Section 1: 10-Q (10-Q)

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2019.

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

For the transition period from to

Commission File Number 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 98402-2156

(Address of principal executive offices and zip code)

(253) 305-1900

(Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Common Stock, No Par Value	**COLB**	**NASDAQ Global Select Market**
(Title of each class)	**(Trading symbol)**	**(Name of each exchange on which registered)**

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

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

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ☐ No ☒
The number of shares of common stock outstanding at October 31, 2019 was 72,136,242.

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PART I - FINANCIAL INFORMATION

Glossary of Acronyms, Abbreviations, and Terms

The acronyms, abbreviations, and terms listed below are used in various sections of the Form 10-Q, including “Item 1. Financial Statements” and “Item 2. Management Discussion and Analysis of Financial Condition and Results of Operations.”

ALLL	Allowance for Loan and Lease Losses	**FASB**	Financial Accounting Standards Board
ASC	Accounting Standards Codification	**FDIC**	Federal Deposit Insurance Corporation
ASU	Accounting Standards Update	**FHLB**	Federal Home Loan Bank of Des Moines
ATM	Automated Teller Machine	**FRB**	Federal Reserve Bank
BOLI	Bank Owned Life Insurance	**LIBOR**	London Interbank Offering Rate
Basel III	A comprehensive capital framework and rules for U.S. banking organizations approved by the FRB and the FDIC in 2013	**NIM**	Net Interest Margin
B&O	Business and Occupation	**OPPO**	Other Personal Property Owned
CDI	Core Deposit Intangible	**OREO**	Other Real Estate Owned
CECL	Current Expected Credit Loss	**Pacific Continental**	Pacific Continental Corporation
CDARS®	Certificate of Deposit Account Registry Service	**PCI**	Purchased Credit Impaired
CET1	Common Equity Tier 1	**REASD**	Real Estate Appraisal Services Department
CEO	Chief Executive Officer	**SBA**	Small Business Administration
CFO	Chief Financial Officer	**SEC**	Securities and Exchange Commission
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act	**TDRs**	Troubled Debt Restructurings
EPS	Earnings Per Share	**GAAP**	Generally Accepted Accounting Principles

Item 1. FINANCIAL STATEMENTS
CONSOLIDATED BALANCE SHEETS

Columbia Banking System, Inc.
(Unaudited)

			September 30, 2019	December 31, 2018
ASSETS			*(in thousands)*	
Cash and due from banks			$ 278,461	$ 260,180
Interest-earning deposits with banks			20,144	17,407
Total cash and cash equivalents			298,605	277,587
Debt securities available for sale at fair value			3,367,572	3,167,448
FHLB stock at cost			29,680	25,960
Loans held for sale			15,036	3,849
Loans, net of unearned income			8,756,355	8,391,511
Less: ALLL			82,660	83,369
Loans, net			8,673,695	8,308,142
Interest receivable			48,503	45,323
Premises and equipment, net			165,431	168,788
OREO			625	6,019
Goodwill			765,842	765,842
Other intangible assets, net			37,908	45,937
Other assets			354,863	280,250
Total assets			$ 13,757,760	$ 13,095,145
LIABILITIES AND SHAREHOLDERS' EQUITY				
Deposits:				
Noninterest-bearing			$ 5,320,435	$ 5,227,216
Interest-bearing			5,535,281	5,230,910
Total deposits			10,855,716	10,458,126
FHLB advances			492,482	399,523
Securities sold under agreements to repurchase			24,489	61,094
Subordinated debentures			35,323	35,462
Other liabilities			188,173	107,291
Total liabilities			11,596,183	11,061,496
Commitments and contingent liabilities (Note 11)				
Shareholders' equity:				
	September 30, 2019	**December 31, 2018**		
	(in thousands)			
Preferred stock (no par value)				
Authorized shares	2,000	2,000		
Common stock (no par value)				
Authorized shares	115,000	115,000		
Issued	73,588	73,249	1,648,335	1,642,246
Outstanding	72,288	73,249		
Retained earnings			493,738	426,708
Accumulated other comprehensive income (loss)			64,884	(35,305)
Treasury stock at cost	1,300	—	(45,380)	—
Total shareholders' equity			2,161,577	2,033,649
Total liabilities and shareholders' equity			$ 13,757,760	$ 13,095,145

See accompanying Notes to unaudited Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

Columbia Banking System, Inc.
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands except per share amounts)			
Interest Income				
Loans	$ 112,656	$ 109,748	$ 337,657	$ 318,187
Taxable securities	16,457	14,654	49,790	39,285
Tax-exempt securities	2,556	3,069	8,237	9,196
Deposits in banks	864	104	1,159	600
Total interest income	132,533	127,575	396,843	367,268
Interest Expense				
Deposits	6,863	3,193	16,337	8,274
FHLB advances	2,569	966	9,962	2,351
Subordinated debentures	468	468	1,404	1,404
Other borrowings	183	152	552	288
Total interest expense	10,083	4,779	28,255	12,317
Net Interest Income	122,450	122,796	368,588	354,951
Provision for loan and lease losses	299	3,153	1,879	12,980
Net interest income after provision for loan and lease losses	122,151	119,643	366,709	341,971
Noninterest Income				
Deposit account and treasury management fees	9,015	9,266	27,030	26,689
Card revenue	4,006	3,714	11,431	16,143
Financial services and trust revenue	3,226	2,975	9,608	8,924
Loan revenue	3,855	3,282	9,840	9,522
Bank owned life insurance	1,528	1,402	4,644	4,540
Investment securities gains (losses), net	—	(62)	2,132	(73)
Other	6,400	442	10,689	2,109
Total noninterest income	28,030	21,019	75,374	67,854
Noninterest Expense				
Compensation and employee benefits	54,459	49,419	158,559	148,938
Occupancy	8,645	8,321	26,166	27,718
Data processing	5,102	4,466	14,372	14,957
Legal and professional fees	5,683	4,695	16,810	12,103
Amortization of intangibles	2,632	3,070	8,029	9,346
B&O taxes (1)	1,325	1,478	4,612	4,254
Advertising and promotion	1,752	1,472	3,596	4,523
Regulatory premiums	(38)	904	1,902	2,778
Net cost (benefit) of operation of OREO	(90)	485	(682)	1,244
Other (1)	7,606	8,531	25,140	27,610
Total noninterest expense	87,076	82,841	258,504	253,471
Income before income taxes	63,105	57,821	183,579	156,354
Income tax provision	12,378	11,406	35,257	28,220
Net Income	$ 50,727	$ 46,415	$ 148,322	$ 128,134
Earnings per common share				
Basic	$ 0.70	$ 0.63	$ 2.04	$ 1.75
Diluted	$ 0.70	$ 0.63	$ 2.04	$ 1.75
Weighted average number of common shares outstanding	71,803	72,427	72,256	72,370
Weighted average number of diluted common shares outstanding	71,803	72,432	72,257	72,374

(1) Beginning the first quarter of 2019, B&O taxes are reported separately from other taxes, licenses and fees, which are now reported under "other noninterest expense." Prior periods have been reclassified to conform to current period presentation.

See accompanying Notes to unaudited Consolidated Financial Statements.

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

	Three Months Ended September 30,	
	2019	2018
	(in thousands)	
Net income	$ 50,727	$ 46,415
Other comprehensive income (loss), net of tax:		
Unrealized gain (loss) from securities:		
Net unrealized holding gain (loss) from available for sale debt securities arising during the period, net of tax of ($4,421) and $4,286	14,593	(14,149)
Net unrealized gain (loss) from securities, net of reclassification adjustment	14,593	(14,149)
Pension plan liability adjustment:		
Amortization of unrecognized net actuarial loss included in net periodic pension cost, net of tax of ($19) and ($19)	62	61
Pension plan liability adjustment, net	62	61
Unrealized gain from cash flow hedging instruments:		
Net unrealized gain in cash flow hedging instruments arising during the period, net of tax of ($951) and $0	3,137	—
Reclassification adjustment for net gain in cash flow hedging instruments included in income, net of tax of $18 and $0	(58)	—
Net unrealized gain from cash flow hedging instruments, net of reclassification adjustment	3,079	—
Other comprehensive income (loss)	17,734	(14,088)
Total comprehensive income	$ 68,461	$ 32,327

	Nine Months Ended September 30,	
	2019	2018
	(in thousands)	
Net income	$ 148,322	$ 128,134
Other comprehensive income (loss), net of tax:		
Unrealized gain (loss) from securities:		
Net unrealized holding gain (loss) from available for sale debt securities arising during the period, net of tax of ($26,209) and $14,554	86,519	(48,043)
Reclassification adjustment of net gain from sale of available for sale debt securities included in income, net of tax of $496 and $25	(1,636)	(81)
Net unrealized gain (loss) from securities, net of reclassification adjustment	84,883	(48,124)
Pension plan liability adjustment:		
Amortization of unrecognized net actuarial loss included in net periodic pension cost, net of tax of ($56) and ($56)	184	183
Pension plan liability adjustment, net	184	183
Unrealized gain from cash flow hedging instruments:		
Net unrealized gain in cash flow hedging instruments arising during the period, net of tax of ($4,599) and $0	15,180	—
Reclassification adjustment for net gain in cash flow hedging instruments included in income, net of tax of $18 and $0	(58)	—
Net unrealized gain from cash flow hedging instruments, net of reclassification adjustment	15,122	—
Other comprehensive income (loss)	100,189	(47,941)
Total comprehensive income	$ 248,511	$ 80,193

See accompanying Notes to unaudited Consolidated Financial Statements.

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

	Common Stock					
	Shares Outstanding	Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders' Equity
For the Three Months Ended September 30, 2019	*(in thousands except per share amounts)*					
Balance at July 1, 2019	72,924	$ 1,644,922	$ 463,429	$ 47,150	$ (21,863)	$ 2,133,638
Net income	—	—	50,727	—	—	50,727
Other comprehensive income	—	—	—	17,734	—	17,734
Issuance of common stock - stock option and other plans	31	1,132	—	—	—	1,132
Activity in deferred compensation plan	—	1	—	—	—	1
Issuance of common stock - restricted stock awards, net of canceled awards	9	2,299	—	—	—	2,299
Purchase and retirement of common stock	—	(19)	—	—	—	(19)
Cash dividends declared on common stock ($0.28 per share)	—	—	(20,418)	—	—	(20,418)
Purchase of treasury stock	(676)	—	—	—	(23,517)	(23,517)
Balance at September 30, 2019	72,288	$ 1,648,335	$ 493,738	$ 64,884	$ (45,380)	$ 2,161,577
For the Nine Months Ended September 30, 2019						
Balance at January 1, 2019	73,249	$ 1,642,246	$ 426,708	$ (35,305)	$ —	$ 2,033,649
Adjustment to opening retained earnings pursuant to adoption of ASU 2016-02	—	—	782	—	—	782
Net income	—	—	148,322	—	—	148,322
Other comprehensive income	—	—	—	100,189	—	100,189
Issuance of common stock - stock option and other plans	58	2,025	—	—	—	2,025
Activity in deferred compensation plan	—	2	—	—	—	2
Issuance of common stock - restricted stock awards, net of canceled awards	354	6,827	—	—	—	6,827
Purchase and retirement of common stock	(73)	(2,765)	—	—	—	(2,765)
Cash dividends declared on common stock ($1.12 per share)	—	—	(82,074)	—	—	(82,074)
Purchase of treasury stock	(1,300)	—	—	—	(45,380)	(45,380)
Balance at September 30, 2019	72,288	$ 1,648,335	$ 493,738	$ 64,884	$ (45,380)	$ 2,161,577

See accompanying Notes to unaudited Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY, Continued

Columbia Banking System, Inc.

(Unaudited)

	Common Stock					
	Shares Outstanding	Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders' Equity
For the Three Months Ended September 30, 2018	*(in thousands except per share amounts)*					
Balance at July 1, 2018	73,245	$ 1,636,903	$ 383,899	$ (55,921)	$ —	$ 1,964,881
Net income	—	—	46,415	—	—	46,415
Other comprehensive loss	—	—	—	(14,088)	—	(14,088)
Issuance of common stock - stock option and other plans	26	1,121	—	—	—	1,121
Activity in deferred compensation plan	—	1	—	—	—	1
Issuance of common stock - restricted stock awards, net of canceled awards	(11)	2,148	—	—	—	2,148
Purchase and retirement of common stock	—	(33)	—	—	—	(33)
Cash dividends declared on common stock ($0.26 per share)	—	—	(19,050)	—	—	(19,050)
Balance at September 30, 2018	73,260	$ 1,640,140	$ 411,264	$ (70,009)	$ —	$ 1,981,395
For the Nine Months Ended September 30, 2018						
Balance at January 1, 2018	73,020	$ 1,634,705	$ 337,442	$ (22,225)	$ —	$ 1,949,922
Adjustment to opening retained earnings pursuant to adoption of ASU 2016-01	—	—	(157)	157	—	—
Net income	—	—	128,134	—	—	128,134
Other comprehensive loss	—	—	—	(47,941)	—	(47,941)
Issuance of common stock - stock option and other plans	45	1,857	—	—	—	1,857
Activity in deferred compensation plan	—	7	—	—	—	7
Issuance of common stock - restricted stock awards, net of canceled awards	257	6,231	—	—	—	6,231
Purchase and retirement of common stock	(62)	(2,660)	—	—	—	(2,660)
Cash dividends declared on common stock ($0.74 per share)	—	—	(54,155)	—	—	(54,155)
Balance at September 30, 2018	73,260	$ 1,640,140	$ 411,264	$ (70,009)	$ —	$ 1,981,395

See accompanying Notes to unaudited Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2019	2018
	(in thousands)	
Cash Flows From Operating Activities		
Net income	$ 148,322	$ 128,134
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan and lease losses	1,879	12,980
Stock-based compensation expense	6,827	6,231
Depreciation, amortization and accretion	26,150	25,807
Investment securities (gain) loss, net	(2,132)	73
Net realized (gain) loss on sale of premises and equipment and loans held for investment	(6,787)	142
Net realized (gain) loss on sale and valuation adjustments of OREO	(602)	1,299
Gain on bank owned life insurance death benefit	(2,975)	—
Originations of loans held for sale	(134,634)	(103,614)
Proceeds from sales of loans held for sale	123,447	104,105
Net change in:		
Interest receivable	(3,180)	(7,595)
Interest payable	632	618
Other assets	(31,840)	(2,599)
Other liabilities	29,706	5,662
Net cash provided by operating activities	154,813	171,243
Cash Flows From Investing Activities		
Loans originated, net of principal collected (1)	(305,581)	(121,413)
Purchases of:		
Debt securities available for sale	(649,133)	(606,052)
Loans held for investment (1)	(57,075)	(46,969)
Premises and equipment	(5,833)	(8,253)
FHLB stock	(190,800)	(136,120)
Proceeds from:		
Sales of debt securities available for sale	259,554	32,330
Principal repayments and maturities of debt securities available for sale	287,479	311,956
Sales of premises and equipment and loans held for investment	7,735	14,956
Redemption of FHLB stock	187,080	129,920
Sales of OREO and OPPO	6,433	5,868
Bank owned life insurance death benefit	—	5,074
Net cash used in investing activities	(460,141)	(418,703)
Cash Flows From Financing Activities		
Net increase in deposits	397,893	72,151
Net increase (decrease) in sweep repurchase agreements (2)	(36,605)	8,138
Proceeds from:		
FHLB advances	4,770,000	3,403,000
FRB borrowings	36,000	5,010
Other borrowings	100	—
Exercise of stock options	2,025	1,857
Payments for:		
Repayment of FHLB advances	(4,677,000)	(3,248,000)
Repayment of FRB borrowings	(36,000)	(5,010)
Repayment of other borrowings	(100)	—
Repayment of junior subordinated debentures	—	(8,248)
Repayment of term repurchase agreement (2)	—	(25,000)

Common stock dividends	(81,822)	(54,149)
Purchase of treasury stock	(45,380)	—
Purchase and retirement of common stock	(2,765)	(2,660)
Net cash provided by financing activities	326,346	147,089
Increase (decrease) in cash and cash equivalents	21,018	(100,371)
Cash and cash equivalents at beginning of period	277,587	342,533
Cash and cash equivalents at end of period	$ 298,605	$ 242,162

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(1) Revised from amounts previously reported to correct an immaterial misclassification of $47.0 million of purchases of loans held for investment within loans originated, net of principal collected, for the nine months ended September 30, 2018. There were no changes to net cash flows from operating, investing or financing activities as a result of this change.

