Lehmkuhl Walter G
Form 4
March 04, 2013

FORM 4

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

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Lehmkuhl Walter G

(Last) (First) (Middle)

2211 OLD EARHART ROAD

(Street)

ANN ARBOR, MI 48105

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
Con-way Inc. [CNW]

3. Date of Earliest Transaction (Month/Day/Year)
02/28/2013

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
EVP & President

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	02/28/2013		M		4,800	A	$ 28.92	46,668	D	
Common Stock	02/28/2013		D		4,800	D	$ 35.15	41,868	D	
Common Stock	03/01/2013		M		2,200	A	$ 25.13	44,068	D	
Common Stock	03/01/2013		S		2,200	D	$ 34.9	41,868 (1)	D	
Common Stock								939.8276	I	401(k)

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount Underlying Securitie (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amour or Numbe of Shares
CSAR - Stock Appreciation Right	$ 28.92	02/28/2013		M			4,800	01/01/2013	02/09/2020	Common Stock	4,80
Stock Option (Right to Buy)	$ 25.13	03/01/2013		M			2,200	09/20/2014	09/20/2021	Common Stock	2,20

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Lehmkuhl Walter G 2211 OLD EARHART ROAD ANN ARBOR, MI 48105			EVP & President	

Signatures

By: Jessica Carbullido For: Walter G. Lehmkuhl	03/04/2013
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Includes 34,264 Restricted Stock Units granted under a Con-way Inc. Equity and Incentive Plan. Each restricted stock unit represents a contingent right to receive one share of common stock.

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%

1,041,860

368

0.14
%
Total interest-bearing deposits

3,805,260

929

0.10
%

2,665,094

1,339

0.20
%
Federal Home Loan Bank advances

68,737

135

0.79
%

113,107

745

2.63
%

Other borrowings

25,000

120

1.92
%

25,000

120

1.92
%
Total interest-bearing liabilities

3,898,997

$
1,184

0.12
%

2,803,201

$
2,204

0.31
%
Noninterest-bearing deposits

2,031,758

1,194,190

Other noninterest-bearing liabilities

81,975

69,430

Shareholders’ equity

1,036,134

761,281

Total liabilities & shareholders’ equity

$
7,048,864

$
4,828,102

Net interest income

$
81,911

$
58,790

Net interest margin

5.37
%

5.52
%

(1) Nonaccrual loans have been included in the tables as loans carrying a zero yield. Amortized net deferred loan fees were included in the interest income calculations. The amortization of net deferred loan fees was $783 thousand and $726 thousand for the three months ended September 30, 2013 and 2012, respectively. The accretion of net unearned discounts on other FDIC acquired loans and other acquired loans was $10.3 million and $613 thousand for the three months ended September 30, 2013 and 2012, respectively.

(2) Tax-exempt income is calculated on a tax equivalent basis, based on a marginal tax rate of 35%. The tax equivalent yield adjustment to interest earned on noncovered loans was $127 thousand and $189 thousand for the three months ended September 30, 2013 and 2012, respectively. The tax equivalent yield adjustment to interest earned on tax exempt securities was $1.4 million and $1.3 million for the three months ended September 30, 2013 and 2012, respectively.

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

	Nine Months Ended September 30, 2013			Nine Months Ended September 30, 2012		
	Average Balances	Interest Earned / Paid	Average Rate	Average Balances	Interest Earned / Paid	Average Rate
	(dollars in thousands)					
ASSETS						
Loans, excluding covered loans, net [1] [2]	$3,645,423	$155,611	5.69 %	$2,390,585	$98,794	5.51 %
Covered loans, net [1]	372,817	41,750	14.93 %	501,103	70,653	18.80 %
Taxable securities	1,099,670	14,059	1.70 %	741,274	14,414	2.59 %
Tax exempt securities [2]	311,727	11,310	4.84 %	271,442	11,546	5.67 %
Interest-earning deposits with banks and federal funds sold	151,234	290	0.26 %	294,721	564	0.26 %
Total interest-earning assets	5,580,871	$223,020	5.33 %	4,199,125	$195,971	6.22 %
Other earning assets	106,322			75,645		
Noninterest-earning assets	657,813			522,773		
Total assets	$6,345,006			$4,797,543		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Certificates of deposit	$540,674	$1,572	0.39 %	$557,362	$2,601	0.62 %
Savings accounts	430,134	71	0.02 %	295,359	61	0.03 %
Interest-bearing demand	1,011,570	458	0.06 %	777,352	673	0.12 %
Money market accounts	1,532,171	971	0.08 %	1,043,262	1,344	0.17 %
Total interest-bearing deposits	3,514,549	3,072	0.12 %	2,673,335	4,679	0.23 %
Federal Home Loan Bank advances [3]	60,791	1,055	2.31 %	114,934	2,229	2.59 %
Other borrowings	39,402	615	2.08 %	25,000	358	1.91 %
Total interest-bearing liabilities	3,614,742	$4,742	0.17 %	2,813,269	$7,266	0.34 %
Noninterest-bearing deposits	1,709,532			1,156,304		
Other noninterest-bearing liabilities	67,783			67,753		
Shareholders' equity	952,949			760,217		
Total liabilities & shareholders' equity	$6,345,006			$4,797,543		
Net interest income		$218,278			$188,705	
Net interest margin			5.21 %			5.99 %

(1) Nonaccrual loans have been included in the tables as loans carrying a zero yield. Amortized net deferred loan fees were included in the interest income calculations. The amortization of net deferred loan fees was $2.3 million and $1.5 million for the nine months ended September 30, 2013 and 2012, respectively. The accretion of net unearned discounts on other FDIC acquired loans and other acquired loans was $21.6 million and $4.9 million for the nine months ended September 30, 2013 and 2012, respectively.

(2) Tax-exempt income is calculated on a tax equivalent basis, based on a marginal tax rate of 35%. The tax equivalent yield adjustment to interest earned on noncovered loans was $371 thousand and $572 thousand for the nine months ended September 30, 2013 and 2012, respectively. The tax equivalent yield adjustment to interest earned on tax exempt securities was $4.0 million and $4.1 million for the nine months ended September 30, 2013 and 2012, respectively.

