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

# FORM 10-Q

(Mark One)

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

**For the quarterly period ended September 30, 2021.**

☐ **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 000-20288**

# COLUMBIA BANKING SYSTEM, INC.

**(Exact name of registrant as specified in its charter)**

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

**1301 A Street**
**Tacoma, Washington 98402-2156**
**(Address of principal executive offices and 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** | **The Nasdaq Stock Market LLC** |
| **(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 October 31, 2021 was 78,523,358

TABLE OF CONTENTS

**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.”

| | | | |
|---|---|---|---|
| **ACL** | Allowance for Credit Losses | **FASB** | Financial Accounting Standards Board |
| **ASC** | Accounting Standards Codification | **FDIC** | Federal Deposit Insurance Corporation |
| **ASC 326** | Codification related to measurement of credit losses on financial instruments | **FHLB** | Federal Home Loan Bank of Des Moines |
| **ASU** | Accounting Standards Update | **FRB** | Federal Reserve Bank |
| **ATM** | Automated Teller Machine | **GAAP** | Generally Accepted Accounting Principles |
| **Bank of Commerce** | Bank of Commerce Holdings | **GDP** | Gross Domestic Product |
| **B&O** | Business and Occupation | **Intermountain** | Intermountain Community Bancorp |
| **Basel III** | A comprehensive capital framework and rules for U.S. banking organizations approved by the FRB and the FDIC in 2013 | **LIBOR** | London Interbank Offering Rate |
| **BOLI** | Bank Owned Life Insurance | **Nasdaq** | National Association of Securities Dealer Automated Quotations |
| **Capital Rules** | Risk-based capital standards currently applicable to the Company and the Bank. | **N/M** | Not meaningful |
| **CARES Act** | Coronavirus Aid Relief and Economic Security Act | **OPPO** | Other Personal Property Owned |
| **CDI** | Core Deposit Intangible | **OREO** | Other Real Estate Owned |
| **CECL** | Current Expected Credit Losses | **Pacific Continental** | Pacific Continental Corporation |
| **CEO** | Chief Executive Officer | **PPP** | Paycheck Protection Program |
| **CET1** | Common Equity Tier 1 | **RSA** | Restricted Stock Awards |
| **CFO** | Chief Financial Officer | **RSU** | Restricted Stock Units |
| **COVID-19** | Novel Coronavirus | **SBA** | Small Business Administration |
| **DCF** | Discounted Cash Flow | **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 | **West Coast** | West Coast Bancorp |

**PART I - FINANCIAL INFORMATION**
**Item 1. FINANCIAL STATEMENTS**
**CONSOLIDATED BALANCE SHEETS**
*Columbia Banking System, Inc.*
*(Unaudited)*

| | September 30, 2021 | December 31, 2020 |
|---|---|---|
| **ASSETS** | *(in thousands)* | |
| Cash and due from banks | $ 193,715 | $ 218,899 |
| Interest-earning deposits with banks | 703,760 | 434,867 |
| Total cash and cash equivalents | 897,475 | 653,766 |
| Debt securities available for sale at fair value (amortized cost of $4,773,742 and $4,997,529, respectively) | 4,831,919 | 5,210,134 |
| Debt securities held to maturity at amortized cost (fair value of $2,071,051 and $—, respectively) | 2,075,158 | — |
| Equity securities | 13,425 | 13,425 |
| FHLB stock at cost | 10,280 | 10,280 |
| Loans held for sale | 11,355 | 26,481 |
| Loans, net of unearned income | 9,521,385 | 9,427,660 |
| Less: ACL | 142,785 | 149,140 |
| Loans, net | 9,378,600 | 9,278,520 |
| Interest receivable | 52,886 | 54,831 |
| Premises and equipment, net | 157,488 | 162,059 |
| OREO | 381 | 553 |
| Goodwill | 765,842 | 765,842 |
| Other intangible assets, net | 21,123 | 26,734 |
| Other assets | 386,530 | 382,154 |
| Total assets | $ 18,602,462 | $ 16,584,779 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Deposits: | | |
| Noninterest-bearing | $ 7,971,680 | $ 6,913,214 |
| Interest-bearing | 7,981,719 | 6,956,648 |
| Total deposits | 15,953,399 | 13,869,862 |
| FHLB advances | 7,372 | 7,414 |
| Securities sold under agreements to repurchase | 40,040 | 73,859 |
| Subordinated debentures | 35,000 | 35,092 |
| Other liabilities | 243,384 | 250,945 |
| Total liabilities | 16,279,195 | 14,237,172 |
| Commitments and contingent liabilities (Note 10) | | |
| Shareholders' equity: | | |

| | September 30, 2021 | December 31, 2020 | September 30, 2021 | December 31, 2020 |
|---|---|---|---|---|
| | *(in thousands)* | | | |
| Preferred stock (no par value) | | | | |
| Authorized shares | 2,000 | 2,000 | | |
| Common stock (no par value) | | | | |
| Authorized shares | 115,000 | 115,000 | | |
| Issued | 73,944 | 73,782 | 1,670,076 | 1,660,998 |
| Outstanding | 71,760 | 71,598 | | |
| Retained earnings | | | 651,308 | 575,248 |
| Accumulated other comprehensive income | | | 72,717 | 182,195 |
| Treasury stock at cost | 2,184 | 2,184 | (70,834) | (70,834) |
| Total shareholders' equity | | | 2,323,267 | 2,347,607 |
| Total liabilities and shareholders' equity | | | $ 18,602,462 | $ 16,584,779 |

See accompanying Notes to unaudited Consolidated Financial Statements.

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

| | Three Months Ended September 30, 2021 | Three Months Ended September 30, 2020 | Nine Months Ended September 30, 2021 | Nine Months Ended September 30, 2020 |
|---|---|---|---|---|
| | *(in thousands except per share amounts)* | | | |
| ***Interest Income*** | | | | |
| Loans | $ 105,168 | $ 105,739 | $ 305,195 | $ 318,601 |
| Taxable securities | 26,374 | 19,102 | 73,940 | 58,533 |
| Tax-exempt securities | 2,714 | 2,340 | 8,299 | 6,899 |
| Deposits in banks | 284 | 203 | 595 | 480 |
| Total interest income | 134,540 | 127,384 | 388,029 | 384,513 |
| ***Interest Expense*** | | | | |
| Deposits | 1,468 | 2,005 | 4,379 | 7,741 |
| FHLB advances and FRB borrowings | 73 | 166 | 217 | 6,191 |
| Subordinated debentures | 435 | 468 | 1,371 | 1,404 |
| Other borrowings | 24 | 19 | 66 | 178 |
| Total interest expense | 2,000 | 2,658 | 6,033 | 15,514 |
| ***Net Interest Income*** | 132,540 | 124,726 | 381,996 | 368,999 |
| Provision (recapture) for credit losses | — | 7,400 | (6,300) | 82,400 |
| Net interest income after provision (recapture) for credit losses | 132,540 | 117,326 | 388,296 | 286,599 |
| ***Noninterest Income*** | | | | |
| Deposit account and treasury management fees | 6,893 | 6,658 | 19,952 | 20,538 |
| Card revenue | 4,889 | 3,834 | 13,395 | 10,431 |
| Financial services and trust revenue | 4,250 | 3,253 | 11,876 | 9,481 |
| Loan revenue | 5,184 | 6,645 | 17,067 | 16,842 |
| Bank owned life insurance | 1,585 | 1,585 | 4,780 | 4,799 |
| Investment securities gains, net | — | — | 314 | 16,674 |
| Other | 1,157 | 497 | 2,470 | 2,173 |
| Total noninterest income | 23,958 | 22,472 | 69,854 | 80,938 |
| ***Noninterest Expense*** | | | | |
| Compensation and employee benefits | 54,679 | 55,133 | 159,865 | 156,018 |
| Occupancy | 9,695 | 8,734 | 27,739 | 26,743 |
| Data processing and software | 8,515 | 7,095 | 24,368 | 22,175 |
| Legal and professional fees | 4,894 | 3,000 | 10,973 | 8,585 |
| Amortization of intangibles | 1,835 | 2,193 | 5,611 | 6,713 |
| B&O taxes | 1,583 | 1,559 | 4,332 | 3,427 |
| Advertising and promotion | 678 | 680 | 2,026 | 2,822 |
| Regulatory premiums | 1,214 | 826 | 3,431 | 1,894 |
| Net cost (benefit) of operation of OREO | 4 | (160) | 52 | (348) |
| Other | 6,910 | 6,055 | 19,285 | 22,190 |
| Total noninterest expense | 90,007 | 85,115 | 257,682 | 250,219 |
| Income before income taxes | 66,491 | 54,683 | 200,468 | 117,318 |
| Income tax provision | 13,474 | 9,949 | 40,559 | 21,374 |
| ***Net Income*** | $ 53,017 | $ 44,734 | $ 159,909 | $ 95,944 |
| Earnings per common share | | | | |
| Basic | $ 0.75 | $ 0.63 | $ 2.25 | $ 1.35 |
| Diluted | $ 0.74 | $ 0.63 | $ 2.24 | $ 1.35 |
| Weighted average number of common shares outstanding | 71,036 | 70,726 | 70,965 | 70,870 |
| Weighted average number of diluted common shares outstanding | 71,186 | 70,762 | 71,155 | 70,906 |

See accompanying Notes to unaudited Consolidated Financial Statements.

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

| | Three Months Ended September 30, | |
|---|---|---|
| | 2021 | 2020 |
| | *(in thousands)* | |
| Net income | $ 53,017 | $ 44,734 |
| Other comprehensive loss, net of tax: | | |
| Unrealized loss from securities: | | |
| Net unrealized holding loss from available for sale debt securities arising during the period, net of tax of $6,671 and $436 | (22,022) | (1,442) |
| Amortization of net unrealized gain for the reclassification of available for sale securities to held to maturity, net of tax of $141 and $0 | (465) | — |
| Net unrealized loss from securities, net of reclassification adjustment | (22,487) | (1,442) |
| Pension plan liability adjustment: | | |
| Amortization of unrecognized net actuarial loss included in net periodic pension cost, net of tax of $(35) and $(24) | 114 | 80 |
| Pension plan liability adjustment, net | 114 | 80 |
| Unrealized loss from cash flow hedging instruments: | | |
| Net unrealized loss in cash flow hedging instruments arising during the period, net of tax of $0 and $19 | — | (62) |
| Reclassification adjustment for net gain in cash flow hedging instruments included in income, net of tax of $612 and $621 | (2,019) | (2,052) |
| Net unrealized loss from cash flow hedging instruments, net of reclassification adjustment | (2,019) | (2,114) |
| Other comprehensive loss | (24,392) | (3,476) |
| Total comprehensive income | $ 28,625 | $ 41,258 |

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2021 | 2020 |
| | *(in thousands)* | |
| Net income | $ 159,909 | $ 95,944 |
| 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 $31,134 and $(36,690) | (102,777) | 121,114 |
| Reclassification adjustment of net gain from available for sale debt securities arising during the period, net of tax of $73 and $58 | (241) | (191) |
| Amortization of net unrealized gain for the reclassification of available for sale securities to held to maturity, net of tax of $246 and $0 | (810) | — |
| Net unrealized gain (loss) from securities, net of reclassification adjustment | (103,828) | 120,923 |
| Pension plan liability adjustment: | | |
| Amortization of unrecognized net actuarial loss included in net periodic pension cost, net of tax of $(104) and $(72) | 344 | 239 |
| Pension plan liability adjustment, net | 344 | 239 |
| Unrealized gain from cash flow hedging instruments: | | |
| Net unrealized gain in cash flow hedging instruments arising during the period, net of tax of $0 and $(6,218) | — | 20,526 |
| Reclassification adjustment for net gain in cash flow hedging instruments included in income, net of tax of $1,815 and $1,349 | (5,994) | (4,454) |
| Net unrealized gain (loss) from cash flow hedging instruments, net of reclassification adjustment | (5,994) | 16,072 |
| Other comprehensive income (loss) | (109,478) | 137,234 |
| Total comprehensive income | $ 50,431 | $ 233,178 |

See accompanying Notes to unaudited Consolidated Financial Statements.

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

| | Common Stock | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares Outstanding | | Amount | | Retained Earnings | | Accumulated Other Comprehensive Income (Loss) | | Treasury Stock | | Total Shareholders' Equity |
| **For the Three Months Ended September 30, 2021** | | | | | *(in thousands except per share amounts)* | | | | | | |
| Balance at July 1, 2021 | 71,742 | $ | 1,664,953 | $ | 642,018 | $ | 97,109 | $ | (70,834) | $ | 2,333,246 |
| Net income | — | | — | | 53,017 | | — | | — | | 53,017 |
| Other comprehensive loss | — | | — | | — | | (24,392) | | — | | (24,392) |
| Issuance of common stock - employee stock purchase plan | 33 | | 1,253 | | — | | — | | — | | 1,253 |
| Issuance of common stock - RSAs and RSUs, net of canceled awards | (14) | | 3,899 | | — | | — | | — | | 3,899 |
| Purchase and retirement of common stock | (1) | | (29) | | — | | — | | — | | (29) |
| Cash dividends declared on common stock ($0.58 per share) (1) | — | | — | | (43,727) | | — | | — | | (43,727) |
| **Balance at September 30, 2021** | 71,760 | $ | 1,670,076 | $ | 651,308 | $ | 72,717 | $ | (70,834) | $ | 2,323,267 |
| **For the Nine Months Ended September 30, 2021** | | | | | | | | | | | |
| Balance at January 1, 2021 | 71,598 | $ | 1,660,998 | $ | 575,248 | $ | 182,195 | $ | (70,834) | $ | 2,347,607 |
| Net income | — | | — | | 159,909 | | — | | — | | 159,909 |
| Other comprehensive loss | — | | — | | — | | (109,478) | | — | | (109,478) |
| Issuance of common stock - employee stock purchase plan | 74 | | 2,351 | | — | | — | | — | | 2,351 |
| Activity in deferred compensation plan | — | | (8) | | — | | — | | — | | (8) |
| Issuance of common stock - RSAs and RSUs, net of canceled awards | 178 | | 10,835 | | — | | — | | — | | 10,835 |
| Purchase and retirement of common stock | (90) | | (4,100) | | — | | — | | — | | (4,100) |
| Cash dividends declared on common stock ($1.14 per share) | — | | — | | (83,849) | | — | | — | | (83,849) |
| **Balance at September 30, 2021** | 71,760 | $ | 1,670,076 | $ | 651,308 | $ | 72,717 | $ | (70,834) | $ | 2,323,267 |

(1) Dividends declared per common share - regular for the three months ended September 30, 2021 includes both the July 29, 2021 declaration of $0.28 and the September 30, 2021 declaration of $0.30.

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

| | Common Stock | | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| | Shares Outstanding | Amount | | | | |
| **For the Three Months Ended September 30, 2020** | | | *(in thousands except per share amounts)* | | | |
| Balance at July 1, 2020 | 71,586 | $ 1,654,129 | $ 512,383 | $ 181,077 | $ (70,834) | $ 2,276,755 |
| Net income | — | — | 44,734 | — | — | 44,734 |
| Other comprehensive loss | — | — | — | (3,476) | — | (3,476) |
| Issuance of common stock - employee stock purchase plan | 39 | 1,083 | — | — | — | 1,083 |
| Activity in deferred compensation plan | — | (2) | — | — | — | (2) |
| Issuance of common stock - RSAs and RSUs, net of canceled awards | (12) | 3,009 | — | — | — | 3,009 |
| Purchase and retirement of common stock | — | (16) | — | — | — | (16) |
| Cash dividends declared on common stock ($0.28 per share) | — | — | (20,106) | — | — | (20,106) |
| **Balance at September 30, 2020** | 71,613 | $ 1,658,203 | $ 537,011 | $ 177,601 | $ (70,834) | $ 2,301,981 |
| **For the Nine Months Ended September 30, 2020** | | | | | | |
| Balance at January 1, 2020 | 72,124 | $ 1,650,753 | $ 519,676 | $ 40,367 | $ (50,834) | $ 2,159,962 |
| Adjustment to opening retained earnings pursuant to adoption of ASU 2016-13 | — | — | (2,457) | — | — | (2,457) |
| Net income | — | — | 95,944 | — | — | 95,944 |
| Other comprehensive income | — | — | — | 137,234 | — | 137,234 |
| Issuance of common stock - employee stock purchase plan | 65 | 2,028 | — | — | — | 2,028 |
| Activity in deferred compensation plan | — | 2 | — | — | — | 2 |
| Issuance of common stock - RSAs and RSUs, net of canceled awards | 222 | 7,918 | — | — | — | 7,918 |
| Purchase and retirement of common stock | (67) | (2,498) | — | — | — | (2,498) |
| Cash dividends declared on common stock ($1.06 per share) | — | — | (76,152) | — | — | (76,152) |
| Purchase of treasury stock | (731) | — | — | — | (20,000) | (20,000) |
| **Balance at September 30, 2020** | 71,613 | $ 1,658,203 | $ 537,011 | $ 177,601 | $ (70,834) | $ 2,301,981 |

See accompanying Notes to unaudited Consolidated Financial Statements.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

*Columbia Banking System, Inc.*

*(Unaudited)*

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2021 | 2020 |
| | *(in thousands)* | |
| **Cash Flows From Operating Activities** | | |
| Net income | $ 159,909 | $ 95,944 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Provision (recapture) for credit losses | (6,300) | 82,400 |
| Stock-based compensation expense | 10,835 | 7,918 |
| Depreciation, amortization and accretion | 11,383 | 14,456 |
| Investment securities gain, net | (314) | (16,674) |
| Net realized gain on sale of premises and equipment, loans held for investment and OPPO | (268) | (953) |
| Net realized (gain) loss on sale and valuation adjustments of OREO | 40 | (64) |
| Gain on bank owned life insurance death benefit | (209) | — |
| Originations of loans held for sale | (263,367) | (356,962) |
| Proceeds from sales of loans held for sale | 278,187 | 350,273 |
| Change in fair value of loans held for sale | 306 | — |
| Net change in: | | |
| Interest receivable | 1,945 | (9,879) |
| Interest payable | (52) | (399) |
| Other assets | 15,761 | (53,996) |
| Other liabilities | (18,755) | 31,703 |
| Net cash provided by operating activities | 189,101 | 143,767 |
| **Cash Flows From Investing Activities** | | |
| Loans originated, net of principal collected | 108,551 | (938,624) |
| Investment in low income housing tax credit partnerships | (1,106) | — |
| Purchases of: | | |
| Debt securities available for sale | (2,408,578) | (996,951) |
| Debt securities held to maturity | (112,372) | — |
| Loans held for investment | (176,545) | — |
| Premises and equipment | (4,334) | (7,538) |
| FHLB stock | (1) | (53,240) |
| Proceeds from: | | |
| Sales of debt securities available for sale | 26,914 | 194,105 |
| Sales of equity securities | — | 3,000 |
| Principal repayments and maturities of debt securities available for sale | 586,288 | 406,767 |
| Principal repayments and maturities of debt securities held to maturity | 42,653 | — |
| Sales of premises and equipment and loans held for investment | 4,287 | 2,128 |
| Redemption of FHLB stock | 1 | 91,080 |
| Sales of OREO and OPPO | 132 | 1,034 |
| Bank owned life insurance death benefit | 671 | 1,050 |
| Net cash used in investing activities | (1,933,439) | (1,297,189) |
| **Cash Flows From Financing Activities** | | |
| Net increase in deposits | 2,083,537 | 2,915,565 |
| Net decrease in sweep repurchase agreements | (33,819) | (37,471) |
| Proceeds from: | | |
| FHLB advances | 20 | 1,331,000 |
| FRB borrowings | 10 | 222,010 |
| Other borrowings | — | 9,222 |
| Employee stock purchase plan | 2,351 | 2,028 |

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

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2021 | 2020 |
| Payments for: | | |
| Repayment of FHLB advances | (20) | (2,277,000) |
| Repayment of FRB borrowings | (10) | (222,010) |
| Repayment of other borrowings | — | (9,222) |
| Common stock dividends | (59,922) | (75,630) |
| Purchase of treasury stock | — | (20,000) |
| Purchase and retirement of common stock | (4,100) | (2,498) |
| Net cash provided by financing activities | 1,988,047 | 1,835,994 |
| Increase in cash and cash equivalents | 243,709 | 682,572 |
| Cash and cash equivalents at beginning of period | 653,766 | 247,673 |
| Cash and cash equivalents at end of period | $ 897,475 | $ 930,245 |
| **Supplemental Information:** | | |
| Interest paid | $ 6,085 | $ 15,913 |
| Income taxes paid, net of refunds | $ 45,122 | $ 32,745 |
| **Non-cash investing and financing activities** | | |
| Transfer of debt securities available for sale to debt securities held to maturity | $ 2,012,123 | $ — |
| Loans transferred to OREO | $ — | $ 1,033 |
| Premises and equipment expenditures incurred but not yet paid | $ 87 | $ 301 |
| Change in dividends payable included in other liabilities | $ 23,927 | $ 522 |

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 nine months ended September 30, 2021 are not necessarily indicative of results to be anticipated for the year ending December 31, 2021. The accompanying interim unaudited Consolidated Financial Statements should be read in conjunction with the financial statements and related notes contained in the Company's 2020 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 2020 Annual Report on Form 10-K. There have not been any changes in our significant accounting policies compared to those contained in our 2020 Form 10-K disclosure for the year ended December 31, 2020.

