

COLUMBIA BANKING SYSTEM INC

Form 424B3

May 21, 2007

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Registration No. 333-142648

PROXY STATEMENT

PROSPECTUS OF

OF MOUNTAIN BANK HOLDING COMPANY

COLUMBIA BANKING SYSTEM, INC.

MERGER PROPOSED YOUR VOTE IS VERY IMPORTANT

Dear Mountain Bank Holding Company Shareholders:

The boards of directors of Mountain Bank Holding Company and Columbia Banking System, Inc., have agreed on a merger of Mountain Bank with and into Columbia, and the simultaneous merger of Mt. Rainier National Bank, the wholly owned subsidiary of Mountain Bank, with and into Columbia State Bank, a wholly owned subsidiary of Columbia. We are seeking approval of the merger transaction from you, our shareholders.

Under the terms of the Plan and Agreement of Merger, dated March 28, 2007, each outstanding share of Mountain Bank common stock will be exchanged for a unit comprised of cash and Columbia common stock. The cash portion of each unit will be fixed at \$11.25 per Mountain Bank share. The stock portion of each unit will be determined (subject to certain constraints) by dividing \$13.75 by the average closing price of Columbia common stock during a 15-trading-day period prior to the closing of the merger. The number of shares of Columbia common stock that will be exchanged for shares of Mountain Bank will not be determined until five days prior to the merger. Assuming, for purposes of illustration only, that the value of Columbia common stock as determined under the merger agreement is \$30.40, which was the closing price of Columbia common stock on May 15, 2007, Mountain Bank shareholders would receive merger consideration valued at \$24.11 per Mountain Bank share, and would own approximately 5.7% of Columbia's outstanding common stock following the merger. Columbia common stock trades on The NASDAQ Global Market under the symbol COLB.

Your board of directors believes that the terms of the merger are fair and in the best interest of Mountain Bank and its shareholders. In reaching this decision, the board considered numerous factors as described in this proxy statement/prospectus.

The merger cannot be completed unless you approve it. Approval requires the affirmative vote of the holders of at least two-thirds (66²/3%) of Mountain Bank's outstanding common stock. We will hold a special shareholders' meeting to vote on the merger proposal. **The Mountain Bank special shareholders' meeting will be held on Thursday, June 21, 2007, at 7:00 p.m. Pacific Daylight Time, at Enumclaw Expo Center, located at 28511 Hwy 410 East, Enumclaw, Washington 98022.** Whether or not you plan to attend the special meeting, please take the time to vote by completing and mailing the enclosed form of proxy. **If you do not vote your shares, it will have the same effect as voting against the merger.**

This document gives detailed information about the merger, the underlying merger agreement governing the merger, and the special shareholders' meeting. Before submitting your proxy or voting your shares, **you should review this document carefully, including the appendices and the information under the heading Risk Factors beginning on page 9.**

On behalf of the Mountain Bank board of directors, we recommend that you vote FOR approval of the merger.

Roy T. Brooks

Steve W. Moergeli

Chairman of the Board and President and CEO

President and CEO

Mountain Bank Holding Company

Mt. Rainier National Bank

None of the Federal Deposit Insurance Corporation, the Securities and Exchange Commission, nor any state securities commission has approved or disapproved the securities to be issued by Columbia or determined if this proxy statement/prospectus is truthful or complete. Any representation to the contrary is a criminal offense. The shares of Columbia common stock to be issued in the merger are

not savings or deposit accounts or other obligations of a bank and are not insured by the Federal Deposit Insurance Corporation, the Federal Deposit Insurance Fund or any other governmental agency. Such shares are not guaranteed by Columbia or Columbia State Bank and are subject to investment risk.

This proxy statement/prospectus is dated May 17, 2007, and is first being mailed to

Mountain Bank shareholders on or about May 22, 2007.

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MOUNTAIN BANK HOLDING COMPANY

501 Roosevelt Avenue

Enumclaw, Washington 98022

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

TO BE HELD June 21, 2007

To the Shareholders of Mountain Bank Holding Company:

A special meeting of shareholders of Mountain Bank Holding Company will be held on Thursday, June 21, 2007, at 7:00 p.m. local time, at Enumclaw Expo Center, located at 28511 Hwy 410 East, Enumclaw, Washington 98022. The special meeting is for the following purposes:

1. **MERGER AGREEMENT.** To consider and vote upon a proposal to approve the Plan and Agreement of Merger, dated as of March 28, 2007, among Columbia Banking System, Inc., Columbia State Bank, Mountain Bank Holding Company, and Mt. Rainier National Bank, under the terms of which Mountain Bank Holding Company will merge with and into Columbia Banking System, Inc., and Mt. Rainier National Bank will merge with and into Columbia State Bank, as more fully described in the accompanying proxy statement/prospectus. The merger agreement is attached as **Appendix A** to the proxy statement/prospectus that accompanies this notice.
2. **OTHER MATTERS.** If necessary, to consider and act upon a proposal to adjourn the meeting to permit us to solicit additional proxies in the event that we do not have sufficient votes to approve the merger as of the date of the meeting.

Holders of record of Mountain Bank common stock at the close of business on May 10, 2007, the record date for the special meeting, are entitled to notice of, and to vote at, the special meeting or any adjournments or postponements of it. The affirmative vote of the holders of at least two-thirds (66 ²/₃%) of the shares of Mountain Bank's outstanding common stock is required for approval of the merger agreement. As of May 10, 2007, there were 2,324,633 shares of Mountain Bank common stock outstanding and entitled to vote at the special meeting.

Mountain Bank shareholders have the right to dissent from the merger and obtain payment of the value of their Mountain Bank shares as determined under applicable provisions of Washington law. A copy of the provisions regarding dissenters' rights is attached as **Appendix B** to the accompanying proxy statement/prospectus. For details of your dissenters' rights and how to exercise them, please see the discussion under the heading "The Merger Dissenters' Rights of Appraisal" beginning on page 40.

Your vote is important. Whether or not you plan to attend the special meeting, please complete, sign, date and promptly return the accompanying proxy using the enclosed envelope. If for any reason you should desire to revoke your proxy, you may do so at any time before it is voted at the meeting. **If you do not vote your shares, it will have the same effect as voting against the merger.**

The board of directors of Mountain Bank has determined that the merger agreement is fair to and in the best interests of Mountain Bank and its shareholders and recommends that you vote FOR approval of the merger agreement.

Please do not send any certificates for your stock at this time. You will receive instructions on how to exchange your certificates soon after the merger is consummated.

By Order of the Board of Directors,

Sheila M. Brumley, Secretary

Enumclaw, Washington

May 17, 2007

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REFERENCES TO ADDITIONAL INFORMATION

This proxy statement/prospectus incorporates important business and financial information about Columbia from documents that are not included in or delivered with this document.

You can obtain documents incorporated by reference into this proxy statement/prospectus by requesting them in writing or by telephone from Columbia at the following address:

Columbia Banking System, Inc.

P.O. Box 2156, MS 8300

Tacoma, Washington 98401-2156

ATTN: JoAnne Coy

VP, Corporate Communications

Telephone: (253) 305-1900

Fax: (253) 305-0854

You will not be charged for the documents that you request. **If you would like to request documents, please do so by June 14, 2007 in order to receive them before the Mountain Bank special shareholders meeting.**

See Where You Can Find More Information About Columbia beginning on page 98.

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SUMMARY

This summary, including the sections entitled Questions and Answers About This Document and the Merger, Questions and Answers About the Mountain Bank Special Meeting, and Summary Information About the Parties and the Transaction, highlights selected information from this proxy statement/prospectus. We urge you to read carefully the entire proxy statement/prospectus, its appendices, and any other documents to which we refer to fully understand the merger. Unless context otherwise requires, we and us refers to both Columbia and Mountain Bank.

QUESTIONS AND ANSWERS ABOUT THIS DOCUMENT AND THE MERGER

What is the purpose of this proxy statement/prospectus?

This document serves as both a proxy statement of Mountain Bank Holding Company and a prospectus of Columbia Banking System, Inc. As a proxy statement, it is being provided to you by Mountain Bank because the board of directors of Mountain Bank is soliciting your proxy to vote to approve the proposed merger of Mountain Bank with and into Columbia, and the merger of Mt. Rainier National Bank with and into Columbia State Bank. After the merger, the resulting bank will be wholly owned by Columbia. As a prospectus, it is being provided to you by Columbia because Columbia is offering you shares of its common stock as part of the consideration for your Mountain Bank shares.

What will I receive in the merger?

In the merger, each share of Mountain Bank common stock will be converted into the right to receive a unit consisting of a combination of cash and Columbia common stock. The amount of cash in each unit will be \$11.25. The amount of Columbia common stock in each unit will be based on the average closing price of Columbia common stock during a fifteen-trading-day period ending on the sixth business day prior to the closing of the merger. The exact number of shares of Columbia common stock that will comprise each unit will not be determined until shortly prior to the closing of the merger. If the Columbia average closing price is between \$37.50 and \$32.50, the value (based solely on that average closing price) of the stock portion of each unit will be equal to \$13.75, making the value of each unit (cash and stock together) equal to \$25.00. If the Columbia average closing price is below \$32.50, the value of each unit will be reduced. Additional information about the stock portion of the merger consideration is provided in this Summary under the heading below entitled Summary Information About the Parties and the Transaction What Mountain Bank Shareholders Will Receive in the Merger on page 5.

When will the merger occur?

We presently expect to complete the merger during July 2007. The merger will occur after the shareholders of Mountain Bank approve the merger and after the merger has received regulatory approval and the other conditions to the merger are satisfied or waived. Columbia and Mountain Bank are working toward completing the merger as quickly as practicable.

How soon after the merger is completed can I expect to receive my cash and Columbia common stock?

Columbia will work with its exchange agent to distribute consideration payable in the merger as promptly as practicable following the completion of the merger.

What risks should I consider?

You should review carefully our discussion of Risk Factors beginning on page 9. You should also review the factors considered by the Mountain Bank board of directors in approving the merger agreement discussed under the heading Background of and Reasons for the Merger beginning on page 20.

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QUESTIONS AND ANSWERS ABOUT THE MOUNTAIN BANK SPECIAL MEETING

When and where will the special meeting take place?

Mountain Bank will hold a special meeting of its shareholders on Thursday, June 21, 2007, at 7:00 p.m. local time, at Enumclaw Expo Center, located at 28511 Hwy 410 East, Enumclaw, Washington 98022.

How do I vote?

To vote, please indicate on the enclosed proxy card how you want to vote and then sign, date, and mail your proxy card in the enclosed white envelope **as soon as possible** so that your shares will be represented at the special meeting.

Why is my vote important?

If you fail to vote, that will have the same effect as voting **against** approval of the merger agreement. Approval of the merger agreement requires the affirmative vote of the holders of at least two-thirds (66 ²/₃%) of the shares of Mountain Bank's outstanding common stock. The directors and executive officers of Mountain Bank have the right to vote 419,273 shares, representing approximately 18% of the shares entitled to be voted at the meeting, and they have each agreed to vote for the merger.

What happens if I return my proxy but do not indicate how to vote my shares?

If you sign and return your proxy card, but do not provide instructions on how to vote your shares, your shares will be voted **FOR** approval of the merger agreement.

Can I change my vote after I have mailed my signed proxy card?

Yes. You may change your vote at any time before your proxy is voted at the special meeting. If your shares are held in your own name, you may change your vote as follows:

You may send a written notice stating that you would like to revoke your proxy and provide new instructions on how to vote;

You may complete and submit a later-dated proxy card; or

You may attend the meeting and vote in person.

If you choose either the first or second method above, you must submit your notice of revocation or your new proxy card to Mountain Bank's secretary prior to the vote.

If you intend to vote in person or to otherwise change your vote and your shares are held by a broker, you should contact your broker for instructions.

Who may vote at the meeting?

The board of directors of Mountain Bank has set May 10, 2007, as the record date for the meeting. If you were the owner of Mountain Bank common stock at the close of business on May 10, 2007, you may vote at the meeting.

What do I need to do now?

We encourage you to read this proxy statement/prospectus in its entirety. Important information is presented in greater detail elsewhere in this document and documents governing the merger are attached as appendices to

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this proxy statement/prospectus. In addition, much of the business and financial information about Columbia that may be important to you is incorporated by reference into this document from documents separately filed by Columbia with the Securities and Exchange Commission (SEC). This means that important disclosure obligations to you are satisfied by referring you to one or more documents separately filed with the SEC.

Following review of this proxy statement/prospectus, **please complete, sign, and date the enclosed proxy card and return it in the enclosed envelope as soon as possible** so that your shares can be voted at Mountain Bank s special meeting of shareholders.

Who can help answer my questions?

