
**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, 2022.

☐ **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
(State or other jurisdiction of
incorporation or organization)

91-1422237
(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
(Title of each class)

COLB
(Trading symbol)

The Nasdaq Stock Market LLC
(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 25, 2022 was 78,646,118

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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	FHLB	Federal Home Loan Bank of Des Moines
ASC	Accounting Standards Codification	FRB	Federal Reserve Bank
ASU	Accounting Standards Update	GAAP	Generally Accepted Accounting Principles
Bank of Commerce	Bank of Commerce Holdings	GDP	Gross Domestic Product
B&O	Business and Occupation	LIBOR	London Interbank Offering Rate
Basel III	A comprehensive capital framework and rules for U.S. banking organizations approved by the FRB and the FDIC in 2013	OPPO	Other Personal Property Owned
Capital Rules	Risk-based capital standards currently applicable to the Company and the Bank.	OREO	Other Real Estate Owned
CDI	Core Deposit Intangible	Pacific Continental	Pacific Continental Corporation
CECL	Current Expected Credit Losses	PCD	Purchased Credit Deteriorated
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	SOFR	Secured Overnight Financing Rate
EPS	Earnings Per Share	TDR	Troubled Debt Restructuring
FASB	Financial Accounting Standards Board	Umpqua	Umpqua Holdings Corporation
FDIC	Federal Deposit Insurance Corporation		

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

	September 30, 2022	December 31, 2021
ASSETS		
	<i>(in thousands)</i>	
Cash and due from banks	\$ 263,551	\$ 153,414
Interest-earning deposits with banks	54,124	671,300
Total cash and cash equivalents	317,675	824,714
Debt securities available for sale at fair value (amortized cost of \$5,447,566 and \$5,898,041, respectively)	4,700,821	5,910,999
Debt securities held to maturity at amortized cost (fair value of \$1,747,282 and \$2,122,606, respectively)	2,079,285	2,148,327
Equity securities	13,425	13,425
FHLB stock at cost	10,560	10,280
Loans held for sale	1,251	9,774
Loans, net of unearned income	11,692,261	10,641,937
Less: ACL	154,871	155,578
Loans, net	11,537,390	10,486,359
Interest receivable	61,652	56,019
Premises and equipment, net	161,853	172,144
OREO	—	381
Goodwill	823,172	823,172
Other intangible assets, net	27,921	34,647
Other assets	670,364	455,092
Total assets	\$ 20,405,369	\$ 20,945,333
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	\$ 8,911,267	\$ 8,856,714
Interest-bearing	9,030,058	9,153,401
Total deposits	17,941,325	18,010,115
FHLB advances	14,322	7,359
Securities sold under agreements to repurchase	48,733	86,013
Subordinated debentures	10,000	10,000
Junior subordinated debentures	10,310	10,310
Other liabilities	265,198	232,794
Total liabilities	18,289,888	18,356,591
Commitments and contingent liabilities (Note 11)		
Shareholders' equity:		
	September 30, 2022	December 31, 2021
	<i>(in thousands)</i>	
Preferred stock (no par value)		
Authorized shares	2,000	2,000
Common stock (no par value)		
Authorized shares	115,000	115,000
Issued	80,831	80,695
Outstanding	78,647	78,511
Retained earnings	804,774	694,227
Accumulated other comprehensive income (loss)	(558,844)	35,162
Treasury stock at cost	2,184	2,184
Total shareholders' equity	2,115,481	2,588,742
Total liabilities and shareholders' equity	\$ 20,405,369	\$ 20,945,333

See accompanying Notes to unaudited Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

Columbia Banking System, Inc.

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
<i>(in thousands except per share amounts)</i>				
Interest Income				
Loans	\$ 130,908	\$ 105,168	\$ 349,060	\$ 305,195
Taxable securities	31,987	26,374	103,771	73,940
Tax-exempt securities	3,662	2,714	11,142	8,299
Deposits in banks	1,191	284	2,373	595
Total interest income	167,748	134,540	466,346	388,029
Interest Expense				
Deposits	4,446	1,468	8,706	4,379
FHLB advances and FRB borrowings	109	73	253	217
Subordinated debentures	220	435	536	1,371
Other borrowings	481	24	708	66
Total interest expense	5,256	2,000	10,203	6,033
Net Interest Income	162,492	132,540	456,143	381,996
Provision (recapture) for credit losses	5,250	—	(450)	(6,300)
Net interest income after provision (recapture) for credit losses	157,242	132,540	456,593	388,296
Noninterest Income				
Deposit account and treasury management fees	8,181	6,893	23,506	19,952
Card revenue	4,988	4,889	14,986	13,395
Financial services and trust revenue	4,292	4,250	13,116	11,876
Loan revenue	2,853	5,184	9,927	17,067
Bank owned life insurance	1,939	1,585	5,751	4,780
Investment securities gains, net	—	—	—	314
Other	4,374	1,157	8,527	2,470
Total noninterest income	26,627	23,958	75,813	69,854
Noninterest Expense				
Compensation and employee benefits	60,744	54,679	181,209	159,865
Occupancy	10,469	9,695	31,110	27,739
Data processing and software	10,548	8,515	30,057	24,368
Legal and professional fees	4,022	4,894	15,739	10,973
Amortization of intangibles	2,219	1,835	6,726	5,611
B&O taxes	1,771	1,583	4,944	4,332
Advertising and promotion	830	678	2,764	2,026
Regulatory premiums	1,782	1,214	4,779	3,431
Net cost (benefit) of operation of OREO	(4)	4	122	52
Other	9,065	6,910	24,428	19,285
Total noninterest expense	101,446	90,007	301,878	257,682
Income before income taxes	82,423	66,491	230,528	200,468
Income tax provision	17,481	13,474	49,256	40,559
Net Income	\$ 64,942	\$ 53,017	\$ 181,272	\$ 159,909
Earnings per common share				
Basic	\$ 0.83	\$ 0.75	\$ 2.32	\$ 2.25
Diluted	\$ 0.83	\$ 0.74	\$ 2.32	\$ 2.24
Weighted average number of common shares outstanding	78,100	71,036	78,027	70,965
Weighted average number of diluted common shares outstanding	78,233	71,186	78,142	71,155

See accompanying Notes to unaudited Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Columbia Banking System, Inc.

(Unaudited)

	Three Months Ended	
	September 30,	
	2022	2021
	(in thousands)	
Net income	\$ 64,942	\$ 53,017
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 \$51,566 and \$6,671	(170,224)	(22,022)
Amortization of net unrealized gain for the reclassification of available for sale securities to held to maturity, net of tax of \$632 and \$141	(2,086)	(465)
Net unrealized loss from securities, net of reclassification adjustment	(172,310)	(22,487)
Pension plan liability adjustment:		
Amortization of unrecognized net actuarial loss included in net periodic pension cost, net of tax of \$(30) and \$(35)	100	114
Pension plan liability adjustment, net	100	114
Unrealized gain from cash flow hedging instruments:		
Reclassification adjustment for net gain in cash flow hedging instruments included in income, net of tax of \$612 and \$612	(2,019)	(2,019)
Net unrealized loss from cash flow hedging instruments, net of reclassification adjustment	(2,019)	(2,019)
Other comprehensive loss	(174,229)	(24,392)
Total comprehensive income (loss)	\$ (109,287)	\$ 28,625
	Nine Months Ended	
	September 30,	
	2022	2021
	(in thousands)	
Net income	\$ 181,272	\$ 159,909
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 \$176,631 and \$31,134	(583,072)	(102,777)
Reclassification adjustment of net gain from available for sale debt securities arising during the period, net of tax of \$0 and \$73	—	(241)
Amortization of net unrealized gain for the reclassification of available for sale securities to held to maturity, net of tax of \$1,588 and \$246	(5,242)	(810)
Net unrealized loss from securities, net of reclassification adjustment	(588,314)	(103,828)
Pension plan liability adjustment:		
Amortization of unrecognized net actuarial loss included in net periodic pension cost, net of tax of \$(91) and \$(104)	301	344
Pension plan liability adjustment, net	301	344
Unrealized gain from cash flow hedging instruments:		
Reclassification adjustment for net gain in cash flow hedging instruments included in income, net of tax of \$1,816 and \$1,815	(5,993)	(5,994)
Net unrealized loss from cash flow hedging instruments, net of reclassification adjustment	(5,993)	(5,994)
Other comprehensive loss	(594,006)	(109,478)
Total comprehensive income (loss)	\$ (412,734)	\$ 50,431

See accompanying Notes to unaudited Consolidated Financial Statements.

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

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders' Equity
	Shares Outstanding	Amount				
For the Three Months Ended September 30, 2022	<i>(in thousands except per share amounts)</i>					
Balance at July 1, 2022	78,621	\$ 1,935,180	\$ 763,487	\$ (384,615)	\$ (70,834)	\$ 2,243,218
Net income	—	—	64,942	—	—	64,942
Other comprehensive loss	—	—	—	(174,229)	—	(174,229)
Issuance of common stock - employee stock purchase plan	37	1,093	—	—	—	1,093
Activity in deferred compensation plan	—	1	—	—	—	1
Issuance of common stock - RSAs and RSUs, net of canceled awards	(10)	4,149	—	—	—	4,149
Purchase and retirement of common stock	(1)	(38)	—	—	—	(38)
Cash dividends declared on common stock (\$0.30 per share)	—	—	(23,655)	—	—	(23,655)
Balance at September 30, 2022	78,647	\$ 1,940,385	\$ 804,774	\$ (558,844)	\$ (70,834)	\$ 2,115,481
For the Nine Months Ended September 30, 2022						
Balance at January 1, 2022	78,511	\$ 1,930,187	\$ 694,227	\$ 35,162	\$ (70,834)	\$ 2,588,742
Net income	—	—	181,272	—	—	181,272
Other comprehensive loss	—	—	—	(594,006)	—	(594,006)
Issuance of common stock - employee stock purchase plan	68	2,110	—	—	—	2,110
Activity in deferred compensation plan	—	4	—	—	—	4
Issuance of common stock - RSAs and RSUs, net of canceled awards	177	12,059	—	—	—	12,059
Purchase and retirement of common stock	(109)	(3,975)	—	—	—	(3,975)
Cash dividends declared on common stock (\$0.90 per share)	—	—	(70,725)	—	—	(70,725)
Balance at September 30, 2022	78,647	\$ 1,940,385	\$ 804,774	\$ (558,844)	\$ (70,834)	\$ 2,115,481

See accompanying Notes to unaudited Consolidated Financial Statements.

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

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders' Equity
	Shares Outstanding	Amount				
For the Three Months Ended September 30, 2021	<i>(in thousands except per share amounts)</i>					
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)	—	—	(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

See accompanying Notes to unaudited Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Columbia Banking System, Inc.

