COLUMBIA BANKING SYSTEM INC
Form 10-Q
May 06, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2009.

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to .

Commission File Number 0-20288

COLUMBIA BANKING SYSTEM, INC.
(Exact name of issuer 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	98402-2156
(Address of principal executive offices)	(Zip Code)

(253) 305-1900
(Issuer’s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 o Noo

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

Large accelerated filer ¨ Accelerated filer x 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 x

The number of shares of common stock outstanding at April 30, 2009 was 18,262,854

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PART I - FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS

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

(in thousands except per share)	Three Months Ended March 31, 2009	2008
Interest Income		
Loans	$ 29,801	$ 41,303
Taxable securities	4,208	4,980
Tax-exempt securities	2,013	2,001
Federal funds sold and deposits in banks	7	149
Total interest income	36,029	48,433
Interest Expense		
Deposits	6,892	14,835
Federal Home Loan Bank and Federal Reserve Bank borrowings	765	2,582
Long-term obligations	351	487
Other borrowings	118	202
Total interest expense	8,126	18,106
Net Interest Income	27,903	30,327
Provision for loan and lease losses	11,000	2,076
Net interest income after provision for loan and lease losses	16,903	28,251
Noninterest Income		
Service charges and other fees	3,614	3,568
Merchant services fees	1,770	1,916
Redemption of Visa and Mastercard shares	- -	1,962
Gain on sale of investment securities, net	- -	882
Bank owned life insurance ("BOLI")	501	505
Other	1,089	1,324
Total noninterest income	6,974	10,157
Noninterest Expense		
Compensation and employee benefits	11,852	13,396
Occupancy	3,045	3,259
Merchant processing	814	866
Advertising and promotion	692	581
Data processing	961	815
Legal and professional fees	967	(51)
Taxes, licenses and fees	796	751
Regulatory premiums	1,007	502
Net cost of operation of other real estate	47	(23)
Other	3,000	3,458
Total noninterest expense	23,181	23,554
Income before income taxes	696	14,854
Provision (benefit) for income taxes	(816)	3,877
Net Income	$ 1,512	$ 10,977
Net Income Applicable to Common Shareholders	$ 419	$ 10,977
Earnings per common share		

Basic	$	0.02	$	0.61
Diluted	$	0.02	$	0.61
Dividends paid per common share	$	0.04	$	0.17
Weighted average number of common shares outstanding		17,980		17,850
Weighted average number of diluted common shares outstanding		17,987		17,978

See accompanying notes to unaudited consolidated condensed financial statements.

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CONSOLIDATED CONDENSED BALANCE SHEETS
Columbia Banking System, Inc.
(Unaudited)

(in thousands)	March 31, 2009	December 31, 2008
ASSETS		
Cash and due from banks	$ 61,201	$ 84,787
Interest-earning deposits with banks	317	3,943
Total cash and cash equivalents	61,518	88,730
Securities available for sale at fair value (amortized cost of $538,835 and $525,110, respectively)	544,367	528,918
Federal Home Loan Bank stock at cost	11,607	11,607
Loans held for sale	3,747	1,964
Loans, net of deferred loan fees of ($4,065) and ($4,033), respectively	2,185,755	2,232,332
Less: allowance for loan and lease losses	44,249	42,747
Loans, net	2,141,506	2,189,585
Interest receivable	11,388	11,646
Premises and equipment, net	61,123	61,139
Other real estate owned	4,312	2,874
Goodwill	95,519	95,519
Core deposit intangible, net	5,638	5,908
Other assets	105,032	99,189
Total Assets	$ 3,045,757	$ 3,097,079
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$ 474,736	$ 466,078
Interest-bearing	1,869,670	1,916,073
Total deposits	2,344,406	2,382,151
Federal Home Loan Bank and Federal Reserve Bank borrowings	183,000	200,000
Securities sold under agreements to repurchase	25,000	25,000
Other borrowings	275	201
Long-term subordinated debt	25,620	25,603
Other liabilities	51,739	48,739
Total liabilities	2,630,040	2,681,694
Commitments and contingent liabilities		
Shareholders' equity:		

	March 31, 2009	December 31, 2008		
Preferred stock (no par value, 76,898 aggregate liquidation preference)				
Authorized shares	2,000	2,000		
Issued and outstanding	77	77	73,875	73,743
Common Stock (no par value)				
Authorized shares	63,033	63,033		

Issued and outstanding	18,254	18,151	233,704	233,192
Retained earnings			102,753	103,061
Accumulated other comprehensive income			5,385	5,389
Total shareholders' equity			415,717	415,385
Total Liabilities and Shareholders' Equity			$ 3,045,757	$ 3,097,079

See accompanying notes to unaudited consolidated condensed financial statements.

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

	Preferred Stock		Common Stock			Accumulated Other	Total
(in thousands)	Number of Shares	Amount	Number of Shares	Amount	Retained Earnings	Comprehensive Income (Loss)	Shareholders' Equity
Balance at January 1, 2008	- -	$ - -	17,953	$ 226,550	$ 110,169	$ 5,012	$ 341,731
Cumulative effect of applying EITF 06-4 consensus	- -	- -	- -	- -	(2,155)	- -	(2,155)
Adjusted balance	- -	- -	17,953	226,550	108,014	5,012	339,576
Comprehensive income:							
Net income	- -	- -	- -	- -	10,977	- -	10,977
Other comprehensive income, net of tax:							
Net unrealized gain from securities, net of reclassification adjustments	- -	- -	- -	- -	- -	1,904	1,904
Net unrealized gain from cash flow hedging instruments	- -	- -	- -	- -	- -	663	663
Total comprehensive income							13,544
Common stock issued - stock option and other plans	- -	- -	67	1,084	- -	- -	1,084
Common stock issued - restricted stock awards, net of cancelled awards	- -	- -	64	- -	- -	- -	- -
Share-based payment	- -	- -	- -	384	- -	- -	384
Tax benefit associated with share-based compensation	- -	- -	- -	138	- -	- -	138
Cash dividends paid on common stock	- -	- -	- -	- -	(3,059)	- -	(3,059)
Balance at March 31, 2008	- -	$ - -	18,084	$ 228,156	$ 115,932	$ 7,579	$ 351,667
Balance at January 1, 2009	77	$ 73,743	18,151	$ 233,192	$ 103,061	$ 5,389	$ 415,385
Comprehensive income:							
Net income	- -	- -	- -	- -	1,512	- -	1,512
Other comprehensive loss, net of tax:							
Net unrealized gain from securities, net of reclassification adjustments	- -	- -	- -	- -	- -	1,113	1,113
Net unrealized loss from cash flow hedging instruments	- -	- -	- -	- -	- -	(428)	(428)
Net unrealized loss from unfunded defined benefit plan liability	- -	- -	- -	- -	- -	(689)	(689)
Total comprehensive income							1,508
Accretion of preferred stock discount	- -	132	- -	- -	(132)	- -	- -

Common stock issued - stock option and other plans	- -		20	242	- -	- -	242
Common stock issued - restricted stock awards, net of cancelled awards	- -	- -	83	- -	- -	- -	- -
Share-based payment	- -	- -	- -	302	- -	- -	302
Tax benefit deficiency associated with share-based compensation	- -	- -	- -	(32)	- -	- -	(32)
Preferred dividends accrued/paid	- -	- -	- -	- -	(961)	- -	(961)
Cash dividends paid on common stock	- -	- -	- -	- -	(727)	- -	(727)
Balance at March 31, 2009	77	$ 73,875	18,254	$ 233,704	$ 102,753	$ 5,385	$ 415,717