(2) Revised from amounts previously reported to correct an immaterial misclassification of a $25.0 million repayment of the term repurchase agreement within net increase (decrease) in sweep repurchase agreements for the nine months ended September 30, 2018. There were no changes to net cash flows from operating, investing or financing activities as a result of this change.

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

	Nine Months Ended September 30,	
	2019	2018
	(in thousands)	
Supplemental Information:		
Interest paid	$ 27,623	$ 11,699
Income taxes paid, net of refunds	$ 33,134	$ 12,768
Non-cash investing and financing activities		
Loans transferred to OREO	$ 386	$ 1,200
Premises and equipment expenditures incurred but not yet paid	$ 152	$ 464
Change in dividends payable on unvested shares included in other liabilities	$ 252	$ 6

See accompanying Notes to unaudited Consolidated Financial Statements.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Columbia Banking System, Inc.

1. Basis of Presentation, Significant Accounting Policies and Reclassifications

Basis of Presentation

The interim unaudited Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with instructions to Form 10-Q and Article 10 of Regulation S-X. The Consolidated Financial Statements include the accounts of Columbia Banking System, Inc. (“we”, “our”, “Columbia” or the “Company”) and its subsidiaries, including its wholly owned banking subsidiary Columbia State Bank (“Columbia Bank” or the “Bank”) and Columbia Trust Company (“Columbia Trust”). All intercompany transactions and accounts have been eliminated in consolidation. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair statement of the results for the interim periods presented have been included. The results of operations for the nine months ended September 30, 2019 are not necessarily indicative of results to be anticipated for the year ending December 31, 2019. The accompanying interim unaudited Consolidated Financial Statements should be read in conjunction with the financial statements and related notes contained in the Company’s 2018 Annual Report on Form 10-K.

Significant Accounting Policies

The significant accounting policies used in preparation of our Consolidated Financial Statements are disclosed in our 2018 Annual Report on Form 10-K. There have not been any changes in our significant accounting policies compared to those contained in our 2018 Form 10-K disclosure for the year ended December 31, 2018.

Reclassifications

Certain amounts reported in prior periods have been reclassified in the Consolidated Financial Statements to conform to the current presentation. The reclassifications have no effect on net income or stockholders’ equity as previously reported.

2. Accounting Pronouncements Recently Adopted or Issued

Accounting Standards Adopted in 2019

In February 2016, the FASB issued ASU 2016-02, *Leases*. The amendments included in this ASU create a new accounting model for both lessees and lessors. The new guidance requires lessees to recognize lease liabilities, initially measured as the present value of future lease payments, and corresponding right-of-use assets for all leases with lease terms greater than 12 months. The new lease model differs from the old lease accounting model, as the old model does not require such lease liabilities and corresponding right-of-use assets to be recorded for operating leases. The amendments in ASU 2016-02 must be adopted using the modified retrospective approach and will be effective for the first interim or annual period beginning after December 15, 2018. The FASB subsequently issued ASU 2018-11, which allows for an additional (optional) transition method. The Company adopted the new standard effective January 1, 2019 utilizing the transition method allowed under ASU 2018-11 and did not restate comparative periods. The Company elected the package of practical expedients permitted under the transition guidance, which allowed us to carryforward our historical lease classifications and our assessment on whether a contract is or contains a lease. We also elected to keep leases with an initial term of 12 months or less off the balance sheet. The adoption of the new standard resulted in an increase in other assets and an increase in other liabilities of $49.2 million and $48.2 million, respectively. The Company recognized a cumulative effect adjustment of $782 thousand to increase the beginning balance of retained earnings related to previous deferred gains on sale-leaseback transactions.

In August 2018, the FASB issued ASU 2018-15, *Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract*. The amendments in this ASU align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the ASC 350 requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The amendments also require the entity to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement, including reasonably certain renewal periods. The amendments in ASU 2018-15 are effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period. The amendments can be adopted on a prospective or retrospective basis. The Company adopted the new standard effective July 1, 2019 on a prospective basis. The adoption of the new standard resulted in an increase in other assets of $920 thousand.

Recently Issued Accounting Standards, Not Yet Adopted

In April 2019, the FASB issued ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments - Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*. The amendments in this ASU clarify certain aspects of accounting for credit losses, hedging activities, and financial instruments (addressed by ASUs 2016-01, 2016-13, and 2017-12). Many of the amendments reflect decisions reached at FASB meetings or meetings of the Board's credit losses transition resource group. Topics covered in this ASU include: accrued interest, transfers between classifications or categories for loans and debt securities, recoveries, reinsurance recoverables, projections of interest rate environments for variable-rate financial instruments, costs to sell when foreclosure is probable, consideration of expected prepayments when determining the effective interest rate, vintage disclosures, extension and renewal options, etc. The amendments in ASU 2019-04 are effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period. The Company is assessing the impact that this guidance will have on its Consolidated Financial Statements.

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*. The amendments included in this ASU require an entity to reflect its current estimate of all expected credit losses for assets held at an amortized cost basis. For available for sale debt securities, credit losses will be measured in a manner similar to current GAAP, however, this ASU will require that credit losses be presented as an allowance rather than as a write-down. The amendments in ASU 2016-13 are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, and are required to be adopted through a modified retrospective approach, with a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the ASU is effective.

Unlike the incurred loss models in existing GAAP, the CECL model in ASU 2016-13 does not specify a threshold for the recognition of an impairment allowance. Rather, the Company will recognize an impairment allowance equal to its estimate of lifetime expected credit losses, adjusted for prepayments, for in-scope financial instruments as of the end of the reporting period. Accordingly, the impairment allowance measured under the CECL model could change significantly from the impairment allowance measured under the Company's existing incurred loss model. The Company has engaged a third-party vendor to assist in the CECL calculation and has developed an internal governance framework to oversee the CECL implementation. Significant CECL implementation matters that have been completed include identifying, sourcing and storing data, addressing data gaps, defining a reasonable and supportable forecast period and selecting historical loss information. Other significant CECL implementation matters being addressed by the Company include selecting loss estimation methodologies, assessing the impact to internal controls over financial reporting, and capital planning.

Upon adoption of the standard on January 1, 2020, the Company expects that, based on current expectations of future economic conditions, its impact on the allowance for credit losses will range from a decrease of 10% to an increase of 5%, with no material impact on capital levels anticipated. The ultimate impact will depend on the characteristics of the Company's portfolios as well as the macroeconomic conditions and forecasts upon adoption, the ultimate validation of models and methodologies, and other management judgments.

3. Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2019	*(in thousands)*			
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations (1)	$ 2,432,873	$ 61,024	$ (11,062)	$ 2,482,835
Other asset-backed securities (1)	166,482	5,149	(53)	171,578
State and municipal securities	488,273	9,471	(430)	497,314
U.S. government agency and government-sponsored enterprise securities	212,265	3,382	(52)	215,595
U.S. government securities	250	—	—	250
Total	$ 3,300,143	$ 79,026	$ (11,597)	$ 3,367,572
December 31, 2018				
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations (1)	$ 2,045,728	$ 8,473	$ (40,846)	$ 2,013,355
Other asset-backed securities (1)	176,793	763	(2,621)	174,935
State and municipal securities	579,755	2,328	(7,760)	574,323
U.S. government agency and government-sponsored enterprise securities	408,088	1,235	(4,736)	404,587
U.S. government securities	251	—	(3)	248
Total	$ 3,210,615	$ 12,799	$ (55,966)	$ 3,167,448

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(1) Beginning July 2019, other asset-backed securities were presented separately in this table. Prior period amounts that were previously reported in U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations have been reclassified to conform to current period presentation.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands)			
Proceeds from sales of debt securities available for sale	$ —	$ —	$ 259,554	$ 32,330
Gross realized gains from sales of debt securities available for sale	$ —	$ —	$ 3,357	$ 235
Gross realized losses from sales of debt securities available for sale	—	—	(1,225)	(129)
Other securities losses, net (1)	—	(62)	—	(179)
Investment securities gains, net	$ —	$ (62)	$ 2,132	$ (73)

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(1) Other securities losses, net includes net unrealized loss activity associated with equity securities for the periods ended September 30, 2018. There were no sales of equity securities during the periods presented.

The scheduled contractual maturities of debt securities available for sale at September 30, 2019 are presented as follows:

	September 30, 2019	
	Amortized Cost	Fair Value
	(in thousands)	
Due within one year	$ 112,412	$ 112,594
Due after one year through five years	412,269	416,294
Due after five years through ten years	1,592,778	1,650,631
Due after ten years	1,182,684	1,188,053
Total debt securities available for sale	$ 3,300,143	$ 3,367,572

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

	September 30, 2019
	(in thousands)
To secure public funds	$ 443,320
To secure borrowings	111,421
Other securities pledged	155,727
Total securities pledged as collateral	$ 710,468

The following table shows the gross unrealized losses and fair value of the Company’s debt securities available for sale 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 September 30, 2019 and December 31, 2018:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2019			(in thousands)			
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations (1)	$ 478,690	$ (4,017)	$ 528,228	$ (7,045)	$ 1,006,918	$ (11,062)
Other asset-backed securities (1)	—	—	6,926	(53)	6,926	(53)
State and municipal securities	52,763	(255)	23,237	(175)	76,000	(430)
U.S. government agency and government-sponsored enterprise securities	—	—	57,448	(52)	57,448	(52)
U.S. government securities	—	—	250	—	250	—
Total	$ 531,453	$ (4,272)	$ 616,089	$ (7,325)	$ 1,147,542	$ (11,597)
December 31, 2018						
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations (1)	$ 114,551	$ (750)	$ 1,207,020	$ (40,096)	$ 1,321,571	$ (40,846)
Other asset-backed securities (1)	40,071	(222)	94,367	(2,399)	134,438	(2,621)
State and municipal securities	106,292	(581)	280,496	(7,179)	386,788	(7,760)
U.S. government agency and government-sponsored enterprise securities	15,392	(45)	291,435	(4,691)	306,827	(4,736)
U.S. government securities	—	—	247	(3)	247	(3)
Total	$ 276,306	$ (1,598)	$ 1,873,565	$ (54,368)	$ 2,149,871	$ (55,966)

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(1) Beginning July 2019, other asset-backed securities were presented separately in this table. Prior period amounts that were previously reported in U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations have been reclassified to conform to current period presentation.

At September 30, 2019, there were 211 U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations securities in an unrealized loss position, of which 170 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 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 September 30, 2019.

At September 30, 2019, there were six other asset-backed securities in an unrealized loss position, all of which 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 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 September 30, 2019.

At September 30, 2019, there were 81 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 September 30, 2019, none of the rated obligations of state and local government entities held by the Company had a below investment grade credit rating. Because the credit quality of these securities are investment grade and the Company does not intend to sell these securities nor does the Company consider it more likely than not that it will be required to sell these securities before the recovery of amortized cost basis, which may be upon maturity, the Company does not consider these investments to be other-than-temporarily impaired at September 30, 2019.

At September 30, 2019, there were seven U.S. government agency and government-sponsored enterprise securities in an unrealized loss position, all of which 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 September 30, 2019.

At September 30, 2019, there was one U.S. government security in an unrealized loss position, which was also in a continuous loss position for more than 12 months. The decline in fair value is attributable to changes in interest rates relative to where this investment falls within the yield curve and its 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 September 30, 2019.

4. 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 PCI 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 PCI loans.

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

	September 30, 2019			December 31, 2018		
	Loans, excluding PCI loans	PCI Loans	Total	Loans, excluding PCI loans	PCI Loans	Total
	(in thousands)					
Commercial business	$ 3,707,314	$ 9,004	$3,716,318	$ 3,438,422	$ 9,240	$ 3,447,662
Real estate:						
One-to-four family residential	273,079	7,403	280,482	238,367	8,017	246,384
Commercial and multifamily residential	3,975,647	56,702	4,032,349	3,846,027	62,910	3,908,937
Total real estate	4,248,726	64,105	4,312,831	4,084,394	70,927	4,155,321
Real estate construction:						
One-to-four family residential	195,198	144	195,342	217,790	153	217,943
Commercial and multifamily residential	261,786	486	262,272	284,394	534	284,928
Total real estate construction	456,984	630	457,614	502,184	687	502,871
Consumer	297,009	8,038	305,047	318,945	8,906	327,851
Less: Net unearned income	(35,455)	—	(35,455)	(42,194)	—	(42,194)
Total loans, net of unearned income	8,674,578	81,777	8,756,355	8,301,751	89,760	8,391,511
Less: ALLL	(79,602)	(3,058)	(82,660)	(79,758)	(3,611)	(83,369)
Total loans, net	$ 8,594,976	$ 78,719	$8,673,695	$ 8,221,993	$ 86,149	$ 8,308,142
Loans held for sale	$ 15,036	$ —	$ 15,036	$ 3,849	$ —	$ 3,849

At September 30, 2019 and December 31, 2018, the Company had no material foreign activities. Substantially all of the Company’s loans and unfunded commitments are geographically concentrated in its service areas within the states of Washington, Oregon and Idaho.

At September 30, 2019 and December 31, 2018, $3.18 billion and $3.22 billion of commercial and residential real estate loans were pledged as collateral on FHLB borrowings and additional borrowing capacity. The Company has also pledged $138.9 million and $82.0 million of commercial loans to the FRB for additional borrowing capacity at September 30, 2019 and December 31, 2018, respectively.