(Unaudited)

	Nine Months Ended September 30,	
	2022	2021
	(in thousands)	
Cash Flows From Operating Activities		
Net income	\$ 181,272	\$ 159,909
Adjustments to reconcile net income to net cash provided by operating activities		
Recapture for credit losses	(450)	(6,300)
Stock-based compensation expense	12,059	10,835
Depreciation, amortization and accretion	35,971	11,383
Investment securities gain, net	—	(314)
Net realized gain on sale of premises and equipment and loans held for investment	(4,985)	(268)
Net realized loss on sale and valuation adjustments of OREO	181	40
Gain on bank owned life insurance death benefit	(610)	(209)
Originations of loans held for sale	(105,392)	(263,367)
Proceeds from sales of loans held for sale	113,698	278,187
Change in fair value of loans held for sale	217	306
Net change in:		
Interest receivable	(5,633)	1,945
Interest payable	(79)	(52)
Other assets	(27,620)	15,761
Other liabilities	25,088	(18,755)
Net cash provided by operating activities	223,717	189,101
Cash Flows From Investing Activities		
Loans originated, net of principal collected	(1,069,862)	108,551
Investment in low income housing tax credit partnerships	(1,229)	(1,106)
Purchases of:		
Debt securities available for sale	(185,800)	(2,408,578)
Debt securities held to maturity	(97,658)	(112,372)
Loans held for investment	—	(176,545)
Premises and equipment	(5,557)	(4,334)
FHLB stock	(7,441)	(1)
Proceeds from:		
Sales of debt securities available for sale	—	26,914
Principal repayments and maturities of debt securities available for sale	613,046	586,288
Principal repayments and maturities of debt securities held to maturity	149,562	42,653
Sales of premises and equipment and loans held for investment	36,973	4,287
Redemption of FHLB stock	7,161	1
Sales of OREO and OPPO	200	132
Bank owned life insurance death benefit	1,108	671
Net cash used in investing activities	(559,497)	(1,933,439)

CONSOLIDATED STATEMENTS OF CASH FLOWS

Columbia Banking System, Inc.

(Unaudited)

	Nine Months Ended September 30,	
	2022	2021
	<i>(in thousands)</i>	
Cash Flows From Financing Activities		
Net increase (decrease) in deposits	(68,238)	2,083,537
Net decrease in sweep repurchase agreements	(37,280)	(33,819)
Proceeds from:		
FHLB advances	186,030	20
FRB borrowings	30	10
Employee stock purchase plan	2,110	2,351
Payments for:		
Repayment of FHLB advances	(179,030)	(20)
Repayment of FRB borrowings	(30)	(10)
Common stock dividends	(70,876)	(59,922)
Purchase and retirement of common stock	(3,975)	(4,100)
Net cash provided by (used in) financing activities	(171,259)	1,988,047
Increase (decrease) in cash and cash equivalents	(507,039)	243,709
Cash and cash equivalents at beginning of period	824,714	653,766
Cash and cash equivalents at end of period	<u>\$ 317,675</u>	<u>\$ 897,475</u>
Supplemental Information:		
Interest paid	\$ 10,282	\$ 6,085
Income taxes paid, net of refunds	\$ 48,952	\$ 45,122
Non-cash investing and financing activities		
Transfer of debt securities available for sale to debt securities held to maturity	\$ —	\$ 2,012,123
Premises and equipment expenditures incurred but not yet paid	\$ 51	\$ 87
Change in dividends payable included in other liabilities	\$ (151)	\$ 23,927

See accompanying Notes to unaudited Consolidated Financial Statements.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Columbia Banking System, Inc.

1. Basis of Presentation and Significant Accounting Policies

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, 2022 are not necessarily indicative of results to be anticipated for the year ending December 31, 2022. The accompanying interim unaudited Consolidated Financial Statements should be read in conjunction with the financial statements and related notes contained in the Company’s 2021 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 2021 Annual Report on Form 10-K. There have not been any changes in our significant accounting policies compared to those contained in our 2021 Annual Report on Form 10-K disclosure for the year ended December 31, 2021.

2. Accounting Pronouncements Recently Adopted or Issued

Accounting Standards Adopted in 2022

There are no recently issued accounting standards that are applicable to the Company that were adopted in 2022.

Recently Issued Accounting Standards, Not Yet Adopted

In June 2022, the FASB issued ASU 2022-03, *Fair Value Measurement (Topic 820) - Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*. The amendments in this ASU clarify that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and is not considered in measuring fair value. Further, an entity cannot, as a separate unit of account, recognize and measure a contractual sale restriction. Additionally, the amendments require the disclosures for equity securities subject to contractual sale restrictions to include the fair value of equity securities subject to contractual sale restrictions reflected on the balance sheet, the nature and remaining duration of the restrictions and the circumstances that could cause a lapse in the restrictions. The ASU is effective for interim and annual reporting periods beginning after December 15, 2023; early adoption is permitted. The adoption of this ASU is not expected to have a material impact on the Company’s Consolidated Financial Statements.

In March 2022, the FASB issued ASU 2022-02, *Financial Instruments - Credit Losses (Topic 326) - Troubled Debt Restructurings and Vintage Disclosures*. The amendments in this ASU enhance disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. Additionally, the amendments require the disclosure of current-period gross charge-offs by year of origination for financing receivables and net investments in leases within scope. The ASU is effective for interim and annual reporting periods beginning after December 15, 2022; early adoption is permitted. The adoption of this ASU is not expected to have a material impact on the Company’s Consolidated Financial Statements.

3. Business Combinations

Bank of Commerce

On October 1, 2021, the Company completed its acquisition of Bank of Commerce and its wholly-owned banking subsidiary Merchants Bank of Commerce. The Company acquired 100% of the equity interests of Bank of Commerce.

The assets acquired and liabilities assumed have been accounted for under the acquisition method of accounting. The assets and liabilities, both tangible and intangible, were recorded at their fair values as of the October 1, 2021 acquisition date. The application of the acquisition method of accounting resulted in the recognition of goodwill of \$57.3 million and a CDI of \$15.9 million. The goodwill represents the excess of the purchase price over the fair value of the net assets acquired. The Company paid this premium for a number of reasons, including to expand the Company's current footprint and to enter the California market and the synergies and economies of scale expected from the acquisition. The goodwill is not deductible for income tax purposes.

The table below summarizes the amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed:

	October 1, 2021
	<i>(in thousands)</i>
Merger consideration	\$ 256,257
Identifiable net assets acquired, at fair value	
Assets acquired	
Cash and cash equivalents	\$ 155,180
Investment securities	654,480
FHLB stock	7,463
Loans, net allowance for credit loss	1,084,984
Interest receivable	5,237
Premises and equipment	17,658
Core deposit intangible	15,932
Other assets	41,963
Total assets acquired	1,982,897
Liabilities assumed	
Deposits	(1,737,584)
Subordinated debentures	(10,000)
Junior subordinated debentures	(10,310)
Other liabilities	(26,076)
Total liabilities assumed	(1,783,970)
Total fair value of identifiable net assets	198,927
Goodwill	\$ 57,330

See [Note 8, "Goodwill and Other Intangible Assets,"](#) for further discussion of the accounting for goodwill and other intangible assets.

Of the \$1.08 billion net loans acquired, \$40.3 million exhibited credit deterioration on the date of purchase. The following table provides a summary of these PCD loans at acquisition:

	October 1, 2021
	<i>(in thousands)</i>
Par value of PCD loans acquired	\$ 43,419
PCD ACL at acquisition	(2,616)
Non-credit discount on PCD loans	(525)
Purchase price of PCD loans	\$ 40,278

The operating results of the Company reported herein include the operating results produced by the acquired assets and assumed liabilities for the period of January 1, 2022 to September 30, 2022. Disclosure of the amount of Bank of Commerce's revenue and net income (excluding integration costs) included in Columbia's Consolidated Statements of Income is impracticable due to the integration of the operations and accounting for this acquisition.

For illustrative purposes only, the following table presents certain unaudited pro forma information for the nine months ended September 30, 2021. This unaudited, estimated pro forma financial information was calculated as if Bank of Commerce had been acquired as of the beginning of the year prior to the date of acquisition. This unaudited pro forma information combines the historical results of Bank of Commerce with the Company's consolidated historical results and includes certain adjustments reflecting the estimated impact of certain fair value adjustments for the respective periods. The pro forma information is not indicative of what would have occurred had the acquisition occurred as of the beginning of the year prior to the acquisition. The unaudited pro forma information does not consider any changes to the provision for credit losses resulting from recording loan assets at fair value. Additionally, the pro forma amounts below do not reflect Columbia's expectations as of the date of the pro forma information of further operating cost savings and other business synergies expected to be achieved, including revenue growth as a result of the acquisition. As a result, actual amounts would have differed from the unaudited pro forma information presented.

	Unaudited Pro Forma for the Nine Months Ended September 30, 2021	
	<i>(in thousands, except per share amounts)</i>	
Total revenues (net interest income plus noninterest income)	\$	495,378
Net income	\$	173,355
Earnings per share - basic	\$	2.23
Earnings per share - diluted	\$	2.23

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	<i>(in thousands)</i>			
Noninterest Expense				
Compensation and employee benefits	\$ 205	\$ —	\$ 1,144	\$ —
Occupancy	8	—	928	—
Data processing and software	219	1	1,640	1
Legal and professional fees	133	2,153	378	2,663
Advertising and promotion	—	—	18	—
Other	3	38	796	38
Total impact of merger-related expenses to noninterest expense	<u>\$ 568</u>	<u>\$ 2,192</u>	<u>\$ 4,904</u>	<u>\$ 2,702</u>

In addition, related to the pending transaction with Umpqua, the Company recognized \$2.7 million and \$9.3 million of merger-related expenses for the three and nine months ended September 30, 2022. While full regulatory approval is still pending, integration planning efforts continue to move forward. See [Note 17, "Subsequent Events,"](#) for additional information.

4. Securities

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, 2022				
Available for sale				
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	\$ 3,305,031	\$ 514	\$ (452,678)	\$ 2,852,867
Other asset-backed securities	384,649	—	(50,641)	334,008
State and municipal securities	977,756	74	(150,996)	826,834
U.S. government agency and government-sponsored enterprise securities	237,849	—	(14,898)	222,951
U.S. government securities	182,865	—	(16,559)	166,306
Non-agency collateralized mortgage obligations	359,416	2	(61,563)	297,855
Total available for sale	<u>\$ 5,447,566</u>	<u>\$ 590</u>	<u>\$ (747,335)</u>	<u>\$ 4,700,821</u>
Held to maturity				
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	\$ 2,079,285	\$ —	\$ (332,003)	\$ 1,747,282
Total held to maturity	<u>\$ 2,079,285</u>	<u>\$ —</u>	<u>\$ (332,003)</u>	<u>\$ 1,747,282</u>
December 31, 2021				
Available for sale				
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	\$ 3,738,616	\$ 45,077	\$ (38,092)	\$ 3,745,601
Other asset-backed securities	469,052	3,802	(9,791)	463,063
State and municipal securities	983,704	18,525	(4,938)	997,291
U.S. government agency and government-sponsored enterprise securities	252,755	3,095	(3,274)	252,576
U.S. government securities	158,367	—	(831)	157,536
Non-agency collateralized mortgage obligations	295,547	340	(955)	294,932
Total available for sale	<u>\$ 5,898,041</u>	<u>\$ 70,839</u>	<u>\$ (57,881)</u>	<u>\$ 5,910,999</u>
Held to maturity				
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	\$ 2,148,327	\$ 50	\$ (25,771)	\$ 2,122,606
Total held to maturity	<u>\$ 2,148,327</u>	<u>\$ 50</u>	<u>\$ (25,771)</u>	<u>\$ 2,122,606</u>

There was no allowance for credit losses on both available for sale securities and held to maturity securities as of September 30, 2022 and December 31, 2021. 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 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 or nine months ended September 30, 2022 and 2021.

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, 2022 and December 31, 2021, accrued interest receivable for securities available for sale was \$17.6 million and \$19.2 million, respectively. At September 30, 2022 and December 31, 2021, accrued interest receivable for securities held to maturity was \$4.2 million and \$4.4 million, respectively. 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,	
	2022	2021	2022	2021
	<i>(in thousands)</i>			
Proceeds from sales of debt securities available for sale	\$ —	\$ —	\$ —	\$ 26,914
Gross realized gains from sales of debt securities available for sale	\$ —	\$ —	\$ —	\$ 751
Gross realized losses from sales of debt securities available for sale	—	—	—	(437)
Investment securities gains, net	\$ —	\$ —	\$ —	\$ 314

There were no gains or losses recognized on equity securities during the three and nine month periods ended September 30, 2022 and 2021.

