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

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

FORM 10-Q

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

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

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

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

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

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No
The number of shares of common stock outstanding at October 31, 2018 was 73,257,775.

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

	September 30, 2018	December 31, 2017
	(in thousands)	
ASSETS		
Cash and due from banks	$220,706	$244,615
Interest-earning deposits with banks	21,456	97,918
Total cash and cash equivalents	242,162	342,533
Debt securities available for sale at fair value	2,921,114	2,737,751
Equity securities at fair value	4,901	5,080
Federal Home Loan Bank stock at cost	16,640	10,440
Loans held for sale	5,275	5,766
Loans, net of unearned income	8,514,317	8,358,657
Less: allowance for loan and lease losses	83,787	75,646
Loans, net	8,430,530	8,283,011
Interest receivable	48,476	40,881
Premises and equipment, net	169,681	169,490
Other real estate owned	7,331	13,298
Goodwill	765,842	765,842
Other intangible assets, net	48,827	58,173
Other assets	295,817	284,621
Total assets	$12,956,596	$12,716,886
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	$5,250,222	$5,081,901
Interest-bearing	5,353,735	5,450,184
Total deposits	10,603,957	10,532,085
Federal Home Loan Bank advances	166,536	11,579
Securities sold under agreements to repurchase	62,197	79,059
Subordinated debentures	35,508	35,647
Junior subordinated debentures	—	8,248
Other liabilities	107,003	100,346
Total liabilities	10,975,201	10,766,964
Commitments and contingent liabilities (Note 12)		
Shareholders' equity:		

	September 30, 2018	December 31, 2017		
	(in thousands)			
Common stock (no par value)				
Authorized shares	115,000	115,000		
Issued and outstanding	73,260	73,020	1,640,140	1,634,705
Retained earnings			411,264	337,442
Accumulated other comprehensive loss			(70,009)	(22,225)
Total shareholders' equity			1,981,395	1,949,922
Total liabilities and shareholders' equity			$12,956,596	$12,716,886

See accompanying Notes to unaudited Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands except per share amounts)			
Interest Income				
Loans	$109,748	$78,641	$318,187	$228,340
Taxable securities	14,654	8,718	39,285	29,172
Tax-exempt securities	3,069	2,718	9,196	8,125
Deposits in banks	104	226	600	268
Total interest income	127,575	90,303	367,268	265,905
Interest Expense				
Deposits	3,193	1,083	8,274	2,778
Federal Home Loan Bank advances	966	163	2,351	979
Subordinated debentures	468	—	1,404	—
Other borrowings	152	128	288	383
Total interest expense	4,779	1,374	12,317	4,140
Net Interest Income	122,796	88,929	354,951	261,765
Provision (recapture) for loan and lease losses	3,153	(648)	12,980	5,304
Net interest income after provision (recapture) for loan and lease losses	119,643	89,577	341,971	256,461
Noninterest Income				
Deposit account and treasury management fees	9,266	7,685	26,689	22,368
Card revenue	3,714	6,735	16,143	18,660
Financial services and trust revenue	2,975	2,645	8,924	8,520
Loan revenue	3,282	3,154	9,522	9,736
Merchant processing revenue	—	—	—	4,283
Bank owned life insurance	1,402	1,290	4,540	4,003
Investment securities losses, net	(62)	—	(73)	—
Change in FDIC loss-sharing asset	—	—	—	(447)
Gain on sale of merchant card services portfolio	—	14,000	—	14,000
Other	442	1,558	2,109	4,938
Total noninterest income	21,019	37,067	67,854	86,061
Noninterest Expense				
Compensation and employee benefits	49,419	39,983	148,938	119,201
Occupancy	8,321	8,085	27,718	22,853
Merchant processing expense	—	—	—	2,196
Advertising and promotion	1,472	969	4,523	2,923
Data processing	4,466	4,122	14,957	13,071
Legal and professional fees	4,695	2,880	12,103	9,196
Taxes, licenses and fees	1,562	1,505	4,547	3,494
Regulatory premiums	904	782	2,778	2,299
Net cost of operation of other real estate owned	485	271	1,244	422
Amortization of intangibles	3,070	1,188	9,346	3,786
Other	8,447	7,752	27,317	25,949
Total noninterest expense	82,841	67,537	253,471	205,390
Income before income taxes	57,821	59,107	156,354	137,132
Income tax provision	11,406	18,338	28,220	40,032