(3)

Federal Home Loan Bank advances includes a prepayment charge of $1.5 million during the nine months ended September 30, 2013.

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The following table sets forth the total dollar amount of change in interest income and interest expense. The changes have been segregated for each major category of interest-earning assets and interest-bearing liabilities into amounts attributable to changes in volume, changes in rates and changes in rates multiplied by volume. Changes attributable to the combined effect of volume and interest rates have been allocated proportionately to the changes due to volume and the changes due to interest rates:

	Three Months Ended September 30, 2013 Compared to 2012 Increase (Decrease) Due to		
	Volume	Rate	Total
	(in thousands)		
Interest Income			
Loans, excluding covered loans, net	$25,154	$3,666	$28,820
Covered loans, net	(5,373)	(1,984)	(7,357)
Taxable securities	2,196	(1,479)	717
Tax exempt securities	779	(685)	94
Interest earning deposits with banks and federal funds sold	(178)	5	(173)
Interest income	$22,578	$(477)	$22,101
Interest Expense			
Deposits:			
Certificates of deposit	$23	$(317)	$(294)
Savings accounts	11	1	12
Interest-bearing demand	66	(145)	(79)
Money market accounts	158	(207)	(49)
Total interest on deposits	258	(668)	(410)
Federal Home Loan Bank advances	(219)	(391)	(610)
Interest expense	$39	$(1,059)	$(1,020)

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The following table sets forth the total dollar amount of change in interest income and interest expense. The changes have been segregated for each major category of interest-earning assets and interest-bearing liabilities into amounts attributable to changes in volume, changes in rates and changes in rates multiplied by volume. Changes attributable to the combined effect of volume and interest rates have been allocated proportionately to the changes due to volume and the changes due to interest rates:

	Nine Months Ended September 30, 2013 Compared to 2012 Increase (Decrease) Due to		
	Volume	Rate	Total
	(in thousands)		
Interest Income			
Loans, excluding covered loans, net	$53,464	$3,353	$56,817
Covered loans, net	(16,024)	(12,879)	(28,903)
Taxable securities	5,572	(5,927)	(355)
Tax exempt securities	1,587	(1,823)	(236)
Interest earning deposits with banks and federal funds sold	(274)	—	(274)
Interest income	$44,325	$(17,276)	$27,049
Interest Expense			
Deposits:			
Certificates of deposit	$(76)	$(953)	$(1,029)
Savings accounts	24	(14)	10
Interest-bearing demand	166	(381)	(215)
Money market accounts	476	(849)	(373)
Total interest on deposits	590	(2,197)	(1,607)
Federal Home Loan Bank advances	(958)	(216)	(1,174)
Other borrowings	221	36	257
Interest expense	$(147)	$(2,377)	$(2,524)

Provision for Loan and Lease Losses

Comparison of current quarter to prior year period

The provision for loan and lease losses for the third quarter of 2013 was $4.3 million for the noncovered loan portfolio and a provision recapture of $947 thousand for the covered loan portfolio compared with a provision of $2.9 million and provision recapture of $4.0 million, respectively, during the third quarter of 2012. The $947 thousand in provision recapture for losses on covered loans in the current period was primarily due to the increase in expected future cash flows as remeasured during current quarter, compared to the expected future cash flows during the first quarter of 2013, net of the actual cash flows received during the quarter. The $947 thousand in provision recapture is substantially offset by a $758 thousand unfavorable adjustment to the change in FDIC loss-sharing asset.

The $4.3 million provision expense for noncovered loan losses recorded during the current quarter was primarily the result of moving from the initial fair value accounting for the loans acquired in the West Coast Bank acquisition to our standard allowance methodology. The initial fair value accounting resulted in a net loan discount of $88.8 million, $19.7 million of which was recognized as interest income on loans subsequent to the acquisition.

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

The provision for loan and lease losses for the nine months ended September 30, 2013 was $5.3 million for the noncovered loan portfolio and a provision recapture of $1.7 million for the covered loan portfolio compared with provisions of $11.1 million and $23.4 million, respectively, during the same period of 2012. The $1.7 million in provision recapture for losses on covered loans in the current period was primarily due to the increase in expected future cash flows during the current period, compared to the expected future cash flows at the end of 2012, net of the actual cash flows received during the current year. The $1.7 million in provision recapture is substantially offset by a $1.3 million unfavorable adjustment to the change in FDIC loss-sharing asset.

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The $5.3 million provision expense for noncovered loan losses was primarily the result of moving from the initial fair value accounting for the loans acquired in the West Coast Bank acquisition to our standard allowance methodology. Net noncovered loan charge-offs for the nine months ended September 30, 2013 were $1.7 million compared to $12.6 million for the same period of 2012. The amount of provision was calculated in accordance with the Company's methodology for determining the ALLL, discussed in Note 6 to the Consolidated Financial Statements in "Item 1. Financial Statements (unaudited)" of this report and was based upon improving credit metrics in the noncovered loan portfolio.

Noninterest Income

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2013	2012	$ Change	% Change	2013	2012	$ Change	% Change
	(dollars in thousands)							
Service charges and other fees	$13,357	$7,609	$5,748	76 %	$34,511	$22,222	$12,289	55 %
Merchant services fees	2,070	2,054	16	1 %	5,934	6,167	(233)	(4)%
Investment securities gains, net	—	—	—	— %	462	62	400	645 %
Bank owned life insurance	904	747	157	21 %	2,610	2,177	433	20 %
Other	3,117	1,630	1,487	91 %	8,017	4,650	3,367	72 %
Subtotal	19,448	12,040	7,408	62 %	51,534	35,278	16,256	46 %
Change in FDIC loss-sharing asset	(11,826)	(12,951)	1,125	(9)%	(35,446)	(14,787)	(20,659)	140 %
Total noninterest income (loss)	$7,622	$(911)	$8,533	(937)%	$16,088	$20,491	$(4,403)	(21)%

Comparison of current quarter to prior year period

Noninterest income was $7.6 million for the third quarter of 2013, compared to a loss of $911 thousand for the same period in 2012. The increase was primarily due to increases of $5.7 million in service charges and other fees and $1.5 million in other noninterest income due to the increased customer base from the West Coast acquisition.