*Reclassifications*

Certain amounts reported in prior periods have been reclassified in the Consolidated Financial Statements to conform to the current presentation. Specifically, amounts related to software expense, which prior to January 1, 2021 had historically been included in "Other" noninterest expense, have been combined with data processing expense in the row titled "Data processing and software" in the Consolidated Statements of Income. The reclassifications have no effect on net income or shareholders' equity as previously reported.

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

*Accounting Standards Adopted in 2021*

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848) - Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. In response to concerns about structural risks of the cessation of LIBOR, the amendments in this ASU provide optional guidance for a limited time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. The amendments in this ASU provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. The amendments in this ASU apply only to contracts and hedging relationships that reference LIBOR or another reference rate expected to be discontinued due to reference rate reform. The expedients and exceptions provided by the amendments do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022. The amendments in this ASU are elective and were effective March 12, 2020 for all entities. The adoption of this ASU did not have a material impact on the Company's Consolidated Financial Statements.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740) - Simplifying the Accounting for Income Taxes.* The guidance issued in this ASU simplifies the accounting for income taxes by eliminating certain exceptions to the guidance in ASC 740 related to the approach for intra-period tax allocation, the methodology for calculating income taxes in an interim period and the recognition for deferred tax liabilities for outside basis differences. This ASU also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. The ASU is effective for interim and annual reporting periods beginning after December 15, 2020. The adoption of this ASU did not have a material impact on the Company's Consolidated Financial Statements.

In January 2021, the FASB issued ASU 2021-01, Reference Rate Reform *(Topic 848) - Scope.* The amendments in this ASU clarify that certain optional expedients and exceptions for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. Certain provisions, if elected, apply to derivative instruments that use an interest rate for margining, discounting or contract price alignment that is modified as a result of reference rate reform. Amendments in this ASU to the expedients and exceptions in Topic 848 capture the incremental consequences of the scope clarification and tailor the existing guidance to derivative instruments affected by the discounting transition. The ASU is effective for interim and annual reporting periods beginning on January 7, 2021. The adoption of this ASU is not expected to have a material impact on the Company's Consolidated Financial Statements.

*Recently Issued Accounting Standards, Not Yet Adopted*

There are no recently issued accounting standards that are applicable to the Company and not yet adopted.

**3. Securities**

During the second quarter of 2021, the Company transferred, at fair value, $2.01 billion of U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations from the available for sale classification to the held to maturity classification. The net unrealized after tax gain of $15.5 million remained in accumulated other comprehensive income and will be amortized over the remaining life of the securities, offsetting the related amortization of discount or premium on the transferred securities. No gains or losses were recognized at the time of the transfer.

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

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **September 30, 2021** | | *(in thousands)* | | |
| **Available for sale** | | | | |
| U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations | $ 3,333,804 | $ 63,072 | $ (18,015) | $ 3,378,861 |
| Other asset-backed securities | 417,128 | 4,803 | (6,022) | 415,909 |
| State and municipal securities | 769,775 | 16,370 | (4,972) | 781,173 |
| U.S. government agency and government-sponsored enterprise securities | 253,035 | 4,169 | (1,228) | 255,976 |
| Total available for sale | $ 4,773,742 | $ 88,414 | $ (30,237) | $ 4,831,919 |
| **Held to maturity** | | | | |
| U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations | $ 2,075,158 | $ 2,052 | $ (6,159) | $ 2,071,051 |
| Total held to maturity | $ 2,075,158 | $ 2,052 | $ (6,159) | $ 2,071,051 |
| **December 31, 2020** | | | | |
| **Available for sale** | | | | |
| U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations | $ 3,640,351 | $ 178,579 | $ (4,543) | $ 3,814,387 |
| Other asset-backed securities | 349,904 | 9,651 | (2,076) | 357,479 |
| State and municipal securities | 729,066 | 25,098 | (592) | 753,572 |
| U.S. government agency and government-sponsored enterprise securities | 278,208 | 6,545 | (57) | 284,696 |
| Total available for sale | $ 4,997,529 | $ 219,873 | $ (7,268) | $ 5,210,134 |

There was no allowance for credit losses on both available for sale securities and held to maturity securities as of September 30, 2021 and December 31, 2020. All of the Company's debt securities held to maturity were issued by U.S. government agencies or U.S. government-sponsored enterprises. These securities carry the explicit and/or implicit guarantee of the U.S. government, are widely recognized as "risk free," and have a long history of zero credit loss.

A debt security is placed on nonaccrual status at the time any principal or interest payments become 90 days delinquent. Interest accrued but not received for a security placed on nonaccrual is reversed against interest income. There were no amounts of accrued interest reversed against interest income for the three and nine months ended September 30, 2021 and 2020.

Accrued interest receivable for debt securities is included in "Interest receivable" on the Company's Consolidated Balance Sheet and is not reflected in the balances in the table above. At September 30, 2021 and December 31, 2020, accrued interest receivable for securities available for sale was $15.6 million and $17.1 million, respectively. Accrued interest for securities held to maturity was $4.2 million at September 30, 2021. There was no accrued interest receivable related to securities held to maturity at December 31, 2020, as the Company did not have held to maturity securities at that date. The Company does not measure an allowance for credit losses for accrued interest receivable.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| | *(in thousands)* | | | |
| Proceeds from sales of debt securities available for sale | $ — | $ — | $ 26,914 | $ 194,105 |
| Gross realized gains from sales of debt securities available for sale | $ — | $ — | $ 751 | $ 435 |
| Gross realized losses from sales of debt securities available for sale | — | — | (437) | (186) |
| Other securities gains (1) | — | — | — | 16,425 |
| Investment securities gains, net | $ — | $ — | $ 314 | $ 16,674 |

(1) Other securities gains includes gain from sale of Visa Class B restricted stock and subsequent write up to fair value of remaining Visa Class B shares. For additional information, please see Note 13.

The following table provides the unrealized gains and losses on equity securities at the reporting date:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| | *(in thousands)* | | | |
| Gains recognized during the period on equity securities (1) | $ — | $ — | $ — | $ 16,425 |
| Less: Gains recognized during the period on equity securities sold during the period (1) | — | — | — | (3,000) |
| Unrealized gains recognized during the reporting period on equity securities still held at the reporting date (1) | $ — | $ — | $ — | $ 13,425 |

(1) Visa Class B restricted stock owned by the Company was carried at a zero-cost basis prior to June 2020 due to existing transfer restrictions and uncertainty regarding the outcome of Visa's litigation that must be settled before the Visa Class B restricted shares may be converted into publicly traded Visa Class A common shares. The sale of shares by the Company of Visa Class B restricted shares during the three months ended June 30, 2020 resulted in an observable market price. As a result, the Company adjusted the carrying value of its remaining shares of Visa Class B restricted shares upward to this observable market price.

The scheduled contractual maturities of debt securities at the period presented below are as follows:

| | September 30, 2021 | | | |
|---|---|---|---|---|
| | Available for sale | | Held to maturity | |
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| | (in thousands) | | | |
| Due within one year | $ 61,198 | $ 61,791 | $ — | $ — |
| Due after one year through five years | 781,405 | 807,659 | 72,430 | 72,215 |
| Due after five years through ten years | 1,526,384 | 1,559,371 | 1,235,888 | 1,233,393 |
| Due after ten years | 2,404,755 | 2,403,098 | 766,840 | 765,443 |
| Total debt securities | $ 4,773,742 | $ 4,831,919 | $ 2,075,158 | $ 2,071,051 |

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

| | September 30, 2021 |
|---|---|
| | (in thousands) |
| To secure public funds | $ 490,494 |
| To secure borrowings | 99,665 |
| Other securities pledged | 254,716 |
| Total securities pledged as collateral | $ 844,875 |

The following table shows the gross unrealized losses and fair value of the Company's debt securities available for sale for which an allowance for credit losses has not been recorded, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of the dates presented:

| | Less than 12 Months | | 12 Months or More | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| **September 30, 2021** | | | (in thousands) | | | |
| U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations | $ 1,744,928 | $ (15,723) | $ 69,031 | $ (2,292) | $ 1,813,959 | $ (18,015) |
| Other asset-backed securities | 170,492 | (3,490) | 89,936 | (2,532) | 260,428 | (6,022) |
| State and municipal securities | 315,235 | (4,406) | 20,961 | (566) | 336,196 | (4,972) |
| U.S. government agency and government-sponsored enterprise securities | 101,669 | (633) | 49,405 | (595) | 151,074 | (1,228) |
| Total | $ 2,332,324 | $ (24,252) | $ 229,333 | $ (5,985) | $ 2,561,657 | $ (30,237) |
| **December 31, 2020** | | | | | | |
| U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations | $ 575,329 | $ (3,728) | $ 18,527 | $ (815) | $ 593,856 | $ (4,543) |
| Other asset-backed securities | 143,764 | (2,076) | 70 | — | 143,834 | (2,076) |
| State and municipal securities | 86,471 | (592) | — | — | 86,471 | (592) |
| U.S. government agency and government-sponsored enterprise securities | 74,943 | (57) | — | — | 74,943 | (57) |
| Total | $ 880,507 | $ (6,453) | $ 18,597 | $ (815) | $ 899,104 | $ (7,268) |

*Debt securities available for sale*

At September 30, 2021, there were 137 U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligation securities in an unrealized loss position. 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 concluded an allowance for credit losses is unnecessary at September 30, 2021.

At September 30, 2021, there were 21 other asset-backed securities in an unrealized loss position. 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 concluded an allowance for credit losses is unnecessary at September 30, 2021.

At September 30, 2021, there were 109 state and municipal government securities in an unrealized loss position. The unrealized losses on state and municipal securities were caused by interest rate changes or widening of market spreads subsequent to the purchase of the individual securities. Management monitors published credit ratings of these securities for adverse changes. As of September 30, 2021, 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 concluded an allowance for credit losses is unnecessary at September 30, 2021.

At September 30, 2021, there were 11 U.S. government securities in an unrealized loss position. 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 concluded an allowance for credit losses is unnecessary at September 30, 2021.

**Equity Securities without Readily Determinable Fair Values**

*Visa Class B Restricted Shares*

In 2008, the Company received Visa Class B restricted shares as part of Visa's initial public offering. These shares are transferable only under limited circumstances until they can be converted into publicly traded Visa Class A common shares. This conversion will not occur until the settlement of certain litigation which is indemnified by Visa members, including the Company. Visa funded an escrow account from its initial public offering to settle these litigation claims. Should this escrow account not be sufficient to cover these litigation claims, Visa is entitled to fund additional amounts to the escrow account by reducing each member bank's Visa Class B conversion ratio to unrestricted Visa Class A shares.

During the second quarter of 2020, the Company sold 17,360 shares of Visa Class B restricted stock, which resulted in an observable market price. As a result, the Company adjusted the carrying value of its remaining Visa Class B restricted shares upward to this observable market price. At September 30, 2021, the Company owned 77,683 Visa Class B shares, which had a carrying value of $13.4 million.

**4. Loans**

The Company's loan portfolio includes originated and purchased loans. The following is an analysis of the loan portfolio by segment and class (net of unearned income):

| | September 30, 2021 | December 31, 2020 |
|---|---|---|
| | *(dollars in thousands)* | |
| Commercial loans: | | |
| Commercial real estate | $ 4,088,484 | $ 4,062,313 |
| Commercial business | 3,436,351 | 3,597,968 |
| Agriculture | 815,985 | 779,627 |
| Construction | 326,569 | 268,663 |
| Consumer loans: | | |
| One-to-four family residential real estate | 823,877 | 683,570 |
| Other consumer | 30,119 | 35,519 |
| Total loans | 9,521,385 | 9,427,660 |
| Less: Allowance for credit losses | (142,785) | (149,140) |
| Total loans, net | $ 9,378,600 | $ 9,278,520 |

At September 30, 2021 and December 31, 2020, 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.

At September 30, 2021 and December 31, 2020, $3.21 billion and $3.46 billion of commercial and residential real estate loans were pledged as collateral on FHLB advances and additional borrowing capacity. The Company has also pledged $200.1 million and $200.4 million of commercial loans to the FRB for additional borrowing capacity at September 30, 2021 and December 31, 2020, respectively.

Accrued interest receivable for loans is included in "Interest receivable" on the Company's Consolidated Balance Sheet and is not reflected in the balances in the table above. At September 30, 2021 and December 31, 2020, accrued interest receivable for loans was $33.0 million and $37.8 million, respectively. The Company does not measure an allowance for credit losses for accrued interest receivable.

The following is an aging of the recorded investment of the loan portfolio at the dates presented:

| September 30, 2021 | 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 |
|---|---|---|---|---|---|---|---|
| | | | | (in thousands) | | | |
| Commercial loans: | | | | | | | |
| Commercial real estate | $ 4,081,036 | $ 3,803 | $ 774 | $ — | $ 4,577 | $ 2,871 | $ 4,088,484 |
| Commercial business | 3,421,381 | 1,334 | 1,531 | — | 2,865 | 12,105 | 3,436,351 |
| Agriculture | 808,279 | — | — | — | — | 7,706 | 815,985 |
| Construction | 326,569 | — | — | — | — | — | 326,569 |
| Consumer loans: | | | | | | | |
| One-to-four family residential real estate | 822,170 | 10 | 206 | — | 216 | 1,491 | 823,877 |
| Other consumer | 30,020 | 96 | — | — | 96 | 3 | 30,119 |
| Total | $ 9,489,455 | $ 5,243 | $ 2,511 | $ — | $ 7,754 | $ 24,176 | $ 9,521,385 |

| December 31, 2020 | 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 |
|---|---|---|---|---|---|---|---|
| | | | | (in thousands) | | | |
| Commercial loans: | | | | | | | |
| Commercial real estate | $ 4,037,309 | $ 17,292 | $ — | $ — | $ 17,292 | $ 7,712 | $ 4,062,313 |
| Commercial business | 3,578,905 | 1,282 | 4,559 | — | 5,841 | 13,222 | 3,597,968 |
| Agriculture | 767,102 | 911 | — | — | 911 | 11,614 | 779,627 |
| Construction | 268,304 | — | 142 | — | 142 | 217 | 268,663 |
| Consumer loans: | | | | | | | |
| One-to-four family residential real estate | 677,627 | 2,283 | 1,659 | — | 3,942 | 2,001 | 683,570 |
| Other consumer | 35,450 | 24 | 5 | — | 29 | 40 | 35,519 |
| Total | $ 9,364,697 | $ 21,792 | $ 6,365 | $ — | $ 28,157 | $ 34,806 | $ 9,427,660 |

Loan payments are considered timely when the contractual principal or interest due in accordance with the terms of the loan agreement or any portion thereof is received on the due date of the scheduled payment. In addition, the risk rating on loans modified in association with the CARES Act or Interagency guidance did not change. These loans are not considered past due until after the deferral period is over and scheduled payments resume. Accrued interest on these COVID-19 modified loans is due, in full, when the deferral period ends. The credit quality of these loans will be reevaluated after the deferral period ends.

Nonaccrual loans are generally loans placed on a nonaccrual basis when they become 90 days past due or when there are otherwise serious doubts about the collectability of principal or interest within the existing terms of the loan. The Company's policy is to write-off all accrued interest on loans when they are placed on nonaccrual status.

The following table summarizes written-off interest on nonaccrual loans for the periods indicated:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| | *(in thousands)* | | | |
| Commercial loans | $ 83 | $ 387 | $ 507 | $ 1,835 |
| Consumer loans | 16 | 6 | 25 | 19 |
| Total | $ 99 | $ 393 | $ 532 | $ 1,854 |

The following summarizes the amortized cost of nonaccrual loans for which there was no related ACL for the periods indicated:

| | September 30, 2021 | December 31, 2020 |
|---|---|---|
| | *(in thousands)* | |
| Commercial loans: | | |
| Commercial real estate | $ 942 | $ 6,393 |
| Commercial business | 6,861 | 6,382 |
| Agriculture | 5,792 | 8,136 |
| Consumer loans: | | |
| One-to-four family residential real estate | 502 | — |
| Total | $ 14,097 | $ 20,911 |

The following is an analysis of loans classified as TDR for the periods indicated:

| | Three Months Ended September 30, 2021 | | | Three Months Ended September 30, 2020 | | |
|---|---|---|---|---|---|---|
| | Number of TDR Modifications | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Number of TDR Modifications | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
| | *(dollars in thousands)* | | | | | |
| Commercial loans: | | | | | | |
| Commercial business | — | $ — | $ — | 4 | $ 795 | $ 795 |
| Agriculture | — | — | — | 1 | 2,600 | 2,600 |
| Consumer loans: | | | | | | |
| One-to-four family residential real estate | 1 | 15 | 15 | 4 | 618 | 618 |
| Total | 1 | $ 15 | $ 15 | 9 | $ 4,013 | $ 4,013 |

| | Nine Months Ended September 30, 2021 | | | Nine Months Ended September 30, 2020 | | |
|---|---|---|---|---|---|---|
| | Number of TDR Modifications | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Number of TDR Modifications | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
| | *(dollars in thousands)* | | | | | |
| Commercial loans: | | | | | | |
| Commercial real estate | 1 | $ 628 | $ 628 | — | $ — | $ — |
| Commercial business | 11 | 2,600 | 2,600 | 10 | 2,757 | 2,757 |
| Agriculture | — | — | — | 2 | 3,495 | 3,495 |
| Consumer loans: | | | | | | |
| One-to-four family residential real estate | 3 | 155 | 155 | 6 | 814 | 814 |
| Total | 15 | $ 3,383 | $ 3,383 | 18 | $ 7,066 | $ 7,066 |

The Company's loans classified as TDR are loans that have been modified or with respect to which 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. Loans classified as TDR are included with the loans collectively measured for credit losses.

