COLUMBIA BANKING SYSTEM INC
Form 10-Q
August 04, 2016

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

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016.
¨ 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	98402-2156
(Address of principal executive offices)	(Zip Code)

(253) 305-1900
(Issuer'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 ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer ý Accelerated filer ¨

Non-accelerated filer ¨ Smaller reporting company ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
The number of shares of common stock outstanding at July 31, 2016 was 58,048,500.

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

	June 30, 2016	December 31, 2015
ASSETS	(in thousands)	
Cash and due from banks	$167,172	$166,929
Interest-earning deposits with banks	11,216	8,373
Total cash and cash equivalents	178,388	175,302
Securities available for sale at fair value (amortized cost of $2,237,264 and $2,157,610, respectively)	2,279,552	2,157,694
Federal Home Loan Bank stock at cost	18,161	12,722
Loans held for sale	7,649	4,509
Loans, net of unearned income of ($37,221) and ($42,373), respectively	6,107,143	5,815,027
Less: allowance for loan and lease losses	69,304	68,172
Loans, net	6,037,839	5,746,855
FDIC loss-sharing asset	4,266	6,568
Interest receivable	29,738	27,877
Premises and equipment, net	156,446	164,239
Other real estate owned	10,613	13,738
Goodwill	382,762	382,762
Other intangible assets, net	20,511	23,577
Other assets	227,726	235,854
Total assets	$9,353,651	$8,951,697
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	$3,652,951	$3,507,358
Interest-bearing	4,020,262	3,931,471
Total deposits	7,673,213	7,438,829
Federal Home Loan Bank advances	204,512	68,531
Securities sold under agreements to repurchase	89,218	99,699
Other liabilities	112,229	102,510
Total liabilities	8,079,172	7,709,569
Commitments and contingent liabilities (Note 10)		
Shareholders' equity:		

	June 30, 2016	December 31, 2015		
Preferred stock (no par value)	(in thousands)			
Authorized shares	2,000	2,000		
Issued and outstanding	9	9	2,217	2,217
Common stock (no par value)				
Authorized shares	115,000	115,000		
Issued and outstanding	58,025	57,724	992,343	990,281
Retained earnings			259,108	255,925
Accumulated other comprehensive income (loss)			20,811	(6,295)

Total shareholders’ equity	1,274,479	1,242,128
Total liabilities and shareholders’ equity	$9,353,651	$ 8,951,697

See accompanying Notes to unaudited Consolidated Financial Statements.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015 (1)	2016	2015 (1)
	(in thousands except per share amounts)			
Interest Income				
Loans	$71,651	$71,744	$141,967	$142,566
Taxable securities	8,829	7,260	16,846	14,786
Tax-exempt securities	2,795	3,010	5,598	6,052
Deposits in banks	28	26	66	53
Total interest income	83,303	82,040	164,477	163,457
Interest Expense				
Deposits	787	740	1,529	1,488
Federal Home Loan Bank advances	241	154	365	313
Other borrowings	135	136	273	282
Total interest expense	1,163	1,030	2,167	2,083
Net Interest Income	82,140	81,010	162,310	161,374
Provision for loan and lease losses	3,640	2,202	8,894	3,411
Net interest income after provision for loan and lease losses	78,500	78,808	153,416	157,963
Noninterest Income				
Deposit account and treasury management fees (1)	7,093	7,351	14,082	14,211
Card revenue (1)	6,051	5,702	11,703	11,065
Financial services and trust revenue (1)	2,780	3,217	5,601	6,341
Loan revenue (1)	2,802	2,322	5,064	4,925
Merchant processing revenue	2,272	2,340	4,374	4,380
Bank owned life insurance	1,270	1,206	2,386	2,284
Investment securities gains, net	229	343	602	1,064
Change in FDIC loss-sharing asset	(990)	(1,494)	(2,093)	(1,344)
Other (1)	433	475	867	1,303
Total noninterest income	21,940	21,462	42,586	44,229
Noninterest Expense				
Compensation and employee benefits	37,291	38,446	73,610	77,546
Occupancy	7,652	8,687	17,825	16,680
Merchant processing expense	1,118	1,079	2,151	2,056
Advertising and promotion	1,043	1,195	1,885	2,126
Data processing	3,929	4,242	8,075	9,226
Legal and professional fees	1,777	2,847	3,102	5,354
Taxes, licenses and fees	1,298	1,427	2,588	2,659
Regulatory premiums	1,068	1,321	2,209	2,542
Net cost (benefit) of operation of other real estate owned	84	(563)	188	(1,809)
Amortization of intangibles	1,483	1,718	3,066	3,535
Other	7,047	8,072	14,165	15,290
Total noninterest expense	63,790	68,471	128,864	135,205
Income before income taxes	36,650	31,799	67,138	66,987
Income tax provision	11,245	9,853	20,474	20,680
Net Income	$25,405	$21,946	$46,664	$46,307

Earnings per common share				
Basic	$0.44	$0.38	$0.80	$0.80
Diluted	$0.44	$0.38	$0.80	$0.80
Dividends paid per common share	$0.37	$0.34	$0.75	$0.64
Weighted average number of common shares outstanding	57,185	57,055	57,149	56,999
Weighted average number of diluted common shares outstanding	57,195	57,069	57,160	57,012

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(1) Reclassified to conform to the current period's presentation. Reclassifications consisted of disaggregating fee revenue previously presented in 'Service charges and other fees' and certain revenue previously presented in 'Other' into the presentation above. The Company made these reclassifications to provide additional information about its sources of noninterest income. There was no change to total noninterest income as previously reported as a result of these reclassifications.

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,	
	2016	2015
	(in thousands)	
Net income	$25,405	$21,946
Other comprehensive income (loss), net of tax:		
Unrealized gain (loss) from securities:		
Net unrealized holding gain (loss) from available for sale securities arising during the period, net of tax of ($4,844) and $6,457	8,508	(11,341)
Reclassification adjustment of net gain from sale of available for sale securities included in income, net of tax of $83 and $124	(146)	(219)
Net unrealized gain (loss) from securities, net of reclassification adjustment	8,362	(11,560)
Pension plan liability adjustment:		
Amortization of unrecognized net actuarial loss included in net periodic pension cost, net of tax of ($61) and ($35)	106	63
Pension plan liability adjustment, net	106	63
Other comprehensive income (loss)	8,468	(11,497)
Total comprehensive income	$33,873	$10,449

	Six Months Ended June 30,	
	2016	2015
	(in thousands)	
Net income	$46,664	$46,307
Other comprehensive income (loss), net of tax:		
Unrealized gain (loss) from securities:		
Net unrealized holding gain (loss) from available for sale securities arising during the period, net of tax of ($15,530) and $1,119	27,278	(1,965)
Reclassification adjustment of net gain from sale of available for sale securities included in income, net of tax of $218 and $386	(384)	(678)
Net unrealized gain (loss) from securities, net of reclassification adjustment	26,894	(2,643)
Pension plan liability adjustment:		
Net unrealized loss from unfunded defined benefit plan liability arising during the period, net of tax of $0 and $159	—	(280)
Amortization of unrecognized net actuarial loss included in net periodic pension cost, net of tax of ($122) and ($51)	212	91
Pension plan liability adjustment, net	212	(189)
Other comprehensive income (loss)	27,106	(2,832)
Total comprehensive income	$73,770	$43,475

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, 2016	9	$2,217	57,724	$990,281	$255,925	$ (6,295)	$1,242,128
Net income	——	—	—		46,664	—	46,664
Other comprehensive income	——	—	—		—	27,106	27,106
Issuance of common stock - stock option and other plans	——		21	603	—	—	603
Issuance of common stock - restricted stock awards, net of canceled awards	——		317	2,551	—	—	2,551
Purchase and retirement of common stock	——		(37)	(1,092)	—	—	(1,092)
Preferred dividends	——	—	—		(77)	—	(77)
Cash dividends paid on common stock	——	—	—		(43,404)	—	(43,404)
Balance at June 30, 2016	9	$2,217	58,025	$992,343	$259,108	$ 20,811	$1,274,479
Balance at January 1, 2015	9	$2,217	57,437	$985,839	$234,498	$ 5,621	$1,228,175
Net income	——	—	—		46,307	—	46,307
Other comprehensive loss	——	—	—		—	(2,832)	(2,832)
Issuance of common stock - stock option and other plans	——		21	519	—	—	519
Issuance of common stock - restricted stock awards, net of canceled awards	——		282	1,836	—	—	1,836
Purchase and retirement of common stock	——		(31)	(874)	—	—	(874)
Preferred dividends	——	—	—		(66)	—	(66)
Cash dividends paid on common stock	——	—	—		(36,851)	—	(36,851)
Balance at June 30, 2015	9	$2,217	57,709	$987,320	$243,888	$ 2,789	$1,236,214

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,	
	2016	2015 (1)
	(in thousands)	
Cash Flows From Operating Activities		
Net income	$46,664	$46,307
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan and lease losses	8,894	3,411
Stock-based compensation expense	2,551	1,836
Depreciation, amortization and accretion	18,898	14,630
Investment securities gain, net	(602)	(1,064)
Net realized (gain) loss on sale of other assets	170	(289)
Net realized (gain) loss on sale and valuation adjustments of other real estate owned (1)	160	(2,199)
Originations of loans held for sale (1)	(46,705)	(32,281)
Proceeds from sales of loans held for sale (1)	43,565	29,177
Net change in:		
Interest receivable	(1,861)	319
Interest payable	(74)	(105)
Other assets	(7,818)	1,579
Other liabilities	9,809	3,292
Net cash provided by operating activities	73,651	64,613
Cash Flows From Investing Activities		
Loans originated and acquired, net of principal collected	(298,259)	(175,260)
Purchases of:		
Securities available for sale	(296,920)	(37,070)
Premises and equipment	(1,199)	(4,805)
Federal Home Loan Bank stock	(42,400)	(1,440)
Proceeds from:		
FDIC reimbursement on loss-sharing asset	668	4,009
Sales of securities available for sale	83,410	72,166
Principal repayments and maturities of securities available for sale	123,817	135,102
Sales of premises and equipment and loans held for investment (1)	4,631	7,869
Redemption of Federal Home Loan Bank stock (1)	36,961	23,002
Sales of other real estate and other personal property owned	3,276	11,553
Payments to FDIC related to loss-sharing asset	(625)	(487)
Net cash provided by (used in) investing activities	(386,640)	34,639
Cash Flows From Financing Activities		
Net increase in deposits	234,526	119,651
Net decrease in sweep repurchase agreements	(10,481)	(12,850)
Proceeds from:		
Federal Home Loan Bank advances	962,000	1,319,000
Federal Reserve Bank borrowings	10	1,010
Exercise of stock options	603	519
Payments for:		
Repayment of Federal Home Loan Bank advances	(826,000)	(1,490,000)
Repayment of Federal Reserve Bank borrowings	(10)	(1,010)

Common stock dividends	(43,404)	(36,851)
Preferred stock dividends	(77)	(66)
Repayment of other borrowings	—	(8,248)
Purchase and retirement of common stock	(1,092)	(874)
Net cash provided by (used in) financing activities	316,075	(109,719)
Increase (decrease) in cash and cash equivalents	3,086	(10,467)
Cash and cash equivalents at beginning of period	175,302	188,170
Cash and cash equivalents at end of period	$178,388	$177,703

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

	Six Months Ended June 30,	
	2016	2015 (1)
	(in thousands)	
Supplemental Information:		
Cash paid during the period for:		
Cash paid for interest	$2,241	$2,188
Cash paid for income tax	$11,130	$7,281
Non-cash investing and financing activities		
Loans transferred to other real estate owned	$311	$7,836

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

See accompanying Notes to unaudited Consolidated Financial Statements.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
Columbia Banking System, Inc.
1. Basis of Presentation and Significant Accounting Policies
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, 2016 are not necessarily indicative of results to be anticipated for the year ending December 31, 2016. The accompanying interim unaudited consolidated financial statements should be read in conjunction with the financial statements and related notes contained in the Company's 2015 Annual Report on Form 10-K.
Because of reclassifications, changes occurred in the manner in which certain comparative period noninterest income items were presented in the unaudited consolidated statements of income. Specifically, fee revenue previously presented as 'Service charges and other fees' and certain fee revenue previously presented as 'Other' were reclassified to conform to the current period presentation. The Company made these presentation changes to provide additional information about its sources of noninterest income. There was no change to total noninterest income as previously reported as a result of these reclassifications.
Significant Accounting Policies
The significant accounting policies used in preparation of our consolidated financial statements are disclosed in our 2015 Annual Report on Form 10-K. There have not been any changes in our significant accounting policies compared to those contained in our 2015 Form 10-K disclosure for the year ended December 31, 2015.
2. Accounting Pronouncements Recently Issued
In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 should 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. The Company is assessing the impact that this guidance will have on its consolidated financial statements.
In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting. The amendments included in this ASU simplify several aspects of the accounting for employee share-based payment transactions including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The amendments in ASU 2016-09 are effective for the first interim or annual period beginning after December 15, 2016. Early adoption is permitted. The Company is assessing the impact that this guidance will have on its consolidated financial statements but does not expect the impact to be material.
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 and corresponding right-of-use assets for all leases with lease terms greater than 12 months. 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. The Company is assessing the impact that this guidance will have on its consolidated financial statements.