The change in FDIC loss-sharing asset is a significant component of noninterest income. Changes in the asset are primarily driven by amortization of the asset and the provision recorded for reimbursable losses on covered loans. For the third quarter of 2013, there was $9.9 million of amortization of the asset and a $758 thousand decrease in the asset related to the provision recapture recorded for reimbursable losses on covered loans. For the same period in 2012, there was $9.7 million of amortization of the asset and a $3.2 million decrease in the asset related to the provision recapture recorded for reimbursable losses on covered loans. For additional information on the FDIC loss-sharing asset, please see the "FDIC Loss-sharing Asset" section of Management's Discussion and Analysis and Note 8 to the Consolidated Financial Statements in "Item 1. Financial Statements (unaudited)" of this report.

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

For the nine months ended September 30, 2013, noninterest income was $16.1 million compared to $20.5 million for the same period in 2012. The decrease was primarily due to the $35.4 million change in the FDIC loss-sharing asset recorded as a reduction in income during the current year, compared to a $14.8 million reduction in income during the same period of 2012. The decrease was partially offset by increases of $12.3 million in service charges and other fees and $3.4 million in other noninterest income due to the increased customer base from the West Coast acquisition.

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Noninterest Expense

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2013	2012	$ Change	% Change	2013	2012	$ Change	% Change
	(dollars in thousands)							
Compensation	$27,424	$17,873	$9,551	53 %	$74,700	$53,180	$21,520	40 %
Employee benefits	5,445	3,606	1,839	51 %	15,250	10,812	4,438	41 %
Contract labor	418	44	374	850 %	647	492	155	32 %
	33,287	21,523	11,764	55 %	90,597	64,484	26,113	40 %
All other noninterest expense:								
Occupancy	9,264	4,886	4,378	90 %	21,560	15,310	6,250	41 %
Merchant processing	951	921	30	3 %	2,660	2,724	(64)	(2)%
Advertising and promotion	1,165	1,341	(176)	(13)%	3,195	3,342	(147)	(4)%
Data processing and communications	4,285	2,499	1,786	71 %	10,503	7,263	3,240	45 %
Legal and professional services	2,421	2,783	(362)	(13)%	9,975	6,221	3,754	60 %
Taxes, license and fees	1,446	1,124	322	29 %	4,037	3,594	443	12 %
Regulatory premiums	1,372	775	597	77 %	3,406	2,560	846	33 %
Net cost of operation of noncovered other real estate owned	851	(63)	914	(1,451)%	1,190	4,102	(2,912)	(71)%
Net benefit of operation of covered other real estate owned	(1,628)	(1,006)	(622)	62 %	(7,296)	(4,638)	(2,658)	57 %
Amortization of intangibles	1,666	1,093	573	52 %	4,388	3,362	1,026	31 %
FDIC clawback expense (recovery)	(188)	334	(522)	(156)%	242	100	142	142 %
Other	9,822	4,726	5,096	108 %	22,810	16,689	6,121	37 %
Total all other noninterest expense	31,427	19,413	12,014	62 %	76,670	60,629	16,041	26 %
Total noninterest expense	$64,714	$40,936	$23,778	58 %	$167,267	$125,113	$42,154	34 %

Comparison of current quarter to prior year period

Total noninterest expense for the third quarter of 2013 was $64.7 million, an increase of $23.8 million from a year earlier. The increase from the prior-year period was primarily due to acquisition-related expenses of $7.6 million during the current period as well as additional ongoing noninterest expense resulting from the West Coast acquisition.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands except per share amounts)			
Noninterest Expense				
Compensation and employee benefits	$1,572	$1,128	$4,988	$1,128
Occupancy	1,221	—	1,454	—
Advertising and promotion	315	—	820	—
Data processing and communications	329	—	805	—
Legal and professional fees	493	—	4,523	—
Other	3,691	3	4,988	3
Total impact of acquisition-related costs to noninterest expense	$7,621	$1,131	$17,578	$1,131

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

For the nine months ended September 30, 2013, noninterest expense was $167.3 million, an increase of $42.2 million, or 34% from $125.1 million a year earlier. The increase from the prior-year period was due to acquisition-related expenses of $17.6 million recorded during the current year as well as additional ongoing noninterest expense resulting from the West Coast acquisition.

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

	Three Months Ended September 30,		Increase (Decrease)	Nine Months Ended September 30,		Increase (Decrease)
	2013	2012	Amount	2013	2012	Amount
	(in thousands)					
Postage	$1,082	$575	$507	$2,608	$1,495	$1,113
Software support & maintenance	865	304	561	2,193	1,120	1,073
Supplies	514	246	268	1,205	839	366
Insurance	599	244	355	1,453	780	673
ATM Network	597	271	326	1,596	824	772
Travel	629	339	290	1,401	1,040	361
Employee expenses	222	156	66	691	565	126
Sponsorships and charitable contributions	320	212	108	929	584	345
Directors fees	152	140	12	480	407	73
Federal Reserve Bank processing fees	56	48	8	149	172	(23)
CRA partnership investment expense	237	111	126	577	497	80
Investor relations	91	21	70	425	163	262
Other personal property owned	(221)	(107)	(114)	(125)	2,226	(2,351)
Miscellaneous	4,679	2,166	2,513	9,228	5,977	3,251
Total other noninterest expense	$9,822	$4,726	$5,096	$22,810	$16,689	$6,121

In managing our business, we review the efficiency ratio, on a fully taxable-equivalent basis. Our efficiency ratio (noninterest expense, excluding net cost of operation of other real estate, FDIC clawback liability expense and acquisition-related expenses, divided by the sum of net interest income on a tax equivalent basis, excluding incremental accretion income on acquired loan portfolios, premium amortization on acquired securities portfolios, and prepayment charges on FHLB advances, and noninterest income, excluding any gain/loss on sale of investment securities, gain on bank acquisition, and the change in the FDIC indemnification asset) was 66.59% for the third quarter of 2013 compared to 70.36% for the third quarter 2012. For the nine months ended September 30, 2013 and 2012, our efficiency ratios were 66.65% and 70.11%, respectively.

