COLUMBIA BANKING SYSTEM INC
Form 10-K
February 29, 2016

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, 2015 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. ¨
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, 2015 was $1,856,086,644 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, 2016 was 57,744,431.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Registrant's definitive 2016 Annual Meeting Proxy Statement.	Part III

COLUMBIA BANKING SYSTEM, INC.
FORM 10-K ANNUAL REPORT
DECEMBER 31, 2015

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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 statements identified by words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “should,” “projects,” “seeks,” “estimates” or the negative versi words or other comparable words or phrases of a future or forward-looking nature. 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 expressed or implied by the forward-looking statements:

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

You should take into account that forward-looking statements speak only as of the date of this report. Given the described uncertainties and risks, we cannot guarantee our future performance or results of operations and you should not place undue reliance on 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,", "the Company", and "Columbia") is a registered bank holding company whose wholly owned banking subsidiary is Columbia State Bank ("Columbia Bank" or "the Bank"). Headquartered in Tacoma, Washington, we provide a full range of banking services to small and medium-sized businesses, professionals and individuals throughout Washington, Oregon and Idaho. As part of the acquisition of West Coast Bancorp ("West Coast") in 2013, the Company also acquired West Coast Trust Company, Inc. ("West Coast Trust"), an Oregon trust company that provides agency, fiduciary and other related trust services with offices in Portland and Salem, Oregon. Effective January 1, 2016, Columbia Bank's trust department was consolidated into West Coast Trust, and West Coast Trust was renamed Columbia Trust Company.

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, 2015, Columbia Bank had locations throughout Washington, Oregon and Idaho. The vast majority 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 FDIC. Columbia Bank is subject to regulation by the FDIC, the Washington State Department of Financial Institutions Division of Banks, the Oregon Department of Consumer and Business Services Division of Finance and Corporate Securities, and the Idaho Department of Finance. Although Columbia Bank is not a member of the Federal Reserve System, the Board of Governors of the Federal Reserve System ("Federal Reserve") has certain supervisory authority over the Company, which can also affect Columbia Bank.

Business Overview

Our goal is to continue 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 customers and small to medium-sized businesses in all markets we serve. We have established a network of 149 branches in Washington, Oregon and Idaho as of December 31, 2015 from which we intend to grow market share. We operate 74 branches in 21 counties in the state of Washington, 59 branches in 16 counties in Oregon and 16 branches in 10 counties in Idaho.

Our branch system funds our lending activities and allows for increased contact with customers, better serving both retail and business depositors. We believe this approach enables us to expand lending activities while attracting a stable core deposit base and enhancing utilization of our full range of products and services. 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. Our branch system and other delivery channels are continually evaluated as an important component of ongoing efforts to improve efficiencies without compromising customer service.

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 a diversified loan and deposit portfolio. We continue to build our strong core deposit base, expanding total revenue and controlling expenses in an effort to gain operational efficiencies and increase our return on average equity. 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 believe 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 branches in key locations and considering business combinations that are consistent with our expansion strategy throughout the Pacific Northwest. We have grown our franchise over the past decade through a combination of acquisitions and organic growth.

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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
- Consumer Lending
- Electronic Bill Pay
- Mobile Banking
- Online Banking
- Residential Lending
- VISA® Card Services

Business Banking

- Agricultural Lending
- Checking and Saving Accounts
- Commercial & Industrial Lending
- International Banking
- Merchant Card Services
- Mobile Banking
- Municipal Lending
- Online Banking
- Real Estate and Real Estate Construction Lending
- Remote Deposit Capture
- SBA Lending
- Small Business Services
- Treasury Management
- VISA® Card Services

Wealth Management

- Investment Services through CB Financial Services
- Private Banking
- Professional Banking
- Trust Services

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. 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.

Online Banking

Columbia Bank’s Premier Personal Online Banking provides simple navigation, access to important information and frequently used features, as well as the foundation for a best-in-class mobile banking solution. 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.

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Business Banking: A variety of checking, savings, interest bearing money market and certificate of deposit accounts are offered to business banking customers 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, Commercial Lending, International Banking, Merchant Card Services, Business VISA® Debit and Credit Cards and Wealth Management.

Treasury Management

Columbia 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, and Remote Deposit Capture.

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.

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. 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.

International Banking

Columbia Bank's international services division offers a range of financial services to help our business customers explore global markets and conduct international trade smoothly and expediently. We are proud to provide small and mid-size businesses 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 companies open the door to new markets and suppliers overseas.

Merchant Card Services

Business clients that use Columbia's Merchant Card Services have the ability to accept Visa®, MasterCard®, American Express® and Discover® sales drafts for deposit directly into their business checking account. Merchants are provided with a comprehensive accounting system tailored to their needs, which includes month-to-date credit card deposit information on a transaction statement. Internet access is available, allowing business customers to review merchant statements and authorized, captured, cleared and settled transactions. Columbia offers state-of-the-art point of sale solutions to suit our customers' needs for card acceptance, including terminals, mobile platforms, virtual terminals and on-line applications.

Business VISA® Debit and Credit Cards

Our business banking customers are offered a selection of Visa® Cards including the Business Debit Card that works like a check wherever Visa® is accepted. We partner with Elan Financial Services to offer a variety of Visa® Credit Cards that come with important business features including award-winning expense management tools, free employee cards and added security benefits. A specialty community card for nonprofit organizations and municipalities is also available.

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Wealth Management: We offer tailored solutions to high net-worth individuals, families and professional businesses in the areas of private banking, professional banking, financial services and trust and estate services.

CB Financial Services

Located at Columbia State Bank, CB Financial Services[1], offers a comprehensive array of financial solutions that focuses on wealth management by delivering personalized service and experience through dedicated financial advisors serving various geographical areas.

Comprehensive solutions include:

Individual and Business Retirement Solutions: 401(k) plans, SEPs, IRAs, SIMPLE, Profit Sharing, Non-Qualified Deferred Compensation Plans, Money Pension Plans, Exit Planning Strategies.

Insurance Solutions: Long-Term Care, Disability, Life Insurance (Key Man Life Insurance, Buy-Sell Agreements).

Wealth Management: Professional Asset Management, Strategic Asset Allocation, Fixed Income (Bond) Investing (Municipal, Corporate, Government), Exchange Traded Funds (ETFs), Annuities, Mutual Funds, Equities.

Financial Planning: Asset Allocation, Net Worth Analysis, Estate Planning & Preservation[2], Education Funding, Wealth Transfer.

Private Banking

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 coordinates a relationship team of experienced financial professionals to meet the unique needs of each discerning customer.

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 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.

Trust and Investment Services

We offer a wide range of high quality fiduciary, investment and administrative trust services, coupled with local, personalized attention to the unique requirements of each trust. Services include Personal Trusts, Special Needs (Supplemental) Trusts, Estate Settlement Services, Investment Agency and Charitable Management Services.

Our highly skilled and experienced professionals are fully dedicated to providing the information, diligence and care to help our customers achieve their financial goals and plan for a better future.

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(1) Securities and insurance products are offered through Cetera Investment Services LLC (doing insurance business in California as CFGIS Insurance Agency), member FINRA/SIPC. Advisory services are offered through Cetera Investment Advisers LLC. Neither firm is affiliated with the financial institution where investment services are offered.

* Investment products are Not FDIC insured * No bank guarantee * Not a deposit * Not insured by any federal government agency * May lose value.

(2) For a comprehensive review of your personal situation, always consult a tax or legal advisor. Neither Cetera, nor any of its representatives may give legal or tax advice.

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Competition

Our industry remains highly competitive despite a slow recovery from the recent economic crisis. Several other financial institutions with greater resources compete for banking business in our market areas. These competitors have the 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 compete with 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.

Employees

As of December 31, 2015 the Company employed 1,868 full-time equivalent employees. We value our employees and pride ourselves on providing a professional work environment accompanied by comprehensive pay and 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 was demonstrated by Columbia Bank being honored as one of the Puget Sound Business Journal's "Washington's Best Workplaces" for the ninth consecutive year.

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 (the "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 made available through our website as soon as reasonably practicable after they are filed electronically with the SEC. Information contained on our website is not 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 name Columbia Bank in Washington, Oregon and Idaho. This regulatory framework is primarily designed for the protection of depositors, customers, 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 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 and State Bank Holding Company Regulation

General. The Company is a bank holding company as defined in the Bank Holding Company Act of 1956, as amended (the "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. As of the date of this report, we have not elected to be treated as a financial holding company.

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. In addition, under the Bank Merger Act of 1960, as amended, the prior approval of the FDIC is required for the Bank to merge with another bank or purchase all or substantially all of the assets or assume any of the deposits of another FDIC-insured depository institution. In reviewing applications seeking approval of merger and acquisition transactions, bank regulators consider, among other things, the competitive effect and public benefits of the transactions, the capital position and managerial resources of the combined organization, the risks to the stability of the U.S. banking or financial system, the applicant's performance record under the Community Reinvestment Act of 1977 (the "CRA"), the applicant's compliance with fair housing and other consumer protection laws and the effectiveness of all organizations involved in combating money laundering activities. In addition, failure to implement or maintain adequate compliance programs could cause bank regulators not to approve an acquisition where regulatory approval is required or to prohibit an acquisition even if approval is not required.

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.

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, as codified by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), the Company is required to act as a source of financial and managerial strength to Columbia Bank, including at times when we may not be in a financial position to provide such resources, and it may not be in our, or our shareholders', best interests to do so. 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, Oregon and Idaho, 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. These agencies have the authority to prohibit banks from engaging in what they believe constitute unsafe or unsound banking practices. With respect to branches of Columbia Bank in Oregon and Idaho, the Bank is also subject to certain laws and regulations governing its activities in those states.

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 monetary penalties, criminal penalties, punitive damages, and the loss of certain contractual rights. Columbia Bank has established a compliance management system designed to ensure consumer protection.

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Community Reinvestment. The CRA 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. The Bank's failure to comply with the CRA could, among other things, result in the denial or delay in connection with such transactions. The Bank received a rating of "satisfactory" in its most recently completed CRA examination.

Anti-Money Laundering and Anti-Terrorism. The Bank Secrecy Act (the "BSA") requires all financial institutions, including banks and securities broker-dealers, to, among other things, establish a risk-based system of internal controls reasonably designed to prevent money laundering and the financing of terrorism. It includes a variety of recordkeeping and reporting requirements (such as cash and suspicious activity reporting) as well as due diligence/know-your-customer documentation requirements.

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 further augments and strengthens the requirements set forth in the BSA. 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 Patriot Act also includes provisions providing the government with power to investigate terrorism, including expanded government access to bank account records. Columbia Bank has established compliance programs designed to comply with the BSA and the Patriot Act.

Transactions with Affiliates; Insider Credit Transactions. Transactions between the Bank and its subsidiaries, on the one hand, and the Company or any other subsidiary, on the other hand, are regulated under federal banking law. The Federal Reserve Act imposes quantitative and qualitative requirements and collateral requirements on covered transactions by the Bank with, or for the benefit of, its affiliates. In addition, subsidiary banks of a bank holding company are subject to restrictions on extensions of credit to the holding company or its subsidiaries, on investments in securities of the holding company or its subsidiaries 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.

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. The Columbia Bank board has established controls to ensure compliance with regulatory expectations around affiliated transactions.

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, including limitations on growth. Columbia Bank has established policies and risk management activities designed to ensure the safety and soundness of the Bank.

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Interstate Banking and Branching

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "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; Stress Testing

Columbia is a legal entity separate and distinct from the Bank and its other subsidiaries. As a bank holding company, Columbia is subject to certain restrictions on its ability to pay dividends under applicable banking laws and regulations. Federal bank regulators are authorized to determine under certain circumstances relating to the financial condition of a bank holding company or a bank that the payment of dividends would be an unsafe or unsound practice and to prohibit payment thereof. In particular, federal bank regulators have stated that paying dividends that deplete a banking organization's capital base to an inadequate level would be an unsafe and unsound banking practice and that banking organizations should generally pay dividends only out of current operating earnings. In addition, in the current financial and economic environment, the Federal Reserve has indicated that bank holding companies should carefully review their dividend policy and has discouraged payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong. A significant portion of our income comes from dividends from the Bank, which is also the primary source of our liquidity. In addition to the restrictions discussed above, the Bank is subject to limitations under Washington law regarding the level of dividends that it may pay to us. Washington law limits a bank's ability to pay dividends that are greater than the bank's retained earnings without approval of the applicable banking agency.

In October 2012, as required by the Dodd-Frank Act, the Federal Reserve and the FDIC published final rules regarding company-run stress testing. These rules require bank holding companies and banks with average total consolidated assets greater than $10 billion to conduct an annual company-run stress test of capital, consolidated earnings and losses under one base and at least two stress scenarios provided by the federal bank regulators. Neither we nor the Bank are currently subject to the stress testing requirements, but we expect that once we are subject to those requirements, the Federal Reserve, the FDIC and the Washington Department of Financial Institutions' Division of Banks will consider our results as an important factor in evaluating our capital adequacy and that of the Bank, in evaluating any proposed acquisitions and in determining whether any proposed dividends or stock repurchases by us or by the Bank may be an unsafe or unsound practice. While we do not currently have $10 billion or more in total consolidated assets, we have begun analyzing these requirements and developing action plans to ensure we are prepared to comply with the rules when and if they become applicable.

