COLUMBIA BANKING SYSTEM INC
Form 10-K
February 29, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011 or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 0-20288

COLUMBIA BANKING SYSTEM, INC.
(Exact name of registrant as specified in its charter)

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

1301 “A” Street
Tacoma, Washington 98402
(Address of principal executive offices) (Zip code)
Registrant’s Telephone Number, Including Area Code: (253) 305-1900

Securities Registered Pursuant to Section 12(b) of the Act:
Common Stock, No Par Value
(Title of class)
Securities Registered Pursuant to Section 12(g) of the Act: None

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

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 ¨ No ý

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 ý No ¨

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (17 C.F.R. 229.405) is not contained herein, and will not be contained, to the best of 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. ý

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act (check one):

ý Large Accelerated Filer ¨ Accelerated Filer ¨ Non-accelerated Filer ¨ Smaller Reporting Company

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

The aggregate market value of Common Stock held by non-affiliates of the registrant at June 30, 2011 was $667,249,601 based on the closing sale price of the Common Stock on that date.

The number of shares of registrant's Common Stock outstanding at January 31, 2012 was 39,522,884.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Registrant's definitive 2012 Annual Meeting Proxy Statement.	Part III

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FORM 10-K ANNUAL REPORT
DECEMBER 31, 2011

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- local and national economic conditions could be less favorable than expected or could have a more direct and pronounced effect on us than expected and adversely affect our ability to continue internal growth at historical rates and maintain the quality of our earning assets;
- the local housing/real estate markets where we operate and make loans could continue to decline;
- the risks presented by a continued economic recession, or sluggish recovery, which could adversely affect credit quality, collateral values, including real estate collateral, investment values, liquidity and loan originations and loan portfolio delinquency rates;
- the efficiencies and enhanced financial and operating performance we expect to realize from investments in personnel, acquisitions and infrastructure could not be realized;
- interest rate changes could significantly reduce net interest income and negatively affect funding sources;
- projected business increases following strategic expansion or opening of new branches could be lower than expected;
- changes in the scope and cost of FDIC insurance and other coverages;
- changes in accounting principles, policies, and guidelines applicable to bank holding companies and banking;
- competition among financial institutions could increase significantly;
- the goodwill we have recorded in connection with acquisitions could become impaired, which may have an adverse impact on our earnings and capital;
- the reputation of the financial services industry could deteriorate, which could adversely affect our ability to access markets for funding and to acquire and retain customers;
- the terms and costs of the numerous actions taken by the Federal Reserve, the U.S. Congress, the Treasury, the FDIC, the SEC and others in response to the liquidity and credit crisis, or the failure of these actions to help stabilize the financial markets, asset prices, market liquidity, or worsening of current financial market and economic conditions could materially and adversely affect our business, financial condition, results of operations, and the trading price of our common stock;
- our ability to effectively manage credit risk, interest rate risk, market risk, operational risk, legal risk, liquidity risk and regulatory and compliance risk; and
- our profitability measures could be adversely affected if we are unable to effectively deploy recently raised capital.

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

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PART I

ITEM 1. BUSINESS

General

Columbia Banking System, Inc. (referred to in this report as “we,” “our,” and “the Company”) is a registered bank holding company whose wholly owned banking subsidiary, Columbia State Bank (“Columbia Bank” or “the Bank”) also does business under the Bank of Astoria name and conducts full-service commercial banking business in the states of Washington and Oregon. Headquartered in Tacoma, Washington, we provide a full range of banking services to small and medium-sized businesses, professionals and individuals.

Columbia Bank was established in 1993 to take advantage of commercial banking business opportunities in our principal market area. The opportunities to capture commercial banking market share were due to increased consolidations of banks, primarily through acquisitions by out-of-state bank holding companies, which created dislocation of customers.

At December 31, 2011 Columbia Bank had 102 branch locations in Washington and Oregon. Included in these branch locations are six Columbia Bank branches doing business in Oregon under the Bank of Astoria name in Astoria, Warrenton, Seaside and Cannon Beach in Clatsop County and in Manzanita and Tillamook in Tillamook County. Substantially all of Columbia Bank’s loans, loan commitments and core deposits are within its service areas. Columbia Bank is a Washington state-chartered commercial bank, the deposits of which are insured in whole or in part by the Federal Deposit Insurance Corporation (“FDIC”). Columbia Bank is subject to regulation by the FDIC and the Washington State Department of Financial Institutions Division of Banks. Although Columbia Bank is not a member of the Federal Reserve System, the Board of Governors of the Federal Reserve System has certain supervisory authority over the Company, which can also affect Columbia Bank.

Business Overview

Our goal is to be a leading Pacific Northwest regional community banking company while consistently increasing shareholder value. We continue to build on our reputation for excellent customer service in order to be recognized as the bank of choice for retail deposit customers, small to medium-sized businesses and affluent households in all markets we serve.

We have established a network of 102 branches in Washington and Oregon as of December 31, 2011 from which we intend to grow market share. We operate 62 branches in western Washington, 15 branches in eastern Washington, 15 branches in western Oregon, and 10 branches in eastern Oregon. Washington counties include: Adams, Asotin, Benton, Clallam, Clark, Cowlitz, Franklin, Jefferson, King, Kitsap, Klickitat, Mason, Pierce, Snohomish, Skagit, Spokane, Thurston, Walla Walla, Whatcom, Whitman and Yakima. Oregon counties include Clackamas, Clatsop, Deschutes, Hood River, Jefferson, Marion, Multnomah, Tillamook, Umatilla, Wasco and Yamhill.

In order to fund our lending activities and to allow for increased contact with customers, we utilize a branch system to better serve both retail and business depositors. We believe this approach will enable us to expand lending activities while attracting a stable core deposit base. To support our strategy of market penetration and increased profitability while continuing our personalized banking approach, we have invested in experienced banking and administrative personnel and have incurred related costs in the creation of our branch network.

Business Strategy

Our business strategy is to provide our customers with the financial sophistication and product depth of a regional banking company while retaining the appeal and service level of a community bank. We continually evaluate our existing business processes while focusing on maintaining asset quality and balanced loan and deposit portfolios, building our strong core deposit base, expanding total revenue and controlling expenses in an effort to increase our return on average equity and gain operational efficiencies. We believe that, as a result of our strong commitment to highly personalized, relationship-oriented customer service, our varied products, our strategic branch locations and the long-standing community presence of our managers, banking officers and branch personnel, we are well positioned to attract and retain new customers and to increase our market share of loans, deposits, investments, and other financial services. We are committed to increasing market share in the communities we serve by continuing to leverage our existing branch network, adding new branch locations and considering business combinations that are consistent with

our expansion strategy throughout the Pacific Northwest.

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Products & Services

We place the highest priority on customer service and assist our customers in making informed decisions when selecting from the products and services we offer. We continuously review our product and service offerings to ensure that we provide our customers with the tools to meet their financial needs. A more complete listing of all the services and products available to our customers can be found on our website: www.columbiabank.com. Some of the core products and services we offer include:

Personal Banking

- Checking and Saving Accounts
- Online Banking
- Electronic Bill Pay
- Consumer Lending
- Residential Lending
- VISA® Card Services
- Investment Services through CB Financial Services
- Private Banking
- Trust Services

Business Banking

- Checking & Saving Accounts
- Online Banking
- Electronic Bill Pay
- Remote Deposit Capture
- Cash Management
- Commercial & Industrial Lending
- Real Estate and Real Estate Construction Lending
- Equipment Finance
- Small Business Services
- VISA® Card Services
- Investment Services through CB Financial Services
- International Banking
- Merchant Card Services
- Professional Banking

Personal Banking: We offer our personal banking customers an assortment of account products including noninterest and interest-bearing checking, savings, money market and certificate of deposit accounts. Overdraft protection is also available with direct links to the customer's checking account. Our online banking service, Columbia Online™, provides our personal banking customers with the ability to safely and securely conduct their banking business 24 hours a day, 7 days a week. Personal banking customers are also provided with a variety of borrowing products including fixed and variable rate home equity loans and lines of credit, home mortgages for purchases and refinances, personal loans, and other consumer loans. Eligible personal banking customers with checking accounts are provided a Visa® Debit Card which can be used both to make purchases and as an ATM card. A variety of Visa® Credit Cards are also available to eligible personal banking customers.

Columbia Private Banking offers affluent clientele and their businesses complex financial solutions, such as deposit and cash management services, credit services, and wealth management strategies. Each private banker provides advisory services(2) and coordinates a relationship team of experienced financial professionals to meet the unique needs of each discerning customer.

Through CB Financial Services(1), customers are provided with a full range of investment options including mutual funds, stocks, bonds, retirement accounts, annuities, tax-favored investments, US Government securities as well as long-term care and life insurance policies. Qualified investment professionals are available to provide advisory services(2) and assist customers with retirement, education and other financial planning activities.

Business Banking: We offer our business banking customers the foundation of a variety of checking, savings, interest bearing money market and certificate of deposit accounts to satisfy all their banking needs. In addition to these core banking products we provide a breadth of services to support the complete financial needs of small and middle market businesses including Cash Management, Professional Banking, International Banking, VISA Credit Cards, Merchant Services and Commercial Lending.

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(1) Securities and insurance products are offered through PrimeVest Financial Services, Inc., an independent, registered broker/dealer. Member FINRA/SIPC. CB Financial Services is a marketing name for PrimeVest. * Investment products are Not FDIC insured * No bank guarantee * Not a deposit * Not insured by any federal

government agency * May lose value.

(2) Advisory services may only be offered by Investment Adviser Representatives in connection with an appropriate PrimeVest Advisory Services Agreement and disclosure brochure as provided.

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Cash Management

Columbia State Bank's diversified Cash Management Programs are tailored to meet specific banking needs of each individual business. We combine technology with integrated operations and local expertise for safe, powerful, flexible solutions. Columbia customers, of all sizes, choose from a full range of transaction and Cash Management tools to gain more control over and make more from their money. Services include Commercial Online Banking, Positive Pay fraud protection, Automated Clearing House (ACH) payments, Remote Deposit Capture, and Merchant Services.

Our Cash Management professionals work with businesses to find the best combination of services to meet their needs. This customized, modular approach ensures their business banking operations are cost-effective now, with flexibility for future growth.

Professional Banking

Columbia Professional Bankers are uniquely qualified to help medical and dental professionals acquire, build and grow their practice. We offer tailored banking and investment solutions[(1)] delivered by experienced bankers with the industry knowledge necessary to meet their business's unique needs. No matter what the needs are now or in the years to come, we guide professionals through all their financial options to make their banking as easy and personal as possible.

International Banking

Columbia Bank's International services division offers a range of financial services to help forward-thinking independent businesses explore global markets and conduct international trade smoothly and expediently. We're proud to provide small and mid-size business with the same caliber of expertise and personalized service that national banks usually limit to large businesses.

Our experience with foreign currency exchange, letters of credit, foreign collections and trade finance services can help independent companies open the door to new markets and suppliers overseas. Put simply, the wealth of opportunities that international trade offers growing businesses can have a significant impact on both long-term growth and their bottom line.

Commercial Lending

We offer a variety of loan products tailored to meet the various needs of business banking customers. Commercial loan products include accounts receivable and inventory financing as well as Small Business Administration ("SBA") financing. We also offer commercial real estate loan products for construction and development or permanent financing. Real estate lending activities have been focused on construction and permanent loans for both owner occupants and investor oriented real estate properties. In addition, the Bank has pursued construction and first mortgages on owner occupied, one- to four-family residential properties. Commercial banking has been directed toward meeting the credit and related deposit needs of various sized businesses and professional practice organizations operating in our primary market areas.

CB Financial Services

Through CB Financial Services[(1)], customers are provided with an array of investment options and all the tools and resources necessary to assist them in reaching their investment goals. Some of the investment solutions available to customers include 401(k), Simple IRA, Simple Employee Pensions, Buy-Sell Agreements, Key-Man Insurance, Business Succession Planning and personal investments.

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(1) Securities and insurance products are offered through PrimeVest Financial Services, Inc., an independent, registered broker/dealer. Member FINRA/SIPC. CB Financial Services is a marketing name for PrimeVest. * Investment products are Not FDIC insured * No bank guarantee * Not a deposit * Not insured by any federal government agency * May lose value.

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Business VISA® Credit and Debit Cards

We offer our business banking customers a selection of Visa® Cards including the Business Debit Card that works like a check wherever Visa® is accepted. We partner with First National Bank of Omaha to offer Visa® Credit Cards such as the Corporate Card which can be used all over the world as well as the Business Edition® and Business Edition Plus® that earns reward points with every purchase.

Merchant Card Services

Business clients that utilize Columbia's Merchant Card Services have the ability to accept Visa®, MasterCard® and Discover® sales drafts for deposit directly into their business checking account. Merchants are provided with a comprehensive accounting system tailored to meet each merchant's needs, which includes month-to-date credit card deposit information on a transaction statement. Internet access is available to view merchant reports that allow business customers to review merchant statements, authorized, captured, cleared and settled transactions.

Competition

Our industry remains highly competitive in spite of challenging economic conditions. Several other financial institutions with greater resources compete for banking business in our market areas. Among the advantages of some of these institutions are their ability to make larger loans, finance extensive advertising and promotion campaigns, access international financial markets and allocate their investment assets to regions of highest yield and demand. In addition to competition from other banking institutions, we continue to experience competition from non-banking companies such as credit unions, brokerage houses and other financial services companies. We compete for deposits, loans, and other financial services by offering our customers similar breadth of products as our larger competitors while delivering a more personalized service level with faster transaction turnaround time.

Market Areas

Washington: Approximately 30% of our total branches within Washington are located in Pierce County, with an estimated 2011 population of 815,000 residents. At June 30, 2011 our Pierce County branch locations' share of the county's total deposit market was 18%[(1)], ranking first among our competition. Also located in Pierce County is our Company headquarters in the city of Tacoma and one nearby operational facility. Some of the most significant contributors to the Pierce County economy are the Port of Tacoma, whose activities are related to more than 40,000 jobs in the county, and well over 100,000 in the state of Washington, Joint Base Lewis-McChord which accounts for nearly 20% of the County's total employment, and the manufacturing industry which supplies the Boeing Company. We operate thirteen branch locations in King County, including Seattle, Bellevue and Redmond. King County, which is Washington's most highly populated county at close to 2 million residents, is a market that has significant growth potential for our Company and will play a key role in our expansion strategy in the future. At June 30, 2011 we ranked 13th in our share of the King County deposit market or approximately 1%[(1)]; however, we continue to make inroads within this market through the strategic expansion of our banking team. The north King County economy is primarily made up of the aerospace, construction, computer software and biotechnology industries. South King County, with its close proximity to Pierce County, is considered a natural extension of our primary market area. The economy of south King County is primarily comprised of residential communities supported by light industrial, retail, aerospace and distributing and warehousing industries.

Some other market areas served by the Company include Cowlitz County where we rank first, or 9% [(1)], in deposit market share, operating two branch locations; and Kitsap County, where we operate 6 branches with 8%[(1)] of the deposit market share. We also have locations in Adams, Clallam, Clark, Jefferson, Klickitat, Spokane, Thurston, Whitman and Yakima counties where we operate two branch offices in each county, and Asotin, Benton, Franklin, Grant, Mason, Snohomish, Skagit, Walla Walla and Whatcom Counties where we operate one branch in each county.

Oregon: With the acquisition of Columbia River Bank in January 2010, we significantly expanded our market area in western Oregon, and entered the eastern Oregon market area, bringing our total to 25 branch locations in the state. Oregon counties include Clackamas, Clatsop, Deschutes, Hood River, Jefferson, Marion, Multnomah, Tillamook, Umatilla, Wasco and Yamhill. Columbia ranks fifteenth[(1)] in total deposit market share in Oregon. We are first[(1)] in deposit market share in Hood River, Jefferson, and Wasco counties, and second or 28%[(1)] of the deposit market share in Clatsop county. Oregon market areas provide a significant opportunity for expansion in the future.

Source: FDIC Annual Summary of Deposit Report as of June 30, 2011.

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Employees

As of December 31, 2011 the Company and its banking subsidiary employed approximately 1,256 full-time equivalent employees, significantly up from the 1,092 at December 31, 2010. We value our employees and pride ourselves on providing a professional work environment accompanied by comprehensive benefit programs. We are committed to providing flexible and value-added benefits to our employees through a “Total Compensation Philosophy” which incorporates all compensation and benefits. Our continued commitment to employees contributed to Columbia Bank being again awarded one of Seattle Business Magazine’s 100 Best Companies to Work For 2011 and designated one of the Puget Sound Business Journal’s “Washington’s Best Workplaces 2011”.

Available Information

We file annual reports on Form 10-K, quarterly reports on Form 10-Q, periodic reports on Form 8-K, proxy statements and other information with the United States Securities and Exchange Commission (“SEC”). The public may obtain copies of these reports and any amendments at the SEC’s Internet site, www.sec.gov.

Additionally, reports filed with the SEC can be obtained through our website at www.columbiabank.com. These reports are available through our website as soon as reasonably practicable after they are filed electronically with the SEC. Information contained on our website is not intended to be incorporated by reference into this report.

Supervision and Regulation

The following discussion provides an overview of certain elements of the extensive regulatory framework applicable to the Company and Columbia State Bank, which operates under the names Columbia State Bank in Washington, and Columbia State Bank and Bank of Astoria in Oregon (collectively, referred to herein as “Columbia Bank”). This regulatory framework is primarily designed for the protection of depositors, federal deposit insurance funds and the banking system as a whole, rather than specifically for the protection of shareholders. Due to the breadth and growth of this regulatory framework, our costs of compliance continue to increase in order to monitor and satisfy these requirements.

To the extent that this section describes statutory and regulatory provisions, it is qualified by reference to those provisions. These statutes and regulations, as well as related policies, are subject to change by Congress, state legislatures and federal and state regulators. Changes in statutes, regulations or regulatory policies applicable to us, including the interpretation or implementation thereof, could have a material effect on our business or operations. In light of the recent financial crisis, numerous changes to the statutes, regulations or regulatory policies applicable to us have been made or proposed. The full extent to which these changes will impact our business is not yet known. However, our continued efforts to monitor and comply with new regulatory requirements add to the complexity and cost of our business.

Federal Bank Holding Company Regulation

General. The Company is a bank holding company as defined in the Bank Holding Company Act of 1956, as amended (“BHCA”), and is therefore subject to regulation, supervision and examination by the Federal Reserve. In general, the BHCA limits the business of bank holding companies to owning or controlling banks and engaging in other activities closely related to banking. The Company must file reports with and provide the Federal Reserve such additional information as it may require. Under the Financial Services Modernization Act of 1999, a bank holding company may apply to the Federal Reserve to become a financial holding company, and thereby engage (directly or through a subsidiary) in certain expanded activities deemed financial in nature, such as securities and insurance underwriting.

