Data Storage Corp
Form 10-K
April 16, 2010
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2009

o TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ___________ to ___________

Commission File No. 333-148167

DATA STORAGE CORPORATION
(Exact name of registrant as specified in its charter)

NEVADA 98-0530147

401 Franklin Avenue
Garden City, N.Y 11530

(212) 564-4922

Securities registered under Section 12(b) of the Exchange Act:

Title of each class registered:	Name of each exchange on which registered:
None	OTC.BB

Securities registered under Section 12(g) of the Exchange Act:
Common Stock, par value $.001
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 the Securities Act.
Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes o No x

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

Indicate by check mark whether the registrant is a shell company as defined in Rule 12b-2 of the Exchange Act.
Yes o No x

Check if there is no disclosure of delinquent filers in response to Item 405 of S-K (§229.405 of this chapter) not contained in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

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

Large accelerated filer o Accelerated filer o
Non-accelerated filer o Smaller reporting company x
(Do not check if a smaller reporting company)

Revenues for year ended December 31, 2009: $585,285

Aggregate market value of the voting common stock held by non-affiliates of the registrant as of December 31, 2009, was $6,832,699

Number of shares of the registrant's common stock outstanding as of April 15, 2010 was: 13,665,399

Transitional Small Business Disclosure Format:
Yes o No o

SECURITIES AND EXCHANGE COMMISSION	1
Wshington, D.C. 20549	1
FORM 10-K	1
PART I	7
ITEM 1 DESCRIPTION OF BUSINESS	7
Corporate History	7
Overview of Data Storage Corporation & our industry	7
Description of Data Storage's Business by Division:	9
DSC Services	11
Overview:	11
Our Strategy:	11
What We Do:	11
Features and Benefits:	11
Equipment Maintenance Services	11
Overview:	11
What We Do:	11
Infrastructure Services	12
Overview:	12
Our Strategy:	12
What We Do:	12
Benefits of Using DSC:	12
Industry Certifications and Affiliations:	12
Data Center Services:	13
Overview:	13

Our Strategy:	13
What We Do:	13
Benefits of Using DSC:	13
Security	13
Overview:	13
Our Strategy:	13
What We Do:	13
Benefits of Using DSC:	13
Wireless Services	14
Overview:	14
Our Strategy:	14
What We Do:	14
Vendors:	14
Benefits of Using DSC:	14
Professional Services	14
Overview:	14
Our Strategy:	14
What We Do:	14

Benefits of Using DSC:	15
Managed Services	15
Overview:	15
Our Strategy:	15
What We Do:	15
Each program is based upon the following:	16
Benefits of Using DSC:	16
Competition	16
Principal competitors by service sector are:	16
Typical Client Target	18
Reasons to Select Our Services	18
Market Size and Opportunity	18
Healthcare DPS Product Offering	19
About the Healthcare Unit	19
Marketplace Differentiators	19
Competitive Matrix	21
Safe Data	22
Pending the acquisition of Safe data, we have filed this term sheet.	22
ITEM 1A RISK FACTORS	22
ITEM 1B. UNRESOLVED STAFF COMMENTS	22
ITEM 2. DESCRIPTION OF PROPERTY	22
ITEM 3. LEGAL PROCEEDINGS	22
ITEM 4. (REMOVED AND RESERVED)	22
PART II	23

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS	23
No Public Market for Common Stock	23
Holders of Our Common Stock	23
Stock Option Grants	23
Registration Rights	23
ITEM 6. SELECTED FINANCIAL DATA	23
ITEM 7.MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS	23
Company Overview	23
Results of Operation	24
Critical Accounting Policies	24
Off Balance Sheet Transactions	25
ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.	26
ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.	26
ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	39
ITEM 9A. CONTROLS AND PROCEDURES	39
PART III	41
ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS: COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT	41
ITEM 11. EXECUTIVE COMPENSATION	44
SUMMARY COMPENSATION TABLE	44
ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT	46

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES	46
PART IV	48
ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.	48
SIGNATURES	49
DATA STORAGE CORPORATION	49

PART I

ITEM 1. DESCRIPTION OF BUSINESS

Overview

Corporate History

Euro Trend Inc. was incorporated on March 27, 2007 under the laws of the State of Nevada. On October 20, 2008 we completed a Share Exchange Agreement whereby we acquired all of the outstanding capital stock and ownership interests of Data Storage Corporation. In exchange we issued 13,357,143 shares of our common stock to the Data Storage Shareholders. This transaction was accounted for as a reverse merger for accounting purposes. Accordingly, Data Storage Corporation, the accounting acquirer, is regarded as the predecessor entity.

Overview of Data Storage Corporation & our industry

Data Storage Corporation ("Data Storage" or "DSC"). Data Storage provides technical professional services focused on managing customized, powerful, premium solutions for data protection, data management cloud computing including: Storage Infrastructure Design and Management, Business Continuity Planning and Disaster Recovery, Virtualization, Data Archiving, Disk and Transaction Mirroring, and Internet Services..

Delivering and supporting through its divisions and Joint Venture, professional services providing a broad range of premium solutions in electronic data storage and protection. Clients look to DSC to ensure disaster recovery and business continuity, strengthen security, and to meet increasing industry compliance, State and Federal regulations. The company markets to business, government, education, and the healthcare industry by leveraging leading technologies such as Virtualization, Cloud Computing, and Electronic Medical Records (EMR). The company provides hardware, Software-as-a-Service, managed IT services, installation, and maintenance. To protect and leverage customer investments, DSC provides a range of top-quality professional services and proactive customer support, directly, as well as through authorized partner organizations.

Data Storage derives revenues from the sale and subscription of solutions that provide businesses, education, government and healthcare protection of critical electronic data. In 2009 revenues consisted primarily of offsite data backup, de-duplication, Continuous data protection, private cloud Disaster Recovery solutions, Electronic Medical Records, protecting information for our clients. We have operations in our datacenter in Westbury, New York and a disaster recovery facility which is located over 1,000 miles away from the primary data center. We deliver our services over a highly intelligent, reliable, redundant and secure fiber optic network, with separate and diverse routes to the Internet. The network and geographical diversity is important to clients seeking storage hosting and Disaster Recovery solutions, ensuring protection of data in the case of a network interruption.

NAME (Location)	TYPE OF BREACH	# OF RECORDS
Harvard Law School	Lost backup tapes	21,000
University of Utah	Stolen backup tapes	1,300,000
University of Miami	Stolen backup tapes	2,100,000
University of Michigan	Stolen backup tapes	8,585
Johns Hopkins University	Lost backup tapes	52,000
NY Social Security Admin	Lost Data Disk	969
Bristol-Myers Squibb	Lost backup tapes	42,000
Lost backup tapes	Lost backup tapes	80,000

Data Storage is in the position today to leverage our infrastructure and leadership team to grow revenue to significant levels by acquisitions of synergetic data protection and cloud storage businesses that provide data backup services, disaster recovery and business continuity solutions, store data for future access for e-discovery, e – title and electronic medical information. DSC believes opportunities exist to acquire synergistic service providers to enhance our products and services portfolio, expand our management and increase our cash flow.

Our aim is to reduce costs through economies of scale while increasing local market share and consolidating efforts during the current economic environment. Over 4,000 service providers exist today, providing DSC with ample acquisition targets. Initial acquisitions will be derived from companies that offer similar services to Data Storage as greater economies of scale can be realized using this strategy improving net income. These acquisitions will become partners of DSC and continue to offer solutions under the DSC brand.

We believe that the opportunity exists today to roll up customer bases as well as acquire companies. This strategy will enable Data Storage to create a national presence as the premiere brand.. The roll up of these technical consulting companies and system integrators will also form a powerful distribution channel for both our current and future product service offerings. Acquisition activity including organic growth is forecasted at $6 Million for 2010 and $11 Million for 2011. These revenue outlooks form the base line revenue for each consecutive year since revenue is monthly recurring and normally under agreements that range from 12 months to 36 months.

Worldwide Storage-as-a-Service Demand

The marketplace providing professional services that specializing in Disaster Recovery and Business Continuity are segmented into systems integrators that have added data protection services as an additional product line adding to their bundle of services and products, focused on smaller clients. A few very large professional services providers such as IBM and SunGard focus on the enterprise level organizations greater than 1,500 employees, therefore leaving small and medium size organizations under-served for top level professional services for Disaster Recovery solutions under DSC’s professional services umbrella.

According to IDC in its recent research study entitled “Storage-as-a-Service: Commercial Opportunities,” demand for online storage services is very strong in small, mid-size, and large firms that are facing budgetary and IT staffing pressures. The study states that these firms are evaluating online storage services and storage capacity for backup/disaster recovery, long term record retention, business continuity and availability. DSC aims to meet this demand by recommending, implementing, and providing solutions in these areas. In its Worldwide Storage-as-a-Service Market Size and 2008-2012 Forecast, IDC predicts that customers will continue to invest strongly in various forms of online storage services, forecasting this market to pass the $3 billion mark by 2012, with a CAGR greater than 29% from 2007 to 2012.

On our Healthcare unit trends in the industry are as follows: Healthcare DPS, a division of Data Storage, provides data protection technology and services for hospitals, nursing and residential care facilities, physician’s offices, home healthcare service companies, dental offices, alternative healthcare offices, outpatient care centers, ambulatory healthcare service companies, and medical and diagnostic laboratories in the New York metropolitan area. Healthcare DPS assists Healthcare Providers in complying with HIPAA and other federal and local regulations on data protection. With zero tolerance for downtime, larger healthcare organizations require extremely reliable mission-critical data protection services. A host of state and industry regulators are now urging, and in some cases requiring, the development of business continuity and disaster recovery plans to ensure the backup, protection and recovery of data on a long-term basis. Internet Services over Ethernet is rapidly becoming the technology of choice to address these critical data center needs, because of its ability to provide transparent connectivity over the wide area. Data Storage offers an array of services in order to satisfy all of the aforementioned requirements.

As outlined in the 2008 HIMSS/HIMSS Analytics Ambulatory Healthcare I.T. Survey, there is no clear leader in the Electronic Medical Records market. According to BCC Research, software applications (EHR) is the dominating segment of the U.S. healthcare technology market, generating an estimated $3.4 billion, increasing to $7.2 billion in 2014; a CAGR of 16.4%. A June 2008 survey published in the New England Journal of Medicine revealed only four percent of U.S. physicians providing direct patient care have a full EHR system, and only 13 percent have a basic system. Through the 2009 Economic Stimulus Package, the CMS will subsidize the cost of EHR systems by paying physicians $44,000 to $64,000 over five years, beginning in 2011, for deployment and ‘meaningful use’ of certified EHRs. According to a Congressional Budget Office review, the incentive is expected to increase physicians’ use of EHR to 90 percent in the next decade. Marketing EHR solutions and related services under its Healthcare DPS brand, DSC is well positioned to take advantage of increased state and federal regulations and incentives designed to transform healthcare from today's largely paper based disparate system to one that is electronic and interconnected.

On our E-commerce unit, the company provides low cost online data backup brand DataStor Live. DataStor Live is powered by cloud computing based platforms and provide service to home users, small-office and home-office workers. IDC projects the market for this type of service to grow to $715 million by 2011, up from $235 million in 2007. DataStor Live offers a similar service to EMC’s Mozy which was acquired in September 2007 from Berkley Data Systems in a $76M deal.

We have created significant momentum since the acquisition share exchange with Data Storage Corporation.

Description of Data Storage’s Business by Division:

Data Storage Corporation delivers and supports through its various divisions a broad range of premium solutions focusing in electronic data storage and protection. Clients look to DSC to ensure disaster recovery and business continuity, strengthen security, and to meet increasing industry, State and Federal regulations. The company markets to business, government, education, and the healthcare industry by leveraging leading technologies such as Virtualization, Cloud Computing, and Electronic Medical Records (EMR). The company provides hardware, Software-as-a-Service, managed IT services, installation, and maintenance. To protect and leverage customer investments, DSC provides a range of top-quality professional services and proactive customer support, directly, as well as through authorized partner organizations.

DSC Services

We offer the following services to our clients.

Overview:
Data Storage Corporation provides data protection and information management solutions using our secure, encrypted, disk-based backup, storage and archiving systems. We specialize in protecting, managing, backing up and restoring valuable corporate information by automatically getting data stored, safely and securely, off-site. Our solutions help clients reduce the risks and cost associated with data protection, information recovery, disaster planning and regulatory compliance. Our company protects and ensures that information assets are secure and restorable on demand.

Our Strategy:
Specializing in Off-site Backup and Archiving, DSC can support your environment with protection for all your data across the network as well as keeping it secured safely off-site in two geographically diverse datacenters. Our enterprise backup solution is integrated and built with all the latest feature sets an organization could ask for. This provides your organization with the best tools and features for disaster recovery and business continuity.

What We Do:
We provide online backup services that transfer your information over the Internet or on a dedicated private circuit to our secure company owned off-site storage location. Our online backup service provides the most advanced data protection solution for small and medium businesses. Our service turns an ordinary server into a powerful and fully automated network backup device.

Features and Benefits:

- Simple to grow – Simple to manage
- Reduces operational overhead while freeing up staff to focus on higher priority tasks.
- Agent-less – No agents to install on any machine (Some limitations apply to MS Exchange, GroupWise, Lotus Notes and MS SharePoint).
- Backed up data can be archived for long term storage.
- Always secure with 256-bit AES encryption.
- Centralized management interface, email or SNMP alerts, extensive logging and reporting for audits and verification.
- Tape-less – Disk to Disk – No more manual handling of tapes.
- Continuous Data Protection for email and data files.
- Customizable retention policies and software parameters.

Equipment Maintenance Services

Overview:

The service employs a HotSpares strategy which essentially means we have live running servers and arrays in facilities:

- Guaranteed working spare when going on calls (No DOA)
- Test all components from the field from our suppliers
- Provides continuing education and troubleshooting in the field

Mean time to repair (Call Closure) is less than three (3) hours according to nationwide statistics. We will provide you with engineering services nationwide for installation, De-Installation and Re-Location Services as well as a multitude of professional services, local to your site (available from 35 offices, covering most major cities in USA).

What We Do:
We support the following platforms:

- IBM Systems and Storage
  - o RS/6000's including legacy products
  - o pSeries
  - o ISeries
  - o zSeries (Direct)
  - o zSeries, Blades and Netfinity Series
  - o Tape Libraries, SSA & FastT Storage
  - o AIX Operating System Software Telephone support is available. Extended AIX and OS/400 support is available through a partner.
- SUN Microsystems Servers and Storage
  - o ALL SPARC and legacy products
  - o ALL SUN Ultra products and Enterprise Servers including the 10K
  - o ALL StorEdge Products, including many StorageTek Products
  - o Solaris Operating System Software Telephone support is available. Authorized software support and patch downloads are available direct through SUN. Ask us to assist in determining the need.
- Hewlett-Packard Servers and Storage
  - o All Digital Equipment Corporation (DEC) legacy products (VAX & Alpha)
  - o All Compaq products (Proliants, Blades and StorageWorks)
  - o All HP 9000 Servers and 3000 Servers
  - o All Integrity Servers and Storage Products
  - o OpenVMS and HP-UX Operating System Software Telephone support is available. MPE Software Support is available as well.
- Dell PowerEdge Servers and PowerVault Storage
  - o All Dell Poweredge Products both in and out of warranty
  - o All Dell PowerVault Servers including many NetApp and EMC Products
  - o All Dell PowerConnect Switches
- EMC Clariion Storage Arrays
  - o All Clariion Products
  - o Brocade & McData Swtiches
  - o Tier 2 Support Available

Infrastructure Services

Overview:
Whether you need to upgrade your existing infrastructure, or are adding a new location, our team of skilled expert's works with you to evaluate the capabilities of your existing infrastructure and makes recommendations for supporting new applications and services to accommodate your future growth. We then design, install and implement a solution handmade for your business.

Our Strategy:
Specializing in Low Voltage systems, DSC supports your ongoing need for new technology, transforming your communications system from just cables and connectors to an integrated solution for voice, data, audio and visual communications. Our services include Structure Cabling and Voice-Data-Fiber-CATV–CCTV-Access Control.

What We Do:
From premise cabling systems to data centers, overhead paging to concert sound systems, CATV systems to security, our extensive engineering and technical background enables us to provide and unsurpassed level of service.

Benefits of Using DSC:
Our commitment to our clients' best interest, and our vendor neutral approach, assure unbiased consultation and full access to world-class technologies. Our highly trained technicians are constantly updated on the latest technology, products and installation practices. Each installation is tested and certified; every detail is documented and labeled according to TIA/EIA 606 standards. Final test results and as-built CAD floor plans are submitted upon project completion.

Industry Certifications and Affiliations:

· BICSI
· ANSI
· EIA/TIA 606 Standards
· National Electric Code
· Panduit (PCI)
· Belden
· Leviton

· HubbelGeneral
· Berk-Tek
· Systimax
· Corning
· Commscope
· B-Line
· Amp/Tyco

Union and Non Union Labor
· CWA (NY, NJ)
· IBEW (NJ)

Data Center Services:

Overview:
Data Storage Corporation is pleased to bring the finest data center specialists to perform your latest upgrade or build your new installation. Our outstanding cabling services, plug & play, rack and stack, inter-rack cabling and network patching are just part of our thorough approach to assure your critical success.

Our Strategy:
The essential elements for a well executed data center include:

PDU, CRAC, UPS and Generator Hot/Cold Aisle, High/Low Density Structured Cabling Requirements, "Streets and Avenues" Raised Floor Requirements (Above or Below) Cabinet/Hardware Planning “Room-Ready" Criteria and Implementation.

What We Do:
Data Storage Corporation will carefully follow a systematic process for building/upgrading your data center to achieve your desires. For best results, let us do it all:

Data Center and Technology Room Design Structured Cabling Design and Analysis Site Selection Analysis and Base Building Design Strategic Planning Point Of Distribution (POD) Installations IT and Construction Project Management.

Benefits of Using DSC:

- Consistent end-to-end project management.
- Complete follow through in bid process, from drawings and specifications to negotiations and recommendations.
- Continual review of master schedule to assure adherence.
- Vendor-nuetral purchasing of only the best materials.
- Strict problem/prevention/resolution procedures keep the project on target.

Security

Overview:
There are literally thousands of ways a factory, storefront or other building can have its security and safety compromised. For many business owners and operations executives, security isn't about the problems you see. It's about the problems you don't see. How do you find the right measure of protection? Whether you've had a security failure or are simply concerned about preventing one, DSC can provide the latest technology and attentive service to meet your need.

Our Strategy:
A great system is just the beginning of a comprehensive security solution. Careful pre-planning and proper installation are key to getting the best possible results. Data Storage Corporation's team of experienced professionals ensures that every aspect of security protection you need is never overlooked, and that your top-quality components perform to the highest industry standards. Our ever-present support is just a phone call away to assure your continuous peace of mind.

What We Do:

- Burglar and Fire Alarm Systems
- Video Surveillance
- Electronic Access Control
- Monitoring Services. (Including Web-Hosted)

Benefits of Using DSC:

- Expert professional design and installation.
- Custom evaluation to define your exact requirements.
- Protection available for any size facility.
- We are licensed and fully comply with state/local codes and insurance requirements.
- Security review before installation to confirm your level of protection.

Wireless Services

Overview:
Wireless solutions play an important role in the achievements and advancements made by systems users every day. More and more, previously difficult or unworkable situations are accomplished elegantly by properly deployed wireless technology. Expansion and upgrade possibilities for your existing wireless applications are greater than ever. Is a wireless solution really right for you? How do you arrive at the best solution for your growing needs? You can turn to Data Storage Corporation for the most complete answers.

Our Strategy:
You need a versatile supplier to assure that the correct strategy, from the many available, is applied to your situation. Some of the most important tasks supported by wireless each require specialized expertise. These include indoor wireless LAN (Wi-Fi), outdoor licensed and unlicensed wireless links, wireless sports and entertainment, video surveillance, voice over wireless LAN, and cellular reinforcement for office buildings, campuses, indoor or outdoor arenas, etc.

What We Do:

- Point to Point / Point to multipoint Microwave design and deployment
- 802.11X Site Surveys (Indoor/Outdoor)
- Predictive analysis
- Cellular reinforcement (Providing additional cellular coverage to weak areas)

Vendors:

· Cisco Networks
· Trapeze Networks
· Meru Networks
· Firetide
· Bridgewave
· Cerragon
· Andrew DaS
· Mobile Access

Benefits of Using DSC:

- The same level of expertise is assured throughout our nationwide service area.
- Our vendor-neutral approach frees us to meet your highest expectations.
- Serving every location from small office to large hotel, office building, convention center or stadium.
- Our application integration process assures that your system functions will work together smoothly.
- Our broad understanding enables your system to perform efficiently and economically.

Professional Services

Overview:
You need to get the most out of every dollar you spend. That's why Data Storage Corporation's Technology Division offers you a proven, comprehensive selection of professional services designed to help you fully leverage the value of your investment in Information Systems Performance Management.

Our Strategy:
DSC Professional Services include the three most critical areas of service -deployment, performance and best practices. Specific services are available for end to end IT and infrastructure assessments to design build engagements. Our products, and all services, can be easily customized to fit your IT and business needs. Our consultants are experts in many technology disciplines and will provide you with a wealth of knowledge, tools, skills and expertise. This means that your staff can work with the confidence of knowing that their needs are paramount.

What We Do:
DSC Professional Services for planning, design, deployment, performance and best practices can help you speed time to value and increase ROJ for your DSC investment:

- Staffing
- Gap Analysis
- Systems Integration and Design

- Technology Assessments
- Telecommunications Audits
- Managed Services
- Corporation Relocations
- Technology Deployment
- Network, Systems and broadband engineering consulting
- Server farm virtualization analysis, design and implementation

Benefits of Using DSC:

- Develop a robust road map via DSC's audit services to increase efficiencies and develop pragmatic action plans to meet any business goal.
- Accelerate deployment through proven procedures and deep technology expertise.
- Maximize performance with proactive audit and analysis, backed by fast problem response.
- Leverage best practices that include DSC's proprietary processes and intellectual capital gathered from numerous successful engagements.
- Speed time to value with DSC's tools, procedures and assistance.
- Minimize risk by adopting a proactive service management approach.

Managed Services

Overview:
Plagued by system downtime, viruses, spyware, losses of productivity, and every other excuse for why the computer system you rely upon to run your business is not working consistently and as expected? These distractions are unnecessary and very expensive.

Our Strategy:

Proactive, Flexible, Affordable, Managed…

Data Storage Corporation understands this. We also know that businesses are constantly challenged by the task of managing the demands of growing their business while coping with continuous technology challenges. Our focus is to keep your systems operational and available so that you can focus your efforts on the demands of growing your business, managing costs and increasing revenues. We want to help you realize the productivity gains and ROI you have been expecting from your computer systems. Managed Services from Data Storage Corporation consists of various service level offerings that provide affordable proactive IT management and support to growing businesses. Utilizing our unique framework referred by us as DSC-MS for providing managed IT services, Data Storage Corporation provides a range of proactive services to keep your computer systems up and running and your people and business productive. It's not just about monitoring, that just lets you know something is wrong. It's not just about remote access to your systems to troubleshoot issues.

What We Do:
By utilizing technology, daily, weekly and monthly IT tasks can be automated and scheduled to ensure all tasks are completed and reported consistently without fail. As the tasks run, valuable data is gathered to spot trends and patterns which can be used to plan system changes or enhancements. This reduces or eliminates any impact on the business. Proactive managed services eliminate the scenario of calling and waiting for the "computer guy". Potential issues and problems are prevented. Systems and people remain productive and working. In the case where problems do occur, response times can often be within minutes. Consistency is the cornerstone of DSC-MS consistency creates reliability and renders no surprise expenditures or billings. How many times have you received a bill that you couldn't understand or begin to determine if it was justified?

Each program is based upon the following:

- Site Assessment and Inventory
- Proactive Service
- Management and Status Reporting
- Best Practice Driven
- Automated and Reliable

Benefits of Using DSC:
Our goal is to serve as your technology partner with a focus on providing solutions. By using a consultative approach to evaluate your business and technology needs, we can advise on the best solutions for your current and future needs.

- Reliability
- Security
- Consistency
- Productivity Gains
- Cost Management and Control
- Performance
- Managed Expansion and Growth

Data Storage Corporation provides you with a single source of professional expertise and resources you need to streamline system management and support functions at an affordable price. Data Storage Corporation uses advanced processes, tools and methodologies, to deliver superior services that match your needs.

Competition

Principal competitors by service sector are:

Data Protection

Commvault- a software company focused primarily on data management. Uses singular architecture based on Common Technology Engine to deliver data movement and expansion to changing business requirements. Commvault offers a team of engineers and consultants for customizing solutions for customers in six continents.

Symantec – parent company of Norton is an industry leader in electronic messaging security, offering solutions for instant messaging, anti-spam, anti-virus, legal and content compliance, legal discovery and message archiving.

CA (Computer Associates) - offers data protection with a multi-layered solution that combines data backup, security, replication and failover.

Data De-Duplication

Diligent – is an innovator in enterprise-class disk-based data protection solutions. Recently acquired by IBM, it is the inventor of ProtecTIER, de-duplication platform capable of inline de-duplication, eliminating redundant data and amount of physical storage required.

NetApp – is a creator of storage and data management solutions for maximizing cost efficiency, offering single platform for a range of networked environments. Infrastructure solutions include archive and compliance, business continuity, disk to disk backup, storage consolidation and testing & development.

Overland Storage– this company offers a complete set of data protection appliances for small and midrange customers, to reduce backup window and simplify data retention. Emphasis is on improving data recovery speed and cost effective methods of disaster recovery.

Quantum – global specialist in backup and recovery as well as archiving of data. It was the first to market variable length de-duplication, virtual tape library for open systems and unified disk to disk backup systems.

Virtual Tape Library

Data Domain - is aimed at reducing or eliminating tape infrastructure with disk and network based data protection. Services include file storage, backup, disaster recovery, long term retention of enterprise data and litigation support as well as regulatory compliance assistance.

Falconstor – implements solutions using Continuous Data Protector, virtual tape library and network storage server. It offers a complete line of energy conscious solutions for various industries using their IPstor storage virtualization platform.

Sepaton – is a provider of VTL solutions for data protection, offering products and services to assist in a wide range of data protection issues such as backup performance, regulatory/corporate compliance, disaster recovery and containment of IT costs.

Off-Site Data Vaulting

There are many companies providing data vaulting services, from companies purchasing wholesale without a data center or equipment and these that have invested in equipment and software licensees. A smaller segment of companies have developed software that provide for data vaulting some of which only license their software and others that compete with their licensees.

Evault – offers online backup and recovery solutions allowing automatic storage of critical data and off-site vaults. It offers a broad range of services including archiving, email compliance, eDiscovery, business continuity planning and disaster recovery testing.

Sungard – is a leader in software and processing technology for the financial services, higher education and public sector industries. It is a major provider in information availability solutions, managed IT as well as services for applications and data center outsourcing.

Live Vault / Iron Mountain - offers online backup and recovery solutions allowing automatic storage of critical data and off-site vaults. It offers a broad range of services including archiving, email compliance, eDiscovery.

Storage Drives

IBM – (International Business Machines Corporation) specializes in computer and technology consulting as well as manufacturing and selling computer hardware and software. Infrastructure services include hosting, from mainframe to nanotechnology.

Typical Client Target

Physician

· < 30 Doctor Practice

· Electronic Medical Records

· Server

· PC's

· Scanner

· Managed IT Services

· Paper Chart Scanning

· Compliance Documentation

· VOIP Phone Systems

Hospital

· Roadmap to HER

· Charge Capture

· e-discovery

· Off-site Data Vaulting

· Storage

· Telecommunications

Reasons to Select Our Services
Government Incentives

- $19 billion in Stimulus Package Distributions
  - o $44,000 to $64,000 per provider to implement or upgrade EH
  - o Penalties for non-use by 2015 (2012 for e-RX)

Tax Deductions

- Section 179 allows full depreciation of hardware and software until 12/31/2009

Subsidies

- Relaxed Stark (Anti-Kickback) Law permits hospitals to subsidize systems for physicians
- Regional Health Information Organizations offer financial assistance for implementing EHR

Market Size and Opportunity
The U.S. market for healthcare IT expected to be worth $4.0 billion in 2009

§ Increasing to $9.0 billion in 2014

§ CAGR of 17.5%

Software applications (EHR) segment dominates the market

§ Generates an estimated $3.4 billion in 2009

§ Expected to increase to $7.2 billion in 2014

§ CAGR of 16.4%

§ 66% of physicians do not have EHR

Dedicated hardware is the second largest segment

§ Worth $636.8 million in 2009

§ Increasing to $1.8 billion in 2014

§ CAGR of 22.9%

No clear market leader

Sources:

1. 2008 HIMSS/HIMSSA Analytics Healthcare IT Survey
2. BCC Research (2009) – Healthcare Information Technology Wellesly – BCC Research

Healthcare DPS Product Offering

About the Healthcare Unit

Mission

· To provide reliable care quality enhancing solutions

· To empower providers to improve profitability

· To protect & insure the privacy & security of electronic protected health information

Company Overview

· Division of DSC

· Health IT solution provider

· Serving Group Practices, Nursing Homes, Assisted Living Facilities, and Hospitals the NY Metro area & beyond.

Marketplace Differentiators

§ We are a local company

o We service the New York Metro Area

o We are headquartered in Garden City (Long Island)

o Our support staff is located throughout New York

§ Our staff is well trained and highly skilled

o All employees are Certified HIPAA Professionals

o All employees attend ongoing mandatory training sessions

o All employees have healthcare experience

§ We have done the research

o Many products are well endorsed and/or certified

§ CCHIT

Bronx County, Texas Medical Institution, Suffolk Academy of Medicine, Queens Medical Society, State & Federal Agencies and RHIO.

Competitive Matrix

	DSC Backup	Carbonite	Mozy
Compression	Compressed, compresses all data before sending to our data centers, and we only bill on compressed storage.	Uncompressed, Carbonite does not compress data, and bills on uncompressed storage.	Uncompressed, Mozy does not compress data, and bills on uncompressed storage.
Data Centers	Two Data Centers, Two (2) Tier-IV SAS70 type II data centers, replicating data over a dedicated connection. The two data centers are on opposite coasts, ensuring that if a natural disaster disables one center, your data is still safe.	One Data Center, One Data Center, Only one data center, which does not ensure data replication.	One Data Center, replicates internally which creates restoration issues. "Preparing" your data for recovery, can take hours to days.
Retention Level	Customizable, Unlimited, We allow unlimited revisions, data will not be deleted off of our servers unless you specifically delete it (to save from losing data you may need to get back later)	30 Day Retention Level, If a file is deleted from your local machine, it will be purged from Carbonite's servers after 30 days. No unlimited revision rules.	30 Day Retention Level, If a file is deleted from your local machine, it will be purged from Mozy's servers after 30 days. No unlimited revision rules.
Exchange Backups	Backs up Exchange, Uses Microsoft best practices to back up Exchange, both at the Information Store level, and at the Mailbox and Message level.	Does not back up Exchange, No functionality or plugin to back up Microsoft Exchange	Backs up Exchange, Does not do message level
HIPAA Compliance	YES, Revision rules and retention period allow for the backups to comply with HIPAA compliance specifications	NO, Retention level does not allow for HIPAA compliance	NO, Retention level does not allow for HIPAA compliance

Safe Data

Pending the acquisition of Safe data, we have filed this term sheet.

ITEM 1A. RISK FACTORS

Not Applicable

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not Applicable.

ITEM 2. DESCRIPTION OF PROPERTY

Our principal office is located at 401 Franklin Avenue, Garden City, NY 11530. Our telephone number is (212) 564-4922.

ITEM 3. LEGAL PROCEEDINGS

We are currently not involved in any litigation that we believe could have a materially adverse effect on our financial condition or results of operations. There is no action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the executive officers of our company or any of our subsidiaries, threatened against or affecting our company, our common stock, any of our subsidiaries or of our company's or our company's subsidiaries' officers or directors in their capacities as such, in which an adverse decision could have a material adverse effect.

ITEM 4. (REMOVED AND RESERVED)

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

No Public Market for Common Stock
A symbol was assigned for our securities so that our securities may be quoted for trading on the OTCBB under symbol DTST. Minimal trading occurred through the date of this Report. There can be no assurance that a liquid market for our securities will ever develop. Transfer of our common stock may also be restricted under the securities or blue sky laws of various states and foreign jurisdictions. Consequently, investors may not be able to liquidate their investments and should be prepared to hold the common stock for an indefinite period of time.

Quarter ended	Low Price	High Price
December 31, 2009	$ 0.25	$ 1.00

Holders of Our Common Stock
As April 15, 2010, we had we had 34 record holders of our Common Stock.

Stock Option Grants
As of April 15, 2010 we granted options to purchase 2,929,432 shares of common stock.

Registration Rights
We have not granted registration rights to the selling shareholders or to any other persons.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

Company Overview
Data Storage Corporation ("Data Storage" or "DSC"). Data Storage provides technology professional services focused on managing customized, powerful, premium solutions for data protection, data management including: Storage Infrastructure Design and Management, Business Continuity Planning and Disaster Recovery, Virtualization, Archiving, Disk and Transaction Mirroring, and Internet Services..

Delivering and supporting through its divisions and Joint Venture, professional services providing a broad range of premium solutions in electronic data storage and protection. Clients look to DSC to ensure disaster recovery and business continuity, strengthen security, and to meet increasing industry, State and Federal regulations. The company markets to business, government, education, and the healthcare industry by leveraging leading technologies such as Virtualization, Cloud Computing, and Electronic Medical Records (EMR). The company provides hardware, Software-as-a-Service, managed IT services, installation, and maintenance. To protect and leverage customer

investments, DSC provides a range of top-quality professional services and proactive customer support, directly, as well as through authorized partner organizations.

Data Storage Corporation derives its revenues from the sale of solutions that provide businesses protection of critical electronic data. Primarily, these services consist of email storage and compliance solutions; off site data back up; continuous data protection; data duplication; high availability replication and virtual tape libraries for disaster recovery and business continuity. The Company has Data Centers in Westbury, New York and maintains equipment under a strategic alliance with Broadsmart a VOIP company in Fort Lauderdale, Florida to provide redundant data protection.