See accompanying notes to unaudited consolidated condensed financial statements

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

	Three Months Ended March 31,	
(in thousands)	2009	2008
Cash Flows From Operating Activities		
Net Income	$ 1,512	$ 10,977
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan and lease losses	11,000	2,076
Deferred income tax benefit	(359)	(220)
Excess tax benefit from stock-based compensation	- -	(138)
Stock-based compensation expense	302	384
Depreciation, amortization and accretion	1,673	1,708
Net realized gain on sale of securities	- -	(882)
Net realized gain on sale of other assets	(15)	(46)
Gain on termination of cash flow hedging instruments	(663)	- -
Net change in:		
Loans held for sale	(1,783)	(1,462)
Interest receivable	258	422
Interest payable	(1,199)	1,204
Other assets	(5,717)	(3,789)
Other liabilities	3,335	3,243
Net cash provided by operating activities	8,344	13,477
Cash Flows From Investing Activities		
Purchases of securities available for sale	(27,117)	(76,907)
Proceeds from sales of securities available for sale	- -	51,358
Proceeds from principal repayments and maturities of securities available for sale	13,218	8,545
Loans originated and acquired, net of principal collected	34,309	(19,489)
Purchases of premises and equipment	(1,178)	(1,425)
Proceeds from disposal of premises and equipment	- -	12
Purchase of FHLB stock	- -	(4,834)
Proceeds from termination of cash flow hedging instruments	- -	8,093
Proceeds from sales of other real estate and other personal property owned	1,297	204
Net cash provided by(used in) investing activities	20,529	(34,443)
Cash Flows From Financing Activities		
Net increase(decrease) in deposits	(37,745)	28,453
Proceeds from Federal Home Loan Bank and Federal Reserve Bank borrowings	414,000	873,268
Repayment from Federal Home Loan Bank and Federal Reserve Bank borrowings	(431,000)	(874,538)
Proceeds from repurchase agreement borrowings	- -	25,000
Net increase in other borrowings	74	260
Cash dividends paid	(1,624)	(3,059)
Proceeds from issuance of common stock	210	1,084
Excess tax benefit from stock-based compensation	- -	138

Net cash provided by(used in) financing activities		(56,085)		50,606
Increase(decrease) in cash and cash equivalents		(27,212)		29,640
Cash and cash equivalents at beginning of period		88,730		93,975
Cash and cash equivalents at end of period	$	61,518	$	123,615
Supplemental Information:				
Cash paid for interest	$	9,325	$	16,902
Cash paid for income tax	$	500	$	150
Loans transferred to other real estate owned	$	2,738	$	- -

See accompanying notes to unaudited consolidated condensed financial statements.

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NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
Columbia Banking System, Inc.

1. Basis of Presentation and Significant Accounting Policies

(a) Basis of Presentation

The interim unaudited consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for condensed interim financial information and with instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain financial information and footnotes have been omitted or condensed. The consolidated condensed financial statements include the accounts of the Company, and its wholly owned banking subsidiary Columbia Bank. All intercompany transactions and accounts have been eliminated in consolidation. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair statement of the results for the interim periods presented have been included. The results of operations for the three months ended March 31, 2009 are not necessarily indicative of results to be anticipated for the year ending December 31, 2009. The accompanying interim unaudited consolidated condensed financial statements should be read in conjunction with the financial statements and related notes contained in the Company's 2008 Annual Report on Form 10-K.

(b) Significant Accounting Policies

The significant accounting policies used in preparation of our consolidated financial statements are disclosed in our 2008 Annual Report on Form 10-K. There have not been any other changes in our significant accounting policies compared to those contained in our 2008 10-K disclosure for the year ended December 31, 2008.

2. Accounting Pronouncements Recently Issued or Adopted

Recently Issued Accounting Pronouncements

In April 2009, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments. This FSP amends the other-than-temporary impairment guidance in U.S. GAAP for debt securities to make it more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities. This FSP will be effective for interim and annual reporting periods ending after June 15, 2009 with early adoption permitted for periods ending after March 15, 2009. The Company plans to adopt this FSP for its interim reporting period ending June 30, 2009. The Company is evaluating the effect on its financial condition and results of operations of applying the guidance in this FSP.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, Interim Disclosures about FairValue of Financial Instruments. This FSP requires disclosures about the fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods. This FSP will be effective for interim reporting periods ending after June 15, 2009 with early adoption permitted for periods ending after March 15, 2009. The Company plans to adopt this FSP for its interim reporting period ending June 30, 2009. Because FSP No 107-1 impacts the Company's disclosure and not its accounting treatment for financial instruments, adoption of this FSP will not impact the Company's financial condition or results of operations.

In April 2009, the FASB issued FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. This FSP provides additional guidance for estimating fair value in accordance with FASB Statement No. 157, Fair Value Measurements, when the transaction volume and level of market activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. This FSP will be effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. Early adoption is permitted for periods ending after March 15, 2009. The Company plans to adopt this FSP for its interim reporting period ending June 30, 2009. The Company is evaluating the effect on its financial condition and results of operations of applying the guidance in this FSP.

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In April 2009, the FASB issued FSP FAS 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies. This FSP amends and clarifies FASB Statement No. 141 (revised 2007), Business Combinations, to address application issues raised by preparers, auditors, and members of the legal profession on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. This FSP is effective for assets or liabilities arising from contingencies in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008.

In April 2009, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 111. This SAB amends and replaces Topic 5.M. in the SAB series entitled Other Than Temporary Impairment of Certain Investments in Debt and Equity Securities to exclude debt securities from its scope. The SEC released SAB No. 111 in response to the FASB's issuance of FSP FAS 115-2 and FAS 124-2, which provided guidance for assessing whether an impairment of a debt security is other than temporary. The Company will continue to apply the guidance in SAB Topic 5.M in assessing whether an impairment of an equity security is other than temporary.

Recently Adopted Accounting Pronouncements

In June 2008, the FASB issued FSP EITF 03-6-1, Determining Whether Instruments Granted in Share-Base Payment Transactions Are Participating Securities ("FSP EITF 03-6-1"). Under this FSP, unvested share-based payment awards that contain nonforfeitable rights to dividends will be considered to be a separate class of common stock and will be included in the basic EPS calculation using the two-class method that is described in FASB Statement No. 128, Earnings per Share. This FSP became effective for the Company on January 1, 2009, and required retrospective adjustment of all prior periods presented (see Note 3).

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133 ("SFAS 161"). This Statement amends and requires enhanced qualitative, quantitative and credit risk disclosures about an entity's derivative and hedging activities, but does not change the scope or accounting principles of Statement No. 133. SFAS 161 became effective for fiscal years and interim periods beginning after November 15, 2008. Because SFAS 161 impacts the Company's disclosure and not its accounting treatment for derivative financial instruments and related hedged items, adoption of SFAS 161 did not impact the Company's financial condition or results of operations (See Note 10).

3. Earnings per Common Share

Basic 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. The Company calculates earnings per share using the two-class method as described in SFAS 128 (see Note 2). Application of the two-class method had no impact on earnings per share. The following table sets forth the computation of basic and diluted earnings per share for the three months ended March 31, 2009 and 2008:

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(in thousands except per share)	Three Months Ended March 31, 2009	2008
Net income	$ 1,512	$ 10,977
Less: Preferred dividends	(961)	- -
Less: Accretion of issuance discount for preferred stock	(132)	- -
Net income applicable to common shareholders	$ 419	$ 10,977
Basic weighted average common shares outstanding	17,980	17,850
Dilutive effect of potential common shares from:		
Awards granted under equity incentive program	7	128
Diluted weighted average common shares outstanding	17,987	17,978
Earnings per common share:		
Basic	$ 0.02	$ 0.61
Diluted	$ 0.02	$ 0.61

Options under the equity compensation plan to purchase an additional 186,674 and 36,981 shares of common stock were outstanding at March 31, 2009 and 2008, respectively and were not included in the above computations of diluted earnings per share because their inclusion would have had an antidilutive effect. Also outstanding at March 31, 2009 and excluded from the above computations of diluted earnings per share because of its antidilutive effect was a warrant to acquire an additional 796,046 shares of common stock that was issued to the U.S. Department of Treasury as part of the Capital Purchase Program.

