

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2019.

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

For the transition period from to

Commission File Number 0-20288

COLUMBIA BANKING SYSTEM, INC.

(Exact name of registrant as specified in its charter)

Washington
(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)

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

Common Stock, No Par Value

COLB

NASDAQ Global Select Market

(Title of each class)

(Trading symbol)

(Name of each exchange on which registered)

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

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

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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

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

Yes ☐ No ☒

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

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

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

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

Item 1. FINANCIAL STATEMENTS
CONSOLIDATED BALANCE SHEETS

Columbia Banking System, Inc.
(Unaudited)

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

See accompanying Notes to unaudited Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

Columbia Banking System, Inc.
(Unaudited)

	Three Months Ended	
	March 31,	
	2019	2018
	<i>(in thousands except per share amounts)</i>	
Interest Income		
Loans	\$ 108,416	\$ 103,027
Taxable securities	17,415	12,708
Tax-exempt securities	2,969	3,064
Deposits in banks	88	345
Total interest income	128,888	119,144
Interest Expense		
Deposits	4,498	2,509
FHLB advances	2,685	570
Subordinated debentures	468	468
Other borrowings	215	116
Total interest expense	7,866	3,663
Net Interest Income	121,022	115,481
Provision for loan and lease losses	1,362	5,852
Net interest income after provision for loan and lease losses	119,660	109,629
Noninterest Income		
Deposit account and treasury management fees	8,980	8,740
Card revenue	3,662	5,813
Financial services and trust revenue	2,957	2,730
Loan revenue	2,389	3,186
Bank owned life insurance	1,519	1,426
Investment securities gains, net	1,847	22
Other	342	1,226
Total noninterest income	21,696	23,143
Noninterest Expense		
Compensation and employee benefits	52,085	50,570
Occupancy	8,809	10,121
Data processing	4,669	5,270
Legal and professional fees	4,573	3,237
Amortization of intangibles	2,748	3,188
B&O taxes (1)	1,876	1,317
Advertising and promotion	974	1,429
Regulatory premiums	984	937
Net cost of operation of OREO	113	1
Other (1)	7,869	9,917
Total noninterest expense	84,700	85,987
Income before income taxes	56,656	46,785
Income tax provision	10,785	6,815
Net Income	\$ 45,871	\$ 39,970
Earnings per common share		
Basic	\$ 0.63	\$ 0.55
Diluted	\$ 0.63	\$ 0.55
Weighted average number of common shares outstanding	72,521	72,300
Weighted average number of diluted common shares outstanding	72,524	72,305

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

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

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

See accompanying Notes to unaudited Consolidated Financial Statements.

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

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

See accompanying Notes to unaudited Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2019	2018
	(in thousands)	
Cash Flows From Operating Activities		
Net income	\$ 45,871	\$ 39,970
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan and lease losses	1,362	5,852
Stock-based compensation expense	2,285	2,064
Depreciation, amortization and accretion	8,182	7,618
Investment securities gains, net	(1,847)	(22)
Net realized (gain) loss on sale of premises and equipment and loans held for investment	1	(630)
Net realized loss on sale and valuation adjustments of OREO	209	135
Originations of loans held for sale	(21,542)	(27,553)
Proceeds from sales of loans held for sale	21,374	29,007
Net change in:		
Interest receivable	(1,512)	(914)
Interest payable	1,154	452
Other assets	(5,244)	2,530
Other liabilities	2,179	(15,014)
Net cash provided by operating activities	52,472	43,495
Cash Flows From Investing Activities		
Loans originated, net of principal collected	(80,407)	17,688
Purchases of:		
Debt securities available for sale	(3,710)	(27,497)
Loans held for investment	(49,039)	—
Premises and equipment	(1,788)	(2,099)
FHLB stock	(57,280)	(45,080)
Proceeds from:		
Sales of debt securities available for sale	83,968	19,761
Principal repayments and maturities of debt securities available for sale	100,876	82,643
Sales of premises and equipment and loans held for investment	11	3,721
Redemption of FHLB stock	57,640	43,880
Sales of OREO and OPPO	150	2,062
Net cash provided by investing activities	50,421	95,079
Cash Flows From Financing Activities		
Net decrease in deposits	(89,027)	(136,466)
Net decrease in sweep repurchase agreements (1)	(38,076)	(29,812)
Proceeds from:		
FHLB advances	1,432,000	1,127,000
Exercise of stock options	878	719
Payments for:		
Repayment of FHLB advances	(1,441,000)	(1,097,000)
Common stock dividends	(30,750)	(16,069)
Repayment of junior subordinated debentures	—	(8,248)
Repayment of term repurchase agreement (1)	—	(25,000)
Purchase and retirement of common stock	(2,432)	(2,575)
Net cash used in financing activities	(168,407)	(187,451)
Decrease in cash and cash equivalents	(65,514)	(48,877)
Cash and cash equivalents at beginning of period	277,587	342,533
Cash and cash equivalents at end of period	\$ 212,073	\$ 293,656

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

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

	Three Months Ended March 31,	
	2019	2018
	(in thousands)	
Supplemental Information:		
Interest paid	\$ 6,712	\$ 3,211
Income taxes paid, net of refunds	\$ (146)	\$ 24
Non-cash investing and financing activities		
Loans transferred to OREO	\$ 386	\$ 406
Premises and equipment expenditures incurred but not yet paid	\$ 35	\$ —
Change in dividends payable on unvested shares included in other liabilities	\$ 14	\$ —

See accompanying Notes to unaudited Consolidated Financial Statements.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Columbia Banking System, Inc.

1. Basis of Presentation, Significant Accounting Policies and Reclassifications

Basis of Presentation

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

Significant Accounting Policies

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

Reclassifications

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

2. Accounting Pronouncements Recently Adopted or Issued

Accounting Standards Adopted in 2019

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

Recently Issued Accounting Standards, Not Yet Adopted

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

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

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

3. Securities

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

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

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

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

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

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

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

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:

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

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

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

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

At March 31, 2019, there were 246 state and municipal government securities in an unrealized loss position, of which 243 were in a continuous loss position for 12 months or more. The unrealized losses on state and municipal securities were caused by interest rate changes or widening of market spreads subsequent to the purchase of the individual securities. Management monitors published credit ratings of these securities for adverse changes. As of March 31, 2019, none of the rated obligations of state and local government entities held by the Company had a below investment grade credit rating. Because the credit quality of these securities are investment grade and the Company does not intend to sell these securities nor does the Company consider it more likely than not that it will be required to sell these securities before the recovery of amortized cost basis, which may be upon maturity, the Company does not consider these investments to be other-than-temporarily impaired at March 31, 2019.

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

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

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 PCI loans. Purchased loans for which there was, at acquisition date, evidence of credit deterioration since their origination and it was probable that we would be unable to collect all contractually required payments are referred to as PCI loans.

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

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

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

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

At March 31, 2019 and December 31, 2018, \$3.24 billion and \$3.22 billion of commercial and residential real estate loans were pledged as collateral on FHLB borrowings and additional borrowing capacity. The Company has also pledged \$86.1 million and \$82.0 million of commercial loans to the FRB for additional borrowing capacity at March 31, 2019 and December 31, 2018, respectively.

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

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

Loans, excluding PCI loans

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

	Current Loans	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Nonaccrual Loans	Total Loans
March 31, 2019	<i>(in thousands)</i>						
Commercial business:							
Secured	\$ 3,337,206	\$ 6,848	\$ 1,603	\$ —	\$ 8,451	\$ 35,577	\$ 3,381,234
Unsecured	114,087	32	1,098	—	1,130	—	115,217
Real estate:							
One-to-four family residential	280,727	680	—	—	680	923	282,330
Commercial & multifamily residential:							
Commercial land	292,125	225	—	—	225	2,570	294,920
Income property	1,959,361	2,140	—	—	2,140	1,108	1,962,609
Owner occupied	1,627,738	1,123	75	—	1,198	9,623	1,638,559
Real estate construction:							
One-to-four family residential:							
Land and acquisition	3,619	—	—	—	—	—	3,619
Residential construction	203,318	—	—	—	—	—	203,318
Commercial & multifamily residential:							
Income property	163,674	—	—	—	—	—	163,674
Owner occupied	74,736	—	—	—	—	—	74,736
Consumer	308,069	1,234	208	—	1,442	2,814	312,325
Total	<u>\$ 8,364,660</u>	<u>\$ 12,282</u>	<u>\$ 2,984</u>	<u>\$ —</u>	<u>\$ 15,266</u>	<u>\$ 52,615</u>	<u>\$ 8,432,541</u>
	Current Loans	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Nonaccrual Loans	Total Loans
December 31, 2018	<i>(in thousands)</i>						
Commercial business:							
Secured	\$ 3,267,709	\$ 5,864	\$ 3,624	\$ —	\$ 9,488	\$ 35,504	\$ 3,312,701
Unsecured	111,868	240	—	—	240	9	112,117
Real estate:							
One-to-four family residential	233,941	694	233	—	927	1,158	236,026
Commercial & multifamily residential:							
Commercial land	283,416	—	—	—	—	2,261	285,677
Income property	1,910,505	5,009	2,241	—	7,250	2,721	1,920,476
Owner occupied	1,606,085	1,744	—	—	1,744	9,922	1,617,751
Real estate construction:							
One-to-four family residential:							
Land and acquisition	4,099	—	—	—	—	318	4,417
Residential construction	212,303	93	—	—	93	—	212,396
Commercial & multifamily residential:							
Income property	194,912	—	—	—	—	—	194,912
Owner occupied	79,805	7,258	—	—	7,258	—	87,063
Consumer	314,008	1,057	201	—	1,258	2,949	318,215
Total	<u>\$ 8,218,651</u>	<u>\$ 21,959</u>	<u>\$ 6,299</u>	<u>\$ —</u>	<u>\$ 28,258</u>	<u>\$ 54,842</u>	<u>\$ 8,301,751</u>

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

	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	
March 31, 2019	(in thousands)							
Commercial business:								
Secured	\$ 3,351,027	\$ 30,207	\$ 5,426	\$ 6,189	\$ 2,829	\$ 24,781	\$ 30,656	
Unsecured	115,199	18	—	—	—	18	18	
Real estate:								
One-to-four family residential	281,466	864	313	793	8	551	568	
Commercial & multifamily residential:								
Commercial land	292,055	2,865	—	—	—	2,865	2,909	
Income property	1,961,287	1,322	—	—	—	1,322	1,333	
Owner occupied	1,622,007	16,552	3,181	4,640	52	13,371	13,617	
Real estate construction:								
One-to-four family residential:								
Land and acquisition	3,619	—	—	—	—	—	—	
Residential construction	203,318	—	—	—	—	—	—	
Commercial & multifamily residential:								
Income property	163,674	—	—	—	—	—	—	
Owner occupied	74,736	—	—	—	—	—	—	
Consumer	308,870	3,455	2,558	2,703	22	897	1,012	
Total	\$ 8,377,258	\$ 55,283	\$ 11,478	\$ 14,325	\$ 2,911	\$ 43,805	\$ 50,113	
	Recorded Investment of Loans Collectively Measured for Contingency Provision	Recorded Investment of Loans Individually Measured for Specific Impairment	Impaired Loans With Recorded Allowance			Impaired Loans Without Recorded Allowance		
			Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	
December 31, 2018	(in thousands)							
Commercial business:								
Secured	\$ 3,286,416	\$ 26,285	\$ 6,350	\$ 8,460	\$ 2,023	\$ 19,935	\$ 24,404	
Unsecured	112,097	20	20	20	—	—	—	
Real estate:								
One-to-four family residential	235,138	888	325	798	8	563	575	
Commercial & multifamily residential:								
Commercial land	283,451	2,226	—	—	—	2,226	2,272	
Income property	1,917,522	2,954	99	165	1	2,855	3,011	
Owner occupied	1,605,042	12,709	3,231	4,666	69	9,478	9,750	
Real estate construction:								
One-to-four family residential:								
Land and acquisition	4,417	—	—	—	—	—	—	
Residential construction	212,396	—	—	—	—	—	—	
Commercial & multifamily residential:								
Income property	194,912	—	—	—	—	—	—	
Owner occupied	87,063	—	—	—	—	—	—	
Consumer	314,193	4,022	3,326	3,584	31	696	704	
Total	\$ 8,252,647	\$ 49,104	\$ 13,351	\$ 17,693	\$ 2,132	\$ 35,753	\$ 40,716	

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

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

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

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

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

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

PCI Loans

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

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

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

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

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

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

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

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

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

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

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

	Beginning Balance	Charge-offs	Recoveries	Provision (Recapture)	Ending Balance	Specific Reserve	General Allocation
Three months ended March 31, 2019							
<i>(in thousands)</i>							
Commercial business:							
Secured	\$ 43,188	\$ (1,249)	\$ 323	\$ 1,355	\$ 43,617	\$ 2,829	\$ 40,788
Unsecured	2,626	—	157	(288)	2,495	—	2,495
Real estate:							
One-to-four family residential	593	(2)	17	8	616	8	608
Commercial & multifamily residential:							
Commercial land	3,947	—	7	634	4,588	—	4,588
Income property	4,044	—	23	951	5,018	—	5,018
Owner occupied	4,533	—	1	432	4,966	52	4,914
Real estate construction:							
One-to-four family residential:							
Land and acquisition	549	—	59	(201)	407	—	407
Residential construction	5,536	(170)	1	99	5,466	—	5,466
Commercial & multifamily residential:							
Income property	5,784	—	—	(1,267)	4,517	—	4,517
Owner occupied	2,604	—	—	(384)	2,220	—	2,220
Consumer	5,301	(478)	238	484	5,545	22	5,523
PCI	3,611	(1,089)	705	18	3,245	—	3,245
Unallocated	1,053	—	—	(479)	574	—	574
Total	<u>\$ 83,369</u>	<u>\$ (2,988)</u>	<u>\$ 1,531</u>	<u>\$ 1,362</u>	<u>\$ 83,274</u>	<u>\$ 2,911</u>	<u>\$ 80,363</u>
	Beginning Balance	Charge-offs	Recoveries	Provision (Recapture)	Ending Balance	Specific Reserve	General Allocation
Three months ended March 31, 2018							
<i>(in thousands)</i>							
Commercial business:							
Secured	\$ 29,341	\$ (2,414)	\$ 553	\$ 9,851	\$ 37,331	\$ 5,657	\$ 31,674
Unsecured	2,000	(63)	249	409	2,595	2	2,593
Real estate:							
One-to-four family residential	701	—	172	(315)	558	22	536
Commercial & multifamily residential:							
Commercial land	4,265	—	6	(526)	3,745	—	3,745
Income property	5,672	(223)	141	(888)	4,702	—	4,702
Owner occupied	5,459	—	12	(722)	4,749	5	4,744
Real estate construction:							
One-to-four family residential:							
Land and acquisition	963	—	16	(67)	912	—	912
Residential construction	3,709	—	3	924	4,636	—	4,636
Commercial & multifamily residential:							
Income property	7,053	—	—	421	7,474	—	7,474
Owner occupied	4,413	—	—	(2,490)	1,923	—	1,923
Consumer	5,163	(264)	260	57	5,216	171	5,045
PCI	6,907	(1,343)	1,224	(1,123)	5,665	—	5,665
Unallocated	—	—	—	321	321	—	321
Total	<u>\$ 75,646</u>	<u>\$ (4,307)</u>	<u>\$ 2,636</u>	<u>\$ 5,852</u>	<u>\$ 79,827</u>	<u>\$ 5,857</u>	<u>\$ 73,970</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			
	March 31,			
	2019		2018	
	(in thousands)			
Balance at beginning of period	\$	4,330	\$	3,130
Net changes in the allowance for unfunded commitments and letters of credit		(550)		1,200
Balance at end of period	\$	3,780	\$	4,330