Holding Company Bank Ownership. The BHCA requires every bank holding company to obtain the prior approval of the Federal Reserve before (i) acquiring, directly or indirectly, ownership or control of any voting shares of another bank or bank holding company if, after such acquisition, it would own or control more than 5% of such shares; (ii) acquiring all or substantially all of the assets of another bank or bank holding company; or (iii) merging or consolidating with another bank holding company.

Holding Company Control of Nonbanks. With some exceptions, the BHCA also prohibits a bank holding company from acquiring or retaining direct or indirect ownership or control of more than 5% of the voting shares of any company which is not a bank or bank holding company, or from engaging directly or indirectly in activities other than those of banking, managing or controlling banks, or providing services for its subsidiaries. The principal exceptions to these prohibitions involve certain non-bank activities that, by statute or by Federal Reserve regulation or order, have

been identified as activities closely related to the business of banking or of managing or controlling banks.

Transactions with Affiliates. Subsidiary banks of a bank holding company are subject to restrictions imposed by the Federal Reserve Act on extensions of credit to the holding company or its subsidiaries, on investments in their securities and on the use of their securities as collateral for loans to any borrower. These regulations and restrictions may limit the Company's ability to obtain funds from Columbia Bank for its cash needs, including funds for payment of dividends, interest and operational expenses.

Tying Arrangements. We are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit, sale or lease of property or furnishing of services. For example, with certain exceptions, neither the Company nor its subsidiaries may condition an extension of credit to a customer on either (i) a requirement that the customer obtain additional services provided by us; or (ii) an agreement by the customer to refrain from obtaining other services from a competitor.

Support of Subsidiary Banks. Under Federal Reserve policy and the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”), the Company is expected to act as a source of financial and managerial strength to Columbia Bank. This means that the Company is required to commit, as necessary, resources to support Columbia Bank. Any capital loans a bank holding company makes to its subsidiary banks are subordinate to deposits and to certain other indebtedness of those subsidiary banks.

State Law Restrictions. As a Washington corporation, the Company is subject to certain limitations and restrictions under applicable Washington corporate law. For example, state law restrictions in Washington include limitations and restrictions relating to indemnification of directors, distributions to shareholders, transactions involving directors, officers or interested shareholders, maintenance of books, records, and minutes, and observance of certain corporate formalities.

Federal and State Regulation of Columbia Bank

General. The deposits of Columbia Bank, a Washington chartered commercial bank with branches in Washington and Oregon, are insured by the FDIC. As a result, Columbia Bank is subject to supervision and regulation by the Washington Department of Financial Institutions, Division of Banks and the FDIC. With respect to branches of Columbia Bank in Oregon, the Bank is also subject to supervision and regulation by the Oregon Department of Consumer and Business Services, as well as the FDIC. These agencies have the authority to prohibit banks from engaging in what they believe constitute unsafe or unsound banking practices.

Consumer Protection. The Bank is subject to a variety of federal and state consumer protection laws and regulations that govern its relationship with consumers including laws and regulations that impose certain disclosure requirements and regulate the manner in which we take deposits, make and collect loans, and provide other services. Failure to comply with these laws and regulations may subject the Bank to various penalties, including but not limited to, enforcement actions, injunctions, fines, civil liability, criminal penalties, punitive damages, and the loss of certain contractual rights.

Community Reinvestment. The Community Reinvestment Act ("CRA") of 1977 requires that, in connection with examinations of financial institutions within their jurisdiction, the Federal Reserve or the FDIC evaluate the record of the financial institution in meeting the credit needs of its local communities, including low and moderate-income neighborhoods, consistent with the safe and sound operation of the institution. A bank's community reinvestment record is also considered by the applicable banking agencies in evaluating mergers, acquisitions and applications to open a branch or facility.

Insider Credit Transactions. Banks are also subject to certain restrictions imposed by the Federal Reserve Act on extensions of credit to executive officers, directors, principal shareholders or any related interests of such persons. Extensions of credit (i) must be made on substantially the same terms, including interest rates and collateral, and follow credit underwriting procedures that are at least as stringent as those prevailing at the time for comparable transactions with persons not related to the lending bank; and (ii) must not involve more than the normal risk of repayment or present other unfavorable features. Banks are also subject to certain lending limits and restrictions on overdrafts to insiders. A violation of these restrictions may result in the assessment of substantial civil monetary penalties, regulatory enforcement actions, and other regulatory sanctions.

Regulation of Management. Federal law (i) sets forth circumstances under which officers or directors of a bank may be removed by the institution's federal supervisory agency; (ii) places restraints on lending by a bank to its executive

officers, directors, principal shareholders, and their related interests; and (iii) generally prohibits management personnel of a bank from serving as directors or in other management positions of another financial institution whose assets exceed a specified amount or which has an office within a specified geographic area.

Safety and Soundness Standards. Certain non-capital safety and soundness standards are also imposed upon banks. These standards cover internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, such other operational and managerial standards as the agency determines to be appropriate, and standards for asset quality, earnings and stock valuation. An institution that fails to meet these standards may be subject to regulatory sanctions.

Interstate Banking and Branching

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 ("Interstate Act") together with the Dodd-Frank Act relaxed prior interstate branching restrictions under federal law by permitting, subject to regulatory approval, state and federally chartered commercial banks to establish branches in states where the laws permit banks chartered in such states to establish branches. The Interstate Act requires regulators to consult with community organizations before permitting an interstate institution to close a branch in a low-income area. Federal banking agency regulations prohibit banks from using their interstate branches primarily for deposit production and the federal banking agencies have implemented a loan-to-deposit ratio screen to ensure compliance with this prohibition.

Dividends

The principal source of the Company's cash is from dividends received from Columbia Bank, which are subject to government regulation and limitations. Regulatory authorities may prohibit banks and bank holding companies from paying dividends in a manner that would constitute an unsafe or unsound banking practice or would reduce the amount of its capital below that necessary to meet minimum applicable regulatory capital requirements. Washington law also limits a bank's ability to pay dividends that are greater than the bank's retained earnings without approval of the applicable banking agency. Additionally, 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.

Capital Adequacy

Regulatory Capital Guidelines. Federal bank regulatory agencies use capital adequacy guidelines in the examination and regulation of bank holding companies and banks. The guidelines are "risk-based," meaning that they are designed to make capital requirements more sensitive to differences in risk profiles among banks and bank holding companies.

Tier I and Tier II Capital. Under the guidelines, an institution's capital is divided into two broad categories, Tier I capital and Tier II capital. Tier I capital generally consists of common stockholders' equity (including surplus and undivided profits), qualifying non-cumulative perpetual preferred stock, and qualified minority interests in the equity accounts of consolidated subsidiaries. Tier I capital generally excludes goodwill and intangible assets, net unrealized gains and losses on available for sale securities and accumulated net gains and losses on cash flow hedges. Tier II capital generally consists of the allowance for loan losses, hybrid capital instruments and qualifying subordinated debt. The sum of Tier I capital and Tier II capital represents an institution's total capital. The guidelines require that at least 50% of an institution's total capital consist of Tier I capital.

Risk-based Capital Ratios. The adequacy of an institution's capital is gauged primarily with reference to the institution's risk-weighted assets. The guidelines assign risk weightings to an institution's assets in an effort to quantify the relative risk of each asset and to determine the minimum capital required to support that risk. An institution's risk-weighted assets are then compared with its Tier I capital and total capital to arrive at a Tier I risk-based ratio and a total risk-based ratio, respectively. The guidelines provide that an institution must have a minimum Tier I risk-based ratio of 4% and a minimum total risk-based ratio of 8%.

Leverage Ratio. The guidelines also employ a leverage ratio, which is Tier I capital as a percentage of average total assets, less intangibles. The principal objective of the leverage ratio is to constrain the maximum degree to which a bank holding company may leverage its equity capital base. The minimum leverage ratio is 3%; however, for all but the most highly rated bank holding companies and for bank holding companies seeking to expand, regulators expect an additional cushion of at least 1% to 2%.

Prompt Corrective Action. Under the guidelines, an institution is assigned to one of five capital categories depending on its total risk-based capital ratio, Tier I risk-based capital ratio, and leverage ratio, together with certain subjective factors. The categories range from "well capitalized" to "critically undercapitalized." Institutions that are "undercapitalized" or lower are subject to certain mandatory supervisory corrective actions. At each successively lower capital category,

an insured bank is subject to increased restrictions on its operations. During these challenging economic times, the federal banking regulators have actively enforced these provisions.

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Regulatory Oversight and Examination

The Federal Reserve conducts periodic inspections of bank holding companies, which are performed both onsite and offsite. The supervisory objectives of the inspection program are to ascertain whether the financial strength of the bank holding company is being maintained on an ongoing basis and to determine the effects or consequences of transactions between a holding company or its non-banking subsidiaries and its subsidiary banks. For holding companies under $10 billion in assets, the inspection type and frequency varies depending on asset size, complexity of the organization, and the holding company's rating at its last inspection.

Banks are subject to periodic examinations by their primary regulators. Bank examinations have evolved from reliance on transaction testing in assessing a bank's condition to a risk-focused approach. These examinations are extensive and cover the entire breadth of operations of the bank. Generally, safety and soundness examinations occur on an 18-month cycle for banks under $500 million in total assets that are well capitalized and without regulatory issues, and 12-months otherwise. Examinations alternate between the federal and state bank regulatory agency or may occur on a combined schedule. The frequency of consumer compliance and CRA examinations is linked to the size of the institution and its compliance and CRA ratings at its most recent examinations. However, the examination authority of the Federal Reserve and the FDIC allows them to examine supervised banks as frequently as deemed necessary based on the condition of the bank or as a result of certain triggering events.

Corporate Governance and Accounting

Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act of 2002 (the “Act”) addresses, among other things, corporate governance, auditing and accounting, enhanced and timely disclosure of corporate information, and penalties for non-compliance. Generally, the Act (i) requires chief executive officers and chief financial officers to certify to the accuracy of periodic reports filed with the SEC; (ii) imposes specific and enhanced corporate disclosure requirements; (iii) accelerates the time frame for reporting of insider transactions and periodic disclosures by public companies; (iv) requires companies to adopt and disclose information about corporate governance practices, including whether or not they have adopted a code of ethics for senior financial officers and whether the audit committee includes at least one “audit committee financial expert;” and (v) requires the SEC, based on certain enumerated factors, to regularly and systematically review corporate filings.

Anti-terrorism

USA Patriot Act of 2001. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, intended to combat terrorism, was renewed with certain amendments in 2006 (the “Patriot Act”). The Patriot Act, in relevant part, (i) prohibits banks from providing correspondent accounts directly to foreign shell banks; (ii) imposes due diligence requirements on banks opening or holding accounts for foreign financial institutions or wealthy foreign individuals; (iii) requires financial institutions to establish an anti-money-laundering compliance program; and (iv) eliminates civil liability for persons who file suspicious activity reports. The Act also includes provisions providing the government with power to investigate terrorism, including expanded government access to bank account records.

Financial Services Modernization

Gramm-Leach-Bliley Act of 1999. The Gramm-Leach-Bliley Financial Services Modernization Act of 1999 brought about significant changes to the laws affecting banks and bank holding companies. Generally, the Act (i) repeals historical restrictions on preventing banks from affiliating with securities firms; (ii) provides a uniform framework for the activities of banks, savings institutions and their holding companies; (iii) broadens the activities that may be conducted by national banks and banking subsidiaries of bank holding companies; (iv) provides an enhanced framework for protecting the privacy of consumer information and requires notification to consumers of bank privacy policies; and (v) addresses a variety of other legal and regulatory issues affecting both day-to-day operations and long-term activities of financial institutions. Bank holding companies that qualify and elect to become financial holding companies can engage in a wider variety of financial activities than permitted under previous law, particularly with respect to insurance and securities underwriting activities.

The Emergency Economic Stabilization Act of 2008

Emergency Economic Stabilization Act of 2008. In response to market turmoil and financial crises affecting the overall banking system and financial markets in the United States, the Emergency Economic Stabilization Act of 2008

(“EESA”) was enacted on October 3, 2008. EESA provides the United States Department of the Treasury (the “Treasury”) with broad authority to implement certain actions intended to help restore stability and liquidity to the U.S. financial markets.

Troubled Asset Relief Program. Under the EESA, the Treasury has authority, among other things, to purchase up to $700 billion in mortgage loans, mortgage-related securities and certain other financial instruments, including debt and equity securities issued by financial institutions pursuant to the Troubled Asset Relief Program (“TARP”). The purpose of TARP is to restore confidence and stability to the U.S. banking system and to encourage financial institutions to increase lending to customers and to each other. Pursuant to the EESA, the Treasury was initially authorized to use $350 billion for TARP. Of this amount, the Treasury allocated $250 billion to the TARP Capital Purchase Program (“CPP”), which funds were used to purchase preferred stock from qualifying financial institutions. The Company applied for and received approximately $76 million in the CPP. Due to its capital position, on August 11, 2010, the Company redeemed all of its 76,898 outstanding shares of preferred stock, originally issued to the Treasury for a total redemption price of $77.8 million, consisting of $76.9 million in principal and $918,504 in accrued and unpaid dividends. On September 1, 2010, the Company repurchased the common stock warrant issued to the Treasury for $3.3 million. The warrant repurchase, together with the Company's redemption in August 2010 of the entire amount of the preferred stock, represents full repayment of all TARP obligations and cancellation of all equity interests in the Company held by the Treasury.

Temporary Liquidity Guarantee Program. Another program established pursuant to the EESA is the Temporary Liquidity Guarantee Program (“TLGP”), which (i) removed the limit on FDIC deposit insurance coverage for non-interest bearing transaction accounts through December 31, 2009, and (ii) provided FDIC backing for certain types of senior unsecured debt issued from October 14, 2008 through June 30, 2009. The end-date for issuing senior unsecured debt was later extended to October 31, 2009 and the FDIC also extended the Transaction Account Guarantee portion of the TLGP through December 31, 2010. In November 2010, the FDIC issued a final rule to implement provisions of the Dodd-Frank Act that provides for temporary unlimited coverage for non-interest-bearing transaction accounts. The separate coverage for non-interest-bearing transaction accounts became effective on December 31, 2010 and terminates on December 31, 2012.

Deposit Insurance

The Bank's deposits are insured under the Federal Deposit Insurance Act, up to the maximum applicable limits and are subject to deposit insurance assessments designed to tie what banks pay for deposit insurance more closely to the risks they pose. The Bank has prepaid its quarterly deposit insurance assessments for 2012 pursuant to applicable FDIC regulations. In February 2011, the FDIC approved new rules to, among other things, change the assessment base from one based on domestic deposits (as it has been since 1935) to one based on assets (average consolidated total assets minus average tangible equity). Since the new assessment base is larger than the base used under prior regulations, the rules also lower assessment rates, so that the total amount of revenue collected by the FDIC from the industry is not significantly altered. The rules also revise the deposit insurance assessment system for large financial institutions, defined as institutions with at least $10 billion in assets. The rules revise the assessment rate schedule, effective April 1, 2011, and adopt additional rate schedules that will go into effect when the Deposit Insurance Fund reserve ratio reaches various milestones. The Dodd-Frank Act requires the FDIC to increase the reserve ratio of the Deposit Insurance Fund from 1.15% to 1.35% of insured deposits by 2020 and eliminates the requirement that the FDIC pay dividends to insured depository institutions when the reserve ratio exceeds certain thresholds.

Insurance of Deposit Accounts. The EESA included a provision for a temporary increase from $100,000 to $250,000 per depositor in deposit insurance effective October 3, 2008 through December 31, 2010. On May 20, 2009, the temporary increase was extended through December 31, 2013. The Dodd-Frank Act permanently raises the current standard maximum deposit insurance amount to $250,000. The FDIC insurance coverage limit applies per depositor, per insured depository institution for each account ownership category. EESA also temporarily raised the limit on federal deposit insurance coverage to an unlimited amount for non-interest or low-interest bearing demand deposits. Pursuant to the Dodd-Frank Act, unlimited coverage for non-interest transaction accounts will continue until December 31, 2012.

Recent Legislation

Dodd-Frank Wall Street Reform and Consumer Protection Act. As a result of the recent financial crises, on July 21, 2010 the Dodd-Frank Act was signed into law. The Dodd-Frank Act is expected to have a broad impact on the financial services industry, including significant regulatory and compliance changes and changes to corporate

governance matters affecting public companies. Not all of the regulations implementing these changes have been promulgated. As a result, we cannot determine the full impact on our business and operations at this time. However, the Dodd-Frank Act is expected to have a significant impact on our business operations as its provisions take effect. Some of the provisions of the Dodd-Frank Act that may impact our business are summarized below.

Holding Company Capital Requirements. Under the Dodd-Frank Act, trust preferred securities will be excluded from the Tier 1 capital of a bank holding company between $500 million and $15 billion in assets unless such securities were issued prior to May 19, 2010.

Corporate Governance. The Dodd-Frank Act requires publicly traded companies to provide their shareholders with (i) a non-binding shareholder vote on executive compensation, (ii) a non-binding shareholder vote on the frequency of such vote, (iii) disclosure of "golden parachute" arrangements in connection with specified change in control transactions, and (iv) a non-binding shareholder vote on golden parachute arrangements in connection with these change in control transactions. Except with respect to "smaller reporting companies" and participants in the CPP, the new rules applied to proxy statements relating to annual meetings of shareholders held after January 20, 2011. "Smaller reporting companies," those with a public float of less than $75 million, are required to include the non-binding shareholder votes on executive compensation and the frequency thereof in proxy statements relating to annual meetings occurring on or after January 21, 2013.

Prohibition Against Charter Conversions of Troubled Institutions. The Dodd-Frank Act generally prohibits a depository institution from converting from a state to federal charter, or vice versa, while it is the subject to an enforcement action unless the bank seeks prior approval from its regulator and complies with specified procedures to ensure compliance with the enforcement action.

Debit Card Interchange Fees. The Dodd-Frank Act requires the amount of any interchange fee charged by a debit card issuer with respect to a debit card transaction to be reasonable and proportional to the cost incurred by the issuer. While the restrictions on interchange fees do not apply to banks that, together with their affiliates, have assets of less than $10 billion, the rule could affect the competitiveness of debit cards issued by smaller banks.

Consumer Financial Protection Bureau. The Dodd-Frank Act creates a new, independent federal agency called the Consumer Financial Protection Bureau ("CFPB") within the Federal Reserve Board. The CFPB has broad rulemaking, supervision and enforcement authority for a wide range of consumer protection laws applicable to banks and thrifts with greater than $10 billion in assets. Smaller institutions are subject to certain rules promulgated by the CFPB but will continue to be examined and supervised by their federal banking regulators for compliance purposes.

Repeal of Demand Deposit Interest Prohibition. The Dodd-Frank Act repeals the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts.

American Recovery and Reinvestment Act of 2009. On February 17, 2009 the American Recovery and Reinvestment Act of 2009 ("ARRA") was signed into law. ARRA was intended to help stimulate the economy through a combination of tax cuts and spending provisions applicable to a broad range of areas with an estimated cost of about $780 billion. Among other things, ARRA authorized the U.S. Small Business Administration ("SBA") to increase the level of the SBA's guaranty for eligible loans to 90 percent. The increased guaranty percentage continued until available funding was exhausted on January 3, 2011. ARRA also made temporary changes, which expired on December 31, 2010, to federal law that expanded the capability of banks to purchase tax-exempt debt.