We service customers from our New York premises which consist of modern offices and a technology suite adapted to meet the needs of a technology based business. Our primary role is to provide, maintain and develop the network hub hardware and software to meet the needs of our customers.

Data Storage varies its use of resource, technology and work processes to meet the changing opportunities and challenges presented by the market and the internal customer requirements.

Results of Operation
Year ended December 31, 2009 as compared to December 31, 2008

Net sales. Net sales for the year ended December 31, 2009 were $585,285, a decrease of $44,390, or 7.1%, compared to $629,675 for the year ended December 31, 2008. The decrease in sales for is primarily attributable due to industry wide price compression.

Cost of sales. For the year ended December 31, 2009, cost of sales increased $113,796 to $459,803. The increase is due to the addition of managed services, the sale of hardware on a resale basis. The Company's gross margin decreased to 21.4 % for the year ended December 31, 2009 as compared to 45.0% for the year ended December 31, 2008. Price compression against fixed operating costs on the data backup business combined with the addition of managed services and hardware resale which both carry lower gross margins account for the decrease.

Operating Expenses. For the year ended December 31, 2009 operating expenses were $1,170,903, an increase of $347,428 as compared to $823,475 for the year ended December 31, 2008. The increase in operating expenses for year ended December 31, 2009 is a result of an increase in salaries expense. Sales salaries increased $221,176 to $231,536 as compared to $10,360 for the year ended December 31, 2008. Marketing and administrative salaries increased $108,651 to $113,562 for the year ended December 31, 2009 as Data Storage has entered into additional lines of business. Professional fees decreased $114,967 to $185,526 for the year ended December 31, 2009. Professional fees for the year ended December 31, 2008 were higher as a result of the merger of Euro Trend, Inc. and Data Storage Corporation.

Interest Expense. Interest expense for the year ended December 31, 2009 increased $1,123 to $4,986 from $3,863 for the year ended December 31, 2008. For the years ended December 31, 2009 and December 31, 2008, interest expense was related to a $100,000 line of credit which was opened January 31, 2008.

Net Income (Loss). Net loss for the year ended December 31, 2009 was ($1,045,421) an increase of $512,256 as compared to net loss of ($537,959) for the year ended December 31, 2008. The increase in is primarily from an increase in salary expenses for the year ended December 31, 2009

Liquidity and Capital Resources

The financial statements have been prepared using accounting principles generally accepted in the United States of America applicable for a going concern, which assumes that the Company will realize its assets and discharge its liabilities in the ordinary course of business. The Company has been funded by the CEO and majority shareholder combined with private placements of the company stock. The Company has been successful in raising money as needed. Further it is the intention of management to continue to raise money through stock issuances and to fund the Company on an as needed basis. In 2010 we intend to continue to work to increase our presence in the marketplace through both organic growth and acquisition of data storage service provider’s assets.

To the extent we are successful in growing our business, identifying potential acquisition targets and negotiating the terms of such acquisition, and the purchase price includes a cash component, we plan to use our working capital and the proceeds of any financing to finance such acquisition costs. Our opinion concerning our liquidity is based on current information. If this information proves to be inaccurate, or if circumstances change, we may not be able to meet our liquidity needs.

During the year ended December 31, 2009 the company’s cash decreased to $28,160. The Company issued 842,185 shares of Common Stock for a price between $0.32 and $0.35 for an aggregate purchase price of $275,000.

The Company's working capital was ($169,721) at December 31, 2009, decreasing $208,530, from $38,809 at December 31, 2008.

Critical Accounting Policies

Our financial statements and related public financial information are based on the application of accounting principles generally accepted in the United States ("GAAP"). GAAP requires the use of estimates; assumptions, judgments and subjective interpretations of accounting principles that have an impact on the assets, liabilities, revenue and expense amounts reported. These estimates can also affect supplemental information contained in our external disclosures including information regarding contingencies, risk and financial condition. We believe our use if estimates and underlying accounting assumptions adhere to GAAP and are consistently and conservatively applied. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ materially from these estimates under different assumptions or conditions. We continue to monitor significant estimates made during the preparation of our financial statements.

Our significant accounting policies are summarized in Note 1 of our financial statements. While all these significant accounting policies impact our financial condition and results of operations, we view certain of these policies as critical. Policies determined to be critical are those policies that have the most significant impact on our financial statements and require management to use a greater degree of judgment and estimates. Actual results may differ from those estimates. Our management believes that given current facts and circumstances, it is unlikely that applying any other reasonable judgments or estimate methodologies would cause effect on our consolidated results of operations, financial position or liquidity for the periods presented in this report.

Recently Issued and Newly Adopted Accounting Pronouncements

Effective July 1, 2009, the Company adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 105-10, Generally Accepted Accounting Principles – Overall ("ASC 105-10"). ASC 105-10 establishes the FASB Accounting Standards Codification (the "Codification") as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. GAAP. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. All guidance contained in the Codification carries an equal level of authority. The Codification superseded all existing non-SEC accounting and reporting standards. All other non-grandfathered, non-SEC accounting literature not included in the Codification is non-authoritative. The FASB will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates ("ASUs"). The FASB will not consider ASUs as authoritative in their own right. ASUs will serve only to update the Codification, provide background information about the guidance and provide the bases for conclusions on the change(s) in the Codification. References made to FASB guidance throughout this document have been updated for the Codification.

Effective April 1, 2009, the Company adopted FASB ASC 820-10-65, Fair Value Measurements and Disclosures – Overall – Transition and Open Effective Date Information ("ASC 820-10-65"). ASC 820-10-65 provides additional guidance for estimating fair value in accordance with ASC 820-10 when the volume and level of activity for an asset or liability have significantly decreased. ASC 820-10-65 also includes guidance on identifying circumstances that indicate a transaction is not orderly. The adoption of ASC 820-10-65 did not have an impact on the Company's consolidated results of operations or financial condition.

Effective April 1, 2009, the Company adopted FASB ASC 825-10-65, Financial Instruments – Overall – Transition and Open Effective Date Information ("ASC 825-10-65"). ASC 825-10-65 amends ASC 825-10 to require disclosures about fair value of financial instruments in interim financial statements as well as in annual financial statements and also amends ASC 270-10 to require those disclosures in all interim financial statements. The adoption of ASC 825-10-65 did not have a material impact on the Company's results of operations or financial condition.

Effective July 1, 2009, the Company adopted FASB ASU No. 2009-05, Fair Value Measurements and Disclosures (Topic 820) ("ASU 2009-05"). ASU 2009-05 provided amendments to ASC 820-10, Fair Value Measurements and Disclosures – Overall, for the fair value measurement of liabilities. ASU 2009-05 provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using certain techniques. ASU 2009-05 also clarifies that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of a liability. ASU 2009-05 also clarifies that both a quoted price in an active market for the identical liability at the measurement date and the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements. Adoption of ASU 2009-05 did not have a material impact on the Company's results of operations or financial condition.

In October 2009, the FASB issued ASU 2009-13, Multiple-Deliverable Revenue Arrangements, (amendments to FASB ASC Topic 605, Revenue Recognition) ("ASU 2009-13") and ASU 2009-14, Certain Arrangements That Include Software Elements , (amendments to FASB ASC Topic 985, Software) ("ASU 2009-14"). ASU 2009-13 requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The amendments eliminate the residual method of revenue allocation and require revenue to be allocated using the relative selling price method. ASU 2009-14 removes tangible products from the scope of software revenue guidance and provides guidance on determining whether software deliverables in an arrangement that includes a tangible product are covered by the scope of the software revenue guidance. ASU 2009-13 and ASU 2009-14 should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. The Company does not

expect adoption of ASU 2009-13 or ASU 2009-14 to have a material impact on the Company’s results of operations or financial condition.

Off Balance Sheet Transactions

We have no off-balance sheet arrangements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We do not hold any derivative instruments and do not engage in any hedging activities.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Index to the Financial Statements	Page
Report of Independent Registered Public Accounting Firm	10
Consolidated Balance Sheets	11
Consolidated Statements of Operations	12
Consolidated Statements of Cash Flows	13
Consolidated Statements of Stockholders' Equity	14
Notes to Consolidated Financial Statements	15-21

	December 31, 2009	December 31, 2008
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 28,160	$ 289,061
Accounts receivable (less allowance for doubtful accounts of $26,472 in 200 and $44,800 in 2008)	30,378	53,367
Deferred compensation	101,160	-
Prepaid expense	21,103	-
Total Current Assets	180,801	342,428
Property and Equipment:		
Property and equipment	1,221,706	1,115,984
Less—Accumulated depreciation	(913,383)	(793,110)
Net Property and Equipment	308,323	322,874
Other Assets:		
Deferred compensation	28,628	-
Other assets	11,760	13,469
Intangible Asset – Customer list	135,931	175,528
Employee loan	23,000	23,000
Total Other Assets	199,319	211,997
Total Assets	688,443	877,299
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current Liabilities:		
Accounts payable	82,698	72,037

Accrued expenses		21,267		10,063
Credit line payable		99,970		99,970
Due to related party		34,718		18,000
Due to NovaStor, Inc.		-		58,509
Dividend payable		75,000		25,000
Due to officer				7,250
Deferred revenue		36,869		12,790
Total Current Liabilities		350,522		303,619
Deferred rental obligation		28,642		-
Due to officer		379,025		-
Total Long Term Liabilities		407,667		-
Total Liabilities		758,189		303,619
Commitments and contingencies		-		-
Stockholders' Equity (Deficit):				
Preferred Stock, $.001 par value; 1,401,786		1,402		1,402
issued and outstanding in 2009 and 2008				
Common stock, par value $0.001; 250,000,000 shares authorized;		13,670		12,473
13,315,399 and 12,473,214 shares issued and outstanding in 2009 and 2008 respectively				
Additional paid in capital		4,808,558		4,352,966
Accumulated deficit		(4,893,376)		(3,793,161)
Total Stockholders' Equity (Deficit)		(69,746)		573,680
Total Liabilities and Stockholders' Equity (Deficit)	$	688,443	$	877,299

The accompanying notes are an integral part of these consolidated financial statements

DATA STORAGE CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31, 2009	2008
Sales	$585,285	$629,675
Cost of sales	459,803	346,007
Gross Profit	125,482	283,668
Selling, general and administrative	1,170,903	823,475
Loss from Operations	(1,045,421)	(539,807)
Other Income (Expense)		
Interest income	192	5,711
Interest expense	(4,986)	(3,863)
Total Other (Expense)	(4,794)	1,848
Loss before provision for income taxes	(1,050,215)	(537,959)
Provision for income taxes	-	-
Net Loss	(1,050,215)	(537,959)
Preferred Stock Dividend	(50,000)	(25,000)
Net Loss Available to Common Stockholders	$(1,100,215)	$(562,959)
Loss per Share – Basic and Diluted	$(.08)	$(0.01)
Weighted Average Number of Shares - Basic and Diluted	12,944,647	4,569,356

The accompanying notes are an integral part of these consolidated financial statements

DATA STORAGE CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2008	2007
Cash Flows from Operating Activities:		
Net loss	$ (1,050,215)	$ (537,959)
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	131,361	119,789
Allowance for doubtful accounts	(18,058)	43,800
Stock based compensation	51,902	51,823
Changes in Assets and Liabilities:		
Accounts receivable	41,047	(62,282)
Employee loan	-	(5,000)
Other assets	1,708	(13,469)
Accounts payable	10,661	24,229
Accrued expenses	11,204	8,278
Prepaid expenses	(21,103)	-
Deferred revenue	24,079	12,790
Deferred rent	28,642	-
Due to related party	16,718	18,000
Net Cash Used in Operating Activities	(772,054)	(340,001)
Cash Flows from Investing Activities:		
Cash paid for equipment	(105,722)	(63,868)
Cash paid for customer list	(30,000)	(117,019)
Net Cash Used in Investing Activities	(135,722)	(180,887)
Cash Flows from Financing Activities:		
Advances from credit line	-	99,970
Advances from officer	371,775	7,250
Cash paid in connection with reverse merger	-	(635,074)
Options exercised	100	-
Proceeds from the issuance of common stock	275,000	1,300,000
Net Cash Provided by Financing Activities	646,875	772,146
Increase in Cash and Cash Equivalents	(260,901)	251,258
Cash and Cash Equivalents, Beginning of Year	289,061	37,803
Cash and Cash Equivalents, End of Year	$ 28,160	$ 289,061
Supplemental Disclosure of Cash Flow Information:		

Cash paid for interest	$	4,986	$	3,863
Cash paid for income taxes	$	-	$	-
Noncash Investing and Financing Activities:				
Accrual of Preferred Stock Dividend	$	50,000	$	25,000
Due to Novastor, Inc. for purchase of customer list	$	-	$	58,509
Conversion of officer debt for common stock	$	-	$	1,836,097

DATA STORAGE CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Preferred Stock		Common Stock		Additional Paid-in	Accumulated	
	Shares	Amount	Shares	Amount	Capital	Deficit	Total
Balance January 1, 2008	-	-	28,359	28	1,813,966	(3,230,202)	(1,416,208)
Preferred stock issued in private placement	51,465	51	-	-	499,949	-	500,000
Common stock issued in private placement	-	-	92,878	93	799,907	-	800,000
Officer Debt Conversion	-	-	317,690	318	1,835,779	-	1,836,097
Effect of reverse merger and recapitalization	1,350,321	1,351	12,034,287	12,034	(648,458)	-	(635,073)
Stock based compensation	-	-	-	-	51,823	-	51,823
Net loss	-	-	-	-	-	(537,959)	(537,959)
Preferred Stock Dividend	-	-	-	-	-	(25,000)	(25,000)
Balance December 31, 2008	1,401,786	1,402	12,473,214	12,473	4,352,966	(3,793,161)	573,680
Common stock issued in private placement	-	-	842,185	842	274,158	-	275,000
Stock based compensation	-	-	-	350	181,339	-	181,339

Stock options exercised				5	95		100
Net loss	-	-	-	-	-	(1,050,215)	(1,050,215)
Preferred Stock Dividend	-	-	-	-	-	(50,000)	(50,000)
Balance December 31, 2009	1,401,786	1,402	13,315,399	13,670	4,808,558	(4,893,376)	(70,096)

DATA STORAGE CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2009 AND 2008

Note 1 Basis of presentation, organization and other matters

On October 20, 2008, Euro Trend Inc. ("Euro Trend") acquired all of the outstanding capital stock of Data Storage Corporation (“Data Storage”). Data Storage became a wholly owned subsidiary of Euro Trend. On January 6, 2009 Euro Trend, Inc. filed with the state of Nevada changing its name to Data Storage Corporation. The business of Data Storage was the only business of Euro Trend after the acquisition.

Data Storage Corporation was incorporated in Delaware on August 29, 2001. Data Storage Corporation is a provider of data backup services. The Company specializes in secure disk-to-disk data backup and restoration solutions for disaster recovery, business continuity, and regulatory compliance.

Data Storage Corporation derives its revenues from the sale of solutions that provide businesses protection of critical electronic data. Primarily, these services consist of email storage and compliance solutions; off site data back up; continuous data protection; data duplication; high availability replication, virtual tape libraries for disaster recovery and business continuity and equipment sales. The Company has Data Centers in Westbury, New York and maintains equipment under a strategic alliance with Broadsmart a Voip company in Fort Lauderdale, Florida to provide redundant data protection.

Liquidity

The financial statements have been prepared using accounting principles generally accepted in the United States of America applicable for a going concern, which assumes that the Company will realize its assets and discharge its liabilities in the ordinary course of business. For the year ended December 31, 2009, the Company has generated revenues of $585,285 but has incurred a net loss of $1,050,215. Its ability to continue as a going concern is dependent upon achieving sales growth, reduction of operation expenses and ability of the Company to obtain the necessary financing to meet its obligations and pay its liabilities arising from normal business operations when they come due, and upon profitable operations. The Company has been funded by the CEO and majority shareholder since inception. It is the intention of Charles Piluso to continue to fund the Company on an as needed basis.

Stock Based Compensation

The Company follows the requirements of FASB ASC 718-10-10, Share Based Payments with regard to stock-based compensation issued to employees. The Company has various employment agreements and consulting arrangements that call for stock to be awarded to the employees and consultants at various times as compensation and periodic bonuses. The expense for this stock based compensation is equal to the fair value of the stock that was determined by using the most recent private placement price on the day the stock was awarded multiplied by the number of shares awarded.

Recently Issued and Newly Adopted Accounting Pronouncements

Effective July 1, 2009, the Company adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 105-10, Generally Accepted Accounting Principles – Overall ("ASC 105-10"). ASC 105-10 establishes the FASB Accounting Standards Codification (the "Codification") as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. GAAP. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. All guidance contained in the Codification carries an equal level of authority. The Codification superseded all existing non-SEC accounting and reporting standards. All other non-grandfathered, non-SEC accounting literature not included in the Codification is non-authoritative. The FASB will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates ("ASUs"). The FASB will not consider ASUs as authoritative in their own right. ASUs will serve only to update the Codification, provide background information about the guidance and provide the bases for conclusions on the change(s) in the Codification. References made to FASB guidance throughout this document have been updated for the Codification.

Effective April 1, 2009, the Company adopted FASB ASC 820-10-65, Fair Value Measurements and Disclosures – Overall – Transition and Open Effective Date Information ("ASC 820-10-65"). ASC 820-10-65 provides additional guidance for estimating fair value in accordance with ASC 820-10 when the volume and level of activity for an asset or liability have significantly decreased. ASC 820-10-65 also includes guidance on identifying circumstances that indicate a transaction is not orderly. The adoption of ASC 820-10-65 did not have an impact on the Company's consolidated results of operations or financial condition.

Effective April 1, 2009, the Company adopted FASB ASC 825-10-65, Financial Instruments – Overall – Transition and Open Effective Date Information ("ASC 825-10-65"). ASC 825-10-65 amends ASC 825-10 to require disclosures about fair value of financial instruments in interim financial statements as well as in annual financial statements and also amends ASC 270-10 to require those disclosures in all interim financial statements. The adoption of ASC 825-10-65 did not have a material impact on the Company's results of operations or financial condition.

Effective April 1, 2009, the Company adopted FASB ASC 855-10, Subsequent Events – Overall ("ASC 855-10"). ASC 855-10 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date – that is, whether that date represents the date the financial statements were issued or were available to be issued. This disclosure should alert all users of financial statements that an entity has not evaluated subsequent events after that date in the set of financial statements being presented. Adoption of ASC 855-10 did not have a material impact on the Company's results of operations or financial condition.

Effective July 1, 2009, the Company adopted FASB ASU No. 2009-05, Fair Value Measurements and Disclosures (Topic 820) ("ASU 2009-05"). ASU 2009-05 provided amendments to ASC 820-10, Fair Value Measurements and Disclosures – Overall, for the fair value measurement of liabilities. ASU 2009-05 provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using certain techniques. ASU 2009-05 also clarifies that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of a liability. ASU 2009-05 also clarifies that both a quoted price in an active market for the identical liability at the measurement date and the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements. Adoption of ASU 2009-05 did not have a material impact on the Company's results of operations or financial condition.

In October 2009, the FASB issued ASU 2009-13, Multiple-Deliverable Revenue Arrangements, (amendments to FASB ASC Topic 605, Revenue Recognition) (“ASU 2009-13”) and ASU 2009-14, Certain Arrangements That Include Software Elements, (amendments to FASB ASC Topic 985, Software) (“ASU 2009-14”). ASU 2009-13 requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The amendments eliminate the residual method of revenue allocation and require revenue to be allocated using the relative selling price method. ASU 2009-14 removes tangible products from the scope of software revenue guidance and provides guidance on determining whether software deliverables in an arrangement that includes a tangible product are covered by the scope of the software revenue guidance. ASU 2009-13 and ASU 2009-14 should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. The Company does not expect adoption of ASU 2009-13 or ASU 2009-14 to have a material impact on the Company’s results of operations or financial condition.

Note 2 Summary of Significant Accounting Policies

Cash, cash equivalents and short-term investments

The Company considers all highly liquid investments with an original maturity or remaining maturity at the time of purchase, of three months or less to be cash equivalents.

Concentration of credit risk and other risks and uncertainties

Financial instruments and assets subjecting the Company to concentration of credit risk consist primarily of cash and cash equivalents, short-term investments and trade accounts receivable. The Company's cash and cash equivalents are maintained at major U.S. financial institutions. Deposits in these institutions may exceed the amount of insurance provided on such deposits.

The Company's customers are primarily concentrated in the United States. The Company performs ongoing credit evaluations and establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of customers, historical trends and other information.

The Company provides credit in the normal course of business. The Company performs ongoing credit evaluations of its customers and maintains allowances for doubtful accounts on factors surrounding the credit risk of specific customers, historical trends, and other information.

For the years ended December 31, 2009 and 2008 the company had two customers that represented approximately 21% and 22% of sales, respectively.

Accounts Receivable/Allowance for Doubtful Accounts

The Company sells its services to customers on an open credit basis. Accounts receivable are uncollateralized, non-interest-bearing customer obligations. Accounts receivables are due within 30 days. The allowance for doubtful accounts reflects the estimated accounts receivable that will not be collected due to credit losses and allowances. Provisions for estimated uncollectible accounts receivable are made for individual accounts based upon specific facts and circumstances including criteria such as their age, amount, and customer standing. Provisions are also made for other accounts receivable not specifically reviewed based upon historical experience.

Property and Equipment

Property and equipment is recorded at cost and depreciated over their estimated useful lives or the term of the lease using the straight-line method for financial statement purposes. Estimated useful lives in years for depreciation are 5 to 7 years for property and equipment. Additions, betterments and replacements are capitalized, while expenditures for

repairs and maintenance are charged to operations when incurred. As units of property are sold or retired, the related cost and accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. At December 31, 2009, the Company had a full valuation allowance against its deferred tax assets.

Estimated Fair Value of Financial Instruments

The Company's financial instruments include cash, accounts receivable, accounts payable, line of credit and due to related parties. Management believes the estimated fair value these accounts at December 31, 2009 approximate their carrying value as reflected in the balance sheets due to the short-term nature of these instruments or the use of market interest rates for debt instruments.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Revenue Recognition

The Company's revenues consist principally of storage revenues. Storage revenues consist of monthly charges related to the storage of materials or data (generally on a per unit basis). Sales are generally recorded in the month the service is provided. For customers who are billed on an annual basis, deferred revenue is recorded and amortized over the life of the contract.

Advertising Costs

The Company expenses the costs associated with advertising as they are incurred. The Company incurred $30,399 and $32,477 for advertising costs for the years ended December 31, 2009 and 2008, respectively.

Net Income (Loss) per Common Share

In accordance with FASB ASC 260-10-5 Earnings Per Share, basic income (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed by dividing net income (loss) adjusted for income or loss that would result from the assumed conversion of potential common shares from contracts that may be settled in stock or cash by the weighted average number of shares of common stock, common stock equivalents and potentially dilutive securities outstanding during each period. The inclusion of the potential common shares to be issued have an anti-dilutive effect on diluted loss per share because under the treasury stock method the average market price of the Company's common stock was less than the exercise prices of the warrants, and therefore they are not included in the calculation. Potentially dilutive securities at December 31, 2009 include 30,204 warrants and 2,929,432 options.

Note 3 Property and Equipment

Property and equipment, at cost, consist of the following:

	December 31,	
	2009	2008
	$ 838,912	$ 766,646
Website and software	166,933	150,208
Furniture and fixtures	22,837	22,837
Computer hardware and software	81794	75,498
Data Center	111,230	100,795
	1,221,706	1,115,984
Less: Accumulated depreciation	913,383	793,110
Net property and equipment	$ 308,323	$ 322,874

Depreciation expense for the years ended December 31, 2009 and 2008 was $131,361 and $119,789, respectively.

Note 4 Intangible Asset – Customer list

Costs incurred in connection with obtaining customer lists have been capitalized and are being amortized using the straight line method over a fifteen year life. The Company's intangible assets consisted of the following at December 31, 2009 and 2008:

	2009	2008
Customer lists	$ 257,098	$ 285,607
Accumulated amortization	(121,167)	(110,079)
Net Cost	$ 135,931	$ 175,528

On September 4, 2009 an agreement was entered into whereby both parties to the NovaStor asset acquisition agreed to reduce the purchase price based upon the results of subsequent customer revenue. The final purchase price was reduced by $28,509.

Amortization expense for the year ended December 31, 2009 and 2008 were $14,186 and $443 respectively

Amortization of the intangible assets for the next five years are as follows:

Years Ending December 31,	Amount
2009	$9,859
2010	$9,859
2011	$9,859
2012	$9,859
2013	$9,859

Note 5 Commitments and Contingencies

Revolving Credit Facility

On January 31, 2008 the Company entered into a revolving credit line with a bank. The credit facility provides for $100,000 at prime plus .5%, 3.75% at December 31, 2009, and is secured by all assets of the Company and personally guaranteed by the Company's principal shareholder. As of December 31, 2009, the Company owed $99,970 under this agreement.

Operating Leases

On July 1, 2009 the Company entered into an operating lease for it headquarters operations. Future minimum rental payments are as follows:

Year Ending December 31,		
2010	$	70,560
2011		72,677
2012		74,857
2013		77,103
2014		79,416
	$	374,613

Rent expense for the years ended December 31, 2009 and December 31, 2008 was $56,301 and $27,636 respectively.

Note 6 Stockholders' Equity

On January 7, 2009, our stockholders approved a one-for-seven reverse stock split, which became effective on January 27, 2009. All references to share and per-share data for all periods presented in this report have been adjusted to give effect to this reverse split.

The Company entered into three stock purchase agreements on May 26, 2009 for a total of 316,350 shares for an aggregate price of $100,000

On July 9, 2009 the Company entered into a stock purchase agreement with an existing shareholder for 237,263 shares for $75,000.

On August 12, 2009 the Company entered into a stock purchase agreement for 288,572 shares of common stock for $100,000.

Capital Stock

The Company has 260,000,000 shares of capital stock authorized, consisting of 250,000,000 shares of Common Stock, par value $0.001, 10,000,000 shares of Series A Preferred Stock, par value $0.001 per share.

Common Stock Options

During the year ended December 31, 2009 the Company issued 254,142 common stock options to two employees and 169,428 common stock options to an outside contractor.

A summary of the Company's option activity and related information follows:

	Number of Shares Under Option	Range of Option Price Per Share	Weighted Average Exercise Price
Balance at January 1, 2008	-0-	$ -0-	$ -0-
Granted	2,505,864	0.14	0.14
Exercised	-0-	-0-	-0-
Cancelled	-0-	-0-	-0-
Balance at December 31, 2008	2,505,864	$ 0.14	$ 0.14
Granted	423,570	0.29	0.29
Exercised	5,000	-0-	-0-
Cancelled	-0-	-0-	-0-
Balance at December 31, 2009	2,924,434	$ 0.16	$ 0.16
Vested and exercisable at December 31, 2009	2,578,518	$ 0.16	$ 0.16

Share-based compensation expense for options totaling $21,277 and $44,000 was recognized in our results for the years ended December 31, 2009 and 2008, respectively is based on awards vested. The options were valued at the grant date at $116,058.

The valuation methodology used to determine the fair value of the warrants issued during the year was the Black-Scholes option-pricing model, an acceptable model in accordance with ASC 718-10-10, Share Based Payments. The Black-Scholes model requires the use of a number of assumptions including volatility of the stock price, the average risk-free interest rate, and the weighted average expected life of the warrants.

The risk-free interest rate assumption is based upon observed interest rates on zero coupon U.S. Treasury bonds whose maturity period is appropriate for the term of the Warrants and is calculated by using the average daily historical stock prices through the day preceding the grant date.

Estimated volatility is a measure of the amount by which the Company’s stock price is expected to fluctuate each year during the expected life of the award. The Company’s estimated volatility is an average of the historical volatility of peer entities whose stock prices were publicly available. The Company’s calculation of estimated volatility is based on historical stock prices of these peer entities over a period equal to the expected life of the awards. The Company uses the historical volatility of peer entities due to the lack of sufficient historical data of its stock price.

The weighted average fair value of options granted and the assumptions used in the Black-Scholes model during the nine months ended September 30, 2009 are set forth in the table below.

	2009
Weighted average fair value of options granted	$ 0.29
Risk-free interest rate	3.07%
Volatility	85%
Expected life (years)	10
Dividend yield	0.00%

As of December 31, 2009, there was approximately $38,000 of total unrecognized compensation expense related to unvested employee options granted under the Company's share based compensation plans that is expected to be recognized over a weighted average period of approximately 4.5 years.

Preferred Stock

Liquidation preference

Upon any liquidation, dissolution, or winding up of the Corporation, whether voluntary or involuntary, before any distribution or payment shall be made to the holders of any Common Stock, the holders of Series A Preferred Stock shall be entitled to be paid out of the assets of the Corporation legally available for distribution to stockholders, for each share of Series A Preferred Stock held by such holder, an amount per share of Series A Preferred Stock equal to the Original Issue Price for such share of Series A Preferred Stock plus all accrued and unpaid dividends on such share of Series A Preferred Stock as of the date of the Liquidation Event.

Conversion

The number of shares of Common Stock to which a share of Series A Preferred Stock may be converted shall be the product obtained by dividing the Original Issue Price of such share of Series A Preferred Stock by the then-effective Conversion Price (as defined below) for such share of Series A Preferred Stock. The conversion price for the Series A Preferred Stock shall initially be equal to $1.39 and shall be adjusted from time to time.

Voting

Each holder of shares of Series A Preferred Stock shall be entitled to the number of votes, upon any meeting of the stockholders of the Corporation (or action taken by written consent in lieu of any such meeting) equal to the number of shares of Class B Common Stock into which such shares of Series A Preferred Stock could be converted

Dividends

Each share of Series A Preferred Stock, in preference to the holders of all Common Stock (as defined below), shall entitle its holder to receive, but only out of funds that are legally available therefore, cash dividends at the rate of ten percent (10%) per annum from the Original Issue Date on the Original Issue Price for such share of Series A Preferred Stock, compounding annually unless paid by the Corporation.

Stock Issuances

During the year ended December 31, 2008, the Company issued 317,690 shares of the Common Stock in exchange for $1,836,097 of debt due to the Chief Executive Officer of the Company.

During the year ended December 31, 2009, 842,185 shares of Common Stock were issued in private placement for an aggregate of $275,000.

During the year ended December 31, 2009 350,000 shares of Common Stock were issued in connection with a consulting agreement. The shares were valued at $122,500.

Common Stock Warrants

On October 28, 2008 the Company issued warrants to purchase 30,204 shares of its common stock at $0.28 to consultants in exchange for services.

A summary of the Company's warrants activity and related information follows:

	Number of Shares Under Warrant	Range of Warrant Price Per Share	Weighted Average Exercise Price
Balance at January 1, 2008	-0-	-0-	-0-
Granted	30,204	0.28	0.28
Exercised	-0-	-0-	-0-
Cancelled	-0-	-0-	-0-
Balance at December 31, 2008	30,204	$ 0.28	$ 0.28
Granted	-0-	-0-	-0-
Exercised	-0-	-0-	-0-
Cancelled	-0-	-0-	-0-
Balance at December 31, 2009	30,204	$ 0.28	$ 0.28

The valuation methodology used to determine the fair value of the warrants issued during the year was the Black-Scholes option-pricing model, an acceptable model in accordance with FASB ASC 718-10-10, Share Based Payments. The Black-Scholes model requires the use of a number of assumptions including volatility of the stock price, the weighted average risk-free interest rate, and the weighted average expected life of the warrants.

The risk-free interest rate assumption is based upon observed interest rates on zero coupon U.S. Treasury bonds whose maturity period is appropriate for the term of the Warrants and is calculated by using the average daily historical stock prices through the day preceding the grant date.

Estimated volatility is a measure of the amount by which the Company's stock price is expected to fluctuate each year during the expected life of the award. The Company's estimated volatility is an average of the historical volatility of peer entities whose stock prices were publicly available. The Company's calculation of estimated volatility is based on historical stock prices of these peer entities over a period equal to the expected life of the awards. The Company uses the historical volatility of peer entities due to the lack of sufficient historical data of its stock price.

Share-based compensation expense for warrants totaling $7,823 were recognized in our results for the years ended December 31, 2008 is based on awards vested and the Company estimated no forfeitures. FASB ASC 718-10-10 requires forfeitures to be estimated at the time of grant and revised in subsequent periods if actual forfeitures differ from the estimates.

The weighted average fair value of warrants granted and the assumptions used in the Black-Scholes model during the year ended December 31, 2009 are set forth in the table below.

		2008
Weighted average fair value of warrants granted	$	0.28
Risk-free interest rate		2.82%
Volatility		100%
Expected life (years)		5
Dividend yield		0.00%

There we no warrants issued during 2009.

Note 7 Related Party Transactions

Due to related party represents 2009 rent accrued to a partnership controlled by the Chief Executive Officer of the company for the New York Data Center. The rent expense for the data center is $1,500 per month.

On July 7, 2008 the Chief Executive Officer of Data Storage Corporation converted debt of $1,836,097 in exchange for 317,690 shares of common stock.

Note 8 Income Taxes

The components of the provision (benefit) for income taxes are as follows:

	Years Ended December 31,			
	2009		2008	
CURRENT				
Federal	$	-0-	$	-0-
State		-0-		-0-
Total current tax provision		-0-		-0-
DEFERRED				
Federal		-0-		-0-
State		-0-		-0-
Total deferred tax benefit		-0-		-0-
Total tax provision (benefit)	$	-0-	$	-0-

Temporary differences:		
Deferred Tax Assets:		
Net operating loss carry-forward	$ (554,286)	$ (146,450)
Less: valuation allowance	554,286	146,450
Deferred tax assets	-0-	-0-
Deferred tax liabilities	-0-	-0-
Net deferred tax asset	$ -0-	$ -0-

The Company had federal and state net operating tax loss carry-forwards of approximately $1,385,715 and $366,125, respectively as of December 31, 2009. The tax loss carry-forwards are available to offset future taxable income with the federal and state carry-forwards beginning to expire in 2028.

In 2009, net deferred tax assets did not change due to the full allowance. The Gross amount of the asset is entirely due to the Net operating loss carry forward. The realization of the tax benefits is subject to the sufficiency of taxable income in future years. The combined deferred tax assets represent the amounts expected to be realized before expiration.

