

it's all about  
customers and **communities**



2001 ANNUAL REPORT



Columbia Banking System Inc.

*You'll notice the difference.*

BUILDING COMMUNITIES

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## FROM THE GROUND UP.

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*How did we build a better bank? With the core belief that our success depends upon the vitality of our communities and the satisfaction of our customers. That's why Columbia Bank is much more than just*

*employees providing customers with superior service. We act as a constant catalyst for local investment and improvement by contributing time, talent and dollars to the growth and leadership of the communities we serve.*

## COMMUNITY-MINDED. COMMUNITY-MADE.

*An interesting thing happens when you build a bank one community at a time—you soon realize people truly do make the difference. So while other banks typically build a branch and then find*



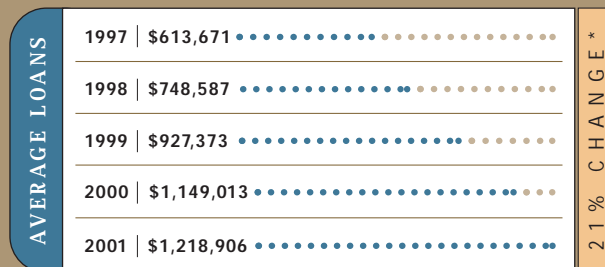
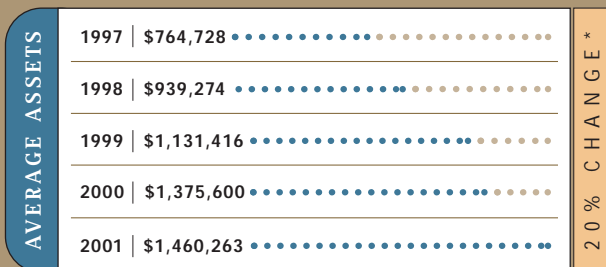
NEW LOCATIONS AT MARTIN LUTHER KING WAY, 13TH & A BRANCH, 13TH & A HEADQUARTERS

*people to manage it, Columbia Bank finds the most respected bankers in the area, then builds the branch around them. This model has proven to be very successful. We're able to immediately establish ourselves as a trusted member of the community, thus attracting significant deposit and loan customers from day one. It also provides us with a strong and committed financial base with which we can help increase our presence in surrounding communities. This year, we have opened 4 new branches, with plans calling for 2 more in the first quarter of 2002.*

## OUR CHARTS • HOW WE'RE GROWING

*all dollar figures on this page are in thousands*

*\* 5 year compound annual growth rate*



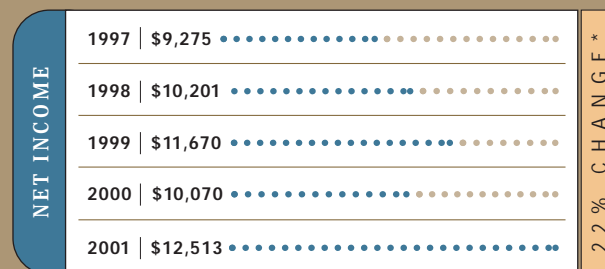
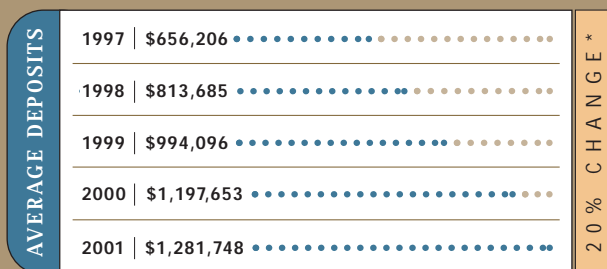
OUR GROWTH POTENTIAL IS SUBSTANTIAL.

	2001	2000	% change
<b>FOR THE YEAR</b> .....			
Net interest income	\$58,205	\$58,268	**
Provision for loan losses	5,800	9,800	-41%
Noninterest income	17,451	11,587	51%
Noninterest expense	50,954	44,753	14%
Net income	12,513	10,070	24%
<b>PER SHARE</b> .....			
Basic earnings	\$0.97	\$0.78	24%
Diluted earnings	0.96	0.76	26%
Book value	9.46	8.72	8%
<b>AVERAGES</b> .....			
Total assets	\$1,460,263	\$1,375,600	6%
Interest earning assets	1,343,410	1,265,716	6%
Loans	1,218,906	1,149,013	6%
Securities	100,343	97,585	3%
Deposits	1,281,748	1,197,653	7%
Core deposits	718,262	654,095	10%
Shareholders' equity	120,403	107,555	12%
<b>FINANCIAL RATIOS</b> .....			
Net interest margin	4.36%	4.62%	
Return on average assets	0.86	0.73	
Return on average equity	10.39	9.36	
Efficiency ratio	68.92	64.07	
Average equity to average assets	8.25	7.82	
<b>AT YEAR-END</b> .....			
Total assets	\$1,498,294	\$1,496,495	**
Loans	1,170,633	1,192,520	-2%
Allowance for loan losses	14,734	18,791	-22%
Deposits	1,306,750	1,327,023	-2%
Core deposits	846,546	695,343	22%
Shareholders' equity	118,966	113,823	5%
Number of full-time equivalent employees	580	513	13%
Number of banking offices	32	28	14%

