —</u>	<u>\$ —</u>	<u>157,251</u>
Less:						
Valuation discount resulting from acquisition accounting						11,591
Allowance for loan losses						10,515
PCI loans, net						<u>\$ 135,145</u>

6. Other Real Estate Owned (“OREO”)

The following tables set forth activity in OREO for the three and nine months ended September 30, 2017 and 2016 :

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	<i>(in thousands)</i>			
Balance, beginning of period	\$ 4,058	\$ 10,613	\$ 5,998	\$ 13,738
Transfers in	74	891	74	1,202
Valuation adjustments	(138)	(14)	(364)	(290)
Proceeds from sale of OREO property	(182)	(2,569)	(1,901)	(5,845)
Gain (loss) on sale of OREO, net	(130)	73	(125)	189
Balance, end of period	<u>\$ 3,682</u>	<u>\$ 8,994</u>	<u>\$ 3,682</u>	<u>\$ 8,994</u>

At September 30, 2017 , there were \$74 thousand in foreclosed residential real estate properties held as OREO and the recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process was \$686 thousand .

7. FDIC Loss-sharing Asset and Covered Assets

During the second quarter of 2017, we entered into an agreement with the FDIC to terminate all loss-sharing agreements ahead of their contractual maturities. These loss-sharing agreements were entered into in 2010 and 2011 in conjunction with our acquisitions of (1) Columbia River Bank in January 2010, (2) American Marine Bank in January 2010, (3) Summit Bank in May 2011 and (4) First Heritage Bank in May 2011. Under the early termination, all rights and obligations of the Company and the FDIC have been resolved and completed. The Company paid the FDIC \$4.7 million as consideration for early termination. The early termination was recorded in the Company’s financial statements by removing the remaining FDIC loss-sharing asset of \$3.1 million and the remaining FDIC clawback liability of \$5.4 million and recording a one-time, pre-tax charge on termination of \$2.4 million , recorded to “Other” noninterest expense. Prior to entering into the termination agreement, the Company had \$74.0 million of non-single family covered assets and \$26.4 million of single family covered assets at March 31, 2017. As a result of the termination agreement, the Company will benefit from all future recoveries, and be responsible for all future losses and expenses related to the assets previously subject to the loss-sharing agreements.

The following table shows a detailed analysis of the FDIC loss-sharing asset for the three and nine months ended September 30, 2017 and 2016 :

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	<i>(in thousands)</i>			
Balance at beginning of period	\$ —	\$ 4,266	\$ 3,535	\$ 6,568
Adjustments not reflected in income:				
Cash paid to (received from) the FDIC, net	—	20	184	(23)
FDIC shared recoveries, net	—	(590)	(149)	(756)
Termination of FDIC loss-sharing agreements	—	—	(3,123)	—
Adjustments reflected in noninterest income (1):				
Amortization, net	—	(315)	(414)	(2,530)
Loan impairment	—	266	40	393
Sale of other real estate	—	(49)	18	71
Valuation adjustments of other real estate owned	—	—	—	(22)
Other	—	(6)	(91)	(109)
Balance at end of period	<u>\$ —</u>	<u>\$ 3,592</u>	<u>\$ —</u>	<u>\$ 3,592</u>

(1) Amounts shown in the table above for adjustments reflected in noninterest income include only those adjustments recorded to the noninterest income line item “Change in FDIC loss-sharing asset” in the Consolidated Statements of Income and do not include the charge related to the termination of the FDIC loss-sharing agreements.

8. Goodwill and Other Intangible Assets

In accordance with the Intangibles – Goodwill and Other topic of the FASB ASC, goodwill is not amortized but is reviewed for potential impairment at the reporting unit level. Management analyzes its goodwill for impairment on an annual basis on July 31 and between annual tests in certain circumstances such as material adverse changes in legal, business, regulatory and economic factors. An impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value. The Company performed an annual impairment assessment as of July 31, 2017 and concluded that there was no impairment.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	<i>(in thousands)</i>			
Goodwill				
Total goodwill	\$ 382,762	\$ 382,762	\$ 382,762	\$ 382,762
Other intangible assets, net				
Core deposit intangible:				
Gross core deposit intangible balance at beginning of period	58,598	58,598	58,598	58,598
Accumulated amortization at beginning of period	(44,484)	(39,006)	(41,886)	(35,940)
Core deposit intangible, net at beginning of period	14,114	19,592	16,712	22,658
CDI current period amortization	(1,188)	(1,460)	(3,786)	(4,526)
Total core deposit intangible, net at end of period	12,926	18,132	12,926	18,132
Intangible assets not subject to amortization	919	919	919	919
Other intangible assets, net at end of period	13,845	19,051	13,845	19,051
Total goodwill and other intangible assets at end of period	\$ 396,607	\$ 401,813	\$ 396,607	\$ 401,813

The following table provides the estimated future amortization expense of core deposit intangibles for the remaining three months ending December 31, 2017 and the succeeding four years:

	Amount
	<i>(in thousands)</i>
Year ending December 31,	
2017	\$ 1,127
2018	3,855
2019	2,951
2020	2,048
2021	1,440

9. Derivatives and Balance Sheet Offsetting

The Company periodically enters into certain commercial loan interest rate swap agreements in order to provide commercial loan customers the ability to convert from variable to fixed interest rates. Under these agreements, the Company enters into a variable-rate loan agreement with a customer in addition to a swap agreement. This swap agreement effectively converts the customer’s variable rate loan into a fixed rate. The Company then enters into a corresponding swap agreement with a third-party in order to offset its exposure on the variable and fixed components of the customer agreement. As the interest rate swap agreements with the customers and third parties are not designated as hedges under the Derivatives and Hedging topic of the FASB ASC, the instruments are marked to market in earnings. The notional amount of open interest rate swap agreements at September 30, 2017 and December 31, 2016 was \$380.0 million and \$309.3 million , respectively. During the three and nine months ended September 30, 2017 , mark-to-market gain s of \$6 thousand and \$12 thousand were recorded to “Other”

noninterest expense. During the three and nine months ended September 30, 2016, mark-to-market gains of \$9 thousand and \$2 thousand were recorded to “Other” noninterest expense.

The following table presents the fair value of derivatives not designated as hedging instruments at September 30, 2017 and December 31, 2016 :

Asset Derivatives				Liability Derivatives			
September 30, 2017		December 31, 2016		September 30, 2017		December 31, 2016	
Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
<i>(in thousands)</i>							
Interest rate contracts	Other assets \$ 8,992	Other assets	\$ 9,012	Other liabilities	\$ 9,004	Other liabilities	\$ 9,036

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

	Gross Amounts of Recognized Assets/Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Assets/Liabilities Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets	
				Collateral Posted	Net Amount
September 30, 2017	(in thousands)				
Assets					
Interest rate contracts	\$ 8,992	\$ —	\$ 8,992	\$ —	\$ 8,992
Liabilities					
Interest rate contracts	\$ 9,004	\$ —	\$ 9,004	\$ (9,004)	\$ —
Repurchase agreements	\$ 40,933	\$ —	\$ 40,933	\$ (40,933)	\$ —
December 31, 2016					
Assets					
Interest rate contracts	\$ 9,012	\$ —	\$ 9,012	\$ —	\$ 9,012
Liabilities					
Interest rate contracts	\$ 9,036	\$ —	\$ 9,036	\$ (9,036)	\$ —
Repurchase agreements	\$ 80,822	\$ —	\$ 80,822	\$ (80,822)	\$ —

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

	Remaining contractual maturity of the agreements				
	Overnight and continuous	Up to 30 days	30 - 90 days	Greater than 90 days	Total
September 30, 2017					
<i>(in thousands)</i>					
Class of collateral pledged for repurchase agreements					
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	\$ 15,933	\$ —	\$ —	\$ 25,000	\$ 40,933
Gross amount of recognized liabilities for repurchase agreements					40,933
Amounts related to agreements not included in offsetting disclosure					\$ —

The collateral utilized for the Company's repurchase agreements is subject to market fluctuations as well as prepayments of principal. The Company monitors the risk of the fair value of its pledged collateral falling below acceptable amounts based on the type of the underlying repurchase agreement. The pledged collateral related to the Company's term wholesale repurchase agreement, which matures in 2018, is monitored on a monthly basis and additional capital is pledged when necessary. The pledged collateral related to the Company's sweep repurchase agreements, which mature on an overnight basis, is monitored on a daily basis as the underlying sweep accounts can have frequent transaction activity and the amount of pledged collateral is adjusted as necessary.

10. Commitments and Contingent Liabilities

Lease Commitments: The Company's lease commitments consist primarily of leased locations under various non-cancellable operating leases that expire between 2017 and 2043. The majority of the leases contain renewal options and provisions for increases in rental rates based on an agreed upon index or predetermined escalation schedule.

Sale-leaseback transactions: On August 11, 2017, the Company sold one of its Idaho facilities and leased back the portion of the facility utilized for branch operations. The lease term is through August 2027, with monthly payments of approximately \$26 thousand. The resulting gain on sale of \$509 thousand was deferred in accordance with the Leases topic of the FASB ASC and is being amortized over the life of the respective lease. At September 30, 2017, the deferred gain was \$501 thousand and is included in "Other liabilities" on the Consolidated Balance Sheets.