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Explanation of Responses:

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Income Taxes

We recorded an income tax provision of $6.7 million for the third quarter of 2013, compared to a provision of $4.7 million for the same period in 2012. For the nine months ended September 30, 2013 and 2012, we recorded an income tax provision of $19.1 million and $12.2 million, respectively, with an effective tax rate of 32% and 27%, respectively. Our effective tax rate increased during the current year primarily due to the acquisition of West Coast. The majority of West Coast’s operations were located in the State of Oregon which has a state income tax. As a result, a larger portion of our income was subject to state income taxes. In addition, certain acquisition-related costs were not tax deductible which also increased our effective tax rate. Our effective tax rate remained lower than the statutory tax rate due to our nontaxable income generated from tax-exempt loans and 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, 2012.

FINANCIAL CONDITION

Total assets were $7.15 billion as of September 30, 2013, an increase of $2.24 billion, or 46% from $4.91 billion at December 31, 2012 primarily due to the acquisition of West Coast, which closed on April 1, 2013.

Investment Securities

At September 30, 2013, the Company held investment securities totaling $1.57 billion compared to $1.00 billion at December 31, 2012. All of our securities are classified as available for sale and carried at fair value. The increase in the investment securities portfolio from year-end is due to $730.8 million in acquired securities related to the West Coast acquisition, as well as $292.7 million in purchases, partially offset by $407.8 million in maturities and sales, $12.6 million in premium amortization and $35.2 million reduction in fair value of securities in the portfolio. 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.

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

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

At September 30, 2013, the market value of securities available for sale had a net unrealized loss of $2.9 million compared to a net unrealized gain of $32.3 million at December 31, 2012. The change in valuation was the result of fluctuations in market interest rates subsequent to purchase. At September 30, 2013, the Company had $866.8 million of investment securities with gross unrealized losses of $29.7 million; however, we did not consider these investment securities to be other-than-temporarily impaired.

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

	September 30, 2013	December 31, 2012
	(in thousands)	
Securities Available for Sale		
U.S. government agency and government-sponsored enterprise mortgage-backed securities and collateralized mortgage obligations	$861,669	$572,369
State and municipal securities	354,895	285,575
U.S. government and government-sponsored enterprise securities	327,530	120,501
U.S. government securities	20,417	19,828
Other securities	5,140	3,392
Total	$1,569,651	$1,001,665

For further information on our investment portfolio see Note 4 of the Consolidated Financial Statements in "Item 1. Financial Statements (unaudited)" of this report.

Credit Risk Management

The extension of credit in the form of loans or other credit 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. The monitoring process for our loan portfolio includes periodic reviews of individual loans with risk ratings assigned to each loan. 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 the Receivables topic of the FASB ASC. 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.

Loan policies, credit quality criteria, loan portfolio guidelines and other credit approval processes are established under the guidance of our Chief Credit Officer and approved, as appropriate, by the Board of Directors. The Company’s Credit Administration department and loan committee have 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.

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Loan Portfolio Analysis

We are a full service commercial bank, which originates a wide variety of loans, and focuses its lending efforts on originating commercial business and commercial real estate loans.

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

	September 30, 2013	% of Total	December 31, 2012	% of Total
	(dollars in thousands)			
Commercial business	$1,569,343	37.4 %	$1,155,158	45.7 %
Real estate:				
One-to-four family residential	106,686	2.5 %	43,922	1.7 %
Commercial and multifamily residential	2,048,910	48.8 %	1,061,201	42.0 %
Total real estate	2,155,596	51.3 %	1,105,123	43.7 %
Real estate construction:				
One-to-four family residential	53,158	1.3 %	50,602	2.0 %
Commercial and multifamily residential	128,120	3.1 %	65,101	2.7 %
Total real estate construction	181,278	4.4 %	115,703	4.7 %
Consumer	362,808	8.7 %	157,493	6.2 %
Subtotal	4,269,025	101.8 %	2,533,477	100.3 %
Less: Net unearned income	(75,293)	(1.8)%	(7,767)	(0.3)%
Total noncovered loans, net of unearned income	4,193,732	100.0 %	2,525,710	100.0 %
Less: Allowance for loan and lease losses	(55,844)		(52,244)	
Noncovered loans, net	4,137,888		2,473,466	
Covered loans, net of allowance for loan losses of ($22,737) and ($30,056), respectively	302,160		391,337	
Total loans, net	$4,440,048		$2,864,803	
Loans held for sale	$840		$2,563	

Total noncovered loans increased $1.67 billion, or 66%, from year-end 2012. The increase in loans was primarily due to the acquisition of West Coast Bank, which added $1.41 billion at the beginning of the second quarter. In addition to the increase from the acquisition, noncovered loans had organic growth of $241.1 million during the period. The organic growth was centered in commercial business and commercial and multifamily residential real estate loans. The noncovered loan portfolio continues to be diversified, with the intent to mitigate risk by minimizing concentration in any one segment. The $75.3 million in unearned income recorded at September 30, 2013 was comprised of $68.8 million in discount on acquired loans and $6.5 million in deferred loan fees. The $7.8 million in unearned income recorded at December 31, 2012 consisted of $2.2 million in discount on acquired loans and $5.6 million in deferred loan fees.