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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 is assessing the impact that this guidance will have on its consolidated financial statements but does not expect the impact to be material.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. The guidance in this update supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the industry topics of the codification. For public companies, this update was to be effective for interim and annual periods beginning after December 15, 2016. However, in August 2015, the FASB issued ASU 2015-14, which delayed the effective date of ASU 2014-09 by one year and permits companies to voluntarily adopt the new standard as of the original effective date. In March, April and May 2016, the FASB issued ASU 2016-08, ASU 2016-10 and ASU 2016-12, respectively, to provide implementation guidance and practical expedients related to ASU 2014-09. The Company is assessing the impact that this guidance will have on its consolidated financial statements but does not expect the impact to be material.

3. Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
June 30, 2016				
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	$1,403,591	$ 20,196	$(2,101)	$1,421,686
State and municipal securities	500,618	17,913	(166)	518,365
U.S. government agency and government-sponsored enterprise securities	327,223	6,520	—	333,743
U.S. government securities	548	1	—	549
Other securities	5,284	64	(139)	5,209
Total	$2,237,264	$ 44,694	$(2,406)	$2,279,552
December 31, 2015				
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	$1,296,955	$ 4,525	$(14,991)	$1,286,489
State and municipal securities	480,417	12,690	(938)	492,169
U.S. government agency and government-sponsored enterprise securities	354,515	1,113	(1,846)	353,782
U.S. government securities	20,439	—	(302)	20,137
Other securities	5,284	24	(191)	5,117
Total	$2,157,610	$ 18,352	$(18,268)	$2,157,694

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Proceeds from sales of securities available for sale were $44.5 million and $14.9 million for the three months ended June 30, 2016 and 2015, respectively, and were $83.4 million and $72.2 million for the six months ended June 30, 2016 and June 30, 2015, respectively. The following table provides the gross realized gains and losses on the sales of securities for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Gross realized gains	$229	$343	$602	$1,073
Gross realized losses	—	—	—	(9)
Net realized gains	$229	$343	$602	$1,064

The scheduled contractual maturities of investment securities available for sale at June 30, 2016 are presented as follows:

	June 30, 2016	
	Amortized Cost	Fair Value
	(in thousands)	
Due within one year	$26,674	$26,827
Due after one year through five years	462,009	471,463
Due after five years through ten years	698,729	716,521
Due after ten years	1,044,568	1,059,532
Other securities with no stated maturity	5,284	5,209
Total investment securities available-for-sale	$2,237,264	$2,279,552

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, 2016
	(in thousands)
Washington and Oregon State to secure public deposits	$ 396,321
Federal Reserve Bank to secure borrowings	44,079
Other securities pledged	154,109
Total securities pledged as collateral	$ 594,509

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The following table shows the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2016 and December 31, 2015:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
June 30, 2016						
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	$51,222	$(264)	$170,543	$(1,837)	$221,765	$(2,101)
State and municipal securities	17,512	(126)	6,077	(40)	23,589	(166)
Other securities	—	—	2,816	(139)	2,816	(139)
Total	$68,734	$(390)	$179,436	$(2,016)	$248,170	$(2,406)
December 31, 2015						
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	$664,509	$(7,610)	$214,325	$(7,381)	$878,834	$(14,991)
State and municipal securities	48,261	(358)	31,383	(580)	79,644	(938)
U.S. government agency and government-sponsored enterprise securities	193,400	(1,128)	40,034	(718)	233,434	(1,846)
U.S. government securities	10,343	(136)	9,794	(166)	20,137	(302)
Other securities	2,300	(15)	2,780	(176)	5,080	(191)
Total	$918,813	$(9,247)	$298,316	$(9,021)	$1,217,129	$(18,268)

At June 30, 2016, there were 66 U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations securities in an unrealized loss position, of which 46 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, 2016.

At June 30, 2016, there were 20 state and municipal government securities in an unrealized loss position, of which 10 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, 2016, 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, 2016.

At June 30, 2016, there was one other security in an unrealized loss position, which was in a continuous unrealized loss position for 12 months or more. The decline in fair value is attributable to changes in interest rates and the additional risk premium investors are demanding for investment securities with these characteristics. The Company does not consider this investment to be other-than-temporarily impaired at June 30, 2016 as it has the intent and ability to hold the investment for sufficient time to allow for recovery in the market value.

4. Loans

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

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

	June 30, 2016			December 31, 2015		
	Loans, excluding PCI loans	PCI Loans	Total	Loans, excluding PCI loans	PCI Loans	Total
	(in thousands)					
Commercial business	$2,518,682	$25,545	$2,544,227	$2,362,575	$34,848	$2,397,423
Real estate:						
One-to-four family residential	172,957	20,755	193,712	176,295	23,938	200,233
Commercial and multifamily residential	2,651,476	94,564	2,746,040	2,491,736	99,389	2,591,125
Total real estate	2,824,433	115,319	2,939,752	2,668,031	123,327	2,791,358
Real estate construction:						
One-to-four family residential	129,195	1,642	130,837	135,874	2,278	138,152
Commercial and multifamily residential	185,315	1,602	186,917	167,413	1,630	169,043
Total real estate construction	314,510	3,244	317,754	303,287	3,908	307,195
Consumer	325,632	16,999	342,631	342,601	18,823	361,424
Less: Net unearned income	(37,221)	—	(37,221)	(42,373)	—	(42,373)
Total loans, net of unearned income	5,946,036	161,107	6,107,143	5,634,121	180,906	5,815,027
Less: Allowance for loan and lease losses	(57,523)	(11,781)	(69,304)	(54,446)	(13,726)	(68,172)
Total loans, net	$5,888,513	$149,326	$6,037,839	$5,579,675	$167,180	$5,746,855
Loans held for sale	$7,649	$—	$7,649	$4,509	$—	$4,509

At June 30, 2016 and December 31, 2015, the Company had no material foreign activities. Substantially all of the Company’s loans and unfunded commitments are geographically concentrated in its service areas within the states of Washington, Oregon and Idaho.

The Company has made loans to executive officers and directors of the Company and related interests. These loans are made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than the normal risk of collectability. The aggregate dollar amount of these loans was $10.3 million at June 30, 2016 and $10.0 million at December 31, 2015. During the first six months of 2016, there were $718 thousand in advances and $397 thousand in repayments.

At June 30, 2016 and December 31, 2015, $2.24 billion and $2.22 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 $50.8 million and $50.1 million of commercial loans to the Federal Reserve Bank for additional borrowing capacity at June 30, 2016 and December 31, 2015, respectively.

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The following is an analysis of nonaccrual loans as of June 30, 2016 and December 31, 2015:

	June 30, 2016		December 31, 2015	
	Recorded Investment Nonaccrual Loans	Unpaid Principal Balance Nonaccrual Loans	Recorded Investment Nonaccrual Loans	Unpaid Principal Balance Nonaccrual Loans
	(in thousands)			
Commercial business:				
Secured	$9,478	$ 18,488	$9,395	$ 15,688
Unsecured	70	300	42	256
Real estate:				
One-to-four family residential	957	2,006	820	1,866
Commercial & multifamily residential:				
Commercial land	1,135	1,123	349	332
Income property	880	1,010	2,843	3,124
Owner occupied	5,819	8,331	6,321	8,943
Real estate construction:				
One-to-four family residential:				
Land and acquisition	—	—	362	385
Residential construction	562	562	566	679
Consumer	4,014	4,251	766	990
Total	$22,915	$ 36,071	$21,464	$ 32,263

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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, 2016 and December 31, 2015:

	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, 2016	(in thousands)						
Commercial business:							
Secured	$2,403,126	$3,539	$ 1,278	$ —	$4,817	$ 9,478	$2,417,421
Unsecured	96,789	31	—	—	31	70	96,890
Real estate:							
One-to-four family residential	166,399	2,781	35	—	2,816	957	170,172
Commercial & multifamily residential:							
Commercial land	233,072	—	—	—	—	1,135	234,207
Income property	1,365,929	5,298	—	—	5,298	880	1,372,107
Owner occupied	1,017,728	525	374	—	899	5,819	1,024,446
Real estate construction:							
One-to-four family residential:							
Land and acquisition	10,708	—	—	—	—	—	10,708
Residential construction	117,302	—	—	—	—	562	117,864
Commercial & multifamily residential:							
Income property	78,867	—	—	—	—	—	78,867
Owner occupied	104,896	—	—	—	—	—	104,896
Consumer	311,792	893	1,759	—	2,652	4,014	318,458
Total	$5,906,608	$13,067	$ 3,446	$ —	$16,513	$ 22,915	$5,946,036

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

Total	$5,592,208	$18,302	$2,147	$—	$20,449	$21,464	$5,634,121

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The following is an analysis of impaired loans as of June 30, 2016 and December 31, 2015:

	Recorded Investment of Loans Collectively Measured for Contingency Provision	Recorded Investment of Loans Individually Measured for Specific Impairment	Impaired Loans With Recorded Allowance			Impaired Loans Without Recorded Allowance	
			Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance
June 30, 2016	(in thousands)						
Commercial business:							
Secured	$2,410,385	$ 7,036	$3,320	$ 6,570	$ 2,486	$3,716	$5,337
Unsecured	96,890	—	—	—	—	—	—
Real estate:							
One-to-four family residential	169,484	688	89	108	1	599	1,011
Commercial & multifamily residential:							
Commercial land	233,499	708	—	—	—	708	687
Income property	1,370,662	1,445	636	687	100	809	918
Owner occupied	1,019,219	5,227	—	—	—	5,227	7,664
Real estate construction:							
One-to-four family residential:							
Land and acquisition	10,605	103	—	—	—	103	103
Residential construction	117,302	562	—	—	—	562	562
Commercial & multifamily residential:							
Income property	78,867	—	—	—	—	—	—
Owner occupied	104,896	—	—	—	—	—	—
Consumer	315,363	3,095	1,860	1,870	118	1,235	1,319
Total	$5,927,172	$ 18,864	$5,905	$ 9,235	$ 2,705	$12,959	$17,601

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

Commercial & multifamily residential:							
Income property	83,634	—	—	—	—	—	—
Owner occupied	81,671	—	—	—	—	—	—
Consumer	332,282	80	15	15	15	65	139
Total	$5,618,041	$ 16,080	$1,354	$ 1,407	$ 653	$14,726	$19,547

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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,			
	2016		2015		2016		2015	
	Average Recorded Investment Impaired Loans	Interest Recognized on Impaired Loans	Average Recorded Investment Impaired Loans	Interest Recognized on Impaired Loans	Average Recorded Investment Impaired Loans	Interest Recognized on Impaired Loans	Average Recorded Investment Impaired Loans	Interest Recognized on Impaired Loans
	(in thousands)							
Commercial business:								
Secured	$12,859	$ 20	$9,231	$ 8	$10,414	$ 33	$9,662	$ 15
Unsecured	—	—	—	—	—	—	1	—
Real estate:								
One-to-four family residential	676	(3)	4,180	11	879	3	3,502	24
Commercial & multifamily residential:								
Commercial land	354	—	235	—	236	—	157	—
Income property	1,749	10	1,966	23	1,868	14	3,427	33
Owner occupied	5,102	—	6,567	235	5,420	—	7,326	468
Real estate construction:								
One-to-four family residential:								
Land and acquisition	206	1	974	2	293	3	686	3
Residential construction	562	—	893	—	562	—	595	—
Consumer	2,332	20	355	1	1,581	21	278	2
Total	$23,840	$ 48	$24,401	$ 280	$21,253	$ 74	$25,634	$ 545

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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, 2016 and 2015:

	Three months ended June 30, 2016			Three months ended June 30, 2015		
	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	2	$ 293	$ 293	—	$ —	$ —
Real estate:						
One-to-four family residential	—	—	—	1	30	30
Commercial and multifamily residential:						
Owner occupied	1	30	30	—	—	—
Consumer	14	2,214	2,214	—	—	—
Total	17	$ 2,537	$ 2,537	1	$ 30	$ 30

	Six months ended June 30, 2016			Six months ended June 30, 2015		
	Number of TDR Modifications	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of TDR Modifications	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(dollars in thousands)					
Commercial business:						
Secured	5	$ 1,663	$ 1,663	—	$ —	$ —
Real estate:						
One-to-four family residential	—	—	—	1	30	30
Commercial and multifamily residential:						
Owner occupied	2	280	280	—	—	—
Consumer	18	2,711	2,711	—	—	—
Total	25	$ 4,654	$ 4,654	1	$ 30	$ 30

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 $19 thousand of additional funds on loans classified as TDR as of June 30, 2016. The Company had no such commitments at December 31, 2015. The Company did not have any loans modified as TDR that defaulted within twelve months of being modified as TDR during the three and six month periods ended June 30, 2016 and 2015.

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. The transition matrix is a matrix of probability values that specifies the probability of a loan pool transitioning into a particular delinquency state (e.g. 0-30 days past due, 31 to 60 days, etc.) given its delinquency state at the remeasurement date. Loss severity factors are based upon either actual charge-off data within the loan pools or industry averages, and recovery lags are based upon the collateral within the loan pools.