Regulatory Capital Requirements

Prior Capital Guidelines. The Federal Reserve monitors the capital adequacy of the Company on a consolidated basis, and the FDIC and the Washington Department of Financial Institutions' Division of Banks monitor the capital adequacy of the Bank. The risk-based capital guidelines applicable to us and the Bank through December 31, 2014 were based on the 1988 capital accord, known as Basel I, of the Basel Committee on Banking Supervision (the "Basel Committee") as implemented by the federal bank regulators. Assets and off-balance sheet items were assigned to weighted risk categories, and capital classified in one of the two following tiers depending on its characteristic:

- Tier 1 (Core) Capital-common equity, retained earnings, qualifying non-cumulative perpetual preferred stock, minority interests in equity accounts of consolidated subsidiaries (and, under existing standards, a limited amount of qualifying trust preferred securities at the holding company level), less goodwill, most intangible assets and certain other assets.
- Tier 2 (Supplementary) Capital-perpetual preferred stock and trust preferred securities not meeting the definition of Tier 1 capital, qualifying mandatory convertible debt securities, qualifying subordinated debt and a limited amount of allowances for loan and lease losses.

Under the requirements in effect through December 31, 2014, we were required to maintain Tier 1 capital and total capital (that is, Tier 1 capital plus Tier 2 capital, less certain deductions) equal to at least 4% and 8%, respectively, of our total risk-weighted assets (including various off-balance sheet items such as letters of credit), with similar required capital ratios for the Bank. See “—Prompt Corrective Action Framework” for a discussion of certain other capital ratios.

Under those guidelines, bank holding companies and banks were also required to comply with minimum leverage requirements, measured based on the ratio of a bank holding company's or a bank's, as applicable, Tier 1 capital to adjusted quarterly average total assets (as defined for regulatory purposes). These requirements generally necessitated a minimum Tier 1 leverage ratio of 4% for all bank holding companies and banks, with a lower 3% minimum for bank holding companies and banks meeting certain specified criteria, including having the highest composite regulatory supervisory rating.

Basel III and the New Capital Rules. In July 2013, the federal bank regulators approved final rules implementing the Basel Committee's December 2010 final capital framework for strengthening international capital standards, known as Basel III, and various provisions of the Dodd-Frank Act (the "New Capital Rules"). The New Capital Rules substantially revise the risk-based capital requirements applicable to bank holding companies and banks, including us and the Bank, compared to the risk-based capital rules in effect at December 31, 2014. The New Capital Rules revise the components of capital and address other issues affecting the numerator in regulatory capital ratio calculations. The New Capital Rules also address risk weights and other issues affecting the denominator in regulatory capital ratio calculations, including by replacing the prior risk-weighting approach derived from Basel I with a more risk-sensitive approach based, in part, on the standardized approach adopted by the Basel Committee in its 2004 capital accords, known as Basel II. The New Capital Rules also implement the requirements of Section 939A of the Dodd-Frank Act to remove references to credit ratings from the federal bank regulators' rules. Subject to a phase-in period for various provisions, the New Capital Rules became effective for us and for the Bank on January 1, 2015.

The New Capital Rules, among other things (i) specify that Tier 1 capital consists of "Common Equity Tier 1," or CET1, and "Additional Tier 1 capital" instruments meeting specified requirements, (ii) define CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iii) expand the scope of the deductions/adjustments to capital as compared to existing regulations.

Under the New Capital Rules, the minimum capital ratios as of January 1, 2015 are (i) 4.5% CET1 to risk-weighted assets, (ii) 6% Tier 1 capital (that is, CET1 plus Additional Tier 1 capital) to risk-weighted assets and (iii) 8% total capital (that is, Tier 1 capital plus Tier 2 capital) to risk-weighted assets.

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

The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and will be phased in over a three-year period (increasing by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019). When fully phased-in, the New Capital Rules will require us, and the Bank, to maintain such additional capital conservation buffer of 2.5% of CET1, effectively resulting in minimum ratios of (i) 7% CET1 to risk-weighted assets, (ii) 8.5% Tier 1 capital to risk-weighted assets, and (iii) 10.5% total capital to risk-weighted assets. The New Capital Rules also eliminate the more permissive 3% minimum Tier 1 leverage ratio under the capital guidelines that were in effect through December 31, 2014, resulting in a 4% minimum Tier 1 leverage ratio for all bank holding companies and banks.

The New Capital Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, certain deferred tax assets and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1. Implementation of the deductions and other adjustments to CET1 began on January 1, 2015 and will be phased in over a four-year period (beginning at 40% on January 1, 2015 and an additional 20% per year thereafter). The New Capital Rules also generally preclude certain hybrid securities, such as trust preferred securities, from being counted as Tier 1 capital for most bank holding companies. However, bank holding companies such as us who had less than $15 billion in assets as of December 31, 2009 (and who continue to have less than $15 billion in assets) are permitted to include trust preferred securities issued prior to May 19, 2010 as Additional Tier 1 capital under the New Capital Rules.

The New Capital Rules also prescribe a new standardized approach for risk weightings that expands the risk-weighting categories from four Basel I-derived categories (0%, 20%, 50% and 100%) to a much larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities to 600% for certain equity exposures and resulting in higher risk weights for a variety of asset categories.

With respect to the Bank, the New Capital Rules also revise the prompt corrective action regulations pursuant to Section 38 of the Federal Deposit Insurance Act (the "FDIA"). See "—Prompt Corrective Action Framework."

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We believe that, as of December 31, 2015, we and the Bank would meet all capital adequacy requirements under the New Capital Rules on a fully phased-in basis as if such requirements were then in effect.

Liquidity Requirements

Historically, the regulation and monitoring of bank and bank holding company liquidity has been addressed as a supervisory matter, without required formulaic measures. The Basel III final framework requires banks and bank holding companies to measure their liquidity against specific liquidity tests that, although similar in some respects to liquidity measures historically applied by banks and regulators for management and supervisory purposes, going forward would be required by regulation. One test, referred to as the liquidity coverage ratio is designed to ensure that the banking entity maintains an adequate level of unencumbered high-quality liquid assets equal to the entity's expected net cash outflow for a 30-day time horizon (or, if greater, 25% of its expected total cash outflow) under an acute liquidity stress scenario. The other test, referred to as the net stable funding ratio is designed to promote more medium- and long-term funding of the assets and activities of banking entities over a one-year time horizon. These requirements will incentivize banking entities to increase their holdings of U.S. Treasury securities and other sovereign debt as a component of assets and increase the use of long-term debt as a funding source.

Prompt Corrective Action Framework

The FDIA requires the federal bank regulators to take prompt corrective action in respect of depository institutions that fail to meet specified capital requirements. The FDIA establishes five capital categories ("well-capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized"), and the federa bank regulators are required to take certain mandatory supervisory actions, and are authorized to take other discretionary actions, with respect to institutions that are undercapitalized, significantly undercapitalized or critically undercapitalized. The severity of these mandatory and discretionary supervisory actions depends upon the capital category in which the institution is placed. Generally, subject to a narrow exception, the FDIA requires the regulator to appoint a receiver or conservator for an institution that is critically undercapitalized.

Under the rules currently in effect and as modified by the New Capital Rules, an insured depository institution generally would be classified in the following categories based on the capital measures indicated:

"Well capitalized"
Total capital ratio of at least 10%,
Tier 1 capital ratio of at least 8%,
CET1 ratio of at least 6.5%
Tier 1 leverage ratio of at least 5%, and
Not subject to any order or written directive requiring a specific capital level.

"Adequately capitalized"
Total capital ratio of at least 8%,
Tier 1 capital ratio of at least 6%
CET1 ratio of at least 4.5%, and
Tier 1 leverage ratio of at least 4%.

"Undercapitalized"
Total capital ratio of less than 8%,
Tier 1 capital ratio of less than 6%
CET1 ratio of less than 4.5%, or
Tier 1 leverage ratio of less than 4%.

"Significantly undercapitalized"
Total capital ratio of less than 6%,
Tier 1 capital ratio of less than 4%
CET1 ratio of less than 3%, or
Tier 1 leverage ratio of less than 3%.

"Critically undercapitalized"
Tangible equity to average quarterly tangible assets of 2% or less.

An institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. A bank's capital category is determined solely for the purpose of applying prompt corrective action regulations, and the capital category may not constitute an accurate representation of the bank's overall financial condition or prospects for other purposes.

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As of December 31, 2015, we and the Bank were well capitalized with CET1 capital ratios of 11.94% and 11.76%, respectively, Tier 1 capital ratios of 11.95% and 11.76%, respectively, total capital ratios of 12.94% and 12.75%, respectively, and Tier 1 leverage ratios of 10.03% and 9.89%, respectively, in each case calculated under the then applicable risk-based capital guidelines.

An institution that is categorized as undercapitalized, significantly undercapitalized or critically undercapitalized is required to submit an acceptable capital restoration plan to its appropriate federal bank regulator. Under the FDIA, in order for the capital restoration plan to be accepted by the appropriate federal banking agency, a bank holding company must guarantee that a subsidiary depository institution will comply with its capital restoration plan, subject to certain limitations. The bank holding company must also provide appropriate assurances of performance. The obligation of a controlling bank holding company under the FDIA to fund a capital restoration plan is limited to the lesser of 5% of an undercapitalized subsidiary's assets or the amount required to meet regulatory capital requirements. An undercapitalized institution is also generally prohibited from increasing its average total assets, making acquisitions and capital distributions, establishing any branches or engaging in any new line of business, except in accordance with an accepted capital restoration plan or with the approval of the FDIC. Institutions that are undercapitalized or significantly undercapitalized and either fail to submit an acceptable capital restoration plan or fail to implement an approved capital restoration plan may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets and cessation of receipt of deposits from correspondent banks. Critically undercapitalized depository institutions failing to submit or implement an acceptable capital restoration plan are subject to appointment of a receiver or conservator.

In addition, the FDIA prohibits an insured depository institution from accepting brokered deposits or offering interest rates on any deposits significantly higher than the prevailing rate in the bank's normal market area or nationally (depending upon where the deposits are solicited), unless it is well capitalized or is adequately capitalized and receives a waiver from the FDIC. A depository institution that is adequately capitalized and accepts brokered deposits under a waiver from the FDIC may not pay an interest rate on any deposit in excess of 75 basis points over certain prevailing market rates.

The Volcker Rule

The Dodd-Frank Act prohibits banks and their affiliates from engaging in proprietary trading and investing in and sponsoring hedge funds and private equity funds. The statutory provision is commonly called the "Volcker Rule." In December 2013, federal regulators adopted final rules to implement the Volcker Rule that became effective in April 2014. The Federal Reserve, however, issued an order extending the period that institutions have to conform their activities to the requirements of the Volcker Rule to July 21, 2015. Banks with less than $10 billion in total consolidated assets, such as the Bank, that do not engage in any covered activities, other than trading in certain government, agency, state or municipal obligations, do not have any significant compliance obligations under the rules implementing the Volcker Rule.

Interchange Fees

Under the Durbin Amendment to the Dodd-Frank Act, the Federal Reserve adopted rules establishing standards for assessing whether the interchange fees that may be charged with respect to certain electronic debit transactions are "reasonable and proportional" to the costs incurred by issuers for processing such transactions.

Interchange fees, or "swipe" fees, are charges that merchants pay to us and other card-issuing banks for processing electronic payment transactions. Under the final rules, the maximum permissible interchange fee is equal to no more than 21 cents plus 5 basis points of the transaction value for many types of debit interchange transactions. The Federal Reserve also adopted a rule to allow a debit card issuer to recover one cent per transaction for fraud prevention purposes if the issuer complies with certain fraud-related requirements required by the Federal Reserve. The Federal Reserve also has rules governing routing and exclusivity that require issuers to offer two unaffiliated networks for routing transactions on each debit or prepaid product.

Currently, we qualify for the small issuer exemption from the interchange fee cap, which applies to any debit card issuer that, together with its affiliates, has total assets of less than $10 billion as of the end of the previous calendar year. We will become subject to the interchange fee cap beginning July 1 of the year following the time when our total assets reaches or exceeds $10 billion. Reliance on the small issuer exemption does not exempt us from federal regulations prohibiting network exclusivity arrangements or from routing restrictions, however, and these regulations have negatively affected the interchange income we have received from our debit card network.

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 ("SOX") addresses, among other things, corporate governance, auditing and accounting, enhanced and timely disclosure of corporate information, and penalties for non-compliance. Generally, SOX (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.

Deposit Insurance

The Bank's deposits are insured under the FDIA, up to the maximum applicable limits and are subject to deposit insurance assessments designed to tie what banks pay for deposit insurance to the risks they pose. The Dodd-Frank Act broadened the base for FDIC insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution. In addition, the Dodd-Frank Act raised the minimum designated reserve ratio (the FDIC is required to set the reserve ratio each year) of the Deposit Insurance Fund (the "DIF") from 1.15% to 1.35%; required that the DIF meet that minimum ratio of insured deposits by 2020; and eliminated the requirement that the FDIC pay dividends to insured depository institutions when the reserve ratio exceeds certain thresholds. The FDIC has established a higher reserve ratio of 2% as a long-term goal beyond what is required by statute. The deposit insurance assessments to be paid by Columbia Bank could increase as a result.

The Dodd-Frank Act

As a result of the financial crisis, on July 21, 2010, the Dodd-Frank Act was signed into law. The Dodd-Frank Act significantly changed the bank regulatory structure and is affecting the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies, including the Company and Columbia Bank. The full impact of the Dodd-Frank Act may not be known for years. Some of the provisions of the Dodd-Frank Act that may impact our business are summarized below.