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Commercial Loans: We are committed to providing competitive commercial lending in our primary market areas. Management expects a continued focus within its commercial lending products and to emphasize, in particular, relationship banking with businesses, and business owners.
Real Estate Loans: One-to-four family residential loans are secured by properties located within our primary market areas and, typically, have loan-to-value ratios of 80% or lower at origination. Our underwriting standards for commercial and multifamily residential loans generally require that the loan-to-value ratio for these loans not exceed 75% of appraised value, cost, or discounted cash flow value, as appropriate, and that commercial properties maintain debt coverage ratios (net operating income divided by annual debt servicing) of 1.2 or better. However, underwriting standards can be influenced by competition and other factors. We endeavor to maintain the highest practical underwriting standards while balancing the need to remain competitive in our lending practices.
Real Estate Construction Loans: We originate a variety of real estate construction loans. Underwriting guidelines for these loans vary by loan type but include loan-to-value limits, term limits and loan advance limits, as applicable. Our underwriting guidelines for commercial and multifamily residential real estate construction loans generally require that the loan-to-value ratio not exceed 75% and stabilized debt coverage ratios (net operating income divided by annual debt servicing) of 1.2 or better. As noted above, underwriting standards can be influenced by competition and other factors. However, we endeavor to maintain the highest practical underwriting standards while balancing the need to remain competitive in our lending practices.
Consumer Loans: Consumer loans include automobile loans, boat and recreational vehicle financing, home equity and home improvement loans and miscellaneous personal loans.
Foreign Loans: The Company has no material foreign activities. Substantially all of the Company’s loans and unfunded commitments are geographically concentrated in its service areas within the states of Washington and Oregon.
Covered Loans: Covered loans are comprised of loans and loan commitments acquired in connection with the 2011 FDIC-assisted acquisitions of First Heritage Bank and Summit Bank, as well as the 2010 FDIC-assisted acquisitions of Columbia River Bank and American Marine Bank. These loans are generically referred to as covered because they are generally subject to one of the loss-sharing agreements between the Company and the FDIC. The loss-sharing agreements relating to the 2010 FDIC-assisted transactions limit the Company’s losses to 20% of the contractual balance outstanding up to a stated threshold amount of $206.0 million for Columbia River Bank and $66.0 million for American Marine Bank. If losses exceed the stated threshold, the Company’s share of the remaining losses decreases to 5%. The loss-sharing agreements relating to the 2011 FDIC-assisted transactions limit the Company's losses to 20% of the contractual balance outstanding. The loss-sharing provisions of the 2011 agreements for commercial and single family residential mortgage loans are in effect for five years and ten years, respectively, from the acquisition dates and the loss recovery provisions for such loans are in effect for eight years and ten years, respectively, from the acquisition dates.

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The following tables are a rollforward of acquired, impaired loans accounted for under ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality for the nine months ended September 30, 2013 and 2012:

	Contractual Cash Flows	Nonaccretable Difference	Accretable Yield	Carrying Amount
	(in thousands)			
Balance at January 1, 2013	$556,108	$(37,371)	$(166,888)	$351,849
Principal reductions	(115,032)	—	—	(115,032)
Accretion of loan discount	—	—	40,240	40,240
Changes in contractual and expected cash flows due to remeasurement	(17,079)	17,656	621	1,198
Reduction due to removals	(16,235)	498	6,544	(9,193)
Balance at September 30, 2013	$407,762	$(19,217)	$(119,483)	$269,062

	Contractual Cash Flows	Nonaccretable Difference	Accretable Yield	Carrying Amount
	(in thousands)			
Balance at January 1, 2012	$835,556	$(91,317)	$(259,669)	$484,570
Principal reductions	(131,812)	—	—	(131,812)
Accretion of loan discount	—	—	69,045	69,045
Changes in contractual and expected cash flows due to remeasurement	(71,478)	51,802	(6,077)	(25,753)
Reduction due to removals	(20,130)	3,138	8,219	(8,773)
Balance at September 30, 2012	$612,136	$(36,377)	$(188,482)	$387,277

For additional information on our loan portfolio, including amounts pledged as collateral on borrowings, see Note 5 and Note 8 to the Consolidated Financial Statements in "Item 1. Financial Statements (unaudited)" of this report.

Nonperforming Assets

Nonperforming assets consist of: (i) nonaccrual loans; (ii) other real estate owned; and (iii) other personal property owned.

Nonaccrual noncovered 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 collectability 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 noncovered loan is placed on nonaccrual status, any accrued but unpaid interest on that date is removed from interest income.

Covered loans: We consider covered loans to be performing due to the application of the yield accretion method under ASC Topic 310-30. Topic 310-30 allows us to aggregate credit-impaired loans acquired in the same fiscal quarter into one or more pools, provided the loans have common risk characteristics. A pool is then accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. The covered loans acquired are and will continue to be subject to the Company’s internal and external credit review and monitoring. Any credit deterioration experienced subsequent to the initial acquisition will result in a provision for loan losses being charged to earnings. These provisions will be mostly offset by an increase to the FDIC loss-sharing asset and will be recognized in noninterest income.

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

	September 30, 2013	December 31, 2012
	(in thousands)	
Nonperforming assets, excluding covered assets		
Nonaccrual loans:		
Commercial business	$11,995	$9,299
Real estate:		
One-to-four family residential	2,220	2,349
Commercial and multifamily residential	14,025	19,204
Total real estate	16,245	21,553
Real estate construction:		
One-to-four family residential	3,685	4,900
Total real estate construction	3,685	4,900
Consumer	4,036	1,643
Total nonaccrual loans	35,961	37,395
Noncovered other real estate owned and other personal property owned	23,641	11,108
Total nonperforming noncovered assets	$59,602	$48,503
Total assets	$7,150,297	$4,906,335
Covered assets, net	314,898	407,693
Noncovered assets	$6,835,399	$4,498,642

At September 30, 2013, nonperforming noncovered assets were $59.6 million, compared to $48.5 million at December 31, 2012. The increase was due to the acquisition of West Coast Bank, which added $33.6 million of nonperforming assets. Exclusive of the West Coast acquisition, nonperforming noncovered assets decreased $22.5 million during the nine months ended September 30, 2013 as a result of $15.0 million in loan payments, $13.4 million in loans returning to accrual status, $9.8 million in OREO and OPPO sales, $5.6 million in loan and OREO write-downs, partially offset by $21.3 million in new nonaccrual loans. The percent of nonperforming, noncovered assets to period-end noncovered assets at September 30, 2013 was 0.87% compared to 1.08% for December 31, 2012.