The following is an analysis of nonaccrual loans as of September 30, 2019 and December 31, 2018:

	September 30, 2019		December 31, 2018	
	Recorded Investment Nonaccrual Loans	Unpaid Principal Balance Nonaccrual Loans	Recorded Investment Nonaccrual Loans	Unpaid Principal Balance Nonaccrual Loans
	(in thousands)			
Commercial business:				
Secured	$ 24,408	$ 35,033	$ 35,504	$ 45,072
Unsecured	—	—	9	9
Real estate:				
One-to-four family residential	574	594	1,158	1,178
Commercial and multifamily residential:				
Commercial land	2,562	2,570	2,261	2,270
Income property	997	997	2,721	3,062
Owner occupied	6,524	6,633	9,922	10,300
Real estate construction:				
One-to-four family residential:				
Land and acquisition	—	—	318	318
Consumer	1,956	2,299	2,949	3,149
Total	$ 37,021	$ 48,126	$ 54,842	$ 65,358

Loans, excluding PCI loans

The following is an aging of the recorded investment of the loan portfolio as of September 30, 2019 and December 31, 2018:

September 30, 2019	Current Loans	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Nonaccrual Loans	Total Loans
				(in thousands)			
Commercial business:							
Secured	$ 3,525,753	$ 5,560	$ 262	$ —	$ 5,822	$ 24,408	$ 3,555,983
Unsecured	138,947	424	2	—	426	—	139,373
Real estate:							
One-to-four family residential	269,593	2,429	437	—	2,866	574	273,033
Commercial and multifamily residential:							
Commercial land	292,594	140	—	—	140	2,562	295,296
Income property	1,955,634	2,038	3,266	—	5,304	997	1,961,935
Owner occupied	1,689,919	1,727	138	—	1,865	6,524	1,698,308
Real estate construction:							
One-to-four family residential:							
Land and acquisition	1,614	—	—	—	—	—	1,614
Residential construction	192,563	—	—	—	—	—	192,563
Commercial and multifamily residential:							
Income property	151,362	6,038	—	—	6,038	—	157,400
Owner occupied	100,610	1,636	—	—	1,636	—	102,246
Consumer	293,861	746	264	—	1,010	1,956	296,827
Total	$ 8,612,450	$ 20,738	$ 4,369	$ —	$ 25,107	$ 37,021	$ 8,674,578

December 31, 2018	Current Loans	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Nonaccrual Loans	Total Loans
				(in thousands)			
Commercial business:							
Secured	$ 3,267,709	$ 5,864	$ 3,624	$ —	$ 9,488	$ 35,504	$ 3,312,701
Unsecured	111,868	240	—	—	240	9	112,117
Real estate:							
One-to-four family residential	233,941	694	233	—	927	1,158	236,026
Commercial and multifamily residential:							
Commercial land	283,416	—	—	—	—	2,261	285,677
Income property	1,910,505	5,009	2,241	—	7,250	2,721	1,920,476
Owner occupied	1,606,085	1,744	—	—	1,744	9,922	1,617,751
Real estate construction:							
One-to-four family residential:							
Land and acquisition	4,099	—	—	—	—	318	4,417
Residential construction	212,303	93	—	—	93	—	212,396
Commercial and multifamily residential:							
Income property	194,912	—	—	—	—	—	194,912
Owner occupied	79,805	7,258	—	—	7,258	—	87,063
Consumer	314,008	1,057	201	—	1,258	2,949	318,215
Total	$ 8,218,651	$ 21,959	$ 6,299	$ —	$ 28,258	$ 54,842	$ 8,301,751

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The following is an analysis of impaired loans as of September 30, 2019 and December 31, 2018:

	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
September 30, 2019			*(in thousands)*				
Commercial business:							
Secured	$ 3,530,404	$ 25,579	$ 9,114	$ 10,673	$ 1,879	$ 16,465	$ 21,051
Unsecured	139,360	13	13	13	—	—	—
Real estate:							
One-to-four family residential	272,686	347	347	635	5	—	—
Commercial and multifamily residential:							
Commercial land	292,436	2,860	1,591	1,601	320	1,269	1,304
Income property	1,961,935	—	—	—	—	—	—
Owner occupied	1,688,118	10,190	3,733	5,260	105	6,457	6,599
Real estate construction:							
One-to-four family residential:							
Land and acquisition	1,614	—	—	—	—	—	—
Residential construction	192,563	—	—	—	—	—	—
Commercial and multifamily residential:							
Income property	157,400	—	—	—	—	—	—
Owner occupied	102,246	—	—	—	—	—	—
Consumer	294,599	2,228	379	514	17	1,849	2,006
Total	$ 8,633,361	$ 41,217	$ 15,177	$ 18,696	$ 2,326	$ 26,040	$ 30,960

	Recorded Investment of Loans Collectively Measured for Contingency Provision	Recorded Investment of Loans Individually Measured for Specific Impairment	Impaired Loans With Recorded Allowance			Impaired Loans Without Recorded Allowance	
			Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance
December 31, 2018			*(in thousands)*				
Commercial business:							
Secured	$ 3,286,416	$ 26,285	$ 6,350	$ 8,460	$ 2,023	$ 19,935	$ 24,404
Unsecured	112,097	20	20	20	—	—	—
Real estate:							
One-to-four family residential	235,138	888	325	798	8	563	575
Commercial and multifamily residential:							
Commercial land	283,451	2,226	—	—	—	2,226	2,272
Income property	1,917,522	2,954	99	165	1	2,855	3,011
Owner occupied	1,605,042	12,709	3,231	4,666	69	9,478	9,750
Real estate construction:							
One-to-four family residential:							
Land and acquisition	4,417	—	—	—	—	—	—
Residential construction	212,396	—	—	—	—	—	—
Commercial and multifamily residential:							
Income property	194,912	—	—	—	—	—	—
Owner occupied	87,063	—	—	—	—	—	—
Consumer	314,193	4,022	3,326	3,584	31	696	704
Total	$ 8,252,647	$ 49,104	$ 13,351	$ 17,693	$ 2,132	$ 35,753	$ 40,716

The following table provides additional information on impaired loans for the three and nine month periods indicated:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2019		2018		2019		2018	
	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	Average Recorded Investment Impaired Loans	Interest Recognized on Impaired Loans
	(in thousands)							
Commercial business:								
Secured	$ 21,419	$ 108	$ 43,805	$ 2	$ 24,833	$ 267	$ 43,055	$ 43
Unsecured	15	—	444	—	17	1	234	1
Real estate:								
One-to-four family residential	596	12	545	12	736	29	713	30
Commercial and multifamily residential:								
Commercial land	2,861	8	2,246	26	2,704	23	2,407	26
Income property	664	—	2,443	34	1,401	—	3,367	96
Owner occupied	10,241	176	9,349	124	12,435	210	8,986	333
Real estate construction:								
One-to-four family residential:								
Residential construction	—	—	—	—	—	—	605	—
Commercial and multifamily residential:								
Owner occupied	—	—	4,050	72	—	—	4,050	174
Consumer	2,842	10	5,646	44	3,290	28	6,135	110
Total	$ 38,638	$ 314	$ 68,528	$ 314	$ 45,416	$ 558	$ 69,552	$ 813

The following is an analysis of loans classified as TDR during the three and nine months ended September 30, 2019 and 2018:

	Three Months Ended September 30, 2019			Three Months Ended September 30, 2018		
	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	6	$ 5,108	$ 5,108	1	$ 14,511	$ 14,511
Consumer	5	276	276	3	123	123
Total	11	$ 5,384	$ 5,384	4	$ 14,634	$ 14,634

	Nine Months Ended September 30, 2019			Nine Months Ended September 30, 2018		
	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	11	$ 6,642	$ 6,642	9	$ 17,605	$ 17,605
Commercial and multifamily residential:						
Income property	1	217	217	1	891	891
Consumer	9	394	394	18	2,540	2,540
Total	21	$ 7,253	$ 7,253	28	$ 21,036	$ 21,036

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 TDR modifications or concessions are made to increase the likelihood that these borrowers with financial difficulties will be able to satisfy their debt obligations as amended. The concessions granted in the restructurings, summarized in the table above, largely consisted of maturity extensions, interest rate modifications or a combination of both. In limited circumstances, a reduction in the principal balance of the loan could also be made as a concession. 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 had commitments to lend $1.5 million of additional funds on loans classified as TDR as of September 30, 2019. The Company had $2.1 million of such commitments at December 31, 2018. The Company did not have any loans modified as TDR that defaulted within 12 months of being modified as TDR during the three months ended September 30, 2019. The Company did have one $26 thousand consumer loan that defaulted within 12 months of being modified as a TDR during the nine months ended September 30, 2019. The defaulted TDR loan is collateralized and was included with the loans individually measured for specific impairment. The Company did not experience any similar defaults during the three and nine months ended September 30, 2018.

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, which utilizes probability values 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.

The excess of cash flows, expected to be collected over the initial fair value of PCI 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 ALLL and remaining valuation discounts as of September 30, 2019 and December 31, 2018:

	September 30, 2019	December 31, 2018
	(in thousands)	
Commercial business	$ 9,234	$ 9,672
Real estate:		
One-to-four family residential	8,764	9,848
Commercial and multifamily residential	59,383	66,340
Total real estate	68,147	76,188
Real estate construction:		
One-to-four family residential	144	153
Commercial and multifamily residential	462	507
Total real estate construction	606	660
Consumer	8,744	9,765
Subtotal of PCI loans	86,731	96,285
Less:		
Valuation discount resulting from acquisition accounting	4,954	6,525
ALLL	3,058	3,611
PCI loans, net of valuation discounts and allowance for loan losses	$ 78,719	$ 86,149

The following table shows the changes in accretable yield for PCI loans for the three and nine months ended September 30, 2019 and 2018:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands)			
Balance at beginning of period	$ 20,989	$ 25,350	$ 21,949	$ 31,176
Accretion	(1,289)	(2,233)	(4,865)	(6,435)
Disposals	(45)	(221)	61	(387)
Reclassifications to (from) nonaccretable difference	719	279	3,229	(1,179)
Balance at end of period	$ 20,374	$ 23,175	$ 20,374	$ 23,175

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

We record an ALLL to recognize management’s estimate of credit losses incurred in the loan portfolio at each balance sheet date. We have used the same methodology for the ALLL calculation during the three and nine months ended September 30, 2019 and 2018.

The following tables show a detailed analysis of the ALLL for the three and nine months ended September 30, 2019 and 2018:

	Beginning Balance	Charge-offs	Recoveries	Provision (Recapture)	Ending Balance	Specific Reserve	General Allocation
Three Months Ended September 30, 2019				*(in thousands)*			
Commercial business:							
Secured	$ 37,862	$ (2,365)	$ 202	$ 5,721	$ 41,420	$ 1,879	$ 39,541
Unsecured	3,010	—	156	423	3,589	—	3,589
Real estate:							
One-to-four family residential	645	—	65	(107)	603	5	598
Commercial and multifamily residential:							
Commercial land	5,409	—	79	560	6,048	320	5,728
Income property	5,325	—	104	35	5,464	—	5,464
Owner occupied	5,230	—	1	500	5,731	105	5,626
Real estate construction:							
One-to-four family residential:							
Land and acquisition	153	—	105	(124)	134	—	134
Residential construction	6,103	—	2,366	(2,852)	5,617	—	5,617
Commercial and multifamily residential:							
Income property	4,198	—	—	(505)	3,693	—	3,693
Owner occupied	2,412	—	—	595	3,007	—	3,007
Consumer	5,194	(285)	326	(1,010)	4,225	17	4,208
PCI	3,269	(722)	1,812	(1,301)	3,058	—	3,058
Unallocated	1,707	—	—	(1,636)	71	—	71
Total	$ 80,517	$ (3,372)	$ 5,216	$ 299	$ 82,660	$ 2,326	$ 80,334

	Beginning Balance	Charge-offs	Recoveries	Provision (Recapture)	Ending Balance	Specific Reserve	General Allocation
Nine Months Ended September 30, 2019				*(in thousands)*			
Commercial business:							
Secured	$ 43,188	$ (7,717)	$ 1,040	$ 4,909	$ 41,420	$ 1,879	$ 39,541
Unsecured	2,626	(15)	345	633	3,589	—	3,589
Real estate:							
One-to-four family residential	593	(2)	102	(90)	603	5	598
Commercial and multifamily residential:							
Commercial land	3,947	—	93	2,008	6,048	320	5,728
Income property	4,044	—	152	1,268	5,464	—	5,464
Owner occupied	4,533	—	3	1,195	5,731	105	5,626
Real estate construction:							
One-to-four family residential:							
Land and acquisition	549	—	236	(651)	134	—	134
Residential construction	5,536	(170)	2,956	(2,705)	5,617	—	5,617
Commercial and multifamily residential:							
Income property	5,784	—	1	(2,092)	3,693	—	3,693
Owner occupied	2,604	—	—	403	3,007	—	3,007
Consumer	5,301	(1,117)	742	(701)	4,225	17	4,208
PCI	3,611	(2,626)	3,389	(1,316)	3,058	—	3,058
Unallocated	1,053	—	—	(982)	71	—	71
Total	$ 83,369	$ (11,647)	$ 9,059	$ 1,879	$ 82,660	$ 2,326	$ 80,334

Three Months Ended September 30, 2018	Beginning Balance	Charge-offs	Recoveries	Provision (Recapture)	Ending Balance	Specific Reserve	General Allocation
				(in thousands)			
Commercial business:							
Secured	$ 40,350	$ (576)	$ 496	$ 2,912	$ 43,182	$ 1,139	$ 42,043
Unsecured	2,443	(30)	51	(41)	2,423	—	2,423
Real estate:							
One-to-four family residential	461	—	21	(110)	372	8	364
Commercial and multifamily residential:							
Commercial land	3,278	—	8	(87)	3,199	—	3,199
Income property	4,102	—	202	(292)	4,012	1	4,011
Owner occupied	4,356	—	3	316	4,675	71	4,604
Real estate construction:							
One-to-four family residential:							
Land and acquisition	848	—	582	(742)	688	—	688
Residential construction	4,572	—	1	660	5,233	—	5,233
Commercial and multifamily residential:							
Income property	7,367	—	—	573	7,940	—	7,940
Owner occupied	2,299	—	—	138	2,437	—	2,437
Consumer	5,292	(277)	266	(258)	5,023	36	4,987
PCI	4,782	(1,208)	945	(502)	4,017	—	4,017
Unallocated	—	—	—	586	586	—	586
Total	$ 80,150	$ (2,091)	$ 2,575	$ 3,153	$ 83,787	$ 1,255	$ 82,532

Nine Months Ended September 30, 2018	Beginning Balance	Charge-offs	Recoveries	Provision (Recapture)	Ending Balance	Specific Reserve	General Allocation
				(in thousands)			
Commercial business:							
Secured	$ 29,341	$ (8,741)	$ 2,536	$ 20,046	$ 43,182	$ 1,139	$ 42,043
Unsecured	2,000	(117)	356	184	2,423	—	2,423
Real estate:							
One-to-four family residential	701	—	389	(718)	372	8	364
Commercial and multifamily residential:							
Commercial land	4,265	—	92	(1,158)	3,199	—	3,199
Income property	5,672	(223)	901	(2,338)	4,012	1	4,011
Owner occupied	5,459	—	19	(803)	4,675	71	4,604
Real estate construction:							
One-to-four family residential:							
Land and acquisition	963	—	610	(885)	688	—	688
Residential construction	3,709	—	6	1,518	5,233	—	5,233
Commercial and multifamily residential:							
Income property	7,053	—	—	887	7,940	—	7,940
Owner occupied	4,413	—	—	(1,976)	2,437	—	2,437
Consumer	5,163	(773)	796	(163)	5,023	36	4,987
PCI	6,907	(3,786)	3,096	(2,200)	4,017	—	4,017
Unallocated	—	—	—	586	586	—	586
Total	$ 75,646	$ (13,640)	$ 8,801	$ 12,980	$ 83,787	$ 1,255	$ 82,532

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands)			
Balance at beginning of period	$ 3,980	$ 3,680	$ 4,330	$ 3,130
Net changes in the allowance for unfunded commitments and letters of credit	(400)	275	(750)	825
Balance at end of period	$ 3,580	$ 3,955	$ 3,580	$ 3,955

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

The following is an analysis of the credit quality of our loan portfolio, excluding PCI loans, as of September 30, 2019 and December 31, 2018:

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
September 30, 2019			*(in thousands)*			
Loans, excluding PCI loans:						
Commercial business:						
Secured	$ 3,433,097	$ 30,153	$ 92,731	$ 2	$ —	$ 3,555,983
Unsecured	139,176	—	197	—	—	139,373
Real estate:						
One-to-four family residential	272,021	—	1,012	—	—	273,033
Commercial and multifamily residential:						
Commercial land	277,264	4,665	13,367	—	—	295,296
Income property	1,917,596	3,918	40,421	—	—	1,961,935
Owner occupied	1,642,558	8,278	47,472	—	—	1,698,308
Real estate construction:						
One-to-four family residential:						
Land and acquisition	1,614	—	—	—	—	1,614
Residential construction	192,563	—	—	—	—	192,563
Commercial and multifamily residential:						
Income property	157,400	—	—	—	—	157,400
Owner occupied	102,246	—	—	—	—	102,246
Consumer	293,484	—	3,343	—	—	296,827
Total	$ 8,429,019	$ 47,014	$ 198,543	$ 2	$ —	8,674,578
Less:						
ALLL						79,602
Loans, excluding PCI loans, net						$ 8,594,976

