COLUMBIA BANKING SYSTEM INC
Form 10-Q
August 07, 2018

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 June 30, 2018.
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to .
Commission File Number 0-20288

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

Washington (State or other jurisdiction of incorporation or organization)	91-1422237 (I.R.S. Employer Identification Number)
1301 A Street Tacoma, Washington (Address of principal executive offices)	98402-2156 (Zip Code)

(253) 305-1900
(Registrant's telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No
The number of shares of common stock outstanding at July 31, 2018 was 73,270,683.

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

	June 30, 2018	December 31, 2017
ASSETS	(in thousands)	
Cash and due from banks	$224,370	$244,615
Interest-earning deposits with banks	39,169	97,918
Total cash and cash equivalents	263,539	342,533
Debt securities available for sale at fair value	2,646,208	2,737,751
Equity securities at fair value	4,963	5,080
Federal Home Loan Bank stock at cost	13,960	10,440
Loans held for sale	6,773	5,766
Loans, net of unearned income	8,454,107	8,358,657
Less: allowance for loan and lease losses	80,150	75,646
Loans, net	8,373,957	8,283,011
Interest receivable	43,105	40,881
Premises and equipment, net	168,315	169,490
Other real estate owned	7,080	13,298
Goodwill	765,842	765,842
Other intangible assets, net	51,897	58,173
Other assets	282,947	284,621
Total assets	$12,628,586	$12,716,886
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	$4,953,993	$5,081,901
Interest-bearing	5,430,011	5,450,184
Total deposits	10,384,004	10,532,085
Federal Home Loan Bank advances	99,549	11,579
Securities sold under agreements to repurchase	46,229	79,059
Subordinated debentures	35,555	35,647
Junior subordinated debentures	—	8,248
Other liabilities	98,368	100,346
Total liabilities	10,663,705	10,766,964
Commitments and contingent liabilities (Note 12)		
Shareholders' equity:		

	June 30, 2018	December 31, 2017		
	(in thousands)			
Common stock (no par value)				
Authorized shares	115,000	115,000		
Issued and outstanding	73,245	73,020	1,636,903	1,634,705
Retained earnings			383,899	337,442
Accumulated other comprehensive loss			(55,921)	(22,225)
Total shareholders' equity			1,964,881	1,949,922
Total liabilities and shareholders' equity			$12,628,586	$12,716,886

See accompanying Notes to unaudited Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands except per share amounts)			
Interest Income				
Loans	$105,412	$75,579	$208,439	$149,699
Taxable securities	11,923	9,468	24,631	20,454
Tax-exempt securities	3,063	2,716	6,127	5,407
Deposits in banks	151	23	496	42
Total interest income	120,549	87,786	239,693	175,602
Interest Expense				
Deposits	2,572	908	5,081	1,695
Federal Home Loan Bank advances	815	591	1,385	816
Subordinated debentures	468	—	936	—
Other borrowings	20	126	136	255
Total interest expense	3,875	1,625	7,538	2,766
Net Interest Income	116,674	86,161	232,155	172,836
Provision for loan and lease losses	3,975	3,177	9,827	5,952
Net interest income after provision for loan and lease losses	112,699	82,984	222,328	166,884
Noninterest Income				
Deposit account and treasury management fees	8,683	7,396	17,423	14,683
Card revenue	6,616	6,202	12,429	11,925
Financial services and trust revenue	3,219	3,036	5,949	5,875
Loan revenue	3,054	2,989	6,240	6,582
Merchant processing revenue	—	2,264	—	4,283
Bank owned life insurance	1,712	1,433	3,138	2,713
Investment securities losses, net	(33)	—	(11)	—
Change in FDIC loss-sharing asset	—	(173)	—	(447)
Other	441	988	1,667	3,380
Total noninterest income	23,692	24,135	46,835	48,994
Noninterest Expense				
Compensation and employee benefits	48,949	38,393	99,519	79,218
Occupancy	9,276	7,577	19,397	14,768
Merchant processing expense	—	1,147	—	2,196
Advertising and promotion	1,622	1,137	3,051	1,954
Data processing	5,221	4,741	10,491	8,949
Legal and professional fees	4,171	2,947	7,408	6,316
Taxes, licenses and fees	1,560	748	2,985	1,989
Regulatory premiums	937	741	1,874	1,517
Net cost (benefit) of operation of other real estate owned	758	(1)	759	151
Amortization of intangibles	3,088	1,249	6,276	2,598
Other	9,061	10,188	18,870	18,197
Total noninterest expense	84,643	68,867	170,630	137,853
Income before income taxes	51,748	38,252	98,533	78,025
Income tax provision	9,999	11,120	16,814	21,694
Net Income	$41,749	$27,132	$81,719	$56,331

Earnings per common share				
Basic	$0.57	$0.47	$1.12	$0.97
Diluted	$0.57	$0.47	$1.12	$0.97
Dividends declared per common share	$0.26	$0.22	$0.48	$0.44
Weighted average number of common shares outstanding	72,385	57,520	72,343	57,437
Weighted average number of diluted common shares outstanding	72,390	57,525	72,347	57,442

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 June 30,	
	2018	2017
	(in thousands)	
Net income	$41,749	$27,132
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 $2,376 and ($3,435)	(7,845)	6,033
Reclassification adjustment of net gain from sale of available for sale debt securities included in income, net of tax of $1 and $0	(4)	—
Net unrealized gain (loss) from securities, net of reclassification adjustment	(7,849)	6,033
Pension plan liability adjustment:		
Amortization of unrecognized net actuarial loss included in net periodic pension cost, net of tax of ($19) and ($26)	61	45
Pension plan liability adjustment, net	61	45
Other comprehensive income (loss)	(7,788)	6,078
Total comprehensive income	$33,961	$33,210

	Six Months Ended June 30,	
	2018	2017
	(in thousands)	
Net income	$81,719	$56,331
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 $10,267 and ($4,404)	(33,893)	7,735
Reclassification adjustment of net gain from sale of available for sale debt securities included in income, net of tax of $25 and $0	(82)	—
Net unrealized gain (loss) from securities, net of reclassification adjustment	(33,975)	7,735
Pension plan liability adjustment:		
Reduction in unfunded defined benefit plan liability during the period, net of tax of $0 and ($2,622)	—	4,604
Amortization of unrecognized net actuarial loss included in net periodic pension cost, net of tax of ($38) and ($75)	122	132
Pension plan liability adjustment, net	122	4,736
Other comprehensive income (loss)	(33,853)	12,471
Total comprehensive income	$47,866	$68,802

See accompanying Notes to unaudited Consolidated Financial Statements.

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

	Preferred Stock		Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Number of Shares	Amount	Number of Shares	Amount			
	(in thousands)						
Balance at January 1, 2018	—	$—	73,020	$1,634,705	$337,442	$ (22,225)	$1,949,922
Adjustment to opening retained earnings pursuant to adoption of ASU 2016-01	—	—	—	—	(157)	157	—
Net income	—	—	—	—	81,719	—	81,719
Other comprehensive loss	—	—	—	—	—	(33,853)	(33,853)
Issuance of common stock - stock option and other plans	—	—	19	736	—	—	736
Activity in deferred compensation plan	—	—	—	6	—	—	6
Issuance of common stock - restricted stock awards, net of canceled awards	—	—	268	4,083	—	—	4,083
Purchase and retirement of common stock	—	—	(62)	(2,627)	—	—	(2,627)
Cash dividends declared on common stock	—	—	—	—	(35,105)	—	(35,105)
Balance at June 30, 2018	—	$—	73,245	$1,636,903	$383,899	$ (55,921)	$1,964,881
Balance at January 1, 2017	9	$2,217	58,042	$995,837	$271,957	$ (18,999)	$1,251,012
Adjustment to opening retained earnings pursuant to adoption of ASU 2016-09	—	—	—	184	(117)	—	67
Net income	—	—	—	—	56,331	—	56,331
Other comprehensive income	—	—	—	—	—	12,471	12,471
Issuance of common stock - stock option and other plans	—	—	28	1,155	—	—	1,155
Issuance of common stock - restricted stock awards, net of canceled awards	—	—	235	4,114	—	—	4,114
Preferred stock conversion to common stock	(9)	(2,217)	102	2,217	—	—	—
Purchase and retirement of common stock	—	—	(54)	(2,215)	—	—	(2,215)
Cash dividends declared on common stock	—	—	—	—	(25,621)	—	(25,621)
Balance at June 30, 2017	—	$—	58,353	$1,001,292	$302,550	$ (6,528)	$1,297,314

See accompanying Notes to unaudited Consolidated Financial Statements.

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

	Six Months Ended June 30,	
	2018	2017
	(in thousands)	
Cash Flows From Operating Activities		
Net income	$81,719	$56,331
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan and lease losses	9,827	5,952
Stock-based compensation expense	4,083	4,114
Depreciation, amortization and accretion	16,788	13,968
Investment securities losses, net	11	—
Net realized (gain) loss on sale of premises and equipment, loans held for investment and other assets	141	(176)
Net realized loss on sale and valuation adjustments of other real estate owned	803	221
Gain on bank owned life insurance death benefit	—	(1,945)
Termination of FDIC loss share agreements charge	—	2,409
Originations of loans held for sale	(67,311)	(65,902)
Proceeds from sales of loans held for sale	66,304	64,830
Net change in:		
Interest receivable	(2,224)	(782)
Interest payable	(36)	35
Other assets	6,367	(12,580)
Other liabilities	(2,017)	(9,230)
Net cash provided by operating activities	114,455	57,245
Cash Flows From Investing Activities		
Loans originated, net of principal collected	(100,485)	(216,541)
Purchases of:		
Debt securities available for sale	(215,612)	(114,309)
Premises and equipment	(5,011)	(1,947)
Federal Home Loan Bank stock	(89,720)	(86,840)
Proceeds from:		
FDIC reimbursement on loss-sharing asset	—	26
Sales of debt securities available for sale	32,330	—
Principal repayments and maturities of debt securities available for sale	219,683	131,472
Sales of premises and equipment and loans held for investment	6,236	8,133
Redemption of Federal Home Loan Bank stock	86,200	80,720
Sales of other real estate and other personal property owned	5,821	1,719
Bank owned life insurance death benefit	5,074	8,538
Payment to FDIC to terminate loss-sharing agreements	—	(4,666)
Payments to FDIC related to loss-sharing asset	—	(210)
Net cash used in investing activities	(55,484)	(193,905)
Cash Flows From Financing Activities		
Net (decrease) increase in deposits	(147,891)	13,078
Net decrease in sweep repurchase agreements	(32,830)	(14,927)
Proceeds from:		
Federal Home Loan Bank advances	2,243,000	2,171,000

Federal Reserve Bank borrowings	10	10
Exercise of stock options	736	1,155
Payments for:		
Repayment of Federal Home Loan Bank advances	(2,155,000)	(2,018,000)
Repayment of Federal Reserve Bank borrowings	(10)	(10)
Common stock dividends	(35,105)	(25,621)
Repayment of junior subordinated debentures	(8,248)	—
Purchase and retirement of common stock	(2,627)	(2,215)
Net cash provided by (used in) financing activities	(137,965)	124,470
Decrease in cash and cash equivalents	(78,994)	(12,190)
Cash and cash equivalents at beginning of period	342,533	224,238
Cash and cash equivalents at end of period	$263,539	$212,048

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

	Six Months Ended June 30,	
	2018	2017
	(in thousands)	
Supplemental Information:		
Cash paid during the period for:		
Interest	$7,573	$2,731
Income tax	$3,621	$22,881
Non-cash investing and financing activities		
Loans transferred to other real estate owned	$406	$—
Premises and equipment expenditures incurred but not yet paid	$40	$—

See accompanying Notes to unaudited Consolidated Financial Statements.

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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 six months ended June 30, 2018 are not necessarily indicative of results to be anticipated for the year ending December 31, 2018. The accompanying interim unaudited Consolidated Financial Statements should be read in conjunction with the financial statements and related notes contained in the Company’s 2017 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 2017 Annual Report on Form 10-K. There have not been any changes in our significant accounting policies compared to those contained in our 2017 Form 10-K disclosure for the year ended December 31, 2017.

Reclassifications

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

2. Accounting Pronouncements Recently Issued

In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-15, Classification of Certain Cash Receipts and Cash Payments. The amendments in this ASU provide specific guidance on several statement of cash flow classification issues to reduce diversity in practice. The amendments in ASU 2016-15 are effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. The Company has reclassified items in the Statement of Cash Flows for the six months ended June 30, 2017 to conform with its current presentation based on its adoption of ASU 2016-15.

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

Currently, the Company cannot reasonably estimate the impact that adoption of ASU 2016-13 will have on its Consolidated Financial Statements; however, the impact may be significant. That assessment is based upon the fact that, unlike the incurred loss models in existing GAAP, the current expected credit loss (“CECL”) model in ASU 2016-13 does not specify a threshold for the recognition of an impairment allowance. Rather, the Company will recognize an impairment allowance equal to its estimate of lifetime expected credit losses, adjusted for prepayments, for in-scope financial instruments as of the end of the reporting period. Accordingly, the impairment allowance measured under the CECL model could increase significantly from the impairment allowance measured under the Company’s existing incurred loss model. Significant CECL implementation matters to be addressed by the Company include selecting loss estimation methodologies, identifying, sourcing and storing data, addressing data gaps, defining a reasonable and supportable forecast period, selecting historical loss information which will be reverted to, documenting the CECL estimation process, assessing the impact to internal controls over financial reporting, capital planning and seeking process approval from audit and regulatory stakeholders.