Risk Elements

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

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

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

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

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
March 31, 2019						
<i>(in thousands)</i>						
Loans, excluding PCI loans:						
Commercial business:						
Secured	\$ 3,217,555	\$ 58,919	\$ 104,760	\$ —	\$ —	\$ 3,381,234
Unsecured	115,089	26	102	—	—	115,217
Real estate:						
One-to-four family residential	281,107	—	1,223	—	—	282,330
Commercial and multifamily residential:						
Commercial land	286,993	2,472	5,455	—	—	294,920
Income property	1,918,999	1,560	42,050	—	—	1,962,609
Owner occupied	1,578,780	13,724	46,055	—	—	1,638,559
Real estate construction:						
One-to-four family residential:						
Land and acquisition	3,619	—	—	—	—	3,619
Residential construction	203,318	—	—	—	—	203,318
Commercial and multifamily residential:						
Income property	163,674	—	—	—	—	163,674
Owner occupied	74,148	—	588	—	—	74,736
Consumer	307,950	—	4,375	—	—	312,325
Total	\$ 8,151,232	\$ 76,701	\$ 204,608	\$ —	\$ —	8,432,541
Less:						
ALLL						80,029
Loans, excluding PCI loans, net						\$ 8,352,512
December 31, 2018						
<i>(in thousands)</i>						
Loans, excluding PCI loans:						
Commercial business:						
Secured	\$ 3,160,910	\$ 48,779	\$ 103,007	\$ 5	\$ —	\$ 3,312,701
Unsecured	112,091	21	—	5	—	112,117
Real estate:						
One-to-four family residential	234,416	—	1,610	—	—	236,026
Commercial and multifamily residential:						
Commercial land	276,348	5,082	4,247	—	—	285,677
Income property	1,876,925	36,998	6,553	—	—	1,920,476
Owner occupied	1,556,852	14,964	45,935	—	—	1,617,751
Real estate construction:						
One-to-four family residential:						
Land and acquisition	4,099	—	318	—	—	4,417
Residential construction	212,225	—	171	—	—	212,396
Commercial and multifamily residential:						
Income property	194,912	—	—	—	—	194,912
Owner occupied	87,063	—	—	—	—	87,063
Consumer	313,817	—	4,398	—	—	318,215
Total	\$ 8,029,658	\$ 105,844	\$ 166,239	\$ 10	\$ —	8,301,751
Less:						
ALLL						79,758
Loans, excluding PCI loans, net						\$ 8,221,993

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

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

6. Other Real Estate Owned

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

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

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

7. Goodwill and Other Intangible Assets

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

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

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

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

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

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

8. Subordinated Debentures

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

9. Junior Subordinated Debentures

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

10. Derivatives, Hedging Activities and Balance Sheet Offsetting

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

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

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

In addition, the Company periodically enters into certain commercial loan interest rate swap agreements in order to provide commercial loan customers the ability to convert from variable to fixed interest rates. Under these agreements, the Company enters into a variable-rate loan agreement with a customer in addition to a swap agreement. This swap agreement effectively converts the customer's variable rate loan into a fixed rate. The Company then enters into a corresponding swap agreement with a third-party in order to offset its exposure on the variable and fixed components of the customer agreement. As the interest rate swap agreements with the customers and third parties are not designated as hedges under the Derivatives and Hedging topic of the FASB ASC, the instruments are marked to market in earnings. The notional amount of open interest rate swap agreements at March 31, 2019 and December 31, 2018 was \$369.8 million and \$366.7 million, respectively. During the three months ended March 31, 2019, there was no mark-to-market gain or loss recorded to "Other" noninterest expense. During the three months ended March 31, 2018, a mark-to-market gain of \$6 thousand was recorded to "Other" noninterest expense.

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

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

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

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

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

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

	Gross 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		
March 31, 2019	(in thousands)									
Assets										
Interest rate swap contracts	\$	8,815	\$	—	\$	8,815	\$	—	\$	8,815
Interest rate collar	\$	6,268	\$	—	\$	6,268	\$	—		6,268
Liabilities										
Interest rate swap contracts	\$	8,815	\$	—	\$	8,815	\$	(5,573)	\$	3,242
Repurchase agreements	\$	23,018	\$	—	\$	23,018	\$	(23,018)	\$	—
December 31, 2018										
Assets										
Interest rate swap contracts	\$	7,033	\$	—	\$	7,033	\$	—	\$	7,033
Liabilities										
Interest rate swap contracts	\$	7,033	\$	—	\$	7,033	\$	(3,235)	\$	3,798
Repurchase agreements	\$	61,094	\$	—	\$	61,094	\$	(61,094)	\$	—

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

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

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

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

11. Commitments and Contingent Liabilities

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

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

Item	Balance Sheet Location	March 31, 2019
		(in thousands)
Operating lease asset	Other assets	\$ 48,211
Operating lease liability	Other liabilities	\$ 54,246

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

The following table shows the components of net lease costs:

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

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

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

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

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

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

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

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

12. Shareholders' Equity

Dividends:

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

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

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

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

13. Accumulated Other Comprehensive Income

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

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

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

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

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

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

14. Fair Value Accounting and Measurement

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

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

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

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

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

Fair values are determined as follows:

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

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

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

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

There were no transfers between Level 1 and Level 2 of the valuation hierarchy during the three month periods ended March 31, 2019 and 2018. The Company recognizes transfers between levels of the valuation hierarchy based on the valuation level at the end of the reporting period.

Nonrecurring Measurements

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

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

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

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

	Fair Value at March 31, 2019	Fair Value Measurements at Reporting Date Using			Losses During the Three Months Ended March 31, 2019
		Level 1	Level 2	Level 3	
		(in thousands)			
Impaired loans	\$ 3,840	\$ —	\$ —	\$ 3,840	\$ 2,597
OREO	530	—	—	530	195
	<u>\$ 4,370</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 4,370</u>	<u>\$ 2,792</u>

	Fair Value at March 31, 2018	Fair Value Measurements at Reporting Date Using			Losses During the Three Months Ended March 31, 2018
		Level 1	Level 2	Level 3	
		(in thousands)			
Impaired loans	\$ 7,820	\$ —	\$ —	\$ 7,820	\$ 5,058
OREO	160	—	—	160	51
	<u>\$ 7,980</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 7,980</u>	<u>\$ 5,109</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 ALLL. The losses on OREO disclosed above represent the write-downs taken at foreclosure that were charged to the ALLL, as well as subsequent changes in any valuation allowances from updated appraisals that were recorded to earnings.

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

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

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

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

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

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

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

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

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

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

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

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

15. Earnings Per Common Share

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

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

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

16. Revenue from Contracts with Customers

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

- a. Revenue earned at a point in time - Examples of revenue earned at a point in time are ATM transaction fees, wire transfer fees, overdraft fees, interchange fees and foreign exchange transaction fees. Revenue is primarily based on the number and type of transactions and is generally derived from transactional information accumulated by our systems and is recognized immediately as the transactions occur or upon providing the service to complete the customer's transaction. The Company is the principal in each of these contracts, with the exception of interchange fees, in which case we are acting as the agent and record revenue net of expenses paid to the principal.
- b. Revenue earned over time - The Company earns revenue from contracts with customers in a variety of ways where the revenue is earned over a period of time - generally monthly. Examples of this type of revenue are deposit account maintenance fees, investment advisory fees, merchant revenue and safe deposit box fees. Revenue is generally derived from transactional information accumulated by our systems or those of third-parties and is recognized as the related transactions occur or services are rendered to the customer.

The Company recognizes revenue from contracts with customers when it satisfies its performance obligations. The Company's performance obligations are typically satisfied as services are rendered and our contracts generally do not include multiple performance obligations. As a result, there are no contract balances as payments and services are rendered simultaneously. Payment is generally collected at the time services are rendered, monthly or quarterly. Unsatisfied performance obligations at the report date are not material to our consolidated financial statements.

In certain cases, other parties are involved with providing products and services to our customers. If the Company is principal in the transaction (providing goods or services itself), revenues are reported based on the gross consideration received from the customer and any related expenses are reported gross in noninterest expense. If the Company is an agent in the transaction (arranging for another party to provide goods or services), the Company reports its net fee or commission retained as revenue.

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

Practical expedients

The Company applies the practical expedient in paragraph 606-10-32-18 and does not adjust the consideration from customers for the effects of a significant financing component if at contract inception the period between when the entity transfers the goods or services and when the customer pays for that good or service will be one year or less.

The Company pays sales commissions to its employees in accordance with certain incentive plans and in connection with obtaining certain contracts with customers. The Company applies the practical expedient in paragraph 340-40-25-4 and expenses such sales commissions when incurred if the amortization period of the asset the Company otherwise would have recognized is one year or less. Sales commissions are included in compensation and employee benefits expense.

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

Disaggregation of revenue

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

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

Item 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, 2018 audited Consolidated Financial Statements and its accompanying notes included in our Annual Report on Form 10-K. In the following discussion, unless otherwise noted, references to increases or decreases in average balances in items of income and expense for a particular period and balances at a particular date refer to the comparison with corresponding amounts for the period or date one year earlier.

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

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

CRITICAL ACCOUNTING POLICIES

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

RESULTS OF OPERATIONS

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

Earnings Summary

Comparison of current quarter to prior year period

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

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

Noninterest income for the current quarter was \$21.7 million, a decrease of \$1.4 million from the prior year period. The decrease was primarily due to lower card revenue during the quarter as we became subject to the interchange fee cap imposed under the Dodd-Frank Act. In addition, loan revenue decreased compared to the first quarter of 2018. Partially offsetting these decreases was a \$1.8 million gain on the sale of securities during the quarter.

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

Net Interest Income

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

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

- (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 \$2.2 million for the three months ended March 31, 2019 and 2018. The incremental accretion income on acquired loans was \$2.0 million and \$3.7 million for the three months ended March 31, 2019 and 2018, respectively.
- (2) Tax-exempt income is calculated on a tax equivalent basis. The tax equivalent yield adjustment to interest earned on loans was \$1.3 million and \$1.1 million for the three months ended March 31, 2019 and 2018, respectively. The tax equivalent yield adjustment to interest earned on tax exempt securities was \$789 thousand and \$814 thousand for the three month periods ended March 31, 2019 and 2018, respectively.
- (3) Beginning January 2019, average rates were calculated using the actual number of days on an Actual/Actual basis. This change was done to provide more meaningful trend information, on a quarterly basis, for our NIM regardless of the number of days in the quarter. Prior periods, which were previously reported on a 30/360 basis, have been restated to conform to the current basis.

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 March 31, 2019 Compared to 2018 Increase (Decrease) Due to			
	Volume	Rate	Total
<i>(in thousands)</i>			
Interest Income			
Loans, net	\$ 727	\$ 4,897	\$ 5,624
Taxable securities	3,045	1,662	4,707
Tax exempt securities	(160)	40	(120)
Interest earning deposits with banks	(392)	135	(257)
Interest income	<u>\$ 3,220</u>	<u>\$ 6,734</u>	<u>\$ 9,954</u>
Interest Expense			
Deposits:			
Certificates of deposit	\$ (88)	\$ 138	\$ 50
Savings accounts	1	2	3
Interest-bearing demand	2	416	418
Money market accounts	(69)	1,587	1,518
Total interest on deposits	<u>(154)</u>	<u>2,143</u>	<u>1,989</u>
FHLB advances	1,991	124	2,115
Other borrowings and interest-bearing liabilities	(22)	121	99
Interest expense	<u>\$ 1,815</u>	<u>\$ 2,388</u>	<u>\$ 4,203</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 March 31,		
	2019	2018
<i>(dollars in thousands)</i>		
Incremental accretion income due to:		
FDIC PCI loans	\$ 288	\$ 329
Other acquired loans	1,747	3,370
Incremental accretion income	<u>\$ 2,035</u>	<u>\$ 3,699</u>
Net interest margin (tax equivalent) (1)		
	4.32%	4.28%
Operating net interest margin (1)(2)		
	4.33%	4.24%

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

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

Comparison of current quarter to prior year period

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

Provision for Loan and Lease Losses

Comparison of current quarter to prior year period

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

Noninterest Income

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

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

Comparison of current quarter to prior year period

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

Noninterest Expense

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

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

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

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

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

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

Comparison of current quarter to prior year period

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

Income Taxes

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

FINANCIAL CONDITION

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

Investment Securities

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

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

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

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

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

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

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

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

Credit Risk Management

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

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

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

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

Loan Portfolio Analysis

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

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

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

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

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

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

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

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

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

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

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

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

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

Nonperforming Assets

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

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

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

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

Allowance for Loan and Lease Losses

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

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

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

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

Liquidity and Sources of Funds

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

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

Deposit Activities

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

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

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

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

Borrowings

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

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

Contractual Obligations, Commitments & Off-Balance Sheet Arrangements

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

Capital Resources

Shareholders' equity at March 31, 2019 was \$2.09 billion, compared to \$2.03 billion at December 31, 2018. Shareholders' equity was 16% of total period-end assets at both March 31, 2019 and December 31, 2018.

Regulatory Capital

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

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

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

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

Stock Repurchase Program

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

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

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

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

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

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

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

Item 1A. RISK FACTORS

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

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

- (a) Not applicable
- (b) Not applicable
- (c) The following table provides information about repurchases of common stock by the Company during the quarter ended March 31, 2019:

Period	Total Number of Common Shares Purchased (1)	Average Price Paid per Common Share	Total Number of Shares Purchased as Part of Publicly Announced Plan (2)	Maximum Number of Remaining Shares That May Yet Be Purchased Under the Plan (2)
1/1/2019 - 1/31/2019	377	\$ 36.65	—	2,900,000
2/1/2019 - 2/28/2019	156	36.32	—	2,900,000
3/1/2019 - 3/31/2019	63,803	37.81	—	2,900,000
	64,336	\$ 37.80	—	

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

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

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS

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

** Management contract or compensatory plan or arrangement

+ Filed herewith

SIGNATURES

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

COLUMBIA BANKING SYSTEM, INC.

Date: May 3, 2019

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

Date: May 3, 2019

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

Date: May 3, 2019

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

**COLUMBIA STATE BANK
CHANGE IN CONTROL AGREEMENT**

THIS CHANGE IN CONTROL AGREEMENT ("Agreement") is made and entered into effective this 24th day of October 2017, by and between COLUMBIA STATE BANK, a Washington banking corporation (the "Bank") and wholly owned subsidiary of Columbia Banking System, Inc. ("CBSI" and, together with the Bank, the "Company") and Clint Stein ("Employee").

Recitals

A. The Bank currently receives the exclusive services of Employee as its employee, and Employee desires that this employment relationship continue.

B. The Bank desires to provide a severance benefit to Employee (i) to encourage Employee to continue employment with the Bank; (ii) to continue obtaining Employee's services in the event of a potential Change in Control (as defined below) of CBSI that may be detrimental to Employee; and (iii) to allow CBSI to maximize the benefits obtainable by its shareholders from any Change in Control.

In consideration of the mutual promises, covenants, agreements and undertakings contained in this Agreement, the parties hereby contract and agree as follows:

Agreement

1. ***Term.*** The term of this Agreement ("Term") shall commence as of the date first above written and shall end on the earlier of the termination of Employee's employment in a manner that does not constitute a Termination Event or on the fifth anniversary of the date first above written, unless extended in writing by the parties.

2. ***Severance Benefit.*** In the case of a Termination Event, as defined in Section 4, (i) the Bank shall pay to Employee all salary and benefits earned through the effective date of Employee's termination and a severance benefit ("Severance Benefit") in an amount equal to two times the amount of Employee's then-current annual base salary, and (ii) vesting of any stock options and lapse of all restrictions with respect to any restricted stock awards shall occur. Payment of the Severance Benefit shall begin, and vesting and lapse of restrictions described in the preceding sentence shall occur, (i) in the case of a Termination Event described in paragraph 4.1, upon the effective date of termination, and (ii) in the case of a Termination Event described in paragraph 4.2, upon the effective date of the Change in Control which is then pending (or announced within sixty days of the date when the Employee's employment terminated). The Severance Benefit shall be paid over a two year period in equal monthly payments without interest on the last day of each month, beginning with the month in which the Termination Event described in paragraphs 4.1 or 4.2, as the case may be, occurs.

3. ***Other Compensation and Terms of Employment.*** Except with respect to the Severance Benefit, this Agreement shall have no effect on the determination of any compensation payable by the Bank to the Employee, or upon any of the other terms of Employee's employment with the Bank.

4. ***Termination Events.*** A Termination Event shall be deemed to occur upon, and only upon, one or more of the following:

4.1 Termination of Employee's employment by the Bank without Cause (as defined below) or by Employee for Good Reason (as defined below) within 365 days following the effective date of a Change in Control; or

4.2 Termination of Employee's employment by the Bank without Cause prior to a Change in Control if such termination occurs at any time from and after sixty days prior to the public announcement by the CBSI or any other party of a transaction which will result in a Change in Control; provided that the effective date of the Change in Control occurs within eighteen (18) months of Employee's termination.