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, 2016 and December 31, 2015:

	June 30, 2016	December 31, 2015
	(in thousands)	
Commercial business	$28,449	$ 38,784
Real estate:		
One-to-four family residential	23,708	27,195
Commercial and multifamily residential	101,201	106,308
Total real estate	124,909	133,503
Real estate construction:		
One-to-four family residential	1,660	2,326
Commercial and multifamily residential	1,783	1,834
Total real estate construction	3,443	4,160
Consumer	18,797	20,903
Subtotal of PCI loans	175,598	197,350
Less:		
Valuation discount resulting from acquisition accounting	14,491	16,444
Allowance for loan losses	11,781	13,726
PCI loans, net of allowance for loan losses	$149,326	$ 167,180

The following table shows the changes in accretable yield for PCI loans for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Balance at beginning of period	$56,607	$68,726	$58,981	$73,849
Accretion	(3,774)	(5,737)	(8,003)	(12,056)
Disposals	149	(959)	1,910	(2,052)
Reclassifications from (to) nonaccretable difference	(73)	5,253	21	7,542
Balance at end of period	$52,909	$67,283	$52,909	$67,283

5. 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. Management’s allowance estimate is measured quarterly and the primary components include allowances related to:

1. Loans collectively evaluated for impairment under the Contingencies topic of the FASB ASC.
2. Loans individually determined to be impaired in accordance with the Receivables topic of the FASB ASC.

3. Purchased credit impaired loans accounted for under the Receivables topic of the FASB ASC.

The allowance for loans collectively evaluated for impairment is measured using quantitative information adjusted by qualitative factors. Quantitative information includes credit loss experience over a historical base period and a loss emergence period estimated by loan product category such as commercial business, commercial real estate, etc. Historical loss experience by loan class incorporates the loan's risk rating migration from origination to the point of loss. Loan risk ratings are assigned based upon an assessment of the borrower's ability to service the debt. In the event a borrower experiences financial deterioration such that the primary source of loan repayment is at risk, secondary sources of loan repayment, such as guarantors, are considered.

As conditions likely differ between the historical base period and the balance sheet date, management qualitatively adjusts the historical loss rate to assist in ensuring our allowance estimate reflects current conditions. Such qualitative adjustments include general economic and business conditions affecting our marketplace, seasoning of the loan portfolio, duration of the business cycle, trends with respect to delinquencies and problem loans, etc. In addition, the allowance may include an unallocated amount to recognize factors inherent in our loan portfolio but not otherwise contemplated. Any unallocated amount generally comprises less than 5% of the allowance.

For loans individually determined to be impaired, the Company measures impairment on a loan-by-loan basis using either the discounted expected future cash flows, observable market price, or the fair value of the collateral less selling costs if the loan is collateral dependent or if foreclosure is probable. A specific reserve for such loans is recognized to the extent the measured value is less than the loan's recorded investment.

Purchased credit impaired loans that have common risk characteristics are aggregated into loan pools. When required, we record impairment, at the pool-level, to adjust the pool's carrying value to its net present value of expected future cash flows. Quarterly, we re-measure expected loan pool cash flows. If, due to credit deterioration, the present value of expected cash flows is less than carrying value, we reduce the loan pool's carrying value by adjusting the allowance with an impairment charge to earnings which is recorded as provision for loan losses. If credit quality improves and the present value of expected cash flows exceeds carrying value, we increase the loan pool's carrying value by recapturing previously recorded allowance, if any. See Note 4, Loans, for further discussion of the accounting for PCI loans. Credit losses attributable to draws on purchased credit impaired loans, advanced subsequent to the loan purchase date, are accounted for under the Contingencies topic of the FASB ASC as described above.

We have used the same methodology for allowance calculations during the six months ended June 30, 2016 and 2015. The Company carefully monitors the loan portfolio and continues to emphasize the importance of credit quality. We recognize loan charge-offs when management determines that all or a portion of a loan balance is uncollectable and the uncollectable amount can be reasonably estimated.

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The following tables show a detailed analysis of the allowance for the three and six months ended June 30, 2016 and 2015:

Three months ended June 30, 2016	Beginning Balance	Charge-offs	Recoveries	Provision (Recovery)	Ending Balance	Specific Reserve	General Allocation
	(in thousands)						
Commercial business:							
Secured	$32,114	$(2,900)	$ 728	$ 1,866	$31,808	$2,486	$ 29,322
Unsecured	1,300	(41)	25	(19)	1,265	—	1,265
Real estate:							
One-to-four family residential	654	(35)	20	35	674	1	673
Commercial & multifamily residential:							
Commercial land	1,262	(26)	2	184	1,422	—	1,422
Income property	7,402	—	120	524	8,046	100	7,946
Owner occupied	6,086	—	8	242	6,336	—	6,336
Real estate construction:							
One-to-four family residential:							
Land and acquisition	640	—	2	(55)	587	—	587
Residential construction	1,449	—	3	(76)	1,376	—	1,376
Commercial & multifamily residential:							
Income property	715	—	1	188	904	—	904
Owner occupied	1,210	—	—	174	1,384	—	1,384
Consumer	3,368	(334)	201	325	3,560	118	3,442
Purchased credit impaired	13,064	(2,898)	1,524	91	11,781	—	11,781
Unallocated	—	—	—	161	161	—	161
Total	$69,264	$(6,234)	$ 2,634	$ 3,640	$69,304	$2,705	$ 66,599

Six months ended June 30, 2016	Beginning Balance	Charge-offs	Recoveries	Provision (Recovery)	Ending Balance	Specific Reserve	General Allocation
	(in thousands)						
Commercial business:							
Secured	$32,321	$(6,670)	$ 1,339	$ 4,818	$31,808	$2,486	$ 29,322
Unsecured	1,299	(44)	76	(66)	1,265	—	1,265
Real estate:							
One-to-four family residential	916	(35)	61	(268)	674	1	673
Commercial & multifamily residential:							
Commercial land	1,178	(26)	2	268	1,422	—	1,422
Income property	6,616	—	181	1,249	8,046	100	7,946
Owner occupied	5,550	—	16	770	6,336	—	6,336
Real estate construction:							
One-to-four family residential:							
Land and acquisition	339	—	53	195	587	—	587
Residential construction	733	—	206	437	1,376	—	1,376
Commercial & multifamily residential:							
Income property	388	—	2	514	904	—	904
Owner occupied	1,006	—	—	378	1,384	—	1,384
Consumer	3,531	(600)	366	263	3,560	118	3,442
Purchased credit impaired	13,726	(5,764)	3,075	744	11,781	—	11,781
Unallocated	569	—	—	(408)	161	—	161
Total	$68,172	$(13,139)	$ 5,377	$ 8,894	$69,304	$2,705	$ 66,599

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Three months ended June 30, 2015	Beginning Balance	Charge-offs	Recoveries	Provision (Recovery)	Ending Balance	Specific Reserve	General Allocation
	(in thousands)						
Commercial business:							
Secured	$25,761	$(2,022)	$200	$3,769	$27,708	$1,161	$26,547
Unsecured	1,012	(64)	9	(100)	857	—	857
Real estate:							
One-to-four family residential	1,364	(289)	15	265	1,355	111	1,244
Commercial & multifamily residential:							
Commercial land	827	—	—	754	1,581	—	1,581
Income property	8,440	(43)	7	(207)	8,197	—	8,197
Owner occupied	5,612	—	13	176	5,801	20	5,781
Real estate construction:							
One-to-four family residential:							
Land and acquisition	1,026	—	1	(530)	497	66	431
Residential construction	1,790	—	7	(839)	958	—	958
Commercial & multifamily residential:							
Income property	827	—	2	(422)	407	—	407
Owner occupied	499	—	—	(58)	441	—	441
Consumer	2,835	(319)	137	529	3,182	—	3,182
Purchased credit impaired	16,531	(2,876)	2,043	476	16,174	—	16,174
Unallocated	3,710	—	—	(1,611)	2,099	—	2,099
Total	$70,234	$(5,613)	$2,434	$2,202	$69,257	$1,358	$67,899

Six months ended June 30, 2015	Beginning Balance	Charge-offs	Recoveries	Provision (Recovery)	Ending Balance	Specific Reserve	General Allocation
	(in thousands)						
Commercial business:							
Secured	$25,923	$(3,408)	$712	$4,481	$27,708	$1,161	$26,547
Unsecured	927	(104)	115	(81)	857	—	857
Real estate:							
One-to-four family residential	2,281	(297)	27	(656)	1,355	111	1,244
Commercial & multifamily residential:							
Commercial land	799	—	—	782	1,581	—	1,581
Income property	9,159	(43)	3,259	(4,178)	8,197	—	8,197
Owner occupied	5,007	—	22	772	5,801	20	5,781
Real estate construction:							
One-to-four family residential:							
Land and acquisition	1,197	—	3	(703)	497	66	431
Residential construction	1,860	—	33	(935)	958	—	958
Commercial & multifamily residential:							
Income property	622	—	5	(220)	407	—	407
Owner occupied	434	—	—	7	441	—	441
Consumer	3,180	(1,210)	410	802	3,182	—	3,182
Purchased credit impaired	16,336	(6,976)	3,729	3,085	16,174	—	16,174
Unallocated	1,844	—	—	255	2,099	—	2,099
Total	$69,569	$(12,038)	$8,315	$3,411	$69,257	$1,358	$67,899

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Balance at beginning of period	$2,930	$2,655	$2,930	$2,655
Net changes in the allowance for unfunded commitments and letters of credit	(150)	275	(150)	275
Balance at end of period	$2,780	$2,930	$2,780	$2,930

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 reported as classified loans in our allowance analysis. We review these loans to assess the ability of our borrowers to service all interest and principal obligations and, as a result, the risk rating may be adjusted accordingly. 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, 2016 and December 31, 2015:

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
June 30, 2016	(in thousands)					
Loans, excluding PCI loans:						
Commercial business:						
Secured	$2,297,510	$76,014	$ 43,897	$ —	$ —	$2,417,421
Unsecured	96,551	277	62	—	—	96,890
Real estate:						
One-to-four family residential	168,559	514	1,099	—	—	170,172
Commercial and multifamily residential:						
Commercial land	227,322	6,544	341	—	—	234,207
Income property	1,344,005	17,095	11,007	—	—	1,372,107
Owner occupied	1,005,059	5,791	13,596	—	—	1,024,446
Real estate construction:						
One-to-four family residential:						
Land and acquisition	10,708	—	—	—	—	10,708
Residential construction	117,022	—	842	—	—	117,864
Commercial and multifamily residential:						
Income property	78,867	—	—	—	—	78,867
Owner occupied	100,341	—	4,555	—	—	104,896
Consumer	309,831	—	8,627	—	—	318,458
Total	$5,755,775	$106,235	$ 84,026	$ —	$ —	5,946,036
Less:						
Allowance for loan and lease losses						57,523
Loans, excluding PCI loans, net						$5,888,513

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

Less:	
Allowance for loan and lease losses	54,446
Loans, excluding PCI loans, net	$5,579,675

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The following is an analysis of the credit quality of our PCI loan portfolio as of June 30, 2016 and December 31, 2015:

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
June 30, 2016	(in thousands)					
PCI loans:						
Commercial business:						
Secured	$24,135	$ 96	$ 3,298	$ —	$ —	$27,529
Unsecured	919	—	1	—	—	920
Real estate:						
One-to-four family residential	21,966	—	1,742	—	—	23,708
Commercial and multifamily residential:						
Commercial land	7,877	—	395	—	—	8,272
Income property	30,893	—	4,496	—	—	35,389
Owner occupied	55,866	—	1,674	—	—	57,540
Real estate construction:						
One-to-four family residential:						
Land and acquisition	794	—	144	—	—	938
Residential construction	401	—	321	—	—	722
Commercial and multifamily residential:						
Income property	1,263	—	—	—	—	1,263
Owner occupied	520	—	—	—	—	520
Consumer	18,470	—	327	—	—	18,797
Total	$163,104	$ 96	$ 12,398	$ —	$ —	175,598
Less:						
Valuation discount resulting from acquisition accounting						14,491
Allowance for loan losses						11,781
PCI loans, net						$149,326

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
December 31, 2015	(in thousands)					
PCI loans:						
Commercial business:						
Secured	$31,468	$ 101	$ 5,995	$ —	$ —	$37,564
Unsecured	1,218	—	2	—	—	1,220
Real estate:						
One-to-four family residential	25,018	—	2,177	—	—	27,195
Commercial and multifamily residential:						
Commercial land	8,234	—	664	—	—	8,898
Income property	36,426	—	5,916	—	—	42,342
Owner occupied	53,071	261	1,736	—	—	55,068
Real estate construction:						
One-to-four family residential:						
Land and acquisition	1,086	—	479	—	—	1,565
Residential construction	427	—	334	—	—	761
Commercial and multifamily residential:						
Income property	1,303	—	—	—	—	1,303
Owner occupied	531	—	—	—	—	531
Consumer	20,122	—	781	—	—	20,903

Total	$178,904	$ 362	$ 18,084	$ —	$ —	197,350
Less:						
Valuation discount resulting from acquisition accounting						16,444
Allowance for loan losses						13,726
PCI loans, net						$167,180

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6. Other Real Estate Owned ("OREO")

The following tables set forth activity in OREO for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Balance, beginning of period	$12,427	$23,299	$13,738	$22,190
Transfers in	206	3,143	311	7,836
Valuation adjustments	(139)	(596)	(276)	(793)
Proceeds from sale of OREO property	(1,950)	(6,484)	(3,276)	(11,608)
Gain on sale of OREO, net	69	1,255	116	2,992
Balance, end of period	$10,613	$20,617	$10,613	$20,617

At June 30, 2016, the carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession was $2.5 million and the recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process was $658 thousand.

