

BUILDING ON



**OUR** STRENGTH



Columbia Banking System, Inc.  
2002 ANNUAL REPORT

**SHAREHOLDER Value.** 2002 was a year in which Columbia Bank's employees and board members met both challenges and opportunities. We worked diligently to improve the Bank's profitability and stayed focused on the quality of our loan portfolio in light of a difficult economic environment. We believe that the steps we have taken and our clear focus have put us in a better position for continued improvement and profitability, for the benefit of our shareholders.

After a disappointing first quarter, due principally to a large charge-off in connection with a now concluded, single problem credit relationship, profitability improved quarter over quarter as we concentrated on refining our operational processes and improving credit quality, while continuing our emphasis on high quality customer service.

**Market GROWTH.** During the first quarter of 2002, we opened our long-awaited Redmond branch and our 2<sup>nd</sup> and Columbia office in downtown Seattle. We are pleased to report that both of these branches have been well received in their communities, and deposit and loan growth have exceeded our expectations. In Pierce County, we opened an auxiliary branch to our Summit location which provides a drive-up facility to complement our very successful in-store operation. And finally, in August 2002, we opened a second Gig Harbor location in a storefront facility within the busy downtown core; this office has been a very successful operation as well. Even though we

have no new branch locations identified to open in the near term, it is still our intent to grow materially by leveraging the infrastructure we already have.

**CB Solutions.** We also have been involved for the past several months in what we call *CB Solutions*. This is an initiative to improve how we do business—to allow our branch staff and lenders to spend more time with our customers. We have been looking at virtually every area of the



Bank to ensure that we are handling transactions in the most efficient way, while always keeping in mind that our organization was built on customer service. The effect of our initiatives to increase noninterest income and decrease the growth of noninterest expense became evident late in the year as we saw fourth-quarter earnings increase 41% over the prior year's fourth quarter.

**BOARD OF DIRECTORS**, pictured above right

*(seated)* **William T. Weyerhaeuser**, Chairman and Interim Chief Executive Officer, Columbia Banking System, Inc.; **Melanie J. Dressel**, President and Chief Operating Officer, Columbia Banking System, Inc.; President and Chief Executive Officer, Columbia Bank. *(standing, from left to right)* **John P. Folsom**, President and Chief Executive Officer, Brown & Brown Insurance, Inc.; **Jack Fabulich**, Honorary Chairman, Parker Paint Manufacturing, Inc.; Commissioner, Port of Tacoma; **Donald Rodman**, Owner and Executive Officer, Rodman Realty; **John A. Halleran**, private investor; **Thomas M. Hulbert**, President and Chief Executive Officer, Hulco, Inc. and Winsor Corporation; **Thomas L. Matson**, Owner and President, Tom Matson Dodge, Inc.; **Richard S. DeVine**, President, Chinook Resources, Inc.; **James M. Will**, President, Titus-Will Enterprises.

# OUR FOCUS

**LENDING Activity.** Loan growth continued to be very slow during the year as we saw less line-of-credit usage than is typical, as businesses were conservative in their borrowing patterns during the unsettled economic times. We saw one rate decline in November. Although there was compression in the net interest margin to a small degree, we worked very diligently to control this during the year. The result was a net interest margin of 4.54% for the first and second quarters, 4.52% for the third quarter, and a decrease to 4.43% in the fourth quarter, following the 50 basis point reduction in the Federal Funds target rate.

In light of the economic environment, we decided to bolster our loan loss allowance by \$15.8 million for 2002 as compared to \$5.8 million in 2001. The 2002 charge-offs included \$5.3 million in connection with the now concluded problem credit relationship with a single borrower that we mentioned previously. Our allowance for loan losses at year end 2002 increased to 1.63% of total loans, up from 1.26% at year end 2001, which we feel is more prudent coverage in light of these uncertain economic times.

**Corporate GOVERNANCE.** As we have all read and heard about, corporate governance is certainly on everyone's mind. We want to use this opportunity to assure our shareholders that we take our corporate governance very seriously. Even though we are a more heavily regulated industry than most, it is more a matter of personal integrity for our directors than a regulatory mandate. Our directors are very proud to serve on the Columbia Bank board and understand the responsibilities that their positions carry.

## **EXECUTIVE OFFICERS**, pictured above right

(clockwise, from bottom left) **Tex Whitney**, Executive Vice President, Retail Banking; **Melanie J. Dressel**, President and Chief Operating Officer, Columbia Banking System, Inc.; President and Chief Executive Officer, Columbia Bank; **H. R. Russell**, Executive Vice President, Senior Lending Officer; **Mark W. Nelson**, Executive Vice President, Senior Credit Officer; **Gary R. Schminkey**, Executive Vice President, Chief Financial Officer.