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.

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.

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Consumer Financial Protection Bureau. The Dodd-Frank Act created a new, independent federal agency called the Consumer Financial Protection Bureau (the “CFPB”). 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. The CFPB has issued numerous additional regulations that will likely become industry best practice and increase the compliance burden of Columbia Bank.

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

Heightened Requirements for Bank Holding Companies with $10 Billion or More in Assets

Various federal banking laws and regulations, including rules adopted by the Federal Reserve pursuant to the requirements of the Dodd-Frank Act, impose heightened requirements on certain large banks and bank holding companies. Most of these rules apply primarily to bank holding companies with at least $50 billion in total consolidated assets, but certain rules also apply to banks and bank holding companies with at least $10 billion in total consolidated assets. Following the fourth consecutive quarter (and any applicable phase-in period) where our or the Bank’s total consolidated assets, as applicable, equal or exceed $10 billion, we or the Bank, as applicable, will, among other requirements:

- be required to perform annual stress tests as described above in “Dividends; Stress Testing;”
- be required to establish a dedicated risk committee of our board of directors responsible for overseeing our enterprise-wide risk management policies, which must be commensurate with our capital structure, risk profile, complexity, activities, size and other appropriate risk-related factors, and including as a member at least one risk management expert;
- calculate our FDIC deposit assessment base using a performance score and a loss-severity score system; and
- be examined for compliance with federal consumer protection laws primarily by the CFPB.

While we do not currently have $10 billion or more in total consolidated assets, we have begun analyzing these requirements and developing action plans to ensure we are prepared to comply with the rules when and if they become applicable. It is reasonable to assume that our total assets will exceed $10 billion in the future, based on our historic organic growth rates or if we engage in any acquisitions.

Incentive Compensation

The Dodd-Frank Act requires the federal bank regulators and the SEC to establish joint regulations or guidelines prohibiting incentive-based payment arrangements at specified regulated entities, including us and the Bank, having at least $1 billion in total assets that encourage inappropriate risks by providing an executive officer, employee, director or principal stockholder with excessive compensation, fees, or benefits or that could lead to material financial loss to the entity. In addition, these regulators must establish regulations or guidelines requiring enhanced disclosure to regulators of incentive-based compensation arrangements. The agencies proposed such regulations in April 2011, but the regulations have not been finalized. If the regulations are adopted in the form initially proposed, they will impose limitations on the manner in which we may structure compensation for our executives.

In June 2010, the Federal Reserve and FDIC issued comprehensive final guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization’s incentive compensation arrangements should (i) provide incentives that appropriately balance risk and financial results in a manner that does not encourage employees to expose their organizations to imprudent risk, (ii) be compatible with effective internal controls and risk management and (iii) be supported by strong corporate governance, including active and effective oversight by the organization’s board of directors. These three principles are incorporated into the proposed joint compensation regulations under the Dodd-Frank Act, discussed above.

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The Federal Reserve will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as us, that are not "large, complex banking organizations." These reviews will be tailored to each organization based on the scope and complexity of the organization's activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the organization's supervisory ratings, which can affect the organization's ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk management control or governance processes, pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

Proposed Legislation

Proposed legislation relating to the banking industry 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. Recent 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.

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

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.

National and global economic and other conditions could adversely affect our future results of operations or market price of our stock.

Our business is directly impacted by factors such as economic, political and market conditions, broad trends in industry and finance, and changes in government monetary and fiscal policies and inflation, all of which are beyond our control. Global economies continue to face significant challenges to achieving normalized economic growth rates. The national economy has continued to recover from the recent economic crisis and recession but that recovery has been sluggish and uneven. Business growth across a wide range of industries and regions in the United States remains reduced, and local governments and many businesses continue to experience financial difficulty. Since the recession, economic growth, as noted, has been sluggish and uneven, the financial markets have experienced substantial volatility, unemployment levels generally remain elevated and there are continuing concerns related to the level of U.S. government debt and fiscal actions that may be taken to address that debt. There can be no assurance that economic conditions will continue to improve, and these conditions could worsen. Any renewed 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 challenging economic conditions may exist, a slow or fragile recovery could continue to present risks into the future for the industry and our company.

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Economic conditions in the market areas we serve may adversely impact our earnings and could increase our credit risk associated with our loan portfolio, the value of our investment portfolio and the availability of deposits.
Substantially all of our loan and deposit customers are businesses and individuals in Washington, Oregon and Idaho, and continuing soft economies in these market areas could have a material adverse effect on our business, financial condition, results of operations and prospects. While housing prices have stabilized, unemployment remains relatively high in Washington and Oregon. A deterioration in the market areas we serve could result in the following consequences, any of which would have an adverse impact, which could be material, on our business, financial condition, results of operations and prospects:

- loan delinquencies may increase;
- problem assets and foreclosures may increase;
- collateral for loans made may decline 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.

Concentrations within our loan portfolio 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 would have an adverse impact, which could be material, on our business, financial condition, results of operations and prospects.
A large percentage of our loan portfolio is secured by real estate, in particular commercial real estate. Deterioration in the real estate market or other segments of our loan portfolio would lead to additional losses.
In conjunction with the recent financial crisis, the real estate market experienced a slow-down due to negative economic trends and credit market disruption, from which the market continues to slowly recover. At December 31, 2015, 60% of our total gross loans, were secured by real estate. Any renewed 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, any or all of which would have an adverse impact, which could be material, on our business, financial condition, results of operations and prospects.
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.

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

Our nonperforming assets adversely affect our net income in various ways. 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 would have an adverse impact, which could be material, on our business, financial condition, results of operations and prospects. 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 subject us to various risks and 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.

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.

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, book value per share or 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. In addition, the Pacific Northwest is experiencing intensified consolidation and we face significant competition from numerous other financial services institutions for attractive acquisition candidates, as many of these competitors will have greater financial resources than we do.

Our assumptions regarding the fair value of assets acquired 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 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. If our assumptions are incorrect, significant earnings volatility can occur 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 impact on our business, financial condition, results of operations and prospects.

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Our management of capital could adversely affect profitability measures and the market price of our common stock and could dilute the holders of our outstanding common stock.

Our capital ratios are significantly higher than regulatory minimums. We may lower our capital ratios through either selective acquisitions that meet our disciplined criteria, organic loan growth, investment in securities, or a combination of all three. We continually evaluate opportunities to expand our business through strategic acquisitions. There can be no assurance that we will be able to negotiate future acquisitions on terms acceptable to us. Conversely, there may be circumstances under which it would be prudent to consider alternatives for raising capital to take advantage of significant acquisition opportunities or in response to changing economic conditions. In addition, we may need to raise additional capital in the future to have sufficient capital resources and liquidity to meet our commitments and fund our business needs and future growth, particularly if the quality of our assets or earnings were to deteriorate significantly. We may not be able to raise additional capital when needed on terms acceptable to us or at all. 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 our control, and our financial performance. Further, if we need to raise capital in the future, we may have to do so when many other financial institutions are also seeking to raise capital and would then have to compete with those institutions for investors. An inability to raise additional capital on acceptable terms when needed could have a material adverse effect on our business, financial condition, results of operations and prospects. In addition, any capital raising alternatives could dilute the holders of our outstanding common stock and may adversely affect the market price of our common stock.

If the goodwill we have recorded in connection with acquisitions becomes impaired, it could have a material adverse impact on our earnings and shareholders’ equity.

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-downs, which could have a material adverse impact on our earnings and shareholders’ equity.

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, 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.

Our business depends on our ability to successfully manage credit risk.

The operation of our business requires us to manage credit risk. As a lender, we are exposed to the risk that our borrowers will be unable to repay their loans according to their terms, and that the collateral securing repayment of their loans, if any, may not be sufficient to ensure repayment. In addition, there are risks inherent in making any loan, including risks with respect to the period of time over which the loan may be repaid, risks relating to proper loan underwriting, risks resulting from changes in economic and industry conditions and risks inherent in dealing with individual borrowers. In order to successfully manage credit risk, we must, among other things, maintain disciplined and prudent underwriting standards and ensure that our bankers follow those standards. The weakening of these standards for any reason, such as an attempt to attract higher yielding loans, a lack of discipline or diligence by our employees in underwriting and monitoring loans, the inability of our employees to adequately adapt policies and procedures to changes in economic or any other conditions affecting borrowers and the quality of our loan portfolio, may result in loan defaults, foreclosures and additional charge-offs and may necessitate that we increase our ALLL, each of which could adversely affect our net income. As a result, our inability to successfully manage credit risk could have a material adverse effect on our business, financial condition, results of operations and prospects.

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We operate in a highly regulated environment and changes to 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 SEC. 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 business, financial condition, results of operations and prospects. 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. For example, the Dodd-Frank Act was enacted in July 2010. Among other provisions, the legislation (i) created a new Consumer Financial Protection Bureau (the "CFPB") 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) resulted in new capital requirements from federal banking agencies, (iv) placed new limits on electronic debit card interchange fees and (v) required the SEC and national stock exchanges to adopt significant new corporate governance and executive compensation reforms, some of which have yet to be promulgated. The Dodd-Frank Act and regulations that have been adopted thereunder have increased the overall costs of regulatory compliance, and further Dodd-Frank Act related regulations may lead to additional costs. In addition, the CFPB has broad rulemaking authority and is the principal federal regulatory agency responsible for the supervision and enforcement of a wide range of consumer protection laws for banks with greater than $10 billion in assets.

The New Capital Rules implementing Basel III will be phased in through 2019. The New Capital Rules could have an adverse impact on our financial position and future earnings due to, among other things, the increased capital requirements.

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 national, regional and local economic conditions we are facing. The exercise of regulatory authority may have an adverse impact, which could be material, on our business, financial condition, results of operations and prospects. 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.

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

We will be subject to heightened regulatory requirements if we exceed $10 billion in assets.

It is reasonable to assume that our total assets will exceed $10 billion in the future, based on our historic organic growth rates or if we engage in any acquisitions. The Dodd-Frank Act and its implementing regulations impose various additional requirements on bank holding companies with $10 billion or more in total assets, including compliance with portions of the Federal Reserve's enhanced prudential oversight requirements and annual stress testing requirements. In addition, banks with $10 billion or more in total assets are primarily examined by the CFPB with respect to various federal consumer financial protection laws and regulations. Currently, our bank is subject to regulations adopted by the CFPB, but the FDIC is primarily responsible for examining our bank's compliance with consumer protection laws and those CFPB regulations. As a relatively new agency with evolving regulations and practices, there is uncertainty as to how the CFPB's examination and regulatory authority might impact our business.

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Compliance with these requirements may necessitate that we hire additional compliance or other personnel, design and implement additional internal controls, or incur other significant expenses, any of which could have a material adverse effect on our business, financial condition or results of operations. Compliance with the annual stress testing requirements, part of which must be publicly disclosed, may also be misinterpreted by the market generally or our customers and, as a result, may adversely affect our stock price or our ability to retain our customers or effectively compete for new business opportunities. To ensure compliance with these heightened requirements when effective, our regulators may require us to fully comply with these requirements or take actions to prepare for compliance even before our or the Bank's total assets equal or exceed $10 billion. As a result, we may incur compliance-related costs before we might otherwise be required, including if we do not continue to grow at the rate we expect or at all. Our regulators may also consider our preparation for compliance with these regulatory requirements when examining our operations generally or considering any request for regulatory approval we may make, even requests for approvals on unrelated matters.

We may be required, in the future, to recognize impairment with respect to investment securities.

Our securities portfolio currently includes securities with unrecognized losses. At December 31, 2015, gross unrealized losses in our securities portfolio were $18.3 million. 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. There can be no assurance, however, that future evaluations of the securities portfolio will not require us to recognize 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.

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 and 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, loans and other financial products in our markets. Our inability to effectively compete in our market areas could have a material adverse impact on our business, financial condition, results of operations and prospects.

We may not be able to attract or retain key employees.

Our success depends in significant part on the skills of our management team and our ability to retain, recruit and motivate key officers and employees. We expect our future success to be driven in large part by the relationships maintained with our clients by our executives and other key employees. Leadership changes will occur from time to time, and we cannot predict whether significant resignations will occur or whether we will be able to recruit additional qualified personnel. Competition for senior executives and skilled personnel in the financial services and banking industry is intense, which means the cost of hiring, incentivizing and retaining skilled personnel may continue to increase. We need to continue to attract and retain key personnel and to recruit qualified individuals to succeed existing key personnel to ensure the continued growth and successful operation of our business. The unexpected loss of any such employees, or the inability to recruit and retain qualified personnel in the future, could have a material adverse impact on our business, financial condition, results of operations and prospects.

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Changes in accounting standards could materially impact our financial statements.

From time to time, the Financial Accounting Standards Board (the “FASB”) and the SEC change the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can materially impact how we record and report our financial condition and results of operations.

In December 2012, the FASB proposed amendments to its guidance on the credit impairment of financial instruments. The proposed amendments would introduce a new impairment model based on current expected credit losses (“CECL”) rather than incurred losses. The CECL model would apply to most debt instruments, including loan receivables and loan commitments.