The Company had commitments to lend $1.3 million of additional funds on loans classified as TDR as of September 30, 2021. The Company had $651 thousand of such commitments at December 31, 2020. The Company had no loans classified as TDR that defaulted within 12 months of being classified as TDR during the three months and nine months ended September 30, 2021 and 2020.

Financial institutions are required to maintain records of the volume of loans involved in modifications to which troubled debt restructuring relief is applicable. At September 30, 2021, the Company had 9 short–term deferments on $32.8 million of loans, gross of unearned income. These short–term deferments are not classified as TDRs and will not be reported as past due provided that they are performing in accordance with the modified terms.

The Company offered PPP loans to provide financial support to small and medium-size businesses to cover payroll and certain other expenses during the COVID-19 pandemic. The PPP was established by the CARES Act and is implemented by the U.S. SBA with support from the U.S. Department of Treasury. The program, which was amended by the Paycheck Protection Flexibility Act of 2020, provides small businesses with funds to pay up to 24 weeks of payroll costs including benefits, as well as interest on mortgages, rent and utilities. Funds are provided to small businesses in the form of loans that will be fully forgiven when used for permitted purposes and when at least 60% of the funds are used for payroll costs and applicable employment levels are maintained in accordance with the requirements of the amended PPP. At September 30, 2021, we had $337.0 million of PPP loans outstanding, which are included in commercial business loans.

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

The ACL is determined through quarterly assessments of expected credit losses within the loan portfolio and is deducted from the loan's amortized cost basis to present the net amount of loans expected to be collected. We estimate the ACL using relevant and reliable available information, which is derived from both internal and external sources, relating to past events, current conditions and reasonable and supportable forecasts. Additions to and recaptures from the ACL are charged to current period earnings through the provision for credit losses. Loan amounts that are determined to be uncollectible are charged directly against the ACL and netted against amounts recovered on previously charged-off loans.

For the purpose of calculating portfolio level reserves, we have segmented our loan portfolio into two portfolio segments (Commercial and Consumer). The Commercial and Consumer portfolio segments are then further broken down into loan classes by risk characteristics. The risk characteristics include regulatory call codes, type of industry and collateral type.

The ACL is comprised of reserves measured on a collective (pool) basis using a quantitative DCF model for all loan classes with similar risk characteristics and then qualitatively adjusted for large loan concentrations, policy exemptions granted and other factors. The quantitative DCF model utilizes anticipated period cash flows determined on a loan-level basis. The anticipated cash flows take into account contractual principal and interest payments, anticipated segment level prepayments, probability of defaults and historical loss given defaults. The majority of our loan classes utilize regression models to calculate probability of defaults, in which macroeconomic factors are correlated to historical quarterly defaults. The Commercial segment multi-factor models utilize a mix of 15 macroeconomic factors, including the four most commonly used factors: Real GDP, National Unemployment Rate, Disposable Personal Income and Private Inventories. The Consumer segment multi-factor models utilize a mix of three macroeconomic factors: National Unemployment Rate, Home Price Index and Disposable Income. The Company utilizes an 18 month reasonable and supportable forecast for the macroeconomic factors, after which the probability of default reverts to its historical mean using a straight-line basis constructed on each macroeconomic factor's absolute historical quarterly change.

Loans are individually measured for credit losses if they do not share similar risk characteristics of other loans within their respective pools. Individually measured loans are primarily nonaccrual and collateral dependent with balances equal to or greater than $500,000 and for which foreclosure is probable. Commercial real estate loans are secured by commercial real estate, including owner occupied and non-owner occupied commercial real estate, as well as multifamily residential real estate. Commercial business loans are primarily secured by non-real estate collateral, including equipment and other non-real estate fixed assets, inventory, receivables and cash. Agricultural loans are secured by farmland and other agricultural real estate, as well as equipment, inventory, such as crops and livestock, non-real estate fixed assets, and cash. Construction loans are secured by one-to-four family residential real estate and commercial real estate in varying stages of development. One-to-four family residential real estate loans are secured by one-to-four family residential properties. Other consumer loans are secured by personal property. For loans measured on an individual basis, the Company calculates the allowance as the difference between the amortized cost of the loan and the fair market value of the collateral. The fair market value of the collateral is determined by either the discounted expected future cash flows from the operation of the collateral or the appraised value of the collateral, less costs to sell. If the fair value of the collateral is greater than the amortized cost of the loan, no reserve is recorded.

The Company also records an allowance for credit losses on unfunded loan commitments and letters of credit. We estimate expected credit losses on unfunded commitments in which we are exposed to credit risk, unless we have the option to unconditionally cancel the obligation. Expected credit losses are calculated based on the likelihood that funding will occur and an estimate of what will be funded by analyzing the most recent four-quarter utilization rates, current utilization and our quantitative ACL rate. The allowance for unfunded commitments and letters of credit is included in “Other Liabilities” on the Consolidated Balance Sheets, with changes to the balance being charged to noninterest expense.

We do not measure an allowance for credit losses on accrued interest receivable balances because these balances are written-off in a timely manner as a reduction to interest income when loans are placed on nonaccrual status.

The following tables show a detailed analysis of the ACL for the periods indicated:

| | Beginning Balance | Charge-offs | Recoveries | Provision (Recapture) | Ending Balance |
|---|---|---|---|---|---|
| **Three Months Ended September 30, 2021** | | | *(in thousands)* | | |
| Commercial loans: | | | | | |
| Commercial real estate | $ 53,250 | $ — | $ 518 | $ (2,016) | $ 51,752 |
| Commercial business | 57,554 | (1,183) | 328 | (1,138) | 55,561 |
| Agriculture | 7,920 | — | 6 | 1,039 | 8,965 |
| Construction | 6,559 | — | 8 | (200) | 6,367 |
| Consumer loans: | | | | | |
| One-to-four family residential real estate | 16,519 | — | 203 | 2,133 | 18,855 |
| Other consumer | 1,186 | (296) | 213 | 182 | 1,285 |
| Total | $ 142,988 | $ (1,479) | $ 1,276 | $ — | $ 142,785 |

| | Beginning Balance | Charge-offs | Recoveries | Provision (Recapture) | Ending Balance |
|---|---|---|---|---|---|
| **Nine Months Ended September 30, 2021** | | | *(in thousands)* | | |
| Commercial loans: | | | | | |
| Commercial real estate | $ 68,934 | $ (316) | $ 570 | $ (17,436) | $ 51,752 |
| Commercial business | 45,250 | (5,493) | 4,416 | 11,388 | 55,561 |
| Agriculture | 9,052 | (122) | 23 | 12 | 8,965 |
| Construction | 7,636 | — | 575 | (1,844) | 6,367 |
| Consumer loans: | | | | | |
| One-to-four family residential real estate | 16,875 | (146) | 757 | 1,369 | 18,855 |
| Other consumer | 1,393 | (808) | 489 | 211 | 1,285 |
| Total | $ 149,140 | $ (6,885) | $ 6,830 | $ (6,300) | $ 142,785 |

| Three Months Ended September 30, 2020 | Beginning Balance | Charge-offs | Recoveries | Provision (Recapture) | Ending Balance |
|---|---|---|---|---|---|
| | | | (in thousands) | | |
| Commercial loans: | | | | | |
| Commercial real estate | $ 50,233 | $ — | $ 65 | $ 11,026 | $ 61,324 |
| Commercial business | 53,186 | (3,164) | 1,124 | (574) | 50,572 |
| Agriculture | 14,868 | (1,269) | 27 | (1,165) | 12,461 |
| Construction | 7,953 | — | 11 | 999 | 8,963 |
| Consumer loans: | | | | | |
| One-to-four family residential real estate | 23,711 | (16) | 1,301 | (2,889) | 22,107 |
| Other consumer | 1,595 | (133) | 76 | 3 | 1,541 |
| Total | $ 151,546 | $ (4,582) | $ 2,604 | $ 7,400 | $ 156,968 |

| Nine Months Ended September 30, 2020 | Beginning Balance | Impact of Adopting ASC 326 | Charge-offs | Recoveries | Provision (Recapture) | Ending Balance |
|---|---|---|---|---|---|---|
| | | | (in thousands) | | | |
| Commercial loans: | | | | | | |
| Commercial real estate | $ 20,340 | $ 7,533 | $ (101) | $ 92 | $ 33,460 | $ 61,324 |
| Commercial business | 30,292 | 762 | (10,290) | 2,795 | 27,013 | 50,572 |
| Agriculture | 15,835 | (9,325) | (5,995) | 69 | 11,877 | 12,461 |
| Construction | 8,571 | (1,750) | — | 688 | 1,454 | 8,963 |
| Consumer loans: | | | | | | |
| One-to-four family residential real estate | 7,435 | 4,237 | (26) | 2,005 | 8,456 | 22,107 |
| Other consumer | 883 | 778 | (599) | 330 | 149 | 1,541 |
| Unallocated | 612 | (603) | — | — | (9) | — |
| Total | 83,968 | 1,632 | (17,011) | 5,979 | 82,400 | 156,968 |

The $6.4 million decrease in the ACL at September 30, 2021 compared to the ACL at December 31, 2020 was primarily due to a slight improvement in the economic outlook, which remains impacted by the COVID-19 pandemic and its impact on our borrowers. Specifically regarding the forecast used in the September 30, 2021 estimate, management expects the forecasted national unemployment rate to return to pre-pandemic levels in 2023. Additionally, the commercial real estate index decline is expected to continue through 2021, followed by a slight increase in 2022. The home price index is projected to moderate over the forecast period and real GDP growth is projected to continue to be above average during this time. The models used for calculating the ACL are sensitive to changes in these and other economic factors, which could result in volatility as these assumptions change over time. The ACL at September 30, 2021 does not include a reserve for the PPP loans as these loans are fully guaranteed by the SBA.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| | | (in thousands) | | |
| Beginning balance | $ 10,000 | $ 8,800 | $ 8,300 | $ 3,430 |
| Impact of adopting ASC 326 | — | — | — | 1,570 |
| Net changes in the allowance for unfunded commitments and letters of credit | 500 | 800 | 2,200 | 4,600 |
| Ending balance | $ 10,500 | $ 9,600 | $ 10,500 | $ 9,600 |

**Credit Quality Indicators**

The extension of credit in the form of loans or other credit products to consumer and commercial clients 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.

We evaluate the credit quality of our loan portfolio using regulatory risk ratings, which are based on relevant information about the borrower's financial condition, including current financial condition, historical payment experience, credit documentation and current economic trends. Risk ratings are reviewed and updated whenever appropriate, with more periodic reviews as the risk and dollar value of the loss on the loan increases. All loans risk rated special mention or worse with amortized costs exceeding $100,000 are reviewed at least quarterly with more frequent review for specific loans.

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 or accrual status 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 uncollectible and when identified, are charged-off.

The following is an analysis of the credit quality of our loan portfolio as of the periods indicated:

| | Term Loans Amortized Cost Basis by Origination Year 2021 | 2020 | 2019 | 2018 | 2017 | Prior | Revolving Loans Amortized Cost Basis | Revolving Loans Converted to Term Loans Amortized Cost Basis | Total (1) |
|---|---|---|---|---|---|---|---|---|---|
| **September 30, 2021** | | | | | (in thousands) | | | | |
| Commercial loans: | | | | | | | | | |
| Commercial real estate | | | | | | | | | |
| Pass | $ 1,250,051 | $ 490,402 | $ 460,118 | $ 359,635 | $ 342,653 | $ 823,529 | $ 58,180 | $ 4,263 | $ 3,788,831 |
| Special mention | 21,356 | 10,947 | 24,415 | 9,575 | 26,238 | 29,400 | — | 2,199 | 124,130 |
| Substandard | 10,148 | 1,659 | 53,222 | 5,944 | 25,747 | 76,825 | 1,978 | — | 175,523 |
| Total commercial real estate | $ 1,281,555 | $ 503,008 | $ 537,755 | $ 375,154 | $ 394,638 | $ 929,754 | $ 60,158 | $ 6,462 | $ 4,088,484 |
| Commercial business | | | | | | | | | |
| Pass | $ 864,775 | $ 418,353 | $ 279,874 | $ 224,100 | $ 140,381 | $ 260,224 | $ 1,033,171 | $ 21,028 | $ 3,241,906 |
| Special mention | 109 | 19 | 6,223 | 1,487 | 145 | 127 | 59,678 | 244 | 68,032 |
| Substandard | 5,412 | 3,911 | 22,329 | 27,519 | 20,825 | 28,389 | 16,382 | 1,646 | 126,413 |
| Total commercial business | $ 870,296 | $ 422,283 | $ 308,426 | $ 253,106 | $ 161,351 | $ 288,740 | $ 1,109,231 | $ 22,918 | $ 3,436,351 |
| Agriculture | | | | | | | | | |
| Pass | $ 150,807 | $ 78,668 | $ 73,200 | $ 31,159 | $ 48,274 | $ 78,461 | $ 283,932 | $ 1,770 | $ 746,271 |
| Special mention | 3,158 | 1,078 | 700 | 186 | 64 | — | 3,913 | — | 9,099 |
| Substandard | 6,429 | 7,398 | 7,676 | 1,830 | 4,709 | 1,140 | 30,823 | 610 | 60,615 |
| Total agriculture | $ 160,394 | $ 87,144 | $ 81,576 | $ 33,175 | $ 53,047 | $ 79,601 | $ 318,668 | $ 2,380 | $ 815,985 |
| Construction | | | | | | | | | |
| Pass | $ 174,463 | $ 80,720 | $ 8,279 | $ 3,238 | $ 2,110 | $ 4,569 | $ 32,315 | $ 310 | $ 306,004 |
| Substandard | — | — | 20,511 | — | — | 54 | — | — | 20,565 |
| Total construction | $ 174,463 | $ 80,720 | $ 28,790 | $ 3,238 | $ 2,110 | $ 4,623 | $ 32,315 | $ 310 | $ 326,569 |
| Consumer loans: | | | | | | | | | |
| One-to-four family residential real estate | | | | | | | | | |
| Pass | $ 290,818 | $ 131,779 | $ 48,990 | $ 40,142 | $ 18,438 | $ 55,278 | $ 234,434 | $ 1,426 | $ 821,305 |
| Substandard | 1,235 | 398 | 193 | — | 85 | 527 | 62 | 72 | 2,572 |
| Total one-to-four family real estate | $ 292,053 | $ 132,177 | $ 49,183 | $ 40,142 | $ 18,523 | $ 55,805 | $ 234,496 | $ 1,498 | $ 823,877 |
| Other consumer | | | | | | | | | |
| Pass | $ 5,483 | $ 2,841 | $ 1,895 | $ 1,467 | $ 582 | $ 947 | $ 15,662 | $ 1,201 | $ 30,078 |
| Substandard | — | 15 | — | — | 1 | 2 | 23 | — | 41 |
| Total consumer | $ 5,483 | $ 2,856 | $ 1,895 | $ 1,467 | $ 583 | $ 949 | $ 15,685 | $ 1,201 | $ 30,119 |
| Total | $ 2,784,244 | $ 1,228,188 | $ 1,007,625 | $ 706,282 | $ 630,252 | $ 1,359,472 | $ 1,770,553 | $ 34,769 | $ 9,521,385 |
| Less: | | | | | | | | | |
| Allowance for credit losses | | | | | | | | | 142,785 |
| Loans, net | | | | | | | | | $ 9,378,600 |

(1) Loans that are on short-term deferments are treated as Pass loans and will not be reported as past due provided that they are performing in accordance with the modified terms.