4. Dividends

Subsequent to quarter end, on April 22, 2009, the Company declared a quarterly cash dividend of $0.01 per share, payable on May 20, 2009, to shareholders of record at the close of business May 6, 2009. The decision to reduce the quarterly dividend as compared to recent quarters was based upon the Board of Directors' review of the Company's dividend payout ratio and dividend yield balanced with the Company's desire to retain capital. On January 29, 2009, the Company declared a quarterly cash dividend of $0.04 per share, payable on February 25, 2009 to shareholders of record as of the close of business on February 11, 2009. 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.

5. Business Segment Information

The Company is managed along two major lines of business: commercial banking and retail banking. The treasury function of the Company, included in the "Other" category, although not considered a line of business, is responsible for the management of investments and interest rate risk.

The Company generates segment results that include balances directly attributable to business line activities. The financial results of each segment are derived from the Company's general ledger system. Overhead, including sales and back office support functions and other indirect expenses are not allocated to the major lines of business. Goodwill resulting from business combinations is included in the Retail Banking segment. Since the Company is not specifically organized around lines of business, most reportable segments comprise more than one operating activity.

The principal activities conducted by commercial banking are the origination of commercial business relationships, private banking services and real estate lending. Retail banking includes all deposit products, with their related fee income, and all consumer loan products as well as commercial loan products offered in the Company's branch offices.

Effective January 1, 2009 the Company began allocating the provision for loan and lease losses to the reportable segments. Prior to 2009, the provision for loan and lease losses was included in the "Other" category. Segment net interest income after provision for loan and lease losses for the prior period has been restated to be comparable to the same line item for the current period.

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The organizational structure of the Company and its business line financial results are not necessarily comparable with information from other financial institutions. Financial highlights by lines of business are as follows:

	Three Months Ended March 31, 2009			
(in thousands)	Commercial Banking	Retail Banking	Other	Total
Net interest income	$ 10,273	$ 12,317	$ 5,313	$ 27,903
Provision for loan and lease losses	(6,430)	(4,570)	- -	(11,000)
Net interest income after provision for loan and lease losses	3,843	7,747	5,313	16,903
Noninterest income	942	2,250	3,782	6,974
Noninterest expense	(4,396)	(5,394)	(13,391)	(23,181)
Income (loss) before income taxes	389	4,603	(4,296)	696
Income tax benefit				816
Net income				$ 1,512
Total assets	$ 1,474,383	$ 850,778	$ 720,596	$ 3,045,757

	Three Months Ended March 31, 2008			
(in thousands)	Commercial Banking	Retail Banking	Other	Total
Net interest income	$ 13,632	$ 16,051	$ 644	$ 30,327
Provision for loan and lease losses	(1,526)	(550)	- -	(2,076)
Net interest income after provision for loan and lease losses	12,106	15,501	644	28,251
Noninterest income	1,173	2,244	6,740	10,157
Noninterest expense	(2,696)	(9,198)	(11,660)	(23,554)
Income (loss) before income taxes	10,583	8,547	(4,276)	14,854
Income tax provision				(3,877)
Net income				$ 10,977
Total assets	$ 1,491,325	$ 995,845	$ 759,416	$ 3,246,586

6. Fair Value Accounting and Measurement

SFAS 157 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.

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Fair values are determined as follows:

Certain preferred stock securities at fair value are priced using quoted prices for identical instruments in active markets and are classified within level 1 of the valuation hierarchy.

Other securities at fair value are priced using matrix pricing based on the securities' relationship to other benchmark quoted prices, and under the provisions of SFAS 157 are considered a Level 2 input method.

Interest rate swap 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 March 31, 2009 by level within the fair value hierarchy. As required by SFAS 157, 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 Measurements at Reporting Date Using		
(in thousands)	Fair value at March 31, 2009	Level 1	Level 2	Level 3
Assets				
Securities available for sale	$ 544,367	$ 480	$ 543,887	$ - -
Other assets (Interest rate swap agreements)	$ 14,558	$ - -	$ 14,558	$ - -
Liabilities				
Other liabilities (Interest rate swap agreements)	$ 14,558	$ - -	$ 14,558	$ - -

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 by the fair market value of the collateral less estimated costs to sell.

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 financial assets that were accounted for at fair value on a nonrecurring basis at March 31, 2009:

		Fair Value Measurements at Reporting Date Using		
(in thousands)	Fair value at March 31, 2009	Level 1	Level 2	Level 3
Impaired loans	$ 24,459	$ - -	$ - -	$ 24,459
Other real estate owned	720	- -	- -	720

$ 25,179	$ - -	$ - -	$ 25,179

In accordance with SFAS No. 114, Accounting by Creditors for Impairment of a Loan, impaired loans with carrying amounts of $32.7 million had specific valuation allowances totaling $8.3 million recorded during the period, which were included in the allowance for loan and lease losses.

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Other real estate owned totaling $2.7 million was acquired during the quarter. In accordance with Statement of Financial Accounting Standards No.144, Accounting for the Impairment or Disposal of Long-Lived Assets, a portion of these long-lived assets held for sale with a carrying amount of $847,515 was written down to their fair value of $719,500, less cost to sell of $87,500 (or $632,000), resulting in a loss of $215,515, which was charged to the allowance for loan and lease losses during the period.

7. Comprehensive Income

The components of comprehensive income are as follows:

	Three Months Ended March 31,	
(in thousands)	2009	2008
Net income as reported	$ 1,512	$ 10,977
Unrealized gain from securities:		
Net unrealized holding gain from available for sale securities arising during the period, net of tax of ($613) and $(1,385)	1,113	2,475
Reclassification adjustment of net gain from sale of available for sale securities included in income, net of tax of $0 and $311	- -	(571)
Net unrealized gain from securities, net of reclassification adjustment	1,113	1,904
Unrealized gain(loss) from cash flow hedging instruments:		
Net unrealized gain from cash flow hedging instruments arising during the period, net of tax of $0 and $425	- -	739
Reclassification adjustment of net gain included in income, net of tax of $235 and $42	(428)	(76)
Net unrealized gain(loss) from cash flow hedging instruments	(428)	663
Net unrealized loss from unfunded defined benefit plan liability arising during the period, net of tax of $379 and $0	(689)	- -
Total comprehensive income (loss)	$ 1,508	$ 13,544

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

The following table presents activity in the allowance for loan and lease losses for the three months ended March 31, 2009 and 2008:

	Three Months Ended March 31,	
(in thousands)	2009	2008
Beginning balance	$ 42,747	$ 26,599
Provision charged to expense	11,000	2,076
Loans charged off	(9,707)	(1,215)
Recoveries	209	454
Ending balance	$ 44,249	$ 27,914

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

	Three Months Ended March 31,	
(in thousands)	2009	2008
Beginning balance	$ 500	$ 349
Net changes in the allowance for unfunded commitments and letters of credit	50	60
Ending balance	$ 550	$ 409

9. Goodwill and Intangible Assets

At March 31, 2009 and December 31, 2008, the Company had $95.5 million in goodwill. At March 31, 2009 and December 31, 2008, the Company had a core deposit intangible (“CDI”) asset of $5.6 million and $5.9 million, respectively. In accordance with SFAS No. 142, “Goodwill and Other Intangible Assets”, goodwill is not amortized but is reviewed for potential impairment at the reporting unit level during the third quarter on an annual basis 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 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. Amortization expense related to the CDI was $270,000 and $296,000 for the three months ended March 31, 2009 and March 31, 2008, respectively. The Company estimates that aggregate amortization expense on the CDI will be $1.0 million for 2009, $963,000 for 2010, $893,000 for 2011 and $832,000 for 2012. The CDI amortization expense is included in other noninterest expense on the consolidated condensed statements of income.

10. 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 SFAS 133, the instruments are marked to market in earnings.