Unlike the incurred loss models in existing GAAP, the CECL model does not specify a threshold for the recognition of an impairment allowance. Rather, the Company would recognize an impairment allowance equal to its current estimate of expected credit losses for financial instruments as of the end of the reporting period. Measuring expected credit losses will most likely be a significant challenge for all entities, including the Company. In addition, to estimate expected credit losses, the Company could incur one-time and recurring costs, some of which may be related to system changes and data collection. Further, the impairment allowance measured under a CECL model could differ materially from the impairment allowance measured under the Company’s incurred loss model. To initially apply the proposed amendments, for most debt instruments, the Company would record a cumulative-effect adjustment to its consolidated balance sheet as of the beginning of the first reporting period in which the guidance is effective (a modified retrospective approach). The FASB anticipates issuing the final standard during the second quarter of 2016. The FASB has not yet indicated an effective date for the final standard.

In February 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-02, Leases. The amendments included in this ASU create a new accounting model for both lessees and lessors. Substantially all of the Company’s leases would be reported on our balance sheet. The Company would recognize a right-of-use asset and a lease liability, initially measured at the present value of lease payments. The recognition pattern generally would depend on whether the leased asset is property or non-property. For non-property, the discount on the lease liability would be recognized as interest separately from the amortization of the right-of-use asset. For property, the Company would recognize a single lease cost, combining the unwinding of the discount on the lease liability with the amortization of the right-of-use asset, on a straight-line basis. On transition, the Company would recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The final standard will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years.

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.

We rely on dividends and other payments from our bank for substantially all of our revenue.

We are a separate and distinct legal entity from the Bank, and we receive substantially all of our operating cash flows from dividends and other payments from the Bank. These dividends and payments are the principal source of funds to pay dividends on our capital stock and interest and principal on any debt we may have. Various federal and state laws and regulations limit the amount of dividends that the Bank may pay to us. Also, our right to participate in a distribution of assets upon a subsidiary’s liquidation or reorganization is subject to the prior claims of the subsidiary’s creditors. In the event the Bank is unable to pay dividends to us, we may not be able to service debt, pay obligations, or pay dividends on our common stock. The inability to receive dividends from the Bank could have a material adverse impact on our business, financial condition, results of operations and prospects.

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Our ability to sustain or improve upon existing performance is dependent upon our ability to respond to technological change, and we may have fewer resources than some of our competitors to continue to invest in technological improvements.

The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Many of our competitors have substantially greater resources to invest in technological improvements than we do. Our future success will depend, in part, upon our ability to address the needs of our clients by using technology to provide products and services that will satisfy client demands for convenience, as well as to create additional efficiencies in our operations. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. In addition, the implementation of technological changes and upgrades to maintain current systems and integrate new ones may also cause service interruptions, transaction processing errors and system conversion delays and may cause us to fail to comply with applicable laws. There can be no assurance that we will be able to successfully manage the risks associated with our increased dependency on technology.

A failure in or breach of our operational or security systems, or those of our third party service providers, including as a result of cyber attacks, could disrupt our business, result in unintentional disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and cause losses.

As a financial institution, our operations rely heavily on the secure processing, storage and transmission of confidential and other information on our computer systems and networks. Any failure, interruption or breach in security or operational integrity of these systems could result in failures or disruptions in our online banking system, customer relationship management, general ledger, deposit and loan servicing and other systems. The security and integrity of our systems could be threatened by a variety of interruptions or information security breaches, including those caused by computer hacking, cyber attacks, electronic fraudulent activity or attempted theft of financial assets. We cannot assure you that any such failures, interruption or security breaches will not occur, or if they do occur, that they will be adequately addressed. While we have certain protective policies and procedures in place, the nature and sophistication of the threats continue to evolve. We may be required to expend significant additional resources in the future to modify and enhance our protective measures.

Additionally, we face the risk of operational disruption, failure, termination or capacity constraints of any of the third parties that facilitate our business activities, including exchanges, clearing agents, clearing houses or other financial intermediaries. Such parties could also be the source of an attack on, or breach of, our operational systems. Any failures, interruptions or security breaches in our information systems could damage our reputation, result in a loss of customer business, result in a violation of privacy or other laws, or expose us to civil litigation, regulatory fines or losses not covered by insurance, all of which could have a material adverse impact on our business, financial condition, results of operations and prospects.

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, which could adversely affect our business, prospects, results of operations and financial condition. Substantial legal liability or significant regulatory action against us could cause significant reputational harm to us and/or could have a material adverse impact on our business, financial condition, results of operations and prospects.

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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 have a material adverse impact on our business, financial condition, results of operations and prospects.

Our business is subject to the risks of earthquakes, tsunamis, floods, fires and other natural catastrophic events.

A major catastrophe, such as an earthquake, tsunami, flood, fire or other natural disaster could result in a prolonged interruption of our business. For example, our headquarters are located in Tacoma, Washington and we have operations throughout the Pacific Northwest, a geographical region that has been or may be affected by earthquake, tsunami and flooding activity. The occurrence of any of these natural disasters could negatively impact our performance by disrupting our operations or damaging our facilities, which could have a material adverse effect on our financial condition, results of operations and cash flows.

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 properties include our corporate headquarters which is located at 13th & A Street, Tacoma, Washington, two operations facilities in Lakewood, Washington and one operations facility in Wilsonville, Oregon. The Company's branch network as of December 31, 2015 is made up of 149 branches located throughout several Washington, Oregon and Idaho counties compared to 154 branches at December 31, 2014. The number of branches per state, as well as whether they are owned or operated under a lease agreement is detailed in the following table.

	Number of Branches	Occupancy Type	
		Owned	Leased
Washington branches	74	58	16
Oregon branches	59	28	31
Idaho branches	16	10	6
Total Columbia Bank branches	149	96	53

For additional information concerning our premises and equipment and lease obligations, see Notes 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 subsidiaries are party to routine litigation arising in the ordinary course of business. Management believes that, based on information currently known to it, any liabilities arising from such litigation will not have a material adverse impact on the Company's financial conditions, results of operations or cash flows.

ITEM 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

The Company's 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		
2015	High	Low	Regular	Special	Total Cash Dividends Declared
First quarter	$29.48	$24.60	$0.16	$0.14	$0.30
Second quarter	$33.39	$28.28	0.18	0.16	0.34
Third quarter	$33.70	$28.63	0.18	0.16	0.34
Fourth quarter	$36.27	$29.52	0.18	0.18	0.36
For the year	$36.27	$24.60	$0.70	$0.64	$1.34

			Cash Dividends Declared		
2014	High	Low	Regular	Special	Total Cash Dividends Declared
First quarter	$30.36	$24.75	$0.12	$—	$0.12
Second quarter	$29.31	$25.68	0.12	0.12	0.24
Third quarter	$27.13	$24.50	0.14	0.14	0.28
Fourth quarter	$28.71	$23.90	0.16	0.14	0.30
For the year	$30.36	$23.90	$0.54	$0.40	$0.94

On December 31, 2015, the last sale price for our stock on the NASDAQ Global Select Market was $32.51. At January 31, 2016, the number of shareholders of record was 2,875. 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, 2015, a total of 44,686 stock options were outstanding. Additional information about stock options and other equity compensation plans is included in Note 22 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 of directors and subject to a number of factors, including results of operations, general business conditions, growth, financial condition and other factors deemed relevant to capital management strategies 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 28, 2016, the Company declared a quarterly cash dividend of $0.18 per share and common share equivalent for holders of preferred stock, and a special cash dividend of $0.20 per common share and common share equivalent for holders of preferred stock, both payable on February 24, 2016, to shareholders of record at the close of business on February 10, 2016.

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Equity Compensation Plan Information

The following table provides information as of December 31, 2015, regarding securities issued and to be issued under our equity compensation plans that were in effect during 2015:

	Year Ended December 31, 2015		
	Number of Shares to be Issued Upon Exercise of Outstanding Options and Rights (1)	Weighted-Average Exercise Price of Outstanding Options and Rights	Number of Shares Remaining Available for Future Issuance Under Equity Compensation Plans (2)
Equity compensation plans approved by security holders	44,686	$ 57.26	1,959,820
Equity compensation plans not approved by security holders	—	—	—

(1) Includes shares to be issued upon exercise of options under the West Coast Bancorp plan, which was assumed as a result of the West Coast acquisition.

(2) Includes 1,460,210 shares available for future issuance under the current stock option and equity compensation plan and 499,610 shares available for purchase under the Employee Stock Purchase Plan as of December 31, 2015.

The following table provides information about repurchases of common stock by the Company during the quarter ended December 31, 2015:

Period	Total Number of Common Shares Purchased (1)	Average Price Paid per Common Share	Total number of Shares Purchased as Part of Publicly Announced Plan (2)	Maximum Number of Remaining Shares That May Be Purchased at Period End Under the Plan (2)
10/1/2015 - 10/31/2015	413	$ 31.82	—	—
11/1/2015 - 11/30/2015	—	—	—	—
12/1/2015 - 12/31/2015	430	32.44	—	—
	843	$ 32.13	—	

(1) Common shares repurchased by the Company during the quarter relate to shares withheld to pay taxes due upon vesting of restricted stock.

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

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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), the SNL Bank NASDAQ (comprised of banks and bank holding companies listed on the NASDAQ Stock Market) and the KBW Regional Banking Index (comprised of 50 banks and bank holding companies headquartered throughout the country, including Columbia). As the KBW Regional Banking Index is used frequently by management and investors when comparing Columbia's stock performance to that of similarly sized institutions, the comparison to the SNL Bank NASDAQ that we have used in the past is being replaced by a comparison to the KBW Regional Banking Index going forward.

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 Composite, the SNL Bank NASDAQ and the KBW Regional Banking Index was $100 on December 31, 2010, and that all dividends were reinvested.

Index	Period Ending					
	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015
Columbia Banking System, Inc.	100.00	92.92	90.94	141.85	147.77	181.64
NASDAQ Composite	100.00	99.21	116.82	163.75	188.03	201.40
KBW Regional Banking Index	100.00	94.85	107.43	157.74	161.57	171.25
SNL Bank NASDAQ	100.00	88.73	105.75	152.00	157.42	169.94

Sources: SNL Financial LC, Charlottesville, VA and Bloomberg LP, New York City, NY

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ITEM 6. SELECTED FINANCIAL DATA

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

	2015	2014	2013	2012	2011
	(dollars in thousands except per share amounts)				
For the Year					
Interest income	$328,891	$308,042	$296,935	$248,504	$251,271
Interest expense	$4,004	$3,994	$5,840	$9,577	$14,535
Net interest income	$324,887	$304,048	$291,095	$238,927	$236,736
Provision (recapture) for loan and lease losses	$8,591	$6,727	$(101)	$39,367	$5,752
Noninterest income (loss)	$91,473	$59,750	$26,700	$27,058	$(9,283)
Noninterest expense	$266,149	$239,286	$230,886	$162,913	$155,759
Net income	$98,827	$81,574	$60,016	$46,143	$48,037
Net income applicable to common shareholders	$98,690	$81,478	$59,984	$46,143	$48,037
Per Common Share					
Earnings (Basic)	$1.71	$1.53	$1.24	$1.16	$1.22
Earnings (Diluted)	$1.71	$1.52	$1.21	$1.16	$1.21
Book Value	$21.48	$21.34	$20.50	$19.25	$19.23
Averages					
Total assets	$8,655,243	$7,468,091	$6,558,517	$4,826,283	$4,509,010
Interest-earning assets	$7,685,734	$6,561,047	$5,754,543	$4,246,724	$3,871,424
Loans	$5,609,261	$4,782,369	$4,140,826	$2,900,520	$2,607,266
Securities, including Federal Home Loan Bank stock	$2,031,859	$1,708,575	$1,474,744	$1,011,294	$928,891
Deposits	$7,146,828	$6,187,342	$5,420,577	$3,875,666	$3,541,399
Shareholders' equity	$1,246,952	$1,109,581	$979,099	$761,185	$730,726
Financial Ratios					
Net interest margin (tax equivalent)	4.35 %	4.76 %	5.16 %	5.77 %	6.27 %
Return on average assets	1.14 %	1.09 %	0.92 %	0.96 %	1.07 %
Return on average common equity	7.93 %	7.36 %	6.14 %	6.06 %	6.57 %
Average equity to average assets	14.41 %	14.86 %	14.93 %	15.77 %	16.21 %
At Year End					
Total assets	$8,951,697	$8,578,846	$7,161,582	$4,906,335	$4,785,945
Loans	$5,815,027	$5,445,378	$4,517,296	$2,947,103	$2,885,244
Allowance for loan and lease losses	$68,172	$69,569	$72,454	$82,300	$57,985
Securities, including Federal Home Loan Bank stock	$2,170,416	$2,131,622	$1,696,640	$1,023,484	$1,050,325
Deposits	$7,438,829	$6,924,722	$5,959,475	$4,042,085	$3,815,529
Core deposits	$7,127,866	$6,619,944	$5,696,357	$3,802,366	$3,510,435
Shareholders' equity	$1,242,128	$1,228,175	$1,053,249	$764,008	$759,338
Nonperforming Assets					
Nonaccrual loans	$21,464	$31,352	$34,015	$37,395	$53,483
Other real estate owned and other personal property owned	13,738	22,225	36,037	27,464	60,030
Total nonperforming assets	$35,202	$53,577	$70,052	$64,859	$113,513
Nonperforming loans to year end loans	0.37 %	0.58 %	0.75 %	1.27 %	1.85 %
Nonperforming assets to year end assets	0.39 %	0.62 %	0.98 %	1.32 %	2.37 %

Allowance for loan and lease losses to year end loans	1.17	%	1.28	%	1.60	%	2.79	%	2.01	%
Net loan charge-offs	$9,988		$9,612		$9,745		$15,052		$14,815	
Other nonfinancial data										
Full-time equivalent employees	1,868		1,934		1,695		1,198		1,256	
Banking branches	149		154		142		99		102	

(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.