Net Income	$46,415	$40,769	$128,134	$97,100
Earnings per common share				
Basic	$0.63	$0.70	$1.75	$1.67
Diluted	$0.63	$0.70	$1.75	$1.67
Dividends declared per common share	$0.26	$0.22	$0.74	$0.66
Weighted average number of common shares outstanding	72,427	57,566	72,370	57,459
Weighted average number of diluted common shares outstanding	72,432	57,571	72,374	57,465

See accompanying Notes to unaudited Consolidated Financial Statements.

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

	Three Months Ended September 30, 2018	2017
	(in thousands)	
Net income	$46,415	$40,769
Other comprehensive income (loss), net of tax:		
Unrealized gain (loss) from securities:		
Net unrealized holding gain (loss) from available for sale debt securities arising during the period, net of tax of $4,286 and ($312)	(14,149)	549
Net unrealized gain (loss) from securities, net of reclassification adjustment	(14,149)	549
Pension plan liability adjustment:		
Amortization of unrecognized net actuarial loss included in net periodic pension cost, net of tax of ($19) and ($26)	61	46
Pension plan liability adjustment, net	61	46
Other comprehensive income (loss)	(14,088)	595
Total comprehensive income	$32,327	$41,364

	Nine Months Ended September 30, 2018	2017
	(in thousands)	
Net income	$128,134	$97,100
Other comprehensive income (loss), net of tax		
Unrealized gain (loss) from securities:		
Net unrealized holding gain (loss) from available for sale debt securities arising during the period, net of tax of $14,554 and ($4,716)	(48,043)	8,284
Reclassification adjustment of net gain from sale of available for sale debt securities included in income, net of tax of $25 and $0	(81)	—
Net unrealized gain (loss) from securities, net of reclassification adjustment	(48,124)	8,284
Pension plan liability adjustment:		
Reduction in unfunded defined benefit plan liability during the period, net of tax of $0 and ($2,622)	—	4,604
Amortization of unrecognized net actuarial loss included in net periodic pension cost, net of tax of ($56) and ($101)	183	178
Pension plan liability adjustment, net	183	4,782
Other comprehensive income (loss)	(47,941)	13,066
Total comprehensive income	$80,193	$110,166

See accompanying Notes to unaudited Consolidated Financial Statements.

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

	Preferred Stock		Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Number of Shares	Amount	Number of Shares	Amount			
	(in thousands)						
Balance at January 1, 2018	—	$—	73,020	$1,634,705	$337,442	$ (22,225)	$1,949,922
Adjustment to opening retained earnings pursuant to adoption of ASU 2016-01	—	—	—	—	(157)	157	—
Net income	—	—	—	—	128,134	—	128,134
Other comprehensive loss	—	—	—	—	—	(47,941)	(47,941)
Issuance of common stock - stock option and other plans	—	—	45	1,857	—	—	1,857
Activity in deferred compensation plan	—	—	—	7	—	—	7
Issuance of common stock - restricted stock awards, net of canceled awards	—	—	257	6,231	—	—	6,231
Purchase and retirement of common stock	—	—	(62)	(2,660)	—	—	(2,660)
Cash dividends declared on common stock	—	—	—	—	(54,155)	—	(54,155)
Balance at September 30, 2018	—	$—	73,260	$1,640,140	$411,264	$ (70,009)	$1,981,395
Balance at January 1, 2017	9	$2,217	58,042	$995,837	$271,957	$ (18,999)	$1,251,012
Adjustment to opening retained earnings pursuant to adoption of ASU 2016-09	—	—	—	184	(117)	—	67
Net income	—	—	—	—	97,100	—	97,100
Other comprehensive income	—	—	—	—	—	13,066	13,066
Issuance of common stock - stock option and other plans	—	—	49	1,980	—	—	1,980
Issuance of common stock - restricted stock awards, net of canceled awards	—	—	238	5,915	—	—	5,915
Preferred stock conversion to common stock	(9)	(2,217)	102	2,217	—	—	—
Purchase and retirement of common stock	—	—	(55)	(2,246)	—	—	(2,246)
Cash dividends declared on common stock	—	—	—	—	(38,466)	—	(38,466)
Balance at September 30, 2017	—	$—	58,376	$1,003,887	$330,474	$ (5,933)	$1,328,428