Other Real Estate Owned: During the nine months ended September 30, 2013, noncovered OREO increased $12.7 million. The following table sets forth activity in noncovered OREO for the nine months ended September 30, 2013 and 2012:

	Nine Months Ended September 30, 2013	2012
	(in thousands)	
Noncovered OREO:		
Balance, beginning of period	$10,676	$22,893
Established through acquisitions	14,708	—
Transfers in, net of write-downs ($90 and $24, respectively)	9,190	6,527
OREO improvements	—	11
Additional OREO write-downs	(1,636)	(4,232)
Proceeds from sale of OREO property	(10,295)	(15,069)
Gain on sale of OREO, net	900	745
Total noncovered OREO, end of period	$23,543	$10,875

Other Personal Property Owned: During the nine months ended September 30, 2013, noncovered OPPO declined $334 thousand as a result of sales.

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Explanation of Responses:

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

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

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

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

In addition to the ALLL, we maintain an allowance for unfunded commitments and letters of credit. We report this allowance as a liability on our Consolidated Balance Sheet. We determine this amount using estimates of the probability of the ultimate funding and losses related to those credit exposures. This methodology is similar to the methodology we use for determining the adequacy of our ALLL. For additional information on our allowance for unfunded commitments and letters of credit, see Note 5 to the Consolidated Financial Statements presented elsewhere in this report.

At September 30, 2013, our allowance for loan and lease losses for noncovered loans was $55.8 million, or 1.33% of total noncovered loans (excluding loans held for sale) and 155% of nonperforming, noncovered loans. This compares with an allowance of $52.2 million, or 2.07% of total noncovered loans (excluding loans held for sale), and 140% of nonperforming, noncovered loans at December 31, 2012. The decrease in the allowance percentage compared to December 31, 2012 resulted from including acquired loans in the ratio, for which only a small allowance was estimated at quarter-end given management's judgment that current net acquisition accounting adjustments still significantly address the estimated credit losses in acquired loans. Excluding acquired loans, the allowance at September 30, 2013 represented 1.73% of noncovered loans. This decrease compared to December 31, 2012 reflects improvements in core asset quality during current year.

Explanation of Responses:

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands)			
Beginning balance	$51,698	$52,196	$52,244	$53,041
Charge-offs:				
Commercial business	(755)	(3,775)	(3,030)	(8,178)
One-to-four family residential	(47)	(49)	(191)	(499)
Commercial and multifamily residential	(657)	(592)	(2,054)	(5,108)
One-to-four family residential construction	—	(325)	(133)	(1,426)
Commercial and multifamily residential construction	—	—	—	(93)
Consumer	(453)	(500)	(1,262)	(1,968)
Total charge-offs	(1,912)	(5,241)	(6,670)	(17,272)
Recoveries				
Commercial business	854	277	1,319	1,314
One-to-four family residential	39	157	180	202
Commercial and multifamily residential	332	446	509	1,338
One-to-four family residential construction	461	404	2,649	906
Commercial and multifamily residential construction	—	63	—	64
Consumer	112	350	353	809
Total recoveries	1,798	1,697	5,010	4,633
Net charge-offs	(114)	(3,544)	(1,660)	(12,639)
Provision (recapture) for loan and lease losses	4,260	2,875	5,260	11,125
Ending balance	$55,844	$51,527	$55,844	$51,527
Total noncovered loans, net at end of period, excluding loans held of sale	$4,193,732	$2,476,844	$4,193,732	$2,476,844
Allowance for loan and lease losses to period-end noncovered loans	1.33%	2.08%	1.33%	2.08%
Allowance for unfunded commitments and letters of credit				
Beginning balance	$2,465	$1,665	$1,915	$1,535
Net changes in the allowance for unfunded commitments and letters of credit	200	250	750	380
Ending balance	$2,665	$1,915	$2,665	$1,915

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FDIC Loss-sharing Asset

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

Subsequent to initial recognition, the FDIC indemnification asset is reviewed quarterly and adjusted for any changes in expected cash flows. These adjustments are measured on the same basis as the related covered loans. Any decrease in expected cash flows from the covered assets due to an increase in expected credit losses will increase the FDIC indemnification asset and any increase in expected future cash flows from the covered assets due to a decrease in expected credit losses will decrease the FDIC indemnification asset. Increases and decreases to the FDIC loss-sharing asset are recorded as adjustments to noninterest income.

At September 30, 2013, the FDIC loss-sharing asset was $53.6 million which was comprised of a $48.4 million FDIC indemnification asset and a $5.2 million FDIC receivable. The FDIC receivable represents the amounts due from the FDIC for claims related to covered losses the Company has incurred net of amounts due to the FDIC relating to shared recoveries.

The following table summarizes the activity related to the FDIC loss-sharing asset for the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands)			
Balance at beginning of period	$67,374	$140,003	$96,354	$175,071
Adjustments not reflected in income				
Cash received from the FDIC	(1,484)	(14,881)	(7,871)	(49,194)
FDIC reimbursable losses, net	(505)	(494)	522	587
Adjustments reflected in income				
Amortization, net	(9,890)	(9,694)	(29,470)	(33,418)
Loan impairment (recapture)	(758)	(3,193)	(1,343)	18,705
Sale of other real estate	(1,479)	(1,315)	(5,076)	(4,881)
Write-downs of other real estate	220	1,141	373	4,503
Other	81	110	70	304
Balance at end of period	$53,559	$111,677	$53,559	$111,677

For additional information on the FDIC loss-sharing asset, please see Note 8 to the Consolidated Financial Statements presented elsewhere in this report.

Liquidity and Sources of Funds

Our primary sources of funds are customer deposits. Additionally, we utilize advances from the FHLB of Seattle, the FRB of San Francisco, 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) increased $1.86 billion since year-end 2012 due to the acquisition of West Coast.