The Company periodically assesses the likelihood that it will be able to recover its deferred tax assets. The Company considers all available evidence, both positive and negative, including historical levels of income, expectations and risks associated with estimates of future taxable income and ongoing prudent and feasible profits. As a result of this analysis of all available evidence, both positive and negative, the Company concluded that it is more likely than not that its net deferred tax assets will ultimately not be recovered and, accordingly, a valuation allowance was recorded as of December 31, 2009.

The difference between the expected income tax expense (benefit) and the actual tax expense (benefit) computed by using the Federal statutory rate of 34% is as follows:

	Year Ended December 31,	
	2009	2008
Expected income tax benefit (loss) at statutory rate of 34%	$ 346,661	$ 124,483
State and local tax benefit, net of federal	61,175	21,967
Change in valuation account	(407,836)	

$

29,815

Other FDIC acquired loans

234

484

2,211

Other acquired loans

17,862

21,093

26,200

Total incremental accretion income

$

27,192

$
41,801

$
58,226

Net interest margin (tax equivalent)

4.35
%

4.76
%

5.16
%
Operating net interest margin (tax equivalent) (1)

4.15
%

4.21
%

4.32
%

____

(1) Operating net interest margin (tax equivalent) is a Non-GAAP financial measure. See Non-GAAP financial measures section of “Item 7. Management’s Discussion and Analysis of Financial Conditions and Results of Operations.”

Table of Contents

Comparison of 2015 with 2014

Taxable-equivalent net interest income totaled $334.5 million in 2015, compared with $312.1 million for 2014. The increase in net interest income during 2015 resulted from the increase in the size of the loan and securities portfolios, partially offset by lower incremental accretion on acquired loans as well as lower yields on loans and securities. The incremental accretion income represents the amount of income recorded on the acquired loans above the contractual rate stated in the individual loan notes. The additional interest income stems from the net discount established at the time these loan portfolios were acquired.

The Company's net interest margin (tax equivalent) decreased from 4.76% for the year ended December 31, 2014 to 4.35% for the current year due primarily to the decreased impact of accretion income on the loan portfolio as well as lower yields on loans and securities. The Company's operating net interest margin (tax equivalent) decreased from 4.21% for the year ended December 31, 2014 to 4.15% for the current year due to lower rates on loans due to the overall decreasing trend in rates.

For a discussion of the methodologies used by management in recording interest income on loans, please see "Critical Accounting Policies" section of this discussion and Note 1 to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this report.

Comparison of 2014 with 2013

Taxable-equivalent net interest income totaled $312.1 million in 2014, compared with $297.1 million for 2013. The increase in net interest income during 2014 resulted from the increase in the size of the loan portfolio as well as lower rates paid on deposits. These increases were partially offset by lower incremental accretion on acquired loans. The incremental accretion income represents the amount of income recorded on the acquired loans above the contractual rate stated in the individual loan notes. The additional income stems from the discount established at the time these loan portfolios were acquired, and increases net interest income.

The Company's net interest margin (tax equivalent) decreased from 5.16% for the year ended December 31, 2013 to 4.76% for the year ended December 31, 2014 due to the decreased impact of accretion income on the loan portfolio. The Company's operating net interest margin (tax equivalent) decreased from 4.32% in 2013 to 4.21% for 2014. The decrease was due to the combination of lower rates on loans as well as securities due to the overall decreasing trend in rates.

Provision for Loan and Lease Losses

The Company accounts for the credit risk associated with lending activities through its allowance for loan and lease losses and provision for loan and lease losses. The provision is the expense recognized in the consolidated statements of income to adjust the allowance to the levels deemed appropriate by management, as determined through its application of the Company's allowance methodology procedures. For discussion of the methodology used by management in determining the adequacy of the ALLL see the "Allowance for Loan and Lease Losses and Unfunded Commitments and Letters of Credit" and "Critical Accounting Policies" sections of this discussion.

The Company recorded provision expense of $8.6 million and $6.7 million in 2015 and 2014, respectively and a provision recapture of $101 thousand in 2013. The provision recorded in 2015 reflects management's ongoing assessment of the credit quality of the Company's loan portfolio, which is impacted by various economic trends. Additional factors affecting the provision include net charge-offs, credit quality migration, size and composition of the loan portfolio and changes in the economic environment during the period. See "Allowance for Loan and Lease Losses and Unfunded Commitments and Letters of Credit" section of this discussion for further information on factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for loan and lease losses.

For the years ended December 31, 2015, 2014 and 2013, net loan charge-offs amounted to $10.0 million, $9.6 million, and $9.7 million, respectively.

Table of Contents

Noninterest Income

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

	Years ended December 31,						
	2015	$ Change	% Change	2014	$ Change	% Change	2013
	(dollars in thousands)						
Service charges and other fees	$61,881	$6,326	11 %	$55,555	$7,204	15 %	$48,351
Merchant services fees	8,975	1,000	13 %	7,975	(837)	(9)%	8,812
Bank owned life insurance (BOLI)	4,441	618	16 %	3,823	253	7 %	3,570
Other	18,605	6,771	57 %	11,834	1,312	12 %	10,522
Noninterest income before change in FDIC loss-sharing asset and investment securities gains	93,902	14,715	19 %	79,187	7,932	11 %	71,255
Change in FDIC loss-sharing asset	(4,010)	15,979	(80)%	(19,989)	25,028	(56)%	(45,017)
Investment securities gains	1,581	1,029	186 %	552	90	19 %	462
Total noninterest income	$91,473	$31,723	53 %	$59,750	$33,050	124 %	$26,700

Comparison of 2015 with 2014

The $14.7 million increase in noninterest income before the change in FDIC loss-sharing asset and investment securities gains from the prior year was primarily due to both an increase of $6.3 million in service charges and other fees as well as an increase of $6.8 million in other noninterest income. The increase in service charges and other fees and a portion of the increase in other noninterest income was due to the increased customer base from organic growth as well as the Intermountain acquisition. Also contributing to the increase in other noninterest income was a $3.1 million current year adjustment to the mortgage repurchase liability related to our acquisition of West Coast.

In addition to these increases, there was a decrease in the charge relating to the change in FDIC loss-sharing asset from $20.0 million in 2014 to $4.0 million in 2015. The change in the FDIC loss-sharing asset recognizes the decreased amount that Columbia expects to collect from the FDIC under the terms of its loss-sharing agreements. The Company remeasures contractual and expected cash flows of purchased credit impaired loans on a quarterly basis. When the quarterly remeasurement results in an increase in expected future cash flows due to a decrease in expected credit losses the nonaccretable difference decreases and the accretable yield of the related loan pool is increased and recognized as interest income over the life of the loan portfolio. As a result of the improved expected cash flows, the FDIC loss-sharing asset is reduced first by the amount of any impairment previously recorded and, second, by increased amortization over the remaining life of the loss-sharing agreements. For additional information on the FDIC loss-sharing asset, please see the "Loss-sharing Asset" section of "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 8 to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this report.

Comparison of 2014 with 2013

Noninterest income before the change in FDIC loss-sharing asset and investment securities gains for the year ended December 31, 2014 was $79.2 million, an increase of $7.9 million from 2013. The increase from the prior year was primarily due to the $7.2 million increase in service charges and other fees as well as an increase of $1.3 million in other noninterest income. The increase in service charges and other fees as well as other noninterest income was due to the increased customer base from organic growth as well as the Intermountain and West Coast acquisitions. In addition to these increases there was a decrease in the charge relating to the change in FDIC loss-sharing asset from a charge of $45.0 million in 2013 to $20.0 million in 2014.

For additional information on the FDIC loss-sharing asset, please see the "Loss-sharing Asset" section of "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 8 to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this report.

Table of Contents

Other Noninterest Income: The following table presents selected items of "other noninterest income" and the related dollar and percentage change from period to period:

	Years ended December 31,						
	2015	$ Change	% Change	2014	$ Change	% Change	2013
	(dollars in thousands)						
Mortgage banking	$2,577	$1,014	65 %	$1,563	$(225)	(13)%	$1,788
Small Business Administration premiums	2,126	305	17 %	1,821	721	66 %	1,100
Letter of credit fees	592	127	27 %	465	26	6 %	439
Foreign currency exchange income	505	25	5 %	480	104	28 %	376
Miscellaneous loan fees	3,225	750	30 %	2,475	(244)	(9)%	2,719
Interest rate contracts income	1,209	241	25 %	968	509	111 %	459
Credit card fees	1,711	246	17 %	1,465	178	14 %	1,287
Miscellaneous	6,660	4,063	156 %	2,597	243	10 %	2,354
Total other noninterest income	$18,605	$6,771	57 %	$11,834	$1,312	12 %	$10,522

Comparison of 2015 with 2014

The current year increase in other noninterest income was driven by a $3.1 million adjustment to a mortgage repurchase reserve. We recognized this liability on the 2013 West Coast acquisition date to reflect repurchase risk associated with residential mortgages West Coast had previously sold into the secondary market. The current period adjustment reflected our updated estimate of probable losses. This adjustment is included in "Miscellaneous" in the table above. Also contributing to the increase in other noninterest income was a $1.0 million increase in mortgage banking due to an increase in volume of loans held for sale.

Comparison of 2014 with 2013

The increase in other noninterest income was due to increases in several components of noninterest income, including Small Business Administration premiums, interest rate swap income and credit card fees. The increase in Small Business Administration premiums was due to an increase in volume of Small Business Administration loans coupled with favorable secondary market pricing experienced during 2014.

Noninterest Expense

Noninterest expense was $266.1 million in 2015, an increase of $26.9 million, or 11%, over 2014. Noninterest expense increased $8.4 million, or 4%, in 2014 over 2013.

Table of Contents

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

	Years ended December 31,						
	2015	$ Change	% Change	2014	$ Change	% Change	2013
	(dollars in thousands)						
Compensation and employee benefits	$149,410	$18,546	14 %	$130,864	$5,432	4 %	$125,432
All other noninterest expense:							
Occupancy	34,818	2,518	8 %	32,300	(754)	(2)%	33,054
Merchant processing	4,204	198	5 %	4,006	455	13 %	3,551
Advertising and promotion	4,713	749	19 %	3,964	(126)	(3)%	4,090
Data processing	17,421	2,052	13 %	15,369	1,293	9 %	14,076
Legal and professional services	9,608	(1,781)	(16)%	11,389	(949)	(8)%	12,338
Taxes, license and fees	5,395	843	19 %	4,552	(481)	(10)%	5,033
Regulatory premiums	4,806	257	6 %	4,549	(157)	(3)%	4,706
Net benefit of operation of other real estate owned	(1,629)	(584)	56 %	(1,045)	6,356	(86)%	(7,401)
Amortization of intangibles	6,882	589	9 %	6,293	248	4 %	6,045
Other	30,521	3,476	13 %	27,045	(2,917)	(10)%	29,962
Total all other noninterest expense	116,739	8,317	8 %	108,422	2,968	3 %	105,454
Total noninterest expense	$266,149	$26,863	11 %	$239,286	$8,400	4 %	$230,886

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

	Years ended December 31,		
	2015	2014	2013
	(in thousands)		
Acquisition-related expenses:			
Compensation and employee benefits	$3,893	$2,875	$8,440
Occupancy	2,357	740	4,684
Advertising and promotion	448	464	877
Data processing	2,005	684	767
Legal and professional fees	1,254	2,497	4,766
Other	960	2,172	5,954
Total impact of acquisition-related costs to noninterest expense	$10,917	$9,432	$25,488

Comparison of 2015 with 2014

Compensation and employee benefits expense increased 14% to $149.4 million in 2015 from $130.9 million in 2014 primarily due to the added personnel costs associated with the Intermountain acquisition. The remaining noninterest expense categories increased $8.3 million, or 8%, between 2014 and 2015. The increase was primarily due to higher occupancy and data processing expenses, which were due to higher acquisition-related expenses for these items in 2015. Acquisition-related expenses were $10.9 million in 2015 compared to $9.4 million in 2014.

Comparison of 2014 with 2013

Compensation and employee benefits expense increased to $130.9 million, or 4%, in 2014 from $125.4 million in 2013 primarily due to the added personnel costs associated with the Intermountain and West Coast acquisitions. The remaining noninterest expense categories increased $3.0 million, or 3%, between 2013 and 2014. The increase was primarily due to lower benefit on OREO, which was a benefit of $7.4 million in 2013, but only $1.0 million in 2014. Acquisition-related expenses were $9.4 million in 2014 compared to $25.5 million in 2013.

Table of Contents

Other Noninterest Expense: The following table presents selected items of “other noninterest expense” and the related dollar and percentage change from period to period:

	Years ended December 31,						
	2015	$ Change	% Change	2014 (1)	$ Change	% Change	2013 (1)
	(dollars in thousands)						
Investments in affordable housing projects expense	$—	$—	— %	$—	$(739)	(100)%	$739
Software support & maintenance	3,326	1,148	53 %	2,178	(782)	(26)%	2,960
Federal Reserve Bank processing fees	635	132	26 %	503	289	135 %	214
Supplies	1,497	24	2 %	1,473	(95)	(6)%	1,568
Postage	2,496	(440)	(15)%	2,936	(527)	(15)%	3,463
Sponsorships & charitable contributions	2,045	84	4 %	1,961	799	69 %	1,162
Travel	2,824	709	34 %	2,115	155	8 %	1,960
Investor relations	330	87	36 %	243	(216)	(47)%	459
Insurance	1,932	309	19 %	1,623	(178)	(10)%	1,801
Director expenses	836	125	18 %	711	77	12 %	634
Employee expenses	1,233	187	18 %	1,046	(3)	— %	1,049
ATM Network	1,414	372	36 %	1,042	(963)	(48)%	2,005
FDIC clawback expense	980	685	232 %	295	17	6 %	278
Fraud losses (1)	1,481	805	119 %	676	206	44 %	470
Miscellaneous (1)	9,492	(751)	(7)%	10,243	(957)	(9)%	11,200
Total other noninterest expense	$30,521	$3,476	13 %	$27,045	$(2,917)	(10)%	$29,962

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(1) Reclassified to conform to current period’s presentation. The reclassification was limited to adding a separate line item for fraud losses, which was previously included in “Miscellaneous.”

Comparison of 2015 with 2014

Other noninterest expense increased $3.5 million due to additional ongoing expenses related to the acquisition of Intermountain, increased software support and maintenance related to software upgrades made to our ATMs, higher fraud losses and increased FDIC clawback expense in 2015.

Comparison of 2014 with 2013

Other noninterest expense decreased $2.9 million due to acquisition-related costs of $2.2 million recorded to other noninterest expense during 2014 compared to $6 million in 2013 and the reclassification of investments in affordable housing projects expense to provision for income taxes related to the Company’s adoption of ASU 2014-01 Accounting for Investments in Qualified Affordable Housing Projects during 2014.

Income Tax

For the years ended December 31, 2015, 2014 and 2013 we recorded income tax provisions of $42.8 million, $36.2 million and $27.0 million, respectively. The effective tax rate was 30% in 2015, 31% in 2014 and 31% in 2013. Our effective tax rate continues to be less than our federal statutory rate of 35% primarily due to the amount of tax-exempt municipal securities held in the investment portfolio, tax-exempt earnings on bank owned life insurance, and loans with favorable tax attributes. For additional information, see Note 23 to the Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data” of this report.

Table of Contents

Financial Condition

Our total assets increased 4% to $8.95 billion at December 31, 2015 from $8.58 billion at December 31, 2014. Our available for sale securities portfolio increased $59.4 million, or 3%, due primarily to purchases of securities resulting from deposits growing in excess of loans. The loan portfolio increased $371.0 million, or 7%, to $5.75 billion due to substantial new loan production partially offset by contractual payments and prepayments. The FDIC loss-sharing asset decreased $8.6 million, or 57%, to $6.6 million at December 31, 2015. The decrease in the FDIC loss-sharing asset was primarily due to $6.2 million in amortization and $2.8 million in cash received from the FDIC. Premises and equipment, net decreased $7.9 million or 5%, primarily due to depreciation.

Deposit balances increased $514.1 million, or 7%, to $7.44 billion, due to organic growth. Federal Home Loan Bank advances decreased $148.0 million to $68.5 million as the short-term advance balance outstanding decreased. Securities sold under agreements to repurchase increased $5.4 million to $99.7 million. Total shareholders' equity increased $14.0 million to $1.24 billion.

Investment Portfolio

We invest in securities to generate revenues for the Company, to manage liquidity while minimizing interest rate risk and to provide collateral for certain public deposits and short-term borrowings. The amortized cost amounts represent the Company's original cost for the investments, adjusted for accumulated amortization or accretion of any yield adjustments related to the security. The estimated fair values are the amounts we believe the securities could be sold for as of the dates indicated. At December 31, 2015 gross unrealized losses in our securities portfolio were $18.3 million related to 240 separate available for sale securities. Based on past experience with these types of securities and our own financial performance, we do not currently intend to sell any impaired securities nor does available evidence suggest it is more likely than not that management will be required to sell any impaired securities before the recovery of the amortized cost basis. We review these investments for other-than-temporary impairment on an ongoing basis. During 2015 there were securities purchases of $467.6 million, while maturities, repayments and sales totaled $377.0 million. During 2014, there were purchases of $363.7 million and securities acquired through the acquisition of Intermountain of $299.5 million, while maturities, repayments and sales totaled $243.4 million.

At December 31, 2015, U.S. government agency and government-sponsored enterprise mortgage-backed securities ("MBS") and collateralized mortgage obligations ("CMO") comprised 60% of our investment portfolio, state and municipal securities were 23%, government agency and government-sponsored enterprise securities were 16%, and government securities were 1%. Our entire investment portfolio is categorized as available for sale and carried on our balance sheet at fair value. The average duration of our investment portfolio was approximately 3 years and 9 months at December 31, 2015. This duration takes into account calls, where appropriate, and consensus prepayment speeds.

Table of Contents

The following table presents the contractual maturities and weighted average yield of our investment portfolio:

	December 31, 2015			
	Amortized Cost	Fair Value	Yield	
	(dollars in thousands)			
U.S. government agency and government-sponsored enterprise mortgage-backed securities & collateralized mortgage obligations (1)				
Due through 1 year	$2,150	$2,113	5.06	%
Over 1 through 5 years	49,788	49,901	1.67	%
Over 5 through 10 years	449,368	444,463	2.26	%
Over 10 years	795,649	790,012	2.18	%
Total	$1,296,955	$1,286,489	2.19	%
State and municipal securities (2)				
Due through 1 year	$17,741	$18,008	4.16	%
Over 1 through 5 years	96,717	97,509	2.64	%
Over 5 through 10 years	192,597	197,965	3.64	%
Over 10 years	173,362	178,687	4.71	%
Total	$480,417	$492,169	3.85	%
U.S. government agency and government-sponsored enterprise securities (1)				
Due through 1 year	$1,751	$1,747	0.48	%
Over 1 through 5 years	292,495	291,375	1.29	%
Over 5 through 10 years	60,269	60,660	2.16	%
Total	$354,515	$353,782	1.44	%
U.S. government securities (1)				
Due through 1 year	$550	$550	0.21	%
Over 1 through 5 years	19,889	19,587	1.15	%
Total	$20,439	$20,137	1.13	%

(1) The maturities reported for mortgage-backed securities, collateralized mortgage obligations, government agency, government-sponsored enterprise, and government securities are based on contractual maturities and principal amortization.
(2) Yields on fully taxable equivalent basis.

For further information on our investment portfolio, see Note 4 of the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this report.

Federal Home Loan Bank Stock

Effective May 31, 2015, the Federal Home Loan Bank of Des Moines (the "FHLB Des Moines") completed its merger with the Federal Home Loan Bank of Seattle (the "FHLB Seattle"). At closing, the FHLB Seattle merged with and into the FHLB Des Moines, with the FHLB Des Moines surviving the merger as the continuing bank. Also at closing, the Company, a member of the FHLB Seattle, automatically became a member of the FHLB Des Moines. Pursuant to the terms of the merger, each share of the Company's FHLB Seattle Class B stock was converted into one share of FHLB Des Moines Class B stock and was designated as membership or activity based stock in accordance with the capital plan of the FHLB Des Moines.

Membership stock is stock we are required to purchase and hold as a condition of membership in the FHLB Des Moines. The Company's membership stock purchase requirement is measured as a percentage of our year-end assets, subject to a $10 million cap. Activity based stock is stock we are required to purchase and hold in order to obtain an advance or participate in FHLB Des Moines mortgage programs. The Company's activity based stock purchase requirement is measured as a percentage of our advance proceeds. At December 31, 2015 the Company held $12.7 million of FHLB Des Moines Class B stock, $10.0 million of which was membership stock and the remaining $2.7

million was activity based. The FHLB Des Moines stock is issued, transferred, redeemed, and repurchased at a par value of $100.

43

Table of Contents

Loan Portfolio

The Bank is a full service commercial bank, which originates a wide variety of loans, and focuses its lending efforts on originating commercial business and commercial real estate loans. The following table sets forth our loan portfolio by type of loan for the dates indicated:

	December 31,													
	2015	% of Total		2014	% of Total		2013	% of Total		2012	% of Total		2011	% of Total
	(dollars in thousands)													
Commercial business	$2,362,575	40.6	%	$2,119,565	38.9	%	$1,561,782	34.6	%	$1,155,158	39.2	%	$1,031,721	35.8
Real estate:														
One-to-four family residential	176,295	3.0	%	175,571	3.2	%	108,317	2.4	%	43,922	1.5	%	64,491	2.2
Commercial and multifamily residential	2,491,736	42.9	%	2,363,541	43.5	%	2,080,075	46.0	%	1,061,201	36.0	%	998,165	34.6
Total real estate	2,668,031	45.9	%	2,539,112	46.7	%	2,188,392	48.4	%	1,105,123	37.5	%	1,062,656	36.8
Real estate construction:														
One-to-four family residential	135,874	2.3	%	116,866	2.1	%	54,155	1.2	%	50,602	1.7	%	50,208	1.7
Commercial and multifamily residential	167,413	2.9	%	134,443	2.5	%	126,390	2.8	%	65,101	2.2	%	36,768	1.3
Total real estate construction	303,287	5.2	%	251,309	4.6	%	180,545	4.0	%	115,703	3.9	%	86,976	3.0
Consumer	342,601	5.9	%	364,182	6.7	%	357,014	7.9	%	157,493	5.4	%	183,235	6.4
Purchased credit impaired	$180,906	3.1	%	$230,584	4.2	%	$297,845	6.6	%	$421,393	14.3	%	$536,873	18.6
Subtotal	5,857,400	100.7	%	5,504,752	101.1	%	4,585,578	101.5	%	2,954,870	100.3	%	2,901,461	100.0
Less: Net unearned income	(42,373)	(0.7)	%	(59,374)	(1.1)	%	(68,282)	(1.5)	%	(7,767)	(0.3)	%	(16,217)	(0.6
Loans, net of unearned income (before Allowance for Loan and Lease Losses)	5,815,027	100.0	%	5,445,378	100.0	%	4,517,296	100.0	%	2,947,103	100.0	%	2,885,244	100.0
	$4,509			$1,116			$735			$2,563			$2,148	

Loans held
for sale
At December 31, 2015, total loans, gross of the ALLL were $5.82 billion compared with $5.45 billion in the prior year, an increase of $369.6 million, or 7% from the previous year. The increase in the loan portfolio was primarily due to new loan production during the year. Total loans, net of the ALLL represented 64% and 63% of total assets at December 31, 2015 and 2014, respectively.
Commercial Business Loans: We are committed to providing competitive commercial lending in our primary market areas. Management expects a continued focus within its commercial lending products and to emphasize, in particular, relationship banking with businesses and business owners.
Real Estate Loans: One-to-four family residential loans are secured by properties located within our primary market areas and, typically, have loan-to-value ratios of 80% or lower at origination. Our underwriting standards for commercial and multifamily residential loans generally require that the loan-to-value ratio for these loans not exceed 75% of appraised value, cost, or discounted cash flow value, as appropriate, and that commercial properties maintain debt coverage ratios (net operating income divided by annual debt servicing) of 1.2 or better. However, underwriting standards can be influenced by competition and other factors. We endeavor to maintain the highest practical underwriting standards while balancing the need to remain competitive in our lending practices.
Real Estate Construction Loans: We originate a variety of real estate construction loans. Underwriting guidelines for these loans vary by loan type but include loan-to-value limits, term limits and loan advance limits, as applicable.
Our underwriting guidelines for commercial and multifamily residential real estate construction loans generally require that the loan-to-value ratio not exceed 75% and stabilized debt coverage ratios (net operating income divided by annual debt servicing) of 1.2 or better. As noted above, underwriting standards can be influenced by competition and other factors. However, we endeavor to maintain the highest practical underwriting standards while balancing the need to remain competitive in our lending practices.
Consumer Loans: Consumer loans include automobile loans, boat and recreational vehicle financing, home equity and home improvement loans and miscellaneous personal loans.
Foreign Loans: The Company has no material foreign activities. Substantially all of the Company’s loans and unfunded commitments are geographically concentrated in its service areas within the states of Washington, Oregon and Idaho.

Table of Contents

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

Net unearned income: The following table provides additional detail related to the net discount of acquired and purchased loans, excluding PCI loans, by acquisition for the periods indicated:

	2015	2014	2013
Acquisition:	(in thousands)		
Intermountain	$8,237	$10,453	$—
West Coast	24,367	40,623	61,768
Other	(432)	(303)	(368)
Total net discount at period end	$32,172	$50,773	$61,400

For additional information on our loan portfolio, including amounts pledged as collateral on borrowings, see Note 5 to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this report.

Maturities and Sensitivities of Loans to Changes in Interest Rates

The following table presents the maturity distribution of our commercial and real estate construction loan portfolios and the sensitivity of these loans due after one year to changes in interest rates as of December 31, 2015:

	Maturing Due Through 1 Year	Over 1 Through 5 Years	Over 5 Years	Total
	(in thousands)			
Commercial business	$956,706	$636,360	$804,357	$2,397,423
Real estate construction	143,229	53,434	110,532	307,195
Total	$1,099,935	$689,794	$914,889	$2,704,618
Fixed rate loans due after 1 year		$378,586	$572,021	$950,607
Variable rate loans due after 1 year		311,208	342,868	654,076
Total		$689,794	$914,889	$1,604,683

Risk Elements

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

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

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

Table of Contents

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

Nonperforming Assets

Nonperforming assets consist of: (i) nonaccrual loans, which generally are loans placed on a nonaccrual basis when the loan becomes past due 90 days or when there are otherwise serious doubts about the collectability of principal or interest within the existing terms of the loan, (ii) OREO; and (iii) OPPO, if applicable. Nonperforming assets totaled $35.2 million, or 0.39% of year end assets at December 31, 2015, compared to $53.6 million, or 0.62% of year end assets at December 31, 2014.

Nonperforming Loans: The Consolidated Financial Statements are prepared according to the accrual basis of accounting. This includes the recognition of interest income on the loan portfolio, unless a loan is placed on nonaccrual status, which occurs when there are serious doubts about the collectability of principal or interest. Our policy is generally to discontinue the accrual of interest on all loans past due 90 days or more and place them on nonaccrual status. Loans accounted for under ASC 310-30 are generally considered accruing and performing as the loans accrete interest income over the estimated lives of the loans when cash flows are reasonably estimable. Accordingly, PCI loans accounted for under ASC 310-30 that are contractually past due are still considered to be accruing and performing loans.

The following table sets forth information with respect to our nonperforming loans, OREO, OPPO, total nonperforming assets, accruing loans past-due 90 days or more, and potential problem loans:

	December 31,				
	2015	2014	2013	2012	2011
	(dollars in thousands)				
Nonaccrual:					
Commercial business	$9,437	$16,799	$12,609	$9,299	$10,243
Real estate:					
One-to-four family residential	820	2,822	2,667	2,349	2,696
Commercial and multifamily residential	9,513	7,847	11,043	19,204	19,485
Real estate construction:					
One-to-four family residential	928	465	3,705	4,900	10,785
Commercial and multifamily residential	—	480	—	—	7,067
Consumer	766	2,939	3,991	1,643	3,207
Total nonaccrual loans:	21,464	31,352	34,015	37,395	53,483
Other real estate owned and other personal property owned	13,738	22,225	36,036	27,464	31,905
Total nonperforming assets	$35,202	$53,577	$70,051	$64,859	$85,388
Accruing loans past-due 90 days or more	$—	$1,386	$—	$—	$—
Forgone interest on nonperforming loans	$1,287	$2,196	$2,860	$3,388	$5,326
Interest recognized on nonperforming loans	$202	$1,327	$1,306	$1,114	$1,017
Potential problem loans	$23,654	$7,846	$13,356	$5,915	$10,618
Allowance for loan and lease losses	$68,172	$69,569	$72,454	$82,300	$57,985
Nonperforming loans to year end loans	0.37 %	0.58 %	0.75 %	1.27 %	1.85 %
Nonperforming assets to year end assets	0.39 %	0.62 %	0.98 %	1.32 %	1.78 %

At December 31, 2015, nonperforming loans decreased to 0.37% of year end loans, down from 0.58% of year end loans at December 31, 2014. The largest decline in nonperforming loans was in commercial business loans, which

decreased from $16.8 million, or 54% of nonperforming loans at December 31, 2014 to $9.4 million, or 44% of nonperforming loans at year end 2015. The decrease in nonperforming commercial business loans was primarily due to working through the nonaccrual loans acquired in our three most recent bank acquisitions.

Table of Contents

Other Real Estate Owned and Other Personal Property Owned: As of December 31, 2015 there was $13.7 million in OREO and OPPO, which is primarily comprised of property from foreclosed real estate loans, a decrease of $8.5 million from $22.2 million at December 31, 2014. The decrease was primarily driven by OREO sales of $15.2 million and write-downs of $2.0 million, partially offset by $8.7 million of transfers from loans. Properties acquired by foreclosure or deed in lieu of foreclosure are transferred to OREO and are recorded at fair value less estimated costs to sell, at the date of transfer of the property. If the carrying value exceeds the fair value at the time of the transfer, the difference is charged to the allowance for loan and lease losses. The fair value of the OREO property is based upon current appraisal. Subsequent losses that result from the ongoing periodic valuation of these properties are charged to the net cost of operation of OREO expense in the period in which they are identified. In general, improvements to the OREO are capitalized and holding costs are charged to the net cost of operation of OREO as incurred.

Potential Problem Loans: Potential problem loans are loans which are currently performing and are not on nonaccrual status, restructured or impaired, but about which there are significant doubts as to the borrower's future ability to comply with repayment terms and which may later be included in nonaccrual, past due, restructured or impaired loans. Potential problem loans totaled $23.7 million at year end 2015, compared to $7.8 million at year end 2014.

The following table summarizes activity in nonperforming loans for the period indicated:

	Years Ended December 31,	
	2015	2014
	(in thousands)	
Balance, beginning of period	$31,352	$34,015
Established through acquisitions	—	2,432
Loans placed on nonaccrual or restructured	31,646	25,541
Advances	1,613	633
Charge-offs	(4,950)	(4,775)
Loans returned to accrual status	(4,804)	(9,007)
Repayments (including interest applied to principal)	(30,119)	(13,818)
Transfers to OREO/OPPO	(3,274)	(3,669)
Balance, end of period	$21,464	$31,352

Loans are considered impaired when based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement or when a loan has been modified in a troubled debt restructuring. A loan is classified as a troubled debt restructuring when a borrower is experiencing financial difficulties that lead to a restructuring of the loan, and the Company grants concessions to the borrower in the restructuring that it would not otherwise consider. These concessions may include interest rate reductions, principal forgiveness, extension of maturity date and other actions intended to minimize potential losses. Generally, a nonaccrual loan that is restructured remains on nonaccrual status for a period of six months to demonstrate that the borrower can meet the restructured terms. If the borrower's performance under the new terms is not reasonably assured, the loan remains classified as a nonaccrual loan.

The assessment for impairment occurs when and while such loans are designated as classified per the Company's internal risk rating system or when and while such loans are on nonaccrual. All nonaccrual loans greater than $500,000 and all troubled debt restructured loans are considered impaired and analyzed individually on a quarterly basis. Classified loans with an outstanding balance greater than $500,000 are evaluated for potential impairment on a quarterly basis. The Company's policy is to record cash receipts on impaired loans first as reductions in principal and then as interest income.

Table of Contents

The following table summarizes impaired loan financial data at December 31, 2015 and 2014:

	December 31, 2015	2014
	(in thousands)	
Impaired loans	$16,080	$28,099
Impaired loans with specific allocations	$1,354	$1,216
Amount of the specific allocations	$653	$241

Impaired loans with a carrying amount of $16.1 million at December 31, 2015 were subject to specific allocations of allowance for loan and lease losses of $653 thousand and partial charge-offs of $18 thousand during the year. Collateral dependent impaired loans without specific allocations at December 31, 2015 and 2014 either had collateral which exceeded the carrying value of the loans or reflected a partial charge-off to the market value of collateral (less costs to sell), as of the most recent appraisal date. Restructured loans accruing interest totaled $3.2 million and $11.1 million at December 31, 2015 and 2014, respectively.

When a loan with unique risk characteristics has been identified as being impaired, the amount of impairment will be measured by the Company using discounted cash flows, except when it is determined that the remaining source of repayment for the loan is the operation or liquidation of the underlying collateral. In these cases, the current fair value of the collateral, reduced by costs to sell, will be used in place of discounted cash flows. As a final alternative, the observable market price of the debt may be used to assess impairment. Predominately, the Company uses the fair value of collateral approach based upon a reliable valuation.

When a loan secured by real estate migrates to nonperforming and impaired status and it does not have a market valuation less than one year old, the Company secures an updated market valuation by a third-party appraiser that is reviewed by the Company’s on-staff appraiser. Subsequently, the asset will be appraised annually by a third-party appraiser or the Company’s on-staff appraiser. The evaluation may occur more frequently if management determines that there has been increased market deterioration within a specific geographical location. Upon receipt and verification of the market valuation, the Company will record the loan at the lower of cost or market (less costs to sell) by recording a charge-off to the allowance for loan and lease losses or by designating a specific reserve in accordance with accounting principles generally accepted in the United States.

For additional information on our nonperforming loans, see Note 5 to our Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data” of this report.