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Consolidated Five-Year Financial Data (1)

	Years ended December 31,				
	2015	2014	2013	2012	2011
	(in thousands, except per share amounts)				
Interest Income:					
Loans	$286,166	$268,279	$266,284	$219,433	$218,420
Taxable securities	30,774	28,754	20,459	18,276	21,870
Tax-exempt securities	11,842	10,830	9,837	9,941	10,142
Deposits in banks	109	179	355	854	839
Total interest income	328,891	308,042	296,935	248,504	251,271
Interest Expense:					
Deposits	2,977	3,005	3,962	5,887	10,478
Federal Home Loan Bank advances	474	396	(404)	2,608	2,980
Prepayment charge on Federal Home Loan Bank advances	—	—	1,548	603	—
Long-term obligations	—	—	—	—	579
Other borrowings	553	593	734	479	498
Total interest expense	4,004	3,994	5,840	9,577	14,535
Net Interest Income	324,887	304,048	291,095	238,927	236,736
Provision (recapture) for loan and lease losses	8,591	6,727	(101)	39,367	5,752
Net interest income after provision (recapture) for loan and lease losses	316,296	297,321	291,196	199,560	230,984
Noninterest income (loss)	91,473	59,750	26,700	27,058	(9,283)
Noninterest expense	266,149	239,286	230,886	162,913	155,759
Income before income taxes	141,620	117,785	87,010	63,705	65,942
Provision for income taxes	42,793	36,211	26,994	17,562	17,905
Net Income	$98,827	$81,574	$60,016	$46,143	$48,037
Less: Dividends on preferred stock	137	96	32	—	—
Net Income Applicable to Common Shareholders	$98,690	$81,478	$59,984	$46,143	$48,037
Per Common Share					
Earnings basic	$1.71	$1.53	$1.24	$1.16	$1.22
Earnings diluted	$1.71	$1.52	$1.21	$1.16	$1.21
Average number of common shares outstanding (basic)	57,019	52,618	47,993	39,260	39,103
Average number of common shares outstanding (diluted)	57,032	53,183	49,051	39,263	39,180
Total assets at year end	$8,951,697	$8,578,846	$7,161,582	$4,906,335	$4,785,945
Cash dividends declared per common share	$1.34	$0.94	$0.41	$0.98	$0.27

(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.

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Selected Quarterly Financial Data (1)

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

(1) 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.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 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 loss experience over a historical base period, estimated loss emergence period, 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. These qualitative factors have a high degree of subjectivity. 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 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.

Purchased Credit Impaired Loans

Loans acquired at a discount for which it is probable that all contractual payments will not be received are generally accounted for under ASC Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality (“ASC 310-30”). In addition, certain purchased 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, and 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, purchased credit 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 $382.8 million of our $8.95 billion in total assets as of December 31, 2015. The Company has a, single reporting unit. We review goodwill for impairment annually, during the third quarter, 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.

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. When required, the goodwill impairment test involves a two-step process. In step one, we would 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 and industry factors and the growth and earnings prospects of the Bank. 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 as our single reporting unit’s fair value exceeded its carrying amount. As of December 31, 2015, we determined there were no events or circumstances which would more likely than not reduce the fair value of our reporting unit below its carrying amount.

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

Reclassifications

Certain amounts in the 2014 financial statements have been reclassified to conform to the current year's presentation. These reclassifications were within operating cash flows in the statement of cash flows, with no effect on reported cash flows from operations.

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2015 Financial Summary

Income Statement

- Consolidated net income for 2015 was $98.8 million, or $1.71 per diluted common share, compared with net income of $81.6 million, or $1.52 per diluted common share, in 2014.

Net interest income for 2015 increased 7% to $324.9 million compared to $304.0 million for 2014. Interest income was $328.9 million in 2015, compared to $308.0 million in 2014. The increase was primarily due to higher loan and securities balances, partially offset by lower earning rates. Interest expense remained relatively flat compared to 2014, despite higher average interest-bearing liability balances.

Provision expense on loans was $8.6 million in 2015, compared to provision expense of $6.7 million in 2014. The loan provision for the current year was driven by growth in the loan portfolio and net charge-offs.

Noninterest income was $91.5 million for 2015, an increase from $59.8 million for 2014. The increase was due to lower charge recorded in 2015 for the FDIC loss-sharing asset as well as an increase of $6.3 million in service charges and other fees compared to 2014.

Noninterest expense increased $26.9 million, or 11% to $266.1 million for 2015 due to additional ongoing noninterest expense resulting from the fourth quarter 2014 acquisition of Intermountain Community Bancorp (“Intermountain”).

Balance Sheet

- Total assets at December 31, 2015 were $8.95 billion, up 4% from $8.58 billion at the end of 2014.
- The Company is well capitalized with a total risk-based capital ratio of 12.94% at December 31, 2015.

Investment securities available for sale at December 31, 2015 were $2.16 billion, up 3% from $2.10 billion at December 31, 2014.

Loans were $5.82 billion, an increase of 7% from $5.45 billion at the end of 2014. The increase from December 31, 2014 was due to strong loan originations during 2015.

The allowance for loan and lease losses decreased slightly to $68.2 million at December 31, 2015 compared to $69.6 million at December 31, 2014 due to improved loan quality on a larger loan portfolio. The Company’s allowance was 1.17% of total loans, compared with 1.28% at the end of 2014.

Nonperforming assets totaled $35.2 million at December 31, 2015, down from $53.6 million at December 31, 2014. The decrease in nonperforming assets was due to a $9.9 million decrease in nonaccrual loans and an $8.5 million decrease in Other Real Estate Owned (“OREO”) and Other Personal Property Owned (“OPPO”) balances. Nonperforming assets to year end assets decreased to 0.39% at December 31, 2015 compared to 0.62% at December 31, 2014.

Deposits totaled $7.44 billion at December 31, 2015 compared to $6.92 billion at December 31, 2014.

Core deposits totaled $7.13 billion at December 31, 2015, compared to $6.62 billion at December 31, 2014 and held steady at 96% of total deposits at December 31, 2015 and 2014.

Federal Home Loan Bank advances were $68.5 million at December 31, 2015, a decrease of $148.0 million compared to December 31, 2014.

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Business Combinations

On November 1, 2014, the Company completed its acquisition of Intermountain. The Company acquired approximately $964.4 million in assets, including $502.6 million in loans measured at fair value and $736.8 million in deposits. See Note 2 to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this report for further information regarding this acquisition.

On April 1, 2013, the Company completed its acquisition of West Coast. The Company acquired approximately $2.63 billion in assets, including $1.41 billion in loans measured at fair value and $1.88 billion in deposits. See Note 2 to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this report for further information regarding this acquisition.

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 2015	Increase (Decrease) Amount	%	Year ended 2014	Increase (Decrease) Amount	%	Years ended December 31, 2013	2012	2011
	(dollars in thousands, except per share amounts)								
Interest income	$328,891	$20,849	7	$308,042	$11,107	4	$296,935	$248,504	$251,271
Interest expense	4,004	10	—	3,994	(1,846)	(32)	5,840	9,577	14,535
Net interest income	324,887	20,839	7	304,048	12,953	4	291,095	238,927	236,736
Provision (recapture) for loan and lease losses	8,591	1,864	28	6,727	6,828	(6,760)	(101)	39,367	5,752
Noninterest income (loss)	91,473	31,723	53	59,750	33,050	124	26,700	27,058	(9,283)
Noninterest expense:									
Compensation and employee benefits	149,410	18,546	14	130,864	5,432	4	125,432	85,434	81,552
Other expense	116,739	8,317	8	108,422	2,968	3	105,454	77,479	74,207
Total	266,149	26,863	11	239,286	8,400	4	230,886	162,913	155,759
Income before income taxes	141,620	23,835	20	117,785	30,775	35	87,010	63,705	65,942
Provision for income taxes	42,793	6,582	18	36,211	9,217	34	26,994	17,562	17,905
Net income	$98,827	$17,253	21	$81,574	$21,558	36	$60,016	$46,143	$48,037
Less: earnings allocated to participating securities	1,250	313	33	937	319	52	618	443	450
Earnings allocated to common shareholders	$97,577	$16,940	21	$80,637	$21,239	36	$59,398	$45,700	$47,587

Earnings per common share, diluted	$1.71	$0.19	13	$1.52	$0.31	26	$1.21	$1.16	$1.21

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 cost of 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

	2015			2014			2013		
	Average Balances	Interest Earned/ Paid	Average Rate	Average Balances	Interest Earned/ Paid	Average Rate	Average Balances	Interest Earned/ Paid	Average Rate
	(dollars in thousands)								
ASSETS									
Loans, net (1)(2)(4)	$5,609,261	$289,450	5.16 %	$4,782,369	$270,210	5.65 %	$4,140,826	$266,903	6.45 %
Taxable securities (3)	1,577,711	30,774	1.95 %	1,332,144	28,754	2.16 %	1,155,066	20,459	1.77 %
Tax exempt securities (4)	454,148	18,219	4.01 %	376,431	16,997	4.52 %	319,678	15,262	4.77 %
Interest-earning deposits with banks	44,614	109	0.24 %	70,103	179	0.26 %	138,973	355	0.26 %
Total interest-earning assets	7,685,734	338,552	4.40 %	6,561,047	316,140	4.82 %	5,754,543	302,979	5.27 %
Other earning assets	149,476			132,419			111,228		
Noninterest-earning assets	820,033			774,625			692,746		
Total assets	$8,655,243			$7,468,091			$6,558,517		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Certificates of deposit	$483,193	$868	0.18 %	$485,487	$1,259	0.26 %	$535,656	$1,998	0.37 %
Savings accounts	637,464	70	0.01 %	543,303	60	0.01 %	445,666	94	0.02 %
Interest-bearing demand	982,491	612	0.06 %	1,204,584	478	0.04 %	1,048,482	587	0.06 %
Money market accounts	1,834,733	1,427	0.08 %	1,668,150	1,208	0.07 %	1,566,539	1,283	0.08 %
Total interest-bearing deposits	3,937,881	2,977	0.08 %	3,901,524	3,005	0.08 %	3,596,343	3,962	0.11 %
Federal Home Loan Bank advances (5)	70,678	474	0.67 %	44,876	396	0.88 %	51,030	1,144	2.24 %
Other borrowings and interest-bearing liabilities	88,924	553	0.62 %	39,617	593	1.50 %	35,772	734	2.05 %
Total interest-bearing liabilities	4,097,483	4,004	0.10 %	3,986,017	3,994	0.10 %	3,683,145	5,840	0.16 %
Noninterest-bearing deposits	3,208,947			2,285,818			1,824,234		
Other noninterest-bearing	101,861			86,675			72,039		

liabilities								
Shareholders’ equity	1,246,952			1,109,581			979,099	
Total liabilities & shareholders’ equity	$8,655,243			$7,468,091			$6,558,517	
Net interest income (tax equivalent)		$334,548			$312,146			$297,139
Net interest spread (tax equivalent)		4.30 %			4.72 %			5.11 %
Net interest margin (tax equivalent)		4.35 %			4.76 %			5.16 %
Average interest-earning assets to average interest-bearing liabilities		187.57 %			164.60 %			156.24 %

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(1) Nonaccrual loans have been included in the table as loans carrying a zero yield. Amortized net deferred loan fees and unearned net discounts on acquired loans were included in the interest income calculations. The amortization of net deferred loan fees was $4.9 million in 2015, $4.5 million in 2014 and $3.3 million in 2013. The accretion of net unearned discounts on certain acquired loans was $18.1 million in 2015, $21.6 million in 2014, and $28.4 million in 2013.

(2) Incremental accretion on purchased credit impaired loans is also included in loan interest earned. The incremental accretion income on purchased credit impaired loans was $9.1 million in 2015, $20.2 million in 2014 and $29.8 million in 2013.

(3) During the twelve months ended December 31, 2014, the Company recorded a $2.6 million reversal of premium amortization, which increased interest income on taxable securities.

(4) Yields on fully taxable equivalent basis. The tax equivalent yield adjustment to interest earned on loans was $3.3 million, $1.9 million and $619 thousand for the years ended December 31, 2015, 2014, and 2013, respectively. The tax equivalent yield adjustment to interest earned on tax exempt securities was $6.4 million, $6.2 million and $5.4 million for the years ended December 31, 2015, 2014, and 2013, respectively.

(5) Federal Home Loan Bank advances include prepayment charges of $1.5 million in 2013. No prepayment charges were recorded on Federal Home Loan Bank advances during 2015 or 2014. As a result of the 2013 prepayment, the Company recorded $874 thousand in premium amortization, which partially offset the impact of the prepayment charge.