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In February 2016, the FASB issued ASU 2016-02, Leases. The amendments included in this ASU create a new accounting model for both lessees and lessors. The new guidance requires lessees to recognize lease liabilities, initially measured as the present value of future lease payments, and corresponding right-of-use assets for all leases with lease terms greater than 12 months. This model differs from the current lease accounting model, which does not require such lease liabilities and corresponding right-of-use assets to be recorded for operating leases. The amendments in ASU 2016-02 must be adopted using the modified retrospective approach and will be effective for the first interim or annual period beginning after December 15, 2018. Early adoption is permitted. During 2017, the Company selected a third-party lease accounting application to assist in the implementation of this new guidance. Significant implementation matters to be addressed by the Company include assessing the impact to our internal controls over financial reporting and documenting the new lease accounting process. We do not expect a material impact to our Consolidated Statement of Income as a result of this ASU. See Note 18, "Commitments and Contingent Liabilities" to our 2017 Form 10-K, for more information regarding the minimum future payments related to our operating leases.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in ASU 2016-01 require all equity investments to be measured at fair value with changes in the fair value recognized through net income. The amendments in ASU 2016-01 also require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. In addition, the amendments in this update eliminate the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet for public business entities. The amendments in ASU 2016-01 are effective for the first interim or annual period beginning after December 15, 2017. The Company adopted the amendments of ASU 2016-01 effective January 1, 2018 and recorded a cumulative effect adjustment of $157 thousand to retained earnings related to the unrealized holding losses on equity securities with readily determinable fair value included in accumulated other comprehensive loss. The Company also added a separate line item on the Consolidated Balance Sheet for equity securities at fair value and reclassified amounts previously included in securities available for sale at fair value to conform to current period presentation. In addition, as required by the ASU, the fair value disclosure for loans is computed using an exit price notion and deposits with no stated maturity are no longer included in the fair value disclosures in Note 15, "Fair Value Accounting and Measurement."

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which provides revenue recognition guidance that is intended to create greater consistency with respect to how and when revenue from contracts with customers is shown in the income statement. The guidance requires that revenue from contracts with customers be recognized when transfer of control over goods or services is passed to customers in the amount of consideration expected to be received. Subsequent Accounting Standard Updates have been issued clarifying the original pronouncement (ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20). The majority of the Company's revenue is comprised of interest income from financial assets, which is specifically outside the scope of ASU 2014-09.

On January 1, 2018, we adopted the accounting guidance in ASU 2014-09 and all the related amendments ("Topic 606") using the modified retrospective method for all contracts that have not been completed (i.e. open contracts). Therefore, the comparative information has not been adjusted and continues to be reported under Topic 605. There was no cumulative effect adjustment as of January 1, 2018, and there were no material changes to the timing or amount of revenue recognized for the six months ended June 30, 2018; however, additional disclosures were incorporated in the footnotes upon adoption. See Note 17, "Revenue from Contracts with Customers," for more information.

3. Business Combinations

On November 1, 2017, the Company completed its acquisition of Pacific Continental Corporation ("Pacific Continental") and its wholly-owned banking subsidiary Pacific Continental Bank. The Company acquired 100% of the equity interests of Pacific Continental. The primary reasons for the acquisition were to expand in the Eugene, Oregon market and improve branch network efficiencies in the Seattle and Portland markets.

The assets acquired and liabilities assumed have been accounted for under the acquisition method of accounting. The assets and liabilities, both tangible and intangible, were recorded at their fair values as of the November 1, 2017 acquisition date. The application of the acquisition method of accounting resulted in the recognition of goodwill of $383.1 million and a core deposit intangible of $46.9 million, or 2.34% of core deposits. The goodwill represents the excess of the purchase price over the fair value of the net assets acquired. The goodwill is not deductible for income tax purposes.

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

	November 1, 2017 (in thousands)	
Merger consideration		$637,103
Identifiable net assets acquired, at fair value		
Assets acquired		
Cash and cash equivalents	$81,190	
Investment securities	449,291	
Federal Home Loan Bank stock	7,084	
Loans	1,873,987	
Interest receivable	7,827	
Premises and equipment	27,343	
Other real estate owned	10,279	
Core deposit intangible	46,875	
Other assets	50,638	
Total assets acquired		2,554,514
Liabilities assumed		
Deposits	(2,118,982)	
Federal Home Loan Bank advances	(101,127)	
Subordinated debentures	(35,678)	
Junior subordinated debentures	(14,434)	
Securities sold under agreements to repurchase	(1,617)	
Other liabilities	(28,653)	
Total liabilities assumed		(2,300,491)
Total fair value of identifiable net assets		254,023
Goodwill		$383,080

See Note 8, “Goodwill and Other Intangible Assets,” for further discussion of the accounting for goodwill and other intangible assets.

The operating results of the Company reported herein include the operating results produced by the acquired assets and assumed liabilities for the period January 1, 2018 to June 30, 2018. Disclosure of the amount of Pacific Continental’s revenue and net income (excluding integration costs) included in Columbia’s Consolidated Statements of Income is impracticable due to the integration of the operations and accounting for this acquisition.

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For illustrative purposes only, the following table presents certain unaudited pro forma information for the six months ended June 30, 2017. This unaudited, estimated pro forma financial information was calculated as if Pacific Continental had been acquired as of the beginning of the year prior to the date of acquisition. This unaudited pro forma information combines the historical results of Pacific Continental with the Company's consolidated historical results and includes certain adjustments reflecting the estimated impact of certain fair value adjustments for the respective periods. The pro forma information is not indicative of what would have occurred had the acquisition occurred as of the beginning of the year prior to the acquisition. In particular, no adjustments have been made to eliminate the impact of other-than-temporary impairment losses and losses recognized on the sale of securities that may not have been necessary had the investment securities been recorded at fair value as of the beginning of the year prior to the date of acquisition. The unaudited pro forma information does not consider any changes to the provision for credit losses resulting from recording loan assets at fair value. Additionally, Columbia expects to achieve further operating cost savings and other business synergies, including revenue growth as a result of the acquisition, which are not reflected in the pro forma amounts that follow. As a result, actual amounts would have differed from the unaudited pro forma information presented.

	Unaudited Pro Forma Six Months Ended June 30, 2017 (in thousands except per share)
Total revenues (net interest income plus noninterest income)	$ 278,119
Net income	$ 72,199
Earnings per share - basic	$ 1.00
Earnings per share - diluted	$ 1.00

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands)			
Noninterest Expense				
Compensation and employee benefits	$ 931	$ —	$ 2,487	$ —
Occupancy	586	351	1,590	352
Advertising and promotion	22	11	534	17
Data processing	634	473	921	473
Legal and professional fees	216	119	791	1,430
Taxes, licenses and fees	—	3	—	3
Other	433	66	764	112
Total impact of acquisition-related costs to noninterest expense	$ 2,822	$ 1,023	$ 7,087	$ 2,387

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4. Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2018	(in thousands)			
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	$1,732,779	$ 567	$(56,354)	$1,676,992
State and municipal securities	584,587	2,984	(9,876)	577,695
U.S. government agency and government-sponsored enterprise securities	398,428	74	(7,228)	391,274
U.S. government securities	251	—	(4)	247
Total	$2,716,045	$ 3,625	$(73,462)	$2,646,208
December 31, 2017				
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	$1,752,236	$ 1,815	$(27,326)	$1,726,725
State and municipal securities	593,940	6,023	(3,959)	596,004
U.S. government agency and government-sponsored enterprise securities	416,894	642	(2,762)	414,774
U.S. government securities	251	—	(3)	248
Total	$2,763,321	$ 8,480	$(34,050)	$2,737,751

The following table provides the proceeds and 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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands)			
Proceeds from sales of debt securities available for sale	$12,569	$ —	$32,330	$ —
Gross realized gains from sales of debt securities available for sale	$87	$ —	$235	$ —
Gross realized losses from sales of debt securities available for sale	(83)	—	(129)	—
Other securities losses, net (1)	(37)	—	(117)	—
Investment securities losses, net	$(33)	$ —	$(11)	$ —

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

The scheduled contractual maturities of debt securities available for sale at June 30, 2018 are presented as follows:

	June 30, 2018	
	Amortized Cost	Fair Value
	(in thousands)	
Due within one year	$127,209	$127,133
Due after one year through five years	620,100	609,400
Due after five years through ten years	885,040	862,508
Due after ten years	1,083,696	1,047,167
Total debt securities available for sale	$2,716,045	$2,646,208

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

	June 30, 2018 (in thousands)
Washington and Oregon State to secure public deposits	$ 244,565
Federal Reserve Bank to secure borrowings	52,370
Other securities pledged	93,194
Total securities pledged as collateral	$ 390,129

The following table shows the gross unrealized losses and fair value of the Company's debt securities available for sale with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2018 and December 31, 2017:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2018	(in thousands)					
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	$906,188	$(22,365)	$722,422	$(33,989)	$1,628,610	$(56,354)
State and municipal securities	306,897	(5,536)	76,988	(4,340)	383,885	(9,876)
U.S. government agency and government-sponsored enterprise securities	261,185	(4,942)	109,734	(2,286)	370,919	(7,228)
U.S. government securities	247	(4)	—	—	247	(4)
Total	$1,474,517	$(32,847)	$909,144	$(40,615)	$2,383,661	$(73,462)
December 31, 2017						
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	$816,678	$(6,710)	$717,211	$(20,616)	$1,533,889	$(27,326)
State and municipal securities	220,019	(1,723)	75,172	(2,236)	295,191	(3,959)
U.S. government agency and government-sponsored enterprise securities	184,046	(1,006)	155,983	(1,756)	340,029	(2,762)
U.S. government securities	249	(3)	—	—	249	(3)
Total	$1,220,992	$(9,442)	$948,366	$(24,608)	$2,169,358	$(34,050)

At June 30, 2018, there were 452 U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations securities in an unrealized loss position, of which 129 were in a continuous loss position for 12 months or more. The decline in fair value is attributable to changes in interest rates relative to where these investments fall within the yield curve and their individual characteristics. Because the Company does not intend to sell these securities nor does the Company consider it more likely than not that it will be required to sell these securities before the recovery of amortized cost basis, which may be upon maturity, the Company does not consider these investments to be other-than-temporarily impaired at June 30, 2018.

At June 30, 2018, there were 422 state and municipal government securities in an unrealized loss position, of which 73 were in a continuous loss position for 12 months or more. The unrealized losses on state and municipal securities were caused by interest rate changes or widening of market spreads subsequent to the purchase of the individual securities. Management monitors published credit ratings of these securities for adverse changes. As of June 30, 2018, none of the rated obligations of state and local government entities held by the Company had a below investment grade credit rating. Because the credit quality of these securities are investment grade and the Company does not intend to sell these securities nor does the Company consider it more likely than not that it will be required to sell these securities before the recovery of amortized cost basis, which may be upon maturity, the Company does not consider these investments to be other-than-temporarily impaired at June 30, 2018.

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At June 30, 2018, there were 48 U.S. government agency and government-sponsored enterprise securities in an unrealized loss position, of which 12 were in a continuous loss position for 12 months or more. The decline in fair value is attributable to changes in interest rates relative to where these investments fall within the yield curve and their individual characteristics. Because the Company does not currently intend to sell these securities nor does the Company consider it more likely than not that it will be required to sell these securities before the recovery of amortized cost basis, which may be upon maturity, the Company does not consider these investments to be other-than-temporarily impaired at June 30, 2018.

At June 30, 2018, there was one U.S. government security in an unrealized loss position, which was not in a continuous loss position for 12 months or more. The decline in fair value is attributable to changes in interest rates relative to where this investment falls within the yield curve and its individual characteristics. Because the Company does not currently intend to sell this security nor does the Company consider it more likely than not that it will be required to sell this security before the recovery of amortized cost basis, which may be upon maturity, the Company does not consider this investment to be other-than-temporarily impaired at June 30, 2018.

5. Loans

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

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

	June 30, 2018			December 31, 2017		
	Loans, excluding PCI loans	PCI Loans	Total	Loans, excluding PCI loans	PCI Loans	Total
	(in thousands)					
Commercial business	$3,538,492	$12,258	$3,550,750	$3,377,324	$12,628	$3,389,952
Real estate:						
One-to-four family residential	180,522	10,200	190,722	188,396	12,395	200,791
Commercial and multifamily residential	3,758,207	68,299	3,826,506	3,825,739	75,594	3,901,333
Total real estate	3,938,729	78,499	4,017,228	4,014,135	87,989	4,102,124
Real estate construction:						
One-to-four family residential	206,181	165	206,346	200,518	177	200,695
Commercial and multifamily residential	387,951	571	388,522	371,931	607	372,538
Total real estate construction	594,132	736	594,868	572,449	784	573,233
Consumer	326,402	10,289	336,691	334,190	11,269	345,459
Less: Net unearned income	(45,430)	—	(45,430)	(52,111)	—	(52,111)
Total loans, net of unearned income	8,352,325	101,782	8,454,107	8,245,987	112,670	8,358,657
Less: Allowance for loan and lease losses	(75,368)	(4,782)	(80,150)	(68,739)	(6,907)	(75,646)
Total loans, net	$8,276,957	$97,000	$8,373,957	$8,177,248	$105,763	$8,283,011
Loans held for sale	$6,773	$—	$6,773	$5,766	$—	$5,766

At June 30, 2018 and December 31, 2017, the Company had no material foreign activities. Substantially all of the Company's loans and unfunded commitments are geographically concentrated in its service areas within the states of Washington, Oregon and Idaho.

The Company has made loans to executive officers and directors of the Company and related interests. These loans are made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than the normal risk of collectability. The aggregate dollar amount of these loans was $9.8 million and $10.0 million at June 30, 2018 and December 31, 2017, respectively. During the first six months of 2018, there were $14 thousand in advances and $199 thousand in repayments.