5. ***Restrictive Covenant.***

5.1 ***Non-competition.*** Employee agrees that, during Employee's employment with the Bank or any of its affiliates, and for a period of two years after commencement of the payment to Employee of the Severance Benefit, Employee will not directly or indirectly, be employed by, perform services for, or act directly or indirectly as an employee, agent, stockholder (other than passive holdings of less than two percent (2%) of the outstanding shares of a publicly-traded company), member, officer, director, co-partner, advisor, or in any other individual or representative capacity, on behalf of a Conflicting Organization in the Bank's Market Area (each capitalized term as defined below); provided that Employee's covenant not to compete as set forth herein shall terminate in the event Employee waives the right to payment of any balance of the Severance Benefit then payable. The provisions restricting competition by Employee may be waived in writing by action of the Board (or designee). Employee acknowledges that the Company currently has operations in various counties within the states of Washington, Idaho and Oregon, that the Company plans to continue to expand its operations and presence within these states and other states, and that as a member of the Company's senior management, Employee's services are integral to these operations and expansion plans. Employee recognizes and agrees that any breach of this covenant by Employee will cause immediate and irreparable injury to the Company, and Employee hereby authorizes recourse by the Bank or CBSI to injunction and/or specific performance, as well as to other legal or equitable remedies to which either may be entitled.

5.2 ***Non-interference.*** During the non-competition period described in Section 5.1, Employee shall not (a) solicit or attempt to solicit any other employee of the Company to leave the employ of the Company, or in any way interfere with the relationship between the Company and any other employee of the Company, (b) solicit or attempt to solicit any customer of the Company to cease doing business with the Company or to otherwise divert such customer's business from the Company, or (c) solicit or attempt to solicit any supplier, licensee, or other business relations of the Company to cease doing business with the Company. Solicitation prohibited under this Paragraph 5.2 includes solicitation by any means, including, without limitation, meetings, phone calls, letters or other mailings, and electronic and internet communications of any kind, or any other type of conduct intended or reasonably calculated to induce or urge a client, customer, or employee to discontinue, in whole or in part, its employment or business relationship with the Bank.

5.3 ***Confidentiality.*** Unless disclosure is otherwise required by legal or regulatory requirements, Employee shall keep all terms of this Agreement, including the existence of this Agreement and the amount of the Severance Benefit, strictly confidential. Employee shall keep this Agreement in a private location and shall use his or her best efforts to prevent this Agreement from being seen by others, including co-workers.

6. *Definitions.*

6.1 ***Bank's Market Area.*** "Bank's Market Area" shall include the following locations, either during Employee's employment or at the time of Employee's termination from employment: (a) any counties in the States of Washington, Idaho and Oregon in which the Bank (or any Bank subsidiary, affiliate, related business entity, successor, or assign) maintains a branch or other office, and all counties bordering on any such county, or (b) any counties in other States in which the Bank (or any Bank subsidiary, affiliate, related business entity, successor, or assign) maintains a branch or other office, and all counties bordering on any such county, or (c) any other county in which the Bank or an affiliate or related business entity has bona fide documented plans to establish a branch or office, as demonstrated by minutes of board of director meetings, regulatory correspondence, or other written communications with third parties (including legal or financial advisers) with respect to such geographic expansion, and of which Employee is aware due to his employment with the Bank.

6.2 ***Cause.*** "Cause" shall mean only (i) willful misfeasance or gross negligence in the performance of Employee's duties, (ii) conduct demonstrably and significantly harmful to the Bank (which would include willful violation of any final cease and desist order applicable to the Bank), or (iii) conviction of a felony.

6.3 ***Change in Control.*** "Change in Control" shall mean the occurrence of one or more of the following events:

6.3.1 A person, or more than one person acting as a group (as defined in IRC 409A), acquires ownership of stock in CBSI or the Bank that, together with stock held by such person or group, constitutes more than fifty percent (50%) of the total fair market value or total voting power of the stock of, respectively, CBSI or the Bank;

6.3.2 A person, or more than one person acting as a group, acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or group) ownership of stock in CBSI or the Bank that comprises thirty percent (30%) or more of the total voting power of the stock of, respectively, CBSI or the Bank;

6.3.3 A majority of the members of the board of directors of either CBSI or the Bank is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the such board of directors before the date of the appointment or election; or

6.3.4 A person, or more than one person acting as a group, acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) assets from CBSI or the Bank that have a total gross fair market value equal to or more than forty percent (40%) of the total gross fair market value of all of the assets of, respectively, CBSI or the Bank immediately before such acquisition or acquisitions. No Change in Control shall result if the assets are transferred to certain entities controlled directly or indirectly by the shareholders of the transferring entity.

This definition of "Change in Control" is intended to comply with, and shall be interpreted in a manner consistent with, the requirements of Section 409A of the U.S. Internal Revenue Code of 1986, as amended, as U.S. Treasury regulation issued thereunder.

6.4 ***Conflicting Organization.*** "Conflicting Organization" shall mean any person, entity, or organization engaged (or about to become engaged) in a business similar to, or that competes

with, the business of the Bank in the Bank's Market Area, including without limitation any bank or financial institution (including without limitation any trust company, finance company, or leasing company) in the Bank's Market Area.

6.5 **Good Reason.** "Good Reason" shall mean (i) a material diminution in Employee's base compensation, (ii) a material diminution in Employee's authority, duties or responsibilities, or (iii) a material change in the geographic location at which Employee must perform services (within the meaning of Treasury Regulations Section 1.409A-1(n)(2)(ii)(A)(5)), provided that in no event shall a change in geographic location of less than 45 miles be considered a material change in geographic location for purposes of this Agreement.

6.6 **Termination of Employment.** "Termination," when used in reference to termination of employment, shall mean "separation from service," as defined in Section 409A of the U.S. Internal Revenue Code of 1986, as amended, as U.S. Treasury regulation issued thereunder.

7. **Specified Employee - Delay in Payments.** If Employee is a "specified employee," then amounts payable to him under this Agreement on account of a "separation from service" that could cause him to be subject to the gross income inclusion, interest and additional tax provisions of U.S. Internal Revenue Code § 409A(a)(1) shall not be paid until after the end of the sixth calendar month beginning after such separation from service (the "Suspension Period"). Within fourteen (14) calendar days after the end of the Suspension Period, the Company shall make a lump sum payment to Employee in cash in an amount equal to the sum of all payments delayed because of the preceding sentence. Thereafter, Employee shall receive any remaining payments under this Agreement as if the immediately preceding provisions of this Paragraph 7 were not a part of the Agreement. For purposes of this Agreement, the terms "specified employee" and "separation from service" shall have the meanings given to those terms in U.S. Internal Revenue Code § 409A and the Treasury regulations issued thereunder."

8. **Miscellaneous.**

8.1 **Amendment.** This Agreement may be modified or amended only upon amendment in writing signed by both parties. Employee and the Company understand, acknowledge, and agree that Employee and the Bank or CBSI have entered into other agreements which contain either change-in-control terms or restrictive covenants, including without limitation a Supplemental Compensation Agreement (and any amendments or restatements thereto). The parties understand, acknowledge, and agree that the terms of this Agreement are not intended by Employee, the Bank or CBSI, and shall not be interpreted by any party, court or arbitrator, to supercede, modify, amend, change, negate, cancel or render null or void any other change-in-control terms or restrictive covenants between the parties contained in any other agreements, including without limitation, any change-in-control terms or restrictive covenants contained in the Supplemental Compensation Agreement (or any amendments or restatements thereof).

8.2 **Binding Effect.** This Agreement shall bind and inure to the benefit of the heirs, legal representatives, successors, and assign of the parties.

8.3 **Enforceability.** If an arbitrator or a court of competent jurisdiction shall find any provision of this Agreement illegal or unenforceable, the arbitrator or court may reform such provision to the extent necessary to render the otherwise unenforceable provision, and the rest of the Agreement, valid and enforceable, and so as to permit maximum restrictions that are legal and enforceable to be applied to the Employee's ability to compete with the Bank. If an arbitrator or court declines to amend any such provision as provided herein, the invalidity or unenforceability of any such provision shall not affect the

validity or enforceability of the remaining provisions, which shall be enforced as if the offending provision had not been included in this Agreement.

8.4 **Governing Law; Venue.** This Agreement is made with reference to and is intended to be construed in accordance with the laws of the State of Washington. Venue for any action arising out of or concerning this Agreement shall lie in Pierce County, Washington. In the event of a dispute under this Agreement, the disputes shall be arbitrated pursuant to the Superior Court Mandatory Arbitration Rules ("MAR") adopted by the Washington State Supreme Court, irrespective of the amount in controversy. This Agreement shall be deemed as stipulation to that effect pursuant to MAR 1.2 and 8.1. The arbitrator, in his or her discretion, may award attorney's fees to the prevailing party or parties.

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

Company: Columbia Bank
1301 'A' Street, Ste. 900
Tacoma, WA 98402-4200
Attn: (Corporate Secretary)

Employee: Clint Stein

IN WITNESS WHEREOF, the parties have executed this Agreement effective on the date first above written.

BANK: COLUMBIA STATE BANK

By /s/ HADLEY ROBBINS
Hadley Robbins
President and CEO

EMPLOYEE:

By /s/ CLINT STEIN
Clint Stein
EVP, Chief Operating Officer

**COLUMBIA STATE BANK
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN AGREEMENT
(By and Between Columbia State Bank and Lisa Dow)**

ARTICLE I

PURPOSE AND EFFECTIVE DATE

This Columbia State Bank Supplemental Executive Retirement Plan Agreement (hereinafter "Agreement"), entered into this March 11, 2018 by and between **Columbia State Bank** ("Bank" "Employer") and **Lisa Dow** ("Executive" or "Participant").

The purpose of the Columbia State Bank Supplemental Executive Retirement Plan ("Plan"), as evidenced by this Agreement, is to provide supplemental retirement benefits for certain key employees of Columbia State Bank. It is intended that the Plan will aid in retaining and attracting individuals of exceptional ability by providing them with these benefits.

WHEREFORE, the Bank and Executive hereby agree to the following;

ARTICLE II

DEFINITIONS

For the purposes of this Agreement, the following terms shall have the meanings indicated, unless the context clearly indicates otherwise. Furthermore, in the event of any ambiguity or in the event any clarification is required, the below terms shall be interpreted in a manner consistent with Internal Revenue Code Section 409A.

2.1 Actuarial Equivalent. The term "Actuarial Equivalent" means equivalence in value between two (2) or more forms and/or times of payment based on a determination by an actuary chosen by the Committee, utilizing the "applicable interest rate" specified by Internal Revenue Code Section 417(e)(3)(C) as of the date of Executive's Separation of Service or Disability, and the "applicable mortality table" specified in Code Section 417(e)(3)(B).

2.2 Administrator. The Bank shall be the "Administrator" and, solely for the purposes of ERISA (as defined below), the "fiduciary" of this Agreement where a fiduciary is required by ERISA.

2.3 Applicable Percentage. The term "Applicable Percentage" is the percentage of the Executive Benefit to which Executive may be entitled based on (a) the date on which the Executive Separates From Service or Terminates Employment with the Bank or (b) the circumstances described herein. The actual Executive Benefit to which Executive is entitled will be determined based on both the date of Separation From Service (or Disability) and the circumstances of such Separation From Service. While the following chart reflects the Applicable Percentage as of the specified date for the given year, it is the intent of the parties that a Separation From Service at any time during the calendar year shall result in a pro-rated

increase in the Applicable Percentage using a methodology which is consistent with the reduction under Paragraph 2.13. Subject to the forgoing, the Applicable Percentage shall be determined as follows:

DATE OF SEPARATION FROM SERVICEAPPLICABLE PERCENTAGE

March 11, 2018 through March 10, 2021	0%
March 11, 2021	15%
March 11, 2022	20%
March 11, 2023	25%
March 11, 2024	30%
March 11, 2025	35%
March 11, 2026	40%
March 11, 2027	45%
March 11, 2028	50%
March 11, 2029	55%
March 11, 2030	60%
March 11, 2031	65%
March 11, 2032	70%
March 11, 2033	75%
March 11, 2034	80%
March 11, 2035	85%
March 11, 2036	90%
March 11, 2037	95%
March 11, 2038	100%

2.4 Base Salary. "Base Salary" shall mean the regular cash compensation actually paid to Executive for services rendered or labor performed by Executive during a given calendar year, excluding bonuses, commissions, overtime, incentive payments, non-monetary awards. This amount shall include amounts Executive could have received in cash in lieu of (i) contributions made on Executive's behalf to a qualified plan maintained by the Bank or to any cafeteria plan under Section 125 of the Code maintained by Employer and (ii) deferrals of compensation made at the Executive's election pursuant to a plan or arrangement of the Employer.

2.5 Beneficiary(ies). The individual(s) or entities designated to receive any Executive Benefit due upon the death of the Executive. The Beneficiary(ies) shall be designated in accordance with the provisions of Article IX.

2.6 Board. "Board" means the Board of Directors of Columbia State Bank.

2.7 Change in Control. For the purposes of this Agreement, a Change in Control shall be defined in a manner consistent with IRC 409A. Currently IRC provides a definition consistent with the following (and for the purposes of this provision, the term "corporation" shall mean Columbia State Bank):

A. Change in the Ownership of a Corporation. A change in the ownership of

a corporation occurs on the date that any one person or persons acting as a group (as defined in IRC 409A), acquires ownership of stock of the corporation that, together with stock held by such person or group, constitutes more than fifty percent (50%) of the total fair market value or total voting power of the stock of such corporation. The acquisition of additional stock by the same person or group is not considered to cause a change in the ownership of the corporation.

B. Change in the Effective Control of a Corporation. A change in the effective control of the corporation shall be deemed to occur on either of the following dates:

- (1) The date any one person, or persons acting as a group acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by such person or group) ownership of stock of the corporation possessing thirty percent (30%) or more of the total voting power of the stock of such corporation; or
- (2) The date a majority of members of the corporation's board of directors is replaced during any twelve (12) month period by directors whose appointment or election is not endorsed by a majority of the members of the corporation's board of directors before the date of the appointment or election.

C. Change in the Ownership of a Substantial Portion of a Corporation's Assets. A change in the ownership of a substantial portion of a corporation's assets shall be deemed to occur on the date that any one person or group acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by such person or persons) assets from the corporation that have a total gross fair market value equal to or more than forty percent (40%) of the total gross fair market value of all of the assets of the corporation immediately before such acquisition or acquisitions. No Change in Control shall result if the assets are transferred to certain entities controlled directly or indirectly by the shareholders of the transferring corporation.

In addition, to constitute a change in control event with respect to the Executive, the change in control event must relate to (i) the corporation for whom Executive is performing services at the time of the Change in Control; (ii) The corporation that is liable for the payment of the amounts described herein (or all corporations liable for the payment if more than one corporation is liable) but only if either the deferred compensation is attributable to the performance of service by the Executive for such corporation(s) or there is a bona fide business purpose for such corporation(s) to be liable for such payment and, in either case, no significant purpose of making such corporation(s) liable for such payment is the avoidance of Federal income tax; or (iii) a corporation that is a majority shareholder of a corporation identified in (i) or (ii) above, or any corporation in a chain of corporations in which each corporation is a

majority shareholder of another corporation in the chain, ending in a corporation identified in (i) or (ii) above.

2.8 The Code. The "Code" shall mean the Internal Revenue Code of 1986, as amended.

2.9 Committee. The term "Committee" means the Compensation Committee of the Board of Directors of Columbia State Bank.

2.10 Competitive Activity. For the purposes of this Agreement, "Competitive Activity" is defined as acting directly or indirectly as an employee, agent, stockholder (other than passive holdings of less than two percent (2%) of the outstanding shares of a publicly-traded company), member, officer, director, co-partner, advisor, or in any other individual or representative capacity, on behalf of any "Conflicting Organization."

2.11 Conflicting Organization. For purposes of this Agreement, "Conflicting Organization" is defined as any person, entity, or organization engaged (or about to become engaged) in a business similar to, or that competes with, the business of Employer, including without limitation any bank or financial institution (including without limitation any trust company, finance company, or leasing company).