If you have questions about the merger, the meeting, or your proxy, or if you need additional copies of this document or a proxy card, you should contact:

Mr. Roy T. Brooks

Mountain Bank Holding Company

501 Roosevelt Avenue

Enumclaw, Washington 98022

Tel. No. (360) 825-0100

SUMMARY INFORMATION ABOUT THE PARTIES AND THE TRANSACTION

Information About Columbia and Mountain Bank

Columbia Banking System, Inc.

1301 A Street

Tacoma, Washington 98042-4200

(253) 305-1900

Columbia is a bank holding company headquartered in Tacoma, Washington, that engages in a general banking business primarily through its banking subsidiaries, Columbia State Bank and Bank of Astoria.

Columbia State Bank is a Washington-chartered commercial bank that engages in a general banking business through 35 locations in the Puget Sound Region of Washington, as well as the Longview and Woodland communities in southwestern Washington. Bank of Astoria is an Oregon state-chartered bank headquartered in Astoria, Oregon. Bank of Astoria provides banking services through five full service branch offices located in Clatsop and Tillamook Counties, along the Oregon coast.

As of March 31, 2007, Columbia had total assets of approximately \$2.7 billion, total net loans receivable and loans held for sale of approximately \$1.8 billion, total deposits of approximately \$2.1 billion and approximately \$261 million in shareholders equity. Columbia common stock trades on The NASDAQ Global Market under the symbol COLB.

Financial and other information regarding Columbia is set forth in Columbia s annual report on Form 10-K for the year ended December 31, 2006. Information regarding Columbia s executive officers and directors, as well as additional information, including executive compensation and related person transactions, is set forth or incorporated by reference in Columbia s annual report on Form 10-K for the year ended December 31, 2006 and Columbia s proxy statement for its 2007 annual meeting of shareholders, as well as the current reports on Form 8-K filed by Columbia that are incorporated by reference into this proxy statement/prospectus. See Where You Can Find More Information About Columbia beginning on page 98.

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Mountain Bank Holding Company

501 Roosevelt Avenue

Enumclaw, Washington 98022

(360) 825-0100

Mountain Bank is a bank holding company headquartered in Enumclaw, Washington, that engages in a general banking business primarily through its banking subsidiary, Mt. Rainier National Bank.

Mt. Rainier National Bank is a national banking association organized under the laws of the United States. Mt. Rainier National Bank engages in a general banking business at its main office located in Enumclaw, Washington, and through five branch offices located in Buckley, Black Diamond, Auburn, Maple Valley and Sumner, Washington. Mt. Rainier National Bank also provides loan services at a loan production office located in Federal Way, Washington.

As of March 31, 2007, Mountain Bank had total assets of approximately \$236 million, total net loans receivable of approximately \$170 million, total deposits of approximately \$209 million and approximately \$23 million in shareholders' equity.

For additional information, see "Information Concerning Mountain Bank" beginning on page 54.

Recent Developments

On March 28, 2007, Columbia announced that it had entered into a definitive agreement to acquire Town Center Bancorp of Portland, Oregon, in a cash and stock transaction valued at approximately \$45.1 million, based on the closing price of Columbia's stock on that date. Terms of the agreement call for Columbia to pay a unit of \$9.382 cash and 0.3391 shares of Columbia common stock for each share of Town Center Bancorp stock. The actual value of the consideration paid for each share of Town Center Bancorp stock will depend on the stock price of Columbia at the time of closing. Columbia will pay approximately \$19.3 million in cash and issue 698,182 shares based on Town Center Bancorp's shares outstanding at the time of the announcement of the agreement, or \$20.8 million in cash and 751,722 shares of Columbia stock if all outstanding Town Center Bancorp stock options are exercised prior to closing. Based on Columbia's closing stock price at market close prior to announcement of the agreement with Town Center Bancorp, the value of the stock consideration is approximately \$23.4 million. If Columbia completes the acquisition of both Mountain Bank and Town Center Bancorp, the former shareholders of Mountain Bank will hold approximately 5.5% of the outstanding Columbia stock and the former shareholders of Town Center Bancorp will hold approximately 4.0%. Until applicable conditions are satisfied, there is no assurance that Columbia will complete the acquisition of Town Center Bancorp.

Mountain Bank Will Merge Into Columbia, and Mt. Rainier National Bank Will Merge Into a Subsidiary of Columbia

The merger agreement provides for the merger of Mountain Bank with and into Columbia, and the merger of Mt. Rainier National Bank with and into Columbia State Bank, Columbia's subsidiary. After the merger, former branches of Mt. Rainier National Bank will continue to operate under the name Mt. Rainier Bank. In the merger, your shares of Mountain Bank common stock will be exchanged for a combination of shares of Columbia common stock and cash. After the merger, you will no longer own shares of Mountain Bank.

The merger agreement is attached as **Appendix A** to this document. We encourage you to read the merger agreement in its entirety.

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Approval of the Merger Agreement Requires the Affirmative Vote of the Holders of at Least Two-Thirds (66 ²/3%) of Mountain Bank's Outstanding Common Stock

In order to approve the merger agreement, at least two-thirds (66 ²/3%) of the outstanding shares of Mountain Bank common stock must be voted at the special meeting in favor of approval. Columbia's shareholders are not required to vote on the transaction.

As of the record date for the meeting, the directors and executive officers of Mountain Bank had the right to vote 419,273 shares, or approximately 18%, of Mountain Bank's outstanding common stock. The Mountain Bank directors and executive officers have agreed to vote their shares in favor of approval of the merger agreement.

What Mountain Bank Shareholders Will Receive in the Merger

Under the merger agreement, Columbia will issue shares of its common stock and pay cash for shares of Mountain Bank common stock.

If you do not provide notice of dissent, you will receive, for each share of Mountain Bank common stock that you own, a unit consisting of a combination of cash (without interest) and Columbia common stock.

The merger consideration (or unit) that Columbia will pay for each share of Mountain Bank will be determined as follows:

Cash Portion: Columbia will pay cash in the amount of \$11.25 for each share of Mountain Bank common stock.

Stock Portion: Columbia will issue shares of its common stock as follows:

Provided Columbia stock trades within a range of \$32.50 and \$37.50, the number of shares per unit will be equal to the number, rounded to the 10,000th decimal, obtained by dividing \$13.75 by the average closing price of Columbia's common stock during the 15 trading days immediately preceding the fifth business day prior to the closing of the merger. This average closing price is referred to as the Columbia Average Closing Price.

However, the merger agreement provides that if the Columbia Average Closing Price is \$37.50 or higher, the stock portion of each unit will be fixed at 0.3667 Columbia shares per unit, and if the Columbia Average Closing Price is \$32.50 or lower, the stock portion will be fixed at 0.4231 Columbia shares per unit.

This formula is designed so that the unit you will receive for a share of Mountain Bank stock will have a fixed overall value (based on the amount of cash and the Columbia Average Closing Price) of \$25.00, as long as the Columbia Average Closing Price is between \$32.50 and \$37.50. If the Columbia Average Closing Price is higher than \$37.50, the value of a unit will increase and if the Columbia Average Closing Price is below \$32.50, the value of a unit will decrease. The value of a unit may also increase or decrease based on changes in Columbia's stock price after the date on which the merger consideration is determined (the fifth business day prior to closing).

As described above, the overall value of a unit will decrease if the Columbia Average Closing Price is below \$32.50. The closing price of Columbia common stock as quoted on The Nasdaq Global Market on May 15, 2007 was \$30.40. The decline in the trading price of Columbia common stock since the execution of the merger agreement in part reflects a decline in trading prices of comparable publicly traded financial institutions. For purposes of illustration only, if the Columbia Average Closing Price were \$30.40, the total value of each unit (cash and stock together) would be \$24.11. The trading price of Columbia common stock may increase or decrease prior to the calculation of the Columbia Average Closing Price under the merger agreement.

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The actual number of shares of Columbia common stock to be issued in the merger cannot be determined until the fifth business day prior to the effective date of the merger. Each Mountain Bank shareholder will receive the same combination of cash and Columbia common stock.

The merger agreement may be terminated by Mountain Bank if the value of each unit (the \$11.25 cash portion and the stock portion, determined as described above) is less than \$22.00, unless Columbia makes certain adjustments to the stock portion to bring the value to that level. The manner in which the adjustments would be made, if Columbia elects to do so, is described under **The Merger Termination of the Merger Agreement** on page 43.

Transferability of Shares Received in the Merger

The Columbia common stock issued in the merger will be transferable free of restrictions under federal and state securities laws, except for shares of Columbia common stock received by persons who are deemed to be affiliates of Mountain Bank as defined under applicable federal securities laws. See **The Merger Stock Resales by Mountain Bank Affiliates** on page 49.

Certain Federal Income Tax Consequences

Neither Mountain Bank nor Columbia is required to complete the merger unless each of them receives a legal opinion of Columbia's counsel that the merger will be treated as a reorganization for federal income tax purposes. Assuming such opinion is received, we expect that for United States federal income tax purposes, a Mountain Bank shareholder who receives shares of Columbia common stock and cash in exchange for his or her shares of Mountain Bank common stock will generally recognize gain (but not loss) in an amount equal to the lesser of (1) the amount of gain realized (i.e., the excess of the sum of the amount of cash (excluding any cash received in lieu of fractional shares) and the fair market value of the Columbia common stock (including any fractional shares deemed received and exchanged for cash) received pursuant to the merger over the holder's adjusted tax basis in his or her shares of Mountain Bank common stock surrendered) and (2) the amount of cash (excluding any cash received in lieu of fractional shares) received pursuant to the merger. The actual tax consequences of the merger to you will depend on your specific situation and on factors not within our control. You should consult your own tax advisor for a full understanding of the merger's tax consequences to you. See **The Merger Federal Income Tax Consequences of the Merger** beginning on page 37 for additional information.

Mountain Bank Shareholders Have Dissenters' Rights

Under Washington law, Mountain Bank shareholders have the right to dissent from the merger and receive cash for the fair value of their shares of Mountain Bank common stock. A shareholder electing to dissent must strictly comply with all the procedures required by the Washington statutes. These procedures are described later in this document (see **The Merger Dissenters' Rights of Appraisal** on page 40), and a copy of the relevant statute is attached as **Appendix B**.

The Mountain Bank Board of Directors Recommends Shareholder Approval of the Merger

The Mountain Bank board of directors believes that the merger is in the best interests of the Mountain Bank shareholders and has unanimously approved the merger agreement. The Mountain Bank board of directors recommends that Mountain Bank shareholders vote **FOR** approval of the merger agreement.

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Mountain Bank's Financial Advisor Says the Merger Consideration is Fair to Mountain Bank Shareholders From a Financial Point of View

Sandler O'Neill & Partners, L.P., has served as financial advisor to Mountain Bank in connection with the merger and has given an opinion to Mountain Bank's board of directors that, as of March 27, 2007, the consideration that Mountain Bank's shareholders will receive for their Mountain Bank shares in the merger is fair, from a financial point of view, to Mountain Bank shareholders. Sandler O'Neill has reconfirmed its opinion as of the date of this proxy statement/prospectus, and a copy of that opinion is attached to this document as **Appendix C**. Mountain Bank shareholders should read the opinion carefully to understand the assumptions made, matters considered and limitations of the review undertaken by Sandler O'Neill in providing its opinion. The opinion is more fully described under the heading "Background of and Reasons for the Merger" Opinion of Financial Advisor to Mountain Bank beginning on page 25. Mountain Bank agreed to pay Sandler O'Neill a fee for its services and to indemnify it against certain liabilities arising out of the merger or its engagement.

Mountain Bank's Officers and Directors Have Interests in the Merger That Are Different From or in Addition to Their Interests as Shareholders

Certain members of Mountain Bank's management have interests in the merger that are different from, or in addition to, their interests as Mountain Bank shareholders. These interests primarily arise out of provisions in the merger agreement relating to indemnification of directors and compensation to directors in connection with their service on an advisory board following the merger and, in the case of Roy Brooks, President, Chief Executive Officer, and Chairman of the Board of Mountain Bank, Steve Moergeli, a director of Mountain Bank and President and Chief Executive Officer of Mt. Rainier National Bank, and Sheila Brumley, Chief Financial Officer of Mountain Bank, employment agreements that will take effect upon consummation of the merger, as well as existing compensation arrangements with Mountain Bank's executive officers. See "The Merger" Interests of Certain Persons in the Merger beginning on page 46.

The Mountain Bank board of directors was aware of these interests and took them into account in its decision to approve the merger agreement.

We May Not Complete the Merger Without All Required Regulatory Approvals

The merger must be approved by the Federal Deposit Insurance Corporation (FDIC) and the Washington Department of Financial Institutions. We plan to file applications with these regulatory bodies seeking such approval by June 1, 2007, and expect to obtain all such regulatory approvals, although we cannot be certain if or when we will obtain them.