| | Term Loans Amortized Cost Basis by Origination Year 2020 | 2019 | 2018 | 2017 | 2016 | Prior | Revolving Loans Amortized Cost Basis | Revolving Loans Converted to Term Loans Amortized Cost Basis | Total |
|---|---|---|---|---|---|---|---|---|---|
| **December 31, 2020** | | | | | (in thousands) | | | | |
| Commercial loans: | | | | | | | | | |
| Commercial real estate | | | | | | | | | |
| Pass | $ 674,444 | $ 645,328 | $ 478,881 | $ 502,112 | $ 408,972 | $ 946,980 | $ 52,049 | $ 11,332 | $ 3,720,098 |
| Special mention | 3,348 | 39,374 | 21,285 | 30,232 | 46,197 | 50,115 | 5 | 2,139 | 192,695 |
| Substandard | 2,916 | 24,860 | 13,571 | 15,652 | 43,735 | 41,138 | 3,389 | 4,259 | 149,520 |
| Total commercial real estate | $ 680,708 | $ 709,562 | $ 513,737 | $ 547,996 | $ 498,904 | $ 1,038,233 | $ 55,443 | $ 17,730 | $ 4,062,313 |
| Commercial business | | | | | | | | | |
| Pass | $ 1,087,400 | $ 366,435 | $ 324,360 | $ 199,010 | $ 218,313 | $ 214,677 | $ 1,000,725 | $ 11,540 | $ 3,422,460 |
| Special mention | 3,002 | 26,361 | 8,471 | 24,582 | 7,004 | 10,650 | 22,426 | — | 102,496 |
| Substandard | 3,625 | 7,376 | 11,061 | 5,905 | 6,396 | 3,743 | 32,134 | 2,772 | 73,012 |
| Total commercial business | $ 1,094,027 | $ 400,172 | $ 343,892 | $ 229,497 | $ 231,713 | $ 229,070 | $ 1,055,285 | $ 14,312 | $ 3,597,968 |
| Agriculture | | | | | | | | | |
| Pass | $ 142,163 | $ 90,612 | $ 44,434 | $ 58,366 | $ 58,893 | $ 59,396 | $ 244,135 | $ 9,299 | $ 707,298 |
| Special mention | — | 90 | 285 | 33 | — | — | 85 | 13 | 506 |
| Substandard | 5,193 | 12,480 | 5,868 | 4,258 | 284 | 3,502 | 38,780 | 1,458 | 71,823 |
| Total agriculture | $ 147,356 | $ 103,182 | $ 50,587 | $ 62,657 | $ 59,177 | $ 62,898 | $ 283,000 | $ 10,770 | $ 779,627 |
| Construction | | | | | | | | | |
| Pass | $ 134,693 | $ 66,974 | $ 10,066 | $ 3,498 | $ 763 | $ 1,805 | $ 29,323 | $ 3,753 | $ 250,875 |
| Substandard | — | 17,732 | — | — | — | 56 | — | — | 17,788 |
| Total construction | $ 134,693 | $ 84,706 | $ 10,066 | $ 3,498 | $ 763 | $ 1,861 | $ 29,323 | $ 3,753 | $ 268,663 |
| Consumer loans: | | | | | | | | | |
| One-to-four family real estate | | | | | | | | | |
| Pass | $ 161,021 | $ 77,756 | $ 62,696 | $ 29,737 | $ 20,889 | $ 78,098 | $ 243,325 | $ 3,655 | $ 677,177 |
| Special mention | — | — | 332 | — | — | 195 | — | — | 527 |
| Substandard | — | 849 | 227 | 1,166 | 344 | 1,968 | 1,005 | 307 | 5,866 |
| Total one-to-four family real estate | $ 161,021 | $ 78,605 | $ 63,255 | $ 30,903 | $ 21,233 | $ 80,261 | $ 244,330 | $ 3,962 | $ 683,570 |
| Other consumer | | | | | | | | | |
| Pass | $ 5,548 | $ 3,109 | $ 3,886 | $ 989 | $ 244 | $ 1,060 | $ 19,911 | $ 474 | $ 35,221 |
| Substandard | 30 | — | — | 5 | — | 170 | 53 | 40 | 298 |
| Total consumer | $ 5,578 | $ 3,109 | $ 3,886 | $ 994 | $ 244 | $ 1,230 | $ 19,964 | $ 514 | $ 35,519 |
| Total | $ 2,223,383 | $ 1,379,336 | $ 985,423 | $ 875,545 | $ 812,034 | $ 1,413,553 | $ 1,687,345 | $ 51,041 | $ 9,427,660 |
| Less: | | | | | | | | | |
| Allowance for credit losses | | | | | | | | | 149,140 |
| Loans, net | | | | | | | | | $ 9,278,520 |

## 6. Other Real Estate Owned

The following tables set forth activity in OREO for the periods indicated:

| | Three Months Ended September 30, 2021 | Three Months Ended September 30, 2020 | Nine Months Ended September 30, 2021 | Nine Months Ended September 30, 2020 |
|---|---|---|---|---|
| | (in thousands) | | | |
| Balance, beginning of period | $ 381 | $ 747 | $ 553 | $ 552 |
| Transfers in | — | 475 | — | 1,033 |
| Valuation adjustments | — | — | (140) | — |
| Proceeds from sale of OREO property | — | (681) | (132) | (1,026) |
| Gain on sale of OREO, net | — | 82 | 100 | 64 |
| Balance, end of period | $ 381 | $ 623 | $ 381 | $ 623 |

At September 30, 2021, there were no foreclosed residential real estate properties held as OREO. Additionally, there were no consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process.

## 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 Company performed an annual impairment assessment as of July 31, 2021 and concluded that there was no impairment.

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

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

| | Three Months Ended September 30, 2021 | Three Months Ended September 30, 2020 | Nine Months Ended September 30, 2021 | Nine Months Ended September 30, 2020 |
|---|---|---|---|---|
| | (in thousands) | | | |
| **Goodwill** | | | | |
| Total goodwill | $ 765,842 | $ 765,842 | $ 765,842 | $ 765,842 |
| **Other intangible assets, net** | | | | |
| CDI: | | | | |
| Gross CDI balance at beginning of period | 105,473 | 105,473 | 105,473 | 105,473 |
| Accumulated amortization at beginning of period | (83,434) | (75,454) | (79,658) | (70,934) |
| CDI, net at beginning of period | 22,039 | 30,019 | 25,815 | 34,539 |
| CDI current period amortization | (1,835) | (2,193) | (5,611) | (6,713) |
| Total CDI, net at end of period | 20,204 | 27,826 | 20,204 | 27,826 |
| Intangible assets not subject to amortization | 919 | 919 | 919 | 919 |
| Other intangible assets, net at end of period | 21,123 | 28,745 | 21,123 | 28,745 |
| Total goodwill and other intangible assets at end of period | $ 786,965 | $ 794,587 | $ 786,965 | $ 794,587 |

The following table provides the estimated future amortization expense of our CDI for the remaining three months ending December 31, 2021 and the succeeding four years:

| | Year ending December 31, |
|---|---|
| | *(in thousands)* |
| 2021 | $ 1,653 |
| 2022 | 5,880 |
| 2023 | 4,552 |
| 2024 | 3,432 |
| 2025 | 2,415 |

## 8. Revolving Line of Credit

The Company has a $15.0 million short-term credit facility with an unaffiliated bank, for which the term was extended through May 26, 2022 as a result of an amendment executed during the second quarter of 2021. This facility has a variable interest rate and provides the Company additional liquidity, if needed, for various corporate activities including the repurchase of shares of Columbia Banking System, Inc. common stock. There was no outstanding balance at both September 30, 2021 and December 31, 2020. The credit agreement requires the Company to comply with certain covenants including those related to asset quality and capital levels. The Company was in compliance with all covenants associated with this facility at September 30, 2021.

## 9. 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 interest rate-based 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 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 used an interest rate collar 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 were 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 (loss) 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 (loss) related to derivatives are 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 $10.4 million reclassified as an increase to interest income.

The Company may use derivatives to hedge the risk or changes in the fair values of interest rate lock commitments and residential mortgage loans held for sale. These derivatives are not designated as hedging instruments. Rather, they are accounted for as free-standing derivatives, or economic hedges, with changes in the fair value of the derivatives reported in income. The Company primarily utilizes interest rate forward loan sales contracts in its derivative risk management strategy.

The Company enters into forward delivery contracts to sell residential mortgage loans to broker-dealers at specific prices and dates in order to hedge the interest rate risk in its portfolio of mortgage loans held for sale and its residential mortgage interest rate lock commitments. Credit risk associated with forward contracts is limited to the replacement cost of those forward contracts in a gain position. There were no counterparty default losses on forward contracts during the three and nine months ended September 30, 2021 and 2020. Market risk with respect to forward contracts arises principally from changes in the value of contractual positions due to changes in interest rates. The Bank limits its exposure to market risk by monitoring differences between commitments to customers and forward contracts with broker-dealers. In the event the Company has forward delivery contract commitments in excess of available mortgage loans, the Company completes the transaction by either paying or receiving a fee to or from the broker-dealer equal to the increase or decrease in the market value of the forward contract. At September 30, 2021 and December 31, 2020, the Bank had commitments to originate mortgage loans held for sale totaling $30.6 million and $31.9 million, respectively, and forward sales commitments of $27.5 million and $26.5 million, respectively, which are used to hedge both on-balance sheet and off-balance sheet exposures.

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 September 30, 2021 and December 31, 2020 was $587.9 million and $597.9 million, respectively.

The following table presents the fair value of derivatives, as well as their classification on the Consolidated Balance Sheet as of the dates presented:

| | Asset Derivatives | | | | Liability Derivatives | | | |
|---|---|---|---|---|---|---|---|---|
| | September 30, 2021 | | December 31, 2020 | | September 30, 2021 | | December 31, 2020 | |
| | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| | *(in thousands)* | | | | | | | |
| **Derivatives not designated as hedging instruments:** | | | | | | | | |
| Interest rate lock commitments | Other assets | $ 482 | Other assets | $ 1,096 | Other liabilities | $ — | Other liabilities | $ — |
| Interest rate forward loan sales contracts | Other assets | $ — | Other assets | $ — | Other liabilities | $ 79 | Other liabilities | $ 165 |
| Interest rate swap contracts | Other assets | $ 29,139 | Other assets | $ 46,184 | Other liabilities | $ 29,139 | Other liabilities | $ 46,637 |

The table below presents the effect of cash flow hedge accounting on accumulated other comprehensive income (loss) for the periods indicated:

| | 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 September 30, | | | Three Months Ended September 30, | |
| | 2021 | 2020 | | 2021 | 2020 |
| | *(in thousands)* | | | *(in thousands)* | |
| Interest rate collar | $ — | $ (81) | Interest income | $ 2,631 | $ 2,673 |
| | Nine Months Ended September 30, | | | Nine Months Ended September 30, | |
| | 2021 | 2020 | | 2021 | 2020 |
| | *(in thousands)* | | | *(in thousands)* | |
| Interest rate collar | $ — | $ 26,744 | Interest income | $ 7,809 | $ 5,803 |

In January 2019, the Company entered into a $500.0 million notional interest rate collar with a five-year term. In October 2020, the collar was terminated and resulted in a $34.4 million realized gain that was recorded in accumulated other comprehensive income, net of deferred income taxes. The gain will amortize through February 2024 into interest income. The gain will be amortized in this manner as long as the cash flows pertaining to the hedged item are expected to occur.

The following table summarizes the types of derivatives not designated as hedging instruments and the gains (losses) recorded during the periods indicated:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| | *(in thousands)* | | | |
| Interest rate lock commitments | $ (103) | $ 169 | $ (614) | $ 169 |
| Interest rate forward loan sales contracts | (57) | (3) | 86 | (3) |
| Interest rate swap contracts | (22) | (2) | 50 | (475) |
| Total derivative gains (losses) | $ (182) | $ 164 | $ (478) | $ (309) |

The gains and losses on the Company's mortgage banking derivatives are included in loan revenue. Mark-to-market gains and losses on the Company's interest rate swap contracts are recorded to "Other" noninterest expense.

The Company is party to interest rate swap contracts and repurchase agreements that are subject to enforceable master netting arrangements or similar agreements. Under these agreements, the Company may have the right to net settle multiple contracts with the same counterparty.

The following tables show the gross interest rate swap 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 over-collateralization 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 Pledged/Received | Net Amount |
| **September 30, 2021** | | | *(in thousands)* | | |
| **Assets** | | | | | |
| Interest rate swap contracts | $ 29,139 | $ — | $ 29,139 | $ (370) | $ 28,769 |
| **Liabilities** | | | | | |
| Interest rate swap contracts | $ 29,139 | $ — | $ 29,139 | $ (26,670) | $ 2,469 |
| Repurchase agreements | $ 40,040 | $ — | $ 40,040 | $ (40,040) | $ — |
| **December 31, 2020** | | | | | |
| **Assets** | | | | | |
| Interest rate swap contracts | $ 46,184 | $ — | $ 46,184 | $ — | $ 46,184 |
| **Liabilities** | | | | | |
| Interest rate swap contracts | $ 46,637 | $ — | $ 46,637 | $ (46,637) | $ — |
| Repurchase agreements | $ 73,859 | $ — | $ 73,859 | $ (73,859) | $ — |

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 |
| **September 30, 2021** | | | (in thousands) | | |
| Class of collateral pledged for repurchase agreements | | | | | |
| U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations | $ 40,040 | $ — | $ — | $ — | $ 40,040 |
| Gross amount of recognized liabilities for repurchase agreements | | | | | 40,040 |
| 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 $40.0 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.

**10. Commitments and Contingent Liabilities**

*Lease Commitments:* The Company's lease commitments consist primarily of leased locations under various non-cancellable operating leases that expire between 2021 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.

*Financial Instruments with Off-Balance Sheet Risk:* In the normal course of business, the Company makes loan commitments (typically unfunded loans and unused lines of credit) and issues standby letters of credit to accommodate the financial needs of its customers. At September 30, 2021 and December 31, 2020, the Company's loan commitments amounted to $3.11 billion and $2.80 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 $25.1 million and $29.9 million at September 30, 2021 and December 31, 2020, respectively.

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

**11. Shareholders' Equity**

*Dividends:*

The following table summarizes year-to-date dividend activity:

| Declared | Regular Cash Dividends Per Common Share | Record Date | Paid Date |
|---|---|---|---|
| January 28, 2021 | $ 0.28 | February 10, 2021 | February 24, 2021 |
| April 29, 2021 | $ 0.28 | May 12, 2021 | May 26, 2021 |
| July 29, 2021 | $ 0.28 | August 11, 2021 | August 25, 2021 |
| September 30, 2021 | $ 0.30 | October 13, 2021 | October 27, 2021 |

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.

*Share Repurchase Program:*

For the three and nine months ended September 30, 2021, the Company did not purchase any common shares under its share repurchase program.

**12. Accumulated Other Comprehensive Income**

The following table shows changes in accumulated other comprehensive income (loss) by component for the periods indicated:

| | 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) |
|---|---|---|---|---|
| | | *(in thousands)* | | |
| **Three Months Ended September 30, 2021** | | | | |
| Beginning balance | $ 81,833 | $ (5,603) | $ 20,879 | $ 97,109 |
| Other comprehensive loss before reclassifications | (22,022) | — | — | (22,022) |
| Amounts reclassified from accumulated other comprehensive income (2) | (465) | 114 | (2,019) | (2,370) |
| Net current-period other comprehensive income (loss) | (22,487) | 114 | (2,019) | (24,392) |
| Ending balance | $ 59,346 | $ (5,489) | $ 18,860 | $ 72,717 |
| **Three Months Ended September 30, 2020** | | | | |
| Beginning balance | $ 155,403 | $ (3,815) | $ 29,489 | $ 181,077 |
| Other comprehensive loss before reclassifications | (1,442) | — | (62) | (1,504) |
| Amounts reclassified from accumulated other comprehensive income (2) | — | 80 | (2,052) | (1,972) |
| Net current-period other comprehensive income (loss) | (1,442) | 80 | (2,114) | (3,476) |
| Ending balance | $ 153,961 | $ (3,735) | $ 27,375 | $ 177,601 |
| **Nine Months Ended September 30, 2021** | | | | |
| Beginning balance | $ 163,174 | $ (5,833) | $ 24,854 | $ 182,195 |
| Other comprehensive loss before reclassifications | (102,777) | — | — | (102,777) |
| Amounts reclassified from accumulated other comprehensive income (2) | (1,051) | 344 | (5,994) | (6,701) |
| Net current-period other comprehensive income (loss) | (103,828) | 344 | (5,994) | (109,478) |
| Ending balance | $ 59,346 | $ (5,489) | $ 18,860 | $ 72,717 |
| **Nine Months Ended September 30, 2020** | | | | |
| Beginning balance | $ 33,038 | $ (3,974) | $ 11,303 | $ 40,367 |
| Other comprehensive income before reclassifications | 121,114 | — | 20,526 | 141,640 |
| Amounts reclassified from accumulated other comprehensive income (2) | (191) | 239 | (4,454) | (4,406) |
| Net current-period other comprehensive income | 120,923 | 239 | 16,072 | 137,234 |
| Ending balance | $ 153,961 | $ (3,735) | $ 27,375 | $ 177,601 |

(1) All amounts are net of tax. Amounts in parentheses 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 periods indicated:

| | Amount Reclassified from Accumulated Other Comprehensive Income (Loss) | | | | |
|---|---|---|---|---|---|
| | Three Months Ended September 30, | | Nine Months Ended September 30, | | Affected line Item in the Consolidated Statement of Income |
| | 2021 | 2020 | 2021 | 2020 | |
| | *(in thousands)* | | | | |
| Unrealized gains on available for sale debt securities | $ — | $ — | $ 314 | $ 249 | Investment securities gains, net |
| Amortization of unrealized gains related to securities transfer | 606 | — | 1,056 | — | Loan interest income |
| | 606 | — | 1,370 | 249 | Total before tax |
| | (141) | — | (319) | (58) | Income tax provision |
| | $ 465 | $ — | $ 1,051 | $ 191 | Net of tax |
| Amortization of pension plan liability actuarial losses | $ (149) | $ (104) | $ (448) | $ (311) | Compensation and employee benefits |
| | (149) | (104) | (448) | (311) | Total before tax |
| | 35 | 24 | 104 | 72 | Income tax provision |
| | $ (114) | $ (80) | $ (344) | $ (239) | Net of tax |
| Unrealized gains from hedging instruments | $ 2,631 | $ 2,673 | $ 7,809 | $ 5,803 | Loans |
| | 2,631 | 2,673 | 7,809 | 5,803 | Total before tax |
| | (612) | (621) | (1,815) | (1,349) | Income tax provision |
| | $ 2,019 | $ 2,052 | $ 5,994 | $ 4,454 | Net of tax |

**13. Fair Value Accounting and Measurement**

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

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

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

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

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

Fair values are determined as follows:

Debt 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 debt securities.

Loans held for sale include the fair value of residential mortgage loans originated as held for sale determined based on quoted secondary market prices for similar loans, including the implicit fair value of embedded servicing rights. The change in fair value of loans held for sale is primarily driven by changes in interest rates subsequent to loan funding and changes in the fair value of the related servicing asset, resulting in revaluation adjustments to the recorded fair value.

The fair values of the interest rate lock commitments and interest rate forward loan sales contracts are estimated using quoted or published market prices for similar instruments, adjusted for factors such as pull-through rate assumptions based on historical information, where appropriate. The pull-through rate assumptions are considered Level 3 valuation inputs and are significant to the interest rate lock commitment valuation; as such, the interest rate lock commitment derivatives are classified as Level 3.

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.