\*\* less than 1%

all dollar figures on this page are in thousands

\* 5 year compound annual growth rate



THE LAST 5 YEARS HAVE BEEN EXCEPTIONAL.

**2001** was a year of challenges for the country, the Northwest and for Columbia. These challenges caused us to refocus on the core beliefs that are the foundation of our success. Employees, officers, and board members share a common, well-defined sense of purpose for our existence, and values which guide our decisions and actions (these core beliefs are included on the back cover of this report). As always, at the center of our values is our commitment to the customers and communities we serve. Holding true to these commitments will, in the long run, be the best way to attain our goal of becoming the leading supercommunity banking company headquartered in the Pacific Northwest, and thus creating superior value for our shareholders.

CORE BELIEFS

The most significant challenge we faced in 2001 was the economic environment and volatile interest rates, which declined an unprecedented eleven times during the year, reducing yields on loans and other assets. We took steps to lower our costs of funding; however, the result was a continuing squeeze on our net interest margin, as the cost of deposits repriced more slowly than the yield on loans. Loan growth also slowed dramatically for commercial loans, an area of focus for Columbia Bank, as the economy slowed.

Despite the difficult interest rate and economic environment, net income for the year increased 24 percent to \$12.5 million, compared with net income of \$10.1 million in 2000. On a diluted per-share basis, net income for 2001 was \$0.96 per share, compared with \$0.76 per share in 2000, an increase of 26 percent. Return on average assets and return on average equity were 0.86 percent and 10.39 percent, respectively, compared to 0.73 and 9.36 percent, respectively, for the year 2000. Net income for the fourth quarter was \$3.2 million, or \$0.25 per diluted share, up from a net loss of (\$136,000), or (\$0.01) per diluted share for the fourth quarter of 2000.

Profitability for the year increased as the provision for loan losses declined from the unusually high level in 2000. Net interest income was flat, however, as interest-related revenue and expense both declined substantially in the rapidly declining interest rate environment. Noninterest income was up significantly due to improvements in several revenue categories, but noninterest expense increases offset the revenue improvements.

IMPROVEMENTS

Charge-offs in 2001 included \$6 million of a troubled loan that was reserved for at year-end 2000. We strengthened our loan monitoring systems and controls in 2001, including the separation of our credit administration function from loan production. These steps continue to improve our ability to more closely monitor credit quality. We are carefully monitoring current weaknesses within the local and national economies, as well as potential weaknesses within our existing loan portfolio, and we will further build loan loss reserves if we determine that to be appropriate.

Substantial balance sheet improvement was achieved. Regulatory capital was increased by the issuance of \$22 million in trust preferred securities, and the mix of deposits was improved, thus lowering costs. The Company also repurchased 5 percent of its outstanding common shares, improving earnings per share.

While our rate of growth slowed in 2001 compared with the early years of Columbia Bank,

(Dollars in Thousands)	At/For Year Ended December 31, 2001	Five Year Compounded Annual Growth Rate
Net Income	\$ 12,513	22%
Assets	\$ 1,498,294	16%
Loans	\$ 1,170,633	17%
Deposits	\$ 1,306,750	17%
Core Deposits	\$ 846,546	21%

we continue to believe in our substantial growth potential, even including the performance of the year 2001. Our record for the past five years is exceptional.

During 2001, we continued to focus on our expansion activity, particularly in the important metropolitan King County area, a deposit market approximately four times the size of Pierce County. We expanded our presence in Bellevue and opened a retail branch in the Issaquah Commons in June. We were pleased with the response to our Redmond branch, which opened in early February 2002. We were also pleased with the reception of our street level downtown Seattle office, which also opened in February of this year at 2nd & Columbia in the Millennium Building. The expenses incurred to prepare these new offices and hire outstanding bankers to staff them impacted our earnings in 2001. The opening of these additional offices has, however, positioned Columbia Bank for significant growth and improved profitability for the year 2002.

