Regional Growth

Community Strength

Columbia Banking System Inc.

2011 Annual Report

The Pacific Northwest

The pioneering spirit of Pacific Northwesterners has attracted a diverse network of the world's greatest companies from commercial, industrial and small business to agriculture. This diversity provides a unique blend of opportunities for a strong regional bank. As we bring the Columbia style of banking to new areas of the northwest, we remain the same community-focused bank we were the day we first opened our doors.

Committed to Community

From our inception we have remained focused on serving the diverse communities of the Pacific Northwest. Our commitment to community was recognized at the end of 2011 when the honor of *American Banker Magazine's* "Community Banker of the Year" was bestowed on our President and CEO, Melanie J. Dressel. This honor is an important acknowledgement of our ongoing commitment to ensuring a strong, secure and involved community bank option remains a vibrant part of the Northwest.

To Our Shareholders

2011 was an exceptional year of growth and opportunity for us, as we made great strides in achieving a goal that dates back to the first day we opened our doors almost 19 years ago — to become a leading Pacific Northwest regional community bank. We recognized then that reaching that goal would require our unwavering focus on our customers and being ***the*** community bank in every community we serve.

At the end of the year, we had a geographically diverse retail system of 102 branches, with 77 locations in Washington and 25 in Oregon. In May 2011, we added a total of eight branches through two FDIC-assisted transactions as we acquired both First Heritage Bank and Summit Bank, headquartered in Burlington and Snohomish, Washington, respectively. Then in August, we added nine branches in eastern Washington through an FDIC-assisted acquisition of the Bank of Whitman. These transactions increased the number of our branches by 21%, extended our geographic footprint further into eastern Washington, and helped us fill in our branch network in northwest Washington.

The acquisitions are fully integrated, both technically and culturally, thanks to the combined efforts and enthusiasm of our new employees and our entire Columbia banking team.

Our strength

We were pleased to report net income applicable to common shareholders of $48.0 million for the year, an increase of 86% from net income of $25.8 million for 2010. On a diluted per common share basis, net income for 2011 was $1.21 compared with $0.72 a year earlier. Total shareholders' equity at the end of 2011 was $759.3 million, an increase of 7% from $706.9 million at December 31, 2010. Total assets were approximately $4.8 billion at year-end 2011, up 12% from $4.3 billion at year-end 2010. Our net interest margin for 2011 was 6.27% as compared to 4.76% for 2010, and was positively impacted by additional accretion of income related to our acquired loan portfolios.

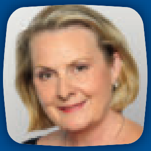
Our total risk-based capital ratio at December 31, 2011 exceeded 21%, more than double the minimum of 10% required to be considered "well-capitalized" under regulatory standards. We will continue to concentrate on deploying this capital effectively. Our financial strength enhances our ability to consider strategic acquisitions and continue our emphasis on organic growth. We are externally focused on taking really good care of our existing customers and attracting new relationships to the bank in all our market areas. During the first quarter of 2011, we moved our Redmond, Washington office to a more convenient location, and opened a new full-service branch in Everett, Washington, giving our customers access to commercial, private and personal banking, as well as cash management and wealth management services. In the third quarter, we also relocated Sequim and Port Angeles to new full-service locations allowing for increased convenience and expanded services.

A real success story during 2011's challenging economy is our loan growth, which reflects our banking teams' emphasis on making loans to customers in our important new markets as well as cultivating our existing client relationships. Our noncovered loans (loans not covered under the FDIC loss-sharing agreements) were $2.35 billion at the end of 2011, up $433 million, or 23%, from $1.92 billion at the end of 2010. We saw the biggest increase in our commercial business loans, which increased about 30% from the end of 2010, and our commercial real estate loans, which were up about 26%. This growth came from throughout our footprint and from the Bank of Whitman acquisition.

Our emphasis on the diversification of our loan portfolio continues to be a strength for us. At the end of 2011, 44% of our total portfolio was in commercial business loans, 41% was in commercial real estate loans, 8% in consumer loans, 4% in real estate construction-related loans, and approximately 3% in the for-sale housing segment.

Board of Directors

William T. Weyerhaeuser


Melanie J. Dressel

John P. Folsom

Frederick M. Goldberg

Thomas M. Hulbert

Total deposits were $3.82 billion at the end of 2011, an increase of 15% from $3.33 billion in 2010. Our core deposits, which are an important factor in our strong net interest margin, increased during the year. Defined as checking, savings, money market accounts and certificates of deposit under $100,000, our core deposits were $3.5 billion, up 17% from $3.0 billion at December 31, 2010 and comprise an exceptional 92% of total deposits.

The FDIC's most recent deposit market share analysis shows that as of June 30, 2011, Columbia's ranking rose to 8th from the 9th position among all banks operating in Washington State. Information in the report does not include deposits from the former Bank of Whitman. In Oregon, we rank 15th in our share of market.

Our overall loan quality in 2011 continued its positive trend. At the end of December, 2011, nonperforming assets were $85.4 million, down 29% from $120.2 million at the end of 2010. The allowance for loan losses was 2.26% of total loans at December 31, 2011 compared to 3.18% at the end of 2010.

In February, 2012, we were very pleased to welcome Michelle M. Lantow and Mae Fujita Numata to your Board of Directors. We were fortunate to add community leaders with their depth of financial and business experience to our team as we continue to build your company.

We were honored that our commitment to providing a strong and secure community bank was reflected in our 2011 ranking as the best bank headquartered in Washington State by the Forbes list of *America's Best Banks*. We were also listed as second in the Pacific Northwest, and 34th in the country. This tribute is a well-deserved acknowledgement of our outstanding employees, who continued to deliver excellent customer service during a challenging time of extraordinarily rapid growth and change. We were very gratified this year to again receive recognition as one of the best places to work in Washington by both the *Puget Sound Business Journal* and *Seattle Business Magazine*.

In the coming months, we will work to increase our market share in every community we serve, maintaining our customer-focused approach to doing business and providing real value to our customers. At the same time, we are working on more efficient ways in which to deliver our products and services. In addition to managing our expenses closely, much of our focus will be on revenue-generating opportunities by introducing our customers to our broad array of services to meet virtually all their financial needs. We believe we are in a strong position to grow revenue as we grow throughout all areas of our footprint. We firmly believe that the diversified Pacific Northwest economy, combined with the customer and community relationships we have built, will put us in a good position to provide long-term benefits for our shareholders.

Sincerely,

William Weyerhaeuser

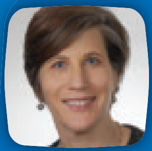
William T. Weyerhaeuser

Chairman of the Board
Columbia Banking System, Inc.

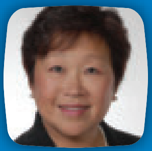
Melanie J. Dressel

Melanie J. Dressel

President and Chief Executive Officer
Columbia Banking System, Inc. and Columbia Bank


Michelle
Lantow

Thomas L.
Matson


Mae Fujita
Numata

Daniel C.
Regis

Donald
Rodman

James M.
Will

2011 Annual Report and Form 10-K

Columbia
Banking
System Inc.

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

FORM 10-K

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

For the fiscal year ended December 31, 2011 or

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

Commission File Number 0-20288

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

Washington	**91-1422237**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

1301 "A" Street
Tacoma, Washington 98402
(Address of principal executive offices) (Zip code)

Registrant's Telephone Number, Including Area Code: (253) 305-1900

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

Common Stock, No Par Value

(Title of class)

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (17 C.F.R. 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

☒ Large Accelerated Filer ☐ 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 ☒

The aggregate market value of Common Stock held by non-affiliates of the registrant at June 30, 2011 was $667,249,601 based on the closing sale price of the Common Stock on that date.

The number of shares of registrant's Common Stock outstanding at January 31, 2012 was 39,522,884.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Registrant's definitive 2012 Annual Meeting Proxy Statement.	Part III

COLUMBIA BANKING SYSTEM, INC.
FORM 10-K ANNUAL REPORT
DECEMBER 31, 2011

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, statements about our plans, objectives, expectations and intentions that are not historical facts, and other statements identified by words such as "expects," "anticipates," "intends," "plans," "believes," "should," "projects," "seeks," "estimates" or words of similar meaning. These 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, these 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 sections titled "Risk Factors," "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-K, the following factors, among others, could cause actual results to differ materially from the anticipated results:

- local and national 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 at historical rates and maintain the quality of our earning assets;
- the local housing/real estate markets where we operate and make loans could continue to decline;
- the risks presented by a continued economic recession, or sluggish recovery, 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 could not be realized;
- 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 FDIC insurance and other coverages;
- changes in accounting principles, policies, and guidelines applicable to bank holding companies and banking;
- competition among financial institutions could increase significantly;
- 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;
- the terms and costs of the numerous actions taken by the Federal Reserve, the U.S. Congress, the Treasury, the FDIC, the SEC and others in response to the liquidity and credit crisis, or the failure of these actions to help stabilize the financial markets, asset prices, market liquidity, or worsening of current financial market and economic conditions could materially and adversely affect our business, financial condition, results of operations, and the trading price of our common stock;
- our ability to effectively manage credit risk, interest rate risk, market risk, operational risk, legal risk, liquidity risk and regulatory and compliance risk; and
- our profitability measures could be adversely affected if we are unable to effectively deploy recently raised capital.

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 these 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.

PART I

ITEM 1. BUSINESS

General

Columbia Banking System, Inc. (referred to in this report as “we,” “our,” and “the Company”) is a registered bank holding company whose wholly owned banking subsidiary, Columbia State Bank (“Columbia Bank” or “the Bank”) also does business under the Bank of Astoria name and conducts full-service commercial banking business in the states of Washington and Oregon. Headquartered in Tacoma, Washington, we provide a full range of banking services to small and medium-sized businesses, professionals and individuals.

Columbia Bank was established in 1993 to take advantage of commercial banking business opportunities in our principal market area. The opportunities to capture commercial banking market share were due to increased consolidations of banks, primarily through acquisitions by out-of-state bank holding companies, which created dislocation of customers.

At December 31, 2011 Columbia Bank had 102 branch locations in Washington and Oregon. Included in these branch locations are six Columbia Bank branches doing business in Oregon under the Bank of Astoria name in Astoria, Warrenton, Seaside and Cannon Beach in Clatsop County and in Manzanita and Tillamook in Tillamook County. Substantially all of Columbia Bank’s loans, loan commitments and core deposits are within its service areas. Columbia Bank is a Washington state-chartered commercial bank, the deposits of which are insured in whole or in part by the Federal Deposit Insurance Corporation (“FDIC”). Columbia Bank is subject to regulation by the FDIC and the Washington State Department of Financial Institutions Division of Banks. Although Columbia Bank is not a member of the Federal Reserve System, the Board of Governors of the Federal Reserve System has certain supervisory authority over the Company, which can also affect Columbia Bank.

Business Overview

Our goal is to be a leading Pacific Northwest regional community banking company while consistently increasing shareholder value. We continue to build on our reputation for excellent customer service in order to be recognized as the bank of choice for retail deposit customers, small to medium-sized businesses and affluent households in all markets we serve.

We have established a network of 102 branches in Washington and Oregon as of December 31, 2011 from which we intend to grow market share. We operate 62 branches in western Washington, 15 branches in eastern Washington, 15 branches in western Oregon, and 10 branches in eastern Oregon. Washington counties include: Adams, Asotin, Benton, Clallam, Clark, Cowlitz, Franklin, Jefferson, King, Kitsap, Klickitat, Mason, Pierce, Snohomish, Skagit, Spokane, Thurston, Walla Walla, Whatcom, Whitman and Yakima. Oregon counties include Clackamas, Clatsop, Deschutes, Hood River, Jefferson, Marion, Multnomah, Tillamook, Umatilla, Wasco and Yamhill.

In order to fund our lending activities and to allow for increased contact with customers, we utilize a branch system to better serve both retail and business depositors. We believe this approach will enable us to expand lending activities while attracting a stable core deposit base. To support our strategy of market penetration and increased profitability while continuing our personalized banking approach, we have invested in experienced banking and administrative personnel and have incurred related costs in the creation of our branch network.

Business Strategy

Our business strategy is to provide our customers with the financial sophistication and product depth of a regional banking company while retaining the appeal and service level of a community bank. We continually evaluate our existing business processes while focusing on maintaining asset quality and balanced loan and deposit portfolios, building our strong core deposit base, expanding total revenue and controlling expenses in an effort to increase our return on average equity and gain operational efficiencies. We believe that, as a result of our strong commitment to highly personalized, relationship-oriented customer service, our varied products, our strategic branch locations and the long-standing community presence of our managers, banking officers and branch personnel, we are well positioned to attract and retain new customers and to increase our market share of loans, deposits, investments, and other financial services. We are committed to increasing market share in the communities we serve by continuing to leverage our existing branch network, adding new branch locations and considering business combinations that are consistent with our expansion strategy throughout the Pacific Northwest.

Products & Services

We place the highest priority on customer service and assist our customers in making informed decisions when selecting from the products and services we offer. We continuously review our product and service offerings to ensure that we provide our customers with the tools to meet their financial needs. A more complete listing of all the services and products available to our customers can be found on our website: *www.columbiabank.com*. Some of the core products and services we offer include:

Personal Banking

- Checking and Saving Accounts
- Online Banking
- Electronic Bill Pay
- Consumer Lending
- Residential Lending
- VISA® Card Services
- Investment Services through CB Financial Services
- Private Banking
- Trust Services

Business Banking

- Checking & Saving Accounts
- Online Banking
- Electronic Bill Pay
- Remote Deposit Capture
- Cash Management
- Commercial & Industrial Lending
- Real Estate and Real Estate Construction Lending
- Equipment Finance
- Small Business Services
- VISA® Card Services
- Investment Services through CB Financial Services
- International Banking
- Merchant Card Services
- Professional Banking

Personal Banking: We offer our personal banking customers an assortment of account products including noninterest and interest-bearing checking, savings, money market and certificate of deposit accounts. Overdraft protection is also available with direct links to the customer's checking account. Our online banking service, Columbia Online™, provides our personal banking customers with the ability to safely and securely conduct their banking business 24 hours a day, 7 days a week. Personal banking customers are also provided with a variety of borrowing products including fixed and variable rate home equity loans and lines of credit, home mortgages for purchases and refinances, personal loans, and other consumer loans. Eligible personal banking customers with checking accounts are provided a Visa® Debit Card which can be used both to make purchases and as an ATM card. A variety of Visa® Credit Cards are also available to eligible personal banking customers.

Columbia Private Banking offers affluent clientele and their businesses complex financial solutions, such as deposit and cash management services, credit services, and wealth management strategies. Each private banker provides advisory services[2] and coordinates a relationship team of experienced financial professionals to meet the unique needs of each discerning customer.

Through CB Financial Services[1], customers are provided with a full range of investment options including mutual funds, stocks, bonds, retirement accounts, annuities, tax-favored investments, US Government securities as well as long-term care and life insurance policies. Qualified investment professionals are available to provide advisory services[2] and assist customers with retirement, education and other financial planning activities.

Business Banking: We offer our business banking customers the foundation of a variety of checking, savings, interest bearing money market and certificate of deposit accounts to satisfy all their banking needs. In addition to these core banking products we provide a breadth of services to support the complete financial needs of small and middle market businesses including Cash Management, Professional Banking, International Banking, VISA Credit Cards, Merchant Services and Commercial Lending.

[1] Securities and insurance products are offered through PrimeVest Financial Services, Inc., an independent, registered broker/dealer. Member FINRA/SIPC. CB Financial Services is a marketing name for PrimeVest. * Investment products are Not FDIC insured * No bank guarantee * Not a deposit * Not insured by any federal government agency * May lose value.

[2] Advisory services may only be offered by Investment Adviser Representatives in connection with an appropriate PrimeVest Advisory Services Agreement and disclosure brochure as provided.

Cash Management

Columbia State Bank's diversified Cash Management Programs are tailored to meet specific banking needs of each individual business. We combine technology with integrated operations and local expertise for safe, powerful, flexible solutions. Columbia customers, of all sizes, choose from a full range of transaction and Cash Management tools to gain more control over and make more from their money. Services include Commercial Online Banking, Positive Pay fraud protection, Automated Clearing House (ACH) payments, Remote Deposit Capture, and Merchant Services.

Our Cash Management professionals work with businesses to find the best combination of services to meet their needs. This customized, modular approach ensures their business banking operations are cost-effective now, with flexibility for future growth.

Professional Banking

Columbia Professional Bankers are uniquely qualified to help medical and dental professionals acquire, build and grow their practice. We offer tailored banking and investment solutions[1] delivered by experienced bankers with the industry knowledge necessary to meet their business's unique needs. No matter what the needs are now or in the years to come, we guide professionals through all their financial options to make their banking as easy and personal as possible.

International Banking

Columbia Bank's International services division offers a range of financial services to help forward-thinking independent businesses explore global markets and conduct international trade smoothly and expediently. We're proud to provide small and mid-size business with the same caliber of expertise and personalized service that national banks usually limit to large businesses.

Our experience with foreign currency exchange, letters of credit, foreign collections and trade finance services can help independent companies open the door to new markets and suppliers overseas. Put simply, the wealth of opportunities that international trade offers growing businesses can have a significant impact on both long-term growth and their bottom line.

Commercial Lending

We offer a variety of loan products tailored to meet the various needs of business banking customers. Commercial loan products include accounts receivable and inventory financing as well as Small Business Administration ("SBA") financing. We also offer commercial real estate loan products for construction and development or permanent financing. Real estate lending activities have been focused on construction and permanent loans for both owner occupants and investor oriented real estate properties. In addition, the Bank has pursued construction and first mortgages on owner occupied, one- to four-family residential properties. Commercial banking has been directed toward meeting the credit and related deposit needs of various sized businesses and professional practice organizations operating in our primary market areas.

CB Financial Services

Through CB Financial Services[1], customers are provided with an array of investment options and all the tools and resources necessary to assist them in reaching their investment goals. Some of the investment solutions available to customers include 401(k), Simple IRA, Simple Employee Pensions, Buy-Sell Agreements, Key-Man Insurance, Business Succession Planning and personal investments.

[1] Securities and insurance products are offered through PrimeVest Financial Services, Inc., an independent, registered broker/dealer. Member FINRA/SIPC. CB Financial Services is a marketing name for PrimeVest. * Investment products are Not FDIC insured * No bank guarantee * Not a deposit * Not insured by any federal government agency * May lose value.

Business VISA® Credit and Debit Cards

We offer our business banking customers a selection of Visa® Cards including the Business Debit Card that works like a check wherever Visa® is accepted. We partner with First National Bank of Omaha to offer Visa® Credit Cards such as the Corporate Card which can be used all over the world as well as the Business Edition® and Business Edition Plus® that earns reward points with every purchase.

Merchant Card Services

Business clients that utilize Columbia's Merchant Card Services have the ability to accept Visa®, MasterCard® and Discover® sales drafts for deposit directly into their business checking account. Merchants are provided with a comprehensive accounting system tailored to meet each merchant's needs, which includes month-to-date credit card deposit information on a transaction statement. Internet access is available to view merchant reports that allow business customers to review merchant statements, authorized, captured, cleared and settled transactions.

Competition

Our industry remains highly competitive in spite of challenging economic conditions. Several other financial institutions with greater resources compete for banking business in our market areas. Among the advantages of some of these institutions are their ability to make larger loans, finance extensive advertising and promotion campaigns, access international financial markets and allocate their investment assets to regions of highest yield and demand. In addition to competition from other banking institutions, we continue to experience competition from non-banking companies such as credit unions, brokerage houses and other financial services companies. We compete for deposits, loans, and other financial services by offering our customers similar breadth of products as our larger competitors while delivering a more personalized service level with faster transaction turnaround time.

Market Areas

Washington: Approximately 30% of our total branches within Washington are located in Pierce County, with an estimated 2011 population of 815,000 residents. At June 30, 2011 our Pierce County branch locations' share of the county's total deposit market was 18%[1], ranking first among our competition. Also located in Pierce County is our Company headquarters in the city of Tacoma and one nearby operational facility. Some of the most significant contributors to the Pierce County economy are the Port of Tacoma, whose activities are related to more than 40,000 jobs in the county, and well over 100,000 in the state of Washington, Joint Base Lewis-McChord which accounts for nearly 20% of the County's total employment, and the manufacturing industry which supplies the Boeing Company.

We operate thirteen branch locations in King County, including Seattle, Bellevue and Redmond. King County, which is Washington's most highly populated county at close to 2 million residents, is a market that has significant growth potential for our Company and will play a key role in our expansion strategy in the future. At June 30, 2011 we ranked 13th in our share of the King County deposit market or approximately 1%[1]; however, we continue to make inroads within this market through the strategic expansion of our banking team. The north King County economy is primarily made up of the aerospace, construction, computer software and biotechnology industries. South King County, with its close proximity to Pierce County, is considered a natural extension of our primary market area. The economy of south King County is primarily comprised of residential communities supported by light industrial, retail, aerospace and distributing and warehousing industries.

Some other market areas served by the Company include Cowlitz County where we rank first, or 9% [1], in deposit market share, operating two branch locations; and Kitsap County, where we operate 6 branches with 8%[1] of the deposit market share. We also have locations in Adams, Clallam, Clark, Jefferson, Klickitat, Spokane, Thurston, Whitman and Yakima counties where we operate two branch offices in each county, and Asotin, Benton, Franklin, Grant, Mason, Snohomish, Skagit, Walla Walla and Whatcom Counties where we operate one branch in each county.

Oregon: With the acquisition of Columbia River Bank in January 2010, we significantly expanded our market area in western Oregon, and entered the eastern Oregon market area, bringing our total to 25 branch locations in the state. Oregon counties include Clackamas, Clatsop, Deschutes, Hood River, Jefferson, Marion, Multnomah, Tillamook, Umatilla, Wasco and Yamhill. Columbia ranks fifteenth[1] in total deposit market share in Oregon. We are first[1] in deposit market share in Hood River, Jefferson, and Wasco counties, and second or 28%[1] of the deposit market share in Clatsop county. Oregon market areas provide a significant opportunity for expansion in the future.

Source: FDIC Annual Summary of Deposit Report as of June 30, 2011.

Employees

As of December 31, 2011 the Company and its banking subsidiary employed approximately 1,256 full-time equivalent employees, significantly up from the 1,092 at December 31, 2010. We value our employees and pride ourselves on providing a professional work environment accompanied by comprehensive benefit programs. We are committed to providing flexible and value-added benefits to our employees through a "Total Compensation Philosophy" which incorporates all compensation and benefits. Our continued commitment to employees contributed to Columbia Bank being again awarded one of *Seattle Business Magazine's* 100 Best Companies to Work For 2011 and designated one of the *Puget Sound Business Journal's* "Washington's Best Workplaces 2011".

Available Information

We file annual reports on Form 10-K, quarterly reports on Form 10-Q, periodic reports on Form 8-K, proxy statements and other information with the United States Securities and Exchange Commission ("SEC"). The public may obtain copies of these reports and any amendments at the SEC's Internet site, *www.sec.gov*.

Additionally, reports filed with the SEC can be obtained through our website at *www.columbiabank.com*. These reports are available through our website as soon as reasonably practicable after they are filed electronically with the SEC. Information contained on our website is not intended to be incorporated by reference into this report.

Supervision and Regulation

The following discussion provides an overview of certain elements of the extensive regulatory framework applicable to the Company and Columbia State Bank, which operates under the names Columbia State Bank in Washington, and Columbia State Bank and Bank of Astoria in Oregon (collectively, referred to herein as "Columbia Bank"). This regulatory framework is primarily designed for the protection of depositors, federal deposit insurance funds and the banking system as a whole, rather than specifically for the protection of shareholders. Due to the breadth and growth of this regulatory framework, our costs of compliance continue to increase in order to monitor and satisfy these requirements.

To the extent that this section describes statutory and regulatory provisions, it is qualified by reference to those provisions. These statutes and regulations, as well as related policies, are subject to change by Congress, state legislatures and federal and state regulators. Changes in statutes, regulations or regulatory policies applicable to us, including the interpretation or implementation thereof, could have a material effect on our business or operations. In light of the recent financial crisis, numerous changes to the statutes, regulations or regulatory policies applicable to us have been made or proposed. The full extent to which these changes will impact our business is not yet known. However, our continued efforts to monitor and comply with new regulatory requirements add to the complexity and cost of our business.

Federal Bank Holding Company Regulation

General. The Company is a bank holding company as defined in the Bank Holding Company Act of 1956, as amended ("BHCA"), and is therefore subject to regulation, supervision and examination by the Federal Reserve. In general, the BHCA limits the business of bank holding companies to owning or controlling banks and engaging in other activities closely related to banking. The Company must file reports with and provide the Federal Reserve such additional information as it may require. Under the Financial Services Modernization Act of 1999, a bank holding company may apply to the Federal Reserve to become a financial holding company, and thereby engage (directly or through a subsidiary) in certain expanded activities deemed financial in nature, such as securities and insurance underwriting.

Holding Company Bank Ownership. The BHCA requires every bank holding company to obtain the prior approval of the Federal Reserve before (i) acquiring, directly or indirectly, ownership or control of any voting shares of another bank or bank holding company if, after such acquisition, it would own or control more than 5% of such shares; (ii) acquiring all or substantially all of the assets of another bank or bank holding company; or (iii) merging or consolidating with another bank holding company.

Holding Company Control of Nonbanks. With some exceptions, the BHCA also prohibits a bank holding company from acquiring or retaining direct or indirect ownership or control of more than 5% of the voting shares of any company which is not a bank or bank holding company, or from engaging directly or indirectly in activities other than those of banking, managing or controlling banks, or providing services for its subsidiaries. The principal exceptions to these prohibitions involve certain non-bank activities that, by statute or by Federal Reserve regulation or order, have been identified as activities closely related to the business of banking or of managing or controlling banks.

Transactions with Affiliates. Subsidiary banks of a bank holding company are subject to restrictions imposed by the Federal Reserve Act on extensions of credit to the holding company or its subsidiaries, on investments in their securities and on the use of their securities as collateral for loans to any borrower. These regulations and restrictions may limit the Company's ability to obtain funds from Columbia Bank for its cash needs, including funds for payment of dividends, interest and operational expenses.

Tying Arrangements. We are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit, sale or lease of property or furnishing of services. For example, with certain exceptions, neither the Company nor its subsidiaries may condition an extension of credit to a customer on either (i) a requirement that the customer obtain additional services provided by us; or (ii) an agreement by the customer to refrain from obtaining other services from a competitor.

Support of Subsidiary Banks. Under Federal Reserve policy and the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”), the Company is expected to act as a source of financial and managerial strength to Columbia Bank. This means that the Company is required to commit, as necessary, resources to support Columbia Bank. Any capital loans a bank holding company makes to its subsidiary banks are subordinate to deposits and to certain other indebtedness of those subsidiary banks.

State Law Restrictions. As a Washington corporation, the Company is subject to certain limitations and restrictions under applicable Washington corporate law. For example, state law restrictions in Washington include limitations and restrictions relating to indemnification of directors, distributions to shareholders, transactions involving directors, officers or interested shareholders, maintenance of books, records, and minutes, and observance of certain corporate formalities.

Federal and State Regulation of Columbia Bank

General. The deposits of Columbia Bank, a Washington chartered commercial bank with branches in Washington and Oregon, are insured by the FDIC. As a result, Columbia Bank is subject to supervision and regulation by the Washington Department of Financial Institutions, Division of Banks and the FDIC. With respect to branches of Columbia Bank in Oregon, the Bank is also subject to supervision and regulation by the Oregon Department of Consumer and Business Services, as well as the FDIC. These agencies have the authority to prohibit banks from engaging in what they believe constitute unsafe or unsound banking practices.

Consumer Protection. The Bank is subject to a variety of federal and state consumer protection laws and regulations that govern its relationship with consumers including laws and regulations that impose certain disclosure requirements and regulate the manner in which we take deposits, make and collect loans, and provide other services. Failure to comply with these laws and regulations may subject the Bank to various penalties, including but not limited to, enforcement actions, injunctions, fines, civil liability, criminal penalties, punitive damages, and the loss of certain contractual rights.

Community Reinvestment. The Community Reinvestment Act ("CRA") of 1977 requires that, in connection with examinations of financial institutions within their jurisdiction, the Federal Reserve or the FDIC evaluate the record of the financial institution in meeting the credit needs of its local communities, including low and moderate-income neighborhoods, consistent with the safe and sound operation of the institution. A bank's community reinvestment record is also considered by the applicable banking agencies in evaluating mergers, acquisitions and applications to open a branch or facility.

Insider Credit Transactions. Banks are also subject to certain restrictions imposed by the Federal Reserve Act on extensions of credit to executive officers, directors, principal shareholders or any related interests of such persons. Extensions of credit (i) must be made on substantially the same terms, including interest rates and collateral, and follow credit underwriting procedures that are at least as stringent as those prevailing at the time for comparable transactions with persons not related to the lending bank; and (ii) must not involve more than the normal risk of repayment or present other unfavorable features. Banks are also subject to certain lending limits and restrictions on overdrafts to insiders. A violation of these restrictions may result in the assessment of substantial civil monetary penalties, regulatory enforcement actions, and other regulatory sanctions.

Regulation of Management. Federal law (i) sets forth circumstances under which officers or directors of a bank may be removed by the institution's federal supervisory agency; (ii) places restraints on lending by a bank to its executive officers, directors, principal shareholders, and their related interests; and (iii) generally prohibits management personnel of a bank from serving as directors or in other management positions of another financial institution whose assets exceed a specified amount or which has an office within a specified geographic area.

Safety and Soundness Standards. Certain non-capital safety and soundness standards are also imposed upon banks. These standards cover internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, such other operational and managerial standards as the agency determines to be appropriate, and standards for asset quality, earnings and stock valuation. An institution that fails to meet these standards may be subject to regulatory sanctions.

Interstate Banking and Branching

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 ("Interstate Act") together with the Dodd-Frank Act relaxed prior interstate branching restrictions under federal law by permitting, subject to regulatory approval, state and federally chartered commercial banks to establish branches in states where the laws permit banks chartered in such states to establish branches. The Interstate Act requires regulators to consult with community organizations before permitting an interstate institution to close a branch in a low-income area. Federal banking agency regulations prohibit banks from using their interstate branches primarily for deposit production and the federal banking agencies have implemented a loan-to-deposit ratio screen to ensure compliance with this prohibition.

Dividends

The principal source of the Company's cash is from dividends received from Columbia Bank, which are subject to government regulation and limitations. Regulatory authorities may prohibit banks and bank holding companies from paying dividends in a manner that would constitute an unsafe or unsound banking practice or would reduce the amount of its capital below that necessary to meet minimum applicable regulatory capital requirements. Washington law also limits a bank's ability to pay dividends that are greater than the bank's retained earnings without approval of the applicable banking agency. Additionally, current guidance from the Federal Reserve provides, among other things, that dividends per share on the Company's common stock generally should not exceed earnings per share, measured over the previous four fiscal quarters.

Capital Adequacy

Regulatory Capital Guidelines. Federal bank regulatory agencies use capital adequacy guidelines in the examination and regulation of bank holding companies and banks. The guidelines are "risk-based," meaning that they are designed to make capital requirements more sensitive to differences in risk profiles among banks and bank holding companies.

Tier I and Tier II Capital. Under the guidelines, an institution's capital is divided into two broad categories, Tier I capital and Tier II capital. Tier I capital generally consists of common stockholders' equity (including surplus and undivided profits), qualifying non-cumulative perpetual preferred stock, and qualified minority interests in the equity accounts of consolidated subsidiaries. Tier I capital generally excludes goodwill and intangible assets, net unrealized gains and losses on available for sale securities and accumulated net gains and losses on cash flow hedges. Tier II capital generally consists of the allowance for loan losses, hybrid capital instruments and qualifying subordinated debt. The sum of Tier I capital and Tier II capital represents an institution's total capital. The guidelines require that at least 50% of an institution's total capital consist of Tier I capital.

Risk-based Capital Ratios. The adequacy of an institution's capital is gauged primarily with reference to the institution's risk-weighted assets. The guidelines assign risk weightings to an institution's assets in an effort to quantify the relative risk of each asset and to determine the minimum capital required to support that risk. An institution's risk-weighted assets are then compared with its Tier I capital and total capital to arrive at a Tier I risk-based ratio and a total risk-based ratio, respectively. The guidelines provide that an institution must have a minimum Tier I risk-based ratio of 4% and a minimum total risk-based ratio of 8%.

Leverage Ratio. The guidelines also employ a leverage ratio, which is Tier I capital as a percentage of average total assets, less intangibles. The principal objective of the leverage ratio is to constrain the maximum degree to which a bank holding company may leverage its equity capital base. The minimum leverage ratio is 3%; however, for all but the most highly rated bank holding companies and for bank holding companies seeking to expand, regulators expect an additional cushion of at least 1% to 2%.

Prompt Corrective Action. Under the guidelines, an institution is assigned to one of five capital categories depending on its total risk-based capital ratio, Tier I risk-based capital ratio, and leverage ratio, together with certain subjective factors. The categories range from "well capitalized" to "critically undercapitalized." Institutions that are "undercapitalized" or lower are subject to certain mandatory supervisory corrective actions. At each successively lower capital category, an insured bank is subject to increased restrictions on its operations. During these challenging economic times, the federal banking regulators have actively enforced these provisions.

Regulatory Oversight and Examination

The Federal Reserve conducts periodic inspections of bank holding companies, which are performed both onsite and offsite. The supervisory objectives of the inspection program are to ascertain whether the financial strength of the bank holding company is being maintained on an ongoing basis and to determine the effects or consequences of transactions between a holding company or its non-banking subsidiaries and its subsidiary banks. For holding companies under $10 billion in assets, the inspection type and frequency varies depending on asset size, complexity of the organization, and the holding company's rating at its last inspection.

Banks are subject to periodic examinations by their primary regulators. Bank examinations have evolved from reliance on transaction testing in assessing a bank's condition to a risk-focused approach. These examinations are extensive and cover the entire breadth of operations of the bank. Generally, safety and soundness examinations occur on an 18-month cycle for banks under $500 million in total assets that are well capitalized and without regulatory issues, and 12-months otherwise. Examinations alternate between the federal and state bank regulatory agency or may occur on a combined schedule. The frequency of consumer compliance and CRA examinations is linked to the size of the institution and its compliance and CRA ratings at its most recent examinations. However, the examination authority of the Federal Reserve and the FDIC allows them to examine supervised banks as frequently as deemed necessary based on the condition of the bank or as a result of certain triggering events.

Corporate Governance and Accounting

Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act of 2002 (the “Act”) addresses, among other things, corporate governance, auditing and accounting, enhanced and timely disclosure of corporate information, and penalties for non-compliance. Generally, the Act (i) requires chief executive officers and chief financial officers to certify to the accuracy of periodic reports filed with the SEC; (ii) imposes specific and enhanced corporate disclosure requirements; (iii) accelerates the time frame for reporting of insider transactions and periodic disclosures by public companies; (iv) requires companies to adopt and disclose information about corporate governance practices, including whether or not they have adopted a code of ethics for senior financial officers and whether the audit committee includes at least one “audit committee financial expert;” and (v) requires the SEC, based on certain enumerated factors, to regularly and systematically review corporate filings.

Anti-terrorism

USA Patriot Act of 2001. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, intended to combat terrorism, was renewed with certain amendments in 2006 (the “Patriot Act”). The Patriot Act, in relevant part, (i) prohibits banks from providing correspondent accounts directly to foreign shell banks; (ii) imposes due diligence requirements on banks opening or holding accounts for foreign financial institutions or wealthy foreign individuals; (iii) requires financial institutions to establish an anti-money-laundering compliance program; and (iv) eliminates civil liability for persons who file suspicious activity reports. The Act also includes provisions providing the government with power to investigate terrorism, including expanded government access to bank account records.

Financial Services Modernization

Gramm-Leach-Bliley Act of 1999. The Gramm-Leach-Bliley Financial Services Modernization Act of 1999 brought about significant changes to the laws affecting banks and bank holding companies. Generally, the Act (i) repeals historical restrictions on preventing banks from affiliating with securities firms; (ii) provides a uniform framework for the activities of banks, savings institutions and their holding companies; (iii) broadens the activities that may be conducted by national banks and banking subsidiaries of bank holding companies; (iv) provides an enhanced framework for protecting the privacy of consumer information and requires notification to consumers of bank privacy policies; and (v) addresses a variety of other legal and regulatory issues affecting both day-to-day operations and long-term activities of financial institutions. Bank holding companies that qualify and elect to become financial holding companies can engage in a wider variety of financial activities than permitted under previous law, particularly with respect to insurance and securities underwriting activities.

The Emergency Economic Stabilization Act of 2008

Emergency Economic Stabilization Act of 2008. In response to market turmoil and financial crises affecting the overall banking system and financial markets in the United States, the Emergency Economic Stabilization Act of 2008 (“EESA”) was enacted on October 3, 2008. EESA provides the United States Department of the Treasury (the “Treasury”) with broad authority to implement certain actions intended to help restore stability and liquidity to the U.S. financial markets.