Mountain Bank Shareholders Will Have Different Rights After the Merger

The rights of Mountain Bank shareholders are governed by Washington law, as well as by Mountain Bank's articles of incorporation and bylaws. After completion of the merger, the rights of the former Mountain Bank shareholders receiving Columbia common stock in the merger will continue to be governed by Washington law, but will be governed by Columbia's articles of incorporation and bylaws. Although Columbia's articles of incorporation and bylaws are similar in many ways to Mountain Bank's articles of incorporation and bylaws, there are some substantive and procedural differences that will affect the rights of Mountain Bank's shareholders. See "Comparison of Certain Rights of Holders of Columbia and Mountain Bank Common Stock" beginning on page 94.

The date of this proxy statement is May 17, 2007.

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USE OF CERTAIN TERMS

As used in this document, the following terms have the meanings given:

Columbia refers to Columbia Banking System, Inc., a Washington corporation.

Columbia State Bank refers to Columbia State Bank, a Washington state-chartered banking subsidiary of Columbia.

Columbia Shares or Columbia Stock refers to the common stock of Columbia.

Mountain Bank shares or Mountain Bank stock refers to the common stock of Mountain Bank.

References to the merger agreement are to the Plan and Agreement of Merger, dated as of March 28, 2007, among Columbia, Columbia State Bank, Mountain Bank, and Mt. Rainier National Bank. The merger agreement is attached to this document as **Appendix A**.

Mountain Bank refers to Mountain Bank Holding Company, a Washington corporation.

Mt. Rainier Bank refers to former branches of Mt. Rainier National Bank, which following the merger will be a part of Columbia State Bank and will operate under the name Mt. Rainier Bank.

Mt. Rainier National Bank means Mt. Rainier National Bank, a national banking association operating as the banking subsidiary of Mountain Bank prior to completion of the merger.

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RISK FACTORS

*In addition to the other information contained in or incorporated by reference into this document, including the matters addressed under the caption **Cautionary Note Regarding Forward-Looking Statements**, you should consider the matters described below carefully in determining whether to approve the merger agreement and the transactions contemplated by the merger agreement.*

The merger agreement limits Mountain Bank's ability to pursue other transactions and provides for the payment of a break up fee if Mountain Bank does so.

While the merger agreement is in effect and subject to very narrow exceptions, Mountain Bank and its directors, officers and agents are prohibited from initiating or encouraging inquiries with respect to alternative acquisition proposals. The prohibition limits Mountain Bank's ability to seek offers that may be superior from a financial point of view from other possible acquirers. If Mountain Bank receives an unsolicited proposal from a third party that is superior from a financial point of view to that made by Columbia and the merger agreement is terminated, Mountain Bank may be required to pay a \$2,500,000 break-up fee. This fee makes it less likely that a third party will make an alternative acquisition proposal.

Under certain conditions, the merger agreement requires Mountain Bank to pay a termination fee.

Under certain circumstances (generally involving Mountain Bank's breach of its representations and covenants in the merger agreement), Columbia can terminate the merger agreement and require Mountain Bank to pay a termination fee of \$500,000.

Because the market price of Columbia common stock may fluctuate, you cannot be sure of the number of shares of Columbia common stock that you will receive.

At the time of the Mountain Bank special meeting, you will not be able to determine the number of shares of Columbia common stock you would receive upon completion of the merger. Fluctuations in Columbia's stock price will impact how much Columbia common stock you will own relative to existing Columbia shareholders. Generally, you will receive fewer shares of Columbia common stock if Columbia's stock price increases and you will receive more shares of Columbia common stock if Columbia's stock price decreases. We urge you to obtain current market quotations for Columbia common stock.

If the average closing price of Columbia stock used to calculate the merger consideration is below \$32.50, your total per share merger consideration will decrease.

The formula used to determine the stock portion of the merger consideration is intended to result in aggregate consideration of \$25.00 per share of Mountain Bank stock (based on the combined value of cash and the average closing price of Columbia shares received). If, however, the average closing price of Columbia stock continues to be below \$32.50 at the relevant time for calculating the merger consideration, you will receive a lower amount of total per share consideration. (Conversely, you will receive greater per share consideration if the average closing price of Columbia stock exceeds \$37.50.)

Your per share consideration would decline in value if the trading price of Columbia stock declines after the date the merger consideration is determined.

The number of Columbia shares issued to each Mountain Bank shareholder in the merger will be determined five business days prior to closing of the merger. Any declines in the trading price of Columbia stock between that determination date and the date you receive your merger consideration would reduce the value of the consideration that you receive.

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Because Mountain Bank stock is not actively traded, Mountain Bank trading prices may not reflect the actual value of Mountain Bank stock.

Mountain Bank stock is traded only sporadically between private parties and rarely on the over-the counter market, making it difficult to determine a reliable market value for shares of the stock based on trading data. The merger consideration was determined by negotiations between the parties based on the limited trading data available and other considerations discussed in Background of and Reasons for the Merger beginning on page 20. Trading prices may not reflect the actual value of Mountain Bank stock.

Combining our two companies may be more difficult, costly or time-consuming than we expect.

Columbia and Mountain Bank have operated and, until the completion of the merger, will continue to operate, independently. It is possible that the integration process could result in the loss of key employees, the disruption of the ongoing business of Mountain Bank or inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with customers and employees or to achieve the anticipated benefits of the merger. As with any merger of banking institutions, there also may be disruptions that cause us to lose customers or cause customers to take their deposits and loans out of Mt. Rainier Bank.

Unanticipated costs relating to the merger could reduce Columbia's future net income and cash flows.

Columbia believes that it has reasonably estimated the likely costs of integrating the operations of Mt. Rainier National Bank into Columbia State Bank and the incremental costs of operating as a combined company. However, it is possible that unexpected transaction costs or future operating expenses, as well as other types of unanticipated adverse developments, could have a material adverse effect on the net income and cash flows of Columbia after the merger. If the merger is completed and unexpected costs are incurred, the merger could have a significant dilutive effect on Columbia's earnings per share, meaning earnings per share could be less than if the merger had not been completed.

We may face challenges in integrating the operations of two institutions at approximately the same time.

The risk factors above, relating to possible difficulties and unanticipated costs associated with integrating Mountain Bank's operations into those of Columbia, may be increased due to our planned acquisition of Town Center Bancorp (see Summary Summary Information About the Parties and the Transaction Recent Developments on page 4) at approximately the same time as the closing of the Mountain Bank transaction. Columbia has never acquired two separate financial institutions at the same time, and the concurrent nature of these transactions may result in unanticipated difficulties and expenses.

Columbia may grow through future acquisitions, which could, in some circumstances, adversely affect net income.

Columbia has historically grown, in part, through acquisitions of other financial institutions and assets, and anticipates that it will engage in selected acquisitions in the future. In this regard, Columbia has entered into a Plan and Agreement of Merger with Town Center Bancorp in a cash and stock transaction valued at approximately \$45.1 million. There are risks associated with Columbia's acquisition strategy that could adversely impact net income. These risks include, among others, incorrectly assessing the asset quality of a particular institution being acquired, encountering greater than anticipated costs of incorporating acquired businesses into Columbia, and being unable to profitably deploy funds acquired in an acquisition. Furthermore, Columbia can give you no assurance about the extent to which Columbia can continue to grow through acquisitions.

In the future, Columbia may issue capital stock in connection with additional acquisitions. These acquisitions and related issuances of stock may have a dilutive effect on earnings per share and the percentage ownership of current shareholders.

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Columbia has various anti-takeover measures that could impede a takeover of Columbia.

Columbia has various anti-takeover measures in place, some of which are listed elsewhere in this document. Any one or more of these measures may impede the takeover of Columbia without the approval of the Columbia board of directors and may prevent you from taking part in a transaction in which you could realize a premium over the current market price of Columbia common stock. See *Comparison of Certain Rights of Holders of Columbia and Mountain Bank Common Stock* beginning on page 94.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This document, including information included or incorporated by reference in this document, may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, (i) statements about the benefits of the merger, including future financial and operating results, cost savings, enhancements to revenue and accretion to reported earnings that may be realized from the merger; (ii) statements about our respective plans, objectives, expectations and intentions and other statements that are not historical facts; and (iii) other statements identified by words such as *expects, anticipates, intends, plans, believes, seeks, estimates, or words of similar meaning*. These forward-looking statements are based on current beliefs and expectations of management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond Columbia's and Mountain Bank's control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change.

The following potential factors, among others, could cause actual results to differ materially from the anticipated results or other expectations in the forward-looking statements:

our businesses may not be integrated successfully, or such integration may take longer to accomplish than expected;

the anticipated growth opportunities and cost savings from the merger may not be fully realized or may take longer to realize than expected;

operating costs, customer losses and business disruption following the merger, including adverse developments in relationships with employees, may be greater than expected;

the concurrent integration of the operations of Mountain Bank and Town Center Bancorp may exacerbate the risks otherwise associated with acquisitions, such as those described above;

adverse governmental or regulatory policies may be enacted;

the interest rate environment may change, causing margins to compress and adversely affecting net interest income;

the risks associated with continued diversification of assets and potential adverse changes in credit quality;

increased loan delinquency rates;

competition from other financial services companies in our markets; and

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the risk of an economic slowdown adversely affecting credit quality and loan originations.

Additional factors that could cause actual results to differ materially from those expressed in the forward-looking statements are discussed in Columbia's reports filed with the SEC and under the heading below entitled "Information Concerning Mountain Bank" beginning on page 54.

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All subsequent written and oral forward-looking statements concerning the proposed transaction or other matters attributable to Columbia or Mountain Bank or any person acting on behalf of Columbia or Mountain Bank are expressly qualified in their entirety by the cautionary statements above. Neither Columbia nor Mountain Bank undertakes any obligation to update any forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made.

SELECTED HISTORICAL FINANCIAL INFORMATION**SELECTED CONSOLIDATED FINANCIAL DATA OF COLUMBIA**

The following selected historical financial information is derived from and should be read in conjunction with the historical financial statements of Columbia, including the notes thereto, in documents incorporated by reference in this proxy statement/prospectus. See "Where You Can Find More Information About Columbia" beginning on page 98. The historical consolidated financial data for each of the five fiscal years ended December 31, 2006, is derived from audited consolidated financial statements of Columbia. Columbia acquired Bank of Astoria on October 1, 2004; the acquired bank's results of operations are included in Columbia's results beginning that date. The information as of and for the three months ended March 31, 2007 and 2006, is derived from Columbia's unaudited financial statements, has been prepared on the same basis as the historical information derived from audited financial statements and, in the opinion of Columbia's management, contains all adjustments, consisting only of normal recurring accruals, necessary for the fair presentation of results of operations for such periods.

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006	Years Ended December 31,				
			2006	2005	2004	2003	2002
<i>(dollars in thousands, except per share amounts)</i>							
For the Period							
Total revenue	\$ 30,880	\$ 30,279	\$ 122,435	\$ 115,698	\$ 94,187	\$ 86,651	\$ 84,339
Net interest income	\$ 24,703	\$ 24,306	\$ 97,763	\$ 90,912	\$ 71,943	\$ 63,867	\$ 64,289
Provision for loan and lease losses	\$ 638	\$ 215	\$ 2,065	\$ 1,520	\$ 995	\$ 2,850	\$ 15,780
Noninterest income	\$ 6,177	\$ 5,973	\$ 24,672	\$ 24,786	\$ 22,244	\$ 22,784	\$ 20,050
Noninterest expense	\$ 20,402	\$ 18,340	\$ 76,134	\$ 72,855	\$ 61,326	\$ 55,960	\$ 53,653
Net income	\$ 7,283	\$ 8,188	\$ 32,103	\$ 29,631	\$ 22,513	\$ 19,522	\$ 10,885
Per Share							
Net Income (Basic)	\$ 0.45	\$ 0.52	\$ 2.01	\$ 1.89	\$ 1.55	\$ 1.39	\$ 0.79
Net Income (Diluted)	\$ 0.45	\$ 0.51	\$ 1.99	\$ 1.87	\$ 1.52	\$ 1.37	\$ 0.78
Book Value	\$ 16.17	\$ 14.47	\$ 15.71	\$ 14.29	\$ 13.03	\$ 10.66	\$ 9.48
Averages							
Total assets	\$ 2,586,025	\$ 2,388,680	\$ 2,473,404	\$ 2,290,746	\$ 1,919,134	\$ 1,696,417	\$ 1,601,061
Interest-earning assets	\$ 2,392,372	\$ 2,190,872	\$ 2,265,393	\$ 2,102,513	\$ 1,769,470	\$ 1,544,869	\$ 1,454,714
Loans	\$ 1,765,692	\$ 1,567,615	\$ 1,629,616	\$ 1,494,567	\$ 1,186,506	\$ 1,128,941	\$ 1,183,922
Securities	\$ 597,952	\$ 619,428	\$ 623,631	\$ 605,395	\$ 552,742	\$ 401,594	\$ 246,995
Deposits	\$ 2,001,136	\$ 1,955,851	\$ 1,976,448	\$ 1,923,778	\$ 1,690,513	\$ 1,483,173	\$ 1,360,968
Core deposits	\$ 1,444,210	\$ 1,425,442	\$ 1,433,395	\$ 1,423,862	\$ 1,238,536	\$ 1,017,126	\$ 885,008
Shareholders' equity	\$ 256,292	\$ 231,080	\$ 237,843	\$ 214,612	\$ 169,414	\$ 141,129	\$ 124,096
Financial Ratios							
Net interest margin	4.37%	4.65%	4.49%	4.44%	4.19%	4.23%	4.50%
Return on average assets	1.14%	1.39%	1.30%	1.29%	1.17%	1.15%	0.68%
Return on average equity	11.52%	14.37%	13.50%	13.81%	13.29%	13.83%	8.77%