On August 24, 2016, the Company sold one of its Washington facilities and leased back the portion of the facility utilized for branch operations. The lease term is through July 2026, with monthly payments of approximately \$12 thousand. The resulting gain on sale of \$742 thousand was deferred in accordance with the Leases topic of the FASB ASC and is being amortized over the life of the respective lease. At September 30, 2017, the deferred gain was \$661 thousand and is a component of "Other liabilities" in the Consolidated Balance Sheets.

Financial Instruments with Off-Balance Sheet Risk: In the normal course of business, the Company makes loan commitments (typically unfunded loans and unused lines of credit) and issues standby letters of credit to accommodate the financial needs of its customers. At September 30, 2017 and December 31, 2016, the Company's loan commitments amounted to \$2.23 billion and \$2.17 billion, respectively.

Standby letters of credit commit the Company to make payments on behalf of customers under specified conditions. Historically, no significant losses have been incurred by the Company under standby letters of credit. Both arrangements have credit risk essentially the same as that involved in extending loans to customers and are subject to the Company's normal credit policies, including collateral requirements, where appropriate. Standby letters of credit were \$50.1 million and \$49.7 million at September 30, 2017 and December 31, 2016, respectively. In addition, commitments under commercial letters of credit used to facilitate customers' trade transactions and other off-balance sheet liabilities amounted to \$2.9 million and \$3.4 million at September 30, 2017 and December 31, 2016, respectively.

Legal Proceedings: The Company and its subsidiaries are from time to time defendants in and are threatened with various legal proceedings arising from their regular business activities. Management, after consulting with legal counsel, is of the opinion that the ultimate liability, if any, resulting from these pending or threatened actions and proceedings will not have a material effect on the financial statements of the Company.

11. Shareholders' Equity

Preferred Stock: In conjunction with the 2013 acquisition of West Coast Bancorp, the Company issued 8,782 shares of mandatorily convertible cumulative participating preferred stock, Series B ("Series B Preferred Stock"). On January 12, 2017, all outstanding shares of Series B Preferred Stock were converted to Company common stock.

Dividends: On January 26, 2017, the Company declared a quarterly cash dividend of \$0.22 per common share payable on February 22, 2017 to shareholders of record at the close of business on February 8, 2017.

On April 27, 2017, the Company declared a regular quarterly cash dividend of \$0.22 per common share payable on May 24, 2017 to shareholders of record at the close of business on May 10, 2017.

On July 27, 2017, the Company declared a regular quarterly cash dividend of \$0.22 per common share payable on August 23, 2017 to shareholders of record at the close of business on August 9, 2017.

Subsequent to quarter end, on October 19, 2017, the Company declared a regular quarterly cash dividend of \$0.22 per common share payable on November 14, 2017 to shareholders of record at the close of business on October 31, 2017.

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

12. Accumulated Other Comprehensive Loss

The following table shows changes in accumulated other comprehensive income (loss) by component for the three and nine month periods ended September 30, 2017 and 2016 :

	Unrealized Gains and Losses on Available-for- Sale Securities (1)	Unrealized Gains and Losses on Pension Plan Liability (1)	Total (1)
Three months ended September 30, 2017			
	<i>(in thousands)</i>		
Beginning balance	\$ (4,969)	\$ (1,559)	\$ (6,528)
Other comprehensive income before reclassifications	549	—	549
Amounts reclassified from accumulated other comprehensive income	—	46	46
Net current-period other comprehensive income	549	46	595
Ending balance	\$ (4,420)	\$ (1,513)	\$ (5,933)
Three months ended September 30, 2016			
Beginning balance	\$ 27,280	\$ (6,469)	\$ 20,811
Other comprehensive loss before reclassifications	(4,049)	—	(4,049)
Amounts reclassified from accumulated other comprehensive income (loss)	(364)	107	(257)
Net current-period other comprehensive income (loss)	(4,413)	107	(4,306)
Ending balance	\$ 22,867	\$ (6,362)	\$ 16,505
Nine months ended September 30, 2017			
Beginning balance	\$ (12,704)	\$ (6,295)	\$ (18,999)
Other comprehensive income before reclassifications	8,284	4,604	12,888
Amounts reclassified from accumulated other comprehensive income	—	178	178
Net current-period other comprehensive income	8,284	4,782	13,066
Ending balance	\$ (4,420)	\$ (1,513)	\$ (5,933)
Nine months ended September 30, 2016			
Beginning balance	\$ 386	\$ (6,681)	\$ (6,295)
Other comprehensive income before reclassifications	23,229	—	23,229
Amounts reclassified from accumulated other comprehensive income (loss)	(748)	319	(429)
Net current-period other comprehensive income	22,481	319	22,800
Ending balance	\$ 22,867	\$ (6,362)	\$ 16,505

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

The following table shows details regarding the reclassifications from accumulated other comprehensive income (loss) for the three and nine month periods ended September 30, 2017 and 2016 :

	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)				Affected line Item in the Consolidated Statement of Income
	Three Months Ended September 30,		Nine Months Ended September 30,		
	2017	2016	2017	2016	
(in thousands)					
Unrealized gains and losses on available-for-sale securities					
Investment securities gains	\$ —	\$ 572	\$ —	\$ 1,174	Investment securities gains, net
	—	572	—	1,174	Total before tax
	—	(208)	—	(426)	Income tax provision
	\$ —	\$ 364	\$ —	\$ 748	Net of tax
Amortization of pension plan liability					
Actuarial losses	\$ (72)	\$ (167)	\$ (279)	\$ (501)	Compensation and employee benefits
	(72)	(167)	(279)	(501)	Total before tax
	26	60	101	182	Income tax benefit
	\$ (46)	\$ (107)	\$ (178)	\$ (319)	Net of tax

13. Fair Value Accounting and Measurement

The Fair Value Measurements and Disclosures topic of the FASB ASC defines fair value, establishes a consistent framework for measuring fair value and expands disclosure requirements about fair value. We hold fixed and variable rate interest-bearing securities, investments in marketable equity securities and certain other financial instruments, which are carried at fair value. Fair value is determined based upon quoted prices when available or through the use of alternative approaches, such as matrix or model pricing, when market quotes are not readily accessible or available.

The valuation techniques are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our own market assumptions. These two types of inputs create the following fair value hierarchy:

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

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

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

Fair values are determined as follows:

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

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

The following table sets forth the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis at September 30, 2017 and December 31, 2016 by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement:

	Fair Value Measurements at Reporting Date Using			
	Fair value	Level 1	Level 2	Level 3
September 30, 2017	(in thousands)			
Assets				
Securities available for sale:				
U.S. government agency and government-sponsored enterprise mortgage-back securities and collateralized mortgage obligations	\$ 1,377,417	\$ —	\$ 1,377,417	\$ —
State and municipal debt securities	483,488	—	483,488	—
U.S. government agency and government-sponsored enterprise securities	341,604	—	341,604	—
U.S. government securities	250	250	—	—
Other securities	5,114	—	5,114	—
Total securities available for sale	\$ 2,207,873	\$ 250	\$ 2,207,623	\$ —
Other assets (Interest rate contracts)	\$ 8,992	\$ —	\$ 8,992	\$ —
Liabilities				
Other liabilities (Interest rate contracts)	\$ 9,004	\$ —	\$ 9,004	\$ —

	Fair Value Measurements at Reporting Date Using			
	Fair value	Level 1	Level 2	Level 3
December 31, 2016	(in thousands)			
Assets				
Securities available for sale:				
U.S. government agency and government-sponsored enterprise mortgage-back securities and collateralized mortgage obligations	\$ 1,465,732	\$ —	\$ 1,465,732	\$ —
State and municipal debt securities	475,060	—	475,060	—
U.S. government agency and government-sponsored enterprise securities	331,902	—	331,902	—
U.S. government securities	800	800	—	—
Other securities	5,083	—	5,083	—
Total securities available for sale	\$ 2,278,577	\$ 800	\$ 2,277,777	\$ —
Other assets (Interest rate contracts)	\$ 9,012	\$ —	\$ 9,012	\$ —
Liabilities				
Other liabilities (Interest rate contracts)	\$ 9,036	\$ —	\$ 9,036	\$ —

There were no transfers between Level 1 and Level 2 of the valuation hierarchy during the nine month periods ended September 30, 2017 and 2016. The Company recognizes transfers between levels of the valuation hierarchy based on the valuation level at the end of the reporting period.