2.12 Disability/Disabled. For the purposes of this Agreement, Executive will be considered Disabled if it is determined (in a manner consistent with IRC 409A) that Executive is Disabled within the meaning of IRC 409A. IRC 409A currently provides the following definition of Disability:

- A. The Executive is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months; or
- B. The Executive is, by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan covering employees of the Employer's employer.

In the event a disability policy has been purchased by Employer for Executive, then the individual or entity responsible for determining such disability thereunder shall determine Executive's Disability under this Agreement (using the forgoing Disability definition). In the event no such disability policy exists, then the Plan Administrator shall make a good faith determination of Disability in a manner consistent with that required under IRC 409A.

2.13 Early Commencement Reduction Factor. The term "Early Commencement Reduction Factor" is the amount by which an Executive Benefit shall be reduced based on the benefit being paid prior to Executive's attainment of the Normal Retirement Age. The amount

of the Early Commencement Reduction Factor shall be determined as follows: for each year (or partial year) that an Executive's benefit hereunder is paid prior to his attainment of the Normal Retirement Age, then the benefit amount shall be reduced, on a pro rata basis, by a factor of five percent (5%). Thus, if an executive with a Normal Retirement Age of sixty-five (65) begins receiving payments at age sixty-two and one half (62 ½), the amount of the annual benefit shall be reduced by 12.5% ($65 - 62 \frac{1}{2} = 2.5$; $2.5 \times 5\% = 12.5\%$).

2.14 Early Retirement Age. The "Early Retirement Age" shall be age sixty-two (62).

2.15 Effective Date. The term "Effective Date" shall mean the date first written above.

2.16 Employer or Bank. The term "Employer" or "Bank" shall mean Columbia State Bank, any subsidiaries or affiliates thereof, or any successors thereto.

2.17 Employer's Market Area. For the purposes of this Agreement, "Employer's Market Area" is defined as including the following locations, either during Executive's employment or at the time of Executive's Separation From Service or Disability:

- A. Any counties in the States of Washington, Oregon or Idaho in which Employer maintains a branch or other office, and all counties bordering on any such county, or
- B. Any counties in other States in which Employer maintains a branch or other office at the time of Executive's Separation From Service or Disability, and all counties bordering on any such county, or
- C. Any other county in which Employer has bona fide documented plans to establish a branch or office, as demonstrated by minutes of board of director meetings, regulatory correspondence, or other written communications with third parties (including legal or financial advisers) with respect to such geographic expansion, and of which Executive is aware due to his employment with Employer.

Executive acknowledges that Employer currently has operations in various counties within the states of Washington, Oregon or Idaho that Employer plans to continue to expand its operations and presence within these states and other states, and that as a member of Employer's senior management, Executive's services are integral to these operations and expansion plans.

2.18 ERISA. The term "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

2.19 Executive Benefit. For the purposes of this Agreement, then term "Executive Benefit" shall refer to the annual amount to which Executive is entitled to receive pursuant to this Agreement. In addition, where the Executive Benefit is defined in terms of a lifetime annuity, Executive shall have the right under IRC 409A to elect an alternate annuity payment method, as specified herein. Amounts actually received by the Executive, however, shall be determined pursuant to Articles IV-VI, forfeited, reduced or adjusted to the extent: (a) required

under the other provisions of this Agreement; (b) required by reason of the lawful order of any regulatory agency or body having jurisdiction over Employer; or (c) required in order for Employer to comply with any and all applicable state and federal laws, including, but not limited to, income, employment and disability income tax laws (*e.g.*, FICA, FUTA, SDI).

2.20 Involuntary Termination/ Involuntary Separation From Service. The terms “Involuntary Termination” or “Involuntary Separation From Service” shall be defined as it is in IRC 409A, which currently provides that an “Involuntary” Termination shall mean a Separation From Service due to the independent exercise of the unilateral authority of the Employer to terminate the Executive’s services, other than due to the Executive’s implicit or explicit request, where the Executive was willing and able to continue performing services (and not as the result of a Disability of a Termination for Cause).

2.21 IRC 409A. The term “IRC 409A” shall refer to the final regulations issued by the IRS and the Treasury Department under Section 409A of the Code and shall be deemed to include all related guidance issued.

2.22 Net Present Value. The term, “Net Present Value” (or “NPV”) shall mean the value, as of a specified date, of future cash payments due, calculated using a discount rate which is equal to that used to determine Actuarial Equivalent values under the Plan.

2.23 Normal Retirement / Normal Retirement Age. The term "Normal Retirement" shall mean the Executive’s Separation From Service on or after attaining the Normal Retirement Age of sixty-five (65) and for reasons other than a Termination for Cause, because of Disability, or pursuant to the provisions of Paragraph 5.4.

2.24 Participant/Executive. For the purposes of this Agreement, the terms “Executive” and “Participant” shall be interchangeable.

2.25 Remain Employed. For the purpose of this Agreement, the term “Remain(s) Employed” shall mean that Executive has not experienced a Separation From Service.

2.26 Separation From Service/ Termination of Employment. The terms “Separation From Service” (“Separates From Service”) and “Termination of Employment” shall be used interchangeably for the purposes of this Agreement and shall be interpreted in accordance with the provisions of IRC 409A. Currently, IRC 409A provides that whether a termination of employment has occurred is determined based on whether the facts and circumstances indicate that the Bank and the Executive reasonably anticipate that no further services will be performed after a certain date or that the level of bona fide services the employee will perform after such date (whether as an employee or as an independent contractor) will permanently decrease to no more than twenty percent (20%) of the average level of bona fide services performed (as an employee or an independent contractor) over the immediately preceding thirty-six (36) month period (or the full period of services to the Employer if the employee has been providing services to the employer less than 36 months). There shall be no Separation From Service while the Executive is on military leave, sick leave or other bona fide leave of absence so long as such leave does not exceed six (6) months, or if longer, so long as the individual retains a right to re-employment with the service recipient under an applicable statute or by contract.

2.27 Specified Employee. The term “Specified Employee” shall be defined in accordance with IRC 409A, which states that a “Specified Employee” is an employee who, as of the date of the employee’s Separation From Service, is a key employee of an employer of which any stock is publicly traded on an established securities market or otherwise. An employee is a key employee if the employee meets the requirements of section 416(i)(1)(A)(i), (ii), or (iii) (applied in accordance with the regulations thereunder and disregarding section 416(i)(5)) at any time during the twelve (12) month period ending on a specified employee identification date. If Executive is a key employee as of a specified employee identification date, then Executive shall be treated as a key employee for the entire twelve (12) month period beginning on the specified employee effective date.

2.28 Target Benefit Amount. For the purposes of this Agreement, and unless provided otherwise, the “Target Benefit Amount” shall be an amount equal to sixty percent (60%) of the average of Executive’s three (3) highest years of Base Salary (as of the date of Separation From Service or Disability). For illustrative purposes only, attached hereto and incorporated by reference herein as “Exhibit A” is an illustration of Executive’s projected salary and potential benefit under this Agreement. This illustration is in no way a guarantee of benefits, salary or benefit amounts, but rather is intended to provide a framework for understanding potential benefits provided hereunder. Furthermore, this illustration in Exhibit A is based on certain assumptions which may or may not be accurate at the time a benefit is due or vests.

2.29 Termination For Cause. The term “Termination for Cause” shall be defined as it is in any current employment agreement between Employer and Executive. In the event no such employment agreement exists, a Termination for Cause shall be defined as a Termination because of any of the following:

- A. Willful misfeasance or gross negligence;
- B. Conduct demonstrably and significantly harmful to Employer or a financial institution subsidiary; or
- C. Conviction of a felony.

2.30 Termination For Good Reason. A termination shall be deemed to be for Good Reason if after a Change of Control, Executive Separates From Service on or after the occurrence of any of the below events, and such events occur without the Executive’s consent:

- A. A material diminution in the Executive’s total compensation;
- B. A material diminution in the Executive’s authority, duties, or responsibilities;
- C. A material change in the geographic location at which Employee must perform services (within the meaning of Treasury Regulations Section 1.409A-1(n)(2)(ii)(A)(5)), provided that in no event shall a change in

geographic location of less than forty-five (45) miles be considered a material change in geographic location for purposes of this Agreement.

In the event of any of the forgoing circumstances, Executive shall provide notice to Employer of the existence of the conditions described above within a period not to exceed ninety (90) days of the initial existence of said condition, upon the notice of which Employer must be provided a period of at least thirty (30) days during which it may remedy the condition. If the condition is not remedied within those thirty (30) days, and Executive Voluntarily Terminates his employment within the two (2) year period following the initial occurrence of one or more of these conditions, then such Separation From Service shall be deemed to have been for "Good Reason".

2.31 Voluntary Termination. The term "Voluntary Termination" shall mean a Separation From Service elected by the Executive and not as a result of Disability or for Good Reason.

2.32 Years of Service. The term "Years of Service" shall mean the consecutive twelve (12) month period beginning on Executive's date of hire (April 1, 2013) and any twelve (12) month anniversary thereof, during the entirety of which time the Executive is an employee of the Company and has not experienced a Separation From Service. Service with a subsidiary or other entity controlled by the Company before the time such entity became a subsidiary or under such control shall not be considered credited "Service" unless the Plan Administrator specifically agrees to credit such service.

ARTICLE III

SCOPE, PURPOSE AND EFFECT

3.1 Not a Contract of Employment. Although this Agreement is intended to provide Executive with an additional incentive to remain in the employ of Employer, this Agreement shall not be deemed to constitute a contract of employment between Executive and Employer, nor shall any provision of this Agreement restrict or expand the right of Employer to terminate Executive's employment. This Agreement shall have no impact or effect upon any separate written employment agreement which Executive may have with Employer, it being the parties' intention and agreement that unless this Agreement is specifically referenced in said employment agreement (or any modification thereto), this Agreement (and Employer's obligations hereunder) shall stand separate and apart and shall have no effect on or be affected by, the terms and provisions of said employment agreement.

3.2 Fringe Benefit. The benefits provided by this Agreement are granted by the Employer as a fringe benefit to Executive and are not a part of any salary reduction plan or any arrangement deferring a bonus or a salary increase. Executive has no option to take any current payments or bonus in lieu of the benefits provided by this Agreement.

3.3 Prohibited Payments. Notwithstanding anything in this Agreement to the contrary, if any payment made under this Agreement is a "golden parachute payment" as defined in Section 28(k) of the Federal Deposit Insurance Act (12 U.S.C. section 1828(k) and Part 359

of the Rules and Regulations of the Federal Deposit Insurance Corporation (collectively, the “FDIC Rules”) or is otherwise prohibited, restricted or subject to the prior approval of a Bank Regulator, no payment shall be made hereunder without complying with said FDIC Rules.

ARTICLE IV

PAYMENT RESTRICTIONS AND LIMITATIONS

4.1 Delay in Payments for Specified Employee in the Event of a Separation From Service and Compliance With IRC 409A. In the event Executive is a Specified Employee as of the date of Separation From Service, then a payment conditioned upon Separation From Service may not be made before the date that is six (6) months after the date of Separation From Service (or, if earlier than the end of the six-month period, the date of Executive’s death).

If payments to which Executive would otherwise be entitled during the first six (6) months following a Separation From Service are subject to this six (6) month delay in payment, then such payments shall be accumulated and paid on the first day of the seventh month following the date of Separation From Service. Payments will then continue thereafter as called for pursuant to the terms of this Agreement.

Notwithstanding any provision existing in this Agreement or any amendment thereto, it is the intent of the Employer and the Executive that any payment or benefit provided pursuant to this Agreement shall be made and paid in a manner, at a time and in a form which complies with the applicable requirements of IRC 409A in order to avoid any unfavorable tax consequences resulting from any such failure to comply.

4.2 Modifying Form of Benefit Payment/Single Life Annuity vs. Joint Life. In compliance with IRC 409A, and Subject to Bank approval as to the form of annuity payment offered, Executive may change the form of an annuity payment (before any payment has been made) from one type of life annuity to another type of life annuity with the same scheduled date for the first annuity payment, and such change will not be considered a “change in the time and form of a payment” provided that the annuities are actuarially equivalent applying reasonable actuarial methods and assumptions.

The Distribution Election Form (as may be modified by the Bank from time to time) shall provide details and options regarding joint and survivor annuity options that may be elected. Again, an annuity modification under this Paragraph must be actuarially equivalent in value in accordance with IRC 409A, and the payment commencement date shall remain unchanged. Furthermore, any election to use an alternate annuity payment method must be made prior to the payment start date and, other than as addressed herein below, Executive shall not have the ability to modify the form of annuity elected once payments have begun. If, however, an approved joint and survivor annuity option is elected and Executive’s spouse pre-deceases Executive after payments have begun, then for all payments made to Executive after the death of their spouse, the amounts payable under this Agreement shall increase and be equal to the payment amounts Executive would have received under a single life annuity option. Executive shall not be able to then designate a new spouse and reinstate joint life annuity payments.

4.3 Withholding of Payroll Taxes. Employer shall withhold from payments made hereunder any taxes required to be withheld from Executive's wage under federal, state or local law.

ARTICLE V

PAYMENT OF EXECUTIVE BENEFITS

Executive Benefit payments due hereunder shall be payable pursuant to only one (1) provision below. The date and circumstances of Executive's Separation From Service or Disability shall determine which provision shall be used to calculate the Executive Benefit payment due.

In addition, all amounts calculated as due and payable under Paragraphs 5.1 through 5.7 of this Agreement shall be **reduced** as follows:

- (i) When payments under this Agreement are defined as annual lifetime benefits that are paid monthly, then each of the first one hundred eighty (180) monthly payments shall be **reduced** by Four Thousand Nine Hundred Sixty-Six Dollars and Sixty-Seven Cents (\$4,966.67). This shall be the case even when such reduction results in no benefit being paid under this Agreement until on or after One Hundred Eighty (180) payments would otherwise have been made.
- (ii) When payments under this Article V are payable as a lump sum, then the lump sum calculated and owing under this Agreement shall be **reduced** by an amount equal to the following: The NPV as of the date of Separation From Service or Disability of an annual benefit of Fifty-Nine Thousand, Six Hundred Dollars (\$59,600), payable for a period of Fifteen (15) years, assuming payments commence on the Separation From Service or Disability date. This shall be the case even when such reduction results in no benefit being paid under this Agreement.

5.1 Executive Benefit Payments in the Event of Normal Retirement. Subject to the provisions of Article VI below, the Executive Benefit under this provision shall be determined as follows:

- A. **Amount of Benefit.** In the event Executive Separates From Service on or after attaining the Normal Retirement Age (and for reasons other than a Termination for Cause, because of a Disability, or pursuant to the provisions of Paragraph 5.4 dealing with a Change in Control), then the Executive Benefit shall be an annual amount calculated as follows: the Applicable Percentage (as of the Separation From Service date) multiplied by the Target Benefit Amount. In addition to the forgoing, the annual Executive Benefit shall be increased at the rate of two percent (2%) each year, beginning on the first anniversary of the first Executive Benefit payment and annually thereafter for so long as Executive is entitled to receive payments.

- B. Payment Method.** This annual Executive Benefit shall be paid in twelve (12) substantially equal monthly installments, with payments commencing on the first day of the first month following Executive's Separation From Service and continuing until the death of the Executive. Pursuant to Paragraph 4.2, Executive shall have the ability to timely select an alternate form of annuity payment.

5.2 Executive Benefit Payments on or After Attaining the Early Retirement Age but Before Attaining the Normal Retirement Age (and other than following a Change in Control). Subject to the provisions of Article VI below, in the event Executive Separates From Service on or after attaining the Early Retirement Age but before attaining the Normal Retirement Age (and other than following a Change in Control), then the Executive Benefit to which Executive is entitled shall be determined as follows:

A. Amount of Benefit.

- (1) Involuntary Termination or Voluntary Termination With Ten (10) Years of Service. In the event of an Involuntary Termination or a Voluntary Termination after completing ten (10) Years of Service, either of which occur on or after attaining the Early Retirement Age but before attaining the Normal Retirement Age (and other than following a Change in Control), then Executive shall be entitled to receive an annual amount calculated as follows: the Applicable Percentage (as of the Separation From Service date) multiplied by the Target Benefit Amount; however, this amount shall be reduced by the Early Commencement Reduction Factor. In addition, the annual Executive Benefit amount shall be increased at the rate of two percent (2%) each year, beginning on the first anniversary of the first Executive Benefit payment and annually thereafter for so long as Executive is entitled to receive payments.
- (2) Voluntary Termination Without Ten Years of Service. If Executive has not completed ten (10) Years of Service, then upon a Voluntary Separation From Service on or after attaining the Early Retirement Age but before attaining the Normal Retirement Age, Executive shall forfeit all rights and benefits they may have had under the terms of this Agreement.