Troubled Asset Relief Program. Under the EESA, the Treasury has authority, among other things, to purchase up to $700 billion in mortgage loans, mortgage-related securities and certain other financial instruments, including debt and equity securities issued by financial institutions pursuant to the Troubled Asset Relief Program ("TARP"). The purpose of TARP is to restore confidence and stability to the U.S. banking system and to encourage financial institutions to increase lending to customers and to each other. Pursuant to the EESA, the Treasury was initially authorized to use $350 billion for TARP. Of this amount, the Treasury allocated $250 billion to the TARP Capital Purchase Program ("CPP"), which funds were used to purchase preferred stock from qualifying financial institutions. The Company applied for and received approximately $76 million in the CPP. Due to its capital position, on August 11, 2010, the Company redeemed all of its 76,898 outstanding shares of preferred stock, originally issued to the Treasury for a total redemption price of $77.8 million, consisting of $76.9 million in principal and $918,504 in accrued and unpaid dividends. On September 1, 2010, the Company repurchased the common stock warrant issued to the Treasury for $3.3 million. The warrant repurchase, together with the Company's redemption in August 2010 of the entire amount of the preferred stock, represents full repayment of all TARP obligations and cancellation of all equity interests in the Company held by the Treasury.

Temporary Liquidity Guarantee Program. Another program established pursuant to the EESA is the Temporary Liquidity Guarantee Program ("TLGP"), which (i) removed the limit on FDIC deposit insurance coverage for non-interest bearing transaction accounts through December 31, 2009, and (ii) provided FDIC backing for certain types of senior unsecured debt issued from October 14, 2008 through June 30, 2009. The end-date for issuing senior unsecured debt was later extended to October 31, 2009 and the FDIC also extended the Transaction Account Guarantee portion of the TLGP through December 31, 2010. In November 2010, the FDIC issued a final rule to implement provisions of the Dodd-Frank Act that provides for temporary unlimited coverage for non-interest-bearing transaction accounts. The separate coverage for non-interest-bearing transaction accounts became effective on December 31, 2010 and terminates on December 31, 2012.

Deposit Insurance

The Bank's deposits are insured under the Federal Deposit Insurance Act, up to the maximum applicable limits and are subject to deposit insurance assessments designed to tie what banks pay for deposit insurance more closely to the risks they pose. The Bank has prepaid its quarterly deposit insurance assessments for 2012 pursuant to applicable FDIC regulations. In February 2011, the FDIC approved new rules to, among other things, change the assessment base from one based on domestic deposits (as it has been since 1935) to one based on assets (average consolidated total assets minus average tangible equity). Since the new assessment base is larger than the base used under prior regulations, the rules also lower assessment rates, so that the total amount of revenue collected by the FDIC from the industry is not significantly altered. The rules also revise the deposit insurance assessment system for large financial institutions, defined as institutions with at least $10 billion in assets. The rules revise the assessment rate schedule, effective April 1, 2011, and adopt additional rate schedules that will go into effect when the Deposit Insurance Fund reserve ratio reaches various milestones. The Dodd-Frank Act requires the FDIC to increase the reserve ratio of the Deposit Insurance Fund from 1.15% to 1.35% of insured deposits by 2020 and eliminates the requirement that the FDIC pay dividends to insured depository institutions when the reserve ratio exceeds certain thresholds.

Insurance of Deposit Accounts. The EESA included a provision for a temporary increase from $100,000 to $250,000 per depositor in deposit insurance effective October 3, 2008 through December 31, 2010. On May 20, 2009, the temporary increase was extended through December 31, 2013. The Dodd-Frank Act permanently raises the current standard maximum deposit insurance amount to $250,000. The FDIC insurance coverage limit applies per depositor, per insured depository institution for each account ownership category. EESA also temporarily raised the limit on federal deposit insurance coverage to an unlimited amount for non-interest or low-interest bearing demand deposits. Pursuant to the Dodd-Frank Act, unlimited coverage for non-interest transaction accounts will continue until December 31, 2012.

Recent Legislation

Dodd-Frank Wall Street Reform and Consumer Protection Act. As a result of the recent financial crises, on July 21, 2010 the Dodd-Frank Act was signed into law. The Dodd-Frank Act is expected to have a broad impact on the financial services industry, including significant regulatory and compliance changes and changes to corporate governance matters affecting public companies. Not all of the regulations implementing these changes have been promulgated. As a result, we cannot determine the full impact on our business and operations at this time. However, the Dodd-Frank Act is expected to have a significant impact on our business operations as its provisions take effect. Some of the provisions of the Dodd-Frank Act that may impact our business are summarized below.

Holding Company Capital Requirements. Under the Dodd-Frank Act, trust preferred securities will be excluded from the Tier 1 capital of a bank holding company between $500 million and $15 billion in assets unless such securities were issued prior to May 19, 2010.

Corporate Governance. The Dodd-Frank Act requires publicly traded companies to provide their shareholders with (i) a non-binding shareholder vote on executive compensation, (ii) a non-binding shareholder vote on the frequency of such vote, (iii) disclosure of "golden parachute" arrangements in connection with specified change in control transactions, and (iv) a non-binding shareholder vote on golden parachute arrangements in connection with these change in control transactions. Except with respect to "smaller reporting companies" and participants in the CPP, the new rules applied to proxy statements relating to annual meetings of shareholders held after January 20, 2011. "Smaller reporting companies," those with a public float of less than $75 million, are required to include the non-binding shareholder votes on executive compensation and the frequency thereof in proxy statements relating to annual meetings occurring on or after January 21, 2013.

Prohibition Against Charter Conversions of Troubled Institutions. The Dodd-Frank Act generally prohibits a depository institution from converting from a state to federal charter, or vice versa, while it is the subject to an enforcement action unless the bank seeks prior approval from its regulator and complies with specified procedures to ensure compliance with the enforcement action.

Debit Card Interchange Fees. The Dodd-Frank Act requires the amount of any interchange fee charged by a debit card issuer with respect to a debit card transaction to be reasonable and proportional to the cost incurred by the issuer. While the restrictions on interchange fees do not apply to banks that, together with their affiliates, have assets of less than $10 billion, the rule could affect the competitiveness of debit cards issued by smaller banks.

Consumer Financial Protection Bureau. The Dodd-Frank Act creates a new, independent federal agency called the Consumer Financial Protection Bureau ("CFPB") within the Federal Reserve Board. The CFPB has broad rulemaking, supervision and enforcement authority for a wide range of consumer protection laws applicable to banks and thrifts with greater than $10 billion in assets. Smaller institutions are subject to certain rules promulgated by the CFPB but will continue to be examined and supervised by their federal banking regulators for compliance purposes.

Repeal of Demand Deposit Interest Prohibition. The Dodd-Frank Act repeals the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts.

American Recovery and Reinvestment Act of 2009. On February 17, 2009 the American Recovery and Reinvestment Act of 2009 ("ARRA") was signed into law. ARRA was intended to help stimulate the economy through a combination of tax cuts and spending provisions applicable to a broad range of areas with an estimated cost of about $780 billion. Among other things, ARRA authorized the U.S. Small Business Administration ("SBA") to increase the level of the SBA's guaranty for eligible loans to 90 percent. The increased guaranty percentage continued until available funding was exhausted on January 3, 2011. ARRA also made temporary changes, which expired on December 31, 2010, to federal law that expanded the capability of banks to purchase tax-exempt debt.

Overdrafts. On November 17, 2009, the Board of Governors of the Federal Reserve System promulgated the Electronic Fund Transfer rule with an effective date of January 19, 2010 and a mandatory compliance date of July 1, 2010. The rule, which applies to all FDIC-regulated institutions, prohibits financial institutions from assessing an overdraft fee for paying automated teller machine (ATM) and one-time point-of-sale debit card transactions, unless the customer affirmatively opts in to the overdraft service for those types of transactions. The opt-in provision establishes requirements for clear disclosure of fees and terms of overdraft services for ATM and one-time debit card transactions.

Proposed Legislation

General. Proposed legislation is introduced in almost every legislative session. Certain of such legislation could dramatically affect the regulation of the banking industry. We cannot predict if any such legislation will be adopted or if it is adopted how it would affect the business of Columbia Bank or the Company. Past history has demonstrated that new legislation or changes to existing laws or regulations usually results in a greater compliance burden and therefore generally increases the cost of doing business.

Possible Changes to Capital Requirements Resulting from Basel III. Basel III updates and revises significantly the current international bank capital accords (so-called "Basel I" and "Basel II"). Basel III is intended to be implemented by participating countries for large, internationally active banks. However, standards consistent with Basel III will be formally implemented in the United States through a series of regulations, some of which may apply to other banks. Among other things, Basel III creates "Tier 1 common equity," a new measure of regulatory capital closer to pure tangible common equity than the present Tier 1 definition. Basel III also increases minimum capital ratios. For the new concept of Tier 1 common equity, the minimum ratio is 4.5 percent of risk weighted assets. For Tier 1 and total capital the Basel III minimums are 6 percent and 8 percent respectively. Capital buffers comprising common equity equal to 2.5 percent of risk-weighted assets are added to each of these minimums to enable banks to absorb losses during a stressed period while remaining above their regulatory minimum ratios. The Company cannot predict the extent to which Basel III will be adopted or, if adopted, how it will apply to us.

Effects of Government Monetary Policy

Our earnings and growth are affected not only by general economic conditions, but also by the fiscal and monetary policies of the federal government, particularly the Federal Reserve. The Federal Reserve implements national monetary policy for such purposes as curbing inflation and combating recession, but its open market operations in U.S. government securities, control of the discount rate applicable to borrowings from the Federal Reserve, and establishment of reserve requirements against certain deposits, influence the growth of bank loans, investments and deposits, and also affect interest rates charged on loans or paid on deposits. The nature and impact of future changes in monetary policies and their impact on us cannot be predicted with certainty.

ITEM 1A. RISK FACTORS

Our business exposes us to certain risks. The following is a discussion of what we currently believe are the most significant risks and uncertainties that may affect our business, financial condition and future results.

A protracted slow or fragile economic recovery could adversely affect our future results of operations or market price of our stock.

The national and global economy and the financial services sector in particular continue to face significant challenges. We cannot accurately predict how quickly or strongly the economy will recover from the recent recession, which has adversely impacted the markets we serve. The U.S. economy has also experienced substantial volatility in the financial markets. Any further deterioration in the economies of the nation as a whole or in our markets would have an adverse effect, which could be material, on our business, financial condition, results of operations and prospects, and could also cause the market price of our stock to decline. While it is impossible to predict how long adverse economic conditions may exist, a slow or fragile recovery could continue to present risks for some time for the industry and our company.

Economic conditions in the market areas we serve may continue to adversely impact our earnings and could increase our credit risk associated with our loan portfolio and the value of our investment portfolio.

Substantially all of our loans are to businesses and individuals in Washington and Oregon, and a continuing decline in the economies of these market areas could have a material adverse effect on our business, financial condition, results of operations and prospects. Housing prices have declined and unemployment is a continued concern in both Washington and Oregon. A further deterioration in the market areas we serve could result in the following consequences, any of which could have an adverse impact, which could be material, on our business, financial condition, results of operations and prospects:

- commercial and consumer loan delinquencies may increase;
- problem assets and foreclosures may increase;
- collateral for loans made may decline further in value, in turn reducing customers' borrowing power, reducing the value of assets and collateral associated with existing loans;
- certain securities within our investment portfolio could become other than temporarily impaired, requiring a write-down through earnings to fair value, thereby reducing equity;
- low cost or non-interest bearing deposits may decrease; and
- demand for our loan and other products and services may decrease.

Our loan portfolio mix, which has a concentration of loans secured by real estate, could result in increased credit risk in a challenging economy.

Our loan portfolio is concentrated in commercial real estate and commercial business loans. These types of loans generally are viewed as having more risk of default than residential real estate loans or certain other types of loans or investments. In fact, the FDIC has issued pronouncements alerting banks of its concern about heavy loan concentrations. Because our loan portfolio contains commercial real estate and commercial business loans with relatively large balances, the deterioration of one or a few of these loans may cause a significant increase in our non-performing loans. An increase in non-performing loans could result in a loss of earnings from these loans, an increase in the provision for loan losses, or an increase in loan charge-offs, any of which could have a material adverse impact on our results of operations and financial condition.

A further downturn in the economies or real estate values in the markets we serve could have a material adverse effect on both borrowers' ability to repay their loans and the value of the real property securing such loans. Our ability to recover on defaulted loans would then be diminished, and we would be more likely to suffer losses on defaulted loans.

Our Allowance for Loan and Lease Losses ("ALLL") may not be adequate to cover future loan losses, which could adversely affect earnings.

We maintain an ALLL in an amount that we believe is adequate to provide for losses inherent in our loan portfolio. While we strive to carefully monitor credit quality and to identify loans that may become non-performing, at any time there are loans in the portfolio that could result in losses, but that have not been identified as non-performing or potential problem loans. We cannot be sure that we will be able to identify deteriorating loans before they become non-performing assets, or that we will be able to limit losses on those loans that have been identified. Additionally, the process for determining the ALLL requires different, subjective and complex judgments about the future impact from current economic conditions that might impair the ability of borrowers to repay their loans. As a result, future significant increases to the ALLL may be necessary.

Future increases to the ALLL may be required based on changes in the composition of the loans comprising the portfolio, deteriorating values in underlying collateral (most of which consists of real estate) and changes in the financial condition of borrowers, such as may result from changes in economic conditions, or as a result of actual future events differing from assumptions used by management in determining the ALLL. Additionally, banking regulators, as an integral part of their supervisory function, periodically review our ALLL. These regulatory agencies may require us to increase the ALLL. Any increase in the ALLL would have an adverse effect, which could be material, on our financial condition and results of operations.

Nonperforming assets take significant time to resolve and adversely affect our results of operations and financial condition.

Our nonperforming assets adversely affect our net income in various ways. Until economic and market conditions improve to pre-recession levels, we expect to continue to incur additional losses relating to elevated levels of nonperforming loans. We do not record interest income on nonaccrual loans, thereby adversely affecting our income, and increasing loan administration costs. Assets acquired by foreclosure or similar proceedings are recorded at the lower of carrying value or fair value less estimated costs to sell. The valuation of these foreclosed assets is periodically updated and resulting losses, if any, are charged to earnings in the period in which they are identified. An increase in the level of nonperforming assets also increases our risk profile and may impact the capital levels our regulators believe is appropriate in light of such risks. We utilize various techniques such as loan sales, workouts, and restructurings to manage our problem assets. Decreases in the value of these problem assets, the underlying collateral, or in the borrowers' performance or financial condition, could adversely affect our business, results of operations and financial condition. In addition, the resolution of nonperforming assets requires significant commitments of time from management and staff, which can be detrimental to performance of their other responsibilities. We may experience further increases in nonperforming loans in the future.

Our acquisitions and the integration of acquired businesses may not result in all of the benefits anticipated, and future acquisitions may be dilutive to current shareholders.

We have in the past and may in the future seek to grow our business by acquiring other businesses. Our acquisitions may not have the anticipated positive results, including results relating to: correctly assessing the asset quality of the assets being acquired; the total cost of integration including management attention and resources; the time required to complete the integration successfully; the amount of longer-term cost savings; being able to profitably deploy funds acquired in an acquisition; or the overall performance of the combined entity.

We also may encounter difficulties in obtaining required regulatory approvals and unexpected contingent liabilities can arise from the businesses we acquire. Integration of an acquired business can be complex and costly, sometimes including combining relevant accounting and data processing systems and management controls, as well as managing relevant relationships with employees, clients, suppliers and other business partners. Integration efforts could divert management attention and resources, which could adversely affect our operations or results.

Given the continued market volatility and uncertainty, notwithstanding our loss-sharing arrangements with the FDIC, we may continue to experience increased credit costs or need to take additional markdowns and allowances for loan losses on the assets and loans acquired that could adversely affect our financial condition and results of operations in the future.

We may also experience difficulties in complying with the technical requirements of our loss-sharing agreements with the FDIC, which could result in some assets which we acquire in FDIC-assisted transactions losing their coverage under such agreements. As our integration efforts continue in connection with these transactions, other unanticipated costs, including the diversion of personnel, or losses, may be incurred.

Acquisitions may also result in business disruptions that cause us to lose customers or cause customers to remove their accounts from us and move their business to competing financial institutions. It is possible that the integration process related to acquisitions could result in the disruption of our ongoing businesses or inconsistencies in standards, controls, procedures and policies that could adversely affect our ability to maintain relationships with clients, customers, depositors and employees. The loss of key employees in connection with an acquisition could adversely affect our ability to successfully conduct our business.

We may engage in future acquisitions involving the issuance of additional common stock and/or cash. Any such acquisitions and related issuances of stock may have a dilutive effect on earnings per share and the percentage ownership of current shareholders. The use of cash as consideration in any such acquisitions could impact our capital position and may require us to raise additional capital.

Furthermore, notwithstanding our recent acquisitions, we cannot provide any assurance as to the extent to which we can continue to grow through acquisitions as this will depend on the availability of prospective target opportunities at valuations we find attractive and the competition for such opportunities from other parties.

Our decisions regarding the fair value of assets acquired, including the FDIC loss-sharing assets, could be inaccurate, which could materially and adversely affect our business, financial condition, results of operations, and future prospects.

Management makes various assumptions and judgments about the collectability of the acquired loans, including the creditworthiness of borrowers and the value of the real estate and other assets serving as collateral for the repayment of secured loans. In FDIC-assisted acquisitions that include loss-sharing agreements, we may record a loss-sharing asset that we consider adequate to absorb the indemnified portion of future losses which may occur in the acquired loan portfolio. The FDIC loss-sharing asset is accounted for on the same basis as the related acquired loans and OREO and primarily represents the present value of the cash flows the Company expects to collect from the FDIC under the loss-sharing agreements.

If our assumptions are incorrect, significant earnings volatility can occur and the balance of the FDIC loss-sharing asset may at any time be insufficient to cover future loan losses, and credit loss provisions may be needed to respond to different economic conditions or adverse developments in the acquired loan portfolio. Any increase in future loan losses could have a material adverse effect on our operating results.

Our profitability measures could be adversely affected if we are unable to effectively deploy the capital we raised in 2010.

We may use the net proceeds of our capital raise completed in May 2010 for selective acquisitions that meet our disciplined acquisition criteria, to fund internal growth, or for general corporate purposes. Although we are periodically engaged in discussions with potential acquisition candidates, we are not currently a party to any purchase or merger agreement. There can be no assurance that we will be able to negotiate future acquisitions on terms acceptable to us. Investing the proceeds of our 2010 capital raise until we are able to deploy the proceeds will provide lower margins than we generally earn on loans, potentially adversely impacting shareholder returns, including earnings per share, net interest margin, return on assets and return on equity.

If the goodwill we have recorded in connection with acquisitions becomes impaired, it could have an adverse impact on our earnings and capital.

Accounting standards require that we account for acquisitions using the acquisition method of accounting. Under acquisition accounting, if the purchase price of an acquired company exceeds the fair value of its net assets, the excess is carried on the acquirer's balance sheet as goodwill. In accordance with generally accepted accounting principles, our goodwill is evaluated for impairment on an annual basis or more frequently if events or circumstances indicate that a potential impairment exists. Such evaluation may be based on a variety of factors, including the quoted price of our common stock, market prices of common stock of other banking organizations, common stock trading multiples, discounted cash flows, and data from comparable acquisitions. Future evaluations of goodwill may result in impairment and ensuing write-down, which could be material, resulting in an adverse impact on our earnings and capital.

Fluctuating interest rates could adversely affect our business.

Significant increases in market interest rates on loans, or the perception that an increase may occur, could adversely affect both our ability to originate new loans and our ability to grow. Conversely, decreases in interest rates could result in an acceleration of loan prepayments. An increase in market interest rates could also adversely affect the ability of our floating-rate borrowers to meet their higher payment obligations. If this occurred, it could cause an increase in nonperforming assets and charge offs, which could adversely affect our business.

Further, our profitability is dependent to a large extent upon net interest income, which is the difference (or "spread") between the interest earned on loans, securities and other interest-earning assets and the interest paid on deposits, borrowings, and other interest-bearing liabilities. Because of the differences in maturities and repricing characteristics of our interest-earning assets and interest-bearing liabilities, changes in interest rates do not produce equivalent changes in interest income earned on interest-earning assets and interest paid on interest-bearing liabilities. Accordingly, fluctuations in interest rates could adversely affect our interest rate spread, and, in turn, our profitability.

The FDIC has increased insurance premiums to restore and maintain the federal deposit insurance fund, which has increased our costs and could adversely affect our business.

In 2009, the FDIC imposed a special deposit insurance assessment of five basis points on all insured institutions, and also required insured institutions to prepay estimated quarterly risk-based assessments through 2012.

The Dodd-Frank Act established 1.35% as the minimum deposit insurance fund reserve ratio. The FDIC has determined that the fund reserve ratio should be 2.0% and has adopted a plan under which it will meet the statutory minimum fund reserve ratio of 1.35% by the statutory deadline of September 30, 2020. The Dodd-Frank Act requires the FDIC to offset the effect on institutions with assets less than $10 billion of the increase in the statutory minimum fund reserve ratio to 1.35% from the former statutory minimum of 1.15%.

Effective April 1, 2011, the FDIC implemented changes to the assessment rules resulting from the Dodd-Frank Act. The adopted regulations: (1) modify the definition of an institution’s deposit insurance assessment base; (2) alter certain adjustments to the assessment rates; (3) revise the assessment rate schedules in light of the new assessment base and altered adjustments; and (4) provide for the automatic adjustment of the assessment rates in the future when the reserve ratio reaches certain milestones. These rule changes favorably impacted the Company's results of operations in 2011 by approximately $1.0 million as the assessment rates, though applied to a larger assessment base, were lower than rates in prior periods.

Despite the FDIC’s actions to restore the deposit insurance fund, the fund will suffer additional losses in the future due to failures of insured institutions. There may be additional significant deposit insurance premium increases, special assessments or prepayments in order to restore the insurance fund’s reserve ratio. Any significant premium increases or special assessments could have a material adverse effect on the Company’s financial condition and results of operations.

We operate in a highly regulated environment and changes of or increases in, or supervisory enforcement of, banking or other laws and regulations or governmental fiscal or monetary policies could adversely affect us.

We are subject to extensive regulation, supervision and examination by federal and state banking authorities. In addition, as a publicly-traded company, we are subject to regulation by the Securities and Exchange Commission. Any change in applicable regulations or federal, state or local legislation or in policies or interpretations or regulatory approaches to compliance and enforcement, income tax laws and accounting principles could have a substantial impact on us and our operations. Changes in laws and regulations may also increase our expenses by imposing additional fees or taxes or restrictions on our operations. Additional legislation and regulations that could significantly affect our powers, authority and operations may be enacted or adopted in the future, which could have a material adverse effect on our financial condition and results of operations. Failure to appropriately comply with any such laws, regulations or principles could result in sanctions by regulatory agencies or damage to our reputation, all of which could adversely affect our business, financial condition or results of operations.

In that regard, the Dodd-Frank Wall Street Reform and Consumer Protection Act was enacted in July 2010. Among other provisions, the legislation (i) created a new Bureau of Consumer Financial Protection with broad powers to regulate consumer financial products such as credit cards and mortgages, (ii) created a Financial Stability Oversight Council comprised of the heads of other regulatory agencies, (iii) will lead to new capital requirements from federal banking agencies, (iv) places new limits on electronic debit card interchange fees and (v) requires the Securities and Exchange Commission and national stock exchanges to adopt significant new corporate governance and executive compensation reforms. The new legislation and regulations are expected to increase the overall costs of regulatory compliance.

Further, regulators have significant discretion and authority to prevent or remedy unsafe or unsound practices or violations of laws or regulations by financial institutions and holding companies in the performance of their supervisory and enforcement duties. Recently, these powers have been utilized more frequently due to the serious national, regional and local economic conditions we are facing. The exercise of regulatory authority may have a negative impact on our financial condition and results of operations. Additionally, our business is affected significantly by the fiscal and monetary policies of the U.S. federal government and its agencies, including the Federal Reserve Board.

We cannot accurately predict the full effects of recent legislation or the various other governmental, regulatory, monetary and fiscal initiatives which have been and may be enacted on the financial markets, on the Company and on the Bank. The terms and costs of these activities, or any worsening of current financial market and economic conditions, could materially and adversely affect our business, financial condition, results of operations, and the trading price of our common stock.

We may be required, in the future, to recognize impairment with respect to investment securities, including the FHLB stock we hold.

Our securities portfolio currently includes securities with unrecognized losses. We may continue to observe declines in the fair market value of these securities. Securities issued by certain states and municipalities have recently come under scrutiny due to concerns about credit quality. Although management believes the credit quality of the Company's state and municipal securities portfolio to be good, there can be no assurance that the credit quality of these securities will not decline in the future. We evaluate the securities portfolio for any other than temporary impairment each reporting period, as required by generally accepted accounting principles in the United States of America, and as of December 31, 2011, we recognized one municipal bond as being other-than-temporarily impaired. For further information regarding this other-than-temporarily impaired security see Note 4 to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this report. There can be no assurance, however, that future evaluations of the securities portfolio will not require us to recognize further impairment charges with respect to these and other holdings. For example, it is possible that government-sponsored programs to allow mortgages to be refinanced to lower rates could materially adversely impact the yield on our portfolio of mortgage-backed securities, since a significant portion of our investment portfolio is composed of such securities.

In addition, as a condition to membership in the FHLB, we are required to purchase and hold a certain amount of FHLB stock. Our stock purchase requirement is based, in part, upon the outstanding principal balance of advances from the FHLB. At December 31, 2011 we had stock in the FHLB totaling $22.2 million. The FHLB stock held by us is carried at cost and is subject to recoverability testing under applicable accounting standards. The FHLB has discontinued the repurchase of their stock and discontinued the distribution of dividends. As of December 31, 2011, we did not recognize an impairment charge related to our FHLB stock holdings. There can be no assurance, however, that future negative changes to the financial condition of the FHLB may not require us to recognize an impairment charge with respect to such holdings.

Substantial competition in our market areas could adversely affect us.

Commercial banking is a highly competitive business. We compete with other commercial banks, savings and loan associations, credit unions, finance, insurance and other non-depository companies operating in our market areas. We also experience competition, especially for deposits, from Internet-based banking institutions, which have grown rapidly in recent years. We are subject to substantial competition for loans and deposits from other financial institutions. Some of our competitors are not subject to the same degree of regulation and restriction as we are and/or have greater financial resources than we do. Some of our competitors have severe liquidity issues, which could impact the pricing of deposits in our marketplace. If we are unable to effectively compete in our market areas, our business, results of operations and prospects could be adversely affected.

Changes in accounting standards could materially impact our financial statements.

From time to time the Financial Accounting Standards Board and the SEC change the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be very difficult to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in our restating prior period financial statements.

There can be no assurance as to the level of dividends we may pay on our common stock.

Holders of our common stock are only entitled to receive such dividends as our Board of Directors may declare out of funds legally available for such payments. Although we have historically declared cash dividends on our common stock, we are not required to do so and there may be circumstances under which we would eliminate our common stock dividend in the future. This could adversely affect the market price of our common stock.

Significant legal or regulatory actions could subject us to substantial uninsured liabilities and reputational harm and have a material adverse effect on our business and results of operations.

We are from time to time subject to claims and proceedings related to our operations. These claims and legal actions, which could include supervisory or enforcement actions by our regulators, or criminal proceedings by prosecutorial authorities, could involve large monetary claims, including civil money penalties or fines imposed by government authorities, and significant defense costs. To mitigate the cost of some of these claims, we maintain insurance coverage in amounts and with deductibles that we believe are appropriate for our operations. However, our insurance coverage does not cover any civil money penalties or fines imposed by government authorities and may not cover all other claims that might be brought against us or continue to be available to us at a reasonable cost. As a result, we may be exposed to substantial uninsured liabilities, which could adversely affect our business, prospects, results of operations and financial condition. Substantial legal liability or significant regulatory action against us could have material adverse financial effects or cause significant reputational harm to us, which in turn could seriously harm our business prospects.

We are subject to a variety of operational risks, including reputational risk, legal risk and compliance risk, and the risk of fraud or theft by employees or outsiders, which may adversely affect our business and results of operations.

We are exposed to many types of operational risks, including reputational risk, legal and compliance risk, the risk of fraud or theft by employees or outsiders, and unauthorized transactions by employees or operational errors, including clerical or record-keeping errors or those resulting from faulty or disabled computer or telecommunications systems.

If personal, non-public, confidential or proprietary information of customers in our possession were to be mishandled or misused, we could suffer significant regulatory consequences, reputational damage and financial loss. Such mishandling or misuse could include, for example, if such information were erroneously provided to parties who are not permitted to have the information, either by fault of our systems, employees, or counterparties, or where such information is intercepted or otherwise inappropriately taken by third parties.

Because the nature of the financial services business involves a high volume of transactions, certain errors may be repeated or compounded before they are discovered and successfully rectified. Our necessary dependence upon automated systems to record and process transactions and our large transaction volume may further increase the risk that technical flaws or employee tampering or manipulation of those systems will result in losses that are difficult to detect. We also may be subject to disruptions of our operating systems arising from events that are wholly or partially beyond our control (for example, computer viruses or electrical or telecommunications outages, or natural disasters, disease pandemics or other damage to property or physical assets) which may give rise to disruption of service to customers and to financial loss or liability. We are further exposed to the risk that our external vendors may be unable to fulfill their contractual obligations (or will be subject to the same risk of fraud or operational errors by their respective employees as we are) and to the risk that we (or our vendors') business continuity and data security systems prove to be inadequate. The occurrence of any of these risks could result in a diminished ability of us to operate our business (for example, by requiring us to expend significant resources to correct the defect), as well as potential liability to clients, reputational damage and regulatory intervention, which could adversely affect our business, financial condition and results of operations, perhaps materially.

We may pursue additional capital, which may not be available on acceptable terms or at all, could dilute the holders of our outstanding common stock and may adversely affect the market price of our common stock.

In the current economic environment, there may be circumstances under which it would be prudent to consider alternatives for raising capital when opportunities to raise capital at attractive prices present themselves, in order to further strengthen our capital and better position ourselves to take advantage of opportunities that may arise in the future. Such alternatives may include issuance and sale of common or preferred stock, or borrowings by the Company, with proceeds contributed to the Bank. Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at the time, which are outside of our control, and our financial performance. We cannot assure you that such capital will be available to us on acceptable terms or at all. Any such capital raising alternatives could dilute the holders of our outstanding common stock, and may adversely affect the market price of our common stock and our performance measures such as earnings per share.

We have various anti-takeover measures that could impede a takeover.

Our articles of incorporation include certain provisions that could make it more difficult to acquire us by means of a tender offer, a proxy contest, merger or otherwise. These provisions include certain non-monetary factors that our board of directors may consider when evaluating a takeover offer, and a requirement that any "Business Combination" be approved by the affirmative vote of no less than 66 2/3% of the total shares attributable to persons other than a "Control Person." These provisions may have the effect of lengthening the time required for a person to acquire control of us through a tender offer, proxy contest or otherwise, and may deter any potentially hostile offers or other efforts to obtain control of us. This could deprive our shareholders of opportunities to realize a premium for their Columbia common stock, even in circumstances where such action is favored by a majority of our shareholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company's principal Columbia Bank properties include our corporate headquarters which is located at 13th & A Street, Tacoma, Washington, in Pierce County, where we occupy 62 thousand square feet of office space, 4 thousand square feet of commercial lending space and 750 square feet of branch space under various operating lease agreements, an operations facility in Lakewood, Washington, where we own 57 thousand square feet of office space and an office facility in Tacoma, Washington, that includes a branch where we occupy 26 thousand square feet under various operating lease agreements.

The Company's branch network as of December 31, 2011 is made up of 102 branches located throughout several Washington and Oregon counties. The number of branches per county, as well as whether it is owned or operated under a lease agreement is detailed in the following table.

County	Number of Branches	Occupancy Type	
		Owned	Leased
Pierce	23	15	8
King	13	8	5
Kitsap	6	3	3
Snohomish	5	5	—
Skagit	3	3	—
Other Washington Counties	27	16	11
Total Washington Branches	77	50	27
Clatsop (dba Bank of Astoria)	4	4	—
Tillamook (dba Bank of Astoria)	2	2	—
Clackamas	4	—	4
Multnomah	2	1	1
Deschutes	4	2	2
Other Oregon Counties	9	7	2
Total Oregon Branches	25	16	9
Total Columbia Bank Branches	102	66	36

For additional information concerning our premises and equipment and lease obligations, see Note 9 and 17, respectively, to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this report.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Quarterly Common Stock Prices and Dividends

Our common stock is traded on the NASDAQ Global Select Market under the symbol "COLB". Quarterly high and low sales prices and dividend information for the last two years are presented in the following table. The prices shown do not include retail mark-ups, mark-downs or commissions:

			Cash Dividends Declared		
2011	**High**	**Low**	**Regular**	**Special**	**Total Cash Dividends Declared**
First quarter	$ 22.14	$ 17.91	$ 0.03	$ —	$ 0.03
Second quarter	$ 19.95	$ 16.56	0.05	—	0.05
Third quarter	$ 18.14	$ 14.01	0.06	—	0.06
Fourth quarter	$ 19.76	$ 13.46	0.08	0.05	0.13
For the year	$ 22.14	$ 13.46	$ 0.22	$ 0.05	$ 0.27

			Cash Dividends Declared		
2010	**High**	**Low**	**Regular**	**Special**	**Total Cash Dividends Declared**
First quarter	$ 22.60	$ 16.03	$ 0.01	$ —	$ 0.01
Second quarter	$ 24.96	$ 18.17	0.01	—	0.01
Third quarter	$ 19.97	$ 15.91	0.01	—	0.01
Fourth quarter	$ 21.99	$ 17.00	0.01	—	0.01
For the year	$ 24.96	$ 15.91	$ 0.04	$ —	$ 0.04

On December 31, 2011, the last sale price for our stock on the NASDAQ Global Select Market was $19.27. At January 31, 2012, the number of shareholders of record was 2,077. This figure does not represent the actual number of beneficial owners of common stock because shares are frequently held in "street name" by securities dealers and others for the benefit of individual owners who may vote the shares.

At December 31, 2011, a total of 64,912 stock options were outstanding. Additional information about stock options and other equity compensation plans is included in Note 21 to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this report.

The payment of future cash dividends is at the discretion of our Board and subject to a number of factors, including results of operations, general business conditions, growth, financial condition and other factors deemed relevant by the Board of Directors. In addition, the payment of cash dividends is subject to Federal regulatory requirements for capital levels and other restrictions. In this regard, current guidance from the Federal Reserve provides, among other things, that dividends per share on the Company's common stock generally should not exceed earnings per share, measured over the previous four fiscal quarters.

Subsequent to year end, on January 26, 2012 the Company declared a regular quarterly cash dividend of $0.08 per share and a special cash dividend of $0.29 per share, both payable on February 22, 2012, to shareholders of record at the close of business on February 8, 2012.

Equity Compensation Plan Information

	Year Ended December 31, 2011		
	Number of Shares to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (1)(2)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Shares Remaining Available for Future Issuance Under Equity Compensation Plans (3)
Equity compensation plans approved by security holders	64,912	$ 22.76	1,167,010
Equity compensation plans not approved by security holders	—	—	—

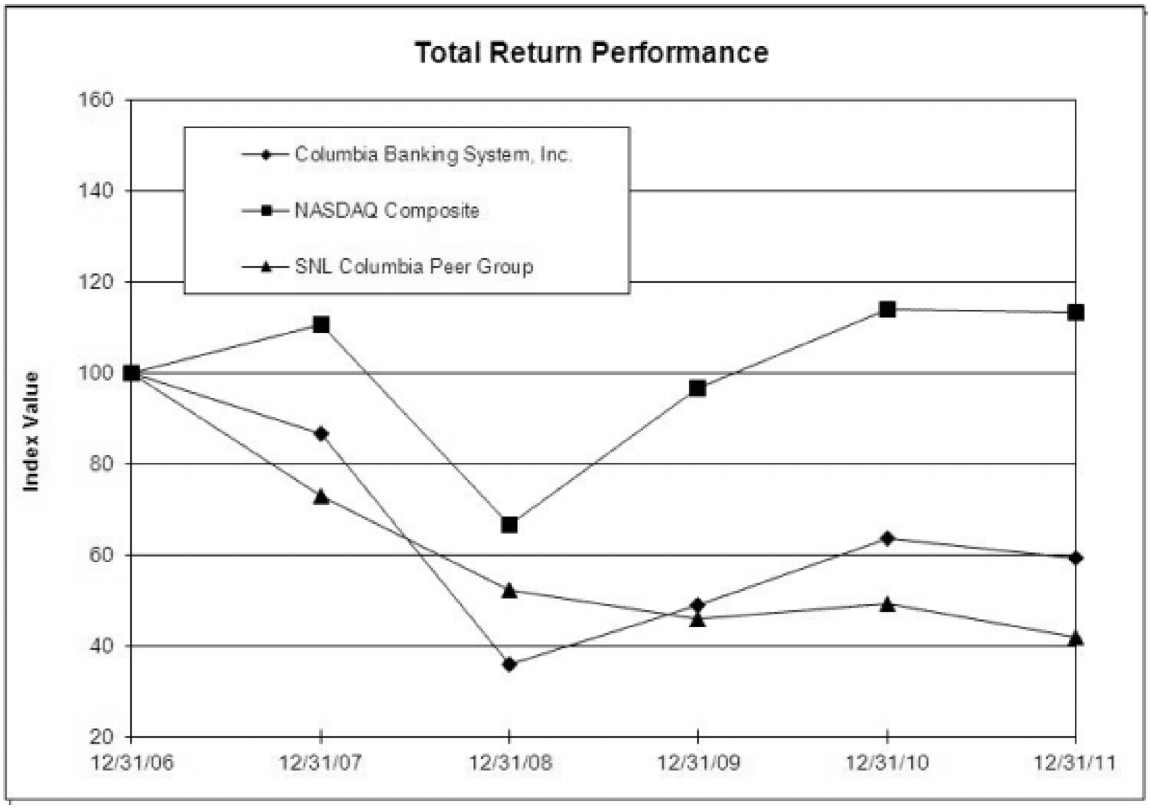
(1) Includes shares to be issued upon exercise of options under plans of Bank of Astoria, Mountain Bank Holding Company and Town Center Bancorp, which were assumed as a result of their acquisitions.