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

Loans, excluding Purchased Credit Impaired Loans

We maintain an ALLL to absorb losses inherent in the loan portfolio. The size of the ALLL is determined through quarterly assessments of the probable estimated losses in the loan portfolio. Our methodology for making such assessments and determining the adequacy of the ALLL includes the following key elements:

1. General valuation allowance consistent with the Contingencies topic of the FASB ASC.
2. Classified loss reserves on specific relationships. Specific allowances for identified problem loans are determined in accordance with the Receivables topic of the FASB ASC.
3. The unallocated allowance provides for other factors inherent in our loan portfolio that may not have been contemplated in the general and specific components of the allowance. This unallocated amount generally comprises less than 5% of the allowance. The unallocated amount is reviewed quarterly based on trends in credit losses, the results of credit reviews and overall economic trends.

Table of Contents

On a quarterly basis our Chief Credit Officer reviews with executive management and the board of directors the various additional factors that management considers when determining the adequacy of the ALLL. Factors which influence management's judgment include the following:

- Existing general economic and business conditions affecting our market place
- Credit quality trends
- Historical loss experience
- Seasoning of the loan portfolio
- Bank regulatory examination results
- Findings of internal credit examiners
- Duration of current business cycle
- Specific loss estimates for problem loans

The ALLL is increased by provisions for loan and lease losses ("provision") charged to expense, and is reduced by loans charged off, net of recoveries or recapture of previous provision. While we believe the best information available is used by us to determine the ALLL, changes in market conditions could result in adjustments to the ALLL, affecting net income, if circumstances differ from the assumptions used in determining the ALLL.

In addition to the ALLL, we maintain an allowance for unfunded commitments and letters of credit. We report this allowance as a liability on our consolidated balance sheet. We determine this amount using estimates of the probability of the ultimate funding and losses related to those credit exposures. This methodology is similar to the methodology we use for determining the adequacy of our ALLL. For additional information on our allowance for unfunded commitments and letters of credit, see Note 6 to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this report.

Purchased Credit Impaired Loans

Purchased credit impaired ("PCI") loans are accounted for under ASC 310-30 and initially measured at fair value based on expected future cash flows over the life of the loans. PCI loans that have common risk characteristics are aggregated into pools. The Company re-measures contractual and expected loan cash flows at the pool-level on a quarterly basis. If, due to credit deterioration, the present value of expected cash flows, as periodically re-measured, is less than the carrying value of the loan pool, the Company adjusts the carrying value of the loan pool to the lower amount by adjusting the allowance for loan losses with a charge to earnings through the provision for loan losses. If the present value of expected cash flows is greater than the carrying value of the loan pool, the Company adjusts the carrying value of the loan pool to a higher amount by recapturing previously recorded allowance for loan losses, if any. For additional information on our accounting for PCI loans, see Note 1 to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this report.

Table of Contents

Analysis of the ALLL

The following table provides an analysis of our loan loss experience by loan type for the last five years:

Changes in Allowance for Loan and Lease Losses and
Unfunded Commitments and Letters of Credit

	December 31,				
	2015	2014	2013	2012	2011
	(dollars in thousands)				
Beginning balance	$69,569	$72,454	$82,300	$57,985	$67,048
Charge-offs:					
Commercial business	(8,266)	(4,289)	(4,942)	(10,173)	(7,909)
Real estate:					
One-to-four family residential	(376)	(230)	(228)	(549)	(717)
Commercial and multifamily residential	(505)	(2,993)	(2,543)	(5,474)	(3,687)
Real estate construction:					
One-to-four family residential	—	—	(133)	(1,606)	(2,487)
Commercial and multifamily residential	—	—	—	(93)	(2,213)
Consumer	(2,066)	(2,774)	(2,242)	(2,534)	(3,918)
Purchased credit impaired	(13,854)	(14,436)	(13,852)	(5,112)	(1,488)
Total charge-offs	(25,067)	(24,722)	(23,940)	(25,541)	(22,419)
Recoveries:					
Commercial business	2,336	3,007	2,444	1,548	2,598
Real estate:					
One-to-four family residential	307	159	270	285	80
Commercial and multifamily residential	3,975	940	1,033	1,599	459
Real estate construction:					
One-to-four family residential	193	1,930	2,665	1,488	2,091
Commercial and multifamily residential	8	—	—	66	—
Consumer	931	1,353	552	1,171	351
Purchased credit impaired	7,329	7,721	7,231	4,332	2,025
Total recoveries	15,079	15,110	14,195	10,489	7,604
Net charge-offs	(9,988)	(9,612)	(9,745)	(15,052)	(14,815)
Provision (recapture) for loan and lease losses	8,591	6,727	(101)	39,367	5,752
Ending balance	$68,172	$69,569	$72,454	$82,300	$57,985
Loans outstanding at end of period (1)	$5,815,027	$5,445,378	$4,517,296	$2,947,103	$2,885,244
Average amount of loans outstanding (1)	$5,609,261	$4,782,369	$4,140,826	$2,900,520	$2,607,266
Allowance for loan and lease losses to period-end loans	1.17%	1.28%	1.60%	2.79%	2.01%
Net charge-offs to average loans outstanding	0.18%	0.20%	0.24%	0.52%	0.57%
Allowance for unfunded commitments and letters of credit					
Beginning balance	$2,655	$2,505	$1,915	$1,535	$1,165

Net changes in the allowance for unfunded commitments and letters of credit	275	150	590	380	370
Ending balance	$2,930	$2,655	$2,505	$1,915	$1,535

(1) Excludes loans held for sale.

50

Table of Contents

At December 31, 2015, our ALLL was $68.2 million, or 1.17% of total loans (excluding loans held for sale). This compares with an allowance of $69.6 million, or 1.28% of total loans (excluding loans held for sale) at December 31, 2014. This decrease in the allowance relative to loans in the current period as compared to December 31, 2014 reflects improvements in core asset quality during the current year.

We have used the same methodology for ALLL calculations during 2015, 2014 and 2013. Adjustments to the percentages of the ALLL allocated to loan categories are made based on trends with respect to delinquencies and problem loans within each loan class. The Bank reviews the ALLL quantitative and qualitative methodology on a quarterly basis and makes adjustments when appropriate. We continue to make revisions to our ALLL as necessary to maintain adequate reserves. The Bank carefully monitors the loan portfolio and continues to emphasize the importance of credit quality while continuously strengthening loan monitoring systems and controls.

Allocation of the ALLL

The table below sets forth the allocation of the ALLL by loan category:

	December 31,									
	2015		2014		2013		2012		2011	
Balance at End of Period Applicable to:	Amount	% of Total Loans*	Amount	% of Total Loans*	Amount	% of Total Loans*	Amount	% of Total Loans*	Amount	% of Total Loans*
	(dollars in thousands)									
Commercial business	$33,620	40.5 %	$26,850	38.8 %	$31,723	34.4 %	$28,023	39.1 %	$25,434	35.7 %
Real estate and construction:										
One-to-four family residential	1,988	5.3 %	5,338	5.3 %	2,684	3.5 %	2,500	3.2 %	3,849	3.9 %
Commercial and multifamily residential	14,738	45.4 %	16,021	45.4 %	13,671	48.2 %	18,273	38.1 %	20,345	35.4 %
Consumer	3,531	5.7 %	3,180	6.3 %	2,547	7.3 %	2,437	5.3 %	2,719	6.4 %
Purchase credit impaired	13,726	3.1 %	16,336	4.2 %	20,174	6.6 %	30,056	14.3 %	4,944	18.6 %
Unallocated	569	— %	1,844	— %	1,655	— %	1,011	— %	694	— %
Total	$68,172	100.0%	$69,569	100.0%	$72,454	100.0%	$82,300	100.0%	$57,985	100.0%

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

FDIC Loss-sharing Asset

The Company has elected to account for amounts receivable under loss-sharing agreements with the FDIC as an indemnification asset in accordance with the Business Combinations topic of the FASB ASC. The FDIC indemnification asset is initially recorded at fair value, based on the discounted expected future cash flows under the loss-sharing agreements.

Subsequent to initial recognition, the FDIC indemnification asset is reviewed quarterly and adjusted for any changes in expected cash flows. These adjustments are measured on the same basis as the related covered loans. Any decrease in expected cash flows on the covered loans due to an increase in expected credit losses will increase the FDIC indemnification asset and any increase in expected future cash flows on the covered loans due to a decrease in expected credit losses will decrease the FDIC indemnification asset. Changes in the estimated cash flows on covered assets that are immediately recognized in income generally result in a similar immediate adjustment to the loss-sharing asset while changes in expected cash flows on covered assets that are accounted for as an adjustment to yield generally result in adjustments to the amortization or accretion rate for the loss-sharing asset. Increases and

decreases to the FDIC loss-sharing asset are recorded as adjustments to noninterest income.
At December 31, 2015, the FDIC loss-sharing asset was comprised of a $6.0 million FDIC indemnification asset and a $605 thousand FDIC receivable. The FDIC receivable represents amounts due from the FDIC for claims related to covered losses the Company has incurred less amounts due back to the FDIC relating to shared recoveries.

Table of Contents

The following table summarizes the activity related to the FDIC loss-sharing asset for the years ended December 31, 2015 and 2014:

	Years Ended December 31,	
	2015	2014
	(in thousands)	
Balance at beginning of period	$15,174	$39,846
Adjustments not reflected in income:		
Cash received from the FDIC, net	(2,794)	(2,499)
FDIC reimbursable recoveries, net	(1,802)	(2,184)
Adjustments reflected in income:		
Amortization, net	(6,184)	(21,279)
Loan impairment	2,268	2,301
Sale of other real estate	(1,237)	(2,179)
Write-downs of other real estate	1,158	1,065
Other	(15)	103
Balance at end of period	$6,568	$15,174

For additional information on the FDIC loss-sharing asset, including the timing of the expirations of our loss-sharing agreements with the FDIC, please see Note 8 to the Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data” of this report.

Deposits

The following table sets forth the composition of the Company’s deposits by significant category:

	December 31,		
	2015	2014	2013
	(in thousands)		
Core deposits:			
Demand and other noninterest-bearing	$3,507,358	$2,651,373	$2,171,703
Interest-bearing demand	925,909	1,304,258	1,170,006
Money market	1,788,552	1,760,331	1,569,261
Savings	657,016	615,721	496,444
Certificates of deposit less than $100,000	249,031	288,261	288,943
Total core deposits	7,127,866	6,619,944	5,696,357
Certificates of deposit greater than $100,000	182,973	202,014	201,498
Certificates of deposit insured through CDARS®	26,901	18,429	19,488
Brokered money market accounts	100,854	83,402	41,765
Subtotal	7,438,594	6,923,789	5,959,108
Premium resulting from acquisition date fair value adjustment	235	933	367
Total deposits	$7,438,829	$6,924,722	$5,959,475

Deposits totaled $7.44 billion at December 31, 2015 compared to $6.92 billion at December 31, 2014. The increase of $514.1 million was due to organic growth. Core deposits, which include noninterest-bearing deposits and interest-bearing deposits excluding time deposits of $100,000 and over, provide a stable source of low cost funding. Core deposits increased to $7.13 billion at December 31, 2015 compared with $6.62 billion at December 31, 2014. We anticipate continued growth in our core deposits through both the addition of new customers and our current client base. During the current year, as part of a product migration to our new deposit account product line, a substantial portion of our interest-bearing deposits which were typically bearing a nominal interest rate were migrated to noninterest-bearing deposit products. This migration resulted in a decrease in interest-bearing demand deposit balances and an increase in noninterest-bearing deposit balances during the current year.

Table of Contents

At December 31, 2015, brokered and other wholesale deposits (excluding public deposits) totaled $127.8 million or 1.7% of total deposits compared to $101.8 million or 1.5% of total deposits, at year-end 2014. The increase in brokered deposits is attributed to an increase in participation in the brokered money market account program, which is similar to the Certificate of Deposit Account Registry Service (“CDARS®”) program. CDARS® is a network that allows participating banks to offer extended FDIC deposit insurance coverage on time deposits. These extended deposit insurance programs are generally available only to existing customers and are not used as a means of generating additional liquidity.

At December 31, 2015, public deposits held by the Company totaled $373.3 million compared to $357.9 million at December 31, 2014. Uninsured public deposit balances increased from $296.6 million at December 31, 2014 to $312.2 million at December 31, 2015. The Company is required to fully collateralize Washington state public deposits and 50% of Oregon state public deposits.

The following table sets forth the amount outstanding of time certificates of deposit and other time deposits in amounts of $100,000 or more (which represent CDARS® accounts) by time remaining until maturity and percentage of total deposits:

Amounts maturing in:	December 31, 2015					
	Time Certificates of Deposit of $100,000 or More			Other Time Deposits of $100,000 or More		
	Amount	Percent of Total Deposits		Amount	Percent of Total Deposits	
	(dollars in thousands)					
Three months or less	$67,169	0.9	%	$23,023	0.3	%
Over 3 through 6 months	29,690	0.4	%	351	—	%
Over 6 through 12 months	44,389	0.6	%	3,527	0.1	%
Over 12 months	41,725	0.6	%	—	—	%
Total	$182,973	2.5	%	$26,901	0.4	%

The following table sets forth the average amount of and the average rate paid on each significant deposit category:

	Years ended December 31,								
	2015			2014			2013		
	Average Deposits	Rate		Average Deposits	Rate		Average Deposits	Rate	
	(dollars in thousands)								
Interest bearing demand	$982,491	0.06	%	$1,204,584	0.04	%	$1,048,482	0.06	%
Money market	1,834,733	0.08	%	1,668,150	0.07	%	1,566,539	0.08	%
Savings	637,464	0.01	%	543,303	0.01	%	445,666	0.02	%
Certificates of deposit	483,193	0.18	%	485,487	0.26	%	535,656	0.37	%
Total interest-bearing deposits	3,937,881	0.08	%	3,901,524	0.08	%	3,596,343	0.11	%
Demand and other non-interest bearing	3,208,947			2,285,818			1,824,234		
Total average deposits	$7,146,828			$6,187,342			$5,420,577		

Borrowings

Borrowed funds provide an additional source of funding for loan growth. Our borrowed funds consist primarily of borrowings from the FHLB Des Moines (“FHLB”) and Federal Reserve Bank (“FRB”) as well as securities repurchase agreements. FHLB and FRB borrowings are secured by our loan portfolio and investment securities. Securities repurchase agreements are secured by investment securities.

Table of Contents

The Company has not had FRB borrowings in the last three years. At December 31, 2015 FHLB advances were scheduled to mature as follows:

	Federal Home Loan Bank Advances		
	Fixed rate advances		
	Weighted Average Rate		Amount
	(dollars in thousands)		
Within 1 year	0.34	%	$62,000
Over 1 through 5 years (1)	5.66	%	1,000
Due after 10 years (1)	5.37	%	5,000
Total			68,000
Valuation adjustment from acquisition accounting			531
Total			$68,531

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(1) The FHLB advances maturing over 1 year through 5 years and due after 10 years were assumed by Columbia during our 2010 acquisition of American Marine Bank and our 2011 acquisition of Bank of Whitman.

The following table sets forth additional details of FHLB advances:

	Years ended December 31,					
	2015		2014		2013	
	(dollars in thousands)					
Balance at end of year	$68,531		$216,568		$36,606	
Average balance during the year	$70,678		$44,876		$51,030	
Maximum month-end balance during the year	$242,556		$216,568		$190,631	
Weighted average rate during the year	0.68	%	0.74	%	1.12	%
Weighted average rate at December 31	0.79	%	0.41	%	1.09	%

For additional information on our borrowings, including amounts pledged as collateral, see Notes 12, 13 and 14 to the Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data” of this report.

Off-Balance Sheet Arrangements

In the normal course of business, the Company is a party to financial instruments with off-balance sheet risk. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount reflected in the consolidated balance sheets.

Exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The Company evaluates each client’s creditworthiness on a case-by-case basis.

Commitments to extend credit are agreements to lend to a client as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

The Company had off-balance sheet loan commitments aggregating $1.93 billion at December 31, 2015, an increase from $1.58 billion at December 31, 2014. Standby letters of credit were $38.7 million at December 31, 2015 an increase from $36.7 million at December 31, 2014. In addition, commitments under commercial letters of credit used to facilitate customers’ trade transactions and other off-balance sheet liabilities amounted to $5.0 million and $4.4 million at December 31, 2015 and 2014, respectively.

Table of Contents

Contractual Obligations & Commitments

We are party to many contractual financial obligations, including repayment of borrowings, operating and equipment lease payments, and commitments to extend credit. The table below presents certain future financial obligations of the Company:

	Payments due within time period at December 31, 2015				
	0-12 Months	1-3 Years	4-5 Years	Due after Five Years	Total
	(in thousands)				
Operating & equipment leases	$6,774	$10,604	$8,416	$13,968	$39,762
Total deposits (1)	7,330,762	80,163	27,532	372	7,438,829
Federal Home Loan Bank advances (1)	62,000	1,000	—	5,000	68,000
Other borrowings (1)	74,699	25,000	—	—	99,699
Total	$7,474,235	$116,767	$35,948	$19,340	$7,646,290

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(1) In the banking industry, interest-bearing obligations are principally used to fund interest-earning assets. As such, interest charges on contractual obligations were excluded from reported amounts, as the potential cash outflows would have corresponding cash inflows from interest-earning assets.

For additional information regarding future financial commitments, see Note 17 to our Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this report.

Liquidity and Sources of Funds

In general, our primary sources of funds are net income, loan repayments, maturities and principal payments on investment securities, customer deposits, advances from the FHLB, securities repurchase agreements and other borrowings. These funds are used to make loans, purchase investments, meet deposit withdrawals and maturing liabilities and cover operational expenses. Scheduled loan repayments and core deposits have proved to be a relatively stable source of funds while other deposit inflows and unscheduled loan prepayments are influenced by interest rate levels, competition and general economic conditions. We manage liquidity through monitoring sources and uses of funds on a daily basis and had unused credit lines with the FHLB and the FRB of $1.33 billion and $85.4 million, respectively, at December 31, 2015, that are available to us as a supplemental funding source. The holding company's sources of funds are dividends from its banking subsidiary which are used to fund dividends to shareholders and cover operating expenses.

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

Capital

Our shareholders' equity increased to $1.24 billion at December 31, 2015, from $1.23 billion at December 31, 2014. Shareholders' equity was 13.88% and 14.32% of total assets at December 31, 2015 and 2014.

Regulatory Capital. In July 2013, the federal bank regulators approved the New Capital Rules (as discussed in "Item 1. Business—Supervision and Regulation and —Regulatory Capital Requirements"), which implement the Basel III capital framework and various provisions of the Dodd-Frank Act. We and the Bank were required to comply with these rules as of January 1, 2015, subject to the phase-in of certain provisions. We believe that, as of December 31, 2015, we and the Bank would meet all capital adequacy requirements under the New Capital Rules on a fully phased-in basis as if all such requirements were then in effect. Banking regulations in effect prior to January 1, 2015 required bank holding companies to maintain a minimum "leverage" ratio of core capital to adjusted quarterly average total assets of at least 3%. In addition, banking regulators maintained risk-based capital guidelines, under which risk percentages were assigned to various categories of assets and off-balance sheet items to calculate a risk-adjusted capital ratio. Tier I

capital generally consisted of common shareholders' equity, less goodwill and certain identifiable intangible assets, while Tier II capital included the allowance for loan losses, subject to certain limitations. Regulatory minimum risk-based capital guidelines required Tier I capital of 4% of risk-adjusted assets and total capital (combined Tier I and Tier II) of 8% to be considered "adequately capitalized".

Table of Contents

FDIC regulations set forth the qualifications necessary for a bank to be classified as “well capitalized”, primarily for assignment of FDIC insurance premium rates. Prior to the adoption of the New Capital Rules, to qualify as “well capitalized,” banks needed a Tier I risk-adjusted capital ratio of at least 6%, a total risk-adjusted capital ratio of at least 10%, and a leverage ratio of at least 5%. Failure to qualify as “well capitalized” can negatively impact a bank’s ability to expand and to engage in certain activities. The New Capital Rules revised the prompt corrective action thresholds effective January 1, 2015
by (i) introducing a Common Equity Tier 1 ratio and requiring the ratio be at least 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 risk-adjusted ratio requirement for each category (other than critically undercapitalized), with the minimum Tier 1 risk-adjusted ratio for well-capitalized status being 8%; and (iii) eliminating the previous provision that allowed a bank with a composite supervisory rating of 1 to be considered adequately capitalized with a leverage ratio of 3%. The New Capital Rules did not change the total risk-adjusted capital ratio requirement for any prompt corrective action category. The Company and its banking subsidiary qualified as “well-capitalized” at December 31, 2015 and 2014.
The following table sets forth the Company’s and its banking subsidiary’s capital ratios at December 31, 2015 and 2014 under the then applicable guidance and rules and the requirements for each period:

	Company		Columbia Bank		2015 Requirements		2014 Requirements	
	2015	2014	2015	2014	Adequately Capitalized	Well-Capitalized	Adequately Capitalized	Well-Capitalized
Common Equity Tier 1 risk-based capital ratio	11.94 %	N/A	11.76 %	N/A	4.5 %	6.5 %	N/A	N/A
Tier 1 risk-based capital ratio	11.95 %	12.98 %	11.76 %	12.52 %	6 %	8 %	4 %	6 %
Total risk-based capital ratio	12.94 %	14.13 %	12.75 %	13.67 %	8 %	10 %	8 %	10 %
Leverage ratio	10.03 %	10.57 %	9.89 %	9.79 %	4 %	5 %	4 %	5 %

Dividends
The following table sets forth the dividends paid per common share and the dividend payout ratio (dividends paid per common share divided by basic earnings per share):

	Years ended December 31,		
	2015	2014	2013
Dividends paid per common share	$1.34	$0.94	$0.41
Dividend payout ratio (1)	78 %	62 %	34 %

(1) Dividends paid per common share as a percentage of earnings per diluted common share
For quarterly detail of dividends declared during 2015 and 2014, including special dividends declared, see “Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities” of this report.
Subsequent to year end, on January 28, 2016 the Company declared a quarterly cash dividend of $0.18 per share and common share equivalent for holders of preferred stock, and a special cash dividend of $0.20 per common share and common share equivalent for holders of preferred stock, both payable on February 24, 2016, to shareholders of record at the close of business on February 10, 2016.
Applicable federal and Washington state regulations restrict capital distributions, including dividends, by the Company’s banking subsidiary. Such restrictions are tied to the institution’s capital levels after giving effect to distributions. Our ability to pay cash dividends is substantially dependent upon receipt of dividends from the Bank. In addition, the payment of cash dividends is subject to Federal regulatory requirements for capital levels and other restrictions. In this regard, current guidance from the Federal Reserve provides, among other things, that dividends per share on the Company’s common stock generally should not exceed earnings per share, measured over the previous four fiscal quarters.

Reference "Item 6. Selected Financial Data" of this report for our return on average assets, return on average equity and average equity to average assets ratios for all reported periods.

Table of Contents

Non-GAAP Financial Measures

In addition to capital ratios defined by banking regulators, the Company considers various measures when evaluating capital utilization and adequacy, including:

- Tangible common equity to tangible assets, and
- Tangible common equity to risk-weighted assets.

The Company believes these measures are important because they reflect the level of capital available to withstand unexpected market conditions. Additionally, presentation of these measures allows readers to compare certain aspects of the Company's capitalization to other organizations. These ratios differ from capital measures defined by banking regulators principally in that the numerator excludes shareholders' equity associated with preferred securities, the nature and extent of which varies across organizations. Additionally, these measures present capital adequacy inclusive and exclusive of accumulated other comprehensive income. These calculations are intended to complement the capital ratios defined by banking regulators for both absolute and comparative purposes.

Because generally accepted accounting principles in the United States of America ("GAAP") do not include capital ratio measures, the Company believes there are no comparable GAAP financial measures to these tangible common equity ratios. The following table reconciles the Company's calculation of these measures to amounts reported under GAAP. Despite the importance of these measures to the Company, there are no standardized definitions for them 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.

	December 31, 2015	December 31, 2014
	(dollars in thousands)	
Shareholders' equity	$1,242,128	$1,228,175
Goodwill	(382,762)	(382,537)
Other intangible assets, net	(23,577)	(30,459)
Preferred stock	(2,217)	(2,217)
Tangible common equity (a)	833,572	812,962
Total assets	8,951,697	8,578,846
Goodwill	(382,762)	(382,537)
Core deposit intangible	(23,577)	(30,459)
Tangible assets (b)	$8,545,358	$8,165,850
Risk-weighted assets, determined in accordance with prescribed regulatory requirements (c)	$7,141,545	$6,299,863
Ratios		
Tangible common equity to tangible assets (a)/(b)	9.75%	9.96%
Tangible common equity to risk-weighted assets (a)/(c)	11.67%	12.90%

Table of Contents

The Company also considers operating net interest margin (tax equivalent) to be an important 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. Despite the importance of the operating net interest margin 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:

	Years ended December 31,		
	2015	2014	2013
Operating net interest margin non-GAAP reconciliation:	(dollars in thousands)		
Net interest income (tax equivalent) (1)	$334,548	$312,146	$297,139
Adjustments to arrive at operating net interest income (tax equivalent):			
Incremental accretion income on FDIC purchased credit impaired loans	(9,096)	(20,224)	(29,815)
Incremental accretion income on other FDIC acquired loans	(234)	(484)	(2,211)
Incremental accretion income on other acquired loans	(17,862)	(21,093)	(26,200)
Premium amortization on acquired securities	10,217	7,123	7,309
Correction of immaterial error - securities premium amortization	—	(2,622)	—
Interest reversals on nonaccrual loans	1,713	1,291	882
Prepayment charges on FHLB advances	—	—	1,548
Operating net interest income (tax equivalent) (1)	$319,286	$276,137	$248,652
Average interest earning assets	$7,685,734	$6,561,047	$5,754,543
Net interest margin (tax equivalent) (1)	4.35%	4.76%	5.16%
Operating net interest margin (tax equivalent) (1)	4.15%	4.21%	4.32%

(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 $9.7 million, $8.1 million and $6.0 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Table of Contents

ITEM 7A. 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 consequence resulting from unequal changes in the spread between two or more rates for different instruments with the same maturity.

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

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

An Asset/Liability Management Committee is responsible for developing, monitoring and reviewing asset/liability processes, interest rate risk exposures, strategies and tactics and reporting to the board of directors. It is the responsibility of the board of directors to establish policies and interest rate limits and approve these policies and interest rate limits annually. 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. We maintain an asset/liability management policy that provides guidelines for controlling exposure to interest rate risk. The policy guidelines direct management to assess the impact of changes in interest rates upon both earnings and capital. The guidelines establish limits for interest rate risk sensitivity.

Interest Rate Risk Sensitivity

A number of measures are used to monitor and manage interest rate risk, including income simulations, interest sensitivity (gap) analysis and economic value of equity sensitivity. 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. Key assumptions in the model include prepayment speeds on loans and investment securities, decay rates on non-maturity deposits, investment security, loan, deposit and borrowing volumes and pricing. These assumptions are inherently uncertain and, as a result, the net interest income projections should be viewed as an estimate of the net interest income sensitivity at the time of the analysis. Actual results will differ from simulated results due to timing, magnitude and frequency of interest rate changes and changes in market conditions and management strategies, among other factors.

Based on the results of the simulation model as of December 31, 2015, we would expect decreases in net interest income of $6.5 million and $27.2 million in year one and year two, respectively, if interest rates gradually decrease from current rates by 100 basis points. We would expect an increase in net interest income of $6.0 million and $21.3 million in year one and year two, respectively, if interest rates gradually increase from current rates by 200 basis points.

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

The table on the following page sets forth the estimated maturity or repricing, and the resulting interest rate gap of our interest-earning assets and interest-bearing liabilities at December 31, 2015. The amounts in the table are derived from our internal data and are based upon regulatory reporting formats. Therefore, they may not be consistent with financial information appearing elsewhere herein that has been prepared in accordance with accounting principles generally accepted in the United States.

The estimates for net interest income sensitivity and interest rate gap could be significantly affected by external factors such as changes in prepayment assumptions, early withdrawal of deposits and competition. For example,

although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while other types may lag changes in market interest rates.

Table of Contents

Additionally, certain assets, such as adjustable-rate mortgages, have features that restrict changes in the interest rates of such assets both on a short-term basis and over the lives of such assets. Further, in the event of a change in market interest rates, prepayment and early withdrawal levels could deviate significantly from those assumed in calculating the tables. Finally, the ability of many borrowers to service their adjustable-rate debt may decrease in the event of a substantial increase in market interest rates.

	Estimated Maturity or Repricing				
December 31, 2015	0-3 months	4-12 months	Over 1 year through 5 years	Due after 5 years	Total
	(dollars in thousands)				
Interest-Earning Assets					
Interest-earning deposits	$8,373	$—	$—	$—	$8,373
Loans, net of deferred fees	2,401,694	652,408	2,095,467	665,458	5,815,027
Loans held for sale	4,509	—	—	—	4,509
Investments	103,955	236,515	1,092,943	737,003	2,170,416
Total interest-earning assets	$2,518,531	$888,923	$3,188,410	$1,402,461	7,998,325
Allowance for loan and lease losses					(68,172)
Cash and due from banks					166,929
Premises and equipment, net					164,239
Other assets					690,376
Total assets					$8,951,697
Interest-Bearing Liabilities					
Interest-bearing non-maturity deposits	$3,472,331	$—	$—	$—	$3,472,331
Time deposits	156,741	194,667	108,195	(463)	459,140
Borrowings	136,699	—	26,000	5,531	168,230
Total interest-bearing liabilities	$3,765,771	$194,667	$134,195	$5,068	4,099,701
Other liabilities					3,609,868
Total liabilities					7,709,569
Shareholders' equity					1,242,128
Total liabilities and shareholders' equity					$8,951,697
Interest-bearing liabilities as a percent of total interest-earning assets	47.08%	2.43%	1.68%	0.06%	
Rate sensitivity gap	$(1,247,240)	$694,256	$3,054,215	$1,397,393	
Cumulative rate sensitivity gap	$(1,247,240)	$(552,984)	$2,501,231	$3,898,624	
Rate sensitivity gap as a percentage of interest-earning assets	(15.59)%	8.68%	38.19%	17.47%	
Cumulative rate sensitivity gap as a percentage of interest-earning assets	(15.59)%	(6.91)%	31.27%	48.74%	

Impact of Inflation and Changing Prices

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

60

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Columbia Banking System, Inc. and its subsidiaries (the “Company”) as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Columbia Banking System, Inc. and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2016 expressed an unqualified opinion on the Company’s internal control over financial reporting.