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

	September 30, 2022			
	Available for sale		Held to maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	<i>(in thousands)</i>			
Due within one year	\$ 78,736	\$ 78,328	\$ —	\$ —
Due after one year through five years	1,079,875	1,007,916	266,398	233,123
Due after five years through ten years	1,238,659	1,081,591	981,070	824,858
Due after ten years	3,050,296	2,532,986	831,817	689,301
Total debt securities	\$ 5,447,566	\$ 4,700,821	\$ 2,079,285	\$ 1,747,282

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, 2022
	<i>(in thousands)</i>
To secure public funds	\$ 548,175
To secure borrowings	84,099
Other securities pledged	245,958
Total securities pledged as collateral	\$ 878,232

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, 2022	<i>(in thousands)</i>					
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	\$ 1,071,973	\$ (106,441)	\$ 1,757,493	\$ (346,237)	\$ 2,829,466	\$ (452,678)
Other asset-backed securities	129,541	(14,741)	204,467	(35,900)	334,008	(50,641)
State and municipal securities	601,998	(99,002)	205,918	(51,994)	807,916	(150,996)
U.S. government agency and government-sponsored enterprise securities	83,992	(1,478)	138,881	(13,420)	222,873	(14,898)
U.S. government securities	111,904	(10,996)	54,402	(5,563)	166,306	(16,559)
Non-agency collateralized mortgage obligations	291,301	(60,781)	5,664	(782)	296,965	(61,563)
Total	<u>\$ 2,290,709</u>	<u>\$ (293,439)</u>	<u>\$ 2,366,825</u>	<u>\$ (453,896)</u>	<u>\$ 4,657,534</u>	<u>\$ (747,335)</u>
December 31, 2021						
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	\$ 2,292,062	\$ (30,777)	\$ 176,946	\$ (7,315)	\$ 2,469,008	\$ (38,092)
Other asset-backed securities	195,708	(4,823)	117,751	(4,968)	313,459	(9,791)
State and municipal securities	237,354	(3,862)	40,343	(1,076)	277,697	(4,938)
U.S. government agency and government-sponsored enterprise securities	100,813	(1,988)	48,714	(1,286)	149,527	(3,274)
U.S. government securities	157,536	(831)	—	—	157,536	(831)
Non-agency collateralized mortgage obligations	212,259	(955)	—	—	212,259	(955)
Total	<u>\$ 3,195,732</u>	<u>\$ (43,236)</u>	<u>\$ 383,754</u>	<u>\$ (14,645)</u>	<u>\$ 3,579,486</u>	<u>\$ (57,881)</u>

Debt securities available for sale

At September 30, 2022, there were 650 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, 2022.

At September 30, 2022, there were 83 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, 2022.

At September 30, 2022, there were 603 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, 2022, 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, 2022.

At September 30, 2022, there were 23 U.S. government agency and government-sponsored enterprise 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, 2022.

At September 30, 2022, there were 10 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, 2022.

At September 30, 2022, there were 55 non-agency collateralized mortgage obligations 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, 2022.

5. 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, 2022	December 31, 2021
	<i>(dollars in thousands)</i>	
Commercial loans:		
Commercial real estate	\$ 5,375,051	\$ 4,981,263
Commercial business	3,783,696	3,423,268
Agriculture	903,260	795,715
Construction	512,308	384,755
Consumer loans:		
One-to-four family residential real estate	1,071,222	1,013,908
Other consumer	46,724	43,028
Total loans	11,692,261	10,641,937
Less: Allowance for credit losses	(154,871)	(155,578)
Total loans, net	\$ 11,537,390	\$ 10,486,359

At September 30, 2022 and December 31, 2021, 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, Idaho and California.

At September 30, 2022 and December 31, 2021, \$4.33 billion and \$3.49 billion of commercial and residential real estate loans were pledged as collateral on FHLB advances and additional borrowing capacity. The Company also pledged \$200.5 million of commercial loans to the FRB for additional borrowing capacity at September 30, 2022 and December 31, 2021.

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, 2022 and December 31, 2021, accrued interest receivable for loans was \$39.9 million and \$32.4 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:

	Current Loans	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Nonaccrual Loans	Total Loans
September 30, 2022							
<i>(in thousands)</i>							
Commercial loans:							
Commercial real estate	\$ 5,359,998	\$ 4,753	\$ 6,869	\$ —	\$ 11,622	\$ 3,431	\$ 5,375,051
Commercial business	3,764,976	7,565	3,974	—	11,539	7,181	3,783,696
Agriculture	900,462	509	110	—	619	2,179	903,260
Construction	512,171	137	—	—	137	—	512,308
Consumer loans:							
One-to-four family residential real estate	1,067,427	2,640	553	—	3,193	602	1,071,222
Other consumer	46,526	103	3	—	106	92	46,724
Total	<u>\$ 11,651,560</u>	<u>\$ 15,707</u>	<u>\$ 11,509</u>	<u>\$ —</u>	<u>\$ 27,216</u>	<u>\$ 13,485</u>	<u>\$ 11,692,261</u>
	Current Loans	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Nonaccrual Loans	Total Loans
December 31, 2021							
<i>(in thousands)</i>							
Commercial loans:							
Commercial real estate	\$ 4,977,781	\$ —	\$ 1,610	\$ —	\$ 1,610	\$ 1,872	\$ 4,981,263
Commercial business	3,406,539	2,721	687	—	3,408	13,321	3,423,268
Agriculture	789,112	1,207	—	—	1,207	5,396	795,715
Construction	384,755	—	—	—	—	—	384,755
Consumer loans:							
One-to-four family residential real estate	1,010,343	921	211	—	1,132	2,433	1,013,908
Other consumer	42,998	11	—	—	11	19	43,028
Total	<u>\$ 10,611,528</u>	<u>\$ 4,860</u>	<u>\$ 2,508</u>	<u>\$ —</u>	<u>\$ 7,368</u>	<u>\$ 23,041</u>	<u>\$ 10,641,937</u>

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.

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,	
	2022	2021	2022	2021
<i>(in thousands)</i>				
Commercial loans	\$ 288	\$ 83	\$ 427	\$ 507
Consumer loans	6	16	14	25
Total	<u>\$ 294</u>	<u>\$ 99</u>	<u>\$ 441</u>	<u>\$ 532</u>

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

	September 30, 2022	December 31, 2021
	<i>(in thousands)</i>	
Commercial loans:		
Commercial real estate	\$ 3,113	\$ 932
Commercial business	1,465	5,131
Agriculture	1,192	3,756
Total	<u>\$ 5,770</u>	<u>\$ 9,819</u>

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

	Three Months Ended September 30, 2022			Three Months Ended September 30, 2021		
	Number of TDR Modifications	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of TDR Modifications	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	<i>(dollars in thousands)</i>					
Commercial loans:						
Commercial business	1	548	548	—	\$ —	\$ —
Consumer loans:						
One-to-four family residential real estate	1	50	50	1	15	15
Total	<u>2</u>	<u>\$ 598</u>	<u>\$ 598</u>	<u>1</u>	<u>\$ 15</u>	<u>\$ 15</u>

	Nine Months Ended September 30, 2022			Nine Months Ended September 30, 2021		
	Number of TDR Modifications	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of TDR Modifications	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	<i>(dollars in thousands)</i>					
Commercial loans:						
Commercial real estate	—	\$ —	\$ —	1	\$ 628	\$ 628
Commercial business	1	548	548	11	2,600	2,600
Agriculture	1	633	633	—	—	—
Consumer loans:						
One-to-four family residential real estate	1	50	50	3	155	155
Total	<u>3</u>	<u>\$ 1,231</u>	<u>\$ 1,231</u>	<u>15</u>	<u>\$ 3,383</u>	<u>\$ 3,383</u>

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 \$124 thousand of additional funds on loans classified as TDR as of September 30, 2022. The Company had \$1.5 million of such commitments at December 31, 2021. The Company had no loans classified as TDR that defaulted within 12 months of being classified as TDR during the three and nine months ended September 30, 2022 and December 31, 2021.

6. Allowance for Credit Losses and Allowance for Unfunded Commitments and Letters of Credit

The ACL is determined through quarterly assessments of the present value of expected future cash flows within the loan portfolio, which, are deducted from the loan's amortized cost basis to determine the expected credit losses of the loan portfolio. 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, risk ratings 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 the borrower is experiencing financial difficulty such that full satisfaction of the contractual terms of the loan is in question. 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 collateral dependent loans, 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, 2022					
	<i>(in thousands)</i>				
Commercial loans:					
Commercial real estate	\$ 57,119	\$ —	\$ 11	\$ 251	\$ 57,381
Commercial business	51,985	(295)	482	1,913	54,085
Agriculture	8,895	(706)	98	1,146	9,433
Construction	5,914	—	9	2,224	8,147
Consumer loans:					
One-to-four family residential real estate	24,626	—	331	(943)	24,014
Other consumer	1,396	(431)	187	659	1,811
Total	<u>\$ 149,935</u>	<u>\$ (1,432)</u>	<u>\$ 1,118</u>	<u>\$ 5,250</u>	<u>\$ 154,871</u>
	Beginning Balance	Charge-offs	Recoveries	Provision (Recapture)	Ending Balance
Nine Months Ended September 30, 2022					
Commercial loans:					
Commercial real estate	\$ 61,254	\$ (299)	\$ 172	\$ (3,746)	\$ 57,381
Commercial business	54,712	(2,019)	1,570	(178)	54,085
Agriculture	8,148	(730)	247	1,768	9,433
Construction	5,397	—	153	2,597	8,147
Consumer loans:					
One-to-four family residential real estate	24,123	(3)	916	(1,022)	24,014
Other consumer	1,944	(918)	654	131	1,811
Total	<u>\$ 155,578</u>	<u>\$ (3,969)</u>	<u>\$ 3,712</u>	<u>\$ (450)</u>	<u>\$ 154,871</u>
	Beginning Balance	Charge-offs	Recoveries	Provision (Recapture)	Ending Balance
Three Months Ended September 30, 2021					
	<i>(in thousands)</i>				
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	<u>\$ 142,988</u>	<u>\$ (1,479)</u>	<u>\$ 1,276</u>	<u>\$ —</u>	<u>\$ 142,785</u>
	Beginning Balance	Charge-offs	Recoveries	Provision (Recapture)	Ending Balance
Nine Months Ended September 30, 2021					
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	<u>\$ 149,140</u>	<u>\$ (6,885)</u>	<u>\$ 6,830</u>	<u>\$ (6,300)</u>	<u>\$ 142,785</u>

The \$707 thousand decrease in the ACL at September 30, 2022 compared to the ACL at December 31, 2021 was primarily due to significant improvements in portfolio risk ratings. Additionally, problem loans decreased during the period and their percentage within the portfolio is now near pre-pandemic levels. Specifically regarding the forecast used in the September 30, 2022 estimate, management expects the forecasted national unemployment rate to be near pre-pandemic levels early in the forecast period, increasing a little later in the forecast period. Additionally, the commercial real estate index has slowed during the year and is expected to grow more slowly through the forecast period. The home price index is projected to moderate over the forecast period and real GDP growth has slowed during the year and is projected to continue to decline through the forecast period. 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, 2022 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,	
	2022	2021	2022	2021
	<i>(in thousands)</i>			
Beginning balance	\$ 9,000	\$ 10,000	\$ 8,500	\$ 8,300
Net changes in the allowance for unfunded commitments and letters of credit	(500)	500	—	2,200
Ending balance	\$ 8,500	\$ 10,500	\$ 8,500	\$ 10,500