7. FDIC Loss-sharing Asset and Covered Assets

We are a party to eight loss-sharing agreements with the FDIC relating to four FDIC-assisted acquisitions. Such agreements cover a substantial portion of losses incurred on acquired covered loans and OREO. The loss-sharing agreements relate to the acquisitions of (1) Columbia River Bank in January 2010, (2) American Marine Bank in January 2010, (3) Summit Bank in May 2011, and (4) First Heritage Bank in May 2011. Under the terms of the loss-sharing agreements, the FDIC will absorb 80% of losses and share in 80% of loss recoveries up to specified amounts. With respect to loss-sharing agreements for two acquisitions completed in 2010, after those specified amounts, the FDIC will absorb 95% of losses and share in 95% of loss recoveries. The loss-sharing provisions of the agreements for non-single family and single family mortgage loans are in effect for five and ten years, respectively, and the loss recovery provisions are in effect for eight and ten years, respectively. The loss-sharing provisions for the Columbia River Bank and American Marine Bank non-single family covered assets were effective through the end of the first quarter of 2015. In addition, the loss-sharing provisions for the Summit Bank and First Heritage Bank non-single family covered assets expired at the end of the second quarter of 2016. Accordingly, further activity will be limited to recoveries through the first quarter of 2018 and second quarter of 2019, respectively, for assets covered by these loss-sharing agreements.

Ten years and forty-five days after the applicable acquisition dates, the Bank must pay to the FDIC a clawback in the event the losses from the acquisitions fail to reach stated levels. The amount of the clawback is determined by a formula specified in each individual loss-sharing agreement. As of June 30, 2016, the net present value of the Bank's estimated clawback liability was $5.4 million, which was included in other liabilities on the consolidated balance sheets.

At June 30, 2016, the FDIC loss-sharing asset was comprised of a $3.2 million FDIC indemnification asset and a $1.1 million FDIC receivable. The indemnification asset represents the net present value of cash flows the Company expects to collect from the FDIC under the loss-sharing agreements and the FDIC receivable represents amounts from the FDIC for which the Company has requested reimbursement but has not yet received reimbursement.

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

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

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The following table shows a detailed analysis of the FDIC loss-sharing asset for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Balance at beginning of period	$5,954	$14,644	$6,568	$15,174
Adjustments not reflected in income:				
Cash received from the FDIC, net	(396)	(2,862)	(43)	(3,522)
FDIC reimbursable recoveries, net	(302)	(944)	(166)	(964)
Adjustments reflected in income:				
Amortization, net	(883)	(1,376)	(2,215)	(3,670)
Loan impairment (recapture)	(20)	1	127	1,532
Sale of other real estate	(24)	(208)	120	(627)
Valuation adjustments of other real estate	(40)	52	(22)	1,124
Other	(23)	37	(103)	297
Balance at end of period	$4,266	$9,344	$4,266	$9,344

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

	June 30, 2016				
	Columbia River Bank	American Marine Bank	Summit Bank	First Heritage Bank	Total
	(in thousands)				
FDIC loss-sharing asset	$321	$2,254	$1,371	$320	$4,266
Clawback liability	$3,451	$1,282	$—	$700	$5,433
Non-single family covered assets	$62,536	$11,148	$6,889	$13,399	$93,972
Single family covered assets	$6,942	$20,834	$5,624	$1,675	$35,075
Loss-sharing expiration dates:					
Non-single family	Expired	Expired	Expired	Expired	
Single family	First Quarter 2020	First Quarter 2020	Second Quarter 2021	Second Quarter 2021	
Loss recovery expiration dates:					
Non-single family	First Quarter 2018	First Quarter 2018	Second Quarter 2019	Second Quarter 2019	
Single family	First Quarter 2020	First Quarter 2020	Second Quarter 2021	Second Quarter 2021	

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.

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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,	
	2016	2015	2016	2015
	(in thousands)			
Goodwill				
Total goodwill	$382,762	$382,537	$382,762	$382,537
Other intangible assets, net				
Core deposit intangible:				
Gross core deposit intangible balance at beginning of period	58,598	58,598	58,598	58,598
Accumulated amortization at beginning of period	(37,523)	(30,875)	(35,940)	(29,058)
Core deposit intangible, net at beginning of period	21,075	27,723	22,658	29,540
CDI current period amortization	(1,483)	(1,718)	(3,066)	(3,535)
Total core deposit intangible, net at end of period	19,592	26,005	19,592	26,005
Intangible assets not subject to amortization	919	919	919	919
Other intangible assets, net at end of period	20,511	26,924	20,511	26,924
Total goodwill and other intangible assets at end of period	$403,273	$409,461	$403,273	$409,461

The following table provides the estimated future amortization expense of core deposit intangibles for the remaining six months ending December 31, 2016 and the succeeding four years:

	Amount (in thousands)
Year ending December 31,	
2016	$ 2,880
2017	4,913
2018	3,855
2019	2,951
2020	2,048

9. 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, 2016 and December 31, 2015 was $280.0 million and $264.4 million, respectively. During the three and six months ended June 30, 2016, a mark-to-market gain of $1 thousand and loss of $7 thousand, respectively, were recorded to other noninterest expense. During the three and six months ended June 30, 2015, mark-to-market gains of $9 thousand and $4 thousand, respectively, were recorded to other noninterest expense.

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The following table presents the fair value of derivatives not designated as hedging instruments at June 30, 2016 and December 31, 2015:

	Asset Derivatives				Liability Derivatives			
	June 30, 2016		December 31, 2015		June 30, 2016		December 31, 2015	
	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	$ 21,904	Other assets	$ 12,438	Other liabilities	$ 21,951	Other liabilities	$ 12,478

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, 2016	(in thousands)				
Assets					
Interest rate contracts	$21,904	$ —	$ 21,904	$—	$21,904
Liabilities					
Interest rate contracts	$21,951	$ —	$ 21,951	$(21,951)	$—
Repurchase agreements	$89,218	$ —	$ 89,218	$(89,218)	$—
December 31, 2015					
Assets					
Interest rate contracts	$12,438	$ —	$ 12,438	$—	$12,438
Liabilities					
Interest rate contracts	$12,478	$ —	$ 12,478	$(12,478)	$—
Repurchase agreements	$99,699	$ —	$ 99,699	$(99,699)	$—

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, 2016	(in thousands)				
Class of collateral pledged for repurchase agreements					
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	$64,218	$ —	$ —	$25,000	$89,218
Gross amount of recognized liabilities for repurchase agreements					89,218
Amounts related to agreements not included in offsetting disclosure					$—

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

10. Commitments and Contingent Liabilities

Lease Commitments: The Company's lease commitments consist primarily of leased locations under various non-cancellable operating leases that expire between 2016 and 2043. The majority of the leases contain renewal options and provisions for increases in rental rates based on an agreed upon index or predetermined escalation schedule.

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 both June 30, 2016 and December 31, 2015, the Company's loan commitments amounted to $1.93 billion.

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 $48.0 million and $38.7 million at June 30, 2016 and December 31, 2015, respectively. In addition, commitments under commercial letters of credit used to facilitate customers' trade transactions and other off-balance sheet liabilities amounted to $5.7 million and $5.0 million at June 30, 2016 and December 31, 2015, 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.

11. Shareholders' Equity

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

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

On April 27, 2016, the Company declared a regular quarterly cash dividend of $0.19 per common share and common share equivalent for holders of preferred stock, and a special cash dividend of $0.18 per common share and common share equivalent for holders of preferred stock, both payable on May 25, 2016 to shareholders of record at the close of business on May 11, 2016.

Subsequent to quarter end, on July 28, 2016, the Company declared a regular quarterly cash dividend of $0.20 per common share and common share equivalent for holders of preferred stock, and a special cash dividend of $0.19 per common share and common share equivalent for holders of preferred stock, both payable on August 24, 2016 to shareholders of record at the close of business on August 10, 2016.

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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.

12. Accumulated Other Comprehensive Income (Loss)

The following table shows changes in accumulated other comprehensive income (loss) by component for the three and six month periods ended June 30, 2016 and 2015:

	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, 2016	(in thousands)		
Beginning balance	$18,918	$(6,575)	$12,343
Other comprehensive income before reclassifications	8,508	—	8,508
Amounts reclassified from accumulated other comprehensive income (loss)	(146)	106	(40)
Net current-period other comprehensive income	8,362	106	8,468
Ending balance	$27,280	$(6,469)	$20,811
Three months ended June 30, 2015			
Beginning balance	$16,379	$(2,093)	$14,286
Other comprehensive loss before reclassifications	(11,341)	—	(11,341)
Amounts reclassified from accumulated other comprehensive income (loss)	(219)	63	(156)
Net current-period other comprehensive income (loss)	(11,560)	63	(11,497)
Ending balance	$4,819	$(2,030)	$2,789
Six months ended June 30, 2016			
Beginning balance	$386	$(6,681)	$(6,295)
Other comprehensive loss before reclassifications	27,278	—	27,278
Amounts reclassified from accumulated other comprehensive income (loss)	(384)	212	(172)
Net current-period other comprehensive income	26,894	212	27,106
Ending balance	$27,280	$(6,469)	$20,811
Six months ended June 30, 2015			
Beginning balance	$7,462	$(1,841)	$5,621
Other comprehensive loss before reclassifications	(1,965)	(280)	(2,245)
Amounts reclassified from accumulated other comprehensive income (loss)	(678)	91	(587)
Net current-period other comprehensive loss	(2,643)	(189)	(2,832)
Ending balance	$4,819	$(2,030)	$2,789

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(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, 2016 and 2015:

	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)				
	Three Months Ended June 30,		Six Months Ended June 30,		Affected line Item in the Consolidated
	2016	2015	2016	2015	Statement of Income
	(in thousands)				
Unrealized gains and losses on available-for-sale securities					
Investment securities gains	$229	$343	$602	$1,064	Investment securities gains, net
	229	343	602	1,064	Total before tax
	(83)	(124)	(218)	(386)	Income tax provision
	$146	$219	$384	$678	Net of tax
Amortization of pension plan liability					
Actuarial losses	$(167)	$(98)	$(334)	$(142)	Compensation and employee benefits
	(167)	(98)	(334)	(142)	Total before tax
	61	35	122	51	Income tax benefit
	$(106)	$(63)	$(212)	$(91)	Net of tax

13. Fair Value Accounting and Measurement

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

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

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

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

Fair values are determined as follows:

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

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

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The following table sets forth the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis at June 30, 2016 and December 31, 2015 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, 2016	(in thousands)			
Assets				
Securities available for sale:				
U.S. government agency and government-sponsored enterprise mortgage-back securities and collateralized mortgage obligations	$1,421,686	$ —	$ 1,421,686	$ —
State and municipal debt securities	518,365	—	518,365	—
U.S. government agency and government-sponsored enterprise securities	333,743	—	333,743	—
U.S. government securities	549	549	—	—
Other securities	5,209	—	5,209	—
Total securities available for sale	$2,279,552	$ 549	$ 2,279,003	$ —
Other assets (Interest rate contracts)	$21,904	$ —	$ 21,904	$ —
Liabilities				
Other liabilities (Interest rate contracts)	$21,951	$ —	$ 21,951	$ —

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

There were no transfers between Level 1 and Level 2 of the valuation hierarchy during the six month periods ended June 30, 2016 and 2015. The Company recognizes transfers between levels of the valuation hierarchy based on the valuation level at the end of the reporting period.

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Nonrecurring Measurements

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

Impaired loans—A loan is considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due (both interest and principal) according to the contractual terms of the loan agreement. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, a loan's observable market price, or the fair market value of the collateral less estimated costs to sell if the loan is a collateral-dependent loan. Generally, the Company utilizes the fair market value of the collateral to measure impairment. The impairment evaluations are performed in conjunction with the 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, 2016	Fair Value Measurements at Reporting Date Using			Losses During the Three Months Ended June 30, 2016	Losses During the Six Months Ended June 30, 2016
		Level 1	Level 2	Level 3		
	(in thousands)					
Impaired loans	$3,218	$ —	$ —	$ 3,218	$ 2,691	$ 2,691
OREO	6,338	—	—	6,338	138	233
	$9,556	$ —	$ —	$ 9,556	$ 2,829	$ 2,924

	Fair value at June 30, 2015	Fair Value Measurements at Reporting Date Using			Losses During the Three Months Ended June 30, 2015	Losses During the Six Months Ended June 30, 2015
		Level 1	Level 2	Level 3		
	(in thousands)					
Impaired loans	$—	$ —	$ —	$ —	$ 1,138	$ 1,138
OREO	1,664	$ —	—	1,664	611	655
	$1,664	$ —	$ —	$ 1,664	$ 1,749	$ 1,793

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, 2016	Valuation Technique	Unobservable Input	Range (Weighted Average) (1)
	(dollars in thousands)			
Impaired loans - collateral-dependent (3)	$303	Fair Market Value of Collateral	Adjustment to Stated Value	N/A (2)
Impaired loans - other	$2,915	Discounted Cash Flow	Discount Rate	2.99% - 10.25% (6.03%)
OREO	$6,338	Fair Market Value of Collateral	Adjustment to Appraisal Value	N/A (2)

(1) Discount rate used in discounted cash flow valuation.