/s/ Deloitte & Touche LLP
Seattle, Washington
February 26, 2016

Table of Contents

COLUMBIA BANKING SYSTEM, INC.
CONSOLIDATED BALANCE SHEETS

			December 31, 2015 (in thousands)	December 31, 2014
ASSETS				
Cash and due from banks			$166,929	$171,221
Interest-earning deposits with banks			8,373	16,949
Total cash and cash equivalents			175,302	188,170
Securities available for sale at fair value (amortized cost of $2,157,610 and $2,087,069, respectively)			2,157,694	2,098,257
Federal Home Loan Bank stock at cost			12,722	33,365
Loans held for sale			4,509	1,116
Loans, net of unearned income of ($42,373) and ($59,374), respectively			5,815,027	5,445,378
Less: allowance for loan and lease losses			68,172	69,569
Loans, net			5,746,855	5,375,809
FDIC loss-sharing asset			6,568	15,174
Interest receivable			27,877	27,802
Premises and equipment, net			164,239	172,090
Other real estate owned			13,738	22,190
Goodwill			382,762	382,537
Other intangible assets, net			23,577	30,459
Other assets			235,854	231,877
Total assets			$8,951,697	$8,578,846
LIABILITIES AND SHAREHOLDERS' EQUITY				
Deposits:				
Noninterest-bearing			$3,507,358	$2,651,373
Interest-bearing			3,931,471	4,273,349
Total deposits			7,438,829	6,924,722
Federal Home Loan Bank advances			68,531	216,568
Securities sold under agreements to repurchase			99,699	105,080
Other borrowings			—	8,248
Other liabilities			102,510	96,053
Total liabilities			7,709,569	7,350,671
Commitments and contingent liabilities (Note 17)				
Shareholders' equity:				
	December 31, 2015	December 31, 2014		
Preferred stock (no par value)	(in thousands)			
Authorized shares	2,000	2,000		
Issued and outstanding	9	9	2,217	2,217
Common stock (no par value)				
Authorized shares	115,000	63,033		
Issued and outstanding	57,724	57,437	990,281	985,839
Retained earnings			255,925	234,498
Accumulated other comprehensive income (loss)			(6,295)	5,621
Total shareholders' equity			1,242,128	1,228,175
Total liabilities and shareholders' equity			$8,951,697	$8,578,846

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

COLUMBIA BANKING SYSTEM, INC.
CONSOLIDATED STATEMENTS OF INCOME

	Years ended December 31,		
	2015	2014	2013
	(in thousands except per share)		
Interest Income			
Loans	$286,166	$268,279	$266,284
Taxable securities	30,774	28,754	20,459
Tax-exempt securities	11,842	10,830	9,837
Deposits in banks	109	179	355
Total interest income	328,891	308,042	296,935
Interest Expense			
Deposits	2,977	3,005	3,962
Federal Home Loan Bank advances	474	396	(404)
Prepayment charge on Federal Home Loan Bank advances	—	—	1,548
Other borrowings	553	593	734
Total interest expense	4,004	3,994	5,840
Net Interest Income	324,887	304,048	291,095
Provision (recapture) for loan and lease losses	8,591	6,727	(101)
Net interest income after provision (recapture) for loan and lease losses	316,296	297,321	291,196
Noninterest Income			
Service charges and other fees	61,881	55,555	48,351
Merchant services fees	8,975	7,975	8,812
Investment securities gains, net	1,581	552	462
Bank owned life insurance	4,441	3,823	3,570
Change in FDIC loss-sharing asset	(4,010)	(19,989)	(45,017)
Other	18,605	11,834	10,522
Total noninterest income	91,473	59,750	26,700
Noninterest Expense			
Compensation and employee benefits	149,410	130,864	125,432
Occupancy	34,818	32,300	33,054
Merchant processing	4,204	4,006	3,551
Advertising and promotion	4,713	3,964	4,090
Data processing	17,421	15,369	14,076
Legal and professional fees	9,608	11,389	12,338
Taxes, licenses and fees	5,395	4,552	5,033
Regulatory premiums	4,806	4,549	4,706
Net benefit of operation of other real estate owned	(1,629)	(1,045)	(7,401)
Amortization of intangibles	6,882	6,293	6,045
Other	30,521	27,045	29,962
Total noninterest expense	266,149	239,286	230,886
Income before income taxes	141,620	117,785	87,010
Provision for income taxes	42,793	36,211	26,994
Net Income	$98,827	$81,574	$60,016
Earnings Per Common Share			
Basic	$1.71	$1.53	$1.24
Diluted	$1.71	$1.52	$1.21
Weighted average number of common shares outstanding	57,019	52,618	47,993
Weighted average number of diluted common shares outstanding	57,032	53,183	49,051

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

COLUMBIA BANKING SYSTEM, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years ended December 31,		
	2015	2014	2013
	(in thousands)		
Net income	$98,827	$81,574	$60,016
Other comprehensive income (loss), net of tax:			
Unrealized gain (loss) from securities:			
Net unrealized holding gain (loss) from available for sale securities arising during the period, net of tax of $3,455, ($10,200) and $17,498	(6,069)	17,922	(30,727)
Reclassification adjustment of net gain from sale of available for sale securities included in income, net of tax of $574, $200 and $163	(1,007)	(352)	(299)
Net unrealized gain (loss) from securities, net of reclassification adjustment	(7,076)	17,570	(31,026)
Pension plan liability adjustment:			
Unrecognized net actuarial loss and plan amendments during the period, net of tax of $2,878, $0 and $780	(5,054)	—	(1,432)
Less: amortization of unrecognized net actuarial losses included in net periodic pension cost, net of tax of ($122), ($54) and ($135)	214	95	265
Pension plan liability adjustment, net	(4,840)	95	(1,167)
Other comprehensive income (loss)	(11,916)	17,665	(32,193)
Comprehensive income	$86,911	$99,239	$27,823

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

COLUMBIA BANKING SYSTEM, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Preferred Stock		Common Stock				
	Number of Shares	Amount	Number of Shares	Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	(in thousands, except per share amounts)						
Balance at January 1, 2013	—	$—	39,686	$581,471	$162,388	$ 20,149	$764,008
Net income	—	—	—	—	60,016	—	60,016
Other comprehensive loss	—	—	—	—	—	(32,193)	(32,193)
Issuance of preferred stock, common stock and warrants - acquisition related	9	2,217	11,380	273,964	—	—	276,181
Issuance of common stock - stock option and other plans	—	—	73	1,243	—	—	1,243
Issuance of common stock - restricted stock awards, net of canceled awards	—	—	144	2,693	—	—	2,693
Activity in deferred compensation plan	—	—	—	517	—	—	517
Tax benefit deficiency associated with share-based compensation	—	—	—	1,103	—	—	1,103
Purchase and retirement of common stock	—	—	(18)	(429)	—	—	(429)
Preferred dividends ($0.31 per common share equivalent)	—	—	—	—	(32)	—	(32)
Cash dividends paid on common stock ($0.41 per share)	—	—	—	—	(19,858)	—	(19,858)
Balance at December 31, 2013	9	$2,217	51,265	$860,562	$202,514	$ (12,044)	$1,053,249
Net income	—	—	—	—	81,574	—	81,574
Other comprehensive income	—	—	—	—	—	17,665	17,665
Issuance of common stock - acquisition related	—	—	4,208	116,907	—	—	116,907
Issuance of common stock - exercise of warrants	—	—	1,722	5,000	—	—	5,000
Issuance of common stock - stock option and other plans	—	—	41	929	—	—	929
Issuance of common stock - restricted stock awards, net of canceled awards	—	—	225	2,859	—	—	2,859

Activity in deferred compensation plan	—	—	—	(1)	—	—	(1)
Tax benefit associated with share-based compensation	—	—	—	205	—	—	205
Purchase and retirement of common stock	—	—	(24)	(622)	—	—	(622)
Preferred dividends ($0.94 per common share equivalent)	—	—	—	—	(96)	—	(96)
Cash dividends paid on common stock ($0.94 per share)	—	—	—	—	(49,494)	—	(49,494)
Balance at December 31, 2014	9	$2,217	57,437	$985,839	$234,498	$ 5,621	$1,228,175
Net income	—	—	—	—	98,827	—	98,827
Other comprehensive loss	—	—	—	—	—	(11,916)	(11,916)
Issuance of common stock - stock option and other plans	—	—	49	1,258	—	—	1,258
Issuance of common stock - restricted stock awards, net of canceled awards	—	—	270	4,090	—	—	4,090
Purchase and retirement of common stock	—	—	(32)	(906)	—	—	(906)
Preferred dividends ($1.34 per common share equivalent)	—	—	—	—	(137)	—	(137)
Cash dividends paid on common stock ($1.34 per share)	—	—	—	—	(77,263)	—	(77,263)
Balance at December 31, 2015	9	$2,217	57,724	$990,281	$255,925	$ (6,295)	$1,242,128

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

COLUMBIA BANKING SYSTEM, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2015	2014 (1)	2013 (1)
	(in thousands)		
Cash Flows From Operating Activities			
Net income	$98,827	$81,574	$60,016
Adjustments to reconcile net income to net cash provided by operating activities			
Provision (recapture) for loan and lease losses	8,591	6,727	(101)
Stock-based compensation expense	4,090	2,859	2,844
Depreciation, amortization and accretion	30,312	44,459	40,431
Investment securities gain, net	(1,581)	(552)	(462)
Net realized (gain) loss on sale of other assets	573	564	(48)
Net realized gain on sale and valuation adjustments of other real estate owned (1)	(2,152)	(1,870)	(8,504)
Net realized gain on sale of branches	—	(565)	—
Originations of loans held for sale (1)	(75,689)	(23,344)	(43,046)
Proceeds from sales of loans held for sale (1)	72,296	23,573	44,874
Deferred income tax expense	6,367	14,646	5,413
Net change in:			
Interest receivable	(75)	(944)	(7,938)
Interest payable	(142)	89	(122)
Other assets	(5,419)	(4,479)	(3,385)
Other liabilities	(1,242)	(5,119)	(10,336)
Net cash provided by operating activities	134,756	137,618	79,636
Cash Flows From Investing Activities			
Loans originated and acquired, net of principal collected	(384,321)	(440,376)	(161,827)
Purchases of:			
Securities available for sale	(467,631)	(363,693)	(457,985)
Premises and equipment	(7,581)	(12,485)	(13,133)
Federal Home Loan Bank Stock	(16,760)	—	—
Proceeds from:			
FDIC reimbursement on loss-sharing asset	4,659	5,950	9,246
Sales of securities available for sale	95,375	63,292	166,881
Principal repayments and maturities of securities available for sale	283,206	180,648	293,940
Sales of loans held for investment and other assets (1)	15,074	2,840	2,917
Redemption of Federal Home Loan Bank Stock (1)	37,403	1,288	1,114
Sales of other real estate and other personal property owned	19,387	28,559	36,453
Payments to FDIC related to loss-sharing asset	(1,865)	(3,451)	—
Additions to OREO	—	—	(3,577)
Acquisition of intangible assets	—	—	(919)
Net cash paid in branch sale	—	(16,788)	—
Net cash received (paid) in business combinations	—	32,255	(154,170)
Net cash used in investing activities	(423,054)	(521,961)	(281,060)
Cash Flows From Financing Activities			
Net increase in deposits	514,107	250,629	33,983
Net increase (decrease) in repurchase agreements	(5,381)	21,037	—
Proceeds from:			

Exercise of stock options	1,258	929	1,092
Exercise of warrants	—	5,000	—
Federal Home Loan Bank advances	1,702,000	1,602,000	1,215,100
Federal Reserve Bank borrowings	1,010	800	50
Payments for:			
Repayment of Federal Home Loan Bank advances	(1,850,000)	(1,422,000)	(1,313,000)
Repayment of Federal Reserve Bank borrowings	(1,010)	(800)	(50)
Preferred stock dividends	(137)	(96)	(32)
Common stock dividends	(77,263)	(49,494)	(19,858)
Repayment of other borrowings	(8,248)	(14,636)	(51,000)
Purchase and retirement of common stock	(906)	(622)	(429)
Excess tax benefit from stock-based compensation	—	205	1,203
Net cash provided by (used in) financing activities	275,430	392,952	(132,941)
Increase (decrease) in cash and cash equivalents	(12,868)	8,609	(334,365)
Cash and cash equivalents at beginning of period	188,170	179,561	513,926
Cash and cash equivalents at end of period	$175,302	$188,170	$179,561

Table of Contents

COLUMBIA BANKING SYSTEM, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED

	Years Ended December 31,		
	2015	2014 (1)	2013 (1)
	(in thousands)		
Supplemental Information:			
Cash paid during the year for:			
Cash paid for interest	$4,146	$3,904	$5,962
Cash paid for income tax	$30,522	$21,230	$26,754
Non-cash investing and financing activities			
Loans transferred to other real estate owned	$8,688	$10,200	$18,100
Share-based consideration issued in business combinations	$—	$116,907	$276,181

(1) Reclassified to conform to the current period's presentation. There were no changes to cash flows from operating, investing, or financing activities as a result of these reclassifications.

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

COLUMBIA BANKING SYSTEM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2015, 2014 and 2013

1. Summary of Significant Accounting Policies

Organization

Columbia Banking System, Inc. (the “Corporation”, “we”, “our”, “Columbia” or the “Company”) is the holding company for Columbia State Bank (“Columbia Bank” or the “Bank”) and West Coast Trust Company, Inc. (“West Coast Trust”). The Bank provides a full range of financial services through 149 branch locations, including 74 in the State of Washington, 59 in Oregon and 16 in Idaho. West Coast Trust provides fiduciary, agency, trust and related services, and life insurance products. Because the Bank comprises substantially all of the business of the Corporation, references to the “Company” mean the Corporation, the Bank and West Coast Trust together. The Corporation is approved as a bank holding company pursuant to the Gramm-Leach-Bliley Act of 1999.

The Company’s accounting and reporting policies conform to accounting principles generally accepted in the United States of America (“GAAP”) and practices in the financial services industry. To prepare the financial statements in conformity with GAAP, management must make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and income and expenses during the reporting period. Circumstances and events that differ significantly from those underlying our estimates and assumptions could cause actual financial results to differ from our estimates. The most significant estimates included in the financial statements relate to the allowance for loan and lease losses, business combinations, purchased credit impaired loans, Federal Deposit Insurance Corporation (“FDIC”) loss-sharing asset and goodwill impairment.

The Company has applied its accounting policies and estimation methods consistently in all periods presented in these financial statements (to the periods in which they applied).

Consolidation

The consolidated financial statements of the Company include the accounts of the Corporation and its subsidiaries, including the Bank and West Coast Trust. Intercompany balances and transactions have been eliminated in consolidation.

Cash and cash equivalents

Cash and cash equivalents include cash and due from banks, and interest bearing balances due from correspondent banks and the Federal Reserve Bank. Cash equivalents have a maturity of 90 days or less at the time of purchase.

Securities

Securities are classified based on management’s intention on the date of purchase. All securities are classified as available for sale and are presented at fair value. Unrealized gains or losses on securities available for sale are excluded from net income but are included as separate components of other comprehensive income, net of taxes. Purchase premiums or discounts on securities available for sale are amortized or accreted into income using the interest method over the terms of the individual securities. The Company performs a quarterly assessment to determine whether a decline in fair value below amortized cost is other-than-temporary. Amortized cost includes adjustments made to the cost of an investment for accretion, amortization, collection of cash and previous other-than temporary impairment recognized in earnings. Other-than-temporary impairment exists when it is probable that the Company will be unable to recover the entire amortized cost basis of the security.

In performing the quarterly assessment for debt securities, management considers whether or not the Company expects to recover the entire amortized cost basis of the security. In addition, management also considers whether it is more likely than not that it will not have to sell the security before recovery of its cost basis. If the Company intends to sell a security or it is more likely than not it will be required to sell a security prior to recovery of its cost basis, the entire amount of impairment is recognized in earnings. If the Company does not intend to sell the security or it is not more likely than not it will be required to sell the security prior to recovery of its cost basis, the credit loss component of impairment is recognized in earnings and impairment associated with non-credit factors, such as market liquidity, is recognized in other comprehensive income net of tax. A credit loss is the difference between the cost basis of the security and the present value of cash flows expected to be collected, discounted at the security’s effective interest rate at the date of acquisition. The cost basis of an other-than-temporarily impaired security is written down by the amount

of impairment recognized in earnings. The new cost basis is not adjusted for subsequent recoveries in fair value. However, the difference between the new amortized cost basis and the cash flows expected to be collected is accreted as interest income. The total other-than-temporary impairment, if any, is presented in

Table of Contents

the consolidated statements of income with a reduction for the amount of other-than-temporary impairment that is recognized in other comprehensive income, if any.

Realized gains or losses on sales of securities available for sale are recorded using the specific identification method.

Federal Home Loan Bank Stock

Effective May 31, 2015, the Federal Home Loan Bank of Des Moines (the "FHLB Des Moines") completed its merger with the Federal Home Loan Bank of Seattle (the "FHLB Seattle"). At closing, the FHLB Seattle merged with and into the FHLB Des Moines, with the FHLB Des Moines surviving the merger as the continuing bank. Also at closing, the Company, a member of the FHLB Seattle, automatically became a member of the FHLB Des Moines. Pursuant to the terms of the merger, each share of the Company's FHLB Seattle Class B stock was converted into one share of FHLB Des Moines Class B stock.

FHLB Des Moines Class B stock is composed of two sub-classes: membership stock and activity based stock. Membership stock is stock we are required to purchase and hold as a condition of membership in the FHLB Des Moines. The Company's membership stock purchase requirement is measured as a percentage of our year-end assets, subject to a $10 million cap. Activity based stock is stock we are required to purchase and hold in order to obtain an advance or participate in FHLB Des Moines mortgage programs. Class B stock may be redeemed, subject to certain limitations, on five years' written notice to the FHLB Des Moines. FHLB Des Moines capital stock is carried at par value because the shares are issued, transferred, redeemed, and repurchased by the FHLB Des Moines at a par value of $100. FHLB Des Moines capital stock is subject to recoverability testing per the Financial Services-Depository and Lending topic of the FASB Accounting Standards Codification ("ASC").

Loans

Loans, excluding purchased credit impaired loans are generally carried at the unpaid principal balance, net of premiums, discounts and net deferred loan fees. Net deferred loan fees include nonrefundable loan origination fees less direct loan origination costs. Net deferred loan fees, premiums and discounts are amortized into interest income using either the interest method or straight-line method over the terms of the loans, adjusted for actual prepayments. The amortization is calculated using the interest method for all loans except revolving loans, for which the straight-line method is used. Interest income is accrued as earned. Fees related to lending activities other than the origination or purchase of loans are recognized as noninterest income during the period the related services are performed.

Nonaccrual loans—Loans are placed on nonaccrual status when a loan becomes contractually past due 90 days with respect to interest or principal unless the loan is both well secured and in the process of collection, or if full collection of interest or principal becomes uncertain. When a loan is placed on nonaccrual status, any accrued and unpaid interest receivable is reversed and the amortization of net deferred loan fees, premiums and discounts ceases. Thereafter, interest collected on the loan is accounted for on the cash collection or cost recovery method until qualifying for return to accrual status. Generally, a loan may be returned to accrual status when the delinquent principal and interest are brought current in accordance with the terms of the loan agreement for a minimum period of six months and future payments are reasonably assured.

Impaired loans—Loans are considered impaired when based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement or when a loan has been modified in a troubled debt restructuring. The assessment for impairment occurs when and while such loans are designated as classified per the Company's internal risk rating system or when and while such loans are on nonaccrual. All nonaccrual loans greater than $500,000 and all troubled debt restructured loans are considered impaired and analyzed individually on a quarterly basis. Classified loans with an outstanding balance greater than $500,000 are evaluated for potential impairment on a quarterly basis.

When a loan with unique risk characteristics has been identified as being impaired, the amount of impairment will be measured by the Company using discounted cash flows, except when it is determined that the remaining source of repayment for the loan is the operation or liquidation of the underlying collateral. In these cases, the current fair value of the collateral, reduced by costs to sell, will be used in place of discounted cash flows. As a final alternative, the observable market price of the debt may be used to assess impairment. Predominantly, the Company uses the fair

value of collateral approach based upon a reliable valuation.

When the measurement of the impaired loan is less than the recorded amount of the loan, an impairment is recognized by recording a charge-off to the allowance for loan and lease losses or by designating a specific reserve. The Company's policy is to record cash receipts received on impaired loans first as reductions to principal and then to interest income.

Table of Contents

Restructured Loans—A loan is classified as a troubled debt restructuring when a borrower is experiencing financial difficulties that lead to a restructuring of the loan, and the Company grants concessions to the borrower in the restructuring that it would not otherwise consider. These concessions may include interest rate reductions, principal forgiveness, extension of maturity date and other actions intended to minimize potential losses. Generally, a nonaccrual loan that is restructured remains on nonaccrual status for a period of six months to demonstrate that the borrower can meet the restructured terms. If the borrower's performance under the new terms is not reasonably assured, the loan remains classified as a nonaccrual loan.

Purchased Credit Impaired Loans ("PCI Loans")—Loans acquired with evidence of credit deterioration since origination for which it is probable that all contractually required payments will not be collected are accounted for under ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality. In addition, because of the significant discounts associated with certain of the acquired loan portfolios, the Company elected to account for those certain acquired loans under ASC 310-30.

In situations where such loans have similar risk characteristics, loans are aggregated into pools to estimate cash flows. A pool is accounted for as a single asset with a single interest rate, cumulative loss rate and cash flow expectation. Expected cash flows at the acquisition date in excess of the fair value of loans are considered to be accretable yield, which is recognized as interest income over the life of the loan pool using a level yield method if the timing and amount of the future cash flows of the pool is reasonably estimable. Subsequent to the acquisition date, any increases in cash flow over those expected at purchase date in excess of fair value are recorded as interest income prospectively. Any subsequent decreases in cash flow over those expected at purchase date due to credit deterioration are recognized by recording an allowance for losses on purchased credit impaired loans. Any disposals of loans, including sales of loans, payments in full or foreclosures result in the removal of the loan from the loan pool at the carrying amount.

Unfunded loan commitments—Unfunded commitments are generally related to providing credit facilities to clients of the Bank and are not actively traded financial instruments. These unfunded commitments are disclosed as financial instruments with off-balance sheet risk in Note 17 in the Notes to Consolidated Financial Statements.

Allowance for Loan and Lease Losses

The Company accounts for the credit risk associated with lending activities through its allowance for loan and lease losses and provision for loan and lease losses. The provision is the expense recognized in the consolidated statements of income to adjust the allowance to the levels deemed appropriate by management, as determined through application of the Company's allowance methodology procedures. The provision for loan and lease losses reflects management's judgment of the adequacy of the allowance for loan and lease losses. Loan and lease losses are charged against the allowance when management believes the collectability of a loan balance is unlikely. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan and lease losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, and estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of general, specific, and unallocated components. The general component covers loans not specifically measured for impairment and is based on historical loss experience adjusted for qualitative factors. The specific component relates to loans that are impaired. For impaired loans an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The unallocated allowance provides for other credit losses inherent in the Company's loan portfolio that may not have been contemplated in the general and specific components of the allowance. This unallocated amount generally comprises less than 5% of the allowance. The unallocated amount is reviewed periodically based on trends in credit losses, the results of credit reviews and overall economic trends.

Allowance for Loan Losses on Purchased Credit Impaired Loans

The Company updates its cash flow projections for purchased credit impaired loans accounted for under ASC 310-30 on a quarterly basis. Assumptions utilized in this process include projections related to probability of default, loss severity, prepayment and recovery lag. Projections related to probability of default and prepayment are calculated

utilizing a loan migration analysis. The loan migration analysis is a matrix of probability that is used to estimate the probability of a loan pool transitioning into a particular delinquency state given its delinquency state at the remeasurement date. Loss severity factors are based upon either actual charge-off data within the loan pools or industry averages, and recovery lags are based upon the collateral within the loan pools.

Table of Contents

Any decreases in expected cash flows after the acquisition date and subsequent measurement periods are recognized by recording a provision for loan losses. See Purchased Credit Impaired Loans for further discussion.

Allowance for Unfunded Commitments and Letters of Credit

The allowance for unfunded commitments is maintained at a level believed by management to be sufficient to absorb estimated probable losses related to these unfunded credit facilities. The determination of the adequacy of the allowance is based on periodic evaluations of the unfunded credit facilities including an assessment of the probability of commitment usage, credit risk factors for loans outstanding to these same customers, and the terms and expiration dates of the unfunded credit facilities. The allowance for unfunded commitments is included in other liabilities on the consolidated balance sheets, with changes to the balance charged against noninterest expense.

Premises and Equipment

Land, buildings, leasehold improvements and equipment are stated at cost less accumulated depreciation and amortization. Gains or losses on dispositions are reflected in current operations. Expenditures for improvements and major renewals are capitalized, and ordinary maintenance, repairs and small purchases are charged to operating expenses. Depreciation and amortization are computed based on the straight-line method over the estimated useful lives of the various classes of assets. The ranges of useful lives for the principal classes of assets are as follows:

Buildings and building improvements	5 to 39 years
Leasehold improvements	Term of lease or useful life, whichever is shorter
Furniture, fixtures and equipment	3 to 7 years
Vehicles	5 years
Computer software	3 to 5 years

Software

Capitalized software is stated at cost, less accumulated amortization. Amortization is computed on a straight-line basis and charged to expense over the estimated useful life of the software, which is generally three years. Capitalized software is included in Premises and equipment, net in the consolidated balance sheets.

Other Real Estate Owned (“OREO”)

OREO is composed of real estate acquired in satisfaction of loans. Properties acquired by foreclosure or deed in lieu of foreclosure are transferred to OREO and are recorded at fair value less estimated costs to sell at the date of transfer of the property. The fair value of the OREO property is based upon current appraisal. If the carrying value exceeds the fair value at the time of the transfer, the difference is charged to the allowance for loan and lease losses. Losses that result from the ongoing periodic valuation of these properties are charged to the net cost of operation of OREO in the period in which they are identified. Improvements to the OREO are capitalized and holding costs are charged to the net cost of operation of OREO as incurred.

FDIC Loss-sharing Asset

The acquisition date fair value of the reimbursement the Company expected to receive from the FDIC under loss-sharing agreements was recorded in the FDIC loss-sharing asset on the consolidated balance sheet. Subsequent to initial recognition, the FDIC loss-sharing asset is reviewed quarterly and adjusted for any changes in expected cash flows. These adjustments are measured on the same basis as the related covered assets. Any decrease in expected cash flows for the covered assets due to an increase in expected credit losses will increase the FDIC loss-sharing asset and any increase in expected future cash flows for the covered assets due to a decrease in expected credit losses will decrease the FDIC loss-sharing asset. Changes in the estimated cash flows on covered assets that are immediately recognized in income generally result in a similar immediate adjustment to the loss-sharing asset while changes in expected cash flows on covered assets that are accounted for as an adjustment to yield generally result in adjustments to the amortization or accretion rate for the loss-sharing asset. Increases and decreases to the FDIC loss-sharing asset are recorded as adjustments to noninterest income.

Table of Contents

Goodwill and Intangibles

Net assets of companies acquired in purchase transactions are recorded at fair value at the date of acquisition. Identified intangibles are amortized on an accelerated basis over the period benefited. Goodwill is not amortized but is reviewed for potential impairment during the third quarter on an annual basis or, more frequently, if events or circumstances indicate a potential impairment, at the reporting unit level. A reporting unit is an operating segment or one level below an operating segment for which discrete financial information is available and regularly reviewed by management. The Company consists of a single reporting unit. If the fair value of the reporting unit, including goodwill, is determined to be less than the carrying amount of the reporting unit, a further test is required to measure the amount of impairment. If an impairment loss exists, the carrying amount of goodwill is adjusted to a new cost basis. Subsequent reversal of a previously recognized goodwill impairment loss is prohibited.

Intangible assets are evaluated for impairment if events and circumstances indicate a possible impairment. Such evaluation of other intangible assets is based on undiscounted cash flow projections. At December 31, 2015, intangible assets included on the consolidated balance sheets principally consists of a core deposit intangible amortized using an accelerated method with an original estimated life of 10 years.

Income Taxes

The provision for income taxes includes current and deferred income tax expense on net income adjusted for temporary and permanent differences such as interest income on state and municipal securities and investments in affordable housing credits. Deferred tax assets and liabilities are recognized for the expected future tax consequences of existing temporary differences between the financial reporting and tax reporting basis of assets and liabilities using enacted tax laws and rates. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. On a quarterly basis, management evaluates deferred tax assets to determine if these tax benefits are expected to be realized in future periods. This determination is based on facts and circumstances, including the Company's current and future tax outlook. To the extent a deferred tax asset is no longer considered "more likely than not" to be realized, a valuation allowance is established.

We recognize the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. We recognize interest and penalties related to unrecognized tax benefits in "Provision for income taxes" in the consolidated statements of income.

Advertising

Advertising costs are generally expensed as incurred.

Earnings per Common Share

The Company's capital structure includes convertible preferred shares, common shares, restricted common shares, common share options, and during portions of 2014 and 2013, warrants to purchase common shares. Restricted common shares participate in dividends declared on common shares at the same rate as common shares. Convertible preferred shares participate in dividends declared on common shares on an "as if converted" basis. Accordingly, the Company calculates earnings per common share ("EPS") using the two-class method under the Earnings per Share topic of the FASB ASC. The two-class method is an earnings allocation formula that treats a participating security as having rights to earnings that otherwise would have been available to common shareholders but does not require the presentation of basic and diluted EPS for securities other than common shares.

Under the two-class method, basic EPS is computed by dividing earnings allocated to common shareholders by the weighted average number of common shares outstanding for the period. Earnings allocated to common shareholders represents net income reduced by earnings allocated to participating securities. Participating securities include nonvested restricted stock awards and preferred stock. Diluted EPS is computed in the same manner as basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if certain shares issuable upon exercise of options and warrants were included unless those additional shares would have been anti-dilutive. For the diluted EPS computation, the treasury stock method is applied and compared to the two-class method and whichever method results in a more dilutive impact is utilized to calculate diluted EPS.

Table of Contents

Share-Based Payment

The Company accounts for stock options and stock awards in accordance with the Compensation—Stock Compensation topic of the FASB ASC. Authoritative guidance requires the Company to measure the cost of employee services received in exchange for an award of equity instruments, such as stock options or stock awards, based on the fair value of the award on the grant date. This cost must be recognized in the consolidated statements of income over the vesting period of the award.

The Company issues restricted stock awards which generally vest over a four- or five-year period during which time the holder receives dividends and has full voting rights. Restricted stock is valued at the closing price of the Company’s stock on the date of an award.

Derivatives and Hedging Activities

In accordance with the Derivatives and Hedging topic of the FASB ASC, the Company recognizes derivatives as assets or liabilities on the consolidated balance sheets at their fair value. The Company periodically enters into interest rate contracts with customers and offsetting contracts with third parties. As these interest rate contracts are not designated as hedges under the Derivatives and Hedging topic of the FASB ASC, the changes in fair value of these instruments are recognized immediately in earnings.

Accounting Pronouncements

During the year ended December 31, 2015, the following Accounting Standards Updates were issued or became effective:

In September 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2015-16, Simplifying the Accounting for Measurement-Period Adjustments. The amendments in ASU 2015-16 require that the acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amount is determined. The acquirer is required to also record, in the same period’s financial statements, the effect on earnings as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. In addition, an entity is required to present separately on the face of the income statement or disclose in the notes to the financial statements the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The amendments in ASU 2015-16 are effective for years beginning after December 15, 2015. Early adoption is permitted for reporting periods for which financial statements have not been issued. The Company early adopted the amendments in ASU 2015-16 in 2015. Adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In June 2014, the FASB issued ASU 2014-11, Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. The amendments in ASU 2014-11 change the accounting for repurchase-to-maturity transactions and linked repurchase financings to secured borrowing accounting, which is consistent with accounting for other repurchase agreements. Additionally, the amendment requires new disclosures on transfers accounted for as sales in transactions that are economically similar to repurchase agreements and requires increased transparency on collateral pledged in secured borrowings. The amendments in this update were effective for the first interim or annual period beginning after December 31, 2014, with the exception of the collateral disclosures which were effective for interim periods beginning after March 15, 2015. Adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In May 2014, FASB issued ASU 2014-09, Revenue from Contracts with Customers. The guidance in this update supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the industry topics of the codification. For public companies, this update was to be effective for interim and annual periods beginning after December 15, 2016. However, in August 2015, the FASB issued ASU 2015-14, which delayed the effective date of ASU 2014-09 by one year and permits companies to voluntarily adopt the new standard as of the original effective date. The Company is currently assessing the impact that this guidance will have on its consolidated financial statements, but does not expect the guidance to have a material impact on the Company’s consolidated financial statements.

In April 2014, the FASB issued ASU No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. ASU 2014-08 raises the threshold for a disposal to qualify as a discontinued operation

and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. It is effective for annual periods beginning on or after December 15, 2014. Adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

Table of Contents

In January 2014, the FASB issued ASU 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure. The update clarifies when a creditor would be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that all or a portion of the loan would be derecognized and the real estate property recognized. Under the guidance, a consumer loan collateralized by residential real estate should be reclassified to other real estate owned when (1) the creditor obtains legal title to the residential property or (2) the borrower conveys all interest in the property to the creditor to satisfy the loan by completing a deed in lieu of foreclosure or similar agreement. In addition, an entity is required to disclose the amount of residential real estate meeting the conditions above and the recorded investment in consumer mortgage loans secured by residential real estate that are in the process of foreclosure. ASU 2014-04 was effective for annual and interim reporting periods within those annual periods, beginning after December 15, 2014. Adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

2. Business Combinations

Intermountain Community Bancorp

On November 1, 2014, the Company completed its acquisition of Intermountain Community Bancorp (“Intermountain”) and its wholly-owned banking subsidiary Panhandle State Bank. The Company acquired 100% of the equity interests of Intermountain. The primary reason for the acquisition was to expand the Company's geographic footprint into the state of Idaho, consistent with its ongoing growth strategy.

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 November 1, 2014 acquisition date. Initial accounting for deferred taxes was provisionally measured as of November 1, 2014. During the current year, the provisionally measured deferred taxes were finalized. The resulting adjustment was a decrease in other assets of $225 thousand and a corresponding increase in goodwill of $225 thousand. There was no impact to earnings as a result of these adjustments. These adjustments were recorded as current period adjustments pursuant to the Company’s early adoption of ASU 2015-16. The application of the acquisition method of accounting resulted in the recognition of goodwill of $38.8 million and a core deposit intangible of $10.9 million, or 1.75% of core deposits. The goodwill represents the excess purchase price over the fair value of the net assets acquired. The goodwill is not deductible for income tax purposes.

Table of Contents

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

	November 1, 2014 (in thousands)
Purchase price as of November 1, 2014	$131,935
Recognized amounts of identifiable assets acquired and (liabilities assumed), at fair value:	
Cash and cash equivalents	$47,283
Investment securities	299,458
Federal Home Loan Bank stock	2,124
Acquired loans	502,595
Interest receivable	4,656
Premises and equipment	20,696
Other real estate owned	2,752
Core deposit intangible	10,900
Other assets	35,128
Deposits	(736,795)
Other borrowings	(22,904)
Securities sold under agreements to repurchase	(59,043)
Other liabilities	(13,725)
Total fair value of identifiable net assets	93,125
Goodwill	$38,810

See Note 10, Goodwill and Other Intangible Assets, for further discussion of the accounting for goodwill and other intangible assets.

The operating results of the Company reported herein include the operating results produced by the acquired assets and assumed liabilities for the period November 1, 2014 to December 31, 2015. Disclosure of the amount of Intermountain’s revenue and net income (excluding integration costs) included in Columbia’s consolidated income statement is impracticable due to the integration of the operations and accounting for this acquisition.

Table of Contents

For illustrative purposes only, the following table presents certain unaudited pro forma information for the years ended December 31, 2014 and 2013. This unaudited estimated pro forma financial information was calculated as if Intermountain 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 Intermountain 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. In particular, no adjustments have been made to eliminate the impact of other-than-temporary impairment losses and losses recognized on the sale of securities that may not have been necessary had the investment securities been recorded at fair value as of the beginning of the year prior to the date of 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, Columbia expects to achieve further operating cost savings and other business synergies, including revenue growth as a result of the acquisition, which are not reflected in the pro forma amounts that follow. As a result, actual amounts would have differed from the unaudited pro forma information presented.

	Unaudited Pro Forma Years Ended December 31,	
	2014	2013
	(in thousands except per share)	
Total revenues (net interest income plus noninterest income)	$397,152	$360,655
Net income	$85,939	$72,587
Earnings per share - basic	$1.56	$1.32
Earnings per share - diluted	$1.55	$1.31

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

	Year ended December 31,	
	2015	2014
	(in thousands)	
Noninterest Expense		
Compensation and employee benefits	$3,828	$2,077
Occupancy	2,357	44
Advertising and promotion	448	464
Data processing	2,005	—
Legal and professional fees	1,247	2,114
Other	960	197
Total impact of acquisition-related costs to noninterest expense	$10,845	$4,896

West Coast Bancorp

On April 1, 2013, the Company completed its acquisition of West Coast Bancorp ("West Coast"). The Company paid $540.8 million in total consideration to acquire 100% of the voting equity interests of West Coast. The primary reason for the acquisition was to expand the Company's geographic footprint consistent with its ongoing growth strategy. 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 April 1, 2013 acquisition date. The application of the acquisition method of accounting resulted in the recognition of goodwill of $228.4 million and a core deposit intangible of $15.3 million, or 0.89% of core deposits. The goodwill represents the excess purchase price over the fair value of the net assets acquired. The goodwill is not deductible for income tax purposes.