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 \$250 thousand 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						Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term Loans Amortized Cost Basis	Total
	Amortized Cost Basis by Origination Year								
	2022	2021	2020	2019	2018				
September 30, 2022	(in thousands)						Prior		
Commercial loans:									
Commercial real estate									
Pass	\$ 983,823	\$ 1,021,822	\$ 688,119	\$ 603,943	\$ 431,582	\$ 1,402,281	\$ 71,235	\$ 8,932	\$ 5,211,737
Special mention	—	1,865	3,566	19,591	—	11,763	—	—	36,785
Substandard	—	7,519	7,393	33,951	4,258	69,411	3,997	—	126,529
Total commercial real estate	\$ 983,823	\$ 1,031,206	\$ 699,078	\$ 657,485	\$ 435,840	\$ 1,483,455	\$ 75,232	\$ 8,932	\$ 5,375,051
Commercial business									
Pass	\$ 436,851	\$ 713,165	\$ 364,061	\$ 224,851	\$ 180,781	\$ 272,401	\$ 1,413,129	\$ 6,807	\$ 3,612,046
Special mention	2,362	10,652	1,564	6,588	392	653	28,105	425	50,741
Substandard	93	3,297	3,823	17,399	21,636	28,945	44,645	1,071	120,909
Total commercial business	\$ 439,306	\$ 727,114	\$ 369,448	\$ 248,838	\$ 202,809	\$ 301,999	\$ 1,485,879	\$ 8,303	\$ 3,783,696
Agriculture									
Pass	\$ 113,968	\$ 129,433	\$ 72,571	\$ 69,576	\$ 24,244	\$ 103,310	\$ 346,565	\$ 1,160	\$ 860,827
Special mention	—	140	—	4,306	—	—	899	—	5,345
Substandard	548	1,343	5,126	524	20	1,761	27,766	—	37,088
Total agriculture	\$ 114,516	\$ 130,916	\$ 77,697	\$ 74,406	\$ 24,264	\$ 105,071	\$ 375,230	\$ 1,160	\$ 903,260
Construction									
Pass	\$ 176,863	\$ 221,956	\$ 27,571	\$ 14,115	\$ 2,618	\$ 3,466	\$ 55,628	\$ 7,121	\$ 509,338
Special mention	—	745	—	—	—	—	—	—	745
Substandard	—	—	—	1,727	448	50	—	—	2,225
Total construction	\$ 176,863	\$ 222,701	\$ 27,571	\$ 15,842	\$ 3,066	\$ 3,516	\$ 55,628	\$ 7,121	\$ 512,308
Consumer loans:									
One-to-four family residential real estate									
Pass	\$ 126,882	\$ 364,441	\$ 126,287	\$ 39,728	\$ 40,319	\$ 91,542	\$ 278,903	\$ 856	\$ 1,068,958
Substandard	—	—	76	—	543	1,141	260	244	2,264
Total one-to-four family real estate	\$ 126,882	\$ 364,441	\$ 126,363	\$ 39,728	\$ 40,862	\$ 92,683	\$ 279,163	\$ 1,100	\$ 1,071,222
Other consumer									
Pass	\$ 7,115	\$ 3,121	\$ 1,479	\$ 994	\$ 1,579	\$ 8,969	\$ 23,328	\$ 107	\$ 46,692
Substandard	—	20	—	—	—	10	2	—	32
Total consumer	\$ 7,115	\$ 3,141	\$ 1,479	\$ 994	\$ 1,579	\$ 8,979	\$ 23,330	\$ 107	\$ 46,724
Total	\$ 1,848,505	\$ 2,479,519	\$ 1,301,636	\$ 1,037,293	\$ 708,420	\$ 1,995,703	\$ 2,294,462	\$ 26,723	\$ 11,692,261
Less:									
Allowance for credit losses									154,871
Loans, net									\$ 11,537,390

	Term Loans						Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term Loans Amortized Cost Basis	Total
	Amortized Cost Basis by Origination Year								
	2021	2020	2019	2018	2017	Prior			
December 31, 2021	(in thousands)								
Commercial loans:									
Commercial real estate									
Pass	\$ 1,068,493	\$ 760,545	\$ 650,593	\$ 492,348	\$ 515,233	\$ 1,180,115	\$ 74,754	\$ 3,644	\$ 4,745,725
Special mention	2,252	—	19,016	6,196	163	27,270	—	2,199	57,096
Substandard	4,119	5,897	45,769	9,112	29,917	82,599	1,029	—	178,442
Total commercial real estate	\$ 1,074,864	\$ 766,442	\$ 715,378	\$ 507,656	\$ 545,313	\$ 1,289,984	\$ 75,783	\$ 5,843	\$ 4,981,263
Commercial business									
Pass	\$ 891,957	\$ 426,004	\$ 280,823	\$ 217,605	\$ 144,363	\$ 232,356	\$ 1,028,616	\$ 35,411	\$ 3,257,135
Special mention	621	135	6,097	747	105	51	34,256	236	42,248
Substandard	4,329	4,610	18,393	28,066	20,568	27,462	18,796	1,661	123,885
Total commercial business	\$ 896,907	\$ 430,749	\$ 305,313	\$ 246,418	\$ 165,036	\$ 259,869	\$ 1,081,668	\$ 37,308	\$ 3,423,268
Agriculture									
Pass	\$ 147,561	\$ 87,964	\$ 74,658	\$ 29,739	\$ 46,058	\$ 79,693	\$ 266,573	\$ 5,448	\$ 737,694
Special mention	162	—	445	—	—	—	565	—	1,172
Substandard	—	7,717	9,148	1,616	5,532	1,833	29,125	1,878	56,849
Total agriculture	\$ 147,723	\$ 95,681	\$ 84,251	\$ 31,355	\$ 51,590	\$ 81,526	\$ 296,263	\$ 7,326	\$ 795,715
Construction									
Pass	\$ 228,661	\$ 53,880	\$ 35,795	\$ 3,183	\$ 3,285	\$ 2,189	\$ 55,765	\$ —	\$ 382,758
Substandard	—	—	1,748	—	—	249	—	—	1,997
Total construction	\$ 228,661	\$ 53,880	\$ 37,543	\$ 3,183	\$ 3,285	\$ 2,438	\$ 55,765	\$ —	\$ 384,755
Consumer loans:									
One-to-four family real estate									
Pass	\$ 390,153	\$ 140,799	\$ 56,520	\$ 51,549	\$ 32,447	\$ 111,307	\$ 222,747	\$ 1,347	\$ 1,006,869
Substandard	85	470	183	562	234	4,736	485	284	7,039
Total one-to-four family real estate	\$ 390,238	\$ 141,269	\$ 56,703	\$ 52,111	\$ 32,681	\$ 116,043	\$ 223,232	\$ 1,631	\$ 1,013,908
Other consumer									
Pass	\$ 7,045	\$ 2,711	\$ 1,950	\$ 13,489	\$ 560	\$ 1,277	\$ 15,853	\$ 97	\$ 42,982
Substandard	—	—	—	—	1	13	23	9	46
Total consumer	\$ 7,045	\$ 2,711	\$ 1,950	\$ 13,489	\$ 561	\$ 1,290	\$ 15,876	\$ 106	\$ 43,028
Total	\$ 2,745,438	\$ 1,490,732	\$ 1,201,138	\$ 854,212	\$ 798,466	\$ 1,751,150	\$ 1,748,587	\$ 52,214	\$ 10,641,937
Less:									
Allowance for credit losses									155,578
Loans, net									\$ 10,486,359

7. Other Real Estate Owned

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	<i>(in thousands)</i>			
Balance, beginning of period	\$ 33	\$ 381	\$ 381	\$ 553
Valuation adjustments	(33)	—	(182)	(140)
Proceeds from sale of OREO property	—	—	(200)	(132)
Gain on sale of OREO, net	—	—	1	100
Balance, end of period	<u>\$ —</u>	<u>\$ 381</u>	<u>\$ —</u>	<u>\$ 381</u>

At September 30, 2022, there were no foreclosed residential real estate properties held as OREO. Additionally, there were \$85 thousand consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process.

8. Goodwill and Other Intangible Assets

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, 2022 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,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	<i>(in thousands)</i>			
Goodwill				
Total goodwill	\$ 823,172	\$ 765,842	\$ 823,172	\$ 765,842
Other intangible assets, net				
CDI:				
Gross CDI balance at beginning of period (1)	88,931	105,473	88,931	105,473
Accumulated amortization at beginning of period	(59,710)	(83,434)	(55,203)	(79,658)
CDI, net at beginning of period	29,221	22,039	33,728	25,815
CDI current period amortization	(2,219)	(1,835)	(6,726)	(5,611)
Total CDI, net at end of period	27,002	20,204	27,002	20,204
Intangible assets not subject to amortization	919	919	919	919
Other intangible assets, net at end of period	27,921	21,123	27,921	21,123
Total goodwill and other intangible assets at end of period	<u>\$ 851,093</u>	<u>\$ 786,965</u>	<u>\$ 851,093</u>	<u>\$ 786,965</u>

(1) For the three and nine months ended September 30, 2022, the gross CDI balance, beginning of period excludes fully amortized amounts. Prior period columns have not been adjusted.

The following table provides the estimated future amortization expense of our CDI for the remaining three months ending December 31, 2022 and the succeeding four years:

	Total	
	<i>(in thousands)</i>	
Remainder of 2022	\$	1,972
2023		7,082
2024		5,673
2025		4,366
2026		3,225

9. Revolving Line of Credit

The Company has a \$15.0 million short-term credit facility with an unaffiliated bank. This facility, which expires May 25, 2023, has a variable interest rate and provides the Company additional liquidity, if needed, for various corporate activities. There was no outstanding balance at both September 30, 2022 and December 31, 2021. 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, 2022.

10. Derivatives, Hedging Activities and Balance Sheet Offsetting

The Company is exposed to certain risks arising from both its business and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity and credit risk, primarily by managing the amount, sources and duration of its assets and liabilities as well as 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, 2022 and 2021. 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, 2022 and December 31, 2021, the Bank had commitments to originate mortgage loans held for sale totaling \$7.9 million and \$21.8 million, respectively, and forward sales commitments of \$6.5 million and \$18.5 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, 2022 and December 31, 2021 was \$524.7 million and \$570.2 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, 2022		December 31, 2021			September 30, 2022		December 31, 2021		
Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value		Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	
<i>(in thousands)</i>									
Derivatives not designated as hedging instruments:									
Interest rate lock commitments	Other assets	\$	—	Other assets	\$	356	Other liabilities	\$	62
Interest rate forward loan sales contracts	Other assets	\$	119	Other assets	\$	—	Other liabilities	\$	—
Interest rate swap contracts	Other assets	\$	43,574	Other assets	\$	24,257	Other liabilities	\$	43,574

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

	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,	
		2022	2021
		<i>(in thousands)</i>	
Interest rate collar	Interest income	\$	2,631
		\$	2,631
	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	
		Nine Months Ended September 30,	
		2022	2021
		<i>(in thousands)</i>	
Interest rate collar	Interest income	\$	7,809
		\$	7,809

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,	
	2022	2021	2022	2021
	<i>(in thousands)</i>			
Interest rate lock commitments	\$ (152)	\$ (103)	\$ (418)	\$ (614)
Interest rate forward loan sales contracts	139	(57)	146	86
Interest rate swap contracts	—	(22)	—	50
Total derivative gains (losses)	<u>\$ (13)</u>	<u>\$ (182)</u>	<u>\$ (272)</u>	<u>\$ (478)</u>

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, 2022	<i>(in thousands)</i>				
Assets					
Interest rate swap contracts	\$ 43,574	\$ —	\$ 43,574	\$ (41,330)	\$ 2,244
Liabilities					
Interest rate swap contracts	\$ 43,574	\$ —	\$ 43,574	\$ (180)	\$ 43,394
Repurchase agreements	\$ 48,733	\$ —	\$ 48,733	\$ (48,733)	\$ —
December 31, 2021					
Assets					
Interest rate swap contracts	\$ 24,257	\$ —	\$ 24,257	\$ (450)	\$ 23,807
Liabilities					
Interest rate swap contracts	\$ 24,257	\$ —	\$ 24,257	\$ (20,747)	\$ 3,510
Repurchase agreements	\$ 86,013	\$ —	\$ 86,013	\$ (86,013)	\$ —

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

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

	Remaining contractual maturity of the agreements				Total
	Overnight and continuous	Up to 30 days	30 - 90 days	Greater than 90 days	
September 30, 2022	<i>(in thousands)</i>				
Class of collateral pledged for repurchase agreements					
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	\$ 48,733	\$ —	\$ —	\$ —	\$ 48,733
Gross amount of recognized liabilities for repurchase agreements					48,733
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 \$48.7 million sweep repurchase agreements, which mature on an overnight basis, is monitored on a daily basis as the underlying sweep accounts can have frequent transaction activity and the amount of pledged collateral is adjusted as necessary.