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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 2015 and 2014, as well as between 2014 and 2013 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

	2015 Compared to 2014 Increase (Decrease) Due to			2014 Compared to 2013 Increase (Decrease) Due to		
	Volume	Rate	Total	Volume	Rate	Total
	(in thousands)					
Interest Income						
Loans, net	$44,022	$(24,782)	$19,240	$38,511	$(35,204)	$3,307
Taxable securities	4,964	(2,944)	2,020	3,420	4,875	8,295
Tax-exempt securities	3,255	(2,033)	1,222	2,598	(863)	1,735
Interest earning deposits with banks	(61)	(9)	(70)	(177)	1	(176)
Interest income	$52,180	$(29,768)	$22,412	$44,352	$(31,191)	$13,161
Interest Expense						
Deposits:						
Certificates of deposit	$(6)	$(385)	$(391)	$(174)	$(565)	$(739)
Savings accounts	11	(1)	10	17	(51)	(34)
Interest-bearing demand	(100)	234	134	79	(188)	(109)
Money market accounts	125	94	219	80	(155)	(75)
Total interest on deposits	30	(58)	(28)	2	(959)	(957)
Federal Home Loan Bank advances	189	(111)	78	(117)	(631)	(748)
Other borrowings and interest-bearing liabilities	(74)	34	(40)	80	(221)	(141)
Interest expense	$145	$(135)	$10	$(35)	$(1,811)	$(1,846)
	$52,035	$(29,633)	$22,402	$44,387	$(29,380)	$15,007

The following table shows the impact to interest income of incremental accretion income as well as the net interest margin and operating net interest margin for the periods presented:

	Year Ended December 31, 2015	Year Ended December 31, 2014	Year Ended December 31, 2013
	(in thousands)		
Incremental accretion income due to:			
FDIC purchased credit impaired loans	$9,096	$20,224	$29,815
Other FDIC acquired loans	234	484	2,211
Other acquired loans	17,862	21,093	26,200
Total incremental accretion income	$27,192	$41,801	$58,226
Net interest margin (tax equivalent)	4.35 %	4.76 %	5.16 %
Operating net interest margin (tax equivalent) (1)	4.15 %	4.21 %	4.32 %

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

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Comparison of 2015 with 2014
Taxable-equivalent net interest income totaled $334.5 million in 2015, compared with $312.1 million for 2014. The increase in net interest income during 2015 resulted from the increase in the size of the loan and securities portfolios, partially offset by lower incremental accretion on acquired loans as well as lower yields on loans and securities. The incremental accretion income represents the amount of income recorded on the acquired loans above the contractual rate stated in the individual loan notes. The additional interest income stems from the net discount established at the time these loan portfolios were acquired.
The Company’s net interest margin (tax equivalent) decreased from 4.76% for the year ended December 31, 2014 to 4.35% for the current year due primarily to the decreased impact of accretion income on the loan portfolio as well as lower yields on loans and securities. The Company’s operating net interest margin (tax equivalent) decreased from 4.21% for the year ended December 31, 2014 to 4.15% for the current year due to lower rates on loans due to the overall decreasing trend in rates.
For a discussion of the methodologies used by management in recording interest income on loans, please see “Critical Accounting Policies” section of this discussion and Note 1 to the Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data” of this report.
Comparison of 2014 with 2013
Taxable-equivalent net interest income totaled $312.1 million in 2014, compared with $297.1 million for 2013. The increase in net interest income during 2014 resulted from the increase in the size of the loan portfolio as well as lower rates paid on deposits. These increases were partially offset by lower incremental accretion on acquired loans. The incremental accretion income represents the amount of income recorded on the acquired loans above the contractual rate stated in the individual loan notes. The additional income stems from the discount established at the time these loan portfolios were acquired, and increases net interest income.
The Company’s net interest margin (tax equivalent) decreased from 5.16% for the year ended December 31, 2013 to 4.76% for the year ended December 31, 2014 due to the decreased impact of accretion income on the loan portfolio. The Company’s operating net interest margin (tax equivalent) decreased from 4.32% in 2013 to 4.21% for 2014. The decrease was due to the combination of lower rates on loans as well as securities due to the overall decreasing trend in rates.
Provision for Loan and Lease Losses
The Company accounts for the credit risk associated with lending activities through its allowance for loan and lease losses and provision for loan and lease losses. The provision is the expense recognized in the consolidated statements of income to adjust the allowance to the levels deemed appropriate by management, as determined through its application of the Company’s allowance methodology procedures. For discussion of the methodology used by management in determining the adequacy of the ALLL see the “Allowance for Loan and Lease Losses and Unfunded Commitments and Letters of Credit” and “Critical Accounting Policies” sections of this discussion.
The Company recorded provision expense of $8.6 million and $6.7 million in 2015 and 2014, respectively and a provision recapture of $101 thousand in 2013. The provision recorded in 2015 reflects management’s ongoing assessment of the credit quality of the Company’s loan portfolio, which is impacted by various economic trends. Additional factors affecting the provision include net charge-offs, credit quality migration, size and composition of the loan portfolio and changes in the economic environment during the period. See “Allowance for Loan and Lease Losses and Unfunded Commitments and Letters of Credit” section of this discussion for further information on factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for loan and lease losses.
For the years ended December 31, 2015, 2014 and 2013, net loan charge-offs amounted to $10.0 million, $9.6 million, and $9.7 million, respectively.

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Noninterest Income

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

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

Comparison of 2015 with 2014

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

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

Comparison of 2014 with 2013

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

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

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

Comparison of 2015 with 2014

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

Comparison of 2014 with 2013

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

Noninterest Expense

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

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

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

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

Comparison of 2015 with 2014

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

Comparison of 2014 with 2013

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

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

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

Comparison of 2015 with 2014

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

Comparison of 2014 with 2013

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

Income Tax

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

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Financial Condition

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

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

Investment Portfolio

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

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

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

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

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

(2) Yields on fully taxable equivalent basis.

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

Federal Home Loan Bank Stock

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

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

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

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Loan Portfolio

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

	December 31,									
	2015	% of Total	2014	% of Total	2013	% of Total	2012	% of Total	2011	% of Tota
	(dollars in thousands)									
Commercial business	$2,362,575	40.6 %	$2,119,565	38.9 %	$1,561,782	34.6 %	$1,155,158	39.2 %	$1,031,721	35.8
Real estate:										
One-to-four family residential	176,295	3.0 %	175,571	3.2 %	108,317	2.4 %	43,922	1.5 %	64,491	2.2
Commercial and multifamily residential	2,491,736	42.9 %	2,363,541	43.5 %	2,080,075	46.0 %	1,061,201	36.0 %	998,165	34.6
Total real estate	2,668,031	45.9 %	2,539,112	46.7 %	2,188,392	48.4 %	1,105,123	37.5 %	1,062,656	36.8
Real estate construction:										
One-to-four family residential	135,874	2.3 %	116,866	2.1 %	54,155	1.2 %	50,602	1.7 %	50,208	1.7
Commercial and multifamily residential	167,413	2.9 %	134,443	2.5 %	126,390	2.8 %	65,101	2.2 %	36,768	1.3
Total real estate construction	303,287	5.2 %	251,309	4.6 %	180,545	4.0 %	115,703	3.9 %	86,976	3.0
Consumer	342,601	5.9 %	364,182	6.7 %	357,014	7.9 %	157,493	5.4 %	183,235	6.4
Purchased credit impaired	$180,906	3.1 %	$230,584	4.2 %	$297,845	6.6 %	$421,393	14.3 %	$536,873	18.6
Subtotal	5,857,400	100.7 %	5,504,752	101.1 %	4,585,578	101.5 %	2,954,870	100.3 %	2,901,461	100.
Less: Net unearned income	(42,373)	(0.7)%	(59,374)	(1.1)%	(68,282)	(1.5)%	(7,767)	(0.3)%	(16,217)	(0.6
Loans, net of unearned income (before Allowance for Loan and Lease Losses)	5,815,027	100.0 %	5,445,378	100.0 %	4,517,296	100.0 %	2,947,103	100.0 %	2,885,244	100.
	$4,509		$1,116		$735		$2,563		$2,148	

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

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

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

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

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

Maturities and Sensitivities of Loans to Changes in Interest Rates

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

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

Risk Elements

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

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

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

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

Nonperforming Assets

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

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

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

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

At December 31, 2015, nonperforming loans decreased to 0.37% of year end loans, down from 0.58% of year end loans at December 31, 2014. The largest decline in nonperforming loans was in commercial business loans, which decreased from $16.8 million, or 54% of nonperforming loans at December 31, 2014 to $9.4 million, or 44% of nonperforming loans at year end 2015. The decrease in nonperforming commercial business loans was primarily due to working through the nonaccrual loans acquired in our three most recent bank acquisitions.

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

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

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

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

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

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

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

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

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

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

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

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

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

Loans, excluding Purchased Credit Impaired Loans

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

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

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

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

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

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

Purchased Credit Impaired Loans

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

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Analysis of the ALLL

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

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

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

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

(1) Excludes loans held for sale.

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

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

Allocation of the ALLL

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

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

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

FDIC Loss-sharing Asset

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

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

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

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

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

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

Deposits

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

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

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

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

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

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

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

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

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

Borrowings

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

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

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

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

The following table sets forth additional details of FHLB advances:

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

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

Off-Balance Sheet Arrangements

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

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

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

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

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

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(1) In the banking industry, interest-bearing obligations are principally used to fund interest-earning assets. As such, interest charges on contractual obligations were excluded from reported amounts, as the potential cash outflows would have corresponding cash inflows from interest-earning assets.
For additional information regarding future financial commitments, see Note 17 to our Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data” of this report.
Liquidity and Sources of Funds
In general, our primary sources of funds are net income, loan repayments, maturities and principal payments on investment securities, customer deposits, advances from the FHLB, securities repurchase agreements and other borrowings. These funds are used to make loans, purchase investments, meet deposit withdrawals and maturing liabilities and cover operational expenses. Scheduled loan repayments and core deposits have proved to be a relatively stable source of funds while other deposit inflows and unscheduled loan prepayments are influenced by interest rate levels, competition and general economic conditions. We manage liquidity through monitoring sources and uses of funds on a daily basis and had unused credit lines with the FHLB and the FRB of $1.33 billion and $85.4 million, respectively, at December 31, 2015, that are available to us as a supplemental funding source. The holding company’s sources of funds are dividends from its banking subsidiary which are used to fund dividends to shareholders and cover operating expenses.
In addition, we have a shelf registration statement on file with the Securities and Exchange Commission registering an unlimited amount of any combination of debt or equity securities, depositary shares, purchase contracts, units and warrants in one or more offerings. Specific information regarding the terms of and the securities being offered will be provided at the time of any offering. Proceeds from any future offerings are expected to be used for general corporate purposes, including, but not limited to, the repayment of debt, repurchasing or redeeming outstanding securities, working capital, funding future acquisitions or other purposes identified at the time of any offering.
Capital
Our shareholders’ equity increased to $1.24 billion at December 31, 2015, from $1.23 billion at December 31, 2014. Shareholders’ equity was 13.88% and 14.32% of total assets at December 31, 2015 and 2014.
Regulatory Capital. In July 2013, the federal bank regulators approved the New Capital Rules (as discussed in “Item 1. Business—Supervision and Regulation and —Regulatory Capital Requirements”), which implement the Basel III capital framework and various provisions of the Dodd-Frank Act. We and the Bank were required to comply with these rules as of January 1, 2015, subject to the phase-in of certain provisions. We believe that, as of December 31, 2015, we and the Bank would meet all capital adequacy requirements under the New Capital Rules on a fully phased-in basis as if all such requirements were then in effect. Banking regulations in effect prior to January 1, 2015 required bank holding companies to maintain a minimum “leverage” ratio of core capital to adjusted quarterly average total assets of at least 3%. In addition, banking regulators maintained risk-based capital guidelines, under which risk percentages were assigned to various categories of assets and off-balance sheet items to calculate a risk-adjusted capital ratio. Tier I

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

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

The following table sets forth the Company’s and its banking subsidiary’s capital ratios at December 31, 2015 and 2014 under the then applicable guidance and rules and the requirements for each period:

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

Dividends

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

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

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

For quarterly detail of dividends declared during 2015 and 2014, including special dividends declared, see “Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities” of this report.

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

Applicable federal and Washington state regulations restrict capital distributions, including dividends, by the Company’s banking subsidiary. Such restrictions are tied to the institution’s capital levels after giving effect to distributions. Our ability to pay cash dividends is substantially dependent upon receipt of dividends from the Bank. In addition, the payment of cash dividends is subject to Federal regulatory requirements for capital levels and other restrictions. In this regard, current guidance from the Federal Reserve provides, among other things, that dividends per share on the Company’s common stock generally should not exceed earnings per share, measured over the previous four fiscal quarters.

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

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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. The Company encourages readers to consider its consolidated financial statements in their entirety and not to rely on any single financial measure.

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

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The Company also considers operating net interest margin (tax equivalent) to be an important measurement as it more closely reflects the ongoing operating performance of the Company. Additionally, presentation of the operating net interest margin allows readers to compare certain aspects of the Company's net interest margin to other organizations. Despite the importance of the operating net interest margin to the Company, there is no standardized definition for it and, as a result, the Company's calculations may not be comparable with other organizations. The Company encourages readers to consider its consolidated financial statements in their entirety and not to rely on any single financial measure.

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

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

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(1) Tax-exempt interest income has been adjusted to a tax equivalent basis. The amount of such adjustment was an addition to net interest income of $9.7 million, $8.1 million and $6.0 million for the years ended December 31, 2015, 2014 and 2013, respectively.

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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.

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

Interest Rate Risk Sensitivity

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

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

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

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

The estimates for net interest income sensitivity and interest rate gap could be significantly affected by external factors such as changes in prepayment assumptions, early withdrawal of deposits and competition. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while other types may lag changes in market interest rates.