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The following table presents the fair value of derivative instruments at March 31, 2009 and 2008:

As of March 31,	Asset Derivatives				Liability Derivatives			
	2009		2008		2009		2008	
(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 under Statement 133								
Interest rate contracts	Other assets	$14,558	Other assets	$4,768	Other liabilities	$14,558	Other liabilities	$4,768

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OFOPERATIONS

This discussion should be read in conjunction with the unaudited consolidated condensed financial statements of Columbia Banking System, Inc. (referred to in this report as "we", "our", and "the Company") and notes thereto presented elsewhere in this report and with the December 31, 2008 audited consolidated financial statements and its accompanying notes included in our Annual Report on Form 10-K. In the following discussion, unless otherwise noted, references to increases or decreases in average balances in items of income and expense for a particular period and balances at a particular date refer to the comparison with corresponding amounts for the period or date one year earlier.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q may be deemed to contain forward-looking statements, which management believes to be a benefit to shareholders. These forward looking statements describe management's expectations regarding future events and developments such as future operating results, growth in loans and deposits, continued success of our style of banking and the strength of the local economy. The words "will," "believe," "expect," "should," and "anticipate" and words of similar construction are intended in part to help identify forward looking statements. Future events are difficult to predict, and the expectations described above are necessarily subject to risk and uncertainty that may cause actual results to differ materially and adversely. In addition to discussions about risks and uncertainties set forth from time to time in our filings with the SEC, factors that may cause actual results to differ materially from those contemplated by such forward looking statements include, among others, the following possibilities:

- 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 market could continue to decline;
- credit markets could continue to tighten which may make it difficult to obtain adequate funding for loan growth, which could adversely affect our earnings;
- the financial services industry's reputation could be damaged which could adversely affect our ability to access markets for funding and acquire and retain customers;
- interest rate changes could significantly reduce interest margins and negatively affect funding sources;
- credit quality deterioration that could, among other things, increase defaults and delinquency risks in the Bank's loan portfolio;
- projected business increases following strategic expansion or opening and acquiring new branches could be lower than expected;
- competitive pressure 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;

- legislation or changes in regulatory requirements could adversely affect the businesses in which we are engaged; and

- the efficiencies we expect to receive from our investments in personnel, acquisitions and infrastructure could not realized.

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.

CRITICAL ACCOUNTING POLICIES

Management has identified the accounting policies related to the allowance for loan and lease losses and the valuation and recoverability of goodwill as critical to an understanding of our financial statements. These policies and related estimates are discussed in “Item 7. Management Discussion and Analysis of Financial Condition and Results of Operation” under the headings “Allowance for Loan and Lease Losses” and “Valuation and Recoverability of Goodwill” in our 2008 Annual

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Report on Form 10-K. There have not been any material changes in our critical accounting policies relating to the allowance for loan and lease losses or the valuation and recoverability of goodwill as compared to those disclosed in our 2008 Annual Report on Form 10-K.

OVERVIEW

Earnings Summary

The Company reported net income for the first quarter of $1.5 million and $419,000 net income applicable to common shareholders or $0.02 per diluted common share, compared to net income of $11.0 million or $0.61 per diluted share for the first quarter of 2008. Net income applicable to common shareholders for 2009 excludes the preferred stock dividend of $961,000 and the accretion of the preferred stock discount totaling $132,000. The decline in net income from the prior year was primarily attributable to the large increase in the provision for loan losses in the first quarter of 2009 reflective of the level of net charge-offs and the continued deterioration in credit quality. Return on average assets and return on average equity were 0.20% and 0.49%, respectively, for the first quarter of 2009, compared with returns of 1.39% and 12.60%, respectively for the same period of 2008. The Company's results for the first quarter of 2009 declined from the same period in 2008, as a result of a provision for loan and lease losses of $11.0 million.

Revenue (net interest income plus noninterest income) for the three months ended March 31, 2009 was $34.9 million, 14% lower than the same period in 2008. The decrease was primarily driven by lower interest earned on our loan portfolio due to the decline in interest rates from the first quarter 2008.

Total noninterest expense in the quarter ended March 31, 2009 was $23.2 million, a 2% decrease from the first quarter of 2008. Regulatory premiums and legal and professional fees increased $505,000 and $1.0 million respectively over the same period in 2008. These increases were offset by a decline in compensation and employee benefits expense of $1.5 million.

The provision for loan and lease losses for the first quarter of 2009 was $11.0 million compared with $2.1 million for the first quarter of 2008. The additional provision is due to the continued weakness in the for-sale housing industry resulting from the slowing economic environment and non-accrual loans of $109.3 million at March 31, 2009 compared to $14.4 million at March 31, 2008. The provision increased the Company's total allowance for loan and lease losses to 2.02% of net loans at March 31, 2009 from 1.91% at year-end 2008 and 1.21% at the end of the first quarter 2008. Net charge-offs for the current quarter were $9.5 million compared to $761,000 for the first quarter of 2008.

RESULTS OF OPERATIONS

Our results of operations are dependent to a large degree on our net interest income. We also generate noninterest income through service charges and fees, merchant services fees, and bank owned life insurance. Our operating expenses consist primarily of compensation and employee benefits, occupancy, merchant card processing, data processing and legal and professional fees. Like most financial institutions, our interest income and cost of funds are affected significantly by general economic conditions, particularly changes in market interest rates, and by government policies and actions of regulatory authorities.

Net Interest Income

For the three months ended March 31, 2009 we experienced a slight decrease in our net interest margin when compared to the same period in 2008. This decrease resulted primarily from a decline in the yield on earning assets. For the first quarter of 2009 interest income decreased 26% while interest expense decreased 55%, when compared to the same period in 2008. The decrease in interest income and interest expense for the period is primarily due to rate decreases on both interest-earning assets and interest-bearing liabilities. Finally, like most financial institutions, changes in the target Federal Funds rate may affect our net interest margin.

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

	Three months ending March 31, 2009			Three months ending March 31, 2008		
(in thousands)	Average Balances (1)	Interest Earned / Paid	Average Rate	Average Balances (1)	Interest Earned / Paid	Average Rate
ASSETS						
Loans, net (1) (2)	$ 2,217,909	$ 29,908	5.47%	$ 2,304,588	$ 41,303	7.21%
Securities (2)	543,403	7,341	5.48%	582,056	8,300	5.74%
Interest-earning deposits with banks and federal funds sold	12,947	7	0.23%	19,528	149	3.07%
Total interest-earning assets	2,774,259	$ 37,256	5.45%	2,906,172	$ 49,752	6.89%
Other earning assets	48,748			47,159		
Noninterest-earning assets	234,854			232,682		
Total assets	$ 3,057,861			$ 3,186,013		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Certificates of deposit	$ 749,450	$ 4,901	2.65%	$ 844,845	$ 9,087	4.33%
Savings accounts	126,916	114	0.36%	114,868	115	0.40%
Interest-bearing demand	469,034	678	0.59%	458,865	2,120	1.86%
Money market accounts	523,755	1,199	0.93%	585,517	3,513	2.41%
Total interest-bearing deposits	1,869,155	6,892	1.50%	2,004,095	14,835	2.98%
Federal Home Loan Bank and Federal Reserve Bank borrowings	215,033	765	1.44%	284,054	2,582	3.66%
Securities sold under agreements to repurchase	25,000	118	1.91%	19,231	142	2.98%
Other borrowings and interest-bearing liabilities	247	0	0.60%	5,252	60	4.57%
Long-term subordinated debt	25,610	351	5.56%	25,527	487	7.67%
Total interest-bearing liabilities	2,135,045	$ 8,126	1.54%	2,338,159	$ 18,106	3.11%
Noninterest-bearing deposits	455,698			451,095		
Other noninterest-bearing liabilities	47,366			46,488		
Shareholders' equity	419,752			350,271		
Total liabilities & shareholders' equity	$ 3,057,861			$ 3,186,013		
Net interest income (2)		$ 29,130			$ 31,646	
Net interest margin			4.26%			4.38%

(1) Nonaccrual loans have been included in the tables as loans carrying a zero yield. Interest reversals for the first quarter ended March 31, 2009 related to nonaccrual loans totaled $625,000. Excluding the impact of interest reversals, net interest margin for the quarter would have been 4.35%. Amortized net deferred loan fees were included in the interest income calculations. The amortization of net deferred loan fees was $623,000 and $1.1 million for the three months ended March 31, 2009 and 2008 respectively.