Overdrafts. On November 17, 2009, the Board of Governors of the Federal Reserve System promulgated the Electronic Fund Transfer rule with an effective date of January 19, 2010 and a mandatory compliance date of July 1, 2010. The rule, which applies to all FDIC-regulated institutions, prohibits financial institutions from assessing an overdraft fee for paying automated teller machine (ATM) and one-time point-of-sale debit card transactions, unless the customer affirmatively opts in to the overdraft service for those types of transactions. The opt-in provision establishes requirements for clear disclosure of fees and terms of overdraft services for ATM and one-time debit card transactions.

Proposed Legislation

General. Proposed legislation is introduced in almost every legislative session. Certain of such legislation could dramatically affect the regulation of the banking industry. We cannot predict if any such legislation will be adopted or if it is adopted how it would affect the business of Columbia Bank or the Company. Past history has demonstrated that new legislation or changes to existing laws or regulations usually results in a greater compliance burden and therefore generally increases the cost of doing business.

Possible Changes to Capital Requirements Resulting from Basel III. Basel III updates and revises significantly the current international bank capital accords (so-called "Basel I" and "Basel II"). Basel III is intended to be implemented by participating countries for large, internationally active banks. However, standards consistent with Basel III will be formally implemented in the United States through a series of regulations, some of which may apply to other banks.

Among other things, Basel III creates “Tier 1 common equity,” a new measure of regulatory capital closer to pure tangible common equity than the present Tier 1 definition. Basel III also increases minimum capital ratios. For the new concept of Tier 1 common equity, the minimum ratio is 4.5 percent of risk weighted assets. For Tier 1 and total capital the Basel III minimums are 6 percent and 8 percent respectively. Capital buffers comprising common equity equal to 2.5 percent of risk-weighted assets are added to each of these minimums to enable banks to absorb losses during a stressed period while remaining above their

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regulatory minimum ratios. The Company cannot predict the extent to which Basel III will be adopted or, if adopted, how it will apply to us.

Effects of Government Monetary Policy

Our earnings and growth are affected not only by general economic conditions, but also by the fiscal and monetary policies of the federal government, particularly the Federal Reserve. The Federal Reserve implements national monetary policy for such purposes as curbing inflation and combating recession, but its open market operations in U.S. government securities, control of the discount rate applicable to borrowings from the Federal Reserve, and establishment of reserve requirements against certain deposits, influence the growth of bank loans, investments and deposits, and also affect interest rates charged on loans or paid on deposits. The nature and impact of future changes in monetary policies and their impact on us cannot be predicted with certainty.

ITEM 1A. RISK FACTORS

Our business exposes us to certain risks. The following is a discussion of what we currently believe are the most significant risks and uncertainties that may affect our business, financial condition and future results.

A protracted slow or fragile economic recovery could adversely affect our future results of operations or market price of our stock.

The national and global economy and the financial services sector in particular continue to face significant challenges. We cannot accurately predict how quickly or strongly the economy will recover from the recent recession, which has adversely impacted the markets we serve. The U.S. economy has also experienced substantial volatility in the financial markets. Any further deterioration in the economies of the nation as a whole or in our markets would have an adverse effect, which could be material, on our business, financial condition, results of operations and prospects, and could also cause the market price of our stock to decline. While it is impossible to predict how long adverse economic conditions may exist, a slow or fragile recovery could continue to present risks for some time for the industry and our company.

Economic conditions in the market areas we serve may continue to adversely impact our earnings and could increase our credit risk associated with our loan portfolio and the value of our investment portfolio.

Substantially all of our loans are to businesses and individuals in Washington and Oregon, and a continuing decline in the economies of these market areas could have a material adverse effect on our business, financial condition, results of operations and prospects. Housing prices have declined and unemployment is a continued concern in both Washington and Oregon. A further deterioration in the market areas we serve could result in the following consequences, any of which could have an adverse impact, which could be material, on our business, financial condition, results of operations and prospects:

- commercial and consumer loan delinquencies may increase;
- problem assets and foreclosures may increase;
- collateral for loans made may decline further in value, in turn reducing customers’ borrowing power, reducing the value of assets and collateral associated with existing loans;
- certain securities within our investment portfolio could become other than temporarily impaired, requiring a write-down through earnings to fair value, thereby reducing equity;
- low cost or non-interest bearing deposits may decrease; and
- demand for our loan and other products and services may decrease.

Our loan portfolio mix, which has a concentration of loans secured by real estate, could result in increased credit risk in a challenging economy.

Our loan portfolio is concentrated in commercial real estate and commercial business loans. These types of loans generally are viewed as having more risk of default than residential real estate loans or certain other types of loans or investments. In fact, the FDIC has issued pronouncements alerting banks of its concern about heavy loan concentrations. Because our loan portfolio contains commercial real estate and commercial business loans with relatively large balances, the deterioration of one or a few of these loans may cause a significant increase in our non-performing loans. An increase in non-performing loans could result in a loss of earnings from these loans, an increase in the provision for loan losses, or an increase in loan charge-offs, any of which could have a material adverse impact on our results of operations and financial condition.

A further downturn in the economies or real estate values in the markets we serve could have a material adverse effect on both borrowers' ability to repay their loans and the value of the real property securing such loans. Our ability to recover on defaulted loans would then be diminished, and we would be more likely to suffer losses on defaulted loans.

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Our Allowance for Loan and Lease Losses (“ALLL”) may not be adequate to cover future loan losses, which could adversely affect earnings.

We maintain an ALLL in an amount that we believe is adequate to provide for losses inherent in our loan portfolio. While we strive to carefully monitor credit quality and to identify loans that may become non-performing, at any time there are loans in the portfolio that could result in losses, but that have not been identified as non-performing or potential problem loans. We cannot be sure that we will be able to identify deteriorating loans before they become non-performing assets, or that we will be able to limit losses on those loans that have been identified. Additionally, the process for determining the ALLL requires different, subjective and complex judgments about the future impact from current economic conditions that might impair the ability of borrowers to repay their loans. As a result, future significant increases to the ALLL may be necessary.

Future increases to the ALLL may be required based on changes in the composition of the loans comprising the portfolio, deteriorating values in underlying collateral (most of which consists of real estate) and changes in the financial condition of borrowers, such as may result from changes in economic conditions, or as a result of actual future events differing from assumptions used by management in determining the ALLL. Additionally, banking regulators, as an integral part of their supervisory function, periodically review our ALLL. These regulatory agencies may require us to increase the ALLL. Any increase in the ALLL would have an adverse effect, which could be material, on our financial condition and results of operations.

Nonperforming assets take significant time to resolve and adversely affect our results of operations and financial condition.

Our nonperforming assets adversely affect our net income in various ways. Until economic and market conditions improve to pre-recession levels, we expect to continue to incur additional losses relating to elevated levels of nonperforming loans. We do not record interest income on nonaccrual loans, thereby adversely affecting our income, and increasing loan administration costs. Assets acquired by foreclosure or similar proceedings are recorded at the lower of carrying value or fair value less estimated costs to sell. The valuation of these foreclosed assets is periodically updated and resulting losses, if any, are charged to earnings in the period in which they are identified. An increase in the level of nonperforming assets also increases our risk profile and may impact the capital levels our regulators believe is appropriate in light of such risks. We utilize various techniques such as loan sales, workouts, and restructurings to manage our problem assets. Decreases in the value of these problem assets, the underlying collateral, or in the borrowers’ performance or financial condition, could adversely affect our business, results of operations and financial condition. In addition, the resolution of nonperforming assets requires significant commitments of time from management and staff, which can be detrimental to performance of their other responsibilities. We may experience further increases in nonperforming loans in the future.

Our acquisitions and the integration of acquired businesses may not result in all of the benefits anticipated, and future acquisitions may be dilutive to current shareholders.

We have in the past and may in the future seek to grow our business by acquiring other businesses. Our acquisitions may not have the anticipated positive results, including results relating to: correctly assessing the asset quality of the assets being acquired; the total cost of integration including management attention and resources; the time required to complete the integration successfully; the amount of longer-term cost savings; being able to profitably deploy funds acquired in an acquisition; or the overall performance of the combined entity.

We also may encounter difficulties in obtaining required regulatory approvals and unexpected contingent liabilities can arise from the businesses we acquire. Integration of an acquired business can be complex and costly, sometimes including combining relevant accounting and data processing systems and management controls, as well as managing relevant relationships with employees, clients, suppliers and other business partners. Integration efforts could divert management attention and resources, which could adversely affect our operations or results.

Given the continued market volatility and uncertainty, notwithstanding our loss-sharing arrangements with the FDIC, we may continue to experience increased credit costs or need to take additional markdowns and allowances for loan losses on the assets and loans acquired that could adversely affect our financial condition and results of operations in the future.

We may also experience difficulties in complying with the technical requirements of our loss-sharing agreements with the FDIC, which could result in some assets which we acquire in FDIC-assisted transactions losing their coverage under such agreements. As our integration efforts continue in connection with these transactions, other unanticipated costs, including the diversion of personnel, or losses, may be incurred.

Acquisitions may also result in business disruptions that cause us to lose customers or cause customers to remove their accounts from us and move their business to competing financial institutions. It is possible that the integration process related

to acquisitions could result in the disruption of our ongoing businesses or inconsistencies in standards, controls, procedures and policies that could adversely affect our ability to maintain relationships with clients, customers, depositors and employees. The loss of key employees in connection with an acquisition could adversely affect our ability to successfully conduct our business.

We may engage in future acquisitions involving the issuance of additional common stock and/or cash. Any such acquisitions and related issuances of stock may have a dilutive effect on earnings per share and the percentage ownership of current shareholders. The use of cash as consideration in any such acquisitions could impact our capital position and may require us to raise additional capital.

Furthermore, notwithstanding our recent acquisitions, we cannot provide any assurance as to the extent to which we can continue to grow through acquisitions as this will depend on the availability of prospective target opportunities at valuations we find attractive and the competition for such opportunities from other parties.

Our decisions regarding the fair value of assets acquired, including the FDIC loss-sharing assets, could be inaccurate, which could materially and adversely affect our business, financial condition, results of operations, and future prospects.

Management makes various assumptions and judgments about the collectability of the acquired loans, including the creditworthiness of borrowers and the value of the real estate and other assets serving as collateral for the repayment of secured loans. In FDIC-assisted acquisitions that include loss-sharing agreements, we may record a loss-sharing asset that we consider adequate to absorb the indemnified portion of future losses which may occur in the acquired loan portfolio. The FDIC loss-sharing asset is accounted for on the same basis as the related acquired loans and OREO and primarily represents the present value of the cash flows the Company expects to collect from the FDIC under the loss-sharing agreements.

If our assumptions are incorrect, significant earnings volatility can occur and the balance of the FDIC loss-sharing asset may at any time be insufficient to cover future loan losses, and credit loss provisions may be needed to respond to different economic conditions or adverse developments in the acquired loan portfolio. Any increase in future loan losses could have a material adverse effect on our operating results.

Our profitability measures could be adversely affected if we are unable to effectively deploy the capital we raised in 2010.

We may use the net proceeds of our capital raise completed in May 2010 for selective acquisitions that meet our disciplined acquisition criteria, to fund internal growth, or for general corporate purposes. Although we are periodically engaged in discussions with potential acquisition candidates, we are not currently a party to any purchase or merger agreement. There can be no assurance that we will be able to negotiate future acquisitions on terms acceptable to us. Investing the proceeds of our 2010 capital raise until we are able to deploy the proceeds will provide lower margins than we generally earn on loans, potentially adversely impacting shareholder returns, including earnings per share, net interest margin, return on assets and return on equity.

If the goodwill we have recorded in connection with acquisitions becomes impaired, it could have an adverse impact on our earnings and capital.

Accounting standards require that we account for acquisitions using the acquisition method of accounting. Under acquisition accounting, if the purchase price of an acquired company exceeds the fair value of its net assets, the excess is carried on the acquirer’s balance sheet as goodwill. In accordance with generally accepted accounting principles, our goodwill is evaluated for impairment on an annual basis or more frequently if events or circumstances indicate that a potential impairment exists. Such evaluation may be based on a variety of factors, including the quoted price of our common stock, market prices of common stock of other banking organizations, common stock trading multiples, discounted cash flows, and data from comparable acquisitions. Future evaluations of goodwill may result in impairment and ensuing write-down, which could be material, resulting in an adverse impact on our earnings and capital.

Fluctuating interest rates could adversely affect our business.

Significant increases in market interest rates on loans, or the perception that an increase may occur, could adversely affect both our ability to originate new loans and our ability to grow. Conversely, decreases in interest rates could result in an acceleration of loan prepayments. An increase in market interest rates could also adversely affect the

ability of our floating-rate borrowers to meet their higher payment obligations. If this occurred, it could cause an increase in nonperforming assets and charge offs, which could adversely affect our business.

Further, our profitability is dependent to a large extent upon net interest income, which is the difference (or “spread”) between the interest earned on loans, securities and other interest-earning assets and the interest paid on deposits, borrowings,

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and other interest-bearing liabilities. Because of the differences in maturities and repricing characteristics of our interest-earning assets and interest-bearing liabilities, changes in interest rates do not produce equivalent changes in interest income earned on interest-earning assets and interest paid on interest-bearing liabilities. Accordingly, fluctuations in interest rates could adversely affect our interest rate spread, and, in turn, our profitability.

The FDIC has increased insurance premiums to restore and maintain the federal deposit insurance fund, which has increased our costs and could adversely affect our business.

In 2009, the FDIC imposed a special deposit insurance assessment of five basis points on all insured institutions, and also required insured institutions to prepay estimated quarterly risk-based assessments through 2012.

The Dodd-Frank Act established 1.35% as the minimum deposit insurance fund reserve ratio. The FDIC has determined that the fund reserve ratio should be 2.0% and has adopted a plan under which it will meet the statutory minimum fund reserve ratio of 1.35% by the statutory deadline of September 30, 2020. The Dodd-Frank Act requires the FDIC to offset the effect on institutions with assets less than $10 billion of the increase in the statutory minimum fund reserve ratio to 1.35% from the former statutory minimum of 1.15%.

Effective April 1, 2011, the FDIC implemented changes to the assessment rules resulting from the Dodd-Frank Act. The adopted regulations: (1) modify the definition of an institution’s deposit insurance assessment base; (2) alter certain adjustments to the assessment rates; (3) revise the assessment rate schedules in light of the new assessment base and altered adjustments; and (4) provide for the automatic adjustment of the assessment rates in the future when the reserve ratio reaches certain milestones. These rule changes favorably impacted the Company's results of operations in 2011 by approximately $1.0 million as the assessment rates, though applied to a larger assessment base, were lower than rates in prior periods.

Despite the FDIC’s actions to restore the deposit insurance fund, the fund will suffer additional losses in the future due to failures of insured institutions. There may be additional significant deposit insurance premium increases, special assessments or prepayments in order to restore the insurance fund’s reserve ratio. Any significant premium increases or special assessments could have a material adverse effect on the Company’s financial condition and results of operations.

We operate in a highly regulated environment and changes of or increases in, or supervisory enforcement of, banking or other laws and regulations or governmental fiscal or monetary policies could adversely affect us.

We are subject to extensive regulation, supervision and examination by federal and state banking authorities. In addition, as a publicly-traded company, we are subject to regulation by the Securities and Exchange Commission. Any change in applicable regulations or federal, state or local legislation or in policies or interpretations or regulatory approaches to compliance and enforcement, income tax laws and accounting principles could have a substantial impact on us and our operations. Changes in laws and regulations may also increase our expenses by imposing additional fees or taxes or restrictions on our operations. Additional legislation and regulations that could significantly affect our powers, authority and operations may be enacted or adopted in the future, which could have a material adverse effect on our financial condition and results of operations. Failure to appropriately comply with any such laws, regulations or principles could result in sanctions by regulatory agencies or damage to our reputation, all of which could adversely affect our business, financial condition or results of operations.

In that regard, the Dodd-Frank Wall Street Reform and Consumer Protection Act was enacted in July 2010. Among other provisions, the legislation (i) created a new Bureau of Consumer Financial Protection with broad powers to regulate consumer financial products such as credit cards and mortgages, (ii) created a Financial Stability Oversight Council comprised of the heads of other regulatory agencies, (iii) will lead to new capital requirements from federal banking agencies, (iv) places new limits on electronic debit card interchange fees and (v) requires the Securities and Exchange Commission and national stock exchanges to adopt significant new corporate governance and executive compensation reforms. The new legislation and regulations are expected to increase the overall costs of regulatory compliance.

Further, regulators have significant discretion and authority to prevent or remedy unsafe or unsound practices or violations of laws or regulations by financial institutions and holding companies in the performance of their supervisory and enforcement duties. Recently, these powers have been utilized more frequently due to the serious national, regional and local economic conditions we are facing. The exercise of regulatory authority may have a

negative impact on our financial condition and results of operations. Additionally, our business is affected significantly by the fiscal and monetary policies of the U.S. federal government and its agencies, including the Federal Reserve Board.

We cannot accurately predict the full effects of recent legislation or the various other governmental, regulatory, monetary and fiscal initiatives which have been and may be enacted on the financial markets, on the Company and on the Bank. The terms and costs of these activities, or any worsening of current financial market and economic conditions, could materially and

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adversely affect our business, financial condition, results of operations, and the trading price of our common stock.

We may be required, in the future, to recognize impairment with respect to investment securities, including the FHLB stock we hold.

Our securities portfolio currently includes securities with unrecognized losses. We may continue to observe declines in the fair market value of these securities. Securities issued by certain states and municipalities have recently come under scrutiny due to concerns about credit quality. Although management believes the credit quality of the Company's state and municipal securities portfolio to be good, there can be no assurance that the credit quality of these securities will not decline in the future. We evaluate the securities portfolio for any other than temporary impairment each reporting period, as required by generally accepted accounting principles in the United States of America, and as of December 31, 2011, we recognized one municipal bond as being other-than-temporarily impaired. For further information regarding this other-than-temporarily impaired security see Note 4 to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this report. There can be no assurance, however, that future evaluations of the securities portfolio will not require us to recognize further impairment charges with respect to these and other holdings. For example, it is possible that government-sponsored programs to allow mortgages to be refinanced to lower rates could materially adversely impact the yield on our portfolio of mortgage-backed securities, since a significant portion of our investment portfolio is composed of such securities.

In addition, as a condition to membership in the FHLB, we are required to purchase and hold a certain amount of FHLB stock. Our stock purchase requirement is based, in part, upon the outstanding principal balance of advances from the FHLB. At December 31, 2011 we had stock in the FHLB totaling $22.2 million. The FHLB stock held by us is carried at cost and is subject to recoverability testing under applicable accounting standards. The FHLB has discontinued the repurchase of their stock and discontinued the distribution of dividends. As of December 31, 2011, we did not recognize an impairment charge related to our FHLB stock holdings. There can be no assurance, however, that future negative changes to the financial condition of the FHLB may not require us to recognize an impairment charge with respect to such holdings.