**COMMUNITY Focus.** Columbia now has 36 branches in Pierce, King, Cowlitz, Thurston and Kitsap counties. We are proud to be the community bank in whatever community we serve. We demonstrate this through our ongoing commitment to contributing generously to a variety of needs in each of our market areas. This is also evidenced through our staff's involvement in the areas in which they live and work.

In the coming months we will focus on the deep roots we have established. We will work to increase our market share around every one of our branches, as well as to build upon our existing customer base by providing real value through our products and services and our local, friendly approach to doing business. We will continue to emphasize our strong commitment to our customers and their communities, and to our valued employees. In turn, we feel this will drive our Company's success and that our shareholders will benefit.

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

William T. Weyerhaeuser

Melanie J. Dressel



# DEEP ROOTS.

Lasting growth.



Columbia Bank  
is all about  
customers.  
That may be a  
tired cliché to  
some banks,  
but to us, it's  
simply the truth.  
We get to know

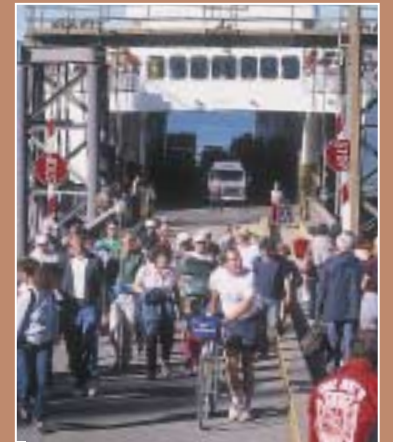
our customers by name. Over time, we earn their trust, respect and loyalty. This firm foundation enables us to set deep roots in the communities we serve, while helping to maintain and grow our customer base consistent with our goals and objectives. We're on a long-term mission—to grow one relationship at a time. It's something we've practiced from the first day we opened our doors, and it continues today. Best of all, customers really do notice the difference.



## PLANTING the seeds for success.

Columbia Bank grew up in The Great Northwest.

It's our home. From the very beginning, we have rooted ourselves within the neighborhoods we serve, and we have remained committed to our role as a vital, contributing



community member.

We've witnessed the growth of these communities while helping to play a role

in their success. Whether serving as a trusted financial partner or contributing our time, energy and talents to numerous worthy causes, we will continue to dedicate ourselves to helping build closer, stronger communities—from the ground up.

## Consolidated FINANCIALS 2002

# 2002 HIGHLIGHTS



	2002	2001	% change
<b>FOR THE YEAR</b>			
Net interest income	\$64,289	\$58,205	10%
Provision for loan losses	15,780	5,800	172%
Noninterest income	20,050	17,451	15%
Noninterest expense	53,653	50,954	5%
Net income	10,885	12,513	-13%
<b>PER SHARE</b>			
Basic earnings	\$0.83	\$0.92	-10%
Diluted earnings	0.82	0.91	-10%
Book value	9.95	9.01	10%
<b>AVERAGES</b>			
Total assets	\$1,601,061	\$1,460,263	10%
Interest-earning assets	1,454,714	1,343,410	8%
Loans	1,183,922	1,218,906	-3%
Securities	246,995	100,343	146%
Deposits	1,360,968	1,281,748	6%
Core deposits	885,008	718,262	23%
Shareholders' equity	124,096	120,403	3%
<b>FINANCIAL RATIOS</b>			
Net interest margin	4.50%	4.36%	
Return on average assets	0.68	0.86	
Return on average equity	8.77	10.39	
Efficiency ratio	66.17	68.92	
Average equity to average assets	7.75	8.25	
<b>AT YEAR END</b>			
Total assets	\$1,699,613	\$1,498,294	13%
Loans	1,175,853	1,170,633	0%
Allowance for loan losses	19,171	14,734	30%
Deposits	1,487,153	1,306,750	14%
Core deposits	980,709	846,546	16%
Shareholders' equity	132,384	118,966	11%
Full-time equivalent employees	525	589	-11%
Banking offices	36	32	13%

all dollar figures on this page are in thousands

# CORPORATE DIRECTORY

## Shareholder Information

### Corporate Headquarters

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

### Independent Auditors

Deloitte & Touche, LLP

### Transfer Agent & Registrar

American Stock  
Transfer & Trust Company

### Market Makers

Knight Securities LP  
Hoefler & Arnett, Inc.  
Spears, Leeds & Kellogg  
Keefe, Bruyette & Woods  
Morgan Stanley & Co., Inc.  
RBC Dain Rauscher, Inc.