11. Commitments and Contingent Liabilities

Lease Commitments: The Company's lease commitments consist primarily of leased locations under various non-cancellable operating leases that expire between 2022 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, 2022 and December 31, 2021, the Company's loan commitments amounted to \$3.84 billion and \$3.50 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 \$32.4 million and \$36.0 million at September 30, 2022 and December 31, 2021, respectively. Commercial and similar letters of credit and other off-balance sheet liabilities were \$27 thousand as of September 30, 2022, while there were none at December 31, 2021.

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

12. Shareholders' Equity

Dividends:

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

Declared	Regular Cash Dividends Per Common Share	Record Date	Paid Date
January 19, 2022	\$ 0.30	February 2, 2022	February 16, 2022
April 21, 2022	\$ 0.30	May 4, 2022	May 18, 2022
July 21, 2022	\$ 0.30	August 3, 2022	August 17, 2022

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.

Subsequent to quarter end, on October 5, 2022, the Company declared a regular quarterly cash dividend of \$0.30 per common share payable on October 28, 2022 to shareholders of record at the close of business on October 17, 2022.

13. Accumulated Other Comprehensive Income (Loss)

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)
Three Months Ended September 30, 2022	<i>(in thousands)</i>			
Beginning balance	\$ (392,870)	\$ (4,611)	\$ 12,866	\$ (384,615)
Other comprehensive loss before reclassifications	(170,224)	—	—	(170,224)
Amounts reclassified from accumulated other comprehensive loss (2)	(2,086)	100	(2,019)	(4,005)
Net current-period other comprehensive income (loss)	(172,310)	100	(2,019)	(174,229)
Ending balance	\$ (565,180)	\$ (4,511)	\$ 10,847	\$ (558,844)
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
Nine Months Ended September 30, 2022				
Beginning balance	\$ 23,134	\$ (4,812)	\$ 16,840	\$ 35,162
Other comprehensive loss before reclassifications	(583,072)	—	—	(583,072)
Amounts reclassified from accumulated other comprehensive income (2)	(5,242)	301	(5,993)	(10,934)
Net current-period other comprehensive income (loss)	(588,314)	301	(5,993)	(594,006)
Ending balance	\$ (565,180)	\$ (4,511)	\$ 10,847	\$ (558,844)
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

(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)				Affected line Item in the Consolidated Statement of Income
	Three Months Ended September 30,		Nine Months Ended September 30,		
	2022	2021	2022	2021	
	(in thousands)				
Unrealized gains on available for sale debt securities	\$ —	\$ —	\$ —	\$ 314	Investment securities gains, net
Amortization of unrealized gains related to securities transfer	2,718	606	6,830	1,056	Taxable securities
	2,718	606	6,830	1,370	Total before tax
	(632)	(141)	(1,588)	(319)	Income tax provision
	\$ 2,086	\$ 465	\$ 5,242	\$ 1,051	Net of tax
Amortization of pension plan liability actuarial losses	\$ (130)	\$ (149)	\$ (392)	\$ (448)	Compensation and employee benefits
	(130)	(149)	(392)	(448)	Total before tax
	30	35	91	104	Income tax provision
	\$ (100)	\$ (114)	\$ (301)	\$ (344)	Net of tax
Unrealized gains from hedging instruments	\$ 2,631	\$ 2,631	\$ 7,809	\$ 7,809	Loans
	2,631	2,631	7,809	7,809	Total before tax
	(612)	(612)	(1,816)	(1,815)	Income tax provision
	\$ 2,019	\$ 2,019	\$ 5,993	\$ 5,994	Net of tax

14. Fair Value Accounting and Measurement

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

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

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

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

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

Fair values are determined as follows:

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 tables set 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	Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
September 30, 2022	(in thousands)			
Assets				
Debt securities available for sale:				
U.S. government agency and government-sponsored enterprise mortgage-back securities and collateralized mortgage obligations	\$ 2,852,867	\$ —	\$ 2,852,867	\$ —
Other asset-backed securities	334,008	—	334,008	—
State and municipal securities	826,834	—	826,834	—
U.S. government agency and government-sponsored enterprise securities	222,951	—	222,951	—
U.S. government securities	166,306	166,306	—	—
Non-agency collateralized mortgage obligations	297,855	—	297,855	—
Total debt securities available for sale	\$ 4,700,821	\$ 166,306	\$ 4,534,515	\$ —
Loans held for sale	\$ 1,251	\$ —	\$ 1,251	\$ —
Other assets:				
Interest rate forward loan sales contracts	\$ 119	\$ —	\$ 119	\$ —
Interest rate contracts	\$ 43,574	\$ —	\$ 43,574	\$ —
Liabilities				
Other liabilities:				
Interest rate contracts	\$ 43,574	\$ —	\$ 43,574	\$ —
Interest rate lock commitments	\$ 62	\$ —	\$ —	\$ 62

		Fair Value Measurements at Reporting Date Using			
	Fair Value	Level 1	Level 2	Level 3	
December 31, 2021		(in thousands)			
Assets					
Debt securities available for sale:					
U.S. government agency and government-sponsored enterprise mortgage-back securities and collateralized mortgage obligations	\$ 3,745,601	\$ —	\$ 3,745,601	\$ —	
Other asset-backed securities	463,063	—	463,063	—	
State and municipal securities	997,291	—	997,291	—	
U.S. government agency and government-sponsored enterprise securities	252,576	—	252,576	—	
U.S. government securities	157,536	157,536	—	—	
Non-agency collateralized mortgage	294,932	—	294,932	—	
Total debt securities available for sale	\$ 5,910,999	\$ 157,536	\$ 5,753,463	\$ —	
Loans held for sale	\$ 9,570	\$ —	\$ 9,570	\$ —	
Other assets:					
Interest rate lock commitments	\$ 356	\$ —	\$ —	\$ 356	
Interest rate contracts	\$ 24,257	\$ —	\$ 24,257	\$ —	
Liabilities					
Other liabilities:					
Interest rate forward loan sales contracts	\$ 27	\$ —	\$ 27	\$ —	
Interest rate contracts	\$ 24,257	\$ —	\$ 24,257	\$ —	

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, 2022	Valuation Technique	Unobservable Input	Range (Weighted Average)
<i>(dollars in thousands)</i>				
Interest rate lock commitments	\$ (62)	Internal pricing model	Pull-through rate	80.84% - 100.00% (95.19%)

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

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,	
	2022	2021	2022	2021
	<i>(in thousands)</i>			
Balance at the beginning of the period	\$ 90	\$ 585	\$ 356	\$ 1,096
Change included in earnings	(13)	1,864	133	5,708
Settlements	(139)	(1,967)	(551)	(6,322)
Balance at the end of the period	<u>\$ (62)</u>	<u>\$ 482</u>	<u>\$ (62)</u>	<u>\$ 482</u>

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.

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.

The Company had no assets measured using fair value estimates on a nonrecurring basis during the current quarterly period. For the nine months ended September 30, 2022, the Company recorded a loss of \$1.5 million on the nonrecurring measurement of collateral dependent loans.

The following table sets forth information related to the Company's assets that were measured using fair value estimates on a nonrecurring basis during the prior year quarterly period:

	Fair Value at	Fair Value Measurements at Reporting Date Using			Gains (Losses) During the Three Months Ended September 30, 2021	Gains (Losses) During the Nine Months Ended September 30, 2021
	September 30, 2021	Level 1	Level 2	Level 3		

The gains (losses) on collateral dependent loans disclosed above represent the amount of the allowance or provision recapture 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 and fixed assets).

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

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, 2022					
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
<i>(in thousands)</i>					
Assets					
Cash and due from banks	\$ 263,551	\$ 263,551	\$ 263,551	\$ —	\$ —
Interest-earning deposits with banks	54,124	54,124	54,124	—	—
Debt securities available for sale	4,700,821	4,700,821	166,306	4,534,515	—
Debt securities held to maturity	2,079,285	1,747,282	—	1,747,282	—
FHLB stock	10,560	10,560	—	10,560	—
Loans held for sale	1,251	1,251	—	1,251	—
Loans	11,537,390	11,353,412	—	—	11,353,412
Interest rate contracts	43,574	43,574	—	43,574	—
Interest rate forward loan sales contracts	119	119	—	119	—
Liabilities					
Time deposits	\$ 371,230	\$ 360,340	\$ —	\$ 360,340	\$ —
FHLB advances	14,322	14,290	—	14,290	—
Repurchase agreements	48,733	48,733	—	48,733	—
Subordinated debentures	10,000	10,013	—	10,013	—
Junior subordinated debentures	10,310	9,984	—	9,984	—
Interest rate contracts	43,574	43,574	—	43,574	—
Interest rate lock commitments	62	62	—	—	62
December 31, 2021					
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
<i>(in thousands)</i>					
Assets					
Cash and due from banks	\$ 153,414	\$ 153,414	\$ 153,414	\$ —	\$ —
Interest-earning deposits with banks	671,300	671,300	671,300	—	—
Debt securities available for sale	5,910,999	5,910,999	157,536	5,753,463	—
Debt securities held to maturity	2,148,327	2,122,606	—	2,122,606	—
FHLB stock	10,280	10,280	—	10,280	—
Loans held for sale	9,774	9,774	—	9,774	—
Loans	10,486,359	10,679,349	—	—	10,679,349
Interest rate contracts	24,257	24,257	—	24,257	—
Interest rate lock commitments	356	356	—	—	356
Liabilities					
Time deposits	\$ 445,957	\$ 430,682	\$ —	\$ 430,682	\$ —
FHLB advances	7,359	8,752	—	8,752	—
Repurchase agreements	86,013	86,013	—	86,013	—
Subordinated debentures	10,000	10,125	—	10,125	—
Junior subordinated debentures	10,310	9,927	—	9,927	—
Interest rate contracts	24,257	24,257	—	24,257	—
Interest rate forward loan sales contracts	27	27	—	27	—

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, 2022			December 31, 2021		
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
<i>(in thousands)</i>					
\$ 1,251	\$ 1,299	\$ (48)	\$ 9,570	\$ 9,401	\$ 169

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 months ended September 30, 2022, the Company recorded a net decrease in fair value of \$47 thousand representing the change in fair value reflected in earnings. For the nine months ended September 30, 2022, the Company recorded a net decrease in fair value of \$217 thousand, while the Company recorded net decreases in fair value of \$161 thousand and \$306 thousand, respectively, for the three and nine months ended September 30, 2021. At September 30, 2022 and December 31, 2021, 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.