Substantial competition in our market areas could adversely affect us.

Commercial banking is a highly competitive business. We compete with other commercial banks, savings and loan associations, credit unions, finance, insurance and other non-depository companies operating in our market areas. We also experience competition, especially for deposits, from Internet-based banking institutions, which have grown rapidly in recent years. We are subject to substantial competition for loans and deposits from other financial institutions. Some of our competitors are not subject to the same degree of regulation and restriction as we are and/or have greater financial resources than we do. Some of our competitors have severe liquidity issues, which could impact the pricing of deposits in our marketplace. If we are unable to effectively compete in our market areas, our business, results of operations and prospects could be adversely affected.

Changes in accounting standards could materially impact our financial statements.

From time to time the Financial Accounting Standards Board and the SEC change the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be very difficult to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in our restating prior period financial statements.

There can be no assurance as to the level of dividends we may pay on our common stock.

Holders of our common stock are only entitled to receive such dividends as our Board of Directors may declare out of funds legally available for such payments. Although we have historically declared cash dividends on our common stock, we are not required to do so and there may be circumstances under which we would eliminate our common stock dividend in the future. This could adversely affect the market price of our common stock.

Significant legal or regulatory actions could subject us to substantial uninsured liabilities and reputational harm and have a material adverse effect on our business and results of operations.

We are from time to time subject to claims and proceedings related to our operations. These claims and legal actions, which could include supervisory or enforcement actions by our regulators, or criminal proceedings by prosecutorial authorities, could involve large monetary claims, including civil money penalties or fines imposed by government

authorities, and significant defense costs. To mitigate the cost of some of these claims, we maintain insurance coverage in amounts and with deductibles that we believe are appropriate for our operations. However, our insurance coverage does not cover any civil money penalties or fines imposed by government authorities and may not cover all other claims that might be brought against us or continue to be available to us at a reasonable cost. As a result, we may be exposed to substantial uninsured liabilities,

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which could adversely affect our business, prospects, results of operations and financial condition. Substantial legal liability or significant regulatory action against us could have material adverse financial effects or cause significant reputational harm to us, which in turn could seriously harm our business prospects.

We are subject to a variety of operational risks, including reputational risk, legal risk and compliance risk, and the risk of fraud or theft by employees or outsiders, which may adversely affect our business and results of operations.

We are exposed to many types of operational risks, including reputational risk, legal and compliance risk, the risk of fraud or theft by employees or outsiders, and unauthorized transactions by employees or operational errors, including clerical or record-keeping errors or those resulting from faulty or disabled computer or telecommunications systems. If personal, non-public, confidential or proprietary information of customers in our possession were to be mishandled or misused, we could suffer significant regulatory consequences, reputational damage and financial loss. Such mishandling or misuse could include, for example, if such information were erroneously provided to parties who are not permitted to have the information, either by fault of our systems, employees, or counterparties, or where such information is intercepted or otherwise inappropriately taken by third parties.

Because the nature of the financial services business involves a high volume of transactions, certain errors may be repeated or compounded before they are discovered and successfully rectified. Our necessary dependence upon automated systems to record and process transactions and our large transaction volume may further increase the risk that technical flaws or employee tampering or manipulation of those systems will result in losses that are difficult to detect. We also may be subject to disruptions of our operating systems arising from events that are wholly or partially beyond our control (for example, computer viruses or electrical or telecommunications outages, or natural disasters, disease pandemics or other damage to property or physical assets) which may give rise to disruption of service to customers and to financial loss or liability. We are further exposed to the risk that our external vendors may be unable to fulfill their contractual obligations (or will be subject to the same risk of fraud or operational errors by their respective employees as we are) and to the risk that we (or our vendors') business continuity and data security systems prove to be inadequate. The occurrence of any of these risks could result in a diminished ability of us to operate our business (for example, by requiring us to expend significant resources to correct the defect), as well as potential liability to clients, reputational damage and regulatory intervention, which could adversely affect our business, financial condition and results of operations, perhaps materially.

We may pursue additional capital, which may not be available on acceptable terms or at all, could dilute the holders of our outstanding common stock and may adversely affect the market price of our common stock.

In the current economic environment, there may be circumstances under which it would be prudent to consider alternatives for raising capital when opportunities to raise capital at attractive prices present themselves, in order to further strengthen our capital and better position ourselves to take advantage of opportunities that may arise in the future. Such alternatives may include issuance and sale of common or preferred stock, or borrowings by the Company, with proceeds contributed to the Bank. Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at the time, which are outside of our control, and our financial performance. We cannot assure you that such capital will be available to us on acceptable terms or at all. Any such capital raising alternatives could dilute the holders of our outstanding common stock, and may adversely affect the market price of our common stock and our performance measures such as earnings per share.

We have various anti-takeover measures that could impede a takeover.

Our articles of incorporation include certain provisions that could make it more difficult to acquire us by means of a tender offer, a proxy contest, merger or otherwise. These provisions include certain non-monetary factors that our board of directors may consider when evaluating a takeover offer, and a requirement that any "Business Combination" be approved by the affirmative vote of no less than 66 2/3% of the total shares attributable to persons other than a "Control Person." These provisions may have the effect of lengthening the time required for a person to acquire control of us through a tender offer, proxy contest or otherwise, and may deter any potentially hostile offers or other efforts to obtain control of us. This could deprive our shareholders of opportunities to realize a premium for their Columbia common stock, even in circumstances where such action is favored by a majority of our shareholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

The Company's principal Columbia Bank properties include our corporate headquarters which is located at 13th & A Street, Tacoma, Washington, in Pierce County, where we occupy 62 thousand square feet of office space, 4 thousand square feet of commercial lending space and 750 square feet of branch space under various operating lease agreements, an operations facility in Lakewood, Washington, where we own 57 thousand square feet of office space and an office facility in Tacoma, Washington, that includes a branch where we occupy 26 thousand square feet under various operating lease agreements.

The Company's branch network as of December 31, 2011 is made up of 102 branches located throughout several Washington and Oregon counties. The number of branches per county, as well as whether it is owned or operated under a lease agreement is detailed in the following table.

	Number of	Occupancy Type	
County	Branches	Owned	Leased
Pierce	23	15	8
King	13	8	5
Kitsap	6	3	3
Snohomish	5	5	—
Skagit	3	3	—
Other Washington Counties	27	16	11
Total Washington Branches	77	50	27
Clatsop (dba Bank of Astoria)	4	4	—
Tillamook (dba Bank of Astoria)	2	2	—
Clackamas	4	—	4
Multnomah	2	1	1
Deschutes	4	2	2
Other Oregon Counties	9	7	2
Total Oregon Branches	25	16	9
Total Columbia Bank Branches	102	66	36

For additional information concerning our premises and equipment and lease obligations, see Note 9 and 17, respectively, to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this report.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Quarterly Common Stock Prices and Dividends

Our common stock is traded on the NASDAQ Global Select Market under the symbol "COLB". Quarterly high and low sales prices and dividend information for the last two years are presented in the following table. The prices shown do not include retail mark-ups, mark-downs or commissions:

			Cash Dividends Declared		
2011	High	Low	Regular	Special	Total Cash Dividends Declared
First quarter	$22.14	$17.91	$0.03	$—	$0.03
Second quarter	$19.95	$16.56	0.05	—	0.05
Third quarter	$18.14	$14.01	0.06	—	0.06
Fourth quarter	$19.76	$13.46	0.08	0.05	0.13
For the year	$22.14	$13.46	$0.22	$0.05	$0.27

			Cash Dividends Declared		
2010	High	Low	Regular	Special	Total Cash Dividends Declared
First quarter	$22.60	$16.03	$0.01	$—	$0.01
Second quarter	$24.96	$18.17	0.01	—	0.01
Third quarter	$19.97	$15.91	0.01	—	0.01
Fourth quarter	$21.99	$17.00	0.01	—	0.01
For the year	$24.96	$15.91	$0.04	$—	$0.04

On December 31, 2011, the last sale price for our stock on the NASDAQ Global Select Market was $19.27. At January 31, 2012, the number of shareholders of record was 2,077. This figure does not represent the actual number of beneficial owners of common stock because shares are frequently held in "street name" by securities dealers and others for the benefit of individual owners who may vote the shares.

At December 31, 2011, a total of 64,912 stock options were outstanding. Additional information about stock options and other equity compensation plans is included in Note 21 to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this report.

The payment of future cash dividends is at the discretion of our Board and subject to a number of factors, including results of operations, general business conditions, growth, financial condition and other factors deemed relevant by the Board of Directors. 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.

Subsequent to year end, on January 26, 2012 the Company declared a regular quarterly cash dividend of $0.08 per share and a special cash dividend of $0.29 per share, both payable on February 22, 2012, to shareholders of record at the close of business on February 8, 2012.

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Equity Compensation Plan Information

	Year Ended December 31, 2011		
	Number of Shares to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (1)(2)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Shares Remaining Available for Future Issuance Under Equity Compensation Plans (3)
Equity compensation plans approved by security holders	64,912	$ 22.76	1,167,010
Equity compensation plans not approved by security holders	—	—	—

(1) Includes shares to be issued upon exercise of options under plans of Bank of Astoria, Mountain Bank Holding Company and Town Center Bancorp, which were assumed as a result of their acquisitions.
(2) Consists of shares that are subject to outstanding options.
(3) Includes 519,107 shares available for future issuance under the stock option and equity compensation plan and 647,903 shares available for purchase under the Employee Stock Purchase Plan as of December 31, 2011.

Five-Year Stock Performance Graph

The following graph shows a five-year comparison of the total return to shareholders of Columbia's common stock, the Nasdaq Composite Index (which is a broad nationally recognized index of stock performance by companies listed on the Nasdaq Stock Market) and the Columbia Peer Group (comprised of banks with assets of $1 billion to $5 billion, all of which are located in the western United States). The definition of total return includes appreciation in market value of the stock as well as the actual cash and stock dividends paid to shareholders. The graph assumes that the value of the investment in Columbia's common stock, the Nasdaq and the Columbia Peer Group was $100 on December 31, 2006, and that all dividends were reinvested.

Index	Period Ending					
	12/31/2006	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011
Columbia Banking System, Inc.	100.00	86.57	35.75	48.80	63.66	59.15
NASDAQ Composite	100.00	110.66	66.42	96.54	114.06	113.16
SNL Columbia Peer Group	100.00	73.06	52.34	45.97	49.32	42.00

Source: SNL Financial LC, Charlottesville, VA

ITEM 6. SELECTED FINANCIAL DATA

Five-Year Summary of Selected Consolidated Financial Data (1)

	2011	2010	2009	2008	2007
	(in thousands except per share)				
For the Year					
Interest income	$251,271	$185,879	$143,035	$175,060	$184,217
Interest expense	$14,535	$21,092	$27,683	$55,547	$75,397
Net interest income	$236,736	$164,787	$115,352	$119,513	$108,820
Provision for loan and lease losses, excluding covered loans	$7,400	$41,291	$63,500	$41,176	$3,605
Noninterest income (loss)	$(9,283)	$52,781	$29,690	$14,850	$27,748
Noninterest expense	$155,759	$137,147	$94,488	$92,125	$88,829
Net income (loss)	$48,037	$30,784	$(3,968)	$5,968	$32,381
Net income (loss) applicable to common shareholders	$48,037	$25,837	$(8,371)	$5,498	$32,381
Per Common Share					
Earnings (loss) (Basic)	$1.22	$0.73	$(0.38)	$0.30	$1.91
Earnings (loss) (Diluted)	$1.21	$0.72	$(0.38)	$0.30	$1.89
Book Value	$19.23	$17.97	$16.13	$18.82	$19.03
Averages					
Total assets	$4,509,010	$4,248,590	$3,084,421	$3,134,054	$2,837,162
Interest-earning assets	$3,871,424	$3,583,728	$2,783,862	$2,851,555	$2,599,379
Loans, including covered loans	$2,607,266	$2,485,650	$2,124,574	$2,264,486	$1,990,622
Securities	$928,891	$720,152	$584,028	$565,299	$581,122
Deposits	$3,541,399	$3,270,923	$2,378,176	$2,382,484	$2,242,134
Core deposits	$3,218,425	$2,828,246	$1,945,039	$1,911,897	$1,887,391
Shareholders’ equity	$730,726	$668,469	$462,127	$354,387	$289,297
Financial Ratios					
Net interest margin	6.27 %	4.76 %	4.33 %	4.38 %	4.35 %
Return on average assets	1.23 %	0.72 %	(0.13)%	0.19 %	1.14 %
Return on average common equity	7.73 %	4.15 %	(2.16)%	1.59 %	11.19 %
Efficiency ratio (tax equivalent) (2)	70.68 %	67.56 %	61.53 %	59.88 %	61.33 %
Average equity to average assets	15.93 %	15.73 %	14.98 %	11.31 %	10.20 %
At Year End					
Total assets	$4,785,945	$4,256,363	$3,200,930	$3,097,079	$3,178,713
Covered assets, net	$560,055	$531,504	$—	$—	$—
Loans, excluding covered loans	$2,348,371	$1,915,754	$2,008,884	$2,232,332	$2,282,728
Allowance for noncovered loan and lease losses	$53,041	$60,993	$53,478	$42,747	$26,599
Securities	$1,050,325	$781,774	$631,645	$540,525	$572,973
Deposits	$3,815,529	$3,327,269	$2,482,705	$2,382,151	$2,498,061
Core deposits	$3,510,435	$2,998,482	$2,072,821	$1,941,047	$1,996,393
Shareholders’ equity	759,338	706,878	528,139	415,385	341,731
Full-time equivalent employees	1,256	1,092	715	735	775
Banking branches	102	84	52	53	55
Nonperforming Assets, Excluding Covered Assets					
Nonaccrual loans	53,483	89,163	110,431	106,163	14,005
	31,905	30,991	19,037	2,874	181

Other real estate owned and other personal property owned										
Total nonperforming assets, excluding covered assets	$85,388		$120,154		$129,468		$109,037		$14,186	
Nonperforming loans to year end loans, excluding covered loans	2.28	%	4.65	%	5.50	%	4.76	%	0.61	%
Nonperforming assets to year end assets, excluding covered assets	2.02	%	3.23	%	4.04	%	3.52	%	0.45	%
Allowance for loan and lease losses to year end loans, excluding covered loans	2.26	%	3.18	%	2.66	%	1.91	%	1.17	%
Allowance for loan and lease losses to nonperforming loans, excluding covered loans	99.17	%	68.41	%	48.43	%	40.27	%	189.93	%
Net loan charge-offs	$15,352		$33,776		$52,769		$25,028		$380	
Risk-Based Capital Ratios										
Total capital	21.05	%	24.47	%	19.60	%	14.25	%	10.90	%
Tier 1 capital	19.79	%	23.20	%	18.34	%	12.99	%	9.87	%
Leverage ratio	12.96	%	13.99	%	14.33	%	11.27	%	8.54	%

(1) These unaudited schedules provide selected financial information concerning the Company that should be read in conjunction with “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this report.

(2) Noninterest expense, excluding net cost of operation of other real estate divided by the sum of net interest income and noninterest income on a tax equivalent basis, excluding gain/loss on sale of investment securities, impairment charge on investment securities, gain on bank acquisition, incremental interest income accretion on the acquired loan portfolio and the change in FDIC loss-sharing asset.

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Consolidated Five-Year Financial Data (1)

	Years ended December 31,				
	2011	2010	2009	2008	2007
	(in thousands, except per share amounts)				
Interest Income:					
Loans	$218,420	$157,292	$117,062	$147,830	$156,253
Taxable securities	21,870	18,276	17,300	18,852	18,614
Tax-exempt securities	10,142	9,348	8,458	7,976	7,923
Federal funds sold and deposits with banks	839	963	215	402	1,427
Total interest income	251,271	185,879	143,035	175,060	184,217
Interest Expense:					
Deposits	10,478	16,733	23,250	45,307	59,930
Federal Home Loan Bank advances	2,980	2,841	2,759	7,482	11,065
Long-term obligations	579	1,029	1,197	1,800	2,177
Other borrowings	498	489	477	958	2,225
Total interest expense	14,535	21,092	27,683	55,547	75,397
Net Interest Income	236,736	164,787	115,352	119,513	108,820
Provision for noncovered loan and lease losses	7,400	41,291	63,500	41,176	3,605
Provision (recapture) for losses on covered loans	(1,648)	6,055	—	—	—
Net interest income after provision	230,984	117,441	51,852	78,337	105,215
Noninterest income (loss)	(9,283)	52,781	29,690	14,850	27,748
Noninterest expense	155,759	137,147	94,488	92,125	88,829
Income (loss) before income taxes	65,942	33,075	(12,946)	1,062	44,134
Provision (benefit) for income taxes	17,905	2,291	(8,978)	(4,906)	11,753
Net Income (Loss)	$48,037	$30,784	$(3,968)	$5,968	$32,381
Less: Dividends on preferred stock	—	4,947	4,403	470	—
Net Income (Loss) Applicable to Common Shareholders	$48,037	$25,837	$(8,371)	$5,498	$32,381
Per Common Share					
Earnings (loss) basic	$1.22	$0.73	$(0.38)	$0.30	$1.91
Earnings (loss) diluted	$1.21	$0.72	$(0.38)	$0.30	$1.89
Average number of common shares outstanding (basic)	39,103	35,209	21,854	17,914	16,802
Average number of common shares outstanding (diluted)	39,180	35,392	21,854	18,010	16,972
Total assets at year end	$4,785,945	$4,256,363	$3,200,930	$3,097,079	$3,178,713
Long-term obligations	$—	$25,735	$25,669	$25,603	$25,519
Cash dividends declared per common share	$0.27	$0.04	$0.07	$0.58	$0.66

(1) These unaudited schedules provide selected financial information concerning the Company that should be read in conjunction with “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operation” of this report.