Expansion continued last year in our more traditional markets as well. In February, our West Olympia branch staff moved into their permanent quarters, and in May, the 84th & Pacific branch opened in Tacoma. During the third quarter, our Bonney Lake office also opened, along with a branch at 11th & Martin Luther King Way in the Hilltop community of downtown Tacoma. During the 4th quarter, we closed the Triangle Mall, an in-store branch in Longview that was not performing up to expectations.

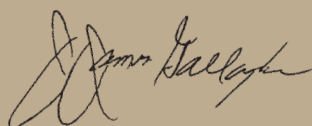
STRATEGIC GROWTH

During the second quarter, we moved into our new headquarters building at 13th & A Streets in downtown Tacoma; a small retail branch next to the lobby opened in July. Construction is underway for a separate drive-up facility to our Summit branch in Puyallup, and a new, more visible branch in Fife, to replace the existing facility which we have sold.

We anticipate that these expansion efforts, along with our experienced team of local bankers, will contribute to solid growth and improved earnings, as cost increases associated with the expansion will moderate. The year 2001 saw volume slow and margins decline, while expansion costs increased. We expect the year 2002 to see volumes rise, margins increase slightly and costs to be under much better control.

All in all, we made progress in a difficult year and look forward to 2002. We are convinced that times of economic uncertainty, such as these, can provide banks like Columbia – community-oriented, with a good knowledge of the local economy and strong credit skills – with excellent opportunities to acquire attractive new business relationships from larger banks unable to provide our high level of customer service. We will focus our efforts and attention on seeing that 2002 is a year in which Columbia reestablishes acceptable growth, begins to gain real traction in the Greater Seattle metropolitan market, improves expense controls and continues to emphasize credit quality.

We want to thank you, our shareholders, for your continued support.



J. James Gallagher



Melanie J. Dressel

## GETTING INVOLVED IN THE COMMUNITY



*Jim Gallagher, 2002 Chair of the Executive Committee of the Economic Development Board for Tacoma-Pierce County, pictured to the right of Bruce Kendall, President & CEO of the EDB; Melanie Dressel, Chair of Mary Bridge Children's Foundation, in the pediatric intensive care unit at Mary Bridge Children's Hospital; Hal Russell, board member of the Pierce County American Red Cross, serving meals at the Lighthouse Senior Center in Tacoma.*

### EXECUTIVE OFFICERS

**J. James Gallagher**  
Vice Chairman and Chief Executive Officer,  
Columbia Banking System, Inc.;  
Vice Chairman, Columbia Bank

**Melanie J. Dressel**  
President and Chief Operating Officer,  
Columbia Banking System, Inc.;  
President and Chief Executive Officer,  
Columbia Bank

**Don L. Hirtzel**  
Executive Vice President,  
Corporate Banking

**H. R. Russell**  
Executive Vice President,  
Chief Credit Officer

**Gary R. Schminkey**  
Executive Vice President,  
Chief Financial Officer

**Tex Whitney**  
Executive Vice President,  
Retail Banking



## ONE PERSON AT A TIME...



Gary Schminkey, tutoring math and reading to elementary school students in Tacoma and Puyallup school districts; Tex Whitney, board member of Safe Streets, in front of a community mural, part of a crime prevention project; Don Hirtzel, incoming Chairman of the Board of the Better Business Bureau for Western Washington/Oregon, pictured with Bob Andrew (r), President of the BBB, at the construction site of the BBB's new office in Dupont.

### BOARD OF DIRECTORS

**Richard S. Devine**  
President,  
Chinook Resources, Inc.

**Melanie J. Dressel**  
President and Chief Operating Officer,  
Columbia Banking System, Inc.;  
President and Chief Executive Officer,  
Columbia Bank

**Jack Fabulich**  
Honorary Chairman of Parker  
Paint Manufacturing, Inc.;  
Commissioner,  
Port of Tacoma

**Jonathan Fine**  
Chief Executive Officer,  
United Way of King County

**John P. Folsom**  
President and  
Chief Executive Officer,  
Brown & Brown Insurance, Inc.

**J. James Gallagher**  
Vice Chairman and  
Chief Executive Officer,  
Columbia Banking System, Inc.;  
Vice Chairman, Columbia Bank

**John A. Halleran**  
Private Investor

**Thomas M. Hulbert**  
President and  
Chief Executive Officer,  
Winsor Corporation

**Thomas L. Matson**  
Owner and President,  
Tom Matson Dodge, Inc.

**Donald Rodman**  
Owner and  
Executive Officer,  
Rodman Realty

**Sidney R. Snyder**  
Vice Chairman,  
Pacific Financial Corporation;  
Washington State Senator;  
Owner of Sid's Food Market

**William T. Weyerhaeuser**  
Chairman,  
Columbia Banking System, Inc.;  
Clinical Psychologist;  
Director,  
Potlatch Corporation

**James M. Will**  
President,  
Titus-Will Enterprises

THE REST OF THE STORY.



