

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, 2020.
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____
Commission File Number 000-20288

COLUMBIA BANKING SYSTEM, INC.

(Exact name of registrant as specified in its charter)

Washington
(State or other jurisdiction of
incorporation or organization)

91-1422237
(I.R.S. Employer
Identification Number)

1301 A Street
Tacoma, Washington 98402-2156
(Address of principal executive offices and zip code)
(253) 305-1900
(Registrant's telephone number, including area code)

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

Common Stock, No Par Value
(Title of each class)

COLB
(Trading symbol)

The Nasdaq Stock Market LLC
(Name of each exchange on which registered)

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

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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, 2020 was 71,605,637

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Glossary of Acronyms, Abbreviations, and Terms

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

ACL	Allowance for Credit Losses	Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
ALLL	Allowance for Loan and Lease Losses	EPS	Earnings Per Share
ASC	Accounting Standards Codification	FASB	Financial Accounting Standards Board
ASC 326	Codification related to measurement of credit losses on financial instruments	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
B&O	Business and Occupation	GAAP	Generally Accepted Accounting Principles
Basel III	A comprehensive capital framework and rules for U.S. banking organizations approved by the FRB and the FDIC in 2013	GDP	Gross Domestic Product
BOLI	Bank Owned Life Insurance	LIBOR	London Interbank Offering Rate
CARES Act	Coronavirus Aid Relief and Economic Security Act	OPPO	Other Personal Property Owned
CDARS®	Certificate of Deposit Account Registry Service	OREO	Other Real Estate Owned
CDI	Core Deposit Intangible	Pacific Continental	Pacific Continental Corporation
CECL	Current Expected Credit Losses	PCI	Purchased Credit Impaired
CEO	Chief Executive Officer	PPP	Paycheck Protection Program
CET1	Common Equity Tier 1	SBA	Small Business Administration
CFO	Chief Financial Officer	SEC	Securities and Exchange Commission
COVID-19	Novel Coronavirus	TDRs	Troubled Debt Restructurings
DCF	Discounted Cash Flow		

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

	September 30, 2020	December 31, 2019
ASSETS		
<i>(in thousands)</i>		
Cash and due from banks	\$ 193,823	\$ 223,541
Interest-earning deposits with banks	736,422	24,132
Total cash and cash equivalents	930,245	247,673
Debt securities available for sale at fair value (amortized cost of \$4,081,118 and \$3,703,096, respectively)	4,281,720	3,746,142
Equity securities	13,425	—
FHLB stock at cost	10,280	48,120
Loans held for sale	24,407	17,718
Loans, net of unearned income	9,688,947	8,743,465
Less: ACL	156,968	83,968
Loans, net	9,531,979	8,659,497
Interest receivable	56,718	46,839
Premises and equipment, net	164,049	165,408
OREO	623	552
Goodwill	765,842	765,842
Other intangible assets, net	28,745	35,458
Other assets	425,391	346,275
Total assets	\$ 16,233,424	\$ 14,079,524
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	\$ 6,897,054	\$ 5,328,146
Interest-bearing	6,703,206	5,356,562
Total deposits	13,600,260	10,684,708
FHLB advances	7,427	953,469
Securities sold under agreements to repurchase	26,966	64,437
Subordinated debentures	35,139	35,277
Other liabilities	261,651	181,671
Total liabilities	13,931,443	11,919,562
Commitments and contingent liabilities (Note 10)		
Shareholders' equity:		
	September 30, 2020	December 31, 2019
<i>(in thousands)</i>		
Preferred stock (no par value)		
Authorized shares	2,000	2,000
Common stock (no par value)		
Authorized shares	115,000	115,000
Issued	73,797	73,577
Outstanding	71,613	72,124
Retained earnings		537,011
Accumulated other comprehensive income		177,601
Treasury stock at cost	2,184	1,453
Total shareholders' equity	2,301,981	2,159,962
Total liabilities and shareholders' equity	\$ 16,233,424	\$ 14,079,524

See accompanying Notes to unaudited Consolidated Financial Statements.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
<i>(in thousands except per share amounts)</i>				
Interest Income				
Loans	\$ 105,739	\$ 112,656	\$ 318,601	\$ 337,657
Taxable securities	19,102	16,457	58,533	49,790
Tax-exempt securities	2,340	2,556	6,899	8,237
Deposits in banks	203	864	480	1,159
Total interest income	127,384	132,533	384,513	396,843
Interest Expense				
Deposits	2,005	6,863	7,741	16,337
FHLB advances	166	2,569	6,191	9,962
Subordinated debentures	468	468	1,404	1,404
Other borrowings	19	183	178	552
Total interest expense	2,658	10,083	15,514	28,255
Net Interest Income	124,726	122,450	368,999	368,588
Provision for credit losses	7,400	299	82,400	1,879
Net interest income after provision for credit losses	117,326	122,151	286,599	366,709
Noninterest Income				
Deposit account and treasury management fees	6,658	9,015	20,538	27,030
Card revenue	3,834	4,006	10,431	11,431
Financial services and trust revenue	3,253	3,226	9,481	9,608
Loan revenue	6,645	3,855	16,842	9,840
Bank owned life insurance	1,585	1,528	4,799	4,644
Investment securities gains, net	—	—	16,674	2,132
Other	497	6,400	2,173	10,689
Total noninterest income	22,472	28,030	80,938	75,374
Noninterest Expense				
Compensation and employee benefits	55,133	54,459	156,018	158,559
Occupancy	8,734	8,645	26,743	26,166
Data processing	4,510	5,102	14,804	14,372
Legal and professional fees	3,000	5,683	8,585	16,810
Amortization of intangibles	2,193	2,632	6,713	8,029
B&O taxes	1,559	1,325	3,427	4,612
Advertising and promotion	680	1,752	2,822	3,596
Regulatory premiums	826	(38)	1,894	1,902
Net benefit of operation of OREO	(160)	(90)	(348)	(682)
Other	8,640	7,606	29,561	25,140
Total noninterest expense	85,115	87,076	250,219	258,504
Income before income taxes	54,683	63,105	117,318	183,579
Income tax provision	9,949	12,378	21,374	35,257
Net Income	\$ 44,734	\$ 50,727	\$ 95,944	\$ 148,322
Earnings per common share				
Basic	\$ 0.63	\$ 0.70	\$ 1.35	\$ 2.04
Diluted	\$ 0.63	\$ 0.70	\$ 1.35	\$ 2.04
Weighted average number of common shares outstanding	70,726	71,803	70,870	72,256
Weighted average number of diluted common shares outstanding	70,762	71,803	70,906	72,257

See accompanying Notes to unaudited Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Columbia Banking System, Inc.

(Unaudited)

	Three Months Ended	
	September 30,	
	2020	2019
	<i>(in thousands)</i>	
Net income	\$ 44,734	\$ 50,727
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 \$436 and \$(4,421)	(1,442)	14,593
Net unrealized gain (loss) from securities, net of reclassification adjustment	(1,442)	14,593
Pension plan liability adjustment:		
Amortization of unrecognized net actuarial loss included in net periodic pension cost, net of tax of \$(24) and \$(19)	80	62
Pension plan liability adjustment, net	80	62
Unrealized gain (loss) from cash flow hedging instruments:		
Net unrealized gain (loss) in cash flow hedging instruments arising during the period, net of tax of \$19 and \$(951)	(62)	3,137
Reclassification adjustment for net gain in cash flow hedging instruments included in income, net of tax of \$621 and \$18	(2,052)	(58)
Net unrealized gain (loss) from cash flow hedging instruments, net of reclassification adjustment	(2,114)	3,079
Other comprehensive income (loss)	(3,476)	17,734
Total comprehensive income	\$ 41,258	\$ 68,461
	Nine Months Ended	
	September 30,	
	2020	2019
	<i>(in thousands)</i>	
Net income	\$ 95,944	\$ 148,322
Other comprehensive income, net of tax:		
Unrealized gain from securities:		
Net unrealized holding gain from available for sale debt securities arising during the period, net of tax of \$(36,690) and \$(26,209)	121,114	86,519
Reclassification adjustment of net gain from available for sale debt securities arising during the period, net of tax of \$58 and \$496	(191)	(1,636)
Net unrealized gain from securities, net of reclassification adjustment	120,923	84,883
Pension plan liability adjustment:		
Amortization of unrecognized net actuarial loss included in net periodic pension cost, net of tax of \$(72) and \$(56)	239	184
Pension plan liability adjustment, net	239	184
Unrealized gain from cash flow hedging instruments:		
Net unrealized gain in cash flow hedging instruments arising during the period, net of tax of \$(6,218) and \$(4,599)	20,526	15,180
Reclassification adjustment for net gain in cash flow hedging instruments included in income, net of tax of \$1,349 and \$18	(4,454)	(58)
Net unrealized gain from cash flow hedging instruments, net of reclassification adjustment	16,072	15,122
Other comprehensive income	137,234	100,189
Total comprehensive income	\$ 233,178	\$ 248,511

See accompanying Notes to unaudited Consolidated Financial Statements.

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

	<u>Common Stock</u>		<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Treasury Stock</u>	<u>Total Shareholders' Equity</u>
	<u>Shares Outstanding</u>	<u>Amount</u>				
For the Three Months Ended September 30, 2020	<i>(in thousands except per share amounts)</i>					
Balance at July 1, 2020	71,586	\$ 1,654,129	\$ 512,383	\$ 181,077	\$ (70,834)	\$ 2,276,755
Net income	—	—	44,734	—	—	44,734
Other comprehensive loss	—	—	—	(3,476)	—	(3,476)
Issuance of common stock - stock option and other plans	39	1,083	—	—	—	1,083
Activity in deferred compensation plan	—	(2)	—	—	—	(2)
Issuance of common stock - restricted stock awards, net of canceled awards	(12)	3,009	—	—	—	3,009
Purchase and retirement of common stock	—	(16)	—	—	—	(16)
Cash dividends declared on common stock (\$0.28 per share)	—	—	(20,106)	—	—	(20,106)
Balance at September 30, 2020	71,613	\$ 1,658,203	\$ 537,011	\$ 177,601	\$ (70,834)	\$ 2,301,981
For the Nine Months Ended September 30, 2020						
Balance at January 1, 2020	72,124	\$ 1,650,753	\$ 519,676	\$ 40,367	\$ (50,834)	\$ 2,159,962
Adjustment to opening retained earnings pursuant to adoption of ASU 2016-13	—	—	(2,457)	—	—	(2,457)
Net income	—	—	95,944	—	—	95,944
Other comprehensive income	—	—	—	137,234	—	137,234
Issuance of common stock - stock option and other plans	65	2,028	—	—	—	2,028
Activity in deferred compensation plan	—	2	—	—	—	2
Issuance of common stock - restricted stock awards, net of canceled awards	222	7,918	—	—	—	7,918
Purchase and retirement of common stock	(67)	(2,498)	—	—	—	(2,498)
Cash dividends declared on common stock (\$1.06 per share)	—	—	(76,152)	—	—	(76,152)
Purchase of treasury stock	(731)	—	—	—	(20,000)	(20,000)
Balance at September 30, 2020	71,613	\$ 1,658,203	\$ 537,011	\$ 177,601	\$ (70,834)	\$ 2,301,981

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

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders' Equity
	Shares Outstanding	Amount				
For the Three Months Ended September 30, 2019						
<i>(in thousands except per share amounts)</i>						
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 CASH FLOWS*Columbia Banking System, Inc.**(Unaudited)*

	Nine Months Ended September 30,	
	2020	2019
	<i>(in thousands)</i>	
Cash Flows From Operating Activities		
Net income	\$ 95,944	\$ 148,322
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for credit losses	82,400	1,879
Stock-based compensation expense	7,918	6,827
Depreciation, amortization and accretion	14,456	26,150
Investment securities gain, net	(16,674)	(2,132)
Net realized gain on sale of premises and equipment, loans held for investment and OPPO	(953)	(6,787)
Net realized gain on sale and valuation adjustments of OREO	(64)	(602)
Gain on bank owned life insurance death benefit	—	(2,975)
Originations of loans held for sale	(356,962)	(134,634)
Proceeds from sales of loans held for sale	350,273	123,447
Net change in:		
Interest receivable	(9,879)	(3,180)
Interest payable	(399)	632
Other assets	(53,996)	(31,840)
Other liabilities	31,703	29,706
Net cash provided by operating activities	143,767	154,813
Cash Flows From Investing Activities		
Loans originated, net of principal collected	(938,624)	(305,581)
Purchases of:		
Debt securities available for sale	(996,951)	(649,133)
Loans held for investment	—	(57,075)
Premises and equipment	(7,538)	(5,833)
FHLB stock	(53,240)	(190,800)
Proceeds from:		
Sales of debt securities available for sale	194,105	259,554
Sales of equity securities	3,000	—
Principal repayments and maturities of debt securities available for sale	406,767	287,479
Sales of premises and equipment	2,128	7,735
Redemption of FHLB stock	91,080	187,080
Sales of OREO and OPPO	1,034	6,433
Bank owned life insurance death benefit	1,050	—
Net cash used in investing activities	(1,297,189)	(460,141)
Cash Flows From Financing Activities		
Net increase in deposits	2,915,565	397,893
Net decrease in sweep repurchase agreements	(37,471)	(36,605)
Proceeds from:		
FHLB advances	1,331,000	4,770,000
FRB borrowings	222,010	36,000
Other borrowings	9,222	100
Exercise of stock options and employee stock purchase plan	2,028	2,025
Payments for:		
Repayment of FHLB advances	(2,277,000)	(4,677,000)
Repayment of FRB borrowings	(222,010)	(36,000)
Repayment of other borrowings	(9,222)	(100)
Common stock dividends	(75,630)	(81,822)
Purchase of treasury stock	(20,000)	(45,380)
Purchase and retirement of common stock	(2,498)	(2,765)
Net cash provided by financing activities	1,835,994	326,346

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	Nine Months Ended September 30,	
	2020	2019
	<i>(in thousands)</i>	
Increase in cash and cash equivalents	682,572	21,018
Cash and cash equivalents at beginning of period	247,673	277,587
Cash and cash equivalents at end of period	<u>\$ 930,245</u>	<u>\$ 298,605</u>
Supplemental Information:		
Interest paid	\$ 15,913	\$ 27,623
Income taxes paid, net of refunds	\$ 32,745	\$ 33,134
Non-cash investing and financing activities		
Loans transferred to OREO	\$ 1,033	\$ 386
Premises and equipment expenditures incurred but not yet paid	\$ 301	\$ 152
Change in dividends payable on unvested shares included in other liabilities	\$ 522	\$ 252

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, 2020 are not necessarily indicative of results to be anticipated for the year ending December 31, 2020. The accompanying interim unaudited Consolidated Financial Statements should be read in conjunction with the financial statements and related notes contained in the Company’s 2019 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 2019 Annual Report on Form 10-K. In addition to the changes already disclosed in the Annual Report on Form 10-K regarding ASC 326, this ASC also made changes to the accounting for available for sale securities. One such change is to require credit losses to be presented as an allowance rather than a write-down on available for sale securities, which refers to securities management does not intend to sell or with respect to which management believes that it is more likely than not they will not be required to sell. With the exception of that change, there have not been any changes in our significant accounting policies compared to those contained in our 2019 Form 10-K disclosure for the year ended December 31, 2019.

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 shareholders’ equity as previously reported.