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
December 31, 2018			*(in thousands)*			
Loans, excluding PCI loans:						
Commercial business:						
Secured	$ 3,160,910	$ 48,779	$ 103,007	$ 5	$ —	$ 3,312,701
Unsecured	112,091	21	—	5	—	112,117
Real estate:						
One-to-four family residential	234,416	—	1,610	—	—	236,026
Commercial and multifamily residential:						
Commercial land	276,348	5,082	4,247	—	—	285,677
Income property	1,876,925	36,998	6,553	—	—	1,920,476
Owner occupied	1,556,852	14,964	45,935	—	—	1,617,751
Real estate construction:						
One-to-four family residential:						
Land and acquisition	4,099	—	318	—	—	4,417
Residential construction	212,225	—	171	—	—	212,396
Commercial and multifamily residential:						
Income property	194,912	—	—	—	—	194,912
Owner occupied	87,063	—	—	—	—	87,063
Consumer	313,817	—	4,398	—	—	318,215
Total	$ 8,029,658	$ 105,844	$ 166,239	$ 10	$ —	8,301,751
Less:						
ALLL						79,758
Loans, excluding PCI loans, net						$ 8,221,993

The following is an analysis of the credit quality of our PCI loan portfolio as of September 30, 2019 and December 31, 2018:

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
September 30, 2019			*(in thousands)*			
PCI loans:						
Commercial business:						
Secured	$ 7,008	$ 955	$ 721	$ —	$ —	$ 8,684
Unsecured	550	—	—	—	—	550
Real estate:						
One-to-four family residential	8,521	—	243	—	—	8,764
Commercial and multifamily residential:						
Commercial land	8,920	642	72	—	—	9,634
Income property	18,737	—	—	—	—	18,737
Owner occupied	25,059	—	5,953	—	—	31,012
Real estate construction:						
One-to-four family residential:						
Land and acquisition	144	—	—	—	—	144
Commercial and multifamily residential:						
Income property	462	—	—	—	—	462
Consumer	8,468	—	276	—	—	8,744
Total	$ 77,869	$ 1,597	$ 7,265	$ —	$ —	86,731
Less:						
Valuation discount resulting from acquisition accounting						4,954
ALLL						3,058
PCI loans, net						$ 78,719

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
December 31, 2018			*(in thousands)*			
PCI loans:						
Commercial business:						
Secured	$ 8,041	$ —	$ 840	$ —	$ —	$ 8,881
Unsecured	692	—	99	—	—	791
Real estate:						
One-to-four family residential	9,633	—	215	—	—	9,848
Commercial and multifamily residential:						
Commercial land	10,363	—	—	—	—	10,363
Income property	19,680	—	—	—	—	19,680
Owner occupied	35,944	—	353	—	—	36,297
Real estate construction:						
One-to-four family residential:						
Land and acquisition	151	—	2	—	—	153
Commercial and multifamily residential:						
Income property	507	—	—	—	—	507
Consumer	9,326	—	439	—	—	9,765
Total	$ 94,337	$ —	$ 1,948	$ —	$ —	96,285
Less:						
Valuation discount resulting from acquisition accounting						6,525
ALLL						3,611
PCI loans, net						$ 86,149

6. Other Real Estate Owned

The following tables set forth activity in OREO for the three and nine months ended September 30, 2019 and 2018:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands)			
Balance, beginning of period	$ 1,118	$ 7,080	$ 6,019	$ 13,298
Transfers in	—	794	386	1,200
Valuation adjustments	—	(495)	(195)	(697)
Proceeds from sale of OREO property	(588)	(47)	(6,382)	(5,868)
Gain (loss) on sale of OREO, net	95	(1)	797	(602)
Balance, end of period	$ 625	$ 7,331	$ 625	$ 7,331

At September 30, 2019, there were $311 thousand in foreclosed residential real estate properties held as OREO. 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.

7. Goodwill and Other Intangible Assets

In accordance with the Intangibles – Goodwill and Other topic of the FASB ASC, goodwill is not amortized but is reviewed for potential impairment at the reporting unit level. Management analyzes its goodwill for impairment on an annual basis on July 31 and between annual tests in certain circumstances such as material adverse changes in legal, business, regulatory and economic factors. An impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value. The Company performed an annual impairment assessment as of July 31, 2019 and concluded that there was no impairment.

The 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.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands)			
Goodwill				
Total goodwill	$ 765,842	$ 765,842	$ 765,842	$ 765,842
Other intangible assets, net				
CDI:				
Gross CDI balance at beginning of period	105,473	105,473	105,473	105,473
Accumulated amortization at beginning of period	(65,852)	(54,495)	(60,455)	(48,219)
CDI, net at beginning of period	39,621	50,978	45,018	57,254
CDI current period amortization	(2,632)	(3,070)	(8,029)	(9,346)
Total CDI, net at end of period	36,989	47,908	36,989	47,908
Intangible assets not subject to amortization	919	919	919	919
Other intangible assets, net at end of period	37,908	48,827	37,908	48,827
Total goodwill and other intangible assets at end of period	$ 803,750	$ 814,669	$ 803,750	$ 814,669

The following table provides the estimated future amortization expense of our CDI for the remaining three months ending December 31, 2019 and the succeeding four years:

	Year ending December 31,
	(in thousands)
2019	$ 2,451
2020	8,724
2021	7,264
2022	5,880
2023	4,552

8. Leases

The Company's lease commitments consist primarily of leased locations under various non-cancellable operating leases that expire between 2019 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.

The following table shows the details of the Company's operating lease right-of-use asset and the associated lease liability for the period indicated:

Item	Balance Sheet Location	September 30, 2019
		(in thousands)
Operating lease asset	Other assets	$ 51,295
Operating lease liability	Other liabilities	$ 57,196

At September 30, 2019, the Company's operating leases have a weighted-average remaining lease term of 7.5 years and a weighted average discount rate of 3.1%. Cash paid for amounts included in the measurement of operating lease liabilities was $2.8 million for the nine months ended September 30, 2019. Right-of-use assets obtained in exchange for new operating lease liabilities during the nine months ended September 30, 2019 was $9.2 million.

On September 26, 2019 the Company sold one of its Washington facilities and leased back a portion of the facility utilized for branch operations. The resulting gain on the sale was $5.9 million.

The following table shows the components of net lease costs:

		Three Months Ended September 30,	Nine Months Ended September 30,
Item	Statement of Income Location	2019	2019
		(in thousands)	
Operating lease cost (1)	Occupancy	$ 2,700	$ 8,285
Variable lease cost	Occupancy	487	1,510
Sublease income	Occupancy	(297)	(918)
Net lease cost		$ 2,890	$ 8,877

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(1) Includes short-term lease costs, which are immaterial.

The following table shows future minimum payments for operating leases for the remaining three months of 2019 and subsequent years:

		Year ending December 31,
		(in thousands)
2019	$	2,717
2020		10,619
2021		10,376
2022		9,795
2023		8,546
Thereafter		22,685
Total future minimum lease payments		64,738
Amounts representing interest		(7,542)
Present value of minimum lease payments	$	57,196

Future minimum lease payments for the Company’s operating leases as of December 31, 2018, prior to the adoption of the new lease guidance were as follows:

		Year Ending December 31,
		(in thousands)
2019	$	10,947
2020		9,766
2021		8,729
2022		8,102
2023		6,796
Thereafter		18,703
Total minimum payments	$	63,043

9. Revolving Line of Credit

During the second quarter of 2019, the Company entered into a $30.0 million short-term credit facility with an unaffiliated bank that matures in May 2020. This facility has a variable interest rate and provides the Company additional liquidity, if needed, for various corporate activities including the repurchase of shares of Columbia Banking System, Inc. common stock. As of September 30, 2019 and December 31, 2018, there was no outstanding balance. The credit agreement requires the Company to comply with certain covenants including those related to asset quality and capital levels. The Company was in compliance with all covenants associated with this facility at September 30, 2019.

10. Derivatives, Hedging Activities and Balance Sheet Offsetting

The Company is exposed to certain risks arising from both its business and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk, primarily by managing the amount, sources, and duration of its assets and liabilities and the use of derivative financial instruments. Specifically, the Company enters into interest rate-based derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts. The Company’s derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company’s known or expected cash receipts and its known or expected cash payments principally related to the Company’s loan portfolio.

The Company’s objectives in using interest rate derivatives are to add stability to interest income and to manage its exposure to interest rate movements. To accomplish this objective, the Company uses interest rate collars as part of its interest rate risk management strategy. Interest rate collars designated as cash flow hedges involve the payments of variable-rate amounts if interest rates rise above the cap strike rate on the contract and receipts of variable-rate amounts if interest rates fall below the floor strike rate on the contract. These derivative contracts are used to hedge the variable cash flows associated with existing variable-rate assets.

With respect to derivatives designated and that qualify as cash flow hedges of interest rate risk, the gain or loss on the derivative is recorded in accumulated other comprehensive income (loss) and subsequently reclassified into interest income in the same period(s) during which the hedged transaction affects earnings. Amounts reported in accumulated other comprehensive income (loss) related to derivatives will be reclassified to interest income as interest payments are received on the Company's variable-rate assets. During the next 12 months, the Company estimates that there will be $3.1 million reclassified as an increase to interest income.

In addition, the Company periodically enters into certain commercial loan interest rate swap agreements in order to provide commercial loan customers the ability to convert from variable to fixed interest rates. Under these agreements, the Company enters into a variable-rate loan agreement with a customer in addition to a swap agreement. This swap agreement effectively converts the customer's variable rate loan into a fixed rate. The Company then enters into a corresponding swap agreement with a third-party in order to offset its exposure on the variable and fixed components of the customer agreement. As the interest rate swap agreements with the customers and third parties are not designated as hedges under the Derivatives and Hedging topic of the FASB ASC, the instruments are marked to market in earnings. The notional amount of open interest rate swap agreements at September 30, 2019 and December 31, 2018 was $396.5 million and $366.7 million, respectively. There was no mark-to-market gain or loss recorded in the three months ended September 30, 2019. During the nine months ended September 30, 2019 there was a $2 thousand mark-to-market loss recorded to "Other" noninterest expense. During the three and nine months ended September 30, 2018, mark-to-market gains of $1 thousand and $9 thousand, respectively, were recorded to "Other" noninterest expense.

The following table presents the fair value of derivatives, as well as their classification on the Balance Sheet at September 30, 2019 and December 31, 2018:

	Asset Derivatives				Liability Derivatives			
	September 30, 2019		December 31, 2018		September 30, 2019		December 31, 2018	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
	(in thousands)							
Derivatives designated as hedging instruments:								
Interest rate collar	Other assets	$ 19,703	Other assets	$ —	Other liabilities	$ —	Other liabilities	$ —
Derivatives not designated as hedging instruments:								
Interest rate swap contracts	Other assets	$ 25,045	Other assets	$ 7,033	Other liabilities	$ 25,046	Other liabilities	$ 7,033

The table below presents the effect of cash flow hedge accounting on accumulated other comprehensive income (loss) at September 30, 2019 and 2018:

	Amount of Gain or (Loss) Recognized in Accumulated Other Comprehensive Income on Derivative		Location of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income into Income	Amount of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income into Income	
	Three Months Ended September 30,			Three Months Ended September 30,	
	2019	2018		2019	2018
	(in thousands)				
Interest rate collar	$ 4,088	$ —	Interest income	$ 76	$ —
	Nine Months Ended September 30,			Nine Months Ended September 30,	
	2019	2018		2019	2018
Interest rate collar	$ 19,779	$ —	Interest income	$ 76	$ —

The notional amount of the interest rate collar was $500.0 million at September 30, 2019. The cash flow hedge was determined to be effective during the periods presented and, as a result, qualifies for hedge accounting treatment.

The Company is party to interest rate swap contracts, interest rate collar and repurchase agreements that are subject to enforceable master netting arrangements or similar agreements. Under these agreements, the Company may have the right to net settle multiple contracts with the same counterparty. The following tables show the gross interest rate swap contracts, collar agreements and repurchase agreements in the Consolidated Balance Sheets and the respective collateral received or pledged in the form of cash or other financial instruments. The collateral amounts in these tables are limited to the outstanding balances of the related asset or liability. Therefore, instances of 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 Pledged/Received	Net Amount
September 30, 2019			*(in thousands)*		
Assets					
Interest rate swap contracts	$ 25,045	$ —	$ 25,045	$ —	$ 25,045
Interest rate collar	$ 19,703	$ —	$ 19,703	$ (19,703)	—
Liabilities					
Interest rate swap contracts	$ 25,046	$ —	$ 25,046	$ (25,046)	$ —
Repurchase agreements	$ 24,489	$ —	$ 24,489	$ (24,489)	$ —
December 31, 2018					
Assets					
Interest rate swap contracts	$ 7,033	$ —	$ 7,033	$ —	$ 7,033
Liabilities					
Interest rate swap contracts	$ 7,033	$ —	$ 7,033	$ (3,235)	$ 3,798
Repurchase agreements	$ 61,094	$ —	$ 61,094	$ (61,094)	$ —

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

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

	Remaining contractual maturity of the agreements				
	Overnight and continuous	Up to 30 days	30 - 90 days	Greater than 90 days	Total
September 30, 2019			*(in thousands)*		
Class of collateral pledged for repurchase agreements					
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	$ 24,489	$ —	$ —	$ —	$ 24,489
Gross amount of recognized liabilities for repurchase agreements					24,489
Amounts related to agreements not included in offsetting disclosure					$ —

The collateral utilized for the Company's repurchase agreements is subject to market fluctuations as well as prepayments of principal. The Company monitors the risk of the fair value of its pledged collateral falling below acceptable amounts based on the type of the underlying repurchase agreement. The pledged collateral related to the Company's $24.5 million sweep repurchase agreements, which mature on an overnight basis, is monitored on a daily basis as the underlying sweep accounts can have frequent transaction activity and the amount of pledged collateral is adjusted as necessary.

11. Commitments and Contingent Liabilities

Financial Instruments with Off-Balance Sheet Risk: In the normal course of business, the Company makes loan commitments (typically unfunded loans and unused lines of credit) and issues standby letters of credit to accommodate the financial needs of its customers. At September 30, 2019 and December 31, 2018, the Company's loan commitments amounted to $2.59 billion and $2.62 billion, respectively.

Standby letters of credit commit the Company to make payments on behalf of customers under specified conditions. Historically, no significant losses have been incurred by the Company under standby letters of credit. Both arrangements have credit risk essentially the same as that involved in extending loans to customers and are subject to the Company's normal credit policies, including collateral requirements, where appropriate. Standby letters of credit were $26.9 million and $28.3 million at September 30, 2019 and December 31, 2018, respectively. In addition, there were $24 thousand commitments under commercial letters of credit used to facilitate customers' trade transactions and other off-balance sheet liabilities at September 30, 2019 and none at December 31, 2018, respectively.

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

12. Shareholders' Equity

Dividends:

The following table summarizes year-to-date dividend activity as of September 30, 2019:

Declared	Regular Cash Dividends Per Common Share	Special Cash Dividends Per Common Share	Record Date	Paid Date
January 24, 2019	$ 0.28	$ 0.14	February 6, 2019	February 20, 2019
April 25, 2019	$ 0.28	$ 0.14	May 8, 2019	May 22, 2019
July 25, 2019	$ 0.28	$ —	August 7, 2019	August 21, 2019

Subsequent to quarter end, on October 24, 2019, the Company declared a regular quarterly cash dividend of $0.28 per common share payable on November 20, 2019 to shareholders of record at the close of business on November 6, 2019.

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

Share Repurchase Program:

For the three and nine months ended September 30, 2019, the Company repurchased 676 thousand and 1.3 million shares of common stock at an average price of $34.77 and $34.89 per share, respectively. As of September 30, 2019, there are 1.6 million remaining shares authorized to be repurchased under the current Board approved share repurchase program.