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At June 30, 2018 and December 31, 2017, $3.21 billion and $2.25 billion of commercial and residential real estate loans were pledged as collateral on Federal Home Loan Bank of Des Moines ("FHLB") borrowings and additional borrowing capacity. The Company has also pledged $78.5 million and $70.2 million of commercial loans to the Federal Reserve Bank for additional borrowing capacity at June 30, 2018 and December 31, 2017, respectively.

The following is an analysis of nonaccrual loans as of June 30, 2018 and December 31, 2017:

	June 30, 2018		December 31, 2017	
	Recorded Investment Nonaccrual Loans	Unpaid Principal Balance Nonaccrual Loans	Recorded Investment Nonaccrual Loans	Unpaid Principal Balance Nonaccrual Loans
	(in thousands)			
Commercial business:				
Secured	$52,006	$ 68,552	$45,410	$ 56,865
Unsecured	30	30	50	49
Real estate:				
One-to-four family residential	976	1,356	785	1,182
Commercial & multifamily residential:				
Commercial land	2,603	2,618	2,628	2,623
Income property	1,552	1,808	4,284	5,410
Owner occupied	6,963	7,290	7,029	7,270
Real estate construction:				
One-to-four family residential:				
Land and acquisition	318	318	25	26
Residential construction	71	71	1,829	1,828
Consumer	4,985	5,368	4,149	4,633
Total	$69,504	$ 87,411	$66,189	$ 79,886

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Loans, excluding purchased credit impaired loans

The following is an aging of the recorded investment of the loan portfolio as of June 30, 2018 and December 31, 2017:

	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
June 30, 2018	(in thousands)						
Commercial business:							
Secured	$3,342,422	$9,542	$ 3,449	$ —	$12,991	$ 52,006	$3,407,419
Unsecured	114,190	1,622	492	—	2,114	30	116,334
Real estate:							
One-to-four family residential	176,917	746	175	—	921	976	178,814
Commercial & multifamily residential:							
Commercial land	279,067	—	—	—	—	2,603	281,670
Income property	1,848,626	1,170	102	—	1,272	1,552	1,851,450
Owner occupied	1,589,500	6,695	584	—	7,279	6,963	1,603,742
Real estate construction:							
One-to-four family residential:							
Land and acquisition	6,252	—	—	—	—	318	6,570
Residential construction	197,359	1,243	—	—	1,243	71	198,673
Commercial & multifamily residential:							
Income property	297,215	5,586	—	—	5,586	—	302,801
Owner occupied	79,694	—	—	—	—	—	79,694
Consumer	317,985	1,339	849	—	2,188	4,985	325,158
Total	$8,249,227	$27,943	$ 5,651	$ —	$33,594	$ 69,504	$8,352,325

	Current Loans	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Nonaccrual Loans	Total Loans
December 31, 2017	(in thousands)						
Commercial business:							
Secured	$3,185,321	$2,530	$ 2,400	$ —	$4,930	$ 45,410	$3,235,661
Unsecured	123,524	100	501	—	601	50	124,175
Real estate:							
One-to-four family residential	184,256	1,111	402	—	1,513	785	186,554
Commercial & multifamily residential:							
Commercial land	292,680	92	—	581	673	2,628	295,981
Income property	1,898,655	2,426	971	—	3,397	4,284	1,906,336
Owner occupied	1,590,004	2,485	468	—	2,953	7,029	1,599,986
Real estate construction:							
One-to-four family residential:							
Land and acquisition	9,882	—	—	—	—	25	9,907
Residential construction	187,862	—	—	—	—	1,829	189,691
Commercial & multifamily residential:							
Income property	293,028	—	—	—	—	—	293,028
Owner occupied	72,443	—	—	—	—	—	72,443
Consumer	325,928	1,446	702	—	2,148	4,149	332,225

Total	$8,163,583	$10,190	$5,444	$ 581	$16,215	$66,189	$8,245,987

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The following is an analysis of impaired loans as of June 30, 2018 and December 31, 2017:

June 30, 2018	Recorded Investment of Loans Collectively Measured for Contingency Provision	Recorded Investment of Loans Individually Measured for Specific Impairment	Impaired Loans With Recorded Allowance			Impaired Loans Without Recorded Allowance	
			Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance
	(in thousands)						
Commercial business:							
Secured	$3,360,586	$ 46,833	$2,731	$3,120	$ 67	$44,102	$53,050
Unsecured	115,468	866	—	—	—	866	4,906
Real estate:							
One-to-four family residential	178,121	693	346	742	8	347	809
Commercial & multifamily residential:							
Commercial land	279,408	2,262	—	—	—	2,262	2,277
Income property	1,849,318	2,132	—	—	—	2,132	2,195
Owner occupied	1,594,762	8,980	3,299	4,717	86	5,681	5,858
Real estate construction:							
One-to-four family residential:							
Land and acquisition	6,570	—	—	—	—	—	—
Residential construction	198,673	—	—	—	—	—	—
Commercial & multifamily residential:							
Income property	302,801	—	—	—	—	—	—
Owner occupied	75,644	4,050	—	—	—	4,050	4,050
Consumer	318,608	6,550	5,302	5,590	95	1,248	1,319
Total	$8,279,959	$ 72,366	$11,678	$14,169	$ 256	$60,688	$74,464

December 31, 2017	Recorded Investment of Loans Collectively Measured for Contingency Provision	Recorded Investment of Loans Individually Measured for Specific Impairment	Impaired Loans With Recorded Allowance			Impaired Loans Without Recorded Allowance	
			Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance
	(in thousands)						
Commercial business:							
Secured	$3,195,649	$ 40,012	$3,808	$3,937	$ 1,867	$36,204	$42,314
Unsecured	124,150	25	25	24	3	—	—
Real estate:							
One-to-four family residential	185,659	895	867	1,408	103	28	337
Commercial & multifamily residential:							
Commercial land	293,694	2,287	—	—	—	2,287	2,282
Income property	1,901,313	5,023	2,768	3,328	185	2,255	2,601
Owner occupied	1,591,298	8,688	77	80	3	8,611	10,077
Real estate construction:							
One-to-four family residential:							
Land and acquisition	9,907	—	—	—	—	—	—
Residential construction	188,481	1,210	—	—	—	1,210	1,210

Commercial & multifamily residential:							
Income property	293,028	—	—	—	—	—	—
Owner occupied	68,393	4,050	—	—	—	4,050	4,050
Consumer	325,210	7,015	5,303	5,568	199	1,712	1,864
Total	$8,176,782	$ 69,205	$12,848	$14,345	$ 2,360	$56,357	$64,735

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2018		2017		2018		2017	
	Average Recorded Investment on Impaired Loans	Interest Recognized on Impaired Loans	Average Recorded Investment on Impaired Loans	Interest Recognized on Impaired Loans	Average Recorded Investment on Impaired Loans	Interest Recognized on Impaired Loans	Average Recorded Investment on Impaired Loans	Interest Recognized on Impaired Loans
	(in thousands)							
Commercial business:								
Secured	$45,716	$ 85	$15,590	$ 50	$43,815	$ 97	$13,332	$ 69
Unsecured	444	1	—	—	304	1	—	—
Real estate:								
One-to-four family residential	780	12	648	21	818	18	608	22
Commercial & multifamily residential:								
Commercial land	2,557	—	2,549	—	2,467	—	1,936	—
Income property	2,846	32	3,676	7	3,572	62	3,925	6
Owner occupied	8,768	124	3,453	192	8,741	209	4,107	192
Real estate construction:								
One-to-four family residential:								
Land and acquisition	—	—	—	—	—	—	5	—
Residential construction	605	—	—	—	807	—	112	—
Commercial & multifamily residential:								
Owner occupied	4,050	51	—	—	4,050	102	—	—
Consumer	6,391	34	5,584	31	6,599	77	5,461	57
Total	$72,157	$ 339	$31,500	$ 301	$71,173	$ 566	$29,486	$ 346

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The following is an analysis of loans classified as troubled debt restructurings ("TDR") during the three and six months ended June 30, 2018 and 2017:

	Three months ended June 30, 2018			Three months ended June 30, 2017		
	Number of TDR Modifications	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of TDR Modifications	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(dollars in thousands)					
Commercial business:						
Secured	7	$ 2,644	$ 2,644	2	$ 1,422	$ 1,422
Real estate:						
One-to-four family residential	—	—	—	1	382	382
Consumer	8	1,274	1,274	8	815	815
Total	15	$ 3,918	$ 3,918	11	$ 2,619	$ 2,619

	Six months ended June 30, 2018			Six months ended June 30, 2017		
	Number of TDR Modifications	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of TDR Modifications	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(dollars in thousands)					
Commercial business:						
Secured	8	$ 3,094	$ 3,094	5	$ 1,778	$ 1,778
Real estate:						
One-to-four family residential	—	—	—	1	382	382
Commercial and multifamily residential:						
Income property	1	891	891	—	—	—
Consumer	15	2,417	2,417	18	2,361	2,361
Total	24	$ 6,402	$ 6,402	24	$ 4,521	$ 4,521

The Company's loans classified as TDR are loans that have been modified or the borrower has been granted special concessions due to financial difficulties that, if not for the challenges of the borrower, the Company would not otherwise consider. The TDR modifications or concessions are made to increase the likelihood that these borrowers with financial difficulties will be able to satisfy their debt obligations as amended. The concessions granted in the restructurings summarized in the table above largely consisted of maturity extensions, interest rate modifications or a combination of both. In limited circumstances, a reduction in the principal balance of the loan could also be made as a concession. Credit losses for loans classified as TDR are measured on the same basis as impaired loans. For impaired loans, an allowance is established when the collateral value less selling costs (or discounted cash flows or observable market price) of the impaired loan is lower than the recorded investment of that loan.

The Company had commitments to lend $651 thousand of additional funds on loans classified as TDR as of June 30, 2018. The Company had $506 thousand of such commitments at December 31, 2017. The Company did not have any loans modified as TDR that defaulted within 12 months of being modified as TDR during the three and six months ended June 30, 2018 and 2017.

Purchased Credit Impaired Loans

Purchased credit impaired ("PCI") loans are accounted for under ASC 310-30 and initially measured at fair value based on expected future cash flows over the life of the loans. Loans that have common risk characteristics are aggregated into pools. The Company remeasures contractual and expected cash flows, at the pool-level, on a quarterly basis. Contractual cash flows are calculated based upon the loan pool terms after applying a prepayment factor. Calculation of the applied prepayment factor for contractual cash flows is the same as described below for expected cash flows.

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

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

The following is an analysis of our PCI loans, net of related allowance for losses and remaining valuation discounts as of June 30, 2018 and December 31, 2017:

	June 30, 2018	December 31, 2017
	(in thousands)	
Commercial business	$12,921	$ 13,753
Real estate:		
One-to-four family residential	12,202	14,610
Commercial and multifamily residential	72,019	79,211
Total real estate	84,221	93,821
Real estate construction:		
One-to-four family residential	166	177
Commercial and multifamily residential	557	595
Total real estate construction	723	772
Consumer	11,310	12,412
Subtotal of PCI loans	109,175	120,758
Less:		
Valuation discount resulting from acquisition accounting	7,393	8,088
Allowance for loan losses	4,782	6,907
PCI loans, net of allowance for loan losses	$97,000	$ 105,763

The following table shows the changes in accretable yield for PCI loans for the three and six months ended June 30, 2018 and 2017:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands)			
Balance at beginning of period	$29,355	$38,444	$31,176	$45,191
Accretion	(1,937)	(2,882)	(4,202)	(7,064)
Disposals	(7)	—	(166)	(158)
Reclassifications from (to) nonaccretable difference	(2,061)	144	(1,458)	(2,263)
Balance at end of period	$25,350	$35,706	$25,350	$35,706

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

We record an allowance for loan and lease losses (the “allowance”) to recognize management’s estimate of credit losses incurred in the loan portfolio at each balance sheet date. We have used the same methodology for allowance calculations during the six months ended June 30, 2018 and 2017.