(2) Tax-exempt income is calculated on a tax equivalent basis, based on a marginal tax rate of 35%.

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Provision for Loan and Lease Losses

During the first quarter of 2009, the Company recorded $11 million to its provision for loan and lease losses, compared to $2.1 million for the same period in 2008. The elevated provision is principally due to the weakness in the for-sale housing industry resulting from the slowing economic environment and an increase in non-accrual loans. The additional provision increased the Company's total allowance for loan losses to 2.02% of net loans at March 31, 2009. Comparing first quarter 2009 to the fourth quarter of 2008, the provision for loan and lease losses decreased $2.3 million or 17%. See the discussion under "Nonperforming Assets" for details related to the non-accrual loans.

Noninterest Income

Noninterest income for the first quarter of 2009 was $7.0 million, compared to noninterest income of $10.2 million during the same period last year. The change was primarily a result of the $2.0 million gain on the redemption of Visa and Mastercard shares and the $882,000 gain on the sale of investment securities recorded in the first quarter of 2008. Removing the impact of these non-recurring amounts, noninterest income for the first quarter of 2009 decreased $339,000 from the same period in 2008. This decline in noninterest income was the result of a decrease of $146,000 in merchant card services driven primarily by reduced transaction volume. In addition, decreases totaling $235,000 in other income items such as mortgage banking fees, interest rate swap income and miscellaneous loan fees contributed to the decline in noninterest income. These declines were also driven primarily by reduced transaction volumes. Comparing first quarter 2009 to the fourth quarter 2008, noninterest income increased 10% or $640,000. The increase was attributed to an other-than-temporary impairment charge of $1.0 million for Federal National Mortgage Association and Federal Home Loan Mortgage Corporation equity securities recorded in the fourth quarter of 2008. Eliminating the impact of the reduction in noninterest income in the fourth quarter for the impairment charge, noninterest income declined 5% or $384,000. This decrease is due primarily to gains on disposal of assets recorded in the fourth quarter of 2008.

Noninterest Expense

Noninterest expense for the first quarter of 2009 was $23.2 million, a 2% decrease from $23.6 million a year earlier. Despite the overall decrease in noninterest expense, regulatory premiums in the current quarter increased $505,000 from the same period one year ago. This increase is due to significantly higher FDIC premium assessment rates for the Deposit Insurance Fund. The increased assessment rate is the result of losses incurred by the Deposit Insurance Fund and not directly correlated to the Company's performance. Removing the impact of the increase in FDIC premiums noninterest expense declined 4% or $878,000 from the same period in 2008. This decline was due primarily to reduced expenses related to compensation and benefits, occupancy and other expenses such as postage, supplies and employee-related costs. These expense reductions were offset by an increase in legal and professional fees of $1.0 million compared to the same period in 2008. Legal and professional fees expense for the first quarter 2008 were unusually low due to a recovery of $889,200 related to our Visa litigation reserve recorded in a prior period.

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

(in thousands)	Three months ended March 31, 2009	2008	Increase (Decrease) Amount
Core deposit intangible amortization ("CDI")	$ 270	$ 296	$ (26)
Software support & maintenance	162	200	(38)
Telephone & network communications	359	399	(40)
Federal Reserve Bank processing fees	82	111	(29)
Supplies	189	263	(74)
Postage	311	362	(51)
Investor relations	83	51	32
Travel	89	94	(5)
ATM Network	142	199	(57)
Sponsorships and charitable contributions	145	159	(14)
Directors fees	108	135	(27)
Employee expenses	102	181	(79)
Insurance	116	120	(4)
CRA partnership investment expense (1)	87	128	(41)
Miscellaneous	755	760	(5)
Total other noninterest expense	$ 3,000	$ 3,458	$ (458)

(1) The amounts shown represent pass-through losses from our interests in certain low-income housing related limited partnerships. As a result of these interests we receive federal low-income housing tax credits available under the Internal Revenue Code. For the three months ended March 31, 2009, $127,800 of such credits was taken as a reduction in our current period income tax expense. In addition, our taxable income was decreased by $31,000 for the period ended March 31, 2009 as a result of the tax benefit associated with this investment expense.

In managing our business, we review the efficiency ratio, on a fully taxable-equivalent basis (see definition in table below), which is not defined in accounting principles generally accepted in the United States. Our efficiency ratio [noninterest expense divided by the sum of net interest income and noninterest income on a tax equivalent basis, excluding any gains and losses arising from nonrecurring transactions] was 63.59% for the first quarter 2009, compared to 62.36% for the first quarter of 2008. Due to the low interest rate environment revenues declined faster than expense resulting in an increase in the efficiency ratio.

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The following table presents a reconciliation of the financial data utilized to calculate the efficiency ratio (a non-GAAP financial measure) to the same measures calculated and presented in accordance with GAAP:

Reconciliation of Financial Data to GAAP Financial Measures

	Three Months Ended March 31,	
(in thousands)	2009	2008
Net interest income (1)	$ 27,903	$ 30,327
Tax equivalent adjustment for non-taxable loan and investment securities interest income (2)	1,227	1,319
Adjusted net interest income	$ 29,130	$ 31,646
Noninterest income	$ 6,974	$ 10,157
Gain on sale of investment securities, net	- -	(882)
Redemption of Visa and Mastercard shares	- -	(1,962)
Tax equivalent adjustment for BOLI income (2)	276	272
Adjusted noninterest income	$ 7,250	$ 7,585
Noninterest expense	$ 23,181	$ 23,554
Net gain (loss) on sale of OREO	(47)	23
Reversal of previously accrued Visa litigation expense	- -	889
Adjusted noninterest expense	$ 23,134	$ 24,466
Efficiency ratio	66.33%	65.00%
Efficiency ratio (fully taxable-equivalent)	63.59%	62.36%
Tax Rate	35.00%	35.00%

(1) Amount represents net interest income before provision for loan and lease losses.

(2) Fully taxable-equivalent basis: Non taxable revenue is increased by the statutory tax rate to recognize the income tax benefit of the income realized.

Income Taxes

We recorded an income tax benefit of $816,000 for the first quarter of 2009, compared with a provision of $3.9 million for the same period in 2008. Our effective tax rate remains lower than the statutory tax rate due to our nontaxable income generated from tax-exempt municipal bonds, investments in bank owned life insurance, and low income housing credits. For additional information, please refer to the Company’s annual report on Form 10-K for the year ended December 31, 2008.

Credit Risk Management

The extension of credit in the form of loans or other credit products to individuals and businesses is one of our principal business activities. Our policies and applicable laws and regulations require risk analysis as well as ongoing portfolio and credit management. We manage our credit risk through lending limit constraints, credit review, approval policies, and extensive, ongoing internal monitoring. We also manage credit risk through diversification of the loan portfolio by type of loan, type of industry, type of borrower and by limiting the aggregation of debt limits 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 the borrower to service all of its interest and principal obligations and, as a result, the risk rating may be adjusted accordingly. In the event that full collection of principal and interest is not reasonably assured, the loan is appropriately downgraded and, if warranted, placed on nonaccrual status even though the loan may be current as to principal and interest payments. Additionally, we review these types of loans for impairment in accordance with SFAS No. 114, “Accounting by Creditors for the Impairment of a Loan”. Impaired loans are considered for nonaccrual status and will typically remain as such until all principal and interest payments are brought current and the prospects for future payments in accordance with the loan agreement appear relatively certain.

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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 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 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 monitoring to assess continued performance and proper risk assessment.

We have diversification of loan types within our portfolio. However, we are not immune to the current instability in the residential real estate markets and mortgage-related industries. Accordingly, we will continue to be diligent in our risk management practices and maintain, what we believe, are adequate reserves for probable loan losses.