13. Accumulated Other Comprehensive Income

The following table shows changes in accumulated other comprehensive income (loss) by component for the three and nine months ended September 30, 2019 and 2018:

	Unrealized Gains and Losses on Available-for-Sale Securities (1)	Unrealized Gains and Losses on Pension Plan Liability (1)	Unrealized Gains and Losses on Hedging Instruments (1)	Total (1)
Three Months Ended September 30, 2019		*(in thousands)*		
Beginning balance	$ 37,162	$ (2,055)	$ 12,043	$ 47,150
Other comprehensive income before reclassifications	14,593	—	3,137	17,730
Amounts reclassified from accumulated other comprehensive income (2)	—	62	(58)	4
Net current-period other comprehensive income	14,593	62	3,079	17,734
Ending balance	$ 51,755	$ (1,993)	$ 15,122	$ 64,884
Three Months Ended September 30, 2018				
Beginning balance	$ (53,597)	$ (2,324)	$ —	$ (55,921)
Other comprehensive loss before reclassifications	(14,149)	—	—	(14,149)
Amounts reclassified from accumulated other comprehensive loss (2)	—	61	—	61
Net current-period other comprehensive income (loss)	(14,149)	61	—	(14,088)
Ending balance	$ (67,746)	$ (2,263)	$ —	$ (70,009)
Nine Months Ended September 30, 2019				
Beginning balance	$ (33,128)	$ (2,177)	$ —	$ (35,305)
Other comprehensive income before reclassifications	86,519	—	15,180	101,699
Amounts reclassified from accumulated other comprehensive loss (2)	(1,636)	184	(58)	(1,510)
Net current-period other comprehensive income	84,883	184	15,122	100,189
Ending balance	$ 51,755	$ (1,993)	$ 15,122	$ 64,884
Nine Months Ended September 30, 2018				
Beginning balance	$ (19,779)	$ (2,446)	$ —	$ (22,225)
Adjustment pursuant to adoption of ASU 2016-01	157	—	—	157
Other comprehensive loss before reclassifications	(48,043)	—	—	(48,043)
Amounts reclassified from accumulated other comprehensive loss (2)	(81)	183	—	102
Net current-period other comprehensive income (loss)	(48,124)	183	—	(47,941)
Ending balance	$ (67,746)	$ (2,263)	$ —	$ (70,009)

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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.

The following table shows details regarding the reclassifications from accumulated other comprehensive income (loss) for the three and nine months ended September 30, 2019 and 2018:

	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)				
	Three Months Ended September 30,		Nine Months Ended September 30,		Affected line Item in the Consolidated
	2019	2018	2019	2018	Statement of Income
	(in thousands)				
Unrealized gains and losses on available for sale debt securities					
Investment securities gains, net	$ —	$ —	$ 2,132	$ 106	Investment securities gains (losses), net
	—	—	2,132	106	Total before tax
	—	—	(496)	(25)	Income tax provision
	$ —	$ —	$ 1,636	$ 81	Net of tax
Amortization of pension plan liability					
Actuarial losses	$ (81)	$ (80)	$ (240)	$ (239)	Compensation and employee benefits
	(81)	(80)	(240)	(239)	Total before tax
	19	19	56	56	Income tax provision
	$ (62)	$ (61)	$ (184)	$ (183)	Net of tax
Unrealized gains and losses from hedging instruments					
Interest income	$ 76	$ —	$ 76	$ —	Loans
	76	—	76	—	Total before tax
	(18)	—	(18)	—	Income tax provision
	$ 58	$ —	$ 58	$ —	Net of tax

14. Fair Value Accounting and Measurement

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

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

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

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

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

Fair values are determined as follows:

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 and equity securities, which are considered a Level 1 input method.

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

The following table sets forth the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis at September 30, 2019 and December 31, 2018 by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement:

		Fair Value Measurements at Reporting Date Using		
	Fair Value	Level 1	Level 2	Level 3
September 30, 2019		(in thousands)		
Assets				
Debt securities available for sale:				
U.S. government agency and government-sponsored enterprise mortgage-back securities and collateralized mortgage obligations (1)	$ 2,482,835	$ —	$ 2,482,835	$ —
Other asset-backed securities (1)	171,578	—	171,578	—
State and municipal debt securities	497,314	—	497,314	—
U.S. government agency and government-sponsored enterprise securities	215,595	—	215,595	—
U.S. government securities	250	250	—	—
Total debt securities available for sale	$ 3,367,572	$ 250	$ 3,367,322	$ —
Other assets:				
Interest rate contracts	$ 25,045	$ —	$ 25,045	$ —
Interest rate collar	$ 19,703	$ —	$ 19,703	$ —
Liabilities				
Other liabilities:				
Interest rate contracts	$ 25,046	$ —	$ 25,046	$ —

		Fair Value Measurements at Reporting Date Using		
	Fair Value	Level 1	Level 2	Level 3
December 31, 2018		(in thousands)		
Assets				
Debt securities available for sale:				
U.S. government agency and government-sponsored enterprise mortgage-back securities and collateralized mortgage obligations (1)	$ 2,013,355	$ —	$ 2,013,355	$ —
Other asset-backed securities (1)	174,935	—	174,935	—
State and municipal debt securities	574,323	—	574,323	—
U.S. government agency and government-sponsored enterprise securities	404,587	—	404,587	—
U.S. government securities	248	248	—	—
Total debt securities available for sale	$ 3,167,448	$ 248	$ 3,167,200	$ —
Other assets:				
Interest rate contracts	$ 7,033	$ —	$ 7,033	$ —
Liabilities				
Other liabilities:				
Interest rate contracts	$ 7,033	$ —	$ 7,033	$ —

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(1) Beginning July 2019, other asset-backed securities were presented separately in this table. Prior period amounts that were previously reported in U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations have been reclassified to conform to current period presentation.

There were no transfers between Level 1 and Level 2 of the valuation hierarchy during the nine month periods ended September 30, 2019 and 2018. The Company recognizes transfers between levels of the valuation hierarchy based on the valuation level at the end of the reporting period.

Nonrecurring Measurements

Certain assets and liabilities are measured at fair value on a nonrecurring basis after initial recognition such as loans measured for impairment. The following method was used to estimate the fair value of impaired loans:

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. The impairment evaluations are performed in conjunction with the allowance process on a quarterly basis by officers in the Special Credits group, which reports to the Chief Credit Officer. The 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.

OREO—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 allowance, or in the event of a write-up without previous losses charged to the allowance, 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 tables set forth information related to the Company's assets that were measured using fair value estimates on a nonrecurring basis during the current and prior year quarterly periods:

	Fair value at September 30, 2019	Fair Value Measurements at Reporting Date Using			Losses During the Three Months Ended September 30, 2019	Losses During the Nine Months Ended September 30, 2019
		Level 1	Level 2	Level 3		
				(in thousands)		
Impaired loans	$ 8,990	$ —	$ —	$ 8,990	$ 1,722	$ 3,299
	$ 8,990	$ —	$ —	$ 8,990	$ 1,722	$ 3,299

	Fair value at September 30, 2018	Fair Value Measurements at Reporting Date Using			Losses During the Three Months Ended September 30, 2018	Losses During the Nine Months Ended September 30, 2018
		Level 1	Level 2	Level 3		
				(in thousands)		
Impaired loans	$ 14,616	$ —	$ —	$ 14,616	$ 1,208	$ 1,208
OREO	1,240	—	—	1,240	445	445
	$ 15,856	$ —	$ —	$ 15,856	$ 1,653	$ 1,653

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. The amount of the specific reserve is included in the ALLL. The losses on OREO disclosed above represent the write-downs taken at foreclosure that were charged to the ALLL, as well as subsequent changes in valuation allowances from updated appraisals that were recorded to earnings.

Quantitative information about Level 3 fair value measurements

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

	Fair value at September 30, 2019		Valuation Technique	Unobservable Input	Range (Weighted Average) (1)
			(dollars in thousands)		
Impaired loans - collateral-dependent (2)	$	8,990	Fair Market Value of Collateral	Adjustment to Stated Value	0.00% - 100.00% (42.09%)

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

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

	Fair value at September 30, 2018		Valuation Technique	Unobservable Input	Range (Weighted Average) (1)
			(dollars in thousands)		
Impaired loans - collateral-dependent (3)	$	14,616	Fair Market Value of Collateral	Adjustment to Stated Value	0.00% - 54.51% (6.66%)
OREO	$	1,240	Fair Market Value of Collateral	Adjustment to Appraisal Value	N/A (2)

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

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

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

The following tables summarize carrying amounts and estimated fair values of selected financial instruments by level within the fair value hierarchy at September 30, 2019 and December 31, 2018:

	September 30, 2019				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
	(in thousands)				
Assets					
Cash and due from banks	$ 278,461	$ 278,461	$ 278,461	$ —	$ —
Interest-earning deposits with banks	20,144	20,144	20,144	—	—
Debt securities available for sale	3,367,572	3,367,572	250	3,367,322	—
FHLB stock	29,680	29,680	—	29,680	—
Loans held for sale	15,036	15,036	—	15,036	—
Loans	8,673,695	8,895,564	—	—	8,895,564
Interest rate contracts	25,045	24,045	—	24,045	—
Interest rate collar	19,703	19,703	—	19,703	—
Liabilities					
Time deposits	$ 366,773	$ 361,195	$ —	$ 361,195	$ —
FHLB advances	492,482	493,736	—	493,736	—
Repurchase agreements	24,489	24,489	—	24,489	—
Subordinated debentures	35,323	35,255	—	35,255	—
Interest rate contracts	25,046	25,046	—	25,046	—

	December 31, 2018				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
	(in thousands)				
Assets					
Cash and due from banks	$ 260,180	$ 260,180	$ 260,180	$ —	$ —
Interest-earning deposits with banks	17,407	17,407	17,407	—	—
Debt securities available for sale	3,167,448	3,167,448	248	3,167,200	—
FHLB stock	25,960	25,960	—	25,960	—
Loans held for sale	3,849	3,849	—	3,849	—
Loans	8,308,142	8,316,946	—	—	8,316,946
Interest rate contracts	7,033	7,033	—	7,033	—
Liabilities					
Time deposits	$ 414,443	$ 407,659	$ —	$ 407,659	$ —
FHLB advances	399,523	400,085	—	400,085	—
Repurchase agreements	61,094	61,094	—	61,094	—
Subordinated debentures	35,462	34,897	—	34,897	—
Interest rate contracts	7,033	7,033	—	7,033	—

15. Earnings Per Common Share

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

The following table sets forth the computation of basic and diluted EPS for the three and nine months ended September 30, 2019 and 2018:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands except per share amounts)			
Basic EPS:				
Net income	$ 50,727	$ 46,415	$ 148,322	$ 128,134
Less: Earnings allocated to participating securities:				
Nonvested restricted shares	358	504	1,204	1,413
Earnings allocated to common shareholders	$ 50,369	$ 45,911	$ 147,118	$ 126,721
Weighted average common shares outstanding	71,803	72,427	72,256	72,370
Basic earnings per common share	$ 0.70	$ 0.63	$ 2.04	$ 1.75
Diluted EPS:				
Earnings allocated to common shareholders	$ 50,369	$ 45,911	$ 147,118	$ 126,721
Weighted average common shares outstanding	71,803	72,427	72,256	72,370
Dilutive effect of equity awards	—	5	1	4
Weighted average diluted common shares outstanding	71,803	72,432	72,257	72,374
Diluted earnings per common share	$ 0.70	$ 0.63	$ 2.04	$ 1.75
Potentially dilutive share options that were not included in the computation of diluted EPS because to do so would be anti-dilutive	—	—	—	5

16. Revenue from Contracts with Customers

Revenue in the scope of Topic 606, *Revenue from Contracts with Customers* is measured based on the consideration specified in the contract with a customer and excludes amounts collected on behalf of third parties. The vast majority of the Company's revenue is specifically outside the scope of Topic 606. For in-scope revenue, the following is a description of principal activities, separated by the timing of revenue recognition from which the Company generates its revenue from contracts with customers.

a. Revenue earned at a point in time - Examples of revenue earned at a point in time are ATM transaction fees, wire transfer fees, overdraft fees, interchange fees and foreign exchange transaction fees. Revenue is primarily based on the number and type of transactions and is generally derived from transactional information accumulated by our systems and is recognized immediately as the transactions occur or upon providing the service to complete the customer's transaction. The Company is the principal in each of these contracts, with the exception of interchange fees, in which case we are acting as the agent and record revenue net of expenses paid to the principal.

b. Revenue earned over time - The Company earns revenue from contracts with customers in a variety of ways where the revenue is earned over a period of time - generally monthly. Examples of this type of revenue are deposit account maintenance fees, investment advisory fees, merchant revenue and safe deposit box fees. Revenue is generally derived from transactional information accumulated by our systems or those of third-parties and is recognized as the related transactions occur or services are rendered to the customer.

The Company recognizes revenue from contracts with customers when it satisfies its performance obligations. The Company's performance obligations are typically satisfied as services are rendered and our contracts generally do not include multiple performance obligations. As a result, there are no contract balances as payments and services are rendered simultaneously. Payment is generally collected at the time services are rendered, monthly or quarterly. Unsatisfied performance obligations at the report date are not material to our consolidated financial statements.

In certain cases, other parties are involved with providing products and services to our customers. If the Company is principal in the transaction (providing goods or services itself), revenues are reported based on the gross consideration received from the customer and any related expenses are reported gross in noninterest expense. If the Company is an agent in the transaction (arranging for another party to provide goods or services), the Company reports its net fee or commission retained as revenue.

Rebates, waivers and reversals are recorded as a reduction of the transaction price either when the revenue is recognized by the Company or at the time the rebate, waiver or reversal is earned by the customer.

Practical expedients

The Company applies the practical expedient in paragraph 606-10-32-18 and does not adjust the consideration from customers for the effects of a significant financing component if at contract inception the period between when the entity transfers the goods or services and when the customer pays for that good or service will be one year or less.

The Company pays sales commissions to its employees in accordance with certain incentive plans and in connection with obtaining certain contracts with customers. The Company applies the practical expedient in paragraph 340-40-25-4 and expenses such sales commissions when incurred if the amortization period of the asset the Company otherwise would have recognized is one year or less. Sales commissions are included in compensation and employee benefits expense.

For the Company's contracts that have an original expected duration of one year or less, the Company uses the practical expedient in paragraph 606-10-50-14 and has not disclosed the amount of the transaction price allocated to unsatisfied performance obligations as of the end of each reporting period or when the Company expects to recognize this revenue.

Disaggregation of revenue

The following table shows the disaggregation of revenue from contracts with customers for the three and nine month periods ended September 30, 2019 and 2018:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands)			
Noninterest income:				
Revenue from contracts with customers:				
Deposit account and treasury management fees	$ 9,015	$ 9,266	$ 27,030	$ 26,689
Card revenue	4,006	3,714	11,431	16,143
Financial services and trust revenue	3,226	2,975	9,608	8,924
Total revenue from contracts with customers	16,247	15,955	48,069	51,756
Other sources of noninterest income	11,783	5,064	27,305	16,098
Total noninterest income	$ 28,030	$ 21,019	$ 75,374	$ 67,854

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion should be read in conjunction with the unaudited Consolidated Financial Statements of Columbia Banking System, Inc. (referred to in this report as "we", "our", "Columbia" and "the Company") and notes thereto presented elsewhere in this report and with the December 31, 2018 audited Consolidated Financial Statements and its accompanying notes included in our Annual Report on Form 10-K. In the following discussion, unless otherwise noted, references to increases or decreases in average balances in items of income and expense for a particular period and balances at a particular date refer to the comparison with corresponding amounts for the period or date one year earlier.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- national and global economic conditions could be less favorable than expected or could have a more direct and pronounced effect on us than expected and adversely affect our ability to continue internal growth and maintain the quality of our earning assets;
- the markets where we operate and make loans could face challenges;
- the risks presented by the economy, which could adversely affect credit quality, collateral values, including real estate collateral, investment values, liquidity and loan originations and loan portfolio delinquency rates;
- the efficiencies and enhanced financial and operating performance we expect to realize from investments in personnel, acquisitions, and infrastructure may not be realized;
- interest rate changes could significantly reduce net interest income and negatively affect asset yields and funding sources;
- possible cessation or market replacement of LIBOR and the related effect on our LIBOR-based financial products and contracts, including, but not limited to, hedging products, debt obligations, investments, and loans;
- projected business increases following strategic expansion could be lower than expected;
- changes in the scope and cost of FDIC insurance and other coverages;
- the impact of acquired loans on our earnings;
- changes in accounting policies or procedures as may be required by the FASB or other regulatory agencies could materially affect our financial statements and how we report those results, and expectations and preliminary analysis relating to how such changes will affect our financial results could prove incorrect;
- changes in laws and regulations affecting our businesses, including changes in the enforcement and interpretation of such laws and regulations by applicable governmental and regulatory agencies;
- competition among financial institutions and nontraditional providers of financial services could increase significantly;
- continued consolidation in the 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;
- our ability to identify and address cyber-security risks, including security breaches, “denial of service attacks,” “hacking” and identity theft;
- any material failure or interruption of our information and communications systems;
- inability to keep pace with technological changes;
- our ability to effectively manage credit risk, interest rate risk, market risk, operational risk, legal risk, liquidity risk and regulatory and compliance risk;
- failure to maintain effective internal controls over financial reporting or disclosure controls and procedures;
- the effect of geopolitical instability, including wars, conflicts and terrorist attacks;
- our profitability measures could be adversely affected if we are unable to effectively manage our capital;
- natural disasters, including earthquakes, tsunamis, flooding, fires and other unexpected events; and
- the effects of any damage to our reputation resulting from developments related to any of the items identified above.