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The following tables show a detailed analysis of the allowance for the three and six months ended June 30, 2018 and 2017:

Three months ended June 30, 2018	Beginning Balance	Charge-offs	Recoveries	Provision (Recapture)	Ending Balance	Specific Reserve	General Allocation
	(in thousands)						
Commercial business:							
Secured	$37,331	$(5,751)	$ 1,487	$ 7,283	$40,350	$ 67	$ 40,283
Unsecured	2,595	(24)	56	(184)	2,443	—	2,443
Real estate:							
One-to-four family residential	558	—	196	(293)	461	8	453
Commercial & multifamily residential:							
Commercial land	3,745	—	78	(545)	3,278	—	3,278
Income property	4,702	—	558	(1,158)	4,102	—	4,102
Owner occupied	4,749	—	4	(397)	4,356	86	4,270
Real estate construction:							
One-to-four family residential:							
Land and acquisition	912	—	12	(76)	848	—	848
Residential construction	4,636	—	2	(66)	4,572	—	4,572
Commercial & multifamily residential:							
Income property	7,474	—	—	(107)	7,367	—	7,367
Owner occupied	1,923	—	—	376	2,299	—	2,299
Consumer	5,216	(232)	270	38	5,292	95	5,197
Purchased credit impaired	5,665	(1,235)	927	(575)	4,782	—	4,782
Unallocated	321	—	—	(321)	—	—	—
Total	$79,827	$(7,242)	$ 3,590	$ 3,975	$80,150	$ 256	$ 79,894

Six months ended June 30, 2018	Beginning Balance	Charge-offs	Recoveries	Provision (Recapture)	Ending Balance	Specific Reserve	General Allocation
	(in thousands)						
Commercial business:							
Secured	$29,341	$(8,165)	$ 2,040	$ 17,134	$40,350	$ 67	$ 40,283
Unsecured	2,000	(87)	305	225	2,443	—	2,443
Real estate:							
One-to-four family residential	701	—	368	(608)	461	8	453
Commercial & multifamily residential:							
Commercial land	4,265	—	84	(1,071)	3,278	—	3,278
Income property	5,672	(223)	699	(2,046)	4,102	—	4,102
Owner occupied	5,459	—	16	(1,119)	4,356	86	4,270
Real estate construction:							
One-to-four family residential:							
Land and acquisition	963	—	28	(143)	848	—	848
Residential construction	3,709	—	5	858	4,572	—	4,572
Commercial & multifamily residential:							
Income property	7,053	—	—	314	7,367	—	7,367
Owner occupied	4,413	—	—	(2,114)	2,299	—	2,299
Consumer	5,163	(496)	530	95	5,292	95	5,197
Purchased credit impaired	6,907	(2,578)	2,151	(1,698)	4,782	—	4,782
Unallocated	—	—	—	—	—	—	—
Total	$75,646	$(11,549)	$ 6,226	$ 9,827	$80,150	$ 256	$ 79,894

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Three months ended June 30, 2017	Beginning Balance	Charge-offs	Recoveries	Provision (Recapture)	Ending Balance	Specific Reserve	General Allocation
	(in thousands)						
Commercial business:							
Secured	$35,672	$ (3,600)	$ 2,903	$ 4,564	$39,539	$ 3,425	$ 36,114
Unsecured	1,188	—	41	(82)	1,147	—	1,147
Real estate:							
One-to-four family residential	645	(153)	223	(87)	628	4	624
Commercial & multifamily residential:							
Commercial land	2,288	—	—	68	2,356	—	2,356
Income property	6,803	—	60	(9)	6,854	25	6,829
Owner occupied	6,534	—	67	(89)	6,512	—	6,512
Real estate construction:							
One-to-four family residential:							
Land and acquisition	509	—	27	(175)	361	—	361
Residential construction	1,109	—	31	237	1,377	—	1,377
Commercial & multifamily residential:							
Income property	782	—	—	203	985	—	985
Owner occupied	1,768	—	—	(386)	1,382	—	1,382
Consumer	3,360	(465)	248	408	3,551	45	3,506
Purchased credit impaired	9,395	(1,800)	1,204	(738)	8,061	—	8,061
Unallocated	968	—	—	(737)	231	—	231
Total	$71,021	$ (6,018)	$ 4,804	$ 3,177	$72,984	$ 3,499	$ 69,485

Six months ended June 30, 2017	Beginning Balance	Charge-offs	Recoveries	Provision (Recapture)	Ending Balance	Specific Reserve	General Allocation
	(in thousands)						
Commercial business:							
Secured	$36,050	$ (4,709)	$ 3,200	$ 4,998	$39,539	$ 3,425	$ 36,114
Unsecured	960	(18)	109	96	1,147	—	1,147
Real estate:							
One-to-four family residential	599	(460)	340	149	628	4	624
Commercial & multifamily residential:							
Commercial land	1,797	—	—	559	2,356	—	2,356
Income property	7,342	—	95	(583)	6,854	25	6,829
Owner occupied	6,439	—	110	(37)	6,512	—	6,512
Real estate construction:							
One-to-four family residential:							
Land and acquisition	316	(14)	47	12	361	—	361
Residential construction	669	—	40	668	1,377	—	1,377
Commercial & multifamily residential:							
Income property	404	—	—	581	985	—	985
Owner occupied	1,192	—	—	190	1,382	—	1,382
Consumer	3,534	(893)	533	377	3,551	45	3,506
Purchased credit impaired	10,515	(3,739)	2,348	(1,063)	8,061	—	8,061
Unallocated	226	—	—	5	231	—	231
Total	$70,043	$ (9,833)	$ 6,822	$ 5,952	$72,984	$ 3,499	$ 69,485

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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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands)			
Balance at beginning of period	$4,330	$3,555	$3,130	$2,705
Net changes in the allowance for unfunded commitments and letters of credit	(650)	—	550	850
Balance at end of period	$3,680	$3,555	$3,680	$3,555

Risk Elements

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

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

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

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The following is an analysis of the credit quality of our loan portfolio, excluding PCI loans, as of June 30, 2018 and December 31, 2017:

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
June 30, 2018	(in thousands)					
Loans, excluding PCI loans:						
Commercial business:						
Secured	$3,216,924	$68,549	$ 121,946	$ —	$ —	$3,407,419
Unsecured	115,808	2	524	—	—	116,334
Real estate:						
One-to-four family residential	176,717	28	2,069	—	—	178,814
Commercial and multifamily residential:						
Commercial land	273,742	1,916	6,012	—	—	281,670
Income property	1,818,431	18,938	14,081	—	—	1,851,450
Owner occupied	1,569,877	4,715	29,150	—	—	1,603,742
Real estate construction:						
One-to-four family residential:						
Land and acquisition	6,252	—	318	—	—	6,570
Residential construction	198,602	—	71	—	—	198,673
Commercial and multifamily residential:						
Income property	299,739	—	3,062	—	—	302,801
Owner occupied	75,644	—	4,050	—	—	79,694
Consumer	316,642	—	8,516	—	—	325,158
Total	$8,068,378	$94,148	$ 189,799	$ —	$ —	8,352,325
Less:						
Allowance for loan and lease losses						75,368
Loans, excluding PCI loans, net						$8,276,957

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
December 31, 2017	(in thousands)					
Loans, excluding PCI loans:						
Commercial business:						
Secured	$3,049,031	$64,600	$ 122,030	$ —	$ —	$3,235,661
Unsecured	123,621	—	554	—	—	124,175
Real estate:						
One-to-four family residential	183,312	1,186	2,056	—	—	186,554
Commercial and multifamily residential:						
Commercial land	283,673	5,204	7,104	—	—	295,981
Income property	1,857,832	17,181	31,323	—	—	1,906,336
Owner occupied	1,546,775	7,380	45,831	—	—	1,599,986
Real estate construction:						
One-to-four family residential:						
Land and acquisition	9,882	—	25	—	—	9,907
Residential construction	187,863	—	1,828	—	—	189,691
Commercial and multifamily residential:						
Income property	293,028	—	—	—	—	293,028
Owner occupied	68,393	—	4,050	—	—	72,443
Consumer	323,129	—	9,096	—	—	332,225
Total	$7,926,539	$95,551	$ 223,897	$ —	$ —	8,245,987

Less:	
Allowance for loan and lease losses	68,739
Loans, excluding PCI loans, net	$8,177,248

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The following is an analysis of the credit quality of our PCI loan portfolio as of June 30, 2018 and December 31, 2017:

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
June 30, 2018	(in thousands)					
PCI loans:						
Commercial business:						
Secured	$11,024	$ —	$ 1,101	$ —	$ —	$12,125
Unsecured	796	—	—	—	—	796
Real estate:						
One-to-four family residential	11,448	—	754	—	—	12,202
Commercial and multifamily residential:						
Commercial land	10,901	—	—	—	—	10,901
Income property	20,816	—	129	—	—	20,945
Owner occupied	39,322	—	851	—	—	40,173
Real estate construction:						
One-to-four family residential:						
Land and acquisition	161	—	5	—	—	166
Residential construction	—	—	—	—	—	—
Commercial and multifamily residential:						
Income property	557	—	—	—	—	557
Owner occupied	—	—	—	—	—	—
Consumer	10,909	—	401	—	—	11,310
Total	$105,934	$ —	$ 3,241	$ —	$ —	109,175
Less:						
Valuation discount resulting from acquisition accounting						7,393
Allowance for loan losses						4,782
PCI loans, net						$97,000

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
December 31, 2017	(in thousands)					
PCI loans:						
Commercial business:						
Secured	$11,918	$ —	$ 723	$ —	$ —	$12,641
Unsecured	1,045	—	67	—	—	1,112
Real estate:						
One-to-four family residential	13,817	—	793	—	—	14,610
Commercial and multifamily residential:						
Commercial land	9,460	349	—	—	—	9,809
Income property	25,981	—	35	—	—	26,016
Owner occupied	42,617	—	769	—	—	43,386
Real estate construction:						
One-to-four family residential:						
Land and acquisition	169	—	8	—	—	177
Residential construction	—	—	—	—	—	—
Commercial and multifamily residential:						
Income property	595	—	—	—	—	595
Owner occupied	—	—	—	—	—	—
Consumer	11,705	—	707	—	—	12,412

Total	$117,307	$ 349	$ 3,102	$ —	$ —	120,758
Less:						
Valuation discount resulting from acquisition accounting						8,088
Allowance for loan losses						6,907
PCI loans, net						$105,763

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7. Other Real Estate Owned ("OREO")

The following tables set forth activity in OREO for the three and six months ended June 30, 2018 and 2017:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands)			
Balance, beginning of period	$11,507	$4,519	$13,298	$5,998
Transfers in	—	—	406	—
Valuation adjustments	(110)	(33)	(202)	(226)
Proceeds from sale of OREO property	(3,759)	(444)	(5,821)	(1,719)
Gain (loss) on sale of OREO, net	(558)	16	(601)	5
Balance, end of period	$7,080	$4,058	$7,080	$4,058

At June 30, 2018, there were $60 thousand in foreclosed residential real estate properties held as OREO and the recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process was $1.6 million.

8. 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 core deposit intangible ("CDI") is evaluated for impairment if events and circumstances indicate a possible impairment. The CDI is amortized on an accelerated basis over an estimated life of 10 years.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands)			
Goodwill				
Total goodwill (1)	$765,842	$382,762	$765,842	$382,762
Other intangible assets, net				
Core deposit intangible:				
Gross core deposit intangible balance at beginning of period	105,473	58,598	105,473	58,598
Accumulated amortization at beginning of period	(51,407)	(43,235)	(48,219)	(41,886)
Core deposit intangible, net at beginning of period	54,066	15,363	57,254	16,712
CDI current period amortization	(3,088)	(1,249)	(6,276)	(2,598)
Total core deposit intangible, net at end of period	50,978	14,114	50,978	14,114
Intangible assets not subject to amortization	919	919	919	919
Other intangible assets, net at end of period	51,897	15,033	51,897	15,033
Total goodwill and other intangible assets at end of period	$817,739	$397,795	$817,739	$397,795

(1) See Note 3, "Business Combinations," for additional information regarding goodwill and intangible assets recorded related to the acquisition of Pacific Continental on November 1, 2017.

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The following table provides the estimated future amortization expense of core deposit intangibles for the remaining six months ending December 31, 2018 and the succeeding four years:

	Amount (in thousands)
Year ending December 31,	
2018	$ 5,960
2019	10,479
2020	8,724
2021	7,264
2022	5,880

9. Subordinated Debentures

On November 1, 2017, with its acquisition of Pacific Continental, the Company assumed $35.0 million in aggregate principal amount of fixed-to-floating rate subordinated debentures (the “Notes”). The Notes are callable at par on June 30, 2021, have a stated maturity of June 30, 2026 and bear interest at a fixed annual rate of 5.875% per year, from and including June 27, 2016, but excluding June 30, 2021. From and including June 30, 2021 through the maturity date or early redemption date, the interest rate will reset quarterly to an annual interest rate equal to the then-current three-month LIBOR plus 471.5 basis points.

10. Junior Subordinated Debentures

On November 1, 2017, with its acquisition of Pacific Continental, the Company assumed $14.4 million of trust preferred obligations. The Company redeemed $6.2 million of these obligations during 2017. The remaining $8.2 million of obligations were redeemed in January 2018.

11. Derivatives and Balance Sheet Offsetting

The Company periodically enters into certain commercial loan interest rate swap agreements in order to provide commercial loan customers the ability to convert from variable to fixed interest rates. Under these agreements, the Company enters into a variable-rate loan agreement with a customer in addition to a swap agreement. This swap agreement effectively converts the customer’s variable rate loan into a fixed rate. The Company then enters into a corresponding swap agreement with a third-party in order to offset its exposure on the variable and fixed components of the customer agreement. As the interest rate swap agreements with the customers and third parties are not designated as hedges under the Derivatives and Hedging topic of the FASB ASC, the instruments are marked to market in earnings. The notional amount of open interest rate swap agreements at June 30, 2018 and December 31, 2017 was $368.4 million and $384.7 million, respectively. During the three and six months ended June 30, 2018, mark-to-market gains of $2 thousand and $8 thousand, respectively, were recorded to “Other” noninterest expense. During the three and six months ended June 30, 2017, mark-to-market gains of $2 thousand and $6 thousand, respectively, were recorded to “Other” noninterest expense.

The following table presents the fair value of derivatives not designated as hedging instruments at June 30, 2018 and December 31, 2017:

	Asset Derivatives				Liability Derivatives			
	June 30, 2018		December 31, 2017		June 30, 2018		December 31, 2017	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
	(in thousands)							
Interest rate contracts	Other assets	$ 8,624	Other assets	$ 6,707	Other liabilities	$ 8,624	Other liabilities	$ 6,714

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

	Gross Amounts of Recognized Assets/Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Assets/Liabilities Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets	
				Collateral Posted	Net Amount
June 30, 2018	(in thousands)				
Assets					
Interest rate contracts	$8,624	$ —	$ 8,624	$—	$ 8,624
Liabilities					
Interest rate contracts	$8,624	$ —	$ 8,624	$(1,708)	$ 6,916
Repurchase agreements	$46,229	$ —	$ 46,229	$(46,229)	$ —
December 31, 2017					
Assets					
Interest rate contracts	$6,707	$ —	$ 6,707	$—	$ 6,707
Liabilities					
Interest rate contracts	$6,714	$ —	$ 6,714	$(6,714)	$ —
Repurchase agreements	$79,059	$ —	$ 79,059	$(79,059)	$ —

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
June 30, 2018	(in thousands)				
Class of collateral pledged for repurchase agreements					
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	$46,229	$ —	$ —	$ —	$46,229
Gross amount of recognized liabilities for repurchase agreements					46,229
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 $46.2 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.