Loan Portfolio Analysis

We are a full service commercial bank, originating a wide variety of loans, but concentrating our lending efforts on originating commercial business and commercial real estate loans.

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

(in thousands)	March 31, 2009	% of Total	December 31, 2008	% of Total
Commercial business	$ 812,557	37.2%	$ 810,922	36.3%
Real estate:				
One-to-four family residential	54,831	2.5%	57,237	2.6%
Commercial and five or more family residential properties	861,531	39.4%	862,595	38.7%
Total real estate	916,362	41.9%	919,832	41.3%
Real estate construction:				
One-to-four family residential	186,307	8.5%	209,682	9.4%
Commercial and five or more family residential properties	64,712	3.0%	81,176	3.6%
Total real estate construction	251,019	11.5%	290,858	13.0%
Consumer	209,882	9.6%	214,753	9.6%
Subtotal	2,189,820	100.2%	2,236,365	100.2%
Less: Deferred loan fees	(4,065)	-0.2%	(4,033)	-0.2%
Total loans	$ 2,185,755	100.0%	$ 2,232,332	100.0%
Loans Held for Sale	$ 3,747		$ 1,964	

Total loans declined $46.6 million, or 2%, from year-end 2008. The reduction in total loans was driven primarily by decreases in real estate construction related loans. During the period, the Company's exposure to such loans has been reduced through a combination of loan payoffs and pay-downs as well as loan charge-offs. In addition, commercial real estate construction loan totals were reduced through conversion to permanent loans. These reductions are a reflection of management's strategy to shrink the loan portfolio in these categories. Real estate construction declined 14% and consumer loans declined $4.9 million, or 2%, from year-end 2008.

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

Real Estate Loans: These loans are used to collateralize outstanding advances from the FHLB. Those residential loans are secured by properties located within our primary market areas, and typically have loan-to-value ratios of 80% or

lower.

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Generally, commercial and five-or-more family residential real estate loans are made to borrowers who have existing banking relationships with us. Our underwriting standards 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. One-to-four family residential construction loans are originated for the construction of custom homes (where the home buyer is the borrower) and to provide financing to builders for the construction of pre-sold homes and speculative residential construction. 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 five-or-more family residential real estate construction loans generally require that the loan-to-value ratio not exceed 75% and stabilized debt coverage ratios (net operating income divided by annual debt servicing) of 1.2 or better. As noted above, underwriting standards can be influenced by competition and other factors. However, we endeavor to maintain the highest practical underwriting standards while balancing the need to remain competitive in our lending practices.

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

Foreign Loans: Our banking subsidiaries are not involved with loans to foreign companies or foreign countries.

Nonperforming Assets

Nonperforming assets consist of: (i) nonaccrual loans; (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. Collectively, nonaccrual and restructured loans are considered nonperforming loans.

Nonaccrual loans: The consolidated financial statements are prepared according to the accrual basis of accounting. This includes the recognition of interest income on the loan portfolio, unless a loan is placed on a nonaccrual basis, which occurs when there are serious doubts about the collectibility of principal or interest. Generally our policy is to discontinue the accrual of interest on all loans past due 90 days or more and place them on nonaccrual status. When a loan is placed on nonaccrual status, any accrued but unpaid interest on that date is removed from interest income.

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

(in thousands)	March 31, 2009	December 31, 2008
Nonaccrual loans:		
Commercial business	$ 9,346	$ 2,976
Real estate:		
One-to-four family residential	1,500	905
Commercial and five or more family residential real estate	6,794	5,710
Total real estate	8,294	6,615
Real estate construction:		
One-to-four family residential	60,352	69,668
Commercial and five or more family residential real estate	29,853	25,752
Total real estate construction	90,205	95,420
Consumer	1,447	1,152
Total nonaccrual loans	109,292	106,163
Restructured loans:		
One-to-four family residential construction	6,685	- -
Commercial business	1,363	587
Total restructured loans	8,048	587
Total nonperforming loans	117,340	106,750
Other real estate owned	4,312	2,874
Total nonperforming assets	$ 121,652	$ 109,624

As of March 31, 2009, non-performing assets were $121.7 million, compared to $109.6 million at December 31, 2008. The percent of non-performing assets to period-end assets at March 31, 2009 was 3.99% compared to 3.54% for December 31, 2008 and 0.46% at March 31, 2008.

Residential construction loans continue to be the primary component of nonperforming assets, representing $70.3 million, or 58%, of nonperforming assets. Commercial real estate loans account for another $37.7 million, or 31% of non-performing assets. These commercial real estate non-performing assets are primarily centered in condominium development loans of approximately $14.9 million and two retail development loans of approximately $14.9 million. The increase in the Commercial Real Estate category reflects the continued weakness in the for-sale housing industry, as $5.2 million of the $5.5 million increase in this category was related to a condominium project located along the Oregon coast.

In the residential construction segment, there was a modest reduction in non-performing assets of $2.2 million. For the quarter in this segment, the Company added $10.5 million of nonaccrual loans, received $4.4 million in payments, sold $1.3 million of OREO, returned approximately $745,000 to accrual status and had net charge-offs of $6.3 million. Approximately $3.0 million of these net charge-offs were related to credits where the bank had previously written down the loan amount; however, due to continued declines in residential real estate values, we continue to take the prudent step of marking these assets down as we receive updated information concerning the various projects we have financed. This decline in value reflects the market dynamics in the Pacific Northwest, which saw a significant decline in housing values toward the end of 2008 and during the first part of 2009. Prior to December and January, declines in housing values had been modest, ranging from 0.5% to 1.5% per month. This accelerated to 2.5% in December, 2008 and to 3.5% for the month of January, 2009. Given this trend, we reevaluated several non-performing loans and took appropriate action based upon the updated market information. As the market

conditions continue to change over the course of 2009, we will continually reevaluate our non-performing assets to ensure they are appropriately valued.

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Allowance for Loan and Lease Losses

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 SFAS No. 5, "Accounting for Contingencies."

2. Criticized/classified loss reserves on specific relationships. Specific allowances for identified problem loans are determined in accordance with SFAS No. 114, "Accounting by Creditors for Impairment of a Loan."

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, including trends in nonperforming loans

3. Collateral values

4. Seasoning of the loan portfolio

5. Bank regulatory examination results

6. Findings of internal credit examiners

7. Duration of current business cycle

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.

At March 31, 2009, our allowance for loan and lease losses ("ALLL") was $44.2 million, or 2.02% of total loans (excluding loans held for sale) and 38% of nonperforming loans and 36% of nonperforming assets. This compares with an allowance of $42.8 million, or 1.91% of the total loan portfolio (excluding loans held for sale), 40% of nonperforming loans and 39% of nonperforming assets at December 31, 2008.

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

	Three Months Ended March 31,	
(in thousands)	2009	2008
Beginning balance	$ 42,747	$ 26,599
Charge-offs:		
Residential, construction, land & acquisitions	(6,285)	(107)
Commercial business	(2,536)	(359)
Commercial real estate	(703)	- -
Consumer	(183)	(749)
Total charge-offs	(9,707)	(1,215)
Recoveries		
One-to-four family residential	68	- -
Residential construction, land & acquisitions	39	- -
Commercial business	28	31
Commercial real estate:	22	300
Consumer	52	123
Total recoveries	209	454
Net charge-offs	(9,498)	(761)
Provision charged to expense	11,000	2,076
Ending balance	$ 44,249	$ 27,914
Total loans, net at end of period (1)	$ 2,185,755	$ 2,300,465
Allowance for loan and lease losses to period-end loans	2.02%	1.21%

(1) Excludes loans held for sale

In addition to the ALLL, we maintain an allowance for unfunded loan 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.

At March 31, 2009 and December 31, 2008, our allowance for unfunded loan commitments and letters of credit was $550,000 and $500,000, respectively.