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

CRITICAL ACCOUNTING POLICIES

Management has identified the accounting policies related to the ALLL, business combinations and the valuation and recoverability of goodwill as critical to an understanding of our financial statements. These policies and related estimates are discussed in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" under the headings "Allowance for Loan and Lease Losses," "Business Combinations" and "Valuation and Recoverability of Goodwill" in our 2018 Annual Report on Form 10-K. There have not been any material changes in our critical accounting policies as compared to those disclosed in our 2018 Annual Report on Form 10-K.

RESULTS OF OPERATIONS

Our results of operations are dependent to a large degree on our net interest income. We also generate noninterest income from our broad range of products and services including treasury management, wealth management and debit and credit cards. Our operating expenses consist primarily of compensation and employee benefits, occupancy, data processing and legal and professional fees. Like most financial institutions, our interest income and cost of funds are affected significantly by general economic conditions, particularly changes in market interest rates, and by government policies and actions of regulatory authorities.

Earnings Summary

Comparison of current quarter to prior year period

The Company reported net income for the third quarter of $50.7 million or $0.70 per diluted common share, compared to $46.4 million or $0.63 per diluted common share for the third quarter of 2018. Net interest income for the three months ended September 30, 2019 was $122.5 million, a decrease of $346 thousand from the prior year period. The decrease was a result of higher interest expense from higher average balances of FHLB advances and interest-bearing public funds, excluding certificates of deposit, partially offset by the increase in interest income from higher average balances of interest-earning assets.

The provision for loan and lease losses for the third quarter of 2019 was $299 thousand compared to $3.2 million during the third quarter of 2018. The lower provision expense recorded in the third quarter of 2019 compared to one year ago was primarily due to the increase in net recoveries and an improvement in the credit quality of our loan portfolio.

Noninterest income for the current quarter was $28.0 million, an increase of $7.0 million from the prior year period. The increase was primarily due to a $5.9 million gain from the sale-leaseback of owned real estate during the third quarter of 2019.

Total noninterest expense for the quarter ended September 30, 2019 was $87.1 million, an increase of $4.2 million from the prior year period. After removing acquisition-related expenses of $1.1 million from the third quarter of 2018, year over year noninterest expense increased $5.3 million, or 7%. This increase was primarily driven by higher compensation and employee benefits expense which was partially offset by a decrease in regulatory premium expenses. The Bank's FDIC deposit insurance expense was reduced due to the utilization of a portion of our FDIC Small Bank Assessment Credit.

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

The Company reported net income for the nine months ended September 30, 2019 of $148.3 million or $2.04 per diluted common share, compared to $128.1 million, or $1.75 per diluted common share for the same period in 2018. Net interest income for the nine months ended September 30, 2019 was $368.6 million, an increase of $13.6 million from the prior year period. The increase was a result of $4.9 million of loan interest recoveries received in 2019 and higher rates and average balances on interest-earning assets, partially offset by higher rates on interest-bearing liabilities and an increase in average FHLB advances.

The provision for loan and lease losses for the nine months ended September 30, 2019 was $1.9 million compared to a provision of $13.0 million for the first nine months of 2018. The decrease in the provision for the first nine months of 2019 compared to the same period in 2018 was due to a reduction in the net charge-offs for the period and an improvement in the credit quality of our loan portfolio.

Noninterest income for the nine months ended September 30, 2019 was $75.4 million, an increase of $7.5 million from the prior year period. The increase was primarily due to the previously noted $5.9 million gain from a sale-leaseback transaction, BOLI benefits, and a net gain on the sale of securities during the nine months ended September 30, 2019. These increases were partially offset by lower card revenue as a result of the interchange fee cap, which became effective on July 1, 2018.

For the nine months ended September 30, 2019, noninterest expense was $258.5 million, an increase of $5.0 million from $253.5 million a year earlier. After removing the acquisition-related expenses of $8.2 million from the first nine months of 2018, year over year noninterest expense increased $13.2 million, or 5%. The increase from the prior year period was driven by higher compensation and employee benefits expense and higher legal and professional fees, partially offset by decreases in OREO expenses.

Net Interest Income

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

	Three Months Ended September 30, 2019			Three Months Ended September 30, 2018		
	Average Balances	Interest Earned / Paid	Average Rate (3)	Average Balances	Interest Earned / Paid	Average Rate (3)
			(dollars in thousands)			
ASSETS						
Loans, net (1)(2)	$ 8,694,592	$ 114,099	5.21%	$ 8,456,632	$ 110,925	5.20%
Taxable securities	2,654,490	16,457	2.46%	2,336,405	14,654	2.49%
Tax exempt securities (2)	447,723	3,235	2.87%	513,090	3,885	3.00%
Interest-earning deposits with banks	144,773	864	2.37%	20,502	104	2.01%
Total interest-earning assets	11,941,578	134,655	4.47%	11,326,629	129,568	4.54%
Other earning assets	230,140			228,332		
Noninterest-earning assets	1,288,056			1,250,170		
Total assets	$ 13,459,774			$ 12,805,131		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Money market accounts (4)	2,589,390	2,840	0.44%	2,727,928	1,671	0.24%
Interest-bearing demand (4)	1,049,833	438	0.17%	1,089,324	437	0.16%
Savings accounts (4)	893,395	49	0.02%	888,997	31	0.01%
Interest-bearing public funds, other than certificates of deposit (4)	602,674	2,879	1.90%	229,855	510	0.88%
Certificates of deposit	381,879	657	0.68%	440,196	544	0.49%
Total interest-bearing deposits	5,517,171	6,863	0.49%	5,376,300	3,193	0.24%
FHLB advances	400,956	2,569	2.54%	167,531	966	2.29%
Subordinated debentures	35,346	468	5.25%	35,530	468	5.23%
Other borrowings and interest-bearing liabilities	35,569	183	2.04%	41,636	152	1.45%
Total interest-bearing liabilities	5,989,042	10,083	0.67%	5,620,997	4,779	0.34%
Noninterest-bearing deposits	5,151,596			5,102,500		
Other noninterest-bearing liabilities	166,220			98,317		
Shareholders' equity	2,152,916			1,983,317		
Total liabilities & shareholders' equity	$ 13,459,774			$ 12,805,131		
Net interest income (tax equivalent)		$ 124,572			$ 124,789	
Net interest margin (tax equivalent)			4.14%			4.37%

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(1) Nonaccrual loans have been included in the tables as loans carrying a zero yield. Amortized net deferred loan fees and net unearned discounts on acquired loans were included in the interest income calculations. The amortization of net deferred loan fees was $2.0 million and $2.5 million for the three months ended September 30, 2019 and 2018, respectively. The incremental accretion income on acquired loans was $2.1 million and $3.2 million for the three months ended September 30, 2019 and 2018, respectively.

(2) Tax-exempt income is calculated on a tax equivalent basis. The tax equivalent yield adjustment to interest earned on loans was $1.4 million and $1.2 million for the three months ended September 30, 2019 and 2018, respectively. The tax equivalent yield adjustment to interest earned on tax exempt securities was $679 thousand and $816 thousand for the three months ended September 30, 2019 and 2018, respectively.

(3) Beginning January 2019, average rates were calculated using the actual number of days on an actual/actual basis. This change was done to provide more meaningful trend information for our NIM regardless of the number of days in the period. Prior periods, which were previously reported on a 30/360 basis, have been restated to conform to the current basis.

(4) Beginning July 2019, interest-bearing public funds, other than certificates of deposit are presented separately in this table. Prior period amounts have been reclassified to conform to current period presentation.

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

	Nine Months Ended September 30, 2019			Nine Months Ended September 30, 2018		
	Average Balances	Interest Earned / Paid	Average Rate (3)	Average Balances	Interest Earned / Paid	Average Rate (3)
	(dollars in thousands)					
ASSETS						
Loans, net (1)(2)	$ 8,568,746	$ 341,798	5.33%	$ 8,398,596	$ 321,542	5.12%
Taxable securities	2,599,595	49,790	2.56%	2,202,497	39,285	2.38%
Tax exempt securities (2)	470,987	10,426	2.96%	518,128	11,640	3.00%
Interest-earning deposits with banks	65,374	1,159	2.37%	48,922	600	1.64%
Total interest-earning assets	11,704,702	$ 403,173	4.61%	11,168,143	$ 373,067	4.47%
Other earning assets	231,823			222,570		
Noninterest-earning assets	1,266,392			1,255,965		
Total assets	$ 13,202,917			$ 12,646,678		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Money market accounts (4)	2,571,722	8,321	0.43%	2,704,471	4,025	0.20%
Interest-bearing demand (4)	1,063,678	1,230	0.15%	1,097,523	1,161	0.14%
Savings accounts (4)	893,738	136	0.02%	880,561	102	0.02%
Interest-bearing public funds, other than certificates of deposit (4)	380,853	4,831	1.70%	247,068	1,367	0.74%
Certificates of deposit	397,221	1,819	0.61%	461,236	1,619	0.47%
Total interest-bearing deposits	5,307,212	16,337	0.41%	5,390,859	8,274	0.21%
FHLB advances	500,448	9,962	2.66%	150,054	2,351	2.09%
Subordinated debentures	35,392	1,404	5.30%	35,577	1,404	5.28%
Other borrowings and interest-bearing liabilities	35,440	552	2.08%	43,453	288	0.89%
Total interest-bearing liabilities	5,878,492	$ 28,255	0.64%	5,619,943	$ 12,317	0.29%
Noninterest-bearing deposits	5,069,629			4,969,037		
Other noninterest-bearing liabilities	156,432			95,192		
Shareholders' equity	2,098,364			1,962,506		
Total liabilities & shareholders' equity	$ 13,202,917			$ 12,646,678		
Net interest income (tax equivalent)		$ 374,918			$ 360,750	
Net interest margin (tax equivalent)			4.28%			4.32%

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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 net unearned discounts on acquired loans were included in the interest income calculations. The amortization of net deferred loan fees was $6.3 million and $6.8 million for the nine months ended September 30, 2019 and 2018, respectively. The incremental accretion income on acquired loans was $6.8 million and $9.9 million for the nine months ended September 30, 2019 and 2018, respectively.

(2) Tax-exempt income is calculated on a tax equivalent basis. The tax equivalent yield adjustment to interest earned on loans was $4.1 million and $3.4 million for the nine months ended September 30, 2019 and 2018, respectively. The tax equivalent yield adjustment to interest earned on tax exempt securities was $2.2 million and $2.4 million for the nine months ended September 30, 2019 and 2018, respectively.

(3) Beginning January 2019, average rates were calculated using the actual number of days to be on an actual/actual basis. This change was done to provide more meaningful trend information for our NIM regardless of the number of days in the period. Prior periods, which were previously reported on a 30/360 basis, have been restated to conform to the current basis.

(4) Beginning July 2019, interest-bearing public funds, other than certificates of deposit are presented separately in this table. Prior period amounts have been reclassified to conform to current period presentation.

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

	Three Months Ended September 30, 2019 Compared to 2018 Increase (Decrease) Due to		
	Volume	Rate	Total
		(in thousands)	
Interest Income			
Loans, net	$ 3,123	$ 51	$ 3,174
Taxable securities	1,974	(171)	1,803
Tax exempt securities	(478)	(172)	(650)
Interest earning deposits with banks	738	22	760
Interest income	$ 5,357	$ (270)	$ 5,087
Interest Expense			
Deposits:			
Money market accounts	$ (89)	$ 1,258	$ 1,169
Interest-bearing demand	(16)	17	1
Savings accounts	—	18	18
Interest-bearing public funds, other than certificates of deposit	1,385	984	2,369
Certificates of deposit	(79)	192	113
Total interest on deposits	1,201	2,469	3,670
FHLB advances	1,484	119	1,603
Other borrowings and interest-bearing liabilities	(16)	47	31
Interest expense	$ 2,669	$ 2,635	$ 5,304

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

	Nine Months Ended September 30, 2019 Compared to 2018 Increase (Decrease) Due to		
	Volume	Rate	Total
		(in thousands)	
Interest Income			
Loans, net	$ 6,604	$ 13,652	$ 20,256
Taxable securities	7,454	3,051	10,505
Tax exempt securities	(1,046)	(168)	(1,214)
Interest earning deposits with banks	240	319	559
Interest income	$ 13,252	$ 16,854	$ 30,106
Interest Expense			
Deposits:			
Money market accounts	(207)	4,503	4,296
Interest-bearing demand	(37)	106	69
Savings accounts	2	32	34
Interest-bearing public funds, other than certificates of deposit	1,023	2,441	3,464
Certificates of deposit	(246)	446	200
Total interest on deposits	535	7,528	8,063
FHLB advances	6,820	791	7,611
Other borrowings	(42)	306	264
Interest expense	$ 7,313	$ 8,625	$ 15,938

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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
		(dollars in thousands)		
Incremental accretion income due to:				
PCI loans	$ 113	$ 585	$ 980	$ 1,240
Other acquired loans	1,959	2,643	5,790	8,703
Incremental accretion income	$ 2,072	$ 3,228	$ 6,770	$ 9,943
Net interest margin (tax equivalent) (1)	4.14%	4.37%	4.28%	4.32%
Operating net interest margin (1)(2)	4.12%	4.34%	4.28%	4.29%

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(1) Beginning January 2019, net interest margin (tax equivalent) and operating net interest margin (tax equivalent) were calculated using the actual number of days and on an actual/actual basis. This change was done to provide more meaningful trend information for our NIM regardless of the number of days in the period. Prior periods, which were previously reported on a 30/360 basis, have been restated to conform to the current basis.

(2) Operating net interest margin (tax equivalent) is a non-GAAP measurement. See Non-GAAP measures section of Item 2, Management's Discussion and Analysis.

Comparison of current quarter to prior year period

Net interest income for the third quarter of 2019 was $122.5 million, down from $122.8 million for the same quarter in 2018. The decrease was a result of higher interest expense from higher average balances of FHLB advances and interest-bearing public funds, excluding certificates of deposit, partially offset by the increase in interest income from higher average balances of interest-earning assets. During the third quarter of 2019, we utilized interest-bearing public funds, excluding certificates of deposit, as an alternative funding source, with a corresponding increase in our investment securities, as we expanded our interest rate risk strategy to partially mitigate the impact of further interest rate cuts. The Company's net interest margin (tax equivalent) decreased to 4.14% in the third quarter of 2019, from 4.37% for the prior year period. This decrease was driven by higher rates on our deposits and FHLB advances as well as lower accretion income on acquired loans. The Company's operating net interest margin (tax equivalent) (see footnote 2 in prior table) decreased to 4.12% from 4.34% during the third quarter of 2018. The decrease was due to the items previously noted for the decrease in the net interest margin, except for the lower accretion income, which is not included in the operating net interest margin.