Nonrecurring Measurements

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

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

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

The following tables set forth information related to the Company's assets that were measured using fair value estimates on a nonrecurring basis during the current and prior year quarterly periods:

Fair value at September 30, 2017		Fair Value Measurements at Reporting Date Using			Losses During the Three Months Ended September 30, 2017	Losses During the Nine Months Ended September 30, 2017
		Level 1	Level 2	Level 3		
(in thousands)						
Impaired loans	\$ 843	\$ —	\$ —	\$ 843	\$ 170	\$ 170
OREO	625	—	—	625	138	138
	<u>\$ 1,468</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,468</u>	<u>\$ 308</u>	<u>\$ 308</u>

Fair value at September 30, 2016		Fair Value Measurements at Reporting Date Using			Losses During the Three Months Ended September 30, 2016	Losses During the Nine Months Ended September 30, 2016
		Level 1	Level 2	Level 3		
(in thousands)						
Impaired loans	\$ 2,304	\$ —	\$ —	\$ 2,304	\$ 647	\$ 3,285
OREO	335	—	—	335	14	14
	<u>\$ 2,639</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,639</u>	<u>\$ 661</u>	<u>\$ 3,299</u>

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

Quantitative information about Level 3 fair value measurements

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

	Fair value at September 30, 2017	Valuation Technique	Unobservable Input	Range (Weighted Average) (1)
<i>(dollars in thousands)</i>				
Impaired loans - collateral-dependent (3)	\$ 715	Fair Market Value of Collateral	Adjustment to Stated Value	N/A (2)
Impaired loans - other (4)	\$ 128	Discounted Cash Flow	Discount Rate	7.75%
OREO	\$ 625	Fair Market Value of Collateral	Adjustment to Appraisal Value	N/A (2)

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

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

(3) Collateral consists of a government agency guarantee.

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

	Fair value at September 30, 2016	Valuation Technique	Unobservable Input	Range (Weighted Average) (1)
<i>(dollars in thousands)</i>				
Impaired loans - collateral-dependent (3)	\$ 943	Fair Market Value of Collateral	Adjustment to Stated Value	N/A (2)
Impaired loans - other	\$ 1,361	Discounted Cash Flow	Discount Rate	2.85% - 6.50% (3.85%)
OREO	\$ 335	Fair Market Value of Collateral	Adjustment to Appraisal Value	N/A (2)

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

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

(3) Collateral consists of fixed assets and accounts receivable.

Fair value of financial instruments

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

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and due from banks and interest-earning deposits with banks —The fair value of financial instruments that are short-term or reprice frequently and that have little or no risk are considered to have a fair value that approximates carrying value (Level 1).

Securities available for sale —Securities at fair value, other than U.S. Treasury Notes, are priced using a combination of market activity, industry recognized information sources, yield curves, discounted cash flow models and other factors (Level 2). U.S. Treasury Notes are priced using quotes in active markets (Level 1).

Federal Home Loan Bank stock —The fair value is based upon the par value of the stock which equates to its carrying value (Level 2).

Loans held for sale —The carrying amount of loans held for sale approximates their fair values due to the short period of time between the origination and sale dates (Level 2).

Loans —Loans are not recorded at fair value on a recurring basis. Nonrecurring fair value adjustments are periodically recorded on impaired loans that are measured for impairment based on the fair value of collateral. For most performing loans, fair value is estimated using expected duration and lending rates that would have been offered on September 30, 2017 or December 31, 2016, for loans which mirror the attributes of the loans with similar rate structures and average maturities. The fair values resulting from these calculations are reduced by an amount representing the change in estimated fair value attributable to changes in borrowers' credit quality since the loans were originated. For nonperforming loans, fair value is estimated by applying a valuation discount based upon loan sales data from the FDIC. For PCI loans, fair value is estimated by discounting the expected future cash flows using a lending rate that would have been offered on September 30, 2017 (Level 3).

FDIC loss-sharing asset —The fair value of the FDIC loss-sharing asset was estimated based on discounting the expected future cash flows using an estimated market rate (Level 3).

Interest rate contracts —Interest rate swap positions are valued in discounted cash flow models, which use readily observable market parameters as their basis (Level 2).

Deposits —For deposits with no contractual maturity, the fair value is equal to the carrying value (Level 1). The fair value of fixed maturity deposits is based on discounted cash flows using the difference between the deposit rate and current market rates for deposits of similar remaining maturities (Level 2).

FHLB advances —The fair value of FHLB advances is estimated based on discounting the future cash flows using the market rate currently offered (Level 2).

Repurchase Agreements —The fair value of term repurchase agreements is estimated based on discounting the future cash flows using the market rate currently offered. The carrying amount of sweep repurchase agreements approximates their fair values due to the short period of time between repricing dates (Level 2).

Other Financial Instruments —The majority of our commitments to extend credit and standby letters of credit carry current market interest rates if converted to loans, as such, carrying value is assumed to equal fair value.

The following tables summarize carrying amounts and estimated fair values of selected financial instruments as well as assumptions used by the Company in estimating fair value at September 30, 2017 and December 31, 2016 :

September 30, 2017						
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3	
(in thousands)						
Assets						
Cash and due from banks	\$ 186,116	\$ 186,116	\$ 186,116	\$ —	\$ —	
Interest-earning deposits with banks	136,578	136,578	136,578	—	—	
Securities available for sale	2,207,873	2,207,873	250	2,207,623	—	
FHLB stock	10,240	10,240	—	10,240	—	
Loans held for sale	7,802	7,802	—	7,802	—	
Loans	6,440,390	6,309,449	—	—	6,309,449	
Interest rate contracts	8,992	8,992	—	8,992	—	
Liabilities						
Deposits	\$ 8,341,717	\$ 8,337,145	\$ 7,960,870	\$ 376,275	\$ —	
FHLB advances	6,465	7,367	—	7,367	—	
Repurchase agreements	40,933	40,987	—	40,987	—	
Interest rate contracts	9,004	9,004	—	9,004	—	
December 31, 2016						
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3	
(in thousands)						
Assets						
Cash and due from banks	\$ 193,038	\$ 193,038	\$ 193,038	\$ —	\$ —	
Interest-earning deposits with banks	31,200	31,200	31,200	—	—	
Securities available for sale	2,278,577	2,278,577	800	2,277,777	—	
FHLB stock	10,240	10,240	—	10,240	—	
Loans held for sale	5,846	5,846	—	5,846	—	
Loans	6,143,380	6,040,439	—	—	6,040,439	
FDIC loss-sharing asset	3,535	867	—	—	867	
Interest rate contracts	9,012	9,012	—	9,012	—	
Liabilities						
Deposits	\$ 8,059,415	\$ 8,055,168	\$ 7,653,122	\$ 402,046	\$ —	
FHLB advances	6,493	7,070	—	7,070	—	
Repurchase agreements	80,822	81,131	—	81,131	—	
Interest rate contracts	9,036	9,036	—	9,036	—	

14. Earnings per Common Share

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

The following table sets forth the computation of basic and diluted earnings per share for the three and nine months ended September 30, 2017 and 2016 :

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	<i>(in thousands except per share)</i>			
Basic EPS:				
Net income	\$ 40,769	\$ 27,484	\$ 97,100	\$ 74,148
Less: Earnings allocated to participating securities:				
Preferred shares	—	48	4	131
Nonvested restricted shares	558	378	1,325	953
Earnings allocated to common shareholders	\$ 40,211	\$ 27,058	\$ 95,771	\$ 73,064
Weighted average common shares outstanding	57,566	57,215	57,459	57,173
Basic earnings per common share	\$ 0.70	\$ 0.47	\$ 1.67	\$ 1.28
Diluted EPS:				
Earnings allocated to common shareholders	\$ 40,211	\$ 27,058	\$ 95,771	\$ 73,064
Weighted average common shares outstanding	57,566	57,215	57,459	57,173
Dilutive effect of equity awards	5	10	6	10
Weighted average diluted common shares outstanding	57,571	57,225	57,465	57,183
Diluted earnings per common share	\$ 0.70	\$ 0.47	\$ 1.67	\$ 1.28
Potentially dilutive share options that were not included in the computation of diluted EPS because to do so would be anti-dilutive	12	15	13	20

15. Subsequent Event

On November 1, 2017, the Company completed its previously announced acquisition of Pacific Continental Corporation ("Pacific Continental"), for total consideration of approximately \$644.8 million. The Company acquired 100% of the voting equity interests of Pacific Continental. The primary reasons for the acquisition were to expand in the Eugene, Oregon market and improve branch network efficiencies in the Seattle and Portland markets. The operating results of the Company for the nine months ended September 30, 2017 do not include the operating results produced by Pacific Continental as the acquisition did not close until November 1, 2017. It is not practical to present other financial information related to the acquisition at this time because the fair value measurement of assets acquired and liabilities assumed has not been finalized.