15. Earnings Per Common Share

The Company applies the two-class method of computing basic and diluted EPS. Under the two-class method, EPS is determined for each class of common stock and participating security according to dividends declared and participation rights in undistributed earnings. The Company 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,	
	2022	2021	2022	2021
<i>(in thousands except per share amounts)</i>				
Basic EPS:				
Net income	\$ 64,942	\$ 53,017	\$ 181,272	\$ 159,909
Less: Earnings allocated to participating securities:				
Nonvested restricted shares	—	91	49	317
Earnings allocated to common shareholders	\$ 64,942	\$ 52,926	\$ 181,223	\$ 159,592
Weighted average common shares outstanding	78,100	71,036	78,027	70,965
Basic earnings per common share	\$ 0.83	\$ 0.75	\$ 2.32	\$ 2.25
Diluted EPS:				
Earnings allocated to common shareholders	\$ 64,942	\$ 52,926	\$ 181,223	\$ 159,592
Weighted average common shares outstanding	78,100	71,036	78,027	70,965
Dilutive effect of equity awards	133	150	115	190
Weighted average diluted common shares outstanding	78,233	71,186	78,142	71,155
Diluted earnings per common share	\$ 0.83	\$ 0.74	\$ 2.32	\$ 2.24
Potentially dilutive RSAs and RSUs that were not included in the computation of diluted EPS because to do so would be anti-dilutive	165	269	378	198

16. Revenue from Contracts with Customers

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,	
	2022	2021	2022	2021
	<i>(in thousands)</i>			
Noninterest income:				
Revenue from contracts with customers:				
Deposit account and treasury management fees	\$ 8,181	\$ 6,893	\$ 23,506	\$ 19,952
Card revenue	4,988	4,889	14,986	13,395
Financial services and trust revenue	4,292	4,250	13,116	11,876
Total revenue from contracts with customers	17,461	16,032	51,608	45,223
Other sources of noninterest income	9,166	7,926	24,205	24,631
Total noninterest income	\$ 26,627	\$ 23,958	\$ 75,813	\$ 69,854

17. Subsequent Events

On October 25, 2022, the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”) approved the application of Columbia with respect to the previously announced combination of Columbia and Umpqua pursuant to the Agreement and Plan of Merger (the “Merger Agreement”), dated as of October 11, 2021, by and among Umpqua, Columbia and Cascade Merger Sub, Inc. (“Merger Sub”). Completion of the transaction remains subject to receipt of required regulatory approvals, including approval from the FDIC, and other customary closing considerations set forth in the Merger Agreement.

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, 2021 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 Annual Report on 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;
- continued increases in inflation and the risk that inflation may differ, possibly materially, from expectations, and actions taken by the Federal Reserve in response to inflation and their potential impact on economic conditions including the possibility of a recession;
- risks related to the proposed merger with 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 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 proposed merger, (viii) expenses related to the proposed merger being greater than expected, and (ix) shareholder litigation that may 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 and infrastructure may not be realized;
- the ability to successfully 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, including the impacts of Russia's invasion of Ukraine;
- our profitability measures could be adversely affected if we are unable to effectively manage our capital;
- the risks from climate change and its potential to disrupt our business and adversely impact the operations and creditworthiness of our customers;
- 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 AND ESTIMATES

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 2021 Annual Report on Form 10-K. There have not been any material changes in our critical accounting policies and estimates as compared to those disclosed in our 2021 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.

In November 2020, the SEC amended the rules governing Management's Discussion and Analysis, Selected Financial Data and Supplementary Financial Information, to modernize and simplify certain disclosure requirements. One update allows registrants to compare the results of the most recently completed quarter to the results of either the immediately preceding quarter or the corresponding quarter of the preceding year. We have adopted this change, as management believes that comparing current quarter results to those of the immediately preceding quarter is more useful in identifying current business trends and provides a more meaningful comparison. Accordingly, we have compared the results for the three months ended September 30, 2022 and June 30, 2022, where applicable throughout this Management's Discussion and Analysis.

Earnings Summary

Comparison of current quarter to prior quarter

The Company reported net income for the third quarter of \$64.9 million or \$0.83 per diluted common share, compared to \$58.8 million or \$0.75 per diluted common share for the second quarter of 2022. Net interest income for the three months ended September 30, 2022 was \$162.5 million, an increase of \$15.0 million from the prior quarter. The increase was primarily due to higher loan interest income as a result of increased average rates and higher average balances. This was partially offset by lower interest income from securities due to decreased average balances and increased deposit interest expense driven by higher average rates on public fund deposits.

The Company recorded a \$5.3 million provision for credit losses for the third quarter of 2022 compared to a provision of \$2.1 million for the second quarter of 2022. The increase in provision expense for the third quarter of 2022 as compared to the second quarter of 2022 was primarily related to loan growth, but also was impacted by a less favorable economic forecast. The prior quarter's provision was primarily related to loan growth partially offset by improved credit quality.

Noninterest income for the quarter was \$26.6 million, an increase of \$1.6 million from the prior quarter. The increase was primarily due to a \$3.7 million gain from the sale-leaseback of owned real estate. The gain was partially offset by decreased loan revenue principally as a result of lower mortgage banking revenue and loan-related fees. Overall mortgage production declined as a result of the higher rate environment.

Total noninterest expense for the quarter ended September 30, 2022 was \$101.4 million, an increase of \$6.1 million from the prior quarter. Merger-related expenses in the quarter were \$3.2 million compared to \$3.9 million for the prior quarter. The largest contributor to the decrease in noninterest expense was related to compensation and employee benefits driven by higher incentive expense. In addition, there was increased net loan expense 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, 2022 of \$181.3 million or \$2.32 per diluted common share, compared to \$159.9 million or \$2.24 per diluted common share for the same period in 2021. Net interest income for the nine months ended September 30, 2022 was \$456.1 million, an increase of \$74.1 million from the prior year period. The increase was primarily due to increases in interest income from loans and securities, which were a result of higher average balances partially related to the Bank of Commerce acquisition.

The provision for credit losses on loans for the nine months ended September 30, 2022 was a recapture of \$450 thousand compared to a recapture of \$6.3 million for the first nine months of 2021. The lower recapture for the first nine months of 2022 compared to the same period in 2021 was primarily due to loan growth.

Noninterest income for the nine months ended September 30, 2022 was \$75.8 million, an increase of \$6.0 million from the prior year period. The increase was primarily due to the previously noted \$3.7 million gain from a sale-leaseback transaction and higher deposit account and treasury management fees. This was partially offset by lower mortgage banking revenue due to lower overall mortgage production as a result of the higher rate environment.

For the nine months ended September 30, 2022, noninterest expense was \$301.9 million, an increase of \$44.2 million from \$257.7 million for the same period in 2021. The increase from the prior year period was primarily driven by higher compensation and employee benefits due to our acquisition of Bank of Commerce and the prior year period having substantial capitalized labor costs for PPP loan originations. Increased merger-related expenses also contributed to the increase from the prior year period.

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, 2022			June 30, 2022		
	Average Balances	Interest Earned / Paid	Average Rate	Average Balances	Interest Earned / Paid	Average Rate
<i>(dollars in thousands)</i>						
ASSETS						
Loans, net (1)(2)	\$ 11,513,653	\$ 132,302	4.56 %	\$ 10,989,493	\$ 112,142	4.09 %
Taxable securities	6,419,977	31,987	1.98 %	6,761,383	34,622	2.05 %
Tax exempt securities (2)	710,137	4,635	2.59 %	729,916	4,753	2.61 %
Interest-earning deposits with banks	220,678	1,191	2.14 %	494,725	887	0.72 %
Total interest-earning assets	18,864,445	170,115	3.58 %	18,975,517	152,404	3.22 %
Other earning assets	306,200			305,775		
Noninterest-earning assets	1,527,607			1,488,910		
Total assets	\$ 20,698,252			\$ 20,770,202		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Money market accounts	4,342,054	1,378	0.13 %	4,406,022	1,000	0.09 %
Interest-bearing demand	2,085,124	419	0.08 %	2,123,005	411	0.08 %
Savings accounts	1,658,078	82	0.02 %	1,638,334	78	0.02 %
Interest-bearing public funds, other than certificates of deposit	724,502	2,410	1.32 %	756,528	923	0.49 %
Certificates of deposit	386,623	157	0.16 %	411,115	52	0.05 %
Total interest-bearing deposits	9,196,381	4,446	0.19 %	9,335,004	2,464	0.11 %
FHLB advances and FRB borrowings	11,512	109	3.76 %	7,340	73	3.99 %
Subordinated debentures	10,000	220	8.73 %	10,000	172	6.90 %
Other borrowings and interest-bearing liabilities	74,722	481	2.55 %	62,017	153	0.99 %
Total interest-bearing liabilities	9,292,615	5,256	0.22 %	9,414,361	2,862	0.12 %
Noninterest-bearing deposits	8,878,977			8,822,071		
Other noninterest-bearing liabilities	255,648			235,159		
Shareholders' equity	2,271,012			2,298,611		
Total liabilities & shareholders' equity	\$ 20,698,252			\$ 20,770,202		
Net interest income (tax equivalent)		\$ 164,859			\$ 149,542	
Net interest margin (tax equivalent)			3.47 %			3.16 %

(1) Nonaccrual loans have been included in the tables as loans carrying a zero yield. Amortized net deferred loan fees and net unearned discounts on acquired loans were included in the interest income calculations. The amortization of net deferred loan fees was \$2.1 million and \$2.8 million for the three months ended September 30, 2022 and June 30, 2022, respectively. The net incremental amortization on acquired loans was \$871 thousand for the three months ended September 30, 2022 compared to net incremental amortization of \$2.1 million for the three months ended June 30, 2022.

(2) Tax-exempt income is calculated on a tax equivalent basis. The tax equivalent yield adjustment to interest earned on loans was \$1.4 million and \$1.1 million for the three months ended September 30, 2022 and June 30, 2022, respectively. The tax equivalent yield adjustment to interest earned on tax exempt securities was \$973 thousand and \$998 thousand for the three months ended September 30, 2022, and June 30, 2022, 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,			Nine Months Ended September 30,		
	2022			2021		
	Average Balances	Interest Earned / Paid	Average Rate	Average Balances	Interest Earned / Paid	Average Rate
<i>(dollars in thousands)</i>						
ASSETS						
Loans, net (1)(2)	\$ 11,059,237	\$ 352,625	4.26 %	\$ 9,592,178	\$ 308,730	4.30 %
Taxable securities	6,796,812	103,771	2.04 %	5,286,406	73,940	1.87 %
Tax exempt securities (2)	743,970	14,103	2.53 %	615,169	10,505	2.28 %
Interest-earning deposits with banks	434,043	2,373	0.73 %	650,203	595	0.12 %
Total interest-earning assets	19,034,062	\$ 472,872	3.32 %	16,143,956	\$ 393,770	3.26 %
Other earning assets	304,959			244,269		
Noninterest-earning assets	1,468,076			1,247,801		
Total assets	<u>\$ 20,807,097</u>			<u>\$ 17,636,026</u>		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Money market accounts	4,425,567	3,338	0.10 %	3,625,688	2,132	0.08 %
Interest-bearing demand	2,077,850	1,204	0.08 %	1,526,312	849	0.07 %
Savings accounts	1,643,021	237	0.02 %	1,311,118	139	0.01 %
Interest-bearing public funds, other than certificates of deposit	752,473	3,621	0.64 %	698,745	753	0.14 %
Certificates of deposit	411,477	306	0.10 %	331,910	506	0.20 %
Total interest-bearing deposits	9,310,388	8,706	0.13 %	7,493,773	4,379	0.08 %
FHLB advances and FRB borrowings	8,751	253	3.87 %	7,395	217	3.92 %
Subordinated debentures	10,000	536	7.17 %	35,034	1,371	5.23 %
Other borrowings and interest-bearing liabilities	70,969	708	1.33 %	51,787	66	0.17 %
Total interest-bearing liabilities	9,400,108	\$ 10,203	0.15 %	7,587,989	\$ 6,033	0.11 %
Noninterest-bearing deposits	8,799,631			7,482,888		
Other noninterest-bearing liabilities	239,993			223,911		
Shareholders' equity	2,367,365			2,341,238		
Total liabilities & shareholders' equity	<u>\$ 20,807,097</u>			<u>\$ 17,636,026</u>		
Net interest income (tax equivalent)		<u>\$ 462,669</u>			<u>\$ 387,737</u>	
Net interest margin (tax equivalent)			<u>3.25 %</u>			<u>3.21 %</u>