See accompanying Notes to unaudited Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2018	2017
	(in thousands)	
Cash Flows From Operating Activities		
Net income	$128,134	$97,100
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan and lease losses	12,980	5,304
Stock-based compensation expense	6,231	5,915
Depreciation, amortization and accretion	25,807	21,483
Investment securities losses, net	73	—
Net realized (gain) loss on sale of premises and equipment, loans held for investment and other assets	142	(189)
Net realized loss on sale and valuation adjustments of other real estate owned	1,299	489
Gain on sale of merchant card services portfolio	—	(14,000)
Gain on bank owned life insurance death benefit	—	(2,980)
Termination of FDIC loss share agreements charge	—	2,409
Originations of loans held for sale	(103,614)	(99,130)
Proceeds from sales of loans held for sale	104,105	97,174
Net change in:		
Interest receivable	(7,595)	(6,089)
Interest payable	618	(21)
Other assets	(2,599)	(4,406)
Other liabilities	5,662	(2,624)
Net cash provided by operating activities	171,243	100,435
Cash Flows From Investing Activities		
Loans originated, net of principal collected	(168,382)	(304,831)
Purchases of:		
Debt securities available for sale	(606,052)	(130,906)
Premises and equipment	(8,253)	(4,380)
Federal Home Loan Bank stock	(136,120)	(92,040)
Proceeds from:		
FDIC reimbursement on loss-sharing asset	—	26
Sales of debt securities available for sale	32,330	—
Principal repayments and maturities of debt securities available for sale	311,956	200,470
Sales of premises and equipment and loans held for investment	14,956	12,157
Sale of merchant card services portfolio	—	14,000
Redemption of Federal Home Loan Bank stock	129,920	92,040
Sales of other real estate and other personal property owned	5,868	1,901
Bank owned life insurance death benefit	5,074	10,745
Payment to FDIC to terminate loss-sharing agreements	—	(4,666)
Payments to FDIC related to loss-sharing asset	—	(210)
Net cash used in investing activities	(418,703)	(205,694)
Cash Flows From Financing Activities		
Net increase in deposits	72,151	282,336
Net decrease in sweep repurchase agreements	(16,862)	(39,889)

Proceeds from:		
Federal Home Loan Bank advances	3,403,000	2,301,000
Federal Reserve Bank borrowings	5,010	10
Exercise of stock options	1,857	1,980
Payments for:		
Repayment of Federal Home Loan Bank advances	(3,248,000)	(2,301,000)
Repayment of Federal Reserve Bank borrowings	(5,010)	(10)
Common stock dividends	(54,149)	(38,466)
Repayment of junior subordinated debentures	(8,248)	—
Purchase and retirement of common stock	(2,660)	(2,246)
Net cash provided by financing activities	147,089	203,715
Increase (decrease) in cash and cash equivalents	(100,371)	98,456
Cash and cash equivalents at beginning of period	342,533	224,238
Cash and cash equivalents at end of period	$242,162	$322,694

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

	Nine Months Ended September 30,	
	2018	2017
	(in thousands)	
Supplemental Information:		
Cash paid during the period for:		
Interest	$11,699	$4,161
Income tax	$12,768	$37,701
Non-cash investing and financing activities		
Loans transferred to other real estate owned	$1,200	$74
Premises and equipment expenditures incurred but not yet paid	$464	$—
Change in dividends payable on unvested shares included in other liabilities	$6	$—

See accompanying Notes to unaudited Consolidated Financial Statements.