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	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006	Years Ended December 31,				
			2006 <i>(dollars in thousands, except per share amounts)</i>	2005	2004	2003	2002
Return on average tangible equity(1)	13.38%	17.0%	15.88%	16.63%	14.02%	13.83%	8.77%
Average equity to average assets	9.91%	9.67%	9.62%	9.37%	8.83%	8.32%	7.75%
At Period End							
Total assets	\$ 2,676,204	\$ 2,460,453	\$ 2,553,131	\$ 2,377,322	\$ 2,176,730	\$ 1,744,347	\$ 1,699,613
Loans	\$ 1,833,852	\$ 1,595,262	\$ 1,708,962	\$ 1,564,704	\$ 1,359,743	\$ 1,078,302	\$ 1,175,853
Allowance for loan and lease losses	\$ 20,819	\$ 20,691	\$ 20,182	\$ 20,829	\$ 19,881	\$ 20,261	\$ 19,171
Securities	\$ 599,306	\$ 634,620	\$ 605,133	\$ 585,332	\$ 642,759	\$ 523,864	\$ 337,412
Deposits	\$ 2,081,026	\$ 1,990,363	\$ 2,023,351	\$ 2,005,489	\$ 1,862,866	\$ 1,544,626	\$ 1,487,153
Core deposits	\$ 1,518,797	\$ 1,455,390	\$ 1,473,701	\$ 1,478,090	\$ 1,381,073	\$ 1,098,237	\$ 980,709
Shareholders' equity	\$ 261,329	\$ 231,137	\$ 252,347	\$ 226,242	\$ 203,154	\$ 150,372	\$ 132,384
Full-time equivalent employees	675	640	657	651	625	539	525
Banking offices	40	40	40	40	39	34	36
Nonperforming assets							
Nonaccrual loans	\$ 2,580	\$ 5,115	\$ 2,414	\$ 4,733	\$ 8,222	\$ 13,255	\$ 16,918
Restructured loans	806	\$ 1,146	1,066	124	227		187
Other personal property owned						691	916
Real estate owned		18		18	680	1,452	130
Total nonperforming assets	\$ 3,386	\$ 6,279	\$ 3,480	\$ 4,875	\$ 9,129	\$ 15,398	\$ 18,151
Nonperforming loans to year end loans	0.18%	0.39%	0.20%	0.31%	0.62%	1.23%	1.45%
Nonperforming assets to year end assets	0.13%	0.26%	0.14%	0.21%	0.42%	0.88%	1.07%
Allowance for loan and lease losses to year end loans	1.14%	1.30%	1.18%	1.33%	1.46%	1.88%	1.63%
Allowance for loan and lease losses to nonperforming loans	614.86%	330.47%	579.94%	428.84%	235.31%	152.86%	112.08%
Allowance for loan and lease losses to nonperforming assets	614.86%	329.53%	579.94%	427.26%	217.78%	131.58%	105.62%
Net loan charge-offs	\$ 1(2)	\$ 353(2)	\$ 2,712(3)	\$ 572(3)	\$ 2,742(3)	\$ 1,760(3)	\$ 11,343(3)
Risk-Based Capital Ratios							
Total capital	12.70%	12.93%	13.23%	12.97%	12.99%	14.49%	12.32%
Tier I capital	11.71%	11.83%	12.21%	11.82%	11.75%	13.24%	11.07%
Leverage ratio	9.84%	9.57%	9.86%	9.54%	8.99%	10.03%	9.18%

(1) Annualized net income, excluding core deposit intangible amortization, divided by average daily shareholders' equity, excluding average goodwill and average core deposit intangible asset.

(2) For the three-month periods indicated.

(3) For the twelve-month periods indicated.

Table of Contents**SELECTED CONSOLIDATED FINANCIAL DATA OF MOUNTAIN BANK**

The following selected historical financial information is derived from and should be read in conjunction with the historical financial statements of Mountain Bank, including the notes thereto, included in this proxy statement/prospectus under the heading Mountain Bank Financial Statements beginning on page F-1. The historical financial data for each of the five fiscal years ended December 31, 2006, is derived from audited consolidated financial statements of Mountain Bank. The information as of and for the three months ended March 31, 2007 and 2006, is derived from Mountain Bank's unaudited financial statements, has been prepared on the same basis as the historical information derived from audited financial statements and, in the opinion of Mountain Bank's management, contains all adjustments, consisting only of normal recurring accruals, necessary for the fair presentation of results of operations for such periods.

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006	Years Ended December 31,				
			2006	2005	2004	2003	2002
<i>(dollars in thousands, except per share amounts)</i>							
Income Statement Data							
Interest income	\$ 4,051	\$ 3,033	\$ 14,091	\$ 10,878	\$ 9,404	\$ 8,457	\$ 8,169
Interest expense	\$ 1,464	\$ 790	\$ 4,529	\$ 2,465	\$ 1,932	\$ 1,921	\$ 2,563
Net interest income	\$ 2,587	\$ 2,243	\$ 9,562	\$ 8,413	\$ 7,472	\$ 6,536	\$ 5,606
Provision for credit losses	\$ 69	\$ 69	\$ 276	\$ 199	\$ 276	\$ 385	\$ 360
Net interest income after provision	\$ 2,518	\$ 2,174	\$ 9,286	\$ 8,214	\$ 7,196	\$ 6,151	\$ 5,246
Non-interest income	\$ 378	\$ 354	\$ 1,476	\$ 1,559	\$ 1,245	\$ 1,615	\$ 1,351
Non-interest expense	\$ 1,972	\$ 1,732	\$ 7,585	\$ 6,705	\$ 6,398	\$ 6,000	\$ 5,156
Income before income taxes	\$ 924	\$ 796	\$ 3,177	\$ 3,068	\$ 2,043	\$ 1,766	\$ 1,441
Income taxes	\$ 297	\$ 247	\$ 1,005	\$ 981	\$ 625	\$ 544	\$ 426
Net income	\$ 627	\$ 549	\$ 2,172	\$ 2,087	\$ 1,418	\$ 1,222	\$ 1,015
Per Share Data							
Net income basic	\$ 0.27	\$ 0.24	\$ 0.94	\$ 0.91	\$ 0.64	\$ 0.57	\$ 0.48
Net income diluted	\$ 0.26	\$ 0.23	\$ 0.91	\$ 0.88	\$ 0.62	\$ 0.55	\$ 0.46
Cash dividends declared	\$ 0.20	\$ 0.18	\$ 0.18	\$ 0.15	\$ 0.10	\$ 0.00	\$ 0.00
Book value per share	\$ 9.75	\$ 8.85	\$ 9.66	\$ 8.82	\$ 8.21	\$ 7.63	\$ 7.18
Balance Sheet Data							
Assets	\$ 235,696	\$ 202,683	\$ 229,910	\$ 194,524	\$ 177,645	\$ 156,425	\$ 143,174
Loans, net	\$ 169,538	\$ 136,433	\$ 164,585	\$ 120,866	\$ 119,027	\$ 97,643	\$ 81,409
Securities	\$ 28,104	\$ 46,342	\$ 35,641	\$ 46,573	\$ 37,502	\$ 32,290	\$ 29,562
Deposits	\$ 209,489	\$ 175,646	\$ 204,296	\$ 171,813	\$ 157,600	\$ 138,775	\$ 127,011
Shareholders' equity	\$ 22,649	\$ 20,401	\$ 22,283	\$ 20,299	\$ 18,569	\$ 16,604	\$ 15,404
Shares outstanding	2,322,939	2,304,489	2,307,389	2,302,741	2,260,968	2,176,677	2,146,813
Performance Ratios							
Return on average assets	1.10%	1.14%	1.02%	1.12%	0.84%	0.82%	0.78%
Return on average equity	11.40%	11.14%	10.32%	10.79%	8.09%	7.67%	7.14%
Equity to assets	9.69%	10.20%	9.88%	10.44%	10.45%	10.61%	10.76%
Net interest margin	4.91%	5.07%	4.88%	4.90%	4.75%	4.70%	4.60%
Allowance for credit losses to loans	1.11%	1.20%	1.11%	1.28%	1.14%	1.12%	1.04%
Asset Quality Ratios							
Net charge-offs to average loans outstanding	0.00%	0.00%	0.00%	0.00%	0.00%	0.15%	0.35%
Non-performing loans to period-end loans	0.00%	0.02%	0.00%	0.02%	0.00%	0.11%	0.11%
Non-performing assets to total assets	0.00%	0.02%	0.00%	0.01%	0.00%	0.16%	0.17%
Capital and Liquidity Ratios							
Risk-based:							
Tier 1 capital	12.21%	13.65%	12.36%	14.70%	13.70%	14.08%	12.97%
Total capital	13.23%	14.72%	13.37%	15.81%	14.71%	15.02%	13.70%
Average loans to average deposits			82.53%	74.43%	73.01%	69.52%	64.61%
Average shares outstanding:							
Basic	2,320,926	2,302,916	2,304,347	2,288,320	2,229,061	2,155,914	2,111,819
Diluted	2,391,708	2,370,287	2,378,836	2,338,440	2,298,897	2,240,437	2,195,058

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The table below presents the historical earnings, book value and cash dividends per share for the periods shown for Columbia and Mountain Bank, together with the same figures presented on a pro forma combined basis for Columbia and a pro forma equivalent basis for Mountain Bank after giving effect to the merger. Except where indicated otherwise, the pro forma equivalent per share data for Mountain Bank is calculated by multiplying the pro forma combined per share data for Columbia by the pro forma ratio of 0.74206, which ratio has been computed based on an assumed Columbia common stock price per share of \$33.69, the closing price of Columbia's common stock on the day before the merger was announced, and total per share merger consideration (cash and stock) of \$25.00. This assumption is for purposes of presentation only and the exchange ratio in the merger may be different.

This data should be read in conjunction with the audited consolidated financial statements and unaudited interim financial information of Columbia incorporated by reference into this document, and the audited financial statements and unaudited interim financial information of Mountain Bank included in this document. The information is for illustrative purposes only and is not necessarily indicative of the results or financial position that would have occurred if the merger had been completed as of the dates indicated, nor is it indicative of future results or financial positions.

The table also presents the closing prices per share for Columbia and Mountain Bank common stock, respectively, immediately prior to the announcement of the merger, and as of May 15, 2007, the most recent practicable trading date prior to the printing of this document, together with the pro forma equivalent market value of Mountain Bank shares after giving effect to the merger. See the discussion under the heading Comparative Stock Price and Dividend Information on page 17 for important information about the limited trading in stock of Mountain Bank and the effect that may have on the reliability of the share price data.