- B. Payment Method.** Any Executive Benefit due hereunder shall be paid in twelve (12) substantially equal monthly installments, with payments commencing on the first day of the first month following Executive's Separation From Service and continuing until Executive's death. Pursuant to Paragraph 4.2, Executive shall have the ability to timely select an alternate form of annuity payment.

5.3 Executive Benefit Payments in the Event of Involuntary or Voluntary Termination Prior to Attaining the Early Retirement Age (and other than following a Change in Control). Subject to the provisions of Article VI below, in the event Executive Separates From Service prior to attaining the Early Retirement Age and as a result of either a Voluntary or Involuntary Termination (and absent a Change in Control), then the Executive Benefit to which Executive is entitled shall be determined as follows:

A. Benefit Amount.

- (1) Involuntary Termination or Voluntary Termination After Achieving an Applicable Percentage of One Hundred Percent (100%). If, prior to attaining the Early Retirement Age, Executive is Involuntarily Terminated or Voluntarily Terminates after achieving an Applicable Percentage of one hundred percent (100%), then they shall be entitled to receive an Executive Benefit equal to the Actuarial Equivalent of the following: a lifetime benefit with an annual amount equal to the Applicable Percentage (as of the Separation From Service date) multiplied by the Target Benefit Amount, assuming a payment commencement date of the first day of the first month immediately following Executive's attainment of the Normal Retirement Age, and assuming a two percent (2%) per year increase in the Executive Benefit amount.
- (2) Voluntary Termination Prior to Achieving an Applicable Percentage of One Hundred Percent. If Executive Voluntarily Terminates employment with the Bank prior to attaining the Early Retirement Age and prior to achieving an Applicable Percentage of one hundred percent (100%), then they shall forfeit any and all rights and benefits they may have under the terms of this Agreement and shall have no right to be paid any of the amounts which would otherwise be due or paid to the Executive by the Bank pursuant to the terms of this Agreement.

B. Payment Method. Any amounts due under this Paragraph 5.3 shall be paid in one (1) lump sum one (1) year following Separation From Service.

5.4 Separation From Service Following a Change in Control. In the event of a Separation From Service at any time following a Change in Control (other than a Termination for Cause or a payment triggered by Disability), then the Executive Benefit to which Executive is entitled shall be determined as follows:

A. Benefit Amount.

- (1) Involuntary Termination or Termination for Good Reason. If Executive is Involuntarily Terminated or Terminates for Good Reason following a Change in Control and prior to attaining the Normal Retirement Age, then they shall be entitled to receive an

annual amount calculated as follows: the Applicable Percentage multiplied by the Target Benefit Amount; however, in this circumstance, the Applicable Percentage shall be deemed to be that percentage Executive would have achieved had they Remained Employed until the Normal Retirement Age. If, in the alternative, Executive has already attained the Normal Retirement Age at the time of an Involuntary Termination or a Termination for Good Reason following a Change in Control, then they shall be entitled to receive an annual amount equal to the Applicable Percentage multiplied by the Target Benefit Amount, with the Applicable Percentage determined pursuant to the provisions of Paragraph 2.3. As stated in Paragraph 5.4B, whether paid as an annuity or lump sum, this Executive Benefit shall reflect a two percent (2%) annual benefit increase, and when paid as an annuity prior to Normal Retirement Age, shall be subject to the Early Commencement Reduction Factor. Furthermore, Executive shall NOT be subject to the non-compete provisions of Article VI below.

- (2) Voluntary Termination. If Executive Voluntarily Separates From Service following a Change in Control, then they shall be entitled to receive one of the following amounts, depending on the circumstances specified below:
- (i) If, at the time of such Voluntary Separation From Service, Executive has (a) attained the Early Retirement Age and completed ten (10) Years of Service, or (b) attained at least the Normal Retirement Age, or (c) achieved an Applicable Percentage of one hundred percent (100%), then they shall receive an annual amount calculated as follows: the Applicable Percentage (as of the Separation From Service date) multiplied by the Target Benefit Amount. As stated in Paragraph 5.4B, whether paid as an annuity or lump sum, this Executive Benefit shall reflect a two percent (2%) annual benefit increase, and when paid as an annuity prior to Normal Retirement Age, shall be subject to the Early Commencement Reduction Factor. Furthermore, Executive shall be subject to the provisions of Article VI below.
 - (ii) If Executive Voluntarily Separates From Service following a Change in Control but does not satisfy the requirements of Paragraph 5.4A(2)(i) above, then they shall forfeit all rights and benefits they may have had under the terms of this Agreement.

B. Benefit Payments. At the time this Agreement is executed, Executive may elect the following payment method option as provided in the Distribution Election Form for Executive Benefits due and owing as a

result of a Separation From Service occurring within two (2) years following a Change in Control. If, however no such election is made at the time this Agreement, and absent any valid and subsequent IRC 409A compliant election, then any Executive Benefit payment made pursuant to this Paragraph 5.4 shall be paid as specified below in subparagraph 5.4B(2). Furthermore, and regardless of whether Executive elects the following option under this

subparagraph 5.4B(1), a Separation From Service which occurs after the expiration of the two (2) year window following a Change in Control shall be paid as specified below in sub-paragraph 5.4B(2). Subject to the forgoing, Executive Benefit payments pursuant to this Paragraph 5.4 shall be as follows:

- (1) If Executive's Separation From Service occurs within two (2) years following a Change in Control, then, when timely elected by Executive in the Distribution Election Form, the Executive Benefit payable pursuant to the terms of Paragraph 5.4A above shall be paid in one (1) lump sum as an Actuarial Equivalent value, assuming a lifetime benefit with a payment commencement date of the first day of the first month following Executive's attainment of the Normal Retirement Age and assuming a two percent (2%) annual increase in Executive Benefit amounts. This Actuarial Equivalent amount shall be paid in one (1) lump sum on the first day of the first month following Separation From Service.
- (2) If Executive's Separation From Service occurs after the expiration of the two (2) year window following a Change in Control, or if Executive did not elect the payment option specified above under Paragraph 5.4B(1), then the Executive Benefit payable pursuant to the terms of this Paragraph 5.4 shall be paid as follows and depending upon Executive's age at the time of Separation From Service:
 - (i) If Executive has attained at least the Early Retirement Age at the time of Separation From Service, then annual Executive Benefit payments shall be paid in twelve (12) substantially equal monthly installments, with payments commencing on the first day of the first month following Executive's Separation From Service and continuing until Executive's death. The forgoing Executive Benefit shall be subject to the Early Commencement Reduction Factor and the annual Executive Benefit amount shall be increased at the rate of two percent (2%) each year beginning on the first anniversary of the first Executive Benefit payment and annually thereafter for so long as Executive is entitled to receive an Executive Benefit. Pursuant to Paragraph 4.2, Executive shall have the ability to timely select an alternate form of annuity payment.

- (ii) If Executive has not yet attained the Early Retirement Age as of the date of Separation From Service, then the Executive Benefit defined above in Paragraph 5.4A shall be paid out in one (1) lump sum as an Actuarial Equivalent value, assuming a lifetime benefit with a payment commencement date of the first day of the first month following Executive's attainment of the Normal Retirement Age and assuming a two percent (2%) annual increase in Executive Benefit amounts. This Actuarial Equivalent amount shall be paid on the date which is one (1) year following Separation From Service.

5.5 **Disability.**

- A. **Benefit Amount.** In the event Executive becomes Disabled prior to Separating From Service, then upon such Disability (and subject to the provisions of Article VI below), Executive shall be entitled to receive one (1) of the following amounts, depending on circumstances:
- (1) If Executive becomes Disabled prior to attaining the Normal Retirement Age, then they shall be paid a lump sum amount equal to the Actuarial Equivalent value of the following: a lifetime benefit with annual payments equal to the Applicable Percentage that Executive would have achieved had they remained employed until the Normal Retirement Age, multiplied by the Target Benefit Amount, assuming a payment commencement date of the Normal Retirement Age and factoring in a two percent (2%) annual increase in Executive Benefit amounts. In addition, for the purposes of this provision, the Target Benefit Amount shall be determined based on the following assumptions: it shall be assumed that for each year following Executive becoming Disabled, Executive's Base Salary would increase at a rate of three percent (3%) each year on the anniversary of Executive's date of hire until such time as Executive attains the Normal Retirement Age.
- (2) If Executive becomes Disabled after attaining the Normal Retirement Age, then the Executive shall be entitled to be paid a lump sum amount equal to the Actuarial Equivalent value of the following: a lifetime benefit with annual payments equal to the Applicable Percentage (as of the date of Separation from Service) multiplied by the Target Benefit Amount, assuming a payment commencement date of the date of Disability and factoring in a two percent (2%) annual increase in Executive Benefit amounts.

- B. Benefit Payments.** All amounts due as a result of Disability shall be paid in one (1) lump sum on the first day of the first month following Disability.

5.6 Termination For Cause. If Executive is Terminated for Cause at any time after the effective date of this Agreement, then they shall forfeit any and all rights and benefits they may have under the terms of this Agreement and shall have no right to be paid any of the amounts which would otherwise be due or paid to the Executive by the Bank pursuant to the terms of this Agreement.

5.7 Death.

A. Benefit Amount and Payment.

- (1) Death prior to Separation From Service. If Executive dies prior to Separating From Service, then there are no death benefits payable under this Agreement. Any such benefits would be payable pursuant to a Split Dollar Life Insurance Agreement, if any exists.
- (2) Death after Separation From Service and after becoming entitled to receive payment but prior to receiving any or all such payments. In the event Executive dies after Separating From Service and after becoming entitled to the benefits specified under this Agreement, then, for any Executive Benefit payment which has an original form specified herein as a lifetime annuity (i.e., Paragraph 5.1, 5.2, 5.4B(2)(i)), payments shall only be made following Executive's death if Executive has elected an actuarially equivalent period certain or a joint and survivor payment option. If, in the alternative, Executive dies after becoming entitled to a lump sum benefit but prior to receiving such amount (i.e. Paragraph 5.3, 5.4B(1), 5.4B(2)(ii) or 5.5) then payment shall be made as scheduled to Executive's designated Beneficiary(ies).

ARTICLE VI

NON-COMPETITION AND NON-SOLICITATION/NON-INTERFERENCE; FORFEITURE IN THE EVENT OF BREACH; MANDATORY ARBITRATION

6.1 Non-Competition. Notwithstanding any other provision of this Agreement, the Executive Benefit due pursuant to the provisions of Paragraphs 5.1, 5.2, 5.3, 5.4A(2), and 5.5 shall be forfeited and no Executive Benefit shall be due Executive hereunder if Executive enters into any Competitive Activity on behalf of a Conflicting Organization in Employer's Market Area during Executive's employment or within the two (2) year period following the date of Executive's Separation From Service.

6.2 Non-Solicitation. The restrictions in Paragraph 6.1 also include without limitation, for a period of two (2) years following the date of Executive's Separation from

Service, Executive shall not solicit, directly or indirectly, on behalf of a Conflicting Organization in Employer's Market Area, any customer, client, or employee of Employer. Specifically, Executive may not, directly or indirectly:

- A. Solicit, or attempt to solicit, induce, invite, encourage, recommend, request, or participate in recruiting any client or customer of Employer to terminate or change the client or customer's relationship with Employer, including without limitation, transferring the client or customer's business to a Conflicting Organization; or
- B. Solicit or attempt to solicit, induce, invite, encourage, recommend, request, or participate in recruiting any employee, current or future, of Employer, to leave employment with Employer in order to participate, as an employee or otherwise, in any manner in Competitive Activity for a Conflicting Organization, or to hire or cause to be hired or assist in the hiring of Employer's current or future employees by a Conflicting Organization, or provide information to any third party to suggest, encourage, aid or facilitate such solicitation, inducement, recruitment or hiring.

Solicitation prohibited under this provision includes solicitation by any means, including, without limitation, meetings, phone calls, letters or other mailings, and electronic and internet communications of any kind, or any other type of conduct intended or reasonably calculated to induce or urge a client, customer, or employee to discontinue, in whole or in part, its employment or business relationship with Employer.

6.3 Injunctive Relief. Executive acknowledges and agrees that Employer has a legitimate business interest in enforcement of the restrictions in this Article VI, including without limitation, Employer's need to protect the goodwill of Employer's business, Employer's client relationships, the stability of Employer's workforce, and other such legitimate business interests. In the event that Executive breaches or threatens to breach, or Employer reasonably believes that Executive is about to breach the obligations of this Article, Executive acknowledges and agrees that Employer shall be entitled to obtain injunctive relief in state or federal court, in addition to, and not in lieu of, any other legal or equitable rights and remedies available to Employer. Executive acknowledges and agrees that Employer will suffer immediate and irreparable harm from such breach or threatened breach and that money damages will not be adequate to compensate Employer or to protect and preserve the status quo.

6.4 Enforceability. If an arbitrator or a court of competent jurisdiction shall find any provision of this Article VI illegal or unenforceable, the arbitrator or court may reform such provision to the extent necessary to render the otherwise unenforceable provision, and the rest of the Agreement, valid and enforceable, and so as to permit maximum restrictions that are legal and enforceable to be applied to the Executive's ability to compete with Employer. If an arbitrator or court declines to amend any such provision as provided herein, the invalidity or unenforceability of any such provision shall not affect the validity or enforceability of the remaining provisions, which shall be enforced as if the offending provision had not been included in this Agreement.

6.5 Excuse/Reimbursement Right. To the extent that Executive is paid an Executive Benefit under this Agreement and breaches this provision, Employer shall not only be excused from paying any future benefit, but Employer shall have the right to seek reimbursement for all amounts previously paid out under this Agreement, to the extent allowed by law.

6.6 Arbitration. All controversies and claims arising under or relating to this Article VI, including the scope of this mandatory arbitration provision, shall be submitted to binding arbitration before a single arbitrator to be selected by the parties. Notice of the demand for arbitration shall be in writing and served on the other party to this Plan. Within ten (10) days after notice by one party to the other of its demand for arbitration, the parties shall confer as to the selection of an arbitrator. The arbitration shall be subject to the rules of procedure established by the Employment Arbitration Rules of the American Arbitration Association, and shall be conducted in Tacoma, Washington, unless otherwise agreed to by the parties. The arbitrator shall apply Washington law, without regard to its choice of law principles. In no event shall the demand for arbitration be made after the date when institution of legal or equitable proceedings based on such claim, dispute, or other matter in question would be barred by the applicable statute of limitations. Any award, order or judgment pursuant to the arbitration shall be final and binding upon the parties and their successors and assigns, and may be entered and enforced in any court of competent jurisdiction. The requirements of this paragraph do not prohibit the filing of a court action by either party for temporary equitable relief in aid of arbitration, and as provided in Paragraphs 6.3 and 6.4 above. Each party irrevocably submits to the exclusive jurisdiction and venue of the federal and state courts of Washington in any legal suit, action or proceeding for purposes of (a) enforcing this arbitration provision, (b) entering and enforcing any award, order, or judgment pursuant to this arbitration provision, and (c) any legal suit, action or proceeding to obtain temporary equitable relief as set forth above.

ARTICLE VII

ADMINISTRATION

7.1 Committee and Duties. This Plan shall be administered by an Administrative Committee which shall consist of not less than three (3) persons appointed by the Board of Directors. Any member of the Committee may be removed at any time by the Board. Any member may resign by delivering his written resignation to the Board. Upon the existence of any vacancy, the Board may appoint a successor. The Committee shall have the authority to make, amend, interpret, and enforce all appropriate rules and regulations for the administration of this Plan and decide or resolve any and all questions including interpretations of this Plan, as may arise in connection with the Plan. A majority of the members of the Committee shall constitute a quorum for the transaction of business. A majority vote of the Committee members constituting a quorum shall control any decision.

7.2 Agents. In the administration of this Plan, the Committee may, from time to time, employ agents and delegate to them such administrative duties as it sees fit, and may from time to time consult with counsel who may be counsel to Employer.