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

1. Basis of Presentation, Significant Accounting Policies and Reclassifications

Basis of Presentation

The interim unaudited Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with instructions to Form 10-Q and Article 10 of Regulation S-X. The Consolidated Financial Statements include the accounts of Columbia Banking System, Inc. (“we”, “our”, “Columbia” or the “Company”) and its subsidiaries, including its wholly owned banking subsidiary Columbia State Bank (“Columbia Bank” or the “Bank”) and Columbia Trust Company (“Columbia Trust”). All intercompany transactions and accounts have been eliminated in consolidation. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair statement of the results for the interim periods presented have been included. The results of operations for the nine months ended September 30, 2018 are not necessarily indicative of results to be anticipated for the year ending December 31, 2018. The accompanying interim unaudited Consolidated Financial Statements should be read in conjunction with the financial statements and related notes contained in the Company’s 2017 Annual Report on Form 10-K.

Significant Accounting Policies

The significant accounting policies used in preparation of our Consolidated Financial Statements are disclosed in our 2017 Annual Report on Form 10-K. There have not been any changes in our significant accounting policies compared to those contained in our 2017 Form 10-K disclosure for the year ended December 31, 2017.

Reclassifications

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

2. Accounting Pronouncements Recently Issued

In August 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2018-15, Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract. The amendments in this ASU align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The amendments also require the entity to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement, including reasonably certain renewal periods. The amendments in ASU 2018-15 are effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period. The Company is assessing the impact that this guidance will have on its Consolidated Financial Statements.

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

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

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

In February 2016, the FASB issued ASU 2016-02, Leases. The amendments included in this ASU create a new accounting model for both lessees and lessors. The new guidance requires lessees to recognize lease liabilities, initially measured as the present value of future lease payments, and corresponding right-of-use assets for all leases with lease terms greater than 12 months. This model differs from the current lease accounting model, which does not require such lease liabilities and corresponding right-of-use assets to be recorded for operating leases. The amendments in ASU 2016-02 must be adopted using the modified retrospective approach and will be effective for the first interim or annual period beginning after December 15, 2018. The FASB subsequently issued ASU 2018-11, which allows for an additional (optional) transition method. Early adoption is permitted. During 2017, the Company selected a third-party lease accounting application to assist in the implementation of this new guidance. Significant implementation matters to be addressed by the Company include assessing the impact to our internal controls over financial reporting and documenting the new lease accounting process. At September 30, 2018 the Company's estimate of right-of-use assets and lease liabilities that would be recorded on its January 1, 2019 Consolidated Balance Sheet upon adoption of ASU 2016-02 was between $40.0 million and $50.0 million. This estimate may change depending on the Company's lease activity. Additionally, the Company expects to recognize a cumulative effect adjustment upon adoption to increase the beginning balance of retained earnings as of January 1, 2019 for any remaining deferred gains on sale-leaseback transactions which occurred prior to the date of adoption. The Company had $1.0 million of deferred gains on sale-leaseback transactions as of September 30, 2018. We do not expect a material impact to our Consolidated Statement of Income as a result of this ASU.

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

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

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

3. Business Combinations

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

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

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

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

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

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

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

	Unaudited Pro Forma Nine Months Ended September 30, 2017 (in thousands except per share)
Total revenues (net interest income plus noninterest income)	$ 432,060
Net income	$ 122,410
Earnings per share - basic	$ 1.70
Earnings per share - diluted	$ 1.70

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Noninterest Expense				
Compensation and employee benefits	$923	$3	$3,410	$3
Occupancy	29	593	1,619	945
Advertising and promotion	—	184	534	201
Data processing	20	66	941	539
Legal and professional fees	102	157	893	1,587
Taxes, licenses and fees	—	—	—	3
Other	7	168	771	280