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We have established a branch system to serve our consumer and business depositors. In addition, management's strategy for funding asset growth is to make use of brokered and other wholesale deposits on an as-needed basis. The Company participates in the Certificate of Deposit Account Registry Service (CDARS®) program. CDARS® is a network that allows participating banks to offer extended FDIC deposit insurance coverage on time deposits. The Company also participates in a similar program to offer extended FDIC deposit insurance coverage on money market accounts. These extended deposit insurance programs are generally available only to existing customers and are not used as a means of generating additional liquidity. At September 30, 2013 CDARS® deposits and brokered money market deposits were $76.5 million, or 1% of total deposits, compared to $26.7 million at year-end 2012. The brokered deposits have varied maturities.

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

	September 30, 2013		December 31, 2012	
	Balance	% of Total	Balance	% of Total
	(dollars in thousands)			
Core deposits:				
Demand and other non-interest bearing	$2,110,887	35.5 %	$1,321,171	32.7 %
Interest bearing demand	1,156,045	19.4 %	870,821	21.5 %
Money market	1,604,256	27.0 %	1,043,459	25.8 %
Savings	488,985	8.2 %	314,371	7.8 %
Certificates of deposit less than $100,000	302,785	5.1 %	252,544	6.2 %
Total core deposits	5,662,958	95.2 %	3,802,366	94.0 %
Certificates of deposit greater than $100,000	209,059	3.5 %	212,924	5.3 %
Certificates of deposit insured by CDARS®	23,566	0.4 %	26,720	0.7 %
Brokered money market accounts	52,937	0.9 %	—	— %
Subtotal	5,948,520	100.0 %	4,042,010	100.0 %
Premium resulting from acquisition date fair value adjustment	447		75	
Total deposits	$5,948,967		$4,042,085	

Borrowings

We rely on FHLB advances and FRB borrowings as another source of both short and long-term funding. FHLB advances and FRB borrowings are secured by bonds within our investment portfolio, residential, commercial and commercial real estate loans. At September 30, 2013 we had FHLB advances of $34.0 million, before acquisition date fair value adjustments compared to $6.0 million at December 31, 2012. The increase in FHLB borrowings related to the acquisition of West Coast.

We also utilize wholesale repurchase agreements as a supplement to our funding sources. Our wholesale repurchase agreements are secured by mortgage-backed securities. At September 30, 2013 and December 31, 2012 we had repurchase agreements of $25.0 million, which mature in 2018. Management anticipates 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.

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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 September 30, 2013, we had commitments to extend credit of $1.42 billion compared to $908.5 million at December 31, 2012.

Capital Resources

Shareholders' equity at September 30, 2013 was $1.05 billion, an increase from $764.0 million at December 31, 2012, primarily due to shares issued in conjunction with the acquisition of West Coast. Shareholders' equity was 15% of total period-end assets at September 30, 2013 compared to 16% at December 31, 2012.

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.

The decrease in the Company's capital ratios from December 31, 2012 was primarily due to our deployment of capital for the acquisition of West Coast. The Company and its banking subsidiary qualify as "well-capitalized" at September 30, 2013 and December 31, 2012.

	Company		Columbia Bank		Requirements	
	September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012	Adequately capitalized	Well-Capitalized
Total risk-based capital ratio	14.44 %	20.62 %	13.18 %	17.87 %	8.00 %	10.00 %
Tier 1 risk-based capital ratio	13.18 %	19.35 %	11.92 %	16.60 %	4.00 %	6.00 %
Leverage ratio	10.13 %	12.78 %	8.87 %	11.07 %	4.00 %	5.00 %

Stock Repurchase Program

In 2011, the Board of Directors approved a stock repurchase program authorizing the Company to repurchase up to 2 million shares of its outstanding shares of common stock. The Company intends to purchase the shares from time to time in the open market or in private transactions, under conditions which allow such repurchases to be accretive to earnings per share while maintaining capital ratios that exceed the guidelines for a well-capitalized financial institution. No shares were repurchased under the stock repurchase program during the first nine months of 2013.

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Non-GAAP Financial Measures

The Company considers operating net interest margin to be an important measurement as it more closely reflects the ongoing operating performance of the Company. Despite the importance of the operating net interest margin to the Company, there is no standardized definition for it and, as a result, the Company's calculations may not be comparable with other organizations. Also, there may be limits in the usefulness of this measure to investors. As a result, the Company encourages readers to consider its consolidated financial statements in their entirety and not to rely on any single financial measure.

The following table reconciles the Company's calculation of the operating net interest margin to the net interest margin.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net interest margin	5.37 %	5.52 %	5.21 %	5.99 %
Adjustments to net interest margin to arrive at operating net interest margin:				
Incremental accretion income on FDIC acquired impaired loans	(0.46)%	(1.06)%	(0.55)%	(1.41)%
Incremental accretion income on other FDIC acquired loans	(0.02)%	(0.06)%	(0.05)%	(0.15)%
Incremental accretion income on other acquired loans	(0.66)%	— %	(0.47)%	— %
Premium amortization on acquired securities	0.16 %	— %	0.13 %	— %
Interest reversals on nonaccrual loans	0.02 %	— %	0.02 %	— %
Prepayment charges on FHLB advances	— %	— %	0.04 %	— %
Operating net interest margin	4.41 %	4.40 %	4.33 %	4.43 %

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Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

A number of measures are used to monitor and manage interest rate risk, including income simulations and interest sensitivity (gap) analysis. An income simulation model is the primary tool used to assess the direction and magnitude of changes in net interest income resulting from changes in interest rates. Basic assumptions in the model include prepayment speeds on mortgage-related assets, cash flows and maturities of other investment securities, loan and deposit volumes and pricing. These assumptions are inherently subjective and, as a result, the model cannot precisely estimate net interest income or precisely predict the impact of higher or lower interest rates on net interest income. Actual results will differ from simulated results due to timing, magnitude and frequency of interest rate changes and changes in market conditions and management strategies, among other factors. At September 30, 2013, 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, 2012. For additional information, refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's 2012 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.