(2) Quantitative disclosures are not provided for collateral-dependent impaired loans and OREO because there were no adjustments made to the appraisal values or stated values during the current period.

(3) Collateral consists of fixed assets and accounts receivable.

	Fair value at June 30, 2015	Valuation Technique	Unobservable Input	Range (Weighted Average) (1)
	(dollars in thousands)			
Impaired loans (2)	$—	Fair Market Value of Collateral	Adjustment to Appraisal Value	100%
OREO	$1,664	Fair Market Value of Collateral	Adjustment to Appraisal Value	N/A (3)

(1) Discount applied to appraisal value, letter of intent to purchase, or stated value (in the case of accounts receivable, inventory and equipment).

(2) As there was only one impaired loan remeasured, a range of discounts could not be provided. The collateral for this loan consisted of non-proprietary software.

(3) Quantitative disclosures are not provided for OREO because there were no adjustments made to the appraisal value during the current period.

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Fair value of financial instruments

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

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and due from banks and interest-earning deposits with banks—The fair value of financial instruments that are short-term or reprice frequently and that have little or no risk are considered to have a fair value that approximates carrying value (Level 1).

Securities available for sale—Securities at fair value, other than U.S. Treasury Notes, are priced using a combination of market activity, industry recognized information sources, yield curves, discounted cash flow models and other factors (Level 2). U.S. Treasury Notes are priced using quotes in active markets (Level 1).

Federal Home Loan Bank stock—The fair value is based upon the par value of the stock which equates to its carrying value (Level 2).

Loans held for sale—The carrying amount of loans held for sale approximates their fair values due to the short period of time between the origination and sale dates (Level 2).

Loans—Loans are not recorded at fair value on a recurring basis. Nonrecurring fair value adjustments are periodically recorded on impaired loans that are measured for impairment based on the fair value of collateral. For most performing loans, fair value is estimated using expected duration and lending rates that would have been offered on June 30, 2016 or December 31, 2015, for loans which mirror the attributes of the loans with similar rate structures and average maturities. The fair values resulting from these calculations are reduced by an amount representing the change in estimated fair value attributable to changes in borrowers' credit quality since the loans were originated. For nonperforming loans, fair value is estimated by applying a valuation discount based upon loan sales data from the FDIC. For PCI loans, fair value is estimated by discounting the expected future cash flows using a lending rate that would have been offered on June 30, 2016 (Level 3).

FDIC loss-sharing asset —The fair value of the FDIC loss-sharing asset is estimated based on discounting the expected future cash flows using an estimated market rate (Level 3).

Interest rate contracts—Interest rate swap positions are valued in discounted cash flow models, which use readily observable market parameters as their basis (Level 2).

Deposits—For deposits with no contractual maturity, the fair value is equal to the carrying value (Level 1). The fair value of fixed maturity deposits is based on discounted cash flows using the difference between the deposit rate and current market rates for deposits of similar remaining maturities (Level 2).

FHLB advances—The fair value of FHLB advances is estimated based on discounting the future cash flows using the market rate currently offered (Level 2).

Repurchase Agreements—The fair value of term repurchase agreements is estimated based on discounting the future cash flows using the market rate currently offered. The carrying amount of sweep repurchase agreements approximates their fair values due to the short period of time between repricing dates (Level 2).

Other Financial Instruments—The majority of our commitments to extend credit and standby letters of credit carry current market interest rates if converted to loans, as such, carrying value is assumed to equal fair value.

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The following tables summarize carrying amounts and estimated fair values of selected financial instruments as well as assumptions used by the Company in estimating fair value at June 30, 2016 and December 31, 2015:

	June 30, 2016				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
	(in thousands)				
Assets					
Cash and due from banks	$167,172	$167,172	$167,172	$—	$ —
Interest-earning deposits with banks	11,216	11,216	11,216	—	—
Securities available for sale	2,279,552	2,279,552	549	2,279,003	—
FHLB stock	18,161	18,161	—	18,161	—
Loans held for sale	7,649	7,649	—	7,649	—
Loans	6,037,839	6,171,314	—	—	6,171,314
FDIC loss-sharing asset	4,266	1,229	—	—	1,229
Interest rate contracts	21,904	21,904	—	21,904	—
Liabilities					
Deposits	$7,673,213	$7,670,628	$7,251,213	$419,415	$ —
FHLB Advances	204,512	205,818	—	205,818	—
Repurchase agreements	89,218	89,645	—	89,645	—
Interest rate contracts	21,951	21,951	—	21,951	—

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

14. Earnings per Common Share

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

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The following table sets forth the computation of basic and diluted earnings per share for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands except per share)			
Basic EPS:				
Net income	$25,405	$21,946	$46,664	$46,307
Less: Earnings allocated to participating securities:				
Preferred shares	45	39	82	82
Nonvested restricted shares	343	248	578	475
Earnings allocated to common shareholders	$25,017	$21,659	$46,004	$45,750
Weighted average common shares outstanding	57,185	57,055	57,149	56,999
Basic earnings per common share	$0.44	$0.38	$0.80	$0.80
Diluted EPS:				
Earnings allocated to common shareholders (1)	$25,017	$21,659	$46,004	$45,750
Weighted average common shares outstanding	57,185	57,055	57,149	56,999
Dilutive effect of equity awards	10	14	11	13
Weighted average diluted common shares outstanding	57,195	57,069	57,160	57,012
Diluted earnings per common share	$0.44	$0.38	$0.80	$0.80
Potentially dilutive share options that were not included in the computation of diluted EPS because to do so would be anti-dilutive	19	37	23	45

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

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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, 2015 audited consolidated financial statements and its accompanying notes included in our Annual Report on Form 10-K. In the following discussion, unless otherwise noted, references to increases or decreases in average balances in items of income and expense for a particular period and balances at a particular date refer to the comparison with corresponding amounts for the period or date one year earlier.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, but are not limited to, statements about our plans, objectives, expectations and intentions that are not historical facts, and statements identified by words such as "expects," "anticipates," "intends," "plans," "believes," "should," "projects," "seeks," "estimates" or the negative version of 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 local housing/real estate markets where we operate and make loans could face challenges;
- the risks presented by the economy, which could adversely affect credit quality, collateral values, including real estate collateral, investment values, liquidity and loan originations and loan portfolio delinquency rates;
- the efficiencies and enhanced financial and operating performance we expect to realize from investments in personnel, acquisitions and infrastructure may not be realized;
- the ability to complete future acquisitions and to successfully integrate acquired entities;
- interest rate changes could significantly reduce net interest income and negatively affect funding sources;
- projected business increases following strategic expansion or opening of new branches could be lower than expected;
- changes in the scope and cost of Federal Deposit Insurance Corporation ("FDIC") insurance and other coverages;
- the impact of acquired loans on our earnings;
- changes in accounting principles, policies, and guidelines applicable to bank holding companies and banking;
- changes in laws and regulations affecting our businesses, including changes in the enforcement and interpretation of such laws and regulations by applicable governmental and regulatory agencies;
- competition among financial institutions and nontraditional providers of financial services could increase significantly;
- continued consolidation in the Pacific Northwest financial services industry resulting in the creation of larger financial institutions that may have greater resources could change the competitive landscape;
- the goodwill we have recorded in connection with acquisitions could become impaired, which may have an adverse impact on our earnings and capital;
- the reputation of the financial services industry could deteriorate, which could adversely affect our ability to access markets for funding and to acquire and retain customers;
- our ability to identify and address cyber-security risks, including security breaches, "denial of service attacks," "hacking" and identity theft;
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- 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.

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

CRITICAL ACCOUNTING POLICIES

Management has identified the accounting policies related to the allowance for loan and lease losses (the “allowance”), business combinations, purchased credit impaired (“PCI”) loans, FDIC loss-sharing asset 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,” “Purchased Credit Impaired Loans,” “FDIC Loss-sharing Asset” and “Valuation and Recoverability of Goodwill” in our 2015 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 2015 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, debit and credit cards and merchant card processing. 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

The Company reported net income for the second quarter of $25.4 million or $0.44 per diluted common share, compared to $21.9 million or $0.38 per diluted common share for the second quarter of 2015. The increase in net income for the current quarter compared to the prior year period was due to a combination of higher net interest income and noninterest income, as well as lower noninterest expense, partially offset by an increase in provision for loan and lease losses.

Comparison of current quarter to prior year period

Net interest income for the three months ended June 30, 2016 was $82.1 million, an increase of $1.1 million from the prior year period. The increase was a result of higher interest income on taxable securities primarily due to higher volume of such securities. Noninterest income for the current quarter was $21.9 million, an increase of $478 thousand from the prior year period. The increase was due to higher loan and card revenue as well as lower expenses from the FDIC loss-sharing asset. For a more complete discussion of these topics, please refer to the net interest income and noninterest income sections contained in the ensuing pages.

The provision for loan and lease losses for the second quarter of 2016 was $3.6 million compared to a provision of $2.2 million during the second quarter of 2015. The provision recorded in the second quarter of 2016 was due to the recording of a $3.6 million provision on loans, excluding PCI loans, and a $91 thousand provision related to PCI loans. For a more complete discussion of this topic, please refer to the provision for loan and lease losses section contained in the ensuing pages.

Total noninterest expense for the quarter ended June 30, 2016 was $63.8 million, down from $68.5 million for the second quarter of 2015. The decrease from the prior year period was primarily due to lower acquisition-related expenses. For a more complete discussion of this topic, please refer to the noninterest expense section contained in the ensuing pages.

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

Net interest income for the six months ended June 30, 2016 was $162.3 million, an increase of $936 thousand from the prior year period. The increase was due to higher loan and securities volumes, partially offset by lower incremental accretion income on loans. Noninterest income for the current period was $42.6 million, a decrease of $1.6 million from the prior year period. The decrease was due to higher expense recorded for the change in FDIC loss-sharing asset and lower financial services revenue. For a more complete discussion of these topics, please refer to the net interest

income and noninterest income sections contained in the ensuing pages.
The provision for loan and lease losses for the six months ended June 30, 2016 was $8.9 million compared to a provision of $3.4 million for the first six months of 2015. The $8.9 million provision was due to recording a provision of $8.2 million for loans, excluding PCI loans, and a provision of $744 thousand related to PCI loans. For a more complete discussion of this topic, please refer to the provision for loan and lease losses section contained in the ensuing pages.

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Total noninterest expense for the six months ended June 30, 2016 was $128.9 million, a 5% decrease from the prior year period. The decrease from the prior-year period was primarily due to lower acquisition-related expenses. For a more complete discussion of this topic, please refer to the noninterest expense section contained in the ensuing pages.

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, 2016			Three Months Ended June 30, 2015		
	Average Balances	Interest Earned / Paid	Average Rate	Average Balances	Interest Earned / Paid	Average Rate
	(dollars in thousands)					
ASSETS						
Loans, net (1)(2)	$5,999,428	$ 72,952	4.86 %	$5,542,489	$ 72,410	5.23 %
Taxable securities	1,801,195	8,829	1.96 %	1,516,740	7,260	1.91 %
Tax exempt securities (2)	460,817	4,300	3.73 %	460,219	4,632	4.03 %
Interest-earning deposits with banks	23,743	28	0.47 %	40,840	26	0.25 %
Total interest-earning assets	8,285,183	$ 86,109	4.16 %	7,560,288	$ 84,328	4.46 %
Other earning assets	154,843			148,573		
Noninterest-earning assets	790,765			823,312		
Total assets	$9,230,791			$8,532,173		
LIABILITIES AND SHAREHOLDERS’ EQUITY						
Certificates of deposit	$428,279	$ 140	0.13 %	$489,984	$ 236	0.19 %
Savings accounts	692,179	18	0.01 %	626,930	17	0.01 %
Interest-bearing demand	949,669	183	0.08 %	883,366	155	0.07 %
Money market accounts	1,956,257	446	0.09 %	1,752,821	332	0.08 %
Total interest-bearing deposits	4,026,384	787	0.08 %	3,753,101	740	0.08 %
Federal Home Loan Bank advances	161,637	241	0.60 %	121,828	154	0.51 %
Other borrowings	76,771	135	0.70 %	86,084	136	0.63 %
Total interest-bearing liabilities	4,264,792	$ 1,163	0.11 %	3,961,013	$ 1,030	0.10 %
Noninterest-bearing deposits	3,595,882			3,225,371		
Other noninterest-bearing liabilities	102,447			97,902		
Shareholders’ equity	1,267,670			1,247,887		
Total liabilities & shareholders’ equity	$9,230,791			$8,532,173		
Net interest income (tax equivalent)		$ 84,946			$ 83,298	
Net interest margin (tax equivalent)			4.10 %			4.41 %

(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 $1.2 million and $1.5 million for the three month periods ended June 30, 2016 and 2015, respectively. The incremental accretion income on acquired loans was $4.4 million and $7.3 million for the three months ended June 30, 2016 and 2015, respectively.