Total impact of acquisition-related costs to noninterest expense	$1,081	$1,171	$8,168	$3,558

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4. Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2018	(in thousands)			
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	$1,997,736	$ 295	$(69,199)	$1,928,832
State and municipal securities	578,132	1,927	(12,241)	567,818
U.S. government agency and government-sponsored enterprise securities	433,267	37	(9,087)	424,217
U.S. government securities	251	—	(4)	247
Total	$3,009,386	$ 2,259	$(90,531)	$2,921,114
December 31, 2017				
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	$1,752,236	$ 1,815	$(27,326)	$1,726,725
State and municipal securities	593,940	6,023	(3,959)	596,004
U.S. government agency and government-sponsored enterprise securities	416,894	642	(2,762)	414,774
U.S. government securities	251	—	(3)	248
Total	$2,763,321	$ 8,480	$(34,050)	$2,737,751

The following table provides the proceeds and both gross realized gains and losses on sales of debt securities available for sale as well as other securities gains and losses for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Proceeds from sales of debt securities available for sale	$—	$ —	$32,330	$ —
Gross realized gains from sales of debt securities available for sale	$—	$ —	$235	$ —
Gross realized losses from sales of debt securities available for sale	—	—	(129)	—
Other securities losses, net (1)	(62)	—	(179)	—
Investment securities losses, net	$(62)	$ —	$(73)	$ —

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

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

	September 30, 2018	
	Amortized Cost	Fair Value
	(in thousands)	
Due within one year	$126,071	$126,253
Due after one year through five years	612,279	598,770
Due after five years through ten years	1,144,161	1,113,290

Due after ten years	1,126,875	1,082,801
Total debt securities available for sale	$3,009,386	$2,921,114

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

	September 30, 2018
	(in thousands)
Washington and Oregon State to secure public deposits	$ 256,078
Federal Reserve Bank to secure borrowings	51,843
Other securities pledged	119,981
Total securities pledged as collateral	$ 427,902

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

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2018	(in thousands)					
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	$1,084,529	$(26,966)	$834,985	$(42,233)	$1,919,514	$(69,199)
State and municipal securities	333,523	(6,833)	96,018	(5,408)	429,541	(12,241)
U.S. government agency and government-sponsored enterprise securities	300,519	(6,269)	120,102	(2,818)	420,621	(9,087)
U.S. government securities	—	—	247	(4)	247	(4)
Total	$1,718,571	$(40,068)	$1,051,352	$(50,463)	$2,769,923	$(90,531)
December 31, 2017						
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	$816,678	$(6,710)	$717,211	$(20,616)	$1,533,889	$(27,326)
State and municipal securities	220,019	(1,723)	75,172	(2,236)	295,191	(3,959)
U.S. government agency and government-sponsored enterprise securities	184,046	(1,006)	155,983	(1,756)	340,029	(2,762)
U.S. government securities	249	(3)	—	—	249	(3)
Total	$1,220,992	$(9,442)	$948,366	$(24,608)	$2,169,358	$(34,050)

At September 30, 2018, there were 481 U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations securities in an unrealized loss position, of which 153 were in a continuous loss position for 12 months or more. The decline in fair value is attributable to changes in interest rates relative to where these investments fall within the yield curve and their individual characteristics. Because the Company does not intend to sell these securities nor does the Company consider it more likely than not that it will be required to sell these securities before the recovery of amortized cost basis, which may be upon maturity, the Company does not consider these investments to be other-than-temporarily impaired at September 30, 2018.

At September 30, 2018, there were 458 state and municipal government securities in an unrealized loss position, of which 92 were in a continuous loss position for 12 months or more. The unrealized losses on state and municipal securities were caused by interest rate changes or widening of market spreads subsequent to the purchase of the individual securities. Management monitors published credit ratings of these securities for adverse changes. As of September 30, 2018, none of the rated obligations of state and local government entities held by the Company had a below investment grade credit rating. Because the credit quality of these securities are investment grade and the Company does not intend to sell these securities nor does the Company consider it more likely than not that it will be required to sell these securities before the recovery of amortized cost basis, which may be upon maturity, the Company does not consider these investments to be other-than-temporarily impaired at September 30, 2018.