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

| | | Fair Value Measurements at Reporting Date Using | | |
|---|---|---|---|---|
| | Fair Value | Level 1 | Level 2 | Level 3 |
| **September 30, 2021** | | *(in thousands)* | | |
| **Assets** | | | | |
| Debt securities available for sale: | | | | |
| U.S. government agency and government-sponsored enterprise mortgage-back securities and collateralized mortgage obligations | $ 3,378,861 | $ — | $ 3,378,861 | $ — |
| Other asset-backed securities | 415,909 | — | 415,909 | — |
| State and municipal securities | 781,173 | — | 781,173 | — |
| U.S. government agency and government-sponsored enterprise securities | 255,976 | — | 255,976 | — |
| Total debt securities available for sale | $ 4,831,919 | $ — | $ 4,831,919 | $ — |
| Loans held for sale | $ 10,847 | $ — | $ 10,847 | $ — |
| Other assets: | | | | |
| Interest rate lock commitments | $ 482 | $ — | $ — | $ 482 |
| Interest rate contracts | $ 29,139 | $ — | $ 29,139 | $ — |
| **Liabilities** | | | | |
| Other liabilities: | | | | |
| Interest rate forward loan sales contracts | $ 79 | $ — | $ 79 | $ — |
| Interest rate contracts | $ 29,139 | $ — | $ 29,139 | $ — |

| | | Fair Value Measurements at Reporting Date Using | | |
|---|---|---|---|---|
| | Fair Value | Level 1 | Level 2 | Level 3 |
| **December 31, 2020** | | *(in thousands)* | | |
| **Assets** | | | | |
| Debt securities available for sale: | | | | |
| U.S. government agency and government-sponsored enterprise mortgage-back securities and collateralized mortgage obligations | $ 3,814,387 | $ — | $ 3,814,387 | $ — |
| Other asset-backed securities | 357,479 | — | 357,479 | — |
| State and municipal securities | 753,572 | — | 753,572 | — |
| U.S. government agency and government-sponsored enterprise securities | 284,696 | — | 284,696 | — |
| Total debt securities available for sale | $ 5,210,134 | $ — | $ 5,210,134 | $ — |
| Loans held for sale | $ 14,760 | $ — | $ 14,760 | $ — |
| Other assets: | | | | |
| Interest rate lock commitments | $ 1,096 | $ — | $ — | $ 1,096 |
| Interest rate contracts | $ 46,184 | $ — | $ 46,184 | $ — |
| **Liabilities** | | | | |
| Other liabilities: | | | | |
| Interest rate forward loan sales contracts | $ 165 | $ — | $ 165 | $ — |
| Interest rate contracts | $ 46,637 | $ — | $ 46,637 | $ — |

**Assets and Liabilities Measured at Fair Value Using Significant Unobservable Inputs (Level 3)**

The following table provides a description of the valuation technique, significant unobservable inputs, and qualitative information about the unobservable inputs for the Company's assets and liabilities classified as Level 3 and measured at fair value on a recurring basis at the dates presented:

| | Fair Value at September 30, 2021 | | Valuation Technique | Unobservable Input | Range (Weighted Average) |
|---|---|---|---|---|---|
| | | | *(dollars in thousands)* | | |
| Interest rate lock commitments | $ | 482 | Internal pricing model | Pull-through rate | 77.76% - 100.00% (90.62%) |

| | Fair Value at September 30, 2020 | | Valuation Technique | Unobservable Input | Range (Weighted Average) |
|---|---|---|---|---|---|
| | | | *(dollars in thousands)* | | |
| Interest rate lock commitments | $ | 169 | Internal pricing model | Pull-through rate | 85.85% - 96.45% (88.47%) |

An increase in the pull-through rate utilized in the fair value measurement of the interest rate lock commitment derivative will result in positive fair value adjustments (and an increase in the fair value measurement). Conversely, a decrease in the pull-through rate will result in a negative fair value adjustment (and a decrease in the fair value measurement).

The following table includes a rollforward of interest rate lock commitments which utilize Level 3 inputs to determine the fair value on a recurring basis.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| | *(in thousands)* | | | |
| Balance at the beginning of the period | $ 585 | $ — | $ 1,096 | $ — |
| Change included in earnings | 1,864 | 169 | 5,708 | 169 |
| Settlements | (1,967) | — | (6,322) | — |
| Balance at the end of the period | $ 482 | $ 169 | $ 482 | $ 169 |

**Nonrecurring Measurements**

Certain assets and liabilities are measured at fair value on a nonrecurring basis after initial recognition such as collateral dependent loans. The following valuation techniques and inputs were used to estimate the fair value of collateral dependent loans and equity securities without readily determinable fair value.

**Collateral dependent loans** - A collateral dependent loan is a loan in which repayment is expected to be provided solely by the underlying collateral. The fair market value of the collateral is determined by either the discounted expected future cash flows from the operation of the collateral or the appraised value of the collateral, less costs to sell. The collateral dependent loan valuations are performed in conjunction with the allowance for credit losses process on a quarterly basis.

**Equity securities without readily determinable fair value** - The Company measures equity securities without readily determinable fair values at cost less impairment (if any), plus or minus observable price changes from an identical or similar investment of the same issuer, with such changes recognized in earnings. Our equity securities without readily determinable fair values consist of 77,683 Visa Class B shares. These shares are currently subject to certain transfer restrictions and will be convertible into Visa Class A shares upon final resolution of certain litigation matters involving Visa. For additional information, please see Note 3 of this report.

The following table presents the carrying value of equity securities, without readily determinable fair values, still held as of September 30, 2021, that are measured under the measurement alternative and related adjustments recorded during the periods presented for those securities with observable price changes. These securities are included in the nonrecurring fair value tables when applicable price changes are observable.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Equity securities without readily determinable fair values | | (in thousands) | | |
| Carrying value, beginning of period | $ 13,425 | $ 13,425 | $ 13,425 | $ — |
| Upward carrying value changes | — | — | — | 13,425 |
| Carrying value, end of period | $ 13,425 | $ 13,425 | $ 13,425 | $ 13,425 |

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

| | Fair Value at September 30, 2021 | Fair Value Measurements at Reporting Date Using Level 1 | Level 2 | Level 3 | Gains (Losses) During the Three Months Ended September 30, 2021 | Gains (Losses) During the Nine Months Ended September 30, 2021 |
|---|---|---|---|---|---|---|
| | | | | (in thousands) | | |
| Collateral dependent loans | $ 1,845 | $ — | $ — | $ 1,845 | $ (958) | $ (958) |

| | Fair Value at September 30, 2020 | Fair Value Measurements at Reporting Date Using Level 1 | Level 2 | Level 3 | Gains (Losses) During the Three Months Ended September 30, 2020 | Gains (Losses) During the Nine Months Ended September 30, 2020 |
|---|---|---|---|---|---|---|
| | | | | (in thousands) | | |
| Collateral dependent loans | $ 11,899 | $ — | $ — | $ 11,899 | $ (153) | $ 4,941 |

The losses on collateral dependent loans disclosed above represent the amount of the allowance for credit losses and/or charge-offs during the period applicable to loans held at period-end. The amount of the allowance is included in the ACL.

**Quantitative information about Level 3 fair value measurements**

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

| | Fair Value at September 30, 2021 | | Valuation Technique | Unobservable Input | Range (Weighted Average) (1) |
|---|---|---|---|---|---|
| | | | *(dollars in thousands)* | | |
| Collateral dependent loans (2) | $ | 1,845 | Fair Market Value of Collateral | Adjustment to Stated Value | 0.00% - 97.46% (71.44%) |

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

(2) Collateral consists of cash, accounts receivable, intangible assets, fixed assets inventory and real estate.

| | Fair Value at September 30, 2020 | | Valuation Technique | Unobservable Input | Range (Weighted Average) (1) |
|---|---|---|---|---|---|
| | | | *(dollars in thousands)* | | |
| Collateral dependent loans (2) | $ | 11,899 | Fair Market Value of Collateral | Adjustment to Stated Value | 0.00% - 100.00% (15.57%) |

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

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

Table of Contents

The following tables summarize carrying amounts and estimated fair values of selected financial instruments by level within the fair value hierarchy at the dates presented:

| | September 30, 2021 | | | | |
|---|---|---|---|---|---|
| | Carrying Amount | Fair Value | Level 1 | Level 2 | Level 3 |
| | (in thousands) | | | | |
| **Assets** | | | | | |
| Cash and due from banks | $ 193,715 | $ 193,715 | $ 193,715 | $ — | $ — |
| Interest-earning deposits with banks | 703,760 | 703,760 | 703,760 | — | — |
| Debt securities available for sale | 4,831,919 | 4,831,919 | — | 4,831,919 | — |
| Debt securities held to maturity | 2,075,158 | 2,071,051 | — | 2,071,051 | — |
| FHLB stock | 10,280 | 10,280 | — | 10,280 | — |
| Loans held for sale | 11,355 | 11,355 | — | 11,355 | — |
| Loans | 9,378,600 | 9,758,940 | — | — | 9,758,940 |
| Interest rate contracts | 29,139 | 29,139 | — | 29,139 | — |
| Interest rate lock commitments | 482 | 482 | — | — | 482 |
| **Liabilities** | | | | | |
| Time deposits | $ 330,720 | $ 329,962 | $ — | $ 329,962 | $ — |
| FHLB advances | 7,372 | 8,739 | — | 8,739 | — |
| Repurchase agreements | 40,040 | 40,040 | — | 40,040 | — |
| Subordinated debentures | 35,000 | 35,231 | — | 35,231 | — |
| Interest rate contracts | 29,139 | 29,139 | — | 29,139 | — |
| Interest rate forward loan sales contracts | 79 | 79 | — | 79 | — |

| | December 31, 2020 | | | | |
|---|---|---|---|---|---|
| | Carrying Amount | Fair Value | Level 1 | Level 2 | Level 3 |
| | (in thousands) | | | | |
| **Assets** | | | | | |
| Cash and due from banks | $ 218,899 | $ 218,899 | $ 218,899 | $ — | $ — |
| Interest-earning deposits with banks | 434,867 | 434,867 | 434,867 | — | — |
| Debt securities available for sale | 5,210,134 | 5,210,134 | — | 5,210,134 | — |
| FHLB stock | 10,280 | 10,280 | — | 10,280 | — |
| Loans held for sale | 26,481 | 26,481 | — | 26,481 | — |
| Loans | 9,278,520 | 9,720,592 | — | — | 9,720,592 |
| Interest rate contracts | 46,184 | 46,184 | — | 46,184 | — |
| Interest rate lock commitments | 1,096 | 1,096 | — | — | 1,096 |
| **Liabilities** | | | | | |
| Time deposits | $ 338,845 | $ 338,815 | $ — | $ 338,815 | $ — |
| FHLB advances | 7,414 | 9,295 | — | 9,295 | — |
| Repurchase agreements | 73,859 | 73,859 | — | 73,859 | — |
| Subordinated debentures | 35,092 | 35,414 | — | 35,414 | — |
| Interest rate contracts | 46,637 | 46,637 | — | 46,637 | — |
| Interest rate forward loan sales contracts | 165 | 165 | — | 165 | — |

The following table presents the difference between the aggregate fair value and the aggregate unpaid principal balance of loans held for sale sold under the mandatory delivery method and accounted for under the fair value option as of the dates presented:

| September 30, 2021 | | | December 31, 2020 | | |
|---|---|---|---|---|---|
| Fair Value | Aggregate Unpaid Principal Balance | Fair Value Less Aggregate Unpaid Principal Balance | Fair Value | Aggregate Unpaid Principal Balance | Fair Value Less Aggregate Unpaid Principal Balance |
| *(in thousands)* | | | | | |
| $ 10,847 | $ 10,645 | $ 202 | $ 14,760 | $ 14,252 | $ 508 |

Residential mortgage loans held for sale that are sold under the mandatory delivery method and accounted for under the fair value option are measured initially at fair value with subsequent changes in fair value recognized in earnings. Gains and losses from such changes in fair value are reported in loan revenue. For the three and nine months ended September 30, 2021, the Company recorded net decreases in fair value of $161 thousand and $306 thousand, respectively, representing the change in fair value reflected in earnings. For the three and nine months ended September 30, 2020, there were no changes in fair value recorded for such loans held for sale, as we did not have loans held for sale under the mandatory delivery method prior to September 2020. At September 30, 2021 and December 31, 2020, there were no residential mortgage loans held for sale for which the fair value option was elected that were 90 days or more past due, in nonaccrual status or both.

## 14. Earnings Per Common Share

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

The following table sets forth the computation of basic and diluted EPS for the periods presented:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| | *(in thousands except per share amounts)* | | | |
| **Basic EPS:** | | | | |
| Net income | $ 53,017 | $ 44,734 | $ 159,909 | $ 95,944 |
| Less: Earnings allocated to participating securities: | | | | |
| Nonvested restricted shares | 91 | 164 | 317 | 487 |
| Earnings allocated to common shareholders | $ 52,926 | $ 44,570 | $ 159,592 | $ 95,457 |
| Weighted average common shares outstanding | 71,036 | 70,726 | 70,965 | 70,870 |
| Basic earnings per common share | $ 0.75 | $ 0.63 | $ 2.25 | $ 1.35 |
| **Diluted EPS:** | | | | |
| Earnings allocated to common shareholders | $ 52,926 | $ 44,570 | $ 159,592 | $ 95,457 |
| Weighted average common shares outstanding | 71,036 | 70,726 | 70,965 | 70,870 |
| Dilutive effect of equity awards | 150 | 36 | 190 | 36 |
| Weighted average diluted common shares outstanding | 71,186 | 70,762 | 71,155 | 70,906 |
| Diluted earnings per common share | $ 0.74 | $ 0.63 | $ 2.24 | $ 1.35 |
| Potentially dilutive RSAs and RSUs that were not included in the computation of diluted EPS because to do so would be anti-dilutive | 269 | 596 | 198 | 487 |

**15. 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 periods presented:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| | *(in thousands)* | | | |
| Noninterest income: | | | | |
| Revenue from contracts with customers: | | | | |
| Deposit account and treasury management fees | $ 6,893 | $ 6,658 | $ 19,952 | $ 20,538 |
| Card revenue | 4,889 | 3,834 | 13,395 | 10,431 |
| Financial services and trust revenue | 4,250 | 3,253 | 11,876 | 9,481 |
| Total revenue from contracts with customers | 16,032 | 13,745 | 45,223 | 40,450 |
| Other sources of noninterest income | 7,926 | 8,727 | 24,631 | 40,488 |
| Total noninterest income | $ 23,958 | $ 22,472 | $ 69,854 | $ 80,938 |

**16. Subsequent Events**

On October 1, 2021, the Company completed its previously announced merger with Bank of Commerce, for a total consideration of approximately $256.3 million. Through the merger, the Company acquired 100% of the voting equity interests of Bank of Commerce. The operating results of the Company for the nine months ended September 30, 2021 do not include the operating results of Bank of Commerce as the acquisition did not close until after the close of business on September 30, 2021. It is not practical to present other financial information related to the acquisition at this time because the fair value measurement of assets acquired and liabilities assumed has not been finalized.

On October 12, 2021, Columbia Banking System, Inc. and Umpqua Holdings Corporation (“Umpqua”) jointly announced a definitive agreement to combine, creating the second largest regionally focused bank by market share on the West Coast with assets exceeding $50 billion. Upon closing, this combination will create a broad network of more than 300 locations across Washington, Oregon, Idaho, California and Nevada under the Umpqua brand with wealth management services and products offered under the Columbia brand. The name of our parent company will remain Columbia Banking System, Inc. and our stock will continue to be traded under the “COLB” symbol. There can be no assurances this transaction will close on a timely basis or at all.

**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, 2020 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, as well as the continuing effects of the COVID-19 pandemic on the Company's business, operations, financial performance and prospects. 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, and Quarterly Reports on Form 10-Q, 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;
- risks related to the proposed merger with Umpqua Holdings Corporation ("Umpqua") including, among others, (i) failure to complete the merger with Umpqua or unexpected delays related to the merger or either party's inability to obtain regulatory or shareholder approvals or satisfy other closing conditions required to complete the merger, (ii) regulatory approvals resulting in the imposition of conditions that could adversely affect the combined company or the expected benefits of the transaction, (iii) certain restrictions during the pendency of the proposed transaction with Umpqua that may impact the parties' ability to pursue certain business opportunities or strategic transactions, (iv) diversion of management's attention from ongoing business operations and opportunities, (v) cost savings and any revenue synergies from the merger may not be fully realized or may take longer than anticipated to be realized, (vi) the integration of each party's management, personnel and operations will not be successfully achieved or may be materially delayed or will be more costly or difficult than expected, (vii) deposit attrition, customer or employee loss and/or revenue loss as a result of the announcement of the proposed merger, (viii) expenses related to the proposed merger being greater than expected, and (ix) shareholder litigation that could prevent or delay the closing of the proposed merger or otherwise negatively impact the Company's business and operations;
- the efficiencies and enhanced financial and operating performance we expect to realize from investments in personnel, acquisitions (including the recent acquisition of Bank of Commerce and infrastructure may not be realized;
- the ability to successfully integrate Bank of Commerce, or to integrate future acquired entities;
- interest rate changes could significantly reduce net interest income and negatively affect asset yields and funding sources;
- the effect of the discontinuation or replacement of LIBOR;
- results of operations following strategic expansion, including the impact of acquired loans on our earnings, could differ from expectations;
- changes in the scope and cost of FDIC insurance and other coverages;
- changes in accounting policies or procedures as may be required by the FASB or other regulatory agencies could materially affect our financial statements and how we report those results, and expectations and preliminary analysis relating to how such changes will affect our financial results could prove incorrect;
- 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;
- increased competition among financial institutions and nontraditional providers of financial services;
- continued consolidation in the financial services industry resulting in the creation of larger financial institutions that 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;
- 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 control 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;
- the effect of COVID-19 and other infectious illness outbreaks that may arise in the future, which has created significant impacts and uncertainties in U.S. and global markets;
- changes in governmental policy and regulation, including measures taken in response to economic, business, political and social conditions, including with regard to COVID-19; 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 ACL, 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 Credit Losses," "Business Combinations" and "Valuation and Recoverability of Goodwill" in our 2020 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 2020 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 software and legal and professional fees. Like most financial institutions, our interest income and cost of funds are affected significantly by general economic conditions, particularly changes in market interest rates, and by government policies and actions of regulatory authorities.

**Earnings Summary**

*Comparison of current quarter to prior year period*

The Company reported net income for the third quarter of $53.0 million or $0.74 per diluted common share, compared to $44.7 million or $0.63 per diluted common share for the third quarter of 2020. Net interest income for the three months ended September 30, 2021 was $132.5 million, an increase of $7.8 million from the prior year period. The increase was primarily a result of an increase in interest income from securities.

The company recorded no provision for credit losses for the third quarter of 2021 compared to a provision of $7.4 million for the third quarter of 2020. The decrease in provision expense for the third quarter of 2021 compared to the third quarter of 2020 was principally the result of an improved economic forecast as the economy recovers from the COVID-19 pandemic.

Noninterest income for the current quarter was $24.0 million, an increase of $1.5 million from the prior year period. The increase was largely due to a gain on the sale of our health savings accounts to a third party in addition to higher card revenue and financial services and trust revenue, partially offset by a decrease in mortgage banking revenue.

Total noninterest expense for the quarter ended September 30, 2021 was $90.0 million, an increase of $4.9 million from the prior year period. This increase was primarily driven by higher legal and professional fees and data processing and software expense.

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

The Company reported net income for the nine months ended September 30, 2021 of $159.9 million or $2.24 per diluted common share, compared to $95.9 million or $1.35 per diluted common share for the same period in 2020. Net interest income for the nine months ended September 30, 2021 was $382.0 million, an increase of $13.0 million from the prior year period. The increase was primarily a result of an increase in interest income from securities and a reduction in interest expense on FHLB advances and deposits, partially offset by a decline in interest income from loans.

The provision for credit losses for the nine months ended September 30, 2021 was a recapture of $6.3 million compared to a provision of $82.4 million for the first nine months of 2020. The decrease in the provision for the first nine months of 2021 compared to the same period in 2020 was due to an improved economic forecast as the economy recovers from the COVID-19 pandemic, which had its onset during the prior year-to-date period.

Noninterest income for the nine months ended September 30, 2021 was $69.9 million, a decrease of $11.1 million from the prior year period. The decrease was primarily due to the prior year period including a $16.4 million gain from the sale and upward adjustment to the carrying value of the Visa Class B restricted shares to the market price, partially offset by increases in card revenue and financial services and trust revenue.