(2) Consists of shares that are subject to outstanding options.

(3) Includes 519,107 shares available for future issuance under the stock option and equity compensation plan and 647,903 shares available for purchase under the Employee Stock Purchase Plan as of December 31, 2011.

Five-Year Stock Performance Graph

The following graph shows a five-year comparison of the total return to shareholders of Columbia's common stock, the Nasdaq Composite Index (which is a broad nationally recognized index of stock performance by companies listed on the Nasdaq Stock Market) and the Columbia Peer Group (comprised of banks with assets of $1 billion to $5 billion, all of which are located in the western United States). The definition of total return includes appreciation in market value of the stock as well as the actual cash and stock dividends paid to shareholders. The graph assumes that the value of the investment in Columbia's common stock, the Nasdaq and the Columbia Peer Group was $100 on December 31, 2006, and that all dividends were reinvested.



Index	12/31/2006	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011
	Period Ending					
Columbia Banking System, Inc.. . . .	100.00	86.57	35.75	48.80	63.66	59.15
NASDAQ Composite.	100.00	110.66	66.42	96.54	114.06	113.16
SNL Columbia Peer Group	100.00	73.06	52.34	45.97	49.32	42.00

Source: SNL Financial LC, Charlottesville, VA

ITEM 6. SELECTED FINANCIAL DATA

Five-Year Summary of Selected Consolidated Financial Data (1)

	2011	2010	2009	2008	2007
	(in thousands except per share)				
For the Year					
Interest income	$ 251,271	$ 185,879	$ 143,035	$ 175,060	$ 184,217
Interest expense	$ 14,535	$ 21,092	$ 27,683	$ 55,547	$ 75,397
Net interest income	$ 236,736	$ 164,787	$ 115,352	$ 119,513	$ 108,820
Provision for loan and lease losses, excluding covered loans	$ 7,400	$ 41,291	$ 63,500	$ 41,176	$ 3,605
Noninterest income (loss)	$ (9,283)	$ 52,781	$ 29,690	$ 14,850	$ 27,748
Noninterest expense	$ 155,759	$ 137,147	$ 94,488	$ 92,125	$ 88,829
Net income (loss)	$ 48,037	$ 30,784	$ (3,968)	$ 5,968	$ 32,381
Net income (loss) applicable to common shareholders	$ 48,037	$ 25,837	$ (8,371)	$ 5,498	$ 32,381
Per Common Share					
Earnings (loss) (Basic)	$ 1.22	$ 0.73	$ (0.38)	$ 0.30	$ 1.91
Earnings (loss) (Diluted)	$ 1.21	$ 0.72	$ (0.38)	$ 0.30	$ 1.89
Book Value	$ 19.23	$ 17.97	$ 16.13	$ 18.82	$ 19.03
Averages					
Total assets	$ 4,509,010	$ 4,248,590	$ 3,084,421	$ 3,134,054	$ 2,837,162
Interest-earning assets	$ 3,871,424	$ 3,583,728	$ 2,783,862	$ 2,851,555	$ 2,599,379
Loans, including covered loans	$ 2,607,266	$ 2,485,650	$ 2,124,574	$ 2,264,486	$ 1,990,622
Securities	$ 928,891	$ 720,152	$ 584,028	$ 565,299	$ 581,122
Deposits	$ 3,541,399	$ 3,270,923	$ 2,378,176	$ 2,382,484	$ 2,242,134
Core deposits	$ 3,218,425	$ 2,828,246	$ 1,945,039	$ 1,911,897	$ 1,887,391
Shareholders' equity	$ 730,726	$ 668,469	$ 462,127	$ 354,387	$ 289,297
Financial Ratios					
Net interest margin	6.27%	4.76%	4.33 %	4.38%	4.35%
Return on average assets	1.23%	0.72%	(0.13)%	0.19%	1.14%
Return on average common equity	7.73%	4.15%	(2.16)%	1.59%	11.19%
Efficiency ratio (tax equivalent) (2)	70.68%	67.56%	61.53 %	59.88%	61.33%
Average equity to average assets	15.93%	15.73%	14.98 %	11.31%	10.20%
At Year End					
Total assets	$ 4,785,945	$ 4,256,363	$ 3,200,930	$ 3,097,079	$ 3,178,713
Covered assets, net	$ 560,055	$ 531,504	$ —	$ —	$ —
Loans, excluding covered loans	$ 2,348,371	$ 1,915,754	$ 2,008,884	$ 2,232,332	$ 2,282,728
Allowance for noncovered loan and lease losses	$ 53,041	$ 60,993	$ 53,478	$ 42,747	$ 26,599
Securities	$ 1,050,325	$ 781,774	$ 631,645	$ 540,525	$ 572,973
Deposits	$ 3,815,529	$ 3,327,269	$ 2,482,705	$ 2,382,151	$ 2,498,061
Core deposits	$ 3,510,435	$ 2,998,482	$ 2,072,821	$ 1,941,047	$ 1,996,393
Shareholders' equity	759,338	706,878	528,139	415,385	341,731
Full-time equivalent employees	1,256	1,092	715	735	775
Banking branches	102	84	52	53	55
Nonperforming Assets, Excluding Covered Assets					
Nonaccrual loans	53,483	89,163	110,431	106,163	14,005
Other real estate owned and other personal property owned	31,905	30,991	19,037	2,874	181
Total nonperforming assets, excluding covered assets	$ 85,388	$ 120,154	$ 129,468	$ 109,037	$ 14,186
Nonperforming loans to year end loans, excluding covered loans	2.28%	4.65%	5.50 %	4.76%	0.61%
Nonperforming assets to year end assets, excluding covered assets	2.02%	3.23%	4.04 %	3.52%	0.45%
Allowance for loan and lease losses to year end loans, excluding covered loans	2.26%	3.18%	2.66 %	1.91%	1.17%
Allowance for loan and lease losses to nonperforming loans, excluding covered loans	99.17%	68.41%	48.43 %	40.27%	189.93%
Net loan charge-offs	$ 15,352	$ 33,776	$ 52,769	$ 25,028	$ 380
Risk-Based Capital Ratios					
Total capital	21.05%	24.47%	19.60 %	14.25%	10.90%
Tier 1 capital	19.79%	23.20%	18.34 %	12.99%	9.87%
Leverage ratio	12.96%	13.99%	14.33 %	11.27%	8.54%

(1) These unaudited schedules provide selected financial information concerning the Company that should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of this report.

(2) Noninterest expense, excluding net cost of operation of other real estate divided by the sum of net interest income and noninterest income on a tax equivalent basis, excluding gain/loss on sale of investment securities, impairment charge on investment securities, gain on bank acquisition, incremental interest income accretion on the acquired loan portfolio and the change in FDIC loss-sharing asset.

Consolidated Five-Year Financial Data (1)

	Years ended December 31,				
	2011	2010	2009	2008	2007
	(in thousands, except per share amounts)				
Interest Income:					
Loans	$ 218,420	$ 157,292	$ 117,062	$ 147,830	$ 156,253
Taxable securities	21,870	18,276	17,300	18,852	18,614
Tax-exempt securities	10,142	9,348	8,458	7,976	7,923
Federal funds sold and deposits with banks	839	963	215	402	1,427
Total interest income	251,271	185,879	143,035	175,060	184,217
Interest Expense:					
Deposits	10,478	16,733	23,250	45,307	59,930
Federal Home Loan Bank advances	2,980	2,841	2,759	7,482	11,065
Long-term obligations	579	1,029	1,197	1,800	2,177
Other borrowings	498	489	477	958	2,225
Total interest expense	14,535	21,092	27,683	55,547	75,397
Net Interest Income	236,736	164,787	115,352	119,513	108,820
Provision for noncovered loan and lease losses	7,400	41,291	63,500	41,176	3,605
Provision (recapture) for losses on covered loans	(1,648)	6,055	—	—	—
Net interest income after provision	230,984	117,441	51,852	78,337	105,215
Noninterest income (loss)	(9,283)	52,781	29,690	14,850	27,748
Noninterest expense	155,759	137,147	94,488	92,125	88,829
Income (loss) before income taxes	65,942	33,075	(12,946)	1,062	44,134
Provision (benefit) for income taxes	17,905	2,291	(8,978)	(4,906)	11,753
Net Income (Loss)	$ 48,037	$ 30,784	$ (3,968)	$ 5,968	$ 32,381
Less: Dividends on preferred stock	—	4,947	4,403	470	—
Net Income (Loss) Applicable to Common Shareholders	$ 48,037	$ 25,837	$ (8,371)	$ 5,498	$ 32,381
Per Common Share					
Earnings (loss) basic	$ 1.22	$ 0.73	$ (0.38)	$ 0.30	$ 1.91
Earnings (loss) diluted	$ 1.21	$ 0.72	$ (0.38)	$ 0.30	$ 1.89
Average number of common shares outstanding (basic)	39,103	35,209	21,854	17,914	16,802
Average number of common shares outstanding (diluted)	39,180	35,392	21,854	18,010	16,972
Total assets at year end	$ 4,785,945	$ 4,256,363	$ 3,200,930	$ 3,097,079	$ 3,178,713
Long-term obligations	$ —	$ 25,735	$ 25,669	$ 25,603	$ 25,519
Cash dividends declared per common share	$ 0.27	$ 0.04	$ 0.07	$ 0.58	$ 0.66

(1) These unaudited schedules provide selected financial information concerning the Company that should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation" of this report.

Selected Quarterly Financial Data (1)

The following table presents selected unaudited consolidated quarterly financial data for each quarter of 2011 and 2010. The information contained in this table reflects all adjustments, which, in the opinion of management, are necessary for a fair presentation of the results of the interim periods.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year Ended December 31,
	(in thousands, except per share amounts)				
2011					
Total interest income	$ 54,611	$ 53,309	$ 68,432	$ 74,919	$ 251,271
Total interest expense	4,162	3,934	3,644	2,795	14,535
Net interest income	50,449	49,375	64,788	72,124	236,736
Provision for loan and lease losses	—	2,150	500	4,750	7,400
Provision for losses on covered loans	(422)	2,301	433	(3,960)	(1,648)
Noninterest income (loss)	(5,419)	3,542	2,196	(9,602)	(9,283)
Noninterest expense	37,346	37,164	39,935	41,314	155,759
Income before income taxes	8,106	11,302	26,116	20,418	65,942
Provision (benefit) for income taxes	2,327	2,670	7,244	5,664	17,905
Net income	$ 5,779	$ 8,632	$ 18,872	$ 14,754	$ 48,037
Less: Dividends on preferred stock	—	—	—	—	—
Net income applicable to common shareholders	$ 5,779	$ 8,632	$ 18,872	$ 14,754	$ 48,037
Per Common Share (2)					
Earnings (basic)	$ 0.15	$ 0.22	$ 0.48	$ 0.37	$ 1.22
Earnings (diluted)	$ 0.15	$ 0.22	$ 0.48	$ 0.37	$ 1.21
2010					
Total interest income	$ 44,287	$ 46,148	$ 52,075	$ 43,369	$ 185,879
Total interest expense	6,013	5,416	5,110	4,553	21,092
Net interest income	38,274	40,732	46,965	38,816	164,787
Provision for loan and lease losses	15,000	13,500	9,000	3,791	41,291
Provision for losses on covered loans	—	—	453	5,602	6,055
Noninterest income	18,473	13,237	5,183	15,888	52,781
Noninterest expense	33,897	34,745	33,520	34,985	137,147
Income before income taxes	7,850	5,724	9,175	10,326	33,075
Provision (benefit) for income taxes	(66)	668	3,971	(2,282)	2,291
Net income	$ 7,916	$ 5,056	$ 5,204	$ 12,608	$ 30,784
Less: Dividends on preferred stock	1,107	1,110	2,730	—	4,947
Net income applicable to common shareholders	$ 6,809	$ 3,946	$ 2,474	$ 12,608	$ 25,837
Per Common Share (2)					
Earnings (basic)	$ 0.24	$ 0.11	$ 0.06	$ 0.32	$ 0.73
Earnings (diluted)	$ 0.24	$ 0.11	$ 0.06	$ 0.32	$ 0.72

[1] These unaudited schedules provide selected financial information concerning the Company that should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation" of this report.

[2] Due to averaging of shares, quarterly earnings per share may not add up to the totals reported for the full year.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

This discussion should be read in conjunction with our Consolidated Financial Statements and related notes in “Item 8. Financial Statements and Supplementary Data” of this report. 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 for the previous year.

Critical Accounting Policies

We have established certain accounting policies in preparing our Consolidated Financial Statements that are in accordance with accounting principles generally accepted in the United States. Our significant accounting policies are presented in Note 1 to the Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data” of this report. Certain of these policies require the use of judgments, estimates and economic assumptions which may prove inaccurate or are subject to variation that may significantly affect our reported results of operations and financial position for the periods presented or in future periods. Management believes that the judgments, estimates and economic assumptions used in the preparation of the Consolidated Financial Statements are appropriate given the factual circumstances at the time. We consider the following policies to be most critical in understanding the judgments that are involved in preparing our consolidated financial statements.

Allowance for Loan and Lease Losses

The allowance for loan and lease losses (“ALLL”) is established to absorb known and inherent losses in our loan and lease portfolio. Our methodology in determining the appropriate level of the ALLL includes components for a general valuation allowance in accordance with the Contingencies topic of the Financial Accounting Standards Board Accounting Standards Codification (“FASB ASC”), a specific valuation allowance in accordance with the Receivables topic of the FASB ASC and an unallocated component. Both quantitative and qualitative factors are considered in determining the appropriate level of the ALLL. Quantitative factors include historical loss experience, delinquency and charge-off trends and the evaluation of specific loss estimates for problem loans. Qualitative factors include existing general economic and business conditions in our market areas as well as the duration of the current business cycle. Changes in any of the factors mentioned could have a significant impact on our calculation of the ALLL. Our ALLL policy and the judgments, estimates and economic assumptions involved are described in greater detail in the “Allowance for Noncovered Loan and Lease Losses and Unfunded Commitments and Letters of Credit” section of this discussion and in Note 1 to the Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data” of this report.

Business Combinations

The Company applies the acquisition method of accounting for business combinations. Under the acquisition method, the acquiring entity in a business combination recognizes 100 percent of the assets acquired and liabilities assumed at their acquisition date fair values. Management utilizes prevailing valuation techniques appropriate for the asset or liability being measured in determining these fair values. Any excess of the purchase price over amounts allocated to assets acquired, including identifiable intangible assets, and liabilities assumed is recorded as goodwill. Where amounts allocated to assets acquired and liabilities assumed is greater than the purchase price, a bargain purchase gain is recognized. Acquisition-related costs are expensed as incurred.

Acquired Impaired Loans

Loans acquired at a discount for which it is probable that all contractual payments will not be received are accounted for under ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* (“ASC 310-30”). In addition, certain acquired loans with evidence of deteriorated credit quality may be accounted for under this topic even if it is not yet probable that all contractual payments will not be received. These loans are recorded at fair value at the time of acquisition. Estimated credit losses are included in the determination of fair value, therefore, an allowance for loan losses is not recorded on the acquisition date. The excess of expected cash flows at acquisition over the initial investment in acquired loans (“accretable yield”) is recorded as interest income over the life of the loans if the timing and amount of the future cash flows is reasonably estimable. Subsequent to acquisition, the Company aggregates individual loans with common risk characteristics into pools of loans. Increases in estimated cash flows over those expected at the acquisition date are recognized as interest income, prospectively. Decreases in expected cash flows after the acquisition date are recognized by recording an allowance for loan losses.

Loans accounted for under ASC 310-30 are generally considered accruing and performing loans as the loans accrete interest income over the estimated life of the loan when cash flows are reasonably estimable. Accordingly, acquired impaired loans that are contractually past due are still considered to be accruing and performing loans. If the timing and amount of future cash flows is not reasonably estimable, the loans may be classified as nonaccrual loans and the purchase price discount on those loans is not recorded as interest income until the timing and amount of future cash flows can be reasonably estimated.

FDIC Loss-sharing Asset

In conjunction with certain of the FDIC-assisted acquisitions, the Bank entered into loss-sharing agreements with the FDIC. At the date of the acquisitions, the Company elected to account for amounts receivable under the loss-sharing agreements as an indemnification asset in accordance with the Business Combinations topic of the FASB ASC. Subsequent to initial recognition, the FDIC loss-sharing 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 assets. Any decrease in expected cash flows due to an increase in expected credit losses will increase the FDIC loss-sharing asset and any increase in expected future cash flows due to a decrease in expected credit losses will decrease the FDIC loss-sharing asset. Increases and decreases to the FDIC loss-sharing asset are recorded as adjustments to noninterest income.

Valuation and Recoverability of Goodwill

Goodwill represented $115.6 million of our $4.79 billion in total assets and $759.3 million in total shareholders' equity as of December 31, 2011. The Company has one, single reporting unit. We review goodwill for impairment annually, on September 30th and also test for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of our reporting unit below its carrying amount. Such events and circumstances may include among others: a significant adverse change in legal factors or in the general business climate; significant decline in our stock price and market capitalization; unanticipated competition; the testing for recoverability of a significant asset group within the reporting unit; and an adverse action or assessment by a regulator. Any adverse change in these factors could have a significant impact on the recoverability of goodwill and could have a material impact on our consolidated financial statements.

When required, the goodwill impairment test involves a two-step process. We first test goodwill for impairment by comparing the fair value of the reporting unit with its carrying amount. If the fair value of the reporting unit exceeds the carrying amount of the reporting unit, goodwill is not deemed to be impaired, and no further testing is necessary. If the carrying amount of the reporting unit were to exceed the fair value of the reporting unit, we would perform a second test to measure the amount of impairment loss, if any. To measure the amount of any impairment loss, we would determine the implied fair value of goodwill in the same manner as if the reporting unit were being acquired in a business combination. Specifically, we would allocate the fair value of the reporting unit to all of the assets and liabilities of the reporting unit in a hypothetical calculation that would determine the implied fair value of goodwill. If the implied fair value of goodwill is less than the recorded goodwill, we would record an impairment charge for the difference.

The accounting estimates related to our goodwill require us to make considerable assumptions about fair values. Our assumptions regarding fair values require significant judgment about economic factors, industry factors and technology considerations, as well as our views regarding the growth and earnings prospects of the retail banking unit. Changes in these judgments, either individually or collectively, may have a significant effect on the estimated fair values.

Based on the results of the annual goodwill impairment test, we determined that no goodwill impairment charges were required at September 30, 2011. As of December 31, 2011 we determined there were no events or circumstances which would more likely than not reduce the fair value of our reporting unit below its carrying amount.

Even though we determined that there was no goodwill impairment during 2011, additional adverse changes in the operating environment for the financial services industry may result in a future impairment charge.

Please refer to Note 10 to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this report for further discussion.

2011 Highlights

- Completed three FDIC-assisted transactions:
    - Summit Bank, Burlington, WA on May 20, 2011,
    - First Heritage Bank, Snohomish, WA on May 27, 2011,
    - Bank of Whitman, Colfax, WA on August 5, 2011.

These acquisitions contributed significantly to the Company's financial condition and results of operations during 2011 including increased loan and deposit volumes and related positive impact to net interest income and increased operating expenses arising from increased compensation and benefits and occupancy as well as legal and professional fees. Certain assets acquired in the Summit Bank and First Heritage Bank transactions are subject to loss-sharing agreements with the Federal Deposit Insurance Corporation. Assets acquired in the Bank of Whitman transaction are not subject to such loss-sharing agreements.

- Consolidated net income applicable to common shareholders for 2011 was $48.0 million, or $1.21 per diluted common share, compared with a net income of $25.8 million, or $0.72 per diluted common share, in 2010. The increase in net income applicable to common shareholders was primarily due to increased net interest income from acquisitions and lower provision for noncovered loan losses. Our net income for 2011 and 2010 was favorably impacted by unusual factors, such as FDIC-assisted gains and related loan accretion income, as well as reductions in our allowance for loan losses as our asset quality has continued to improve. However, we may not benefit from these factors to the same extent in future periods, which could adversely impact our net income.

- Net interest income for 2011 increased 44% to $236.7 million compared to $164.8 million for 2010. Interest income was $251.3 million in 2011, compared to $185.9 in 2010. The increase was due to accretion income related to loans acquired through FDIC-assisted transactions as well as increased organic and acquired loan volumes. The Company recorded $14.3 million of net discount accretion income for loans acquired in the Bank of Whitman transaction in 2011. Interest expense decreased $6.6 million due to the average cost of interest-bearing deposits falling 27 basis points.

- Provision expense on noncovered loans was $7.4 million in 2011, compared to $41.3 million in 2010, a decrease of 82%.

- Noninterest income was a loss of $9.3 million for 2011, a decrease from income of $52.8 million for 2010. The decrease was primarily due to the $49.5 million change in the FDIC loss-sharing asset and the $3.0 million impairment charge on investment securities. In addition, the Company recognized a net of tax bargain purchase gain through noninterest income of $1.8 million related to the Bank of Whitman transaction in 2011 compared to a net of tax bargain purchase gain of $9.8 million related to the American Marine Bank transaction in 2010.

- Noninterest expense increased 14% to $155.8 million for 2011 due to increases in staffing and occupancy costs related to the three FDIC-assisted transactions in 2011.

- Total assets at December 31, 2011 were $4.79 billion, up 12% from $4.26 billion at the end of 2010. The increase from December 31, 2010 reflects the Company's three FDIC-assisted acquisitions in May and August 2011.

- Loans, excluding covered loans, were $2.35 billion, up 23% from $1.92 billion at the end of 2010. The increase from December 31, 2010 reflects additional loan volume arising from the Company's three FDIC-assisted acquisitions as well as organic loan growth. Organic loan growth during 2011 was approximately $281.4 million and was centered mainly in commercial business and commercial and multifamily residential loans.

- The allowance for noncovered loan and lease losses decreased to $53.0 million at December 31, 2011 from $61.0 million at December 31, 2010 due to improved loan quality. The Company’s allowance amounts to 2.26% of total noncovered loans, compared with 3.18% at the end of 2010.

- Nonperforming assets totaled $85.4 million at December 31, 2011, compared with $120.2 million at December 31, 2010. Net loan charge-offs were $15.4 million in 2011, compared with $33.8 million in 2010. The Company’s commercial business portfolio experienced a $22.1 million decrease in nonaccrual loans with a balance of $10.2 million at December 31, 2011.

- Investment securities available for sale totaled $1.03 billion at December 31, 2011 compared to $763.9 million at December 31, 2010.

- Deposits totaled $3.82 billion at December 31, 2011 compared to $3.33 billion at December 31, 2010. Core deposits totaled $3.51 billion at December 31, 2011, comprising 92% of total deposits compared to $3.00 billion, or 90%, of total deposits at December 31, 2010.

- The Company is well capitalized with a total risk-based capital ratio of 21.05% at December 31, 2011 compared to 24.47% at December 31, 2010. These ratios reflect the $26.0 million payoff of the Company's long-term subordinated debt in July 2011. These ratios also reflect net proceeds to the Company of $229.1 million from an underwritten public offering of common shares completed in May, 2010 as well as the payment of $76.9 million for the retirement of the preferred shares issued under the U.S. Department of the Treasury’s Capital Purchase Program and $3.3 million paid by the Company to retire the warrants associated with the preferred shares.

Business Combinations

On August 5, 2011, the Bank acquired certain assets and assumed certain liabilities of the Bank of Whitman from the FDIC in an FDIC-assisted transaction. The Bank and the FDIC entered into a modified whole bank purchase and assumption agreement without loss share. The bank acquired approximately $437.5 million in assets, including $200.0 million in loans, and approximately $401.1 million in deposits located in nine branches in eastern Washington. The Bank participated in a competitive bid process in which the accepted bid included no deposit premium on non-brokered deposits and a negative bid of $30.0 million on net assets acquired.

On May 27, 2011, the Bank acquired certain assets and assumed certain liabilities of First Heritage Bank from the FDIC in an FDIC-assisted transaction. The Bank acquired approximately $165.0 million in assets and approximately $159.5 million in deposits located in five branches in the King and Snohomish counties of Washington. First Heritage Bank's loans and other real estate assets acquired of approximately $89.7 million are subject to a loss-sharing agreement with the FDIC. The Bank participated in a competitive bid process in which the accepted bid included a 0.75% deposit premium on non-brokered deposits and a negative bid of $10.5 million on net assets acquired.

On May 20, 2011, the Bank acquired certain assets and assumed certain liabilities of Summit Bank from the FDIC, in an FDIC-assisted transaction. The Bank acquired approximately $131.1 million in assets and approximately $123.3 million in deposits located in three branches in in the northern Puget Sound region of Washington. Summit Bank's loans and other real estate assets acquired of approximately $71.9 million are subject to a loss-sharing agreement with the FDIC. The Bank participated in a competitive bid process in which the accepted bid included a 0.75% deposit premium on non-brokered deposits and a negative bid of $9.5 million on net assets acquired.

On January 29, 2010, the Bank acquired substantially all of the deposits and assets of American Marine Bank from the FDIC, which was appointed receiver of American Marine Bank. The Bank acquired approximately $307.8 million in assets and approximately $254.0 million in deposits located in 11 branches in the western Puget Sound region. American Marine Bank’s loans and other real estate assets acquired of approximately $257.5 million are subject to a loss-sharing agreement with the FDIC. In addition, Columbia State Bank will continue to operate the Trust Division of American Marine Bank. The Bank participated in a competitive bid process in which the accepted bid included a 1% deposit premium on non-brokered deposits and a negative bid of $23.0 million on net assets acquired.

On January 22, 2010, the Bank acquired all of the deposits and certain assets of Columbia River Bank from the FDIC, in an FDIC-assisted transaction. The Bank acquired approximately $912.9 million in assets and approximately $893.4 million in deposits located in 21 branches in Oregon and Washington. Columbia River Bank’s loans and other real estate assets acquired of approximately $696.1 million are subject to a loss-sharing agreement with the FDIC. The Bank participated in a competitive bid process in which the accepted bid included a 1% deposit premium on non-brokered deposits and a negative bid of $43.9 million on net assets acquired.

RESULTS OF OPERATIONS

Summary

A summary of the Company’s results of operations for each of the last five years ended December 31 follows:

	Year ended	Increase (Decrease)		Year ended	Increase (Decrease)		Years ended December 31,		
	2011	Amount	%	2010	Amount	%	2009	2008	2007
	(dollars in thousands, except per share amounts)								
Interest income	$ 251,271	$ 65,392	35	$ 185,879	$ 42,844	30	$ 143,035	$ 175,060	$ 184,217
Interest expense	14,535	(6,557)	(31)	21,092	(6,591)	(24)	27,683	55,547	75,397
Net interest income	236,736	71,949	44	164,787	49,435	43	115,352	119,513	108,820
Provision for loan and lease losses	7,400	(33,891)	(82)	41,291	(22,209)	(35)	63,500	41,176	3,605
Provision (recapture) for losses on covered loans	(1,648)	(7,703)	(127)	6,055	6,055	100	—	—	—
Noninterest income (loss)	(9,283)	(62,064)	(118)	52,781	23,091	78	29,690	14,850	27,748
Noninterest expense:									
Compensation and employee benefits	81,552	11,772	17	69,780	22,505	48	47,275	49,315	46,703
Other expense	74,207	6,840	10	67,367	20,154	43	47,213	42,810	42,126
Total	155,759	18,612	14	137,147	42,659	45	94,488	92,125	88,829
Income (loss) before income taxes	65,942	32,867	99	33,075	46,021	(355)	(12,946)	1,062	44,134
Provision (benefit) for income taxes	17,905	15,614	682	2,291	11,269	(126)	(8,978)	(4,906)	11,753
Net income (loss)	$ 48,037	$ 17,253	56	$ 30,784	$ 34,752	(876)	$ (3,968)	$ 5,968	$ 32,381
Less: Dividends on preferred stock	—	(4,947)	(100)	4,947	544	12	4,403	470	—
Net income (loss) applicable to common shareholders	$ 48,037	$ 22,200	86	$ 25,837	$ 34,208	(409)	$ (8,371)	$ 5,498	$ 32,381
Earnings (loss) per common share, diluted	$ 1.21	$ 0.49	68	$ 0.72	$ 1.10	(289)	$ (0.38)	$ 0.30	$ 1.89

Net Interest Income

Net interest income is the difference between interest income and interest expense. Net interest income on a fully taxable-equivalent basis expressed as a percentage of average total interest-earning assets is referred to as the net interest margin, which represents the average net effective yield on interest-earning assets.

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 rate paid on interest-bearing liabilities by category and in total, net interest income, net interest spread, net interest margin and the ratio of average interest-earning assets to interest-earning liabilities:

Net Interest Income Summary

	2011			2010			2009		
	Average Balances (1)	Interest Earned/ Paid	Average Rate	Average Balances (1)	Interest Earned/ Paid	Average Rate	Average Balances (1)	Interest Earned/ Paid	Average Rate
					(dollars in thousands)				
ASSETS									
Loans (1)(2)	$ 2,607,266	$218,987	8.40%	$ 2,485,650	$157,835	6.35%	$ 2,124,574	$117,497	5.53%
Taxable securities	675,010	21,870	3.24%	491,306	18,276	3.72%	386,571	17,300	4.48%
Tax exempt securities (2)	253,881	15,736	6.20%	228,846	14,505	6.34%	197,457	13,151	6.66%
Interest-earning deposits with banks and federal funds sold	335,267	839	0.25%	377,926	963	0.25%	75,260	215	0.29%
Total interest-earning assets	3,871,424	257,432	6.65%	3,583,728	191,579	5.35%	2,783,862	148,163	5.32%
Other earning assets	57,518			51,446			49,488		
Noninterest-earning assets	580,068			613,416			251,071		
Total assets	$ 4,509,010			$ 4,248,590			$ 3,084,421		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Certificates of deposit	$ 636,074	$ 5,093	0.80%	$ 763,829	$ 8,705	1.14%	$ 706,799	$ 15,931	2.25%
Savings accounts	247,073	152	0.06%	199,117	287	0.14%	133,348	352	0.26%
Interest-bearing demand	704,484	1,393	0.20%	637,983	2,157	0.34%	458,450	2,221	0.48%
Money market accounts	969,548	3,840	0.40%	851,673	5,584	0.66%	568,320	4,746	0.84%
Total interest-bearing deposits	2,557,179	10,478	0.41%	2,452,602	16,733	0.68%	1,866,917	23,250	1.25%
Federal Home Loan Bank and Federal Reserve Bank borrowings	120,419	2,980	2.47%	122,860	2,841	2.31%	149,416	2,759	1.85%
Long-term subordinated debt	14,746	579	3.93%	25,701	1,029	4.00%	25,635	1,197	4.67%
Other borrowings and interest-bearing liabilities	24,899	498	2.00%	24,881	489	1.96%	25,046	477	1.90%
Total interest-bearing liabilities	2,717,243	14,535	0.53%	2,626,044	21,092	0.80%	2,067,014	27,683	1.34%
Noninterest-bearing deposits	984,220			818,321			511,259		
Other noninterest-bearing liabilities	76,821			135,756			44,021		
Shareholders' equity	730,726			668,469			462,127		
Total liabilities & shareholders' equity	$ 4,509,010			$ 4,248,590			$ 3,084,421		
Net interest income		$242,897			$170,487			$120,480	
Net interest spread			6.12%			4.55%			3.98%
Net interest margin			6.27%			4.76%			4.33%
Average interest-earning assets to average interest-bearing liabilities			142.48%			136.47%			134.68%

[1] Nonaccrual loans were included in loans. Amortized net deferred loan fees and net unearned discounts on certain acquired loans were included in the interest income calculations. The amortization of net deferred loan fees was $1.3 million in 2011 $2.1 million in 2010, $2.8 million in 2009. The amortization of net unearned discounts on certain acquired loans was $14.3 million in 2011. There was no amortization of net unearned discounts in 2010 or 2009.

[2] Yields on fully taxable equivalent basis, based on a marginal tax rate of 35%.

Net interest income is impacted by the volume (changes in volume multiplied by prior rate), interest rate (changes in rate multiplied by prior volume) and the mix of interest-earning assets and interest-bearing liabilities. The following table shows changes in net interest income on a fully taxable-equivalent basis between 2011 and 2010, as well as between 2010 and 2009 broken down between volume and rate. 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:

Changes in Net Interest Income

	2011 Compared to 2010 Increase (Decrease) Due to			2010 Compared to 2009 Increase (Decrease) Due to		
	Volume	Rate	Total	Volume	Rate	Total
			(in thousands)			
Interest Income						
Loans	$ 8,050	$ 53,102	$ 61,152	$ 21,550	$ 18,788	$ 40,338
Taxable securities	6,178	(2,584)	3,594	4,200	(3,224)	976
Tax-exempt securities	1,558	(327)	1,231	2,014	(660)	1,354
Interest earning deposits with banks and federal funds sold	(107)	(17)	(124)	773	(25)	748
Interest income	$ 15,679	$ 50,174	$ 65,853	$ 28,537	$ 14,879	$ 43,416
Interest Expense						
Deposits:						
Certificates of deposit	$ (1,300)	$ (2,312)	$ (3,612)	$ 1,196	$ (8,422)	$ (7,226)
Savings accounts	57	(192)	(135)	133	(198)	(65)
Interest-bearing demand	206	(970)	(764)	721	(785)	(64)
Money market accounts	694	(2,438)	(1,744)	2,012	(1,174)	838
Total interest on deposits	(343)	(5,912)	(6,255)	4,062	(10,579)	(6,517)
Federal Home Loan Bank and Federal Reserve Bank borrowings	(57)	196	139	(542)	624	82
Long-term subordinated debt	(431)	(19)	(450)	3	(171)	(168)
Other borrowings and interest-bearing liabilities	2	7	9	(3)	15	12
Interest expense	$ (829)	$ (5,728)	$ (6,557)	$ 3,520	$ (10,111)	$ (6,591)
	$ 16,508	$ 55,902	$ 72,410	$ 25,017	$ 24,990	$ 50,007

Comparison of 2011 with 2010

Taxable-equivalent net interest income totaled $242.9 million in 2011, compared with $170.5 million for 2010. The significant increase in net interest income during 2011 resulted from income accretion on the acquired loan portfolios. The incremental accretion income represents the amount of income recorded on the acquired loans above the contractual rate stated in the individual loan rates. The additional income stems from the discount established at the time these loan portfolios were acquired, and increases net interest income and the net interest margin. The incremental accretion income had a positive impact of approximately 174 basis points on the 2011 net interest margin.

The following table shows the effect on the net interest income resulting from accretion of income on acquired impaired loans and loans acquired in the Bank of Whitman transaction:

	Year ended December 31, 2011
	(in thousands)
Interest income as recorded.	$ 109,580
Interest income at stated note rate.	42,220
Incremental accretion income	$ 67,360
Incremental accretion income due to:	
Acquired impaired loans	$ 53,079
Other acquired loans.	14,281
Incremental accretion income	$ 67,360

Of the $14.3 million in accretion income recorded for other acquired loans, $7.2 million was related to loan maturities and prepayments. For discussion over the methodologies used by management in recording interest income on loans please see "Critical Accounting Policies" section of this discussion and Note 1 to the Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data” of this report.

Comparison of 2010 with 2009

Taxable-equivalent net interest income totaled $170.5 million in 2010, compared with $120.5 million for 2009. The significant increase in net interest income during 2011 resulted primarily from income accretion on the acquired loan portfolios. The incremental accretion income represents the amount of income recorded on the acquired loans above the contractual rate stated in the individual loan rates. The additional income increases net interest income and the net interest margin. In addition, the average rate paid on deposits in 2010 declined 54 basis points from the prior year.

Provision for Loan and Lease Losses

The Company accounts for the credit risk associated with lending activities through its allowance for loan and lease losses and provision for loan and lease losses. The provision is the expense recognized in the consolidated statements of income to adjust the allowance to the levels deemed appropriate by management, as determined through its application of the Company’s allowance methodology procedures. Impairment valuation adjustments and allowance for loan and lease losses on acquired loans, including those subject to the Company’s loss-share agreements with the FDIC, are accounted for separately from the allowance for loan and lease losses. For discussion over the methodology used by management in determining the adequacy of the ALLL see the following “Allowance for Loan and Lease Losses and Unfunded Commitments and Letters of Credit” and “Critical Accounting Policies” sections of this discussion.

For noncovered loans, the Company recorded expense of $7.4 million and $41.3 million through the provision for loan and lease losses in 2011 and 2010, respectively. The provision recorded in 2011 reflects management’s ongoing assessment of the credit quality of the Company’s noncovered loan portfolio, which is impacted by various economic trends, including the protracted recovery of the Pacific Northwest economy. Additional factors affecting the provision include credit quality migration, size and composition of the loan portfolio and changes in the economic environment during the period. See “Allowance for Loan and Lease Losses and Unfunded Commitments and Letters of Credit” section of this discussion for further information on factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for loan and lease losses.