(2) Tax-exempt income is calculated on a tax equivalent basis. The tax equivalent yield adjustment to interest earned on loans was $1.3 million and $666 thousand for the three months ended June 30, 2016 and 2015, respectively. The tax equivalent yield adjustment to interest earned on tax exempt securities was $1.5 million and $1.6 million for the three months ended June 30, 2016 and 2015, 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, 2016			Six Months Ended June 30, 2015		
	Average Balances	Interest Earned / Paid	Average Rate	Average Balances	Interest Earned / Paid	Average Rate
	(dollars in thousands)					
ASSETS						
Loans, net (1)(2)	$5,913,434	$ 144,250	4.88 %	$5,479,067	$ 143,897	5.25 %
Taxable securities	1,745,242	16,846	1.93 %	1,562,776	14,786	1.89 %
Tax exempt securities (2)	459,492	8,612	3.75 %	459,853	9,311	4.05 %
Interest-earning deposits with banks	27,396	66	0.48 %	43,054	53	0.25 %
Total interest-earning assets	8,145,564	$ 169,774	4.17 %	7,544,750	$ 168,047	4.45 %
Other earning assets	154,589			147,321		
Noninterest-earning assets	789,848			826,976		
Total assets	$9,090,001			$8,519,047		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Certificates of deposit	$438,597	$ 284	0.13 %	$496,101	$ 476	0.19 %
Savings accounts	684,027	35	0.01 %	626,036	36	0.01 %
Interest-bearing demand	938,809	352	0.07 %	1,047,844	293	0.06 %
Money market accounts	1,943,416	858	0.09 %	1,784,198	683	0.08 %
Total interest-bearing deposits	4,004,849	1,529	0.08 %	3,954,179	1,488	0.08 %
Federal Home Loan Bank advances	106,103	365	0.69 %	125,812	313	0.50 %
Other borrowings	83,735	273	0.65 %	97,066	282	0.58 %
Total interest-bearing liabilities	4,194,687	$ 2,167	0.10 %	4,177,057	$ 2,083	0.10 %
Noninterest-bearing deposits	3,529,131			2,999,075		
Other noninterest-bearing liabilities	103,143			98,526		
Shareholders' equity	1,263,040			1,244,389		
Total liabilities & shareholders' equity	$9,090,001			$8,519,047		
Net interest income (tax equivalent)		$ 167,607			$ 165,964	
Net interest margin (tax equivalent)			4.12 %			4.40 %

(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 $2.3 million and $2.6 million for the six months ended June 30, 2016 and 2015, respectively. The incremental accretion income on acquired loans was $9.1 million and $14.8 million for the six months ended June 30, 2016 and 2015, respectively.

(2) Tax-exempt income is calculated on a tax equivalent basis. The tax equivalent yield adjustment to interest earned on loans was $2.3 million and $1.3 million for the six months ended June 30, 2016 and 2015, respectively. The tax equivalent yield adjustment to interest earned on tax exempt securities was $3.0 million and $3.3 million for the six months ended June 30, 2016 and 2015, 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, 2016 Compared to 2015 Increase (Decrease) Due to		
	Volume	Rate	Total
	(in thousands)		
Interest Income			
Loans, net	$5,745	$(5,203)	$542
Taxable securities	1,391	178	1,569
Tax exempt securities	6	(338)	(332)
Interest earning deposits with banks	(14)	16	2
Interest income	$7,128	$(5,347)	$1,781
Interest Expense			
Deposits:			
Certificates of deposit	$(27)	$(69)	$(96)
Savings accounts	2	(1)	1
Interest-bearing demand	12	16	28
Money market accounts	40	74	114
Total interest on deposits	27	20	47
Federal Home Loan Bank advances	56	31	87
Other borrowings	(62)	61	(1)
Interest expense	$21	$112	$133

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, 2016 Compared to 2015 Increase (Decrease) Due to		
	Volume	Rate	Total
	(in thousands)		
Interest Income			
Loans, net	$10,980	$(10,627)	$353
Taxable securities	1,757	303	2,060
Tax exempt securities	(7)	(692)	(699)
Interest earning deposits with banks	(24)	37	13
Interest income	$12,706	$(10,979)	$1,727
Interest Expense			
Deposits:			
Certificates of deposit	$(50)	$(142)	$(192)
Savings accounts	4	(5)	(1)
Interest-bearing demand	(33)	92	59
Money market accounts	64	111	175
Total interest on deposits	(15)	56	41
Federal Home Loan Bank advances	(55)	107	52

Other borrowings	(70)	61	(9)
Interest expense	$(140)	$224	$84

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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,	
	2016	2015	2016	2015
	(dollars in thousands)			
Incremental accretion income due to:				
FDIC purchased credit impaired loans	$1,300	$2,367	$2,957	$4,814
Other FDIC acquired loans (2)	—	15	—	132
Other acquired loans	3,074	4,889	6,147	9,823
Incremental accretion income	$4,374	$7,271	$9,104	$14,769
Net interest margin (tax equivalent)	4.10 %	4.41 %	4.12 %	4.40 %
Operating net interest margin (tax equivalent) (1)	4.00 %	4.17 %	4.01 %	4.18 %

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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.
(2) For 2016, incremental accretion income on other FDIC acquired loans is no longer considered significant.

Comparison of current quarter to prior year period

Net interest income for the second quarter of 2016 was $82.1 million, up from $81.0 million for the same quarter in 2015. The increase was due to higher loan and securities volumes, partially offset by lower incremental accretion income on loans. As shown in the table above, incremental accretion income continued to decline which was reflective of the decrease in volume of acquired loans. Average interest-earning assets were up $724.9 million from the prior year period due to loan growth and purchases of investment securities. The Company's net interest margin (tax equivalent) decreased to 4.10% in the second quarter of 2016, from 4.41% for the prior year period. This decrease was due to lower incremental accretion income on acquired loans as discussed above. The Company's operating net interest margin (tax equivalent) decreased to 4.00% from 4.17% due to lower yielding originated loans (see footnote 1 in prior table).

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

Net interest income for the six months ended June 30, 2016 was $162.3 million, an increase of 1% from $161.4 million for the prior year period. The increase in net interest income was due to higher loan and securities volumes, partially offset by lower incremental accretion income on loans. The Company's net interest margin (tax equivalent) decreased to 4.12% for the first six months of 2016, from 4.40% for the prior year period. The decrease in the Company's net interest margin (tax equivalent) was primarily due to lower accretion income on the acquired loan portfolios. As shown in the table above, the Company recorded $9.1 million in total incremental accretion during the six months ended June 30, 2016, a decrease of $5.7 million from the prior year period. The Company's operating net interest margin (tax equivalent) for the six months ended June 30, 2016 decreased to 4.01% from 4.18% due to lower yielding originated loans (see footnote 1 in prior table).

Provision for Loan and Lease Losses

Comparison of current quarter to prior year period

During the second quarter of 2016, the Company recorded a $3.6 million provision expense compared with a provision expense of $2.2 million during the second quarter of 2015. The $3.6 million net provision for loan and lease losses recorded during the current quarter was driven by loans, excluding PCI loans, which was $3.6 million. Net provision expense for PCI loans was $91 thousand. The $3.6 million provision for loans, excluding PCI loans, was due to growth in the loan portfolio and net charge-off activity. The provision recorded relating to PCI loans was due to the decrease 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 2016. The amount of provision was calculated in accordance with the Company's methodology for determining the allowance, discussed in Note 5 to the Consolidated Financial Statements in "Item 1. Financial Statements (unaudited)" of this report.

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

The provision for loan and lease losses for the six months ended June 30, 2016 was $8.9 million compared with provision expense of $3.4 million during the same period in 2015. The $8.9 million provision expense for loans recorded for the current year-to-date period included a provision of $8.2 million for loans, excluding PCI loans and a provision of $744 thousand related to PCI loans. The provision of $8.2 million related to loans, excluding PCI loans, was due to the combination of loan growth and net loan charge-offs experienced in the period. The $744 thousand in provision expense for PCI loans was primarily due to the decrease 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 2015, 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 5 to the Consolidated Financial Statements in “Item 1. Financial Statements (unaudited)” of this report.

Noninterest Income

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2016	2015 (1)	$ Change	% Change	2016	2015 (1)	$ Change	% Change
	(dollars in thousands)							
Deposit account and treasury management fees (1)	$7,093	$7,351	$(258)	(4)%	$14,082	$14,211	$(129)	(1)%
Card revenue (1)	6,051	5,702	349	6 %	11,703	11,065	638	6 %
Financial services and trust revenue (1)	2,780	3,217	(437)	(14)%	5,601	6,341	(740)	(12)%
Loan revenue (1)	2,802	2,322	480	21 %	5,064	4,925	139	3 %
Merchant processing revenue	2,272	2,340	(68)	(3)%	4,374	4,380	(6)	— %
Bank owned life insurance	1,270	1,206	64	5 %	2,386	2,284	102	4 %
Other (1)	433	475	(42)	(9)%	867	1,303	(436)	(33)%
Subtotal	22,701	22,613	88	— %	44,077	44,509	(432)	(1)%
Investment securities gains, net	229	343	(114)	(33)%	602	1,064	(462)	(43)%
Change in FDIC loss-sharing asset	(990)	(1,494)	504	(34)%	(2,093)	(1,344)	(749)	56 %
Total noninterest income	$21,940	$21,462	$478	2 %	$42,586	$44,229	$(1,643)	(4)%

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(1) Reclassified to conform to the current period’s presentation. Reclassifications consisted of disaggregating income previously presented as ‘Service charges and other fees’ and certain income previously presented in ‘Other’ into the presentation above. There was no change to total noninterest income as previously reported as a result of these reclassifications.

Comparison of current quarter to prior year period

Noninterest income was $21.9 million for the second quarter of 2016, compared to $21.5 million for the same period in 2015. The increase was due to loan and card revenue as well as lower expenses from the FDIC loss-sharing asset. Card revenue, which consists principally of debit card interchange and ATM fees, was up $349 thousand principally from higher interchange fees driven by higher transaction volumes. The increase in loan revenue was due to sales of Small Business Administration-guaranteed loans and, to a lesser extent, mortgage banking activity. These increases were partially offset by lower financial services revenue which is sensitive to stock market volatility.

The change in the FDIC loss-sharing asset has been a significant component of noninterest income. Changes in the asset are primarily driven by amortization of the asset, the provision recorded for reimbursable losses on covered loans and write-downs of covered other real estate owned (“OREO”). For the second quarter of 2016, the change in the asset was primarily driven by $883 thousand of amortization of the asset. For additional information on the FDIC loss-sharing asset, please see the “FDIC Loss-sharing Asset” section of this Management’s Discussion and Analysis and Note 7 to the Consolidated Financial Statements in “Item 1. Financial Statements (unaudited)” of this report.

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

For the six months ended June 30, 2016, noninterest income was $42.6 million compared to $44.2 million for the same period in 2015. The decrease was due to higher expense recorded for the change in the FDIC loss-sharing asset, which was $749 thousand more in the current period compared to the prior year period. The decrease was also driven by lower financial services revenue which is sensitive to stock market volatility.

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,			
	2016	2015	$ Change	% Change	2016	2015	$ Change	% Change
	(dollars in thousands)							
Compensation and employee benefits	$37,291	$38,446	$(1,155)	(3)%	$73,610	$77,546	$(3,936)	(5)%
All other noninterest expense:								
Occupancy	7,652	8,687	(1,035)	(12)%	17,825	16,680	1,145	7 %
Merchant processing expense	1,118	1,079	39	4 %	2,151	2,056	95	5 %
Advertising and promotion	1,043	1,195	(152)	(13)%	1,885	2,126	(241)	(11)%
Data processing	3,929	4,242	(313)	(7)%	8,075	9,226	(1,151)	(12)%
Legal and professional services	1,777	2,847	(1,070)	(38)%	3,102	5,354	(2,252)	(42)%
Taxes, license and fees	1,298	1,427	(129)	(9)%	2,588	2,659	(71)	(3)%
Regulatory premiums	1,068	1,321	(253)	(19)%	2,209	2,542	(333)	(13)%
Net cost (benefit) of operation of other real estate owned	84	(563)	647	(115)%	188	(1,809)	1,997	(110)%
Amortization of intangibles	1,483	1,718	(235)	(14)%	3,066	3,535	(469)	(13)%
Other	7,047	8,072	(1,025)	(13)%	14,165	15,290	(1,125)	(7)%
Total all other noninterest expense	26,499	30,025	(3,526)	(12)%	55,254	57,659	(2,405)	(4)%
Total noninterest expense	$63,790	$68,471	$(4,681)	(7)%	$128,864	$135,205	$(6,341)	(5)%

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		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
	(in thousands)			
Acquisition-related expenses:				
Compensation and employee benefits	$—	$3,035	$35	$3,373
Occupancy	—	804	2,383	1,303
Advertising and promotion	—	247	—	343
Data processing	—	180	18	1,738
Legal and professional fees	—	632	—	1,024
Other	—	745	—	836
Total impact of acquisition-related expense to noninterest expense (1)	$—	$5,643	$2,436	$8,617

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(1) There were no acquisition-related expenses recorded during the three months ended June 30, 2016 and all of the acquisition-related expenses recorded during the six months ended June 30, 2016 were related to the 2014 acquisition of Intermountain Community Bancorp ("Intermountain"). Of the $8.6 million in acquisition-related expenses recorded during the six months ended June 30, 2015, $8.5 million related to the Intermountain acquisition and $72 thousand

related to the 2013 acquisition of West Coast Bancorp.