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Selected Quarterly Financial Data (1)

The following table presents selected unaudited consolidated quarterly financial data for each quarter of 2011 and 2010. The information contained in this table reflects all adjustments, which, in the opinion of management, are necessary for a fair presentation of the results of the interim periods.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year Ended December 31,
	(in thousands, except per share amounts)				
2011					
Total interest income	$54,611	$53,309	$68,432	$74,919	$251,271
Total interest expense	4,162	3,934	3,644	2,795	14,535
Net interest income	50,449	49,375	64,788	72,124	236,736
Provision for loan and lease losses	—	2,150	500	4,750	7,400
Provision for losses on covered loans	(422)	2,301	433	(3,960)	(1,648)
Noninterest income (loss)	(5,419)	3,542	2,196	(9,602)	(9,283)
Noninterest expense	37,346	37,164	39,935	41,314	155,759
Income before income taxes	8,106	11,302	26,116	20,418	65,942
Provision (benefit) for income taxes	2,327	2,670	7,244	5,664	17,905
Net income	$5,779	$8,632	$18,872	$14,754	$48,037
Less: Dividends on preferred stock	—	—	—	—	—
Net income applicable to common shareholders	$5,779	$8,632	$18,872	$14,754	$48,037
Per Common Share (2)					
Earnings (basic)	$0.15	$0.22	$0.48	$0.37	$1.22
Earnings (diluted)	$0.15	$0.22	$0.48	$0.37	$1.21
2010					
Total interest income	$44,287	$46,148	$52,075	$43,369	$185,879
Total interest expense	6,013	5,416	5,110	4,553	21,092
Net interest income	38,274	40,732	46,965	38,816	164,787
Provision for loan and lease losses	15,000	13,500	9,000	3,791	41,291
Provision for losses on covered loans	—	—	453	5,602	6,055
Noninterest income	18,473	13,237	5,183	15,888	52,781
Noninterest expense	33,897	34,745	33,520	34,985	137,147
Income before income taxes	7,850	5,724	9,175	10,326	33,075
Provision (benefit) for income taxes	(66)	668	3,971	(2,282)	2,291
Net income	$7,916	$5,056	$5,204	$12,608	$30,784
Less: Dividends on preferred stock	1,107	1,110	2,730	—	4,947
Net income applicable to common shareholders	$6,809	$3,946	$2,474	$12,608	$25,837
Per Common Share (2)					
Earnings (basic)	$0.24	$0.11	$0.06	$0.32	$0.73
Earnings (diluted)	$0.24	$0.11	$0.06	$0.32	$0.72

(1) These unaudited schedules provide selected financial information concerning the Company that should be read in conjunction with “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operation” of this report.

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

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

This discussion should be read in conjunction with our Consolidated Financial Statements and related notes in "Item 8. Financial Statements and Supplementary Data" of this report. In the following discussion, unless otherwise noted, references to increases or decreases in average balances in items of income and expense for a particular period and balances at a particular date refer to the comparison with corresponding amounts for the period or date for the previous year.

Critical Accounting Policies

We have established certain accounting policies in preparing our Consolidated Financial Statements that are in accordance with accounting principles generally accepted in the United States. Our significant accounting policies are presented in Note 1 to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this report. Certain of these policies require the use of judgments, estimates and economic assumptions which may prove inaccurate or are subject to variation that may significantly affect our reported results of operations and financial position for the periods presented or in future periods. Management believes that the judgments, estimates and economic assumptions used in the preparation of the Consolidated Financial Statements are appropriate given the factual circumstances at the time. We consider the following policies to be most critical in understanding the judgments that are involved in preparing our consolidated financial statements.

Allowance for Loan and Lease Losses

The allowance for loan and lease losses ("ALLL") is established to absorb known and inherent losses in our loan and lease portfolio. Our methodology in determining the appropriate level of the ALLL includes components for a general valuation allowance in accordance with the Contingencies topic of the Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC"), a specific valuation allowance in accordance with the Receivables topic of the FASB ASC and an unallocated component. Both quantitative and qualitative factors are considered in determining the appropriate level of the ALLL. Quantitative factors include historical loss experience, delinquency and charge-off trends and the evaluation of specific loss estimates for problem loans. Qualitative factors include existing general economic and business conditions in our market areas as well as the duration of the current business cycle. Changes in any of the factors mentioned could have a significant impact on our calculation of the ALLL. Our ALLL policy and the judgments, estimates and economic assumptions involved are described in greater detail in the "Allowance for Noncovered Loan and Lease Losses and Unfunded Commitments and Letters of Credit" section of this discussion and in Note 1 to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this report.

Business Combinations

The Company applies the acquisition method of accounting for business combinations. Under the acquisition method, the acquiring entity in a business combination recognizes 100 percent of the assets acquired and liabilities assumed at their acquisition date fair values. Management utilizes prevailing valuation techniques appropriate for the asset or liability being measured in determining these fair values. Any excess of the purchase price over amounts allocated to assets acquired, including identifiable intangible assets, and liabilities assumed is recorded as goodwill. Where amounts allocated to assets acquired and liabilities assumed is greater than the purchase price, a bargain purchase gain is recognized. Acquisition-related costs are expensed as incurred.

Acquired Impaired Loans

Loans acquired at a discount for which it is probable that all contractual payments will not be received are accounted for under ASC Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality ("ASC 310-30"). In addition, certain acquired loans with evidence of deteriorated credit quality may be accounted for under this topic even if it is not yet probable that all contractual payments will not be received. These loans are recorded at fair value at the time of acquisition. Estimated credit losses are included in the determination of fair value, therefore, an allowance for loan losses is not recorded on the acquisition date. The excess of expected cash flows at acquisition over the initial investment in acquired loans ("accretable yield") is recorded as interest income over the life of the loans if the timing and amount of the future cash flows is reasonably estimable. Subsequent to acquisition, the Company aggregates individual loans with common risk characteristics into pools of loans. Increases in estimated cash flows over those

expected at the acquisition date are recognized as interest income, prospectively. Decreases in expected cash flows after the acquisition date are recognized by recording an allowance for loan losses.

Loans accounted for under ASC 310-30 are generally considered accruing and performing loans as the loans accrete interest income over the estimated life of the loan when cash flows are reasonably estimable. Accordingly, acquired impaired loans that are contractually past due are still considered to be accruing and performing loans. If the timing and amount of future cash flows is not reasonably estimable, the loans may be classified as nonaccrual loans and the purchase price discount on those loans is not recorded as interest income until the timing and amount of future cash flows can be reasonably estimated.

FDIC Loss-sharing Asset

In conjunction with certain of the FDIC-assisted acquisitions, the Bank entered into loss-sharing agreements with the FDIC. At the date of the acquisitions, the Company elected to account for amounts receivable under the loss-sharing agreements as an indemnification asset in accordance with the Business Combinations topic of the FASB ASC. 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 due to an increase in expected credit losses will increase the FDIC loss-sharing asset and any increase in expected future cash flows due to a decrease in expected credit losses will decrease the FDIC loss-sharing asset. Increases and decreases to the FDIC loss-sharing asset are recorded as adjustments to noninterest income.

Valuation and Recoverability of Goodwill

Goodwill represented $115.6 million of our $4.79 billion in total assets and $759.3 million in total shareholders' equity as of December 31, 2011. The Company has one, single reporting unit. We review goodwill for impairment annually, on September 30th and also test for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of our reporting unit below its carrying amount. Such events and circumstances may include among others: a significant adverse change in legal factors or in the general business climate; significant decline in our stock price and market capitalization; unanticipated competition; the testing for recoverability of a significant asset group within the reporting unit; and an adverse action or assessment by a regulator. Any adverse change in these factors could have a significant impact on the recoverability of goodwill and could have a material impact on our consolidated financial statements.

When required, the goodwill impairment test involves a two-step process. We first test goodwill for impairment by comparing the fair value of the reporting unit with its carrying amount. If the fair value of the reporting unit exceeds the carrying amount of the reporting unit, goodwill is not deemed to be impaired, and no further testing is necessary. If the carrying amount of the reporting unit were to exceed the fair value of the reporting unit, we would perform a second test to measure the amount of impairment loss, if any. To measure the amount of any impairment loss, we would determine the implied fair value of goodwill in the same manner as if the reporting unit were being acquired in a business combination. Specifically, we would allocate the fair value of the reporting unit to all of the assets and liabilities of the reporting unit in a hypothetical calculation that would determine the implied fair value of goodwill. If the implied fair value of goodwill is less than the recorded goodwill, we would record an impairment charge for the difference.

The accounting estimates related to our goodwill require us to make considerable assumptions about fair values. Our assumptions regarding fair values require significant judgment about economic factors, industry factors and technology considerations, as well as our views regarding the growth and earnings prospects of the retail banking unit. Changes in these judgments, either individually or collectively, may have a significant effect on the estimated fair values.

Based on the results of the annual goodwill impairment test, we determined that no goodwill impairment charges were required at September 30, 2011. As of December 31, 2011 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.

Even though we determined that there was no goodwill impairment during 2011, additional adverse changes in the operating environment for the financial services industry may result in a future impairment charge.

Please refer to Note 10 to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this report for further discussion.

2011 Highlights

- Completed three FDIC-assisted transactions:

Summit Bank, Burlington, WA on May 20, 2011,
First Heritage Bank, Snohomish, WA on May 27, 2011,
Bank of Whitman, Colfax, WA on August 5, 2011.

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These acquisitions contributed significantly to the Company's financial condition and results of operations during 2011 including increased loan and deposit volumes and related positive impact to net interest income and increased operating expenses arising from increased compensation and benefits and occupancy as well as legal and professional fees. Certain assets acquired in the Summit Bank and First Heritage Bank transactions are subject to loss-sharing agreements with the Federal Deposit Insurance Corporation. Assets acquired in the Bank of Whitman transaction are not subject to such loss-sharing agreements.

- Consolidated net income applicable to common shareholders for 2011 was $48.0 million, or $1.21 per diluted common share, compared with a net income of $25.8 million, or $0.72 per diluted common share, in 2010. The increase in net income applicable to common shareholders was primarily due to increased net interest income from acquisitions and lower provision for noncovered loan losses. Our net income for 2011 and 2010 was favorably impacted by unusual factors, such as FDIC-assisted gains and related loan accretion income, as well as reductions in our allowance for loan losses as our asset quality has continued to improve. However, we may not benefit from these factors to the same extent in future periods, which could adversely impact our net income.
- Net interest income for 2011 increased 44% to $236.7 million compared to $164.8 million for 2010. Interest income was $251.3 million in 2011, compared to $185.9 in 2010. The increase was due to accretion income related to loans acquired through FDIC-assisted transactions as well as increased organic and acquired loan volumes. The Company recorded $14.3 million of net discount accretion income for loans acquired in the Bank of Whitman transaction in 2011. Interest expense decreased $6.6 million due to the average cost of interest-bearing deposits falling 27 basis points.
- Provision expense on noncovered loans was $7.4 million in 2011, compared to $41.3 million in 2010, a decrease of 82%.
- Noninterest income was a loss of $9.3 million for 2011, a decrease from income of $52.8 million for 2010. The decrease was primarily due to the $49.5 million change in the FDIC loss-sharing asset and the $3.0 million impairment charge on investment securities. In addition, the Company recognized a net of tax bargain purchase gain through noninterest income of $1.8 million related to the Bank of Whitman transaction in 2011 compared to a net of tax bargain purchase gain of $9.8 million related to the American Marine Bank transaction in 2010.
- Noninterest expense increased 14% to $155.8 million for 2011 due to increases in staffing and occupancy costs related to the three FDIC-assisted transactions in 2011.
- Total assets at December 31, 2011 were $4.79 billion, up 12% from $4.26 billion at the end of 2010. The increase from December 31, 2010 reflects the Company's three FDIC-assisted acquisitions in May and August 2011.
- Loans, excluding covered loans, were $2.35 billion, up 23% from $1.92 billion at the end of 2010. The increase from December 31, 2010 reflects additional loan volume arising from the Company's three FDIC-assisted acquisitions as well as organic loan growth. Organic loan growth during 2011 was approximately $281.4 million and was centered mainly in commercial business and commercial and multifamily residential loans.
- The allowance for noncovered loan and lease losses decreased to $53.0 million at December 31, 2011 from $61.0 million at December 31, 2010 due to improved loan quality. The Company’s allowance amounts to 2.26% of total noncovered loans, compared with 3.18% at the end of 2010.
- Nonperforming assets totaled $85.4 million at December 31, 2011, compared with $120.2 million at December 31, 2010. Net loan charge-offs were $15.4 million in 2011, compared with $33.8 million in 2010. The Company’s commercial business portfolio experienced a $22.1 million decrease in nonaccrual loans with a balance of $10.2 million at December 31, 2011.
- Investment securities available for sale totaled $1.03 billion at December 31, 2011 compared to $763.9 million at December 31, 2010.
- Deposits totaled $3.82 billion at December 31, 2011 compared to $3.33 billion at December 31, 2010. Core deposits totaled $3.51 billion at December 31, 2011, comprising 92% of total deposits compared to $3.00 billion, or 90%, of total deposits at December 31, 2010.
- The Company is well capitalized with a total risk-based capital ratio of 21.05% at December 31, 2011 compared to 24.47% at December 31, 2010. These ratios reflect the $26.0 million payoff of the Company's long-term subordinated debt in July 2011. These ratios also reflect net proceeds to the Company of $229.1 million from an underwritten

public offering of common shares completed in May, 2010 as well as the payment of $76.9 million for the retirement of the preferred shares issued under the U.S. Department of the Treasury's Capital Purchase Program and $3.3 million paid by the Company to retire the warrants associated with the preferred shares.

Business Combinations

On August 5, 2011, the Bank acquired certain assets and assumed certain liabilities of the Bank of Whitman from the FDIC in an FDIC-assisted transaction. The Bank and the FDIC entered into a modified whole bank purchase and assumption agreement without loss share. The bank acquired approximately $437.5 million in assets, including $200.0 million in loans, and approximately $401.1 million in deposits located in nine branches in eastern Washington. The Bank participated in a competitive bid process in which the accepted bid included no deposit premium on non-brokered deposits and a negative bid of $30.0 million on net assets acquired.

On May 27, 2011, the Bank acquired certain assets and assumed certain liabilities of First Heritage Bank from the FDIC in an FDIC-assisted transaction. The Bank acquired approximately $165.0 million in assets and approximately $159.5 million in deposits located in five branches in the King and Snohomish counties of Washington. First Heritage Bank's loans and other real estate assets acquired of approximately $89.7 million are subject to a loss-sharing agreement with the FDIC. The Bank participated in a competitive bid process in which the accepted bid included a 0.75% deposit premium on non-brokered deposits and a negative bid of $10.5 million on net assets acquired.

On May 20, 2011, the Bank acquired certain assets and assumed certain liabilities of Summit Bank from the FDIC, in an FDIC-assisted transaction. The Bank acquired approximately $131.1 million in assets and approximately $123.3 million in deposits located in three branches in in the northern Puget Sound region of Washington. Summit Bank's loans and other real estate assets acquired of approximately $71.9 million are subject to a loss-sharing agreement with the FDIC. The Bank participated in a competitive bid process in which the accepted bid included a 0.75% deposit premium on non-brokered deposits and a negative bid of $9.5 million on net assets acquired.

On January 29, 2010, the Bank acquired substantially all of the deposits and assets of American Marine Bank from the FDIC, which was appointed receiver of American Marine Bank. The Bank acquired approximately $307.8 million in assets and approximately $254.0 million in deposits located in 11 branches in the western Puget Sound region. American Marine Bank’s loans and other real estate assets acquired of approximately $257.5 million are subject to a loss-sharing agreement with the FDIC. In addition, Columbia State Bank will continue to operate the Trust Division of American Marine Bank. The Bank participated in a competitive bid process in which the accepted bid included a 1% deposit premium on non-brokered deposits and a negative bid of $23.0 million on net assets acquired.

On January 22, 2010, the Bank acquired all of the deposits and certain assets of Columbia River Bank from the FDIC, in an FDIC-assisted transaction. The Bank acquired approximately $912.9 million in assets and approximately $893.4 million in deposits located in 21 branches in Oregon and Washington. Columbia River Bank’s loans and other real estate assets acquired of approximately $696.1 million are subject to a loss-sharing agreement with the FDIC. The Bank participated in a competitive bid process in which the accepted bid included a 1% deposit premium on non-brokered deposits and a negative bid of $43.9 million on net assets acquired.

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RESULTS OF OPERATIONS

Summary

A summary of the Company's results of operations for each of the last five years ended December 31 follows:

	Year ended 2011	Increase (Decrease) Amount	%	Year ended 2010	Increase (Decrease) Amount	%	Years ended December 31, 2009	2008	2007
	(dollars in thousands, except per share amounts)								
Interest income	$251,271	$65,392	35	$185,879	$42,844	30	$143,035	$175,060	$184,217
Interest expense	14,535	(6,557)	(31)	21,092	(6,591)	(24)	27,683	55,547	75,397
Net interest income	236,736	71,949	44	164,787	49,435	43	115,352	119,513	108,820
Provision for loan and lease losses	7,400	(33,891)	(82)	41,291	(22,209)	(35)	63,500	41,176	3,605
Provision (recapture) for losses on covered loans	(1,648)	(7,703)	(127)	6,055	6,055	100	—	—	—
Noninterest income (loss)	(9,283)	(62,064)	(118)	52,781	23,091	78	29,690	14,850	27,748
Noninterest expense:									
Compensation and employee benefits	81,552	11,772	17	69,780	22,505	48	47,275	49,315	46,703
Other expense	74,207	6,840	10	67,367	20,154	43	47,213	42,810	42,126
Total	155,759	18,612	14	137,147	42,659	45	94,488	92,125	88,829
Income (loss) before income taxes	65,942	32,867	99	33,075	46,021	(355)	(12,946)	1,062	44,134
Provision (benefit) for income taxes	17,905	15,614	682	2,291	11,269	(126)	(8,978)	(4,906)	11,753
Net income (loss)	$48,037	$17,253	56	$30,784	$34,752	(876)	$(3,968)	$5,968	$32,381
Less: Dividends on preferred stock	—	(4,947)	(100)	4,947	544	12	4,403	470	—
Net income (loss) applicable to common shareholders	$48,037	$22,200	86	$25,837	$34,208	(409)	$(8,371)	$5,498	$32,381
Earnings (loss) per common share, diluted	$1.21	$0.49	68	$0.72	$1.10	(289)	$(0.38)	$0.30	$1.89

Net Interest Income

Net interest income is the difference between interest income and interest expense. Net interest income on a fully taxable-equivalent basis expressed as a percentage of average total interest-earning assets is referred to as the net interest margin, which represents the average net effective yield on interest-earning assets.