The Company recorded a recapture of $1.6 million through the provision for losses on covered loans in 2011 compared to a provision of $6.1 million through the provision for losses on covered loans in 2010.

For the years ended December 31, 2011, 2010 and 2009, net noncovered loan charge-offs amounted to $15.4 million, $33.8 million, and $52.8 million, respectively. Loans in the commercial business portfolio accounted for 35% of the 2011 net charge-offs, while loans in the consumer portfolio accounted for 23% of the 2011 net charge-offs compared to 37% and 10%, respectively, in 2010.

Noninterest Income (Loss)

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

	Years ended December 31,						
	2011	$ Change	% Change	2010	$ Change	% Change	2009
			(dollars in thousands)				
Service charges and other fees	$26,632	$ 1,934	8 %	$24,698	$ 9,517	63 %	$15,181
Gain on bank acquisitions, net of tax	1,830	(7,988)	(81)%	9,818	9,818	100 %	—
Merchant services fees	7,385	(117)	(2)%	7,502	181	2 %	7,321
Redemption of Visa and MasterCard shares	—	—	— %	—	(49)	(100)%	49
Gain on sale of investment securities, net	134	76	131 %	58	(1,019)	(95)%	1,077
Impairment charge on investment securities	(2,950)	(2,950)	(100)%	—	—	— %	—
Bank owned life insurance (BOLI)	2,188	147	7 %	2,041	18	1 %	2,023
Change in FDIC loss-sharing asset	(49,496)	(54,404)	(1,108)%	4,908	4,908	100 %	—
Other	4,994	1,238	33 %	3,756	(283)	(7)%	4,039
Total noninterest income	$ (9,283)	$ (62,064)	(118)%	$52,781	$23,091	78 %	$29,690

Comparison of 2011 with 2010

The decrease in noninterest income from the prior year was primarily due to the $49.5 million change in the FDIC loss-sharing asset and the $3.0 million impairment charge on investment securities. In addition, in 2011 the Company recorded a gain on bank acquisition of $1.8 million compared to a gain on acquisition of $9.8 million in the prior year.

The change in the FDIC loss-sharing asset recognizes the decreased amount that Columbia expects to collect from the FDIC under the terms of its loss-sharing agreements. This change is an outcome of the better-than-expected cash flows on covered loans. The Company re-measures contractual and expected cash flows of covered loans on a quarterly basis. When the quarterly re-measurement results in an increase in expected future cash flows due to a decrease in expected credit losses the nonaccretable difference decreases and the accretable yield of the related loan pool is increased and recognized as interest income over the life of the loan portfolio. As a result of the improved expected cash flows, the FDIC loss-sharing asset is reduced first by the amount of any impairment previously recorded and, second, by increased amortization over the remaining life of the related loan portfolio. For additional information on the FDIC loss-sharing asset, please see the “Loss-sharing Asset” section of Management’s Discussion and Analysis and Note 8 to the Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data” of this report.

The impairment charge on investment securities relates to a single municipal obligation. On December 1, 2011 the Greater Wenatchee WA Regional Events Center Public Facilities Bond went into default. Based upon facts and circumstances existing at year-end 2011, we expected no future cash flows from this bond and, accordingly, recorded an other-than-temporary impairment charge of $3.0 million through earnings. We will continue to pursue avenues for repayment of this obligation.

On August 5, 2011 the Bank acquired certain assets and assumed certain liabilities of the Bank of Whitman from the FDIC in an FDIC-assisted transaction. The Bank and the FDIC entered into a modified whole bank purchase and assumption agreement without loss share. The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the August 5, 2011 acquisition date. The application of the acquisition method of accounting resulted in the recognition of a bargain purchase gain, net of tax, of $1.8 million. The bargain purchase gain represents the excess of the estimated fair value of the assets acquired over the estimated fair value of the liabilities assumed and is influenced significantly by the FDIC-assisted transaction process. For additional information on the business combinations, please see Note 2 to the Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data” of this report.

Other Noninterest Income: The following table presents selected items of "other noninterest income" and the related dollar and percentage change from period to period:

	Years ended December 31,						
	2011	**$ Change**	**% Change**	**2010**	**$ Change**	**% Change**	**2009**
				(dollars in thousands)			
Gain on disposal of assets	$ 89	$ (29)	(25)%	$ 118	$ 4	4 %	$ 114
Mortgage banking	780	330	73 %	450	68	18 %	382
Cash management 12b-1 fees	5	(6)	(55)%	11	(234)	(96)%	245
Letter of credit fees	415	(17)	(4)%	432	(96)	(18)%	528
Late charges	362	(94)	(21)%	456	149	49 %	307
Currency exchange income	346	(14)	(4)%	360	67	23 %	293
New Markets Tax Credit dividend	52	(19)	(27)%	71	5	8 %	66
Miscellaneous fees on loans	1,674	690	70 %	984	142	17 %	842
Interest rate swap income	333	(95)	(22)%	428	163	62 %	265
Credit card fees	260	77	42 %	183	56	44 %	127
Miscellaneous	678	415	158 %	263	(607)	(70)%	870
Total other noninterest income	$4,994	$1,238	33 %	$3,756	$ (283)	(7)%	$4,039

The increase in other noninterest income was primarily due to the increase in certain miscellaneous fees on loans, which are recorded immediately to earnings and not deferred. These fees increased due to the increase in the size of the loan portfolio during 2011. Miscellaneous income increased $415 thousand from the prior year period primarily due to the recapture of $276 thousand in previously accrued expenses related to a credit card reward program.

Comparison of 2010 with 2009

Noninterest income for the year ended December 31, 2010 totaled $52.8 million, an increase of $23.1 million from 2009. Noninterest income represented 24% of total revenues in 2010. Service charges and other fees increased $9.5 million in 2010 from the prior-year. Service charges and other fees are volume driven and the increase is attributed to a larger customer base rather than higher incremental per transaction fees. Noninterest income for 2010 included the net of tax bargain purchase gain of $9.8 million related to the American Marine Bank transaction. The bargain purchase gain represents the excess of the estimated fair value of the assets acquired over the estimated fair value of the liabilities assumed and is influenced significantly by the FDIC-assisted transaction process. In addition, the change in the FDIC loss-sharing asset resulted in additional noninterest income of $4.9 million for the current year. For additional information on the FDIC loss-sharing asset, please see the "Loss-sharing Asset" section of Management's Discussion and Analysis and Note 8 to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this report.

Noninterest Expense

Noninterest expense was $155.8 million in 2011, an increase of $18.6 million, or 14%, over 2010. Noninterest expense increased $42.7 million, or 45%, in 2010 over 2009.

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

	Years ended December 31,						
	2011	$ Change	% Change	2010	$ Change	% Change	2009
			(dollars in thousands)				
Compensation and employee benefits	$ 81,552	$ 11,772	17 %	$ 69,780	$22,505	48 %	$47,275
All other noninterest expense:							
Occupancy	18,963	2,149	13 %	16,814	4,686	39 %	12,128
Merchant processing	3,698	(666)	(15)%	4,364	915	27 %	3,449
Advertising and promotion	3,686	605	20 %	3,081	1,138	59 %	1,943
Data processing	8,484	(285)	(3)%	8,769	3,287	60 %	5,482
Legal and professional services	6,486	802	14 %	5,684	1,813	47 %	3,871
Taxes, license and fees	4,446	1,588	56 %	2,858	380	15 %	2,478
Regulatory premiums	4,337	(2,148)	(33)%	6,485	708	12 %	5,777
Net cost of operation of noncovered other real estate owned	7,416	1,721	30 %	5,695	4,834	561 %	861
Net benefit of operation of covered other real estate owned	(8,438)	(3,530)	72 %	(4,908)	(4,908)	(100)%	—
Amortization of intangibles	4,319	397	10 %	3,922	2,877	275 %	1,045
FDIC clawback expenses	3,656	3,656	100 %	—	—	— %	—
Other	17,154	2,551	17 %	14,603	4,424	43 %	10,179
Total all other noninterest expense	74,207	6,840	10 %	67,367	20,154	43 %	47,213
Total noninterest expense	$ 155,759	$ 18,612	14 %	$137,147	$42,659	45 %	$94,488

Comparison of 2011 with 2010

Compensation and employee benefits expense increased to $81.6 million, or 17%, in 2011 from $69.8 million in 2010 reflecting staffing increases in the current year related to the three FDIC-assisted acquisitions. Full-time equivalent staff increased to 1,256 at December 31, 2011 from 1,092 at December 31, 2010.

The remaining noninterest expense categories increased $6.8 million, or 10%, between 2010 and 2011. Occupancy increased $2.1 million due to the increase in branch locations during 2011. Also contributing to the remaining increase in noninterest expense was the Company recording $3.7 million to FDIC clawback expense to create the FDIC clawback liability. The Company's Purchase & Assumption agreements with the FDIC require the Company to reimburse the FDIC at the conclusion of the loss share agreement period, February 2020 for the Columbia River Bank and American Marine Bank transactions, a calculated amount if total losses on the acquired loan portfolios fail to reach a minimum threshold level. The $3.7 million represents the net present value of management's clawback liability estimate of $5.5 million. The remaining noninterest expense increase was partially offset by a decrease in regulatory premiums of $2.1 million due to a decrease in the assessment rate utilized in calculating premiums due.

Other Noninterest Expense: The following table presents selected items of "other noninterest expense" and the related dollar and percentage change from period to period:

	Years ended December 31,						
	2011	$ Change	% Change	2010	$ Change	% Change	2009
			(dollars in thousands)				
CRA partnership investment expense	$ 598	$ 329	122 %	$ 269	$ (232)	(46)%	$ 501
Software support & maintenance	1,362	305	29 %	1,057	418	65 %	639
Federal Reserve Bank processing fees	334	6	2 %	328	1	— %	327
Supplies	1,276	(171)	(12)%	1,447	558	63 %	889
Postage	2,131	362	20 %	1,769	524	42 %	1,245
Sponsorships & charitable contributions	1,123	359	47 %	764	166	28 %	598
Travel	1,248	286	30 %	962	560	139 %	402
Investor relations	174	(6)	(3)%	180	(24)	(12)%	204
Insurance	836	55	7 %	781	281	56 %	500
Director expenses	457	16	4 %	441	1	— %	440
Employee expenses	636	164	35 %	472	122	35 %	350
ATM Network	1,058	216	26 %	842	247	42 %	595
Miscellaneous	5,921	630	12 %	5,291	1,802	52 %	3,489
Total other noninterest expense	$17,154	$ 2,551	17 %	$14,603	$ 4,424	43 %	$10,179

Other noninterest expense increased $2.6 million primarily due to increases in software support & maintenance, postage, sponsorships & charitable events, travel and employee expenses, which combine to an increase of $1.5 million, and were due to the increased number of branch locations and employees.

Comparison of 2010 with 2009

Compensation and employee benefits expense increased to $69.8 million, or 48% in 2010 from $47.3 million in 2009 reflecting staffing increases in 2010 related to the two FDIC-assisted acquisitions as well as the addition of teams of bankers in conjunction with the execution of our de novo expansion strategy. Full-time equivalent staff increased to1,092 at December 31, 2010 from 715 at December 31, 2009.

The remaining noninterest expense categories increased $20.2 million, or 43%, between 2009 and 2010. Occupancy expense increased $4.7 million due to significantly more branch locations. Advertising and promotion expense was up 59% in 2010 from the prior year as a result of the Company's marketing efforts to establish its brand in newly served market areas. Data processing expense increased 60% due to higher transaction volumes and conversion expenses stemming from the two FDIC-assisted transactions. Amortization of intangibles expense increased $2.9 million, or 275%, as a result of the core deposit intangible recorded in conjunction with the two FDIC-assisted transactions. Finally, legal and professional services expense increased $1.8 million as the Company continues to incur significant expense while working toward the resolution of nonperforming and covered assets.

Income Tax

For the years ended December 31, 2011, 2010 and 2009 we recorded income tax provisions of $17.9 million and $2.3 million and an income tax benefit of $9.0 million, respectively. The effective tax rate was 27% in 2011, 7% in 2010 and the effective tax benefit was 69% in 2009. For additional information, see Note 22 to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this report. Our effective tax rate continues to be less than our statutory rate of 36.02% primarily due to the amount of tax-exempt municipal securities held in the investment portfolio, tax exempt earnings on bank owned life insurance, and tax credits received on investments in affordable housing partnerships.

Financial Condition

Our total assets increased 12% to $4.79 billion at December 31, 2011 from $4.26 billion at December 31, 2010. Interest-earning deposits with banks decreased $255.7 million and our investment portfolio increased $264.2 million or 35%. The decrease in interest-earning deposits with banks and the increase in our investment portfolio were a result of investing interest-earning deposit balances in high quality debt instruments, which have higher yields than what was available on interest-earning deposits. The loan portfolio increased 19% or $455.4 million to $2.83 billion. The increase in the loan portfolio can be attributed to the three FDIC-assisted transactions occurring in 2011 and growth in the originated loan portfolio. Excluding the acquired loans, the originated loan portfolio increased $281.4 million, or 15%, to $2.20 billion at December 31, 2011. The increase in the originated loan portfolio was due to increases in commercial business loans of $192.0 million and commercial and multifamily residential real estate loans of $111.7 million. Premises and equipment, net, increased $14.8 million or 16%, of which $10.1 million was related to the purchase of 17 branches in connection with the FDIC-assisted acquisitions of Bank of Whitman, First Heritage Bank, and Summit Bank. Deposit balances increased $488.3 million or 15% to $3.82 billion and borrowings decreased 18% to $119.0 million. The decrease in borrowings is due to the repayment of the long-term subordinated debt.

Investment Portfolio

We invest in securities to generate revenues for the Company, to manage liquidity while minimizing interest rate risk and to provide collateral for certain public deposits and short-term borrowings. The amortized cost amounts represent the Company’s original cost for the investments, adjusted for accumulated amortization or accretion of any yield adjustments related to the security. The estimated fair values are the amounts we believe the securities could be sold for as of the dates indicated. As of December 31, 2011 we had 44 available for sale securities in an unrealized loss position. Based on past experience with these types of securities and our own financial performance, we do not intend to sell any impaired securities nor does available evidence suggest it is more likely than not that management will be required to sell any impaired securities before the recovery of the amortized cost basis. We review these investments for other-than-temporary impairment on an ongoing basis.

During the fourth quarter of 2011, the Company determined that one of its municipal obligations with a par amount of $3.0 million was other-than-temporarily impaired due to it maturing during the period without repaying the principal amount. The defaulted security was issued in 2008 by a municipality located in the state of Washington. In accordance with Investments - Debt and Equity Securities topic of the FASB ASC, the Company determined that the entire amount of the other-than-temporary impairment was credit-related as the present value of the expected future cash flows for the defaulted security was zero. The significant inputs used to determine the expected future cash flows were the default on principal repayment and there being no insurance on the defaulted security.

Purchases during 2011 totaled $453.0 million while maturities, repayments and sales totaled $221.0 million compared to purchases of $179.3 million and maturities, repayments and sales of $162.1 million during 2010. At December 31, 2011 U.S. government agency and government-sponsored enterprise mortgage-backed securities (“MBS”) and collateralized mortgage obligations (“CMO”) comprised 68% of our investment portfolio, state and municipal securities were 28%, government agency and government-sponsored enterprise securities were 4%. Our entire investment portfolio is categorized as available for sale and carried on our balance sheet at fair value. The average duration of our investment portfolio was approximately 2 years and 10 months at December 31, 2011.

The following table presents the contractual maturities and weighted average yield of our investment portfolio:

	December 31, 2011		
	Amortized Cost	Fair Value	Yield
	(dollars in thousands)		
U.S. government agency and government-sponsored enterprise mortgage-backed securities & collateralized mortgage obligations (1)			
Over 1 through 5 years	24,711	25,306	4.18%
Over 5 through 10 years	102,797	106,617	3.36%
Over 10 years	551,123	564,031	2.95%
Total	$ 678,631	$ 695,954	3.06%
State and municipal securities (2)			
Due through 1 year	$ 18,309	$ 18,610	6.14%
Over 1 through 5 years	27,707	29,329	5.01%
Over 5 through 10 years	59,116	62,926	5.39%
Over 10 years	157,943	174,898	6.35%
Total	$ 263,075	$ 285,763	5.99%
U.S. government agency and government-sponsored enterprise securities (1)			
Over 5 through 10 years	$ 42,558	$ 43,063	1.58%
Total	$ 42,558	$ 43,063	1.58%

(1) The maturities reported for mortgage-backed securities, collateralized mortgage obligations, government agency and government-sponsored enterprise securities are based on contractual maturities and principal amortization.

(2) Yields on fully taxable equivalent basis, based on a marginal tax rate of 35%.

For further information on our investment portfolio see Note 4 of the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this report.

FHLB Stock

As a condition of membership in the Federal Home Loan Bank of Seattle ("FHLB"), the Company is required to purchase and hold a certain amount of FHLB stock. Our stock purchase requirement is based, in part, upon the outstanding principal balance of advances from the FHLB and is calculated in accordance with the Capital Plan of the FHLB. Our FHLB stock has a par value of $100 and is redeemable at par for cash.

FHLB stock is carried at cost and is subject to recoverability testing per the Financial Services – Depository and Lending topic of the FASB ASC. The FHLB is currently classified as undercapitalized by the Federal Housing Finance Agency ("Finance Agency"). Under Finance Agency regulations, a Federal Home Loan Bank that fails to meet any regulatory capital requirement may not declare a dividend or redeem or repurchase capital stock. However, management believes, despite the undercapitalized classification, the FHLB has adequate capital to cover the risks reflected on their balance sheet. Accordingly, as of December 31, 2011 we did not recognize an impairment charge related to our FHLB stock holdings. We will continue to monitor the financial condition of the FHLB as it relates to, among other things, the recoverability of our investment.

Loan Portfolio

We are a full service commercial bank, which originates a wide variety of loans, and concentrates its lending efforts on originating commercial business and commercial real estate loans. The following table sets forth our loan portfolio by type of loan for the dates indicated:

	December 31,									
	2011	% of Total	2010	% of Total	2009	% of Total	2008	% of Total	2007	% of Total
					(dollars in thousands)					
Commercial business	$ 1,031,721	43.9 %	$ 795,369	41.5 %	$ 744,440	37.1 %	$ 810,922	36.3 %	$ 762,365	33.4 %
Real estate:										
One-to-four family residential	64,491	2.8 %	49,383	2.6 %	63,364	3.1 %	57,237	2.6 %	60,991	2.7 %
Commercial and multifamily residential	998,165	42.5 %	794,329	41.5 %	856,260	42.6 %	862,595	38.6 %	852,139	37.3 %
Total real estate	1,062,656	45.3 %	843,712	43.9 %	919,624	45.7 %	919,832	41.2 %	913,130	40.0 %
Real estate construction:										
One-to-four family residential	50,208	2.1 %	67,961	3.5 %	107,620	5.4 %	209,682	9.4 %	269,115	11.8 %
Commercial and multifamily residential	36,768	1.6 %	30,185	1.6 %	41,829	2.1 %	81,176	3.6 %	165,490	7.2 %
Total real estate construction	86,976	3.7 %	98,146	5.2 %	149,449	7.5 %	290,858	13.0 %	434,605	19.0 %
Consumer	183,235	7.8 %	182,017	9.5 %	199,987	10.0 %	214,753	9.7 %	176,559	7.8 %
Subtotal	2,364,588	100.7 %	1,919,244	100.2 %	2,013,500	100.2 %	2,236,365	100.2 %	2,286,659	100.2 %
Less deferred loan fees and other	(16,217)	(0.7)%	(3,490)	(0.2)%	(4,616)	(0.2)%	(4,033)	(0.2)%	(3,931)	(0.2)%
Total loans not covered under FDIC loss-share agreements, net of deferred fees	2,348,371	100.0 %	1,915,754	100.0 %	2,008,884	100.0 %	2,232,332	100.0 %	2,282,728	100.0 %
Loans covered under FDIC loss-share agreements										
Covered loans	531,929		517,061		—		—		—	
Total loans, net (before Allowance for Loan and Lease Losses)	$ 2,880,300		$ 2,432,815		$ 2,008,884		$ 2,232,332		$ 2,282,728	
Loans held for sale	$ 2,148		$ 754		$ —		$ 1,964		$ 4,482	

At December 31, 2011, total loans were $2.88 billion compared with $2.43 billion in the prior year, an increase of $447.5 million or 18%. Excluding the acquired loans, the originated loan portfolio increased $281.4 million, or 15% from the previous year. The increase in the originated loan portfolio was due to increases in commercial business loans of $192.0 million and commercial and multifamily residential real estate loans of $111.7 million. Net covered loans were $531.9 million at December 31, 2011 compared with $517.1 million in the prior year, an increase of $14.9 million or 3%. Total loans represented 60% and 57% of total assets at December 31, 2011 and 2010, respectively.

Commercial Business Loans: Commercial business loans increased $236.4 million, or 30%, to $1.03 billion from year-end 2010, representing 44% of total loans at year end. 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. 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.

Covered Loans: Covered 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. These loans are generically referred to as covered because they are generally subject to one of the loss-sharing agreements between the Company and the FDIC. There was no loss-sharing agreement in the Bank of Whitman transaction, so loans acquired in that transaction are noncovered loans. The loss-sharing agreements relating to the 2010 FDIC-assisted transactions limit the Company's losses to 20% of the contractual balance outstanding up to a stated threshold amount of $206.0 million for Columbia River Bank and $66.0 million for American Marine Bank. If losses exceed the stated threshold, the Company's share of the remaining losses decreases to 5%. The loss-sharing agreements relating to the 2011 FDIC-assisted transactions limit the Company's losses to 20% of the contractual balance outstanding. The loss-sharing provisions of the 2011 agreements for commercial and single family residential mortgage loans are in effect for five years and ten years, respectively, from the acquisition dates and the loss recovery provisions for such loans are in effect for eight years and ten years, respectively, from the acquisition dates.

Foreign Loans: Our banking subsidiary is not involved with loans to foreign companies or foreign countries.

For additional information on our loan portfolio, including amounts pledged as collateral on borrowings, see Note 5 to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this report.

Maturities and Sensitivities of Loans to Changes in Interest Rates

The following table presents the maturity distribution of our covered and noncovered commercial and real estate construction loan portfolios and the sensitivity of these loans due after one year to changes in interest rates as of December 31, 2011:

	Maturing			
	Due Through 1 Year	Over 1 Through 5 Years	Over 5 Years	Total
	(in thousands)			
Commercial business	$ 534,751	$ 339,882	$ 289,656	$ 1,164,289
Real estate construction	76,853	38,823	15,890	131,566
Total	$ 611,604	$ 378,705	$ 305,546	$ 1,295,855
Fixed rate loans due after 1 year		$ 169,701	$ 118,210	$ 287,911
Variable rate loans due after 1 year		209,004	187,336	396,340
Total		$ 378,705	$ 305,546	$ 684,251

Risk Elements

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, 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, private banking, real estate construction, and commercial real estate portfolios includes periodic reviews of individual loans with risk ratings assigned to each loan and performance judged on a loan by loan basis.

We review these loans to assess the ability of our borrowers to service all interest and principal obligations and, as a result, the risk rating may be adjusted accordingly. In the event that full collection of principal and interest is not reasonably assured, the loan is appropriately downgraded and, if warranted, placed on non-accrual 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 following "Allowance for Loan and Lease Losses and Unfunded Commitments and Letters of Credit" section and Note 1 to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this report.

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. 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 independent 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 on-site examination to ensure continued performance and proper risk assessment.

Nonperforming 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. Covered 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, covered impaired loans contractually past due are still considered to be accruing and performing loans.

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) in most cases restructured loans, for which concessions, including the reduction of interest rates below a rate otherwise available to that borrower or the deferral of interest or principal, have been granted due to the borrower's weakened financial condition (interest on restructured loans is accrued at the restructured rates when it is anticipated that no loss of original principal will occur); (iii) other real estate owned; and (iv) other personal property owned, if applicable. Nonperforming assets totaled $85.4 million, or 2.02% of year-end assets at December 31, 2011, compared to $120.2 million, or 3.23% of year end assets at December 31, 2010.

The following table sets forth information with respect to our noncovered, nonperforming loans, other real estate owned, other personal property owned, total nonperforming assets, accruing loans past-due 90 days or more, and potential problem loans:

	December 31,				
	2011	2010	2009	2008	2007
	(dollars in thousands)				
Nonaccrual:					
Commercial business	$ 10,243	$ 32,367	$ 18,979	$ 2,976	$ 2,170
Real estate:					
One-to-four family residential	2,696	2,996	1,860	905	204
Commercial and multifamily residential	19,485	23,192	24,354	5,710	3,476
Real estate construction:					
One-to-four family residential	10,785	18,004	47,653	69,668	7,317
Commercial and multifamily residential	7,067	7,584	16,230	25,752	—
Consumer	3,207	5,020	1,355	1,152	838
Total nonaccrual loans:	53,483	89,163	110,431	106,163	14,005
Noncovered real estate owned and other personal property owned	31,905	30,991	19,037	2,874	181
Total nonperforming assets	$ 85,388	$ 120,154	$ 129,468	$ 109,037	$ 14,186
Accruing loans past-due 90 days or more	$ —	$ —	$ —	$ —	$ —
Forgone interest on nonperforming loans	$ 5,326	$ 6,389	$ 7,637	$ 4,072	$ 814
Interest recognized on nonperforming loans	$ 1,017	$ 2,035	$ 2,437	$ 4,550	$ 244
Potential problem loans	$ 10,618	$ 3,793	$ 11,423	$ 17,736	$ 2,343
Allowance for loan and lease losses	$ 53,041	$ 60,993	$ 53,478	$ 42,747	$ 26,599
Allowance for loan and lease losses to nonperforming loans	99.17%	68.41%	48.43%	40.27%	189.93%
Nonperforming loans to year end loans	2.28%	4.65%	5.50%	4.76%	0.61%
Nonperforming assets to year end assets	2.02%	3.23%	4.04%	3.52%	0.45%

At December 31, 2011 nonperforming loans decreased to 2.28% of year end loans, down from 4.65% of year end loans at December 31, 2010. Nonperforming commercial business loans declined from $32.4 million, or 36% of nonperforming loans at December 31, 2010 to $10.2 million or 19% of nonperforming loans at year end 2011. The nonperforming residential construction loan sector declined to $10.8 million during 2011, down from $18.0 million, or 20% of nonperforming loans at December 31, 2010. Nonperforming commercial real estate loans improved as well, declining from $30.8 million at December 31, 2010 to $26.6 million at year end 2011.

Other Real Estate Owned: As of December 31, 2011 there was $22.9 million in noncovered other real estate owned ("OREO") which is comprised of property from foreclosed real estate loans, a decrease of $8.1 million from $31.0 million at December 31, 2010. Additionally, as of December 31, 2011 the Company held $28.1 million in OREO covered under FDIC loss-sharing agreements which are excluded from nonperforming assets. Properties acquired by foreclosure or deed in lieu of foreclosure are transferred to OREO and are recorded at fair value less estimated costs to sell, at the date of transfer of the property. If the carrying value exceeds the fair value at the time of the transfer, the difference is charged to the allowance for loan and lease losses. The fair value of the OREO property is based upon current appraisal. Subsequent losses that result from the ongoing periodic valuation of these properties are charged to the net cost of operation of OREO expense in the period in which they are identified. In general, improvements to the OREO are capitalized and holding costs are charged to the net cost of operation of OREO as incurred.

Potential Problem Loans: Potential problem loans are loans which are currently performing and are not on nonaccrual status, restructured or impaired, but about which there are significant doubts as to the borrower's future ability to comply with repayment terms and which may later be included in nonaccrual, past due, restructured or impaired loans. Potential problem loans totaled $10.6 million at year end 2011, compared to $3.8 million at year end 2010.

The following table summarizes activity in noncovered, nonperforming loans for the period indicated:

	Twelve months ended December 31,	
	2011	2010
	(in thousands)	
Balance, beginning of period	$ 89,163	$ 110,431
Loans placed on nonaccrual or restructured	34,747	71,146
Advances	1,687	4,470
Charge-offs	(15,107)	(29,769)
Loans returned to accrual status	(7,840)	(15,478)
Repayments (including interest applied to principal)	(26,168)	(31,308)
Transfers to OREO/OPPO	(22,999)	(20,329)
Balance, end of period	$ 53,483	$ 89,163

Loans are considered impaired when based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement or when a loan has been modified in a troubled debt restructuring. A loan is classified as a troubled debt restructuring when a borrower is experiencing financial difficulties that lead to a restructuring of the loan, and the Company grants concessions to the borrower in the restructuring that it would not otherwise consider. These concessions may include interest rate reductions, principal forgiveness, extension of maturity date and other actions intended to minimize potential losses. Generally, a nonaccrual loan that is restructured remains on nonaccrual status for a period of six months to demonstrate that the borrower can meet the restructured terms. If the borrower's performance under the new terms is not reasonably assured, the loan remains classified as a nonaccrual loan.

The assessment for impairment occurs when and while such loans are designated as classified per the Company's internal risk rating system or when and while such loans are on nonaccrual. All nonaccrual loans greater than $250,000 are considered impaired and analyzed individually on a quarterly basis. Classified loans with an outstanding balance greater than $250,000 are evaluated for potential impairment on a quarterly basis. The Company's policy is to record cash receipts on impaired loans first as reductions in principal and then as interest income.

The following table summarizes noncovered, impaired loan financial data at December 31, 2011 and 2010:

	December 31,	
	2011	2010
	(in thousands)	
Impaired loans	$ 58,288	$ 91,173
Impaired loans with specific allocations	$ 5,226	$ 17,188
Amount of the specific allocations	$ 1,484	$ 974

Impaired loans with a carrying amount of $58.3 million at December 31, 2011 were subject to specific allocations of allowance for loan and lease losses of $1.5 million and partial charge-offs of $4.4 million during the year. Collateral dependent impaired loans without specific allocations at December 31, 2011 and 2010 either had collateral which exceeded the carrying value of the loans or reflected a partial charge-off to the market value of collateral (less costs to sell), as of the most recent appraisal date. Restructured loans accruing interest totaled $8.4 million and $6.5 million at December 31, 2011 and 2010, respectively.

When a loan with unique risk characteristics has been identified as being impaired, the amount of impairment will be measured by the Company using discounted cash flows, except when it is determined that the primary (remaining) source of repayment for the loan is the operation or liquidation of the underlying collateral. In these cases, the current fair value of the collateral, reduced by costs to sell, will be used in place of discounted cash flows. As a final alternative, the observable market price of the debt may be used to assess impairment. Predominately, the Company uses the fair value of collateral approach based upon a reliable valuation.

When a loan secured by real estate migrates to nonperforming and impaired status and it does not have a market valuation less than one year old, the Company secures an updated market valuation by a third-party appraiser that is reviewed by the Company's on-staff appraiser. Subsequently, the asset will be appraised annually by a third-party appraiser or the Company's on-staff appraiser. The evaluation may occur more frequently if management determines that there has been increased market deterioration within a specific geographical location. Upon receipt and verification of the market valuation, the Company will record the loan at the lower of cost or market (less costs to sell) by recording a charge-off to the allowance for loan and lease losses or by designating a specific reserve in accordance with accounting principles generally accepted in the United States.

For additional information on our nonperforming loans see Note 5 to our Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this report.

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

We maintain an allowance for loan and lease losses ("ALLL") to absorb losses inherent in the loan portfolio. The size of the ALLL is determined through quarterly assessments of the probable estimated losses in the loan portfolio. Our methodology for making such assessments and determining the adequacy of the ALLL includes the following key elements:

1. General valuation allowance consistent with the Contingencies topic of the FASB ASC.
2. Classified loss reserves on specific relationships. Specific allowances for identified problem loans are determined in accordance with the Receivables topic of the FASB ASC.
3. The unallocated allowance provides for other credit losses inherent in our loan portfolio that may not have been contemplated in the general and specific components of the allowance. This unallocated amount generally comprises less than 5% of the allowance. The unallocated amount is reviewed periodically based on trends in credit losses, the results of credit reviews and overall economic trends.

On a quarterly basis our Chief Credit Officer reviews with Executive Management and the Board of Directors the various additional factors that management considers when determining the adequacy of the ALLL, including economic and business condition reviews. Factors which influenced management's judgment in determining the amount of the additions to the ALLL charged to operating expense include the following as of the applicable balance sheet dates:

1. Existing general economic and business conditions affecting our market place
2. Credit quality trends
3. Historical loss experience
4. Seasoning of the loan portfolio
5. Bank regulatory examination results
6. Findings of internal credit examiners
7. Duration of current business cycle
8. Specific loss estimates for problem loans

The ALLL is increased by provisions for loan and lease losses ("provision") charged to expense, and is reduced by loans charged off, net of recoveries. While we believe the best information available is used by us to determine the ALLL, changes in market conditions could result in adjustments to the ALLL, affecting net income, if circumstances differ from the assumptions used in determining the ALLL.

In addition to the ALLL, we maintain an allowance for unfunded commitments and letters of credit. We report this allowance as a liability on our Consolidated Balance Sheet. We determine this amount using estimates of the probability of the ultimate funding and losses related to those credit exposures. This methodology is similar to the methodology we use for determining the adequacy of our ALLL. For additional information on our allowance for unfunded commitments and letters of credit, see Note 6 to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this report.

Analysis of the ALLL

The following table provides an analysis of our noncovered loan loss experience by loan type for the last five years:

Changes in Allowance for Loan and Lease Losses and Unfunded Commitments and Letters of Credit

	December 31,				
	2011	2010	2009	2008	2007
	(dollars in thousands)				
Beginning balance	$ 60,993	$ 53,478	$ 42,747	$ 26,599	$ 20,182
Balance established through acquisition	—	—	—	—	3,192
Charge-offs: (1)					
Commercial business	(7,909)	(14,879)	(12,930)	(2,819)	(781)
Real estate:					
One-to-four family residential	(717)	(406)	(395)	(46)	—
Commercial and multifamily residential	(3,687)	(6,173)	(1,309)	(966)	—
Real estate construction:					
One-to-four family residential	(2,487)	(10,856)	(27,711)	(18,340)	—
Commercial and multifamily residential	(2,213)	(3,107)	(9,297)	(2,169)	—
Consumer	(3,918)	(3,982)	(2,879)	(1,647)	(432)
Total charge-offs	(20,931)	(39,403)	(54,521)	(25,987)	(1,213)
Recoveries: (1)					
Commercial business	2,598	2,389	750	272	530
Real estate:					
One-to-four family residential	80	15	68	—	—
Commercial and multifamily residential	459	125	25	304	12
Real estate construction:					
One-to-four family residential	2,091	1,673	833	16	—
Commercial and multifamily residential	—	775	—	—	—
Consumer	351	650	76	367	291
Total recoveries	5,579	5,627	1,752	959	833
Net charge-offs	(15,352)	(33,776)	(52,769)	(25,028)	(380)
Provision for loan and lease losses	7,400	41,291	63,500	41,176	3,605
Ending balance	$ 53,041	$ 60,993	$ 53,478	$ 42,747	$ 26,599
Loans outstanding at end of period (2)	$ 2,348,371	$ 1,915,754	$ 2,008,884	$ 2,232,332	$ 2,282,728
Average amount of loans outstanding (2)	$ 2,065,014	$ 2,102,863	$ 2,124,574	$ 2,264,486	$ 1,990,622
Allowance for loan and lease losses to period-end loans	2.26%	3.18%	2.66%	1.91%	1.17%
Net charge-offs to average loans outstanding	0.74%	1.61%	2.48%	1.11%	0.02%
Allowance for unfunded commitments and letters of credit					
Beginning balance	$ 1,165	$ 775	$ 500	$ 349	$ 339
Net changes in the allowance for unfunded commitments and letters of credit	370	390	275	151	10
Ending balance	$ 1,535	$ 1,165	$ 775	$ 500	$ 349

(1) Certain prior period balances have been reclassified to conform to the current period presentation.

(2) Excludes loans held for sale and covered loans.

We have used the same methodology for ALLL calculations during 2011, 2010 and 2009. Adjustments to the percentages of the ALLL allocated to loan categories are made based on trends with respect to delinquencies and problem loans within each loan class. The Bank reviews the ALLL quantitative and qualitative methodology on a quarterly basis and makes adjustments when appropriate. The Bank maintains a conservative approach to credit quality and will continue to prudently add to our ALLL as necessary in order to maintain adequate reserves. The Bank carefully monitors the loan portfolio and continues to emphasize the importance of credit quality while continuously strengthening loan monitoring systems and controls.

Allocation of the ALLL

The table below sets forth the allocation of the ALLL by loan category:

	December 31,									
	2011		2010		2009		2008		2007	
Balance at End of Period Applicable to: (1)	**Amount**	**% of Total Loans***	**Amount**	**% of Total Loans***	**Amount**	**% of Total Loans***	**Amount**	**% of Total Loans***	**Amount**	**% of Total Loans***
					(dollars in thousands)					
Commercial business	$ 25,434	43.9%	$ 22,549	41.5%	$ 21,969	37.1%	$ 12,759	36.3%	$ 7,068	33.4%
Real estate and construction:										
One-to-four family residential	3,849	4.9%	7,161	6.1%	9,087	8.5%	16,781	12.0%	7,648	14.5%
Commercial and multifamily residential	20,345	43.4%	25,880	42.8%	19,703	44.4%	11,983	42.1%	11,170	44.3%
Consumer	2,719	7.8%	2,120	9.5%	1,282	10.0%	935	9.6%	713	7.8%
Unallocated	694	—%	3,283	—%	1,437	—%	289	—%	—	—%
Total	$ 53,041	100.0%	$ 60,993	100.0%	$ 53,478	100.0%	$ 42,747	100.0%	$ 26,599	100.0%

* Represents the total of all outstanding loans in each category as a percent of total loans outstanding.