	Columbia		Mountain Bank	
	Historical	Pro Forma Combined	Historical	Pro Forma Equivalent
Diluted earnings per share(1):				
Three months ended March 31, 2007	\$ 0.45	\$ 0.46	\$ 0.26	\$ 0.34
Year ended December 31, 2006	\$ 1.99	\$ 1.99	\$ 0.91	\$ 1.48
Book value per share(2) at:				
March 31, 2007	\$ 16.17	\$ 15.27	\$ 9.75	\$ 11.33
December 31, 2006	\$ 15.71	\$ 15.20	\$ 9.66	\$ 11.28
Cash dividends per share declared(3):				
Three months ended March 31, 2007	\$ 0.15	\$ 0.15	\$ 0.20	\$ 0.11
Year ended December 31, 2006	\$ 0.57	\$ 0.57	\$ 0.18	\$ 0.42
Market value per share at March 27, 2007	\$ 33.69		\$ 25.50	\$ 25.00
Market value per share at May 15, 2007	\$ 30.40		\$ 25.00	\$ 24.11(4)

- (1) The pro forma earnings per share amounts are calculated by dividing total historical and pro forma combined net income by the average pro forma common shares of Columbia and Mountain Bank after giving effect to the merger. Pro forma basic and diluted weighted average numbers of common shares utilized for the calculation were calculated using Columbia's historical weighted average common shares plus shares expected to be issued to Mountain Bank shareholders under the terms of the merger agreement based on an average closing price of \$33.69. Pro forma combined diluted earnings per share for Columbia, giving effect to the merger transaction between Columbia and Town Center Bancorp in addition to the Mountain Bank transaction, would be \$0.46 for the three months ended March 31, 2007 and \$2.02 for the year ended December 31, 2006, assuming the issuance of 698,182 shares of Columbia common stock under

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- the terms of the merger agreement with Town Center Bancorp. See Summary Summary Information About the Parties and the Transaction Recent Developments on page 4 for more information regarding the transaction between Columbia and Town Center Bancorp.
- (2) Book value per share is calculated by dividing total actual historical and pro forma shareholders' equity at the date indicated by the actual historical and pro forma number of shares outstanding at that date.
 - (3) Mountain Bank has historically declared an annual cash dividend in March of each year.
 - (4) Calculated by multiplying the market value per share of Columbia stock at May 15, 2007, by the pro forma ratio of 0.79317, which ratio has been computed based on the Columbia common stock price at that date and total per share merger consideration (cash and stock) of \$24.11. This assumption is for purposes of presentation only and the exchange ratio in the merger may be different.

Table of Contents**COMPARATIVE STOCK PRICE AND DIVIDEND INFORMATION****COLUMBIA COMMON STOCK**

Columbia common stock is quoted on The NASDAQ Global Market under the symbol COLB. The following table sets forth for the periods indicated:

the high and low sale prices for Columbia common stock as reported on The NASDAQ Global Market, and

dividends per share on Columbia common stock.

	High	Low	Cash Dividends Declared
2005			
First quarter	\$ 25.83	\$ 22.66	\$ 0.07
Second quarter	\$ 25.30	\$ 22.57	\$ 0.09
Third quarter	\$ 28.84	\$ 22.67	\$ 0.11
Fourth quarter	\$ 29.98	\$ 24.51	\$ 0.12
2006			
First quarter	\$ 35.49	\$ 27.99	\$ 0.13
Second quarter	\$ 37.39	\$ 31.75	\$ 0.14
Third quarter	\$ 36.67	\$ 29.91	\$ 0.15
Fourth quarter	\$ 36.20	\$ 30.90	\$ 0.15
2007			
First quarter	\$ 35.96	\$ 32.36	\$ 0.15
Second quarter (through May 15, 2007)	\$ 34.11	\$ 29.89	\$ 0.17

At May 10, 2007, the 16,160,709 outstanding shares of Columbia common stock were held by approximately 1,400 holders of record.

The payment of future cash dividends is at the discretion of the Columbia board and subject to a number of factors, including results of operations, general business conditions, growth, financial condition, and other factors deemed relevant by the Columbia board. Columbia's ability to pay dividends is also subject to certain regulatory requirements and restrictions.

Table of Contents**MOUNTAIN BANK COMMON STOCK**

No broker makes a market in Mountain Bank's common stock, and trading has not been extensive. Trades that have occurred cannot be characterized as amounting to an active market. The stock is traded by individuals on a personal basis and sporadically on the over-the-counter market. Due to the limited information available, the following price information may not accurately reflect the actual market value of the shares. The following data includes trades between individual investors known to Mountain Bank. It does not include new issuances of stock, the exercise of stock options or shares issued under Mountain Bank's Employee Stock Purchase Plan. The price information was obtained from Mt. Rainier National Bank acting as transfer agent for Mountain Bank.

	No. of Shares Traded	High	Low
2005			
First quarter	6,170	\$ 16.50	\$ 15.50
Second quarter	8,993	\$ 17.00	\$ 15.00
Third quarter	15,276	\$ 18.00	\$ 16.50
Fourth quarter	7,196	\$ 19.00	\$ 17.50
2006			
First quarter	5,665	\$ 20.00	\$ 19.00
Second quarter	3,535	\$ 21.50	\$ 20.00
Third quarter	10,400	\$ 24.00	\$ 21.50
Fourth quarter	13,901	\$ 25.00	\$ 24.00
2007			
First quarter	6,062	\$ 26.00	\$ 25.00
Second quarter (through May 15, 2007)	100	\$ 25.00	\$ 25.00

At May 10, 2007, the 2,324,633 outstanding shares of Mountain Bank common stock were held by approximately 1,175 holders of record.

The timing and amount of dividends paid by Mountain Bank is subject to determination by the board of directors of Mountain Bank, in its sole discretion, and depends upon earnings, cash requirements and its financial condition, applicable government regulations and other factors deemed relevant by the Mountain Bank board of directors. Mountain Bank has not historically paid quarterly cash dividends, but rather annual cash dividends. Mountain Bank paid a cash dividend of \$0.15 per share in March 2005, \$0.18 per share in March 2006, and \$0.20 per share in March 2007.

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MOUNTAIN BANK SPECIAL SHAREHOLDERS MEETING

DATE, TIME, PLACE

The Mountain Bank special meeting of shareholders will be held on Thursday, June 21, 2007, at 7:00 p.m., local time, at Enumclaw Expo Center, located at 28511 Hwy 410 East, Enumclaw, Washington 98022.

PURPOSE

At the special meeting, Mountain Bank shareholders will:

consider and vote on a proposal to approve the merger agreement, and

if necessary, consider and act upon a proposal to adjourn the special meeting to allow additional time to solicit proxies.

RECORD DATE; SHARES OUTSTANDING AND ENTITLED TO VOTE

The Mountain Bank board of directors has fixed 5:00 p.m. Pacific Time on May 10, 2007 as the record date for determining the holders of shares of Mountain Bank common stock entitled to notice of and to vote at the special meeting. At the close of business on the Mountain Bank record date, there were 2,324,633 shares of common stock issued and outstanding held by approximately 1,175 holders of record. Holders of record of Mountain Bank common stock on the record date are entitled to one vote per share and are also entitled to exercise dissenters' rights if certain procedures are followed. See *The Merger Dissenters' Rights of Appraisal* beginning on page 40 and **Appendix B**.

The directors and executive officers of Mountain Bank have agreed to vote all shares controlled by them in favor of approval of the merger agreement. A total of 419,273 outstanding shares, or approximately 18% of the outstanding shares of Mountain Bank common stock, are covered by the voting agreement. See *The Merger Voting Agreement* on page 40.

VOTE REQUIRED

The affirmative vote of the holders of at least two-thirds (66²/3%) of the shares of Mountain Bank's outstanding common stock is required to approve the merger agreement. At least fifty percent (50%) of the total outstanding shares of Mountain Bank common stock must be present, either in person or by proxy, in order to constitute a quorum for the meeting. For purposes of determining a quorum, abstentions and broker nonvotes (that is, proxies from brokers or nominees indicating that such person has not received instructions from the beneficial owners or other persons entitled to vote shares as to a matter with respect to which the broker or nominee does not have discretionary power to vote) are counted in determining the shares present at a meeting.

For voting purposes, however, only shares actually voted **for** the approval of the merger agreement, and neither abstentions nor broker nonvotes, will be counted as favorable votes in determining whether the merger agreement is approved by the holders of Mountain Bank common stock. **As a result, abstentions and broker nonvotes will have the same effect as votes against approval of the merger agreement.**

VOTING, SOLICITATION, AND REVOCATION OF PROXIES

If the enclosed proxy card is duly executed and received in time for the special meeting, it will be voted in accordance with the instructions given. If the proxy card is duly executed and received but no instruction is given, it is the intention of the persons named in the proxy to vote the shares represented by the proxy for the approval of the merger agreement and in the proxy holder's discretion on any other matter properly coming before the meeting. Any proxy given by a shareholder may be revoked before its exercise by:

written notice to the Secretary of Mountain Bank;

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a later-dated proxy; or

appearing and voting at the special meeting in person.

If you intend to change your vote or otherwise vote in person and your shares are held in the name of a broker or other nominee, you should contact your broker or nominee for further instructions. Mountain Bank is soliciting proxies for the special meeting on behalf of the Mountain Bank board of directors. Mountain Bank will bear the cost of soliciting proxies from its shareholders. In addition to using the mails, Mountain Bank may solicit proxies by personal interview, telephone, and facsimile. Banks, brokerage houses, other institutions, nominees, and fiduciaries will be requested to forward their proxy soliciting material to their principals and obtain authorization for the execution of proxies. Mountain Bank does not expect to pay any compensation for the solicitation of proxies. However, Mountain Bank will, upon request, pay the standard charges and expenses of banks, brokerage houses, other institutions, nominees, and fiduciaries for forwarding proxy materials to and obtaining proxies from their principals.

POSSIBLE ADJOURNMENT OF THE MEETING

As described above under **Vote Required**, approval of the merger agreement requires the affirmative vote of at least two-thirds (~~66~~%) of the shares of Mountain Bank's outstanding common stock. If there are not sufficient votes represented at the special meeting, either in person or by proxy, to approve the merger agreement, or if a quorum is not present, Mountain Bank may propose to adjourn or postpone the meeting in order to permit further solicitation of proxies by Mountain Bank. Adjournment of the meeting, if proposed, requires the affirmative vote of a majority of the votes cast on the proposal. The Mountain Bank board of directors unanimously recommends that Mountain Bank's shareholders vote for the proposal to adjourn the special meeting, if necessary, to solicit additional proxies if there are not sufficient votes in favor of the merger agreement.

BACKGROUND OF AND REASONS FOR THE MERGER

BACKGROUND OF THE MERGER

Columbia was organized in 1993 and has grown to \$2.6 billion in assets, with 35 branches concentrated in Pierce, King, Cowlitz, Thurston, and Kitsap Counties in Washington and in Clatsop and Tillamook Counties in Oregon. In 1998, Columbia completed the acquisitions of two community banks, one in Pierce County and the other in King County, with combined assets of \$100 million. In 2004, Columbia acquired Bank of Astoria in Astoria, Oregon, which had over \$150 million in assets. Columbia's strategy has been to grow its franchise through its branch network and to seek acquisitions of other leading community banks in the Pacific Northwest that are also a cultural fit.

Mt. Rainier National Bank was organized in 1990 as a national banking association headquartered in Enumclaw, Washington. The bank's holding company, Mountain Bank, was formed in 1993. Mountain Bank currently has five branch locations in King and Pierce Counties. These branches offer a full range of commercial bank services including checking accounts, savings accounts, time deposits, night depository services, safe deposit box facilities, commercial loans, consumer loans, residential mortgage loans, on-line banking and other customary non-deposit services to predominantly small and middle-market businesses and middle-income individuals.

Melanie Dressel, Chief Executive Officer of Columbia, met informally a number of times over the last several years with both Roy Brooks, Chairman of Mountain Bank, and Mt. Rainier National Bank President Steve Moergeli, to express Columbia Bank's high degree of interest in pursuing a business combination with Mountain Bank, including in November 2006. At that time, Mr. Brooks requested that Ms. Dressel refrain from developing a formal proposal until the Mountain Bank board had held a contemplated strategic planning meeting as discussed below.

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At its regular board meeting on November 28, 2006, members of the board of Mountain Bank discussed having a long range planning session before the end of the year. In preparation for this planning meeting, a questionnaire was sent out to all directors requesting topics to be addressed at the meeting. In response to the questionnaire, several directors indicated interest in discussing the direction of the company, including opportunities for a merger with another bank.

At the December 19, 2006, long range planning meeting held by the Mountain Bank board, the board directed the Chairman to meet with an investment banker to obtain information about bank valuations and the opportunities available to Mountain Bank if it were to proceed with identifying a strategic partner.

On January 3, 2007, Mr. Brooks contacted Sandler O'Neill & Partners, L.P. (Sandler O'Neill) to request assistance in addressing the board's direction to consider strategic alternatives for Mountain Bank. On January 10 and 19, 2007, Mr. Brooks met with a representative of Sandler O'Neill to discuss the board's request for information.

Following the conversations, a representative of Sandler O'Neill made a presentation to the Mountain Bank board at a special meeting held on February 1, 2007. The Sandler O'Neill representative discussed the alternatives available to Mountain Bank, including continuing as a stand-alone entity or exploring strategic merger partners, including Columbia. The representative responded to questions from directors about banks that had contacted Mountain Bank in the past, including Columbia. Other issues addressed included the operating history and market perception of these prospective partners, integration and cultural fit of the various companies, management, dividend history, stock price history and liquidity. Following an extensive discussion among the directors concerning the potential advantages and risks of pursuing a strategic partnership, the Mountain Bank board determined unanimously to ask Mountain Bank's management and Sandler O'Neill to meet with Ms. Dressel to discuss a possible combination with Columbia.