2. Accounting Pronouncements Recently Adopted or Issued

Accounting Standards Adopted in 2020

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. As the ASU focused on clarifying certain aspects of accounting, adoption of this ASU did not have a material impact on the Company’s Consolidated Financial Statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326) - 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 requires that credit losses be presented as an allowance rather than as a write-down. In November 2019, the FASB subsequently issued ASU 2019-11, *Codification Improvements to Topic 326, Financial Instruments - Credit Losses*. The amendments in the update require entities to include expected recoveries of the amortized cost basis previously written-off or expected to be written-off in the valuation account for purchased financial assets with credit deterioration. In addition, the amendments in this update clarify and improve various aspects of the guidance for ASU 2016-13.

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Unlike the incurred loss models, the CECL model in ASU 2016-13 does not specify a threshold for the recognition of an impairment allowance. Rather, the Company recognizes an impairment allowance equal to its estimate of lifetime expected credit losses, adjusted for prepayments, for in-scope financial instruments. Accordingly, the impairment allowance measured under the CECL model is expected to change significantly from the impairment allowance measured under the Company's incurred loss model. The Company engaged a third-party vendor to assist in the CECL calculation and has developed and implemented an internal governance framework. The amendments in ASU 2016-13 and the above ASU's related to credit losses are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption was permitted, including adoption in any interim period. The Company adopted the new standards, using a modified retrospective approach, effective January 1, 2020, which resulted in an increase of \$1.6 million to its allowance for credit losses, an increase of \$1.6 million to its allowance for unfunded commitments and letters of credit and a net-of-tax cumulative-effect adjustment of \$2.5 million to decrease the beginning balance of retained earnings.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820) - Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU adds, eliminates and modifies certain disclosure requirements for fair value measurements. Among the changes, entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. The ASU is effective for interim and annual reporting periods beginning after December 15, 2019; early adoption is permitted. Entities are also allowed to elect early adoption of the eliminated or modified disclosure requirements and delay adoption of the added disclosure requirements until their effective date. The Company adopted the new standard effective January 1, 2020. The adoption of this ASU did not have a material impact on the Company's Consolidated Financial Statements.

Recently Issued Accounting Standards, Not Yet Adopted

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848) - Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. In response to concerns about structural risks of the cessation of LIBOR, the amendments in this ASU provide optional guidance for a limited time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. The amendments in this ASU provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. The amendments in this ASU apply only to contracts and hedging relationships that reference LIBOR or another reference rate expected to be discontinued due to reference rate reform. The expedients and exceptions provided by the amendments do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022. The amendments in this ASU are elective and are effective March 12, 2020 for all entities. The adoption of this ASU is not expected to have a material impact on the Company's Consolidated Financial Statements.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740) - Simplifying the Accounting for Income Taxes*. The guidance issued in this ASU simplifies the accounting for income taxes by eliminating certain exceptions to the guidance in ASC 740 related to the approach for intra-period tax allocation, the methodology for calculating income taxes in an interim period and the recognition for deferred tax liabilities for outside basis differences. This ASU also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. The ASU is effective for interim and annual reporting periods beginning after December 15, 2020; early adoption is permitted. The adoption of this ASU is not expected to have a material impact on the Company's Consolidated Financial Statements.

3. Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
September 30, 2020					
<i>(in thousands)</i>					
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	\$ 2,957,028	\$ 168,271	\$ (3,657)	\$ —	\$ 3,121,642
Other asset-backed securities	284,499	9,055	(530)	—	293,024
State and municipal securities	536,861	21,396	(813)	—	557,444
U.S. government agency and government-sponsored enterprise securities	302,730	6,932	(52)	—	309,610
Total	\$ 4,081,118	\$ 205,654	\$ (5,052)	\$ —	\$ 4,281,720
December 31, 2019					
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	\$ 2,864,949	\$ 47,223	\$ (19,222)	\$ —	\$ 2,892,950
Other asset-backed securities	194,563	2,476	(989)	—	196,050
State and municipal securities	478,366	10,660	(224)	—	488,802
U.S. government agency and government-sponsored enterprise securities	165,218	3,127	(5)	—	168,340
Total	\$ 3,703,096	\$ 63,486	\$ (20,440)	\$ —	\$ 3,746,142

A debt security is placed on nonaccrual status at the time any principal or interest payments become 90 days delinquent. Interest accrued but not received for a security placed on nonaccrual is reversed against interest income. There were no amounts of accrued interest reversed against interest income for the three and nine months ended September 30, 2020 and 2019.

Accrued interest receivable for securities available for sale is included in “Interest receivable” on the Company’s Consolidated Balance Sheet and is not reflected in the balances in the table above. At September 30, 2020 and December 31, 2019, accrued interest receivable for securities was \$13.3 million and \$13.9 million, respectively. The Company does not measure an allowance for credit losses for accrued interest receivable.

The following table provides the proceeds and both gross realized gains and losses on sales 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,	
	2020	2019	2020	2019
<i>(in thousands)</i>				
Proceeds from sales of debt securities available for sale	\$ —	\$ —	\$ 194,105	\$ 259,554
Gross realized gains from sales of debt securities available for sale	\$ —	\$ —	\$ 435	\$ 3,357
Gross realized losses from sales of debt securities available for sale	—	—	(186)	(1,225)
Other securities gains (1)	—	—	16,425	—
Investment securities gains, net	\$ —	\$ —	\$ 16,674	\$ 2,132

(1) Other securities gains includes gain from sale of Visa Class B restricted stock and subsequent write up to fair value of remaining Visa Class B shares. For additional information, please see [Note 13 to the Consolidated Financial Statements in “Item 1. Financial Statements \(unaudited\)”](#) of this report.

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The following table provides the unrealized gains and losses on equity securities at the reporting date:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	<i>(in thousands)</i>			
Gains recognized during the period on equity securities (1)	\$ —	\$ —	\$ 16,425	\$ —
Less: Gains recognized during the period on equity securities sold during the period (1)	—	—	(3,000)	—
Unrealized gains recognized during the reporting period on equity securities still held at the reporting date (1)	\$ —	\$ —	\$ 13,425	\$ —

(1) Visa Class B restricted stock owned by the Company was previously carried at a zero-cost basis due to existing transfer restrictions and uncertainty of covered litigation. The sale of shares by the Company of Visa Class B restricted shares during the second quarter of 2020 resulted in an observable market price. As a result, the Company adjusted the carrying value of its remaining shares of Visa Class B restricted shares upward to this observable market price.

The scheduled contractual maturities of debt securities available for sale at September 30, 2020 are presented as follows:

	September 30, 2020	
	Amortized Cost	Fair Value
	<i>(in thousands)</i>	
Due within one year	\$ 92,028	\$ 92,931
Due after one year through five years	595,979	626,018
Due after five years through ten years	2,000,662	2,133,751
Due after ten years	1,392,449	1,429,020
Total debt securities available for sale	\$ 4,081,118	\$ 4,281,720

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, 2020
	<i>(in thousands)</i>
To secure public funds	\$ 441,379
To secure borrowings	111,978
Other securities pledged	168,870
Total securities pledged as collateral	\$ 722,227

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The following table shows the gross unrealized losses and fair value of the Company's debt securities available for sale for which an allowance for credit losses has not been recorded, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2020 and December 31, 2019:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<i>(in thousands)</i>						
September 30, 2020						
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	\$ 318,868	\$ (2,817)	\$ 23,084	\$ (840)	\$ 341,952	\$ (3,657)
Other asset-backed securities	71,552	(530)	95	—	71,647	(530)
State and municipal securities	90,620	(813)	—	—	90,620	(813)
U.S. government agency and government-sponsored enterprise securities	99,946	(52)	—	—	99,946	(52)
Total	<u>\$ 580,986</u>	<u>\$ (4,212)</u>	<u>\$ 23,179</u>	<u>\$ (840)</u>	<u>\$ 604,165</u>	<u>\$ (5,052)</u>
December 31, 2019						
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	\$ 1,055,903	\$ (12,424)	\$ 491,539	\$ (6,798)	\$ 1,547,442	\$ (19,222)
Other asset-backed securities	89,508	(880)	6,799	(109)	96,307	(989)
State and municipal securities	12,363	(142)	12,587	(82)	24,950	(224)
U.S. government agency and government-sponsored enterprise securities	—	—	10,495	(5)	10,495	(5)
Total	<u>\$ 1,157,774</u>	<u>\$ (13,446)</u>	<u>\$ 521,420</u>	<u>\$ (6,994)</u>	<u>\$ 1,679,194</u>	<u>\$ (20,440)</u>

At September 30, 2020, there were 62 U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligation securities in an unrealized loss position. The decline in fair value is attributable to changes in interest rates relative to where these investments fall within the yield curve and their individual characteristics. Because the Company does not intend to sell these securities nor does the Company consider it more likely than not that it will be required to sell these securities before the recovery of amortized cost basis, which may be upon maturity, the Company concluded an allowance for credit losses is unnecessary at September 30, 2020.

At September 30, 2020, there were five other asset-backed securities in an unrealized loss position. The decline in fair value is attributable to changes in interest rates relative to where these investments fall within the yield curve and their individual characteristics. Because the Company does not intend to sell these securities nor does the Company consider it more likely than not that it will be required to sell these securities before the recovery of amortized cost basis, which may be upon maturity, the Company concluded an allowance for credit losses is unnecessary at September 30, 2020.

At September 30, 2020, there were 29 state and municipal government securities in an unrealized loss position. The unrealized losses on state and municipal securities were caused by interest rate changes or widening of market spreads subsequent to the purchase of the individual securities. Management monitors published credit ratings of these securities for adverse changes. As of September 30, 2020, none of the rated obligations of state and local government entities held by the Company had a below investment grade credit rating. Because the credit quality of these securities are investment grade and the Company does not intend to sell these securities nor does the Company consider it more likely than not that it will be required to sell these securities before the recovery of amortized cost basis, which may be upon maturity, the Company concluded an allowance for credit losses is unnecessary at September 30, 2020.

At September 30, 2020, there were four U.S. government securities in an unrealized loss position. The decline in fair value is attributable to changes in interest rates relative to where these investments fall within the yield curve and their individual characteristics. Because the Company does not intend to sell these securities nor does the Company consider it more likely than not that it will be required to sell these securities before the recovery of amortized cost basis, which may be upon maturity, the Company concluded an allowance for credit losses is unnecessary at September 30, 2020.

Equity Securities without Readily Determinable Fair Values*Visa Class B Restricted Shares*

In 2008, the Company received Visa Class B restricted shares as part of Visa's initial public offering. These shares are transferable only under limited circumstances until they can be converted into publicly traded Visa Class A common shares. This conversion will not occur until the settlement of certain litigation which is indemnified by Visa members, including the Company. Visa funded an escrow account from its initial public offering to settle these litigation claims. Should this escrow account not be sufficient to cover these litigation claims, Visa is entitled to fund additional amounts to the escrow account by reducing each member bank's Visa Class B conversion ratio to unrestricted Visa Class A shares.

During the second quarter of 2020, the Company sold 17,360 shares of Visa Class B restricted stock for a gain of \$3.0 million, which resulted in an observable market price. As a result, the Company adjusted the carrying value of its remaining Visa Class B restricted shares upward to this observable market price. At September 30, 2020, the Company owned 77,683 Visa Class B shares, which had a carrying value of \$13.4 million.

4. Loans

The Company's loan portfolio includes originated and purchased loans. The following is an analysis of the loan portfolio by segment and class (net of unearned income):

	September 30, 2020	December 31, 2019
	<i>(dollars in thousands)</i>	
Commercial loans:		
Commercial real estate	\$ 4,027,035	\$ 3,945,853
Commercial business	3,836,009	2,989,613
Agriculture	850,290	765,371
Construction	273,176	361,533
Consumer loans:		
One-to-four family residential real estate	665,432	637,325
Other consumer	37,005	43,770
Total loans	<u>9,688,947</u>	<u>8,743,465</u>
Less: Allowance for credit losses	(156,968)	(83,968)
Total loans, net	<u>\$ 9,531,979</u>	<u>\$ 8,659,497</u>
Loans held for sale	<u>\$ 24,407</u>	<u>\$ 17,718</u>

At September 30, 2020 and December 31, 2019, 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, 2020 and December 31, 2019, \$3.49 billion and \$3.24 billion of commercial and residential real estate loans were pledged as collateral on FHLB borrowings and additional borrowing capacity. The Company has also pledged \$200.6 million and \$151.3 million of commercial loans to the FRB for additional borrowing capacity at September 30, 2020 and December 31, 2019, respectively.

Accrued interest receivable for loans is included in "Interest receivable" on the Company's Consolidated Balance Sheet and is not reflected in the balances in the table above. At September 30, 2020 and December 31, 2019, accrued interest receivable for loans was \$43.4 million and \$33.0 million, respectively. The Company does not measure an allowance for credit losses for accrued interest receivable.

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The following is an aging of the recorded investment of the loan portfolio as of September 30, 2020 and December 31, 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
September 30, 2020							
<i>(in thousands)</i>							
Commercial loans:							
Commercial real estate	\$ 4,015,038	\$ 547	\$ 1,088	\$ —	\$ 1,635	\$ 10,362	\$ 4,027,035
Commercial business	3,808,794	6,987	915	—	7,902	19,313	3,836,009
Agriculture	833,408	1,710	259	—	1,969	14,913	850,290
Construction	272,959	—	—	—	—	217	273,176
Consumer loans:							
One-to-four family residential real estate	658,468	4,559	—	—	4,559	2,405	665,432
Other consumer	36,744	215	25	—	240	21	37,005
Total	\$ 9,625,411	\$ 14,018	\$ 2,287	\$ —	\$ 16,305	\$ 47,231	\$ 9,688,947
December 31, 2019							
<i>(in thousands)</i>							
Commercial loans:							
Commercial real estate	\$ 3,935,633	\$ 6,421	\$ —	\$ —	\$ 6,421	\$ 3,799	\$ 3,945,853
Commercial business	2,959,826	6,081	2,769	—	8,850	20,937	2,989,613
Agriculture	755,719	2,283	2,346	—	4,629	5,023	765,371
Construction	360,582	951	—	—	951	—	361,533
Consumer loans:							
One-to-four family residential real estate	631,109	2,516	408	—	2,924	3,292	637,325
Other consumer	43,654	80	27	—	107	9	43,770
Total	\$ 8,686,523	\$ 18,332	\$ 5,550	\$ —	\$ 23,882	\$ 33,060	\$ 8,743,465

Loan payments are considered timely when the contractual principal or interest due in accordance with the terms of the loan agreement or any portion thereof is received on the due date of the scheduled payment. In addition, the risk rating on COVID-19 modified loans did not change. These loans are not considered past due until after the deferral period is over and scheduled payments resume. Accrued interest on these COVID-19 modified loans is due, in full, when the deferral period ends. The credit quality of these loans will be reevaluated after the deferral period ends.

Nonaccrual loans are generally loans placed on a nonaccrual basis when they become 90 days past due or when there are otherwise serious doubts about the collectability of principal or interest within the existing terms of the loan. The Company's policy is to write-off all accrued interest on loans when they are placed on nonaccrual status.