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

This discussion should be read in conjunction with the unaudited Consolidated Financial Statements of Columbia Banking System, Inc. (referred to in this report as “we”, “our”, “Columbia” and “the Company”) and notes thereto presented elsewhere in this report and with the December 31, 2016 audited Consolidated Financial Statements and its accompanying notes included in our Annual Report on Form 10-K. In the following discussion, unless otherwise noted, references to increases or decreases in average balances in items of income and expense for a particular period and balances at a particular date refer to the comparison with corresponding amounts for the period or date one year earlier.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- national and global economic conditions could be less favorable than expected or could have a more direct and pronounced effect on us than expected and adversely affect our ability to continue internal growth and maintain the quality of our earning assets;
- the housing/real estate markets where we operate and make loans could face challenges;
- the risks presented by the economy, which could adversely affect credit quality, collateral values, including real estate collateral, investment values, liquidity and loan originations and loan portfolio delinquency rates;
- the efficiencies and enhanced financial and operating performance we expect to realize from investments in personnel, acquisitions (including the acquisition of Pacific Continental Corporation (“Pacific Continental”)), and infrastructure may not be realized;
- the ability to successfully integrate Pacific Continental, or to integrate future acquired entities;
- interest rate changes could significantly reduce net interest income and negatively affect funding sources;
- projected business increases following strategic expansion could be lower than expected;
- changes in the scope and cost of Federal Deposit Insurance Corporation (“FDIC”) insurance and other coverages;
- the impact of acquired loans, including purchased credit impaired loans, on our earnings;
- changes in laws and regulations affecting our businesses, including changes in the enforcement and interpretation of such laws and regulations by applicable governmental and regulatory agencies;
- competition among financial institutions and nontraditional providers of financial services could increase significantly;
- continued consolidation in the Northwest financial services industry resulting in the creation of larger financial institutions that may have greater resources could change the competitive landscape;
- the goodwill we have recorded in connection with acquisitions could become impaired, which may have an adverse impact on our earnings and capital;
- our ability to identify and address cyber-security risks, including security breaches, “denial of service attacks,” “hacking” and identity theft;
- any material failure or interruption of our information and communications systems or inability to keep pace with technological changes;
- our ability to effectively manage credit risk, interest rate risk, market risk, operational risk, legal risk, liquidity risk and regulatory and compliance risk;
- the effect of geopolitical instability, including wars, conflicts and terrorist attacks;
- our profitability measures could be adversely affected if we are unable to effectively manage our capital;
- natural disasters, including earthquakes, tsunamis, flooding, fires and other unexpected events; and
- the effects of any damage to our reputation resulting from developments related to any of the items identified above.

You should take into account that forward-looking statements speak only as of the date of this report. Given the described uncertainties and risks, we cannot guarantee our future performance or results of operations and you should not place undue reliance on forward-looking statements. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required under federal securities laws.

CRITICAL ACCOUNTING POLICIES

Management has identified the accounting policies related to the allowance for loan and lease losses (the “allowance”), business combinations and the valuation and recoverability of goodwill as critical to an understanding of our financial statements. These policies and related estimates are discussed in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” under the headings “Allowance for Loan and Lease Losses,” “Business Combinations” and “Valuation and Recoverability of Goodwill” in our 2016 Annual Report on Form 10-K. There have not been any material changes in our critical accounting policies as compared to those disclosed in our 2016 Annual Report on Form 10-K.

RESULTS OF OPERATIONS

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

Earnings Summary

Comparison of current quarter to prior year period

The Company reported net income for the third quarter of \$40.8 million or \$0.70 per diluted common share, compared to \$27.5 million or \$0.47 per diluted common share for the third quarter of 2016. Net interest income for the three months ended September 30, 2017 was \$88.9 million, an increase of \$3.4 million from the prior year period. The increase was a result of higher interest income on loans primarily due to higher loan volumes. Noninterest income for the current quarter was \$37.1 million, an increase of \$13.9 million from the prior year period. The increase was primarily due to the \$14.0 million gain on the sale of the merchant card services portfolio.

The provision for loan and lease losses for the third quarter of 2017 was a net recapture of \$648 thousand compared to a provision of \$1.9 million during the third quarter of 2016. The provision recapture recorded in the third quarter of 2017 was due to the recording of a \$175 thousand provision recapture on loans, excluding PCI loans, and a \$473 thousand provision recapture related to PCI loans.

Total noninterest expense for the quarter ended September 30, 2017 was \$67.5 million, an increase from \$67.3 million for the third quarter of 2016. The increase from the prior year period was primarily due to due to higher compensation and benefits expense in the current quarter as well as \$1.2 million higher acquisition-related expenses, partially offset by decreases in advertising and promotion and merchant processing expenses.

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

Net interest income for the nine months ended September 30, 2017 was \$261.8 million, an increase of \$13.9 million from the prior year period. The increase was due to higher loan and securities volumes and lower market-driven premium amortization on securities, partially offset by lower incremental accretion income on loans. Noninterest income for the current period was \$86.1 million, an increase of \$20.3 million from the prior year period. The increase was due to the previously noted \$14.0 million gain on the sale of the merchant card services portfolio, lower expense related to our FDIC loss-sharing agreements and higher other noninterest income.

The provision for loan and lease losses for the nine months ended September 30, 2017 was \$5.3 million compared to a provision of \$10.8 million for the first nine months of 2016. The \$5.3 million provision was due to recording a provision of \$6.8 million for loans, excluding PCI loans, and a provision recapture of \$1.5 million related to PCI loans.

Total noninterest expense for the nine months ended September 30, 2017 was \$205.4 million, a 5% increase from the prior year period. The increase from the prior year period was driven by increased compensation and employee benefits expense, a \$2.4 million charge recorded in the current year related to our early termination of FDIC loss share agreements and higher acquisition-related expenses.

Net Interest Income

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

	Three Months Ended September 30,			Three Months Ended September 30,		
	2017			2016		
	Average Balances	Interest Earned / Paid	Average Rate	Average Balances	Interest Earned / Paid	Average Rate
<i>(dollars in thousands)</i>						
ASSETS						
Loans, net (1)(2)	\$ 6,441,537	\$ 80,136	4.98%	\$ 6,179,163	\$ 76,195	4.93%
Taxable securities	1,784,407	8,718	1.95%	1,870,466	8,988	1.92%
Tax exempt securities (2)	451,828	4,181	3.70%	480,627	4,306	3.58%
Interest-earning deposits with banks	72,789	226	1.24%	14,620	15	0.41%
Total interest-earning assets	8,750,561	\$ 93,261	4.26%	8,544,876	\$ 89,504	4.19%
Other earning assets	173,611			155,663		
Noninterest-earning assets	770,833			792,912		
Total assets	\$ 9,695,005			\$ 9,493,451		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Certificates of deposit	\$ 382,299	\$ 92	0.10%	\$ 417,887	\$ 124	0.12%
Savings accounts	766,540	19	0.01%	705,923	18	0.01%
Interest-bearing demand	1,000,079	223	0.09%	961,527	189	0.08%
Money market accounts	2,051,662	749	0.15%	2,033,450	492	0.10%
Total interest-bearing deposits	4,200,580	1,083	0.10%	4,118,787	823	0.08%
Federal Home Loan Bank advances	33,687	163	1.94%	96,931	229	0.95%
Other borrowings	51,669	128	0.99%	79,767	134	0.67%
Total interest-bearing liabilities	4,285,936	\$ 1,374	0.13%	4,295,485	\$ 1,186	0.11%
Noninterest-bearing deposits	3,986,757			3,799,745		
Other noninterest-bearing liabilities	98,518			119,633		
Shareholders' equity	1,323,794			1,278,588		
Total liabilities & shareholders' equity	\$ 9,695,005			\$ 9,493,451		
Net interest income (tax equivalent)		\$ 91,887			\$ 88,318	
Net interest margin (tax equivalent)			4.20%			4.13%

- (1) Nonaccrual loans have been included in the tables as loans carrying a zero yield. Amortized net deferred loan fees and net unearned discounts on acquired loans were included in the interest income calculations. The amortization of net deferred loan fees was \$1.8 million and \$1.4 million for the three month periods ended September 30, 2017 and 2016 , respectively. The incremental accretion income on acquired loans was \$2.9 million and \$4.6 million for the three months ended September 30, 2017 and 2016 , respectively.
- (2) Tax-exempt income is calculated on a tax equivalent basis. The tax equivalent yield adjustment to interest earned on loans was \$1.5 million and \$1.2 million for the three months ended September 30, 2017 and 2016 , respectively. The tax equivalent yield adjustment to interest earned on tax exempt securities was \$1.5 million for both the three month periods ended September 30, 2017 and 2016 .

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

	Nine Months Ended September 30,			Nine Months Ended September 30,		
	2017			2016		
	Average Balances	Interest Earned / Paid	Average Rate	Average Balances	Interest Earned / Paid	Average Rate
<i>(dollars in thousands)</i>						
ASSETS						
Loans, net (1)(2)	\$ 6,322,629	\$ 232,680	4.91%	\$ 6,002,656	\$ 220,445	4.90%
Taxable securities	1,835,693	29,172	2.12%	1,787,288	25,834	1.93%
Tax exempt securities (2)	451,636	12,500	3.69%	466,589	12,918	3.69%
Interest-earning deposits with banks	31,748	268	1.13%	23,106	81	0.47%
Total interest-earning assets	8,641,706	\$ 274,620	4.24%	8,279,639	\$ 259,278	4.18%
Other earning assets	174,898			154,950		
Noninterest-earning assets	772,865			790,877		
Total assets	<u>\$ 9,589,469</u>			<u>\$ 9,225,466</u>		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Certificates of deposit	\$ 389,260	\$ 282	0.10%	\$ 431,643	\$ 408	0.13%
Savings accounts	753,577	57	0.01%	691,379	53	0.01%
Interest-bearing demand	985,625	574	0.08%	946,437	541	0.08%
Money market accounts	2,019,278	1,865	0.12%	1,973,646	1,350	0.09%
Total interest-bearing deposits	4,147,740	2,778	0.09%	4,043,105	2,352	0.08%
Federal Home Loan Bank advances	103,369	979	1.26%	103,023	594	0.77%
Other borrowings	54,577	383	0.94%	82,403	407	0.66%
Total interest-bearing liabilities	4,305,686	\$ 4,140	0.13%	4,228,531	\$ 3,353	0.11%
Noninterest-bearing deposits	3,889,065			3,619,994		
Other noninterest-bearing liabilities	100,820			108,680		
Shareholders' equity	1,293,898			1,268,261		
Total liabilities & shareholders' equity	<u>\$ 9,589,469</u>			<u>\$ 9,225,466</u>		
Net interest income (tax equivalent)		<u>\$ 270,480</u>			<u>\$ 255,925</u>	
Net interest margin (tax equivalent)			<u>4.17%</u>			<u>4.12%</u>

(1) Nonaccrual loans have been included in the table as loans carrying a zero yield. Amortized net deferred loan fees and net unearned discounts on acquired loans were included in the interest income calculations. The amortization of net deferred loan fees was \$5.2 million and \$3.6 million for the nine months ended September 30, 2017 and 2016, respectively. The incremental accretion income on acquired loans was \$10.0 million and \$13.7 million for the nine months ended September 30, 2017 and 2016, respectively.