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

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

Impact of Inflation and Changing Prices

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

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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, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

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

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

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COLUMBIA BANKING SYSTEM, INC.
CONSOLIDATED BALANCE SHEETS

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

See accompanying Notes to Consolidated Financial Statements.

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COLUMBIA BANKING SYSTEM, INC.
CONSOLIDATED STATEMENTS OF INCOME

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

See accompanying Notes to Consolidated Financial Statements.

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COLUMBIA BANKING SYSTEM, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

See accompanying Notes to Consolidated Financial Statements.

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

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

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

See accompanying Notes to Consolidated Financial Statements.

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COLUMBIA BANKING SYSTEM, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

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

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

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

See accompanying Notes to Consolidated Financial Statements.

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

1. Summary of Significant Accounting Policies

Organization

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

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

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

Consolidation

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

Cash and cash equivalents

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

Securities

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

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

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the consolidated statements of income with a reduction for the amount of other-than-temporary impairment that is recognized in other comprehensive income, if any.
Realized gains or losses on sales of securities available for sale are recorded using the specific identification method.
Federal Home Loan Bank Stock
Effective May 31, 2015, the Federal Home Loan Bank of Des Moines (the “FHLB Des Moines”) completed its merger with the Federal Home Loan Bank of Seattle (the “FHLB Seattle”). At closing, the FHLB Seattle merged with and into the FHLB Des Moines, with the FHLB Des Moines surviving the merger as the continuing bank. Also at closing, the Company, a member of the FHLB Seattle, automatically became a member of the FHLB Des Moines. Pursuant to the terms of the merger, each share of the Company’s FHLB Seattle Class B stock was converted into one share of FHLB Des Moines Class B stock.

FHLB Des Moines Class B stock is composed of two sub-classes: membership stock and activity based stock. Membership stock is stock we are required to purchase and hold as a condition of membership in the FHLB Des Moines. The Company’s membership stock purchase requirement is measured as a percentage of our year-end assets, subject to a $10 million cap. Activity based stock is stock we are required to purchase and hold in order to obtain an advance or participate in FHLB Des Moines mortgage programs. Class B stock may be redeemed, subject to certain limitations, on five years’ written notice to the FHLB Des Moines. FHLB Des Moines capital stock is carried at par value because the shares are issued, transferred, redeemed, and repurchased by the FHLB Des Moines at a par value of $100. FHLB Des Moines capital stock is subject to recoverability testing per the Financial Services-Depository and Lending topic of the FASB Accounting Standards Codification (“ASC”).
Loans
Loans, excluding purchased credit impaired loans are generally carried at the unpaid principal balance, net of premiums, discounts and net deferred loan fees. Net deferred loan fees include nonrefundable loan origination fees less direct loan origination costs. Net deferred loan fees, premiums and discounts are amortized into interest income using either the interest method or straight-line method over the terms of the loans, adjusted for actual prepayments. The amortization is calculated using the interest method for all loans except revolving loans, for which the straight-line method is used. Interest income is accrued as earned. Fees related to lending activities other than the origination or purchase of loans are recognized as noninterest income during the period the related services are performed.
Nonaccrual loans—Loans are placed on nonaccrual status when a loan becomes contractually past due 90 days with respect to interest or principal unless the loan is both well secured and in the process of collection, or if full collection of interest or principal becomes uncertain. When a loan is placed on nonaccrual status, any accrued and unpaid interest receivable is reversed and the amortization of net deferred loan fees, premiums and discounts ceases. Thereafter, interest collected on the loan is accounted for on the cash collection or cost recovery method until qualifying for return to accrual status. Generally, a loan may be returned to accrual status when the delinquent principal and interest are brought current in accordance with the terms of the loan agreement for a minimum period of six months and future payments are reasonably assured.
Impaired loans—Loans are considered impaired when based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement or when a loan has been modified in a troubled debt restructuring. The assessment for impairment occurs when and while such loans are designated as classified per the Company’s internal risk rating system or when and while such loans are on nonaccrual. All nonaccrual loans greater than $500,000 and all troubled debt restructured loans are considered impaired and analyzed individually on a quarterly basis. Classified loans with an outstanding balance greater than $500,000 are evaluated for potential impairment on a quarterly basis.
When a loan with unique risk characteristics has been identified as being impaired, the amount of impairment will be measured by the Company using discounted cash flows, except when it is determined that the remaining source of repayment for the loan is the operation or liquidation of the underlying collateral. In these cases, the current fair value of the collateral, reduced by costs to sell, will be used in place of discounted cash flows. As a final alternative, the observable market price of the debt may be used to assess impairment. Predominantly, the Company uses the fair

value of collateral approach based upon a reliable valuation.

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

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

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

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

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

Allowance for Loan and Lease Losses

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

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

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

Allowance for Loan Losses on Purchased Credit Impaired Loans

The Company updates its cash flow projections for purchased credit impaired loans accounted for under ASC 310-30 on a quarterly basis. Assumptions utilized in this process include projections related to probability of default, loss severity, prepayment and recovery lag. Projections related to probability of default and prepayment are calculated utilizing a loan migration analysis. The loan migration analysis is a matrix of probability that is used to estimate the probability of a loan pool transitioning into a particular delinquency state given its delinquency state at the remeasurement date. Loss severity factors are based upon either actual charge-off data within the loan pools or industry averages, and recovery lags are based upon the collateral within the loan pools.

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

Allowance for Unfunded Commitments and Letters of Credit

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

Premises and Equipment

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

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

Software

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

Other Real Estate Owned (“OREO”)

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

FDIC Loss-sharing Asset

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

Goodwill and Intangibles
Net assets of companies acquired in purchase transactions are recorded at fair value at the date of acquisition. Identified intangibles are amortized on an accelerated basis over the period benefited. Goodwill is not amortized but is reviewed for potential impairment during the third quarter on an annual basis or, more frequently, if events or circumstances indicate a potential impairment, at the reporting unit level. A reporting unit is an operating segment or one level below an operating segment for which discrete financial information is available and regularly reviewed by management. The Company consists of a single reporting unit. If the fair value of the reporting unit, including goodwill, is determined to be less than the carrying amount of the reporting unit, a further test is required to measure the amount of impairment. If an impairment loss exists, the carrying amount of goodwill is adjusted to a new cost basis. Subsequent reversal of a previously recognized goodwill impairment loss is prohibited.
Intangible assets are evaluated for impairment if events and circumstances indicate a possible impairment. Such evaluation of other intangible assets is based on undiscounted cash flow projections. At December 31, 2015, intangible assets included on the consolidated balance sheets principally consists of a core deposit intangible amortized using an accelerated method with an original estimated life of 10 years.
Income Taxes
The provision for income taxes includes current and deferred income tax expense on net income adjusted for temporary and permanent differences such as interest income on state and municipal securities and investments in affordable housing credits. Deferred tax assets and liabilities are recognized for the expected future tax consequences of existing temporary differences between the financial reporting and tax reporting basis of assets and liabilities using enacted tax laws and rates. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. On a quarterly basis, management evaluates deferred tax assets to determine if these tax benefits are expected to be realized in future periods. This determination is based on facts and circumstances, including the Company’s current and future tax outlook. To the extent a deferred tax asset is no longer considered “more likely than not” to be realized, a valuation allowance is established.
We recognize the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. We recognize interest and penalties related to unrecognized tax benefits in “Provision for income taxes” in the consolidated statements of income.
Advertising
Advertising costs are generally expensed as incurred.
Earnings per Common Share
The Company’s capital structure includes convertible preferred shares, common shares, restricted common shares, common share options, and during portions of 2014 and 2013, warrants to purchase common shares. Restricted common shares participate in dividends declared on common shares at the same rate as common shares. Convertible preferred shares participate in dividends declared on common shares on an “as if converted” basis. Accordingly, the Company calculates earnings per common share (“EPS”) using the two-class method under the Earnings per Share topic of the FASB ASC. The two-class method is an earnings allocation formula that treats a participating security as having rights to earnings that otherwise would have been available to common shareholders but does not require the presentation of basic and diluted EPS for securities other than common shares.
Under the two-class method, basic EPS is computed by dividing earnings allocated to common shareholders by the weighted average number of common shares outstanding for the period. Earnings allocated to common shareholders represents net income reduced by earnings allocated to participating securities. Participating securities include nonvested restricted stock awards and preferred stock. Diluted EPS is computed in the same manner as basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if certain shares issuable upon exercise of options and warrants were included unless those additional shares would have been anti-dilutive. For the diluted EPS computation, the treasury stock method is applied and compared to the two-class method and whichever method results in a more dilutive impact is utilized to calculate diluted EPS.

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Share-Based Payment
The Company accounts for stock options and stock awards in accordance with the Compensation—Stock Compensation topic of the FASB ASC. Authoritative guidance requires the Company to measure the cost of employee services received in exchange for an award of equity instruments, such as stock options or stock awards, based on the fair value of the award on the grant date. This cost must be recognized in the consolidated statements of income over the vesting period of the award.
The Company issues restricted stock awards which generally vest over a four- or five-year period during which time the holder receives dividends and has full voting rights. Restricted stock is valued at the closing price of the Company’s stock on the date of an award.
Derivatives and Hedging Activities
In accordance with the Derivatives and Hedging topic of the FASB ASC, the Company recognizes derivatives as assets or liabilities on the consolidated balance sheets at their fair value. The Company periodically enters into interest rate contracts with customers and offsetting contracts with third parties. As these interest rate contracts are not designated as hedges under the Derivatives and Hedging topic of the FASB ASC, the changes in fair value of these instruments are recognized immediately in earnings.
Accounting Pronouncements
During the year ended December 31, 2015, the following Accounting Standards Updates were issued or became effective:
In September 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2015-16, Simplifying the Accounting for Measurement-Period Adjustments. The amendments in ASU 2015-16 require that the acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amount is determined. The acquirer is required to also record, in the same period’s financial statements, the effect on earnings as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. In addition, an entity is required to present separately on the face of the income statement or disclose in the notes to the financial statements the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The amendments in ASU 2015-16 are effective for years beginning after December 15, 2015. Early adoption is permitted for reporting periods for which financial statements have not been issued. The Company early adopted the amendments in ASU 2015-16 in 2015. Adoption of this ASU did not have a material impact on the Company's consolidated financial statements.
In June 2014, the FASB issued ASU 2014-11, Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. The amendments in ASU 2014-11 change the accounting for repurchase-to-maturity transactions and linked repurchase financings to secured borrowing accounting, which is consistent with accounting for other repurchase agreements. Additionally, the amendment requires new disclosures on transfers accounted for as sales in transactions that are economically similar to repurchase agreements and requires increased transparency on collateral pledged in secured borrowings. The amendments in this update were effective for the first interim or annual period beginning after December 31, 2014, with the exception of the collateral disclosures which were effective for interim periods beginning after March 15, 2015. Adoption of this ASU did not have a material impact on the Company's consolidated financial statements.
In May 2014, FASB issued ASU 2014-09, Revenue from Contracts with Customers. The guidance in this update supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the industry topics of the codification. For public companies, this update was to be effective for interim and annual periods beginning after December 15, 2016. However, in August 2015, the FASB issued ASU 2015-14, which delayed the effective date of ASU 2014-09 by one year and permits companies to voluntarily adopt the new standard as of the original effective date. The Company is currently assessing the impact that this guidance will have on its consolidated financial statements, but does not expect the guidance to have a material impact on the Company’s consolidated financial statements.
In April 2014, the FASB issued ASU No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. ASU 2014-08 raises the threshold for a disposal to qualify as a discontinued operation

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

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

2. Business Combinations

Intermountain Community Bancorp

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

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

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

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

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

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

For illustrative purposes only, the following table presents certain unaudited pro forma information for the years ended December 31, 2014 and 2013. This unaudited estimated pro forma financial information was calculated as if Intermountain had been acquired as of the beginning of the year prior to the date of acquisition. This unaudited pro forma information combines the historical results of Intermountain with the Company's consolidated historical results and includes certain adjustments reflecting the estimated impact of certain fair value adjustments for the respective periods. The pro forma information is not indicative of what would have occurred had the acquisition occurred as of the beginning of the year prior to the acquisition. In particular, no adjustments have been made to eliminate the impact of other-than-temporary impairment losses and losses recognized on the sale of securities that may not have been necessary had the investment securities been recorded at fair value as of the beginning of the year prior to the date of acquisition. The unaudited pro forma information does not consider any changes to the provision for credit losses resulting from recording loan assets at fair value. Additionally, Columbia expects to achieve further operating cost savings and other business synergies, including revenue growth as a result of the acquisition, which are not reflected in the pro forma amounts that follow. As a result, actual amounts would have differed from the unaudited pro forma information presented.

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

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

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

West Coast Bancorp

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

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

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

The operating results of the Company include the operating results produced by the acquired assets and assumed liabilities for the period April 1, 2013 to December 31, 2015. Disclosure of the amount of West Coast's revenue and net income (excluding integration costs) included in Columbia's consolidated income statement is impracticable due to the integration of the operations and accounting for this acquisition.