12. 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 2018 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.
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 June 30, 2018 and December 31, 2017, the Company’s loan commitments amounted to $2.46 billion and $2.62 billion, respectively.

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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 $42.5 million and $51.3 million at June 30, 2018 and December 31, 2017, respectively. In addition, commitments under commercial letters of credit used to facilitate customers' trade transactions and other off-balance sheet liabilities amounted to $113 thousand and $159 thousand at June 30, 2018 and December 31, 2017, respectively.

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

13. Shareholders' Equity

Dividends: On January 25, 2018, the Company declared a regular quarterly cash dividend of $0.22 per common share payable on February 21, 2018 to shareholders of record at the close of business on February 7, 2018.

On April 25, 2018, the Company declared a regular quarterly cash dividend of $0.26 per common share payable on May 23, 2018 to shareholders of record at the close of business on May 9, 2018.

Subsequent to quarter end, on July 25, 2018, the Company declared a regular quarterly cash dividend of $0.26 per common share payable on August 22, 2018 to shareholders of record at the close of business on August 8, 2018.

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

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14. Accumulated Other Comprehensive Loss

The following table shows changes in accumulated other comprehensive income (loss) by component for the three and six month periods ended June 30, 2018 and 2017:

	Unrealized Gains and Losses on Available-for-Sale Securities (1)	Unrealized Gains and Losses on Pension Plan Liability (1)	Total (1)
Three months ended June 30, 2018	(in thousands)		
Beginning balance	$(45,748)	$(2,385)	$(48,133)
Other comprehensive loss before reclassifications	(7,845)	—	(7,845)
Amounts reclassified from accumulated other comprehensive loss	(4)	61	57
Net current-period other comprehensive income (loss)	(7,849)	61	(7,788)
Ending balance	$(53,597)	$(2,324)	$(55,921)
Three months ended June 30, 2017			
Beginning balance	$(11,002)	$(1,604)	$(12,606)
Other comprehensive income before reclassifications	6,033	—	6,033
Amounts reclassified from accumulated other comprehensive income	—	45	45
Net current-period other comprehensive income	6,033	45	6,078
Ending balance	$(4,969)	$(1,559)	$(6,528)
Six months ended June 30, 2018			
Beginning balance	$(19,779)	$(2,446)	$(22,225)
Adjustment pursuant to adoption of ASU 2016-01	157	—	157
Other comprehensive loss before reclassifications	(33,893)	—	(33,893)
Amounts reclassified from accumulated other comprehensive income	(82)	122	40
Net current-period other comprehensive income (loss)	(33,975)	122	(33,853)
Ending balance	$(53,597)	$(2,324)	$(55,921)
Six months ended June 30, 2017			
Beginning balance	$(12,704)	$(6,295)	$(18,999)
Other comprehensive income before reclassifications	7,735	4,604	12,339
Amounts reclassified from accumulated other comprehensive income	—	132	132
Net current-period other comprehensive income	7,735	4,736	12,471
Ending balance	$(4,969)	$(1,559)	$(6,528)

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

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The following table shows details regarding the reclassifications from accumulated other comprehensive income (loss) for the three and six month periods ended June 30, 2018 and 2017:

	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)				
	Three Months Ended June 30,		Six Months Ended June 30,		Affected line Item in the Consolidated
	2018	2017	2018	2017	Statement of Income
	(in thousands)				
Unrealized gains and losses on available-for-sale debt securities					
Investment securities gains, net	$5	$—	$107	$—	Investment securities losses, net
	5	—	107	—	Total before tax
	(1)	—	(25)	—	Income tax provision
	$4	$—	$82	$—	Net of tax
Amortization of pension plan liability					
Actuarial losses	$(80)	$(71)	$(160)	$(207)	Compensation and employee benefits
	(80)	(71)	(160)	(207)	Total before tax
	19	26	38	75	Income tax benefit
	$(61)	$(45)	$(122)	$(132)	Net of tax

15. Fair Value Accounting and Measurement

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

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

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

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

Fair values are determined as follows:

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

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

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The following table sets forth the Company’s financial assets and liabilities that were accounted for at fair value on a recurring basis at June 30, 2018 and December 31, 2017 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
June 30, 2018	(in thousands)			
Assets				
Debt securities available for sale:				
U.S. government agency and government-sponsored enterprise mortgage-back securities and collateralized mortgage obligations	$1,676,992	$ —	$ 1,676,992	$ —
State and municipal debt securities	577,695	—	577,695	—
U.S. government agency and government-sponsored enterprise securities	391,274	—	391,274	—
U.S. government securities	247	247	—	—
Total debt securities available for sale	$2,646,208	$ 247	$ 2,645,961	$ —
Equity securities	$4,963	$ 4,963	$ —	$ —
Other assets (Interest rate contracts)	$8,624	$ —	$ 8,624	$ —
Liabilities				
Other liabilities (Interest rate contracts)	$8,624	$ —	$ 8,624	$ —

	Fair value	Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
December 31, 2017	(in thousands)			
Assets				
Debt securities available for sale:				
U.S. government agency and government-sponsored enterprise mortgage-back securities and collateralized mortgage obligations	$1,726,725	$ —	$ 1,726,725	$ —
State and municipal debt securities	596,004	—	596,004	—
U.S. government agency and government-sponsored enterprise securities	414,774	—	414,774	—
U.S. government securities	248	248	—	—
Total debt securities available for sale	$2,737,751	$ 248	$ 2,737,503	$ —
Equity securities	$5,080	$ 5,080	$ —	$ —
Other assets (Interest rate contracts)	$6,707	$ —	$ 6,707	$ —
Liabilities				
Other liabilities (Interest rate contracts)	$6,714	$ —	$ 6,714	$ —

There were no transfers between Level 1 and Level 2 of the valuation hierarchy during the six month periods ended June 30, 2018 and 2017. The Company recognizes transfers between levels of the valuation hierarchy based on the valuation level at the end of the reporting period.

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Nonrecurring Measurements

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

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

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

The following tables set forth information related to the Company's assets that were measured using fair value estimates on a nonrecurring basis during the current and prior year quarterly periods:

	Fair value at June 30, 2018	Fair Value Measurements at Reporting Date Using Level 1	Level 2	Level 3	Gains During the Three Months Ended June 30, 2018	Losses During the Six Months Ended June 30, 2018
	(in thousands)					
Impaired loans	$10,792	$ —	$ —	$ 10,792	$ (1,032)	$ 3,398
	$10,792	$ —	$ —	$ 10,792	$ (1,032)	$ 3,398

	Fair value at June 30, 2017	Fair Value Measurements at Reporting Date Using Level 1	Level 2	Level 3	Losses During the Three Months Ended June 30, 2017	Losses During the Six Months Ended June 30, 2017
	(in thousands)					
Impaired loans	$7,019	$ —	$ —	$ 7,019	$ 3,669	$ 3,669
OREO	105	—	—	105	33	33
	$7,124	$ —	$ —	$ 7,124	$ 3,702	$ 3,702

The losses on impaired loans disclosed above represent the amount of the specific reserve and/or charge-offs during the period applicable to loans held at period end. The amount of the specific reserve is included in the allowance for loan and lease losses. The losses on OREO disclosed above represent the write-downs taken at foreclosure that were charged to the allowance for loan and lease losses, as well as subsequent changes in any valuation allowances from updated appraisals that were recorded to earnings.

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Quantitative information about Level 3 fair value measurements

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

	Fair value at June 30, 2018	Valuation Technique	Unobservable Input	Range (Weighted Average) (1)
	(dollars in thousands)			
Impaired loans - collateral-dependent (2)	$6,933	Fair Market Value of Collateral	Adjustment to Stated Value	0.00% - 62.81% (15.72%)
Impaired loans - other	$3,859	Discounted Cash Flow	Discount Rate	4.25% - 6.50% (6.12%)

(1) Discount rate applied to discounted cash flow valuation or discount applied to appraisal 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 June 30, 2017	Valuation Technique	Unobservable Input	Range (Weighted Average) (1)
	(dollars in thousands)			
Impaired loans - collateral-dependent (3)	$7,019	Fair Market Value of Collateral	Adjustment to Stated Value	0.00% - 75.00% (60.59%)
OREO	$105	Fair Market Value of Collateral	Adjustment to Appraisal Value	N/A (2)

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

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

(3) Collateral consists of accounts receivable, fixed assets, inventory, 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 June 30, 2018 and December 31, 2017:

	June 30, 2018				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
	(in thousands)				
Assets					
Cash and due from banks	$224,370	$224,370	$224,370	$—	$ —
Interest-earning deposits with banks	39,169	39,169	39,169	—	—
Debt securities available for sale	2,646,208	2,646,208	247	2,645,961	—
Equity securities	4,963	4,963	4,963	—	—
FHLB stock	13,960	13,960	—	13,960	—
Loans held for sale	6,773	6,773	—	6,773	—
Loans	8,373,957	8,381,155	—	—	8,381,155
Interest rate contracts	8,624	8,624	—	8,624	—
Liabilities					
Time deposits	$450,602	$442,561	$—	$442,561	$ —
FHLB advances	99,549	100,102	—	100,102	—
Repurchase agreements	46,229	46,229	—	46,229	—
Subordinated debentures	35,555	34,986	—	34,986	—
Interest rate contracts	8,624	8,624	—	8,624	—

	December 31, 2017				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
	(in thousands)				
Assets					
Cash and due from banks	$244,615	$244,615	$244,615	$—	$ —
Interest-earning deposits with banks	97,918	97,918	97,918	—	—
Debt securities available for sale	2,737,751	2,737,751	248	2,737,503	—
Equity securities	5,080	5,080	5,080	—	—
FHLB stock	10,440	10,440	—	10,440	—
Loans held for sale	5,766	5,766	—	5,766	—
Loans	8,283,011	8,055,817	—	—	8,055,817
Interest rate contracts	6,707	6,707	—	6,707	—
Liabilities					
Deposits	$10,532,085	$10,524,135	$10,041,040	$483,095	$ —
FHLB advances	11,579	12,281	—	12,281	—
Repurchase agreements	79,059	79,070	—	79,070	—
Subordinated debentures	35,647	35,895	—	35,895	—
Junior subordinated debentures	8,248	8,248	—	8,248	—
Interest rate contracts	6,714	6,714	—	6,714	—

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16. Earnings per Common Share

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

The following table sets forth the computation of basic and diluted earnings per share for the three and six months ended June 30, 2018 and 2017:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands except per share)			
Basic EPS:				
Net income	$41,749	$27,132	$81,719	$56,331
Less: Earnings allocated to participating securities:				
Preferred shares	—	—	—	3
Nonvested restricted shares	473	362	909	759
Earnings allocated to common shareholders	$41,276	$26,770	$80,810	$55,569
Weighted average common shares outstanding	72,385	57,520	72,343	57,437
Basic earnings per common share	$0.57	$0.47	$1.12	$0.97
Diluted EPS:				
Earnings allocated to common shareholders	$41,276	$26,770	$80,810	$55,569
Weighted average common shares outstanding	72,385	57,520	72,343	57,437
Dilutive effect of equity awards	5	5	4	5
Weighted average diluted common shares outstanding	72,390	57,525	72,347	57,442
Diluted earnings per common share	$0.57	$0.47	$1.12	$0.97
Potentially dilutive share options that were not included in the computation of diluted EPS because to do so would be anti-dilutive	3	12	7	13

17. 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 out of 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 six month periods ended June 30, 2018:

	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
	(dollars in thousands)	
Noninterest income:		
Revenue from contracts with customers:		
Deposit account and treasury management fees	$8,683	$17,423
Card revenue	6,616	12,429
Financial services and trust revenue	3,219	5,949
Total revenue from contracts with customers	18,518	35,801
Other sources of noninterest income	5,174	11,034
Total noninterest income	$23,692	$46,835

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, 2017 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.

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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 words or other comparable words or phrases of a future or forward-looking nature. Forward-looking statements are based on current beliefs and expectations of management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. In addition to the factors set forth in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this report and the factors set forth in the section titled "Risk Factors" in the Company's Form 10-K, the following factors, among others, could cause actual results to differ materially from the anticipated results expressed or implied by forward-looking statements:

- national and global economic conditions could be less favorable than expected or could have a more direct and pronounced effect on us than expected and adversely affect our ability to continue internal growth and maintain the quality of our earning assets;
- the housing 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 funding sources;
- projected business increases following strategic expansion could be lower than expected;
- changes in the scope and cost of Federal Deposit Insurance Corporation ("FDIC") insurance and other coverages;
- the impact of acquired loans on our earnings;
- changes in accounting principles, policies and guidelines applicable to bank holding companies and banking;
- changes in laws and regulations affecting our businesses, including changes in the enforcement and interpretation of such laws and regulations by applicable governmental and regulatory agencies;
- competition among financial institutions 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 or inability to keep pace with technological changes;
- our ability to effectively manage credit risk, interest rate risk, market risk, operational risk, legal risk, liquidity risk and regulatory and compliance risk;
- the effect of geopolitical instability, including wars, conflicts and terrorist attacks;
- our profitability measures could be adversely affected if we are unable to effectively manage our capital;
- natural disasters, including earthquakes, tsunamis, flooding, fires and other unexpected events; and
- the effects of any damage to our reputation resulting from developments related to any of the items identified above.