The following table summarizes written-off interest on nonaccrual loans for the three and nine months ended September 30, 2020 and 2019:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
<i>(in thousands)</i>				
Commercial loans	\$ 387	\$ 149	\$ 1,835	\$ 1,316
Consumer loans	6	26	19	146
Total	\$ 393	\$ 175	\$ 1,854	\$ 1,462

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The following summarizes the amortized cost of nonaccrual loans for which there was no related ACL as of September 30, 2020 and December 31, 2019:

	<u>September 30, 2020</u>	<u>December 31, 2019</u>
	<i>(in thousands)</i>	
Commercial loans:		
Commercial real estate	\$ 9,092	\$ 1,715
Commercial business	11,713	15,762
Agriculture	11,074	1,798
Total	\$ 31,879	\$ 19,275

The following is an analysis of loans classified as TDR during the three and nine months ended September 30, 2020 and 2019:

	<u>Three Months Ended September 30, 2020</u>			<u>Three Months Ended September 30, 2019</u>		
	<u>Number of TDR Modifications</u>	<u>Pre- Modification Outstanding Recorded Investment</u>	<u>Post- Modification Outstanding Recorded Investment</u>	<u>Number of TDR Modifications</u>	<u>Pre- Modification Outstanding Recorded Investment</u>	<u>Post- Modification Outstanding Recorded Investment</u>
	<i>(dollars in thousands)</i>					

Commercial loans:						
Commercial business	4	\$ 795	795	5	5,026	5,026
Agriculture	1	2,600	2,600	—	—	—
Consumer loans:						
One-to-four family residential real estate	4	618	618	5	357	357
Other consumer	—	—	—	1	1	1
Total	9	\$ 4,013	\$ 4,013	11	\$ 5,384	\$ 5,384

	<u>Nine Months Ended September 30, 2020</u>			<u>Nine Months Ended September 30, 2019</u>		
	<u>Number of TDR Modifications</u>	<u>Pre- Modification Outstanding Recorded Investment</u>	<u>Post- Modification Outstanding Recorded Investment</u>	<u>Number of TDR Modifications</u>	<u>Pre- Modification Outstanding Recorded Investment</u>	<u>Post- Modification Outstanding Recorded Investment</u>
	<i>(dollars in thousands)</i>					

Commercial loans:						
Commercial business	10	\$ 2,757	\$ 2,757	10	\$ 6,560	\$ 6,560
Agriculture	2	3,495	3,495	—	—	—
Consumer loans:						
One-to-four family residential real estate	6	814	814	10	692	692
Other consumer	—	—	—	1	1	1
Total	18	\$ 7,066	\$ 7,066	21	\$ 7,253	\$ 7,253

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The Company's loans classified as TDR are loans that have been modified or with respect to which the borrower has been granted special concessions due to financial difficulties that, if not for the challenges of the borrower, the Company would not otherwise consider. The TDR modifications or concessions are made to increase the likelihood that these borrowers with financial difficulties will be able to satisfy their debt obligations as amended. The concessions granted in the restructurings, summarized in the table above, largely consisted of maturity extensions, interest rate modifications or a combination of both. In limited circumstances, a reduction in the principal balance of the loan could also be made as a concession. Loans classified as TDR are included with the loans collectively measured for credit losses.

The Company had commitments to lend \$641 thousand of additional funds on loans classified as TDR as of September 30, 2020. The Company had \$1.1 million of such commitments at December 31, 2019. The Company had no loans modified as TDR that defaulted within 12 months of being modified as TDR during the three and nine months ended September 30, 2020. During three months ended September 30, 2019, the Company had no loans that defaulted within 12 months of being modified as a TDR. During the nine months ended September 30, 2019, the Company had one \$26 thousand consumer loan that defaulted within 12 months of being modified as a TDR. The defaulted TDR loan was collateralized and included with the loans individually measured for credit loss.

Loan modifications and PPP loans in response to COVID-19

Financial institutions are required to maintain records of the volume of loans involved in modifications to which troubled debt restructuring relief is applicable. At September 30, 2020, the Company had 103 short-term deferments on \$114.4 million of loans, gross of unearned income. These short-term deferments are not classified as TDR's and will not be reported as past due provided that they are performing in accordance with the modified terms.

The Company offered PPP loans to provide financial support to small and medium-size businesses to cover payroll and certain other expenses during the COVID-19 pandemic. The PPP was established by the CARES Act and is implemented by the U.S. SBA with support from the U.S. Department of Treasury. The program, which was amended by the Paycheck Protection Flexibility Act of 2020, provides small businesses with funds to pay up to 24 weeks of payroll costs including benefits, as well as interest on mortgages, rent and utilities. Funds are provided to small businesses in the form of loans that will be fully forgiven when used for permitted purposes and when at least 60% of the funds are used for payroll costs in accordance with the requirements of the amended PPP. At September 30, 2020, we had \$953.2 million of PPP loans outstanding, which are included in commercial business loans.

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

The ACL is determined through quarterly assessments of expected credit losses within the loan portfolio and is deducted from the loan's amortized cost basis to present the net amount of loans expected to be collected. We estimate the ACL using relevant and reliable available information, which is derived from both internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Additions to and recaptures from the ACL are charged to current period earnings through the provision for credit losses. Loan amounts that are determined to be uncollectible are charged directly against the ACL and netted against amounts recovered on previously charged-off loans.

For the purpose of calculating portfolio level reserves, we have segmented our loan portfolio into two portfolio segments (Commercial and Consumer). The Commercial and Consumer portfolio segments are then further broken down into loan classes by risk characteristics. The risk characteristics include regulatory call codes, type of industry and collateral type.

The ACL is comprised of reserves measured on a collective (pool) basis using a quantitative DCF model for all loan classes with similar risk characteristics and then qualitatively adjusted for large loan concentrations, trends in problem loans, policy exemptions granted, and other factors. The quantitative DCF model utilizes anticipated period cash flows determined on a loan-level basis. The anticipated cash flows take into account contractual principal and interest payments, anticipated segment level prepayments, probability of defaults and historical loss given defaults. The majority of our loan classes utilize regression models to calculate probability of defaults, in which macroeconomic factors are correlated to historical quarterly defaults. The Commercial segment two-factor models utilize a mix of seven macroeconomic factors, including the four most commonly used factors: Real GDP, National Unemployment Rate, Home Price Index and Commercial Real Estate Index. The three additional factors are Nominal GDP, Producer Price Index and Core Consumer Price Index. The Consumer segment two-factor models utilize a mix of three macroeconomic factors: National Unemployment Rate, Home Price Index and Prime Rate. The Company utilizes an 18 month reasonable and supportable forecast for the macroeconomic factors, after which they revert to their historical mean using a straight-line basis constructed on their absolute historical quarterly change.

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Loans are individually measured for credit losses if they do not share similar risk characteristics of other loans within their respective pools. Individually measured loans are primarily nonaccrual and collateral dependent with balances equal to or greater than \$500,000 and for which foreclosure is probable. Commercial real estate loans are secured by commercial real estate, including owner occupied and non-owner occupied commercial real estate, as well as multifamily residential real estate. Commercial business loans are primarily secured by non-real estate collateral, including equipment and other non-real estate fixed assets, inventory, receivables, and cash. Agricultural loans are secured by farmland and other agricultural real estate, as well as equipment, inventory, such as crops and livestock, non-real estate fixed assets, and cash. Construction loans are secured by one-to-four family residential real estate and commercial real estate in varying stages of development. One-to-four family residential real estate loans are secured by one-to-four family residential properties. Other consumer loans are secured by personal property. For loans measured on an individual basis, the Company calculates the allowance as the difference between the amortized cost of the loan and the fair market value of the collateral. The fair market value of the collateral is determined by either the discounted expected future cash flows from the operation of the collateral or the appraised value of the collateral, less costs to sell. If the fair value of the collateral is greater than the amortized cost of the loan, no reserve is recorded.

The Company also records an allowance for credit losses on unfunded loan commitments and letters of credit. We estimate expected credit losses on unfunded commitments in which we are exposed to credit risk, unless we have the option to unconditionally cancel the obligation. Expected credit losses are calculated based on the likelihood that funding will occur and an estimate of what will be funded by analyzing the most recent four-quarter utilization rates, current utilization, and our quantitative ACL rate. The allowance for unfunded commitments and letters of credit is included in “Other Liabilities” on the Consolidated Balance Sheets, with changes to the balance being charged to noninterest expense.

We do not measure an allowance for credit losses on accrued interest receivable balances because these balances are written-off in a timely manner as a reduction to interest income when loans are placed on nonaccrual status.

The following tables show a detailed analysis of the ACL for the three and nine months ended September 30, 2020:

	Beginning Balance	Charge-offs	Recoveries	Provision (Recapture)	Ending Balance
<i>(in thousands)</i>					
Three Months Ended September 30, 2020					
Commercial loans:					
Commercial real estate	\$ 50,233	\$ —	\$ 65	\$ 11,026	\$ 61,324
Commercial business	53,186	(3,164)	1,124	(574)	50,572
Agriculture	14,868	(1,269)	27	(1,165)	12,461
Construction	7,953	—	11	999	8,963
Consumer loans:					
One-to-four family residential real estate	23,711	(16)	1,301	(2,889)	22,107
Other consumer	1,595	(133)	76	3	1,541
Total	\$ 151,546	\$ (4,582)	\$ 2,604	\$ 7,400	\$ 156,968

	Prior Year Ending Balance	Impact of Adopting ASC 326	Beginning Balance	Charge-offs	Recoveries	Provision (Recapture)	Ending Balance
<i>(in thousands)</i>							
Nine Months Ended September 30, 2020							
Commercial loans:							
Commercial real estate	\$ 20,340	\$ 7,533	\$ 27,873	\$ (101)	\$ 92	\$ 33,460	\$ 61,324
Commercial business	30,292	762	31,054	(10,290)	2,795	27,013	50,572
Agriculture	15,835	(9,325)	6,510	(5,995)	69	11,877	12,461
Construction	8,571	(1,750)	6,821	—	688	1,454	8,963
Consumer loans:							
One-to-four family residential real estate	7,435	4,237	11,672	(26)	2,005	8,456	22,107
Other consumer	883	778	1,661	(599)	330	149	1,541
Unallocated	612	(603)	9	—	—	(9)	—
Total	\$ 83,968	\$ 1,632	\$ 85,600	\$ (17,011)	\$ 5,979	\$ 82,400	\$ 156,968

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

	Beginning Balance	Charge- offs	Recoveries	Provision (Recapture)	Ending Balance
Three Months Ended September 30, 2019					
<i>(in thousands)</i>					
Commercial loans:					
Commercial real estate	\$ 15,648	\$ (466)	\$ 1,731	\$ 1,009	\$ 17,922
Commercial business	29,700	(2,623)	349	3,453	30,879
Agriculture	12,671	(55)	67	1,216	13,899
Construction	12,457	(17)	2,555	(3,143)	11,852
Consumer loans:					
One-to-four family residential real estate	7,619	(202)	440	(399)	7,458
Other consumer	715	(9)	74	(201)	579
Unallocated	1,707	—	—	(1,636)	71
Total	<u>\$ 80,517</u>	<u>\$ (3,372)</u>	<u>\$ 5,216</u>	<u>\$ 299</u>	<u>\$ 82,660</u>
Nine Months Ended September 30, 2019					
<i>(in thousands)</i>					
Commercial loans:					
Commercial real estate	\$ 14,766	\$ (1,708)	\$ 2,801	\$ 2,063	\$ 17,922
Commercial business	34,658	(8,445)	1,368	3,298	30,879
Agriculture	9,589	(194)	189	4,315	13,899
Construction	14,395	(232)	3,329	(5,640)	11,852
Consumer loans:					
One-to-four family residential real estate	8,024	(1,004)	1,224	(786)	7,458
Other consumer	787	(64)	148	(292)	579
Unallocated	1,150	—	—	(1,079)	71
Total	<u>83,369</u>	<u>(11,647)</u>	<u>9,059</u>	<u>1,879</u>	<u>82,660</u>

The \$73.0 million increase in the ACL at September 30, 2020 compared to the ALLL at December 31, 2019 was primarily the result of COVID-19 and the 2020 downturn in the national and global economies as well as increased unemployment rates. The ACL at September 30, 2020 does not include a reserve for the PPP loans as these loans are fully guaranteed by the SBA.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
<i>(in thousands)</i>				
Beginning balance	\$ 8,800	\$ 3,980	\$ 3,430	\$ 4,330
Impact of adopting ASC 326	—	—	1,570	—
Net changes in the allowance for unfunded commitments and letters of credit	800	(400)	4,600	(750)
Ending balance	<u>\$ 9,600</u>	<u>\$ 3,580</u>	<u>\$ 9,600</u>	<u>\$ 3,580</u>

Credit Quality Indicators

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

We evaluate the credit quality of our loan portfolio using regulatory risk ratings, which are based on relevant information about the borrower's financial condition, including current financial condition, historical payment experience, credit documentation and current economic trends. Risk ratings are reviewed and updated whenever appropriate, with more periodic reviews as the risk and dollar value of the loss on the loan increases. All loans risk rated special mention or worse with amortized costs exceeding \$100,000 are reviewed at least quarterly with more frequent review for specific loans.

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

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The following is an analysis of the credit quality of our loan portfolio, as of September 30, 2020 and December 31, 2019:

September 30, 2020	Term Loans					Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term Loans Amortized Cost Basis	Total (1)
	Amortized Cost Basis by Origination Year								
	2020	2019	2018	2017	2016				
	<i>(in thousands)</i>								
Commercial loans:									
Commercial real estate									
Pass	\$ 491,625	\$ 636,127	\$ 499,924	\$ 542,049	\$ 434,390	\$ 1,032,016	\$ 48,664	\$ 3,552	\$ 3,688,347
Special mention	8,717	59,899	18,993	15,175	47,881	50,571	2,148	—	203,384
Substandard	—	9,977	17,307	13,014	45,421	43,650	5,935	—	135,304
Total commercial real estate	\$ 500,342	\$ 706,003	\$ 536,224	\$ 570,238	\$ 527,692	\$ 1,126,237	\$ 56,747	\$ 3,552	\$ 4,027,035
Commercial business									
Pass	\$ 1,175,587	\$ 409,759	\$ 357,128	\$ 233,037	\$ 240,648	\$ 256,178	\$ 915,373	\$ 8,674	\$ 3,596,384
Special mention	4,856	51,204	8,635	25,626	6,514	11,907	35,819	—	144,561
Substandard	3,791	6,005	17,758	5,836	7,153	6,369	44,651	3,501	95,064
Total commercial business	\$ 1,184,234	\$ 466,968	\$ 383,521	\$ 264,499	\$ 254,315	\$ 274,454	\$ 995,843	\$ 12,175	\$ 3,836,009
Agriculture									
Pass	\$ 147,892	\$ 99,483	\$ 42,464	\$ 59,828	\$ 60,007	\$ 62,529	\$ 290,986	\$ 12,273	\$ 775,462
Special mention	—	519	—	33	272	—	1,801	—	2,625
Substandard	2,676	13,010	6,950	4,278	2,399	4,482	37,918	490	72,203
Total agriculture	\$ 150,568	\$ 113,012	\$ 49,414	\$ 64,139	\$ 62,678	\$ 67,011	\$ 330,705	\$ 12,763	\$ 850,290
Construction									
Pass	\$ 89,744	\$ 101,060	\$ 24,130	\$ 4,531	\$ 782	\$ 1,883	\$ 25,536	\$ —	\$ 247,666
Special mention	—	2,259	—	—	—	—	—	—	2,259
Substandard	—	17,622	5,539	—	—	57	33	—	23,251
Total construction	\$ 89,744	\$ 120,941	\$ 29,669	\$ 4,531	\$ 782	\$ 1,940	\$ 25,569	\$ —	\$ 273,176
Consumer loans:									
One-to-four family residential real estate									
Pass	\$ 88,632	\$ 83,137	\$ 72,896	\$ 33,149	\$ 24,987	\$ 87,267	\$ 265,475	\$ 3,110	\$ 658,653
Special mention	—	—	—	—	—	206	297	—	503
Substandard	—	735	227	1,177	344	2,463	1,133	197	6,276
Total one-to-four family real estate	\$ 88,632	\$ 83,872	\$ 73,123	\$ 34,326	\$ 25,331	\$ 89,936	\$ 266,905	\$ 3,307	\$ 665,432
Other consumer									
Pass	\$ 4,412	\$ 3,684	\$ 4,299	\$ 1,172	\$ 327	\$ 1,161	\$ 20,937	\$ 736	\$ 36,728
Substandard	31	—	—	6	4	171	24	41	277
Total consumer	\$ 4,443	\$ 3,684	\$ 4,299	\$ 1,178	\$ 331	\$ 1,332	\$ 20,961	\$ 777	\$ 37,005
Total	\$ 2,017,963	\$ 1,494,480	\$ 1,076,250	\$ 938,911	\$ 871,129	\$ 1,560,910	\$ 1,696,730	\$ 32,574	\$ 9,688,947
Less:									
Allowance for credit losses									156,968
Loans, net									\$ 9,531,979

(1) Loans that are on short-term deferments are treated as Pass loans and will not be reported as past due provided that they are performing in accordance with the modified terms.