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

Net interest income for the nine months ended September 30, 2019 was $368.6 million, an increase of 4% from $355.0 million for the prior year period. The increase in net interest income was due to $4.9 million of loan interest recoveries recorded in the current year as well as higher rates and average balances on loans while taxable securities increased due to higher average balances. These increases were partially offset by higher rates on deposits and higher average balances of FHLB advances. The Company's net interest margin (tax equivalent) decreased to 4.28% for the first nine months of 2019, from 4.32% for the prior year period. The decrease in the Company's net interest margin (tax equivalent) was a result of a $3.2 million decline in accretion income on acquired loans as well as higher rates on our deposits and borrowings, partially offset by higher rates on the loan portfolio. The Company's operating net interest margin (tax equivalent) for the nine months ended September 30, 2019 remained relatively stable at 4.28% compared to 4.29% for the nine months ended September 30, 2018.

Provision for Loan and Lease Losses

Comparison of current quarter to prior year period

During the third quarter of 2019, the Company recorded a $299 thousand net provision for loan losses compared to a $3.2 million net provision during the third quarter of 2018. The decrease in the provision for loan losses was due to the increase in net recoveries and an improvement in the credit quality of the loan portfolio. The net provision for loan and lease losses recorded during the current quarter included management's ongoing assessment of the credit quality of the Company's loan portfolio. Factors affecting the provision include net charge-offs, credit quality migration, and size and composition of the loan portfolio and changes in the economic environment during the third quarter of 2019. The amount of provision was calculated in accordance with the Company's methodology for determining the ALLL, discussed in Note 5 to the Consolidated Financial Statements in "Item 1. Financial Statements (unaudited)" of this report.

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

The provision for loan and lease losses for the nine months ended September 30, 2019 was $1.9 million compared to $13.0 million during the same period in 2018. The decrease in the provision for the first nine months of 2019 was primarily due to a reduction in the net charge-offs for the period and the improved credit quality of our loan portfolio. We also recorded a large charge-off in our agricultural loan portfolio during the nine months ended September 30, 2018. The amount of provision was calculated in accordance with the Company's methodology for determining ALLL, discussed in Note 5 to the Consolidated Financial Statements in "Item 1. Financial Statements (unaudited)" of this report.

Noninterest Income

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2019	2018	$ Change	% Change	2019	2018	$ Change	% Change
	(dollars in thousands)							
Deposit account and treasury management fees	$ 9,015	$ 9,266	$ (251)	(3)%	$ 27,030	$ 26,689	$ 341	1 %
Card revenue	4,006	3,714	292	8 %	11,431	16,143	(4,712)	(29)%
Financial services and trust revenue	3,226	2,975	251	8 %	9,608	8,924	684	8 %
Loan revenue	3,855	3,282	573	17 %	9,840	9,522	318	3 %
Bank owned life insurance	1,528	1,402	126	9 %	4,644	4,540	104	2 %
Investment securities gains (losses), net	—	(62)	62	(100)%	2,132	(73)	2,205	100 %
Other	6,400	442	5,958	100 %	10,689	2,109	8,580	100 %
Total noninterest income	$ 28,030	$ 21,019	$ 7,011	33 %	$ 75,374	$ 67,854	$ 7,520	11 %

Comparison of current quarter to prior year period

Noninterest income was $28.0 million for the third quarter of 2019, compared to $21.0 million for the same period in 2018. The increase was primarily due to the $5.9 million sale-leaseback gain on owned real estate during the third quarter of 2019, which is included in other noninterest income in the table above.

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

For the nine months ended September 30, 2019, noninterest income was $75.4 million compared to $67.9 million for the same period in 2018, an increase of $7.5 million. The increase was due to the previously noted $5.9 million sale-leaseback gain and the $3.0 million of BOLI benefits, both of which are included in other noninterest income in the table above, and the $2.1 million net gain on sale of securities, partially offset by lower card revenue. The decline in card revenue was due to the interchange fee cap, which became effective on July 1, 2018.

Noninterest Expense

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2019	2018	$ Change	% Change	2019	2018	$ Change	% Change
	(dollars in thousands)							
Compensation and employee benefits	$ 54,459	$ 49,419	$ 5,040	10 %	$ 158,559	$ 148,938	$ 9,621	6 %
Occupancy	8,645	8,321	324	4 %	26,166	27,718	(1,552)	(6)%
Data processing	5,102	4,466	636	14 %	14,372	14,957	(585)	(4)%
Legal and professional services	5,683	4,695	988	21 %	16,810	12,103	4,707	39 %
Amortization of intangibles	2,632	3,070	(438)	(14)%	8,029	9,346	(1,317)	(14)%
B&O taxes (1)	1,325	1,478	(153)	(10)%	4,612	4,254	358	8 %
Advertising and promotion	1,752	1,472	280	19 %	3,596	4,523	(927)	(20)%
Regulatory premiums	(38)	904	(942)	(104)%	1,902	2,778	(876)	(32)%
Net cost (benefit) of operation of OREO	(90)	485	(575)	(119)%	(682)	1,244	(1,926)	(155)%
Other (1)	7,606	8,531	(925)	(11)%	25,140	27,610	(2,470)	(9)%
Total noninterest expense	$ 87,076	$ 82,841	$ 4,235	5 %	$ 258,504	$ 253,471	$ 5,033	2 %

(1) Beginning the first quarter of 2019, B&O taxes are reported separately from other taxes, licenses and fees, which are now reported under "other noninterest expense." Prior periods have been reclassified to conform to current period presentation.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands)			
Acquisition-related expenses:				
Compensation and employee benefits	$ —	$ 923	$ —	$ 3,410
Occupancy	—	29	—	1,619
Data processing	—	20	—	941
Legal and professional fees	—	102	—	893
Advertising and promotion	—	—	—	534
Other	—	7	—	771
Total impact of acquisition-related expense to noninterest expense (1)	$ —	$ 1,081	$ —	$ 8,168

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(1) There were no acquisition-related expenses recorded during the three or nine months ended September 30, 2019. All of the acquisition-related expenses in 2018 were related to the 2017 acquisition of Pacific Continental.

Comparison of current quarter to prior year period

Noninterest expense was $87.1 million for the third quarter of 2019, an increase of $4.2 million from $82.8 million for the prior year period. After removing the acquisition-related expenses of $1.1 million from the third quarter of 2018, year over year noninterest expense increased $5.3 million, or 7%. This increase was primarily driven by higher compensation and employee benefits expense, which was partially offset by a decrease in regulatory premium expense. The Bank's FDIC deposit insurance expense was reduced due to the utilization of $925 thousand of our FDIC Small Bank Assessment Credit. The remaining balance of our credit is $2.2 million but can only be applied towards our future FDIC deposit insurance expense if the fund exceeds its minimum reserve ratio.

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

For the nine months ended September 30, 2019, noninterest expense was $258.5 million, compared to $253.5 million, an increase of $5.0 million from a year earlier. After removing the acquisition-related expenses of $8.2 million from the first nine months of 2018, year over year noninterest expense increased $13.2 million, or 5%. The increase from the prior year period was driven by higher compensation and employee benefits expense and higher legal and professional fees, partially offset by decreases in OREO expenses. Salary expense increased $6.3 million, benefits expense increased $2.6 million and other compensation increased $2.2 million compared to the first nine months of 2018. Professional fees increased $4.3 million due primarily to the digital corporate initiative. These increases in noninterest expense were partially offset by the $682 thousand current year net benefit of OREO resulting from a gain on the sale of OREO, compared to net OREO operating expenses of $1.2 million during the nine months ended September 30, 2019.

Income Taxes

We recorded an income tax provision of $12.4 million for the third quarter of 2019, compared to a provision of $11.4 million for the same period in 2018, with effective tax rates of 20% for both the third quarter of 2019 and 2018. For the nine months ended September 30, 2019 and 2018, we recorded income tax provisions of $35.3 million and $28.2 million, respectively, with effective tax rates of 19% for the current year and 18% for the prior year period. Our effective tax rate remains lower than the statutory tax rate due to tax-exempt income from municipal securities, BOLI and certain loan receivables. For additional information, please refer to the Company's annual report on Form 10-K for the year ended December 31, 2018.

FINANCIAL CONDITION

Total assets were $13.76 billion at September 30, 2019, an increase of $662.6 million from December 31, 2018. Cash and cash equivalents increased $21.0 million. Loans increased $364.8 million during the current year, which was primarily the result of new loan production and increased seasonal line utilization, partially offset by principal pay downs. Debt securities available for sale were $3.37 billion at September 30, 2019, an increase of $200.1 million from December 31, 2018. Total liabilities were $11.60 billion as of September 30, 2019, an increase of $534.7 million from December 31, 2018. The increase was primarily due to increases in deposits and FHLB advances.

Investment Securities

At September 30, 2019, the Company's investment portfolio primarily consisted of debt securities available for sale totaling $3.37 billion compared to $3.17 billion at December 31, 2018. The increase in the debt securities portfolio from year-end is due to $649.1 million in purchases and $110.6 million in net unrealized gain offset by $544.9 million in maturities, repayments and sales and $14.7 million in premium amortization. The average duration of our debt securities investment portfolio was approximately 4 years and 4 months at September 30, 2019. This duration takes into account calls, where appropriate, and consensus prepayment speeds.

The investment securities are used by the Company as a component of its balance sheet management strategies. From time-to-time, securities may be sold to reposition the portfolio in response to strategies developed by the Company's asset liability management committee. In accordance with our investment strategy, management monitors market conditions with a view to realize gains on its available for sale securities portfolio when prudent.

The Company performs a quarterly assessment of the debt securities available for sale in its investment portfolio that have an unrealized loss to determine whether the decline in the fair value of these securities below their amortized cost basis is other-than-temporary. Impairment is considered other-than-temporary when it becomes probable that the Company will be unable to recover the entire amortized cost basis of its investment. The Company's impairment assessment takes into consideration factors such as the length of time and the extent to which the market value has been less than cost, defaults or deferrals of scheduled interest or principal, external credit ratings and recent downgrades, internal assessment of credit quality, and whether the Company intends to sell the security and whether it is more likely than not it will be required to sell the security prior to recovery of its amortized cost basis. If a decline in fair value is judged to be other-than-temporary, the cost basis of the individual security is written down to fair value which then becomes the new cost basis. The new cost basis is not adjusted for subsequent recoveries in fair value.

When there are credit losses associated with an impaired debt security and the Company does not have the intent to sell the security and it is more likely than not that it will not have to sell the security before recovery of its cost basis, the Company will separate the amount of the impairment into the amount that is credit-related and the amount related to non-credit factors. The credit-related impairment is recognized in earnings and the non-credit-related impairment is recognized in accumulated other comprehensive income.

At September 30, 2019, the market value of debt securities available for sale had a net unrealized gain of $67.4 million compared to a net unrealized loss of $43.2 million at December 31, 2018. The change in valuation was the result of fluctuations in market interest rates during the nine months ended September 30, 2019. At September 30, 2019, the Company had $1.15 billion of debt securities available for sale with gross unrealized losses of $11.6 million; however, we did not consider these investment securities to be other-than-temporarily impaired.

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

	September 30, 2019	December 31, 2018
	(in thousands)	
Debt securities available for sale:		
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations (1)	$ 2,482,835	$ 2,013,355
Other asset-backed securities (1)	171,578	174,935
State and municipal securities	497,314	574,323
U.S. government agency and government-sponsored enterprise securities	215,595	404,587
U.S. government securities	250	248
Total debt securities available for sale	$ 3,367,572	$ 3,167,448

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(1) Beginning July 2019, other asset-backed securities were presented separately in this table. Prior period amounts that were previously reported in U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations have been reclassified to conform to current period presentation.

For further information on our investment portfolio, see Note 3 of the Consolidated Financial Statements in "Item 1. Financial Statements (unaudited)" of this report.

Credit Risk Management

The extension of credit in the form of loans or other credit substitutes to individuals and businesses is one of our principal 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 and type of borrower and by limiting the aggregation of debt to a single borrower.

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

We review these loans to assess the ability of our borrowers to service all interest and principal obligations and, as a result, the risk rating may be adjusted accordingly. In the event that full collection of principal and interest is not reasonably assured, the loan is appropriately downgraded and, if warranted, placed on nonaccrual status even though the loan may be current as to principal and interest payments. Additionally, we assess whether an 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 "Allowance for Loan and Lease Losses" section in this Management's Discussion and Analysis and Note 1 to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of the Company's 2018 Annual Report on Form 10-K.

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

Loan Portfolio Analysis

Our wholly owned banking subsidiary Columbia State Bank is a full service commercial bank, which originates a wide variety of loans, and focuses its lending efforts on originating commercial business and commercial real estate loans.

The following table sets forth the Company's loan portfolio by type of loan for the dates indicated:

	September 30, 2019	% of Total	December 31, 2018	% of Total
		(dollars in thousands)		
Commercial business	$ 3,707,314	42.3 %	$ 3,438,422	41.0 %
Real estate:				
One-to-four family residential	273,079	3.1 %	238,367	2.8 %
Commercial and multifamily residential	3,975,647	45.5 %	3,846,027	45.8 %
Total real estate	4,248,726	48.6 %	4,084,394	48.6 %
Real estate construction:				
One-to-four family residential	195,198	2.2 %	217,790	2.6 %
Commercial and multifamily residential	261,786	3.0 %	284,394	3.4 %
Total real estate construction	456,984	5.2 %	502,184	6.0 %
Consumer	297,009	3.4 %	318,945	3.8 %
PCI	81,777	0.9 %	89,760	1.1 %
Subtotal	8,791,810	100.4 %	8,433,705	100.5 %
Less: Net unearned income	(35,455)	(0.4)%	(42,194)	(0.5)%
Loans, net of unearned income (before ALLL)	$ 8,756,355	100.0 %	$ 8,391,511	100.0 %
Loans held for sale	$ 15,036		$ 3,849	

Total loans increased $364.8 million from year-end 2018 primarily the result of organic loan production and increased seasonal line utilization, partially offset by principal pay downs. The loan portfolio continues to be diversified, with the intent to mitigate risk by monitoring concentration in any one sector. The $35.5 million in unearned income recorded at September 30, 2019 was comprised of $17.9 million in net purchase discounts and $17.6 million in net deferred loan fees. The $42.2 million in unearned income recorded at December 31, 2018 consisted of $26.1 million in net purchase discounts and $16.1 million in net deferred loan fees.

The following table provides additional detail related to the net discount of acquired and purchased loans, excluding PCI loans, by acquisition:

	September 30, 2019	December 31, 2018
Acquisition:	*(in thousands)*	
Pacific Continental	$ 14,813	$ 18,526
Intermountain	1,794	2,303
West Coast	3,008	4,578
Other	(1,684)	725
Total net discount at period end	$ 17,931	$ 26,132

Commercial 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.

PCI 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").

For additional information on our loan portfolio, including amounts pledged as collateral on borrowings, see Note 4 to the Consolidated Financial Statements in "Item 1. Financial Statements (unaudited)" of this report.

Nonperforming Assets

Nonperforming assets consist of: (i) nonaccrual loans, which generally are loans placed on a nonaccrual basis when the loan becomes past due 90 days or when there are otherwise serious doubts about the collectability of principal or interest within the existing terms of the loan, (ii) OREO and (iii) OPPO, if applicable.