On February 5, 2007, Mr. Brooks, Mr. Moergeli and a representative of Sandler O'Neill met with Ms. Dressel to discuss Columbia's interest in making a merger proposal to Mountain Bank. At this meeting, the parties agreed to meet again on February 16, 2007, at an offsite location and to include Columbia's CFO, Gary Schminkey. Representatives of Sandler O'Neill attended the February 16, 2007 meeting. A joint confidentiality agreement was executed by Columbia and Mountain Bank on February 7, 2007, to facilitate the exchange of non-public information.

At their regularly scheduled February 20, 2007 meeting, the Mountain Bank board received updates from Mountain Bank management and a representative of Sandler O'Neill about the possible terms that Columbia was willing to offer Mountain Bank in a merger proposal. The board voted to hold a special board meeting on March 1, 2007, to discuss a possible combination with Columbia.

Columbia's board of directors also discussed the potential merger transaction with Mountain Bank at its regularly scheduled board meeting on February 28, 2007. Management advised the board that the proposed merger terms included consideration with a fixed value of \$25.00 per Mountain Bank share, split between Columbia stock and cash approximately 55%/45%, and subject to certain adjustments. The board authorized Columbia's management to continue negotiations with Mountain Bank.

At Mountain Bank's special board meeting on March 1, 2007, representatives of Sandler O'Neill and Mountain Bank's management reviewed the terms of a possible transaction with Columbia based on terms informally discussed with Columbia. The board was informed that Columbia proposed that the consideration would take the form of approximately 55% stock and 45% cash at a fixed value of \$25.00 per Mountain Bank share, subject to certain adjustments. After discussing these preliminary terms, the Mountain Bank board reaffirmed its interest in continuing to have conversations with Columbia and authorized management to assist Columbia in doing due diligence about Mountain Bank, to conduct due diligence about Columbia, and to begin negotiation of a definitive merger agreement.

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The following morning, Ms. Dressel and Mr. Brooks met at a location near the Seattle airport to discuss beginning due diligence and the general terms of a merger transaction. Representatives of Graham & Dunn P.C., long-time corporate counsel for Mountain Bank, and Sandler O'Neill joined the meeting and a timeline was developed for the parties to begin merger negotiations.

During the week of March 5, 2007, the parties exchanged due diligence materials and started the due diligence process.

On March 9, 2007, Ms. Dressel and Mr. Schminkey met with Mr. Brooks and Mountain Bank CFO Sheila Brumley for lunch to discuss the merger and the opportunity for Ms. Brumley to join the Columbia finance staff if the merger was completed. The following day, Ms. Dressel and Mr. Schminkey met with Mr. Brooks and Sterlin Franks, Mt. Rainier National Bank's Chief Credit Officer, to discuss Mr. Franks' continuing as the regional credit officer for the Mountain Bank branches following the completion of the proposed merger.

On March 10, 2007, the parties met to continue due diligence at an offsite location in Federal Way, Washington. Columbia's representatives met with management of Mountain Bank and reviewed certain loan files. Messrs. Brooks, Moergeli, and Franks and Ms. Brumley met with Ms. Dressel, Mr. Schminkey, Mark Nelson, Columbia's Executive Vice President and Chief Banking Officer, and Andy McDonald, Columbia's Executive Vice President and Chief Credit Officer, and representatives of Sandler O'Neill to discuss financial and operational matters.

On March 13, 2007, initial drafts of the merger agreement and ancillary documents were provided by legal counsel.

On March 16, 2007, Mr. Franks reviewed certain of Columbia's loan files and examined loan policies and procedures at a Columbia branch office located in Tacoma, Washington. Messrs. Brooks and Moergeli and Ms. Brumley continued their due diligence of Columbia at the same Columbia branch office in Tacoma on March 20, 2007.

On March 16, 2007, Messrs. Brooks and Moergeli and Ms. Brumley, together with representatives of Sandler O'Neill and Graham & Dunn, met with Ms. Dressel, Mr. Schminkey and representatives of Miller Nash LLP, Columbia's legal counsel for the transaction, and D.A. Davidson & Co., Columbia's financial advisor, to negotiate the terms of the definitive agreement, including the form of merger consideration, termination and breakup events and fees, employment arrangements, noncompetition agreements, advisory board structure, representations, warranties, and covenants, and other issues related to the proposed transaction. This meeting took place at Graham & Dunn's offices in Seattle.

Following the March 16, 2007, meeting and continuing until March 23, 2007, the parties continued to negotiate the merger agreement and related ancillary documents.

The Mountain Bank board held a special meeting on March 22, 2007, to review the progress of the negotiations. Representatives of Graham & Dunn and Sandler O'Neill attended this meeting. At this special board meeting, the Sandler O'Neill representative provided its preliminary analysis of the financial terms of the transaction. The presentation also covered the proposed mechanics for the merger consideration. Graham & Dunn advised the board on its fiduciary obligations.

The final drafts of the merger agreement and related ancillary documents were circulated to the board of directors of Mountain Bank and Columbia on March 24, 2007.

A special board meeting was held by Mountain Bank the evening of March 27, 2007, to consider the merger agreement and related documents. Representatives of Graham & Dunn provided an update on fiduciary duties and the terms and conditions contained in the merger agreement, employment-related agreements and other material agreements, copies and summaries of which had been distributed to the directors in advance of the

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meeting. Representatives of Sandler O'Neill delivered Sandler O'Neill's oral opinion that, as of March 27, 2007, and based upon and subject to the assumptions made, matters considered and qualifications and limitations described, the consideration to be received by Mountain Bank shareholders in the merger is fair to such shareholders from a financial point of view. After discussion and detailed consideration of the merger agreement, related documents, and the factors listed below under Reasons for the Merger Mountain Bank, the Mountain Bank board, all of whom were present, unanimously approved and authorized the execution by Mountain Bank of the merger agreement. The merger agreement dated the following day, March 28, 2007, was executed by Mountain Bank immediately following the conclusion of the special meeting.

Columbia held its regular board meeting at its corporate offices the afternoon of March 28, 2007, at which time the board reviewed the merger agreement, related documents and financial analysis by D.A. Davidson. Representatives of Miller Nash advised the Columbia board regarding fiduciary duties and the terms of the merger agreement, employment-related agreements and other material agreements, copies and summaries of which had been provided to the directors prior to the meeting. A representative of D.A. Davidson then made a presentation regarding the financial terms of the merger. After discussion and detailed consideration of the merger agreement and presentations made by its counsel and financial advisor, the Columbia directors, all of whom were present in person, unanimously approved and authorized the execution of the merger agreement and related agreements. The merger agreement was executed by Columbia immediately following the conclusion of the board meeting and was publicly announced that afternoon.

REASONS FOR THE MERGER COLUMBIA

At its regular meeting held on March 28, 2007, Columbia's board of directors determined that the merger agreement was in the best interests of Columbia and its shareholders. In reaching its determination, the board consulted with D.A. Davidson regarding the financial impact of the merger and with Columbia's management and Miller Nash regarding the terms of the merger agreement, and considered a number of factors. Listed below are the material considerations Columbia's directors took into account in arriving at their decision:

Mt. Rainier National Bank's financial performance and credit quality;

Anticipated revenue enhancements, cost savings, and merger-related expenses associated with combining operations;

The addition of branches in market areas contiguous to Columbia's operations and in locations in which Columbia had planned to expand;

The opportunity to meaningfully compliment and enhance the product offerings to Mt. Rainier's loyal customer base, with a corresponding potential for enhanced revenue growth;

The similar cultures of both banks, including their focus on community banking and a shared commitment to community involvement; and

Continuity of key employees and brand name, as well as continued involvement of Mountain Bank's directors on an advisory board. The foregoing list is not intended to be exhaustive but represents the material factors considered by the Columbia board. The board did not assign any specific or relative weight to the factors listed above. After evaluating the anticipated impact of the merger with Mountain Bank on Columbia and its shareholders, customers and employees, including the time and effort required of management to assimilate both Mountain Bank and Town Center Bancorp concurrently, Columbia's board concluded that the benefits to Columbia and its constituencies anticipated from the merger would likely outweigh any disadvantages.

REASONS FOR THE MERGER MOUNTAIN BANK

At a special meeting held on March 27, 2007, the Mountain Bank board of directors determined that the terms of the merger agreement were in the best interests of Mountain Bank and its shareholders. In the course of

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reaching its decision to approve the merger agreement, the Mountain Bank board of directors consulted with Sandler O'Neill, its financial advisor, and Graham & Dunn, its legal counsel. In reaching its final determination, Mountain Bank's board of directors considered a number of factors including, without limitation, the following:

the terms of the merger agreement and the form of the consideration, and the historical trading ranges for Columbia's common stock;

the alternatives of Mountain Bank's continuing as an independent community bank or combining with other potential merger partners versus the determination that the merger with Columbia presented the best opportunity for maximizing shareholder value and serving the banking needs of the communities in which Mountain Bank operates;

information concerning Columbia's financial condition and results of operations as well as the likelihood that Columbia would be able to obtain regulatory approval for the merger;

the financial terms of recent business combinations in the financial services industry and a comparison of the multiples of selected combinations with the terms of the proposed acquisition by Columbia;

the opinion of Sandler O'Neill & Partners, L.P. that the consideration to be received by Mountain Bank's shareholders in the merger is fair from a financial point of view;

Columbia's operating philosophy as a community-oriented bank holding company with a customer service focus, which is consistent with Mountain Bank's philosophy;

the expectation that Mountain Bank's shareholders would have the opportunity to continue to participate in the growth of the combined company and would also greatly benefit from the significantly greater liquidity of the trading market for Columbia common stock;

that Columbia has historically paid quarterly cash dividends on its common stock;

that Columbia's larger size would offer employees and customers greater opportunity for advancement and service than they presently have at Mountain Bank;

the effects of the regulatory and market pressures facing Mountain Bank and community banks generally and Mountain Bank's prospects as an independent bank;

the determination that a business combination with Columbia State Bank would extend Mt. Rainier National Bank's lending capabilities and increase the range of financial products and services available to Mountain Bank's customers;

the broad experience of Columbia's management team and its particular experience in managing subsidiary banks that have an emphasis on local decision making and authority;

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the likelihood of the merger being approved by applicable regulatory authorities without undue conditions or delay;

that the break-up fee provisions in the merger agreement could have the effect of discouraging superior proposals for a business combination between Mountain Bank and third parties;

the possible disruption to Mountain Bank's business that may result from the announcement of the merger and the resulting distraction of management's attention from the day-to-day operations of Mountain Bank's business; and

the restrictions contained in the merger agreement on the operation of Mountain Bank's business during the period between signing of the merger agreement and completion of the merger, as well as the other covenants and agreements of Mountain Bank contained in the merger agreement.

The foregoing discussion of the information and factors considered by the Mountain Bank board of directors is not intended to be exhaustive. In reaching its determination to approve and recommend the transaction, the Mountain Bank board based its recommendation on the totality of the information presented to it and did not

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assign any relative or specific weights to the factors considered in reaching that determination. Individual directors may have given differing weights to different factors. After deliberating with respect to the merger transaction with Columbia, considering, among other things, the matters discussed above, the Mountain Bank board of directors unanimously approved and adopted the merger agreement and the merger with Columbia as being in the best interests of Mountain Bank and its shareholders.

OPINION OF FINANCIAL ADVISOR TO MOUNTAIN BANK

By letter dated January 10, 2007, Mountain Bank retained Sandler O'Neill to act as its financial advisor in connection with a possible business combination with Columbia. Sandler O'Neill is a nationally recognized investment banking firm whose principal business specialty is financial institutions. In the ordinary course of its investment banking business, Sandler O'Neill is regularly engaged in the valuation of financial institutions and their securities in connection with mergers and acquisitions and other corporate transactions.