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	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term Loans Amortized Cost Basis	Total	
	2019	2018	2017	2016	2015	Prior				
December 31, 2019	<i>(in thousands)</i>									
Commercial loans:										
Commercial real estate										
Pass	\$ 699,336	\$ 562,992	\$ 621,113	\$ 565,928	\$ 441,220	\$ 873,687	\$ 52,276	\$ 19,986	\$ 3,836,538	
Special mention	1,824	305	7,019	3,360	—	3,426	—	—	15,934	
Substandard	47	10,698	9,320	36,229	20,278	11,738	—	5,071	93,381	
Total commercial real estate	\$ 701,207	\$ 573,995	\$ 637,452	\$ 605,517	\$ 461,498	\$ 888,851	\$ 52,276	\$ 25,057	\$ 3,945,853	
Commercial business										
Pass	\$ 479,481	\$ 442,222	\$ 330,934	\$ 301,337	\$ 157,436	\$ 199,089	\$ 963,663	\$ 25,577	\$ 2,899,739	
Special mention	2,241	6,673	56	2,006	52	585	12,710	—	24,323	
Substandard	85	17,240	3,458	9,534	3,227	3,972	26,639	1,396	65,551	
Total commercial business	\$ 481,807	\$ 466,135	\$ 334,448	\$ 312,877	\$ 160,715	\$ 203,646	\$ 1,003,012	\$ 26,973	\$ 2,989,613	
Agriculture										
Pass	\$ 107,152	\$ 54,950	\$ 70,337	\$ 71,874	\$ 33,597	\$ 56,342	\$ 280,984	\$ 10,036	\$ 685,272	
Special mention	557	2,535	1,381	—	64	576	5,336	—	10,449	
Substandard	7,291	6,047	6,173	5,907	1,477	5,698	30,669	6,388	69,650	
Total agriculture	\$ 115,000	\$ 63,532	\$ 77,891	\$ 77,781	\$ 35,138	\$ 62,616	\$ 316,989	\$ 16,424	\$ 765,371	
Construction										
Pass	\$ 183,525	\$ 91,342	\$ 40,514	\$ 1,067	\$ 939	\$ 1,601	\$ 33,388	\$ 7,793	\$ 360,169	
Special mention	—	1,264	—	—	—	—	41	—	1,305	
Substandard	—	—	—	—	—	59	—	—	59	
Total construction	\$ 183,525	\$ 92,606	\$ 40,514	\$ 1,067	\$ 939	\$ 1,660	\$ 33,429	\$ 7,793	\$ 361,533	
Consumer loans:										
One-to-four family real estate										
Pass	\$ 103,315	\$ 77,877	\$ 32,440	\$ 25,052	\$ 27,294	\$ 80,370	\$ 283,830	\$ 554	\$ 630,732	
Substandard	—	228	800	400	623	3,156	905	481	6,593	
Total one-to-four family real estate	\$ 103,315	\$ 78,105	\$ 33,240	\$ 25,452	\$ 27,917	\$ 83,526	\$ 284,735	\$ 1,035	\$ 637,325	
Other consumer										
Pass	\$ 9,276	\$ 5,713	\$ 1,974	\$ 758	\$ 848	\$ 1,306	\$ 23,351	\$ 508	\$ 43,734	
Substandard	—	—	1	—	—	8	27	—	36	
Total consumer	\$ 9,276	\$ 5,713	\$ 1,975	\$ 758	\$ 848	\$ 1,314	\$ 23,378	\$ 508	\$ 43,770	
Total	\$ 1,594,130	\$ 1,280,086	\$ 1,125,520	\$ 1,023,452	\$ 687,055	\$ 1,241,613	\$ 1,713,819	\$ 77,790	\$ 8,743,465	
Less:										
Allowance for credit losses										83,968
Loans, net										\$ 8,659,497

6. Other Real Estate Owned

The following tables set forth activity in OREO for the three and nine months ended September 30, 2020 and 2019:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	<i>(in thousands)</i>			
Balance, beginning of period	\$ 747	\$ 1,118	\$ 552	\$ 6,019
Transfers in	475	—	1,033	386
Valuation adjustments	—	—	—	(195)
Proceeds from sale of OREO property	(681)	(588)	(1,026)	(6,382)
Gain on sale of OREO, net	82	95	64	797
Balance, end of period	<u>\$ 623</u>	<u>\$ 625</u>	<u>\$ 623</u>	<u>\$ 625</u>

At September 30, 2020, there were no 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 \$436 thousand.

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, 2020 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,	
	2020	2019	2020	2019
	<i>(in thousands)</i>			
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	(75,454)	(65,852)	(70,934)	(60,455)
CDI, net at beginning of period	30,019	39,621	34,539	45,018
CDI current period amortization	(2,193)	(2,632)	(6,713)	(8,029)
Total CDI, net at end of period	27,826	36,989	27,826	36,989
Intangible assets not subject to amortization	919	919	919	919
Other intangible assets, net at end of period	28,745	37,908	28,745	37,908
Total goodwill and other intangible assets at end of period	<u>\$ 794,587</u>	<u>\$ 803,750</u>	<u>\$ 794,587</u>	<u>\$ 803,750</u>

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The following table provides the estimated future amortization expense of our CDI for the remaining three months ending December 31, 2020 and the succeeding four years:

	<u>Year ending December 31,</u>	
	<i>(in thousands)</i>	
2020	\$	2,012
2021		7,264
2022		5,880
2023		4,552
2024		3,432

8. Revolving Line of Credit

The Company has a \$15.0 million short-term credit facility with an unaffiliated bank that expires May 27, 2021. 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. There was no outstanding balance at both September 30, 2020 and December 31, 2019. 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, 2020.

9. 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 \$10.7 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, 2020 and December 31, 2019 was \$575.4 million and \$428.6 million, respectively. During the three and nine month periods ended September 30, 2020, mark-to-market losses of \$2 thousand and \$475 thousand, respectively, were recorded to "Other" noninterest expense. During the three months ended September 30, 2019, there was no mark-to-market gain or loss recorded. During the nine months ended September 30, 2019, there was a \$2 thousand mark-to-market loss recorded to "Other" noninterest expense.

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The following table presents the fair value of derivatives, as well as their classification on the Consolidated Balance Sheet at September 30, 2020 and December 31, 2019:

Asset Derivatives					Liability Derivatives				
September 30, 2020		December 31, 2019			September 30, 2020		December 31, 2019		
Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value		Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	
<i>(in thousands)</i>									
Derivatives designated as hedging instruments:									
Interest rate collar	Other assets	\$ 35,668	Other assets	\$ 14,727	Other liabilities	\$ —	Other liabilities	\$ —	
Derivatives not designated as hedging instruments:									
Interest rate swap contracts	Other assets	\$ 53,202	Other assets	\$ 19,144	Other liabilities	\$ 53,677	Other liabilities	\$ 19,145	

The table below presents the effect of cash flow hedge accounting on accumulated other comprehensive income (loss) at September 30, 2020 and 2019:

	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,	
	2020	2019		2020	2019
<i>(in thousands)</i>					
Interest rate collar	\$ (81)	\$ 4,088	Interest income	\$ 2,673	\$ 76
Nine Months Ended September 30,					
	2020	2019		2020	2019
Interest rate collar	\$ 26,744	\$ 19,779	Interest income	\$ 5,803	\$ 76

The notional amount of the interest rate collar was \$500.0 million at September 30, 2020. 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.

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The following tables show the gross interest rate swap contracts, collar agreements and repurchase agreements in the Consolidated Balance Sheets and the respective collateral received or pledged in the form of cash or other financial instruments. The collateral amounts in these tables are limited to the outstanding balances of the related asset or liability. Therefore, instances of over-collateralization are not shown.

	Gross Amounts of Recognized Assets/Liabilities		Gross Amounts Offset in the Consolidated Balance Sheets		Net Amounts of Assets/Liabilities Presented in the Consolidated Balance Sheets		Gross Amounts Not Offset in the Consolidated Balance Sheets				
							Collateral Pledged/Received	Net Amount			
September 30, 2020											
<i>(in thousands)</i>											
Assets											
Interest rate swap contracts	\$	53,202	\$	—	\$	53,202	\$	—	\$	53,202	
Interest rate collar	\$	35,668	\$	—	\$	35,668	\$	(35,668)		—	
Liabilities											
Interest rate swap contracts	\$	53,677	\$	—	\$	53,677	\$	(53,677)		—	
Repurchase agreements	\$	26,966	\$	—	\$	26,966	\$	(26,966)		—	
December 31, 2019											
Assets											
Interest rate swap contracts	\$	19,144	\$	—	\$	19,144	\$	—		\$	19,144
Interest rate collar	\$	14,727	\$	—	\$	14,727	\$	(14,727)		—	
Liabilities											
Interest rate swap contracts	\$	19,145	\$	—	\$	19,145	\$	(19,145)		—	
Repurchase agreements	\$	64,437	\$	—	\$	64,437	\$	(64,437)		—	

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					
<i>(in thousands)</i>										
September 30, 2020										
Class of collateral pledged for repurchase agreements										
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	\$	26,966	\$	—	\$	—	\$	—	\$	26,966
Gross amount of recognized liabilities for repurchase agreements										26,966
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 \$27.0 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.

10. Commitments and Contingent Liabilities

Lease Commitments: The Company's lease commitments consist primarily of leased locations under various non-cancellable operating leases that expire between 2021 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.

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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, 2020 and December 31, 2019, the Company's loan commitments amounted to \$3.79 billion and \$2.67 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 \$30.3 million and \$25.7 million at September 30, 2020 and December 31, 2019, respectively. In addition, there were \$23 thousand commitments under commercial letters of credit used to facilitate customers' trade transactions and other off-balance sheet liabilities at both September 30, 2020 and December 31, 2019.

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.

11. Shareholders' Equity

Dividends:

The following table summarizes year-to-date dividend activity as of September 30, 2020:

Declared	Regular Cash Dividends Per Common Share	Special Cash Dividends Per Common Share	Record Date	Paid Date
January 23, 2020	\$ 0.28	\$ 0.22	February 5, 2020	February 19, 2020
April 30, 2020	\$ 0.28	\$ —	May 14, 2020	May 28, 2020
July 23, 2020	\$ 0.28	\$ —	August 5, 2020	August 19, 2020

Subsequent to quarter end, on October 29, 2020, the Company declared a regular quarterly cash dividend of \$0.28 per common share payable on November 25, 2020 to shareholders of record at the close of business on November 11, 2020.

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 months ended September 30, 2020, the Company did not purchase any common shares. For the nine months ended September 30, 2020, the Company repurchased 731 thousand shares of common stock at an average price of \$27.36 per share. The Company's share repurchase authorization expired in May of 2020. For additional information, please see [Note 16 to the Consolidated Financial Statements in "Item 1. Financial Statements \(unaudited\)"](#) of this report.

12. 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, 2020 and 2019:

	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, 2020				
<i>(in thousands)</i>				
Beginning balance	\$ 155,403	\$ (3,815)	\$ 29,489	\$ 181,077
Other comprehensive loss before reclassifications	(1,442)	—	(62)	(1,504)
Amounts reclassified from accumulated other comprehensive income (2)	—	80	(2,052)	(1,972)
Net current-period other comprehensive income (loss)	(1,442)	80	(2,114)	(3,476)
Ending balance	<u>\$ 153,961</u>	<u>\$ (3,735)</u>	<u>\$ 27,375</u>	<u>\$ 177,601</u>
Three Months Ended September 30, 2019				
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	<u>\$ 51,755</u>	<u>\$ (1,993)</u>	<u>\$ 15,122</u>	<u>\$ 64,884</u>
Nine Months Ended September 30, 2020				
Beginning balance	\$ 33,038	\$ (3,974)	\$ 11,303	\$ 40,367
Other comprehensive income before reclassifications	121,114	—	20,526	141,640
Amounts reclassified from accumulated other comprehensive income (2)	(191)	239	(4,454)	(4,406)
Net current-period other comprehensive income	120,923	239	16,072	137,234
Ending balance	<u>\$ 153,961</u>	<u>\$ (3,735)</u>	<u>\$ 27,375</u>	<u>\$ 177,601</u>
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	<u>\$ 51,755</u>	<u>\$ (1,993)</u>	<u>\$ 15,122</u>	<u>\$ 64,884</u>

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

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

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The following table shows details regarding the reclassifications from accumulated other comprehensive income (loss) for the three and nine months ended September 30, 2020 and 2019:

	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)				Affected line item in the Consolidated Statement of Income
	Three Months Ended September 30,		Nine Months Ended September 30,		
	2020	2019	2020	2019	
	<i>(in thousands)</i>				
Unrealized gains on available for sale debt securities	\$ —	\$ —	\$ 249	\$ 2,132	Investment securities gains, net
	—	—	249	2,132	Total before tax
	—	—	(58)	(496)	Income tax provision
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 191</u>	<u>\$ 1,636</u>	Net of tax
Amortization of pension plan liability actuarial losses	\$ (104)	\$ (81)	\$ (311)	\$ (240)	Compensation and employee benefits
	(104)	(81)	(311)	(240)	Total before tax
	24	19	72	56	Income tax provision
	<u>\$ (80)</u>	<u>\$ (62)</u>	<u>\$ (239)</u>	<u>\$ (184)</u>	Net of tax
Unrealized gains from hedging instruments	\$ 2,673	\$ 76	\$ 5,803	\$ 76	Loans
	2,673	76	5,803	76	Total before tax
	(621)	(18)	(1,349)	(18)	Income tax provision
	<u>\$ 2,052</u>	<u>\$ 58</u>	<u>\$ 4,454</u>	<u>\$ 58</u>	Net of tax

13. Fair Value Accounting and Measurement

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

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

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

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

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

Fair values are determined as follows:

Debt securities available for sale at fair value are priced using a combination of market activity, industry recognized information sources, yield curves, discounted cash flow models and other factors. These fair value calculations are considered a Level 2 input method under the provisions of the Fair Value Measurements and Disclosures topic of the FASB ASC for all debt securities available for sale.