(1) Certain prior period balances have been reclassified to conform to the current period presentation.

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 due to an increase in expected credit losses will increase the FDIC indemnification asset and any increase in expected future cash flows due to a decrease in expected credit losses will decrease the FDIC indemnification asset. Increases and decreases to the FDIC loss-sharing asset are recorded as adjustments to noninterest income.

At December 31, 2011, the FDIC loss-sharing asset was $175.1 million which was comprised of a $157.5 million FDIC indemnification asset and a $17.6 million FDIC receivable. The FDIC receivable represents amounts due from the FDIC for claims related to covered losses the Company has incurred less amounts due back to the FDIC relating to shared recoveries.

The following table summarizes the activity related to the FDIC loss-sharing asset for the twelve months ended December 31, 2011 and 2010:

	Year Ended December 31,	
	2011	2010
	(in thousands)	
Balance at beginning of period	$ 205,991	$ —
Adjustments not reflected in income:		
Established through acquisitions	68,734	210,405
Cash received from the FDIC	(54,200)	(11,198)
FDIC reimbursable losses, net	4,042	1,876
Adjustments reflected in income:		
Amortization, net	(46,049)	1,139
Impairment	(1,318)	4,844
Sale of other real estate	(4,346)	(1,148)
Other	2,217	73
Balance at end of period	$ 175,071	$ 205,991

For additional information on the FDIC loss-sharing asset, please see Note 8 to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this report.

Goodwill

The carrying amount of goodwill was $115.6 million as of December 31, 2011 and $109.6 million as of December 31, 2010. Goodwill is tested for impairment on an annual basis, or more frequently as events occur, or as current circumstances and conditions warrant. Under the Intangibles – Goodwill and Other topic of the FASB ASC, the testing for impairment may begin with an assessment of qualitative factors to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If it is determined that the fair value of a reporting unit is more likely than not below its carrying value, the two-step test for impairment is performed at the reporting unit level. In the first step of the goodwill impairment test, the fair value of a reporting unit is compared with its carrying amount. If the fair value of a reporting unit exceeds its carrying amount, there is no indication of impairment and further testing is not required. If the carrying amount of a reporting unit exceeds its fair value, then a second step of testing is required.

The Company completed its annual analysis of goodwill during the third quarter of 2011. The results of the analysis indicated no potential impairment in the single, reporting unit of the Company.

Deposits

The following table sets forth the composition of the Company's deposits by significant category:

	December 31,		
	2011	2010	2009
		(in thousands)	
Core deposits:			
Demand and other noninterest-bearing	$ 1,156,610	$ 895,671	$ 574,687
Interest-bearing demand	735,340	672,307	499,922
Money market	1,031,664	920,831	604,229
Savings	283,416	210,995	139,406
Certificates of deposit less than $100,000	303,405	298,678	254,577
Total core deposits	3,510,435	2,998,482	2,072,821
Certificates of deposit greater than $100,000	262,731	266,708	259,794
Certificates of deposit insured by CDARS®	42,080	38,312	96,314
Wholesale certificates of deposit	—	23,155	53,776
Subtotal	3,815,246	3,326,657	2,482,705
Premium resulting from acquisition date fair value adjustment	283	612	—
Total deposits	$ 3,815,529	$ 3,327,269	$ 2,482,705

Deposits totaled $3.82 billion at December 31, 2011 compared to $3.33 billion at December 31, 2010. Core deposits, which include noninterest-bearing deposits and interest-bearing deposits excluding time deposits of $100,000 and over, provide a stable source of low cost funding. Core deposits increased to $3.51 billion at December 31, 2011 compared with $3.00 billion at December 31, 2010. We anticipate continued growth in our core deposits through both the addition of new customers and our current client base.

At December 31, 2011 brokered and other wholesale deposits (excluding public deposits) totaled $42.1 million or 1% of total deposits compared to $61.5 million or 2% of total deposits, at year-end 2010. The decrease in brokered deposits is attributed to the scheduled maturity of $23.2 million in brokered deposits during the year slightly offset by an increase in participation 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 certificates of deposit. Unlike traditional brokered deposits, the Company generally makes CDARS® available only to existing customers who desire additional deposit insurance coverage rather than as a means of generating additional liquidity.

At December 31, 2011 public deposits held by the Company totaled $229.5 million compared to $153.9 million at December 31, 2010. Uninsured public deposit balances increased from $122.6 million at December 31, 2010 to $179.5 million at December 31, 2011. The Company is required to fully collateralize Washington state public deposits and 50% of Oregon state public deposits.

The following table sets forth the amount outstanding of time certificates of deposit and other time deposits in amounts of $100,000 or more by time remaining until maturity and percentage of total deposits:

	December 31, 2011			
	Time Certificates of Deposit of $100,000 or More		Other Time Deposits of $100,000 or More	
Amounts maturing in:	Amount	Percent of Total Deposits	Amount	Percent of Total Deposits
	(dollars in thousands)			
Three months or less	$ 87,838	2.3%	$ 36,240	1.0%
Over 3 through 6 months	40,867	1.1%	1,053	—%
Over 6 through 12 months	64,850	1.7%	2,971	0.1%
Over 12 months	69,176	1.8%	—	—%
Total	$ 262,731	6.9%	$ 40,264	1.1%

Other time deposits of $100,000 or more set forth in the table above represent brokered and wholesale deposits. We use brokered and other wholesale deposits as part of our strategy for funding growth. In the future, we anticipate continuing the use of such deposits to fund loan demand or treasury functions.

The following table sets forth the average amount of and the average rate paid on each significant deposit category:

	Years ended December 31,					
	2011		2010		2009	
	Average Deposits	Rate	Average Deposits	Rate	Average Deposits	Rate
	(dollars in thousands)					
Interest bearing demand	$ 704,484	0.20%	$ 637,983	0.34%	$ 458,450	2.25%
Money market	969,548	0.40%	851,673	0.66%	568,320	0.26%
Savings	247,073	0.06%	199,117	0.14%	133,348	0.48%
Certificates of deposit	636,074	0.80%	763,829	1.14%	706,799	0.84%
Total interest-bearing deposits	2,557,179	0.41%	2,452,602	0.68%	1,866,917	1.25%
Demand and other non-interest bearing	984,220		818,321		511,259	
Total average deposits	$ 3,541,399		$ 3,270,923		$ 2,378,176	

Borrowings

Borrowed funds provide an additional source of funding for loan growth. Our borrowed funds consist primarily of borrowings from the Federal Home Loan ("FHLB") and Federal Reserve Bank ("FRB") as well as securities repurchase agreements. FHLB and FRB borrowings are secured by our loan portfolio and investment securities. Securities repurchase agreements are secured by investment securities and commercial loans.

The following tables set forth the details of FHLB advances and FRB borrowings:

	Years ended December 31,		
	2011	2010	2009
	(dollars in thousands)		
FHLB Advances			
Balance at end of year	$ 119,009	$ 119,405	$ 100,000
Average balance during the year	$ 120,419	$ 123,685	$ 111,211
Maximum month-end balance during the year	$ 127,426	$ 154,916	$ 178,000
Weighted average rate during the year	2.76%	2.75%	2.38%
Weighted average rate at December 31	2.81%	2.81%	2.49%

	Years ended December 31,		
	2011	2010	2009
	(dollars in thousands)		
Federal Reserve Bank Borrowings			
Balance at end of year	$ —	$ —	$ —
Average balance during the year	$ —	$ —	$ 38,205
Maximum month-end balance during the year	$ —	$ —	$ 100,000
Weighted average rate during the year	—%	—%	0.30%
Weighted average rate at December 31	N/A	N/A	N/A

For additional information on our borrowings, including amounts pledged as collateral, see Notes 12 and 13 to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this report.

Long-term Subordinated Debt

In July, 2011, the Company elected to redeem the junior subordinated debentures and terminated Columbia (WA) Statutory Trust I and Town Center Bancorp Trust I with a cash payment of $22.9 million and $3.1 million, respectively which consisted of principal, interest and fees. The trust preferred obligations were classified as long-term subordinated debt on the Company's balance sheet and the decision to redeem was based upon the Company's cash and capital positions, rates on the debentures and the absence of a prepayment penalty.

Off-Balance Sheet Arrangements

In the normal course of business, the Company is a party to financial instruments with off-balance sheet risk. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount reflected in the consolidated balance sheets.

Exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The Company evaluates each client's creditworthiness on a case-by-case basis.

Commitments to extend credit are agreements to lend to a client as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

The Company had off-balance sheet loan commitments aggregating $709.9 million at December 31, 2011, an increase from $622.8 million at December 31, 2010. Standby letters of credit were $30.9 million and $31.2 million at December 31, 2011 and 2010, respectively. In addition, commitments under commercial letters of credit used to facilitate customers' trade transactions amounted to $243 thousand and $0 at December 31, 2011 and 2010, respectively.

Contractual Obligations & Commitments

We are party to many contractual financial obligations, including repayment of borrowings, operating and equipment lease payments, and commitments to extend credit. The table below presents certain future financial obligations of the Company:

	Payments due within time period at December 31, 2011				
	0-12 Months	1-3 Years	4-5 Years	Due after Five Years	Total
			(in thousands)		
Operating & equipment leases	$ 4,077	$ 7,542	$ 4,650	$ 5,678	$ 21,947
Total deposits	3,681,936	95,967	37,045	581	3,815,529
Federal Home Loan Bank advances	8,000	103,694	—	6,416	118,110
Total	$ 3,694,013	$ 207,203	$ 41,695	$ 37,675	$ 3,980,586

For additional information regarding future financial commitments, see Note 17 to our Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data” of this report.

Liquidity and Sources of Funds

In general, our primary sources of funds are net income, loan repayments, maturities and principal payments on investment securities, customer deposits, advances from the FHLB and FRB, securities repurchase agreements and other borrowings. These funds are used to make loans, purchase investments, meet deposit withdrawals and maturing liabilities and cover operational expenses. Scheduled loan repayments and core deposits have proved to be a relatively stable source of funds while other deposit inflows and unscheduled loan prepayments are influenced by interest rate levels, competition and general economic conditions. We manage liquidity through monitoring sources and uses of funds on a daily basis and had unused credit lines with the FHLB and the Federal Reserve Bank of $419.1 million and $404.4 million, respectively, at December 31, 2011, that are available to us as a supplemental funding source. The holding company’s sources of funds are dividends from its banking subsidiary which are used to fund dividends to shareholders and cover operating expenses.

Capital Expenditures

Capital expenditures are anticipated to be approximately $6.5 million during 2012.

See the Statement of Cash Flows of the Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data” of this report for additional information regarding our sources and uses of funds during 2011, 2010 and 2009.

Capital

Our shareholders’ equity increased to $759.3 million at December 31, 2011, from $706.9 million at December 31, 2010. Shareholders’ equity was 15.87% and 16.61% of total assets at December 31, 2011 and 2010.

Regulatory Capital. Banking regulations require bank holding companies to maintain a minimum “leverage” ratio of core capital to adjusted quarterly average total assets of at least 3%. In addition, banking regulators have adopted risk-based capital guidelines, under which risk percentages are assigned to various categories of assets and off-balance sheet items to calculate a risk-adjusted capital ratio. Tier I capital generally consists of preferred stock, common shareholders’ equity and trust preferred obligations, less goodwill and certain identifiable intangible assets, while Tier II capital includes the allowance for loan losses and subordinated debt, both subject to certain limitations. Regulatory minimum risk-based capital guidelines require Tier I capital of 4% of risk-adjusted assets and total capital (combined Tier I and Tier II) of 8% to be considered “adequately capitalized”.

Federal Deposit Insurance Corporation 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 Tier I risk-adjusted capital ratio of at least 6%, 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 December 31, 2011 and 2010.

The following table sets forth the Company's and its banking subsidiary's capital ratios at December 31, 2011 and 2010:

	Company		Columbia Bank		Requirements	
	2011	2010	2011	2010	Adequately capitalized	Well-Capitalized
Total risk-based capital ratio	21.05%	24.47%	18.55%	18.20%	8%	10%
Tier 1 risk-based capital ratio	19.79%	23.20%	17.29%	16.93%	4%	6%
Leverage ratio	12.96%	13.99%	11.45%	10.33%	4%	5%

Stock Repurchase Program

In October 2011, the Board of Directors approved a stock repurchase program authorizing the Company to repurchase up to 2 million shares of its outstanding shares of common stock. The Company intends to purchase the shares from time to time in the open market or in private transactions, under conditions which allow such repurchases to be accretive to earnings per share while maintaining capital ratios that exceed the guidelines for a well-capitalized financial institution. This newly authorized repurchase program supersedes and replaces the prior stock repurchase program adopted in February 2002.

Dividends

The following table sets forth the dividends paid per common share and the dividend payout ratio (dividends paid per common share divided by basic earnings per share):

	Years ended December 31,		
	2011	2010	2009
Dividends paid per common share	$ 0.27	$ 0.04	$ 0.07
Dividend payout ratio (1)	2%	6%	NM

(1) Dividends paid per common share as a percentage of net income per diluted share
NM Not Meaningful

For quarterly detail of dividends declared during 2011 and 2010 see "Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities" of this report.

Subsequent to year end, on January 26, 2012 the Company declared a regular quarterly cash dividend of $0.08 per share and a special cash dividend of $0.29 per share, both payable on February 22, 2012, to shareholders of record at the close of business on February 8, 2012.

Applicable federal, Washington state and Oregon state regulations restrict capital distributions, including dividends, by the Company's banking subsidiary. Such restrictions are tied to the institution's capital levels after giving effect to distributions. Our ability to pay cash dividends is substantially dependent upon receipt of dividends from our banking subsidiary. In addition, the payment of cash dividends is subject to Federal regulatory requirements for capital levels and other restrictions. In this regard, current guidance from the Federal Reserve provides, among other things, that dividends per share on the Company's common stock generally should not exceed earnings per share, measured over the previous four fiscal quarters.

Reference "Item 6. Selected Financial Data" of this report for our return on average assets, return on average equity and average equity to average assets ratios for all reported periods.

Non-GAAP Financial Measures

In addition to capital ratios defined by banking regulators, the Company considers various measures when evaluating capital utilization and adequacy, including:

- Tangible common equity to tangible assets, and
- Tangible common equity to risk-weighted assets.

The Company believes these measures are important because they reflect the level of capital available to withstand unexpected market conditions. Additionally, presentation of these measures allows readers to compare certain aspects of the Company's capitalization to other organizations. These ratios differ from capital measures defined by banking regulators principally in that the numerator excludes shareholders' equity associated with preferred securities, the nature and extent of which varies across organizations. Additionally, these measures present capital adequacy inclusive and exclusive of accumulated other comprehensive income. These calculations are intended to complement the capital ratios defined by banking regulators for both absolute and comparative purposes.

Because generally accepted accounting principles in the United States of America ("GAAP") do not include capital ratio measures, the Company believes there are no comparable GAAP financial measures to these tangible common equity ratios. The following table reconciles the Company's calculation of these measures to amounts reported under GAAP.

Despite the importance of these measures to the Company, there are no standardized definitions for them and, as a result, the Company's calculations may not be comparable with other organizations. Also, there may be limits in the usefulness of these measures to investors. As a result, the Company encourages readers to consider its consolidated financial statements in their entirety and not to rely on any single financial measure.

	December 31, 2011	December 31, 2010
	(dollars in thousands)	
Shareholders' equity	$ 759,338	$ 706,878
Goodwill	(115,554)	(109,639)
Core deposit intangible	(20,166)	(18,696)
Tangible common equity (a)	623,618	578,543
Total assets	4,785,945	4,256,363
Goodwill	(115,554)	(109,639)
Core deposit intangible	(20,166)	(18,696)
Tangible assets (b)	$ 4,650,225	$ 4,128,028
Risk-weighted assets, determined in accordance with prescribed regulatory requirements (c)	$ 3,024,442	$ 2,546,195
Ratios		
Tangible common equity to tangible assets (a)/(b)	13.41%	14.01%
Tangible common equity to risk-weighted assets (a)/(c)	20.62%	22.72%

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Sensitivity

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

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

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

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

Option risk—In banking, option risks are known as borrower options to prepay loans and depositor options to make deposits, withdrawals, and early redemptions. Option risk arises whenever bank products give customers the right, but not the obligation, to alter the quantity or the timing of cash flows.

We maintain an asset/liability management policy that provides guidelines for controlling exposure to interest rate risk. The guidelines direct management to assess the impact of changes in interest rates upon both earnings and capital. The guidelines further provide that in the event of an increase in interest rate risk beyond pre-established limits, management will consider steps to reduce interest rate risk to acceptable levels.

The analysis of an institution's interest rate gap (the difference between the repricing of interest-earning assets and interest-bearing liabilities during a given period of time) is one standard tool for the measurement of the exposure to interest rate risk. We believe that because interest rate gap analysis does not address all factors that can affect earnings performance. It should be used in conjunction with other methods of evaluating interest rate risk.

The table on the following page sets forth the estimated maturity or repricing, and the resulting interest rate gap of our interest-earning assets and interest-bearing liabilities at December 31, 2011. The amounts in the table are derived from our internal data and are based upon regulatory reporting formats. Therefore, they may not be consistent with financial information appearing elsewhere herein that has been prepared in accordance with accounting principles generally accepted in the United States. The amounts could be significantly affected by external factors such as changes in prepayment assumptions, early withdrawal of deposits and competition. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while other types may lag changes in market interest rates.

Additionally, certain assets, such as adjustable-rate mortgages, have features that restrict changes in the interest rates of such assets both on a short-term basis and over the lives of such assets. Further, in the event of a change in market interest rates, prepayment and early withdrawal levels could deviate significantly from those assumed in calculating the tables. Finally, the ability of many borrowers to service their adjustable-rate debt may decrease in the event of a substantial increase in market interest rates.

	Estimated Maturity or Repricing				
December 31, 2011	0-3 months	4-12 months	Over 1 year through 5 years	Due after 5 years	Total
			(dollars in thousands)		
Interest-Earning Assets					
Interest-earning deposits	$ 202,925	$ —	$ —	$ —	$ 202,925
Loans, net of deferred fees	1,298,799	322,588	1,159,010	99,903	2,880,300
Loans held for sale	2,148	—	—	—	2,148
Investments	78,397	174,305	521,614	276,009	1,050,325
Total interest-earning assets	$ 1,582,269	$ 496,893	$ 1,680,624	$ 375,912	4,135,698
Allowance for loan and lease losses					(53,041)
Cash and due from banks					91,364
Premises and equipment, net					107,899
Other assets					504,025
Total assets					$ 4,785,945
Interest-Bearing Liabilities					
Interest-bearing non-maturity deposits	$ 1,032,635	$ —	$ —	$ 1,017,785	$ 2,050,420
Time deposits	211,301	262,964	133,021	1,213	608,499
Borrowings	9,042	4,130	103,853	26,984	144,009
Total interest-bearing liabilities	$ 1,252,978	$ 267,094	$ 236,874	$ 1,045,982	2,802,928
Other liabilities					1,223,679
Total liabilities					4,026,607
Shareholders' equity					759,338
Total liabilities and shareholders' equity					$ 4,785,945
Interest-bearing liabilities as a percent of total interest-earning assets	30.30%	6.46%	5.73%	25.29 %	
Rate sensitivity gap	$ 329,291	$ 229,799	$ 1,443,750	$ (670,070)	
Cumulative rate sensitivity gap	$ 329,291	$ 559,090	$ 2,002,840	$ 1,332,770	
Rate sensitivity gap as a percentage of interest-earning assets	7.96%	5.56%	34.91%	(16.20)%	
Cumulative rate sensitivity gap as a percentage of interest-earning assets	7.96%	13.52%	48.43%	32.23 %	

Interest Rate Sensitivity on Net Interest Income

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. Key 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 uncertain 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.

Based on the results of the simulation model as of December 31, 2011, we would expect a decrease in net interest income of $2.1 million if interest rates gradually decrease from current rates by 100 basis points and an increase in net interest income of $6.2 million if interest rates gradually increase from current rates by 200 basis points over a twelve-month period.

Impact of Inflation and Changing Prices

The impact of inflation on our operations is increased operating costs. Unlike most industrial companies, virtually all the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates generally have a more significant impact on a financial institution's performance than the effect of general levels of inflation. Although interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services, increases in inflation generally have resulted in increased interest rates.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Columbia Banking System, Inc.
Tacoma, Washington

We have audited the accompanying consolidated balance sheets of Columbia Banking System, Inc. and its subsidiaries (the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Columbia Banking System, Inc. and its subsidiaries as of December 31, 2011 and 2010, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2011, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 29, 2012 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP
Seattle, Washington
February 29, 2012

COLUMBIA BANKING SYSTEM, INC.
CONSOLIDATED BALANCE SHEETS

			December 31, 2011	December 31, 2010
			(in thousands)	
ASSETS				
Cash and due from banks			$ 91,364	$ 55,492
Interest-earning deposits with banks			202,925	458,638
Total cash and cash equivalents			294,289	514,130
Securities available for sale at fair value (amortized cost of $987,560 and $743,928, respectively)			1,028,110	763,866
Federal Home Loan Bank stock at cost			22,215	17,908
Loans held for sale			2,148	754
Loans, excluding covered loans, net of unearned income of ($16,217) and ($3,490), respectively			2,348,371	1,915,754
Less: allowance for loan and lease losses			53,041	60,993
Loans, excluding covered loans, net			2,295,330	1,854,761
Covered loans, net of allowance for loan losses of ($4,944) and ($6,055), respectively			531,929	517,061
Total loans, net			2,827,259	2,371,822
FDIC loss-sharing asset			175,071	205,991
Interest receivable			15,287	11,164
Premises and equipment, net			107,899	93,108
Other real estate owned ($28,126 and $14,443 covered by FDIC loss-share, respectively)			51,019	45,434
Goodwill			115,554	109,639
Core deposit intangible, net			20,166	18,696
Other assets			126,928	103,851
Total assets			$ 4,785,945	$ 4,256,363
LIABILITIES AND SHAREHOLDERS' EQUITY				
Deposits:				
Noninterest-bearing			$ 1,156,610	$ 895,671
Interest-bearing			2,658,919	2,431,598
Total deposits			3,815,529	3,327,269
Federal Home Loan Bank advances			119,009	119,405
Securities sold under agreements to repurchase			25,000	25,000
Other borrowings			—	642
Long-term subordinated debt			—	25,735
Other liabilities			67,069	51,434
Total liabilities			4,026,607	3,549,485
Commitments and contingent liabilities (Note 17)				
Shareholders' equity:				
	December 31, 2011	December 31, 2010		
Common stock (no par value)				
Authorized shares	63,033	63,033		
Issued and outstanding	39,506	39,338	579,136	576,905
Retained earnings			155,069	117,692
Accumulated other comprehensive income			25,133	12,281
Total shareholders' equity			759,338	706,878
Total liabilities and shareholders' equity			$ 4,785,945	$ 4,256,363

See accompanying Notes to Consolidated Financial Statements.

COLUMBIA BANKING SYSTEM, INC.
CONSOLIDATED STATEMENTS OF INCOME

	Years ended December 31,		
	2011	2010	2009
	(in thousands except per share)		
Interest Income			
Loans	$ 218,420	$ 157,292	$ 117,062
Taxable securities	21,870	18,276	17,300
Tax-exempt securities	10,142	9,348	8,458
Federal funds sold and deposits in banks	839	963	215
Total interest income	251,271	185,879	143,035
Interest Expense			
Deposits	10,478	16,733	23,250
Federal Home Loan Bank and Federal Reserve Bank borrowings	2,980	2,841	2,759
Long-term obligations	579	1,029	1,197
Other borrowings	498	489	477
Total interest expense	14,535	21,092	27,683
Net Interest Income	236,736	164,787	115,352
Provision for loan and lease losses	7,400	41,291	63,500
Provision (recapture) for losses on covered loans	(1,648)	6,055	—
Net interest income after provision (recapture) for loan and lease losses	230,984	117,441	51,852
Noninterest Income (Loss)			
Service charges and other fees	26,632	24,698	15,181
Gain on bank acquisitions, net of tax	1,830	9,818	—
Merchant services fees	7,385	7,502	7,321
Redemption of Visa and MasterCard shares	—	—	49
Gain on sale of investment securities, net	134	58	1,077
Impairment charge on investment securities	(2,950)	—	—
Bank owned life insurance	2,188	2,041	2,023
Change in FDIC loss-sharing asset	(49,496)	4,908	—
Other	4,994	3,756	4,039
Total noninterest income (loss)	(9,283)	52,781	29,690
Noninterest Expense			
Compensation and employee benefits	81,552	69,780	47,275
Occupancy	18,963	16,814	12,128
Merchant processing	3,698	4,364	3,449
Advertising and promotion	3,686	3,081	1,943
Data processing	8,484	8,769	5,482
Legal and professional fees	6,486	5,684	3,871
Taxes, licenses and fees	4,446	2,858	2,478
Regulatory premiums	4,337	6,485	5,777
Net cost (benefit) of operation of other real estate owned	(1,022)	787	861
Amortization of intangibles	4,319	3,922	1,045
FDIC clawback liability	3,656	—	—
Other	17,154	14,603	10,179
Total noninterest expense	155,759	137,147	94,488
Income (loss) before income taxes	65,942	33,075	(12,946)
Provision (benefit) for income taxes	17,905	2,291	(8,978)
Net Income (Loss)	$ 48,037	$ 30,784	$ (3,968)
Net Income (Loss) Applicable to Common Shareholders	$ 48,037	$ 25,837	$ (8,371)
Per Common Share			
Earnings (loss) basic	$ 1.22	$ 0.73	$ (0.38)
Earnings (loss) diluted	$ 1.21	$ 0.72	$ (0.38)
Dividends paid per common share	$ 0.27	$ 0.04	$ 0.07
Weighted average number of common shares outstanding	39,103	35,209	21,854
Weighted average number of diluted common shares outstanding	39,180	35,392	21,854

See accompanying Notes to Consolidated Financial Statements.

COLUMBIA BANKING SYSTEM, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years ended December 31,		
	2011	2010	2009
		(in thousands)	
Net income (loss)	$ 48,037	$ 30,784	$ (3,968)
Other comprehensive income, net of tax:			
Unrealized gain from securities:			
Net unrealized holding gain from available for sale securities arising during the period, net of tax of ($7,462), ($1,047) and ($5,197)	13,285	1,587	9,435
Reclassification adjustment of net gain from sale of available for sale securities included in income, net of tax of $48, $20 and $383	(85)	(38)	(695)
Net unrealized gain from securities, net of reclassification adjustment	13,200	1,549	8,740
Cash flow hedging instruments:			
Reclassification adjustment of net gain included in income, net of tax of $79, $625, and $913	(143)	(1,134)	(1,657)
Net change in cash flow hedging instruments	(143)	(1,134)	(1,657)
Pension plan liability adjustment:			
Unrecognized net actuarial gain (loss) during the period, net of tax of $154, ($12) and $379	(260)	23	(689)
Less: amortization of unrecognized net actuarial loss included in net periodic pension cost, net of tax of ($31), ($15) and ($18)	55	27	33
Pension plan liability adjustment, net	(205)	50	(656)
Other comprehensive income	12,852	465	6,427
Comprehensive income	$ 60,889	$ 31,249	$ 2,459

See accompanying Notes to Consolidated Financial Statements.

COLUMBIA BANKING SYSTEM, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Preferred Stock		Common Stock				
	Number of Shares	Amount	Number of Shares	Amount	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
				(in thousands)			
Balance at January 1, 2009	77	$ 73,743	18,151	$ 233,192	$ 103,061	$ 5,389	$ 415,385
Net loss	—	—	—	—	(3,968)	—	(3,968)
Other comprehensive income	—	—	—	—	—	6,427	6,427
Accretion of preferred stock discount	—	558	—	—	(558)	—	—
Issuance of common stock, net of offering costs	—	—	9,775	113,537	—	—	113,537
Issuance of common stock - stock option and other plans	—	—	100	1,085	—	—	1,085
Issuance of common stock - restricted stock awards, net of canceled awards	—	—	103	1,038	—	—	1,038
Tax benefit deficiency associated with share-based compensation	—	—	—	(146)	—	—	(146)
Preferred dividends	—	—	—	—	(3,845)	—	(3,845)
Cash dividends paid on common stock	—	—	—	—	(1,374)	—	(1,374)
Balance at December 31, 2009	77	$ 74,301	28,129	$ 348,706	$ 93,316	$ 11,816	$ 528,139
Net income	—	—	—	—	30,784	—	30,784
Other comprehensive income	—	—	—	—	—	465	465
Redemption of preferred stock and common stock warrant	(77)	(76,898)	—	(3,302)	—	—	(80,200)
Accretion of preferred stock discount	—	2,597	—	—	(2,597)	—	—
Issuance of common stock, net of offering costs	—	—	11,040	229,129	—	—	229,129
Issuance of common stock - stock option and other plans	—	—	69	923	—	—	923
Issuance of common stock - restricted stock awards, net of canceled awards	—	—	100	1,424	—	—	1,424
Tax benefit associated with share-based compensation	—	—	—	25	—	—	25
Preferred dividends	—	—	—	—	(2,350)	—	(2,350)
Cash dividends paid on common stock	—	—	—	—	(1,461)	—	(1,461)
Balance at December 31, 2010	—	$ —	39,338	$ 576,905	$ 117,692	$ 12,281	$ 706,878
Net income	—	—	—	—	48,037	—	48,037
Other comprehensive income	—	—	—	—	—	12,852	12,852
Issuance of common stock - stock option and other plans	—	—	51	848	—	—	848
Issuance of common stock - restricted stock awards, net of canceled awards	—	—	119	1,635	—	—	1,635
Tax benefit deficiency associated with share-based compensation	—	—	—	(220)	—	—	(220)
Purchase and retirement of common stock	—	—	(2)	(32)	—	—	(32)
Cash dividends paid on common stock	—	—	—	—	(10,660)	—	(10,660)
Balance at December 31, 2011	—	$ —	39,506	$ 579,136	$ 155,069	$ 25,133	$ 759,338

See accompanying Notes to Consolidated Financial Statements.

COLUMBIA BANKING SYSTEM, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2011	2010 [(1)]	2009 [(1)]
		(in thousands)	
Cash Flows From Operating Activities			
Net Income (Loss)	$ 48,037	$ 30,784	$ (3,968)
Adjustments to reconcile net income to net cash provided by operating activities			
Provision for loan and lease losses and losses on covered loans	5,752	47,346	63,500
Stock-based compensation expense	1,635	1,424	1,038
Depreciation, amortization and accretion	46,121	11,352	7,540
Gain on FDIC-assisted bank acquisitions	(1,830)	(9,818)	—
Net realized gain on sale of securities	(134)	(58)	(1,077)
Net realized (gain) loss on sale of other assets	79	(33)	(94)
Net realized (gain) loss on sale of other real estate owned	(9,310)	(5,253)	183
Gain on termination of cash flow hedging instruments	(222)	(1,759)	(2,570)
Write-down on other real estate owned	6,307	5,144	119
Deferred income tax expense (benefit)	(3,783)	15,838	(85)
Impairment charge on investment securities	2,950	—	—
Net change in:			
Loans held for sale	(1,394)	(754)	1,964
Interest receivable	(1,243)	4,472	1,311
Interest payable	(403)	(784)	(2,327)
Other assets	(19,248)	18,419	(21,560)
Other liabilities	13,110	7,816	(6,717)
Net cash provided by operating activities	86,424	124,136	37,257
Cash Flows From Investing Activities			
Loans originated and acquired, net of principal collected	(110,577)	164,084	146,698
Purchases of:			
Securities available for sale	(453,043)	(179,332)	(162,412)
Premises and equipment	(15,088)	(36,503)	(6,281)
Proceeds from:			
FDIC reimbursement on loss-sharing asset	54,200	—	—
Sales of securities available for sale	72,523	69,328	16,665
Principal repayments and maturities of securities available for sale	148,583	92,840	67,682
Disposal of premises and equipment	46	902	42
Sales of covered other real estate owned	20,619	17,890	—
Sales of other real estate and other personal property owned	12,278	4,800	8,098
Termination of trust subsidiaries	774	—	—
Capital improvements on other real estate properties	(735)	(1,720)	(1,165)
(Decrease) increase in Small Business Administration secured borrowings	(642)	642	—
Net cash acquired in business combinations	247,792	145,534	—
Net cash provided by (used in) investing activities	(23,270)	278,465	69,327
Cash Flows From Financing Activities			
Net increase (decrease) in deposits	(204,586)	(302,758)	100,554
Proceeds from:			
Issuance of common stock	—	229,129	113,537
Exercise of stock options	848	923	939
Federal Home Loan Bank advances	100	—	324,000
Federal Reserve Bank borrowings	100	—	415,000
Payment for:			
Repayment of Federal Home Loan Bank advances	(42,989)	(36,276)	(374,000)
Repayment of Federal Reserve Bank borrowings	(100)	—	(465,000)
Preferred stock dividends	—	(2,841)	(3,781)
Common stock dividends	(10,660)	(1,461)	(1,374)
Repayment of long-term subordinated debt	(25,774)	—	—
Repurchase of preferred stock and common stock warrant	—	(80,200)	—
Purchase and retirement of common stock	(32)	—	—
Excess tax benefit from stock-based compensation	98	25	—
Net decrease in other borrowings	—	(86)	(115)
Net cash provided by (used in) financing activities	(282,995)	(193,545)	109,760
Increase (decrease) in cash and cash equivalents	(219,841)	209,056	216,344
Cash and cash equivalents at beginning of period	514,130	305,074	88,730
Cash and cash equivalents at end of period	$ 294,289	$ 514,130	$ 305,074
Supplemental Information:			
Cash paid during the year for:			
Cash paid for interest	$ 14,938	$ 21,876	$ 30,010
Cash paid for income tax	$ 23,025	$ 6,895	$ 500
Non-cash investing activities			
Assets acquired in FDIC-assisted acquisitions (excluding cash and cash equivalents)	$ 485,870	$ 1,075,166	$ —
Liabilities assumed in FDIC-assisted acquisitions	$ 731,832	$ 1,210,882	$ —
Loans transferred to other real estate owned	$ 24,357	$ 29,864	$ 23,398

[(1)] Reclassified to conform to the current period's presentation.

See accompanying Notes to Consolidated Financial Statements.

1. Summary of Significant Accounting Policies

Organization

Columbia Banking System, Inc. (the “Corporation”) is the holding company for Columbia State Bank (the “Bank”). The Bank provides a full range of financial services through 102 branch locations, including 77 in the State of Washington and 25 in Oregon. Because the Bank comprises substantially all of the business of the Corporation, references to the “Company” mean the Corporation and the Bank together. The Corporation is approved as a bank holding company pursuant to the Gramm-Leach-Bliley Act of 1999.

The Company’s accounting and reporting policies conform to accounting principles generally accepted in the United States of America (“GAAP”) and practices in the financial services industry. To prepare the financial statements in conformity with GAAP, management must make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and income and expenses during the reporting period. Circumstances and events that differ significantly from those underlying our estimates and assumptions could cause actual financial results to differ from our estimates. The most significant estimates included in the financial statements relate to the allowance for loan and lease losses, business combinations, acquired impaired loans, Federal Deposit Insurance Corporation loss sharing asset and goodwill impairment.

The Company has applied its accounting policies and estimation methods consistently in all periods presented in these financial statements (to the periods in which they applied), except for certain estimates related to the measurement of expected future cash flows on acquired impaired loans. For those certain estimates, in 2011 the Company began utilizing actual historical loan data rather than industry data, which had been utilized in 2010. The results of operations reflect any adjustments, all of which are of a normal recurring nature, and which, in the opinion of management, are necessary for a fair presentation of the results of the periods presented.

Consolidation

The consolidated financial statements of the Company include the accounts of the Corporation and the Bank. Intercompany balances and transactions have been eliminated in consolidation.

Cash and cash equivalents

Cash and cash equivalents include cash and due from banks, and interest bearing balances due from correspondent banks and the Federal Reserve Bank. Cash and cash equivalents have a maturity of 90 days or less at the time of purchase.

Securities

Securities are classified based on management’s intention on the date of purchase. All securities are classified as available for sale and are presented at fair value. Unrealized gains or losses on securities available for sale are excluded from net income but are included as separate components of other comprehensive income, net of taxes. Purchase premiums or discounts on securities available for sale are amortized or accreted into income using the interest method over the terms of the individual securities. The Company performs a quarterly assessment to determine whether a decline in fair value below amortized cost is other-than-temporary. Amortized cost includes adjustments made to the cost of an investment for accretion, amortization, collection of cash and previous other-than temporary impairment recognized in earnings. Other-than-temporary impairment exists when it is probable that the Company will be unable to recover the entire amortized cost basis of the security. If the decline in fair value is judged to be other than temporary, the security is written down to fair value which becomes the new cost basis and an impairment loss is recognized.