Sandler O'Neill acted as financial advisor to Mountain Bank in connection with the proposed merger and participated in certain of the negotiations leading to the merger agreement. At the March 27, 2007 meeting at which Mountain Bank's board considered and approved the merger agreement, Sandler O'Neill delivered to the board its oral opinion, subsequently confirmed in writing, that, as of such date, the merger consideration was fair to Mountain Bank's shareholders from a financial point of view. Sandler O'Neill confirmed its March 27th opinion by delivering to the Mountain Bank board a written opinion dated the date of this proxy statement/prospectus. In rendering its updated opinion, Sandler O'Neill confirmed the appropriateness of its reliance on the analyses used to render its earlier opinion by reviewing the assumptions upon which its analyses were based, performing procedures to update certain of those analyses, and reviewing the other factors considered in rendering its opinion. **The full text of Sandler O'Neill's updated opinion is attached as Appendix C to this proxy statement/prospectus. The opinion outlines the procedures followed, assumptions made, matters considered and qualifications and limitations on the review undertaken by Sandler O'Neill in rendering its opinion. The description of the opinion set forth below is qualified in its entirety by reference to the opinion. Mountain Bank shareholders are urged to read the entire opinion carefully in connection with their consideration of the proposed merger.**

Sandler O'Neill's opinion speaks only as of the date of the opinion. The opinion was directed to the Mountain Bank board and is directed only to the fairness of the merger consideration to Mountain Bank shareholders from a financial point of view. It does not address the underlying business decision of Mountain Bank to engage in the merger or any other aspect of the merger and is not a recommendation to any Mountain Bank shareholder as to how such shareholder should vote at the special meeting with respect to the merger or any other matter.

In connection with rendering its opinion, Sandler O'Neill reviewed and considered, among other things:

- (1) the merger agreement;
- (2) certain publicly available financial statements and other historical financial information of Mountain Bank that they deemed relevant;
- (3) certain publicly available financial statements and other historical financial information of Columbia that they deemed relevant;
- (4) internal financial projections for Mountain Bank for the year ending December 31, 2007, prepared by and reviewed with management of Mountain Bank and growth and performance projections for the years ending December 31, 2008, 2009 and 2010 as provided by and reviewed with management of Mountain Bank;
- (5) internal financial projections for Columbia for the years ending December 31, 2007, 2008 and 2009, prepared by and reviewed with management of Columbia and growth and performance projections for the year ending December 31, 2010, as provided by and reviewed with management of Columbia, including the pro forma impact of Columbia's pending acquisition of Town Center Bancorp;

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- (6) the pro forma financial impact of the merger on Columbia, based on assumptions relating to transaction expenses, purchase accounting adjustments and cost savings determined by the senior managements of Mountain Bank and Columbia;

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- (7) the publicly reported historical price and trading activity for Columbia's common stock, including a comparison of certain financial and stock market information for Columbia with similar publicly available information for certain other companies the securities of which are publicly traded;
- (8) the financial terms of certain recent business combinations in the commercial banking industry, to the extent publicly available;
- (9) the current market environment generally and the banking environment in particular; and
- (10) such other information, financial studies, analyses and investigations and financial, economic and market criteria as they considered relevant.

Sandler O'Neill also discussed with certain members of senior management of Mountain Bank the business, financial condition, results of operations and prospects of Mountain Bank and held similar discussions with certain members of senior management of Columbia regarding the business, financial condition, results of operations and prospects of Columbia.

In performing its review, Sandler O'Neill has relied upon the accuracy and completeness of all the financial and other information that was available to them from public sources, that was provided to them by Mountain Bank and Columbia or their respective representatives or that was otherwise reviewed by them and has assumed such accuracy and completeness for purposes of rendering their opinion. Sandler O'Neill has further relied on the assurances of the respective managements of Mountain Bank and Columbia that they were not aware of any facts or circumstances that would make such information inaccurate or misleading. Sandler O'Neill was not asked to and did not undertake an independent verification of any of such information and they did not assume any responsibility or liability for the accuracy or completeness thereof. Sandler O'Neill did not make an independent evaluation or appraisal of the specific assets, the collateral securing assets or the liabilities, contingent or otherwise, of Mountain Bank or Columbia or any of their respective subsidiaries, or the collectibility of any such assets, nor was it furnished with any such evaluations or appraisals. Sandler O'Neill did not make an independent evaluation of the adequacy of the allowance for loan losses of Mountain Bank or Columbia, nor did it review any individual credit files relating to Mountain Bank or Columbia. Sandler O'Neill has assumed, with Mountain Bank's consent, that the respective allowances for loan losses for both Mountain Bank and Columbia were adequate to cover such losses and will be adequate on a pro forma basis for the combined entity.

With respect to the internal projections for Mountain Bank and Columbia and the projections of transaction costs, purchase accounting adjustments and expected cost savings prepared by and/or reviewed with the managements of Mountain Bank and Columbia and used by Sandler O'Neill in its analyses, Mountain Bank's and Columbia's management confirmed to Sandler O'Neill that they reflected the best currently available estimates and judgments of management of the future financial performance of Mountain Bank and Columbia and Sandler O'Neill assumed that such performance would be achieved. Sandler O'Neill expresses no opinion as to such financial projections and estimates or the assumptions on which they are based. Sandler O'Neill has also assumed that there has been no material change in Mountain Bank's and Columbia's assets, financial condition, results of operations, business or prospects since the date of the most recent financial statements made available to it. Sandler O'Neill has assumed in all respects material to its analysis that Mountain Bank and Columbia will remain as going concerns for all periods relevant to its analyses, that all of the representations and warranties contained in the merger agreement and all related agreements are true and correct, that each party to the agreements will perform all of the covenants required to be performed by such party under the agreements, that the conditions precedent in the agreements are not waived and that the merger will qualify as a tax-free reorganization for federal income tax purposes. Finally, with Mountain Bank's consent, Sandler O'Neill has relied upon the advice Mountain Bank has received from its legal, accounting and tax advisors as to all legal, accounting and tax matters relating to the merger and the other transactions contemplated by the merger agreement.

Sandler O'Neill's opinion was necessarily based upon financial, economic, market and other conditions as in effect on, and the information made available to them as of, the date of the opinion. Events occurring after the

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date of the opinion could materially affect the opinion. Sandler O'Neill has not undertaken to update, revise, reaffirm or withdraw their opinion or otherwise comment upon events occurring after the date hereof. Sandler O'Neill is expressing no opinion herein as to what the value of Columbia's common stock will be when issued to Mountain Bank's shareholders pursuant to the merger agreement or the prices at which Mountain Bank's and Columbia's common stock may trade at any time.

In rendering its March 27, 2007, opinion, Sandler O'Neill performed a variety of financial analyses. The following is a summary of the material analyses performed by Sandler O'Neill, but is not a complete description of all the analyses underlying Sandler O'Neill's opinion. The summary includes information presented in tabular format. In order to fully understand the financial analyses, these tables must be read together with the accompanying text. The tables alone do not constitute a complete description of the financial analyses. The preparation of a fairness opinion is a complex process involving subjective judgments as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. The process, therefore, is not necessarily susceptible to a partial analysis or summary description. Sandler O'Neill believes that its analyses must be considered as a whole and that selecting portions of the factors and analyses considered without considering all factors and analyses, or attempting to ascribe relative weights to some or all such factors and analyses, could create an incomplete view of the evaluation process underlying its opinion. Also, no company included in Sandler O'Neill's comparative analyses described below is identical to Mountain Bank or Columbia and no transaction is identical to the merger. Accordingly, an analysis of comparable companies or transactions involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies and other factors that could affect the public trading values or merger transaction values, as the case may be, of Mountain Bank or Columbia and the companies to which they are being compared.

In performing its analyses, Sandler O'Neill also made numerous assumptions with respect to industry performance, business and economic conditions and various other matters, many of which cannot be predicted and are beyond the control of Mountain Bank, Columbia and Sandler O'Neill. The analyses performed by Sandler O'Neill are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by such analyses. Sandler O'Neill prepared its analyses solely for purposes of rendering its opinion and provided such analyses to the Mountain Bank board at the board's March 27, 2007, meeting. Estimates on the values of companies do not purport to be appraisals or necessarily reflect the prices at which companies or their securities may actually be sold. Such estimates are inherently subject to uncertainty and actual values may be materially different. Accordingly, Sandler O'Neill's analyses do not necessarily reflect the value of Mountain Bank's common stock or Columbia's common stock or the prices at which Mountain Bank's or Columbia's common stock may be sold at any time.

Summary of Proposal

Sandler O'Neill reviewed the financial terms of the proposed transaction. Columbia is offering shareholders of Mountain Bank a fixed amount of \$11.25 in cash per share and a varying amount of shares of Columbia common stock such that if the Columbia Average Price is between \$32.50 and \$37.50, the value per Mountain Bank common share will be \$25.00 consisting of \$11.25 in cash and \$13.75 in Columbia stock. If the Columbia Average Price is greater than \$37.50, the amount of Columbia shares issued to holders of Mountain Bank common stock will be fixed at 0.3667 per Mountain Bank share. If the Columbia Average Price is less than \$32.50, the amount of Columbia shares issued to holders of Mountain Bank common stock will be fixed at 0.4231 per Mountain Bank share. Based upon the closing price of Columbia's common stock on March 26, 2007, of \$34.62, Sandler O'Neill calculated implied consideration of \$25.00 per share of Mountain Bank common stock.

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Based upon financial information for Mountain Bank for the twelve months ended December 31, 2006, Sandler O'Neill calculated the following ratios:

Transaction Ratios

Deal price/Last Twelve Months Earnings Per Share	27.5x
Deal price/stated book value per share	259%
Deal price/tangible book value per share	259%
Tangible book premium/core deposits(1)	24.5%

(1) Core deposits excludes 25% of deposits categorized as jumbo time deposits (greater than \$100,000). For purposes of Sandler O'Neill's analyses, earnings per share were based on fully diluted earnings per share. The aggregate transaction value was approximately \$60.0 million, based upon 2,307,389 shares of Mountain Bank common stock outstanding and including the intrinsic value of options to purchase an aggregate of 147,325 shares with a weighted average strike price of \$11.77.

Comparable Company Analysis

Sandler O'Neill used publicly available information to compare selected financial and market trading information for Mountain Bank and a group of financial institutions headquartered in the Pacific Northwest (Oregon, Idaho and Washington) selected by Sandler O'Neill (the Mountain Bank Peer Group). The Mountain Bank Peer Group consisted of the following publicly traded commercial banks with total assets between \$150 million and \$500 million:

Bank of Salem	Idaho Bancorp
Cowlitz Bancorp	Merchants Bancorp(2)
Citizens Bancorp	Northwest Bancorp
Columbia Commercial Bancorp(2)	Oregon Pacific Bancorp(2)
Evergreen Bancorp Inc.	Prineville Bancorporation(2)
Home Valley Bancorp Inc.	Siuslaw Financial Group(2)

(2) Non-performing Assets/Assets as of 9/30/06 in the table below.

The analysis compared financial information for Mountain Bank with data for the commercial banks in the Mountain Bank Peer Group. The table below sets forth the comparative data as of and for the twelve months ended December 31, 2006, with pricing data as of March 26, 2007:

Comparable Group Analysis

	Mountain Bank	Comparable Group Median Result
Total Assets (<i>in millions</i>)	\$ 230	\$ 270
Tangible Equity / Tangible Assets	9.69%	8.76%
Non-performing Assets / Assets	0.00%	0.13%
Net Interest Margin	4.88%	5.34%
Efficiency Ratio	68.4%	62.8%
Return on Average Assets	1.02%	1.20%
Return on Average Equity	10.3%	14.2%
Price / Tangible Book Value	NA(3)	202%
Price / LTM Earnings per Share	NA(4)	15.5x
Market Capitalization (<i>in millions</i>)	NA(5)	\$ 43.5

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(3) Based upon internally reported \$25.00 trading price, Mountain Bank's Price/Tangible Book Value is 259%.

(4) Based upon internally reported \$25.00 trading price, Mountain Bank's Price/LTM EPS is 27.5x.

(5) Based upon internally reported \$25.00 trading price, Mountain Bank's Market Cap is \$58.1 million.

Sandler O'Neill used publicly available information to compare selected financial and market trading information for Columbia and a group of financial institutions headquartered in Montana, Oregon and Washington selected by Sandler O'Neill (the Columbia Peer Group). The Columbia Peer Group consisted of the following publicly traded commercial banks with total assets between \$750 million and \$8.0 billion:

AmericanWest Bancorp	Heritage Financial Corp.
Banner Corp.	Horizon Financial Corp.
Cascade Bancorp	Pacific Continental Corp.
Cascade Financial Corp.	PremierWest Bancorp
Columbia Bancorp	Umpqua Holdings Corp.
Frontier Financial Corp.	Washington Banking Co.
Glacier Bancorp Inc.	West Coast Bancorp

The analysis compared financial information for Columbia with the data for the commercial banks in the Columbia Peer Group. The table below sets forth the comparative data as of and for the 12 months ended December 31, 2006, with pricing data as of March 26, 2007:

Comparable Group Analysis

	Columbia	Comparable Group Median Result
Total Assets (<i>in millions</i>)	\$ 2,553	\$ 1,381
Tangible Equity / Tangible Assets	8.72%	7.92%
Return on Average Assets	1.30%	1.43%
Return on Average Tangible Equity	15.80%	17.1%
Price / Tangible Book Value	253.1%	259.5%
Price / LTM Earnings per Share	17.4x	16.5x
Price / Est. EPS 2007	15.8x	15.3x
Price / Est. EPS 2008	14.2x	13.7x
Dividend Yield LQA	1.65%	1.72%
Stock Price / 52 Week High	92.6%	87.9%
Market Cap (<i>in millions</i>)	\$ 556.0	\$ 262.6

Stock Trading History

Sandler O'Neill reviewed the history of the reported trading prices and volume of Columbia's common stock and the relationship between the movements in the prices of Columbia's common stock to movements in certain stock indices, including the Standard & Poor's 500 Index, the NASDAQ Bank Index, the Standard & Poor's Bank Index and the median performance of the Columbia Peer Group of publicly traded commercial banks selected by Sandler O'Neill (listed in the Comparable Company Analysis above). During the one-year period ended March 26, 2007, Columbia's common stock underperformed each of the indices to which it was compared.