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Comparison of current quarter to prior year period

Total noninterest expense for the second quarter of 2016 was $63.8 million, a decrease of $4.7 million, or 7% from the prior year period. The decrease was due to lower acquisition-related expenses. After removing the effect of the acquisition-related expenses, noninterest expense for the current quarter was $962 thousand higher than the second quarter of 2015 on the same basis. This increase was due to higher compensation and benefits, driven by higher insurance expense as well as higher OREO expenses. Net OREO expenses were a net cost of $84 thousand in the current quarter but were a net benefit of $563 thousand in the second quarter of 2015.

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

For the six months ended June 30, 2016, noninterest expense was $128.9 million, a decrease of $6.3 million, or 5% from $135.2 million a year earlier. The decrease from the prior year period was due to lower acquisition-related expenses. After removing the effect of the acquisition-related expenses, noninterest expense for the current year-to-date period was $160 thousand lower than the prior year period on the same basis as lower legal and professional fees and lower compensation and employee benefits were offset by an increase in net OREO expenses.

The following table presents selected items included in other noninterest expense and the associated change from period to period:

	Three Months Ended June 30,		Increase (Decrease)	Six Months Ended June 30,		Increase (Decrease)
	2016	2015 (1)	Amount	2016	2015 (1)	Amount
	(in thousands)					
Postage	$546	$608	$ (62)	$1,131	$1,416	$ (285)
Software support and maintenance	1,235	834	401	2,269	1,871	398
Supplies	256	405	(149)	711	722	(11)
Loan expenses (1)	383	354	29	690	817	(127)
Dues and subscriptions (1)	260	289	(29)	617	564	53
Insurance	482	630	(148)	957	1,026	(69)
Card expenses (1)	703	784	(81)	1,370	1,599	(229)
Travel and entertainment (1)	929	1,279	(350)	1,616	2,054	(438)
Employee expenses	365	378	(13)	655	657	(2)
Sponsorships and charitable contributions	525	563	(38)	1,144	995	149
Directors fees	189	216	(27)	381	455	(74)
Correspondent bank processing fees	143	181	(38)	275	328	(53)
Investor relations	124	209	(85)	164	270	(106)
Other personal property owned	—	2	(2)	(2)	6	(8)
FDIC clawback expense	70	(30)	100	279	(7)	286
Fraud losses (1)	101	288	(187)	167	438	—
Miscellaneous (1)	736	1,082	(346)	1,741	2,079	(338)
Total other noninterest expense	$7,047	$8,072	$ (1,025)	$14,165	$15,290	$ (854)

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(1) Reclassified to conform to the current period’s presentation. The reclassification was limited to creating new lines within other noninterest expense. There were no changes to previously reported total other noninterest expense as a result of these reclassifications.

Comparison of current quarter to prior year period

Other noninterest expense decreased $1.0 million due to lower acquisition-related expenses, partially offset by higher software support and maintenance in the current quarter.

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

Other noninterest expense decreased $854 thousand due to lower acquisition-related expenses, partially offset by higher software support and maintenance in the current period.

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FDIC Acquired Loan Accounting

Two of our non-single family FDIC loss-sharing agreements expired in 2015 and the remaining two such agreements expired in the second quarter of 2016. In addition, the balance of our loan portfolios acquired from the FDIC continues to diminish over time. As a result, the significance to our result of operations from FDIC acquired loan accounting has also diminished. The following table illustrates the impact to earnings associated with the Company's FDIC acquired loan portfolios for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Incremental accretion income on FDIC purchased credit impaired loans	$1,300	$2,367	$2,957	$4,814
Incremental accretion income on other FDIC acquired loans (1)	—	15	—	132
Provision for losses on purchased credit impaired loans	(91)	(476)	(744)	(3,085)
Change in FDIC loss-sharing asset (2)	(990)	(1,494)	(2,093)	(1,344)
FDIC clawback liability recovery (expense)	(70)	30	(279)	7
Pre-tax earnings impact of FDIC acquired loan portfolios	$149	$442	$(159)	$524

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(1) For 2016, incremental accretion income on other FDIC acquired loans is no longer considered significant.

(2) For additional information on the FDIC loss-sharing asset, please see the "FDIC Loss-sharing Asset" section of this Management's Discussion and Analysis and Note 7 to the Consolidated Financial Statements in "Item 1. Financial Statements (unaudited)" of this report.

Income Taxes

We recorded an income tax provision of $11.2 million for the second quarter of 2016, compared to a provision of $9.9 million for the same period in 2015, with an effective tax rate of 31% for both periods. For the six months ended June 30, 2016 and 2015, we recorded an income tax provision of $20.5 million and $20.7 million, respectively, with an effective tax rate of 30% and 31%, respectively. Our effective tax rate remains lower than the statutory tax rate due to the amount of tax-exempt municipal securities held in the investment portfolio, tax-exempt earnings on bank owned life insurance and loans with favorable tax attributes. For additional information, please refer to the Company's annual report on Form 10-K for the year ended December 31, 2015.

FINANCIAL CONDITION

Total assets were $9.35 billion as of June 30, 2016, an increase of $402.0 million from $8.95 billion at December 31, 2015. Loan growth of $292.1 million during the quarter was driven by strong loan originations of $337.8 million. Loan production was diversified across the portfolio, but was centered in our commercial business and commercial and multifamily residential real estate sectors. Securities available for sale were $2.28 billion at June 30, 2016, an increase of $121.9 million from December 31, 2015. Total liabilities were $8.08 billion as of June 30, 2016, an increase of $369.6 million from $7.71 billion at December 31, 2015. The increase was due to increases in deposits and Federal Home Loan Bank advances.

Investment Securities Available for Sale

At June 30, 2016, the Company held investment securities totaling $2.28 billion compared to $2.16 billion at December 31, 2015. The increase in the investment securities portfolio from year-end is due to $296.9 million in purchases and a $42.2 million increase in the net unrealized gain of securities in the portfolio, partially offset by $206.6 million in principal payments, maturities and sales and $10.6 million in premium amortization. The average duration of our investment portfolio was approximately 3 years and 10 months at June 30, 2016. 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 committee. In accordance with our investment strategy, management monitors market conditions with a view to realize gains on its available for sale securities portfolio when prudent.

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

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

At June 30, 2016, the market value of securities available for sale had a net unrealized gain of $42.3 million compared to a net unrealized gain of $84 thousand at December 31, 2015. The change in valuation was the result of fluctuations in market interest rates subsequent to purchase. At June 30, 2016, the Company had $248.2 million of investment securities with gross unrealized losses of $2.4 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, 2016	December 31, 2015
	(in thousands)	
Securities Available for Sale		
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	$1,421,686	$ 1,286,489
State and municipal securities	518,365	492,169
U.S. government and government-sponsored enterprise securities	333,743	353,782
U.S. government securities	549	20,137
Other securities	5,209	5,117
Total	$2,279,552	$ 2,157,694

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

Credit Risk Management

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

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

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We review these loans to assess the ability of our borrowers to service all interest and principal obligations and, as a result, the risk rating may be adjusted accordingly. In the event that full collection of principal and interest is not reasonably assured, the loan is appropriately downgraded and, if warranted, placed on nonaccrual status even though the loan may be current as to principal and interest payments. Additionally, we assess whether an 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 2015 Annual Report on Form 10-K.

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

Loan Portfolio Analysis

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

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

	June 30, 2016	% of Total	December 31, 2015	% of Total
	(dollars in thousands)			
Commercial business	$2,518,682	41.2 %	$2,362,575	40.6 %
Real estate:				
One-to-four family residential	172,957	2.8 %	176,295	3.0 %
Commercial and multifamily residential	2,651,476	43.6 %	2,491,736	42.9 %
Total real estate	2,824,433	46.4 %	2,668,031	45.9 %
Real estate construction:				
One-to-four family residential	129,195	2.1 %	135,874	2.3 %
Commercial and multifamily residential	185,315	3.0 %	167,413	2.9 %
Total real estate construction	314,510	5.1 %	303,287	5.2 %
Consumer	325,632	5.3 %	342,601	5.9 %
Purchased credit impaired	161,107	2.6 %	180,906	3.1 %
Subtotal	6,144,364	100.6 %	5,857,400	100.7 %
Less: Net unearned income	(37,221)	(0.6)%	(42,373)	(0.7)%
Loans, net of unearned income (before Allowance for Loan and Lease Losses)	$6,107,143	100.0 %	$5,815,027	100.0 %
Loans held for sale	$7,649		$4,509	

Total loans increased $292.1 million from year-end 2015. The loan growth was driven by substantial loan production during the first six months of the year, partially offset by contractual payments and prepayments. The loan portfolio continues to be diversified, with the intent to mitigate risk by minimizing concentration in any one sector. The $37.2 million in unearned income recorded at June 30, 2016 was comprised of $26.0 million in discount on acquired loans and $11.2 million in deferred loan fees. The $42.4 million in unearned income recorded at December 31, 2015 consisted of $32.2 million in discount on acquired loans and $10.2 million in deferred loan fees.

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

	June 30, 2016	December 31, 2015
Acquisition:	(in thousands)	
Intermountain	$7,458	$ 8,237
West Coast	18,966	24,367
Other	(446)	(432)
Total net discount at period end	$25,978	$ 32,172

Commercial Loans: We are committed to providing competitive commercial lending in our primary market areas. Management expects a continued focus within its commercial lending products and to emphasize, in particular, relationship banking with businesses and business owners.
Real Estate Loans: One-to-four family residential loans are secured by properties located within our primary market areas and, typically, have loan-to-value ratios of 80% or lower at origination. Our underwriting standards for commercial and multifamily residential loans generally require that the loan-to-value ratio for these loans not exceed 75% of appraised value, cost, or discounted cash flow value, as appropriate, and that commercial properties maintain debt coverage ratios (net operating income divided by annual debt servicing) of 1.2 or better. However, underwriting standards can be influenced by competition and other factors. We endeavor to maintain the highest practical underwriting standards while balancing the need to remain competitive in our lending practices.
Real Estate Construction Loans: We originate a variety of real estate construction loans. Underwriting guidelines for these loans vary by loan type but include loan-to-value limits, term limits and loan advance limits, as applicable. Our underwriting guidelines for commercial and multifamily residential real estate construction loans generally require that the loan-to-value ratio not exceed 75% and stabilized debt coverage ratios (net operating income divided by annual debt servicing) of 1.2 or better. As noted above, underwriting standards can be influenced by competition and other factors. However, we endeavor to maintain the highest practical underwriting standards while balancing the need to remain competitive in our lending practices.
Consumer Loans: Consumer loans include automobile loans, boat and recreational vehicle financing, home equity and home improvement loans and miscellaneous personal loans.
Foreign Loans: The Company has no material foreign activities. Substantially all of the Company’s loans and unfunded commitments are geographically concentrated in its service areas within the states of Washington, Oregon and Idaho.
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.
Nonaccrual loans: The Consolidated Financial Statements are prepared according to the accrual basis of accounting. This includes the recognition of interest income on the loan portfolio, unless a loan is placed on nonaccrual status, which occurs when there are serious doubts about the collectability of principal or interest. Our policy is generally to discontinue the accrual of interest on all loans past due 90 days or more and place them on nonaccrual status. Loans accounted for under ASC 310-30 are generally considered accruing and performing as the loans accrete interest income over the estimated lives of the loans when cash flows are reasonably estimable. Accordingly, PCI loans accounted for under ASC 310-30 that are contractually past due are still considered to be accruing and performing loans.

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

	June 30, 2016	December 31, 2015
	(in thousands)	
Nonperforming assets		
Nonaccrual loans:		
Commercial business	$9,548	$9,437
Real estate:		
One-to-four family residential	957	820
Commercial and multifamily residential	7,834	9,513
Total real estate	8,791	10,333
Real estate construction:		
One-to-four family residential	562	928
Total real estate construction	562	928
Consumer	4,014	766
Total nonaccrual loans	22,915	21,464
Other real estate owned and other personal property owned	10,613	13,738
Total nonperforming assets	$33,528	$35,202
Loans, net of unearned income	$6,107,143	$5,815,027
Total assets	$9,353,651	$8,951,697
Nonperforming loans to period end loans	0.38 %	0.37 %
Nonperforming assets to period end assets	0.36 %	0.39 %

At June 30, 2016, nonperforming assets were $33.5 million, compared to $35.2 million at December 31, 2015. Nonperforming assets decreased $1.7 million during the six months ended June 30, 2016, primarily due to OREO sales during the period.