7.3 Binding Effect of Decisions. The decision or action of the Committee in respect of any question arising out of or in connection with the administration, interpretation and application of the Plan and the rules and regulations promulgated hereunder shall be final and conclusive and binding upon all persons having any interest in the Plan.

7.4 Indemnity of Committee. Employer shall indemnify and hold harmless the members of the Committee against any and all claims, loss, damage, expense, or liability arising from any action or failure to act with respect to this Plan, except in the case of gross negligence or willful misconduct.

ARTICLE VIII

CLAIMS PROCEDURE

8.1 Claim. In the event a dispute arises over the benefits under this executive Plan and benefits are not paid to the Executive (or to the Executive's beneficiary[ies], if applicable) and such claimants feel they are entitled to receive such benefits, then a written claim must be made to the Named Fiduciary and Plan Administrator named above in accordance with the following procedures:

A. **Written Claim.** The claimant may file a written request for such benefit to the Plan Administrator.

B. **Claim Decision.** Upon receipt of such claim, the Plan Administrator shall respond to such claimant within ninety (90) days after receiving the claim. If the Plan Administrator determines that special circumstances require additional time for processing the claim, the Plan Administrator can extend the response period by an additional ninety (90) days for

reasonable cause by notifying the claimant in writing, prior to the end of the initial ninety (90) day period, that an additional period is required. The notice of extension must set forth the special circumstances and the date by which the Plan Administrator expects to render its decision.

If the claim is denied in whole or in part, the Plan Administrator shall notify the claimant in writing of such denial. The Plan Administrator shall write the notification in a manner calculated to be understood by the claimant. The notification shall set forth:

- (i) The specific reasons for the denial;
- (ii) The specific reference to pertinent provisions of the Agreement on which the denial is based;
- (iii) A description of any additional information or material necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary;
- (iv) Appropriate information as to the steps to be taken if the claimant wishes to submit the claim for review and the time limits applicable to such procedures; and
- (v) A statement of the claimant's right to bring a civil action under ERISA Section 502(a) following an adverse benefit determination on review.

C. Request for Review. Within sixty (60) days after receiving notice from the Plan Administrator that a claim has been denied (in part or all of the claim), then claimant (or their duly authorized representative) may file with the Plan Administrator, a written request for a review of the denial of the claim.

The claimant (or his duly authorized representative) shall then have the opportunity to submit written comments, documents, records and other information relating to the claim. The Plan Administrator shall also provide the claimant, upon request and free of charge, reasonable access to, and copies of, all documents, records and other information relevant (as defined in applicable ERISA regulations) to the claimant's claim for benefits.

D. Decision on Review. The Plan Administrator shall respond in writing to such claimant within sixty (60) days after receiving the request for review. If the Plan Administrator determines that special circumstances require an extension of time for processing the claim, written notice of the extension shall be furnished to the claimant prior to the termination of the initial sixty (60) day period. In no event shall such extension exceed a period of sixty (60) days from the end of the initial period. The notice of extension must set forth the special circumstances requiring an extension of time and the date by which the Plan Administrator expects to render its decision.

In considering the review, the Plan Administrator shall take into account all materials and information the claimant submits relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination.

The Plan Administrator shall notify the claimant in writing of its decision on review. The Plan Administrator shall write the notification in a manner calculated to be understood by the claimant. The notification shall set forth:

- (i) The specific reasons for the denial;
- (ii) A reference to the specific provisions of the Agreement on which the denial is based;
- (iii) A statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records and other information relevant (as defined in applicable ERISA regulations) to the claimant's claim for benefits; and
- (iv) A statement of the claimant's right to bring a civil action under ERISA Section 502(a).

- E. Special Timing Rules for Disability Claims. In the event a claim above is a claim for disability benefits, then the applicable time periods for notifying claimants regarding benefits determinations shall be reduced as required by 29 CFR 2560.503-1 (I.e., (a) the ninety (90) day response time with the possibility of a ninety (90) day extension in Section 8.2B shall be shortened to a forty-five (45) day response time with the possibility of a thirty (30) day extension, and (b) the sixty (60) day response time with the possibility of a sixty (60) day extension in shall be shortened to a forty-five (45) day response time with the possibility of a forty-five (45) day extension). In addition, in the event of a disability claim, the Bank shall identify any medical or vocational expert whose advice was obtained by the Plan in connection with the initial benefit determination, without regard to whether the advice was relied upon. If the review is from an adverse benefit determination that was based in whole or in part on a medical judgment, the Bank shall consult with a health care professional that has appropriate training and experience in the field of medicine involved in the medical judgment and who is neither the individual who was consulted in connection with the adverse benefit determination that is under review nor the subordinate of such individual. Any review of the denial of a claim made on account of disability shall be conducted by a person or persons who neither had any part in the initial benefit determination nor are subordinates of the persons who did.

8.2 Arbitration of Disputes. Other than as addressed in Article VI, all unresolved claims, disputes and other matters in question arising out of or relating to this Plan or the breach or interpretation thereof, (including the scope of this mandatory arbitration provision), other

than those matters which are to be determined by Employer in its sole and absolute discretion, shall be resolved by binding arbitration before a single arbitrator to be selected by the parties (unless prohibited by ERISA). Notice of the demand for arbitration shall be in writing and served on the other party to this Plan. Within ten (10) days after notice by one party to the other of its demand for arbitration, the parties shall confer as to the selection of an arbitrator. The arbitration shall be subject to the rules of procedure established by the Employment Arbitration Rules of the American Arbitration Association ("AAA"), and shall be conducted in Tacoma, Washington, unless otherwise agreed to by the parties. The arbitrator shall apply Washington law, without regard to its choice of law principles. In no event shall the demand for arbitration be made after the date when institution of legal or equitable proceedings based on such claim, dispute or other matter in question would be barred by the applicable statute of limitations. Any award, order or judgment pursuant to the arbitration shall be final and binding upon the parties and their successors and assigns, and may be entered and enforced in any court of competent jurisdiction. The requirements of this paragraph do not prohibit the filing of a court action by either party for temporary equitable relief in aid of arbitration. Each party irrevocably submits to the exclusive jurisdiction and venue of the federal and state courts of Washington in any legal suit, action or proceeding for purposes of (a) enforcing this arbitration provision, (b) entering and enforcing any award, order, or judgment pursuant to this arbitration provision, and (c) any legal suit, action or proceeding to obtain temporary equitable relief as set forth above.

8.3 Attorneys' Fees. In the event of any arbitration or litigation concerning any controversy, claim or dispute between the parties hereto, arising out of or relating to this Agreement or the breach hereof, or the interpretation hereof, to the extent permitted by law (a) each party shall pay his own attorneys' arbitration and legal fees incurred pursuant to this Agreement; and (b) if Executive prevails, he shall be entitled to recover from the other party reasonable expenses, attorneys' fees and costs incurred in the enforcement or collection of any judgment or award rendered. The term "prevails" applies if the arbitrator(s) or court finds that Executive is entitled to contested money payments from the other, but does not necessarily imply a judgment rendered in favor of Executive.

ARTICLE IX

BENEFICIARY DESIGNATION

9.1 Beneficiary Designation. Executive shall have the right to designate any person or persons as their Beneficiary or Beneficiaries (both primary as well as secondary) to whom benefits under this Agreement shall be paid (if such benefits are owed) in the event of Executive's death. Each Beneficiary designation shall be in a written form and will be effective only when filed with the Bank during the Executive's lifetime.

In addition to the forgoing, a legal separation or divorce will automatically revoke the portion of a Beneficiary Designation Form designating the former spouse as a Beneficiary. The former spouse will be a Beneficiary under this Agreement only if a new such Beneficiary Designation Form naming the former spouse as a Beneficiary is filed after the date the dissolution decree is entered or only to the extent required by law.

9.2 Amendments to Beneficiary Designation. Any Beneficiary Designation may be changed by the Executive without the consent of any designated Beneficiary by the filing of a new Beneficiary designation with the Bank. The filing of a new Beneficiary designation form will cancel all Beneficiary designations previously filed. If an Executive's compensation is community property, any Beneficiary designation shall be valid or effective only as permitted under applicable law.

9.3 No Beneficiary Designation. In the absence of an effective beneficiary designation, or if all stated Beneficiaries predecease the Executive or die prior to complete distribution of the Executive's Benefit, then the Executive's designated Beneficiary shall be deemed to be the Executive's estate.

9.4 Doubt as to Beneficiary. If there is a doubt as to the proper Beneficiary to receive payments pursuant to this Agreement, then the Bank shall have the right to withhold such payments until this matter is resolved.

9.5 Effect of Payment to the Beneficiary. The payment to the deemed Beneficiary shall fully and completely discharge the Bank from all further obligations under this Agreement.

ARTICLE X

MISCELLANEOUS

10.1 Unfunded Plan. This Plan is intended to be an unfunded plan maintained primarily to provide deferred compensation benefits for a select group of "management or highly compensated employees" within the meaning of Sections 201, 301, and 401 of the Employee Retirement Income Security act of 1974, as amended ("ERISA"), and therefore to be exempt from the provisions of Parts 2, 3, and 4 of Title I ERISA. Accordingly, the Plan shall terminate and no further benefits shall be paid hereunder in the event it is determined by a court of competent jurisdiction or by an opinion of counsel that the Plan constitutes an employee pension benefit plan within the meaning of Section 3(2) of ERISA which is not so exempt.

10.2 Status as an Unsecured General Creditor and Rabbi Trust. Notwithstanding anything contained herein to the contrary: (i) the Executive shall have no legal or equitable rights, interests or claims in or to any specific property or assets of Employer as a result of this Agreement; (ii) none of the Employer's assets shall be held in or under any trust for the benefit of the Executive or held in any way as security for the fulfillment of the obligations of the Employer under this Agreement; (iii) all of the Employer's assets shall be and remain the general unpledged and unrestricted assets of the Employer; (iv) the Employer's obligation under this Agreement shall be that of an unfunded and unsecured promise by the Employer to pay money in the future; and (v) the Executive shall be an unsecured general creditor with respect to any benefits which may be payable under the terms of this Agreement.

Notwithstanding (i) through (v) above, the Employer and the Executive acknowledge and agree that, in the event of a Change in Control, upon request of the Executive, or in the Employer's discretion if the Executive does not so request and the Employer nonetheless deems it appropriate, the Employer shall establish, not later than the effective date of the Change in Control, a Rabbi Trust or multiple Rabbi Trusts (the "Trust" or "Trusts") upon such terms and

conditions as the Employer, in its sole discretion, deems appropriate and in compliance with applicable provisions of the Code, in order to permit the Employer to make contributions and/or transfer assets to the Trust or Trusts to discharge its obligations pursuant to this Agreement. The principal of the Trust or Trusts and any earnings thereon shall be held separate and apart from other funds of the

Employer to be used exclusively for discharge of the Employer's obligations pursuant to this Agreement and shall continue to be subject to the claims of the Employer's general creditors until paid to the Executive in such manner and at such times as specified in this Agreement.

10.3 Non-assignability. Neither Executive nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber, transfer, hypothecate or convey in advance of actual receipt the amounts, if any, payable hereunder, or any part thereof, which are, and all rights to which are, expressly declared to be unassignable and nontransferable. No part of the amount payable shall, prior to actual payment, be subject to seizure or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by Executive or any other person, nor be transferable by operation of law in the event of Executive's or any other person's bankruptcy or insolvency.

10.4 Not a Contract of Employment. The terms and conditions of this Plan shall not be deemed to constitute a contract of employment between Employer and the Executive, and the Executive (or his beneficiary, if applicable) shall have no rights against Employer except as may otherwise be specifically provided herein. Moreover, nothing in this Plan shall be deemed to give Executive the right to be retained in the service of Employer or to interfere with the right of Employer to discipline or discharge him at any time.

10.5 Protective Provisions. Executive will cooperate with Employer by furnishing any and all information requested by Employer, in order to facilitate the payment of benefit hereunder, and by taking such physical examinations as Employer may deem necessary and taking such other action as may be requested by Employer.

10.6 Terms. Whenever any words are used herein in the masculine, they shall be construed as though they were used in the feminine in all cases where they would so apply; and wherever any words are used herein in the singular or in the plural, they shall be construed as though they were used in the plural or singular, as the case may be, in all cases where they would so apply.

10.7 Captions. The captions of the articles, sections, and paragraphs of this Plan are for convenience only and shall not control or affect the meaning or construction of any of its provisions.

10.8 Governing Law. The provisions of this Plan shall be construed, interpreted, and governed in all respects in accordance with applicable federal law and, to the extent not preempted by such federal law, in accordance with the laws of the State of Washington.

10.9 Binding Effect/Merger or Reorganization. This Agreement shall be binding upon and inure to the benefit of the Executive and the Bank. Accordingly, the Bank shall not merge or consolidate into or with another corporation, or reorganize or sell substantially all of

its assets to another corporation, firm or person, unless and until such succeeding or continuing corporation, firm or person agrees to assume and discharge the obligations of the Bank under this Agreement. The term successors as used herein shall include any corporate or other business entity which shall, whether by merger, consolidation, purchase or otherwise acquire all or substantially all of the business and assets of Employer, and successors of any such corporation or other business entity.

10.10 Nonwaiver. The failure of either party to enforce at any time or for any period of time any one or more of the terms or conditions of this Agreement shall not be a waiver of such term(s) or condition(s) or of that party's right thereafter to enforce each and every term and condition of this Agreement.

10.11 Partial Invalidity/Severability. If any term, provision, covenant, or condition of this Agreement is determined by an arbitrator or a court, as the case may be, to be invalid, illegal, void, or unenforceable, then such term, provision, covenant, or condition shall be deemed ineffective and unenforceable and shall be deemed separable from the remaining provisions of this Agreement. Further, such determination shall not render any other term, provision, covenant illegal, void or unenforceable, and the remaining terms, provisions, covenants, and conditions of the Agreement shall remain in full force and effect notwithstanding such partial invalidity.

10.12 Entire Agreement. Each party to this Agreement acknowledges that no other representations, inducements, promises, or agreements, oral or otherwise, have been made by any party, or anyone acting on behalf of any party, which are not set forth herein, and that no other agreement, statement, or promise not contained in this Agreement shall be valid or binding on either party. Executive and the Employer understand, acknowledge and agree that Executive and the Employer have entered into other agreements that contain either change-in-control terms or restrictive covenants, including without limitation a Change in Control Agreement. The parties understand, acknowledge and agree that the terms of this Agreement are not intended by Executive or the Employer, and shall not be interpreted by any party, court or arbitrator to, supersede, modify, amend, change, negate, cancel or render null or void any other change-in-control terms or restrictive covenants between the parties contained in any such other agreements (or any amendments or restatements thereof).

10.13 Modifications. Any modification of this Agreement shall be effective only if it is in writing and signed by each party or such party's authorized representative, and only to the extent that it is compliant with all applicable codes and statutes, including but not limited to IRC 409A.

10.14 Notice. Any notice required or permitted of either the Executive or the Bank under this Agreement shall be deemed to have been duly given, if by personal delivery, upon the date received by the party or its authorized representative; if by facsimile, upon transmission to a telephone number previously provided by the party to whom the facsimile is transmitted as reflected in the records of the party transmitting the facsimile and upon reasonable confirmation of such transmission; and if by mail, on the third day after mailing via U.S. first class mail, registered or certified, postage prepaid and return receipt requested, and addressed to the party at the address given below for the receipt of notices, or such changed address as may be requested in writing by a party.

If to the Bank: Columbia State Bank: 1301 A Street
Tacoma, WA 98402
Attention: Corporate Secretary/Cathleen Dent

If to the Executive:

10.15 IRS Section 280G Issues. If all or any portion of the amounts payable to the Executive under this Agreement, either alone or together with other payments which the Executive has the right to receive from Employer, constitute "excess parachute payments" within the meaning of Section 280G of the Code that are subject to the excise tax imposed by Section 4999 of the Code (or similar tax and/or assessment), Executive shall be responsible for the payment of such excise tax and Employer (and its successor) shall be responsible for any loss of deductibility related thereto; provided, however, that Employer and Executive shall cooperate with each other and use all reasonable efforts to minimize to the fullest extent possible the amount of excise tax imposed by Section 4999 of the Code, but only to the extent that any agreement to minimize the impact of the Section 4999 excise tax shall comply in all respects with all applicable laws, including IRC 409A and regulations thereunder. If, at a later date, it is determined (pursuant to final regulations or published rulings of the Internal Revenue Service, final judgment of a court of competent jurisdiction, or otherwise) that the amount of excise taxes payable by the Executive is greater than the amount initially so determined, then Executive shall pay an amount equal to the sum of such additional excise taxes and any interest, fines and penalties resulting from such underpayment. The determination of the amount of any such excise taxes shall be made by the independent accounting firm employed by Employer immediately prior to the change in control or such other independent accounting firm or advisor as may be mutually agreeable to Employer and Executive in the exercise of their reasonable good faith judgment.