(2) Tax-exempt income is calculated on a tax equivalent basis. The tax equivalent yield adjustment to interest earned on loans was \$4.3 million and \$3.5 million for the nine months ended September 30, 2017 and 2016, respectively. The tax equivalent yield adjustment to interest earned on tax exempt securities was \$4.4 million and \$4.5 million for the nine months ended September 30, 2017 and 2016, respectively.

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

Three Months Ended September 30, 2017 Compared to 2016 Increase (Decrease) Due to			
	Volume	Rate	Total
<i>(in thousands)</i>			
Interest Income			
Loans, net	\$ 3,259	\$ 682	\$ 3,941
Taxable securities	(419)	149	(270)
Tax exempt securities	(263)	138	(125)
Interest earning deposits with banks	142	69	211
Interest income	<u>\$ 2,719</u>	<u>\$ 1,038</u>	<u>\$ 3,757</u>
Interest Expense			
Deposits:			
Certificates of deposit	\$ (10)	\$ (22)	\$ (32)
Savings accounts	2	(1)	1
Interest-bearing demand	8	26	34
Money market accounts	4	253	257
Total interest on deposits	<u>4</u>	<u>256</u>	<u>260</u>
Federal Home Loan Bank advances	(210)	144	(66)
Other borrowings	26	(32)	(6)
Interest expense	<u>\$ (180)</u>	<u>\$ 368</u>	<u>\$ 188</u>

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

Nine Months Ended September 30, 2017 Compared to 2016 Increase (Decrease) Due to			
	Volume	Rate	Total
<i>(in thousands)</i>			
Interest Income			
Loans, net	\$ 11,774	\$ 461	\$ 12,235
Taxable securities	715	2,623	3,338
Tax exempt securities	(414)	(4)	(418)
Interest earning deposits with banks	39	148	187
Interest income	<u>\$ 12,114</u>	<u>\$ 3,228</u>	<u>\$ 15,342</u>
Interest Expense			
Deposits:			
Certificates of deposit	\$ (38)	\$ (88)	\$ (126)
Savings accounts	5	(1)	4
Interest-bearing demand	23	10	33
Money market accounts	32	483	515
Total interest on deposits	<u>22</u>	<u>404</u>	<u>426</u>
Federal Home Loan Bank advances	2	383	385
Other borrowings	104	(128)	(24)
Interest expense	<u>\$ 128</u>	<u>\$ 659</u>	<u>\$ 787</u>

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
<i>(dollars in thousands)</i>				
Incremental accretion income due to:				
FDIC purchased credit impaired loans	\$ 972	\$ 1,816	\$ 3,842	\$ 4,773
Other acquired loans	1,903	2,749	6,207	8,896
Incremental accretion income	\$ 2,875	\$ 4,565	\$ 10,049	\$ 13,669
Net interest margin (tax equivalent)	4.20%	4.13%	4.17%	4.12%
Operating net interest margin (tax equivalent) (1)	4.15%	4.03%	4.11%	4.02%

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

Comparison of current quarter to prior year period

Net interest income for the third quarter of 2017 was \$88.9 million, up from \$85.6 million for the same quarter in 2016. The increase was primarily due to higher loan interest income, driven principally by higher loan volumes, partially offset by lower incremental accretion income on loans. As shown in the table above, incremental accretion income continued to decline which was reflective of the decrease in volume of acquired loans. Average interest-earning assets were up \$205.7 million from the prior year period due to loan growth. The Company's net interest margin (tax equivalent) increased to 4.20% in the third quarter of 2017, from 4.13% for the prior year period. This increase was due to higher loan volumes, partially offset by lower incremental accretion. The Company's operating net interest margin (tax equivalent) (see footnote 1 in prior table) increased to 4.15% from 4.03% due to higher loan and security volumes.

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

Net interest income for the nine months ended September 30, 2017 was \$261.8 million, an increase of 6% from \$247.9 million for the prior year period. The increase in net interest income was due to higher loan and securities volumes and lower market-driven premium amortization on securities, partially offset by lower incremental accretion income on loans. The Company's net interest margin (tax equivalent) increased to 4.17% for the first nine months of 2017, from 4.12% for the prior year period. The increase in the Company's net interest margin (tax equivalent) was driven by higher loan volumes and lower premium amortization on taxable securities, partially offset by lower accretion income on acquired loans. As shown in the table above, the Company recorded \$10.0 million in total incremental accretion during the nine months ended September 30, 2017, a decrease of \$ 3.6 million from the prior year period. The Company's operating net interest margin (tax equivalent) for the nine months ended September 30, 2017 increased to 4.11% from 4.02% also due to higher loan volumes and lower premium amortization on taxable securities (see footnote 1 in prior table).

Provision for Loan and Lease Losses

Comparison of current quarter to prior year period

During the third quarter of 2017, the Company recorded a \$648 thousand net provision recapture compared to a \$1.9 million provision expense during the third quarter of 2016. The \$648 thousand net provision recapture for loan and lease losses recorded during the current quarter was due to provision recaptures of \$473 thousand for PCI loans and \$175 thousand for loans, excluding PCI loans. The \$175 thousand net provision recapture for loans, excluding PCI loans, was due to a decrease in specific reserve driven by additional collateral being applied, partially offset by growth in the loan portfolio and net charge-off activity. The provision recapture recorded relating to PCI loans was due to the increase in the present value of expected future cash flows as remeasured during the current quarter, compared to the present value of expected future cash flows measured during the second quarter of 2017. The amount of provision was calculated in accordance with the Company's methodology for determining the allowance, discussed in Note 5 to the Consolidated Financial Statements in "Item 1. Financial Statements (unaudited)" of this report.

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

The provision for loan and lease losses for the nine months ended September 30, 2017 was \$5.3 million compared to \$10.8 million during the same period in 2016 . The \$5.3 million provision expense for loans recorded for the current year-to-date period included a provision of \$6.8 million for loans, excluding PCI loans and a provision recapture of \$1.5 million related to PCI loans. The provision of \$6.8 million related to loans, excluding PCI loans, was due to the combination of loan growth and net loan charge-offs experienced in the period. The \$1.5 million in provision recapture for PCI loans was primarily due to the increase in the present value of expected future cash flows as remeasured during the current period, compared to the present value of expected future cash flows at the end of 2016 , net of activity during the period. The amount of provision was calculated in accordance with the Company's methodology for determining the allowance, discussed in Note 5 to the Consolidated Financial Statements in "Item 1. Financial Statements (unaudited)" of this report.

Noninterest Income

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2017	2016	\$ Change	% Change	2017	2016	\$ Change	% Change
<i>(dollars in thousands)</i>								
Deposit account and treasury management fees	\$ 7,685	\$ 7,222	\$ 463	6 %	\$ 22,368	\$ 21,304	\$ 1,064	5 %
Card revenue	6,735	6,114	621	10 %	18,660	17,817	843	5 %
Financial services and trust revenue	2,645	2,746	(101)	(4)%	8,520	8,347	173	2 %
Loan revenue	3,154	2,949	205	7 %	9,736	8,013	1,723	22 %
Merchant processing revenue	—	2,352	(2,352)	(100)%	4,283	6,726	(2,443)	(36)%
Bank owned life insurance	1,290	1,073	217	20 %	4,003	3,459	544	16 %
Investment securities gains	—	572	(572)	(100)%	—	1,174	(1,174)	(100)%
Change in FDIC loss-sharing asset	—	(104)	104	(100)%	(447)	(2,197)	1,750	(80)%
Gain on sale of merchant card services portfolio	14,000	—	14,000	— %	14,000	—	14,000	— %
Other	1,558	242	1,316	544 %	4,938	1,109	3,829	345 %
Total noninterest income	<u>\$ 37,067</u>	<u>\$ 23,166</u>	<u>\$ 13,901</u>	<u>60 %</u>	<u>\$ 86,061</u>	<u>\$ 65,752</u>	<u>\$ 20,309</u>	<u>31 %</u>

Comparison of current quarter to prior year period

Noninterest income was \$37.1 million for the third quarter of 2017 , compared to \$23.2 million for the same period in 2016 . The increase was primarily due to the \$14.0 million gain on the sale of the merchant card services portfolio. As a result of that sale, we now share with the buyer in merchant services revenue and include such amounts in "Card revenue." For the current quarter, this net revenue share was \$438 thousand. Also contributing to the increase in noninterest income was higher other noninterest income, principally from a current quarter BOLI benefit of \$1.0 million, with no such BOLI benefit in the prior year period.