In performing the quarterly assessment for debt securities, management considers whether or not the Company expects to recover the entire amortized cost basis of the security. In addition, management must determine its position with respect to its intent to sell the security and whether it is more likely than not that it will not have to sell the security before recovery of its cost basis. The total amount recognized in earnings when there are credit losses associated with an impaired debt security and management asserts that it 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 is separated into (a) the amount representing a credit loss and (b) the amount related to non-credit factors. The amount of impairment related to credit losses is recognized in earnings. The credit loss component of other-than-temporary impairment, representing an increase in credit risk, is determined by the Company using its best estimate of the present value of cash flows expected to be collected from the debt security. The amount of impairment related to non-credit factors is recognized in other comprehensive income. The previous cost basis less impairment recognized in earnings becomes the new cost basis of the security and is not adjusted for subsequent recoveries in fair value. However, the difference between the new amortized cost basis and the cash flows expected to be collected is accreted as interest income. The total other-than-temporary impairment is presented in the consolidated statements of income with a reduction for the amount of other-than-temporary impairment that is recognized in other comprehensive income, if any.

Realized gains or losses on sales of securities available for sale are recorded using the specific identification method.

Federal Home Loan Bank Stock

The Company's investment in Federal Home Loan Bank ("FHLB") stock is carried at par value because the shares can only be redeemed with the FHLB at par. The Company is required to maintain a minimum level of investment in FHLB stock based on specific percentages of its outstanding mortgages and FHLB advances. Stock redemptions are at the discretion of the FHLB or of the Company, upon five years' prior notice for FHLB Class B stock or six months notice for FHLB Class A stock to the FHLB. FHLB stock is carried at cost and is subject to recoverability testing per the Financial Services—Depository and Lending topic of the FASB Accounting Standards Codification ("ASC").

Loans

Loans are generally carried at the unpaid principal balance, net of premiums, unearned discounts and net deferred loan fees. Net deferred loan fees include deferred unamortized fees less direct incremental loan origination costs. Net deferred loan fees, premiums and unearned discounts on loans are recognized in interest income using either the interest method or straight-line method over the terms of the loans, adjusted for actual prepayments. Interest income is accrued as earned. Fees related to lending activities other than the origination or purchase of loans are recognized as noninterest income during the period the related services are performed.

Nonaccrual loans—Loans are placed on nonaccrual status when a loan becomes contractually past due 90 days with respect to interest or principal unless the loan is both well secured and in the process of collection, or if full collection of interest or principal becomes uncertain. When a loan is placed on nonaccrual status, any accrued and unpaid interest receivable is reversed and the recognition of net deferred loan fees, premiums and unearned discounts ceases. Thereafter, interest collected on the loan is accounted for on the cash collection or cost recovery method until qualifying for return to accrual status. Generally, a loan may be returned to accrual status when the delinquent principal and interest are brought current in accordance with the terms of the loan agreement and future payments are reasonably assured.

Impaired loans—Loans are considered impaired when based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement or when a loan has been modified in a troubled debt restructuring. The assessment for impairment occurs when and while such loans are designated as classified per the Company's internal risk rating system or when and while such loans are on nonaccrual. All nonaccrual loans greater than $250,000 are considered impaired and analyzed individually on a quarterly basis. Classified loans with an outstanding balance greater than $250,000 are evaluated for potential impairment on a quarterly basis.

When a loan with unique risk characteristics has been identified as being impaired, the amount of impairment will be measured by the Company using discounted cash flows, except when it is determined that the primary (remaining) source of repayment for the loan is the operation or liquidation of the underlying collateral. In these cases, the current fair value of the collateral, reduced by costs to sell, will be used in place of discounted cash flows. As a final alternative, the observable market price of the debt may be used to assess impairment. Predominantly, the Company uses the fair value of collateral approach based upon a reliable valuation.

When the measurement of the impaired loan is less than the recorded amount of the loan, an impairment is recognized by recording a charge-off to the allowance for loan and lease losses or by designating a specific reserve. The Company's policy is to record cash receipts received on impaired loans first as reductions to principal and then to interest income.

Restructured Loans—A loan is classified as a troubled debt restructuring when a borrower is experiencing financial difficulties that lead to a restructuring of the loan, and the Company grants concessions to the borrower in the restructuring that it would not otherwise consider. These concessions may include interest rate reductions, principal forgiveness, extension of maturity date and other actions intended to minimize potential losses. Generally, a nonaccrual loan that is restructured remains on nonaccrual status for a period of six months to demonstrate that the borrower can meet the restructured terms. If the borrower's performance under the new terms is not reasonably assured, the loan remains classified as a nonaccrual loan.

Acquired Impaired Loans—Loans acquired with evidence of credit deterioration since origination for which it is probable that all contractually required payments will not be collected are accounted for under Accounting Standards Codification

(“ASC”) 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*, formerly SOP 03-3 *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*. In addition, because of the significant discounts associated with certain of the acquired loan portfolios, the Company elected to account for those certain acquired loans under ASC 310-30.

In situations where such loans have similar risk characteristics, loans are aggregated into pools to estimate cash flows. A pool is accounted for as a single asset with a single interest rate, cumulative loss rate and cash flow expectation. Expected cash flows at the acquisition date in excess of the fair value of loans are considered to be accretable yield, which is recognized as interest income over the life of the loan pool using a level yield method if the timing and amount of the future cash flows of the pool is reasonably estimable. Subsequent to the acquisition date, any increases in cash flow over those expected at purchase date in excess of fair value are recorded as interest income prospectively. Any subsequent decreases in cash flow over those expected at purchase date due to credit deterioration are recognized by recording an allowance for losses on covered loans. Any disposals of loans, including sales of loans, payments in full or foreclosures result in the removal of the loan from the loan pool at the carrying amount.

Covered Loans—The term covered loans refers to acquired loans that are covered under a loss-sharing agreement with the FDIC. Substantially all covered loans are accounted for under ASC 310-30. See Acquired Impaired Loans for further discussion.

Unfunded loan commitments—Unfunded commitments are generally related to providing credit facilities to clients of the Bank and are not actively traded financial instruments. These unfunded commitments are disclosed as financial instruments with off-balance sheet risk in Note 17 in the Notes to Consolidated Financial Statements.

Allowance for Loan and Lease Losses

The Company accounts for the credit risk associated with lending activities through its allowance for loan and lease losses and provision for loan and lease losses. The provision is the expense recognized in the consolidated statements of income to adjust the allowance to the levels deemed appropriate by management, as determined through application of the Company’s allowance methodology procedures. The provision for loan and lease losses reflects management’s judgment of the adequacy of the allowance for loan and lease losses. Loan and lease losses are charged against the allowance when management believes the collectability of a loan balance is unlikely. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan and lease losses is evaluated on a regular basis by management and is based upon management’s periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower’s ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of general, specific, and unallocated components. The general component covers loans not specifically measured for impairment and is based on historical loss experience adjusted for qualitative factors. The specific component relates to loans that are impaired. For impaired loans an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The unallocated allowance provides for other credit losses inherent in the Company’s loan portfolio that may not have been contemplated in the general and specific components of the allowance. This unallocated amount generally comprises less than 5% of the allowance. The unallocated amount is reviewed periodically based on trends in credit losses, the results of credit reviews and overall economic trends.

Allowance for Unfunded Commitments and Letters of Credit

The allowance for unfunded commitments is maintained at a level believed by management to be sufficient to absorb estimated probable losses related to these unfunded credit facilities. The determination of the adequacy of the allowance is based on periodic evaluations of the unfunded credit facilities including an assessment of the probability of commitment usage, credit risk factors for loans outstanding to these same customers, and the terms and expiration dates of the unfunded credit facilities. The allowance for unfunded commitments is included in other liabilities on the consolidated balance sheets, with changes to the balance charged against noninterest expense.

Allowance for Loan Losses on Covered Loans

The Company updates its cash flow projections for covered loans accounted for under ASC 310-30 on a quarterly basis. Assumptions utilized in this process include projections related to probability of default, loss severity, prepayment and recovery lag. Projections related to probability of default and prepayment are calculated utilizing a loan migration analysis. The loan migration analysis is a matrix of probability that specifies the probability of a loan pool transitioning into a particular delinquency state given its delinquency state at the re-measurement date. Loss severity factors are based upon actual charge-off data within the loan pools and recovery lags are based upon the collateral within the loan pools.

Any decreases in expected cash flows after the acquisition date and subsequent measurement periods are recognized by recording a provision for loan losses. See Acquired Impaired Loans for further discussion.

Premises and Equipment

Land, buildings, leasehold improvements and equipment are stated at cost less accumulated depreciation and amortization. Buildings and equipment are depreciated over their estimated useful lives using the straight-line method. Leasehold improvements are amortized over the shorter of their useful lives or lease terms. Gains or losses on dispositions are reflected in current operations. Expenditures for improvements and major renewals are capitalized, and ordinary maintenance, repairs and small purchases are charged to operating expenses.

Software

Capitalized software is stated at cost, less accumulated amortization. Amortization is computed on a straight-line basis and charged to expense over the estimated useful life of the software which is generally three years. Capitalized software is included in Premises and equipment, net in the Consolidated Balance Sheets.

Other Real Estate Owned

Other real estate owned ("OREO") is composed of real estate acquired in satisfaction of loans. Properties acquired by foreclosure or deed in lieu of foreclosure are transferred to OREO and are recorded at fair value less estimated costs to sell, at the date of transfer of the property. If the carrying value exceeds the fair value at the time of the transfer, the difference is charged to the allowance for loan and lease losses. The fair value of the OREO property is based upon current appraisal. Losses that result from the ongoing periodic valuation of these properties are charged to the net cost of operation of OREO in the period in which they are identified. Improvements to the OREO are capitalized and holding costs are charged to the net cost of operation of OREO as incurred.

Covered OREO—Covered OREO includes acquired OREO that is covered under a loss-sharing agreement with the FDIC. These assets were recorded at their fair value on acquisition date. Covered OREO is reported in Other real estate owned in the Consolidated Balance Sheets. Covered OREO is reported exclusive of expected reimbursement cash flows from the FDIC. Upon transferring covered loan collateral to covered OREO status, valuation adjustments arising from acquisition accounting on the related loan are also transferred to covered OREO. Valuation adjustments arising from acquisition accounting on covered OREO result in a reduction of the covered OREO carrying amount and a corresponding increase in the expected FDIC reimbursement, with the estimated net loss to the Company, if any, charged against earnings.

FDIC Loss-sharing Asset

The acquisition date fair value of the reimbursement the Company expected to receive from the FDIC under loss-sharing agreements was recorded in the FDIC loss-sharing asset on the Consolidated Balance Sheet. Subsequent to initial recognition, the FDIC loss-sharing 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 assets. Any decrease in expected cash flows due to an increase in expected credit losses will increase the FDIC loss-sharing asset and any increase in expected future cash flows due to a decrease in expected credit losses will decrease the FDIC loss-sharing asset. Increases and decreases to the FDIC loss-sharing asset are recorded as adjustments to noninterest income.

Goodwill and Intangibles

Net assets of companies acquired in purchase transactions are recorded at fair value at the date of acquisition. Identified intangibles are amortized on an accelerated basis over the period benefited. Goodwill is not amortized but is reviewed for potential impairment during the third quarter on an annual basis or, more frequently, if events or circumstances indicate a potential impairment, at the reporting unit level. A reporting unit is an operating segment or one level below an operating segment for which discrete financial information is available and regularly reviewed by management. If the fair value of the reporting unit, including goodwill, is determined to be less than the carrying amount of the reporting unit, a further test is required to measure the amount of impairment. If an impairment loss exists, the carrying amount of goodwill is adjusted to a new cost basis. Subsequent reversal of a previously recognized goodwill impairment loss is prohibited.

Intangible assets are evaluated for impairment if events and circumstances indicate a possible impairment. Such evaluation of other intangible assets is based on undiscounted cash flow projections. At December 31, 2011, intangible assets included on the consolidated balance sheets consist of a core deposit intangible amortized using an accelerated method with an original estimated life of approximately 10 years.

Income Taxes

The provision for income taxes includes current and deferred income tax expense on net income adjusted for permanent and temporary differences such as interest income on state and municipal securities and affordable housing credits. Deferred tax assets and liabilities are recognized for the expected future tax consequences of existing temporary differences between the financial reporting and tax reporting basis of assets and liabilities using enacted tax laws and rates. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. On a quarterly basis, management evaluates deferred tax assets to determine if these tax benefits are expected to be realized in future periods. This determination is based on facts and circumstances, including the Company's current and future tax outlook. To the extent a deferred tax asset is no longer considered "more likely than not" to be realized, a valuation allowance is established.

Advertising

Advertising costs are generally expensed as incurred.

Earnings per Common Share

The Company calculates earnings per common share ("EPS") using the two-class method in accordance with the Earnings per Share topic of the FASB ASC. The two-class method requires the Company to present EPS as if all of the earnings for the period are distributed to common shareholders and any participating securities, regardless of whether any actual dividends or distributions are made. Under authoritative guidance, all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends are considered participating securities. The Company grants restricted shares under a share-based compensation plan that qualifies as participating securities. Restricted shares issued under the Company's share-based compensation plan are entitled to dividends at the same rate as common stock.

Basic EPS are computed by dividing distributed and undistributed earnings available to common shareholders by the weighted average number of common shares outstanding for the period. Distributed and undistributed earnings available to common shareholders represent net income reduced by preferred stock dividends and distributed and undistributed earnings available to participating securities. Common shares outstanding include common stock and vested restricted stock awards. Diluted EPS reflect the assumed conversion of all potential dilutive securities.

Share-Based Payment

The Company accounts for stock options and stock awards in accordance with the Compensation—Stock Compensation topic of the FASB ASC. Authoritative guidance requires the Company to measure the cost of employee services received in exchange for an award of equity instruments, such as stock options or stock awards, based on the fair value of the award on the grant date. This cost must be recognized in the consolidated statements of income over the vesting period of the award.

The Company issues restricted stock awards which generally vest over a four- or five-year period during which time the holder receives dividends and has full voting rights. Restricted stock is valued at the closing price of the Company's stock on the date of an award.

Derivatives and Hedging Activities

In accordance with the Derivatives and Hedging topic of the FASB ASC, the Company recognizes derivatives as assets or liabilities on the consolidated balance sheets at their fair value. The treatment of changes in the fair value of derivatives depends on the character of the transaction.

The Company enters into derivative contracts to add stability to interest income and to manage its exposure to changes in interest rates. On the date the Company enters into a derivative contract, the derivative instrument is designated as: (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (a "fair value" hedge); (2) a hedge of the variability in expected future cash flows associated with an existing recognized asset or liability or a probable forecasted transaction (a "cash flow" hedge); or (3) held for other economic purposes (an "economic" hedge) and not formally designated as part of qualifying hedging relationships under authoritative guidance.

In a fair value hedge, changes in the fair value of the hedging derivative are recognized in earnings and offset by recognizing changes in the fair value of the hedged item attributable to the risk being hedged. To the extent that the hedge is ineffective, the changes in fair value will not offset and the difference is reflected in earnings.

In a cash flow hedge, the effective portion of the change in the fair value of the hedging derivative is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings during the same period in which the hedged item affects earnings. The change in fair value of any ineffective portion of the hedging derivative is recognized immediately in earnings. When a cash flow hedge is discontinued, the net derivative gain or loss continues to be reported in accumulated other comprehensive income unless it is probable that the forecasted transactions will not occur by the end of the originally specified time period. The net derivative gain or loss from a discontinued cash flow hedge is reclassified into earnings during the originally specified time period in which the forecasted transactions were to occur.

The Company formally documents the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategy before initiating a hedge. To qualify for hedge accounting, the derivatives and related hedged items must be designated as a hedge. For hedging relationships in which effectiveness is measured, the correlations between the hedging instruments and hedged items are assessed at inception of the hedge and on an ongoing basis, which includes determining whether the hedge relationship is expected to be highly effective in offsetting changes in fair value or cash flows of hedged items.

Derivatives used for other economic purposes are used as economic hedges in which the Company has not attempted to achieve the highly effective hedge accounting standard under authoritative guidance. The changes in fair value of these instruments are recognized immediately in earnings.

Accounting Pronouncements

During the year ended December 31, 2011, the following Accounting Standards Updates (“ASU”) were issued or became effective:

In December 2011, the FASB issued ASU 2011-11, *Disclosures about Offsetting Assets and Liabilities* (Topic 210). ASU 2011-11 requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. ASU 2011-11 is effective for interim and annual periods beginning on or after January 1, 2013 and should be applied retrospectively for all comparative periods presented. The Company is evaluating the impact this ASU will have on its financial condition and results of operations.

In September 2011, the FASB issued ASU 2011-08, *Testing Goodwill for Impairment* (Topic 350). ASU 2011-08 permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. ASU 2011-08 is effective for interim and annual periods beginning after December 15, 2011. Early adoption is permitted. This ASU did not have any impact on the Company's financial condition or results of operations.

In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income* (Topic 220). ASU 2011-05 attempts to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. The effective date of ASU 2011-05 will be the first interim or fiscal period beginning after December 15, 2011 and should be applied retrospectively. Early adoption is permitted. In December 2011, the FASB issued ASU 2011-11, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05.* ASU 2011-11 deferred the effective date for certain amendments related to the presentation of reclassification of items out of accumulated other comprehensive income. The Company adopted the remaining applicable amendments in ASU 2011-05 during the current period and the adoption of this ASU had no impact on the Company's financial condition or results of operations.

In May 2011, the FASB issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. Generally Accepted Accounting Principles* (“GAAP”) *and International Financial Reporting Standards* (“IFRS”) (Topic 820). ASU 2011-04 developed common requirements between GAAP and IFRS for measuring fair value and for disclosing information about fair value measurements. The effective date of ASU 2011-04 will be during interim or annual period beginning after December 15, 2011 and should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. The Company is evaluating the impact this ASU will have on its financial condition and results of operations.

In April 2011, the FASB issued Accounting Standards Update ("ASU") 2011-03, *Reconsideration of Effective Control for Repurchase Agreements* (Topic 860). ASU 2011-03 attempts to improve the accounting for repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before maturity. The effective date of ASU 2011-03 will be the first interim or annual period beginning after December 15, 2011 and should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. The Company is evaluating the impact this ASU will have on its financial condition and results of operations.

In April 2011, the Financial Accounting Standards Board issued ASU 2011-02, *A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring* (Topic 310). ASU 2011-02 clarifies the criteria for a restructuring to be classified as a Troubled Debt Restructuring ("TDR"). The Company adopted this ASU during the current period as well as the related disclosure requirements which were included in ASU 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* (Topic 310). Adoption of this ASU had no impact on the Company's financial condition or results of operations. See Note 5 for expanded disclosure requirements related to TDR.

2. Business Combinations

Bank of Whitman

On August 5, 2011 the Bank acquired certain assets and assumed certain liabilities of the Bank of Whitman from the FDIC in an FDIC-assisted transaction. The Bank and the FDIC entered into a modified whole bank purchase and assumption agreement without loss share.

The Bank of Whitman was a full service community bank headquartered in Colfax, Washington. We entered into this transaction to acquire nine branches total in Adams, Asotin, Grant, Spokane, Walla Walla, and Whitman counties to assist us with filling in our geographic footprint in eastern Washington. We believe participating with the FDIC in this assisted transaction was, from an economical standpoint, advantageous to expansion through de novo branching.

The assets acquired and liabilities assumed have been accounted for under the acquisition method of accounting (formerly the purchase method). The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the August 5, 2011 acquisition date. The application of the acquisition method of accounting resulted in the recognition of a bargain purchase gain, net of tax, of $1.8 million, which is included in the *Gain on bank acquisition* line item in the Consolidated Statements of Income, and a core deposit intangible of $3.9 million. The bargain purchase gain represents the excess of the estimated fair value of the assets acquired over the estimated fair value of the liabilities assumed and is influenced significantly by the FDIC-assisted transaction process. The core deposit intangible asset recognized is deductible for income tax purposes.

The operating results of the Company include the operating results produced by the acquired assets and assumed liabilities for the period August 6, 2011 to December 31, 2011. Due to the exclusion of the majority of the non-performing loans and 11 branch locations, as well as the significant amount of fair value adjustments, historical results of the Bank of Whitman are not meaningful to the Company's results and thus no proforma information is presented.

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

	August 5, 2011 *(in thousands)*
Assets	
Cash and due from banks	$ 52,072
Investment securities	16,298
Federal Reserve Bank and Federal Home Loan Bank stock	3,977
Acquired loans	200,041
Accrued interest receivable	1,975
Premises and equipment	86
FDIC receivable	156,710
Core deposit intangible	3,943
Other assets	2,447
Total assets acquired	$ 437,549
Liabilities	
Deposits	$ 401,127
Federal Home Loan Bank advances	32,949
Accrued interest payable	213
Deferred tax liability	1,034
Other liabilities	396
Total liabilities assumed	435,719
Net assets acquired (after tax gain)	$ 1,830

First Heritage Bank

On May 27, 2011 the Bank acquired certain assets and assumed certain liabilities of First Heritage Bank from the FDIC in an FDIC-assisted transaction. As part of the Purchase and Assumption Agreement, the Bank and the FDIC entered into loss-sharing agreements (each, a "loss-sharing agreement" and collectively, the "loss-sharing agreements"), whereby the FDIC will cover a substantial portion of any future losses on loans (and related unfunded commitments), OREO and certain accrued interest on loans for up to 90 days. We refer to the acquired loans and OREO subject to the loss-sharing agreements collectively as "covered assets." Under the terms of the loss-sharing agreements, the FDIC will absorb 80% of losses and share in 80% of loss recoveries. The loss-sharing provisions of the agreements for commercial and single family residential mortgage loans are in effect for five years and ten years, respectively, from the May 27, 2011 acquisition date and the loss recovery provisions for such loans are in effect for eight years and ten years, respectively, from the acquisition date.

First Heritage Bank was a full service community bank headquartered in Snohomish, Washington that operated five branch locations in King and Snohomish Counties. We entered into this transaction to assist us with filling in our geographic footprint between Seattle and Bellingham, Washington and to support our recently expanded Bellingham banking team. We believe participating with the FDIC in this assisted transaction was, from an economical standpoint, advantageous to expansion through de novo branching.

The assets acquired and liabilities assumed have been accounted for under the acquisition method of accounting (formerly the purchase method). The assets and liabilities, both tangible and intangible, were initially provisionally recorded at their estimated fair values as of the May 27, 2011 acquisition date pending completion of valuation adjustments related to acquired loans, OREO, the indemnification asset, and other assets. The initial amounts recorded for acquired loans, OREO, the indemnification asset, and other assets were $81.9 million, $8.3 million, $38.1 million, and $1.7 million, respectively. At December 31, 2011 these amounts were retrospectively adjusted resulting in a $369 thousand decrease to acquired loans, a $61 thousand decrease to OREO, a $427 thousand increase to the indemnification asset, and a $1.9 million increase to other assets. The application of the acquisition method of accounting resulted in the recognition of $4.0 million of goodwill and a core deposit intangible of $1.3 million. The goodwill represents the excess of the estimated fair value of the liabilities assumed over the estimated fair value of the assets acquired and is influenced significantly by the FDIC-assisted transaction process.

The operating results of the Company include the operating results produced by the acquired assets and assumed liabilities for the period May 28, 2011 to December 31, 2011. Due primarily to the significant amount of fair value adjustments and the FDIC loss-sharing agreements put in place, historical results of First Heritage Bank are not meaningful to the Company's results and thus no proforma information is presented.

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

	May 27, 2011
	(in thousands)
Assets	
Cash and due from banks	$ 4,688
Interest-earning deposits with banks	6,689
Investment securities	5,303
Federal Home Loan Bank stock	477
Acquired loans	81,488
Accrued interest receivable	476
Premises and equipment	5,339
FDIC receivable	4,751
Other real estate owned covered by loss sharing	8,225
Goodwill	4,023
Core deposit intangible	1,337
FDIC indemnification asset	38,531
Other assets	3,657
Total assets acquired	$ 164,984
Liabilities	
Deposits	$ 159,525
Federal Home Loan Bank advances	5,003
Accrued interest payable	421
Other liabilities	35
Total liabilities assumed	$ 164,984

Summit Bank

On May 20, 2011 the Bank acquired certain assets and assumed certain liabilities of Summit Bank from the Federal Deposit Insurance Corporation ("FDIC") in an FDIC-assisted transaction. As part of the Purchase and Assumption Agreement, the Bank and the FDIC entered into loss-sharing agreements (each, a "loss-sharing agreement" and collectively, the "loss-sharing agreements"), whereby the FDIC will cover a substantial portion of any future losses on loans (and related unfunded commitments), OREO and certain accrued interest on loans for up to 90 days. We refer to the acquired loans and OREO subject to the loss-sharing agreements collectively as "covered assets." Under the terms of the loss-sharing agreements, the FDIC will absorb 80% of losses and share in 80% of loss recoveries. The loss-sharing provisions of the agreements for commercial and single family residential mortgage loans are in effect for five years and ten years, respectively, from the May 20, 2011 acquisition date and the loss recovery provisions for such loans are in effect for eight years and ten years, respectively, from the acquisition date.

Summit Bank was a full service community bank headquartered in Burlington, Washington that operated three branch locations in Skagit County. We entered into this transaction to assist us with filling in our geographic footprint between Seattle and Bellingham, Washington and to support our recently expanded Bellingham banking team. We believe participating with the FDIC in this assisted transaction was, from an economical standpoint, advantageous to expansion through de novo branching.

The assets acquired and liabilities assumed have been accounted for under the acquisition method of accounting (formerly the purchase method). The assets and liabilities, both tangible and intangible, were initially provisionally recorded at their estimated fair values as of the May 20, 2011 acquisition date pending completion of valuation adjustments related to acquired loans, OREO, the indemnification asset, and other assets. The initial amounts recorded for acquired loans, OREO, the indemnification asset, and other assets were $71.4 million, $2.7 million, $27.2 million, and $786 thousand, respectively. At December 31, 2011 these amounts were retrospectively adjusted resulting in a $1.7 million decrease to acquired loans, a $509 thousand decrease to OREO, a $3.0 million increase to the indemnification asset, and a $1.0 million increase to other assets. The application of the acquisition method of accounting resulted in the recognition of $1.9 million of goodwill and a core deposit intangible of $509 thousand. The goodwill represents the excess of the estimated fair value of the liabilities assumed over the estimated fair value of the assets acquired and is influenced significantly by the FDIC-assisted transaction process.

The operating results of the Company include the operating results produced by the acquired assets and assumed liabilities for the period May 21, 2011 to December 31, 2011. Due primarily to the significant amount of fair value adjustments and the FDIC loss-sharing agreements put in place, historical results of Summit Bank are not meaningful to the Company's results and thus no pro forma information is presented.

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

	May 20, 2011
	(in thousands)
Assets	
Cash and due from banks	$ 1,837
Interest-earning deposits with banks and federal funds sold	14,198
Investment securities	871
Federal Home Loan Bank stock	406
Acquired loans	69,783
Accrued interest receivable	429
Premises and equipment	42
FDIC receivable	6,984
Other real estate owned covered by loss sharing	2,162
Goodwill	1,892
Core deposit intangible	509
FDIC indemnification asset	30,203
Other assets	1,813
Total assets acquired	$ 131,129
Liabilities	
Deposits	$ 123,279
Federal Home Loan Bank advances	7,772
Accrued interest payable	71
Other liabilities	7
Total liabilities assumed	$ 131,129

3. Cash and Cash Equivalents

The Company is required to maintain an average reserve balance with the Federal Reserve Bank or maintain such reserve balance in the form of cash. The average required reserve balance for the years ended December 31, 2011 and 2010 was approximately $27.0 million and $18.8 million, respectively, and was met by holding cash and maintaining an average balance with the Federal Reserve Bank.

4. Securities

At December 31, 2011 the Company's securities portfolio primarily consisted of securities issued by U.S. government agencies, U.S. government-sponsored enterprises and state and municipalities. All of the Company's mortgage-backed securities and collateralized mortgage obligations are issued by U.S. government agencies and U.S. government-sponsored enterprises and are implicitly guaranteed by the U.S. government. The Company did not have any other issuances in its portfolio which exceeded ten percent of shareholders' equity.

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
December 31, 2011		*(in thousands)*		
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	$ 678,631	$ 19,323	$ (2,000)	$ 695,954
State and municipal securities	263,075	22,746	(58)	285,763
U.S. government agency and government-sponsored enterprise securities	42,558	505	—	43,063
Other securities	3,296	64	(30)	3,330
Total	$ 987,560	$ 42,638	$ (2,088)	$ 1,028,110
December 31, 2010				
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	$ 491,530	$ 16,139	$ (1,027)	$ 506,642
State and municipal securities	249,117	7,247	(2,383)	253,981
Other securities	3,281	—	(38)	3,243
Total	$ 743,928	$ 23,386	$ (3,448)	$ 763,866

Gross realized losses amounted to $250 thousand, $148 thousand, and $10 thousand for the years ended December 31, 2011, 2010 and 2009, respectively. Gross realized gains amounted to $384 thousand, $206 thousand, and $1.1 million for the years ended December 31, 2011, 2010 and 2009, respectively. The following table summarizes the amortized cost and fair value of securities available for sale by contractual maturity groups:

	December 31, 2011	
	Amortized Cost	Fair Value
	(in thousands)	
Due within one year	$ 18,310	$ 18,610
Due after one year through five years	52,418	54,635
Due after five years through ten years	204,470	212,605
Due after ten years	709,066	738,930
Total investment securities available-for-sale	$ 984,264	$ 1,024,780

The following table summarizes, as of December 31, 2011 and 2010, the carrying value of securities pledged as collateral to secure public deposits, borrowings and other purposes as permitted or required by law:

	December 31, 2011	December 31, 2010
	(in thousands)	
To Washington and Oregon State to secure public deposits	$ 225,345	$ 153,328
To Federal Home Loan Bank to secure advances	91,097	110,780
To Federal Reserve Bank to secure borrowings	56,347	149,315
Other securities pledged	47,454	45,109
Total securities pledged as collateral	$ 420,243	$ 458,532

The following tables show 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 December 31, 2011 and 2010:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2011			*(in thousands)*			
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	$ 238,875	$ (1,999)	$ 196	$ (1)	$ 239,071	(2,000)
State and municipal securities	3,820	(24)	950	(34)	4,770	(58)
Other securities	—	—	970	(30)	970	(30)
Total	$ 242,695	$ (2,023)	$ 2,116	$ (65)	$ 244,811	$ (2,088)
December 31, 2010						
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	$ 86,529	$ (1,025)	$ 588	$ (2)	$ 87,117	$ (1,027)
State and municipal securities	74,755	(2,099)	2,792	(284)	77,547	(2,383)
Other securities	2,275	(6)	968	(32)	3,243	(38)
Total	$ 163,559	$ (3,130)	$ 4,348	$ (318)	$ 167,907	$ (3,448)

At December 31, 2011, there were eight state and municipal government securities in an unrealized loss position, of which one was 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 December 31, 2011 none of the rated obligations of state and local government entities held by the Company had an adverse 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 maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2011.

At December 31, 2011, there were 35 U.S. government agency and government-sponsored enterprise mortgage-backed securities & collateralized mortgage obligations securities in an unrealized loss position, of which two 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 maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2011.

At December 31, 2011, there was one other security, a mortgage-backed securities fund 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 December 31, 2011 as it has the intent and ability to hold the investment for sufficient time to allow for recovery in the market value.

Securities Deemed to be Other-Than-Temporarily Impaired

During 2011, the Company determined that one of its state and municipal securities with a par amount of $3.0 million was other-than-temporarily impaired due to it maturing during the period without repaying the principal amount. The defaulted security was issued in 2008 by a municipality located in the state of Washington. In accordance with ASC 320-10-35, the Company determined that the entire amount of the other-than-temporary impairment was credit-related as the present value of the expected future cash flows for the defaulted security was zero. The significant inputs used to determine the expected future cash flows were the default on principal repayment and there being no insurance on the defaulted security. The credit-related other-than-temporary impairment of $3.0 million was recorded in the consolidated statements of income.

5. Noncovered Loans

Noncovered loans include loans originated through our branch network and loan departments as well as acquired loans that are not subject to FDIC loss share, including the loans acquired in the Bank of Whitman transaction described in Note 2.

The following is an analysis of the noncovered loan portfolio by major types of loans (net of unearned income):

	December 31, 2011	December 31, 2010
	(in thousands)	
Noncovered loans:		
Commercial business	$ 1,031,721	$ 795,369
Real estate:		
One-to-four family residential	64,491	49,383
Commercial and multifamily residential	998,165	794,329
Total real estate	1,062,656	843,712
Real estate construction:		
One-to-four family residential	50,208	67,961
Commercial and multifamily residential	36,768	30,185
Total real estate construction	86,976	98,146
Consumer	183,235	182,017
Less: Net unearned income	(16,217)	(3,490)
Total noncovered loans, net of unearned income	2,348,371	1,915,754
Less: Allowance for loan and lease losses	(53,041)	(60,993)
Total noncovered loans, net	$ 2,295,330	$ 1,854,761
Loans held for sale	$ 2,148	$ 754

At December 31, 2011 and 2010, the Company had no loans to foreign domiciled businesses or foreign countries, or loans related to highly leveraged transactions. Substantially all of the Company's loans and unfunded commitments are geographically concentrated in its service areas within the states of Washington and Oregon.

The Company and its banking subsidiary have granted loans to officers and directors of the Company and related interests. These loans are made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than the normal risk of collectability. The aggregate dollar amount of these loans was $9.0 million and $12.9 million at December 31, 2011 and 2010, respectively. During 2011, advances on related party loans were $3.7 million and repayments totaled $7.6 million.

At December 31, 2011 and 2010, $462.0 million and $426.6 million of commercial and residential real estate loans were pledged as collateral on Federal Home Loan Bank advances.

Non-accrual loans totaled $53.5 million and $89.2 million at December 31, 2011 and 2010, respectively. The amount of interest income foregone as a result of these loans being placed on non-accrual status totaled $5.3 million for 2011, $6.4 million for 2010 and $7.6 million for 2009. There were no loans 90 days past due and still accruing interest as of December 31, 2011 and there was one loan totaling $1 thousand 90 days past due still accruing interest as of December 31, 2010. At December 31, 2011 and 2010, there were $2.0 million and $5.6 million, respectively, of commitments of additional funds for loans accounted for on a non-accrual basis.