For illustrative purposes only, the following table presents certain unaudited pro forma information for the year ended December 31, 2013 as if West Coast had been acquired as of the beginning of the year prior to the date of acquisition. This unaudited pro forma information combines the historical results of West Coast with the Company's consolidated historical results and includes certain adjustments reflecting the estimated impact of certain fair value adjustments for the respective periods. The pro forma information is not indicative of what would have occurred had the acquisition occurred as of the beginning of the year prior to the acquisition. In particular, no adjustments have been made to eliminate the impact of other-than-temporary impairment losses and losses recognized on the sale of securities that may not have been necessary had the investment securities been recorded at fair value as of the beginning of the year prior to the date of acquisition. The unaudited pro forma information does not consider any changes to the provision for credit losses resulting from recording loan assets at fair value. Additionally, Columbia expects to achieve further operating cost savings and other business synergies, including revenue growth, as a result of the acquisition, which are not reflected in the pro forma amounts that follow. As a result, actual amounts would have differed from the unaudited pro forma information presented.

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

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

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

3. Cash and Cash Equivalents

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

4. Securities

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

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

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

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

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

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

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

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

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

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

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

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

At December 31, 2015, there were 67 state and municipal government securities in an unrealized loss position, of which 27 were in a continuous loss position for 12 months or more. The unrealized losses on state and municipal securities were caused by interest rate changes or widening of market spreads subsequent to the purchase of the individual securities. Management monitors published credit ratings of these securities for adverse changes. As of December 31, 2015 none of the rated obligations of state and local government entities held by the Company had a below investment grade credit rating. Because the credit quality of these securities are investment grade and the Company does not currently intend to sell these securities nor does the Company consider it more likely than not that it will be required to sell these securities before the recovery of amortized cost basis, which may be upon maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2015.

At December 31, 2015, there were 25 U.S. government agency and government-sponsored enterprise securities in an unrealized loss position, of which five were in a continuous loss position for 12 months or more. The decline in fair value is attributable to changes in interest rates relative to where these investments fall within the yield curve and their individual characteristics. Because the Company does not currently intend to sell these securities nor does the Company consider it more likely than not that it will be required to sell these securities before the recovery of amortized cost basis, which may be upon maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2015.

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

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

5. Loans

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

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

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

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

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

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

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

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

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

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

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Loans, excluding purchased credit impaired loans
The following is an aging of the recorded investment of the loan portfolio as of December 31, 2015 and 2014:

	Current Loans	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Nonaccrual Loans	Total Loans
December 31, 2015	(in thousands)						
Commercial business:							
Secured	$2,241,069	$11,611	$617	$—	$12,228	$9,395	$2,262,692
Unsecured	94,867	39	—	—	39	42	94,948
Real estate:							
One-to-four family residential	170,913	1,637	66	—	1,703	820	173,436
Commercial and multifamily residential:							
Commercial land	212,740	69	—	—	69	349	213,158
Income property	1,305,502	1,750	684	—	2,434	2,843	1,310,779
Owner occupied	939,396	599	—	—	599	6,321	946,316
Real estate construction:							
One-to-four family residential:							
Land and acquisition	14,388	—	—	—	—	362	14,750
Residential construction	119,809	—	—	—	—	566	120,375
Commercial and multifamily residential:							
Income property	83,634	—	—	—	—	—	83,634
Owner occupied	81,671	—	—	—	—	—	81,671
Consumer	328,219	2,597	780	—	3,377	766	332,362
Total	$5,592,208	$18,302	$2,147	$—	$20,449	$21,464	$5,634,121

	Current Loans	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Nonaccrual Loans	Total Loans
December 31, 2014	(in thousands)						
Commercial business:							
Secured	$2,004,418	$5,137	$6,149	$1,372	$12,658	$16,552	$2,033,628
Unsecured	79,661	185	—	—	185	247	80,093
Real estate:							
One-to-four family residential	167,197	1,700	45	—	1,745	2,822	171,764
Commercial and multifamily residential:							
Commercial land	187,470	1,454	34	—	1,488	821	189,779
Income property	1,294,982	3,031	786	—	3,817	3,200	1,301,999
Owner occupied	839,689	937	289	—	1,226	3,826	844,741
Real estate construction:							
One-to-four family residential:							
Land and acquisition	15,462	953	—	—	953	95	16,510
Residential construction	97,821	326	—	4	330	370	98,521
Commercial and multifamily residential:							

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

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

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

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

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

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

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

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

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

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

Purchased Credit Impaired Loans (“PCI Loans”)

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

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

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

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

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

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

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

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

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

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

Loans, excluding PCI loans

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

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

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

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

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

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

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

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

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

PCI Loans

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

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

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

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

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

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

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

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

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

Risk Elements

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

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

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

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

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

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

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

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

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

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

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

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7. Other Real Estate Owned

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

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

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

8. FDIC Loss-sharing Asset and Covered Assets

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

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

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

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

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

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

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

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

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

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9. Premises and Equipment

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

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

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

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

10. Goodwill and Other Intangible Assets

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

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

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

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

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

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

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11. Deposits

Year-end deposits are summarized in the following table:

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

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

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

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

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12. Federal Home Loan Bank and Federal Reserve Bank Borrowings

FEDERAL HOME LOAN BANK

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

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

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

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

FHLB advances are collateralized by the following:

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

FEDERAL RESERVE BANK

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

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Although the Company has not had FRB borrowings in the last three years, the Company pledges securities and loans for borrowing capacity at the Federal Reserve Bank.

The following table shows amounts pledged to the Federal Reserve Bank:

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

13. Securities Sold Under Agreements to Repurchase

Securities Sold Under Agreements to Repurchase - Term

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

Securities Sold Under Agreements to Repurchase - Sweep

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

14. Other Borrowings

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

15. Derivatives and Balance Sheet Offsetting

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

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

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

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

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

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

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

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

16. Employee Benefit Plans

401(k) Plan

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

Employee Stock Purchase Plan

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

Supplemental Compensation Plan

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

Supplemental Executive Retirement Plan

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

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

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

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

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

17. Commitments and Contingent Liabilities

Lease Commitments: The Company leases locations as well as equipment under various non-cancellable operating leases that expire between 2016 and 2043. The majority of the leases contain renewal options and provisions for increases in rental rates based on an agreed upon index or predetermined escalation schedule. As of December 31, 2015, minimum future rental payments, exclusive of taxes and other charges, of these leases were:

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

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

Financial Instruments with Off-Balance Sheet Risk: In the normal course of business, the Company makes loan commitments (typically unfunded loans and unused lines of credit) and issues standby letters of credit to accommodate the financial needs of its customers.

Standby letters of credit commit the Company to make payments on behalf of customers under specified conditions. Historically, no significant losses have been incurred by the Company under standby letters of credit. Both arrangements have credit risk essentially the same as that involved in extending loans to customers and are subject to the Company's normal credit policies, including collateral requirements, where appropriate. At December 31, 2015 and 2014, the Company's loan commitments amounted to $1.93 billion and $1.58 billion, respectively. Standby letters of credit were $38.7 million and $36.7 million at December 31, 2015 and 2014, respectively. In addition, commitments under commercial letters of credit used to facilitate customers' trade transactions and other off-balance sheet liabilities amounted to $5.0 million and $4.4 million at December 31, 2015 and 2014, respectively.

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

18. Shareholders' Equity

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

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

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

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

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

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

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

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19. Accumulated Other Comprehensive Income

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

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

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

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

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

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

20. Fair Value Accounting and Measurement

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

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

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

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

Fair values are determined as follows:

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

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

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The following table sets forth the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis at December 31, 2015 and 2014 by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement:

	Fair value at December 31, 2015 (in thousands)	Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
Assets				
Securities available for sale				
U.S. government agency and sponsored enterprise mortgage-back securities and collateralized mortgage obligations	$1,286,489	$—	$1,286,489	$—
State and municipal securities	492,169	—	492,169	—
U.S. government agency and government-sponsored enterprise securities	353,782	—	353,782	—
U.S. government securities	20,137	20,137	—	—
Other securities	5,117	—	5,117	—
Total securities available for sale	$2,157,694	$20,137	$2,137,557	$—
Other assets (Interest rate contracts)	$12,438	$—	$12,438	$—
Liabilities				
Other liabilities (Interest rate contracts)	$12,478	$—	$12,478	$—

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

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

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Nonrecurring Measurements

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

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

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

The following table sets forth the Company's assets that were measured using fair value estimates on a nonrecurring basis during the years ended December 31, 2015 and 2014:

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

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

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

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Quantitative information about Level 3 fair value measurements

The range and weighted-average of the significant unobservable inputs used to fair value our Level 3 nonrecurring assets during 2015 and 2014, along with the valuation techniques used, are shown in the following tables:

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

(1) Discount applied to appraisal value, letter of intent to purchase, or stated value (in the case of equipment and life insurance).
(2) Quantitative disclosures are not provided because there were no adjustments made to the appraisal value during the current period.
(3) Other collateral consists of equipment and life insurance.

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

(1) Discount applied to appraisal value, letter of intent to purchase, or stated value (in the case of accounts receivable and inventory).
(2) Quantitative disclosures are not provided for OREO because there were no adjustments made to the appraisal value during the current period.

Fair value of financial instruments

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

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

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

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

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

21. Earnings per Common Share

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

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

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

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

22. Share-Based Payments

At December 31, 2015, the Company had one equity compensation plan (the “Plan”), which is shareholder approved, that provides for the granting of share options and shares to eligible employees and directors up to 1,800,000 shares.
Share Awards: Restricted share awards provide for the immediate issuance of shares of Company common stock to the recipient, with such shares held in escrow until certain service conditions are met, generally four years of continual service. Recipients of restricted shares do not pay any cash consideration to the Company for the shares, have the right to vote all shares subject to such grant, and receive all dividends with respect to such shares, whether or not the shares have vested. The fair value of share awards is equal to the fair market value of the Company’s common stock on the date of grant.

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

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

As of December 31, 2015, there was $9.6 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted average period of 2.3 years. The total fair value, as measured on the date of vesting, of shares vested during the years ended December 31, 2015, 2014, and 2013 was $2.8 million, $2.3 million, and $2.5 million, respectively.

Share Options: Option awards are generally granted with an exercise price equal to the market price of the Company's stock at the date of grant; those option awards generally vest based on three years of continual service and are exercisable for a five-year period after vesting. Option awards granted have a 10-year maximum term.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model. The fair value of all options is amortized on a straight-line basis over the requisite service periods, which are generally the vesting periods. The expected life of options granted represents the period of time that they are expected to be outstanding. The expected life is determined based on historical experience with similar awards, giving consideration to the contractual terms and vesting schedules. Expected volatilities of our common stock are estimated at the date of grant based on the historical volatility of the stock. The volatility factor is based on historical stock prices over the most recent period commensurate with the estimated expected life of the award. The risk-free interest rate is based on the U.S. Treasury curve in effect at the time of the award. The expected dividend yield is based on dividend trends and the market value of the Company's stock price at the time of the award.

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

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

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

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

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

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

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

23. Income Tax

The components of income tax expense are as follows:

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

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

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

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

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

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

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24. Regulatory Capital Requirements

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

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

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

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

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

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

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

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

25. Branch Sales

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

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26. Parent Company Financial Information

Condensed Balance Sheets—Parent Company Only

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

Condensed Statements of Income—Parent Company Only

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

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Condensed Statements of Cash Flows—Parent Company Only

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

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27. Summary of Quarterly Financial Information (Unaudited)

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

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

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

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

None

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Internal Control Over Financial Reporting

Management's Annual Report On Internal Control Over Financial Reporting

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

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

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

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

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

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

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

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

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

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

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

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

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

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ITEM 9B. OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

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

ITEM 11. EXECUTIVE COMPENSATION

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

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

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

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

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

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

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

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements:

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

(2) Financial Statements Schedules:

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

(3) Exhibits:

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

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SIGNATURES

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

COLUMBIA BANKING SYSTEM, INC.
(Registrant)

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

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

Principal Executive Officer:

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

Principal Financial Officer:

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

Principal Accounting Officer:

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

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

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

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

February 26, 2016

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INDEX TO EXHIBITS

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

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

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INDEX TO EXHIBITS, CONTINUED

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

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

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INDEX TO EXHIBITS, CONTINUED

Exhibit No.	Exhibit
10.39*	Columbia State Bank Supplemental Executive Retirement Plan Agreement, by and between the Bank and Kumi Baruffi, effective February 27, 2015 (15)
10.40*	Columbia State Bank Endorsement Method Split Dollar Agreement (Base Salary Benefit), dated October 30, 2015, by and between Columbia State Bank and Melanie J. Dressel (25)
10.41*	Columbia State Bank Endorsement Method Split Dollar Agreement (SERP Benefit), dated October 30, 2015 by and between Columbia State Bank and Melanie J. Dressel (25)
10.42*+	Change in Control Agreement between the Bank and Kumi Baruffi dated September 1, 2014
12+	Statement Re: Computation of Ratio of Earnings to Fixed Charges
14	Code of Ethics (26)
21+	Subsidiaries of the Company
23+	Consent of Deloitte & Touche LLP
24+	Power of Attorney
31.1+	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2+	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32+	Certification Filed Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101+	The following financial information from Columbia Banking System, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2015 is formatted in XBRL: (i) Audited Consolidated Balance Sheets, (ii) Audited Consolidated Statements of Income, (iii) Audited Consolidated Statements of Comprehensive Income, (iv) Audited Consolidated Statements of Changes in Shareholders' Equity, (v) Audited Consolidated Statements of Cash Flows, and (vi) Notes to Audited Consolidated Financial Statements.

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

+ Filed herewith

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