NEW LOCATIONS IN BONNEY LAKE, ISSAQUAH, 84TH & PACIFIC

**Corporate Headquarters**

Columbia Banking System, Inc.  
1301 South A Street, Suite 800  
P.O. Box 2156  
Tacoma, WA 98401-2156  
253.305.1900

**Independent Auditors**

Deloitte & Touche, LLP

**Transfer Agent & Registrar**

American Stock  
Transfer & Trust Company

**Market Makers**

Dain Rauscher  
Hofer & Arnett, Inc.  
Keefe, Bruyette & Woods, Inc.  
Knight Securities LP  
NDB Capital Markets Corp.  
Spear, Leeds & Kellogg Capital

**Regulatory & Securities Counsel**

Davis Wright Tremaine, LLP

**Annual Meeting**

Best Western Executive Inn  
5700 Pacific Highway East  
Fife, WA  
Tuesday, April 2, 2002  
1:00 p.m.

**Stock Listing**

The Company's common stock trades on the Nasdaq National Market tier of The Nasdaq Stock Markets under the symbol: COLB.

**Financial Information**

Columbia news and financial results are available through the Internet and mail.

**Internet:** For information about Columbia, including news and financial results, product information and service locations, access our home page on the World Wide Web, at <http://www.columbiabank.com>. You can also view or retrieve copies of Columbia's financial reports on the Internet by connecting to <http://www.sec.gov>. Immediate access to the Company's quarterly earnings news release via the Internet is provided by *Company News On Call* at <http://www.prnewswire.com>.

**Mail:** At your request, we will mail you our quarterly earnings news release, quarterly financial data on Form 10-Q and additional annual reports. To be added to Columbia's mailing list for quarterly earnings news releases, or to request other information, please contact:

Jo Anne Coy  
Vice President,  
Marketing Director  
P.O. Box 2156, MS 8300  
Tacoma, WA 98401-2156  
Tel 253.305.1965  
Fax 253.305.0317  
E-Mail: [jcoy@columbiabank.com](mailto:jcoy@columbiabank.com)

## BRANCH LOCATIONS

### PIERCE COUNTY

- 1 **13th & A**  
1301 A Street  
Suite 100  
Tacoma, WA 98402  
253.396.6900  
Michael Block
- 2 **ALLENMORE**  
1959 South Union  
Tacoma, WA 98405  
253.627.6909  
Robert Bruback
- 3 **BONNEY LAKE**  
19925 State Rte 410 E  
Bonney Lake, WA 98390  
253.863.8500  
Keith Brown
- 4 **BROADWAY PLAZA**  
1102 Broadway Plaza  
Tacoma, WA 98402  
253.305.1940  
Michael Block
- 5 **EDGEWOOD/MILTON**  
1250 Meridian E  
Milton, WA 98354  
253.952.6646  
Dolores Ehli
- 6 **FIFE**  
5501 Pacific Hwy. E  
Fife, WA 98424  
253.922.7870  
Doug Hedger
- 7 **FIRCREST**  
2401 Mildred St. W  
Fircrest, WA 98466  
253.566.1172  
Dan Patjens
- 8 **GIG HARBOR**  
5303 Point Fosdick Dr. NW  
Gig Harbor, WA 98335  
253.858.5105  
Chris Gullett
- 9 **LAKEWOOD**  
6202 Mount Tacoma Dr. SW  
Lakewood, WA 98499  
253.581.4232  
Jay Mayer
- 10 **MARTIN LUTHER KING**  
1102 Martin Luther King Jr.  
Way  
Tacoma, WA 98405  
253.597.8000  
Julie Borell

- 11 **OLD TOWN**  
2200 North 30th St.  
Tacoma, WA 98403  
253.272.0412  
Connie Nelson

- 12 **PUYALLUP**  
4220 S. Meridian  
Puyallup, WA 98373  
253.770.0770  
Stan Ausmus

- 13 **176th & MERIDIAN**  
17208 Meridian E  
Puyallup, WA 98373  
253.445.6748  
Alana Rouff

- 14 **SOUTH HILL MALL**  
3500 S. Meridian  
Suite 503  
Puyallup, WA 98373  
253.770.8161  
Kathleen Knapper