Table of Contents

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

	April 1, 2013 (in thousands)
Purchase price as of April 1, 2013	$540,791
Recognized amounts of identifiable assets acquired and (liabilities assumed), at fair value:	
Cash and cash equivalents	$110,440
Investment securities	730,842
Federal Home Loan Bank stock	11,824
Acquired loans	1,407,798
Premises and equipment	35,884
Other real estate owned	14,708
Core deposit intangible	15,257
Other assets	75,820
Deposits	(1,883,407)
Federal Home Loan Bank advances	(128,885)
Other borrowings	(51,000)
Other liabilities	(26,888)
Total fair value of identifiable net assets	312,393
Goodwill	$228,398

The operating results of the Company include the operating results produced by the acquired assets and assumed liabilities for the period April 1, 2013 to December 31, 2015. Disclosure of the amount of West Coast's revenue and net income (excluding integration costs) included in Columbia's consolidated income statement 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 year ended December 31, 2013 as if West Coast 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 West Coast 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. In particular, no adjustments have been made to eliminate the impact of other-than-temporary impairment losses and losses recognized on the sale of securities that may not have been necessary had the investment securities been recorded at fair value as of the beginning of the year prior to the date of 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, Columbia expects to achieve further operating cost savings and other business synergies, including revenue growth, as a result of the acquisition, which are not reflected in the pro forma amounts that follow. As a result, actual amounts would have differed from the unaudited pro forma information presented.

	Unaudited Pro Forma Year Ended December 31, 2013 (in thousands except per share)
Total revenues (net interest income plus noninterest income)	$337,712
Net income	$76,496
Earnings per share - basic	$1.50
Earnings per share - diluted	$1.46

77

Table of Contents

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

	Years ended December 31,		
	2015	2014	2013
	(in thousands)		
Noninterest Expense			
Compensation and employee benefits	$65	$798	$8,440
Occupancy	—	696	4,684
Advertising and promotion	—	—	877
Data processing	—	684	767
Legal and professional fees	7	383	4,766
Other	—	1,975	5,954
Total impact of acquisition-related costs to noninterest expense	$72	$4,536	$25,488

3. Cash and Cash Equivalents

The Company is required to maintain an average reserve balance with the Federal Reserve Bank or maintain such reserve balance in the form of cash. The average required reserve balance for the years ended December 31, 2015 and 2014 was approximately $61.6 million and $47.4 million, respectively, and was met by holding cash and maintaining an average balance with the Federal Reserve Bank.

4. Securities

At December 31, 2015 the Company's securities portfolio primarily consisted of securities issued by the U.S. government, U.S. government agencies, U.S. government-sponsored enterprises and state and municipalities. All of the Company's mortgage-backed securities and collateralized mortgage obligations are issued by U.S. government agencies and U.S. government-sponsored enterprises and are implicitly guaranteed by the U.S. government. The Company had no other issuances in its portfolio which exceeded ten percent of shareholders' equity.

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2015	(in thousands)			
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	$1,296,955	$4,525	$(14,991)	$1,286,489
State and municipal securities	480,417	12,690	(938)	492,169
U.S. government agency and government-sponsored enterprise securities	354,515	1,113	(1,846)	353,782
U.S. government securities	20,439	—	(302)	20,137
Other securities	5,284	24	(191)	5,117
Total	$2,157,610	$18,352	$(18,268)	$2,157,694
December 31, 2014				
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	$1,160,378	$10,219	$(8,210)	$1,162,387
State and municipal securities	483,578	14,432	(1,526)	496,484
U.S. government agency and government-sponsored enterprise securities	416,919	856	(4,069)	413,706
U.S. government securities	20,910	—	(411)	20,499
Other securities	5,284	20	(123)	5,181
Total	$2,087,069	$25,527	$(14,339)	$2,098,257

78

Table of Contents

Proceeds from sales of securities available-for-sale were $95.4 million, $63.3 million and $166.9 million for the years ended December 31, 2015, 2014 and 2013, respectively. The following table provides the gross realized gains and losses on the sales and calls of securities for the periods indicated:

	Years Ended December 31,		
	2015	2014	2013
	(in thousands)		
Gross realized gains	$1,591	$553	$632
Gross realized losses	(10)	(1)	(170)
Net realized gains	$1,581	$552	$462

The scheduled contractual maturities of investment securities available for sale at December 31, 2015 are presented as follows:

	December 31, 2015	
	Amortized Cost	Fair Value
	(in thousands)	
Due within one year	$22,191	$22,418
Due after one year through five years	458,889	458,372
Due after five years through ten years	702,234	703,088
Due after ten years	969,012	968,699
Other securities with no stated maturity	5,284	5,117
Total investment securities available-for-sale	$2,157,610	$2,157,694

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

	December 31, 2015	December 31, 2014
	(in thousands)	
Washington and Oregon State to secure public deposits	$341,079	$328,400
Federal Reserve Bank to secure borrowings	48,714	41,146
Other securities pledged	143,606	157,097
Total securities pledged as collateral	$533,399	$526,643

Table of Contents

The following tables show the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2015 and 2014:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2015	(in thousands)					
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	$664,509	$(7,610)	$214,325	$(7,381)	$878,834	(14,991)
State and municipal securities	48,261	(358)	31,383	(580)	79,644	(938)
U.S. government agency and government-sponsored enterprise securities	193,400	(1,128)	40,034	(718)	233,434	(1,846)
U.S. government securities	10,343	(136)	9,794	(166)	20,137	(302)
Other securities	2,300	(15)	2,780	(176)	5,080	(191)
Total	$918,813	$(9,247)	$298,316	$(9,021)	$1,217,129	$(18,268)
December 31, 2014						
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	$258,825	$(1,287)	$279,015	$(6,924)	$537,840	$(8,211)
State and municipal securities	71,026	(543)	44,148	(982)	115,174	(1,525)
U.S. government agency and government-sponsored enterprise securities	105,250	(518)	216,221	(3,551)	321,471	(4,069)
U.S. government securities	—	—	19,450	(411)	19,450	(411)
Other securities	2,313	(2)	2,834	(121)	5,147	(123)
Total	$437,414	$(2,350)	$561,668	$(11,989)	$999,082	$(14,339)

At December 31, 2015, there were 143 U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations securities in an unrealized loss position, of which 49 were in a continuous loss position for 12 months or more. The decline in fair value is attributable to changes in interest rates relative to where these investments fall within the yield curve and their individual characteristics. Because the Company does not currently intend to sell these securities nor does the Company consider it more likely than not that it will be required to sell these securities before the recovery of amortized cost basis, which may be upon maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2015.

At December 31, 2015, there were 67 state and municipal government securities in an unrealized loss position, of which 27 were in a continuous loss position for 12 months or more. The unrealized losses on state and municipal securities were caused by interest rate changes or widening of market spreads subsequent to the purchase of the individual securities. Management monitors published credit ratings of these securities for adverse changes. As of December 31, 2015 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 currently intend to sell these securities nor does the Company consider it more likely than not that it will be required to sell these securities before the recovery of amortized cost basis, which may be upon maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2015.

At December 31, 2015, there were 25 U.S. government agency and government-sponsored enterprise securities in an unrealized loss position, of which five were in a continuous loss position for 12 months or more. The decline in fair

value is attributable to changes in interest rates relative to where these investments fall within the yield curve and their individual characteristics. Because the Company does not currently intend to sell these securities nor does the Company consider it more likely than not that it will be required to sell these securities before the recovery of amortized cost basis, which may be upon maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2015.

At December 31, 2015, there were three U.S. government securities in an unrealized loss position, one of which was in a continuous loss position for 12 months or more. The decline in fair value is attributable to changes in interest rates relative to where these investments fall within the yield curve and their individual characteristics. Because the Company does not currently intend to sell this security nor does the Company consider it more likely than not that it will be required to sell this security before the recovery of amortized cost basis, which may be upon maturity, the Company does not consider this investment to be other-than-temporarily impaired at December 31, 2015.

Table of Contents

At December 31, 2015, there were two other securities in an unrealized loss position, of which one security, a mortgage-backed securities fund was in a continuous unrealized loss position for 12 months or more. The decline in fair value is attributable to changes in interest rates and the additional risk premium investors are demanding for investment securities with these characteristics. The Company does not consider this investment to be other-than-temporarily impaired at December 31, 2015 as it has the intent and ability to hold the investment for sufficient time to allow for recovery in the market value.

5. Loans

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

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

	December 31, 2015			December 31, 2014		
	Loans, excluding PCI loans	PCI Loans	Total	Loans, excluding PCI loans	PCI Loans	Total
	(in thousands)					
Commercial business	$2,362,575	$34,848	$2,397,423	$2,119,565	$44,505	$2,164,070
Real estate:						
One-to-four family residential	176,295	23,938	200,233	175,571	26,993	202,564
Commercial and multifamily residential	2,491,736	99,389	2,591,125	2,363,541	128,769	2,492,310
Total real estate	2,668,031	123,327	2,791,358	2,539,112	155,762	2,694,874
Real estate construction:						
One-to-four family residential	135,874	2,278	138,152	116,866	4,021	120,887
Commercial and multifamily residential	167,413	1,630	169,043	134,443	2,321	136,764
Total real estate construction	303,287	3,908	307,195	251,309	6,342	257,651
Consumer	342,601	18,823	361,424	364,182	23,975	388,157
Less: Net unearned income	(42,373)	—	(42,373)	(59,374)	—	(59,374)
Total loans, net of unearned income	5,634,121	180,906	5,815,027	5,214,794	230,584	5,445,378
Less: Allowance for loan and lease losses	(54,446)	(13,726)	(68,172)	(53,233)	(16,336)	(69,569)
Total loans, net	$5,579,675	$167,180	$5,746,855	$5,161,561	$214,248	$5,375,809
Loans held for sale	$4,509	$—	$4,509	$1,116	$—	$1,116

At December 31, 2015 and 2014, the Company had no material foreign activities. Substantially all of the Company's loans and unfunded commitments are geographically concentrated in its service areas within the states of Washington, Oregon and Idaho.

The Company has made loans to executive officers and directors of the Company and related interests. These loans are made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than the normal risk of collectability. The aggregate dollar amount of these loans was $10.0 million and $13.2 million at December 31, 2015 and 2014, respectively. During 2015, advances on related party loans totaled $6 thousand and repayments on related party loans totaled $3.2 million.

At December 31, 2015 and 2014, $2.22 billion and $1.08 billion of commercial and residential real estate loans were pledged as collateral on Federal Home Loan Bank advances. The Company has also pledged $50.1 million and $46.0

million of commercial loans to the Federal Reserve Bank for additional borrowing capacity at December 31, 2015 and 2014, respectively.

Nonaccrual loans totaled $21.5 million and $31.4 million at December 31, 2015 and 2014, respectively. The amount of interest income foregone as a result of these loans being placed on nonaccrual status totaled $1.3 million for 2015, $2.2 million for 2014 and $2.9 million for 2013. There were no loans 90 days past due and still accruing interest as of December 31, 2015 and $1.4 million loans 90 days past due and still accruing interest as of December 31, 2014. At December 31, 2015 and 2014, there were $2.9 million and $349 thousand, respectively, of commitments of additional funds for loans accounted for on a nonaccrual basis.

Table of Contents

The following is an analysis of nonaccrual loans as of December 31, 2015 and 2014:

	December 31, 2015		December 31, 2014	
	Recorded Investment Nonaccrual Loans	Unpaid Principal Balance Nonaccrual Loans	Recorded Investment Nonaccrual Loans	Unpaid Principal Balance Nonaccrual Loans
	(in thousands)			
Commercial business:				
Secured	$9,395	$ 15,688	$16,552	$ 21,453
Unsecured	42	256	247	269
Real estate:				
One-to-four family residential	820	1,866	2,822	5,680
Commercial and multifamily residential:				
Commercial land	349	332	821	1,113
Income property	2,843	3,124	3,200	5,521
Owner occupied	6,321	8,943	3,826	5,837
Real estate construction:				
One-to-four family residential:				
Land and acquisition	362	385	95	112
Residential construction	566	679	370	370
Commercial and multifamily residential:				
Owner occupied	—	—	480	489
Consumer	766	990	2,939	3,930
Total	$21,464	$ 32,263	$31,352	$ 44,774

Table of Contents

Loans, excluding purchased credit impaired loans

The following is an aging of the recorded investment of the loan portfolio as of December 31, 2015 and 2014:

	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, 2015	(in thousands)						
Commercial business:							
Secured	$2,241,069	$11,611	$617	$—	$12,228	$9,395	$2,262,692
Unsecured	94,867	39	—	—	39	42	94,948
Real estate:							
One-to-four family residential	170,913	1,637	66	—	1,703	820	173,436
Commercial and multifamily residential:							
Commercial land	212,740	69	—	—	69	349	213,158
Income property	1,305,502	1,750	684	—	2,434	2,843	1,310,779
Owner occupied	939,396	599	—	—	599	6,321	946,316
Real estate construction:							
One-to-four family residential:							
Land and acquisition	14,388	—	—	—	—	362	14,750
Residential construction	119,809	—	—	—	—	566	120,375
Commercial and multifamily residential:							
Income property	83,634	—	—	—	—	—	83,634
Owner occupied	81,671	—	—	—	—	—	81,671
Consumer	328,219	2,597	780	—	3,377	766	332,362
Total	$5,592,208	$18,302	$2,147	$—	$20,449	$21,464	$5,634,121

	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, 2014	(in thousands)						
Commercial business:							
Secured	$2,004,418	$5,137	$6,149	$1,372	$12,658	$16,552	$2,033,628
Unsecured	79,661	185	—	—	185	247	80,093
Real estate:							
One-to-four family residential	167,197	1,700	45	—	1,745	2,822	171,764
Commercial and multifamily residential:							
Commercial land	187,470	1,454	34	—	1,488	821	189,779
Income property	1,294,982	3,031	786	—	3,817	3,200	1,301,999
Owner occupied	839,689	937	289	—	1,226	3,826	844,741
Real estate construction:							
One-to-four family residential:							
Land and acquisition	15,462	953	—	—	953	95	16,510
Residential construction	97,821	326	—	4	330	370	98,521
Commercial and multifamily residential:							

Income property	73,783	—	—	—	—	—	73,783
Owner occupied	57,470	—	994	—	994	480	58,944
Consumer	341,032	933	118	10	1,061	2,939	345,032
Total	$5,158,985	$14,656	$8,415	$1,386	$24,457	$31,352	$5,214,794

Table of Contents

The following is an analysis of the impaired loans (see Note 1) as of December 31, 2015 and 2014:

	Recorded Investment of Loans Collectively Measured for Contingency Provision	Recorded Investment of Loans Individually Measured for Specific Impairment	Impaired Loans With Recorded Allowance			Impaired Loans Without Recorded Allowance	
			Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance
December 31, 2015	(in thousands)						
Commercial business:							
Secured	$2,257,168	$ 5,524	$690	$718	$ 321	$4,834	$6,455
Unsecured	94,948	—	—	—	—	—	—
Real estate:							
One-to-four family residential	172,150	1,286	314	339	314	972	1,397
Commercial and multifamily residential:							
Commercial land	213,158	—	—	—	—	—	—
Income property	1,308,673	2,106	—	—	—	2,106	2,311
Owner occupied	940,261	6,055	—	—	—	6,055	8,528
Real estate construction:							
One-to-four family residential:							
Land and acquisition	14,283	467	—	—	—	467	490
Residential construction	119,813	562	335	335	3	227	227
Commercial and multifamily residential:							
Income property	83,634	—	—	—	—	—	—
Owner occupied	81,671	—	—	—	—	—	—
Consumer	332,282	80	15	15	15	65	139
Total	$5,618,041	$ 16,080	$1,354	$1,407	$ 653	$14,726	$19,547

	Recorded Investment of Loans Collectively Measured for Contingency Provision	Recorded Investment of Loans Individually Measured for Specific Impairment	Impaired Loans With Recorded Allowance			Impaired Loans Without Recorded Allowance	
			Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance
December 31, 2014	(in thousands)						
Commercial business:							
Secured	$2,023,104	$ 10,524	$99	$99	$ 25	$10,425	$12,410
Unsecured	80,091	2	2	2	2	—	—
Real estate:							
One-to-four family residential	169,619	2,145	424	465	120	1,721	2,370
Commercial and multifamily residential:							
Commercial land	189,779	—	—	—	—	—	—

Income property	1,295,650	6,349	—	—	—	6,349	10,720
Owner occupied	835,895	8,846	582	582	27	8,264	12,732
Real estate construction:							
One-to-four family residential							
Land and acquisition	16,401	109	109	109	67	—	—
Residential construction	98,521	—	—	—	—	—	—
Commercial and multifamily residential:							
Income property	73,783	—	—	—	—	—	—
Owner occupied	58,944	—	—	—	—	—	—
Consumer	344,908	124	—	—	—	124	201
Total	$5,186,695	$ 28,099	$1,216	$1,257	$ 241	$26,883	$38,433

Table of Contents

The following table provides additional information on impaired loans for the years ended December 31, 2015, 2014 and 2013:

	Year Ended December 31, 2015		Year Ended December 31, 2014		Year Ended December 31, 2013	
	Average Recorded Investment Impaired Loans	Interest Recognized on Impaired Loans	Average Recorded Investment Impaired Loans	Interest Recognized on Impaired Loans	Average Recorded Investment Impaired Loans	Interest Recognized on Impaired Loans
	(in thousands)					
Commercial business						
Secured	$7,987	$84	$7,345	$36	$5,636	$19
Unsecured	—	—	19	1	61	3
Real estate:						
One-to-four family residential	2,848	47	2,094	49	1,665	63
Commercial & multifamily residential						
Commercial land	94	—	82	—	1,691	—
Income property	2,913	36	6,782	270	8,910	238
Owner occupied	7,052	26	9,472	956	10,779	971
Real estate construction:						
One-to-four family residential						
Land and acquisition	641	5	694	6	2,624	6
Residential construction	648	—	—	—	420	—
Consumer	189	4	147	9	253	6
Total	$22,372	$202	$26,635	$1,327	$32,039	$1,306

Table of Contents

The following is an analysis of loans classified as troubled debt restructurings ("TDR") for the years ended December 31, 2015, 2014 and 2013:

	Year Ended December 31, 2015			Year Ended December 31, 2014			Year Ended December 31, 2013		
	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	Number of TDR Modifications	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(dollars in thousands)								
Commercial business:									
Secured	5	$ 3,724	$ 3,706	4	$ 759	$ 759	2	$ 190	$ 190
Real estate:									
One-to-four family residential	1	30	30	2	494	494	1	113	113
Commercial and multifamily residential:									
Commercial land	—	—	—	—	—	—	1	137	137
Income property	—	—	—	1	143	126	4	1,186	1,186
Owner occupied	—	—	—	1	1,496	1,496	1	172	172
Real estate construction:									
One-to-four family residential:									
Land and acquisition	—	—	—	—	—	—	1	117	117
Consumer	1	54	54	—	—	—	2	53	53
Total	7	$ 3,808	$ 3,790	8	$ 2,892	$ 2,875	12	$ 1,968	$ 1,968

The Company's loans classified as TDR are loans that have been modified or the borrower has been granted special concessions due to financial difficulties, that if not for the challenges of the borrower, the Company would not otherwise consider. The Company had no commitments to lend additional funds on loans classified as TDR as of December 31, 2015 and 2014. 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. Credit losses for loans classified as TDR are measured on the same basis as impaired loans. For impaired loans, an allowance is established when the collateral value less selling costs (or discounted cash flows or observable market price) of the impaired loan is lower than the recorded investment of that loan. The Company did not have any loans modified as TDR that defaulted within 12 months of being modified as TDR during the years ended December 31, 2015, 2014, and 2013.

Purchased Credit Impaired Loans ("PCI Loans")

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

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

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

Table of Contents

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

The following is an analysis of our PCI loans, net of related allowance for losses and remaining valuation discounts as of December 31, 2015 and 2014:

	December 31, 2015	December 31, 2014
	(in thousands)	
Commercial business	$38,784	$50,334
Real estate:		
One-to-four family residential	27,195	31,981
Commercial and multifamily residential	106,308	140,398
Total real estate	133,503	172,379
Real estate construction:		
One-to-four family residential	2,326	4,353
Commercial and multifamily residential	1,834	2,588
Total real estate construction	4,160	6,941
Consumer	20,903	26,814
Subtotal of purchased credit impaired loans	197,350	256,468
Less:		
Valuation discount resulting from acquisition accounting	16,444	25,884
Allowance for loan losses	13,726	16,336
PCI loans, net of valuation discounts and allowance for loan losses	$167,180	$214,248

The following table shows the changes in accretable yield for acquired loans for the years ended December 31, 2015, 2014, and 2013:

	Years Ended December 31,		
	2015	2014	2013
	(in thousands)		
Balance at beginning of period	$73,849	$103,907	$166,888
Accretion	(21,919)	(36,066)	(51,816)
Disposals	(1,681)	(3,386)	(6,898)
Reclassifications from (to) nonaccretable difference	8,732	9,394	(4,267)
Balance at end of period	$58,981	$73,849	$103,907

The Company did not acquire any loans accounted for under ASC 310-30 during 2015 or 2014.

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

Loans, excluding PCI loans

We maintain an allowance for loan and lease losses (“ALLL”) to absorb losses inherent in the loan portfolio. The size of the ALLL is determined through quarterly assessments of the probable estimated losses in the loan portfolio. Our methodology for making such assessments and determining the adequacy of the ALLL includes the following key elements:

1. General valuation allowance consistent with the Contingencies topic of the FASB ASC.
2. Classified loss reserves on specific relationships. Specific allowances for identified problem loans are determined in accordance with the Receivables topic of the FASB ASC.
3. The unallocated allowance provides for other factors inherent in our loan portfolio that may not have been contemplated in the general and specific components of the allowance. This unallocated amount generally comprises less than 5% of the allowance. The unallocated amount is reviewed quarterly based on trends in credit

losses, the results of credit reviews and overall economic trends.

87

Table of Contents

The general valuation allowance is calculated quarterly using quantitative and qualitative information about specific loan classes. The minimum required level with respect to which an entity develops a methodology to determine its ALLL is by general categories of loans, such as commercial business, real estate, and consumer. However, the Company's methodology in determining its ALLL is prepared in a more detailed manner at the loan class level, utilizing specific categories such as commercial business secured, commercial business unsecured, real estate commercial land, and real estate income property multifamily. The quantitative information uses historical losses from a specific loan class and incorporates the loan's risk rating migration from origination to the point of loss based upon the consideration of an appropriate look back period.

A loan's risk rating is primarily determined based upon the borrower's ability to fulfill its debt obligation from a cash flow perspective. In the event there is financial deterioration of the borrower, the borrower's other sources of income or repayment are also considered, including recent appraisal values for collateral dependent loans. The qualitative information takes into account general economic and business conditions affecting our marketplace, seasoning of the loan portfolio, duration of the business cycle, etc. to ensure our methodologies reflect the current economic environment and other factors as using historical loss information exclusively may not give an accurate estimate of inherent losses within the Company's loan portfolio.

When a loan is deemed to be impaired, the Company has to determine if a specific valuation allowance is required for that loan. The specific valuation allowance is a reserve, calculated at the individual loan level, for each loan determined to be both impaired and containing a value less than its recorded investment. The Company measures the impairment based on the discounted expected future cash flows, observable market price, or the fair value of the collateral less selling costs if the loan is collateral dependent or if foreclosure is probable. The specific reserve for each loan is equal to the difference between the recorded investment in the loan and its determined impairment value.

The ALLL is increased by provisions for loan and lease losses ("provision") charged to expense, and is reduced by loans charged off, net of recoveries or a recovery of previous provisions. While the Company's management believes the best information available is used to determine the ALLL, changes in market conditions could result in adjustments to the ALLL, affecting net income, if circumstances differ from the assumptions used in determining the ALLL.

We have used the same methodology for ALLL calculations during 2015, 2014 and 2013. Adjustments to the percentages of the ALLL allocated to loan categories are made based on trends with respect to delinquencies and problem loans within each class of loans. The Company reviews the ALLL quantitative and qualitative methodology on a quarterly basis and makes adjustments when appropriate. The Company continues to make revisions to our ALLL as necessary to maintain adequate reserves. The Company carefully monitors the loan portfolio and continues to emphasize the importance of credit quality.

Once it is determined that all or a portion of a loan balance is uncollectable, and the amount can be reasonably estimated, the uncollectable portion of the loan is charged-off.

PCI Loans

Purchased credit impaired loans that have common risk characteristics are aggregated into loan pools. When required, we record impairment, at the pool-level, to adjust the pool's carrying value to its net present value of expected future cash flows. Quarterly, we re-measure expected loan pool cash flows. If, due to credit deterioration, the present value of expected cash flows is less than carrying value, we reduce the loan pool's carrying value by adjusting the ALLL with an impairment charge to earnings which is recorded as provision for loan losses. If credit quality improves and the present value of expected cash flows exceeds carrying value, we increase the loan pool's carrying value by recapturing previously recorded ALLL, if any. See Note 5, Loans, for further discussion of the accounting for PCI loans.

Credit losses attributable to draws on purchased credit impaired loans, advanced subsequent to the loan purchase date, are accounted for under ASC 450-20 and those amounts are also subject to the Company's internal and external credit review. An ALLL is estimated in a similar manner as loans, excluding PCI loans, and a provision for loan losses is charged to earnings as necessary.

Table of Contents

The following tables show a detailed analysis of the ALLL for loans for the years ended December 31, 2015, 2014 and 2013:

	Beginning Balance	Charge-offs	Recoveries	Provision (Recovery)	Ending Balance	Specific Reserve	General Allocation
Year Ended December 31, 2015	(in thousands)						
Commercial business:							
Secured	$25,923	$(7,486)	$2,069	$ 11,815	$32,321	$321	$32,000
Unsecured	927	(780)	267	885	1,299	—	1,299
Real estate:							
One-to-four family residential	2,281	(376)	307	(1,296)	916	314	602
Commercial and multifamily residential:							
Commercial land	799	—	291	88	1,178	—	1,178
Income property	9,159	(390)	3,568	(5,721)	6,616	—	6,616
Owner occupied	5,007	(115)	116	542	5,550	—	5,550
Real estate construction:							
One-to-four family residential:							
Land and acquisition	1,197	—	103	(961)	339	—	339
Residential construction	1,860	—	90	(1,217)	733	3	730
Commercial and multifamily residential:							
Income property	622	—	8	(242)	388	—	388
Owner occupied	434	—	—	572	1,006	—	1,006
Consumer	3,180	(2,066)	931	1,486	3,531	15	3,516
Purchased credit impaired	16,336	(13,854)	7,329	3,915	13,726	—	13,726
Unallocated	1,844	—	—	(1,275)	569	—	569
Total	$69,569	$(25,067)	$15,079	$ 8,591	$68,172	$653	$67,519

	Beginning Balance	Charge-offs	Recoveries	Provision (Recovery)	Ending Balance	Specific Reserve	General Allocation
Year Ended December 31, 2014	(in thousands)						
Commercial business:							
Secured	$31,027	$(4,159)	$2,637	$ (3,582)	$25,923	$25	$25,898
Unsecured	696	(130)	370	(9)	927	2	925
Real estate:							
One-to-four family residential	1,252	(230)	159	1,100	2,281	120	2,161
Commercial and multifamily residential:							
Commercial land	489	(29)	70	269	799	—	799
Income property	9,234	(1,934)	819	1,040	9,159	—	9,159
Owner occupied	3,605	(1,030)	51	2,381	5,007	27	4,980
Real estate construction:							
One-to-four family residential:							
Land and acquisition	610	—	740	(153)	1,197	67	1,130
Residential construction	822	—	1,190	(152)	1,860	—	1,860
Commercial and multifamily residential:							
Income property	285	—	—	337	622	—	622
Owner occupied	58	—	—	376	434	—	434
Consumer	2,547	(2,774)	1,353	2,054	3,180	—	3,180

Purchased credit impaired	20,174	(14,436)	7,721	2,877	16,336	—	16,336
Unallocated	1,655	—	—	189	1,844	—	1,844
Total	$72,454	$(24,722)	$15,110	$ 6,727	$69,569	$241	$69,328

Table of Contents

	Beginning Balance	Charge-offs	Recoveries	Provision (Recovery)	Ending Balance	Specific Reserve	General Allocation
Year ended December 31, 2013	(in thousands)						
Commercial business:							
Secured	$27,270	$(4,148)	$1,512	$ 6,393	$31,027	$343	$30,684
Unsecured	753	(794)	932	(195)	696	35	661
Real estate:							
One-to-four family residential	694	(228)	270	516	1,252	138	1,114
Commercial and multifamily residential:							
Commercial land	460	(20)	169	(120)	489	—	489
Income property	11,033	(1,405)	489	(883)	9,234	26	9,208
Owner occupied	6,362	(1,118)	375	(2,014)	3,605	1,073	2,532
Real estate construction:							
One-to-four family residential:							
Land and acquisition	1,171	(32)	2,553	(3,082)	610	71	539
Residential construction	635	(101)	112	176	822	—	822
Commercial and multifamily residential:							
Income property	316	—	—	(31)	285	—	285
Owner occupied	102	—	—	(44)	58	—	58
Consumer	2,437	(2,242)	552	1,800	2,547	4	2,543
Purchased credit impaired	30,056	(13,853)	7,232	(3,261)	20,174	—	20,174
Unallocated	1,011	—	—	644	1,655	—	1,655
Total	$82,300	$(23,941)	$14,196	$ (101)	$72,454	$1,690	$70,764

Changes in the allowance for unfunded commitments and letters of credit, a component of other liabilities in the consolidated balance sheet, are summarized as follows:

	Years Ended December 31,		
	2015	2014	2013
	(in thousands)		
Beginning balance	$2,655	$2,505	$1,915
Net changes in the allowance for unfunded commitments and letters of credit	275	150	590
Ending balance	$2,930	$2,655	$2,505

Risk Elements

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

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

Pass 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 loans have potential weaknesses that, if left uncorrected, may result in deterioration of the repayment prospects for the asset or in the Company’s credit position at some future

date. Loans with a risk rating of Substandard or worse are reported as classified loans in our ALLL analysis. We review these loans to assess the ability of our borrowers to service all interest and principal obligations and, as a result, the risk rating may be adjusted accordingly. Substandard loans reflect loans where a loss is possible if loan weaknesses are not corrected. Doubtful loans have a high probability of loss, however, the amount of loss has not yet been determined. Loss loans are considered uncollectable and when identified, are charged off.

Table of Contents

The following is an analysis of the credit quality of our loan portfolio, excluding PCI loans as of December 31, 2015 and 2014:

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
December 31, 2015	(in thousands)					
Loans, excluding PCI loans						
Commercial business:						
Secured	$2,146,729	$59,746	$56,217	$—	$—	$2,262,692
Unsecured	93,347	278	1,323	—	—	94,948
Real estate:						
One-to-four family residential	171,945	52	1,439	—	—	173,436
Commercial and multifamily residential:						
Commercial land	207,768	4,966	424	—	—	213,158
Income property	1,296,043	5,889	8,847	—	—	1,310,779
Owner occupied	918,986	9,668	17,662	—	—	946,316
Real estate construction:						
One-to-four family residential:						
Land and acquisition	14,388	—	362	—	—	14,750
Residential construction	119,243	—	1,132	—	—	120,375
Commercial and multifamily residential:						
Income property	83,634	—	—	—	—	83,634
Owner occupied	81,270	—	401	—	—	81,671
Consumer	328,286	—	4,076	—	—	332,362
Total	$5,461,639	$80,599	$91,883	$—	$—	5,634,121
Less:						
Allowance for loan losses						54,446
Loans, excluding PCI loans, net						$5,579,675

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
December 31, 2014	(in thousands)					
Loans, excluding PCI loans						
Commercial business:						
Secured	$1,963,210	$15,790	$54,628	$—	$—	$2,033,628
Unsecured	79,534	—	559	—	—	80,093
Real estate:						
One-to-four family residential	163,914	55	7,795	—	—	171,764
Commercial and multifamily residential:						
Commercial land	183,701	4,217	1,861	—	—	189,779
Income property	1,287,729	5,885	8,385	—	—	1,301,999
Owner occupied	825,694	7,876	11,171	—	—	844,741
Real estate construction:						
One-to-four family residential:						
Land and acquisition	15,307	167	1,036	—	—	16,510
Residential construction	96,031	909	1,581	—	—	98,521

Commercial and multifamily residential:						
Income property	73,783	—	—	—	—	73,783
Owner occupied	58,055	—	889	—	—	58,944
Consumer	339,695	68	5,269	—	—	345,032
Total	$5,086,653	$34,967	$93,174	$—	$—	5,214,794
Less:						
Allowance for loan losses						53,233
Loans, excluding PCI loans, net						$5,161,561

91

Table of Contents

The following is an analysis of the credit quality of our PCI loan portfolio as of December 31, 2015 and 2014:

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
December 31, 2015	(in thousands)					
PCI loans:						
Commercial business:						
Secured	$31,468	$101	$5,995	$—	$—	$37,564
Unsecured	1,218	—	2	—	—	1,220
Real estate:						
One-to-four family residential	25,018	—	2,177	—	—	27,195
Commercial and multifamily residential:						
Commercial land	8,234	—	664	—	—	8,898
Income property	36,426	—	5,916	—	—	42,342
Owner occupied	53,071	261	1,736	—	—	55,068
Real estate construction:						
One-to-four family residential:						
Land and acquisition	1,086	—	479	—	—	1,565
Residential construction	427	—	334	—	—	761
Commercial and multifamily residential:						
Income property	1,303	—	—	—	—	1,303
Owner occupied	531	—	—	—	—	531
Consumer	20,122	—	781	—	—	20,903
Total	$178,904	$362	$18,084	$—	$—	197,350
Less:						
Valuation discount resulting from acquisition accounting						16,444
Allowance for loan losses						13,726
PCI loans, net						$167,180

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
December 31, 2014	(in thousands)					
PCI loans:						
Commercial business:						
Secured	$37,927	$937	$9,223	$—	$—	$48,087
Unsecured	2,156	—	91	—	—	2,247
Real estate:						
One-to-four family residential	28,822	—	3,159	—	—	31,981
Commercial and multifamily residential:						
Commercial land	9,104	—	6,240	—	—	15,344
Income property	51,435	1,892	7,186	—	—	60,513
Owner occupied	58,629	346	5,566	—	—	64,541
Real estate construction:						
One-to-four family residential:						
Land and acquisition	1,595	—	913	—	—	2,508
Residential construction	741	—	1,104	—	—	1,845
Commercial and multifamily residential:						

Income property	1,435	—	227	—	—	1,662
Owner occupied	926	—	—	—	—	926
Consumer	24,037	—	2,777	—	—	26,814
Total	$216,807	$3,175	$36,486	$—	$—	256,468
Less:						
Valuation discount resulting from acquisition accounting						25,884
Allowance for loan losses						16,336
PCI loans, net						$214,248

92

Table of Contents

7. Other Real Estate Owned

The following table sets forth activity in OREO for the period:

	December 31, 2015	December 31, 2014
	(in thousands)	
Balance, beginning of period	$22,190	$35,927
Established through acquisitions	—	2,752
Transfers in	8,688	10,200
Valuation adjustments	(1,986)	(4,039)
Proceeds from sale of OREO property	(19,292)	(28,559)
Gain on sale of OREO, net	4,138	5,909
Balance, end of period	$13,738	$22,190

At December 31, 2015, the carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession was $2.4 million and the recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process was $1.3 million.