For the nine months ended September 30, 2021, noninterest expense was $257.7 million, an increase of $7.5 million from $250.2 million for the same period in 2020. The increase from the prior year period was most attributable to increases in compensation and employee benefits expenses and legal and professional fees.

**Net Interest Income**

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

| | Three Months Ended September 30, 2021 | | | Three Months Ended September 30, 2020 | | |
|---|---|---|---|---|---|---|
| | Average Balances | Interest Earned / Paid | Average Rate | Average Balances | Interest Earned / Paid | Average Rate |
| | (dollars in thousands) | | | | | |
| **ASSETS** | | | | | | |
| Loans, net (1)(2) | $ 9,526,052 | $ 106,345 | 4.43 % | $ 9,744,336 | $ 106,945 | 4.37 % |
| Taxable securities | 5,929,321 | 26,374 | 1.76 % | 3,511,690 | 19,102 | 2.16 % |
| Tax exempt securities (2) | 615,813 | 3,436 | 2.21 % | 436,351 | 2,962 | 2.70 % |
| Interest-earning deposits with banks | 749,585 | 284 | 0.15 % | 800,058 | 203 | 0.10 % |
| Total interest-earning assets | 16,820,771 | 136,439 | 3.22 % | 14,492,435 | 129,212 | 3.55 % |
| Other earning assets | 245,907 | | | 235,735 | | |
| Noninterest-earning assets | 1,263,431 | | | 1,237,315 | | |
| Total assets | $ 18,330,109 | | | $ 15,965,485 | | |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | | | |
| Money market accounts | 3,790,201 | 741 | 0.08 % | 3,200,407 | 947 | 0.12 % |
| Interest-bearing demand | 1,581,598 | 298 | 0.07 % | 1,296,076 | 337 | 0.10 % |
| Savings accounts | 1,391,221 | 54 | 0.02 % | 1,072,472 | 36 | 0.01 % |
| Interest-bearing public funds, other than certificates of deposit | 729,382 | 232 | 0.13 % | 621,786 | 397 | 0.25 % |
| Certificates of deposit | 329,547 | 143 | 0.17 % | 336,954 | 288 | 0.34 % |
| Total interest-bearing deposits | 7,821,949 | 1,468 | 0.07 % | 6,527,695 | 2,005 | 0.12 % |
| FHLB advances and FRB borrowings | 7,382 | 73 | 3.92 % | 54,173 | 166 | 1.22 % |
| Subordinated debentures | 35,000 | 435 | 4.93 % | 35,161 | 468 | 5.30 % |
| Other borrowings and interest-bearing liabilities | 55,815 | 24 | 0.17 % | 42,090 | 19 | 0.18 % |
| Total interest-bearing liabilities | 7,920,146 | 2,000 | 0.10 % | 6,659,119 | 2,658 | 0.16 % |
| Noninterest-bearing deposits | 7,820,301 | | | 6,790,790 | | |
| Other noninterest-bearing liabilities | 225,513 | | | 221,805 | | |
| Shareholders' equity | 2,364,149 | | | 2,293,771 | | |
| Total liabilities & shareholders' equity | $ 18,330,109 | | | $ 15,965,485 | | |
| Net interest income (tax equivalent) | | $ 134,439 | | | $ 126,554 | |
| Net interest margin (tax equivalent) | | | 3.17 % | | | 3.47 % |

(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 $11.3 million and $5.0 million for the three months ended September 30, 2021 and 2020, respectively. The incremental accretion income on acquired loans was $884 thousand and $1.7 million for the three months ended September 30, 2021 and 2020, respectively.

(2) Tax-exempt income is calculated on a tax equivalent basis. The tax equivalent yield adjustment to interest earned on loans was $1.2 million for both the three months ended September 30, 2021 and 2020. The tax equivalent yield adjustment to interest earned on tax exempt securities was $722 thousand and $622 thousand for the three months ended September 30, 2021 and 2020, respectively.

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

| | Nine Months Ended September 30, 2021 | | | Nine Months Ended September 30, 2020 | | |
|---|---|---|---|---|---|---|
| | Average Balances | Interest Earned / Paid | Average Rate | Average Balances | Interest Earned / Paid | Average Rate |
| | | | (dollars in thousands) | | | |
| **ASSETS** | | | | | | |
| Loans, net (1)(2) | $ 9,592,178 | $ 308,730 | 4.30 % | $ 9,370,101 | $ 322,347 | 4.60 % |
| Taxable securities | 5,286,406 | 73,940 | 1.87 % | 3,304,295 | 58,533 | 2.37 % |
| Tax exempt securities (2) | 615,169 | 10,505 | 2.28 % | 415,973 | 8,733 | 2.80 % |
| Interest-earning deposits with banks | 650,203 | 595 | 0.12 % | 458,987 | 480 | 0.14 % |
| Total interest-earning assets | 16,143,956 | $ 393,770 | 3.26 % | 13,549,356 | $ 390,093 | 3.85 % |
| Other earning assets | 244,269 | | | 234,044 | | |
| Noninterest-earning assets | 1,247,801 | | | 1,256,525 | | |
| Total assets | $ 17,636,026 | | | $ 15,039,925 | | |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | | | |
| Money market accounts | 3,625,688 | 2,132 | 0.08 % | 2,925,672 | 3,649 | 0.17 % |
| Interest-bearing demand | 1,526,312 | 849 | 0.07 % | 1,211,958 | 1,160 | 0.13 % |
| Savings accounts | 1,311,118 | 139 | 0.01 % | 982,507 | 117 | 0.02 % |
| Interest-bearing public funds, other than certificates of deposit | 698,745 | 753 | 0.14 % | 512,548 | 1,693 | 0.44 % |
| Certificates of deposit | 331,910 | 506 | 0.20 % | 351,973 | 1,122 | 0.43 % |
| Total interest-bearing deposits | 7,493,773 | 4,379 | 0.08 % | 5,984,658 | 7,741 | 0.17 % |
| FHLB advances and FRB borrowings | 7,395 | 217 | 3.92 % | 455,303 | 6,191 | 1.82 % |
| Subordinated debentures | 35,034 | 1,371 | 5.23 % | 35,207 | 1,404 | 5.33 % |
| Other borrowings and interest-bearing liabilities | 51,787 | 66 | 0.17 % | 41,706 | 178 | 0.57 % |
| Total interest-bearing liabilities | 7,587,989 | $ 6,033 | 0.11 % | 6,516,874 | $ 15,514 | 0.32 % |
| Noninterest-bearing deposits | 7,482,888 | | | 6,073,718 | | |
| Other noninterest-bearing liabilities | 223,911 | | | 202,105 | | |
| Shareholders' equity | 2,341,238 | | | 2,247,228 | | |
| Total liabilities & shareholders' equity | $ 17,636,026 | | | $ 15,039,925 | | |
| Net interest income (tax equivalent) | | $ 387,737 | | | $ 374,579 | |
| Net interest margin (tax equivalent) | | | 3.21 % | | | 3.69 % |

(1) Nonaccrual loans have been included in the table as loans carrying a zero yield. Amortized net deferred loan fees and net unearned discounts on acquired loans were included in the interest income calculations. The amortization of net deferred loan fees was $26.0 million and $12.5 million for the nine months ended September 30, 2021 and 2020, respectively. The incremental accretion income on acquired loans was $2.8 million and $4.8 million for the nine months ended September 30, 2021 and 2020, respectively.

(2) Tax-exempt income is calculated on a tax equivalent basis. The tax equivalent yield adjustment to interest earned on loans was $3.5 million and $3.7 million for the nine months ended September 30, 2021 and 2020, respectively. The tax equivalent yield adjustment to interest earned on tax exempt securities was $2.2 million and $1.8 million for the nine months ended September 30, 2021 and 2020, respectively.

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

| | Three Months Ended September 30, 2021 Compared to 2020 Increase (Decrease) Due to | | |
|---|---|---|---|
| | Volume | Rate | Total (1) |
| | | (in thousands) | |
| **Interest Income** | | | |
| Loans, net | $ (2,419) | $ 1,819 | $ (600) |
| Taxable securities | 11,256 | (3,984) | 7,272 |
| Tax exempt securities | 1,067 | (593) | 474 |
| Interest-earning deposits with banks | (14) | 95 | 81 |
| Interest income | $ 9,890 | $ (2,663) | $ 7,227 |
| **Interest Expense** | | | |
| Deposits: | | | |
| Money market accounts | $ 154 | $ (360) | $ (206) |
| Interest-bearing demand | 66 | (105) | (39) |
| Savings accounts | 12 | 6 | 18 |
| Interest-bearing public funds, other than certificates of deposit | 59 | (224) | (165) |
| Certificates of deposit | (6) | (139) | (145) |
| Total interest on deposits | 285 | (822) | (537) |
| FHLB advances and FRB borrowings | (233) | 140 | (93) |
| Subordinated debentures | (2) | (31) | (33) |
| Other borrowings and interest-bearing liabilities | 6 | (1) | 5 |
| Interest expense | $ 56 | $ (714) | $ (658) |

(1) The change in interest not due solely to volume or rate has been allocated in proportion to the absolute dollar amount of the change in each.

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

| | Nine Months Ended September 30, 2021 Compared to 2020 Increase (Decrease) Due to | | |
|---|---|---|---|
| | Volume | Rate | Total (1) |
| | | (in thousands) | |
| **Interest Income** | | | |
| Loans, net | $ 7,507 | $ (21,124) | $ (13,617) |
| Taxable securities | 29,642 | (14,235) | 15,407 |
| Tax exempt securities | 3,621 | (1,849) | 1,772 |
| Interest earning deposits with banks | 181 | (66) | 115 |
| Interest income | $ 40,951 | $ (37,274) | $ 3,677 |
| **Interest Expense** | | | |
| Deposits: | | | |
| Money market accounts | 729 | (2,246) | (1,517) |
| Interest-bearing demand | 253 | (564) | (311) |
| Savings accounts | 36 | (14) | 22 |
| Interest-bearing public funds, other than certificates of deposit | 470 | (1,410) | (940) |
| Certificates of deposit | (61) | (555) | (616) |
| Total interest on deposits | 1,427 | (4,789) | (3,362) |
| FHLB advances and FRB borrowings | (9,332) | 3,358 | (5,974) |
| Subordinated debentures | (7) | (26) | (33) |
| Other borrowings | 59 | (171) | (112) |
| Interest expense | $ (7,853) | $ (1,628) | $ (9,481) |

(1) The change in interest not due solely to volume or rate has been allocated in proportion to the absolute dollar amount of the change in each.

*Comparison of current quarter to prior year period*

Net interest income for the third quarter of 2021 was $132.5 million, up from $124.7 million for the same quarter in 2020. The increase was mainly due to an increase in interest income from securities due to higher average balances.

The Company's net interest margin (tax equivalent) decreased to 3.17% in the third quarter of 2021, from 3.47% for the prior year period. This decrease was driven by lower average rates on securities and a higher ratio of taxable securities to our overall interest-earning assets, which was partially offset by higher loan yields, impacted by accelerated fee recognition due to substantial PPP loan forgiveness and payoffs. The Company's operating net interest margin (tax equivalent)[1] decreased to 3.16% from 3.46% during the third quarter of 2020. The decrease was due to the items previously noted for the decrease in the net interest margin.

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

Net interest income for the nine months ended September 30, 2021 was $382.0 million, compared to $369.0 million for the prior year period. The increase was mainly due to an increase in interest income from securities and a reduction in interest expense on FHLB advances and deposits, partially offset by a decrease in interest income for loans. The increase in interest income from securities was due to higher average balances. The decrease in interest expense was due to lower average balances of FHLB advances and lower rates on deposits. The decline in interest income from loans was mainly due to lower average rates.

[1] Operating net interest margin (tax equivalent) is a non-GAAP financial measure. See the "Non-GAAP financial measures" section in this Management's Discussion and Analysis

The Company's net interest margin (tax equivalent) decreased to 3.21% for the first nine months of 2021, from 3.69% for the prior year period. The decrease in the Company's net interest margin (tax equivalent) was driven by lower average rates on loans and securities as well as a higher ratio of taxable securities to our overall earning assets. The Company's operating net interest margin (tax equivalent)[2] for the nine months ended September 30, 2021 was 3.20% compared to 3.69% for the nine months ended September 30, 2020. The decrease was due to the items previously noted for the decrease in the net interest margin.

**Provision for Credit Losses**

*Comparison of current quarter to prior year period*

During the third quarter of 2021, the Company recorded no net provision for credit losses compared to a $7.4 million net provision during the third quarter of 2020. This was principally the result of an improved economic forecast as the economy recovers from the COVID-19 pandemic.

The net provision recapture for credit losses recorded during the current quarter also reflected management's ongoing assessment of the credit quality of the Company's loan portfolio. Other factors affecting the provision include net charge-offs, credit quality migration, and the size and composition of the loan portfolio and changes in the economic environment during the third quarter of 2021. The amount of provision was calculated in accordance with the Company's methodology for determining the ACL, discussed in Note 5 to the Consolidated Financial Statements in "Item 1. Financial Statements (unaudited)" of this report.

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

The provision recapture for credit losses for the nine months ended September 30, 2021 was $6.3 million compared to a net provision of $82.4 million during the same period in 2020. The decrease in the provision for the first nine months of 2021 was due to the same factors discussed above for the quarterly provision for credit losses and the prior year provision was driven by the onset of the COVID-19 pandemic. The amount of provision was calculated in accordance with the Company's methodology for determining the ACL, discussed in Note 5 to the Consolidated Financial Statements in "Item 1. Financial Statements (unaudited)" of this report.

**Noninterest Income**

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

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2021 | 2020 | $ Change | % Change | 2021 | 2020 | $ Change | % Change |
| | | | | (dollars in thousands) | | | | |
| Deposit account and treasury management fees | $ 6,893 | $ 6,658 | $ 235 | 4 % | $ 19,952 | $ 20,538 | $ (586) | (3) % |
| Card revenue | 4,889 | 3,834 | 1,055 | 28 % | 13,395 | 10,431 | 2,964 | 28 % |
| Financial services and trust revenue | 4,250 | 3,253 | 997 | 31 % | 11,876 | 9,481 | 2,395 | 25 % |
| Loan revenue | 5,184 | 6,645 | (1,461) | (22) % | 17,067 | 16,842 | 225 | 1 % |
| Bank owned life insurance | 1,585 | 1,585 | — | — % | 4,780 | 4,799 | (19) | — % |
| Investment securities gains, net | — | — | — | N/A | 314 | 16,674 | (16,360) | (98) % |
| Other | 1,157 | 497 | 660 | 133 % | 2,470 | 2,173 | 297 | 14 % |
| Total noninterest income | $ 23,958 | $ 22,472 | $ 1,486 | 7 % | $ 69,854 | $ 80,938 | $ (11,084) | (14) % |

*Comparison of current quarter to prior year period*

Noninterest income was $24.0 million for the third quarter of 2021, compared to $22.5 million for the same period in 2020. The increase was primarily due to a $750 thousand gain related to the sale of our health savings accounts to a third party which was recorded to other noninterest income, as well as higher card revenue and financial services revenue partially offset by a decrease in mortgage banking due to a decrease in the mortgage pipeline and total volume of funded loans.

[2] Operating net interest margin (tax equivalent) is a non-GAAP financial measure. See the "Non-GAAP financial measures" section in this Management's Discussion and Analysis

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

For the nine months ended September 30, 2021, noninterest income was $69.9 million compared to $80.9 million for the same period in 2020, a decrease of $11.1 million. The decrease was principally due to the sale of 17,360 shares of Visa Class B restricted stock during the second quarter of 2020 for a gain of $3.0 million, which resulted in an observable market price. As a result, the Company wrote up its remaining 77,683 Visa Class B restricted shares to fair value resulting in a gain of $13.4 million, for a total gain of $16.4 million. Based on the existing transfer restriction and uncertainty regarding the outcome of Visa's litigation that must be settled before the Visa Class B restricted shares may be converted into publicly traded Visa Class A common shares, the shares were previously carried at a zero-cost basis. This decrease was offset by increases in card revenue and financial services and trust revenue.

**Noninterest Expense**

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

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2021 | 2020 | $ Change | % Change | 2021 | 2020 | $ Change | % Change |
| | (dollars in thousands) | | | | | | | |
| Compensation and employee benefits | $ 54,679 | $ 55,133 | $ (454) | (1) % | $ 159,865 | $ 156,018 | $ 3,847 | 2 % |
| Occupancy | 9,695 | 8,734 | 961 | 11 % | 27,739 | 26,743 | 996 | 4 % |
| Data processing and software | 8,515 | 7,095 | 1,420 | 20 % | 24,368 | 22,175 | 2,193 | 10 % |
| Legal and professional fees | 4,894 | 3,000 | 1,894 | 63 % | 10,973 | 8,585 | 2,388 | 28 % |
| Amortization of intangibles | 1,835 | 2,193 | (358) | (16) % | 5,611 | 6,713 | (1,102) | (16) % |
| B&O taxes | 1,583 | 1,559 | 24 | 2 % | 4,332 | 3,427 | 905 | 26 % |
| Advertising and promotion | 678 | 680 | (2) | — % | 2,026 | 2,822 | (796) | (28) % |
| Regulatory premiums | 1,214 | 826 | 388 | 47 % | 3,431 | 1,894 | 1,537 | 81 % |
| Net cost (benefit) of operation of OREO | 4 | (160) | 164 | (103) % | 52 | (348) | 400 | (115) % |
| Other | 6,910 | 6,055 | 855 | 14 % | 19,285 | 22,190 | (2,905) | (13) % |
| Total noninterest expense | $ 90,007 | $ 85,115 | $ 4,892 | 6 % | $ 257,682 | $ 250,219 | $ 7,463 | 3 % |

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 September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| | (in thousands) | | | |
| ***Acquisition-related expenses:*** | | | | |
| Data processing | $ 1 | $ — | $ 1 | $ — |
| Legal and professional fees | 2,153 | — | 2,663 | — |
| Other | 38 | — | 38 | — |
| Total impact of acquisition-related expense to noninterest expense (1) | $ 2,192 | $ — | $ 2,702 | $ — |

(1) The Company completed the acquisition of Bank of Commerce on October 1, 2021. See Note 16 of the Consolidated Financial Statements in "Item 1. Financial Statements (unaudited)" of this report for further information regarding this transaction.

*Comparison of current quarter to prior year period*

Noninterest expense was $90.0 million for the third quarter of 2021, an increase of $4.9 million from $85.1 million for the prior year period. This increase was mostly attributable to increases in legal and professional fees and data processing and software expense. The increase in legal and professional fees was due to the acquisition-related professional services associated with our acquisition of Bank of Commerce. With this acquisition there is an expectation of elevated acquisition-related expenses for the next several quarters.