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

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The following table sets forth the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis at September 30, 2020 and December 31, 2019 by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement:

	Fair Value	Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
September 30, 2020				
<i>(in thousands)</i>				
Assets				
Debt securities available for sale:				
U.S. government agency and government-sponsored enterprise mortgage-back securities and collateralized mortgage obligations	\$ 3,121,642	\$ —	\$ 3,121,642	\$ —
Other asset-backed securities	293,024	—	293,024	—
State and municipal securities	557,444	—	557,444	—
U.S. government agency and government-sponsored enterprise securities	309,610	—	309,610	—
Total debt securities available for sale	\$ 4,281,720	\$ —	\$ 4,281,720	\$ —
Other assets:				
Interest rate contracts	\$ 53,202	\$ —	\$ 53,202	\$ —
Interest rate collar	\$ 35,668	\$ —	\$ 35,668	\$ —
Liabilities				
Other liabilities:				
Interest rate contracts	\$ 53,677	\$ —	\$ 53,677	\$ —
December 31, 2019				
<i>(in thousands)</i>				
Assets				
Debt securities available for sale:				
U.S. government agency and government-sponsored enterprise mortgage-back securities and collateralized mortgage obligations	\$ 2,892,950	\$ —	\$ 2,892,950	\$ —
Other asset-backed securities	196,050	—	196,050	—
State and municipal securities	488,802	—	488,802	—
U.S. government agency and government-sponsored enterprise securities	168,340	—	168,340	—
Total debt securities available for sale	\$ 3,746,142	\$ —	\$ 3,746,142	\$ —
Other assets:				
Interest rate contracts	\$ 19,144	\$ —	\$ 19,144	\$ —
Interest rate collar	\$ 14,727	\$ —	\$ 14,727	\$ —
Liabilities				
Other liabilities:				
Interest rate contracts	\$ 19,145	\$ —	\$ 19,145	\$ —

Nonrecurring Measurements

Certain assets and liabilities are measured at fair value on a nonrecurring basis after initial recognition such as collateral dependent loans. The following valuation techniques and inputs were used to estimate the fair value of collateral dependent loans and equity securities without readily determinable fair value.

Collateral dependent loans - A collateral dependent loan is a loan in which repayment is expected to be provided solely by the underlying collateral. The fair market value of the collateral is determined by either the discounted expected future cash flows from the operation of the collateral or the appraised value of the collateral, less costs to sell. The collateral dependent loan valuations are performed in conjunction with the allowance for credit losses process on a quarterly basis.

Equity securities without readily determinable fair value - The Company measures equity securities without readily determinable fair values at cost less impairment (if any), plus or minus observable price changes from an identical or similar investment of the same issuer, with such changes recognized in earnings. Our equity securities without readily determinable fair values consist of 77,683 Visa Class B shares. These shares are currently subject to certain transfer restrictions and will be convertible into Visa Class A shares upon final resolution of certain litigation matters involving Visa. For additional information, please see [Note 3 to the Consolidated Financial Statements in “Item 1. Financial Statements \(unaudited\)”](#) of this report.

The following table presents the carrying value of equity securities, without readily determinable fair values, still held as of September 30, 2020, that are measured under the measurement alternative and related adjustments recorded during the periods presented for those securities with observable price changes. These securities are included in the nonrecurring fair value tables when applicable price changes are observable.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Equity securities without readily determinable fair values	<i>(in thousands)</i>			
Carrying value, beginning of period	\$ 13,425	\$ —	\$ —	\$ —
Upward carrying value changes	—	—	13,425	—
Carrying value, end of period	\$ 13,425	\$ —	\$ 13,425	\$ —

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, 2020	Fair Value Measurements at Reporting Date Using			Gains During the Three Months Ended September 30, 2020	Losses During the Nine Months Ended September 30, 2020
		Level 1	Level 2	Level 3		
<i>(in thousands)</i>						
Collateral dependent loans	\$ 11,899	\$ —	\$ —	\$ 11,899	\$ (153)	\$ 4,941

	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		
<i>(in thousands)</i>						
Collateral dependent loans	\$ 8,990	\$ —	\$ —	\$ 8,990	\$ 1,722	\$ 3,299

The losses on collateral dependent loans disclosed above represent the amount of the allowance for credit losses and/or charge-offs during the period applicable to loans held at period-end. The amount of the allowance is included in the ACL.

Quantitative information about Level 3 fair value measurements

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

	Fair Value at September 30, 2020	Valuation Technique	Unobservable Input	Range (Weighted Average) (1)
		<i>(dollars in thousands)</i>		
Collateral dependent loans (2)	\$ 11,899	Fair Market Value of Collateral	Adjustment to Stated Value	0.00% - 100.00% (15.57%)

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

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

	Fair Value at September 30, 2019	Valuation Technique	Unobservable Input	Range (Weighted Average) (1)
		<i>(dollars in thousands)</i>		
Collateral dependent loans (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.

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The following tables summarize carrying amounts and estimated fair values of selected financial instruments by level within the fair value hierarchy at September 30, 2020 and December 31, 2019:

September 30, 2020						
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3	
<i>(in thousands)</i>						
Assets						
Cash and due from banks	\$ 193,823	\$ 193,823	\$ 193,823	\$ —	\$ —	
Interest-earning deposits with banks	736,422	736,422	736,422	—	—	
Debt securities available for sale	4,281,720	4,281,720	—	4,281,720	—	
Equity securities without readily determinable fair values	13,425	13,425	—	—	13,425	
FHLB stock	10,280	10,280	—	10,280	—	
Loans held for sale	24,407	24,407	—	24,407	—	
Loans	9,531,979	9,980,912	—	—	9,980,912	
Interest rate contracts	53,202	53,202	—	53,202	—	
Interest rate collar	35,668	35,668	—	35,668	—	
Liabilities						
Time deposits	\$ 337,228	\$ 337,386	\$ —	\$ 337,386	\$ —	
FHLB advances	7,427	9,354	—	9,354	—	
Repurchase agreements	26,966	26,966	—	26,966	—	
Subordinated debentures	35,139	35,368	—	35,368	—	
Interest rate contracts	53,677	53,677	—	53,677	—	

December 31, 2019						
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3	
<i>(in thousands)</i>						
Assets						
Cash and due from banks	\$ 223,541	\$ 223,541	\$ 223,541	\$ —	\$ —	
Interest-earning deposits with banks	24,132	24,132	24,132	—	—	
Debt securities available for sale	3,746,142	3,746,142	—	3,746,142	—	
FHLB stock	48,120	48,120	—	48,120	—	
Loans held for sale	17,718	17,718	—	17,718	—	
Loans	8,659,497	8,883,865	—	—	8,883,865	
Interest rate contracts	19,144	19,144	—	19,144	—	
Interest rate collar	14,727	14,727	—	14,727	—	
Liabilities						
Time deposits	\$ 400,070	\$ 397,736	\$ —	\$ 397,736	\$ —	
FHLB advances	953,469	952,762	—	952,762	—	
Repurchase agreements	64,437	64,437	—	64,437	—	
Subordinated debentures	35,277	35,491	—	35,491	—	
Interest rate contracts	19,145	19,145	—	19,145	—	

14. 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, 2020 and 2019:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
<i>(in thousands except per share amounts)</i>				
Basic EPS:				
Net income	\$ 44,734	\$ 50,727	\$ 95,944	\$ 148,322
Less: Earnings allocated to participating securities:				
Nonvested restricted shares	164	358	487	1,204
Earnings allocated to common shareholders	\$ 44,570	\$ 50,369	\$ 95,457	\$ 147,118
Weighted average common shares outstanding	70,726	71,803	70,870	72,256
Basic earnings per common share	\$ 0.63	\$ 0.70	\$ 1.35	\$ 2.04
Diluted EPS:				
Earnings allocated to common shareholders	\$ 44,570	\$ 50,369	\$ 95,457	\$ 147,118
Weighted average common shares outstanding	70,726	71,803	70,870	72,256
Dilutive effect of equity awards	36	—	36	1
Weighted average diluted common shares outstanding	70,762	71,803	70,906	72,257
Diluted earnings per common share	\$ 0.63	\$ 0.70	\$ 1.35	\$ 2.04
Potentially dilutive share options that were not included in the computation of diluted EPS because to do so would be anti-dilutive	596	—	487	—

15. 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.

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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, 2020 and 2019:

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
	<i>(in thousands)</i>			
Noninterest income:				
Revenue from contracts with customers:				
Deposit account and treasury management fees	\$ 6,658	\$ 9,015	\$ 20,538	\$ 27,030
Card revenue	3,834	4,006	10,431	11,431
Financial services and trust revenue	3,253	3,226	9,481	9,608
Total revenue from contracts with customers	13,745	16,247	40,450	48,069
Other sources of noninterest income	8,727	11,783	40,488	27,305
Total noninterest income	<u>\$ 22,472</u>	<u>\$ 28,030</u>	<u>\$ 80,938</u>	<u>\$ 75,374</u>

16. Subsequent Events

Stock Repurchase Program

On October 28, 2020, the board of directors approved a stock repurchase program to purchase up to 3.5 million shares, up to a maximum aggregate purchase price of \$100.0 million.

Interest rate collar

In January 2019, the Company entered into a \$500.0 million notional interest rate collar with a five-year term. In October 2020, the collar was terminated and resulted in a \$34.9 million realized gain that was recorded in other comprehensive income, net of deferred income taxes. The gain will amortize into interest income through February 2024 which is in line with the initial term of the interest rate collar. The gain will be amortized in this manner as long as the cash flows pertaining to the hedged item are expected to occur.

Item 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, 2019 audited Consolidated Financial Statements and its accompanying notes included in our Annual Report on Form 10-K. In the following discussion, unless otherwise noted, references to increases or decreases in average balances in items of income and expense for a particular period and balances at a particular date refer to the comparison with corresponding amounts for the period or date one year earlier.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, but are not limited to, statements about our plans, objectives, expectations and intentions that are not historical facts, and statements identified by words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “should,” “projects,” “seeks,” “estimates” or the negative version of those words or other comparable words or phrases of a future or forward-looking nature, as well as the continuing effects of the COVID-19 pandemic on the Company’s business, operations, financial performance and prospects. Forward-looking statements are based on current beliefs and expectations of management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. In addition to the factors set forth in the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this report and the factors set forth in the section titled “Risk Factors” in the Company’s Form 10-K, and Quarterly Reports on Form 10-Q, the following factors, among others, could cause actual results to differ materially from the anticipated results expressed or implied by forward-looking statements:

- national and global economic conditions could be less favorable than expected or could have a more direct and pronounced effect on us than expected and adversely affect our ability to continue internal growth and maintain the quality of our earning assets;
- the markets where we operate and make loans could face challenges;
- the risks presented by the economy, which could adversely affect credit quality, collateral values, including real estate collateral, investment values, liquidity and loan originations and loan portfolio delinquency rates;
- 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;
- the effect of the discontinuation or replacement of LIBOR;
- 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;
- our ability to keep pace with technological changes;
- our ability to effectively manage credit risk, interest rate risk, market risk, operational risk, legal risk, liquidity risk and regulatory and compliance risk;
- failure to maintain effective internal control over financial reporting or disclosure controls and procedures;
- the effect of geopolitical instability, including wars, conflicts and terrorist attacks;
- 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;
- the effect of COVID-19 and other infectious illness outbreaks that may arise in the future, which has created significant impacts and uncertainties in U.S. and global markets;
- changes in governmental policy and regulation, including measures taken in response to economic, business, political and social conditions, including with regard to COVID-19; and
- the effects of any damage to our reputation resulting from developments related to any of the items identified above.

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

CRITICAL ACCOUNTING POLICIES

Management has identified the accounting policies related to the ACL, business combinations and the valuation and recoverability of goodwill as critical to an understanding of our financial statements. These policies and related estimates are discussed in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” under the headings “Adoption of Allowance for Credit Losses - ASC 326,” “Business Combinations” and “Valuation and Recoverability of Goodwill” in our 2019 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 2019 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.

COVID-19 Update

We continue to monitor the spread of COVID-19 in our communities and adapt to changes in guidance from local healthcare officials. The measures we have taken to mitigate opportunities for spread and provide a safe environment for our team members and clients have been effective.

Our response employs a multi-layered approach to safety that includes disinfecting protocols, social distancing and remote work options. Where practical, team members with underlying health conditions or those who are caretakers of family with underlying health conditions continue to work remotely. We continue to limit unnecessary travel and have broadly integrated the use of video conferencing as well as virtual collaboration and online learning tools to facilitate training and meetings as well as internal and client-facing events.

Branch lobbies across the footprint have remained open for standard business hours to serve clients throughout the quarter. Teams routinely carry out our safety protocols, which include disinfecting areas at regular intervals as well as maintaining social distancing and face covering requirements that meet or exceed the guidance issued by local and regional jurisdictions. The diligence of our team members and their commitment to the safety of their team members and clients has minimized the risk of spread in our facilities and helped us keep operating with minimal disruption.

We continue to support our team members throughout the pandemic by providing flexibility, regular communication and support resources. We communicate regularly with team members across the Bank to provide new information or updated guidance and to promote support resources available through our benefits offering. Throughout the summer our leaders prepared to support team members with school-aged children returning to distanced learning programs by providing a variety of flexible work options including temporary remote work assignments, shift changes, and other accommodations. These adjustments have afforded many team members the support needed to help ease the pressures of distanced learning requirements. Responding to these temporary challenges with a variety of flexible options while upholding client service standards has also allowed us to retain existing talent.

Our participation in the Small Business Administration’s (SBA) Paycheck Protection Program has entered a new phase as clients begin submitting requests for loan forgiveness. We began processing requests when the SBA formally opened their portal in mid-August. As of October 26th, we taken over 1,400 applications and approved/submitted nearly 850 of those to the SBA for more than \$220.0 million. We continue to process requests on a daily basis, including those utilizing the SBA’s new simplified application for loans of \$50,000 or less.

For additional information on the impact and potential impact of COVID-19 on our business, financial condition, liquidity, capital and results of operations, see Part II Item 1A “Risk Factors” of this report.

Earnings Summary

Comparison of current quarter to prior year period

The Company reported net income for the third quarter of \$44.7 million or \$0.63 per diluted common share, compared to \$50.7 million or \$0.70 per diluted common share for the third quarter of 2019. Net interest income for the three months ended September 30, 2020 was \$124.7 million, an increase of \$2.3 million from the prior year period. The increase was primarily a result of a reduction in interest expense on deposits and FHLB advances partially offset by a decline in interest income on interest-earning assets.

The provision for credit losses for the third quarter of 2020 was \$7.4 million compared to \$299 thousand for the third quarter of 2019. The increase in provision expense for the third quarter of 2020 compared to one year ago was principally the result of COVID-19 and the 2020 downturn in the national and global economies.

Noninterest income for the current quarter was \$22.5 million, a decrease of \$5.6 million from the prior year period. The decrease was principally due to a decline in other noninterest income from a \$5.9 million gain from the sale-leaseback of owned real estate during the third quarter of 2019. In addition, deposit account and treasury management fees decreased \$2.4 million compared to the same quarter in 2019. These decreases in noninterest income were partially offset by an increase in loan revenue of \$2.8 million, driven by higher mortgage banking revenue.