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

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CRITICAL ACCOUNTING POLICIES

Management has identified the accounting policies related to the allowance for loan and lease losses (the “allowance”), business combinations and the valuation and recoverability of goodwill as critical to an understanding of our financial statements. These policies and related estimates are discussed in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” under the headings “Allowance for Loan and Lease Losses,” “Business Combinations” and “Valuation and Recoverability of Goodwill” in our 2017 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 2017 Annual Report on Form 10-K.

RESULTS OF OPERATIONS

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

Earnings Summary

Comparison of current quarter to prior year period

The Company reported net income for the second quarter of $41.7 million or $0.57 per diluted common share, compared to $27.1 million or $0.47 per diluted common share for the second quarter of 2017. Net interest income for the three months ended June 30, 2018 was $116.7 million, an increase of $30.5 million from the prior year period. The increase was a result of higher interest income on loans primarily due to higher loan volumes from our acquisition of Pacific Continental and the rising rate environment. Noninterest income for the current quarter was $23.7 million, a decrease of $443 thousand from the prior year period. The decrease was primarily due to the sale of the merchant card services portfolio in the third quarter of 2017.

The provision for loan and lease losses for the second quarter of 2018 was $4.0 million compared to a provision of $3.2 million during the second quarter of 2017. The provision expense recorded in the second quarter of 2018 reflected a $4.6 million provision for loans, excluding PCI loans, and a $575 thousand provision recapture from PCI loans.

Total noninterest expense for the quarter ended June 30, 2018 was $84.6 million, an increase from $68.9 million for the second quarter of 2017. The increase from the prior year period was primarily due to due to higher compensation and benefits expense in the current quarter as a result of the recent Pacific Continental acquisition as well as $1.8 million higher acquisition-related expenses, partially offset by a decrease in merchant processing expense.

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

Net interest income for the six months ended June 30, 2018 was $232.2 million, an increase of $59.3 million from the prior year period. The increase was a result of higher interest income on loans primarily due to higher loan volumes from our acquisition of Pacific Continental and the rising rate environment. Noninterest income for the current period was $46.8 million, a decrease of $2.2 million from the prior year period. The decrease was primarily due to the previously noted sale of the merchant card services portfolio and a prior year BOLI benefit of $1.9 million, with no such benefit in the current year period.

The provision for loan and lease losses for the six months ended June 30, 2018 was $9.8 million compared to a provision of $6.0 million for the first six months of 2017. The $9.8 million provision was due to recording a provision of $11.5 million for loans, excluding PCI loans, and a provision recapture of $1.7 million related to PCI loans.

Total noninterest expense for the six months ended June 30, 2018 was $170.6 million, a 24% increase from the prior year period. The increase from the prior year period was primarily driven by increased compensation and employee benefits expense as a result of the recent Pacific Continental acquisition as well as $4.7 million higher acquisition-related expenses.

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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 June 30, 2018			Three Months Ended June 30, 2017		
	Average Balances	Interest Earned / Paid	Average Rate	Average Balances	Interest Earned / Paid	Average Rate
	(dollars in thousands)					
ASSETS						
Loans, net (1)(2)	$8,389,230	$ 106,526	5.08 %	$6,325,462	$ 77,030	4.87 %
Taxable securities	2,111,086	11,923	2.26 %	1,861,895	9,468	2.03 %
Tax exempt securities (2)	517,206	3,877	3.00 %	454,182	4,179	3.68 %
Interest-earning deposits with banks	35,285	151	1.71 %	10,196	23	0.90 %
Total interest-earning assets	11,052,807	$ 122,477	4.43 %	8,651,735	$ 90,700	4.19 %
Other earning assets	221,141			173,044		
Noninterest-earning assets	1,255,592			772,495		
Total assets	$12,529,540			$9,597,274		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Certificates of deposit	$464,217	$ 549	0.47 %	$386,361	$ 95	0.10 %
Savings accounts	875,529	30	0.01 %	755,253	19	0.01 %
Interest-bearing demand	1,295,409	608	0.19 %	983,936	192	0.08 %
Money market accounts	2,755,714	1,385	0.20 %	1,997,585	602	0.12 %
Total interest-bearing deposits	5,390,869	2,572	0.19 %	4,123,135	908	0.09 %
Federal Home Loan Bank advances	156,512	815	2.08 %	195,369	591	1.21 %
Subordinated debentures	35,577	468	5.26 %	—	—	— %
Other borrowings and interest-bearing liabilities	28,097	20	0.28 %	48,712	126	1.03 %
Total interest-bearing liabilities	5,611,055	$ 3,875	0.28 %	4,367,216	$ 1,625	0.15 %
Noninterest-bearing deposits	4,873,953			3,842,733		
Other noninterest-bearing liabilities	89,980			91,761		
Shareholders' equity	1,954,552			1,295,564		
Total liabilities & shareholders' equity	$12,529,540			$9,597,274		
Net interest income (tax equivalent)		$ 118,602			$ 89,075	
Net interest margin (tax equivalent)			4.29 %			4.12 %

(1) Nonaccrual loans have been included in the tables as loans carrying a zero yield. Amortized net deferred loan fees and net unearned discounts on acquired loans were included in the interest income calculations. The amortization of net deferred loan fees was $2.1 million and $1.8 million for the three month periods ended June 30, 2018 and 2017, respectively. The incremental accretion income on acquired loans was $3.0 million and $3.1 million for the three months ended June 30, 2018 and 2017, respectively.

(2) Tax-exempt income is calculated on a tax equivalent basis at a rate of 21% for 2018 and 35% for 2017. The tax equivalent yield adjustment to interest earned on loans was $1.1 million and $1.5 million for the three months ended June 30, 2018 and 2017, respectively. The tax equivalent yield adjustment to interest earned on tax exempt securities was $814 thousand and $1.5 million for the three month periods ended June 30, 2018 and 2017, 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:

	Six Months Ended June 30, 2018			Six Months Ended June 30, 2017		
	Average Balances	Interest Earned / Paid	Average Rate	Average Balances	Interest Earned / Paid	Average Rate
	(dollars in thousands)					
ASSETS						
Loans, net (1)(2)	$8,369,097	$ 210,617	5.03 %	$6,262,190	$ 152,544	4.87 %
Taxable securities	2,134,433	24,631	2.31 %	1,861,762	20,454	2.20 %
Tax exempt securities (2)	520,689	7,755	2.98 %	451,537	8,319	3.68 %
Interest-earning deposits with banks	63,368	496	1.57 %	10,887	42	0.77 %
Total interest-earning assets	11,087,587	$ 243,499	4.39 %	8,586,376	$ 181,359	4.22 %
Other earning assets	219,642			175,554		
Noninterest-earning assets	1,258,909			773,897		
Total assets	$12,566,138			$9,535,827		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Certificates of deposit	$471,930	$ 1,075	0.46 %	$392,798	$ 190	0.10 %
Savings accounts	876,842	71	0.02 %	746,988	38	0.01 %
Interest-bearing demand	1,274,234	1,143	0.18 %	978,279	351	0.07 %
Money market accounts	2,775,253	2,792	0.20 %	2,002,817	1,116	0.11 %
Total interest-bearing deposits	5,398,259	5,081	0.19 %	4,120,882	1,695	0.08 %
Federal Home Loan Bank advances	141,171	1,385	1.96 %	138,787	816	1.18 %
Subordinated debentures	35,600	936	5.26 %	—	—	— %
Other borrowings	44,378	136	0.61 %	56,055	255	0.91 %
Total interest-bearing liabilities	5,619,408	$ 7,538	0.27 %	4,315,724	$ 2,766	0.13 %
Noninterest-bearing deposits	4,901,200			3,839,410		
Other noninterest-bearing liabilities	93,602			101,991		
Shareholders' equity	1,951,928			1,278,702		
Total liabilities & shareholders' equity	$12,566,138			$9,535,827		
Net interest income (tax equivalent)		$ 235,961			$ 178,593	
Net interest margin (tax equivalent)			4.26 %			4.16 %

(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 $4.3 million and $3.4 million for the six months ended June 30, 2018 and 2017, respectively. The incremental accretion income on acquired loans was $6.7 million and $7.2 million for the six months ended June 30, 2018 and 2017, respectively.

(2) Tax-exempt income is calculated on a tax equivalent basis at a rate of 21% for 2018 and 35% for 2017. The tax equivalent yield adjustment to interest earned on loans was $2.2 million and $2.8 million for the six months ended June 30, 2018 and 2017, respectively. The tax equivalent yield adjustment to interest earned on tax exempt securities was $1.6 million and $2.9 million for the six months ended June 30, 2018 and 2017, 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 June 30, 2018 Compared to 2017 Increase (Decrease) Due to		
	Volume	Rate	Total
	(in thousands)		
Interest Income			
Loans, net (1)	$26,081	$3,415	$29,496
Taxable securities	1,344	1,111	2,455
Tax exempt securities (1)	534	(836)	(302)
Interest earning deposits with banks	94	34	128
Interest income	$28,053	$3,724	$31,777
Interest Expense			
Deposits:			
Certificates of deposit	$23	$431	$454
Savings accounts	4	7	11
Interest-bearing demand	76	340	416
Money market accounts	284	499	783
Total interest on deposits	387	1,277	1,664
Federal Home Loan Bank advances	(136)	360	224
Subordinated debentures	468	—	468
Other borrowings and interest-bearing liabilities	(40)	(66)	(106)
Interest expense	$679	$1,571	$2,250

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(1) For tax exempt loans and tax exempt securities, the amount of our tax equivalent adjustment for 2018 was impacted by the lower federal corporate tax rate. As a result, our tax equivalent adjustments for tax exempt loans and tax exempt securities were $1.1 million and $835 thousand lower, respectively, than they would have been utilizing the prior federal corporate tax rate. This change in federal corporate tax rate negatively impacted our current quarter net interest margin (tax equivalent) by 7 basis points.

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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:

	Six Months Ended June 30, 2018 Compared to 2017 Increase (Decrease) Due to		
	Volume	Rate	Total
	(in thousands)		
Interest Income			
Loans, net (1)	$52,870	$5,203	$58,073
Taxable securities	3,108	1,069	4,177
Tax exempt securities (1)	1,166	(1,730)	(564)
Interest earning deposits with banks	375	79	454
Interest income	$57,519	$4,621	$62,140
Interest Expense			
Deposits:			
Certificates of deposit	$46	$839	$885
Savings accounts	7	26	33
Interest-bearing demand	133	659	792
Money market accounts	544	1,132	1,676
Total interest on deposits	730	2,656	3,386
Federal Home Loan Bank advances	14	555	569
Subordinated debentures	936	—	936
Other borrowings	(47)	(72)	(119)
Interest expense	$1,633	$3,139	$4,772

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(1) For tax exempt loans and tax exempt securities, the amount of our tax equivalent adjustment for 2018 was impacted by the lower federal corporate tax rate. As a result, our tax equivalent adjustments for tax exempt loans and tax exempt securities were $2.2 million and $1.7 million lower, respectively, than they would have been utilizing the prior federal corporate tax rate. This change in federal corporate tax rate negatively impacted our current year to date net interest margin (tax equivalent) by 7 basis points.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(dollars in thousands)			
Incremental accretion income due to:				
FDIC purchased credit impaired loans	$326	$753	$655	$2,870
Other acquired loans	2,690	2,356	6,060	4,304
Incremental accretion income	$3,016	$3,109	$6,715	$7,174
Net interest margin (tax equivalent)	4.29 %	4.12 %	4.26 %	4.16 %
Operating net interest margin (tax equivalent) (1)	4.27 %	4.09 %	4.22 %	4.09 %

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

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Comparison of current quarter to prior year period

Net interest income for the second quarter of 2018 was $116.7 million, up from $86.2 million for the same quarter in 2017. The increase was primarily due to higher average earning asset volumes stemming from the Pacific Continental acquisition and the rising rate environment. The loan yield for the first quarter of 2018 was 5.08% compared to 4.87% for the prior year period. The increased loan yield reflected the current rising rate environment. The Company's net interest margin (tax equivalent) increased to 4.29% in the second quarter of 2018, from 4.12% for the prior year period. This increase was due to higher loan yields as described above offset by a 7 basis point reduction related to a lower federal corporate tax rate. The Company's operating net interest margin (tax equivalent) (see footnote 1 in prior table) increased to 4.27% from 4.09% due to higher loan and security volumes from our acquisition of Pacific Continental.

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

Net interest income for the six months ended June 30, 2018 was $232.2 million, an increase of 34% from $172.8 million for the prior year period. The increase in net interest income was primarily due to higher average earning asset volumes stemming from the Pacific Continental acquisition and the rising rate environment mentioned above. The Company's net interest margin (tax equivalent) increased to 4.26% for the first six months of 2018, from 4.16% for the prior year period. The increase in the Company's net interest margin (tax equivalent) was driven by higher earning asset volumes and higher loan yields, offset by a 7 basis point reduction due to the lower federal corporate tax rate. The Company's operating net interest margin (tax equivalent) for the six months ended June 30, 2018 increased to 4.22% from 4.09% also due to higher loan yields and volumes.

Provision for Loan and Lease Losses

Comparison of current quarter to prior year period

During the second quarter of 2018, the Company recorded a $4.0 million net provision compared to a $3.2 million net provision during the second quarter of 2017. The $4.0 million net provision for loan and lease losses recorded during the current quarter was due to a provision recapture of $575 thousand for PCI loans and provision expense of $4.6 million for loans, excluding PCI loans. The $4.6 million provision for loans, excluding PCI loans, was mainly due to net charge-off activity and loan growth. During the current quarter, we recorded a large charge-off in our agricultural portfolio. The provision recapture recorded relating to PCI loans was due to the increase in the present value of expected future cash flows as remeasured during the current quarter, compared to the present value of expected future cash flows measured during the first quarter of 2018. The amount of provision was calculated in accordance with the Company's methodology for determining the allowance, discussed in Note 6 to the Consolidated Financial Statements in "Item 1. Financial Statements (unaudited)" of this report.