8. FDIC Loss-sharing Asset and Covered Assets

We are a party to eight loss-sharing agreements with the FDIC relating to our four FDIC-assisted acquisitions. Such agreements cover a substantial portion of losses incurred on acquired covered loans and OREO. The loss-sharing agreements relate to the acquisitions of (1) Columbia River Bank in January 2010, (2) American Marine Bank in January 2010, (3) Summit Bank in May 2011, and (4) First Heritage Bank in May 2011. Under the terms of the loss-sharing agreements, the FDIC will absorb 80% of losses and share in 80% of loss recoveries up to specified amounts. With respect to loss-sharing agreements for two acquisitions completed in 2010, after those specified amounts, the FDIC will absorb 95% of losses and share in 95% of loss recoveries. The loss-sharing provisions of the agreements for non-single family and single-family mortgage loans are in effect for five and ten years, respectively, and the loss recovery provisions are in effect for eight and ten years, respectively. The loss-sharing provisions for the Columbia River Bank and American Marine Bank non-single family covered assets were effective through the end of the first quarter of 2015. Accordingly, further activity will be limited to recoveries through the first quarter of 2018 for assets covered by these loss-sharing agreements.

Ten years and forty-five days after the applicable acquisition dates, the Bank must pay to the FDIC a clawback in the event the losses from the acquisitions fail to reach stated levels. The amount of the clawback is determined by a formula specified in each individual loss-sharing agreement. As of December 31, 2015 and 2014, the net present value of the Bank's estimated clawback liability is $5.2 million and $4.2 million, respectively, which is included in other liabilities on the consolidated balance sheet.

At December 31, 2015 and 2014, the FDIC loss-sharing asset is comprised of an FDIC indemnification asset of $6.0 million and $13.1 million, respectively, and an FDIC receivable of $605 thousand and $2.1 million, respectively. The indemnification represents the net present value of cash flows the Company expects to collect from the FDIC under the loss-sharing agreements and the FDIC receivable represents the reimbursable amounts from the FDIC that have not yet been received.

For PCI loans, the Company remeasures contractual and expected cash flows on a quarterly basis. When the quarterly remeasurement process results in a decrease in expected cash flows due to an increase in expected credit losses, impairment is recorded. As a result of this impairment, for loans covered by loss-sharing agreements with respect to which the loss-sharing provisions are still effective, the indemnification asset is increased to reflect anticipated future cash to be received from the FDIC. Consistent with the loss-sharing agreements between the Company and the FDIC, the amount of the increase to the indemnification asset is measured as 80% of the resulting impairment.

Alternatively, when the quarterly remeasurement results in an increase in expected future cash flows due to a decrease in expected credit losses, the nonaccretable difference decreases and the effective yield of the related loan portfolio is increased. As a result of the improved expected cash flows, for loans covered by loss-sharing agreements with respect to which the loss-sharing provisions are still effective, the indemnification asset would be reduced first by the amount of any impairment previously recorded and, second, by increased amortization over the remaining life of the related

loss-sharing agreement.

Table of Contents

The following table shows a detailed analysis of the FDIC loss-sharing asset for the years ending December 31, 2015 and 2014:

	2015	2014
	(in thousands)	
Balance at beginning of period	$15,174	$39,846
Adjustments not reflected in income:		
Cash received from the FDIC, net	(2,794)	(2,499)
FDIC reimbursable recoveries, net	(1,802)	(2,184)
Adjustments reflected in income:		
Amortization, net	(6,184)	(21,279)
Loan impairment	2,268	2,301
Sale of other real estate	(1,237)	(2,179)
Write-downs of other real estate	1,158	1,065
Other	(15)	103
Balance at end of period	$6,568	$15,174

The following table presents information about the composition of the FDIC loss-sharing asset, the clawback liability, and the non-single family and the single family covered assets as of the date indicated:

	December 31, 2015				
	Columbia River Bank	American Marine Bank	Summit Bank	First Heritage Bank	Total
	(in thousands)				
FDIC loss-sharing asset	$130	$2,598	$1,886	$1,954	$6,568
Clawback liability	$3,248	$1,227	$—	$679	$5,154
Non-single family covered assets	$73,707	$12,111	$9,405	$15,596	$110,819
Single family covered assets	$8,114	$22,962	$6,180	$1,766	$39,022
Loss-sharing expiration dates:					
Non-single family	First Quarter 2015	First Quarter 2015	Second Quarter 2016	Second Quarter 2016	
Single family	First Quarter 2020	First Quarter 2020	Second Quarter 2021	Second Quarter 2021	
Loss recovery expiration dates:					
Non-single family	First Quarter 2018	First Quarter 2018	Second Quarter 2019	Second Quarter 2019	
Single family	First Quarter 2020	First Quarter 2020	Second Quarter 2021	Second Quarter 2021	

Table of Contents

9. Premises and Equipment

Real and personal property and software, less accumulated depreciation and amortization, were as follows:

	December 31,	
	2015	2014
	(in thousands)	
Land	$51,446	$52,338
Buildings	102,808	103,240
Leasehold improvements	20,604	21,199
Furniture and equipment	28,662	28,486
Vehicles	587	596
Computer software	17,294	15,666
Total cost	221,401	221,525
Less accumulated depreciation and amortization	(57,162)	(49,435)
Total	$164,239	$172,090

Total depreciation and amortization expense was $12.3 million, $10.9 million, and $10.2 million, for the years ended December 31, 2015, 2014, and 2013, respectively.

In 2015, the Company committed to a plan to abandon a long-lived asset acquired in the Intermountain transaction. The Company tested the asset for recoverability and no impairment loss was indicated. In conjunction with the recoverability test, the Company determined the asset would be abandoned before the end of its previously estimated useful life and revised its depreciation estimates accordingly. The total expected after tax expense related this activity is $2.1 million. For the current period, the revision resulted in a $514 thousand reduction to net income which was recorded to the line item Occupancy in the consolidated statements of income. The remaining after-tax expense of $1.6 million is expected to be incurred in the first quarter of 2016.

10. Goodwill and Other Intangible Assets

In accordance with the Intangibles – Goodwill and Other topic of the FASB ASC, goodwill is not amortized but is reviewed for potential impairment at the reporting unit level. Management analyzes its goodwill for impairment on an annual basis and between annual tests in certain circumstances such as upon 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 impairment assessment as of July 31, 2015 and concluded that there was no impairment. As of December 31, 2015 we determined there were no events or circumstances which would more likely than not reduce the fair value of our reporting unit below its carrying amount. The core deposit intangible (“CDI”) is evaluated for impairment if events and circumstances indicate a possible impairment. The CDI is amortized on an accelerated basis over an estimated life of 10 years.

Table of Contents

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

	Years Ended December 31,		
	2015	2014	2013
	(in thousands)		
Goodwill, beginning of period	$382,537	$343,952	$115,554
Established through acquisitions and provisional period adjustments (1)	225	38,585	228,398
Total goodwill, end of period	382,762	382,537	343,952
Other intangible assets, net			
Core deposit intangible:			
Gross core deposit intangible balance, beginning of period	58,598	47,698	32,441
Accumulated amortization, beginning of period	(29,058)	(22,765)	(16,720)
Core deposit intangible, net, beginning of period	29,540	24,933	15,721
Established through acquisitions	—	10,900	15,257
CDI current period amortization	(6,882)	(6,293)	(6,045)
Total core deposit intangible, end of period	22,658	29,540	24,933
Intangible assets not subject to amortization	919	919	919
Other intangible assets, net at end of period	23,577	30,459	25,852
Total goodwill and intangible assets, end of period	$406,339	$412,996	$369,804

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(1) See Note 2, Business Combinations, for additional information regarding the current period adjustment to goodwill related to the acquisition of Intermountain on November 1, 2014.

The following table provides the estimated future amortization expense of core deposit intangibles for the succeeding five years:

Years Ending December 31,	(in thousands)
2016	$5,945
2017	4,913
2018	3,855
2019	2,951
2020	2,048

Table of Contents

11. Deposits

Year-end deposits are summarized in the following table:

	December 31, 2015	2014
	(in thousands)	
Core deposits:		
Demand and other noninterest-bearing	$3,507,358	$2,651,373
Interest-bearing demand	925,909	1,304,258
Money market	1,788,552	1,760,331
Savings	657,016	615,721
Certificates of deposit less than $100,000	249,031	288,261
Total core deposits	7,127,866	6,619,944
Certificates of deposit greater than $100,000	182,973	202,014
Certificates of deposit insured through CDARS®	26,901	18,429
Brokered money market accounts	100,854	83,402
Subtotal	7,438,594	6,923,789
Valuation adjustment resulting from acquisition accounting	235	933
Total deposits	$7,438,829	$6,924,722

Overdrafts of $1.8 million and $1.3 million were reclassified as loan balances at December 31, 2015 and 2014, respectively.

The following table shows the amount and maturity of time deposits that had balances of $100,000 or greater:

Years Ending December 31,	(in thousands)
2016	$168,149
2017	25,703
2018	4,837
2019	4,161
2020	6,803
Thereafter	221
Total	$209,874

Table of Contents

12. Federal Home Loan Bank and Federal Reserve Bank Borrowings

FEDERAL HOME LOAN BANK

The Company has entered into borrowing arrangements with the FHLB of Des Moines ("FHLB") to borrow funds under a short-term floating rate fed funds overnight advance program and fixed-term loan agreements. All borrowings are secured by stock of the FHLB and a blanket pledge of qualifying loans receivable. At December 31, 2015 FHLB advances were scheduled to mature as follows:

	Federal Home Loan Bank Advances		
	Fixed rate advances		
	Weighted Average Rate		Amount
	(dollars in thousands)		
Within 1 year	0.34	%	$62,000
Over 1 through 5 years	5.66	%	1,000
Due after 10 years	5.37	%	5,000
Total			68,000
Valuation adjustment from acquisition accounting			531
Total			$68,531

The maximum, average outstanding and year-end balances and average interest rates on advances from the FHLB were as follows for the years ended December 31, 2015, 2014 and 2013:

	Years ended December 31,					
	2015		2014		2013	
	(dollars in thousands)					
Balance at end of year	$68,531		$216,568		$36,606	
Average balance during the year	$70,678		$44,876		$51,030	
Maximum month-end balance during the year	$242,556		$216,568		$190,631	
Weighted average rate during the year	0.68	%	0.74	%	1.12	%
Weighted average rate at December 31	0.79	%	0.41	%	1.09	%

FHLB advances are collateralized by the following:

	December 31,	
	2015	2014
	(in thousands)	
Recorded value of blanket pledge on loans receivable	$1,399,201	$1,083,879
Total	$1,399,201	$1,083,879
FHLB borrowing capacity	$1,328,971	$865,138

FEDERAL RESERVE BANK

The Company is also eligible to borrow under the Federal Reserve Bank's primary credit program, including the Term Auction Facility auctions. All borrowings are secured by certain pledged available for sale investment securities.

Table of Contents

Although the Company has not had FRB borrowings in the last three years, the Company pledges securities and loans for borrowing capacity at the Federal Reserve Bank.
The following table shows amounts pledged to the Federal Reserve Bank:

	December 31, 2015	2014
	(in thousands)	
Fair value of investment securities	$47,516	$40,128
Recorded value of pledged commercial loans	37,912	46,002
Total	$85,428	$86,130
Federal Reserve Bank borrowing capacity	$85,428	$86,130

13. Securities Sold Under Agreements to Repurchase

Securities Sold Under Agreements to Repurchase - Term

The Company has entered into wholesale repurchase agreements with certain brokers. At December 31, 2015 and 2014, the Company held $25.0 million in wholesale repurchase agreements with an interest rate of 1.88%. Securities available for sale with a carrying amount of $28.2 million at December 31, 2015 were pledged as collateral for the repurchase agreement borrowings. The broker holds the securities while the Company continues to receive the principal and interest payments from the securities. Upon maturity of the agreement in 2018, the pledged securities will be returned to the Company.

Securities Sold Under Agreements to Repurchase - Sweep

These sweep repurchase agreements are generally short-term agreements. These agreements are treated as financing transactions and the obligations to repurchase securities sold are reflected as a liability in the consolidated financial statements. The dollar amount of securities underlying the agreements remains in the applicable asset account of the consolidated financial statements. These agreements had a balance of $74.7 million and a weighted average interest rate of 0.11% at December 31, 2015. All of these repurchase agreements in existence at December 31, 2015 mature on a daily basis. Securities available for sale with a carrying amount of $86.0 million at December 31, 2015 were pledged as collateral for the sweep repurchase agreement borrowings.

14. Other Borrowings

On November 1, 2014, with its acquisition of Intermountain, the Company assumed $16.5 million of trust preferred obligations. The Company redeemed $8.3 million of these obligations during 2014. The remaining $8.2 million of obligations bore interest at a rate of 3.03%, paid quarterly. On January 7, 2015, the Company redeemed the remaining $8.2 million trust preferred obligations.

15. Derivatives and Balance Sheet Offsetting

The Company periodically enters into certain commercial loan interest rate swap agreements in order to provide commercial loan customers the ability to convert from variable to fixed interest rates. Under these agreements, the Company enters into a variable-rate loan agreement with a customer in addition to a swap agreement. This swap agreement effectively converts the customer’s variable rate loan into a fixed rate. The Company then enters into a corresponding swap agreement with a third party in order to offset its exposure on the variable and fixed components of the customer agreement. As the interest rate swap agreements with the customers and third parties are not designated as hedges under the Derivatives and Hedging topic of the FASB ASC, the instruments are marked to market in earnings. The notional amount of open interest rate swap agreements at December 31, 2015 and 2014 was $264.4 million and $215.6 million, respectively. During 2015 a mark-to-market gain of $11 thousand was recorded and during 2014 a mark-to-market loss of $51 thousand was recorded, both to other noninterest expense. There was no earnings impact for the year ending December 31, 2013.

Table of Contents

The following table presents the fair value and balance sheet classification of derivatives not designated as hedging instruments at December 31, 2015 and 2014:

	Asset Derivatives				Liability Derivatives			
	2015		2014		2015		2014	
(in thousands)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest rate contracts	Other assets	$12,438	Other assets	$11,800	Other liabilities	$12,478	Other liabilities	$11,851

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

	Gross Amounts of Recognized Assets/Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Assets/Liabilities Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets	
				Collateral Posted	Net Amount
December 31, 2015	(in thousands)				
Assets					
Interest rate contracts	$12,438	$—	$ 12,438	$—	$12,438
Liabilities					
Interest rate contracts	$12,478	$—	$ 12,478	$(12,478)	$—
Repurchase agreements	$99,699	$—	$ 99,699	$(99,699)	$—
December 31, 2014					
Assets					
Interest rate contracts	$11,800	$—	$ 11,800	$—	$11,800
Liabilities					
Interest rate contracts	$11,851	$—	$ 11,851	$(11,851)	$—
Repurchase agreements	$105,080	$—	$ 105,080	$(105,080)	$—

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

	Remaining contractual maturity of the agreements				
	Overnight and continuous	Up to 30 days	30 - 90 days	Greater than 90 days	Total
December 31, 2015	(in thousands)				
Class of collateral pledged for repurchase agreements					
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	$74,699	$—	$—	$25,000	$99,699
Gross amount of recognized liabilities for repurchase agreements					99,699
Amounts related to agreements not included in offsetting disclosure					$—

100

Table of Contents

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

16. Employee Benefit Plans

401(k) Plan

The Company maintains defined contribution and profit sharing plans in conformity with the provisions of section 401(k) of the Internal Revenue Code. The Columbia Bank 401(k) and Profit Sharing Plan (the "401(k) Plan"), permits eligible Columbia Bank employees, those who are at least 18 years of age and have completed three months of service, to contribute up to 75% of their eligible compensation to the 401(k) Plan. On a per pay period basis the Company is required to match 50% of employee contributions up to 3% of each employee's eligible compensation. The Company contributed $2.3 million during 2015, $2.0 million during 2014, and $1.9 million during 2013, in matching funds to the 401(k) Plan. Additionally, as determined annually by the board of directors of the Company, the 401(k) Plan provides for a non-matching discretionary profit sharing contribution. The Company's discretionary profit sharing contributions were $5.2 million during 2015, $4.4 million during 2014 and $4.0 million during 2013.

Employee Stock Purchase Plan

The Company maintains an "Employee Stock Purchase Plan" (the "ESP Plan") in which substantially all employees of the Company are eligible to participate. The ESP Plan provides participants the opportunity to purchase common stock of the Company at a discounted price. Under the ESP Plan, participants can purchase common stock of the Company for 90% of the lowest price on either the first or last day in each of two six month look-back periods. The look-back periods are January 1st through June 30th and July 1st through December 31st of each calendar year. The 10% discount is recognized by the Company as compensation expense and does not have a material impact on net income or earnings per common share. Participants of the ESP Plan purchased 42,134 shares for $1.2 million in 2015, 34,168 shares for $904 thousand in 2014 and 32,598 shares for $686 thousand in 2013. At December 31, 2015 there were 499,610 shares available for purchase under the ESP plan.

Supplemental Compensation Plan

The Company maintains supplemental compensation arrangements ("Unit Plans") to provide benefits for certain employees. The Unit Plans generally vest over a 4-10 year period and provide a fixed annual benefit over a 5-10 year period. At December 31, 2015 and 2014 the liability associated with these plans was $4.9 million and $4.8 million, respectively. Expense associated with these plans for the years ended December 31, 2015, 2014 and 2013 was $859 thousand, $588 thousand and $458 thousand, respectively.

Supplemental Executive Retirement Plan

The Company maintains a supplemental executive retirement plan (the "SERP"), a nonqualified deferred compensation plan that provides retirement benefits to certain highly compensated executives. The SERP is unsecured and unfunded and there are no program assets. The SERP projected benefit obligation, which represents the vested net present value of future payments to individuals under the plan is accrued over the estimated remaining term of employment of the participants and has been determined by actuarial valuation using "RP-2014 Adjusted to 2006 Total Dataset Mortality Table with Scale MP-2015 projected to 2026" for the mortality assumptions and discount rate of 4.26% for 2015 and 5.10% for 2014. Additional assumptions and features of the plan are a normal retirement age of 65 and a 2% annual cost of living benefit adjustment. The projected benefit obligation is included in other liabilities on the Consolidated Balance Sheets.

Table of Contents

The following table reconciles the accumulated liability for the projected benefit obligation:

	December 31, 2015	2014
	(in thousands)	
Balance at beginning of year	$16,541	$16,423
Established through acquisitions	—	511
Change in actuarial loss	4,874	—
Plan amendments	2,617	—
Benefit expense	2,491	1,325
Benefit payments	(979)	(1,718)
Balance at end of year	$25,544	$16,541

The benefits expected to be paid in conjunction with the SERP are presented in the following table:

Years Ending December 31,	(in thousands)
2016	$994
2017	1,128
2018	1,510
2019	1,548
2020	2,568
2021 through 2025	10,492
Total	$18,240

17. Commitments and Contingent Liabilities

Lease Commitments: The Company leases locations as well as equipment under various non-cancellable operating leases that expire between 2016 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. As of December 31, 2015, minimum future rental payments, exclusive of taxes and other charges, of these leases were:

Years Ending December 31,	(in thousands)
2016	$6,774
2017	5,621
2018	4,983
2019	4,606
2020	3,810
Thereafter	13,968
Total minimum payments	$39,762

Total rental expense on buildings and equipment, net of rental income of $1.1 million, $756 thousand and $673 thousand, was $7.4 million, $8.3 million and $8.5 million, for the years ended December 31, 2015, 2014 and 2013, respectively.

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.

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. At December 31, 2015 and 2014, the Company's loan commitments amounted to $1.93 billion and $1.58 billion, respectively. Standby letters of credit were $38.7 million and $36.7 million at December 31, 2015 and 2014, respectively. In addition, commitments under commercial letters of credit used to facilitate customers' trade transactions and other off-balance sheet liabilities amounted to $5.0 million and $4.4 million at December 31, 2015 and 2014, respectively.

102

Table of Contents

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.

18. Shareholders' Equity

Preferred Stock. In conjunction with the 2013 acquisition of West Coast, the Company issued 8,782 shares of mandatorily convertible cumulative participating preferred stock, Series B ("Series B Preferred Stock"). The Series B Preferred Stock is not subject to the operation of a sinking fund. The Series B Preferred Stock is not redeemable by the Company and is perpetual with no maturity. The holders of Series B Preferred Stock have no general voting rights. If the Company declares and pays a dividend to its common shareholders, it must declare and pay to its holders of Series B Preferred Stock, on the same date, a dividend in an amount per share of the Series B Preferred Stock that is intended to provide such holders dividends in the amount they would have received if shares of Series B Preferred Stock had been converted into common stock as of that date. The outstanding shares of Series B Preferred Stock are convertible into 102,363 shares of Company common stock.

Dividends. On January 29, 2015, the Company declared a quarterly cash dividend of $0.16 per common share and common share equivalent for holders of preferred stock, and a special cash dividend of $0.14 per common share and common share equivalent for holders of preferred stock, both payable on February 25, 2015 to shareholders of record as of the close of business on February 11, 2015.

On April 22, 2015 the Company declared a quarterly cash dividend of $0.18 per common share and common share equivalent for holders of preferred stock, and a special cash dividend of $0.16 per common share and common share equivalent for holders of preferred stock, both payable on May 20, 2015 to shareholders of record at the close of business on May 6, 2015.

On July 23, 2015 the Company declared a quarterly cash dividend of $0.18 per common share and common share equivalent for holders of preferred stock, and a special cash dividend of $0.16 per common share and common share equivalent for holders of preferred stock, both payable on August 19, 2015 to shareholders of record at the close of business on August 5, 2015.

On October 29, 2015 the Company declared a quarterly cash dividend of $0.18 per share and common share equivalent for holders of preferred stock, and a special cash dividend of $0.18 per common share and common share equivalent for holders of preferred stock, both payable on November 25, 2015 to shareholders of record at the close of business on November 11, 2015.

Subsequent to year end, on January 28, 2016 the Company declared a quarterly cash dividend of $0.18 per share and common share equivalent for holders of preferred stock, and a special cash dividend of $0.20 per common share and common share equivalent for holders of preferred stock, both payable on February 24, 2016, to shareholders of record at the close of business on February 10, 2016.

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.

Table of Contents

19. Accumulated Other Comprehensive Income

The following table shows changes in accumulated other comprehensive income (loss) by component for the years ended December 31, 2015, 2014 and 2013:

	Unrealized Gains and Losses on Available-for-Sale Securities (1)	Unrealized Gains and Losses on Pension Plan Liability (1)	Total (1)
Year Ended December 31, 2015	(in thousands)		
Beginning balance	$7,462	$(1,841)	$5,621
Other comprehensive loss before reclassifications	(6,069)	(5,054)	(11,123)
Amounts reclassified from accumulated other comprehensive income (2)	(1,007)	214	(793)
Net current-period other comprehensive loss	(7,076)	(4,840)	(11,916)
Ending balance	$386	$(6,681)	$(6,295)
Year Ended December 31, 2014			
Beginning balance	$(10,108)	$(1,936)	$(12,044)
Other comprehensive income before reclassifications	17,922	—	17,922
Amounts reclassified from accumulated other comprehensive income (2)	(352)	95	(257)
Net current-period other comprehensive income	17,570	95	17,665
Ending balance	$7,462	$(1,841)	$5,621
Year Ended December 31, 2013			
Beginning balance	$20,918	$(769)	$20,149
Other comprehensive loss before reclassifications	(30,727)	(1,432)	(32,159)
Amounts reclassified from accumulated other comprehensive income (2)	(299)	265	(34)
Net current-period other comprehensive loss	(31,026)	(1,167)	(32,193)
Ending balance	$(10,108)	$(1,936)	$(12,044)

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

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

Table of Contents

The following table shows details regarding the reclassifications from accumulated other comprehensive income for the years ended December 31, 2015, 2014 and 2013:

	Amount Reclassified from Accumulated Other Comprehensive Income			Affected line Item in the Consolidated Statement of Income
	Years Ended			
	December 31, 2015	December 31, 2014	December 31, 2013	
	(in thousands)			
Unrealized gains and losses on available-for-sale securities	$1,581	$ 552	$ 462	Investment securities gains, net
	1,581	552	462	Total before tax
	(574)	(200)	(163)	Income tax provision
	$1,007	$ 352	$ 299	Net of tax
Amortization of pension plan liability actuarial losses	$(336)	$ (149)	$ (400)	Compensation and employee benefits
	(336)	(149)	(400)	Total before tax
	122	54	135	Income tax benefit
	$(214)	$ (95)	$ (265)	Net of tax

20. Fair Value Accounting and Measurement

The Fair Value Measurements and Disclosures topic of the FASB ASC defines fair value, establishes a consistent framework for measuring fair value and expands disclosure requirements about fair value. We hold fixed and variable rate interest-bearing securities, investments in marketable equity securities and certain other financial instruments, which are carried at fair value. Fair value is determined based upon quoted prices when available or through the use of alternative approaches, such as matrix or model pricing, when market quotes are not readily accessible or available. The valuation techniques are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our own market assumptions. These two types of inputs create the following fair value hierarchy:

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

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

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

Fair values are determined as follows:

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

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

Table of Contents

The following table sets forth the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis at December 31, 2015 and 2014 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 at December 31, 2015 (in thousands)	Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
Assets				
Securities available for sale				
U.S. government agency and sponsored enterprise mortgage-back securities and collateralized mortgage obligations	$1,286,489	$—	$1,286,489	$—
State and municipal securities	492,169	—	492,169	—
U.S. government agency and government-sponsored enterprise securities	353,782	—	353,782	—
U.S. government securities	20,137	20,137	—	—
Other securities	5,117	—	5,117	—
Total securities available for sale	$2,157,694	$20,137	$2,137,557	$—
Other assets (Interest rate contracts)	$12,438	$—	$12,438	$—
Liabilities				
Other liabilities (Interest rate contracts)	$12,478	$—	$12,478	$—

	Fair value at December 31, 2014 (in thousands)	Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
Assets				
Securities available for sale				
U.S. government agency and sponsored enterprise mortgage-back securities and collateralized mortgage obligations	$1,162,387	$—	$1,162,387	$—
State and municipal debt securities	496,484	—	496,484	—
U.S. government agency and government-sponsored enterprise securities	413,706	—	413,706	—
U.S. government securities	20,499	20,499	—	—
Other securities	5,181	—	5,181	—
Total securities available for sale	$2,098,257	$20,499	$2,077,758	$—
Other assets (Interest rate contracts)	$11,800	$—	$11,800	$—
Liabilities				
Other liabilities (Interest rate contracts)	$11,851	$—	$11,851	$—

There were no transfers between Level 1 and Level 2 of the valuation hierarchy during the years ended December 31, 2015 and 2014. The Company recognizes transfers between levels of the valuation hierarchy based on the valuation level at the end of the reporting period.

Table of Contents

Nonrecurring Measurements
Certain assets and liabilities are measured at fair value on a nonrecurring basis after initial recognition such as loans measured for impairment and OREO. The following methods were used to estimate the fair value of each such class of financial instrument:
Impaired loans—A loan is considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due (both interest and principal) according to the contractual terms of the loan agreement. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, a loan's observable market price, or the fair market value of the collateral less estimated costs to sell if the loan is a collateral-dependent loan. Generally, the Company utilizes the fair market value of the collateral to measure impairment. The impairment evaluations are performed in conjunction with the ALLL process on a quarterly basis by officers in the Special Credits group, which reports to the Chief Credit Officer. The Real Estate Appraisal Services Department ("REASD"), which also reports to the Chief Credit Officer, is responsible for obtaining appraisals from third-parties or performing internal evaluations. If an appraisal is obtained from a third-party, the REASD reviews the appraisal to evaluate the adequacy of the appraisal report, including its scope, methods, accuracy, and reasonableness.
Other real estate owned —OREO is real property that the Bank has taken ownership of in partial or full satisfaction of a loan or loans. OREO is generally measured based on the property's fair market value as indicated by an appraisal or a letter of intent to purchase. OREO is initially recorded at the fair value less estimated costs to sell. This amount becomes the property's new basis. Any fair value adjustments based on the property's fair value less estimated costs to sell at the date of acquisition are charged to the ALLL, or in the event of a write-up without previous losses charged to the ALLL, a credit to earnings is recorded. Management periodically reviews OREO in an effort to ensure the property is recorded at its fair value, net of estimated costs to sell. Any fair value adjustments subsequent to acquisition are charged or credited to earnings. The initial and subsequent evaluations are performed by officers in the Special Credits group, which reports to the Chief Credit Officer. The REASD obtains appraisals from third-parties for OREO and performs internal evaluations. If an appraisal is obtained from a third-party, the REASD reviews the appraisal to evaluate the adequacy of the appraisal report, including its scope, methods, accuracy, and reasonableness.
The following table sets forth the Company's assets that were measured using fair value estimates on a nonrecurring basis during the years ended December 31, 2015 and 2014:

	Fair value at December 31, 2015	Fair Value Measurements at Reporting Date Using			Losses During the Year Ended December 31, 2015
		Level 1	Level 2	Level 3	
	(in thousands)				
Impaired loans	$758	$—	$—	$ 758	$653
OREO	4,524	—	—	4,524	949
	$5,282	$—	$—	$ 5,282	$1,602

	Fair value at December 31, 2014	Fair Value Measurements at Reporting Date Using			Losses During the Year Ended December 31, 2014
		Level 1	Level 2	Level 3	
	(in thousands)				
OREO	$5,365	$—	$—	$ 5,365	$1,008
	$5,365	$—	$—	$ 5,365	$1,008

The losses on impaired loans disclosed above represent the amount of the specific reserve and/or charge-offs during the period applicable to loans held at period end. For 2014, there were no losses recorded during the period to loans still held at period end. The amount of the specific reserve is included in the allowance for loan and lease losses. The losses on OREO disclosed above represent the write-downs taken at foreclosure that were charged to the allowance for loan and lease losses, as well as subsequent changes in any valuation allowances from updated appraisals that were

recorded to earnings.

Table of Contents

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 during 2015 and 2014, along with the valuation techniques used, are shown in the following tables:

	Fair value at December 31, 2015 (dollars in thousands)	Valuation Technique	Unobservable Input	Range (Weighted Average) (1)
Impaired loans - real estate collateral	$380	Fair Market Value of Collateral	Adjustment to Appraisal Value	N/A (2)
Impaired loans - other collateral (3)	378	Fair Market Value of Collateral	Adjustment to Stated Value	N/A (2)
OREO	4,524	Fair Market Value of Collateral	Adjustment to Appraisal Value	N/A (2)

(1) Discount applied to appraisal value, letter of intent to purchase, or stated value (in the case of equipment and life insurance).

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

(3) Other collateral consists of equipment and life insurance.

	Fair value at December 31, 2014 (dollars in thousands)	Valuation Technique	Unobservable Input	Range (Weighted Average) (1)
OREO	$5,365	Fair Market Value of Collateral	Adjustment to Appraisal Value	N/A (2)

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

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

Fair value of financial instruments

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

Table of Contents

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:
Cash and due from banks and interest-earning deposits with banks—The fair value of financial instruments that are short-term or reprice frequently and that have little or no risk are considered to have a fair value that approximates carrying value (Level 1).
Securities available for sale—Securities at fair value, other than U.S. Treasury Notes, are priced using a combination of market activity, industry recognized information sources, yield curves, discounted cash flow models and other factors (Level 2). U.S. Treasury Notes are priced using quotes in active markets (Level 1).
Federal Home Loan Bank stock—The fair value is based upon the par value of the stock which equates to its carrying value (Level 2).
Loans held for sale—The carrying amount of loans held for sale approximates their fair values due to the short period of time between the origination and sales dates (Level 2).
Loans—Loans are not recorded at fair value on a recurring basis. Nonrecurring fair value adjustments are periodically recorded on impaired loans that are measured for impairment based on the fair value of collateral. For most performing loans, fair value is estimated using expected duration and lending rates that would have been offered on December 31, 2015 or 2014 for loans which mirror the attributes of the loans with similar rate structures and average maturities. The fair values resulting from these calculations are reduced by an amount representing the change in estimated fair value attributable to changes in borrowers' credit quality since the loans were originated. For nonperforming loans, fair value is estimated by applying a valuation discount based upon loan sales data from the FDIC. For PCI loans, fair value is estimated by discounting the expected future cash flows using a lending rate that would have been offered on December 31, 2015 (Level 3).
FDIC loss-sharing asset —The fair value of the FDIC loss-sharing asset is estimated based on discounting the expected future cash flows using an estimated market rate (Level 3).
Interest rate contracts—Interest rate contracts are valued in models, which use readily observable market parameters as their basis (Level 2).
Deposits—For deposits with no contractual maturity, the fair value is equal to the carrying value (Level 1). The fair value of fixed maturity deposits is based on discounted cash flows using the difference between the deposit rate and current market rates for deposits of similar remaining maturities (Level 2).
FHLB advances—The fair value of FHLB advances is estimated based on discounting the future cash flows using the market rate currently offered (Level 2).
Repurchase agreements—The fair value of term repurchase agreements is estimated based on discounting the future cash flows using the market rate currently offered. The carrying amount of sweep repurchase agreements approximates their fair values due to the short period of time between repricing dates (Level 2).
Other Borrowings— Other borrowings are trust preferred obligations assumed by the Company in the Intermountain acquisition. The fair value is estimated as the carrying value as these obligations are redeemable and a market participant would expect redemption in the near-term. On January 7, 2015, the Company redeemed all remaining trust preferred obligations (Level 2).
Other financial instruments—The majority of our commitments to extend credit and standby letters of credit carry current market interest rates if converted to loans, as such, carrying value is assumed to equal fair value.