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

For the nine months ended September 30, 2017 , noninterest income was \$86.1 million compared to \$65.8 million for the same period in 2016 . The increase was due to the previously noted \$14.0 million gain on the sale of the merchant card services portfolio, lower expense related to our FDIC loss-sharing agreements and higher other noninterest income. The lower expense recorded for the change in FDIC loss-sharing asset was due to lower amortization expense in the current year. For additional information on our FDIC loss-sharing agreements, see Note 7 to the Consolidated Financial Statements in "Item 1. Financial Statements (unaudited)" of this report. The increase in other noninterest income was principally from higher current period BOLI benefit of \$3.0 million, with only \$254 thousand BOLI benefit in the prior year period.

Noninterest Expense

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2017	2016	\$ Change	% Change	2017	2016	\$ Change	% Change
<i>(dollars in thousands)</i>								
Compensation and employee benefits	\$ 39,983	\$ 38,476	\$ 1,507	4 %	\$ 119,201	\$ 112,086	\$ 7,115	6 %
All other noninterest expense:								
Occupancy	8,085	8,219	(134)	(2)%	22,853	26,044	(3,191)	(12)%
Merchant processing expense	—	1,161	(1,161)	(100)%	2,196	3,312	(1,116)	(34)%
Advertising and promotion	969	1,993	(1,024)	(51)%	2,923	3,878	(955)	(25)%
Data processing	4,122	4,275	(153)	(4)%	13,071	12,350	721	6 %
Legal and professional services	2,880	2,264	616	27 %	9,196	5,366	3,830	71 %
Taxes, license and fees	1,505	1,491	14	1 %	3,494	4,079	(585)	(14)%
Regulatory premiums	782	776	6	1 %	2,299	2,985	(686)	(23)%
Net cost (benefit) of operation of other real estate owned	271	(249)	520	(209)%	422	(61)	483	(792)%
Amortization of intangibles	1,188	1,460	(272)	(19)%	3,786	4,526	(740)	(16)%
Other	7,752	7,398	354	5 %	25,949	21,563	4,386	20 %
Total all other noninterest expense	27,554	28,788	(1,234)	(4)%	86,189	84,042	2,147	3 %
Total noninterest expense	\$ 67,537	\$ 67,264	\$ 273	— %	\$ 205,390	\$ 196,128	\$ 9,262	5 %

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
<i>(in thousands)</i>				
Acquisition-related expenses:				
Compensation and employee benefits	\$ 3	\$ —	\$ 3	\$ 35
Occupancy	593	—	945	2,383
Advertising and promotion	184	—	201	—
Data processing	66	—	539	18
Legal and professional fees	157	—	1,587	—
Taxes, licenses and fees	—	—	3	—
Other	168	—	280	—
Total impact of acquisition-related expense to noninterest expense	\$ 1,171	\$ —	\$ 3,558	\$ 2,436
Acquisition-related expenses by transaction:				
Pacific Continental (1)	\$ 1,171	\$ —	\$ 3,558	\$ —
Intermountain	—	—	—	2,436
Total impact of acquisition-related expense to noninterest expense	\$ 1,171	\$ —	\$ 3,558	\$ 2,436

(1) The Company completed the acquisition of Pacific Continental on November 1, 2017. See Note 15 of the Consolidated Financial Statements in “Item 1. Financial Statements (unaudited)” of this report for further information regarding this acquisition.

Comparison of current quarter to prior year period

Total noninterest expense for the third quarter of 2017 was \$67.5 million , an increase of \$273 thousand from the prior year period. The increase was due to higher compensation and benefits expense in the current quarter as well as \$1.2 million higher acquisition-related expenses, partially offset by decreases in advertising and promotion and merchant processing expenses. With respect to the latter, beginning July 1, 2017, the Company no longer directly incurs such costs.

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

For the nine months ended September 30, 2017 , noninterest expense was \$205.4 million , an increase of \$9.3 million , or 5% from \$196.1 million a year earlier. In addition to the \$2.4 million charge related to our FDIC loss share agreement termination, the increase from the prior year period was driven by higher compensation and employee benefits due to recognizing additional incentive expense from solid loan production, deposit growth and financial performance, higher stock compensation expense and salary increases. The increase in stock compensation expense related to the immediate vesting of certain restricted share awards. In addition, legal and professional fees were higher due to costs from our investment in a customer relationship management application, the search for certain executive level positions and acquisition-related expenses. Also contributing to the increased noninterest expense was higher miscellaneous other noninterest expense due to the recording of an additional \$775 thousand for the allowance for unfunded commitments and letters of credit in the current year compared to a provision recapture of \$25 thousand in the prior year period.

The following table presents selected items included in “Other” noninterest expense and the associated change from period to period:

	<u>Three Months Ended September 30,</u>		<u>Increase</u>	<u>Nine Months Ended September 30,</u>		<u>Increase</u>
	<u>2017</u>	<u>2016</u>	<u>(Decrease)</u>	<u>2017</u>	<u>2016</u>	<u>(Decrease)</u>
			<u>Amount</u>			<u>Amount</u>
	<i>(in thousands)</i>					
Postage	\$ 517	\$ 499	\$ 18	\$ 1,577	\$ 1,630	\$ (53)
Software support and maintenance	1,386	1,231	155	3,957	3,500	457
Supplies	348	353	(5)	1,268	1,064	204
Loan expenses	780	587	193	1,363	1,277	86
Dues and subscriptions	304	310	(6)	1,109	927	182
Insurance	459	484	(25)	1,370	1,441	(71)
Card expenses	1,035	683	352	2,383	2,053	330
Travel and entertainment	826	874	(48)	2,369	2,490	(121)
Employee expenses	328	288	40	1,067	943	124
Sponsorships and charitable contributions	378	593	(215)	1,640	1,737	(97)
Directors fees	189	181	8	750	562	188
Correspondent bank processing fees	129	142	(13)	397	417	(20)
Investor relations	42	25	17	228	189	39
Other personal property owned	—	(5)	5	(2)	(7)	5
FDIC clawback expense (recovery)	—	29	(29)	(54)	308	(362)
Fraud losses	156	209	(53)	698	376	322
Termination of FDIC loss share agreements charge	—	—	—	2,409	—	2,409
Miscellaneous	875	915	(40)	3,420	2,656	764
Total other noninterest expense	\$ 7,752	\$ 7,398	\$ 354	\$ 25,949	\$ 21,563	\$ 4,386

Income Taxes

We recorded an income tax provision of \$18.3 million for the third quarter of 2017, compared to a provision of \$12.1 million for the same period in 2016, with effective tax rates of 31% for both periods. For the nine months ended September 30, 2017 and 2016, we recorded income tax provisions of \$40.0 million and \$32.6 million, respectively, with effective tax rates of 29% for the current year and 31% for the prior year period. Our effective tax rate remains lower than the statutory tax rate due to the amount of tax-exempt municipal securities held in the investment portfolio, tax-exempt earnings on bank owned life insurance and loans with favorable tax attributes. In addition, our effective tax rate was reduced in the current year due to the adoption of new share-based payment accounting (ASU 2016-09). For additional information, please refer to the Company's annual report on Form 10-K for the year ended December 31, 2016 and Note 2 to the Consolidated Financial Statements in "Item 1. Financial Statements (unaudited)" of this report.

FINANCIAL CONDITION

Total assets were \$9.81 billion at September 30, 2017, an increase of \$305.0 million from \$9.51 billion at December 31, 2016. Cash and cash equivalents grew \$98.5 million. Loan growth of \$298.6 million during the current year was driven by strong loan originations. Securities available for sale were \$2.21 billion at September 30, 2017, a decrease of \$70.7 million from December 31, 2016. Total liabilities were \$8.49 billion as of September 30, 2017, an increase of \$227.6 million from \$8.26 billion at December 31, 2016. The increase was primarily due to increased deposits.

Investment Securities Available for Sale

At September 30, 2017, the Company held investment securities totaling \$2.21 billion compared to \$2.28 billion at December 31, 2016. The decrease in the investment securities portfolio from year-end is due to \$200.5 million in principal payments and maturities and \$14.1 million in premium amortization offset by \$130.9 million in purchases and a \$13.0 million decrease in net unrealized loss of securities in the portfolio. The average duration of our investment portfolio was approximately 3 years and 8 months at September 30, 2017. This duration takes into account calls, where appropriate, and consensus prepayment speeds.

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

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

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

At September 30, 2017, the market value of securities available for sale had a net unrealized loss of \$7.5 million compared to a net unrealized loss of \$20.5 million at December 31, 2016. The change in valuation was the result of fluctuations in market interest rates subsequent to purchase. At September 30, 2017, the Company had \$1.31 billion of investment securities with gross unrealized losses of \$21.1 million; however, we did not consider these investment securities to be other-than-temporarily impaired.