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

The provision for loan and lease losses for the six months ended June 30, 2018 was $9.8 million compared to $6.0 million during the same period in 2017. The $9.8 million provision expense for loans recorded for the current year-to-date period included a provision of $11.5 million for loans, excluding PCI loans, and a provision recapture of $1.7 million related to PCI loans. The provision of $11.5 million related to loans, excluding PCI loans, was due to the combination of loan growth and net loan charge-offs experienced in the period. During the current year-to-date period, we recorded a large charge-off in our agricultural portfolio. The $1.7 million in provision recapture for PCI loans was primarily due to the increase in the present value of expected future cash flows as remeasured during the current period, compared to the present value of expected future cash flows at the end of 2017, net of activity during the period. The amount of provision was calculated in accordance with the Company's methodology for determining the allowance, discussed in Note 6 to the Consolidated Financial Statements in "Item 1. Financial Statements (unaudited)" of this report.

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Noninterest Income

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2018	2017	$ Change	% Change	2018	2017	$ Change	% Change
	(dollars in thousands)							
Deposit account and treasury management fees	$8,683	$7,396	$1,287	17 %	$17,423	$14,683	$2,740	19 %
Card revenue (1)	6,616	6,202	414	7 %	12,429	11,925	504	4 %
Financial services and trust revenue	3,219	3,036	183	6 %	5,949	5,875	74	1 %
Loan revenue	3,054	2,989	65	2 %	6,240	6,582	(342)	(5)%
Merchant processing revenue	—	2,264	(2,264)	(100)%	—	4,283	(4,283)	(100)%
Bank owned life insurance	1,712	1,433	279	19 %	3,138	2,713	425	16 %
Investment securities losses, net	(33)	—	(33)	100 %	(11)	—	(11)	100 %
Change in FDIC loss-sharing asset	—	(173)	173	(100)%	—	(447)	447	(100)%
Other	441	988	(547)	(55)%	1,667	3,380	(1,713)	(51)%
Total noninterest income	$23,692	$24,135	$(443)	(2)%	$46,835	$48,994	$(2,159)	(4)%

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(1) Beginning in the first quarter of 2018 and pursuant to the adoption of new revenue recognition accounting guidance, interchange revenue, included in “Card revenue” above, is presented net of related payment card network expenses. For the three and six months ended June 30, 2018, $1.2 million and $2.5 million, respectively, of such expenses were netted from “Card revenue.”

Comparison of current quarter to prior year period

Noninterest income was $23.7 million for the second quarter of 2018, compared to $24.1 million for the same period in 2017. The decrease was primarily due to the sale of the merchant card services portfolio in the third quarter of 2017 offset by an increase in treasury management fees. As a result of the merchant card services portfolio sale, we now share with the buyer in merchant services revenue and include such amounts in “Card revenue.” For the current quarter, this net revenue share was $855 thousand, offset by related payment card network expenses (see footnote 1 in prior table).

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

For the six months ended June 30, 2018, noninterest income was $46.8 million compared to $49.0 million for the same period in 2017. The decrease was due to the previously noted sale of the merchant card services portfolio and lower other noninterest income offset by an increase in treasury management fees. For the current year period, the net revenue share of merchant services revenue included in “Card revenue” was $1.6 million. The decrease in other noninterest income was principally from a prior year period BOLI benefit of $1.9 million, with no such benefit in the current year period.

Expected impact from Dodd-Frank Wall Street Reform and Consumer Protection Act

As a result of the acquisition of Pacific Continental, we have consolidated assets exceeding $10 billion, and as of July 1, 2018, we became subject to the interchange fee cap imposed under the Dodd-Frank Wall Street Reform and Consumer Protection Act. We currently anticipate a pre-tax annual impact of approximately $10 million because we no longer qualify for the small issuer exemption.

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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 June 30,				Six Months Ended June 30,			
	2018	2017	$ Change	% Change	2018	2017	$ Change	% Change
	(dollars in thousands)							
Compensation and employee benefits	$48,949	$38,393	$10,556	27 %	$99,519	$79,218	$20,301	26 %
Occupancy	9,276	7,577	1,699	22 %	19,397	14,768	4,629	31 %
Merchant processing expense	—	1,147	(1,147)	(100)%	—	2,196	(2,196)	(100)%
Advertising and promotion	1,622	1,137	485	43 %	3,051	1,954	1,097	56 %
Data processing	5,221	4,741	480	10 %	10,491	8,949	1,542	17 %
Legal and professional services	4,171	2,947	1,224	42 %	7,408	6,316	1,092	17 %
Taxes, license and fees	1,560	748	812	109 %	2,985	1,989	996	50 %
Regulatory premiums	937	741	196	26 %	1,874	1,517	357	24 %
Net cost of operation of other real estate owned	758	(1)	759	100 %	759	151	608	403 %
Amortization of intangibles	3,088	1,249	1,839	147 %	6,276	2,598	3,678	142 %
Other (1)	9,061	10,188	(1,127)	(11)%	18,870	18,197	673	4 %
Total noninterest expense	$84,643	$68,867	$15,776	23 %	$170,630	$137,853	$32,777	24 %

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(1) In the first quarter of 2018, there was a change to net presentation of interchange revenue pursuant to the adoption of new revenue recognition accounting guidance on January 1, 2018. As a result, card revenue for the three and six month periods ended June 30, 2018 includes $1.2 million and $2.5 million, respectively, of payment card network expenses that would have historically been presented in other noninterest expense.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands)			
Acquisition-related expenses:				
Compensation and employee benefits	$931	$—	$2,487	$—
Occupancy	586	351	1,590	352
Advertising and promotion	22	11	534	17
Data processing	634	473	921	473
Legal and professional fees	217	119	791	1,430
Taxes, licenses and fees	—	3	—	3
Other	432	66	764	112
Total impact of acquisition-related expense to noninterest expense	$2,822	$1,023	$7,087	$2,387

Comparison of current quarter to prior year period

Total noninterest expense for the second quarter of 2018 was $84.6 million, an increase of $15.8 million from the prior year period. The increase was due to higher compensation and benefits expense in the current quarter as a result of the recent Pacific Continental acquisition as well as $1.8 million higher acquisition-related expenses, partially offset by a decrease in merchant processing expenses stemming from the sale of our merchant card services portfolio in the third quarter of 2017.

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

For the six months ended June 30, 2018, noninterest expense was $170.6 million, an increase of $32.8 million, or 24%, from $137.9 million a year earlier. The increase from the prior year period was driven by higher compensation and employee benefits as a result of the recent Pacific Continental acquisition as well as $4.7 million higher acquisition-related expenses, partially offset by a decrease in merchant processing expenses stemming from the sale of our merchant card services portfolio in the third quarter of 2017.

Income Taxes

We recorded an income tax provision of $10.0 million for the second quarter of 2018, compared to a provision of $11.1 million for the same period in 2017, with effective tax rates of 19% for the second quarter of 2018 and 29% for the same period in 2017. For the six months ended June 30, 2018 and 2017, we recorded income tax provisions of $16.8 million and $21.7 million, respectively, with effective tax rates of 17% for the current year and 28% for the prior year period. The decrease in our effective tax rate was principally attributable to the enactment of the Tax Cuts and Jobs Act on December 22, 2017, which reduced the federal corporate tax rate to 21%. The prior year period's effective tax rate reflected the then-enacted 35% corporate tax rate reduced by favorable tax attributes of certain earning assets and discrete tax benefits from share-based compensation. Our effective tax rate remains lower than the statutory tax rate due to tax-exempt income from municipal securities, bank owned life insurance and certain loan receivables. In addition, the current period's rate reflects the tax benefit of discrete items such as share-based compensation. For additional information, please refer to the Company's annual report on Form 10-K for the year ended December 31, 2017.

FINANCIAL CONDITION

Total assets were $12.63 billion at June 30, 2018, a decrease of $88.3 million from $12.72 billion at December 31, 2017. Cash and cash equivalents decreased $79.0 million. Loans increased $95.5 million during the current year, which was primarily the result of increased loan production and seasonal line utilization partially offset by payments. Debt securities available for sale were $2.65 billion at June 30, 2018, a decrease of $91.5 million from December 31, 2017. Total liabilities were $10.66 billion as of June 30, 2018, a decrease of $103.3 million from $10.77 billion at December 31, 2017. The decline was primarily due to decreased deposits.

Investment Securities

At June 30, 2018, the Company's investment portfolio primarily consisted of debt securities available for sale totaling $2.65 billion compared to $2.74 billion at December 31, 2017. The decrease in the debt securities portfolio from year-end is due to $251.9 million in maturities, repayments and sales, a $44.3 million increase in net unrealized loss and $11.0 million in premium amortization, partially offset by $215.6 million in purchases. The average duration of our debt securities investment portfolio was approximately 4 years and 1 month at June 30, 2018. This duration takes into account calls, where appropriate, and consensus prepayment speeds.

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

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

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The credit-related impairment is recognized in earnings and the non-credit-related impairment is recognized in accumulated other comprehensive income.

At June 30, 2018, the market value of debt securities available for sale had a net unrealized loss of $69.8 million compared to a net unrealized loss of $25.6 million at December 31, 2017. The change in valuation was the result of fluctuations in market interest rates subsequent to purchase. At June 30, 2018, the Company had $2.38 billion of debt securities available for sale with gross unrealized losses of $73.5 million; however, we did not consider these investment securities to be other-than-temporarily impaired.

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

	June 30, 2018	December 31, 2017
	(in thousands)	
Debt securities available for sale:		
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	$1,676,992	$ 1,726,725
State and municipal securities	577,695	596,004
U.S. government agency and government-sponsored enterprise securities	391,274	414,774
U.S. government securities	247	248
Total debt securities available for sale	$2,646,208	$ 2,737,751
Equity securities	4,963	5,080
Total investment securities	$2,651,171	$ 2,742,831

For further information on our investment portfolio, see Note 4 of the Consolidated Financial Statements in “Item 1. Financial Statements (unaudited)” of this report.

Credit Risk Management

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

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

We review these loans to assess the ability of our borrowers to service all interest and principal obligations and, as a result, the risk rating may be adjusted accordingly. In the event that full collection of principal and interest is not reasonably assured, the loan is appropriately downgraded and, if warranted, placed on nonaccrual status even though the loan may be current as to principal and interest payments. Additionally, we assess whether an impairment of a loan warrants specific reserves or a write-down of the loan. For additional discussion on our methodology in managing credit risk within our loan portfolio, see the “Allowance for Loan and Lease Losses” section in this Management’s Discussion and Analysis and Note 1 to the Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data” of the Company’s 2017 Annual Report on Form 10-K.

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

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Loan Portfolio Analysis

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

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

	June 30, 2018	% of Total	December 31, 2017	% of Total
	(dollars in thousands)			
Commercial business	$3,538,492	41.9 %	$3,377,324	40.4 %
Real estate:				
One-to-four family residential	180,522	2.1 %	188,396	2.3 %
Commercial and multifamily residential	3,758,207	44.4 %	3,825,739	45.8 %
Total real estate	3,938,729	46.5 %	4,014,135	48.1 %
Real estate construction:				
One-to-four family residential	206,181	2.4 %	200,518	2.4 %
Commercial and multifamily residential	387,951	4.6 %	371,931	4.4 %
Total real estate construction	594,132	7.0 %	572,449	6.8 %
Consumer	326,402	3.9 %	334,190	4.0 %
Purchased credit impaired	101,782	1.2 %	112,670	1.3 %
Subtotal	8,499,537	100.5 %	8,410,768	100.6 %
Less: Net unearned income	(45,430)	(0.5)%	(52,111)	(0.6)%
Loans, net of unearned income (before Allowance for Loan and Lease Losses)	$8,454,107	100.0 %	$8,358,657	100.0 %
Loans held for sale	$6,773		$5,766	

Total loans increased $95.5 million from year-end 2017 primarily the result of organic loan production, partially offset by principal pay downs. The loan portfolio continues to be diversified, with the intent to mitigate risk by monitoring concentration in any one sector. The $45.4 million in unearned income recorded at June 30, 2018 was comprised of $30.2 million in net purchase discounts and $15.2 million in net deferred loan fees. The $52.1 million in unearned income recorded at December 31, 2017 consisted of $36.3 million in net purchase discounts and $15.8 million in net deferred loan fees.

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

	June 30, 2018	December 31, 2017
Acquisition:	(in thousands)	
Pacific Continental	$21,318	$ 24,556
Intermountain	3,144	3,892
West Coast	5,840	7,995
Other	(108)	(134)
Total net discount at period end	$30,194	$ 36,309

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

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

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

Consumer Loans: Consumer loans include automobile loans, boat and recreational vehicle financing, home equity and home improvement loans and miscellaneous personal loans.

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

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

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) other personal property owned, if applicable.