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

Net Interest Income Summary

	2011				2010				2009			
	Average Balances (1)	Interest Earned/ Paid	Average Rate		Average Balances (1)	Interest Earned/ Paid	Average Rate		Average Balances (1)	Interest Earned/ Paid	Average Rate	
	(dollars in thousands)											
ASSETS												
Loans (1)(2)	$2,607,266	$218,987	8.40	%	$2,485,650	$157,835	6.35	%	$2,124,574	$117,497	5.53	%
Taxable securities	675,010	21,870	3.24	%	491,306	18,276	3.72	%	386,571	17,300	4.48	%
Tax exempt securities (2)	253,881	15,736	6.20	%	228,846	14,505	6.34	%	197,457	13,151	6.66	%
Interest-earning deposits with banks and federal funds sold	335,267	839	0.25	%	377,926	963	0.25	%	75,260	215	0.29	%
Total interest-earning assets	3,871,424	257,432	6.65	%	3,583,728	191,579	5.35	%	2,783,862	148,163	5.32	%
Other earning assets	57,518				51,446				49,488			
Noninterest-earning assets	580,068				613,416				251,071			
Total assets	$4,509,010				$4,248,590				$3,084,421			
LIABILITIES AND SHAREHOLDERS' EQUITY												
Certificates of deposit	$636,074	$5,093	0.80	%	$763,829	$8,705	1.14	%	$706,799	$15,931	2.25	%
Savings accounts	247,073	152	0.06	%	199,117	287	0.14	%	133,348	352	0.26	%
Interest-bearing demand	704,484	1,393	0.20	%	637,983	2,157	0.34	%	458,450	2,221	0.48	%
Money market accounts	969,548	3,840	0.40	%	851,673	5,584	0.66	%	568,320	4,746	0.84	%
Total interest-bearing deposits	2,557,179	10,478	0.41	%	2,452,602	16,733	0.68	%	1,866,917	23,250	1.25	%
Federal Home Loan Bank and Federal Reserve Bank borrowings	120,419	2,980	2.47	%	122,860	2,841	2.31	%	149,416	2,759	1.85	%
Long-term subordinated debt	14,746	579	3.93	%	25,701	1,029	4.00	%	25,635	1,197	4.67	%
Other borrowings and interest-bearing liabilities	24,899	498	2.00	%	24,881	489	1.96	%	25,046	477	1.90	%
	2,717,243	14,535	0.53	%	2,626,044	21,092	0.80	%	2,067,014	27,683	1.34	%

Total interest-bearing liabilities									
Noninterest-bearing deposits	984,220			818,321			511,259		
Other noninterest-bearing liabilities	76,821			135,756			44,021		
Shareholders’ equity	730,726			668,469			462,127		
Total liabilities & shareholders’ equity	$4,509,010			$4,248,590			$3,084,421		
Net interest income		$242,897			$170,487			$120,480	
Net interest spread			6.12 %			4.55 %			3.98 %
Net interest margin			6.27 %			4.76 %			4.33 %
Average interest-earning assets to average interest-bearing liabilities			142.48 %			136.47 %			134.68 %

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(1) Nonaccrual loans were included in loans. Amortized net deferred loan fees and net unearned discounts on certain acquired loans were included in the interest income calculations. The amortization of net deferred loan fees was $1.3 million in 2011 $2.1 million in 2010, $2.8 million in 2009. The amortization of net unearned discounts on certain acquired loans was $14.3 million in 2011. There was no amortization of net unearned discounts in 2010 or 2009.

(2) Yields on fully taxable equivalent basis, based on a marginal tax rate of 35%.

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Net interest income is impacted by the volume (changes in volume multiplied by prior rate), interest rate (changes in rate multiplied by prior volume) and the mix of interest-earning assets and interest-bearing liabilities. The following table shows changes in net interest income on a fully taxable-equivalent basis between 2011 and 2010, as well as between 2010 and 2009 broken down between volume and rate. Changes attributable to the combined effect of volume and interest rates have been allocated proportionately to the changes due to volume and the changes due to interest rates:

Changes in Net Interest Income

	2011 Compared to 2010 Increase (Decrease) Due to			2010 Compared to 2009 Increase (Decrease) Due to		
	Volume	Rate	Total	Volume	Rate	Total
	(in thousands)					
Interest Income						
Loans	$8,050	$53,102	$61,152	$21,550	$18,788	$40,338
Taxable securities	6,178	(2,584)	3,594	4,200	(3,224)	976
Tax-exempt securities	1,558	(327)	1,231	2,014	(660)	1,354
Interest earning deposits with banks and federal funds sold	(107)	(17)	(124)	773	(25)	748
Interest income	$15,679	$50,174	$65,853	$28,537	$14,879	$43,416
Interest Expense						
Deposits:						
Certificates of deposit	$(1,300)	$(2,312)	$(3,612)	$1,196	$(8,422)	$(7,226)
Savings accounts	57	(192)	(135)	133	(198)	(65)
Interest-bearing demand	206	(970)	(764)	721	(785)	(64)
Money market accounts	694	(2,438)	(1,744)	2,012	(1,174)	838
Total interest on deposits	(343)	(5,912)	(6,255)	4,062	(10,579)	(6,517)
Federal Home Loan Bank and Federal Reserve Bank borrowings	(57)	196	139	(542)	624	82
Long-term subordinated debt	(431)	(19)	(450)	3	(171)	(168)
Other borrowings and interest-bearing liabilities	2	7	9	(3)	15	12
Interest expense	$(829)	$(5,728)	$(6,557)	$3,520	$(10,111)	$(6,591)
	$16,508	$55,902	$72,410	$25,017	$24,990	$50,007

Comparison of 2011 with 2010

Taxable-equivalent net interest income totaled $242.9 million in 2011, compared with $170.5 million for 2010. The significant increase in net interest income during 2011 resulted from income accretion on the acquired loan portfolios. The incremental accretion income represents the amount of income recorded on the acquired loans above the contractual rate stated in the individual loan rates. The additional income stems from the discount established at the time these loan portfolios were acquired, and increases net interest income and the net interest margin. The incremental accretion income had a positive impact of approximately 174 basis points on the 2011 net interest margin.

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The following table shows the effect on the net interest income resulting from accretion of income on acquired impaired loans and loans acquired in the Bank of Whitman transaction:

	Year ended December 31, 2011
	(in thousands)
Interest income as recorded	$109,580
Interest income at stated note rate	42,220
Incremental accretion income	$67,360
Incremental accretion income due to:	
Acquired impaired loans	$53,079
Other acquired loans	14,281
Incremental accretion income	$67,360

Of the $14.3 million in accretion income recorded for other acquired loans, $7.2 million was related to loan maturities and prepayments. For discussion over 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 2010 with 2009

Taxable-equivalent net interest income totaled $170.5 million in 2010, compared with $120.5 million for 2009. The significant increase in net interest income during 2011 resulted primarily from income accretion on the acquired loan portfolios. The incremental accretion income represents the amount of income recorded on the acquired loans above the contractual rate stated in the individual loan rates. The additional income increases net interest income and the net interest margin. In addition, the average rate paid on deposits in 2010 declined 54 basis points from the prior year.

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. Impairment valuation adjustments and allowance for loan and lease losses on acquired loans, including those subject to the Company’s loss-share agreements with the FDIC, are accounted for separately from the allowance for loan and lease losses. For discussion over the methodology used by management in determining the adequacy of the ALLL see the following “Allowance for Loan and Lease Losses and Unfunded Commitments and Letters of Credit” and “Critical Accounting Policies” sections of this discussion.

For noncovered loans, the Company recorded expense of $7.4 million and $41.3 million through the provision for loan and lease losses in 2011 and 2010, respectively. The provision recorded in 2011 reflects management’s ongoing assessment of the credit quality of the Company’s noncovered loan portfolio, which is impacted by various economic trends, including the protracted recovery of the Pacific Northwest economy. Additional factors affecting the provision include 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.

The Company recorded a recapture of $1.6 million through the provision for losses on covered loans in 2011 compared to a provision of $6.1 million through the provision for losses on covered loans in 2010.

For the years ended December 31, 2011, 2010 and 2009, net noncovered loan charge-offs amounted to $15.4 million, $33.8 million, and $52.8 million, respectively. Loans in the commercial business portfolio accounted for 35% of the 2011 net charge-offs, while loans in the consumer portfolio accounted for 23% of the 2011 net charge-offs compared to 37% and 10%, respectively, in 2010.

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Noninterest Income (Loss)

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

	Years ended December 31,						
	2011	$ Change	% Change	2010	$ Change	% Change	2009
	(dollars in thousands)						
Service charges and other fees	$26,632	$1,934	8 %	$24,698	$9,517	63 %	$15,181
Gain on bank acquisitions, net of tax	1,830	(7,988)	(81)%	9,818	9,818	100 %	—
Merchant services fees	7,385	(117)	(2)%	7,502	181	2 %	7,321
Redemption of Visa and MasterCard shares	—	—	— %	—	(49)	(100)%	49
Gain on sale of investment securities, net	134	76	131 %	58	(1,019)	(95)%	1,077
Impairment charge on investment securities	(2,950)	(2,950)	(100)%	—	—	— %	—
Bank owned life insurance (BOLI)	2,188	147	7 %	2,041	18	1 %	2,023
Change in FDIC loss-sharing asset	(49,496)	(54,404)	(1,108)%	4,908	4,908	100 %	—
Other	4,994	1,238	33 %	3,756	(283)	(7)%	4,039
Total noninterest income	$(9,283)	$(62,064)	(118)%	$52,781	$23,091	78 %	$29,690

Comparison of 2011 with 2010

The decrease in noninterest income from the prior year was primarily due to the $49.5 million change in the FDIC loss-sharing asset and the $3.0 million impairment charge on investment securities. In addition, in 2011 the Company recorded a gain on bank acquisition of $1.8 million compared to a gain on acquisition of $9.8 million in the prior year. 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. This change is an outcome of the better-than-expected cash flows on covered loans. The Company re-measures contractual and expected cash flows of covered loans on a quarterly basis. When the quarterly re-measurement 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 related loan portfolio. For additional information on the FDIC loss-sharing asset, please see the “Loss-sharing Asset” section of Management’s Discussion and Analysis and Note 8 to the Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data” of this report.

The impairment charge on investment securities relates to a single municipal obligation. On December 1, 2011 the Greater Wenatchee WA Regional Events Center Public Facilities Bond went into default. Based upon facts and circumstances existing at year-end 2011, we expected no future cash flows from this bond and, accordingly, recorded an other-than-temporary impairment charge of $3.0 million through earnings. We will continue to pursue avenues for repayment of this obligation.

On August 5, 2011 the Bank acquired certain assets and assumed certain liabilities of the Bank of Whitman from the FDIC in an FDIC-assisted transaction. The Bank and the FDIC entered into a modified whole bank purchase and assumption agreement without loss share. The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the August 5, 2011 acquisition date. The application of the acquisition method of

accounting resulted in the recognition of a bargain purchase gain, net of tax, of $1.8 million. The bargain purchase gain represents the excess of the estimated fair value of the assets acquired over the estimated fair value of the liabilities assumed and is influenced significantly by the FDIC-assisted transaction process. For additional information on the business combinations, please see Note 2 to the Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data” of this report.

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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,						
	2011	$ Change	% Change	2010	$ Change	% Change	2009
	(dollars in thousands)						
Gain on disposal of assets	$89	$(29)	(25)%	$118	$4	4%	$114
Mortgage banking	780	330	73%	450	68	18%	382
Cash management 12b-1 fees	5	(6)	(55)%	11	(234)	(96)%	245
Letter of credit fees	415	(17)	(4)%	432	(96)	(18)%	528
Late charges	362	(94)	(21)%	456	149	49%	307
Currency exchange income	346	(14)	(4)%	360	67	23%	293
New Markets Tax Credit dividend	52	(19)	(27)%	71	5	8%	66
Miscellaneous fees on loans	1,674	690	70%	984	142	17%	842
Interest rate swap income	333	(95)	(22)%	428	163	62%	265
Credit card fees	260	77	42%	183	56	44%	127
Miscellaneous	678	415	158%	263	(607)	(70)%	870
Total other noninterest income	$4,994	$1,238	33%	$3,756	$(283)	(7)%	$4,039

The increase in other noninterest income was primarily due to the increase in certain miscellaneous fees on loans, which are recorded immediately to earnings and not deferred. These fees increased due to the increase in the size of the loan portfolio during 2011. Miscellaneous income increased $415 thousand from the prior year period primarily due to the recapture of $276 thousand in previously accrued expenses related to a credit card reward program.

Comparison of 2010 with 2009

Noninterest income for the year ended December 31, 2010 totaled $52.8 million, an increase of $23.1 million from 2009. Noninterest income represented 24% of total revenues in 2010. Service charges and other fees increased $9.5 million in 2010 from the prior-year. Service charges and other fees are volume driven and the increase is attributed to a larger customer base rather than higher incremental per transaction fees. Noninterest income for 2010 included the net of tax bargain purchase gain of $9.8 million related to the American Marine Bank transaction. The bargain purchase gain represents the excess of the estimated fair value of the assets acquired over the estimated fair value of the liabilities assumed and is influenced significantly by the FDIC-assisted transaction process. In addition, the change in the FDIC loss-sharing asset resulted in additional noninterest income of $4.9 million for the current year. For additional information on the FDIC loss-sharing asset, please see the “Loss-sharing Asset” section of Management’s Discussion and Analysis and Note 8 to the Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data” of this report.

Noninterest Expense

Noninterest expense was $155.8 million in 2011, an increase of $18.6 million, or 14%, over 2010. Noninterest expense increased $42.7 million, or 45%, in 2010 over 2009.

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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,						
	2011	$ Change	% Change	2010	$ Change	% Change	2009
	(dollars in thousands)						
Compensation and employee benefits	$81,552	$11,772	17 %	$69,780	$22,505	48 %	$47,275
All other noninterest expense:							
Occupancy	18,963	2,149	13 %	16,814	4,686	39 %	12,128
Merchant processing	3,698	(666)	(15)%	4,364	915	27 %	3,449
Advertising and promotion	3,686	605	20 %	3,081	1,138	59 %	1,943
Data processing	8,484	(285)	(3)%	8,769	3,287	60 %	5,482
Legal and professional services	6,486	802	14 %	5,684	1,813	47 %	3,871
Taxes, license and fees	4,446	1,588	56 %	2,858	380	15 %	2,478
Regulatory premiums	4,337	(2,148)	(33)%	6,485	708	12 %	5,777
Net cost of operation of noncovered other real estate owned	7,416	1,721	30 %	5,695	4,834	561 %	861
Net benefit of operation of covered other real estate owned	(8,438)	(3,530)	72 %	(4,908)	(4,908)	(100)%	—
Amortization of intangibles	4,319	397	10 %	3,922	2,877	275 %	1,045
FDIC clawback expenses	3,656	3,656	100 %	—	—	— %	—
Other	17,154	2,551	17 %	14,603	4,424	43 %	10,179
Total all other noninterest expense	74,207	6,840	10 %	67,367	20,154	43 %	47,213
Total noninterest expense	$155,759	$18,612	14 %	$137,147	$42,659	45 %	$94,488

Comparison of 2011 with 2010

Compensation and employee benefits expense increased to $81.6 million, or 17%, in 2011 from $69.8 million in 2010 reflecting staffing increases in the current year related to the three FDIC-assisted acquisitions. Full-time equivalent staff increased to 1,256 at December 31, 2011 from 1,092 at December 31, 2010.

The remaining noninterest expense categories increased $6.8 million, or 10%, between 2010 and 2011. Occupancy increased $2.1 million due to the increase in branch locations during 2011. Also contributing to the remaining increase in noninterest expense was the Company recording $3.7 million to FDIC clawback expense to create the FDIC clawback liability. The Company's Purchase & Assumption agreements with the FDIC require the Company to reimburse the FDIC at the conclusion of the loss share agreement period, February 2020 for the Columbia River Bank and American Marine Bank transactions, a calculated amount if total losses on the acquired loan portfolios fail to reach a minimum threshold level. The $3.7 million represents the net present value of management's clawback liability estimate of $5.5 million. The remaining noninterest expense increase was partially offset by a decrease in regulatory premiums of $2.1 million due to a decrease in the assessment rate utilized in calculating premiums due.

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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,						
	2011	$ Change	% Change	2010	$ Change	% Change	2009
	(dollars in thousands)						
CRA partnership investment expense	$598	$329	122 %	$269	$(232)	(46)%	$501
Software support & maintenance	1,362	305	29 %	1,057	418	65 %	639
Federal Reserve Bank processing fees	334	6	2 %	328	1	— %	327
Supplies	1,276	(171)	(12)%	1,447	558	63 %	889
Postage	2,131	362	20 %	1,769	524	42 %	1,245
Sponsorships & charitable contributions	1,123	359	47 %	764	166	28 %	598
Travel	1,248	286	30 %	962	560	139 %	402
Investor relations	174	(6)	(3)%	180	(24)	(12)%	204
Insurance	836	55	7 %	781	281	56 %	500
Director expenses	457	16	4 %	441	1	— %	440
Employee expenses	636	164	35 %	472	122	35 %	350
ATM Network	1,058	216	26 %	842	247	42 %	595
Miscellaneous	5,921	630	12 %	5,291	1,802	52 %	3,489
Total other noninterest expense	$17,154	$2,551	17 %	$14,603	$4,424	43 %	$10,179

Other noninterest expense increased $2.6 million primarily due to increases in software support & maintenance, postage, sponsorships & charitable events, travel and employee expenses, which combine to an increase of $1.5 million, and were due to the increased number of branch locations and employees.

Comparison of 2010 with 2009

Compensation and employee benefits expense increased to $69.8 million, or 48% in 2010 from $47.3 million in 2009 reflecting staffing increases in 2010 related to the two FDIC-assisted acquisitions as well as the addition of teams of bankers in conjunction with the execution of our de novo expansion strategy. Full-time equivalent staff increased to1,092 at December 31, 2010 from 715 at December 31, 2009.

The remaining noninterest expense categories increased $20.2 million, or 43%, between 2009 and 2010. Occupancy expense increased $4.7 million due to significantly more branch locations. Advertising and promotion expense was up 59% in 2010 from the prior year as a result of the Company's marketing efforts to establish its brand in newly served market areas. Data processing expense increased 60% due to higher transaction volumes and conversion expenses stemming from the two FDIC-assisted transactions. Amortization of intangibles expense increased $2.9 million, or 275%, as a result of the core deposit intangible recorded in conjunction with the two FDIC-assisted transactions. Finally, legal and professional services expense increased $1.8 million as the Company continues to incur significant expense while working toward the resolution of nonperforming and covered assets.

Income Tax

For the years ended December 31, 2011, 2010 and 2009 we recorded income tax provisions of $17.9 million and $2.3 million and an income tax benefit of $9.0 million, respectively. The effective tax rate was 27% in 2011, 7% in 2010 and the effective tax benefit was 69% in 2009. For additional information, see Note 22 to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this report. Our effective tax rate continues to be less than our statutory rate of 36.02% primarily due to the amount of tax-exempt municipal securities held in the investment portfolio, tax exempt earnings on bank owned life insurance, and tax credits received on investments in affordable housing partnerships.

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Financial Condition

Our total assets increased 12% to $4.79 billion at December 31, 2011 from $4.26 billion at December 31, 2010. Interest-earning deposits with banks decreased $255.7 million and our investment portfolio increased $264.2 million or 35%. The decrease in interest-earning deposits with banks and the increase in our investment portfolio were a result of investing interest-earning deposit balances in high quality debt instruments, which have higher yields than what was available on interest-earning deposits. The loan portfolio increased 19% or $455.4 million to $2.83 billion. The increase in the loan portfolio can be attributed to the three FDIC-assisted transactions occurring in 2011 and growth in the originated loan portfolio. Excluding the acquired loans, the originated loan portfolio increased $281.4 million, or 15%, to $2.20 billion at December 31, 2011. The increase in the originated loan portfolio was due to increases in commercial business loans of $192.0 million and commercial and multifamily residential real estate loans of $111.7 million. Premises and equipment, net, increased $14.8 million or 16%, of which $10.1 million was related to the purchase of 17 branches in connection with the FDIC-assisted acquisitions of Bank of Whitman, First Heritage Bank, and Summit Bank. Deposit balances increased $488.3 million or 15% to $3.82 billion and borrowings decreased 18% to $119.0 million. The decrease in borrowings is due to the repayment of the long-term subordinated debt.