Total noninterest expense for the quarter ended September 30, 2020 was \$85.1 million, a decrease of \$2.0 million from the prior year period. This decrease was primarily driven by lower legal and professional fees and advertising and promotion expenses partially offset by an increase in other noninterest expense.

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

The Company reported net income for the nine months ended September 30, 2020 of \$95.9 million or \$1.35 per diluted common share, compared to \$148.3 million or \$2.04 per diluted common share for the same period in 2019. Net interest income for the nine months ended September 30, 2020 was \$369.0 million, an increase of \$411 thousand from the prior year period. The drivers for the first nine months of 2020 were similar to the drivers for the quarterly comparison above. The increase was primarily a result of a reduction in interest expense on deposits and FHLB advances partially offset by a decline in interest income on interest-earning assets.

The provision for credit losses for the nine months ended September 30, 2020 was \$82.4 million compared to a provision of \$1.9 million for the first nine months of 2019. The increase in the provision for the first nine months of 2020 compared to the same period in 2019 was due to the ongoing COVID-19 pandemic which has negatively affected the economy and increased unemployment rates.

Noninterest income for the nine months ended September 30, 2020 was \$80.9 million, an increase of \$5.6 million from the prior year period. The increase was primarily due to a \$16.4 million gain from the sale and upward adjustment to the carrying value of the Visa Class B restricted shares to the market price and an increase in loan revenue. These increases were partially offset by decreases in deposit account and treasury management fees and other noninterest income.

For the nine months ended September 30, 2020, noninterest expense was \$250.2 million, a decrease of \$8.3 million from \$258.5 million for the same period in 2019. The decrease from the prior year period was driven by lower legal and professional fees and compensation and employee benefits expenses which were partially offset by higher other noninterest expense.

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,			Three Months Ended September 30,		
	2020			2019		
	Average Balances	Interest Earned / Paid	Average Rate	Average Balances	Interest Earned / Paid	Average Rate
<i>(dollars in thousands)</i>						
ASSETS						
Loans, net (1)(2)	\$ 9,744,336	\$ 106,945	4.37 %	\$ 8,694,592	\$ 114,099	5.21 %
Taxable securities	3,511,690	19,102	2.16 %	2,654,490	16,457	2.46 %
Tax exempt securities (2)	436,351	2,962	2.70 %	447,723	3,235	2.87 %
Interest-earning deposits with banks	800,058	203	0.10 %	144,773	864	2.37 %
Total interest-earning assets	14,492,435	129,212	3.55 %	11,941,578	134,655	4.47 %
Other earning assets	235,735			230,140		
Noninterest-earning assets	1,237,315			1,288,056		
Total assets	<u>\$ 15,965,485</u>			<u>\$ 13,459,774</u>		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Money market accounts	3,200,407	947	0.12 %	2,589,390	2,840	0.44 %
Interest-bearing demand	1,296,076	337	0.10 %	1,049,833	438	0.17 %
Savings accounts	1,072,472	36	0.01 %	893,395	49	0.02 %
Interest-bearing public funds, other than certificates of deposit	621,786	397	0.25 %	602,674	2,879	1.90 %
Certificates of deposit	336,954	288	0.34 %	381,879	657	0.68 %
Total interest-bearing deposits	6,527,695	2,005	0.12 %	5,517,171	6,863	0.49 %
FHLB advances and FRB borrowings	54,173	166	1.22 %	400,956	2,569	2.54 %
Subordinated debentures	35,161	468	5.30 %	35,346	468	5.25 %
Other borrowings and interest-bearing liabilities	42,090	19	0.18 %	35,569	183	2.04 %
Total interest-bearing liabilities	6,659,119	2,658	0.16 %	5,989,042	10,083	0.67 %
Noninterest-bearing deposits	6,790,790			5,151,596		
Other noninterest-bearing liabilities	221,805			166,220		
Shareholders' equity	2,293,771			2,152,916		
Total liabilities & shareholders' equity	<u>\$ 15,965,485</u>			<u>\$ 13,459,774</u>		
Net interest income (tax equivalent)		<u>\$ 126,554</u>			<u>\$ 124,572</u>	
Net interest margin (tax equivalent)			<u>3.47 %</u>			<u>4.14 %</u>

(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 \$5.0 million and \$2.0 million for the three months ended September 30, 2020 and 2019, respectively. The incremental accretion income on acquired loans was \$1.7 million and \$2.1 million for the three months ended September 30, 2020 and 2019, respectively.

(2) Tax-exempt income is calculated on a tax equivalent basis. The tax equivalent yield adjustment to interest earned on loans was \$1.2 million and \$1.4 million for the three months ended September 30, 2020 and 2019, respectively. The tax equivalent yield adjustment to interest earned on tax exempt securities was \$622 thousand and \$679 thousand for the three months ended September 30, 2020 and 2019, respectively.

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

	Nine Months Ended September 30,			Nine Months Ended September 30,		
	2020			2019		
	Average Balances	Interest Earned / Paid	Average Rate	Average Balances	Interest Earned / Paid	Average Rate
<i>(dollars in thousands)</i>						
ASSETS						
Loans, net (1)(2)	\$ 9,370,101	\$ 322,347	4.60 %	\$ 8,568,746	\$ 341,798	5.33 %
Taxable securities	3,304,295	58,533	2.37 %	2,599,595	49,790	2.56 %
Tax exempt securities (2)	415,973	8,733	2.80 %	470,987	10,426	2.96 %
Interest-earning deposits with banks	458,987	480	0.14 %	65,374	1,159	2.37 %
Total interest-earning assets	13,549,356	\$ 390,093	3.85 %	11,704,702	\$ 403,173	4.61 %
Other earning assets	234,044			231,823		
Noninterest-earning assets	1,256,525			1,266,392		
Total assets	<u>\$ 15,039,925</u>			<u>\$ 13,202,917</u>		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Money market accounts	2,925,672	3,649	0.17 %	2,571,722	8,321	0.43 %
Interest-bearing demand	1,211,958	1,160	0.13 %	1,063,678	1,230	0.15 %
Savings accounts	982,507	117	0.02 %	893,738	136	0.02 %
Interest-bearing public funds, other than certificates of deposit	512,548	1,693	0.44 %	380,853	4,831	1.70 %
Certificates of deposit	351,973	1,122	0.43 %	397,221	1,819	0.61 %
Total interest-bearing deposits	5,984,658	7,741	0.17 %	5,307,212	16,337	0.41 %
FHLB advances and FRB borrowings	455,303	6,191	1.82 %	500,448	9,962	2.66 %
Subordinated debentures	35,207	1,404	5.33 %	35,392	1,404	5.30 %
Other borrowings and interest-bearing liabilities	41,706	178	0.57 %	35,440	552	2.08 %
Total interest-bearing liabilities	6,516,874	\$ 15,514	0.32 %	5,878,492	\$ 28,255	0.64 %
Noninterest-bearing deposits	6,073,718			5,069,629		
Other noninterest-bearing liabilities	202,105			156,432		
Shareholders' equity	2,247,228			2,098,364		
Total liabilities & shareholders' equity	<u>\$ 15,039,925</u>			<u>\$ 13,202,917</u>		
Net interest income (tax equivalent)		<u>\$ 374,579</u>			<u>\$ 374,918</u>	
Net interest margin (tax equivalent)			<u>3.69 %</u>			<u>4.28 %</u>

(1) Nonaccrual loans have been included in the table as loans carrying a zero yield. Amortized net deferred loan fees and net unearned discounts on acquired loans were included in the interest income calculations. The amortization of net deferred loan fees was \$12.5 million and \$6.3 million for the nine months ended September 30, 2020 and 2019, respectively. The incremental accretion income on acquired loans was \$4.8 million and \$6.8 million for the nine months ended September 30, 2020 and 2019, respectively.

(2) Tax-exempt income is calculated on a tax equivalent basis. The tax equivalent yield adjustment to interest earned on loans was \$3.7 million and \$4.1 million for the nine months ended September 30, 2020 and 2019, respectively. The tax equivalent yield adjustment to interest earned on tax exempt securities was \$1.8 million and \$2.2 million for the nine months ended September 30, 2020 and 2019, respectively.

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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, 2020 Compared to 2019 Increase (Decrease) Due to		
	Volume	Rate	Total
	<i>(in thousands)</i>		
Interest Income			
Loans, net	\$ 12,819	\$ (19,973)	\$ (7,154)
Taxable securities	4,842	(2,197)	2,645
Tax exempt securities	(81)	(192)	(273)
Interest-earning deposits with banks	820	(1,481)	(661)
Interest income	<u>\$ 18,400</u>	<u>\$ (23,843)</u>	<u>\$ (5,443)</u>
Interest Expense			
Deposits:			
Money market accounts	\$ 551	\$ (2,444)	\$ (1,893)
Interest-bearing demand	87	(188)	(101)
Savings accounts	8	(21)	(13)
Interest-bearing public funds, other than certificates of deposit	88	(2,570)	(2,482)
Certificates of deposit	(69)	(300)	(369)
Total interest on deposits	665	(5,523)	(4,858)
FHLB advances and FRB borrowings	(1,498)	(905)	(2,403)
Other borrowings and interest-bearing liabilities	41	(205)	(164)
Interest expense	<u>\$ (792)</u>	<u>\$ (6,633)</u>	<u>\$ (7,425)</u>

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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, 2020 Compared to 2019 Increase (Decrease) Due to		
	Volume	Rate	Total (1)
<i>(in thousands)</i>			
Interest Income			
Loans, net	\$ 30,186	\$ (49,637)	\$ (19,451)
Taxable securities	12,704	(3,961)	8,743
Tax exempt securities	(1,174)	(519)	(1,693)
Interest earning deposits with banks	1,298	(1,977)	(679)
Interest income	<u>\$ 43,014</u>	<u>\$ (56,094)</u>	<u>\$ (13,080)</u>
Interest Expense			
Deposits:			
Money market accounts	1,016	(5,688)	(4,672)
Interest-bearing demand	158	(228)	(70)
Savings accounts	13	(32)	(19)
Interest-bearing public funds, other than certificates of deposit	1,277	(4,415)	(3,138)
Certificates of deposit	(190)	(507)	(697)
Total interest on deposits	<u>2,274</u>	<u>(10,870)</u>	<u>(8,596)</u>
FHLB advances and FRB borrowings	(836)	(2,935)	(3,771)
Other borrowings	120	(494)	(374)
Interest expense	<u>\$ 1,558</u>	<u>\$ (14,299)</u>	<u>\$ (12,741)</u>

(1) The change in interest not due solely to volume or rate has been allocated in proportion to the absolute dollar amount of the change in each.

Comparison of current quarter to prior year period

Net interest income for the third quarter of 2020 was \$124.7 million, up from \$122.5 million for the same quarter in 2019. The increase was primarily a result of a reduction in interest expense on deposits and FHLB advances partially offset by a decline in interest income on interest-earning assets. The reduction in deposit interest expense was due to the lower interest rate environment while the reduction in interest expense on FHLB advances was principally due to lower average balances of advances. Interest income from securities increased principally due to higher average balances. Partially offsetting these favorable changes to net interest income was a decline in loan interest income due to the lower rate environment.

The Company's net interest margin (tax equivalent) decreased to 3.47% in the third quarter of 2020, from 4.14% for the prior year period. This decrease was driven by higher average interest-earning deposits with banks at an average rate of 10 basis points as well as lower rates on the loan and securities portfolios. The Company's operating net interest margin (tax equivalent)⁽¹⁾ decreased to 3.46% from 4.12% during the third quarter of 2019. The decrease was due to the items previously noted for the decrease in the net interest margin.

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

Net interest income for the nine months ended September 30, 2020 was \$369.0 million, relative to \$368.6 million for the prior year period. The year-to-date comparison results were similar to the third quarter comparison results as deposit interest expense declined due to the lower rate environment while the decrease in interest expense on FHLB advances was due to both a decline in interest rates and lower average advance balances. The increase in interest income from securities was principally due to higher average balances. Partially offsetting these favorable changes to net interest income was a decline in interest income from loans due to the low rate environment.

(1) Operating net interest margin (tax equivalent) is a non-GAAP financial measure. See the "[Non-GAAP financial measures](#)" section in this Management's Discussion and Analysis.

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The Company's net interest margin (tax equivalent) decreased to 3.69% for the first nine months of 2020, from 4.28% for the prior year period. The decrease in the Company's net interest margin (tax equivalent) was a result of higher average interest-earning deposits with banks at an average rate of 14 basis points as well as lower rates on our loans and securities. The Company's operating net interest margin (tax equivalent) for the nine months ended September 30, 2020 was 3.69% compared to 4.28% for the nine months ended September 30, 2019. The decrease was due to the items previously noted for the decrease in the net interest margin.

Provision for Credit Losses

Comparison of current quarter to prior year period

During the third quarter of 2020, the Company recorded a \$7.4 million net provision for credit losses, under the CECL methodology, compared to a \$299 thousand net provision, under the previous ALLL methodology, during the third quarter of 2019. The increase in provision expense for the third quarter of 2020 compared to one year ago was principally the result of the COVID-19 pandemic and the downturn in the national and global economies as well as increased unemployment rates.

The net provision for credit losses recorded during the current quarter also included management's ongoing assessment of the credit quality of the Company's loan portfolio. Other factors affecting the provision include net charge-offs, credit quality migration, and the size and composition of the loan portfolio and changes in the economic environment during the third quarter of 2020. The amount of provision was calculated in accordance with the Company's methodology for determining the ACL, 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 credit losses for the nine months ended September 30, 2020 was \$82.4 million compared to \$1.9 million during the same period in 2019. The increase in the provision for the first nine months of 2020 was due to the same factors discussed above for the quarterly provision for credit losses. The amount of provision was calculated in accordance with the Company's methodology for determining the ACL, discussed in [Note 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,			
	2020	2019	\$ Change	% Change	2020	2019	\$ Change	% Change
	<i>(dollars in thousands)</i>							
Deposit account and treasury management fees	\$ 6,658	\$ 9,015	\$ (2,357)	(26)%	\$ 20,538	\$ 27,030	\$ (6,492)	(24)%
Card revenue	3,834	4,006	(172)	(4)%	10,431	11,431	(1,000)	(9)%
Financial services and trust revenue	3,253	3,226	27	1 %	9,481	9,608	(127)	(1)%
Loan revenue	6,645	3,855	2,790	72 %	16,842	9,840	7,002	71 %
Bank owned life insurance	1,585	1,528	57	4 %	4,799	4,644	155	3 %
Investment securities gains, net	—	—	—	—	16,674	2,132	14,542	682 %
Other	497	6,400	(5,903)	(92)%	2,173	10,689	(8,516)	(80)%
Total noninterest income	<u>\$ 22,472</u>	<u>\$ 28,030</u>	<u>\$ (5,558)</u>	(20)%	<u>\$ 80,938</u>	<u>\$ 75,374</u>	<u>\$ 5,564</u>	7 %

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Comparison of current quarter to prior year period

Noninterest income was \$22.5 million for the third quarter of 2020, compared to \$28.0 million for the same period in 2019. The decrease was principally due to a \$5.9 million gain from the sale-leaseback of owned real estate during the third quarter of 2019, included in other noninterest income in the table above. In addition, treasury management and overdraft fees decreased by \$993 thousand and \$921 thousand, respectively, compared to the same quarter in 2019. The decrease in overdraft fees was due to an overall decrease in the number of transactions during this pandemic time period as well as clients generally carrying higher cash balances in their deposit accounts. Partially offsetting these decreases in noninterest income was an increase in mortgage banking revenue of \$2.3 million compared to the prior year period primarily due to a higher volume of mortgage loans originated and sold.