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

For the nine months ended September 30, 2021, noninterest expense was $257.7 million, compared to $250.2 million for the same period in 2020, an increase of $7.5 million. The increase from the prior year period was mostly attributable to increases in compensation and employee benefits expense and legal and professional fees. The largest increases in compensation and employee benefits were stock compensation, incentives and commissions while the increase in legal and professional fees was the result of acquisition-related professional fees associated with our acquisition of Bank of Commerce.

The provision for unfunded loan commitments for the periods indicated are as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| | *(in thousands)* | | | |
| Provision for unfunded loan commitments | $ 500 | $ 800 | $ 2,200 | $ 4,600 |

**Income Taxes**

We recorded an income tax provision of $13.5 million for the third quarter of 2021, compared to a provision of $9.9 million for the same period in 2020, with effective tax rates of 20% and 18% for the third quarter of 2021 and 2020, respectively. For the nine months ended September 30, 2021 and 2020, we recorded income tax provisions of $40.6 million and $21.4 million, respectively, with effective tax rates of 20% for the current year and 18% for the prior year period. Our effective tax rate remains lower than the statutory tax rate due to tax-exempt income from municipal securities, BOLI and certain loan receivables. For additional information, please refer to the Company’s annual report on Form 10-K for the year ended December 31, 2020.

**FINANCIAL CONDITION**

Total assets were $18.60 billion at September 30, 2021, an increase of $2.02 billion from December 31, 2020. Cash and cash equivalents increased $243.7 million. Loans increased $93.7 million during the first nine months of 2021, which was primarily the result of new loan production partially offset by loan payments and a decrease in line utilization. Debt securities available for sale were $4.83 billion at September 30, 2021, a decrease of $378.2 million from December 31, 2020 which was due to maturities and repayments and the Company transferring securities with a fair value of $2.01 billion from the available for sale classification to the held to maturity classification, partially offset by purchases. Total liabilities were $16.28 billion as of September 30, 2021, an increase of $2.04 billion from December 31, 2020. The increase was primarily due to an increase in demand and other noninterest-bearing deposits supported by PPP loan funds being deposited into our clients’ deposit accounts at the Bank, stimulus funds being distributed by the federal government and reduced expenditures by consumers and business clients.

**Investment Securities**

At September 30, 2021, the Company’s investment portfolio primarily consisted of debt securities available for sale totaling $4.83 billion compared to $5.21 billion at December 31, 2020 and debt securities held to maturity of $2.08 billion at September 30, 2021. The decrease in the debt securities available for sale from year-end is due to a transfer of securities with a fair value of $2.01 billion from the available for sale classification to the held to maturity classification, $2.41 billion in purchases, partially offset by $612.9 million in maturities, repayments and sales, a $134.2 million decline in unrealized gains and $27.6 million in premium amortization. The increase in debt securities held to maturity from year-end is due to the $2.01 billion transfer of securities into the held to maturity classification and purchases of $112.4 million, partially offset by $42.7 million in premium amortization and a $6.7 million decrease in unrealized gains. The average duration of our debt securities available for sale was approximately 4 years and 9 months at September 30, 2021. The average duration of our debt securities held to maturity was approximately 5 years and 7 months at September 30, 2021. These durations take 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 to determine whether a decline in fair value below amortized cost exists. Amortized cost includes adjustments made to the cost of an investment for accretion, amortization, collection of cash and previous credit losses recognized in earnings.

When the fair value of an available for sale debt security falls below the amortized cost basis, it is evaluated to determine if any of the decline in value is attributable to credit loss. Decreases in fair value attributable to credit loss would be recorded directly to earnings with a corresponding allowance for credit losses, limited by the amount that the fair value is less than the amortized cost basis. If the credit quality subsequently improves, the allowance would be reversed up to a maximum of the previously recorded credit losses. If the Company intends to sell an impaired available for sale debt security, or if it is more likely than not that the Company will be required to sell the security prior to recovering the amortized cost basis, the entire fair value adjustment would be immediately recognized in earnings with no corresponding allowance for credit losses.

At September 30, 2021, the market value of debt securities available for sale had a net unrealized gain of $58.2 million compared to a net unrealized gain of $212.6 million at December 31, 2020. The change in valuation was the result of fluctuations in market interest rates during the nine months ended September 30, 2021, in addition to there being less securities classified as available for sale at September 30, 2021 than December 31, 2020 as a result of the aforementioned transfer to the held to maturity classification. At September 30, 2021, the Company had $2.56 billion of debt securities available for sale with gross unrealized losses of $30.2 million; however, we did not consider these investment securities to have an indicated credit loss.

All of the Company's debt securities held to maturity were issued by U.S. government agencies or U.S. government-sponsored enterprises. These securities carry the explicit and/or implicit guarantee of the U.S. government, are widely recognized as "risk free," and have a long history of zero credit loss. Therefore, the Company did not record an allowance for credit losses for these securities as of September 30, 2021.

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

| | September 30, 2021 | December 31, 2020 |
|---|---|---|
| | *(in thousands)* | |
| **Debt securities available for sale:** | | |
| U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations | $ 3,378,861 | $ 3,814,387 |
| Other asset-backed securities | 415,909 | 357,479 |
| State and municipal securities | 781,173 | 753,572 |
| U.S. government agency and government-sponsored enterprise securities | 255,976 | 284,696 |
| Total debt securities available for sale, at fair value | $ 4,831,919 | $ 5,210,134 |
| **Debt securities held to maturity:** | | |
| U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations | $ 2,075,158 | $ — |
| Total debt securities held to maturity, at amortized cost | $ 2,075,158 | $ — |
| **Equity securities** | 13,425 | 13,425 |
| **Total investment securities** | $ 6,920,502 | $ 5,223,559 |

For further information on our investment portfolio and equity securities transactions, see Note 3 to 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 business activities. Our policies, as well as 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 individually measured allowance is required for collateral dependent nonaccrual loans with balances equal to or greater than $500,000 and with respect to which foreclosure is probable. For the individually measured collateral dependent nonaccrual loan, the allowance for credit losses is equal to the difference between amortized cost of the loan and the determined value of the collateral. However, if the determined value of the collateral is greater than the amortized cost of the loan, no allowance for credit losses will be added for these loans.

For additional discussion on our methodology in managing credit risk within our loan portfolio, see the "Allowance for Credit 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 2020 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. Examinations are performed 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 real estate and commercial business loans. The following table sets forth our loan portfolio by type of loan for the dates indicated:

| | September 30, 2021 | % of Total | December 31, 2020 | % of Total |
|---|---|---|---|---|
| | | *(dollars in thousands)* | | |
| **Commercial loans:** | | | | |
| Commercial real estate | $ 4,088,484 | 42.9 % | $ 4,062,313 | 43.0 % |
| Commercial business | 3,436,351 | 36.1 % | 3,597,968 | 38.2 % |
| Agriculture | 815,985 | 8.6 % | 779,627 | 8.3 % |
| Construction | 326,569 | 3.4 % | 268,663 | 2.8 % |
| **Consumer loans:** | | | | |
| One-to-four family residential real estate | 823,877 | 8.7 % | 683,570 | 7.3 % |
| Other consumer | 30,119 | 0.3 % | 35,519 | 0.4 % |
| Total loans | $ 9,521,385 | 100.0 % | $ 9,427,660 | 100.0 % |
| Loans held for sale | $ 11,355 | | $ 26,481 | |

Total loans increased $93.7 million from year-end 2020. This increase includes $543.3 million of new PPP loans as well as new non-PPP loan originations, partially offset by $857.9 million of PPP loan pay downs and forgiveness from the SBA as well as contractual payments and prepayments on non-PPP loans. The PPP loans were originated to provide financial support to small and medium-size businesses to cover payroll and certain other expenses during the COVID-19 pandemic. To further assist our borrowers, the Company also offered loan deferrals to support borrowers during the COVID-19 pandemic.

The following table provides additional detail related to the Company's COVID-19 deferrals:

| | December 31, 2020 | Ended (1) | Re-deferral | New Deferral | September 30, 2021 | % Change |
|---|---|---|---|---|---|---|
| | | | *(dollars in thousands)* | | | |
| Number of deferrals | 70 | (75) | 3 | 11 | 9 | (87.1)% |
| Balance of deferrals (2) | $ 146,725 | $ (143,923) | $ 17,213 | $ 12,780 | $ 32,795 | (77.6)% |

1) Ended includes re-deferrals that have ended.
2) Balance of deferrals are gross of unearned income.

The following table provides additional detail related to the net discount (premium) of acquired and purchased loans by acquisition:

| | September 30, 2021 | December 31, 2020 |
|---|---|---|
| | *(in thousands)* | |
| **Acquisition:** | | |
| Pacific Continental | $ 6,353 | $ 8,442 |
| Intermountain | 843 | 1,090 |
| West Coast | 1,234 | 1,695 |
| All other purchased and acquired net discount (premium) | (4,699) | 957 |
| Total net discount at period end | $ 3,731 | $ 12,184 |

***Commercial Real Estate Loans:*** Commercial real estate 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.

***Commercial Business Loans:*** Our commercial business lending is directed toward meeting the credit and related deposit and treasury management needs of small to medium sized businesses. Commercial and industrial loans are primarily underwritten based on the identified cash flows of the borrower's operations and secondarily on the underlying collateral provided by the borrower and/or the strength of the guarantor. The majority of these loan provide financing for working capital and capital expenditures. Loan terms, including, loan maturity, fixed or adjustable interest rate and collateral considerations, are based on factors such as the loan purpose, collateral type and industry and are underwritten on an individual loan basis.

***Agriculture Loans:*** Agricultural lending includes agricultural real estate and production loans and lines of credit within our primary market area. We are committed to our Pacific Northwest communities offering seasonal and longer-term loans and operating lines of credit by lending officers with expertise in the agricultural communities we serve. Typical loan-to-value ratios on term loans can range from 55% to 80% depending upon the type of loan. Operating lines of credit require the borrower to provide a 20% to 25% equity investment. The debt coverage ratio is generally 1.25 or better on all term loans.

***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 service) 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.

***One-to-four Family Residential Real Estate Loans:*** One-to-four family residential loans, including home equity loans and lines of credit, are secured by properties located within our primary market areas and, typically, have loan-to-value ratios of 80% or lower at origination.

***Other Consumer Loans:*** Consumer loans include automobile loans, boat and recreational vehicle financing, and other 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.

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:

| | September 30, 2021 | December 31, 2020 |
|---|---|---|
| | *(dollars in thousands)* | |
| Nonperforming assets | | |
| Nonaccrual loans: | | |
| Commercial loans: | | |
| Commercial real estate | $ 2,871 | $ 7,712 |
| Commercial business | 12,105 | 13,222 |
| Agriculture | 7,706 | 11,614 |
| Construction | — | 217 |
| Consumer loans: | | |
| One-to-four family residential real estate | 1,491 | 2,001 |
| Other consumer | 3 | 40 |
| Total nonaccrual loans | 24,176 | 34,806 |
| OREO and OPPO | 381 | 553 |
| Total nonperforming assets | $ 24,557 | $ 35,359 |
| | | |
| Loans, net of unearned income | $ 9,521,385 | $ 9,427,660 |
| Total assets | $ 18,602,462 | $ 16,584,779 |
| | | |
| Nonperforming loans to period-end loans | 0.25 % | 0.37 % |
| Nonperforming assets to period-end assets | 0.13 % | 0.21 % |

At September 30, 2021, nonperforming assets were $24.6 million, compared to $35.4 million at December 31, 2020. Nonperforming assets decreased $10.8 million during the nine months ended September 30, 2021, primarily due to decreases in commercial real estate and agriculture nonaccrual loans. For information on OREO, see Note 6 to the Consolidated Financial Statements in “Item 1. Financial Statements (unaudited)” of this report.

**Allowance for Credit Losses**

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

At September 30, 2021, our ACL was $142.8 million, or 1.50% of total loans (excluding loans held for sale). This compares with an ACL of $149.1 million, or 1.58% of total loans (excluding loans held for sale) at December 31, 2020 and an ACL of $157.0 million or 1.62% of total loans (excluding loans held for sale) at September 30, 2020. The decrease from year end was primarily due to an improved economic forecast as the economy recovers from the COVID-19 pandemic. The ACL at September 30, 2021 does not include a reserve for the PPP loans as they are fully guaranteed by the SBA.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| | (dollars in thousands) | | | |
| Beginning Balance | $ 142,988 | $ 151,546 | $ 149,140 | $ 83,968 |
| Impact of adopting ASC 326 | — | — | — | 1,632 |
| Charge-offs: | | | | |
| Commercial loans: | | | | |
| Commercial real estate | — | — | (316) | (101) |
| Commercial business | (1,183) | (3,164) | (5,493) | (10,290) |
| Agriculture | — | (1,269) | (122) | (5,995) |
| Consumer loans: | | | | |
| One-to-four family residential real estate | — | (16) | (146) | (26) |
| Other consumer | (296) | (133) | (808) | (599) |
| Total charge-offs | (1,479) | (4,582) | (6,885) | (17,011) |
| Recoveries: | | | | |
| Commercial loans: | | | | |
| Commercial real estate | 518 | 65 | 570 | 92 |
| Commercial business | 328 | 1,124 | 4,416 | 2,795 |
| Agriculture | 6 | 27 | 23 | 69 |
| Construction | 8 | 11 | 575 | 688 |
| Consumer loans: | | | | |
| One-to-four family residential real estate | 203 | 1,301 | 757 | 2,005 |
| Other consumer | 213 | 76 | 489 | 330 |
| Total recoveries | 1,276 | 2,604 | 6,830 | 5,979 |
| Net charge-offs | (203) | (1,978) | (55) | (11,032) |
| Provision (recapture) for credit losses | — | 7,400 | (6,300) | 82,400 |
| Ending balance | 142,785 | 156,968 | 142,785 | 156,968 |
| Total loans, net at end of period, excluding loans held for sale | $ 9,521,385 | $ 9,688,947 | $ 9,521,385 | $ 9,688,947 |
| ACL to period-end loans | 1.50 % | 1.62 % | 1.50 % | 1.62 % |
| **Allowance for unfunded commitments and letters of credit** | | | | |
| Beginning Balance | $ 10,000 | $ 8,800 | $ 8,300 | $ 3,430 |
| Impact of adopting ASC 326 | — | — | — | 1,570 |
| Net changes in the allowance for unfunded commitments and letters of credit | 500 | 800 | 2,200 | 4,600 |
| Ending balance | $ 10,500 | $ 9,600 | $ 10,500 | $ 9,600 |

**Liquidity and Sources of Funds**

Our primary sources of funds are customer deposits. Additionally, we utilize advances from the FHLB, borrowings from the FRB, sweep repurchase agreements, subordinated debentures assumed in acquisitions and a revolving line of credit 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, meet deposit withdrawals and maturing liabilities, to acquire other assets and to fund continuing operations.

*Deposit Activities*

Our deposit products include a wide variety of transaction accounts, savings accounts and time deposit accounts. We have established a branch system to serve our consumer and business depositors. Deposits increased $2.08 billion from December 31, 2020. The second round of PPP loans during the nine months ended September 30, 2021 had an impact on our deposits, as our clients deposited these funds into their accounts. In addition, management’s strategy for funding asset growth is to make use of public funds and brokered and other wholesale deposits on an as-needed basis. The Company participates in the CD Option of IntraFi Network Deposits program, which is a network that allows participating banks to offer extended FDIC deposit insurance coverage on time deposits. The Company also participates in a similar program to offer extended FDIC deposit insurance coverage on money market accounts. These extended deposit insurance programs are generally available only to existing customers and are not used as a means of generating additional liquidity. At September 30, 2021, brokered deposits, reciprocal money market accounts and other wholesale deposits (excluding public funds) totaled $802.5 million, or 5.0% of total deposits, compared to $605.9 million or 4.4% at year-end 2020. These deposits have varied maturities.

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

| | September 30, 2021 | | December 31, 2020 | |
|---|---|---|---|---|
| | Balance | % of Total | Balance | % of Total |
| | *(dollars in thousands)* | | | |
| Demand and other noninterest-bearing | $ 7,971,680 | 50.0 % | $ 6,913,214 | 49.8 % |
| Money market | 3,076,833 | 19.3 % | 2,780,922 | 20.1 % |
| Interest-bearing demand | 1,646,816 | 10.3 % | 1,433,083 | 10.3 % |
| Savings | 1,416,376 | 8.9 % | 1,169,721 | 8.4 % |
| Interest-bearing public funds, other than certificates of deposit | 740,281 | 4.6 % | 656,273 | 4.7 % |
| Certificates of deposit, less than $250,000 | 190,402 | 1.2 % | 201,805 | 1.5 % |
| Certificates of deposit, $250,000 or more | 108,483 | 0.7 % | 108,935 | 0.8 % |
| Certificates of deposit insured by the CD Option of IntraFi Network Deposits | 26,835 | 0.2 % | 23,105 | 0.2 % |
| Brokered certificates of deposit | 5,000 | — % | 5,000 | — % |
| Reciprocal money market accounts | 770,693 | 4.8 % | 577,804 | 4.2 % |
| Total deposits | $ 15,953,399 | 100.0 % | $ 13,869,862 | 100.0 % |

*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 both September 30, 2021 and December 31, 2020, we had FHLB advances of $7.4 million.

We also utilize wholesale and retail repurchase agreements to supplement our funding sources. Our wholesale repurchase agreements are secured by mortgage-backed securities. At September 30, 2021 and December 31, 2020, we had deposit customer sweep-related repurchase agreements of $40.0 million and $73.9 million, respectively, which mature on a daily basis.

Subordinated debentures are another source of funding. The Company assumed $35.0 million in aggregate principal amount with its acquisition of Pacific Continental on November 1, 2017. These subordinated debentures, which are unsecured, were callable on June 30, 2021 and have a stated maturity date of June 30, 2026.

The Company has a $15.0 million short-term credit facility with an unaffiliated bank. This facility provides the Company additional liquidity, if needed, for various corporate activities including the repurchase of shares of Columbia Banking System, Inc. common stock. At both September 30, 2021 and December 31, 2020, there was no balance associated with this credit facility. The credit agreement requires the Company to comply with certain covenants including those related to asset quality and capital levels. The Company was in compliance with all covenants associated with this facility at September 30, 2021.

Management anticipates we will continue to rely on FHLB advances, FRB borrowings, the short-term credit facility and wholesale and retail repurchase agreements in the future. 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 repayments of borrowings, operating and equipment lease payments, off-balance sheet commitments to extend credit and investments in affordable housing partnerships. At September 30, 2021, we had commitments to extend credit of $3.13 billion compared to $2.83 billion at December 31, 2020.

**Capital Resources**

Shareholders' equity at September 30, 2021 was $2.32 billion, compared to $2.35 billion at December 31, 2020. Shareholders' equity was 12% and 14% of total period-end assets at September 30, 2021 and December 31, 2020, respectively.

*Regulatory Capital*

In July 2013, the federal bank regulators approved the Capital Rules (as discussed in our 2020 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, which were fully phased in as of January 1, 2019. As of September 30, 2021, we and the Bank met all capital adequacy requirements under the Capital Rules.