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. As of December 31, 2011 we had 44 available for sale securities in an unrealized loss position. Based on past experience with these types of securities and our own financial performance, we do not 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 the fourth quarter of 2011, the Company determined that one of its municipal obligations with a par amount of $3.0 million was other-than-temporarily impaired due to it maturing during the period without repaying the principal amount. The defaulted security was issued in 2008 by a municipality located in the state of Washington. In accordance with Investments - Debt and Equity Securities topic of the FASB ASC, the Company determined that the entire amount of the other-than-temporary impairment was credit-related as the present value of the expected future cash flows for the defaulted security was zero. The significant inputs used to determine the expected future cash flows were the default on principal repayment and there being no insurance on the defaulted security.

Purchases during 2011 totaled $453.0 million while maturities, repayments and sales totaled $221.0 million compared to purchases of $179.3 million and maturities, repayments and sales of $162.1 million during 2010. At December 31, 2011 U.S. government agency and government-sponsored enterprise mortgage-backed securities (“MBS”) and collateralized mortgage obligations (“CMO”) comprised 68% of our investment portfolio, state and municipal securities were 28%, government agency and government-sponsored enterprise securities were 4%. 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 2 years and 10 months at December 31, 2011.

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

	December 31, 2011			
	Amortized Cost	Fair Value	Yield	
	(dollars in thousands)			
U.S. government agency and government-sponsored enterprise mortgage-backed securities & collateralized mortgage obligations (1)				
Over 1 through 5 years	24,711	25,306	4.18	%
Over 5 through 10 years	102,797	106,617	3.36	%
Over 10 years	551,123	564,031	2.95	%
Total	$678,631	$695,954	3.06	%
State and municipal securities (2)				
Due through 1 year	$18,309	$18,610	6.14	%
Over 1 through 5 years	27,707	29,329	5.01	%
Over 5 through 10 years	59,116	62,926	5.39	%
Over 10 years	157,943	174,898	6.35	%
Total	$263,075	$285,763	5.99	%
U.S. government agency and government-sponsored enterprise securities (1)				
Over 5 through 10 years	$42,558	$43,063	1.58	%
Total	$42,558	$43,063	1.58	%

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

(2) Yields on fully taxable equivalent basis, based on a marginal tax rate of 35%.

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.

FHLB Stock

As a condition of membership in the Federal Home Loan Bank of Seattle ("FHLB"), the Company is required to purchase and hold a certain amount of FHLB stock. Our stock purchase requirement is based, in part, upon the outstanding principal balance of advances from the FHLB and is calculated in accordance with the Capital Plan of the FHLB. Our FHLB stock has a par value of $100 and is redeemable at par for cash.

FHLB stock is carried at cost and is subject to recoverability testing per the Financial Services – Depository and Lending topic of the FASB ASC. The FHLB is currently classified as undercapitalized by the Federal Housing Finance Agency ("Finance Agency"). Under Finance Agency regulations, a Federal Home Loan Bank that fails to meet any regulatory capital requirement may not declare a dividend or redeem or repurchase capital stock. However, management believes, despite the undercapitalized classification, the FHLB has adequate capital to cover the risks reflected on their balance sheet. Accordingly, as of December 31, 2011 we did not recognize an impairment charge related to our FHLB stock holdings. We will continue to monitor the financial condition of the FHLB as it relates to, among other things, the recoverability of our investment.

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Loan Portfolio

We are a full service commercial bank, which originates a wide variety of loans, and concentrates 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,														
	2011	% of Total		2010	% of Total		2009	% of Total		2008	% of Total		2007	% of Total	
	(dollars in thousands)														
Commercial business	$1,031,721	43.9	%	$795,369	41.5	%	$744,440	37.1	%	$810,922	36.3	%	$762,365	33.4	
Real estate:															
One-to-four family residential	64,491	2.8	%	49,383	2.6	%	63,364	3.1	%	57,237	2.6	%	60,991	2.7	
Commercial and multifamily residential	998,165	42.5	%	794,329	41.5	%	856,260	42.6	%	862,595	38.6	%	852,139	37.3	
Total real estate	1,062,656	45.3	%	843,712	43.9	%	919,624	45.7	%	919,832	41.2	%	913,130	40.0	
Real estate construction:															
One-to-four family residential	50,208	2.1	%	67,961	3.5	%	107,620	5.4	%	209,682	9.4	%	269,115	11.8	
Commercial and multifamily residential	36,768	1.6	%	30,185	1.6	%	41,829	2.1	%	81,176	3.6	%	165,490	7.2	
Total real estate construction	86,976	3.7	%	98,146	5.2	%	149,449	7.5	%	290,858	13.0	%	434,605	19.0	
Consumer	183,235	7.8	%	182,017	9.5	%	199,987	10.0	%	214,753	9.7	%	176,559	7.8	
Subtotal	2,364,588	100.7	%	1,919,244	100.2	%	2,013,500	100.2	%	2,236,365	100.2	%	2,286,659	100.	
Less deferred loan fees and other	(16,217)	(0.7	)%	(3,490)	(0.2	)%	(4,616)	(0.2	)%	(4,033)	(0.2	)%	(3,931)	(0.2	
Total loans not covered under FDIC loss-share agreements, net of deferred fees	2,348,371	100.0	%	1,915,754	100.0	%	2,008,884	100.0	%	2,232,332	100.0	%	2,282,728	100.	
Loans covered under FDIC loss-share															

agreements					
Covered loans	531,929	517,061	—	—	—
Total loans, net (before Allowance for Loan and Lease Losses)	$2,880,300	$2,432,815	$2,008,884	$2,232,332	$2,282,728
Loans held for sale	$2,148	$754	$—	$1,964	$4,482

At December 31, 2011, total loans were $2.88 billion compared with $2.43 billion in the prior year, an increase of $447.5 million or 18%. Excluding the acquired loans, the originated loan portfolio increased $281.4 million, or 15% from the previous year. The increase in the originated loan portfolio was due to increases in commercial business loans of $192.0 million and commercial and multifamily residential real estate loans of $111.7 million. Net covered loans were $531.9 million at December 31, 2011 compared with $517.1 million in the prior year, an increase of $14.9 million or 3%. Total loans represented 60% and 57% of total assets at December 31, 2011 and 2010, respectively.

Commercial Business Loans: Commercial business loans increased $236.4 million, or 30%, to $1.03 billion from year-end 2010, representing 44% of total loans at year end. 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. 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

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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.

Covered Loans: Covered 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. These loans are generically referred to as covered because they are generally subject to one of the loss-sharing agreements between the Company and the FDIC. There was no loss-sharing agreement in the Bank of Whitman transaction, so loans acquired in that transaction are noncovered loans. The loss-sharing agreements relating to the 2010 FDIC-assisted transactions limit the Company’s losses to 20% of the contractual balance outstanding up to a stated threshold amount of $206.0 million for Columbia River Bank and $66.0 million for American Marine Bank. If losses exceed the stated threshold, the Company’s share of the remaining losses decreases to 5%. The loss-sharing agreements relating to the 2011 FDIC-assisted transactions limit the Company's losses to 20% of the contractual balance outstanding. The loss-sharing provisions of the 2011 agreements for commercial and single family residential mortgage loans are in effect for five years and ten years, respectively, from the acquisition dates and the loss recovery provisions for such loans are in effect for eight years and ten years, respectively, from the acquisition dates.

Foreign Loans: Our banking subsidiary is not involved with loans to foreign companies or foreign countries.

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 covered and noncovered 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, 2011:

	Maturing Due Through 1 Year	Over 1 Through 5 Years	Over 5 Years	Total
	(in thousands)			
Commercial business	$534,751	$339,882	$289,656	$1,164,289
Real estate construction	76,853	38,823	15,890	131,566
Total	$611,604	$378,705	$305,546	$1,295,855
Fixed rate loans due after 1 year		$169,701	$118,210	$287,911
Variable rate loans due after 1 year		209,004	187,336	396,340
Total		$378,705	$305,546	$684,251

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, private banking, 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.

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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 non-accrual 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.

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. 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 independent 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 on-site examination to ensure continued performance and proper risk assessment.

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. Covered 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, covered impaired loans contractually past due are still considered to be accruing and performing loans.

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) in most cases restructured loans, for which concessions, including the reduction of interest rates below a rate otherwise available to that borrower or the deferral of interest or principal, have been granted due to the borrower’s weakened financial condition (interest on restructured loans is accrued at the restructured rates when it is anticipated that no loss of original principal will occur); (iii) other real estate owned; and (iv) other personal property owned, if applicable. Nonperforming assets totaled $85.4 million, or 2.02% of year-end assets at December 31, 2011, compared to $120.2 million, or 3.23% of year end assets at December 31, 2010.

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The following table sets forth information with respect to our noncovered, nonperforming loans, other real estate owned, other personal property owned, total nonperforming assets, accruing loans past-due 90 days or more, and potential problem loans:

	December 31,				
	2011	2010	2009	2008	2007
	(dollars in thousands)				
Nonaccrual:					
Commercial business	$10,243	$32,367	$18,979	$2,976	$2,170
Real estate:					
One-to-four family residential	2,696	2,996	1,860	905	204
Commercial and multifamily residential	19,485	23,192	24,354	5,710	3,476
Real estate construction:					
One-to-four family residential	10,785	18,004	47,653	69,668	7,317
Commercial and multifamily residential	7,067	7,584	16,230	25,752	—
Consumer	3,207	5,020	1,355	1,152	838
Total nonaccrual loans:	53,483	89,163	110,431	106,163	14,005
Noncovered real estate owned and other personal property owned	31,905	30,991	19,037	2,874	181
Total nonperforming assets	$85,388	$120,154	$129,468	$109,037	$14,186
Accruing loans past-due 90 days or more	$—	$—	$—	$—	$—
Forgone interest on nonperforming loans	$5,326	$6,389	$7,637	$4,072	$814
Interest recognized on nonperforming loans	$1,017	$2,035	$2,437	$4,550	$244
Potential problem loans	$10,618	$3,793	$11,423	$17,736	$2,343
Allowance for loan and lease losses	$53,041	$60,993	$53,478	$42,747	$26,599
Allowance for loan and lease losses to nonperforming loans	99.17 %	68.41 %	48.43 %	40.27 %	189.93 %
Nonperforming loans to year end loans	2.28 %	4.65 %	5.50 %	4.76 %	0.61 %
Nonperforming assets to year end assets	2.02 %	3.23 %	4.04 %	3.52 %	0.45 %

At December 31, 2011 nonperforming loans decreased to 2.28% of year end loans, down from 4.65% of year end loans at December 31, 2010. Nonperforming commercial business loans declined from $32.4 million, or 36% of nonperforming loans at December 31, 2010 to $10.2 million or 19% of nonperforming loans at year end 2011. The nonperforming residential construction loan sector declined to $10.8 million during 2011, down from $18.0 million, or 20% of nonperforming loans at December 31, 2010. Nonperforming commercial real estate loans improved as well, declining from $30.8 million at December 31, 2010 to $26.6 million at year end 2011.

Other Real Estate Owned: As of December 31, 2011 there was $22.9 million in noncovered other real estate owned ("OREO") which is comprised of property from foreclosed real estate loans, a decrease of $8.1 million from $31.0 million at December 31, 2010. Additionally, as of December 31, 2011 the Company held $28.1 million in OREO covered under FDIC loss-sharing agreements which are excluded from nonperforming assets. 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 $10.6 million at year end 2011, compared to $3.8 million at year end 2010.

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

	Twelve months ended December 31,	
	2011	2010
	(in thousands)	
Balance, beginning of period	$89,163	$110,431
Loans placed on nonaccrual or restructured	34,747	71,146
Advances	1,687	4,470
Charge-offs	(15,107)	(29,769)
Loans returned to accrual status	(7,840)	(15,478)
Repayments (including interest applied to principal)	(26,168)	(31,308)
Transfers to OREO/OPPO	(22,999)	(20,329)
Balance, end of period	$53,483	$89,163

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 $250,000 are considered impaired and analyzed individually on a quarterly basis. Classified loans with an outstanding balance greater than $250,000 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.

The following table summarizes noncovered, impaired loan financial data at December 31, 2011 and 2010:

	December 31,	
	2011	2010
	(in thousands)	
Impaired loans	$58,288	$91,173
Impaired loans with specific allocations	$5,226	$17,188
Amount of the specific allocations	$1,484	$974

Impaired loans with a carrying amount of $58.3 million at December 31, 2011 were subject to specific allocations of allowance for loan and lease losses of $1.5 million and partial charge-offs of $4.4 million during the year. Collateral dependent impaired loans without specific allocations at December 31, 2011 and 2010 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 $8.4 million and $6.5 million at December 31, 2011 and 2010, 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 primary (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,

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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

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 credit losses 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 periodically based on trends in credit losses, the results of credit reviews and overall economic trends.

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, including economic and business condition reviews. Factors which influenced management’s judgment in determining the amount of the additions to the ALLL charged to operating expense include the following as of the applicable balance sheet dates:

1. Existing general economic and business conditions affecting our market place
2. Credit quality trends
3. Historical loss experience
4. Seasoning of the loan portfolio
5. Bank regulatory examination results
6. Findings of internal credit examiners
7. Duration of current business cycle
8. 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. 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.

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Analysis of the ALLL

The following table provides an analysis of our noncovered 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, 2011	2010	2009	2008	2007
	(dollars in thousands)				
Beginning balance	$60,993	$53,478	$42,747	$26,599	$20,182
Balance established through acquisition	—	—	—	—	3,192
Charge-offs: (1)					
Commercial business	(7,909)	(14,879)	(12,930)	(2,819)	(781)
Real estate:					
One-to-four family residential	(717)	(406)	(395)	(46)	—
Commercial and multifamily residential	(3,687)	(6,173)	(1,309)	(966)	—
Real estate construction:					
One-to-four family residential	(2,487)	(10,856)	(27,711)	(18,340)	—
Commercial and multifamily residential	(2,213)	(3,107)	(9,297)	(2,169)	—
Consumer	(3,918)	(3,982)	(2,879)	(1,647)	(432)
Total charge-offs	(20,931)	(39,403)	(54,521)	(25,987)	(1,213)
Recoveries: (1)					
Commercial business	2,598	2,389	750	272	530
Real estate:					
One-to-four family residential	80	15	68	—	—
Commercial and multifamily residential	459	125	25	304	12
Real estate construction:					
One-to-four family residential	2,091	1,673	833	16	—
Commercial and multifamily residential	—	775	—	—	—
Consumer	351	650	76	367	291
Total recoveries	5,579	5,627	1,752	959	833
Net charge-offs	(15,352)	(33,776)	(52,769)	(25,028)	(380)
Provision for loan and lease losses	7,400	41,291	63,500	41,176	3,605
Ending balance	$53,041	$60,993	$53,478	$42,747	$26,599
Loans outstanding at end of period (2)	$2,348,371	$1,915,754	$2,008,884	$2,232,332	$2,282,728
Average amount of loans outstanding (2)	$2,065,014	$2,102,863	$2,124,574	$2,264,486	$1,990,622
Allowance for loan and lease losses to period-end loans	2.26%	3.18%	2.66%	1.91%	1.17%
Net charge-offs to average loans outstanding	0.74%	1.61%	2.48%	1.11%	0.02%
Allowance for unfunded commitments and letters of credit					
Beginning balance	$1,165	$775	$500	$349	$339
	370	390	275	151	10

Net changes in the allowance for unfunded commitments and letters of credit					
Ending balance	$1,535	$1,165	$775	$500	$349

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(1) Certain prior period balances have been reclassified to conform to the current period presentation.
(2) Excludes loans held for sale and covered loans.

We have used the same methodology for ALLL calculations during 2011, 2010 and 2009. 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. The Bank maintains a conservative approach to credit quality and will continue to prudently add to our ALLL as necessary in order 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,									
	2011		2010		2009		2008		2007	
Balance at End of Period Applicable to: (1)	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	$25,434	43.9 %	$22,549	41.5 %	$21,969	37.1 %	$12,759	36.3 %	$7,068	33.4 %
Real estate and construction:										
One-to-four family residential	3,849	4.9 %	7,161	6.1 %	9,087	8.5 %	16,781	12.0 %	7,648	14.5 %
Commercial and multifamily residential	20,345	43.4 %	25,880	42.8 %	19,703	44.4 %	11,983	42.1 %	11,170	44.3 %
Consumer	2,719	7.8 %	2,120	9.5 %	1,282	10.0 %	935	9.6 %	713	7.8 %
Unallocated	694	— %	3,283	— %	1,437	— %	289	— %	—	— %
Total	$53,041	100.0%	$60,993	100.0%	$53,478	100.0%	$42,747	100.0%	$26,599	100.0%

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

(1) Certain prior period balances have been reclassified to conform to the current period presentation.

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 due to an increase in expected credit losses will increase the FDIC indemnification asset and any increase in expected future cash flows due to a decrease in expected credit losses will decrease the FDIC indemnification asset. Increases and decreases to the FDIC loss-sharing asset are recorded as adjustments to noninterest income.

At December 31, 2011, the FDIC loss-sharing asset was $175.1 million which was comprised of a $157.5 million FDIC indemnification asset and a $17.6 million 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.

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The following table summarizes the activity related to the FDIC loss-sharing asset for the twelve months ended December 31, 2011 and 2010:

	Year Ended December 31,	
	2011	2010
	(in thousands)	
Balance at beginning of period	$205,991	$—
Adjustments not reflected in income:		
Established through acquisitions	68,734	210,405
Cash received from the FDIC	(54,200)	(11,198)
FDIC reimbursable losses, net	4,042	1,876
Adjustments reflected in income:		
Amortization, net	(46,049)	1,139
Impairment	(1,318)	4,844
Sale of other real estate	(4,346)	(1,148)
Other	2,217	73
Balance at end of period	$175,071	$205,991

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

Goodwill

The carrying amount of goodwill was $115.6 million as of December 31, 2011 and $109.6 million as of December 31, 2010. Goodwill is tested for impairment on an annual basis, or more frequently as events occur, or as current circumstances and conditions warrant. Under the Intangibles – Goodwill and Other topic of the FASB ASC, the testing for impairment may begin with an assessment of qualitative factors to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If it is determined that the fair value of a reporting unit is more likely than not below its carrying value, the two-step test for impairment is performed at the reporting unit level. In the first step of the goodwill impairment test, the fair value of a reporting unit is compared with its carrying amount. If the fair value of a reporting unit exceeds its carrying amount, there is no indication of impairment and further testing is not required. If the carrying amount of a reporting unit exceeds its fair value, then a second step of testing is required.

The Company completed its annual analysis of goodwill during the third quarter of 2011. The results of the analysis indicated no potential impairment in the single, reporting unit of the Company.