The following is an analysis of noncovered, nonaccrual loans as of December 31, 2011 and 2010:

	December 31, 2011		December 31, 2010	
	Recorded Investment Nonaccrual Loans	Unpaid Principal Balance Nonaccrual Loans	Recorded Investment Nonaccrual Loans	Unpaid Principal Balance Nonaccrual Loans
	(in thousands)			
Commercial business				
Secured	$ 10,124	$ 16,820	$ 32,368	$ 44,316
Unsecured	119	719	—	327
Real estate:				
One-to-four family residential	2,696	3,011	2,999	3,353
Commercial and multifamily residential				
Commercial land	3,739	7,230	4,093	6,279
Income property multifamily	6,775	9,265	11,716	12,737
Owner occupied	8,971	10,932	7,407	8,990
Real estate construction:				
One-to-four family residential				
Land and acquisition	7,799	16,703	11,608	21,344
Residential construction	2,986	5,316	6,503	11,547
Commercial and multifamily residential				
Income property multifamily	7,067	14,912	7,585	12,916
Owner occupied	—	—	—	—
Consumer	3,207	3,960	5,022	5,192
Total	$ 53,483	$ 88,868	$ 89,301	$ 127,001

The following is an analysis of the recorded investment of the aged loan portfolio as of December 31, 2011 and 2010:

	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, 2011				*(in thousands)*			
Commercial business							
Secured	$ 966,563	$ 1,741	$ 2,989	$ —	$ 4,730	$ 10,124	$ 981,417
Unsecured	46,880	407	—	—	407	119	47,406
Real estate:							
One-to-four family residential	60,764	603	—	—	603	2,696	64,063
Commercial and multifamily residential							
Commercial land	46,161	781	—	—	781	3,739	50,681
Income property multifamily	524,225	2,872	121	—	2,993	6,775	533,993
Owner occupied	394,691	829	298	—	1,127	8,971	404,789
Real estate construction:							
One-to-four family residential							
Land and acquisition	17,249	153	—	—	153	7,799	25,201
Residential construction	19,555	1,390	—	—	1,390	2,986	23,931
Commercial and multifamily residential							
Income property multifamily	13,810	—	—	—	—	7,067	20,877
Owner occupied	12,790	—	—	—	—	—	12,790
Consumer	179,753	141	122	—	263	3,207	183,223
Total	$ 2,282,441	$ 8,917	$ 3,530	$ —	$ 12,447	$ 53,483	$ 2,348,371

	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, 2010				*(in thousands)*			
Commercial business							
Secured	$ 720,926	$ 919	$ 692	$ 1	$ 1,612	$ 31,919	$ 754,457
Unsecured	40,455	9	—	—	9	448	40,912
Real estate:							
One-to-four family residential	46,167	220	—	—	220	2,996	49,383
Commercial and multifamily residential							
Commercial land	18,979	—	1,752	—	1,752	4,091	24,822
Income property multifamily	426,320	1,208	121	—	1,329	10,745	438,394
Owner occupied	318,508	497	3,752	—	4,249	8,356	331,113
Real Estate Construction:							
One-to-four family residential							
Land and acquisition	24,883	214	205	—	419	11,604	36,906
Residential construction	24,655	—	—	—	—	6,400	31,055
Commercial and multifamily residential							
Income property multifamily	10,666	—	—	—	—	7,584	18,250
Owner occupied	11,935	—	—	—	—	—	11,935
Consumer	176,005	397	595	—	992	5,020	182,017
Total	$ 1,819,499	$ 3,464	$ 7,117	$ 1	$ 10,582	$ 89,163	$ 1,919,244

The following is an analysis of impaired loans (see Note 1) as of December 31, 2011 and 2010:

			Impaired Loans With Recorded Allowance			Impaired Loans Without Recorded Allowance			
	Recorded Investment of Loans Collectively Measured for Contingency Provision	Recorded Investment of Loans Individually Measured for Specific Impairment	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Average Recorded Investment Impaired Loans	Interest Recognized on Impaired Loans
December 31, 2011					*(in thousands)*				
Commercial business:									
Secured	$ 972,531	$ 8,886	$ 2,926	$ 2,927	$ 954	$ 5,960	$ 12,109	$ 15,578	$ 511
Unsecured	47,309	97	97	97	97	—	—	138	—
Real estate:									
One-to-four family residential	61,584	2,479	582	590	96	1,897	2,136	2,494	—
Commercial and multifamily residential:									
Commercial land	46,882	3,799	—	—	—	3,799	6,773	4,263	—
Income property multifamily	527,362	6,631	687	759	63	5,944	7,700	8,881	59
Owner occupied	390,225	14,564	274	274	185	14,290	18,524	15,254	18
Real estate construction:									
One-to-four family residential:									
Land and acquisition	17,813	7,388	450	948	—	6,938	11,978	8,972	116
Residential construction	18,847	5,084	59	1,509	59	5,025	5,116	4,535	—
Commercial and multifamily residential:									
Income property multifamily	13,810	7,067	—	—	—	7,067	14,947	7,065	—
Owner occupied	12,790	—	—	—	—	—	—	—	—
Consumer	180,930	2,293	151	225	30	2,142	2,639	3,880	15
Total	$ 2,290,083	$ 58,288	$ 5,226	$ 7,329	$ 1,484	$ 53,062	$ 81,922	$ 71,060	$ 719

			Impaired Loans With Recorded Allowance			Impaired Loans Without Recorded Allowance	
	Recorded Investment of Loans Collectively Measured for Contingency Provision	Recorded Investment of Loans Individually Measured for Specific Impairment	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance
December 31, 2010				*(in thousands)*			
Commercial business:							
Secured	$ 724,665	$ 29,793	$ 2,717	$ 2,758	$ 600	$ 27,081	$ 26,913
Unsecured	40,808	104	75	75	75	29	30
Real estate:							
One-to-four family residential	46,728	2,655	—	—	—	2,658	2,949
Commercial and multifamily residential:							
Commercial land	20,959	3,863	3,062	5,225	—	804	826
Income property multifamily	427,799	10,595	3,094	3,139	59	10,292	12,253
Owner occupied	317,010	14,103	—	—	—	14,152	17,099
Real estate construction:							
One-to-four family residential							
Land and acquisition	25,362	11,543	533	549	3	11,013	20,718
Residential construction	24,655	6,400	915	1,723	62	5,585	9,824
Commercial and multifamily residential:							
Income property multifamily	10,666	7,584	6,792	10,515	175	792	2,401
Owner occupied	11,935	—	—	—	—	—	—
Consumer	177,484	4,533	—	—	—	4,533	4,691
Total	$ 1,828,071	$ 91,173	$ 17,188	$ 23,984	$ 974	$ 76,939	$ 97,703

The following is an analysis of loans classified as Troubled Debt Restructurings ("TDR") for the year ended December 31, 2011:

	Number of TDR Modifications	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(dollars in thousands)	
Commercial business:			
Secured	6	$ 659	$ 659
Real estate: One-to-four family residential	1	369	369
Real estate: Commercial and multifamily residential:			
Income property multifamily	2	1,280	1,280
Real estate construction: One-to-four family residential:			
Residential construction	1	36	36
Total	10	$ 2,344	$ 2,344

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 Company had commitments to lend $535 thousand of additional funds on loans classified as TDR as of December 31, 2011. The TDR modifications or concessions are made to increase the likelihood these borrowers with financial difficulties will be able to satisfy their debt obligations as amended. Credit losses for loans classified as TDR are measured the same as impaired loans. For impaired loans, an allowance is established when the collateral value (or discounted cash flows or observable market price) of the impaired loan is lower than the recorded investment of that loan. The Company did not have any loans modified as TDR that have defaulted during the year ended December 31, 2011.

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

We maintain an allowance for loan and lease losses (“ALLL”) to absorb losses inherent in the loan portfolio. The size of the ALLL is determined through quarterly assessments of the probable estimated losses in the loan portfolio. Our methodology for making such assessments and determining the adequacy of the ALLL includes the following key elements:

1. General valuation allowance consistent with the Contingencies topic of the FASB ASC.
2. Classified loss reserves on specific relationships. Specific allowances for identified problem loans are determined in accordance with the Receivables topic of the FASB ASC.
3. The unallocated allowance provides for other factors inherent in our loan portfolio that may not have been contemplated in the general and specific components of the allowance. This unallocated amount generally comprises less than 5% of the allowance. The unallocated amount is reviewed quarterly based on trends in credit losses, the results of credit reviews and overall economic trends.

The general valuation allowance is systematically calculated quarterly using quantitative and qualitative information about specific loan classes. The minimum required level an entity develops a methodology to determine its allowance for loan and lease losses is by general categories of loans, such as commercial business, real estate, and consumer. However, the Company’s methodology in determining its allowance for loan and lease losses is prepared in a more detailed manner at the loan class level, utilizing specific categories such as commercial business secured, commercial business unsecured, real estate commercial land, and real estate income property multifamily. The quantitative information uses historical losses from a specific loan class and incorporates the loan’s risk rating migration from origination to the point of loss.

A loan's risk rating is primarily determined based upon the borrower's ability to fulfill its debt obligation from a cash flow perspective. In the event there is financial deterioration of the borrower, the borrower's other sources of income or repayment are also considered, including recent appraisal values for collateral dependent loans. The qualitative information takes into account general economic and business conditions affecting our market place, seasoning of the loan portfolio, duration of the business cycle, etc. to ensure our methodologies reflect the current economic environment and other factors as using historical loss information exclusively may not give an accurate estimate of inherent losses within the Company's loan portfolio.

When a loan is deemed to be impaired, the Company has to determine if a specific valuation allowance is required for that loan. The specific valuation allowance is a reserve, calculated at the individual loan level, for each loan determined to be both, impaired and containing a value less than its recorded investment. The Company measures the impairment based on 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. The specific reserve for each loan is equal to the difference between the recorded investment in the loan and its determined impairment value.

The ALLL is increased by provisions for loan and lease losses ("provision") charged to expense, and is reduced by loans charged off, net of recoveries. While the Company's management believes the best information available is used to determine the ALLL, changes in market conditions could result in adjustments to the ALLL, affecting net income, if circumstances differ from the assumptions used in determining the ALLL.

We have used the same methodology for ALLL calculations during 2011, 2010 and 2009. Adjustments to the percentages of the ALLL allocated to loan categories are made based on trends with respect to delinquencies and problem loans within each class of loans. The Company reviews the ALLL quantitative and qualitative methodology on a quarterly basis and makes adjustments when appropriate. The Company continues to strive towards maintaining a conservative approach to credit quality and will continue to prudently adjust our ALLL as necessary in order to maintain adequate reserves. The Company carefully monitors the loan portfolio and continues to emphasize the importance of credit quality while continuously strengthening loan monitoring systems and controls.

The following table shows a detailed analysis of the allowance for loan and lease losses for noncovered loans for the years ended December 31, 2011 and 2010:

	Beginning Balance	Charge-offs	Recoveries	Provision (Recovery)	Ending Balance	Specific Reserve	General Allocation
Year ended December 31, 2011				*(in thousands)*			
Commercial business:							
Secured	$ 21,811	$ (7,270)	$ 1,154	$ 9,050	$ 24,745	$ 954	$ 23,791
Unsecured	738	(639)	1,444	(854)	689	97	592
Real estate:							
One-to-four family residential	1,100	(717)	80	191	654	96	558
Commercial and multifamily residential:							
Commercial land	634	(660)	12	502	488	—	488
Income property multifamily	15,210	(1,407)	414	(4,666)	9,551	63	9,488
Owner occupied	9,692	(1,620)	33	1,501	9,606	185	9,421
Real estate construction:							
One-to-four family residential:							
Land and acquisition	3,769	(1,419)	1,978	(1,997)	2,331	—	2,331
Residential construction	2,292	(1,068)	113	(473)	864	59	805
Commercial and multifamily residential:							
Income property multifamily	274	(2,213)	—	2,604	665	—	665
Owner occupied	70	—	—	(35)	35	—	35
Consumer	2,120	(3,918)	351	4,166	2,719	30	2,689
Unallocated	3,283	—	—	(2,589)	694	—	694
Total	$ 60,993	$ (20,931)	$ 5,579	$ 7,400	$ 53,041	$ 1,484	$ 51,557

	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance	Specific Reserve	General Allocation
Year ended December 31, 2010				*(in thousands)*			
Commercial business:							
Secured	$ 20,409	$ (12,779)	$ 1,218	$ 12,963	$ 21,811	$ 600	$ 21,211
Unsecured	1,560	(2,100)	1,171	107	738	75	663
Real estate:							
One-to-four family residential	1,072	(406)	15	419	1,100	—	1,100
Commercial and multifamily residential:							
Commercial land	664	(2,165)	—	2,135	634	—	634
Income property multifamily	9,860	(1,969)	124	7,195	15,210	59	15,151
Owner occupied	6,690	(2,039)	2	5,039	9,692	—	9,692
Real estate construction:							
One-to-four family residential:							
Land and acquisition	5,711	(8,409)	1,199	5,268	3,769	3	3,766
Residential construction	2,304	(2,447)	474	1,961	2,292	62	2,230
Commercial and multifamily residential:							
Income property multifamily	2,453	(3,107)	775	153	274	175	99
Owner occupied	36	—	—	34	70	—	70
Consumer	1,282	(3,982)	649	4,171	2,120	—	2,120
Unallocated	1,437	—	—	1,846	3,283	—	3,283
Total	$ 53,478	$ (39,403)	$ 5,627	$ 41,291	$ 60,993	$ 974	$ 60,019

The 2009 changes in the ALLL for noncovered loans are summarized as follows:

	Years Ended December 31,
	2009
	(in thousands)
Balance at beginning of year	$ 42,747
Loans charged off	(54,521)
Recoveries	1,752
Net chargeoffs	(52,769)
Provision charged to expense	63,500
Balance at end of year	$ 53,478

Changes in the allowance for unfunded commitments and letters of credit are summarized as follows:

	Years Ended December 31,		
	2011	2010	2009
		(in thousands)	
Beginning balance	$ 1,165	$ 775	$ 500
Net changes in the allowance for unfunded commitments and letters of credit	370	390	275
Ending balance	$ 1,535	$ 1,165	$ 775

Risk Elements

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

The monitoring process for the loan portfolio includes periodic reviews of individual loans with risk ratings assigned to each loan. Based on the analysis, loans are given a risk rating of 1-10 based on the following criteria:

- ratings of 1-3 indicate minimal to low credit risk,
- ratings of 4-5 indicate an average credit risk with adequate repayment capacity when prolonged periods of adversity do not exist,
- rating of 6 indicates higher than average risk requiring greater than routine attention by bank personnel due to conditions affecting the borrower, the borrower's industry or economic environment,
- rating of 7 indicates 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,
- rating of 8 indicates a loss is possible if loan weaknesses are not corrected,
- rating of 9 indicates loss is highly probable; however, the amount of loss has not yet been determined,
- and a rating of 10 indicates the loan is uncollectable, and when identified is charged-off.

Loans with a risk rating of 1-6 are considered Pass loans and loans with risk ratings of 7, 8, 9 and 10 are considered Special Mention, Substandard, Doubtful and Loss, respectively. Loans with a risk rating of Substandard or worse are reported as classified loans in our allowance for loan and lease losses 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. 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 non-accrual 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.

The following is an analysis of the credit quality of our noncovered loan portfolio as of December 31, 2011 and 2010:

	December 31, 2011		December 31, 2010	
	Weighted-Average Risk Rating	Recorded Investment Noncovered Loans	Weighted-Average Risk Rating	Recorded Investment Noncovered Loans
	(dollars in thousands)			
Commercial business:				
Secured	4.89	$ 981,417	4.96	$ 757,372
Unsecured	4.25	47,406	4.23	41,175
Real estate:				
One-to-four family residential	4.81	64,063	4.96	49,436
Commercial and multifamily residential:				
Commercial land	5.22	50,681	5.75	24,956
Income property multifamily	4.94	533,993	5.07	406,711
Owner occupied	5.05	404,789	5.12	366,284
Real estate construction:				
One-to-four family residential:				
Land and acquisition	6.43	25,201	6.79	37,054
Residential construction	5.94	23,931	6.63	31,293
Commercial and multifamily residential:				
Income property multifamily	5.49	20,877	6.38	18,296
Owner occupied	4.55	12,790	4.93	11,990
Consumer	4.24	183,223	4.31	182,624
Total recorded investment of noncovered loans		$ 2,348,371		$ 1,927,191

7. Noncovered Other Real Estate Owned

The following table sets forth activity in noncovered OREO for the period:

	December 31, 2011	December 31, 2010
	(in thousands)	
Noncovered OREO:		
Balance, beginning of period	$ 30,991	$ 19,037
Transfers in, net of write-downs ($315 and $193, respectively)	8,834	19,006
OREO improvements	730	1,635
Additional OREO write-downs	(5,641)	(3,962)
Proceeds from sale of OREO property	(12,278)	(4,800)
Gain (loss) on sale of OREO	257	75
Total noncovered OREO, end of period	$ 22,893	$ 30,991

8. Covered Assets and FDIC Loss-sharing Asset

Covered Assets

Covered assets consist of loans and OREO acquired in FDIC-assisted acquisitions during 2010 and 2011, for which the Bank entered into loss-sharing agreements, whereby the FDIC will cover a substantial portion of any future losses on loans (and related unfunded loan commitments), OREO and certain accrued interest on loans. 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 and, with respect to loss-sharing agreements for two acquisitions completed in 2010, will absorb 95% of losses and share in 95% of loss recoveries thereafter. The loss-sharing provisions of the agreements for commercial and single-family mortgage loans are in effect for five and ten years, respectively, from the acquisition dates and the loss recovery provisions are in effect for eight and ten years, respectively, from the acquisition dates.

Ten years and forty-five days after the acquisition dates, the Bank shall pay to the FDIC a clawback in the event the losses from the acquisitions fail to reach stated levels. This clawback shall be in the amount of 50% of the excess, if any, of 20% of the stated threshold amounts, less the sum of 25% of the asset premium (discount), 20% or 25% of the cumulative loss-sharing payments (depending on the particular agreement), and the cumulative servicing amount. As of December 31, 2011 and 2010, the net present value of the Bank's estimated clawback liability is $3.7 million and $0, respectively, which is included in other liabilities on the Consolidated Balance Sheet.

The following is an analysis of our covered loans, net of related allowance for losses on covered loans as of December 31, 2011 and 2010:

	December 31, 2011			December 31, 2010		
	Covered Loans	Weighted-Average Risk Rating	Allowance for Loan Losses	Covered Loans	Weighted-Average Risk Rating	Allowance for Loan Losses
			(dollars in thousands)			
Commercial business	$ 195,737	6.05	$ 977	$ 165,255	5.74	$ 2,903
Real estate:						
One-to-four family residential	79,328	5.32	678	68,700	4.77	1,013
Commercial and multifamily residential	311,308	5.65	2,683	341,063	5.70	821
Total real estate	390,636		3,361	409,763		1,834
Real estate construction:						
One-to-four family residential	54,402	7.32	136	39,754	7.29	98
Commercial and multifamily residential	23,661	7.32	86	41,624	6.79	469
Total real estate construction	78,063		222	81,378		567
Consumer	56,877	4.84	384	58,337	4.49	751
Subtotal of covered loans	721,313		$ 4,944	714,733		$ 6,055
Less:						
Valuation discount resulting from acquisition accounting	184,440			191,617		
Allowance for loan losses	4,944			6,055		
Covered loans, net of valuation discounts and allowance for loan losses	$ 531,929			$ 517,061		

Certain acquired 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. Acquired loans that have common risk characteristics are aggregated into pools. The Company re-measures contractual and expected cash flows, at the pool-level, on a quarterly basis.

Contractual cash flows are calculated based upon the loan pool terms after applying a prepayment factor. Calculation of the applied prepayment factor for contractual cash flows is the same as described below for expected cash flows.

Inputs to the determination of expected cash flows include cumulative default and prepayment data as well as loss severity and recovery lag information. Cumulative default and prepayment data are calculated via a transition matrix. 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 re-measurement date. Loss severity factors are based upon actual charge-off data within the loan pools and recovery lags are based upon experience with the collateral within the loan pools.

Acquired loans are also subject to the Company's internal and external credit review and are risk rated using the same criteria as loans originated by the Company. However, risk ratings are not a clear indicator of losses on acquired loans as a majority of the losses are recoverable from the FDIC under the loss-sharing agreements.

Draws on acquired loans, advanced subsequent to the loan acquisition date, are accounted for under ASC 450-20 and those amounts are also subject to the Company's internal and external credit review. An allowance for loan losses is estimated in a similar manner as the originated loan portfolio, and a provision for loan losses is charged to earnings as necessary.

The excess of cash flows expected to be collected over the initial fair value of acquired 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 table shows the changes in accretable yield for acquired loans for the years ended December 31, 2011 and 2010:

	Years Ended December 31,	
	2011	2010
	(in thousands)	
Balance at beginning of period	$ 256,572	$ —
Additions resulting from acquisitions	59,810	122,705
Accretion	(90,378)	(45,956)
Disposals	(31,483)	(9,014)
Reclassifications from nonaccretable difference	65,148	188,837
Balance at end of period	$ 259,669	$ 256,572

During the year ended December 31, 2011, the Company recorded a provision recapture for losses on covered loans of $1.6 million. Of this amount, $589 thousand was impairment recapture calculated in accordance with ASC 310-30 and $1.0 million was a provision recapture to adjust the allowance for loss calculated under ASC 450-20 for draws on acquired loans. The impact to earnings of the $1.6 million of provision recapture for covered loans was partially offset through noninterest income by a decrease in the FDIC loss-sharing asset. For the year ended December 31, 2010, the Company recorded a provision for loan losses of $6.1 million which was partially offset by an increase to the FDIC loss-sharing asset. The Company did not have covered loans in 2009.

The 2011 and 2010 changes in the ALLL for covered loans are summarized as follows:

	Years Ended December 31,	
	2011	2010
	(in thousands)	
Balance at beginning of year	$ 6,055	$ —
Loans charged off	(1,488)	—
Recoveries	2,025	—
Provision charged to expense	(1,648)	6,055
Balance at end of year	$ 4,944	$ 6,055

The following table shows loans acquired during 2011 and 2010 for which it was probable at acquisition that all contractually required payments would not be collected:

	First Heritage Bank	Summit Bank	American Marine Bank	Columbia River Bank
	May 27, 2011	May 20, 2011	January 29, 2010	January 22, 2010
		(in thousands)		
Contractually required payments of interest and principal	$ 151,611	$ 127,823	$ 263,371	$ 799,244
Nonaccretable difference	(34,052)	(34,301)	(65,470)	(217,856)
Cash flows expected to be collected(1)	117,559	93,522	197,901	581,388
Accretable yield	(36,071)	(23,739)	(21,623)	(101,082)
Carrying value of acquired loans	$ 81,488	$ 69,783	$ 176,278	$ 480,306

(1) Represents undiscounted expected principal and interest cash flows

The following table sets forth activity in covered OREO at carrying value for the years ended December 31, 2011 and 2010:

	December 31, 2011	December 31, 2010
	(in thousands)	
Covered OREO:		
Balance, beginning of period	$ 14,443	$ —
Established through acquisitions	10,387	17,394
Transfers in, net of write-downs ($2,564 and $2,087, respectively)	15,522	10,858
OREO improvements	5	85
Additional OREO write-downs	(666)	(1,182)
Proceeds from sale of OREO property	(20,619)	(17,890)
Gain on sale of OREO	9,054	5,178
Total covered OREO, end of period	$ 28,126	$ 14,443

The covered OREO is covered by loss-sharing agreements with the FDIC in which the FDIC will assume 80% of additional write-downs and losses on covered OREO sales, or 95%, if applicable, of additional write-downs and losses on covered OREO sales if the minimum loss share thresholds are met.

FDIC Loss-sharing Asset

At December 31, 2011 and 2010, the FDIC loss-sharing asset is comprised of an FDIC indemnification asset of $157.5 million and $170.7 million, respectively, and an FDIC receivable of $17.6 million and $35.3 million, respectively. The indemnification represents the cash flows the Company expects to collect from the FDIC under the loss-sharing agreements and the FDIC receivable represents the reimbursable amounts from the FDIC that have not yet been received.

For covered loans, the Company re-measures contractual and expected cash flows on a quarterly basis. When the quarterly re-measurement 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, 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 re-measurement 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, 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 loan pool.

The following table shows a detailed analysis of the FDIC loss-sharing asset for the years ending December 31, 2011 and 2010:

	2011	2010
	(in thousands)	
Balance at beginning of period	$ 205,991	$ —
Adjustments not reflected in income:		
Established through acquisitions	68,734	210,405
Cash received from the FDIC	(54,200)	(11,198)
FDIC reimbursable losses, net	4,042	1,876
Adjustments reflected in income:		
Amortization, net	(46,049)	1,139
Impairment	(1,318)	4,844
Sale of other real estate	(4,346)	(1,148)
Other	2,217	73
Balance at end of period	$ 175,071	$ 205,991

9. Premises and Equipment

Land, buildings, and furniture and equipment, less accumulated depreciation and amortization, were as follows:

	December 31,	
	2011	2010
	(in thousands)	
Land	$ 34,240	$ 29,368
Buildings	78,165	67,373
Leasehold improvements	2,735	2,918
Furniture and equipment	23,097	21,801
Vehicles	428	352
Computer software	12,043	10,070
Total Cost	150,708	131,882
Less accumulated depreciation and amortization	(42,809)	(38,774)
Total	$ 107,899	$ 93,108

Total depreciation and amortization expense was $5.7 million, $5.2 million, and $4.7 million, for the years ended December 31, 2011, 2010, and 2009, respectively.

10. Goodwill and 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 annually during the third quarter and between annual tests in certain circumstances such as material adverse changes in legal, business, regulatory and economic factors. An impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value. The Company completed its annual analysis of goodwill during the third quarter of 2011 and determined the fair value of the Company's single reporting unit was greater than its carrying amount.

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 approximately 10 years.

The following table sets forth activity for goodwill and intangible assets for the period:

	Years Ended December 31,		
	2011	2010	2009
		(in thousands)	
Total goodwill, beginning of period	$ 109,639	$ 95,519	$ 95,519
Established through acquisitions	5,915	14,120	—
Total goodwill, end of period	115,554	109,639	95,519
Gross core deposit intangible balance, beginning of period	26,652	8,896	8,896
Accumulated amortization, beginning of period	(7,956)	(4,033)	(2,988)
Core deposit intangible, net, beginning of period	18,696	4,863	5,908
Established through acquisitions	5,789	17,755	—
CDI current period amortization	(4,319)	(3,922)	(1,045)
Total core deposit intangible, end of period	20,166	18,696	4,863
Total goodwill and intangible assets, end of period	$ 135,720	$ 128,335	$ 100,382

The following table provides the estimated future amortization expense of core deposit intangibles for the succeeding five years:

Years Ending December 31,	*(in thousands)*
2012	$ 4,445
2013	3,964
2014	3,397
2015	2,645
2016	2,184

11. Deposits

Year-end deposits are summarized in the following table:

	December 31,	
	2011	2010
	(in thousands)	
Core deposits:		
Demand and other noninterest-bearing	$ 1,156,610	$ 895,671
Interest-bearing demand	735,340	672,307
Money market	1,031,664	920,831
Savings	283,416	210,995
Certificates of deposit less than $100,000	303,405	298,678
Total core deposits	3,510,435	2,998,482
Certificates of deposit greater than $100,000	262,731	266,708
Certificates of deposit insured by CDARS®	42,080	38,312
Wholesale certificates of deposit	—	23,155
Subtotal	3,815,246	3,326,657
Valuation adjustment resulting from acquisition accounting	283	612
Total deposits	$ 3,815,529	$ 3,327,269

Overdrafts of $10.1 million and $409 thousand were reclassified as loan balances at December 31, 2011 and 2010, respectively.

The following table shows the amount and maturity of time deposits that had balances of $100,000 or greater:

Years Ending December 31,	*(in thousands)*
2012	$ 233,819
2013	37,918
2014	10,112
2015	13,042
2016	7,777
Thereafter	327
Total	$ 302,995

12. Federal Home Loan Bank and Federal Reserve Bank Borrowings

FEDERAL HOME LOAN BANK

The Company has entered into borrowing arrangements with the FHLB of Seattle to borrow funds under a short-term floating rate cash management advance program and fixed-term loan agreements. All borrowings are secured by stock of the FHLB, certain pledged available for sale investment securities and a blanket pledge of qualifying loans receivable. At December 31, 2011 FHLB advances were scheduled to mature as follows:

	Federal Home Loan Bank Advances Fixed rate advances	
	Wtd Avg Rate	**Amount**
	(dollars in thousands)	
Within 1 year	4.22%	$ 8,000
Over 1 through 5 years	2.54%	103,694
Over 5 through 10 years	5.30%	1,416
Due after 10 years	5.37%	5,000
Total		118,110
Valuation adjustment from acquisition accounting		899
Total		$ 119,009

The maximum, average outstanding and year-end balances and average interest rates on advances from the FHLB were as follows for the years ended December 31, 2011, 2010 and 2009:

	Years ended December 31,		
	2011	**2010**	**2009**
		(dollars in thousands)	
Balance at end of year	$ 119,009	$ 119,405	$ 100,000
Average balance during the year	$ 120,419	$ 123,685	$ 111,211
Maximum month-end balance during the year	$ 127,426	$ 154,916	$ 178,000
Weighted average rate during the year	2.76%	2.75%	2.38%
Weighted average rate at December 31	2.81%	2.81%	2.49%

FHLB advances are collateralized by the following:

	December 31,	
	2011	**2010**
	(in thousands)	
Fair value of investment securities	$ 77,414	$ 96,496
Recorded value of blanket pledge on loans receivable	462,040	426,555
Total	$ 539,454	$ 523,051
FHLB Borrowing Capacity	$ 419,115	$ 402,048

FEDERAL RESERVE BANK

The Company is also eligible to borrow under the Federal Reserve Bank's primary credit program, including the Term Auction Facility ("TAF") auctions. All borrowings are secured by certain pledged available for sale investment securities.

The maximum, average outstanding and year-end balances and average interest rates on advances from the Federal Reserve Bank were as follows for the years ended December 31, 2011, 2010 and 2009:

	Years ended December 31,		
	2011	2010	2009
		(dollars in thousands)	
Balance at end of year	$ —	$ —	$ —
Average balance during the year	$ —	$ —	$ 38,205
Maximum month-end balance during the year	$ —	$ —	$ 100,000
Weighted average rate during the year	—%	—%	0.30%
Weighted average rate at December 31	N/A	N/A	N/A

N/A Not applicable

Federal Reserve Bank advances are collateralized by the following:

	December 31,	
	2011	2010
	(in thousands)	
Fair value of investment securities	$ 53,122	$ 135,966
Recorded value of pledged commercial loans	351,322	313,452
Total	$ 404,444	$ 449,418
Federal Reserve Bank borrowing capacity	$ 404,444	$ 449,418

13. Other Borrowings

Securities Sold Under Agreements to Repurchase

The Company has entered into wholesale repurchase agreements with certain brokers. At December 31, 2011, the Company held $25.0 million in wholesale repurchase agreements with an interest rate of 1.88%. Securities available for sale with a carrying amount of $28.9 million were pledged as collateral for the repurchase agreement borrowings. The broker holds the securities while the Company continues to receive the principal and interest payments from the securities. Upon maturity of the agreement, the pledged securities will be returned to the Company.

14. Long-term Subordinated Debt

In July 2011, the Company elected to redeem the junior subordinated debentures and terminated Columbia (WA) Statutory Trust I and Town Center Bancorp Trust I with a cash payment of $22.9 million and $3.1 million, respectively which consisted of principal, interest and fees. The trust preferred obligations were classified as long-term subordinated debt on the Company's balance sheet and the decision to redeem was based upon the Company's cash and capital positions, rates on the debentures and the absence of a prepayment penalty.

15. Derivatives and Hedging Activities

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 December 31, 2011 and 2010 were $160.3 million and $141.3 million, respectively.

The following table presents the fair value and balance sheet classification of derivative instruments at December 31, 2011 and 2010:

	Asset Derivatives				Liability Derivatives			
	2011		2010		2011		2010	
(in thousands)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives not designated as hedging instruments								
Interest rate contracts	Other assets	$ 16,302	Other assets	$ 10,167	Other liabilities	$ 16,302	Other liabilities	$ 10,167

Termination of Hedging Activities: On January 7, 2008, the Company discontinued its three prime rate floor derivative instruments that were previously utilized to hedge the variable cash flows associated with existing variable-rate loan assets based on the prime rate. The Company received $8.1 million as a result of the termination transaction resulting in a net derivative gain of $6.2 million. The interest rate floors had an original maturity date of April 4, 2011. In accordance with the Derivatives and Hedging topic of the FASB ASC, the net derivative gain related to a discontinued cash flow hedge was reported in accumulated other comprehensive income and is reclassified into earnings in the same periods during which the originally hedged forecasted transactions affect earnings. For the year ended December 31, 2011, $143 thousand of the net derivative gain was reclassified into earnings. At December 31, 2011, there are no remaining amounts to be reclassified into earnings related to these discontinued derivative instruments.

16. Employee Benefit Plans

401(k) Plan

The Company maintains defined contribution and profit sharing plans in conformity with the provisions of section 401(k) of the Internal Revenue Code at Columbia Bank. The Columbia Bank 401(k) and Profit Sharing Plan (the "401(k) Plan"), permits eligible Columbia Bank employees, those who are at least 18 years of age and have completed six months of service, to contribute up to 75% of their eligible compensation to the 401(k) Plan. On a per pay period basis the Company is required to match 50% of employee contributions up to 3% of each employee's eligible compensation. Additionally, as determined annually by the Board of Directors of the Company, the 401(k) Plan provides for a non-matching discretionary profit sharing contribution. The Company contributed $1.2 million during 2011, $866 thousand during 2010, and $748 thousand during 2009, in matching funds to the 401(k) Plan. The Company's discretionary profit sharing contributions were $2.6 million during 2011, $1.2 million during 2010 and $0 during 2009.

Employee Stock Purchase Plan

The Company maintains an "Employee Stock Purchase Plan" (the "ESP Plan") in which substantially all employees of the Company are eligible to participate. The ESP Plan provides participants the opportunity to purchase common stock of the Company at a discounted price. Under the ESP Plan, participants can purchase common stock of the Company for 90% of the lowest price on either the first or last day in each of two six month look-back periods. The look-back periods are January 1st through June 30th and July 1st through December 31st of each calendar year. The 10% discount is recognized by the Company as compensation expense and does not have a material impact on net income or earnings per common share. Participants of the ESP Plan purchased 39,989 shares for $690 thousand in 2011, 35,806 shares for $614 thousand in 2010 and 55,443 shares for $578 thousand in 2009. At December 31, 2011 there were 647,903 shares available for purchase under the ESP plan.

Supplemental Compensation Plan

The Company maintains supplemental compensation arrangements ("Unit Plans") to provide benefits for certain employees. The Unit Plans generally vest over a 4-10 year period and provide a fixed annual benefit over a 5-10 year period. At December 31, 2011 and 2010 the liability associated with these plans was $4.4 million and $4.0 million, respectively. Expense associated with these plans for the years ended December 31, 2011, 2010 and 2009 was $655 thousand, $750 thousand and $530 thousand, respectively.

Supplemental Executive Retirement Plan

The Company maintains a supplemental executive retirement plan (the "SERP"), a nonqualified deferred compensation plan that provides retirement benefits to certain highly compensated executives. The SERP is unsecured and unfunded and there are no program assets. The SERP projected benefit obligation, which represents the vested net present value of future payments to individuals under the plan is accrued over the estimated remaining term of employment of the participants and has been determined by actuarial valuation using the "RP-2000 Annuity Mortality Table" for the mortality assumptions and discount rates of 5.30% and 5.90% in 2011 and 2010, respectively. Additional assumptions and features of the plan are a normal retirement age of 65 and a 2% annual cost of living benefit adjustment. The projected benefit obligation is included in other liabilities on the Consolidated Balance Sheets.

The following table reconciles the accumulated liability for the projected benefit obligation:

	December 31,	
	2011	2010
	(in thousands)	
Balance at beginning of year	$ 10,363	$ 9,947
Change in actuarial loss	329	(78)
Benefit expense	987	928
Benefit payments	(442)	(434)
Balance at end of year	$ 11,237	$ 10,363

The benefits expected to be paid in conjunction with the SERP are presented in the following table:

Years Ending December 31,	*(in thousands)*
2012	$ 510
2013	526
2014	555
2015	572
2016	803
2017 through 2021	5,864
Total	$ 8,830

17. Commitments and Contingent Liabilities

Lease Commitments: The Company leases locations as well as equipment under various non-cancellable operating leases that expire between 2012 and 2045. 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. As of December 31, 2011, minimum future rental payments, exclusive of taxes and other charges, of these leases were:

Years Ending December 31,	*(in thousands)*
2012	$ 4,077
2013	3,927
2014	3,615
2015	3,046
2016	1,604
Thereafter	5,678
Total minimum payments	$ 21,947

Total rental expense on buildings and equipment, net of rental income of $655 thousand, $591 thousand and $602 thousand, was $4.6 million, $4.5 million and $3.5 million, for the years ended December 31, 2011, 2010 and 2009, respectively.

On September 30, 2004, the Company sold its Broadway and Longview locations. The Company maintains a substantial continuing involvement in the locations through various non-cancellable operating leases that do not contain renewal options. The resulting gain on sale of $1.3 million was deferred using the financing method in accordance with the Leases topic of the FASB ASC and is being amortized over the life of the respective leases. At December 31, 2011 and 2010, the deferred gain was $234 thousand and $317 thousand, respectively, and is included in "Other liabilities" on the Consolidated Balance Sheets.

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.

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. At December 31, 2011 and 2010, the Company's loan commitments amounted to $709.9 million and $622.8 million, respectively. Standby letters of credit were $30.9 million and $31.2 million at December 31, 2011 and 2010, respectively. In addition, commitments under commercial letters of credit used to facilitate customers' trade transactions amounted to $243 thousand and $0 at December 31, 2011 and 2010, 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.

18. Shareholders' Equity

Preferred Stock. On August 11, 2010, the Company redeemed all 76,898 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A ("Preferred Stock") originally issued to the U.S. Department of Treasury ("the Treasury") on November 21, 2008 for approximately $76.9 million in capital under its Capital Purchase Program ("CPP"). The Company paid a total of $77.8 million to the Treasury, consisting of $76.9 million in principal and $919 thousand in accrued and unpaid dividends. Earnings available to the common shareholders were reduced by $2.3 million upon repayment of the Preferred Stock, which represented the remaining unamortized discount on the Preferred Stock. Additionally, on September 1, 2010, the Company repurchased the common stock warrant issued to the Treasury pursuant to the Troubled Asset Relief Program ("TARP") CPP for $3.3 million. The warrant repurchase, together with the Company's redemption of its entire Preferred Stock issued to the Treasury, represents full repayment of all TARP obligations and cancellation of all equity interests in the Company held by the Treasury.

Common Stock. On February 3, 2011, the Company declared a quarterly cash dividend of $0.03 per share, payable on March 3, 2011 to shareholders of record as of the close of business on February 17, 2011. On April 27, 2011 the Company declared a quarterly cash dividend of $0.05 per share, payable on May 25, 2011 to shareholders of record at the close of business May 11, 2011. On July 28, 2011 the Company declared a quarterly cash dividend of $0.06 per share, payable on August 24, 2011 to shareholders of record at the close of business August 10, 2011. On October 27, 2011 the Company declared a quarterly cash dividend of $0.08 per share and a special, one-time cash dividend of $0.05 per share, both payable on November 23, 2011 to shareholders of record at the close of business November 9, 2011. Subsequent to year end, on January 26, 2012 the Company declared a quarterly cash dividend of $0.08 per share and a special, one-time cash dividend of $0.29 per share, both payable on February 22, 2012, to shareholders of record at the close of business on February 8, 2012.

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.

Stock Repurchase Program

In October 2011, the Board of Directors approved a stock repurchase program authorizing the Company to repurchase up to 2 million shares of its outstanding shares of common stock. The Company intends to purchase the shares from time to time in the open market or in private transactions, under conditions which allow such repurchases to be accretive to earnings per share while maintaining capital ratios that exceed the guidelines for a well-capitalized financial institution. This newly authorized repurchase program supersedes and replaces the prior stock repurchase program adopted in February 2002. No shares were repurchased under the prior stock repurchase program or the new stock repurchase program during 2011. As of December 31, 2011 the Company had repurchased a total of 64,788 shares of common stock under the prior program.