- 15 **SPANAWAY**  
17502 Pacific Ave. S  
Spanaway, WA 98387  
253.539.3094  
Joy Johnson

- 16 **STADIUM**  
601 N. 1st.  
Tacoma, WA 98403  
253.597.8811  
Monica Stevens

- 17 **SUMMIT**  
10409 Canyon Road E  
Puyallup, WA 98373  
253.770.9323  
Debra Hamilton

- 18 **84th & PACIFIC**  
201 S. 84th Street  
Tacoma, WA 98444  
253.471.7000  
Dean Piotrowski

- 19 **WESTGATE**  
5727 N. 21st St.  
Tacoma, WA 98406  
253.761.8170  
Connie Pentecost

### KING COUNTY

- 20 **AUBURN**  
25 16th St. NE  
Auburn, WA 98002  
253.939.9600  
Patty Osthus

- 21 **BELLEVUE PLAZA**  
777 108th Ave. NE  
Suite 100  
Bellevue, WA 98004  
425.646.9696  
Rebecca Holverson

- 22 **BELLEVUE WAY**  
10350 NE 10th St.  
Bellevue, WA 98004  
425.452.7323  
Bob MacIsaac

- 23 **FEDERAL WAY**  
33370 Pacific Highway S  
Federal Way, WA 98003  
253.925.9323  
Mike Harris

- 24 **FOREST VILLA**  
2749 Auburn Way S.  
Auburn, WA 98002  
253.887.1186  
Lillian McGinnis

- 25 **ISSAQUAH**  
775 NW Gilman Blvd.  
Suite F  
Issaquah, WA 98027  
425.369.9200  
Kirk Fultz

- 26 **KENT**  
504 W. Meeker  
Kent, WA 98032  
253.852.0475  
Shirley McGregor

- 27 **REDMOND**  
8201 164th Avenue NE  
Redmond, WA 98052  
425.558.7500  
Judi Lindsay

- 28 **SOUTH AUBURN**  
4101 A St. SE  
Auburn, WA 98002  
253.939.9800  
Rod Clemmer

- 29 **2nd & COLUMBIA**  
721 Second Avenue  
Seattle, WA 98104  
206.223.1000  
Kellie Walker

### COWLITZ COUNTY

- 30 **COMMERCE**  
1338 Commerce Ave.  
Longview, WA 98632  
360.636.9200  
Faith Pacheco

- 31 **30th AVENUE**  
2207 30th Ave.  
Longview, WA 98632  
360.423.8760  
Faith Pacheco

- 32 **WOODLAND**  
782 Goerig St.  
Woodland, WA 98674  
360.225.9421  
Carol Rounds

### KITSAP COUNTY

- 33 **PORT ORCHARD**  
228 Bravo Terrace  
Port Orchard, WA 98367  
360.876.8384  
Rob Putas

### THURSTON COUNTY

- 34 **WEST OLYMPIA**  
2820 Harrison Ave NW  
Olympia, WA 98502  
360.375.5800  
Diane Avery

## our core beliefs

*Columbia Banking System, Inc. is a Washington-based bank holding company that operates Columbia Bank, a full-service commercial bank with over 30 offices in Western Washington. Columbia's philosophy is to provide a local, friendly approach to doing business, coupled with all the modern conveniences and true customer service. We are proud to be a local company, strongly committed to our customers and the communities we serve.*

### STATEMENT OF PURPOSE

The employees, officers and board members of Columbia share a common, well-defined sense of purpose:

Provide outstanding financial services and products to all current and future customers.

Remain a forward-looking, growth-oriented company that continually innovates to provide superior performance.

Be a catalyst for investment and improvement in the communities we serve. Our commitment to these communities is constant. We give back to them with our leadership, time, talent and dollars.

Conduct business with the highest ethical standards and in a manner that provides maximum opportunity and satisfaction for all concerned.

Earn superior profits that support our other objectives while building long-term value for our shareholders.

### STATEMENT OF VALUES

*Outstanding Customer Service:* Customers are our first priority. We must always provide them with flexible, responsive service and the best value in products. This is the driving force behind everything we do.

*Conviction:* We believe passionately in our purpose and values. We take pride in our organization and expect outstanding opportunities for advancement.

*Integrity:* We deal honestly and forthrightly with our customers, employees, shareholders and others with whom we do business. We believe honesty, integrity and accountability for what we do and say are essential.

*Progress:* We will always strive to improve the way we do business. Change will be constant. We will provide opportunities for innovative solutions.

*Excellence:* We never give up on the idea that we expect to be the best financial institution in each of the communities we serve.



Columbia Banking System Inc.

*You'll notice the difference.*