Deposits

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

	December 31,		
	2011	2010	2009
	(in thousands)		
Core deposits:			
Demand and other noninterest-bearing	$1,156,610	$895,671	$574,687
Interest-bearing demand	735,340	672,307	499,922
Money market	1,031,664	920,831	604,229
Savings	283,416	210,995	139,406
Certificates of deposit less than $100,000	303,405	298,678	254,577
Total core deposits	3,510,435	2,998,482	2,072,821
Certificates of deposit greater than $100,000	262,731	266,708	259,794
Certificates of deposit insured by CDARS®	42,080	38,312	96,314
Wholesale certificates of deposit	—	23,155	53,776
Subtotal	3,815,246	3,326,657	2,482,705

Premium resulting from acquisition date fair value adjustment	283	612	—
Total deposits	$3,815,529	$3,327,269	$2,482,705

Deposits totaled $3.82 billion at December 31, 2011 compared to $3.33 billion at December 31, 2010. 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 $3.51 billion at December 31, 2011 compared with $3.00 billion at December 31, 2010. We anticipate continued growth in our core deposits through both the addition of new customers and our current client base.

At December 31, 2011 brokered and other wholesale deposits (excluding public deposits) totaled $42.1 million or 1% of total deposits compared to $61.5 million or 2% of total deposits, at year-end 2010. The decrease in brokered deposits is attributed to the scheduled maturity of $23.2 million in brokered deposits during the year slightly offset by an increase in participation in the Certificate of Deposit Account Registry Service ("CDARS®") program. CDARS® is a network that allows participating banks to offer extended FDIC deposit insurance coverage on certificates of deposit. Unlike traditional brokered deposits, the Company generally makes CDARS® available only to existing customers who desire additional deposit insurance coverage rather than as a means of generating additional liquidity.

At December 31, 2011 public deposits held by the Company totaled $229.5 million compared to $153.9 million at December 31, 2010. Uninsured public deposit balances increased from $122.6 million at December 31, 2010 to $179.5 million at December 31, 2011. 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 by time remaining until maturity and percentage of total deposits:

Amounts maturing in:	December 31, 2011					
	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	$87,838	2.3	%	$36,240	1.0	%
Over 3 through 6 months	40,867	1.1	%	1,053	—	%
Over 6 through 12 months	64,850	1.7	%	2,971	0.1	%
Over 12 months	69,176	1.8	%	—	—	%
Total	$262,731	6.9	%	$40,264	1.1	%

Other time deposits of $100,000 or more set forth in the table above represent brokered and wholesale deposits. We use brokered and other wholesale deposits as part of our strategy for funding growth. In the future, we anticipate continuing the use of such deposits to fund loan demand or treasury functions.

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

	Years ended December 31,								
	2011			2010			2009		
	Average Deposits	Rate		Average Deposits	Rate		Average Deposits	Rate	
	(dollars in thousands)								
Interest bearing demand	$704,484	0.20	%	$637,983	0.34	%	$458,450	2.25	%
Money market	969,548	0.40	%	851,673	0.66	%	568,320	0.26	%
Savings	247,073	0.06	%	199,117	0.14	%	133,348	0.48	%
Certificates of deposit	636,074	0.80	%	763,829	1.14	%	706,799	0.84	%
Total interest-bearing deposits	2,557,179	0.41	%	2,452,602	0.68	%	1,866,917	1.25	%
Demand and other non-interest bearing	984,220			818,321			511,259		
Total average deposits	$3,541,399			$3,270,923			$2,378,176		

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Borrowings

Borrowed funds provide an additional source of funding for loan growth. Our borrowed funds consist primarily of borrowings from the Federal Home Loan ("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 and commercial loans.

The following tables set forth the details of FHLB advances and FRB borrowings:

	Years ended December 31,		
	2011	2010	2009
	(dollars in thousands)		
FHLB Advances			
Balance at end of year	$119,009	$119,405	$100,000
Average balance during the year	$120,419	$123,685	$111,211
Maximum month-end balance during the year	$127,426	$154,916	$178,000
Weighted average rate during the year	2.76 %	2.75 %	2.38 %
Weighted average rate at December 31	2.81 %	2.81 %	2.49 %

	Years ended December 31,		
	2011	2010	2009
	(dollars in thousands)		
Federal Reserve Bank Borrowings			
Balance at end of year	$—	$—	$—
Average balance during the year	$—	$—	$38,205
Maximum month-end balance during the year	$—	$—	$100,000
Weighted average rate during the year	— %	— %	0.30 %
Weighted average rate at December 31	N/A	N/A	N/A

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

Long-term Subordinated Debt

In July, 2011, the Company elected to redeem the junior subordinated debentures and terminated Columbia (WA) Statutory Trust I and Town Center Bancorp Trust I with a cash payment of $22.9 million and $3.1 million, respectively which consisted of principal, interest and fees. The trust preferred obligations were classified as long-term subordinated debt on the Company's balance sheet and the decision to redeem was based upon the Company's cash and capital positions, rates on the debentures and the absence of a prepayment penalty.

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 $709.9 million at December 31, 2011, an increase from $622.8 million at December 31, 2010. Standby letters of credit were $30.9 million and $31.2 million at December 31, 2011 and 2010, respectively. In addition, commitments under commercial letters of credit used to facilitate customers' trade transactions amounted to $243 thousand and $0 at December 31, 2011 and 2010,

respectively.

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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, 2011				
	0-12 Months	1-3 Years	4-5 Years	Due after Five Years	Total
	(in thousands)				
Operating & equipment leases	$4,077	$7,542	$4,650	$5,678	$21,947
Total deposits	3,681,936	95,967	37,045	581	3,815,529
Federal Home Loan Bank advances	8,000	103,694	—	6,416	118,110
Total	$3,694,013	$207,203	$41,695	$37,675	$3,980,586

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 and FRB, 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 Federal Reserve Bank of $419.1 million and $404.4 million, respectively, at December 31, 2011, 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.

Capital Expenditures

Capital expenditures are anticipated to be approximately $6.5 million during 2012.

See the Statement of Cash Flows of the Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data” of this report for additional information regarding our sources and uses of funds during 2011, 2010 and 2009.

Capital

Our shareholders’ equity increased to $759.3 million at December 31, 2011, from $706.9 million at December 31, 2010. Shareholders’ equity was 15.87% and 16.61% of total assets at December 31, 2011 and 2010.

Regulatory Capital. Banking regulations require 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 have adopted risk-based capital guidelines, under which risk percentages are assigned to various categories of assets and off-balance sheet items to calculate a risk-adjusted capital ratio. Tier I capital generally consists of preferred stock, common shareholders’ equity and trust preferred obligations, less goodwill and certain identifiable intangible assets, while Tier II capital includes the allowance for loan losses and subordinated debt, both subject to certain limitations. Regulatory minimum risk-based capital guidelines require 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”.

Federal Deposit Insurance Corporation 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 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 Company and its banking subsidiary qualify as “well-capitalized” at December 31, 2011 and 2010.

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The following table sets forth the Company's and its banking subsidiary's capital ratios at December 31, 2011 and 2010:

	Company		Columbia Bank		Requirements	
	2011	2010	2011	2010	Adequately capitalized	Well-Capitalized
Total risk-based capital ratio	21.05 %	24.47 %	18.55 %	18.20 %	8 %	10 %
Tier 1 risk-based capital ratio	19.79 %	23.20 %	17.29 %	16.93 %	4 %	6 %
Leverage ratio	12.96 %	13.99 %	11.45 %	10.33 %	4 %	5 %

Stock Repurchase Program

In October 2011, the Board of Directors approved a stock repurchase program authorizing the Company to repurchase up to 2 million shares of its outstanding shares of common stock. The Company intends to purchase the shares from time to time in the open market or in private transactions, under conditions which allow such repurchases to be accretive to earnings per share while maintaining capital ratios that exceed the guidelines for a well-capitalized financial institution. This newly authorized repurchase program supersedes and replaces the prior stock repurchase program adopted in February 2002.

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,		
	2011	2010	2009
Dividends paid per common share	$0.27	$0.04	$0.07
Dividend payout ratio (1)	2 %	6 %	NM

(1) Dividends paid per common share as a percentage of net income per diluted share

NM Not Meaningful

For quarterly detail of dividends declared during 2011 and 2010 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 26, 2012 the Company declared a regular quarterly cash dividend of $0.08 per share and a special cash dividend of $0.29 per share, both payable on February 22, 2012, to shareholders of record at the close of business on February 8, 2012.

Applicable federal, Washington state and Oregon 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 our banking subsidiary. 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.

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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. Also, there may be limits in the usefulness of these measures to investors. As a result, the Company encourages readers to consider its consolidated financial statements in their entirety and not to rely on any single financial measure.

	December 31, 2011	December 31, 2010
	(dollars in thousands)	
Shareholders' equity	$759,338	$706,878
Goodwill	(115,554)	(109,639)
Core deposit intangible	(20,166)	(18,696)
Tangible common equity (a)	623,618	578,543
Total assets	4,785,945	4,256,363
Goodwill	(115,554)	(109,639)
Core deposit intangible	(20,166)	(18,696)
Tangible assets (b)	$4,650,225	$4,128,028
Risk-weighted assets, determined in accordance with prescribed regulatory requirements (c)	$3,024,442	$2,546,195
Ratios		
Tangible common equity to tangible assets (a)/(b)	13.41%	14.01%
Tangible common equity to risk-weighted assets (a)/(c)	20.62%	22.72%

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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.

We maintain an asset/liability management policy that provides guidelines for controlling exposure to interest rate risk. The guidelines direct management to assess the impact of changes in interest rates upon both earnings and capital. The guidelines further provide that in the event of an increase in interest rate risk beyond pre-established limits, management will consider steps to reduce interest rate risk to acceptable levels.

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, 2011. 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 amounts 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.

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.

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December 31, 2011	Estimated Maturity or Repricing 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	$202,925	$—	$—	$—	$202,925
Loans, net of deferred fees	1,298,799	322,588	1,159,010	99,903	2,880,300
Loans held for sale	2,148	—	—	—	2,148
Investments	78,397	174,305	521,614	276,009	1,050,325
Total interest-earning assets	$1,582,269	$496,893	$1,680,624	$375,912	4,135,698
Allowance for loan and lease losses					(53,041)
Cash and due from banks					91,364
Premises and equipment, net					107,899
Other assets					504,025
Total assets					$4,785,945
Interest-Bearing Liabilities					
Interest-bearing non-maturity deposits	$1,032,635	$—	$—	$1,017,785	$2,050,420
Time deposits	211,301	262,964	133,021	1,213	608,499
Borrowings	9,042	4,130	103,853	26,984	144,009
Total interest-bearing liabilities	$1,252,978	$267,094	$236,874	$1,045,982	2,802,928
Other liabilities					1,223,679
Total liabilities					4,026,607
Shareholders' equity					759,338
Total liabilities and shareholders' equity					$4,785,945
Interest-bearing liabilities as a percent of total interest-earning assets	30.30%	6.46%	5.73%	25.29%	
Rate sensitivity gap	$329,291	$229,799	$1,443,750	$(670,070)	
Cumulative rate sensitivity gap	$329,291	$559,090	$2,002,840	$1,332,770	
Rate sensitivity gap as a percentage of interest-earning assets	7.96%	5.56%	34.91%	(16.20)%	
Cumulative rate sensitivity gap as a percentage of interest-earning assets	7.96%	13.52%	48.43%	32.23%	

Interest Rate Sensitivity on Net Interest Income

A number of measures are used to monitor and manage interest rate risk, including income simulations and interest sensitivity (gap) analysis. An income simulation model is the primary tool used to assess the direction and magnitude of changes in net interest income resulting from changes in interest rates. Key assumptions in the model include prepayment speeds on mortgage-related assets, cash flows and maturities of other investment securities, loan and deposit volumes and pricing. These assumptions are inherently uncertain and, as a result, the model cannot precisely estimate net interest income or precisely predict the impact of higher or lower interest rates on net interest income. Actual results will differ from simulated results due to timing, magnitude and frequency of interest rate changes and changes in market conditions and management strategies, among other factors.

Based on the results of the simulation model as of December 31, 2011, we would expect a decrease in net interest income of $2.1 million if interest rates gradually decrease from current rates by 100 basis points and an increase in net interest income of $6.2 million if interest rates gradually increase from current rates by 200 basis points over a twelve-month period.

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.

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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, 2011 and 2010, 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, 2011. 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 financial statements present fairly, in all material respects, the financial position of Columbia Banking System, Inc. and its subsidiaries as of December 31, 2011 and 2010, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, 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, 2011, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 29, 2012 expressed an unqualified opinion on the Company’s internal control over financial reporting.

/s/ Deloitte & Touche LLP
Seattle, Washington
February 29, 2012

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COLUMBIA BANKING SYSTEM, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2011	December 31, 2010
	(in thousands)	
ASSETS		
Cash and due from banks	$91,364	$55,492
Interest-earning deposits with banks	202,925	458,638
Total cash and cash equivalents	294,289	514,130
Securities available for sale at fair value (amortized cost of $987,560 and $743,928, respectively)	1,028,110	763,866
Federal Home Loan Bank stock at cost	22,215	17,908
Loans held for sale	2,148	754
Loans, excluding covered loans, net of unearned income of ($16,217) and ($3,490), respectively	2,348,371	1,915,754
Less: allowance for loan and lease losses	53,041	60,993
Loans, excluding covered loans, net	2,295,330	1,854,761
Covered loans, net of allowance for loan losses of ($4,944) and ($6,055), respectively	531,929	517,061
Total loans, net	2,827,259	2,371,822
FDIC loss-sharing asset	175,071	205,991
Interest receivable	15,287	11,164
Premises and equipment, net	107,899	93,108
Other real estate owned ($28,126 and $14,443 covered by FDIC loss-share, respectively)	51,019	45,434
Goodwill	115,554	109,639
Core deposit intangible, net	20,166	18,696
Other assets	126,928	103,851
Total assets	$4,785,945	$4,256,363
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	$1,156,610	$895,671
Interest-bearing	2,658,919	2,431,598
Total deposits	3,815,529	3,327,269
Federal Home Loan Bank advances	119,009	119,405
Securities sold under agreements to repurchase	25,000	25,000
Other borrowings	—	642
Long-term subordinated debt	—	25,735
Other liabilities	67,069	51,434
Total liabilities	4,026,607	3,549,485
Commitments and contingent liabilities (Note 17)		
Shareholders' equity:		

	December 31, 2011	December 31, 2010		
Common stock (no par value)				
Authorized shares	63,033	63,033		
Issued and outstanding	39,506	39,338	579,136	576,905
Retained earnings			155,069	117,692

Accumulated other comprehensive income	25,133	12,281
Total shareholders’ equity	759,338	706,878
Total liabilities and shareholders’ equity	$4,785,945	$4,256,363

See accompanying Notes to Consolidated Financial Statements.

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COLUMBIA BANKING SYSTEM, INC.
CONSOLIDATED STATEMENTS OF INCOME

	Years ended December 31,		
	2011	2010	2009
	(in thousands except per share)		
Interest Income			
Loans	$218,420	$157,292	$117,062
Taxable securities	21,870	18,276	17,300
Tax-exempt securities	10,142	9,348	8,458
Federal funds sold and deposits in banks	839	963	215
Total interest income	251,271	185,879	143,035
Interest Expense			
Deposits	10,478	16,733	23,250
Federal Home Loan Bank and Federal Reserve Bank borrowings	2,980	2,841	2,759
Long-term obligations	579	1,029	1,197
Other borrowings	498	489	477
Total interest expense	14,535	21,092	27,683
Net Interest Income	236,736	164,787	115,352
Provision for loan and lease losses	7,400	41,291	63,500
Provision (recapture) for losses on covered loans	(1,648)	6,055	—
Net interest income after provision (recapture) for loan and lease losses	230,984	117,441	51,852
Noninterest Income (Loss)			
Service charges and other fees	26,632	24,698	15,181
Gain on bank acquisitions, net of tax	1,830	9,818	—
Merchant services fees	7,385	7,502	7,321
Redemption of Visa and MasterCard shares	—	—	49
Gain on sale of investment securities, net	134	58	1,077
Impairment charge on investment securities	(2,950)	—	—
Bank owned life insurance	2,188	2,041	2,023
Change in FDIC loss-sharing asset	(49,496)	4,908	—
Other	4,994	3,756	4,039
Total noninterest income (loss)	(9,283)	52,781	29,690
Noninterest Expense			
Compensation and employee benefits	81,552	69,780	47,275
Occupancy	18,963	16,814	12,128
Merchant processing	3,698	4,364	3,449
Advertising and promotion	3,686	3,081	1,943
Data processing	8,484	8,769	5,482
Legal and professional fees	6,486	5,684	3,871
Taxes, licenses and fees	4,446	2,858	2,478
Regulatory premiums	4,337	6,485	5,777
Net cost (benefit) of operation of other real estate owned	(1,022)	787	861
Amortization of intangibles	4,319	3,922	1,045
FDIC clawback liability	3,656	—	—
Other	17,154	14,603	10,179
Total noninterest expense	155,759	137,147	94,488
Income (loss) before income taxes	65,942	33,075	(12,946)
Provision (benefit) for income taxes	17,905	2,291	(8,978)
Net Income (Loss)	$48,037	$30,784	$(3,968)

Net Income (Loss) Applicable to Common Shareholders	$48,037	$25,837	$(8,371)
Per Common Share			
Earnings (loss) basic	$1.22	$0.73	$(0.38)
Earnings (loss) diluted	$1.21	$0.72	$(0.38)
Dividends paid per common share	$0.27	$0.04	$0.07
Weighted average number of common shares outstanding	39,103	35,209	21,854
Weighted average number of diluted common shares outstanding	39,180	35,392	21,854

See accompanying Notes to Consolidated Financial Statements.

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COLUMBIA BANKING SYSTEM, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years ended December 31,		
	2011	2010	2009
	(in thousands)		
Net income (loss)	$48,037	$30,784	$(3,968)
Other comprehensive income, net of tax:			
Unrealized gain from securities:			
Net unrealized holding gain from available for sale securities arising during the period, net of tax of ($7,462), ($1,047) and ($5,197)	13,285	1,587	9,435
Reclassification adjustment of net gain from sale of available for sale securities included in income, net of tax of $48, $20 and $383	(85)	(38)	(695)
Net unrealized gain from securities, net of reclassification adjustment	13,200	1,549	8,740
Cash flow hedging instruments:			
Reclassification adjustment of net gain included in income, net of tax of $79, $625, and $913	(143)	(1,134)	(1,657)
Net change in cash flow hedging instruments	(143)	(1,134)	(1,657)
Pension plan liability adjustment:			
Unrecognized net actuarial gain (loss) during the period, net of tax of $154, ($12) and $379	(260)	23	(689)
Less: amortization of unrecognized net actuarial loss included in net periodic pension cost, net of tax of ($31), ($15) and ($18)	55	27	33
Pension plan liability adjustment, net	(205)	50	(656)
Other comprehensive income	12,852	465	6,427
Comprehensive income	$60,889	$31,249	$2,459