- (1) Nonaccrual loans have been included in the table as loans carrying a zero yield. Amortized net deferred loan fees and net unearned discounts on acquired loans were included in the interest income calculations. The amortization of net deferred loan fees was \$9.1 million and \$26.0 million for the nine months ended September 30, 2022 and 2021, respectively. The incremental amortization on acquired loans was \$3.3 million for the nine months ended September 30, 2022 compared to net incremental accretion of \$2.8 million for the nine months ended September 30, 2021.
- (2) Tax-exempt income is calculated on a tax equivalent basis. The tax equivalent yield adjustment to interest earned on loans was \$3.6 million and \$3.5 million for the nine months ended September 30, 2022 and 2021, respectively. The tax equivalent yield adjustment to interest earned on tax exempt securities was \$3.0 million and \$2.2 million for the nine months ended September 30, 2022 and 2021, 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, 2022 Compared to June 30, 2022			
	Increase (Decrease) Due to		
	Volume	Rate	Total (1)
<i>(in thousands)</i>			
Interest Income			
Loans, net	\$ 5,534	\$ 14,626	\$ 20,160
Taxable securities	(1,718)	(917)	(2,635)
Tax exempt securities	(129)	11	(118)
Interest-earning deposits with banks	(705)	1,009	304
Interest income	<u>\$ 2,982</u>	<u>\$ 14,729</u>	<u>\$ 17,711</u>
Interest Expense			
Deposits:			
Money market accounts	\$ (15)	\$ 393	\$ 378
Interest-bearing demand	(7)	15	8
Savings accounts	1	3	4
Interest-bearing public funds, other than certificates of deposit	(40)	1,527	1,487
Certificates of deposit	(4)	109	105
Total interest on deposits	(65)	2,047	1,982
FHLB advances and FRB borrowings	40	(4)	36
Subordinated debentures	—	48	48
Other borrowings and interest-bearing liabilities	38	290	328
Interest expense	<u>\$ 13</u>	<u>\$ 2,381</u>	<u>\$ 2,394</u>

(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, 2022 Compared to 2021 Increase (Decrease) Due to		
	Volume	Rate	Total (1)
	(in thousands)		
Interest Income			
Loans, net	\$ 46,802	\$ (2,907)	\$ 43,895
Taxable securities	22,591	7,240	29,831
Tax exempt securities	2,358	1,240	3,598
Interest earning deposits with banks	(260)	2,038	1,778
Interest income	<u>\$ 71,491</u>	<u>\$ 7,611</u>	<u>\$ 79,102</u>
Interest Expense			
Deposits:			
Money market accounts	528	678	1,206
Interest-bearing demand	319	36	355
Savings accounts	40	58	98
Interest-bearing public funds, other than certificates of deposit	62	2,806	2,868
Certificates of deposit	102	(302)	(200)
Total interest on deposits	1,051	3,276	4,327
FHLB advances and FRB borrowings	40	(4)	36
Subordinated debentures	(1,737)	902	(835)
Other borrowings	33	609	642
Interest expense	<u>\$ (613)</u>	<u>\$ 4,783</u>	<u>\$ 4,170</u>

(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 quarter

Net interest income for the third quarter of 2022 was \$162.5 million, up from \$147.5 million for the second quarter in 2022. The increase was primarily due to higher loan interest income as a result of increased average rates and higher average balances. This was partially offset by lower interest income from securities due to decreased average balances and increased deposit interest expense driven by average rates on public fund deposits.

The Company's net interest margin (tax equivalent) increased to 3.47% in the third quarter of 2022, from 3.16% for the prior quarter. This increase was predominantly driven by higher average loan rates and a stronger earning assets mix. The Company's operating net interest margin (tax equivalent)¹ increased to 3.50% from 3.23% compared to the second quarter of 2022. The increase was also due to higher average loan rates and a stronger earning assets mix as noted above.

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

Net interest income for the nine months ended September 30, 2022 was \$456.1 million, compared to \$382.0 million for the prior year period. The increase was mainly due to an increase in interest income from loans and securities due to higher average balances partially related to the Bank of Commerce acquisition.

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) increased to 3.25% for the first nine months of 2022, from 3.21% for the prior year period. The increase in the Company's net interest margin (tax equivalent) was driven by higher average balances on loans and securities, a stronger earning assets mix and a higher interest rate environment. The Company's operating net interest margin (tax equivalent) for the nine months ended September 30, 2022 was 3.29% compared to 3.20% for the nine months ended September 30, 2021. This increase was due to the same factors noted for the increase in net interest margin.

Provision for Credit Losses

Comparison of current quarter to prior quarter

During the third quarter of 2022, the Company recorded a \$5.3 million provision for credit losses compared to a provision of \$2.1 million for the second quarter of 2022. The increase in provision expense for the third quarter of 2022 as compared to the second quarter of 2022 was primarily related to loan growth, but also was impacted by a less favorable economic forecast.

The provision 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 2022. The amount of provision was calculated in accordance with the Company's methodology for determining the ACL, discussed in [Note 6 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 recapture for credit losses for the nine months ended September 30, 2022 was \$450 thousand compared to a recapture of \$6.3 million during the same period in 2021. The lower recapture for the first nine months of 2022 was due to the same factors discussed above for the quarterly provision for credit losses. The amount of provision was calculated in accordance with the Company's methodology for determining the ACL, discussed in [Note 6 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				Nine Months Ended			
	September 30, 2022	June 30, 2022	\$ Change	% Change	September 30, 2022	September 30, 2021	\$ Change	% Change
<i>(dollars in thousands)</i>								
Deposit account and treasury management fees	\$ 8,181	\$ 8,212	\$ (31)	— %	\$ 23,506	\$ 19,952	\$ 3,554	18 %
Card revenue	4,988	5,031	(43)	(1)%	14,986	13,395	1,591	12 %
Financial services and trust revenue	4,292	4,192	100	2 %	13,116	11,876	1,240	10 %
Loan revenue	2,853	3,881	(1,028)	(26)%	9,927	17,067	(7,140)	(42)%
Bank owned life insurance	1,939	2,024	(85)	(4)%	5,751	4,780	971	20 %
Investment securities gains, net	—	—	—	— %	—	314	(314)	(100)%
Other	4,374	1,666	2,708	163 %	8,527	2,470	6,057	245 %
Total noninterest income	<u>\$ 26,627</u>	<u>\$ 25,006</u>	<u>\$ 1,621</u>	6 %	<u>\$ 75,813</u>	<u>\$ 69,854</u>	<u>\$ 5,959</u>	9 %

Comparison of current quarter to prior quarter

Noninterest income was \$26.6 million for the third quarter of 2022, an increase of \$1.6 million from the prior quarter. This increase was primarily due to a \$3.7 million gain from the sale-leaseback of owned real estate. The gain was partially offset by decreased loan revenue, principally a result of lower mortgage banking revenue and loan-related fees. Overall mortgage production declined as a result of the higher rate environment.

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

For the nine months ended September 30, 2022, noninterest income was \$75.8 million compared to \$69.9 million for the same period in 2021, an increase of \$6.0 million. The increase was primarily due to the previous noted \$3.7 million gain from a sale-leaseback transaction and higher deposit account and treasury management fees. This was partially offset by lower mortgage banking revenue due to lower overall mortgage production and decreased premium on loan sales as a result of the higher rate environment.

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				Nine Months Ended			
	September 30, 2022	June 30, 2022	\$ Change	% Change	September 30, 2022	September 30, 2021	\$ Change	% Change
<i>(dollars in thousands)</i>								
Compensation and employee benefits	\$ 60,744	\$ 57,386	\$ 3,358	6 %	\$ 181,209	\$ 159,865	\$ 21,344	13 %
Occupancy	10,469	9,632	837	9 %	31,110	27,739	3,371	12 %
Data processing and software	10,548	9,185	1,363	15 %	30,057	24,368	5,689	23 %
Legal and professional fees	4,022	5,182	(1,160)	(22)%	15,739	10,973	4,766	43 %
Amortization of intangibles	2,219	2,219	—	— %	6,726	5,611	1,115	20 %
B&O taxes	1,771	1,584	187	12 %	4,944	4,332	612	14 %
Advertising and promotion	830	1,208	(378)	(31)%	2,764	2,026	738	36 %
Regulatory premiums	1,782	1,461	321	22 %	4,779	3,431	1,348	39 %
Net cost (benefit) of operation of OREO	(4)	116	(120)	(103)%	122	52	70	135 %
Other	9,065	7,406	1,659	22 %	24,428	19,285	5,143	27 %
Total noninterest expense	<u>\$ 101,446</u>	<u>\$ 95,379</u>	<u>\$ 6,067</u>	<u>6 %</u>	<u>\$ 301,878</u>	<u>\$ 257,682</u>	<u>\$ 44,196</u>	<u>17 %</u>

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

	Three Months Ended		Nine Months Ended	
	September 30, 2022	June 30, 2022	September 30, 2022	September 30, 2021
<i>(in thousands)</i>				
Merger-related expenses:				
Compensation and employee benefits	\$ 250	\$ 612	\$ 1,448	\$ —
Occupancy	435	112	1,366	—
Data processing and software	510	501	2,050	1
Legal and professional fees	1,418	1,906	7,533	2,663
Advertising and promotion	24	10	168	—
Other	609	760	1,639	38
Total impact of merger-related expense to noninterest expense	<u>\$ 3,246</u>	<u>\$ 3,901</u>	<u>\$ 14,204</u>	<u>\$ 2,702</u>
Merger-related expenses by transaction:				
Bank of Commerce (1)	568	1,749	4,904	2,702
Umpqua (2)	2,678	2,152	9,300	—
Total impact of merger-related expense to noninterest expense	<u>\$ 3,246</u>	<u>\$ 3,901</u>	<u>\$ 14,204</u>	<u>\$ 2,702</u>

(1) The Company completed the acquisition of Bank of Commerce on October 1, 2021. See [Note 3 of the Consolidated Financial Statements in "Item 1. Financial Statements \(unaudited\)"](#) of this report for further information regarding this transaction.

(2) As of the date of this filing, completion of this transaction is still pending full regulatory approval. See [Note 17, "Subsequent Events,"](#) for additional information.

Comparison of current quarter to prior quarter

Noninterest expense was \$101.4 million for the third quarter of 2022, an increase of \$6.1 million from \$95.4 million for the prior quarter. Merger-related expenses during the quarter were \$3.2 million compared to \$3.9 million for the prior quarter. The largest contributor to the increase in noninterest expense was related to compensation and employee benefits driven by increased incentive expense. In addition, there was increased net loan expense and data processing and software expense during the quarter.