Securities

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

At March 31, 2009, the market value of securities available for sale had an unrealized gain, net of tax, of $3.6 million compared to an unrealized gain, net of tax, of $2.5 million at December 31, 2008. The change in market value of securities available for sale is due primarily to fluctuations in interest rates. The Company does not consider these

investment securities to be other than temporarily impaired. In the future, if the impairment is judged to be other than temporary, the cost basis of the individual impaired securities will be written down to fair value; the amount of the write-down could be included in earnings as a realized loss.

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

(in thousands)	March 31, 2009	December 31, 2008
Securities Available for Sale		
U.S. government-sponsored enterprise preferred stock	$ 480	$ 488
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	349,413	341,838
State and municipal securities	192,671	185,653
Other securities	1,803	939
Total	$ 544,367	$ 528,918

Liquidity and Sources of Funds

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

Deposit Activities

Our deposit products include a wide variety of transaction accounts, savings accounts and time deposit accounts. Core deposits (demand deposit, savings, money market accounts and certificates of deposit less than $100,000) decreased $67.4 million, or 3%, since year-end 2008 while certificates of deposit greater than $100,000 decreased $24.3 million, or 7%, from year-end 2008.

We have established a branch system to serve our consumer and business depositors. In addition, management’s strategy for funding asset growth is to make use of brokered and other wholesale deposits on an as-needed basis. At March 31, 2009 brokered and other wholesale deposits (excluding public deposits) totaled $156.1 million, or 7% of total deposits, compared to $102.1 million, or 4% of total deposits, at year-end 2008. The brokered deposits have varied maturities.

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

	March 31, 2009		December 31, 2008		March 31, 2008	
(in thousands)	Balance	% of Total	Balance	% of Total	Balance	% of Total
Core deposits:						
Demand and other non-interest bearing	$ 474,736	20.2%	$ 466,078	19.6%	$ 508,955	20.1%
Interest bearing demand	454,723	19.4%	519,124	21.8%	471,980	18.7%
Money market	528,990	22.6%	530,065	22.3%	584,834	23.2%
Savings	133,517	5.7%	122,076	5.1%	116,486	4.6%
Certificates of deposit less than $100,000	281,660	12.0%	303,704	12.7%	315,720	12.5%
Total core deposits	1,873,626	79.9%	1,941,047	81.5%	1,997,975	79.1%
	314,721	13.4%	338,971	14.2%	411,491	16.3%

Certificates of deposit greater than $100,000						
Wholesale certificates of deposit (CDARS®)	95,817	4.1%	39,903	1.7%	- -	0.0%
Wholesale certificates of deposit	60,242	2.6%	62,230	2.6%	117,048	4.6%
Total deposits	$ 2,344,406	100.0%	$ 2,382,151	100.0%	$ 2,526,514	100.0%

Borrowings

We rely on Federal Home Loan Bank (“FHLB”) advances and Federal Reserve Bank (“FRB”) borrowings as another source of both short and long-term funding. FHLB advances and FRB borrowings are secured by bonds within our

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investment portfolio, one-to-four family real estate mortgages, and other loans. At March 31, 2009, we had FHLB advances and FRB borrowings of $183 million, compared to $200 million at December 31, 2008.

We also utilize wholesale repurchase agreements as a supplement to our funding sources. Our wholesale repurchase agreements are secured by mortgage-backed securities. At March 31, 2009 and December 31, 2008 we had repurchase agreements of $25 million. Management anticipates that we will continue to rely on FHLB advances, FRB borrowings, and wholesale repurchase agreements in the future and we will use those funds primarily to make loans and purchase securities.

During 2001, the Company, through a special purpose trust ("the Trust") participated in a pooled trust preferred offering, whereby the Trust issued $22.0 million of 30 year floating rate capital securities. The capital securities constitute guaranteed preferred beneficial interests in debentures issued by the Trust. The debentures had an initial rate of 7.29% and a rate of 4.75% at March 31, 2009. The floating rate is based on the 3-month LIBOR plus 3.58% and is adjusted quarterly. Through the Trust, we may call the debentures at any time for a premium and after ten years at par, allowing us to retire the debt early if market conditions are favorable. Through the 2007 Town Center Bancorp acquisition, the Company assumed an additional $3.0 million in floating rate trust preferred obligations; these debentures had a rate of 4.84% at March 31, 2009. The floating rate is based on the 3-month LIBOR plus 3.75% and is adjusted quarterly.

The trust preferred obligations are classified as long-term subordinated debt and our related investment in the Trust is recorded in other assets on the consolidated balance sheets. The balance of the long-term subordinated debt was $25.6 million at March 31, 2009 and December 31, 2008. The subordinated debt payable to the Trust is on the same interest and payment terms as the trust preferred obligations issued by the Trust.

Additionally, we have a $20.0 million line of credit with a large commercial bank with an interest rate indexed to LIBOR. The outstanding balance on the line of credit was $100,000 at March 31, 2009 and December 31, 2008. The line matures on June 30, 2009 and, if not renewed, any principle balance outstanding is due at maturity.

Contractual Obligations & Commitments

We are party to many contractual financial obligations, including repayment of borrowings, operating and equipment lease payments, commitments to extend credit and investments in affordable housing partnerships. At March 31, 2009, we had commitments to extend credit of $663.7 million compared to $703.3 million at December 31, 2008.

Capital Resources

Shareholders' equity at March 31, 2009 was $415.7 million, up slightly from $415.4 million at December 31, 2008. Shareholders' equity was 13.6% and 13.4% of total period-end assets at March 31, 2009 and December 31, 2008, respectively.

Capital Ratios: 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.

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The Company and its subsidiaries qualify as "well-capitalized" at March 31, 2009 and December 31, 2008.

	Company		Columbia Bank		Requirements	
	3/31/2009	12/31/2008	3/31/2009	12/31/2008	Adequately capitalized	Well-Capitalized
Total risk-based capital ratio	14.47%	14.25%	11.45%	11.21%	8%	10%
Tier 1 risk-based capital ratio	13.21%	12.99%	10.19%	9.96%	4%	6%
Leverage ratio	11.30%	11.27%	8.75%	8.64%	4%	5%

Stock Repurchase Program

In March 2002 the Board of Directors approved a common stock repurchase program whereby the Company may systematically repurchase up to 500,000 of its outstanding shares of common stock. The Company may repurchase shares from time to time in the open market or in private transactions, under conditions which allow such repurchases to be accretive to earnings while maintaining capital ratios that exceed the guidelines for a well-capitalized financial institution. As of March 31, 2009 we have repurchased 64,788 shares of common stock in this current stock repurchase program, none of which was repurchased in the period covered by this report. Due to our participation in the U.S. Treasury's ("Treasury") Capital Purchase Program, we would first have to obtain approval from the Treasury before commencing any common stock repurchases under this plan.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

A number of measures are used to monitor and manage interest rate risk, including income simulations and interest sensitivity (gap) analyses. An income simulation model is the primary tool used to assess the direction and magnitude of changes in net interest income resulting from changes in interest rates. Basic assumptions in the model include prepayment speeds on mortgage-related assets, cash flows and maturities of other investment securities, loan and deposit volumes and pricing. These assumptions are inherently subjective and, as a result, the model cannot precisely estimate net interest income or precisely predict the impact of higher or lower interest rates on net interest income. Actual results will differ from simulated results due to timing, magnitude and frequency of interest rate changes and changes in market conditions and management strategies, among other factors. At March 31, 2009, based on the measures used to monitor and manage interest rate risk, there has not been a material change in the Company's interest rate risk since December 31, 2008. For additional information, refer to "Management's Discussion and Analysis of Financial Condition and Results of Operation" referenced in the Company's 2008 Annual Report on Form 10-K.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Controls Over Financial Reporting

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

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

The Company and its banking subsidiaries 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.

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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.

We cannot predict the effect of the national economic situation on our future results of operations or stock trading price.

The national economy and the financial services sector in particular, are currently facing challenges of a scope unprecedented in recent history. No one can predict the severity or duration of this national downturn, which has adversely impacted the markets we serve. Any further deterioration in our markets would have an adverse effect on our business, financial condition and results of operations.