FDIC regulations set forth the qualifications necessary for a bank to be classified as "well-capitalized," primarily for assignment of FDIC insurance premium rates. Failure to qualify as "well-capitalized" can negatively impact a bank's ability to expand and to engage in certain activities. The Company and the Bank qualified as "well-capitalized" at September 30, 2021 and December 31, 2020.

As part of its response to the impact of COVID-19, the U.S. federal regulatory agencies issued an interim final rule that provided the option to temporarily delay certain effects of CECL on regulatory capital for two years, followed by a three year transition period. The interim final rule allows bank holding companies and banks to delay for two years 100% of the day one impact of adopting CECL and 25% of the cumulative change in the reported allowance for credit losses since adopting CECL. The Company elected to adopt the interim final rule. As a result, certain capital ratios and amounts as of September 30, 2021 and December 31, 2020 exclude the impact of the increased allowance for credit losses related to the adoption of CECL.

The following table presents the capital ratios and the capital conservation buffer, as applicable, for the Company and its banking subsidiary as of the dates presented below:

| | Company | | Columbia Bank | |
|---|---|---|---|---|
| | September 30, 2021 | December 31, 2020 | September 30, 2021 | December 31, 2020 |
| CET1 risk-based capital ratio | 12.79 % | 12.88 % | 12.71 % | 13.08 % |
| Tier 1 risk-based capital ratio | 12.79 % | 12.88 % | 12.71 % | 13.08 % |
| Total risk-based capital ratio | 14.25 % | 14.45 % | 13.87 % | 14.33 % |
| Leverage ratio | 8.43 % | 8.86 % | 8.42 % | 9.08 % |
| Capital conservation buffer | 6.25 % | 6.45 % | 5.87 % | 6.33 % |

*Stock Repurchase Program*

As described in our Annual Report on Form 10-K for the year ended December 31, 2020, our board of directors approved a stock repurchase program to repurchase up to 3.5 million shares, up to a maximum aggregate purchase price of $100.0 million. There were no share repurchases during the three or nine months ended September 30, 2021.

**Non-GAAP Financial Measures**

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

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| | *(dollars in thousands)* | | | |
| **Operating net interest margin non-GAAP reconciliation:** | | | | |
| Net interest income (tax equivalent) (1) | $ 134,439 | $ 126,554 | $ 387,737 | $ 374,579 |
| Adjustments to arrive at operating net interest income (tax equivalent): | | | | |
| Incremental accretion income on acquired loans | (884) | (1,665) | (2,795) | (4,831) |
| Premium amortization on acquired securities | 422 | 701 | 1,474 | 2,803 |
| Interest reversals on nonaccrual loans (2) | — | 393 | — | 1,854 |
| Operating net interest income (tax equivalent) (1) | $ 133,977 | $ 125,983 | $ 386,416 | $ 374,405 |
| Average interest earning assets | $ 16,820,771 | $ 14,492,435 | $ 16,143,956 | $ 13,549,356 |
| Net interest margin (tax equivalent) (1) | 3.17 % | 3.47 % | 3.21 % | 3.69 % |
| Operating net interest margin (tax equivalent) (1) | 3.16 % | 3.46 % | 3.20 % | 3.69 % |

(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 $1.9 million and $1.8 million for the three months ended September 30, 2021 and 2020, respectively, and an addition to net interest income of $5.7 million and $5.6 million for the nine months ended September 30, 2021 and 2020, respectively.

(2) Beginning 2021, interest reversals on nonaccrual loans is no longer a component of this non-GAAP measure.

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

### Interest Rate Sensitivity

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

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

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

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

**Option risk**—In banking, option risks are known as borrower options to prepay loans and depositor options to make deposits, withdrawals, and early redemptions. Option risk arises whenever a bank's products give customers the right, but not the obligation, to alter the quantity or the timing of cash flows. We are also exposed to option risk in callable bonds as the counterparty may call the bonds during a low rate environment resulting in reinvestment of the proceeds at lower yields. Option risk is also present in the investment portfolio as mortgage-backed securities could prepay.

Since our earnings are primarily dependent on our ability to generate net interest income, we actively monitor and manage the effects of adverse changes in interest rates on our results of operations. Management of our interest rate risk is overseen by our board of directors, which is responsible for establishing policies and interest rate limits and approving these policies and interest rate limits annually. These policies include our asset/liability management policy, which provides guidelines for controlling our exposure to interest rate risk. These guidelines direct management to assess the impact of changes in interest rates upon both earnings and capital. These guidelines also establish limits for interest rate risk sensitivity.

We maintain an Asset/Liability Management Committee which is responsible for developing, monitoring and reviewing asset/liability processes, interest rate risk exposures, strategies and tactics. The Asset/Liability Management Committee reports on a periodic basis to our board of directors. It is the responsibility of management to execute the approved policies, develop and implement risk management strategies and to report to the board of directors on a regular basis.

### Interest Rate Risk Sensitivity

We use a number of measures 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 may not be realized and, as a result, actual results will differ from our projections. In addition, variances in the timing, magnitude and frequency of interest rate changes, overall market conditions including volumes and pricing, and changes in management strategies, among other factors, will also result in variances between the projected and actual results.

The following table summarizes the expected impact if interest rates gradually increased or decreased over a one or two year period, based on the results of the simulation model as of September 30, 2021:

| | Year one | | Year two | |
|---|---|---|---|---|
| **Change in basis points (bps)** | **Change in net interest income** | **% Change in net interest income** | **Change in net interest income** | **% Change in net interest income** |
| | | *(dollars in thousands)* | | |
| +200 | $ 3,903 | 0.84 % | $ 37,256 | 8.12 % |
| -100 | $ (6,591) | (1.41) % | $ (27,066) | (5.90) % |

The projections are based on the current interest rate environment and we assume our balance sheet remains constant during the next two years. Short-term market interest rates are near historical lows. Loan interest rate indexes such as Prime and LIBOR are also near historical lows. Since we don't assume negative interest rates, the downward repricing of Prime and LIBOR loans is more limited than during a higher interest rate environment. Our ability to reprice deposits downward is also limited given our low cost of funds.

The limited increase in net interest income in the first year of the rising interest rate scenario is mainly due to the ramp up period of the interest rate scenario combined with floating rate loans where the floor rate exceeds the fully indexed rate. In year two of this scenario, net interest income increases as yields on new loan production and investment security purchases rise faster than our funding costs and the existing floating rate loans increase from the floor level. The decrease in net interest income in the falling rate scenario is due to loan production and investment security purchases at rates lower than the existing portfolios combined with our inability to materially lower funding costs.

On January 23, 2019, the Company entered into an interest rate collar derivative transaction with a $500.0 million notional value based on one month LIBOR. In October 2020, the collar was terminated and resulted in a $34.4 million realized gain that was recorded in accumulated other comprehensive income, net of deferred income taxes. The gain will amortize into interest income through February 2024 which is in line with the initial term of the interest rate collar. The gain will be amortized in this manner as long as the cash flows pertaining to the hedged item are expected to occur.

Net interest income sensitivity excludes the amortization of premiums, discounts and deferred fees on the existing loan portfolio although the amortization of the collar is included in loan interest income.

## 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, 2020 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 for the year ended December 31, 2020 other than as set forth below.

***Regulatory approvals may not be received, may take longer than expected, or may impose conditions that are not presently anticipated or that could have an adverse effect on the combined company following the merger.***

Before the merger with Umpqua and the subsequent merger of Columbia State Bank and Umpqua Bank (the "bank merger") may be completed, various approvals, consents and non-objections must be obtained from the FRB and the FDIC and other regulatory authorities in the United States. In determining whether to grant these approvals, such regulatory authorities consider a variety of factors, including the regulatory standing of each party. These approvals could be delayed or not obtained at all, including due to an adverse development in either party's regulatory standing or in any other factors considered by regulators when granting such approvals; governmental, political or community group inquiries, investigations or opposition; or changes in legislation or the political environment generally.

The approvals that are granted may impose terms and conditions, limitations, obligations or costs, or place restrictions on the conduct of the combined company's business or require changes to the terms of the transactions contemplated by the merger agreement. There can be no assurance that regulators will not impose any such conditions, limitations, obligations or restrictions and that such conditions, limitations, obligations or restrictions will not have the effect of delaying the completion of any of the transactions contemplated by the merger agreement, imposing additional material costs on or materially limiting the revenues of the combined company following the merger or otherwise reducing the anticipated benefits of the merger if the merger were consummated successfully within the expected timeframe. In addition, there can be no assurance that any such conditions, terms, obligations or restrictions will not result in the delay or abandonment of the merger. Additionally, the completion of the merger is conditioned on the absence of certain orders, injunctions or decrees by any court or regulatory agency of competent jurisdiction that would prohibit or make illegal the completion of any of the transactions contemplated by the merger agreement.

In addition, despite the parties' commitments to using their reasonable best efforts to comply with conditions imposed by regulators, under the terms of the merger agreement, neither Columbia nor Umpqua, nor any of their respective subsidiaries, is permitted (without the written consent of the other party), to take any action, or commit to take any action, or agree to any condition or restriction, in connection with obtaining the required permits, consents, approvals and authorizations of governmental entities that would reasonably be expected to have a material adverse effect on the combined company and its subsidiaries, taken as a whole, after giving effect to the merger and the bank merger.

***Failure to complete the merger could negatively impact Columbia.***

If the merger is not completed for any reason, including as a result of Columbia shareholders or Umpqua shareholders failing to approve certain matters in connection with the merger at each company's respective special meeting, there may be various adverse consequences and Columbia may experience negative reactions from the financial markets and from its customers and employees. For example, Columbia's business may have been impacted adversely by the failure to pursue other beneficial opportunities due to the focus of management on the merger, without realizing any of the anticipated benefits of completing the merger. Additionally, if the merger agreement is terminated, the market price of Columbia's common stock could decline to the extent that current market prices reflect a market assumption that the merger will be beneficial and will be completed. Columbia also could be subject to litigation related to any failure to complete the merger or to proceedings commenced against Columbia to perform its obligations under the merger agreement. If the merger agreement is terminated under certain circumstances, Columbia may be required to pay a termination fee of $145 million to Umpqua.

Additionally, Columbia has incurred and will incur substantial expenses in connection with the negotiation and completion of the transactions contemplated by the merger agreement, as well as the costs and expenses of preparing, filing, printing and mailing of a joint proxy statement/prospectus in connection with the merger, and all filing and other fees paid in connection with the merger. If the merger is not completed, Columbia would have to pay these expenses without realizing the expected benefits of the merger.

***Combining Columbia and Umpqua may be more difficult, costly or time-consuming than expected, and Columbia may fail to realize the anticipated benefits of the merger.***

The success of the merger will depend, in part, on the ability to realize the anticipated cost savings from combining the businesses of Columbia and Umpqua. To realize the anticipated benefits and cost savings from the merger, Columbia and Umpqua must successfully integrate and combine their businesses in a manner that permits those cost savings to be realized without adversely affecting current revenues and future growth. If Columbia and Umpqua are not able to successfully achieve these objectives, the anticipated benefits of the merger may not be realized fully or at all or may take longer to realize than expected. In addition, the actual cost savings of the merger could be less than anticipated, and integration may result in additional and unforeseen expenses.

An inability to realize the full extent of the anticipated benefits of the merger and the other transactions contemplated by the merger agreement, as well as any delays encountered in the integration process, could have an adverse effect upon the revenues, levels of expenses and operating results of the combined company following the completion of the merger, which may adversely affect the value of the common stock of the combined company following the completion of the merger.

Columbia and Umpqua have operated and, until the completion of the merger, must continue to operate, independently. It is possible that the integration process could result in the loss of key employees, the disruption of each company’s ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect the companies’ ability to maintain relationships with clients, customers, depositors and employees or to achieve the anticipated benefits and cost savings of the merger. Integration efforts between the companies may also divert management attention and resources. These integration matters could have an adverse effect on Columbia during this transition period and for an undetermined period after completion of the merger on the combined company.

Furthermore, the board of directors and executive leadership of the combined company will consist of former directors and executive officers from each of Columbia and Umpqua. Combining the boards of directors and management teams of each company into a single board and a single management team could require the reconciliation of differing priorities and philosophies.

***The combined company may be unable to retain Columbia and/or Umpqua personnel successfully after the merger is completed.***

The success of the merger will depend in part on the combined company’s ability to retain the talent and dedication of key employees currently employed by Columbia and Umpqua. It is possible that these employees may decide not to remain with Columbia or Umpqua, as applicable, while the merger is pending or with the combined company after the merger is consummated. If Columbia and Umpqua are unable to retain key employees, including management, who are critical to the successful integration and future operations of the companies, Columbia and Umpqua could face disruptions in their operations, loss of existing customers, loss of key information, expertise or know-how and unanticipated additional recruitment costs. In addition, following the merger, if key employees terminate their employment, the combined company’s business activities may be adversely affected, and management’s attention may be diverted from successfully hiring suitable replacements, all of which may cause the combined company’s business to suffer. Columbia and Umpqua also may not be able to locate or retain suitable replacements for any key employees who leave either company.

***Columbia will be subject to business uncertainties and contractual restrictions while the merger is pending.***

Uncertainty about the effect of the merger on employees and customers may have an adverse effect on Columbia. These uncertainties may impair Columbia’s ability to attract, retain and motivate key personnel until the merger is completed, and could cause customers and others that deal with Columbia to seek to change existing business relationships with Columbia. In addition, subject to certain exceptions, Columbia has agreed to operate its business in the ordinary course in all material respects and to refrain from taking certain actions that may adversely affect its ability to consummate the transactions contemplated by the merger agreement on a timely basis without the consent of Umpqua. These restrictions may prevent Columbia from pursuing attractive business opportunities that may arise prior to the completion of the merger.

***Columbia has incurred and is expected to incur substantial costs related to the merger and integration.***

Columbia has incurred and expects to incur a number of non-recurring costs associated with the merger. These costs include legal, financial advisory, accounting, consulting and other advisory fees, retention, severance and employee benefit-related costs, public company filing fees and other regulatory fees, financial printing and other printing costs, closing, integration and other related costs. Some of these costs are payable by Columbia regardless of whether or not the merger is completed.

***Shareholder litigation related to the merger could prevent or delay the completion of the merger, result in the payment of damages or otherwise negatively impact the business and operations of Columbia.***

Shareholders may bring claims in connection with the proposed merger and, among other remedies, may seek damages or an injunction preventing the merger from closing. If any plaintiff were successful in obtaining an injunction prohibiting Columbia or Umpqua from completing the merger or any other transactions contemplated by the merger agreement, then such injunction may delay or prevent the effectiveness of the merger and could result in costs to Columbia, including costs in connection with the defense or settlement of any shareholder lawsuits filed in connection with the merger. Further, such lawsuits and the defense or settlement of any such lawsuits may have an adverse effect on the financial condition and results of operations of Columbia.

***The merger agreement may be terminated in accordance with its terms and the merger may not be completed.***

The merger agreement is subject to a number of conditions which must be fulfilled in order to complete the merger. Those conditions include, among other things: (i) approval by each of the Columbia shareholders and the Umpqua shareholders of certain matters relating to the merger at each company’s respective special meeting; (ii) the receipt of required regulatory approvals, including the approval of the FRB and the FDIC; and (iii) the absence of any order, injunction, decree or other legal restraint preventing the completion of the merger, the bank merger or any of the other transactions contemplated by the merger agreement or making the completion of the merger, the bank merger or any of the other transactions contemplated by the merger agreement illegal. Each party’s obligation to complete the merger is also subject to certain additional customary conditions, including (a) subject to applicable materiality standards, the accuracy of the representations and warranties of the other party, (b) the performance in all material respects by the other party of its obligations under the merger agreement and (c) the receipt by each party of an opinion from its counsel to the effect that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986.

These conditions to the closing may not be fulfilled in a timely manner or at all, and, accordingly, the merger may not be completed. In addition, the parties can mutually decide to terminate the merger agreement at any time, before or after the requisite shareholder approvals, or Umpqua or Columbia may elect to terminate the merger agreement in certain other circumstances.

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

(a) Not applicable

(b) Not applicable

(c) The following table provides information about repurchases of common stock by the Company during the quarter ended September 30, 2021:

| Period | Total Number of Common Shares Purchased (1) | Average Price Paid per Common Share | Total Number of Shares Purchased as Part of Publicly Announced Plan (2) | Maximum Number of Remaining Shares That May Yet Be Purchased Under the Plan (2) |
|---|---|---|---|---|
| 7/1/2021 - 7/31/2021 | 528 | $ 34.59 | — | 3,500,000 |
| 8/1/2021 - 8/31/2021 | 202 | 35.47 | — | 3,500,000 |
| 9/1/2021 - 9/30/2021 | 103 | 37.53 | — | 3,500,000 |
| | 833 | 35.17 | — | |

(1) Common shares repurchased by the Company during the quarter consisted of cancellation of 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, 2020, the board of directors approved a stock repurchase program to repurchase up to 3.5 million shares of its outstanding stock, up to a maximum aggregate purchase price of $100.0 million through December 31, 2021.

**Item 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**Item 4. MINE SAFETY DISCLOSURES**

Not applicable.

**Item 5. OTHER INFORMATION**

None.

**Item 6. EXHIBITS**

| | |
|---|---|
| 31.1+ | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2+ | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32+ | Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.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 |
| 104+ | Cover Page Interactive Data File (the cover page XBRL tags are embedded within the Inline XBRL document). |

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+ Filed herewith

SIGNATURES

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

| | | |
|---|---|---|
| | COLUMBIA BANKING SYSTEM, INC. | |
| Date: November 4, 2021 | By | /s/ CLINT E. STEIN<br>Clint E. Stein<br>President and<br>Chief Executive Officer<br>(Principal Executive Officer) |
| Date: November 4, 2021 | By | /s/ AARON JAMES DEER<br>Aaron James Deer<br>Executive Vice President and<br>Chief Financial Officer<br>(Principal Financial Officer) |
| Date: November 4, 2021 | By | /s/ BROCK M. LAKELY<br>Brock M. Lakely<br>Senior Vice President and<br>Chief Accounting Officer<br>(Principal Accounting Officer) |

**EXHIBIT 31.1**

**CERTIFICATION**

I, Clint E. Stein, certify that:

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

/s/ CLINT E. STEIN

Clint E. Stein
President and
Chief Executive Officer

Date: November 4, 2021

**EXHIBIT 31.2**

**CERTIFICATION**

I, Aaron James Deer, 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/ AARON JAMES DEER

Aaron James Deer
Executive Vice President and
Chief Financial Officer

Date: November 4, 2021

**EXHIBIT 32**

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

In connection with the Quarterly Report of Columbia Banking System, Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), we, Clint E. Stein, President and Chief Executive Officer, and Aaron James Deer, 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/ CLINT E. STEIN

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

/s/ AARON JAMES DEER

**Aaron James Deer**
**Executive Vice President and**
**Chief Financial Officer**
**Columbia Banking System, Inc.**

Dated: November 4, 2021