Public offering

On May 5, 2010, the Company completed an underwritten public offering of 11,040,000 shares of our common stock at a purchase price to the public of $21.75 per share, resulting in gross proceeds of approximately $240.1 million and net proceeds to us of approximately $229.1 million.

19. 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.

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.

The following table sets forth the Company’s financial assets and liabilities that were accounted for at fair value on a recurring basis at December 31, 2011 and 2010 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 at December 31, 2011	Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
		(in thousands)		
Assets				
Securities available for sale				
U.S. government agency and sponsored enterprise mortgage-back securities and collateralized mortgage obligations	$ 695,954	$ —	$ 695,954	$ —
State and municipal securities	285,763	—	285,763	—
U.S. government agency and government-sponsored enterprise securities	43,063	—	43,063	—
Other securities	3,330	—	3,330	—
Total securities available for sale	$ 1,028,110	$ —	$ 1,028,110	$ —
Other assets (Interest rate contracts)	$ 16,302	$ —	$ 16,302	$ —
Liabilities				
Other liabilities (Interest rate contracts)	$ 16,302	$ —	$ 16,302	$ —

	Fair value at December 31, 2010	Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
		(in thousands)		
Assets				
Securities available for sale				
U.S. government agency and sponsored enterprise mortgage-back securities and collateralized mortgage obligations	$ 506,642	$ —	$ 506,642	$ —
State and municipal debt securities	253,981	—	253,981	—
Other securities	3,243	—	3,243	—
Total securities available for sale	$ 763,866	$ —	$ 763,866	$ —
Other assets (Interest rate contracts)	$ 10,167	$ —	$ 10,167	$ —
Liabilities				
Other liabilities (Interest rate contracts)	$ 10,167	$ —	$ 10,167	$ —

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 if the loan is collateral-dependent loan. Generally, the Company utilizes the fair market value of the collateral to measure impairment.

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 recorded at the lower of the carrying amount of the loan or fair value less estimated costs to sell. This amount becomes the property's new basis. Any write-downs based on the property fair value less estimated cost to sell at the date of acquisition are charged to the allowance for loan and lease losses. Management periodically reviews OREO in an effort to ensure the property is carried at the lower of its new basis or fair value, net of estimated costs to sell. Any write-downs subsequent to acquisition are charged to earnings.

The following table sets forth the Company's assets that were measured using fair value estimates on a nonrecurring basis at December 31, 2011 and 2010:

	Fair value at December 31, 2011	Fair Value Measurements at Reporting Date Using			Losses During the Year Ended December 31, 2011
		Level 1	Level 2	Level 3	
			(in thousands)		
Impaired loans	$ 17,755	$ —	$ —	$ 17,755	$ 5,841
Noncovered OREO	11,233	—	—	11,233	3,089
Covered OREO	2,442	—	—	2,442	644
	$ 31,430	$ —	$ —	$ 31,430	$ 9,574

	Fair value at December 31, 2010	Fair Value Measurements at Reporting Date Using			Losses During the Year Ended December 31, 2010
		Level 1	Level 2	Level 3	
			(in thousands)		
Impaired loans	$ 65,226	$ —	$ —	$ 65,226	$ 13,906
Noncovered OREO	18,266	—	—	18,266	4,155
Covered OREO	1,422	—	—	1,422	263
	$ 84,914	$ —	$ —	$ 84,914	$ 18,324

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 noncovered 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 write-downs from updated appraisals that were charged to earnings.

At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. Activity in Level 3 assets measured at fair value on a recurring basis for the year ended December 31, 2011 is summarized in the following table:

	Securities available for sale - State and municipal securities
	(in thousands)
Beginning balance, January 1, 2011	$ —
Transfers into Level 3 (1)	2,950
Impairment loss included in earnings	(2,950)
Ending Balance, December 31, 2011	$ —

(1) Transfers into Level 3 were due to a municipal security that had been categorized previously at a higher level, but the inputs to the fair value calculation for the municipal security became unobservable as the security defaulted on its principal repayment and was no longer actively traded.

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.

Securities available for sale—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.

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

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 December 31, 2011 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 covered loans, fair value is estimated by discounting the expected future cash flows using a lending rate that would have been offered on December 31, 2011.

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.

Interest rate contracts—Interest rate contracts are valued in models, which use as their basis, readily observable market parameters.

Deposits—For deposits with no contractual maturity, the fair value is equal to the carrying value. 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.

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

Repurchase agreements—The fair value of securities sold under agreement to repurchase is estimated based on discounting the future cash flows using the market rate currently offered.

Long-term subordinated debt—The fair value of long-term subordinated debt is estimated based on discounting the future cash flows using an estimated market rate.

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.

The following table summarizes carrying amounts and estimated fair values of selected financial instruments:

	December 31, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in thousands)			
Assets				
Cash and due from banks	$ 91,364	$ 91,364	$ 55,492	$ 55,492
Interest-earning deposits with banks	202,925	202,925	458,638	458,638
Securities available for sale	1,028,110	1,028,110	763,866	763,866
FHLB stock	22,215	22,215	17,908	17,908
Loans held for sale	2,148	2,148	754	754
Loans	2,827,259	2,957,345	2,371,822	2,525,113
FDIC loss-sharing asset	175,071	71,788	205,991	205,991
Interest rate contracts	16,302	16,302	10,167	10,167
Liabilities				
Deposits	$ 3,815,529	$ 3,817,013	$ 3,327,269	$ 3,330,616
FHLB advances	119,009	119,849	119,405	122,722
Repurchase agreements	25,000	26,580	25,000	27,251
Other borrowings	—	—	642	642
Long-term subordinated debt	—	—	25,735	20,156
Interest rate contracts	16,302	16,302	10,167	10,167

20. Earnings per Common Share

Basic earnings per share ("EPS") is computed by dividing income applicable to common shareholders by the weighted average number of common shares outstanding for the period. Common shares outstanding include common stock and vested restricted stock awards where recipients have satisfied the vesting terms. Diluted EPS reflects the assumed conversion of all dilutive securities, applying the treasury stock method. The Company calculates earnings per share using the two-class method as described in the Earnings per Share topic of the FASB ASC.

The following table sets forth the computation of basic and diluted earnings per share for the periods indicated:

	Year Ended December 31,		
	2011	2010	2009
	(in thousands except per share)		
Basic EPS:			
Net income (loss)	$ 48,037	$ 30,784	$ (3,968)
Less: Preferred dividends and accretion of issuance discount for	—	(4,947)	(4,403)
Net income (loss) applicable to common shareholders	$ 48,037	$ 25,837	$ (8,371)
Less: Earnings allocated to participating securities	(450)	(244)	(16)
Earnings (loss) allocated to common shareholders	$ 47,587	$ 25,593	$ (8,387)
Weighted average common shares outstanding	39,103	35,209	21,854
Basic earnings (loss) per common share	$ 1.22	$ 0.73	$ (0.38)
Diluted EPS:			
Earnings (loss) allocated to common shareholders (1)	$ 47,588	$ 25,593	$ (8,410)
Weighted average common shares outstanding	39,103	35,209	21,854
Dilutive effect of equity awards and warrants	77	183	—
Weighted average diluted common shares outstanding (2)	39,180	35,392	21,854
Diluted earnings (loss) per common share	$ 1.21	$ 0.72	$ (0.38)
Potentially dilutive share options that were not included in the computation of diluted EPS because to do so would be anti-dilutive	53	54	754

(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.

(2) Due to the net loss applicable to common shareholders for the year ended December 31, 2009, basic shares were used to calculate diluted earnings per share. Adding dilutive securities to the denominator would result in anti-dilution.

21. Share-Based Payments

At December 31, 2011, the Company had one equity compensation plan (the "Plan"), which is shareholder approved, that provides for the granting of share options and shares to eligible employees and directors up to 2,891,482 shares.

Share Awards: Restricted share awards provide for the immediate issuance of shares of Company common stock to the recipient, with such shares held in escrow until certain service conditions are met, generally four years of continual service. Recipients of restricted shares do not pay any cash consideration to the Company for the shares, have the right to vote all shares subject to such grant, and receive all dividends with respect to such shares, whether or not the shares have vested. The fair value of share awards is equal to the fair market value of the Company's common stock on the date of grant.

A summary of changes in the Company's nonvested shares and related information for the years ended December 31, 2011, 2010 and 2009 is presented below:

Nonvested Shares	**Shares**	**Weighted Average Grant-Date Fair Value**
Nonvested at January 1, 2009	191,320	$ 29.41
Granted	122,097	$ 9.92
Vested	(15,763)	$ 27.67
Forfeited	(19,150)	$ 24.03
Nonvested at December 31, 2009	278,504	$ 21.34
Granted	108,075	$ 20.68
Vested	(25,521)	$ 21.38
Forfeited	(7,775)	$ 20.77
Nonvested at December 31, 2010	353,283	$ 21.14
Granted	133,350	$ 19.45
Vested	(109,033)	$ 25.72
Forfeited	(14,925)	$ 18.86
Nonvested at December 31, 2011	362,675	$ 19.24

As of December 31, 2011, there was $5.0 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted average period of 2.5 years. The total fair value of shares vested during the years ended December 31, 2011, 2010, and 2009 was $2.2 million, $546 thousand, and $404 thousand, respectively.

Share Options: Option awards are generally granted with an exercise price equal to the market price of the Company's stock at the date of grant; those option awards generally vest based on three years of continual service and are exercisable for a five-year period after vesting. Option awards granted have a 10-year maximum term.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model. The fair value of all options is amortized on a straight-line basis over the requisite service periods, which are generally the vesting periods. The expected life of options granted represents the period of time that they are expected to be outstanding. The expected life is determined based on historical experience with similar awards, giving consideration to the contractual terms and vesting schedules. Expected volatilities of our common stock are estimated at the date of grant based on the historical volatility of the stock. The volatility factor is based on historical stock prices over the most recent period commensurate with the estimated expected life of the award. The risk-free interest rate is based on the U.S. Treasury curve in effect at the time of the award. The expected dividend yield is based on dividend trends and the market value of the Company's stock price at the time of the award.

A summary of option activity under the Plan as of December 31, 2011, and changes during the year then ended is presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value ($000)
Balance at December 31, 2010	93,964	$ 21.26		
Granted	—	$ —		
Forfeited	(9,576)	$ 23.96		
Expired	(7,350)	$ 17.25		
Exercised	(12,126)	$ 13.50		
Balance at December 31, 2011	64,912	$ 22.76	1.4	$ 52
Total Exercisable at December 31, 2011	64,912	$ 22.76	1.4	$ 52

The total intrinsic value of options exercised during the years ended December 31, 2011, 2010, and 2009 was $65 thousand, $154 thousand, and $123 thousand, respectively. No options were granted in 2011, 2010 and 2009.

As of December 31, 2011, outstanding stock options consist of the following:

Ranges of Exercise Prices	Number of Option Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price of Option Shares	Number of Exercisable Option Shares	Weighted Average Exercise Price of Exercisable Option Shares
9.26 - 12.34	516	0.3	$ 12.21	516	$ 12.21
12.35 - 15.43	6,395	1.8	$ 14.04	6,395	$ 14.04
15.44 - 18.51	5,184	1.5	$ 17.36	5,184	$ 17.36
18.52 - 21.60	7,266	2.3	$ 18.61	7,266	$ 18.61
21.61 - 24.68	12,000	0.8	$ 22.61	12,000	$ 22.61
24.69 - 27.77	29,500	0.8	$ 25.75	29,500	$ 25.75
27.78 - 30.86	4,051	5.1	$ 30.86	4,051	$ 30.86
	64,912	1.4	$ 22.76	64,912	$ 22.76

It is the Company's policy to issue new shares for share option exercises and share awards. The Company expenses awards of share options and shares on a straight-line basis over the related vesting term of the award. For the 12 months ended December 31, 2011, 2010 and 2009, the Company recognized pre-tax share-based compensation expense for nonvested share awards of $1.6 million, $1.4 million and $1.0 million, respectively.

22. Income Tax

The components of income tax expense (benefit) are as follows:

	Years Ended December 31,		
	2011	2010	2009
		(in thousands)	
Current tax (benefit) expense	$ 21,688	$ (13,547)	$ (8,893)
Deferred tax expense (benefit)	(3,783)	15,838	(85)
Total	$ 17,905	$ 2,291	$ (8,978)

Significant components of the Company's deferred tax assets and liabilities are as follows:

	December 31, 2011	December 31, 2010
	(in thousands)	
Deferred tax assets:		
Allowance for loan and lease losses	$ 20,910	$ 22,942
Supplemental executive retirement plan	6,564	6,185
Stock option and restricted stock	989	1,295
OREO costs	3,209	1,910
AMT credit carryforwards	—	2,318
Nonaccrual interest	222	310
Security impairment	1,041	—
Other	632	1,890
Total deferred tax assets	33,567	36,850
Deferred tax liabilities:		
Asset purchase tax basis difference	(14,812)	(22,559)
FHLB stock dividends	(1,977)	(2,019)
Purchase accounting	(1,030)	(1,373)
Deferred loan fees	(1,517)	(1,214)
Unrealized gain on investment securities	(14,291)	(7,186)
Depreciation	(1,517)	(646)
Total deferred tax liabilities	(35,144)	(34,997)
Net deferred tax asset (liability)	$ (1,577)	$ 1,853

A reconciliation of the Company's effective income tax rate with the federal statutory tax rate is as follows:

	Years Ended December 31, 2011		2010		2009	
	Amount	Percent	Amount	Percent	Amount	Percent
			(dollars in thousands)			
Income tax based on statutory rate	$ 23,080	35 %	$ 11,576	35 %	$ (4,531)	35%
Reduction resulting from:						
Tax credits	(608)	(1)%	(808)	(2)%	(687)	5%
Tax exempt instruments	(3,824)	(6)%	(3,744)	(11)%	(3,072)	24%
Life insurance proceeds	(766)	(1)%	(735)	(2)%	(708)	5%
Bargain purchase	(1,036)	(2)%	(5,383)	(16)%	—	—%
Other, net	1,059	2 %	1,385	3 %	20	—%
Income tax provision (benefit)	$ 17,905	27 %	$ 2,291	7 %	$ (8,978)	69%

As of December 31, 2011 and 2010, we had no unrecognized tax positions. Our policy is to recognize interest and penalties on unrecognized tax benefits in "Provision for income taxes" in the Consolidated Statements of Income. There were no amounts related to interest and penalties recognized for the years ended December 31, 2011 and 2010. The tax years subject to examination by federal and state taxing authorities are the years ending December 31, 2010, 2009, and 2008.

23. Regulatory Capital Requirements

The Company (on a consolidated basis) and its banking subsidiary are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company and its subsidiary's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and its banking subsidiary must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Company and its banking subsidiary to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital to risk-weighted assets (as defined in the regulations) and of Tier 1 capital to average assets (as defined in the regulations). Management believes, as of December 31, 2011 and 2010, that the Company and Columbia Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2011, the most recent notification from the Federal Deposit Insurance Corporation categorized Columbia Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the notification that management believes have changed Columbia Bank's category. The Company and its banking subsidiary's actual capital amounts and ratios as of December 31, 2011 and 2010, are also presented in the following table.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(dollars in thousands)			
As of December 31, 2011						
Total Capital (to risk-weighted assets):						
The Company	$ 636,559	21.05%	$ 241,955	8.0%	N/A	N/A
Columbia Bank	$ 561,216	18.55%	$ 242,028	8.0%	$ 302,535	10.0%
Tier 1 Capital (to risk-weighted assets):						
The Company	$ 598,485	19.79%	$ 120,978	4.0%	N/A	N/A
Columbia Bank	$ 523,131	17.29%	$ 121,014	4.0%	$ 181,521	6.0%
Tier 1 Capital (to average assets):						
The Company	$ 598,485	12.96%	$ 184,780	4.0%	N/A	N/A
Columbia Bank	$ 523,131	11.45%	$ 182,747	4.0%	$ 228,434	5.0%
As of December 31, 2010						
Total Capital (to risk-weighted assets):						
The Company	$ 623,526	24.47%	$ 203,871	8.0%	N/A	N/A
Columbia Bank	$ 463,587	18.20%	$ 203,789	8.0%	$ 254,736	10.0%
Tier 1 Capital (to risk-weighted assets):						
The Company	$ 591,263	23.20%	$ 101,936	4.0%	N/A	N/A
Columbia Bank	$ 431,337	16.93%	$ 101,894	4.0%	$ 152,841	6.0%
Tier 1 Capital (to average assets):						
The Company	$ 591,263	13.99%	$ 169,062	4.0%	N/A	N/A
Columbia Bank	$ 431,337	10.33%	$ 166,961	4.0%	$ 208,702	5.0%

24. Parent Company Financial Information

Condensed Statements of Income—Parent Company Only

	Years Ended December 31,		
	2011	2010	2009
		(in thousands)	
Income			
Dividend from banking subsidiary	$ —	$ —	$ 200
Interest-earning deposits	712	1,319	1,095
Other income	17	31	36
Total income	729	1,350	1,331
Expense			
Compensation and employee benefits	88	96	512
Long-term obligations	579	1,029	1,196
Other expense	1,114	1,066	1,104
Total expenses	1,781	2,191	2,812
Loss before income tax expense (benefit) and equity in undistributed net income of subsidiaries	(1,052)	(841)	(1,481)
Income tax expense (benefit)	91	(778)	(580)
Income before equity in undistributed net income (loss) of subsidiaries	(1,143)	(63)	(901)
Equity in undistributed net income (loss) of subsidiaries	49,180	30,847	(3,067)
Net income (loss)	$ 48,037	$ 30,784	$ (3,968)

Condensed Balance Sheets—Parent Company Only

	December 31,	
	2011	2010
	(in thousands)	
Assets		
Cash and due from banking subsidiary	$ 3,220	$ 673
Interest-earning deposits	72,014	158,500
Total cash and cash equivalents	75,234	159,173
Investment in banking subsidiary	683,977	571,945
Investment in other subsidiaries	—	774
Other assets	510	1,160
Total assets	$ 759,721	$ 733,052
Liabilities and Shareholders' Equity		
Long-term subordinated debt	$ —	$ 25,736
Other liabilities	383	438
Total liabilities	383	26,174
Shareholders' equity	759,338	706,878
Total liabilities and shareholders' equity	$ 759,721	$ 733,052

Condensed Statements of Cash Flows—Parent Company Only

	Years Ended December 31,		
	2011	2010	2009
		(in thousands)	
Operating Activities			
Net income (loss)	$ 48,037	$ 30,784	$ (3,968)
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiaries	(49,180)	(30,847)	3,067
Stock-based compensation expense	1,635	1,424	1,038
Net changes in other assets and liabilities	315	(769)	1,783
Net cash provided by operating activities	807	592	1,920
Investing Activities			
Proceeds from termination of trust subsidiaries	774	—	—
Net cash provided by investing activities	774	—	—
Financing Activities			
Net decrease in short-term borrowings	—	—	(100)
Cash dividends paid	(10,660)	(4,302)	(5,155)
Repayment of long-term subordinated debt	(25,774)	—	—
Issuance of common stock, net of offering costs	—	229,129	113,537
Purchase and retirement of common stock	(32)	—	—
Proceeds from exercise of stock options	848	948	939
Downstream stock offering proceeds to the Bank	(50,000)	(70,000)	(105,000)
Excess tax benefit associated with share-based compensation	98	—	—
Purchase and retirement of preferred stock	—	(80,200)	—
Net cash provided by financing activities	(85,520)	75,575	4,221
Increase (decrease) in cash and cash equivalents	(83,939)	76,167	6,141
Cash and cash equivalents at beginning of year	159,173	83,006	76,865
Cash and cash equivalents at end of year	$ 75,234	$ 159,173	$ 83,006

25. Summary of Quarterly Financial Information (Unaudited)

Quarterly financial information for the years ended December 31, 2011 and 2010 is summarized as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year Ended December 31,
		(in thousands, except per share amounts)			
2011					
Total interest income	$ 54,611	$ 53,309	$ 68,432	$ 74,919	$ 251,271
Total interest expense	4,162	3,934	3,644	2,795	14,535
Net interest income	50,449	49,375	64,788	72,124	236,736
Provision for loan and lease losses	—	2,150	500	4,750	7,400
Provision (recapture) for losses on covered loans	(422)	2,301	433	(3,960)	(1,648)
Noninterest income (loss)	(5,419)	3,542	2,196	(9,602)	(9,283)
Noninterest expense	37,346	37,164	39,935	41,314	155,759
Income before income taxes	8,106	11,302	26,116	20,418	65,942
Provision for income taxes	2,327	2,670	7,244	5,664	17,905
Net income	$ 5,779	$ 8,632	$ 18,872	$ 14,754	$ 48,037
Net income applicable to common shareholders	$ 5,779	$ 8,632	$ 18,872	$ 14,754	$ 48,037
Per common share (1)					
Earnings (basic)	$ 0.15	$ 0.22	$ 0.48	$ 0.37	$ 1.22
Earnings (diluted)	$ 0.15	$ 0.22	$ 0.48	$ 0.37	$ 1.21
2010					
Total interest income	$ 44,287	$ 46,148	$ 52,075	$ 43,369	$ 185,879
Total interest expense	6,013	5,416	5,110	4,553	21,092
Net interest income	38,274	40,732	46,965	38,816	164,787
Provision for loan and lease losses	15,000	13,500	9,000	3,791	41,291
Provision for losses on covered loans	—	—	453	5,602	6,055
Noninterest income	18,473	13,237	5,183	15,888	52,781
Noninterest expense	33,897	34,745	33,520	34,985	137,147
Income before income taxes	7,850	5,724	9,175	10,326	33,075
Provision (benefit) for income taxes	(66)	668	3,971	(2,282)	2,291
Net income	$ 7,916	$ 5,056	$ 5,204	$ 12,608	$ 30,784
Less: Dividends on preferred stock	1,107	1,110	2,730	—	4,947
Net income applicable to common shareholders	$ 6,809	$ 3,946	$ 2,474	$ 12,608	$ 25,837
Per common share (1)					
Earnings (basic)	$ 0.24	$ 0.11	$ 0.06	$ 0.32	$ 0.73
Earnings (diluted)	$ 0.24	$ 0.11	$ 0.06	$ 0.32	$ 0.72

(1) Due to averaging of shares, quarterly earnings per share may not add up to the totals reported for the full year.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. 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.

Internal Control Over Financial Reporting

Management's Annual Report On Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. The internal control system has been designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of the Company's published financial statements. Internal control over financial reporting includes maintaining records that in reasonable detail accurately and fairly reflect the Company's transactions; providing reasonable assurance that transactions are recorded as necessary for preparation of the Company's financial statements; providing reasonable assurance that receipts and expenditures are made in accordance with management authorization; and providing reasonable assurance that unauthorized acquisition, use or disposition of company assets that could have a material effect on the Company's financial statements would be prevented or detected on a timely basis. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of the Company's financial statements would be prevented or detected.

Management has evaluated the effectiveness of its internal control over financial reporting as of December 31, 2011 based on the control criteria established in a report entitled *Internal Control-Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on such evaluation, management has concluded that the Company's internal control over financial reporting is effective as of December 31, 2011.

Our independent registered public accounting firm has issued an attestation report our internal control over financial reporting, which appears in this annual report on Form 10K.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Columbia Banking System, Inc.
Tacoma, Washington

We have audited the internal control over financial reporting of Columbia Banking System, Inc. and its subsidiaries (the "Company") as of December 31, 2011, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Because management's assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), management's assessment and our audit of the Company's internal control over financial reporting included controls over the preparation of the schedules equivalent to the basic financial statements in accordance with the instructions for the Consolidated Reports of Condition and Income for Schedules RC, RI, and RI-A. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report On Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"). A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have not examined and, accordingly, we do not express an opinion or any other form of assurance on management's statement referring to compliance with laws and regulations.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2011 of the Company and our report dated February 29, 2012 expressed an unqualified opinion on those financial statements.

/s/ Deloitte & Touche LLP
Seattle, Washington
February 29, 2012

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information regarding “Directors, Executive Officers and Corporate Governance” is set forth under the headings “Proposal No.1: Election of Directors”, “Management—Executive Officers Who are Not Directors” and “Corporate Governance” in the Company’s 2012 Annual Proxy Statement (“Proxy Statement”) and is incorporated herein by reference.

Information regarding “Compliance with Section 16(a) of the Exchange Act” is set forth under the section “Section 16(a) Beneficial Ownership Reporting Compliance” of the Company’s Proxy Statement and is incorporated herein by reference. Information regarding the Company’s audit committee financial expert is set forth under the heading “Board Structure and Compensation—What Committees has the Board Established” in our Proxy Statement and is incorporated by reference.

On February 25, 2004, consistent with the requirements of the Sarbanes-Oxley Act of 2002, the Company adopted a Code of Ethics applicable to senior financial officers including the principal executive officer. The Code of Ethics was filed as Exhibit 14 to our 2003 Form 10-K Annual Report and can be accessed electronically by visiting the Company’s website at *www.columbiabank.com.*

ITEM 11. EXECUTIVE COMPENSATION

Information regarding “Executive Compensation” is set forth under the headings “Board Structure and Compensation” and “Executive Compensation” of the Company’s Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information regarding “Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters” is set forth under the heading “Stock Ownership” of the Company’s Proxy Statement and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information regarding “Certain Relationships and Related Transactions, and Director Independence” is set forth under the headings “Certain Relationships and Related Transactions” and “Corporate Governance—Director Independence” of the Company’s Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information regarding “Principal Accounting Fees and Services” is set forth under the heading “Independent Registered Public Accounting Firm” of the Company’s Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a)(1) **Financial Statements:**

The Consolidated Financial Statements and related documents set forth in “Item 8. Financial Statements and Supplementary Data” of this report are filed as part of this report.

(2) **Financial Statements Schedules:**

All other schedules to the Consolidated Financial Statements required by Regulation S-X are omitted because they are not applicable, not material or because the information is included in the Consolidated Financial Statements and related notes in “Item 8. Financial Statements and Supplementary Data” of this report.

(3) **Exhibits:**

The response to this portion of Item 15 is submitted as a separate section of this report appearing immediately following the signature page and entitled “Index to Exhibits.”

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 29th day of February 2012.

COLUMBIA BANKING SYSTEM, INC.
(Registrant)

By: /s/ MELANIE J. DRESSEL
Melanie J. Dressel
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated, on the 29th day of February 2012.

Principal Executive Officer:

By: /s/ MELANIE J. DRESSEL
Melanie J. Dressel
President and Chief Executive Officer

Principal Financial and Accounting Officer:

By: /s/ GARY R. SCHMINKEY
Gary R. Schminkey
Executive Vice President and Chief Financial Officer

Melanie J. Dressel, pursuant to a power of attorney that is being filed with the Annual Report on Form 10-K, has signed this report on February 29, 2012 as attorney in fact for the following directors who constitute a majority of the Board.

[John P. Folsom]
[Frederick M. Goldberg]
[Thomas M. Hulbert]
[Michelle M. Lantow]
[Thomas L. Matson]

[S. Mae Numata]
[Daniel C. Regis]
[Donald Rodman]
[William T. Weyerhaeuser]
[James M. Will]

/s/ MELANIE J. DRESSEL
Melanie J. Dressel
Attorney-in-fact

February 29, 2012

INDEX TO EXHIBITS

Exhibit No.	Exhibit
3.1	Amended and Restated Articles of Incorporation (1)
3.2	Amended and Restated Bylaws (2)
4.1	Specimen of common stock certificate (3)
4.2	Pursuant to Item 601(b) (4) (iii) (A) of Regulation S-K, copies of instruments defining the rights of holders of long-term debt and preferred securities are not filed. The Company agrees to furnish a copy thereof to the Securities and Exchange Commission upon request
10.1*	Amended and Restated Stock Option and Equity Compensation Plan (4)
10.2*	Form of Stock Option Agreement (5)
10.3*	Form of Restricted Stock Agreement (5)
10.4*	Form of Stock Appreciation Right Agreement (5)
10.5*	Form of Restricted Stock Unit Agreement (5)
10.6*	Form of Long Term Restricted Stock Agreement (6)
10.7*	Amended and Restated Employee Stock Purchase Plan (7)
10.8	Office Lease, dated as of December 15, 1999, between the Company and Haub Brothers Enterprises Trust (8)
10.9*	Employment Agreement between the Bank, the Company and Melanie J. Dressel effective August 1, 2004 (9)
10.10*+	Change in Control Agreement between the Bank and Gary R. Schminkey effective November 15, 2010
10.11*	Form of Change in Control Agreement between the Bank, Mark W. Nelson and Andrew McDonald (5)
10.12*	Form of Long-Term Care Agreement between the Bank, the Company, and each of the following directors: Mr. Folsom, Mr. Hulbert, Mr. Matson, Mr. Rodman, Mr. Weyerhaeuser and Mr. Will (10)
10.13*	Amended and Restated Executive Supplemental Compensation Agreements dated as of May 27, 2009 among the Company, Columbia State Bank and Melanie J. Dressel, Gary R. Schminkey and Mark W. Nelson, respectively (11)
10.14+	Amended and Restated 401 Plus Plan (Deferred Compensation plan) dated December 14, 2011 for directors and key employees
10.15*+	Change in Control Agreement between the Bank and Mr. Kent L. Roberts dated December 4, 2011
10.16*	Form of Supplemental Compensation Agreement between the Bank and Mr. Andrew McDonald (5)
10.17*	Town Center Bancorp 2004 Stock Incentive Plan (12)

Exhibit No.	**Exhibit**
10.18*	Town Center Bancorp Form of Restricted Stock Award Agreement (12)
10.19*	Mountain Bank Holding Company Director Stock Option Plan (13)
10.20*	Mountain Bank Holding Company Form of Non-employee Director Stock Option Agreement (13)
10.21*	Mountain Bank Holding Company 1999 Employee Stock Option Plan (13)
10.22*	Mountain Bank Holding Company Form of Employee Stock Option Agreement (13)
10.23*	Mt. Rainier National Bank 1990 Stock Option Plan (13)
10.24*	Amendment to Employment Agreement between the Bank, the Company and Melanie J. Dressel effective February 1, 2009 (14)
10.25*	Amendment to Employment Agreement effective December 31, 2008 among the Bank, the Company and Melanie J. Dressel (15)
10.26*	Form of Amendment to Change in Control Agreement effective December 31, 2008 between the Bank and each of Mark W. Nelson, Andrew L. McDonald, Gary R. Schminkey and Kent L. Roberts (15)
10.27*	Form of Amendment to Supplemental Compensation Agreement effective December 31, 2008 between the Bank and Andrew L. McDonald (15)
10.28*	Form of Indemnification Agreement between the Company and its directors (15)
14	Code of Ethics (16)
21+	Subsidiaries of the Company
23+	Consent of Deloitte & Touche LLP
24+	Power of Attorney
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 Filed 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 Annual Report on Form 10-K for the year ended December 31, 2011 is formatted in XBRL: (i) Audited Consolidated Condensed Statements of Income, (ii) Audited Consolidated Condensed Balance Sheets, (iii) Unaudited Consolidated Condensed Statements of Changes in Shareholders' Equity, (iv) Unaudited Consolidated Condensed Statements of Cash Flows, and (v) Notes to Audited Consolidated Condensed Financial Statements.**

(1) Incorporated by reference to Exhibit 3.1 of the Company’s Annual Report on Form 10-K for the year ended December 31, 2008

(2) Incorporated by reference to Exhibit 3.2 of the Company’s Current Report on Form 8-K filed on February 2, 2010

(3) Incorporated by reference to Exhibit 4.3 of the Company’s S-3 Registration Statement (File No. 333-156350) filed December 19, 2008

(4) Incorporated by reference to Exhibit 99.1 of the Company’s S-8 Registration Statement (File No. 333-160370) filed July 1, 2009

(5) Incorporated by reference to Exhibits 10.2—10.5, 10.10 and 10.16 of the Company’s Annual Report on Form 10-K for the year ended December 31, 2007

(6) Incorporated by reference to Exhibit 10.1 of the Company’s Current Report on Form 8-K filed January 5, 2010

(7) Incorporated by reference to Exhibit 10.7 of the Company's Annual Report on Form 10-K for the year ended December 31, 2010

(8) Incorporated by reference to Exhibit 10.5 of the Company’s Annual Report on Form 10-K for the year ended December 31, 2000

(9) Incorporated by reference to Exhibit 10.2 of the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2004

(10) Incorporated by reference to Exhibit 10.3 of the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2001

(11) Incorporated by reference to Exhibits 10.1, 10.2 and 10.3 of the Company’s Current Report on Form 8-K filed on June 2, 2009

(12) Incorporated by reference to Exhibits 10.1 and 10.2 of the Company’s S-8 Registration Statement (File No. 333-145207) filed August 7, 2007

(13) Incorporated by reference to Exhibits 99.1—99.5 of the Company’s S-8 Registration Statement (File No. 333-144811) filed July 24, 2007

(14) Incorporated by reference to Exhibit 10.1 of the Company’s Current Report on Form 8-K filed February 16, 2009

(15) Incorporated by reference to Exhibits 10.1—10.4 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009

(16) Incorporated by reference to Exhibit 14 of the Company’s Annual Report on Form 10-K for the year ended December 31, 2003

* Management contract or compensatory plan or arrangement

+ Filed herewith

** Furnished herewith

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Executive Officers

Clockwise from left: Gary R. Schminkey, Executive Vice President, Chief Financial Officer; Kent L. Roberts, Executive Vice President, Human Resources Director; Andrew McDonald, Executive Vice President, Chief Credit Officer; Mark W. Nelson, Executive Vice President, Chief Operating Officer; Melanie J. Dressel, President & Chief Executive Officer, Columbia Banking System, Inc. and Columbia Bank

INDEPENDENT AUDITORS
Deloitte & Touche, LLP

TRANSFER AGENT AND REGISTRAR
American Stock Transfer & Trust Co.

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

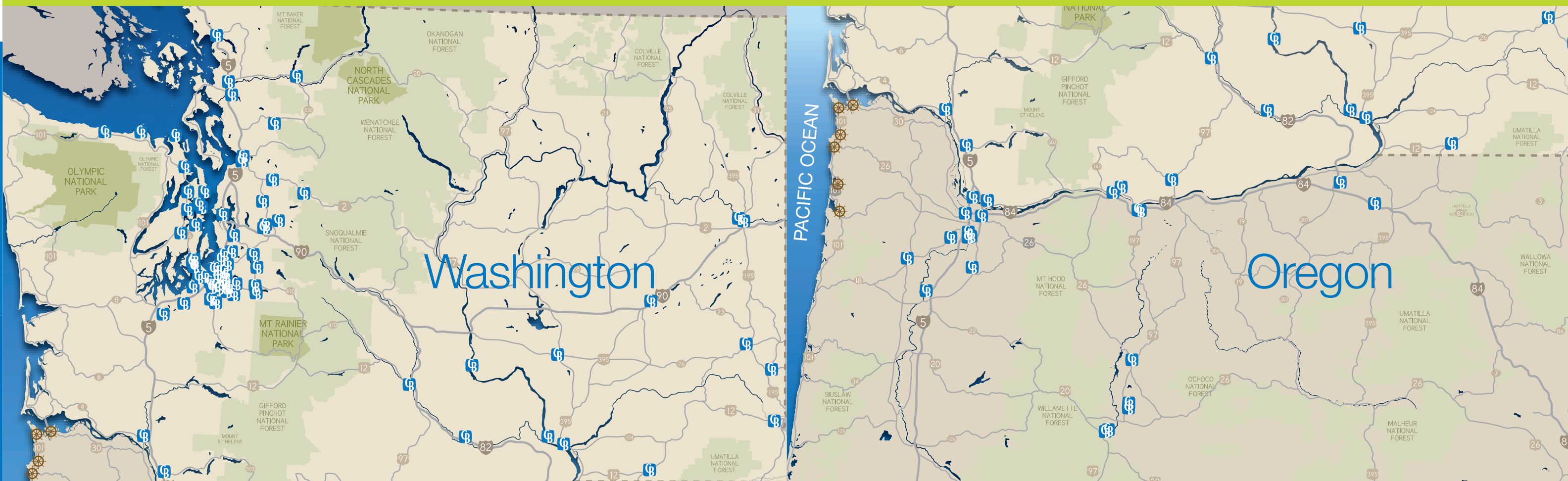
REGULATORY & SECURITIES COUNSEL
Graham & Dunn PC

STOCK LISTING
The Company's common stock trades on the Nasdaq National market tier of The Nasdaq Stock Markets under the symbol: COLB

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

Pacific Northwest Footprint

102 Branches (77 branches in Washington & 25 branches in Oregon)


Washington
Oregon
PACIFIC OCEAN
OLYMPIC NATIONAL PARK
NORTH CASCADES NATIONAL PARK
MT RAINIER NATIONAL PARK
OKANOGAN NATIONAL FOREST
WENATCHEE NATIONAL FOREST
SNOQUALMIE NATIONAL FOREST
GIFFORD PINCHOT NATIONAL FOREST
COLVILLE NATIONAL FOREST
UMATILLA NATIONAL FOREST
MT HOOD NATIONAL FOREST
WILLAMETTE NATIONAL FOREST
SIUSLAW NATIONAL FOREST
OCHOCO NATIONAL FOREST
MALHEUR NATIONAL FOREST
WALLOWA NATIONAL FOREST

Columbia
Banking
System Inc.

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