### Regulatory & Securities Counsel

Graham & Dunn PC

### Annual Meeting

Sheraton Tacoma Hotel  
1320 Broadway Plaza  
Tacoma, Washington  
Wednesday, April 23, 2003  
1:00 p.m.

### Stock Listing

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

### Financial Information

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

**Internet:** For information about Columbia, including news and financial results, product information and service locations, access our Web site at [www.columbiabank.com](http://www.columbiabank.com). You can also view or retrieve copies of Columbia's financial reports online by visiting [www.sec.gov](http://www.sec.gov). Immediate access to the Company's quarterly earnings news releases via the Internet is provided by Company News On Call at [www.prnewswire.com](http://www.prnewswire.com).

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

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Director of Marketing  
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# BRANCH Locations

## PIERCE COUNTY

**13th & A**  
1301 A Street  
Suite 100  
Tacoma, WA 98402  
253.396.6900  
Michael Block

**Allenmore**  
1959 South Union  
Tacoma, WA 98405  
253.627.6909

**Bonney Lake**  
19925 State Rte 410 E  
Bonney Lake, WA 98390  
253.863.8500  
Lillian McGinnis

**Broadway Plaza**  
1102 Broadway Plaza  
Tacoma, WA 98402  
253.305.1940  
Michael Block

**Edgewood/Milton**  
1250 Meridian E  
Milton, WA 98354  
253.952.6646  
Dolores Ehli

**Fife**  
1501 54th Ave. E  
Fife, WA 98424  
253.922.7870  
Julie Borell

**Fircrest**  
2401 Mildred St. W  
Tacoma, WA 98466  
253.566.1172  
Dan Patjens

**Gig Harbor**  
5303 Point Fosdick Dr. NW  
Gig Harbor, WA 98335  
253.858.5105  
Chris Thomas

**Downtown Gig Harbor**  
3006 Judson St.  
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Gig Harbor, WA 98335  
253.851.5551  
Ellen Dunn

**Lakewood**  
6202 Mount Tacoma Dr. SW  
Lakewood, WA 98499  
253.581.4232  
Jay Mayer

**Martin Luther King**  
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Tacoma, WA 98405  
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Calvin Pearson

**Old Town**  
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Tacoma, WA 98403  
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Connie Nelson

**104th & Canyon**  
10321 Canyon Road E  
Puyallup, WA 98373  
253.539.7100  
Debra Hamilton

**43rd & Meridian**  
4220 South Meridian  
Puyallup, WA 98373  
253.770.0770  
Stan Ausmus

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

**South Hill Mall**  
3500 South Meridian  
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Puyallup, WA 98373  
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Stan Ausmus

**Spanaway**  
17502 Pacific Ave. S  
Spanaway, WA 98387  
253.539.3094

**Stadium**  
601 North 1st St.  
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253.597.8811  
Monica Stevens

**Summit**  
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253.770.9323  
Debra Hamilton

**84th & Pacific**  
201 South 84th St.  
Tacoma, WA 98444  
253.471.7000  
Keith Brown

**Westgate**  
5727 North 21st St.  
Tacoma, WA 98406  
253.761.8170  
Connie Pentecost

## KING COUNTY

**Auburn**  
25 16th St. NE  
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Rebecca Holverson

**Federal Way**  
33370 Pacific Highway S  
Federal Way, WA 98003  
253.925.9323  
Mike Harris

**Forest Villa**  
2749 Auburn Way S  
Auburn, WA 98002  
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Rod Clemmer

**Issaquah**  
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Issaquah, WA 98027  
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**Kent**  
504 West Meeker  
Kent, WA 98032  
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Shirley McGregor

**Redmond**  
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Judi Lindsay

**South Auburn**  
4101 A St. SE  
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Rod Clemmer

**2nd & Columbia**  
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Seattle, WA 98104  
206.223.1000  
Kellie Warren

## COWLITZ COUNTY

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

**30th Avenue**  
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Longview, WA 98632  
360.423.8760  
Faith Pacheco

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

## KITSAP COUNTY

**Port Orchard**  
228 Bravo Terrace  
Port Orchard, WA 98367  
360.876.8384  
Rob Putaansuu

## THURSTON COUNTY

**West Olympia**  
2820 Harrison Ave. NW  
Olympia, WA 98502  
360.357.5800  
Diane Avery