Table of Contents

The following tables summarize carrying amounts and estimated fair values of selected financial instruments for the periods indicated:

	December 31, 2015				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
	(in thousands)				
Assets					
Cash and due from banks	$166,929	$166,929	$166,929	$—	$—
Interest-earning deposits with banks	8,373	8,373	8,373	—	—
Securities available for sale	2,157,694	2,157,694	20,137	2,137,557	—
FHLB stock	12,722	12,722	—	12,722	—
Loans held for sale	4,509	4,509	—	4,509	—
Loans	5,746,855	5,752,423	—	—	5,752,423
FDIC loss-sharing asset	6,568	921	—	—	921
Interest rate contracts	12,438	12,438	—	12,438	—
Liabilities					
Deposits	$7,438,829	$7,434,787	$6,979,924	$454,863	$—
FHLB advances	68,531	69,176	—	69,176	—
Repurchase agreements	99,699	100,346	—	100,346	—
Interest rate contracts	12,478	12,478	—	12,478	—

	December 31, 2014				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
	(in thousands)				
Assets					
Cash and due from banks	$171,221	$171,221	$171,221	$—	$—
Interest-earning deposits with banks	16,949	16,949	16,949	—	—
Securities available for sale	2,098,257	2,098,257	20,499	2,077,758	—
FHLB stock	33,365	33,365	—	33,365	—
Loans held for sale	1,116	1,116	—	1,116	—
Loans	5,375,809	5,516,286	—	—	5,516,286
FDIC loss-sharing asset	15,174	4,054	—	—	4,054
Interest rate contracts	11,800	11,800	—	11,800	—
Liabilities					
Deposits	$6,924,722	$6,921,804	$6,416,017	$505,787	$—
FHLB advances	216,568	217,296	—	217,296	—
Repurchase agreements	105,080	106,171	—	106,171	—
Other borrowings	8,248	8,248	—	8,248	—
Interest rate contracts	11,851	11,851	—	11,851	—

21. Earnings per Common Share

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

Table of Contents

The following table sets forth the computation of basic and diluted earnings per share for the periods indicated:

	Year Ended December 31,		
	2015	2014	2013
	(in thousands except per share)		
Basic EPS:			
Net income	$98,827	$81,574	$60,016
Less: Earnings allocated to participating securities			
Preferred shares	175	157	95
Nonvested restricted shares	1,075	780	523
Earnings allocated to common shareholders	$97,577	$80,637	$59,398
Weighted average common shares outstanding	57,019	52,618	47,993
Basic earnings per common share	$1.71	$1.53	$1.24
Diluted EPS:			
Earnings allocated to common shareholders (1)	$97,577	$80,640	$59,407
Weighted average common shares outstanding	57,019	52,618	47,993
Dilutive effect of equity awards and warrants	13	565	1,058
Weighted average diluted common shares outstanding	57,032	53,183	49,051
Diluted earnings per common share	$1.71	$1.52	$1.21
Potentially dilutive share options that were not included in the computation of diluted EPS because to do so would be anti-dilutive	37	64	64

(1) Earnings allocated to common shareholders for basic and diluted EPS may differ under the two-class method as a result of adding common stock equivalents for options and warrants to dilutive shares outstanding, which alters the ratio used to allocate earnings to common shareholders and participating securities for the purposes of calculating diluted EPS.

22. Share-Based Payments

At December 31, 2015, the Company had one equity compensation plan (the “Plan”), which is shareholder approved, that provides for the granting of share options and shares to eligible employees and directors up to 1,800,000 shares.

Share Awards: Restricted share awards provide for the immediate issuance of shares of Company common stock to the recipient, with such shares held in escrow until certain service conditions are met, generally four years of continual service. Recipients of restricted shares do not pay any cash consideration to the Company for the shares, have the right to vote all shares subject to such grant, and receive all dividends with respect to such shares, whether or not the shares have vested. The fair value of share awards is equal to the fair market value of the Company’s common stock on the date of grant.

Table of Contents

A summary of changes in the Company’s nonvested shares and related information for the years ended December 31, 2015, 2014 and 2013 is presented below:

Nonvested Shares	Shares	Weighted Average Grant-Date Fair Value
Nonvested at January 1, 2013	384,090	$19.54
Granted	203,441	$20.78
Vested	(117,153)	$16.90
Forfeited	(59,780)	$20.24
Nonvested at December 31, 2013	410,598	$20.79
Granted	246,068	$25.97
Vested	(108,371)	$21.45
Forfeited	(28,510)	$21.92
Nonvested at December 31, 2014	519,785	$23.03
Granted	306,007	$28.57
Vested	(131,775)	$21.55
Forfeited	(28,315)	$24.79
Nonvested at December 31, 2015	665,702	$25.80

As of December 31, 2015, there was $9.6 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted average period of 2.3 years. The total fair value, as measured on the date of vesting, of shares vested during the years ended December 31, 2015, 2014, and 2013 was $2.8 million, $2.3 million, and $2.5 million, respectively.
Share Options: Option awards are generally granted with an exercise price equal to the market price of the Company’s stock at the date of grant; those option awards generally vest based on three years of continual service and are exercisable for a five-year period after vesting. Option awards granted have a 10-year maximum term.
The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model. The fair value of all options is amortized on a straight-line basis over the requisite service periods, which are generally the vesting periods. The expected life of options granted represents the period of time that they are expected to be outstanding. The expected life is determined based on historical experience with similar awards, giving consideration to the contractual terms and vesting schedules. Expected volatilities of our common stock are estimated at the date of grant based on the historical volatility of the stock. The volatility factor is based on historical stock prices over the most recent period commensurate with the estimated expected life of the award. The risk-free interest rate is based on the U.S. Treasury curve in effect at the time of the award. The expected dividend yield is based on dividend trends and the market value of the Company’s stock price at the time of the award.

A summary of option activity under the Plan as of December 31, 2015, and changes during the year then ended is presented below.

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value ($000)
Balance at December 31, 2014	75,998	$62.41		
Forfeited	(6,387)	$79.60		
Expired	(17,027)	$88.76		
Exercised	(7,898)	$20.82		
Balance at December 31, 2015	44,686	$57.26	2.2	$403

Vested or expected to vest at December 31, 2015	44,686	$57.26	2.2	$403
Total Exercisable at December 31, 2015	44,686	$57.26	2.2	$403

Table of Contents

The total intrinsic value of options exercised during the years ended December 31, 2015, 2014, and 2013 was $85 thousand, $138 thousand, and $410 thousand, respectively. The weighted average grant-date fair value of options granted during the year ended December 31, 2013 was $3.06. There were no options granted during the years ended December 31, 2015 and 2014. There were no options that vested during the years ended December 2015, 2014, and 2013.

As of December 31, 2015, outstanding stock options consist of the following:

Ranges of Exercise Prices	Number of Option Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price of Option Shares	Number of Exercisable Option Shares	Weighted Average Exercise Price of Exercisable Option Shares
$0.00 - $9.99	17,635	3.3	$ 9.91	17,635	$ 9.91
$10.00 - $19.99	221	4.5	$ 11.29	221	$ 11.29
$40.00 - $49.99	349	2.5	$ 44.49	349	$ 44.49
$50.00 - $136.93	26,481	1.4	$ 89.34	26,481	$ 89.34
	44,686	2.2	$ 57.26	44,686	$ 57.26

It is the Company’s policy to issue new shares for share option exercises and share awards. The Company expenses awards of share options and shares on a straight-line basis over the related vesting term of the award. For the years ended December 31, 2015, 2014 and 2013, the Company recognized pre-tax share-based compensation expense of $4.1 million, $2.9 million and $2.8 million, respectively.

23. Income Tax

The components of income tax expense are as follows:

	Years Ended December 31,		
	2015	2014	2013
	(in thousands)		
Current tax expense	$36,426	$21,565	$21,581
Deferred tax expense	6,367	14,646	5,413
Total	$42,793	$36,211	$26,994

113

Table of Contents

Significant components of the Company's deferred tax assets and liabilities are as follows:

	December 31, 2015 (in thousands)	2014
Deferred tax assets:		
Allowance for loan and lease losses	$26,024	$26,341
Supplemental executive retirement plan	10,770	9,037
Stock option and restricted stock	1,423	1,177
OREO	813	1,101
Nonaccrual interest	69	68
Purchase accounting	9,457	15,272
Unrealized loss on investment securities	3,916	—
Net operating losses and credit carryforwards	11,467	14,929
Other	180	532
Total deferred tax assets	64,119	68,457
Deferred tax liabilities:		
Asset purchase tax basis difference	(9,058)	(6,595)
FHLB stock dividends	(1,232)	(4,086)
Deferred loan fees	(5,202)	(4,691)
Unrealized gain on investment securities	—	(2,987)
Depreciation	(3,730)	(5,394)
Total deferred tax liabilities	(19,222)	(23,753)
Net deferred tax asset	$44,897	$44,704

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

	Years Ended December 31, 2015 Amount	Percent	2014 Amount	Percent	2013 Amount	Percent
	(dollars in thousands)					
Income tax based on statutory rate	$49,567	35 %	$41,225	35 %	$30,454	35 %
Reduction resulting from:						
Tax exempt instruments	(6,761)	(5)%	(5,328)	(5)%	(4,113)	(5)%
Life insurance proceeds	(1,554)	(1)%	(1,352)	(1)%	(1,250)	(1)%
Acquisition costs	—	— %	448	— %	1,362	2 %
Other, net	1,541	1 %	1,218	2 %	541	— %
Income tax provision	$42,793	30 %	$36,211	31 %	$26,994	31 %

As of December 31, 2015 and 2014, we had no unrecognized tax benefits. Our policy is to recognize interest and penalties on unrecognized tax benefits in "Provision for income taxes" in the Consolidated Statements of Income. There were no amounts related to interest and penalties recognized for the years ended December 31, 2015 and 2014. The tax years subject to examination by federal and state taxing authorities are the years ending December 31, 2015, 2014, 2013 and 2012. As a result of recent acquisitions, the Company has net operating loss carryforwards in the federal, Idaho and Oregon jurisdictions of $23.6 million, $32.7 million and $540 thousand, respectively, which begin to expire in 2024 and federal and Oregon credit carryforwards of $569 thousand and $1.5 million, respectively. Federal credit carryforwards are related to alternative minimum taxes and have no expiration while the Oregon credit carryforwards begin to expire in 2016. The amount of carryforwards that may be utilized annually is limited under Sections 382 and 383 as a result of changes in control. Management believes that these carryforwards will be used in the normal course of business, and as such, has not recorded a valuation allowance.

Table of Contents

24. Regulatory Capital Requirements

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

Basel III capital requirements became effective on January 1, 2015. The new capital requirements, among other things (i) specify that Tier 1 capital consists of "Common Equity Tier 1," or CET1, and "Additional Tier 1 capital" instruments meeting specified requirements, (ii) define CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iii) expand the scope of the deductions/adjustments to capital as compared to existing regulations. Under the requirements that are now effective, the minimum capital ratios are (i) 4.5% CET1 to risk-weighted assets, (ii) 6% Tier 1 capital to risk-weighted assets, (iii) 8% total capital to risk-weighted assets and (iv) 4% Tier 1 capital to average total assets (Tier 1 leverage). The Company and the Bank have made the one-time election to opt-out of including accumulated other comprehensive income items in regulatory capital calculations.

The New Capital Rules also require a new capital conservation buffer designed to absorb losses during periods of economic stress. The capital conservation buffer is composed entirely of CET1, on top of these minimum risk-weighted asset ratios. In addition, the New Capital Rules provide for a countercyclical capital buffer applicable only to certain covered institutions. We do not expect the countercyclical capital buffer to be applicable to us or the Bank. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and will be phased in over a three-year period (increasing by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019). When fully phased-in, the New Capital Rules will require us, and the Bank, to maintain such additional capital conservation buffer of 2.5% of CET1, effectively resulting in minimum ratios of (i) 7% CET1 to risk-weighted assets, (ii) 8.5% Tier 1 capital to risk-weighted assets, and (iii) 10.5% total capital to risk-weighted assets. We believe that, as of December 31, 2015, we and the Bank would meet all capital adequacy requirements under the New Capital Rules on a fully phased-in basis as if all such requirements were then in effect.

FDIC regulations set forth the qualifications necessary for a bank to be classified as "well capitalized," primarily for assignment of FDIC insurance premium rates. To qualify as "well capitalized," banks must have a CET1 risk-adjusted capital ratio of 6.5%, a Tier I risk-adjusted capital ratio of at least 8%, a total risk-adjusted capital ratio of at least 10% and a leverage ratio of at least 5%. Failure to qualify as "well capitalized" can negatively impact a bank's ability to expand and to engage in certain activities.

As of December 31, 2015, the most recent notification from the Federal Deposit Insurance Corporation categorized Columbia Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum CET1 risk-based, Tier 1 risk-based, total risk-based and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since the notification that management believes have changed Columbia Bank's category.

Table of Contents

The Company and its banking subsidiary's actual capital amounts and ratios as of December 31, 2015 and 2014 are presented in the following table:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(dollars in thousands)					
As of December 31, 2015						
CET1 Capital (to risk-weighted assets):						
The Company	$852,731	11.94 %	$321,370	4.5 %	N/A	N/A
Columbia Bank	$839,127	11.76 %	$321,168	4.5 %	$463,909	6.5 %
Tier 1 Capital (to risk-weighted assets):						
The Company	$853,182	11.95 %	$428,493	6.0 %	N/A	N/A
Columbia Bank	$839,127	11.76 %	$428,223	6.0 %	$570,965	8.0 %
Total Capital (to risk-weighted assets):						
The Company	$924,284	12.94 %	$571,324	8.0 %	N/A	N/A
Columbia Bank	$910,229	12.75 %	$570,965	8.0 %	$713,706	10.0 %
Tier 1 Capital Leverage (to average assets):						
The Company	$853,182	10.03 %	$340,420	4.0 %	N/A	N/A
Columbia Bank	$839,127	9.89 %	$339,405	4.0 %	$424,256	5.0 %
As of December 31, 2014						
Tier 1 Capital (to risk-weighted assets):						
The Company	$817,805	12.98 %	$251,995	4.0 %	N/A	N/A
Columbia Bank	$788,531	12.52 %	$251,926	4.0 %	$377,889	6.0 %
Total Capital (to risk-weighted assets):						
The Company	$890,029	14.13 %	$503,989	8.0 %	N/A	N/A
Columbia Bank	$860,755	13.67 %	$503,852	8.0 %	$629,816	10.0 %
Tier 1 Capital Leverage (to average assets):						
The Company	$817,805	10.57 %	$309,579	4.0 %	N/A	N/A
Columbia Bank	$788,531	9.79 %	$322,029	4.0 %	$402,537	5.0 %

25. Branch Sales

On August 23, 2014, Columbia completed a branch sale transaction to Sound Community Bank. In the transaction, Columbia sold three branches and related assets and deposit liabilities to Sound Community Bank. The transaction was completed with a transfer of $22.2 million in deposits to Sound Community Bancorp in exchange for a deposit premium of 2.35%. Also included in the branch sale were $1.1 million in loans and $3.8 million in premises and equipment. The Company recognized a gain of $565 thousand related to the deposit premium, which was recorded in the line item Other noninterest income in the consolidated statements of income. In addition, the Company recorded a $50 thousand loss on the disposal of premises and equipment related to this transaction, which was recorded in the line item Other noninterest expense in the consolidated statements of income.

Table of Contents

26. Parent Company Financial Information

Condensed Balance Sheets—Parent Company Only

	December 31, 2015	2014
	(in thousands)	
Assets		
Cash and due from banking subsidiary	$3,429	$10,322
Interest-earning deposits	560	12,274
Total cash and cash equivalents	3,989	22,596
Investment in banking subsidiary	1,228,070	1,207,143
Investment in other subsidiaries	5,567	5,351
Other assets	4,833	5,273
Total assets	$1,242,459	$1,240,363
Liabilities and Shareholders' Equity		
Other borrowings	$—	$8,248
Other liabilities	331	3,940
Total liabilities	331	12,188
Shareholders' equity	1,242,128	1,228,175
Total liabilities and shareholders' equity	$1,242,459	$1,240,363

Condensed Statements of Income—Parent Company Only

	Years Ended December 31, 2015	2014	2013
	(in thousands)		
Income			
Dividend from banking subsidiary	$67,000	$16,200	$183,000
Interest-earning deposits	5	25	68
Other income	92	10	7
Total income	67,097	16,235	183,075
Expense			
Compensation and employee benefits	618	530	658
Other borrowings	5	83	258
Other expense	1,368	1,433	4,162
Total expenses	1,991	2,046	5,078
Income before income tax benefit and equity in undistributed (excess distributed) earnings of subsidiaries	65,106	14,189	177,997
Income tax benefit	(663)	(704)	(1,552)
Income before equity in undistributed (excess distributed) earnings of subsidiaries	65,769	14,893	179,549
Equity in undistributed (excess distributed) earnings of subsidiaries	33,058	66,681	(119,533)
Net income	$98,827	$81,574	$60,016

Table of Contents

Condensed Statements of Cash Flows—Parent Company Only

	Years Ended December 31,		
	2015	2014	2013
	(in thousands)		
Operating Activities			
Net income	$98,827	$81,574	$60,016
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in (undistributed) excess distributed earnings of subsidiaries	(33,058)	(66,681)	119,533
Stock-based compensation expense	4,090	2,859	2,844
Net changes in other assets and liabilities	(3,170)	(403)	6,830
Net cash provided by operating activities	66,689	17,349	189,223
Investing Activities			
Net cash acquired (paid) in business combinations	—	10,277	(53,159)
Net cash provided by (used in) investing activities	—	10,277	(53,159)
Financing Activities			
Preferred stock dividends	(137)	(96)	(32)
Common stock dividends	(77,263)	(49,494)	(19,858)
Repayment of other borrowings	(8,248)	(14,636)	(51,000)
Exercise of warrants	—	5,000	—
Purchase and retirement of common stock	(906)	(622)	(429)
Proceeds from exercise of stock options	1,258	929	1,092
Downstream stock offering proceeds to the Bank	—	—	(100,000)
Excess tax benefit associated with share-based compensation	—	205	1,203
Net cash used in financing activities	(85,296)	(58,714)	(169,024)
Decrease in cash and cash equivalents	(18,607)	(31,088)	(32,960)
Cash and cash equivalents at beginning of year	22,596	53,684	86,644
Cash and cash equivalents at end of year	$3,989	$22,596	$53,684

Table of Contents

27. Summary of Quarterly Financial Information (Unaudited)

Quarterly financial information for the years ended December 31, 2015 and 2014 is summarized as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year Ended December 31,
	(in thousands, except per share amounts)				
2015					
Total interest income	$81,417	$82,040	$82,665	$82,769	$328,891
Total interest expense	1,053	1,030	971	950	4,004
Net interest income	80,364	81,010	81,694	81,819	324,887
Provision for loan and lease losses	1,209	2,202	2,831	2,349	8,591
Noninterest income	22,767	21,462	22,499	24,745	91,473
Noninterest expense	66,734	68,471	64,067	66,877	266,149
Income before income taxes	35,188	31,799	37,295	37,338	141,620
Provision for income taxes	10,827	9,853	11,515	10,598	42,793
Net income	$24,361	$21,946	$25,780	$26,740	$98,827
Per common share (1)					
Earnings (basic)	$0.42	$0.38	$0.45	$0.46	$1.71
Earnings (diluted)	$0.42	$0.38	$0.45	$0.46	$1.71
2014					
Total interest income	$74,925	$76,087	$77,133	$79,897	$308,042
Total interest expense	985	963	913	1,133	3,994
Net interest income	73,940	75,124	76,220	78,764	304,048
Provision for loan and lease losses	1,922	2,117	980	1,708	6,727
Noninterest income	14,008	14,627	15,930	15,185	59,750
Noninterest expense	57,386	57,764	59,982	64,154	239,286
Income before income taxes	28,640	29,870	31,188	28,087	117,785
Provision for income taxes	8,796	8,643	9,605	9,167	36,211
Net income	$19,844	$21,227	$21,583	$18,920	$81,574
Per common share (1)					
Earnings (basic)	$0.38	$0.40	$0.41	$0.34	$1.53
Earnings (diluted)	$0.37	$0.40	$0.41	$0.34	$1.52

(1) Due to averaging of shares, quarterly earnings per share may not add up to the totals reported for the full year.

Table of Contents

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Internal Control Over Financial Reporting

Management's Annual Report On Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. The internal control system has been designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of the Company's published financial statements. Internal control over financial reporting includes maintaining records that in reasonable detail accurately and fairly reflect the Company's transactions; providing reasonable assurance that transactions are recorded as necessary for preparation of the Company's financial statements; providing reasonable assurance that receipts and expenditures are made in accordance with management authorization; and providing reasonable assurance that unauthorized acquisition, use or disposition of company assets that could have a material effect on the Company's financial statements would be prevented or detected on a timely basis. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of the Company's financial statements would be prevented or detected.

Management has evaluated the effectiveness of its internal control over financial reporting as of December 31, 2015 based on the control criteria established in a report entitled Internal Control-Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on such evaluation, management has concluded that the Company's internal control over financial reporting is effective as of December 31, 2015. There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during our most recently completed fiscal year that materially affected or are reasonably likely to materially affect internal control over financial reporting.

Our independent registered public accounting firm has issued an attestation report on our internal control over financial reporting, which appears in this annual report on Form 10-K.

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the internal control over financial reporting of Columbia Banking System, Inc. and its subsidiaries (the "Company") as of December 31, 2015, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Because management's assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), management's assessment and our audit of the Company's internal control over financial reporting included controls over the preparation of the schedules equivalent to the basic financial statements in accordance with the instructions for the Federal Financial Institutions Examination Council Instructions for Consolidated Reports of Condition and Income for Schedules RC, RI, and RI-A. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report On Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have not examined and, accordingly, we do not express an opinion or any other form of assurance on management's statement referring to compliance with laws and regulations.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2015 of the Company and our report dated February 26, 2016 expressed an unqualified opinion on those financial statements.

/s/ Deloitte & Touche LLP
Seattle, Washington
February 26, 2016

121

Table of Contents

ITEM 9B. OTHER INFORMATION

None.

Table of Contents

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information regarding "Directors, Executive Officers and Corporate Governance" will be set forth in the Company's 2016 Annual Proxy Statement (the "Proxy Statement"), which will be filed with the SEC within 120 days of the end of our 2015 fiscal year and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

Information regarding "Executive Compensation" will be set forth in the Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information regarding "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" will be set forth in the Proxy Statement and is incorporated herein by reference. Information relating to securities authorized for issuance under the Company's equity compensation plans is included in Part II of this Annual Report on Form 10-K under "Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information regarding "Certain Relationships and Related Transactions, and Director Independence" will be set forth in the Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information regarding "Principal Accounting Fees and Services" will be set forth in the Proxy Statement and is incorporated herein by reference.

Table of Contents

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements:

The Consolidated Financial Statements and related documents set forth in "Item 8. Financial Statements and Supplementary Data" of this report are filed as part of this report.

(2) Financial Statements Schedules:

All other schedules to the Consolidated Financial Statements required by Regulation S-X are omitted because they are not applicable, not material or because the information is included in the Consolidated Financial Statements and related notes in "Item 8. Financial Statements and Supplementary Data" of this report.

(3) Exhibits:

The response to this portion of Item 15 is submitted as a separate section of this report appearing immediately following the signature page and entitled "Index to Exhibits."

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 26th day of February 2016.

COLUMBIA BANKING SYSTEM, INC.
(Registrant)

By: /s/ MELANIE J. DRESSEL
Melanie J. Dressel
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated, on the 26th day of February 2016.

Principal Executive Officer:

By: /s/ MELANIE J. DRESSEL
Melanie J. Dressel
President and Chief Executive Officer

Principal Financial Officer:

By: /s/ CLINT E. STEIN
Clint E. Stein
Executive Vice President and Chief Financial Officer

Principal Accounting Officer:

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

Melanie J. Dressel, pursuant to a power of attorney that is being filed with the Annual Report on Form 10-K, has signed this report on February 26, 2016 as attorney in fact for the following directors who constitute a majority of the board of directors.

[David A. Dietzler]
[Melanie J. Dressel]
[Craig D. Eerkes]
[Ford Elsaesser]
[Mark A. Finkelstein]
[John P. Folsom]
[Thomas M. Hulbert]
[Michelle M. Lantow]
[S. Mae Fujita Numata]
[Elizabeth W. Seaton]
[William T. Weyerhaeuser]

/s/ MELANIE J. DRESSEL
Melanie J. Dressel
Attorney-in-fact

February 26, 2016

125

Table of Contents

INDEX TO EXHIBITS

Exhibit No.	Exhibit
3.1	Amended and Restated Articles of Incorporation (1)
3.2	Articles of Amendment of the Amended and Restated Articles of Incorporation (2)
3.3	Articles of Amendment of the Amended and Restated Articles of Incorporation (3)
3.4	Articles of Amendment of the Amended and Restated Articles of Incorporation (4)
3.5	Amended and Restated Bylaws (5)
4.1	Specimen of common stock certificate (6)
4.2	Pursuant to Item 601(b) (4) (iii) (A) of Regulation S-K, copies of instruments defining the rights of holders of long-term debt and preferred securities are not filed. The Company agrees to furnish a copy thereof to the Securities and Exchange Commission upon request.
10.1*	Amended and Restated Stock Option and Equity Compensation Plan (7)
10.2*	Form of Stock Option Agreement (8)
10.3*	Form of Restricted Stock Agreement (8)
10.4*	Form of Stock Appreciation Right Agreement (8)
10.5*	Form of Restricted Stock Unit Agreement (8)
10.6*	Form of Long-Term Restricted Stock Agreement (9)
10.7*	Amended and Restated Employee Stock Purchase Plan (10)
10.8	Office Lease, dated as of December 15, 1999, between the Company and Haub Brothers Enterprises Trust (11)
10.9*	Employment Agreement between the Bank, the Company and Melanie J. Dressel effective August 1, 2004 (12)
10.10*	Amendment to Employment Agreement between the Bank, the Company and Melanie J. Dressel effective February 1, 2009 (13)
10.11*	Amendment to Employment Agreement effective December 31, 2008 among the Bank, the Company and Melanie J. Dressel (14)
10.12*	Amendment to Employment Agreement effective February 27, 2015 among the Bank, the Company and Melanie J. Dressel (15)
10.13*	Change in Control Agreement between the Bank and Kent L. Roberts dated December 4, 2011 (16)

10.14*	Change in Control Agreement between the Bank and Mark W. Nelson dated as of October 23, 2012 (17)
10.15*	Change in Control Agreement between the Bank and Clint E. Stein dated as of October 24, 2012 (17)
10.16*	Form of Long-Term Care Agreement between the Bank, the Company, and each of the following directors: Mr. Folsom, Mr. Hulbert, Mr. Matson, Mr. Rodman, Mr. Weyerhaeuser and Mr. Will (18)

Table of Contents

INDEX TO EXHIBITS, CONTINUED

Exhibit No.	Exhibit
10.17*	Second Amended and Restated Executive Supplemental Compensation Agreements dated as of May 27, 2009 among the Company, Columbia State Bank and Melanie J. Dressel and Mark W. Nelson, respectively (19)
10.18*	First Amendment to the Second Amended and Restated Executive Supplemental Compensation Agreement, by and between the Bank and Melanie J. Dressel, effective February 27, 2015 (15)
10.19*	Amended and Restated 401 Plus Plan (Deferred Compensation Plan) dated December 14, 2011 for directors and key employees (16)
10.20*	Form of Supplemental Compensation Agreement between the Bank and Mssrs. Andrew L. McDonald and Clint E. Stein, respectively (8)
10.21*	Form of Indemnification Agreement between the Company and its directors (14)
10.22*	First Amended and Restated Columbia State Bank Supplemental Executive Retirement Plan Agreement, by and between the Bank and Clint E. Stein, effective February 27, 2015 (15)
10.23*	First Amended and Restated Columbia State Bank Supplemental Executive Retirement Plan Agreement, by and between the Bank and Andrew L. McDonald, effective February 27, 2015 (15)
10.24*	Change in Control Agreement between the Bank and Hadley S. Robbins dated February 4, 2014 (effective March 1, 2014) (20)
10.25*	West Coast Bancorp 2002 Stock Incentive Plan (21)
10.26*	West Coast Bancorp 2012 Omnibus Incentive Plan (21)
10.27*	2014 Stock Option and Equity Compensation Plan (22)
10.28*	2014 Form of Restricted Stock Agreement (22)
10.29*	2014 Form of Stock Option Agreement (22)
10.30*	2014 Form of Stock Appreciation Rights Agreement (22)
10.31*	2014 Form of Restricted Stock Unit Agreement (22)
10.32*	2014 Form of Cash Award Agreement (22)
10.33*	First Amended and Restated Columbia State Bank Supplemental Executive Retirement Plan Agreement, by and between the Bank and David C. Lawson, effective February 27, 2015 (15)
10.34*	Change in Control Agreement between the Bank and Andrew L. McDonald dated June 1, 2014 (23)
10.35*	

	Employment Agreement among the Bank, the Company and Hadley S. Robbins dated September 25, 2012 (24)
10.36*	Change in Control Agreement between the Bank and David C. Lawson, dated September 25, 2013 (24)
10.37*	First Amendment to the Restated and Amended West Coast Bank Supplemental Executive Retirement Plan Agreement, by and among the Company (as successor-in-interest to the West Coast Bancorp), Bank (as successor-in-interest to West Coast Bank) and Hadley S. Robbins, effective February 27, 2015 (15)
10.38*	Columbia State Bank Supplemental Executive Retirement Plan Agreement, by and between the Bank and Hadley S. Robbins, effective February 27, 2015 (15)

Table of Contents

INDEX TO EXHIBITS, CONTINUED

Exhibit No.	Exhibit
10.39*	Columbia State Bank Supplemental Executive Retirement Plan Agreement, by and between the Bank and Kumi Baruffi, effective February 27, 2015 (15)
10.40*	Columbia State Bank Endorsement Method Split Dollar Agreement (Base Salary Benefit), dated October 30, 2015, by and between Columbia State Bank and Melanie J. Dressel (25)
10.41*	Columbia State Bank Endorsement Method Split Dollar Agreement (SERP Benefit), dated October 30, 2015 by and between Columbia State Bank and Melanie J. Dressel (25)
10.42*+	Change in Control Agreement between the Bank and Kumi Baruffi dated September 1, 2014
12+	Statement Re: Computation of Ratio of Earnings to Fixed Charges
14	Code of Ethics (26)
21+	Subsidiaries of the Company
23+	Consent of Deloitte & Touche LLP
24+	Power of Attorney
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 Filed Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101+	The following financial information from Columbia Banking System, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2015 is formatted in XBRL: (i) Audited Consolidated Balance Sheets, (ii) Audited Consolidated Statements of Income, (iii) Audited Consolidated Statements of Comprehensive Income, (iv) Audited Consolidated Statements of Changes in Shareholders' Equity, (v) Audited Consolidated Statements of Cash Flows, and (vi) Notes to Audited Consolidated Financial Statements.

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(1) Incorporated by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015
(2) Incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-k filed November 21, 2008
(3) Incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-k filed April 2, 2013
(4) Incorporated by reference to Exhibit 4.4 of the Company's S-3 Registration Statement (File No. 333-206125) filed August 6, 2015
(5) Incorporated by reference to Exhibit 3.2 of the Company's Current Report on Form 8-K filed on February 2, 2010
(6) Incorporated by reference to Exhibit 4.3 of the Company's S-3 Registration Statement (File No. 333-156350) filed December 19, 2008
(7) Incorporated by reference to Exhibit 99.1 of the Company's S-8 Registration Statement (File No. 333-160370) filed July 1, 2009
(8) Incorporated by reference to Exhibits 10.2-10.5 and 10.16 of the Company's Annual Report on Form 10-K for the year ended December 31, 2007
(9) Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed January 5, 2010
(10) Incorporated by reference to Exhibit 10.7 of the Company's Annual Report on Form 10-K for the year ended December 31, 2010
(11) Incorporated by reference to Exhibit 10.5 of the Company's Annual Report on Form 10-K for the year ended December 31, 2000
(12) Incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004
(13) Incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed February 19, 2009
(14) Incorporated by reference to Exhibits 10.2 and 10.4 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009
(15) Incorporated by reference to Exhibits 10.1-10.8 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015
(16) Incorporated by reference to Exhibits 10.14 and 10.15 of the Company's Annual Report on Form 10-K for the year ended December 31, 2011
(17) Incorporated by reference to Exhibits 10.1 and 10.2 of the Company's Current Report on Form 8-K filed October 29, 2012
(18) Incorporated by reference to Exhibit 10.3 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001
(19) Incorporated by reference to Exhibits 10.1 and 10.3 of the Company's Current Report on Form 8-K filed on June 2, 2009
(20) Incorporated by reference to Exhibit 10.23 of the Company's Annual Report on Form 10-K for the year ended December 31, 2013
(21) Incorporated by reference to Exhibits 99.1 and 99.2 of the Company's S-8 Registration Statement (File No. 333-187690) filed April 2, 2013
(22) Incorporated by reference to Exhibits 99.1-99.6 of the Company's S-8 Registration Statement (File No. 333-195456) filed April 23, 2014
(23) Incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014
(24) Incorporated by reference to Exhibits 10.33 and 10.34 of the Company's Annual Report on Form 10-K for the year ended December 31, 2014
(25) Incorporated by reference to Exhibits 10.1 and 10.2 of the Company's Annual Report on Form 10-Q for the quarter ended September 30, 2015
(26) Incorporated by reference to Exhibit 14 of the Company's Annual Report on Form 10-K for the year ended December 31, 2003

* Management contract or compensatory plan or arrangement

+ Filed herewith