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PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

On June 24, 2009, West Coast Trust, which as a result of our recent acquisition of West Coast Bancorp ("West Coast") is now a subsidiary of the Company, was served with an Objection to Personal Representative's Petition and Petition for Surcharge of Personal Representative in Linn County Circuit Court. The petition was filed by the beneficiaries of the estate of Archie Q. Adams, for which West Coast Trust acts as the personal representative. The petitioners allege a breach of fiduciary duty with respect to West Coast Trust's prior sale of real property owned by the Adams estate and sought relief in the form of a surcharge to West Coast Trust of $215.6 million, the amount of the alleged loss to the estate. West Coast Trust filed a motion to dismiss on July 2, 2009, which was granted in a letter ruling dated September 15, 2009. Petitioners appealed and briefs have been filed. Appeals Court oral arguments were heard in November, 2012, and the Company has not yet received the Appeals Court decision. The Company believes the appeal and underlying petition are without merit.

On October 3, 2012, a class action complaint was filed in the Circuit Court of the State of Oregon for the County of Multnomah against West Coast, its directors, and the Company challenging the merger: Gary M. Klein v. West Coast Bancorp, et al., Case No. 1210-12431. The complaint names as defendants West Coast, all of the former members of West Coast's board of directors, and the Company. The complaint alleges that the West Coast directors breached their fiduciary duties to West Coast and West Coast shareholders by agreeing to the merger at an unfair price. The complaint also alleges that the merger was being driven by an unfair process, that the directors approved provisions in the merger agreement that constitute preclusive deal protection devices, that certain large shareholders of West Coast were using the merger as an opportunity to sell their illiquid holdings in West Coast, and that West Coast directors and officers would obtain personal benefits from the merger not shared equally by other West Coast shareholders. The complaint further alleges that West Coast and the Company aided and abetted the directors' alleged breaches of their fiduciary duties. Thereafter, a second lawsuit challenging the merger was filed in the Circuit Court of the State of Oregon for Clackamas County: Leoni v. West Coast Bancorp et al., Case No. CV12100728. The two lawsuits have been consolidated for all purposes in the Circuit Court of the State of Oregon for Multnomah County.

While the Company believes that the claims in both complaints were without merit, the Company agreed, in order to avoid the expense and burden of continued litigation and pursuant to the terms of the proposed settlement, to make certain supplemental disclosures in the joint proxy statement/prospectus related to the merger. Accordingly, prior to the closing of the merger on April 1, 2013, West Coast and the other defendants in the two actions entered into a memorandum of understanding to settle both actions. Pursuant to the memorandum of understanding, Plaintiffs' counsel has conducted certain confirmatory discovery, and the Company has now approved the form of a stipulation of settlement, which is in the process of being finalized and submitted for court approval. The stipulation of settlement is subject to customary conditions, including court approval following notice to West Coast's stockholders. In the event that all of the parties enter into a stipulation of settlement, a hearing will be scheduled at which the Circuit Court of the State of Oregon for Multnomah County will consider the fairness, reasonableness, and adequacy of the settlement. If the settlement is finally approved by the court, it will resolve and release all claims in all actions that were or could have been brought challenging any aspect of the merger, the merger agreement, and any disclosure made in connection therewith, pursuant to terms that will be disclosed to stockholders before final approval of the settlement. There can be no assurance that all of the parties will ultimately enter into the stipulation of settlement or that the Circuit Court of the State of Oregon for Multnomah County will approve the settlement even if all of the parties were to enter into such stipulation. In such event, the proposed settlement as contemplated by the memorandum of understanding may be terminated.

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Item 1A. RISK FACTORS

Refer to Item 1A of Part I of the Company’s Annual Report on Form 10-K for the year ended December 31, 2012 for a discussion of risk factors relating to the Company’s business. The Company believes that there has been no material change in its risk factors as previously disclosed in the Company’s Form 10-K, except for the following additional risk factor.

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

We are from time to time subject to claims and proceedings related to our operations, which now include certain legal proceedings we assumed in connection with our recent acquisition of West Coast. Such claims and legal actions could involve large monetary claims, including civil money penalties or fines imposed by government authorities, and significant defense costs. In that regard, we are currently involved in active assumed legal proceedings. If one or more of those legal proceedings is decided in a manner that is adverse to us it could have a material adverse effect on our business and/or results of operation.

To protect against financial exposure from such claims, we maintain insurance coverage in amounts and with deductibles that we believe are appropriate for our operations. However, our insurance coverage does not cover any civil money penalties or fines imposed by government authorities and may not cover all other claims that might be brought against us or continue to be available to us at a reasonable cost. As a result, we may be exposed to substantial uninsured liabilities, which could adversely affect our business, prospects, results of operations and financial condition. Substantial uninsured legal action against us could have material adverse financial effects or cause significant reputational harm to us, which in turn could harm our business prospects.

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

(a) Not applicable

(b) Not applicable

(c) Not applicable

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

None.

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Item 6. EXHIBITS

10.1+*	Supplemental Executive Retirement Plan Agreement between the Company and Clint Stein, effective June 1, 2013
10.2+*	Supplemental Executive Retirement Plan Agreement between the Company and Andrew McDonald, effective June 1, 2013
31.1+	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2+	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32+	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101+	The following financial information from Columbia Banking System, Inc's. Quarterly Report on Form 10-Q for the quarter ended September 30, 2013 is formatted in XBRL: (i) the Unaudited Consolidated Balance Sheets, (ii) the Unaudited Consolidated Statements of Income, (iii) the Unaudited Consolidated Statements of Comprehensive Income, (iv) the Unaudited Consolidated Statements of Changes in Shareholders' Equity, (v) the Unaudited Consolidated Statements of Cash Flows, and (vi) the Notes to Unaudited Consolidated Financial Statements.

+ Filed herewith
* Management contract or compensatory plan or arrangement

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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:	November 4, 2013	By	/s/ MELANIE J. DRESSEL Melanie J. Dressel President and Chief Executive Officer (Principal Executive Officer)
Date:	November 4, 2013	By	/s/ CLINT E. STEIN Clint E. Stein Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

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