10.16 Opportunity To Consult With Independent Advisors. The Executive acknowledges that he has been afforded the opportunity to consult with independent advisors of his choosing including, without limitation, accountants or tax advisors and counsel regarding both the benefits granted to him under the terms of this Agreement and the (i) terms and conditions which may affect the Executive's right to these benefits and (ii) personal tax effects of such benefits including, without limitation, the effects of any federal or state taxes, Section 280G of the Code, and any other taxes, costs, expenses or liabilities whatsoever related to such benefits, which in any of the foregoing instances the Executive acknowledges and agrees shall be the sole responsibility of the Executive notwithstanding any other term or provision of this Agreement. The Executive further acknowledges and agrees that the Bank shall have no liability whatsoever related to any such personal tax effects or other personal costs, expenses, or liabilities applicable to the Executive and further specifically waives any right for himself or herself, and his or her heirs, beneficiaries, legal representatives, agents, successor and assign to claim or assert liability on the part of the Bank related to the matters described above in this paragraph. Executive further acknowledges that he has read, understands and consents to all of the terms and conditions of this Agreement, and that he enters into this Agreement with a full understanding of its terms and conditions.

EXECUTIVE ACKNOWLEDGES THAT EXECUTIVE HAS RECEIVED AND READ OR HAS HAD THE OPPORTUNITY TO READ THIS AGREEMENT, INCLUDING WITHOUT LIMITATION THE AGREEMENTS TO ARBITRATION OF DISPUTES UNDER PARAGRAPHS 6.6 AND 8.2. EXECUTIVE ACKNOWLEDGES AND UNDERSTANDS THAT THIS AGREEMENT REQUIRES THAT DISPUTES THAT INVOLVE THE MATTERS SUBJECT TO THE AGREEMENT BE SUBMITTED TO MEDIATION OR ARBITRATION PURSUANT TO THE ARBITRATION AGREEMENT RATHER THAN TO A JUDGE AND JURY IN COURT.

COLUMBIA STATE BANK
Dave Lawson

/s/ DAVID LAWSON Date: 2/25/2019
EVP/Chief Human Resources Officer

/s/ LISA DOW LISA DOW
Executive- Signature and Date

Print Name

EXHIBIT A
TO THE COLUMBIA STATE BANK
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN AGREEMENT
FOR LISA DOW

The following table is intended ONLY to demonstrate Executive's projected salary at various times and based on the assumptions below. This table does not address actual benefits to be paid based on the varying circumstances of Separation From Service, Change in Control, etc. When applicable, however, the following does reflect benefits being paid out prior to attainment of the Early Retirement Age and reduced by the Early Commencement Reduction Factor.

The illustration below is provided ONLY as an example of potential salary and benefit amounts, and the amounts reflected are in no way a guarantee of benefits owing. Additionally, a 3% annual salary increase has been assumed, and **the below does not reflect the mandatory reduction in payments required under Article V(i) or (ii)** of the Agreement. Furthermore, "assumptions" have been used to calculate these amounts, but actual amounts will only be determinable at the time benefits become due. Thus, there can be no guarantee of salary or benefits at the time this agreement is put into place.

Age	Date of Separation from Service	Projected Salary	Three Year Average	60% of Three Year Average	Applicable Percentage	Adjusted Benefit	Benefit Payment Stream December 14th 2024	Benefit Payment Stream March 11th 2025
59.23	11-Mar-19	\$300,000	\$272,500	\$163,500	—%	\$—		
60.23	11-Mar-20	\$309,000	\$284,667	\$170,800	—%	\$—		
61.23	11-Mar-21	\$318,270	\$309,090	\$185,454	15%	\$—		
62.23	11-Mar-22	\$327,818	\$318,363	\$191,018	20%	\$—		
63.23	11-Mar-23	\$337,653	\$327,914	\$196,748	25%	\$—		
64.23	11-Mar-24	\$347,782	\$337,751	\$202,651	30%	\$—		
65.00	14-Dec-24	\$358,216	\$350,467	\$210,280	34%	\$71,092	\$71,092	
65.23	11-Mar-25	\$358,216	\$350,467	\$210,280	35%	\$73,598	\$72,514	\$73,598
66.23	11-Mar-26	\$368,962	\$358,294	\$214,976	40%	\$85,991	\$73,964	\$75,070
67.23	11-Mar-27	\$380,031	\$369,070	\$221,442	45%	\$99,649	\$75,443	\$76,571
68.23	11-Mar-27	\$391,432	\$380,142	\$228,085	50%	\$114,043	\$76,952	\$78,103
69.23	11-Mar-28	\$403,175	\$391,546	\$234,928	55%	\$129,210	\$78,491	\$79,665
70.23	11-Mar-29	\$415,270	\$403,292	\$241,975	60%	\$145,185	\$80,061	\$81,258
71.23	11-Mar-30	\$427,728	\$415,391	\$249,235	65%	\$162,003	\$81,662	\$82,883
72.23	11-Mar-31	\$440,560	\$427,853	\$256,712	70%	\$179,698	\$83,295	\$84,541
73.23	11-Mar-32	\$453,777	\$440,688	\$264,413	75%	\$198,310	\$84,961	\$86,232
74.23	11-Mar-33	\$467,390	\$453,909	\$272,345	80%	\$217,876	\$86,661	\$87,956
75.23	11-Mar-34	\$481,412	\$467,526	\$280,516	85%	\$238,438	\$88,394	\$89,716
76.23	11-Mar-35	\$495,854	\$481,552	\$288,931	90%	\$260,038	\$90,162	\$91,510
77.23	11-Mar-36	\$510,730	\$495,999	\$297,599	95%	\$282,719	\$91,965	\$93,340
78.23	11-Mar-37	\$526,052	\$510,879	\$306,527	100%	\$306,527	\$93,804	\$95,207
79.23	11-Mar-38	\$541,833	\$526,205	\$315,723	105%	\$331,509	\$95,680	\$97,111
80.23							\$97,594	\$99,053
81.23							\$99,546	\$101,034
82.23							\$101,537	\$103,055
83.23							\$103,567	\$105,116
84.23							\$105,639	\$107,218
85.23							\$107,752	\$109,363
86.23							\$109,907	\$111,550
87.23							\$112,105	\$113,781
88.23							\$114,347	\$116,057

Net Present Value of Future Payment Streams: 4.09%

\$1,352,946

\$1,357,184

EXHIBIT B
TO THE COLUMBIA STATE BANK
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN AGREEMENT
FOR LISA DOW

DISTRIBUTION ELECTION FORM

Pursuant to the terms of the Columbia State Bank Supplemental Executive Compensation Agreement (“Agreement”), effective as of February 1, 2019, I have been granted a supplemental compensation benefit. Terms which are “defined terms” in the Agreement shall have the same meaning within this Distribution Election Form.

I.
LIFETIME ANNUITY/JOINT AND SURVIVOR ANNUITY

Pursuant to IRC 409A, there are multiple restrictions and limitations regarding modifying the time and/or form of such payments; however, an exception to these restrictions permits elections to change from a life annuity to another Actuarially Equivalent life annuity (prior to payments beginning).

In the event no alternate method is selected below, then amounts due under this Agreement shall be paid out as a single life annuity based on the life of the Executive. Subject to the forgoing, and provided that payments have not yet begun, when the Executive Benefit is to be paid as a lifetime annuity, Executive may elect one of the following payment options (provided that the amounts are calculated as actuarial equivalent forms in compliance with IRC 409A):

- _____ A single life annuity with a _____ year (not less than 10 years) period certain.
- _____ A joint and survivor annuity with an actuarial equivalent of the benefit owing pursuant to the Agreement, with payment continued to the surviving spouse (registered domestic partner) in the same amount as the amount paid to me.
- _____ A joint and survivor annuity in equal value to the actuarial equivalent of the benefit owing pursuant to the Agreement, with payment continued to my surviving spouse (registered domestic partner) in one-half of the amount paid to me.

Acknowledgment of Limitations on Changes in Time and Form of Payment of Benefits. As stated previously, all Actuarially Equivalent valuations must be in compliance with IRC 409A and all related Notices and guidance. In addition, when determining whether two life annuities are Actuarially Equivalent, the same actuarial assumptions and methods must be used in valuing each life annuity. This requirement applies over the entire term of Executive’s participation in the Plan, such that the annuities must be Actuarially Equivalent at all times for the annuity options to be treated as one time and form of payment. However, provided the actuarial methods

and assumptions are reasonable, there is no requirement that consistent actuarial assumptions and methods be used over the term of the Executive’s participation in the Plan. Accordingly, the Plan may change the actuarial assumptions and methods used to determine the life annuity payments provided that all of the actuarial assumptions and methods are reasonable.

In the event that a joint and survivor annuity option is selected, and that Executive’s spouse predeceases Executive, then for all payments made to Executive after their spouse’s death, the amounts payable under this Agreement shall increase and be equal to the payment amounts Executive would have received under a single life annuity option. In addition, Executive shall no longer have the ability to make a new joint and survivor annuity election.

In the event no alternate method is selected, then amounts due under this Agreement shall be paid out as a single life annuity.

II.
CHANGE IN CONTROL
FOLLOWED WITHIN TWO (2) YEARS BY A SEPARATION FROM SERVICE

IRC 409A provides that a different time and form of payment may be designated with respect to a Separation From Service under certain conditions, one of which is a Separation From Service during a limited period not to exceed two years following a change in control event.

I am aware that the Agreement provides me with the option to timely elect to have any Executive Benefit owed to me to as a result of Separating From Service within two (2) years following a Change in Control as a lump sum amount, payable on the first day of the first month following Separation From Service. I understand that if I do not make such election below, any Executive Benefit due and owing will be paid pursuant to the terms of the Agreement and based on my age (and circumstances) at time of Separation From Service.

_____ I hereby elect to have any Executive Benefit due upon my Separation From Service within two (2) years following a Change in Control, paid in one (1) lump sum on the first day of the first month following Separation From Service.

EXECUTIVE:_____ Print Name:_____

Dated:___

EXHIBIT C
TO THE COLUMBIA STATE BANK
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN AGREEMENT
FOR LISA DOW

The following figures are provided ONLY as an example of potential benefit amounts in the event Executive Separates From Service after attaining the Normal Retirement Age in December of 2024, and that payments commence on January 1, 2025. Furthermore, the following joint and survivor payment information is also provided solely for the purposes of illustration and is in no way a guarantee of benefit payments or amounts. The actual amount of any payment due to me under this Agreement may only be determined at the time of payment and based on circumstances which are not determinable as of this date. For the purposes of providing an **example only**, the following **hypothetical benefit amounts and actuarial equivalent amounts** are provided based on assumptions regarding salary at Normal Retirement Age, and using the applicable interest rate and mortality table under 417(e) in effect as of February 2019. The actual determination of benefit form amounts will be determined at the date of Separation From Service based on the 417(e) applicable interest rate and mortality table in effect at that time.

Annual Payment paid as a Single Life Annuity Option (Executive's lifetime only): \$71,092 per year.

Single life annuity with a **10 year** (not less than 10 years) period certain (and as an actuarial equivalence of the above): \$69,227.

Joint and survivor annuity with an actuarial equivalent of the benefit owing pursuant to the Agreement, with payment continued to the surviving spouse in the same amount as the amount paid to the Executive: \$58,066.

Joint and survivor annuity in equal value to the actuarial equivalent of the benefit owing pursuant to the Agreement, with payment continued to the surviving spouse in one-half of the amount paid to Executive: annual benefit of \$63,922 paid to Executive during their lifetime, and an annual benefit of \$31,961 being paid to Executive's spouse upon Executive's death.

THESE NUMBERS ARE PROVIDED FOR ILLUSTRATION PURPOSES ONLY AND ARE IN NO WAY A GUARANTEE OF BENEFITS OR AMOUNTS.

THE ASSUMPTIONS USED TO CALCULATE ACTUAL BENEFITS WILL ONLY BE DETERMINED AT THE TIME BENEFITS BECOME DUE, AND THUS THERE CAN BE NO GUARANTEE OF BENEFIT OR ANNUITY AMOUNTS AT THE TIME THIS AGREEMENT IS PUT INTO PLACE.

**COLUMBIA STATE BANK
ENDORSEMENT METHOD
SPLIT DOLLAR AGREEMENT**

(By and Between COLUMBIA STATE BANK and LISA DOW)

Insurer/Policy: John Hancock Life Insurance Company
Policy #SB59800007

New York Life Insurance and Annuity Corporation
Policy #56723996

The Penn Mutual Life Insurance Company
Policy #8324090

Bank: Columbia State Bank

Insured: Lisa Dow

Relationship of Insured to Bank: Executive

Effective Date: Feb. 25th, 2019

The respective rights and duties of COLUMBIA STATE BANK (hereinafter the "Bank") and LISA DOW (hereinafter the "Insured") in the above-referenced Policy(ies) shall be pursuant to the terms set forth below:

1. DEFINITIONS.

Refer to the Policy(ies) contract for the definition of any terms in this Endorsement Method Split Dollar Agreement (hereinafter "Agreement") that is not defined herein. If the definition of a term in the Policy(ies) is inconsistent with the definition of a term in this Agreement, then the definition of the term as set forth in this Agreement shall supersede and replace the definition of the terms as set forth in the Policy(ies).

- 1.1 Accelerated Benefit. The term "Accelerated Benefit" shall mean amounts requested and received pursuant to any Policy(ies) rider permitting the policyowner or Insured access to portions of the eligible death benefit in the event the Insured is diagnosed with a chronic or terminal illness [as required by the individual Policy(ies)].
 - 1.2 Base Salary. The term "Base Salary" shall be defined as in the Columbia State Bank Supplemental Executive Retirement Plan Agreement by and between the parties and with an effective date of February 1, 2019.
 - 1.3 Beneficiary. The term "Beneficiary" shall mean one or more persons, trusts, estates or other entities, designated in accordance with Paragraph 3 below that are entitled to receive benefits under this Plan upon the death of Insured.
-

- 1.4 Beneficiary Designation Form. "Beneficiary Designation Form" shall mean the form established from time to time by the Bank and the Administrator, which an Insured completes, signs and returns to designate one or more Beneficiaries.
- 1.5 Board. "Board" means the Board of Directors of the Bank.
- 1.6 Claimant. "Claimant" shall have the meaning assigned to an individual who makes a claim pursuant to the provisions of Paragraph 12 below.
- 1.7 Code. The term the "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.
- 1.8 ERISA. The term "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.
- 1.9 Executive Benefit. The term "Executive Benefit" shall be defined as in the Columbia State Bank Supplemental Executive Retirement Plan Agreement by and between the parties and with an effective date of February 1, 2019.
- 1.10 Net Amount-at-Risk. The term "Net Amount-at-Risk" (hereinafter "NAR") shall be defined as the total proceeds of the Policy(ies) less the cash value of the Policy(ies).
- 1.11 Normal Retirement Age. The term "Normal Retirement Age" shall be defined as in the Columbia State Bank Supplemental Executive Retirement Plan Agreement by and between the parties and with an effective date of February 1, 2019.
- 1.12 Plan. The term "Plan" refers to this arrangement, as evidenced by this Agreement, whereby Insured (or Insured's Beneficiary) is entitled to receive a benefit.
- 1.13 Separation from Service. The term "Separation from Service" (or "Separates from Service") shall be read and interpreted consistent with Code Section 409A and any future notices or guidance related thereto. In addition, for the purposes of this Agreement, Insured shall experience a Separation From Service only upon separating as an executive of the Bank and a director on the Board, as applicable.

1.14 SERP Agreement. The term “SERP Agreement” shall refer to the Columbia State Bank Supplemental Executive Retirement Plan Agreement by and between the parties and with an effective date of February 1, 2019.