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At September 30, 2018, there were 54 U.S. government agency and government-sponsored enterprise securities in an unrealized loss position, of which 14 were in a continuous loss position for 12 months or more. The decline in fair value is attributable to changes in interest rates relative to where these investments fall within the yield curve and their individual characteristics. Because the Company does not currently intend to sell these securities nor does the Company consider it more likely than not that it will be required to sell these securities before the recovery of amortized cost basis, which may be upon maturity, the Company does not consider these investments to be other-than-temporarily impaired at September 30, 2018.

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

5. Loans

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

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

	September 30, 2018			December 31, 2017		
	Loans, excluding PCI loans	PCI Loans	Total	Loans, excluding PCI loans	PCI Loans	Total
	(in thousands)					
Commercial business	$3,554,147	$11,164	$3,565,311	$3,377,324	$12,628	$3,389,952
Real estate:						
One-to-four family residential	232,924	8,356	241,280	188,396	12,395	200,791
Commercial and multifamily residential	3,786,615	66,748	3,853,363	3,825,739	75,594	3,901,333
Total real estate	4,019,539	75,104	4,094,643	4,014,135	87,989	4,102,124
Real estate construction:						
One-to-four family residential	211,629	159	211,788	200,518	177	200,695
Commercial and multifamily residential	349,328	579	349,907	371,931	607	372,538
Total real estate construction	560,957	738	561,695	572,449	784	573,233
Consumer	327,863	8,930	336,793	334,190	11,269	345,459
Less: Net unearned income	(44,125)	—	(44,125)	(52,111)	—	(52,111)
Total loans, net of unearned income	8,418,381	95,936	8,514,317	8,245,987	112,670	8,358,657
Less: Allowance for loan and lease losses	(79,770)	(4,017)	(83,787)	(68,739)	(6,907)	(75,646)
Total loans, net	$8,338,611	$91,919	$8,430,530	$8,177,248	$105,763	$8,283,011
Loans held for sale	$5,275	$—	$5,275	$5,766	$—	$5,766

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

The Company has made loans to executive officers and directors of the Company and related interests. These loans are made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than the normal risk of collectability. The aggregate dollar amount of these loans was $9.7 million and $10.0 million at September 30, 2018 and December 31, 2017, respectively. During the first nine months of 2018, there were $14 thousand in advances and $226 thousand in repayments.

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At September 30, 2018 and December 31, 2017, $3.18 billion and $2.25 billion of commercial and residential real estate loans were pledged as collateral on Federal Home Loan Bank of Des Moines ("FHLB") borrowings and additional borrowing capacity. The Company has also pledged $76.2 million and $70.2 million of commercial loans to the Federal Reserve Bank for additional borrowing capacity at September 30, 2018 and December 31, 2017, respectively.
The following is an analysis of nonaccrual loans as of September 30, 2018 and December 31, 2017:

	September 30, 2018		December 31, 2017	
	Recorded Investment Nonaccrual Loans	Unpaid Principal Balance Nonaccrual Loans	Recorded Investment Nonaccrual Loans	Unpaid Principal Balance Nonaccrual Loans
	(in thousands)			
Commercial business:				
Secured	$45,753	$ 57,049	$45,410	$ 56,865
Unsecured	—	—	50	49
Real estate:				
One-to-four family residential	501	508	785	1,182
Commercial & multifamily residential:				
Commercial land	2,461	2,470	2,628	2,623
Income property	1,873	2,523	4,284	5,410
Owner occupied	6,678	6,992	7,029	7,270
Real estate construction:				
One-to-four family residential:				
Land and acquisition	318	318	25	26
Residential construction	—	—	1,829	1,828