Other Real Estate Owned: The following table sets forth activity in OREO for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Balance, beginning of period	$12,427	$23,299	$13,738	$22,190
Transfers in	206	3,143	311	7,836
Valuation adjustments	(139)	(596)	(276)	(793)
Proceeds from sale of OREO property	(1,950)	(6,484)	(3,276)	(11,608)
Gain on sale of OREO, net	69	1,255	116	2,992
Balance, end of period	$10,613	$20,617	$10,613	$20,617

Allowance for Loan and Lease Losses

We record an allowance to recognize management’s estimate of credit losses incurred in the loan portfolio at each balance sheet date. Management’s allowance estimate is measured quarterly and the primary components include allowances related to:

1. Loans collectively evaluated for impairment under the Contingencies topic of the FASB ASC.
2. Loans individually determined to be impaired in accordance with the Receivables topic of the FASB ASC.
3. Purchased credit impaired loans accounted for under the Receivables topic of the FASB ASC.

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On a quarterly basis, our Chief Credit Officer reviews with executive management and the board of directors the various factors that management considers when determining the adequacy of the allowance. These factors include the following:

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

The allowance is increased by provisions for loan and lease losses ("provision") charged to expense, and is reduced by loans charged off, net of recoveries or recapture of previous provision. While we believe the best information available is used to determine the allowance, changes in conditions could result in adjustments to the allowance, affecting net income, if circumstances differ from management's assumptions. In addition, the allowance may include an unallocated amount to recognize factors inherent in our loan portfolio not otherwise contemplated. Any unallocated amount generally comprises less than 5% of the allowance.

For loans individually determined to be impaired, the Company measures impairment on a loan-by-loan basis using either the discounted expected future cash flows, observable market price, or the fair value of the collateral less selling costs if the loan is collateral dependent or if foreclosure is probable. A specific reserve for such loans is recognized to the extent the measured value is less than the loan's recorded investment.

PCI loans are accounted for under ASC 310-30 and initially measured at fair value based on expected future cash flows over the life of the loans. PCI loans that have common risk characteristics are aggregated into pools. The Company re-measures contractual and expected loan cash flows, at the pool-level, on a quarterly basis. If, due to credit deterioration, the present value of expected cash flows, as periodically re-measured, is less than the carrying value of the loan pool, the Company adjusts the carrying value of the loan pool to the lower amount by adjusting the allowance with a charge to earnings through the provision for loan losses. If the present value of expected cash flows is greater than the carrying value of the loan pool, the Company adjusts the carrying value of the loan pool to a higher amount by recapturing previously recorded allowance for loan losses, if any.

At June 30, 2016, our allowance was $69.3 million, or 1.13% of total loans (excluding loans held for sale). This compares with an allowance of $68.2 million, or 1.17% of total loans (excluding loans held for sale) at December 31, 2015 and an allowance of $69.3 million or 1.23% of total loans (excluding loans held for sale) at June 30, 2015.

In addition to the allowance, we recognize a liability for unfunded commitments and letters of credit. We report this amount in other liabilities on our Consolidated Balance Sheet. We measure this amount based upon our estimates of the probability of funding and losses related to those credit exposures. This methodology is similar to how we measure our allowance. For additional information on the liability for unfunded commitments and letters of credit, see Note 5 to the Consolidated Financial Statements presented elsewhere in this report.

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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,	
	2016	2015	2016	2015
	(in thousands)			
Beginning balance	$69,264	$70,234	$68,172	$69,569
Charge-offs:				
Commercial business	(2,941)	(2,086)	(6,714)	(3,512)
One-to-four family residential	(35)	(289)	(35)	(297)
Commercial and multifamily residential	(26)	(43)	(26)	(43)
Consumer	(334)	(319)	(600)	(1,210)
Purchased credit impaired	(2,898)	(2,876)	(5,764)	(6,976)
Total charge-offs	(6,234)	(5,613)	(13,139)	(12,038)
Recoveries:				
Commercial business	753	209	1,415	827
One-to-four family residential	20	15	61	27
Commercial and multifamily residential	130	20	199	3,281
One-to-four family residential construction	5	8	259	36
Commercial and multifamily residential construction	1	2	2	5
Consumer	201	137	366	410
Purchased credit impaired	1,524	2,043	3,075	3,729
Total recoveries	2,634	2,434	5,377	8,315
Net charge-offs	(3,600)	(3,179)	(7,762)	(3,723)
Provision for loan and lease losses	3,640	2,202	8,894	3,411
Ending balance	$69,304	$69,257	$69,304	$69,257
Total loans, net at end of period, excluding loans held of sale	$6,107,143	$5,611,897	$6,107,143	$5,611,897
Allowance for loan and lease losses to period-end loans	1.13%	1.23%	1.13%	1.23%
Allowance for unfunded commitments and letters of credit				
Beginning balance	$2,930	$2,655	$2,930	$2,655
Net changes in the allowance for unfunded commitments and letters of credit	(150)	275	(150)	275
Ending balance	$2,780	$2,930	$2,780	$2,930

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FDIC Loss-sharing Asset

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

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

At June 30, 2016, the FDIC loss-sharing asset was $4.3 million, which was comprised of a $3.2 million FDIC indemnification asset and a $1.1 million FDIC receivable. The FDIC receivable represents the amounts due from the FDIC for claims related to covered losses the Company has incurred net of amounts due to the FDIC relating to shared recoveries.

The following table summarizes the activity related to the FDIC loss-sharing asset for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Balance at beginning of period	$5,954	$14,644	$6,568	$15,174
Adjustments not reflected in income:				
Cash received from the FDIC, net	(396)	(2,862)	(43)	(3,522)
FDIC reimbursable recoveries, net	(302)	(944)	(166)	(964)
Adjustments reflected in income:				
Amortization, net	(883)	(1,376)	(2,215)	(3,670)
Loan impairment (recapture)	(20)	1	127	1,532
Sale of other real estate	(24)	(208)	120	(627)
Valuation adjustments of other real estate	(40)	52	(22)	1,124
Other	(23)	37	(103)	297
Balance at end of period	$4,266	$9,344	$4,266	$9,344

For additional information on the FDIC loss-sharing asset, please see Note 7 to the Consolidated Financial Statements presented elsewhere in this report.

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 term 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 unlimited amount of any combination of debt or equity securities, depositary shares, purchase contracts, units and warrants in one or more offerings. Specific information regarding the terms of and the securities being offered will be provided at the time of any offering. Proceeds from any future offerings are expected to be used for general corporate purposes, including, but not limited to, the repayment of debt, repurchasing or redeeming outstanding securities, working capital, funding future acquisitions or other purposes identified at the time of any offering.

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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) increased $209.3 million since year-end 2015.

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, 2016, CDARS® deposits and brokered money market deposits were $152.3 million, or 2% of total deposits, compared to $127.8 million at year-end 2015. 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, 2016		December 31, 2015 (1)	
	Balance	% of Total	Balance	% of Total
	(dollars in thousands)			
Core deposits:				
Demand and other noninterest-bearing	$3,652,951	47.6 %	$3,507,358	47.2 %
Interest-bearing demand	957,548	12.5 %	925,909	12.4 %
Money market	1,818,337	23.7 %	1,788,552	24.0 %
Savings	692,694	9.0 %	657,016	8.8 %
Certificates of deposit, less than $250,000 (1)	326,433	4.3 %	359,878	4.8 %
Total core deposits	7,447,963	97.1 %	7,238,713	97.2 %
Certificates of deposit, $250,000 or more (1)	72,812	0.9 %	72,126	1.0 %
Certificates of deposit insured by CDARS®	22,755	0.3 %	26,901	0.4 %
Brokered money market accounts	129,590	1.7 %	100,854	1.4 %
Subtotal	7,673,120	100.0%	7,438,594	100.0%
Premium resulting from acquisition date fair value adjustment	93		235	
Total deposits	$7,673,213		$7,438,829	

(1) Reclassified to conform to the current period's presentation. The reclassification was limited to changing the threshold for certificates of deposit presented to the current FDIC insurance limit.

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 bonds within our investment portfolio, and residential, commercial and commercial real estate loans. At June 30, 2016, we had FHLB advances of $204.5 million compared to $68.5 million at December 31, 2015.

We also utilize wholesale and retail repurchase agreements as a supplement to our funding sources. Our wholesale repurchase agreements are secured by mortgage-backed securities. At June 30, 2016 and December 31, 2015, we had term repurchase agreements of $25.0 million, which mature in 2018, and deposit customer sweep-related repurchase agreements of $64.2 million and $74.7 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, 2016, we had commitments to extend credit of $1.99 billion compared to $1.98 billion at December 31, 2015.

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Capital Resources

Shareholders’ equity at June 30, 2016 was $1.27 billion, an increase from $1.24 billion at December 31, 2015. Shareholders’ equity was 14% of total period-end assets at June 30, 2016 and December 31, 2015.

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

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

The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and will be phased-in over a three-year period (increasing by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019). When fully phased-in, the New Capital Rules will require us, and the Bank, to maintain such additional capital conservation buffer of 2.5% of CET1, effectively resulting in minimum ratios of (i) 7% CET1 to risk-weighted assets, (ii) 8.5% Tier 1 capital to risk-weighted assets, and (iii) 10.5% total capital to risk-weighted assets. At June 30, 2016, the capital conservation buffer was 4.6568% and 4.4962% for the Company and Bank, respectively. Therefore, we met all capital adequacy requirements under the New Capital Rules on a fully phased-in basis as if all such requirements were in effect at June 30, 2016.

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

The Company and its banking subsidiary qualify as “well-capitalized” at June 30, 2016 and December 31, 2015. The following table presents the capital ratios and the capital conservation buffer, as applicable, for the Company and its banking subsidiary at June 30, 2016 and December 31, 2015:

	Company		Columbia Bank	
	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
Common equity tier 1 (CET1) risk-based capital ratio	11.6591 %	11.94 %	11.5121 %	11.76 %
Tier 1 risk-based capital ratio	11.6733 %	11.95 %	11.5121 %	11.76 %
Total risk-based capital ratio	12.6568 %	12.94 %	12.4962 %	12.75 %
Leverage ratio	9.6859 %	10.03 %	9.5856 %	9.89 %
Capital conservation buffer	4.6568 %	N/A	4.4962 %	N/A

Stock Repurchase Program

In June 2016, the Board of Directors approved a stock repurchase program which succeeds the prior program that was adopted in October 2011. The program authorizes the Company to repurchase up to 2.9 million shares of our outstanding common stock, representing approximately 5% of the common shares outstanding. 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 an important measurement as it more closely reflects the ongoing operating performance of the Company. Additionally, presentation of the operating net interest margin allows readers to compare certain aspects of the Company's net interest margin to other organizations. Despite the importance of the operating net interest margin (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,	
	2016	2015	2016	2015
Operating net interest margin non-GAAP reconciliation:	(dollars in thousands)			
Net interest income (tax equivalent) (1)	$84,946	$83,298	$167,607	$165,964
Adjustments to arrive at operating net interest income (tax equivalent):				
Incremental accretion income on FDIC purchased credit impaired loans	(1,300)	(2,367)	(2,957)	(4,814)
Incremental accretion income on other FDIC acquired loans (2)	—	(15)	—	(132)
Incremental accretion income on other acquired loans	(3,074)	(4,889)	(6,147)	(9,823)
Premium amortization on acquired securities	2,075	2,706	4,399	5,567
Interest reversals on nonaccrual loans	107	156	560	806
Operating net interest income (tax equivalent) (1)	$82,754	$78,889	$163,462	$157,568
Average interest earning assets	$8,285,183	$7,560,288	$8,145,564	$7,544,750
Net interest margin (tax equivalent) (1)	4.10%	4.41%	4.12%	4.40%
Operating net interest margin (tax equivalent) (1)	4.00%	4.17%	4.01%	4.18%

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(1) Tax-exempt interest income has been adjusted to a tax equivalent basis. The amount of such adjustment was an addition to net interest income of $2.8 million and $2.3 million for the three months ended June 30, 2016 and 2015, respectively, and an addition to net interest income of $5.3 million and $4.6 million for the six months ended June 30, 2016 and 2015.

(2) For 2016, incremental accretion income on other FDIC acquired loans is no longer considered significant and will no longer be tracked for this non-GAAP financial measure.

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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, 2016, 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, 2015. For additional information, refer to Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Company’s 2015 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, 2015 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, 2016:

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)
4/1/2016 - 4/30/2016	1,779	$ 31.17	—	—
5/1/2016 - 5/31/2016	129	29.90	—	—
6/1/2016 - 6/30/2016	33	27.62	—	2,900,000
	1,941	$ 31.02	—	

(1) Common shares repurchased by the Company during the quarter consist of cancellation of 1,941 shares of common stock to pay the shareholders' withholding taxes.

(2) During the quarter ended June 30, 2016, the Board of Directors approved a stock repurchase program authorizing 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

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, 2016 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 4, 2016	By	/s/ MELANIE J. DRESSEL Melanie J. Dressel President and Chief Executive Officer (Principal Executive Officer)
Date:	August 4, 2016	By	/s/ CLINT E. STEIN Clint E. Stein Executive Vice President and Chief Financial Officer (Principal Financial Officer)
Date:	August 4, 2016	By	/s/ BARRY S. RAY Barry S. Ray Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)

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INDEX TO EXHIBITS

31.1+	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2+	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32+	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101+	The following financial information from Columbia Banking System, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 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