2. POLICY(IES) TITLE AND OWNERSHIP.

Title and ownership of the Policy(ies) shall reside in the Bank for its use and for the use of the Insured all in accordance with this Agreement. The Bank, in its sole discretion, may surrender or terminate the Policy(ies) at any time and for any reason. Where the Bank and the Insured (or assignee, with the consent of the Insured) mutually agree to exercise the right to increase the coverage under the subject Policy(ies), then, in such event, the rights, duties and benefits of the parties to such increased coverage shall continue to be subject to the terms of this Agreement.

The Employer (or the trustee, in the event of the establishment of a Rabbi Trust, at the direction of the Employer) may sell, surrender or transfer ownership of the Policy to the Insurer or any third party, provided that, in the event of any such sale, surrender or transfer prior to termination of this Agreement, the Employer (or Trustee) replaces the Policy with a life insurance policy or policies on the life of the Insured providing death benefits that are at least as much as that of the Policy being replaced. The rights, duties and benefits of the Employer, the Insured or the trustee with respect to any such replacement policy shall be subject to the terms of this Agreement. At the request of the Employer, the Insured shall take any and all actions that the Employer determines may be reasonably necessary for the sale, surrender or transfer of the Policy, the issuance of a replacement policy(ies), and subjecting the replacement policy(ies) to the terms of this Agreement.

3. BENEFICIARY DESIGNATION RIGHTS.

The Insured (or assignee) shall have the right and power to designate a “Beneficiary” or “Beneficiaries” to receive the Insured’s share of the proceeds payable upon the death of the Insured, and to elect and change a payment option for such Beneficiary, subject to any right or interest the Bank may have in such proceeds, as provided in this Agreement. If no designated primary or secondary Beneficiary shall survive Insured, then all amounts due under this Agreement shall be paid to Insured’s estate.

A divorce will automatically revoke the portion of a Beneficiary Designation Form designating the former spouse as a Beneficiary. The former spouse will be a Beneficiary under this Agreement only if a new such Beneficiary Designation Form naming the former spouse as a Beneficiary is filed after the date the dissolution decree is entered.

4. PREMIUM PAYMENT METHOD.

Subject to the Bank's absolute right to surrender or terminate the Policy(ies) at any time and for any reason, the Bank shall pay the premium required for each Policy as it becomes due.

5. TAXABLE BENEFIT.

Annually the Insured will receive a taxable benefit equal to the assumed cost of insurance as required by the Internal Revenue Service. The Bank will report to the Insured the amount of imputed income each year on Form W-2 or its equivalent. At the end of each calendar year, the Bank shall pay to the Insured an amount equal to an estimate of all federal and state income taxes incurred by Insured as a result of the taxable benefit under this Paragraph (the "Reimbursement"). If, as a result of any Gross-up payments made to Insured, Insured incurs additional tax liability, then the Bank shall provide an additional Reimbursement payment to Insured to offset any additional tax liability ("Double Reimbursement").

6. DIVISION OF DEATH PROCEEDS.

Subject to Paragraphs 7 and 9 herein, the division of the death proceeds of the Policy(ies) is as follows:

- A. In the event Insured has not yet Separated From Service at the time of death, then, upon Insured's death, Insured's Beneficiary(ies) shall be entitled to receive an amount equal to the lesser of the following:
 - (i) One Hundred percent (100%) NAR; or
 - (ii) Ten (10) times the annual Executive Benefit to be paid under the SERP Agreement as of the later of Insured's date of death or the attainment of the Normal Retirement Age. For the purposes of calculating amounts owed hereunder, if Insured dies before attaining the Normal Retirement Age, it shall be assumed that their Executive Benefit reflects an annual Base Salary increase of Three Percent (3%) on each anniversary of Insured's death until such time as they would have attained the Normal Retirement Age.
- B. Should the Insured Separate From Service for any reason other than death (the circumstances of which are governed by Paragraph 6A), then neither the Insured nor the Insured's Beneficiary(ies) shall be entitled to receive any amount of the Policy(ies) proceeds pursuant to this Agreement.
- C. The Bank may select which Policy(ies) shall be used to pay benefits due under this Agreement.

D. The Bank and the Insured (or assignees) shall share in any interest due on the death proceeds on a pro rata basis as the proceeds due each respectively bears to the total proceeds, excluding any such interest.

E. Any refund of unearned premium as provided in any Policy(ies) shall be paid to the Bank.

7. ACCELERATED BENEFIT IN THE EVENT OF TERMINAL OR CHRONIC ILLNESS (AS APPLICABLE) AND DIVISION OF CASH SURRENDER VALUE OF THE POLICY(IES).

Provided Insured's right to receive benefits under this Agreement has not terminated pursuant to the provisions of Paragraph 9 herein, and provided the Policy(ies) provides for such option through an accelerated benefit or living benefit rider (i.e., generally requiring that the Insured is either terminally or chronically ill), Insured shall have the right to request, in writing, the full amount to which he is entitled under this Agreement, and subject to any further limitation on dollar amounts imposed by the Policy(ies). Any Accelerated Benefit paid to the Insured hereunder shall be deducted from any amounts to which Insured or his Beneficiary(ies) is (or may be) entitled pursuant to the provisions of Paragraph 6 above. Neither Employer nor Corrigan & Company (PFIS) make any representations or warranties about the tax consequences of such a request for accelerated or living benefits.

In addition, and subject to the forgoing, at all times prior to the Insured's death, the Bank shall be entitled to an amount equal to the Policy(ies)'s cash value, as that term is defined in the Policy(ies) contract, less any Policy loans, accelerated benefits and unpaid interest or cash withdrawals previously incurred by the Bank and any applicable surrender charges. Such cash value shall be determined as of the date of surrender or death as the case may be.

8. RIGHTS OF PARTIES WHERE POLICY(IES) ENDOWMENT OR ANNUITY ELECTION EXISTS.

In the event the Policy(ies) involves an endowment or annuity element, the Bank's right and interest in any endowment proceeds or annuity benefits, on expiration of the deferment period, shall be determined under the provisions of this Agreement by regarding such endowment proceeds or the commuted value of such annuity benefits as the Policy's cash value. Such endowment proceeds or annuity benefits shall be considered to be like death proceeds for the purposes of division under this Agreement.

9. TERMINATION.

This Agreement shall terminate as to the Insured upon Insured's Separation From Service, upon the mutual written agreement of the Bank and the Insured, or upon distribution of the death benefit proceeds in accordance with Paragraph 6 above. In addition, this Agreement shall also terminate in the event Insured requests and receives an Accelerated Benefit in an amount equal to the amount he is (or may be) entitled to receive pursuant to the provisions of Paragraph 7 above.

10. INSURED'S OR ASSIGNEE'S ASSIGNMENT RIGHTS.

The Insured may not, without the written consent of the Bank, assign to any individual, trust or other organization, any right, title or interest in the subject Policy(ies) nor any rights, options, privileges or duties created under this Agreement.

11. AGREEMENT BINDING UPON THE PARTIES.

This Agreement shall bind the Insured and the Bank, their heirs, successors, personal representatives and assigns.

12. ADMINISTRATIVE AND CLAIMS PROVISIONS.

The following provisions are part of this Agreement and are intended to meet the requirements of ERISA:

A. Named Fiduciary and Plan Administrator.

The Named Fiduciary and Plan Administrator (hereinafter "Administrator) of this Endorsement Method Split Dollar Agreement shall be the Board of Directors of the Bank. The Administrator may designate a replacement Administrator at any time, or may delegate to others certain responsibilities, including the employment of advisors and the delegation of any ministerial duties to qualified individuals.

B. Dispute Over Benefits.

In the event a dispute arises over the benefits under this plan and benefits are not paid to the Insured (or to the Insured's beneficiary[ies], if applicable) and such claimants feel they are entitled to receive such benefits, then a written claim must be made to the Named Fiduciary and Administrator named above in accordance with the following procedures:

- (i) Written Claim. The claimant may file a written request for such benefit to the Plan Administrator.

- (ii) Claim Decision. Upon receipt of such claim, the Administrator shall respond to such claimant within ninety (90) days after receiving the claim. If the Administrator determines that special circumstances require additional time for processing the claim, the Administrator can extend the response period by an additional ninety (90) days for reasonable cause by notifying the claimant in writing, prior to the end of the initial ninety (90) day period, that an additional period is required. The notice of extension must set forth the special circumstances and the date by which the Plan Administrator expects to render its decision.

If the claim is denied in whole or in part, the Administrator shall notify the claimant in writing of such denial. The Administrator shall write the notification in a manner calculated to be understood by the claimant. The notification shall set forth:

- (a) The specific reasons for the denial;
 - (b) The specific reference to pertinent provisions of the Agreement on which the denial is based;
 - (c) A description of any additional information or material necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary;
 - (d) Appropriate information as to the steps to be taken if the claimant wishes to submit the claim for review and the time limits applicable to such procedures; and
 - (e) A statement of the claimant's right to bring a civil action under ERISA Section 502(a) following an adverse benefit determination on review.
- (iii). Request for Review. Within sixty (60) days after receiving notice from the Administrator that a claim has been denied (in part or all of the claim), then claimant (or their duly authorized representative) may file with the Plan Administrator, a written request for a review of the denial of the claim.

The claimant (or his duly authorized representative) shall then have the opportunity to submit written comments, documents, records and other information relating to the claim. The Administrator shall also provide the claimant, upon request and free of charge, reasonable access to, and copies of, all documents, records and other information relevant (as defined in applicable ERISA regulations) to the claimant's claim for benefits.

- (iv). Decision on Review. The Administrator shall respond in writing to such claimant within sixty (60) days after receiving the request for review. If the Administrator determines that special circumstances require an extension of time for processing the claim, written notice of the extension shall be furnished to the claimant prior to the termination of the initial sixty (60) day period. In no event shall such extension exceed a period of sixty (60) days from the end of the initial period. The notice of extension must set forth the special circumstances requiring an extension of time and the date by which the Plan Administrator expects to render its decision.

In considering the review, the Administrator shall take into account all materials and information the claimant submits relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination.

The Administrator shall notify the claimant in writing of its decision on review. The Administrator shall write the notification in a manner calculated to be understood by the claimant. The notification shall set forth:

- (a) The specific reasons for the denial;
- (b) A reference to the specific provisions of the Agreement on which the denial is based;
- (c) A statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records and other information relevant (as defined in applicable ERISA regulations) to the claimant's claim for benefits; and
- (d) A statement of the claimant's right to bring a civil action under ERISA Section 502(a).

- (v) Special Timing and Rules for Disability Claims. In the event a claim above is a claim for disability benefits, then the applicable time periods for notifying claimants regarding benefit determinations shall be reduced as required by 29 CFR 2560.503-1. Thus, the Administrator shall provide notice to the claimant, within a reasonable period of time, but not later than forty-five (45) days after receipt of the claim. This period may be extended by up to thirty (30) days, provided that the Administrator both determines that such an extension is necessary due to matters beyond the control of the plan and notifies the claimant, prior to the expiration of the initial forty-five (45) day period, of the circumstances requiring the extension of time and the date by

which the plan expects to render a decision. If, prior to the end of the first thirty (30) day extension period, the Administrator determines that, due to matters beyond the control of the plan, a decision cannot be rendered within that extension period, the period for making the determination may be extended for up to an additional thirty (30) days, provided that the Administrator notifies the claimant, prior to the expiration of the first thirty (30) day extension period, of the circumstances requiring the extension and the date as of which the plan expects to render a decision. In the case of any extension under this paragraph, the notice of extension shall specifically explain the standards on which entitlement to a benefit is based, the unresolved issues that prevent a decision on the claim, and the additional information needed to resolve those issues, and the claimant shall be afforded at least forty-five (45) days within which to provide the specified information. In addition to complying with such timing rules, a claim under this paragraph shall comply with all procedural requirements under ERISA and the Department of Labor, including but not limited to those rules designed to guarantee an impartial review of all claims, access to documentation and the basis for any decision, and including requirements that the claim be handled in a manner sensitive to any language barrier or impediment.

13. GENDER.

Whenever in this Agreement words are used in the masculine, feminine or neuter gender, they shall be read and construed as in the masculine, feminine or neuter gender, whenever they should so apply.

14. INSURANCE COMPANY NOT A PARTY TO THIS AGREEMENT.

The Insurer shall not be deemed a party to this Agreement, but will respect the rights of the parties as herein developed upon receiving an executed copy of this Agreement. Payment or other performance in accordance with the Policy(ies) provisions shall fully discharge the Insurer from any and all liability.

15. SEVERABILITY AND INTERPRETATION.

If a provision of this Agreement is held to be invalid or unenforceable, the remaining provisions shall nonetheless be enforceable according to their terms. Further, in the event that any provision is held to be overbroad as written such provision shall be deemed amended to narrow its application to the extent necessary to make the provision enforceable according to law and enforced as amended.

16. APPLICABLE LAW.

The laws of the State of Washington shall govern the validity and interpretation of this Agreement.

17. EFFECT OF THE LIFE INSURANCE POLICY'S CONTESTABILITY CLAUSES.

The parties herein understand and agree that the payment of the benefits provided herein are subject to the Life Insurance Policy's suicide and contestability clauses and other such clauses, and if such clauses preclude the Insurer from paying the full death

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proceeds, then, in such event, no death benefits of whatever nature shall be payable to Insured's (or Insured's Assignees) beneficiary(ies) under this Endorsement Method Split Dollar Agreement.

This Agreement shall be effective as of the date first set forth above.

COLUMBIA STATE BANK

Dave Lawson

/s/ DAVID LAWSON Date: 2/25/2019

EVP/Chief Human Resources Officer

/s/ LISA DOW Date: 2/25/2019

Insured- Signature

**FIRST AMENDMENT TO THE
COLUMBIA STATE BANK
ENDORSEMENT METHOD SPLIT DOLLAR AGREEMENT**
(By and Between Columbia State Bank and Lisa Dow)

This First Amendment to the Columbia State Bank Endorsement Method Split Dollar Agreement (hereinafter "Amendment") is made and entered into effective as of February 1, 2019, by and between Columbia State Bank ("Bank"), and Lisa Dow ("Insured"). This Amendment hereby amends the July 1, 2013 Columbia State Bank Endorsement Method Split Dollar Agreement by and between the parties ("Original Agreement"), as follows:

The life insurance policies ("Policies") appearing on page 1 of the Original Agreement under the heading of "Insurer/Policy" shall be removed and replaced with the following Policies:

Massachusetts Mutual Life Insurance Company Policy #0054825
Massachusetts Mutual Life Insurance Company Policy #39139159
Pacific Life Insurance Company Policy #VP80314340

Whereas the Original Agreement and this Amendment reference specific life insurance policies ("Existing Policy[ies]") and such Existing Policy(ies) are subject to exchange for new policies insuring Insured ("Replacement Policy[ies]"), the parties agree that any Replacement Policies will be accorded the same treatment under the Original Agreement and any amendment thereto as Existing Policies and shall, in all respects replace the Existing Policies for which they were exchanged. Furthermore, Insured agrees to cooperate with Bank in all exchanges by providing and promptly returning signatures as requested by Bank, Named Fiduciary or Plan Administrator.

To the extent that any paragraph, term, or provision of the Original Agreement is not specifically amended herein, or in any other amendment thereto, said paragraph, term, or provision shall remain in full force and effect as set forth in said Original Agreement.

IN WITNESS WHEREOF, the Insured and a duly authorized Bank officer have signed this Amendment as of the written date.

COLUMBIA STATE BANK
Dave Lawson

/s/ DAVID LAWSON Date: 2/25/2019
EVP/Chief Human Resources Officer

/s/ LISA DOW Date: 2/25/2019
Insured- Signature

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: May 3, 2019

CERTIFICATION

I, Gregory A. Sigrist, 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/ GREGORY A. SIGRIST

Gregory A. Sigrist
Executive Vice President and
Chief Financial Officer

Date: May 3, 2019

**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 March 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), we, Hadley S. Robbins, President and Chief Executive Officer, and Gregory A. Sigrist, Executive Vice President 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/ GREGORY A. SIGRIST

**Gregory A. Sigrist
Executive Vice President and
Chief Financial Officer
Columbia Banking System, Inc.**

Dated: May 3, 2019