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

For the nine months ended September 30, 2022, noninterest expense was \$301.9 million, compared to \$257.7 million for the same period in 2021, an increase of \$44.2 million. The increase from the prior year period was mostly attributable to increases in compensation and employee benefits expense due to our acquisition of Bank of Commerce and the prior year period having substantial capitalized labor costs for PPP loan originations. Increased merger-related expenses also contributed to the increase.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2022	June 30, 2022	September 30, 2022	September 30, 2021
	<i>(in thousands)</i>			
Provision (recapture) for unfunded loan commitments	\$ (500)	\$ —	\$ —	\$ 2,200

Income Taxes

We recorded an income tax provision of \$17.5 million for the third quarter of 2022, compared to a provision of \$16.2 million for the three months ended June 30, 2022, with effective tax rates of 21% and 22%, respectively. For the nine months ended September 30, 2022 and 2021, we recorded income tax provisions of \$49.3 million and \$40.6 million, respectively, with effective tax rates of 21% for the current year and 20% for the prior year period. For additional information, please refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

FINANCIAL CONDITION

Total assets were \$20.41 billion at September 30, 2022, a decrease of \$540.0 million from December 31, 2021. Cash and cash equivalents decreased \$507.0 million. Loans increased \$1.05 billion during the first nine months of 2022, which was primarily the result of new loan production partially offset by loan payments. Debt securities available for sale were \$4.70 billion at September 30, 2022, a decrease of \$1.21 billion from December 31, 2021 which was due to a combination of maturities, repayments and fair value movement. Total liabilities were \$18.29 billion as of September 30, 2022, a decrease of \$66.7 million from December 31, 2021 primarily due to a decrease in noninterest-bearing deposits.

Investment Securities

At September 30, 2022, the Company's investment portfolio primarily consisted of debt securities available for sale totaling \$4.70 billion compared to \$5.91 billion at December 31, 2021 and debt securities held to maturity of \$2.08 billion and \$2.15 billion at September 30, 2022 and December 31, 2021, respectively. The decrease in the debt securities available for sale from year-end is due to a \$759.7 million decline in unrealized gains, \$613.0 million in maturities and repayments, and \$23.2 million in premium amortization, partially offset by \$185.8 million in purchases. The decrease in debt securities held to maturity from year-end is due to \$149.6 million in maturities and repayments and \$17.1 million in premium amortization, partially offset by purchases of \$97.7 million. The average duration of our debt securities available for sale was approximately 5 years and 3 months at September 30, 2022. The average duration of our debt securities held to maturity was approximately 5 years and 8 months at September 30, 2022. 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, 2022, the market value of debt securities available for sale had a net unrealized loss of \$746.7 million compared to a net unrealized gain of \$13.0 million at December 31, 2021. The change in valuation was the result of fluctuations in market interest rates during the nine months ended September 30, 2022. At September 30, 2022, the Company had \$4.66 billion of debt securities available for sale with gross unrealized losses of \$747.3 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 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, 2022.

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

	September 30, 2022	December 31, 2021
	<i>(in thousands)</i>	
Debt securities available for sale:		
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	\$ 2,852,867	\$ 3,745,601
Other asset-backed securities	334,009	463,063
State and municipal securities	826,833	997,291
U.S. government agency and government-sponsored enterprise securities	222,951	252,576
U.S. government securities	166,306	157,536
Non-agency collateralized mortgage securities	297,855	294,932
Total debt securities available for sale, at fair value	\$ 4,700,821	\$ 5,910,999
Debt securities held to maturity:		
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	\$ 2,079,285	\$ 2,148,327
Total debt securities held to maturity, at amortized cost	\$ 2,079,285	\$ 2,148,327
Equity securities	13,425	13,425
Total investment securities	\$ 6,793,531	\$ 8,072,751

For further information on our investment portfolio and equity securities transactions, see [Note 4 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 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.

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 2021 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 provides additional detail related to the net premium (discount) of acquired and purchased loans by acquisition:

	September 30, 2022	December 31, 2021
	<i>(in thousands)</i>	
Acquisition:		
Bank of Commerce	\$ 7,511	\$ 12,923
Pacific Continental	(4,008)	(5,306)
All other purchased and acquired net premium	3,784	5,031
Total net premium at period end	<u>\$ 7,287</u>	<u>\$ 12,648</u>

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 areas. We are committed to 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, Idaho and California.

For additional information on our loan portfolio, including amounts pledged as collateral on borrowings, see [Note 5 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, 2022, our ACL was \$154.9 million, or 1.32% of total loans (excluding loans held for sale). This compares with an ACL of \$155.6 million, or 1.46% of total loans (excluding loans held for sale) at December 31, 2021. The decrease from year end was primarily due to significant improvement in portfolio risk ratings as well as the percentage of problem loans to total loans reaching pre-pandemic levels. The ACL at September 30, 2022 does not include a reserve for the PPP loans as they are fully guaranteed by the SBA.

For additional information on our allowances for credit losses and allowance for unfunded commitments and letters of credit, as well as the credit quality of the loan portfolio, see [Note 6 to the Consolidated Financial Statements in "Item 1. Consolidated Financial Statements \(unaudited\)"](#) of this report.

Liquidity and Sources of Funds

Our primary sources of funds are customer deposits. Additionally, we utilize advances from the FHLB, borrowings from the FRB, sweep repurchase agreements, subordinated debentures and junior 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.

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

Deposit Activities

Our deposit products include a wide variety of transaction accounts, savings accounts and time deposit accounts. We have established a branch system to serve our consumer and business depositors. Deposits decreased \$68.8 million from December 31, 2021. 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, 2022, brokered deposits, reciprocal money market accounts and other wholesale deposits (excluding public funds) totaled \$919.1 million, or 5.1% of total deposits, compared to \$821.7 million or 4.6% at year-end 2021. 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, 2022		December 31, 2021	
	Balance	% of Total	Balance	% of Total
	<i>(dollars in thousands)</i>			
Demand and other noninterest-bearing	\$ 8,911,267	49.8 %	\$ 8,856,714	49.1 %
Money market	3,355,705	18.7 %	3,525,299	19.6 %
Interest-bearing demand	2,047,169	11.4 %	1,999,407	11.1 %
Savings	1,657,799	9.2 %	1,617,546	9.0 %
Interest-bearing public funds, other than certificates of deposit	701,741	3.9 %	779,146	4.3 %
Certificates of deposit, less than \$250,000	221,087	1.2 %	249,120	1.4 %
Certificates of deposit, \$250,000 or more	127,229	0.7 %	160,490	0.9 %
Certificates of deposit insured by the CD Option of IntraFi Network Deposits	22,730	0.1 %	35,611	0.2 %
Reciprocal money market accounts	896,414	5.0 %	786,046	4.4 %
Subtotal	\$ 17,941,141	100.0 %	\$ 18,009,379	100.0 %
Valuation adjustment resulting from acquisition accounting	\$ 184		\$ 736	
Total deposits	\$ 17,941,325		\$ 18,010,115	

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 September 30, 2022 and December 31, 2021, we had FHLB advances of \$14.3 million and \$7.4 million, respectively.

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, 2022 and December 31, 2021, we had deposit customer sweep-related repurchase agreements of \$48.7 million and \$86.0 million, respectively, which mature on a daily basis.

Subordinated debentures and junior subordinated debentures are another source of funding. On October 1, 2021, with its acquisition of Bank of Commerce, the Company assumed \$10.0 million in aggregate principal amount of subordinated debentures, which are unsecured, and mature on December 10, 2025. Also assumed through the Bank of Commerce acquisition were \$10.3 million of trust preferred obligations which mature on September 15, 2035 and are redeemable at the Company's option on any March 15, June 15, September 15 or December 15.

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. At both September 30, 2022 and December 31, 2021, 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, 2022.

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, 2022, we had commitments to extend credit of \$3.87 billion compared to \$3.54 billion at December 31, 2021.

Capital Resources

Shareholders' equity at September 30, 2022 was \$2.12 billion, compared to \$2.59 billion at December 31, 2021. Shareholders' equity was 10% and 12% of total period-end assets at September 30, 2022 and December 31, 2021, respectively.

Regulatory Capital

In July 2013, the federal bank regulators approved the Capital Rules (as discussed in our 2021 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, 2022, 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, 2022 and December 31, 2021.

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, 2022 and December 31, 2021 have a reduced 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, 2022	December 31, 2021	September 30, 2022	December 31, 2021
CET1 risk-based capital ratio	12.50 %	13.01 %	12.55 %	13.06 %
Tier 1 risk-based capital ratio	12.50 %	13.01 %	12.55 %	13.06 %
Total risk-based capital ratio	13.59 %	14.21 %	13.57 %	14.18 %
Leverage ratio	9.00 %	8.55 %	9.10 %	8.60 %
Capital conservation buffer	5.59 %	6.21 %	5.57 %	6.18 %

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		Nine Months Ended	
	September 30, 2022	June 30, 2022	September 30, 2022	September 30, 2021
<i>(dollars in thousands)</i>				
Operating net interest margin non-GAAP reconciliation:				
Net interest income (tax equivalent) (1)	\$ 164,859	\$ 149,542	\$ 462,669	\$ 387,737
Adjustments to arrive at operating net interest income (tax equivalent):				
Premium amortization (discount accretion) on acquired loans	871	2,053	3,274	(2,795)
Premium amortization on acquired securities	877	1,132	3,040	1,474
Operating net interest income (tax equivalent) (1)	\$ 166,607	\$ 152,727	\$ 468,983	\$ 386,416
Average interest earning assets	\$ 18,864,445	\$ 18,975,517	\$ 19,034,062	\$ 16,143,956
Net interest margin (tax equivalent) (1)	3.47 %	3.16 %	3.25 %	3.21 %
Operating net interest margin (tax equivalent) (1)	3.50 %	3.23 %	3.29 %	3.20 %

(1) Tax-exempt interest income has been adjusted to a tax equivalent basis. The amount of such adjustment was an addition to net interest income of \$2.4 million and \$2.1 million for the three months ended September 30, 2022 and June 30, 2022, respectively, and \$6.5 million and \$5.7 million for the nine months ended September 30, 2022 and September 30, 2021, respectively.

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 or callable bonds could be called.

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 on net interest income over a one or two year period if interest rates gradually increased or decreased during the first year, based on the results of the simulation model as of September 30, 2022:

Change in basis points (bps)	Year one		Year two	
	Change in net interest income	% Change in net interest income	Change in net interest income	% Change in net interest income
<i>(dollars in thousands)</i>				
+200	\$ 18,267	2.65 %	\$ 72,679	10.01 %
-100	\$ (16,684)	(2.42)%	\$ (56,313)	(7.76)%

The following table summarizes the expected impact on net interest income over a one or two year period if interest rates instantaneously increased or decreased, based on the results of the simulation model as of September 30, 2022:

Change in basis points (bps)	Year one		Year two	
	Change in net interest income	% Change in net interest income	Change in net interest income	% Change in net interest income
	<i>(dollars in thousands)</i>			
+200	\$ 46,963	6.81 %	\$ 93,350	12.86 %
-100	\$ (43,095)	(6.25)%	\$ (67,691)	(9.32)%

The projections are based on the current interest rate environment and we assume our balance sheet remains constant during the next two years. Market interest rates increased substantially during the quarter and since year end. Loan interest rate indexes such as Prime, LIBOR and SOFR also increased significantly. Our ability to reprice deposits downward is limited given our low cost of funds.

Net interest income sensitivity was relatively unchanged since the prior quarter. We remain asset sensitive and well-positioned to benefit from a rising interest rate environment. Our ability to reprice our deposit costs downward in falling interest rate scenarios is constrained given our low cost of funds. Prudent management of deposit rates and balances will be the key driver in realizing the benefit of our asset sensitive status.

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.

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.

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, 2021 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 Annual Report on Form 10-K for the year ended December 31, 2021.

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, 2022:

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)
7/1/2022 - 7/31/2022	701	\$ 29.30	—	—
8/1/2022 - 8/31/2022	436	31.19	—	—
9/1/2022 - 9/30/2022	132	30.11	—	—
	<u>1,269</u>	<u>30.04</u>	<u>—</u>	<u>—</u>

(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) The Company does not have a current share repurchase plan.

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).

+ 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: October 28, 2022

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

Date: October 28, 2022

By /s/ AARON JAMES DEER
Aaron James Deer
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

Date: October 28, 2022

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

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: October 28, 2022

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: October 28, 2022

**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, 2022 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: October 28, 2022