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

For the nine months ended September 30, 2020, noninterest income was \$80.9 million compared to \$75.4 million for the same period in 2019, an increase of \$5.6 million. The increase was primarily due to the \$16.4 million gain from the sale and write-up of Visa Class B restricted shares to fair value during the second quarter of 2020. Loan revenue increased during the first nine months of 2020 due to increases in investor premiums earned due to a higher volume of mortgage loan originations through our held for sale program and interest rate swap income. These increases were partially offset by the reduction in other noninterest expense due to the gain on the sale-leaseback of owned real estate in the third quarter of 2019 as stated above for the quarterly comparison. In addition, treasury management and overdraft fees declined due to the same reasons stated for the quarterly comparison above.

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,			
	2020	2019	\$ Change	% Change (1)	2020	2019	\$ Change	% Change
	<i>(dollars in thousands)</i>							
Compensation and employee benefits	\$ 55,133	\$ 54,459	\$ 674	1 %	\$ 156,018	\$ 158,559	\$ (2,541)	(2)%
Occupancy	8,734	8,645	89	1 %	26,743	26,166	577	2 %
Data processing	4,510	5,102	(592)	(12)%	14,804	14,372	432	3 %
Legal and professional fees	3,000	5,683	(2,683)	(47)%	8,585	16,810	(8,225)	(49)%
Amortization of intangibles	2,193	2,632	(439)	(17)%	6,713	8,029	(1,316)	(16)%
B&O taxes	1,559	1,325	234	18 %	3,427	4,612	(1,185)	(26)%
Advertising and promotion	680	1,752	(1,072)	(61)%	2,822	3,596	(774)	(22)%
Regulatory premiums	826	(38)	864	N/M	1,894	1,902	(8)	— %
Net benefit of operation of OREO	(160)	(90)	(70)	78 %	(348)	(682)	334	(49)%
Other	8,640	7,606	1,034	14 %	29,561	25,140	4,421	18 %
Total noninterest expense	<u>\$ 85,115</u>	<u>\$ 87,076</u>	<u>\$ (1,961)</u>	(2)%	<u>\$ 250,219</u>	<u>\$ 258,504</u>	<u>\$ (8,285)</u>	(3)%

1) Percentage changes greater than +/- 1000% are considered not meaningful and are presented as "N/M".

Comparison of current quarter to prior year period

Noninterest expense was \$85.1 million for the third quarter of 2020, a decrease of \$2.0 million from \$87.1 million for the prior year period. This decrease was primarily driven by lower legal and professional fees which declined \$2.7 million due to lower expenses tied to digital corporate initiatives while advertising and promotion expenses decreased \$1.1 million. Partially offsetting these decreases was a \$1.2 million increase in the provision for unfunded loan commitments compared to the third quarter of 2019 which is included in other noninterest expense in the table above.

[Table of Contents](#)*Comparison of current year-to-date to prior year period*

For the nine months ended September 30, 2020, noninterest expense was \$250.2 million, compared to \$258.5 million for the same period in 2019, a decrease of \$8.3 million. The decrease from the prior year period was driven by lower legal and professional fees and compensation and employee benefits expenses which were partially offset by higher other noninterest expense. Legal and professional fees were down compared to the same period in 2019 primarily due to lower expenses tied to digital corporate initiatives. The decrease in compensation and benefits was due to the deferral of labor costs related to the origination of PPP loans. These labor costs are deferred and amortized as a reduction in interest income over the life of the loan. This decrease was partially offset by increases in salaries and incentive and commission expenses. Partially offsetting these decreases to noninterest expense was an increase in the provision for unfunded loan commitments which is included in other noninterest expense in the table above.

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

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
	<i>(in thousands)</i>			
Provision (recapture) for unfunded loan commitments	\$ 800	\$ (400)	\$ 4,600	\$ (750)

Income Taxes

We recorded an income tax provision of \$9.9 million for the third quarter of 2020, compared to a provision of \$12.4 million for the same period in 2019, with effective tax rates of 18% and 20% for the third quarter of 2020 and 2019, respectively. For the nine months ended September 30, 2020 and 2019, we recorded income tax provisions of \$21.4 million and \$35.3 million, respectively, with effective tax rates of 18% for the current year and 19% 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, 2019.

FINANCIAL CONDITION

Total assets were \$16.23 billion at September 30, 2020, an increase of \$2.15 billion from December 31, 2019. Cash and cash equivalents increased \$682.6 million. Loans increased \$945.5 million during the first nine months of 2020, which was primarily the result of new loan production, supplemented by PPP loans, partially offset by a decrease in line utilization and loan payments. Debt securities available for sale were \$4.28 billion at September 30, 2020, an increase of \$535.6 million from December 31, 2019. Total liabilities were \$13.93 billion as of September 30, 2020, an increase of \$2.01 billion from December 31, 2019. The increase was primarily due to an increase in deposits driven by PPP loan funds being deposited into our clients' deposit accounts, partially offset by a decrease in FHLB advances.

Investment Securities

At September 30, 2020, the Company's investment portfolio primarily consisted of debt securities available for sale totaling \$4.28 billion compared to \$3.75 billion at December 31, 2019. The increase in the debt securities portfolio from year-end is due to \$997.0 million in purchases and \$157.5 million in net unrealized gain, offset by \$600.6 million in maturities, repayments and sales and \$18.3 million in premium amortization. The average duration of our debt securities investment portfolio was approximately 4 years and 6 months at September 30, 2020. 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.

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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 has resulted in a credit loss. A credit loss exists 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 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 determined to result in a credit loss, an allowance is recorded.

When there are credit losses associated with a 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 through an allowance and the non-credit-related impairment is recognized in accumulated other comprehensive income.

At September 30, 2020, the market value of debt securities available for sale had a net unrealized gain of \$200.6 million compared to a net unrealized gain of \$43.0 million at December 31, 2019. The change in valuation was the result of fluctuations in market interest rates during the nine months ended September 30, 2020. At September 30, 2020, the Company had \$604.2 million of debt securities available for sale with gross unrealized losses of \$5.1 million; however, we did not consider these investment securities to have an indicated credit loss.

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

	<u>September 30, 2020</u>	<u>December 31, 2019</u>
	<i>(in thousands)</i>	
Debt securities available for sale:		
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	\$ 3,121,642	\$ 2,892,950
Other asset-backed securities	293,024	196,050
State and municipal securities	557,444	488,802
U.S. government agency and government-sponsored enterprise securities	309,610	168,340
Total debt securities available for sale	<u>\$ 4,281,720</u>	<u>\$ 3,746,142</u>
Equity securities	<u>13,425</u>	<u>—</u>
Total investment securities	<u>\$ 4,295,145</u>	<u>\$ 3,746,142</u>

For further information on our investment portfolio and equity securities transactions, 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, as well as 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.

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We review these loans to assess the ability of our borrowers to service all interest and principal obligations and, as a result, the risk rating may be adjusted accordingly. In the event that full collection of principal and interest is not reasonably assured, the loan is appropriately downgraded and, if warranted, placed on nonaccrual status even though the loan may be current as to principal and interest payments. Additionally, we assess whether an individually measured allowance is required for collateral dependent nonaccrual loans with balances equal to or greater than \$500,000 and with respect to which foreclosure is probable. For the individually measured collateral dependent nonaccrual loan, the allowance for credit losses is equal to the difference between amortized cost of the loan and the determined value of the collateral. However, if the determined value of the collateral is greater than the amortized cost of the loan, no allowance for credit losses will be added for these loans.

For additional discussion on our methodology in managing credit risk within our loan portfolio, see the [“Allowance for Credit Losses”](#) section in this Management’s Discussion and Analysis and [Note 1](#) to the Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data” of the Company’s 2019 Annual Report on Form 10-K.

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

Loan Portfolio Analysis

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

	<u>September 30, 2020</u>	<u>% of Total</u>	<u>December 31, 2019</u>	<u>% of Total</u>
	<i>(dollars in thousands)</i>			
Commercial loans:				
Commercial real estate	\$ 4,027,035	41.5 %	\$ 3,945,853	45.1 %
Commercial business	3,836,009	39.6 %	2,989,613	34.2 %
Agriculture	850,290	8.8 %	765,371	8.8 %
Construction	273,176	2.8 %	361,533	4.1 %
Consumer loans:				
One-to-four family residential real estate	665,432	6.9 %	637,325	7.3 %
Other consumer	37,005	0.4 %	43,770	0.5 %
Total loans	<u>\$ 9,688,947</u>	<u>100.0 %</u>	<u>\$ 8,743,465</u>	<u>100.0 %</u>
Loans held for sale	<u>\$ 24,407</u>		<u>\$ 17,718</u>	

Total loans increased \$945.5 million from year-end 2019. This increase includes \$953.2 million of PPP loans, net of \$17.1 million in net deferred fees at September 30, 2020. The PPP loans were originated to provide financial support to small and medium-size businesses to cover payroll and certain other expenses during the COVID-19 pandemic. To further assist our borrowers, the Company also offered loan deferrals to support borrowers during the COVID-19 pandemic.

The following table provides additional detail related to the Company’s COVID-19 deferrals:

	<u>June 30, 2020</u>		<u>Ended (1)</u>		<u>Re-deferral</u>		<u>New Deferral</u>		<u>September 30, 2020</u>		<u>% Change</u>
	<i>(dollars in thousands)</i>										
Number of deferrals	3,050		(3,006)		29		30		103		(96.6)%
Balance of deferrals (2)	\$ 1,595,615	\$	(1,593,498)	\$	64,815	\$	47,440	\$	114,372		(92.8)%

1) Ended includes re-deferrals that have ended.

2) Balance of deferrals are gross of unearned income.

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

	<u>September 30, 2020</u>	<u>December 31, 2019</u>
	<i>(in thousands)</i>	
Acquisition:		
Pacific Continental	\$ 9,499	\$ 13,314
Intermountain	1,294	1,614
West Coast	1,904	2,675
Other	2,388	(1,378)
Total net discount at period end	<u>\$ 15,085</u>	<u>\$ 16,225</u>

Commercial Real Estate Loans: Commercial real estate loans are secured by properties located within our primary market areas and typically, have loan-to-value ratios of 80% or lower at origination. Our underwriting standards for commercial and multifamily residential loans generally require that the loan-to-value ratio for these loans not exceed 75% of appraised value, cost, or discounted cash flow value, as appropriate, and that commercial properties maintain debt coverage ratios (net operating income divided by annual debt servicing) of 1.2 or better. However, underwriting standards can be influenced by competition and other factors. We endeavor to maintain the highest practical underwriting standards while balancing the need to remain competitive in our lending practices.

Commercial Business Loans: We are committed to providing competitive commercial lending in our primary market area. Management expects a continued focus within its commercial lending products and to emphasize, in particular, relationship banking with businesses and business owners.

Agriculture Loans: Agricultural lending includes agricultural real estate and production loans and lines of credit within our primary market area. We are committed to our Pacific Northwest communities offering seasonal and longer-term loans and operating lines of credit by lending officers with expertise in the agricultural communities we serve. Typical loan-to-value ratios on term loans can range from 55% to 80% depending upon the type of loan. Operating lines of credit require the borrower to provide a 20% to 25% equity investment. The debt coverage ratio is generally 1.25:1 or better on all term loans.

Construction Loans: We originate a variety of real estate construction loans. Underwriting guidelines for these loans vary by loan type but include loan-to-value limits, term limits and loan advance limits, as applicable. Our underwriting guidelines for commercial and multifamily residential real estate construction loans generally require that the loan-to-value ratio not exceed 75% and stabilized debt coverage ratios (net operating income divided by annual debt service) of 1.2 or better. As noted above, underwriting standards can be influenced by competition and other factors. However, we endeavor to maintain the highest practical underwriting standards while balancing the need to remain competitive in our lending practices.

One-to-four Family Residential Real Estate Loans: One-to-four family residential loans, including home equity loans and lines of credit, are secured by properties located within our primary market areas and, typically, have loan-to-value ratios of 80% or lower at origination.

Other Consumer Loans: Consumer loans include automobile loans, boat and recreational vehicle financing, and other miscellaneous personal loans.

Foreign Loans: The Company has no material foreign activities. Substantially all of the Company's loans and unfunded commitments are geographically concentrated in its service areas within the states of Washington, Oregon and Idaho.

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.

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

	September 30, 2020	December 31, 2019
	<i>(dollars in thousands)</i>	
Nonperforming assets		
Nonaccrual loans:		
Commercial loans:		
Commercial real estate	\$ 10,362	\$ 3,799
Commercial business	19,313	20,937
Agriculture	14,913	5,023
Construction	217	—
Consumer loans:		
One-to-four family residential real estate	2,405	3,292
Other consumer	21	9
Total nonaccrual loans	47,231	33,060
OREO and OPPO	623	552
Total nonperforming assets	<u>\$ 47,854</u>	<u>\$ 33,612</u>
Loans, net of unearned income	\$ 9,688,947	\$ 8,743,465
Total assets	\$ 16,233,424	\$ 14,079,524
Nonperforming loans to period-end loans	0.49 %	0.38 %
Nonperforming assets to period-end assets	0.29 %	0.24 %

At September 30, 2020, nonperforming assets were \$47.9 million, compared to \$33.6 million at December 31, 2019. Nonperforming assets increased \$14.2 million during the nine months ended September 30, 2020, primarily due to a \$9.9 million increase in nonaccrual agriculture loans and a \$6.6 million increase in nonaccrual commercial real estate loans. For information on OREO, see [Note 6 of the Consolidated Financial Statements in “Item 1. Financial Statements \(unaudited\)”](#) of this report.