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

	June 30, 2018		December 31, 2017	
	(in thousands)			
Nonperforming assets				
Nonaccrual loans:				
Commercial business	$52,036		$45,460	
Real estate:				
One-to-four family residential	976		785	
Commercial and multifamily residential	11,118		13,941	
Total real estate	12,094		14,726	
Real estate construction:				
One-to-four family residential	389		1,854	
Consumer	4,985		4,149	
Total nonaccrual loans	69,504		66,189	
Other real estate owned and other personal property owned	7,080		13,298	
Total nonperforming assets	$76,584		$79,487	
Loans, net of unearned income	$8,454,107		$8,358,657	
Total assets	$12,628,586		$12,716,886	
Nonperforming loans to period end loans	0.82	%	0.79	%
Nonperforming assets to period end assets	0.61	%	0.63	%

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At June 30, 2018, nonperforming assets were $76.6 million, compared to $79.5 million at December 31, 2017. Nonperforming assets decreased $2.9 million during the six months ended June 30, 2018. This decrease was primarily due to $6.4 million in OREO sales for the period, partially offset by an increase in nonaccrual loans. For further information on OREO, see Note 7 of the Consolidated Financial Statements in “Item 1. Financial Statements (unaudited)” of this report.

Allowance for Loan and Lease Losses

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

At June 30, 2018, our allowance was $80.2 million, or 0.95% of total loans (excluding loans held for sale). This compares with an allowance of $75.6 million, or 0.91% of total loans (excluding loans held for sale) at December 31, 2017 and an allowance of $73.0 million or 1.14% of total loans (excluding loans held for sale) at June 30, 2017.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands)			
Beginning balance, loans excluding PCI loans	$74,162	$61,626	$68,739	$59,528
Beginning balance, PCI loans	5,665	9,395	6,907	10,515
Beginning balance	79,827	71,021	75,646	70,043
Charge-offs:				
Commercial business	(5,775)	(3,600)	(8,252)	(4,727)
One-to-four family residential	—	(153)	—	(460)
Commercial and multifamily residential	—	—	(223)	—
One-to-four family residential construction	—	—	—	(14)
Consumer	(232)	(465)	(496)	(893)
PCI loans	(1,235)	(1,800)	(2,578)	(3,739)
Total charge-offs	(7,242)	(6,018)	(11,549)	(9,833)
Recoveries:				
Commercial business	1,543	2,944	2,345	3,309
One-to-four family residential	196	223	368	340
Commercial and multifamily residential	640	127	799	205
One-to-four family residential construction	14	58	33	87
Consumer	270	248	530	533
PCI loans	927	1,204	2,151	2,348
Total recoveries	3,590	4,804	6,226	6,822
Net charge-offs	(3,652)	(1,214)	(5,323)	(3,011)
Provision for loan and lease losses, loans excluding PCI loans	4,550	3,915	11,525	7,015
Provision for loan and lease losses, PCI loans	(575)	(738)	(1,698)	(1,063)
Provision for loan and lease losses	3,975	3,177	9,827	5,952
Ending balance, loans excluding PCI loans	75,368	64,923	75,368	64,923
Ending balance, PCI loans	4,782	8,061	4,782	8,061
Ending balance	$80,150	$72,984	$80,150	$72,984
Total loans, net at end of period, excluding loans held of sale	$8,454,107	$6,423,074	$8,454,107	$6,423,074
Allowance for loan and lease losses to period-end loans	0.95%	1.14%	0.95%	1.14%
Allowance for unfunded commitments and letters of credit				
Beginning balance	$4,330	$3,555	$3,130	$2,705
Net changes in the allowance for unfunded commitments and letters of credit	(650)	—	550	850
Ending balance	$3,680	$3,555	$3,680	$3,555

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Liquidity and Sources of Funds

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

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

Deposit Activities

Our deposit products include a wide variety of transaction accounts, savings accounts and time deposit accounts. Core deposits (demand deposit, savings, money market accounts and certificates of deposit less than $250,000) decreased $150.9 million, or 2%, from year-end 2017.

We have established a branch system to serve our consumer and business depositors. In addition, management's strategy for funding asset growth is to make use of brokered and other wholesale deposits on an as-needed basis. The Company participates in the Certificate of Deposit Account Registry Service (CDARS®) program. CDARS® is a network that allows participating banks to offer extended FDIC deposit insurance coverage on 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 June 30, 2018, brokered and other wholesale deposits (excluding public deposits) totaled $404.3 million, or 3.9% of total deposits, compared to $392.9 million or 3.7% at year-end 2017. The brokered deposits have varied maturities.

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

	June 30, 2018		December 31, 2017	
	Balance	% of Total	Balance	% of Total
	(dollars in thousands)			
Core deposits:				
Demand and other noninterest-bearing	$4,953,993	47.7 %	$5,081,901	48.2 %
Interest-bearing demand	1,278,686	12.3 %	1,265,212	12.0 %
Money market	2,513,648	24.2 %	2,543,712	24.2 %
Savings	875,707	8.4 %	861,941	8.2 %
Certificates of deposit, less than $250,000	266,662	2.6 %	286,791	2.7 %
Total core deposits	9,888,696	95.2 %	10,039,557	95.3 %
Certificates of deposit, $250,000 or more	91,578	0.9 %	100,399	1.0 %
Certificates of deposit insured by CDARS® (1)	23,492	0.2 %	25,374	0.2 %
Brokered certificates of deposit (1)	68,870	0.7 %	78,481	0.7 %
Reciprocal money market accounts (1)	311,935	3.0 %	289,031	2.8 %
Subtotal	10,384,571	100.0%	10,532,842	100.0%
Discount resulting from acquisition date fair value adjustment	(567)		(757)	
Total deposits	$10,384,004		$10,532,085	

(1) For periods prior to June 30, 2018, CDARS and reciprocal money market accounts were considered to be brokered deposits by regulatory authorities and were reported as such on quarterly Call Reports. With the passage of the The Economic Growth, Regulatory Relief and Consumer Protection Act in May 2018, these items are no longer considered brokered deposits.

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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 June 30, 2018, we had FHLB advances of $99.5 million compared to $11.6 million at December 31, 2017.

We also utilize wholesale and retail repurchase agreements to supplement our funding sources. Our wholesale repurchase agreements are secured by mortgage-backed securities. At June 30, 2018 and December 31, 2017, we had deposit customer sweep-related repurchase agreements of $46.2 million and $54.1 million, respectively, which mature on a daily basis. Management anticipates we will continue to rely on FHLB advances, FRB borrowings and wholesale and retail repurchase agreements in the future and we will use those funds primarily to make loans and purchase securities.

Contractual Obligations, Commitments & Off-Balance Sheet Arrangements

We are party to many contractual financial obligations, including repayment of borrowings, operating and equipment lease payments, off-balance sheet commitments to extend credit and investments in affordable housing partnerships. At June 30, 2018, we had commitments to extend credit of $2.50 billion compared to $2.67 billion at December 31, 2017.

Capital Resources

Shareholders' equity at June 30, 2018 was $1.96 billion, essentially unchanged from December 31, 2017. Shareholders' equity was 16% of total period-end assets at June 30, 2018 and 15% at December 31, 2017.

Regulatory Capital

In July 2013, the federal bank regulators approved the New Capital Rules (as discussed in our 2017 Annual Report on Form 10-K, "Item 1. Business—Supervision and Regulation and —Regulatory Capital Requirements"), which implement the Basel III capital framework and various provisions of the Dodd-Frank Act. We and the Bank were required to comply with these rules as of January 1, 2015, subject to the phase-in of certain provisions. We believe that, as of June 30, 2018, we and the Bank would meet all capital adequacy requirements under the New Capital Rules on a fully phased-in basis as if all such requirements were then in effect.

FDIC regulations set forth the qualifications necessary for a bank to be classified as "well-capitalized," primarily for assignment of FDIC insurance premium rates. 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 June 30, 2018 and December 31, 2017.

The following table presents the capital ratios and the capital conservation buffer, as applicable, for the Company and its banking subsidiary at June 30, 2018 and December 31, 2017:

	Company		Columbia Bank	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Common equity tier 1 (CET1) risk-based capital ratio	12.2313%	11.7421 %	12.4867%	12.0133 %
Tier 1 risk-based capital ratio	12.2313%	11.8196 %	12.4867%	12.0133 %
Total risk-based capital ratio	13.4469%	12.9796 %	13.3405%	12.8123 %
Leverage ratio	10.1956%	10.9611 %	10.4109%	10.8186 %
Capital conservation buffer	5.4469 %	4.9796 %	5.3405 %	4.8123 %

Stock Repurchase Program

On September 27, 2017, the Board of Directors approved a stock repurchase program. The program authorizes the Company to repurchase up to 2.9 million shares of our outstanding common stock. The Company intends to purchase the shares from time to time in the open market or in private transactions, under conditions which allow such repurchases to be accretive to earnings per share while maintaining capital ratios that exceed the guidelines for a well-capitalized financial institution.

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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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Operating net interest margin non-GAAP reconciliation:	(dollars in thousands)			
Net interest income (tax equivalent) (1)	$118,602	$89,075	$235,961	$178,593
Adjustments to arrive at operating net interest income (tax equivalent):				
Incremental accretion income on FDIC purchased credit impaired loans	(326)	(753)	(655)	(2,870)
Incremental accretion income on other acquired loans	(2,690)	(2,356)	(6,060)	(4,304)
Premium amortization on acquired securities	2,131	1,669	4,206	3,131
Interest reversals on nonaccrual loans	253	747	670	1,012
Operating net interest income (tax equivalent) (1)	$117,970	$88,382	$234,122	$175,562
Average interest earning assets	$11,052,807	$8,651,735	$11,087,587	$8,586,376
Net interest margin (tax equivalent) (1)	4.29%	4.12%	4.26%	4.16%
Operating net interest margin (tax equivalent) (1)	4.27%	4.09%	4.22%	4.09%

(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 $1.9 million and $2.9 million for the three months ended June 30, 2018 and 2017, respectively, and an addition to net interest income of $3.8 million and $5.8 million for the six months ended June 30, 2018 and 2017. The amount of our tax equivalent adjustment for 2018 was impacted by the lower federal corporate tax rate. As a result, for the three and six months ended June 30, 2018, our tax equivalent adjustments for tax exempt loans was lower by $1.1 million and $2.2 million, respectively, and tax exempt securities was lower by $835 thousand and $1.7 million, respectively, than they would have been utilizing the prior federal corporate tax rate. This change in federal corporate tax rate negatively impacted both our current quarter and current year to date net interest margin (tax equivalent) by 7 basis points.

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Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

A number of measures are used to monitor and manage interest rate risk, including income simulations and interest sensitivity (gap) analysis. An income simulation model is the primary tool used to assess the direction and magnitude of changes in net interest income resulting from changes in interest rates. Basic assumptions in the model include prepayment speeds on mortgage-related assets, cash flows and maturities of other investment securities, loan and deposit volumes and pricing. These assumptions are inherently subjective and, as a result, the model cannot precisely estimate net interest income or precisely predict the impact of higher or lower interest rates on net interest income. Actual results will differ from simulated results due to timing, magnitude and frequency of interest rate changes and changes in market conditions and management strategies, among other factors. At June 30, 2018, based on the measures used to monitor and manage interest rate risk, there has not been a material change in the Company’s interest rate risk since December 31, 2017. For additional information, refer to Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Company’s 2017 Annual Report on Form 10-K.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

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.

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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, 2017 for a discussion of risk factors relating to the Company's business. The Company believes that there has been no material change in its risk factors as previously disclosed in the Company's Form 10-K.

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

(a) Not applicable

(b) Not applicable

(c) The following table provides information about repurchases of common stock by the Company during the quarter ended June 30, 2018:

Period	Total Number of Common Shares Purchased (1)	Average Price Paid per Common Share	Total Number of Shares Purchased as Part of Publicly Announced Plan (2)	Maximum Number of Remaining Shares That May Yet Be Purchased Under the Plan (2)
4/1/2018 - 4/30/2018	458	$ 42.53	—	2,900,000
5/1/2018 - 5/31/2018	347	43.08	—	2,900,000
6/1/2018 - 6/30/2018	415	41.99	—	2,900,000
	1,220	$ 42.50	—	

(1) Common shares repurchased by the Company during the quarter consisted of cancellation of 1,220 shares of common stock to pay the shareholders' withholding taxes.

(2) The repurchase plan, which was approved in 2017, authorized the Company to repurchase up to 2.9 million shares of its outstanding common stock.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

None.

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Item 6. EXHIBITS

10.1 +	Change in Control Agreement, dated and effective January 24, 2018, by and between the Bank and Lisa Dow
10.2	Offer Letter, dated April 20, 2018, by and between Columbia State Bank and Greg Sigrist (incorporated by reference to Exhibit 10.1 to Columbia Banking System, Inc.'s Current Report on Form 8-K filed on May 4, 2018)
10.3 +	Change in Control Agreement, dated and effective June 4, 2018, by and between the Bank and Gregory Sigrist
10.4 +	Offer Letter, dated January 3, 2018, by and between Columbia State Bank and Lisa Dow
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+	The following financial information from Columbia Banking System, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 is formatted in XBRL: (i) the Unaudited Consolidated Balance Sheets, (ii) the Unaudited Consolidated Statements of Income, (iii) the Unaudited Consolidated Statements of Comprehensive Income, (iv) the Unaudited Consolidated Statements of Changes in Shareholders' Equity, (v) the Unaudited Consolidated Statements of Cash Flows, and (vi) the Notes to Unaudited Consolidated Financial Statements.

+ Filed herewith

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SIGNATURES

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

		COLUMBIA BANKING SYSTEM, INC.	
Date:	August 7, 2018	By	/s/ HADLEY S. ROBBINS Hadley S. Robbins President and Chief Executive Officer (Principal Executive Officer)
Date:	August 7, 2018	By	/s/ GREGORY A. SIGRIST Gregory A. Sigrist Executive Vice President and Chief Financial Officer (Principal Financial Officer)
Date:	August 7, 2018	By	/s/ BROCK M. LAKELY Brock M. Lakely Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)