We cannot predict the effect of recently enacted and pending federal legislation.

On October 3, 2008, Congress enacted the Emergency Economic Stabilization Act of 2008 (“EESA”), which provides the United States Treasury Department (“Treasury”) with broad authority to implement action intended to help restore stability and liquidity to the US financial markets. The EESA also increased the amount of deposit account insurance coverage from $100,000 to $250,000 effective until December 31, 2009. In early 2009, Treasury also announced the Financial Stability Plan which, among other things, provides a new capital program called the Capital Assistance Program, establishes a public-private investment fund for the purchase of troubled assets and expands the Term Asset-Backed Securities Loan Facility.

The full effect of the broad legislation already enacted and related legislation expected to be enacted in the near future on the national economy and financial institutions, particularly on mid-sized institutions like us, cannot be predicted.

Our ability to access markets for funding and acquire and retain customers could be adversely affected to the extent the financial services industry’s reputation is damaged.

Reputation risk is the risk to liquidity, earnings and capital arising from negative publicity regarding the financial services industry. The financial services industry continues to be featured in negative headlines about the global and national credit crisis and the resulting stabilization legislation enacted by the U.S. federal government. These reports can be damaging to the industry's image and potentially erode consumer confidence in insured financial institutions, such as our banking subsidiary.

We have a concentration of loans secured by real estate.

We have 65% of our loans secured by real estate. The effects of the economic downturn are now significantly impacting our market area. Further downturn in the market areas we serve may cause us to have lower earnings and could increase our credit risk associated with our loan portfolio, as the collateral securing those loans may decrease in value. A continued downturn in the economy could have a material adverse effect both on the borrowers’ ability to repay these loans, as well as the value of the real property held as collateral. Our ability to recover on defaulted loans by foreclosing and selling the real estate collateral would then be diminished and we would be more likely to suffer losses on defaulted loans.

Our loan portfolio mix could result in increased credit risk in a prolonged economic downturn.

Our loan portfolio, is concentrated in permanent commercial real estate loans, commercial business and real estate construction loans, including acquisition and development loans related to the for sale housing industry. 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. These types of loans typically are larger than residential real estate loans and other commercial loans. Because our loan portfolio contains a significant number of commercial business and commercial real estate loans with relatively large balances, the deterioration of one or a few of these loans may cause a considerable increase in our non-performing loans. An increase in non-performing loans could result in a loss of earnings, an increase in the provision for loan losses, or an increase in loan charge-offs, all of which could have an adverse impact on our results of operations and financial condition.

The current economic downturn in the market areas we serve may cause us to have lower earnings and could increase our credit risk associated with our loan portfolio.

The inability of borrowers to repay loans can erode our earnings. Substantially all of our loans are to businesses and individuals in Washington and Oregon, and a continuing decline in the economy of these market areas could impact us adversely. Recently, a series of large Puget Sound-based companies have announced or commenced implementation of

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substantial employee layoffs and scaled back plans for future growth. A further deterioration in economic conditions in the market areas we serve could result in the following consequences, any of which could have an adverse impact on our prospects, results of operations and financial condition:

- loan delinquencies may increase further;
- collateral for loans made may decline 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;
- demand for banking products and services may decline
- low cost or non-interest bearing deposits may decrease; and
- substantial increase in office space availability in downtown Seattle.

Our allowance for loan and lease losses ("ALLL") may not be adequate to cover actual loan losses, which could adversely affect earnings.

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 incorrect assumptions by management in determining the ALLL. Additionally, federal banking regulators, as an integral part of their supervisory function, periodically review our loan portfolio and the adequacy of our ALLL. These regulatory agencies may require us to recognize further loan loss provisions or charge-offs based upon their judgments, which may be different from ours. Increases in the ALLL or charge-offs could have a negative effect on our financial condition and results of operation.

Fluctuating interest rates can adversely affect our profitability.

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 interest paid on deposits, borrowings, and other interest-bearing liabilities. Because of the differences in maturities and repricing characteristics of 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 the Company's interest rate spread, and, in turn, profitability.

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 purchase method of accounting. Under purchase 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 is based on a variety of factors, including the quoted price of our common stock, market prices of common stocks of other banking organizations, common stock trading multiples,

discounted cash flows, and data from comparable acquisitions. There can be no assurance that future evaluations of goodwill will not result in an impairment resulting in write-downs, which could be material.

A continued tightening of the credit markets may make it difficult to obtain adequate funding for loan growth, which could adversely affect our earnings.

A continued tightening of the credit market and the inability to obtain or retain adequate liquidity to fund continued loan growth may negatively affect our asset growth and, therefore, our earnings capability. In addition to deposit growth, maturity of investment securities and loan payments, the Company also relies on alternative funding sources through correspondent banking, wholesale certificates of deposit and borrowing lines with the Federal Reserve Bank and FHLB of Seattle to fund loans. In the event the current economic downturn continues, particularly in the housing market, these

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resources could be negatively affected, both as to price and availability, which would limit and or raise the cost of the funds available to the Company.

We may grow through future acquisitions which could, in some circumstances, adversely affect our profitability measures.

We have in recent years acquired other financial institutions. We may in the future engage in selected acquisitions of additional financial institutions. There are risks associated with any such acquisitions that could adversely affect our profitability. These risks include, among other things, assessing the asset quality of a financial institution being acquired, encountering greater than anticipated cost of incorporating acquired businesses into our operations, and being unable to profitably deploy funds acquired in an acquisition.

We may issue additional equity in connection with any future acquisitions. Such acquisitions and related issuances of equity may have a dilutive effect on earnings per share and the percentage ownership of current shareholders.

Competition in our market areas may limit our future success.

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 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. Some of our competitors have greater financial resources than we do. If we are unable to effectively compete in our market areas, our business, results of operations and prospects could be adversely affected.

The FDIC has increased insurance premiums to rebuild and maintain the federal deposit insurance fund and we may separately incur state statutory assessments in the future.

Based on recent events and the state of the economy, the FDIC has increased federal deposit insurance premiums beginning in the first quarter of 2009. The increase of these premiums will add to our cost of operations and could have a significant impact on the Company. Depending on any future losses that the FDIC deposit insurance fund may suffer due to failed institutions, there can be no assurance that there will not be additional significant premium increases in order to replenish the fund.

On February 27, 2009 the FDIC issued a press release announcing a special Deposit Insurance Fund assessment of 20 basis points on insured institutions and granting the FDIC the authority to impose an additional assessment after June 30, 2009 of up to 10 basis points if necessary. Subject to the passing of certain legislation that would allow the FDIC increased borrowing from the Treasury, the FDIC has indicated that it would significantly reduce the special assessment; however, there can be no assurance that this will occur.

We operate in a highly regulated environment and may be adversely affected by changes in federal state and local laws and regulations.

We are subject to extensive regulation, supervision and examination by federal and state banking authorities. Any change in applicable regulations or federal, state or local legislation could have a substantial impact on us and 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. 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. These powers recently have been utilized more frequently

due to the current economic conditions we are facing. The exercise of regulatory authority may have a negative impact on our financial condition and results of operations.

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

None.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

Item 5. OTHER INFORMATION

None.

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Item 6. EXHIBITS

10.1	Amendment effective February 1, 2009 to the Employment Agreement between the Bank, the Company and Melanie Dressel dated August 1, 2004(1)
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(1) Incorporated by reference to the Company's Current Report on Form 8-K filed February 19, 2009.

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SIGNATURES

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

COLUMBIA BANKING SYSTEM, INC.

Date: May 6, 2009	By	/s/ MELANIE J. DRESSEL Melanie J. Dressel President and Chief Executive Officer (Principal Executive Officer)
Date: May 6, 2009	By	/s/ GARY R. SCHMINKEY Gary R. Schminkey Executive Vice President and Chief Financial Officer (Principal Financial Officer)
Date: May 6, 2009	By	/s/ CLINT E. STEIN Clint E. Stein Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)