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

	September 30, 2017	December 31, 2016
	(in thousands)	
Securities Available for Sale		
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	\$ 1,377,417	\$ 1,465,732
State and municipal securities	483,488	475,060
U.S. government and government-sponsored enterprise securities	341,604	331,902
U.S. government securities	250	800
Other securities	5,114	5,083
Total	\$ 2,207,873	\$ 2,278,577

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

Credit Risk Management

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

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

We review these loans to assess the ability of our borrowers to service all interest and principal obligations and, as a result, the risk rating may be adjusted accordingly. In the event that full collection of principal and interest is not reasonably assured, the loan is appropriately downgraded and, if warranted, placed on nonaccrual status even though the loan may be current as to principal and interest payments. Additionally, we assess whether an impairment of a loan warrants specific reserves or a write-down of the loan. For additional discussion on our methodology in managing credit risk within our loan portfolio, see the “Allowance for Loan and Lease Losses” section in this Management’s Discussion and Analysis and Note 1 to the Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data” of the Company’s 2016 Annual Report on Form 10-K.

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

Loan Portfolio Analysis

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

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

	September 30, 2017	% of Total	December 31, 2016	% of Total
	<i>(dollars in thousands)</i>			
Commercial business	\$ 2,735,206	42.0 %	\$ 2,551,054	41.1 %
Real estate:				
One-to-four family residential	176,487	2.7 %	170,331	2.7 %
Commercial and multifamily residential	2,825,794	43.3 %	2,719,830	43.7 %
Total real estate	3,002,281	46.0 %	2,890,161	46.4 %
Real estate construction:				
One-to-four family residential	145,419	2.2 %	121,887	2.0 %
Commercial and multifamily residential	213,939	3.3 %	209,118	3.4 %
Total real estate construction	359,358	5.5 %	331,005	5.4 %
Consumer	323,913	5.0 %	329,261	5.3 %
Purchased credit impaired	120,477	1.9 %	145,660	2.3 %
Subtotal	6,541,235	100.4 %	6,247,141	100.5 %
Less: Net unearned income	(29,229)	(0.4)%	(33,718)	(0.5)%
Loans, net of unearned income (before Allowance for Loan and Lease Losses)	\$ 6,512,006	100.0 %	\$ 6,213,423	100.0 %
Loans held for sale	\$ 7,802		\$ 5,846	

Total loans increased \$298.6 million from year-end 2016. The increase in loans was the result of strong loan originations during the first nine months of the year, partially offset by contractual payments and prepayments. The loan portfolio continues to be diversified, with the intent to mitigate risk by monitoring concentration in any one sector. The \$29.2 million in unearned income recorded at September 30, 2017 was comprised of \$13.9 million in net purchase discounts and \$15.3 million in deferred loan fees. The \$33.7 million in unearned income recorded at December 31, 2016 consisted of \$20.2 million in net purchase discounts and \$13.5 million in deferred loan fees.

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

	September 30, 2017	December 31, 2016
	<i>(in thousands)</i>	
Acquisition:		
Intermountain	4,827	6,599
West Coast	9,333	13,957
Other	(211)	(315)
Total net discount at period end	\$ 13,949	\$ 20,241

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

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

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

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

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

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

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

Nonperforming Assets

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

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

	September 30, 2017	December 31, 2016
	<i>(in thousands)</i>	
Nonperforming assets		
Nonaccrual loans:		
Commercial business	\$ 25,213	\$ 11,555
Real estate:		
One-to-four family residential	816	568
Commercial and multifamily residential	9,143	11,187
Total real estate	9,959	11,755
Real estate construction:		
One-to-four family residential	239	563
Consumer	4,906	3,883
Total nonaccrual loans	40,317	27,756
Other real estate owned and other personal property owned	3,682	5,998
Total nonperforming assets	\$ 43,999	\$ 33,754
Loans, net of unearned income	\$ 6,512,006	\$ 6,213,423
Total assets	\$ 9,814,578	\$ 9,509,607
Nonperforming loans to period end loans	0.62%	0.45%
Nonperforming assets to period end assets	0.45%	0.35%

At September 30, 2017, nonperforming assets were \$44.0 million, compared to \$33.8 million at December 31, 2016. Nonperforming assets increased \$10.2 million during the nine months ended September 30, 2017. This increase was due to a \$12.6 million increase in nonaccrual loans, partially offset by a decrease in OREO.

Other Real Estate Owned: The following table sets forth activity in OREO for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	<i>(in thousands)</i>			
Balance, beginning of period	\$ 4,058	\$ 10,613	\$ 5,998	\$ 13,738
Transfers in	74	891	74	1,202
Valuation adjustments	(138)	(14)	(364)	(290)
Proceeds from sale of OREO property	(182)	(2,569)	(1,901)	(5,845)
Gain (loss) on sale of OREO, net	(130)	73	(125)	189
Balance, end of period	<u>\$ 3,682</u>	<u>\$ 8,994</u>	<u>\$ 3,682</u>	<u>\$ 8,994</u>

Allowance for Loan and Lease Losses

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

At September 30, 2017, our allowance was \$71.6 million, or 1.10% of total loans (excluding loans held for sale). This compares with an allowance of \$70.0 million, or 1.13% of total loans (excluding loans held for sale) at December 31, 2016 and an allowance of \$70.3 million or 1.12% of total loans (excluding loans held for sale) at September 30, 2016.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	<i>(in thousands)</i>			
Beginning balance	\$ 72,984	\$ 69,304	\$ 70,043	\$ 68,172
Charge-offs:				
Commercial business	(1,362)	(2,159)	(6,089)	(8,873)
One-to-four family residential	—	—	(460)	(35)
Commercial and multifamily residential	—	—	—	(26)
One-to-four family residential construction	—	—	(14)	—
Consumer	(263)	(383)	(1,156)	(983)
Purchased credit impaired	(1,633)	(2,062)	(5,372)	(7,826)
Total charge-offs	(3,258)	(4,604)	(13,091)	(17,743)
Recoveries:				
Commercial business	688	854	3,997	2,269
One-to-four family residential	40	81	380	142
Commercial and multifamily residential	58	20	263	219
One-to-four family residential construction	20	21	107	280
Commercial and multifamily residential construction	—	107	—	109
Consumer	343	399	876	765
Purchased credit impaired	1,389	2,216	3,737	5,291
Total recoveries	2,538	3,698	9,360	9,075
Net charge-offs	(720)	(906)	(3,731)	(8,668)
Provision (recapture) for loan and lease losses	(648)	1,866	5,304	10,760
Ending balance	\$ 71,616	\$ 70,264	\$ 71,616	\$ 70,264
Total loans, net at end of period, excluding loans held of sale	\$ 6,512,006	\$ 6,259,757	\$ 6,512,006	\$ 6,259,757
Allowance for loan and lease losses to period-end loans	1.10%	1.12%	1.10%	1.12%
Allowance for unfunded commitments and letters of credit				
Beginning balance	\$ 3,555	\$ 2,780	\$ 2,705	\$ 2,930
Net changes in the allowance for unfunded commitments and letters of credit	(75)	125	775	(25)
Ending balance	\$ 3,480	\$ 2,905	\$ 3,480	\$ 2,905

FDIC Loss-sharing Asset

During the second quarter of 2017, the Bank entered into an agreement with the FDIC to terminate all loss-sharing agreements ahead of their contractual maturities. These loss-sharing agreements were entered into in 2010 and 2011 in conjunction with our acquisitions of (1) Columbia River Bank in January 2010, (2) American Marine Bank in January 2010, (3) Summit Bank in May 2011 and (4) First Heritage Bank in May 2011. Under the early termination, all rights and obligations of the Company and the FDIC have been resolved and completed. For additional information on the early termination of the FDIC loss-sharing agreements, see Note 7 to the Consolidated Financial Statements in “Item 1. Financial Statements (unaudited)” of this report.

Liquidity and Sources of Funds

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

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

Deposit Activities

Our deposit products include a wide variety of transaction accounts, savings accounts and time deposit accounts. Core deposits (demand deposit, savings, money market accounts and certificates of deposit less than \$250,000) increased \$249.9 million from year-end 2016 .

We have established a branch system to serve our consumer and business depositors. In addition, management’s strategy for funding asset growth is to make use of brokered and other wholesale deposits on an as-needed basis. The Company participates in the Certificate of Deposit Account Registry Service (CDARS[®]) program. CDARS[®] is a network that allows participating banks to offer extended FDIC deposit insurance coverage on time deposits. The Company also participates in a similar program to offer extended FDIC deposit insurance coverage on money market accounts. These extended deposit insurance programs are generally available only to existing customers and are not used as a means of generating additional liquidity. At September 30, 2017 , CDARS[®] deposits and brokered money market deposits were \$258.1 million , or 3% of total deposits, compared to \$230.4 million at year-end 2016 . The brokered deposits have varied maturities.

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

	September 30, 2017		December 31, 2016	
	Balance	% of Total	Balance	% of Total
<i>(dollars in thousands)</i>				
Core deposits:				
Demand and other noninterest-bearing	\$ 4,119,950	49.4%	\$ 3,944,495	48.9%
Interest-bearing demand	1,009,378	12.1%	985,293	12.2%
Money market	1,821,262	21.8%	1,791,283	22.2%
Savings	772,858	9.3%	723,667	9.0%
Certificates of deposit, less than \$250,000	276,051	3.3%	304,830	3.8%
Total core deposits	7,999,499	95.9%	7,749,568	96.1%
Certificates of deposit, \$250,000 or more	84,105	1.0%	79,424	1.0%
Certificates of deposit insured by CDARS®	20,690	0.2%	22,039	0.3%
Brokered money market accounts	237,421	2.9%	208,348	2.6%
Subtotal	8,341,715	100.0%	8,059,379	100.0%
Premium resulting from acquisition date fair value adjustment	2		36	
Total deposits	\$ 8,341,717		\$ 8,059,415	

Borrowings

We rely on FHLB advances and FRB borrowings as another source of both short and long-term funding. FHLB advances and FRB borrowings are secured by investment securities, and residential, commercial and commercial real estate loans. We had FHLB advances of \$6.5 million at both September 30, 2017 and December 31, 2016.