The following table sets forth, at the dates indicated, information with respect to our nonaccrual loans and total nonperforming assets:

	September 30, 2019	December 31, 2018
	(dollars in thousands)	
Nonperforming assets		
Nonaccrual loans:		
Commercial business	$ 24,408	$ 35,513
Real estate:		
One-to-four family residential	574	1,158
Commercial and multifamily residential	10,083	14,904
Total real estate	10,657	16,062
Real estate construction:		
One-to-four family residential	—	318
Consumer	1,956	2,949
Total nonaccrual loans	37,021	54,842
OREO and OPPO	625	6,049
Total nonperforming assets	$ 37,646	$ 60,891
Loans, net of unearned income	$ 8,756,355	$ 8,391,511
Total assets	$ 13,757,760	$ 13,095,145
Nonperforming loans to period end loans	0.42%	0.65%
Nonperforming assets to period end assets	0.27%	0.46%

At September 30, 2019, nonperforming assets were $37.6 million, compared to $60.9 million at December 31, 2018. Nonperforming assets decreased $23.2 million during the nine months ended September 30, 2019, primarily due to pay downs in nonaccrual commercial business loans and sales of OREO. For further information on OREO, see Note 6 of the Consolidated Financial Statements in “Item 1. Financial Statements (unaudited)” of this report.

Allowance for Loan and Lease Losses

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

At September 30, 2019, our ALLL was $82.7 million, or 0.94% of total loans (excluding loans held for sale). This compares with an ALLL of $83.4 million, or 0.99% of total loans (excluding loans held for sale) at December 31, 2018 and an ALLL of $83.8 million or 0.98% of total loans (excluding loans held for sale) at September 30, 2018.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(dollars in thousands)			
Beginning balance, loans excluding PCI loans	$ 77,248	$ 75,368	$ 79,758	$ 68,739
Beginning balance, PCI loans	3,269	4,782	3,611	6,907
Beginning balance	80,517	80,150	83,369	75,646
Charge-offs:				
Commercial business	(2,365)	(606)	(7,732)	(8,858)
One-to-four family residential	—	—	(2)	—
Commercial and multifamily residential	—	—	—	(223)
One-to-four family residential construction	—	—	(170)	—
Consumer	(285)	(277)	(1,117)	(773)
PCI loans	(722)	(1,208)	(2,626)	(3,786)
Total charge-offs	(3,372)	(2,091)	(11,647)	(13,640)
Recoveries:				
Commercial business	358	547	1,385	2,892
One-to-four family residential	65	21	102	389
Commercial and multifamily residential	184	213	248	1,012
One-to-four family residential construction	2,471	583	3,192	616
Commercial and multifamily residential construction	—	—	1	—
Consumer	326	266	742	796
PCI loans	1,812	945	3,389	3,096
Total recoveries	5,216	2,575	9,059	8,801
Net (charge-offs) recoveries	1,844	484	(2,588)	(4,839)
Provision for loan and lease losses, loans excluding PCI loans	1,600	3,655	3,195	15,180
Provision recapture for loan and lease losses, PCI loans	(1,301)	(502)	(1,316)	(2,200)
Provision for loan and lease losses	299	3,153	1,879	12,980
Ending balance, loans excluding PCI loans	79,602	79,770	79,602	79,770
Ending balance, PCI loans	3,058	4,017	3,058	4,017
Ending balance	$ 82,660	$ 83,787	$ 82,660	$ 83,787
Total loans, net at end of period, excluding loans held for sale	$ 8,756,355	$ 8,514,317	$ 8,756,355	$ 8,514,317
ALLL to period-end loans	0.94%	0.98%	0.94%	0.98%
ALLL for unfunded commitments and letters of credit				
Beginning balance	$ 3,980	$ 3,680	$ 4,330	$ 3,130
Net changes in the ALLL for unfunded commitments and letters of credit	(400)	275	(750)	825
Ending balance	$ 3,580	$ 3,955	$ 3,580	$ 3,955

Liquidity and Sources of Funds

Our primary sources of funds are customer deposits. Additionally, we utilize advances from the FHLB, the FRB, and sweep repurchase agreements to supplement our funding needs. These funds, together with loan repayments, loan sales, retained earnings, equity and other borrowed funds are used to make loans, to acquire securities and other assets and to fund continuing operations.

In addition, we have a shelf registration statement on file with the SEC registering an unspecified amount of any combination of debt or equity securities, 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.

Deposit Activities

Our deposit products include a wide variety of transaction accounts, savings accounts and time deposit accounts. We have established a branch system to serve our consumer and business depositors. In addition, management's strategy for funding asset growth is to make use of public funds and brokered and other wholesale deposits on an as-needed basis. The Company participates in the CDARS® program. CDARS® is a network that allows participating banks to offer extended FDIC deposit insurance coverage on time deposits. The Company also participates in a similar program to offer extended FDIC deposit insurance coverage on money market accounts. These extended deposit insurance programs are generally available only to existing customers and are not used as a means of generating additional liquidity. At September 30, 2019, brokered deposits, reciprocal money market accounts and other wholesale deposits (excluding public funds) totaled $327.6 million, or 3.0% of total deposits, compared to $395.2 million or 3.8% at year-end 2018. These deposits have varied maturities.

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

	September 30, 2019		December 31, 2018	
	Balance	% of Total	Balance	% of Total
	(dollars in thousands)			
Demand and other noninterest-bearing	$ 5,320,435	49.0%	$ 5,227,216	50.0%
Money market (1)	2,295,229	21.1%	2,294,125	21.9%
Interest-bearing demand (1)	1,059,502	9.8%	1,084,863	10.4%
Savings (1)	892,438	8.2%	889,849	8.5%
Interest-bearing public funds, other than certificates of deposit (1)	629,797	5.8%	233,938	2.2%
Certificates of deposit, less than $250,000	223,249	2.1%	243,849	2.3%
Certificates of deposit, $250,000 or more	107,506	1.0%	89,473	0.9%
Certificates of deposit insured by CDARS®	17,252	0.2%	23,580	0.2%
Brokered certificates of deposit	18,852	0.2%	57,930	0.6%
Reciprocal money market accounts	291,542	2.6%	313,692	3.0%
Subtotal	10,855,802	100.0%	10,458,515	100.0%
Valuation adjustment resulting from acquisition accounting	(86)		(389)	
Total deposits	$ 10,855,716		$ 10,458,126	

(1) Beginning July 2019, interest-bearing public funds, other than certificates of deposit are presented separately in this table. Prior period amounts have been reclassified to conform to current period presentation.

Borrowings

We rely on FHLB advances and FRB borrowings as another source of both short and long-term funding. FHLB advances and FRB borrowings are secured by investment securities, and residential, commercial and commercial real estate loans. At September 30, 2019, we had FHLB advances of $492.5 million compared to $399.5 million at December 31, 2018.

During the second quarter of 2019, the Company entered into a $30.0 million short-term credit facility with an unaffiliated bank. This facility provides the Company additional liquidity, if needed, for various corporate activities including the repurchase of shares of Columbia Banking System, Inc. common stock. The credit agreement requires the Company to comply with certain covenants including those related to asset quality and capital levels.

We also utilize wholesale and retail repurchase agreements to supplement our funding sources. Our wholesale repurchase agreements are secured by mortgage-backed securities. At September 30, 2019 and December 31, 2018, we had deposit customer sweep-related repurchase agreements of $24.5 million and $61.1 million, respectively, which mature on a daily basis. Management anticipates we will continue to rely on FHLB advances, FRB borrowings and wholesale and retail repurchase agreements in the future and we will use those funds primarily to make loans and purchase securities.

Contractual Obligations, Commitments & Off-Balance Sheet Arrangements

We are party to many contractual financial obligations, including repayment of borrowings, operating and equipment lease payments, off-balance sheet commitments to extend credit and investments in affordable housing partnerships. At September 30, 2019, we had commitments to extend credit of $2.62 billion compared to $2.65 billion at December 31, 2018.

Capital Resources

Shareholders’ equity at September 30, 2019 was $2.16 billion, compared to $2.03 billion at December 31, 2018. Shareholders’ equity was 16% of total period-end assets at both September 30, 2019 and December 31, 2018.

Regulatory Capital

In July 2013, the federal bank regulators approved the Capital Rules (as discussed in our 2018 Annual Report on Form 10-K, “Item 1. Business—Supervision and Regulation and —Regulatory Capital Requirements”), which implement the Basel III capital framework and various provisions of the Dodd-Frank Act. We and the Bank were required to comply with these rules as of January 1, 2015, subject to the phase-in of certain provisions, which was completed as of January 1, 2019. We believe that, as of September 30, 2019, we and the Bank meet all capital adequacy requirements under the Capital Rules on a fully phased-in basis.

FDIC regulations set forth the qualifications necessary for a bank to be classified as “well-capitalized,” primarily for assignment of FDIC insurance premium rates. Failure to qualify as “well-capitalized” can negatively impact a bank’s ability to expand and to engage in certain activities. The Company and the Bank qualified as “well-capitalized” at September 30, 2019 and December 31, 2018.

The following table presents the capital ratios and the capital conservation buffer, as applicable, for the Company and its banking subsidiary at September 30, 2019 and December 31, 2018:

	Company		Columbia Bank	
	September 30, 2019	December 31, 2018	September 30, 2019	December 31, 2018
CET1 risk-based capital ratio	12.37%	12.74%	12.52%	12.96%
Tier 1 risk-based capital ratio	12.37%	12.74%	12.52%	12.96%
Total risk-based capital ratio	13.53%	13.99%	13.34%	13.85%
Leverage ratio	10.19%	10.24%	10.35%	10.42%
Capital conservation buffer	5.53%	5.99%	5.34%	5.85%

Stock Repurchase Program

As described in our Annual Report on Form 10-K for the year ended December 31, 2018, our board of directors approved a stock repurchase program to repurchase up to 2.9 million shares, up to a maximum aggregate purchase price of $100.0 million. The Company intends to purchase the shares from time to time in the open market or in private transactions, under conditions which allow such repurchases to be accretive to EPS while maintaining capital ratios that exceed the guidelines for a well-capitalized financial institution. The Company repurchased 676 thousand and 1.3 million shares of common stock totaling$23.5 million and $45.4 million for the three and nine months ended September 30, 2019, respectively.

Non-GAAP Financial Measures

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Operating net interest margin non-GAAP reconciliation:		*(dollars in thousands)*		
Net interest income (tax equivalent) (1)	$ 124,572	$ 124,789	$ 374,918	$ 360,750
Adjustments to arrive at operating net interest income (tax equivalent):				
Incremental accretion income on PCI loans	(113)	(585)	(980)	(1,240)
Incremental accretion income on other acquired loans	(1,959)	(2,643)	(5,790)	(8,703)
Premium amortization on acquired securities	1,386	1,859	4,816	6,065
Interest reversals on nonaccrual loans	174	477	1,462	1,147
Operating net interest income (tax equivalent) (1)	$ 124,060	$ 123,897	$ 374,426	$ 358,019
Average interest earning assets	$ 11,941,578	$ 11,326,629	$ 11,704,702	$ 11,168,143
Net interest margin (tax equivalent) (1)(2)	4.14%	4.37%	4.28%	4.32%
Operating net interest margin (tax equivalent) (1)(2)	4.12%	4.34%	4.28%	4.29%

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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 $2.1 million and $2.0 million for the three months ended September 30, 2019 and 2018, respectively, and an addition to net interest income of $6.3 million and $5.8 million for the nine months ended September 30, 2019 and 2018, respectively.

(2) Beginning January 2019, net interest margin (tax equivalent) and operating net interest margin (tax equivalent) were calculated using the actual number of days and on an actual/actual basis. This change was done to provide more meaningful trend information for our NIM regardless of the number of days in the period. Prior periods, which were previously reported on a 30/360 basis, have been restated to conform to the current basis.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

A number of measures are used to monitor and manage interest rate risk, including income simulations and interest sensitivity (gap) analysis. An income simulation model is the primary tool used to assess the direction and magnitude of changes in net interest income resulting from changes in interest rates. Basic assumptions in the model include prepayment speeds on mortgage-related assets, cash flows and maturities of other investment securities, loan and deposit volumes and pricing. These assumptions are inherently subjective and, as a result, the model cannot precisely estimate net interest income or precisely predict the impact of higher or lower interest rates on net interest income. Actual results will differ from simulated results due to timing, magnitude and frequency of interest rate changes and changes in market conditions and management strategies, among other factors. At September 30, 2019, based on the measures used to monitor and manage interest rate risk, there has not been a material change in the Company's interest rate risk since December 31, 2018. For additional information, refer to Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's 2018 Annual Report on Form 10-K.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Controls Over Financial Reporting

There was no change in our internal controls over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

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

Item 1A. RISK FACTORS

Refer to Item 1A of Part I of the Company's Annual Report on Form 10-K for the year ended December 31, 2018 for a discussion of risk factors relating to the Company's business. The Company believes that there has been no material change in its risk factors as previously disclosed in the Company's Form 10-K.

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

(a) Not applicable

(b) Not applicable

(c) The following table provides information about repurchases of common stock by the Company during the quarter ended September 30, 2019:

Period	Total Number of Common Shares Purchased (1)	Average Price Paid per Common Share	Total Number of Shares Purchased as Part of Publicly Announced Plan (2)	Maximum Number of Remaining Shares That May Yet Be Purchased Under the Plan (2)
7/1/2019 - 7/31/2019	11,822	$ 35.32	11,822	2,264,020
8/1/2019 - 8/31/2019	394,202	34.31	393,631	1,870,389
9/1/2019 - 9/30/2019	270,928	35.41	270,928	1,599,461
	676,952	$ 34.77	676,381	

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(1) Common shares repurchased by the Company during the quarter consisted of cancellation of 571 shares of common stock to pay the shareholders' withholding taxes and 676,381 shares of common stock purchased under the Company's stock repurchase program.

(2) As described in our Annual Report on Form 10-K for the year ended December 31, 2018, our board of directors approved a stock repurchase program to repurchase up to 2.9 million shares, up to a maximum aggregate purchase price of $100.0 million.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS

10.1**	Employment Agreement dated September 30, 2019, by and among Columbia State Bank, Columbia Banking System, Inc. and Clint E. Stein (1)
31.1+	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2+	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32+	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS+	XBRL Instance Document - The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH+	XBRL Taxonomy Extension Schema
101.CAL+	XBRL Taxonomy Extension Calculation Linkbase
101.LAB+	XBRL Taxonomy Extension Label Linkbase
101.PRE+	XBRL Taxonomy Extension Presentation Linkbase
101.DEF+	XBRL Taxonomy Extension Definition Linkbase
104+	Cover Page Interactive Data File (the cover page XBRL tags are embedded within the Inline XBRL document).

(1) Incorporated by reference to Exhibit 10.1 of the Company’s Current Report on Form 8-K filed on October 3, 2019
** Management contract or compensatory plan or arrangement
+ Filed herewith

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SIGNATURES

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

COLUMBIA BANKING SYSTEM, INC.

Date: November 5, 2019	By	/s/ HADLEY S. ROBBINS
		Hadley S. Robbins President and Chief Executive Officer (Principal Executive Officer)
Date: November 5, 2019	By	/s/ GREGORY A. SIGRIST
		Gregory A. Sigrist Executive Vice President and Chief Financial Officer (Principal Financial Officer)
Date: November 5, 2019	By	/s/ BROCK M. LAKELY
		Brock M. Lakely Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)

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Section 2: EX-31.1 (CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002)

EXHIBIT 31.1

CERTIFICATION

I, Hadley S. Robbins, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Columbia Banking System, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

/s/ HADLEY S. ROBBINS

Hadley S. Robbins
President and
Chief Executive Officer

Date: November 5, 2019

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Section 3: EX-31.2 (CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002)

EXHIBIT 31.2

CERTIFICATION

I, Gregory A. Sigrist, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Columbia Banking System, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ GREGORY A. SIGRIST

Gregory A. Sigrist
Executive Vice President and
Chief Financial Officer

Date: November 5, 2019

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Section 4: EX-32 (CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002)

EXHIBIT 32

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

In connection with the Quarterly Report of Columbia Banking System, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Hadley S. Robbins, President and Chief Executive Officer, and Gregory A. Sigrist, Executive Vice President and Chief Financial Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ HADLEY S. ROBBINS

Hadley S. Robbins
President and
Chief Executive Officer
Columbia Banking System, Inc.

/s/ GREGORY A. SIGRIST

Gregory A. Sigrist
Executive Vice President and
Chief Financial Officer
Columbia Banking System, Inc.

Dated: November 5, 2019

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