Allowance for Credit Losses

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

At September 30, 2020, our ACL was \$157.0 million, or 1.62% of total loans (excluding loans held for sale). This compares with an ALLL of \$84.0 million, or 0.96% of total loans (excluding loans held for sale) at December 31, 2019 and an ALLL of \$82.7 million or 0.94% of total loans (excluding loans held for sale) at September 30, 2019. The increase was primarily the result of COVID-19 and the 2020 downturn in the national and global economies as well as increased unemployment rates. The ACL at September 30, 2020 does not include a reserve for the PPP loans as they are fully guaranteed by the SBA.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	<i>(dollars in thousands)</i>			
Beginning Balance	\$ 151,546	\$ 80,517	\$ 83,968	\$ 83,369
Impact of adopting ASC 326	—	—	1,632	—
Charge-offs:				
Commercial loans:				
Commercial real estate	—	(466)	(101)	(1,708)
Commercial business	(3,164)	(2,623)	(10,290)	(8,445)
Agriculture	(1,269)	(55)	(5,995)	(194)
Construction	—	(17)	—	(232)
Consumer loans:				
One-to-four family residential real estate	(16)	(202)	(26)	(1,004)
Other consumer	(133)	(9)	(599)	(64)
Total charge-offs	(4,582)	(3,372)	(17,011)	(11,647)
Recoveries:				
Commercial loans:				
Commercial real estate	65	1,731	92	2,801
Commercial business	1,124	349	2,795	1,368
Agriculture	27	67	69	189
Construction	11	2,555	688	3,329
Consumer loans:				
One-to-four family residential real estate	1,301	440	2,005	1,224
Other consumer	76	74	330	148
Total recoveries	2,604	5,216	5,979	9,059
Net (charge-offs) recoveries	(1,978)	1,844	(11,032)	(2,588)
Provision for credit losses	7,400	299	82,400	1,879
Ending balance	156,968	82,660	156,968	82,660
Total loans, net at end of period, excluding loans held for sale	\$ 9,688,947	\$ 8,756,355	\$ 9,688,947	\$ 8,756,355
ACL to period-end loans	1.62 %	0.94 %	1.62 %	0.94 %
Allowance for unfunded commitments and letters of credit				
Beginning Balance	\$ 8,800	\$ 3,980	\$ 3,430	\$ 4,330
Impact of adopting ASC 326	—	—	1,570	—
Net changes in the allowance for unfunded commitments and letters of credit	800	(400)	4,600	(750)
Ending balance	\$ 9,600	\$ 3,580	\$ 9,600	\$ 3,580

Liquidity and Sources of Funds

Our primary sources of funds are customer deposits. Additionally, we utilize advances from the FHLB, borrowings from the FRB, sweep repurchase agreements, subordinated debentures assumed in acquisitions and a revolving line of credit to supplement our funding needs. These funds, together with loan repayments, loan sales, retained earnings, equity and other borrowed funds are used to make loans, to acquire securities, meet deposit withdrawals and maturing liabilities, to acquire other assets and to fund continuing operations.

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

Deposit Activities

Our deposit products include a wide variety of transaction accounts, savings accounts and time deposit accounts. We have established a branch system to serve our consumer and business depositors. Deposits increased \$2.9 billion from December 31, 2019. The addition of PPP loans during the second quarter had a notable impact on our deposits, as our clients deposited these funds into their deposit accounts. 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, 2020, brokered deposits, reciprocal money market accounts and other wholesale deposits (excluding public funds) totaled \$616.9 million, or 4.5% of total deposits, compared to \$329.5 million or 3.1% at year-end 2019. 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, 2020		December 31, 2019	
	Balance	% of Total	Balance	% of Total
	<i>(dollars in thousands)</i>			
Demand and other noninterest-bearing	\$ 6,897,054	50.7 %	\$ 5,328,146	49.9 %
Money market	2,708,949	19.9 %	2,322,644	21.7 %
Interest-bearing demand	1,322,618	9.7 %	1,150,437	10.8 %
Savings	1,109,155	8.2 %	882,050	8.3 %
Interest-bearing public funds, other than certificates of deposit	635,980	4.7 %	301,203	2.8 %
Certificates of deposit, less than \$250,000	204,578	1.5 %	218,764	2.0 %
Certificates of deposit, \$250,000 or more	105,041	0.8 %	151,995	1.4 %
Certificates of deposit insured by CDARS [®]	22,609	0.2 %	17,065	0.2 %
Brokered certificates of deposit	5,000	— %	12,259	0.1 %
Reciprocal money market accounts	589,276	4.3 %	300,158	2.8 %
Subtotal	13,600,260	100.0 %	10,684,721	100.0 %
Valuation adjustment resulting from acquisition accounting	—		(13)	
Total deposits	\$ 13,600,260		\$ 10,684,708	

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, 2020, we had FHLB advances of \$7.4 million compared to \$953.5 million at December 31, 2019.

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, 2020 and December 31, 2019, we had deposit customer sweep-related repurchase agreements of \$27.0 million and \$64.4 million, respectively, which mature on a daily basis.

Subordinated debentures are another source of funding. The Company assumed \$35.0 million in aggregate principal amount with its acquisition of Pacific Continental on November 1, 2017. These subordinated debentures, which are unsecured, are callable on June 30, 2021 and have a stated maturity date of June 30, 2026.

The Company has a \$15.0 million short-term credit facility with an unaffiliated bank. This facility provides the Company additional liquidity, if needed, for various corporate activities including the repurchase of shares of Columbia Banking System, Inc. common stock. At both September 30, 2020 and December 31, 2019, there was no balance associated with this credit facility. The credit agreement requires the Company to comply with certain covenants including those related to asset quality and capital levels. The Company was in compliance with all covenants associated with this facility at September 30, 2020.

Management anticipates we will continue to rely on FHLB advances, FRB borrowings, the short-term credit facility and wholesale and retail repurchase agreements in the future. We will use those funds primarily to make loans and purchase securities.

Contractual Obligations, Commitments & Off-Balance Sheet Arrangements

We are party to many contractual financial obligations, including repayments of borrowings, operating and equipment lease payments, off-balance sheet commitments to extend credit and investments in affordable housing partnerships. At September 30, 2020, we had commitments to extend credit of \$3.82 billion compared to \$2.70 billion at December 31, 2019.

Capital Resources

Shareholders' equity at September 30, 2020 was \$2.30 billion, compared to \$2.16 billion at December 31, 2019. Shareholders' equity was 14% and 15% of total period-end assets at September 30, 2020 and December 31, 2019, respectively.

Regulatory Capital

In July 2013, the federal bank regulators approved the Capital Rules (as discussed in our 2019 Annual Report on Form 10-K, "Item 1. Business—Supervision and Regulation and —Regulatory Capital Requirements"), which implement the Basel III capital framework and various provisions of the Dodd-Frank Act, which were fully phased in as of January 1, 2019. As of September 30, 2020, we and the Bank met all capital adequacy requirements under the Capital Rules.

FDIC regulations set forth the qualifications necessary for a bank to be classified as "well-capitalized," primarily for assignment of FDIC insurance premium rates. Failure to qualify as "well-capitalized" can negatively impact a bank's ability to expand and to engage in certain activities. The Company and the Bank qualified as "well-capitalized" at September 30, 2020 and December 31, 2019.

As part of its response to the impact of COVID-19, the U.S. federal regulatory agencies issued an interim final rule that provided the option to temporarily delay certain effects of CECL on regulatory capital for two years, followed by a three year transition period. The interim final rule allows bank holding companies and banks to delay for two years 100% of the day one impact of adopting CECL and 25% of the cumulative change in the reported allowance for credit losses since adopting CECL. The Company elected to adopt the interim final rule. As a result, capital ratios and amounts as of September 30, 2020 exclude the impact of the increased allowance for credit losses related to the adoption of CECL.

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The following table presents the capital ratios and the capital conservation buffer, as applicable, for the Company and its banking subsidiary at September 30, 2020 and December 31, 2019:

	Company		Columbia Bank	
	September 30, 2020	December 31, 2019	September 30, 2020	December 31, 2019
CET1 risk-based capital ratio	12.61 %	12.45 %	12.83 %	12.46 %
Tier 1 risk-based capital ratio	12.61 %	12.45 %	12.83 %	12.46 %
Total risk-based capital ratio	14.18 %	13.60 %	14.08 %	13.29 %
Leverage ratio	8.89 %	10.17 %	9.14 %	10.22 %
Capital conservation buffer	6.18 %	5.60 %	6.08 %	5.29 %

Stock Repurchase Program

As described in our Annual Report on Form 10-K for the year ended December 31, 2019, 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 share repurchase authorization expired in May of 2020. There were no share repurchases during the three months ended September 30, 2020. The Company repurchased 731 thousand shares of common stock totaling \$20.0 million during the nine months ended September 30, 2020. For additional information, please see [Note 16 to the Consolidated Financial Statements in “Item 1. Financial Statements \(unaudited\)”](#) of this report.

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,	
	2020	2019	2020	2019
	<i>(dollars in thousands)</i>			
Operating net interest margin non-GAAP reconciliation:				
Net interest income (tax equivalent) (1)	\$ 126,554	\$ 124,572	\$ 374,579	\$ 374,918
Adjustments to arrive at operating net interest income (tax equivalent):				
Incremental accretion income on acquired loans (2)	(1,665)	(2,072)	(4,831)	(6,770)
Premium amortization on acquired securities	701	1,386	2,803	4,816
Interest reversals on nonaccrual loans	393	174	1,854	1,462
Operating net interest income (tax equivalent) (1)	\$ 125,983	\$ 124,060	\$ 374,405	\$ 374,426
Average interest earning assets	\$ 14,492,435	\$ 11,941,578	\$ 13,549,356	\$ 11,704,702
Net interest margin (tax equivalent) (1)	3.47 %	4.14 %	3.69 %	4.28 %
Operating net interest margin (tax equivalent) (1)	3.46 %	4.12 %	3.69 %	4.28 %

(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 \$1.8 million and \$2.1 million for the three months ended September 30, 2020 and 2019, respectively, and an addition to net interest income of \$5.6 million and \$6.3 million for the nine months ended September 30, 2020 and 2019, respectively.

(2) Beginning January 2020, incremental accretion income on PCI loans is no longer presented separate from incremental accretion income on other acquired loans. Prior period amounts have been reclassified to conform with current period presentation.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Sensitivity

We are exposed to interest rate risk, which is the risk that changes in prevailing interest rates will adversely affect assets, liabilities, capital, income and expenses at different times or in different amounts. Generally, there are four sources of interest rate risk as described below:

Repricing risk—Repricing risk is the risk of adverse consequences from a change in interest rates that arises because of differences in the timing of when those interest rate changes affect an institution's assets and liabilities.

Basis risk—Basis risk is the risk of adverse consequences resulting from unequal changes in the spread between two or more rates for different instruments with the same maturity.

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

Option risk—In banking, option risks are known as borrower options to prepay loans and depositor options to make deposits, withdrawals, and early redemptions. Option risk arises whenever a bank's products give customers the right, but not the obligation, to alter the quantity or the timing of cash flows. We are also exposed to option risk in callable bonds as the counterparty may call the bonds during a low rate environment resulting in reinvestment of the proceeds at lower yields.

Since our earnings are primarily dependent on our ability to generate net interest income, we actively monitor and manage the effects of adverse changes in interest rates on our results of operations. Management of our interest rate risk is overseen by our board of directors, which is responsible for establishing policies and interest rate limits and approving these policies and interest rate limits annually. These policies include our asset/liability management policy, which provides guidelines for controlling our exposure to interest rate risk. These guidelines direct management to assess the impact of changes in interest rates upon both earnings and capital. These guidelines also establish limits for interest rate risk sensitivity.

We maintain an Asset/Liability Management Committee which is responsible for developing, monitoring and reviewing asset/liability processes, interest rate risk exposures, strategies and tactics. The Asset/Liability Management Committee reports on a periodic basis to our board of directors. It is the responsibility of management to execute the approved policies, develop and implement risk management strategies and to report to the board of directors on a regular basis.

Interest Rate Risk Sensitivity

We use a number of measures to monitor and manage interest rate risk, including income simulations and interest sensitivity (gap) analysis. An income simulation model is the primary tool used to assess the direction and magnitude of changes in net interest income resulting from changes in interest rates. Basic assumptions in the model include prepayment speeds on mortgage-related assets, cash flows and maturities of other investment securities, loan and deposit volumes and pricing. These assumptions are inherently subjective and may not be realized and, as a result, actual results will differ from our projections. In addition, variances in the timing, magnitude and frequency of interest rate changes, overall market conditions including volumes and pricing, and changes in management strategies, among other factors, will also result in variances between the projected and actual results.

Based on the results of the simulation model as of September 30, 2020, we would expect decreases in net interest income of \$7 million and \$21 million in year one and year two, respectively, if interest rates gradually decrease from current rates by 100 basis points. We would expect an increase in net interest income of \$4 million and \$32 million in year one and year two, respectively, if interest rates gradually increase from current rates by 200 basis points.

The projections are based on the current interest rate environment and we assume our balance sheet remains constant during the next two years. Market interest rates are near historical lows. Loan interest rate indexes such as Prime and LIBOR are also near historical lows. Since we don't assume negative interest rates, the downward repricing of Prime and LIBOR loans is more limited than during a higher interest rate environment. Our ability to reprice deposits downward is also limited given our low cost of funds.

The increase in low cost deposits during the quarter, particularly the increase in non-interest bearing deposits, also impacted our interest rate sensitivity. Increases in interest rates enhances net interest income since our assets tend to reprice more than our deposits. A shift in our deposit mix to interest-bearing deposits or borrowings would reduce this benefit.

On January 23, 2019, the Company entered into an interest rate collar derivative transaction with a \$500.0 million notional value based on one month LIBOR. The Company has designated this as a cash flow hedge. This transaction was entered into to minimize the decrease in net interest income if interest rates decline prior to the maturity date of the collar in February 2024.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

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

PART II - OTHER INFORMATION**Item 1. LEGAL PROCEEDINGS**

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

Item 1A. RISK FACTORS

Refer to Item 1A of Part I of the Company's Annual Report on Form 10-K for the year ended December 31, 2019 and to Item 1A of Part II of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 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 for the year ended December 31, 2019 and Form 10-Q for the quarter ended March 31, 2020.

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, 2020:

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	Maximum Number of Remaining Shares That May Yet Be Purchased Under the Plan
7/1/2020 - 7/31/2020	193	\$ 29.09	—	—
8/1/2020 - 8/31/2020	331	29.19	—	—
9/1/2020 - 9/30/2020	92	25.42	—	—
	616	\$ 28.60	—	—

(1) Common shares repurchased by the Company during the quarter consisted of cancellation of shares of common stock to pay the shareholders' withholding taxes.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS

31.1+	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2+	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32+	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS+	XBRL Instance Document - The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH+	XBRL Taxonomy Extension Schema
101.CAL+	XBRL Taxonomy Extension Calculation Linkbase
101.LAB+	XBRL Taxonomy Extension Label Linkbase
101.PRE+	XBRL Taxonomy Extension Presentation Linkbase
101.DEF+	XBRL Taxonomy Extension Definition Linkbase
104+	Cover Page Interactive Data File (the cover page XBRL tags are embedded within the Inline XBRL document).

+ Filed herewith

SIGNATURES

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

COLUMBIA BANKING SYSTEM, INC.

Date: November 5, 2020

By

/s/ CLINT E. STEIN

Clint E. Stein

President and
Chief Executive Officer
(Principal Executive Officer)

Date: November 5, 2020

By

/s/ AARON JAMES DEER

Aaron James Deer

Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

Date: November 5, 2020

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 (EX-31.1)

EXHIBIT 31.1

CERTIFICATION

I, Clint E. Stein, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Columbia Banking System, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions

about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

- (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ CLINT E. STEIN

Clint E. Stein
President and
Chief Executive Officer

Date: November 5, 2020

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Section 3: EX-31.2 (EX-31.2)

EXHIBIT 31.2

CERTIFICATION

I, Aaron James Deer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Columbia Banking System, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

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

/s/ AARON JAMES DEER

Aaron James Deer
Executive Vice President and
Chief Financial Officer

Date: November 5, 2020

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Section 4: EX-32 (EX-32)

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, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Clint E. Stein, President and Chief Executive Officer, and Aaron J. Deer, Executive Vice President and Chief Financial Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ CLINT E. STEIN

**Clint E. Stein
President and
Chief Executive Officer
Columbia Banking System, Inc.**

/s/ AARON JAMES DEER

**Aaron James Deer
Executive Vice President and
Chief Financial Officer
Columbia Banking System, Inc.**

Dated: November 5, 2020

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