We also utilize wholesale and retail repurchase agreements to supplement our funding sources. Our wholesale repurchase agreements are secured by mortgage-backed securities. At September 30, 2017 and December 31, 2016, we had deposit customer sweep-related repurchase agreements of \$15.9 million and \$55.8 million, respectively, which mature on a daily basis as well as a \$25.0 million term repurchase agreement, which matures in 2018. Management anticipates we will continue to rely on FHLB advances, FRB borrowings and wholesale and retail repurchase agreements in the future and we will use those funds primarily to make loans and purchase securities.

Contractual Obligations, Commitments & Off-Balance Sheet Arrangements

We are party to many contractual financial obligations, including repayment of borrowings, operating and equipment lease payments, off-balance sheet commitments to extend credit and investments in affordable housing partnerships. At September 30, 2017, we had commitments to extend credit of \$2.28 billion compared to \$2.22 billion at December 31, 2016.

Capital Resources

Shareholders' equity at September 30, 2017 was \$1.33 billion, an increase from \$1.25 billion at December 31, 2016. Shareholders' equity was 14% of total period-end assets at September 30, 2017 and 13% at December 31, 2016.

Regulatory Capital. In July 2013, the federal bank regulators approved the New Capital Rules (as discussed in our 2016 Annual Report on Form 10-K, "Item 1. Business—Supervision and Regulation and —Regulatory Capital Requirements"), which implement the Basel III capital framework and various provisions of the Dodd-Frank Act. We and the Bank were required to comply with these rules as of January 1, 2015, subject to the phase-in of certain provisions. We believe that, as of September 30, 2017, we and the Bank would meet all capital adequacy requirements under the New Capital Rules on a fully phased-in basis as if all such requirements were then in effect.

FDIC regulations set forth the qualifications necessary for a bank to be classified as "well-capitalized," primarily for assignment of FDIC insurance premium rates. Failure to qualify as "well-capitalized" can negatively impact a bank's ability to expand and to engage in certain activities. The Company and the Bank qualified as "well-capitalized" at September 30, 2017 and December 31, 2016.

The following table presents the capital ratios and the capital conservation buffer, as applicable, for the Company and its banking subsidiary at September 30, 2017 and December 31, 2016 :

	Company		Columbia Bank	
	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
Common equity tier 1 (CET1) risk-based capital ratio	12.2025%	11.6450%	12.0166%	11.5051%
Tier 1 risk-based capital ratio	12.2025%	11.6646%	12.0166%	11.5051%
Total risk-based capital ratio	13.1788%	12.6347%	12.9936%	12.4756%
Leverage ratio	10.0883%	9.5526%	9.9353%	9.4275%
Capital conservation buffer	5.1788%	4.6347%	4.9936%	4.4756%

Stock Repurchase Program

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

Non-GAAP Financial Measures

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Operating net interest margin non-GAAP reconciliation:				
	<i>(dollars in thousands)</i>			
Net interest income (tax equivalent) (1)	\$ 91,887	\$ 88,318	\$ 270,480	\$ 255,925
Adjustments to arrive at operating net interest income (tax equivalent):				
Incremental accretion income on FDIC purchased credit impaired loans	(972)	(1,816)	(3,842)	(4,773)
Incremental accretion income on other acquired loans	(1,903)	(2,749)	(6,207)	(8,896)
Premium amortization on acquired securities	1,527	1,991	4,658	6,390
Interest reversals on nonaccrual loans	311	266	1,323	826
Operating net interest income (tax equivalent) (1)	\$ 90,850	\$ 86,010	\$ 266,412	\$ 249,472
Average interest earning assets	\$ 8,750,561	\$ 8,544,876	\$ 8,641,706	\$ 8,279,639
Net interest margin (tax equivalent) (1)	4.20%	4.13%	4.17%	4.12%
Operating net interest margin (tax equivalent) (1)	4.15%	4.03%	4.11%	4.02%

(1) Tax-exempt interest income has been adjusted to a tax equivalent basis. The amount of such adjustment was an addition to net interest income of \$3.0 million and \$2.7 million for the three months ended September 30, 2017 and 2016, respectively, and an addition to net interest income of \$8.7 million and \$8.0 million for the nine months ended September 30, 2017 and 2016.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

A number of measures are used to monitor and manage interest rate risk, including income simulations and interest sensitivity (gap) analysis. An income simulation model is the primary tool used to assess the direction and magnitude of changes in net interest income resulting from changes in interest rates. Basic assumptions in the model include prepayment speeds on mortgage-related assets, cash flows and maturities of other investment securities, loan and deposit volumes and pricing. These assumptions are inherently subjective and, as a result, the model cannot precisely estimate net interest income or precisely predict the impact of higher or lower interest rates on net interest income. Actual results will differ from simulated results due to timing, magnitude and frequency of interest rate changes and changes in market conditions and management strategies, among other factors. At September 30, 2017, based on the measures used to monitor and manage interest rate risk, there has not been a material change in the Company's interest rate risk since December 31, 2016. For additional information, refer to Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's 2016 Annual Report on Form 10-K.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

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

PART II - OTHER INFORMATION**Item 1. LEGAL PROCEEDINGS**

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

Item 1A. RISK FACTORS

Refer to Item 1A of Part I of the Company's Annual Report on Form 10-K for the year ended December 31, 2016 for a discussion of risk factors relating to the Company's business. The Company believes that there has been no material change in its risk factors as previously disclosed in the Company's Form 10-K.

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

(a) Not applicable

(b) Not applicable

(c) The following table provides information about repurchases of common stock by the Company during the quarter ended September 30, 2017 :

Period	Total Number of Common Shares Purchased (1)	Average Price Paid per Common Share	Total Number of Shares Purchased as Part of Publicly Announced Plan (2)	Maximum Number of Remaining Shares That May Yet Be Purchased Under the Plan (2)
7/1/2017 - 7/31/2017	246	\$ 39.26	—	2,900,000
8/1/2017 - 8/31/2017	—	—	—	2,900,000
9/1/2017 - 9/30/2017	533	40.03	—	2,900,000
	779	\$ 39.79	—	

- (1) Common shares repurchased by the Company during the quarter consisted of cancellation of 779 shares of common stock to pay the shareholders' withholding taxes.
- (2) On June 22, 2016, the Board of Directors approved a stock repurchase program authorizing the Company to repurchase up to 2.9 million shares of its outstanding common stock. The plan was effective on August 24, 2016 and expired on August 24, 2017. On September 27, 2017 the Board approved a new repurchase plan, which authorized the Company to repurchase up to 2.9 million shares of its outstanding common stock.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS

[31.1+](#) [Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)

[31.2+](#) [Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)

[32+](#) [Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)

101+ The following financial information from Columbia Banking System, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 is formatted in XBRL: (i) the Unaudited Consolidated Balance Sheets, (ii) the Unaudited Consolidated Statements of Income, (iii) the Unaudited Consolidated Statements of Comprehensive Income, (iv) the Unaudited Consolidated Statements of Changes in Shareholders' Equity, (v) the Unaudited Consolidated Statements of Cash Flows, and (vi) the Notes to Unaudited Consolidated Financial Statements.

+ Filed herewith

SIGNATURES

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

COLUMBIA BANKING SYSTEM, INC.

Date: November 7, 2017

By /s/ HADLEY S. ROBBINS
Hadley S. Robbins
President and
Chief Executive Officer
(Principal Executive Officer)

Date: November 7, 2017

By /s/ CLINT E. STEIN
Clint E. Stein
Executive Vice President,
Chief Operating Officer and
Chief Financial Officer
(Principal Financial Officer)

Date: November 7, 2017

By /s/ BARRY S. RAY
Barry S. Ray
Senior Vice President and
Chief Accounting Officer
(Principal Accounting Officer)

CERTIFICATION

I, Hadley S. Robbins, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Columbia Banking System, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ HADLEY S. ROBBINS

Hadley S. Robbins
President and
Chief Executive Officer

Date: November 7, 2017

CERTIFICATION

I, Clint E. Stein, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Columbia Banking System, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ CLINT E. STEIN

Clint E. Stein
Executive Vice President, Chief Operating Officer and
Chief Financial Officer

Date: November 7, 2017

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Columbia Banking System, Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), we, Hadley S. Robbins, President and Chief Executive Officer, and Clint E. Stein, Executive Vice President, Chief Operating Officer and Chief Financial Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ HADLEY S. ROBBINS

**Hadley S. Robbins
President and
Chief Executive Officer
Columbia Banking System, Inc.**

/s/ CLINT E. STEIN

**Clint E. Stein
Executive Vice President,
Chief Operating Officer and
Chief Financial Officer
Columbia Banking System, Inc.**

Dated: November 7, 2017