Table of Contents**Columbia's One-Year Stock Performance**

	Beginning Value March 24, 2006	Ending Value March 26, 2007
Columbia	100.00%	97.99%
Columbia Peer Group	100.00	107.83
NASDAQ Bank Index	100.00	102.54
S&P Bank Index	100.00	106.43
S&P 500 Index	100.00	110.33

During the three year period ended March 26, 2007, Columbia's common stock underperformed the Columbia Peer Group and outperformed Standard & Poor's 500 Index, the NASDAQ Bank Index and the Standard & Poor's Bank Index.

Columbia's Three-Year Stock Performance

	Beginning Value March 26, 2004	Ending Value March 26, 2007
Columbia	100.00%	139.06%
Columbia Peer Group	100.00	155.17
NASDAQ Bank Index	100.00	114.57
S&P Bank Index	100.00	121.23
S&P 500 Index	100.00	129.73

Analysis of Selected Merger Transactions

Sandler O'Neill reviewed 75 merger transactions announced nationwide from January 1, 2006 through March 26, 2007, involving commercial banks as acquired institutions with transaction values greater than \$25 million and less than \$100 million. Sandler O'Neill also reviewed 16 merger transactions announced during the same period involving commercial banks in the Western Region (Arizona, California, Hawaii, Idaho, Montana, Nevada, Oregon, Washington and Wyoming) with transaction values greater than \$25 million and less than \$100 million. Sandler O'Neill reviewed the multiples of transaction price at announcement to last twelve months earnings per share, transaction price to book value per share, transaction price to tangible book value per share and tangible book premium to core deposits and computed high, low, mean and median multiples and premiums for the transactions. The median multiples were applied to Mountain Bank's financial information as of and for the 12 months ended December 31, 2006. As illustrated in the following table, Sandler O'Neill derived an imputed range of values per share of Mountain Bank's common stock of \$21.92 to \$24.41 based upon the median multiples for nationwide commercial bank transactions and \$21.77 to \$24.29 based upon the median multiples for Western Region commercial bank transactions. Based upon the closing price of Columbia's common stock on March 26, 2007, of \$34.62, the implied transaction value of the merger as calculated by Sandler O'Neill was \$25.00 per share.

Nationwide & Western Region Transaction Multiples

	Nationwide		Western Region	
	Median Multiple	Implied Value	Median Multiple	Implied Value
Transaction price/LTM EPS	24.0x	\$ 21.92	23.8x	\$ 21.77
Transaction price/book value	248%	\$ 23.93	252%	\$ 24.29
Transaction price/tangible book value	253%	\$ 24.41	252%	\$ 24.29
Tangible book premium/core deposits	21.8%	\$ 23.33	22.3%	\$ 23.65

Table of Contents**Net Present Value Analysis**

Sandler O Neill performed an analysis that estimated the present value of the projected future stream of after-tax net income of Mountain Bank through December 31, 2010, under various circumstances, assuming that Mountain Bank performed in accordance with the earnings projections generated by and reviewed with management. The analysis assumed a projected dividend payout ratio of 15.0%. To approximate the terminal value of Mountain Bank common stock at December 31, 2010, Sandler O Neill applied price to earnings multiples ranging from 12x to 20x and multiples of price to tangible book value ranging from 150% to 250%. The income streams and terminal values were then discounted to present values using different discount rates ranging from 11% to 15% chosen to reflect different assumptions regarding required rates of return of holders or prospective buyers of Mountain Bank common stock. Sandler O Neill also varied Mountain Bank's forecasted net income using a range of 25% under forecast to 25% over forecast, and used a discount rate of 12.93% for this analysis. As illustrated in the following tables, this analysis indicated an imputed range of values of Mountain Bank common stock of \$12.66 to \$23.80 per share when applying the price to earnings multiples, \$8.43 to \$28.15 when applying multiples of tangible book value and \$10.35 to \$30.32 when varying the projected net income forecast. Based upon the closing price of Columbia's common stock on March 26, 2007 of \$34.62, the implied transaction value of the merger as calculated by Sandler O Neill was \$25.00 per share.

Present Value Per Share Based on Price / Earnings

Discount Rate		Multiple of Price / Earnings				
		12.0x	14.0x	16.0x	18.0x	20.0x
	11.00%	\$ 14.54	\$ 16.86	\$ 19.17	\$ 21.48	\$ 23.80
	12.00	14.04	16.27	18.50	20.74	22.97
	13.00	13.56	15.71	17.87	20.02	22.17
	14.00	13.10	15.18	17.26	19.33	21.41
	15.00	12.66	14.66	16.67	18.68	20.69

Present Value Per Share Based on Tangible Book Value

Discount Rate		Multiple of Price / Tangible Book Value				
		150%	175%	200%	225%	250%
	11.00%	\$ 10.39	\$ 14.83	\$ 19.27	\$ 23.71	\$ 28.15
	12.00	9.85	14.04	18.23	22.42	26.60
	13.00	9.35	13.30	17.25	21.20	25.15
	14.00	8.88	12.60	16.33	20.05	23.78
	15.00	8.43	11.94	15.46	18.98	22.49

Performance to Forecast

		Multiple of Price / Earnings				
		12.0x	14.0x	16.0x	18.0x	20.0x
Under Budget	-25.00%	\$ 10.35	\$ 11.97	\$ 13.59	\$ 15.21	\$ 16.83
	-20.00	11.00	12.73	14.46	16.18	17.91
	-15.00	11.65	13.48	15.32	17.15	18.99
	-10.00	12.30	14.24	16.18	18.13	20.07
	-5.00	12.94	15.00	17.05	19.10	21.15
Match Budget	0.00	13.59	15.75	17.91	20.07	22.23
	5.00	14.24	16.51	18.77	21.04	23.31
	10.00	14.89	17.26	19.64	22.01	24.39
Exceed Budget	15.00	15.53	18.02	20.50	22.98	25.47
	20.00	16.18	18.77	21.36	23.96	26.55
	25.00	16.83	19.53	22.23	24.93	27.63

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Sandler O Neill also performed an analysis that estimated the present value of the projected future stream of after-tax net income of Columbia through December 31, 2010, under various circumstances, assuming that Columbia performed in accordance with the earnings projections generated by and reviewed with management. The analysis assumed a projected dividend payout ratio of 30.0%. To approximate the terminal value of Columbia common stock at December 31, 2010, Sandler O Neill applied price to earnings multiples ranging from 15x to 20x and price to tangible book value ranging from 200% to 325%. The income streams and terminal values were then discounted to present values using different discount rates ranging from 9% to 15% chosen to reflect different assumptions regarding required rates of return of holders or prospective buyers of Columbia common stock. Sandler O Neill also varied Columbia's forecasted net income using a range of 25% under forecast to 25% over forecast, and used discount rates of 12.93% and 10.79% for this analysis. As illustrated in the following tables, this analysis indicated an imputed range of values per share of Columbia common stock of \$27.45 to \$44.27 when applying the price to earnings multiples, \$24.99 to \$48.45 when applying multiples of tangible book value and \$22.65 to \$47.61 when varying the projected net income forecast. The closing value of Columbia common stock on March 26, 2007 was \$34.62 per share.

Present Value Per Share Based on Price / Earnings

Discount Rate		Multiple of Price / Earnings					
		15.0x	16.0x	17.0x	18.0x	19.0x	20.0x
	9.0%	\$ 33.81	\$ 35.90	\$ 37.99	\$ 40.08	\$ 42.18	\$ 44.27
	10.0	32.63	34.64	36.66	38.68	40.69	42.71
	11.0	31.50	33.44	35.39	37.33	39.28	41.22
	12.0	30.42	32.29	34.17	36.05	37.92	39.80
	13.0	29.38	31.20	33.01	34.82	36.63	38.44
	14.0	28.40	30.14	31.89	33.64	35.39	37.14
	15.0	27.45	29.14	30.83	32.51	34.20	35.89

Present Value Per Share Based on Tangible Book Value

Discount Rate		Multiple of Price / Tangible Book Value					
		200%	225%	250%	275%	300%	325%
	9.0%	\$ 30.76	\$ 34.30	\$ 37.84	\$ 41.38	\$ 44.92	\$ 48.45
	10.0	29.69	33.10	36.52	39.93	43.34	46.75
	11.0	28.67	31.96	35.25	38.54	41.83	45.12
	12.0	27.69	30.86	34.04	37.21	40.38	43.56
	13.0	26.75	29.81	32.88	35.94	39.00	42.07
	14.0	25.85	28.81	31.77	34.72	37.68	40.64
	15.0	24.99	27.85	30.71	33.56	36.42	39.27

Performance to Forecast

		Multiple of Price / Earnings					
		15.0x	16.0x	17.0x	18.0x	19.0x	20.0x
Under Budget	-25.00%	\$ 22.65	\$ 24.01	\$ 25.37	\$ 26.73	\$ 28.09	\$ 29.46
	-20.00	24.01	25.46	26.91	28.37	29.82	31.27
	-15.00	25.37	26.91	28.46	30.00	31.54	33.09
	-10.00	26.73	28.37	30.00	31.63	33.27	34.90
	-5.00	28.09	29.82	31.54	33.27	34.99	36.72
Match Budget	0.00	29.46	31.27	33.09	34.90	36.72	38.53
	5.00	30.82	32.72	34.63	36.54	38.44	40.35
	10.00	32.18	34.18	36.17	38.17	40.17	42.16
	15.00	33.54	35.63	37.72	39.80	41.89	43.98
Exceed Budget	20.00	34.90	37.08	39.26	41.44	43.62	45.80
	25.00	36.26	38.53	40.80	43.07	45.34	47.61

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In connection with its analyses, Sandler O'Neill considered and discussed with the Mountain Bank board how the present value analyses would be affected by changes in the underlying assumptions. Sandler O'Neill noted that the net present value analysis is a widely used valuation methodology, but the results of such methodology are highly dependent upon the numerous assumptions that must be made, and the results thereof are not necessarily indicative of actual values or future results.

Pro Forma Merger Analysis

Sandler O'Neill analyzed certain potential pro forma effects of the merger, assuming the following: (1) the merger closes in the fourth quarter of 2007, (2) 100% of Mountain Bank's shares are exchanged for Columbia common stock and cash (as described above under Summary of Proposal), (3) earnings per share projections for Mountain Bank and Columbia are consistent with internal projections and guidance as provided by and discussed with management of both companies for the years ended December 31, 2008, 2009 and 2010, and (4) purchase accounting adjustments, charges and transaction costs associated with the merger and cost savings determined by the senior managements of Columbia and Mountain Bank. This analysis was performed using three potential exchange ratios for the stock portion of the consideration determined pursuant to the merger agreement based upon the Columbia Average Price. In order to illustrate the pro forma accretive/dilutive impact of the transaction at those exchange ratios, Sandler O'Neill used Columbia Average Prices equal to \$32.50, \$33.65 (the 20-day average closing price of Columbia's common stock over the 20 days ending March 26, 2007) and \$37.50. The results of the analyses illustrate the number of shares issuable in the merger at the 20-day average closing price of Columbia's common stock as of March 27, 2007, and the maximum and minimum number of shares, respectively, and calculates the related accretion to earnings per share at December 31, 2008 (the first full year following completion of the merger) and dilution to tangible book value at December 31, 2007 (the assumed closing date of the merger). The following tables show the results of those analyses at the alternative exchange ratios:

Columbia Average Price	Stock Exchange Ratio	Shares Issued	Per Share Transaction Value	Est. 2008 EPS Accretion	12/31/07 TBV Dilution
\$32.50	0.4231	982,835	\$ 25.00	0.40%	(7.80)%
\$33.65	0.4086	949,153	\$ 25.00	0.80%	(7.60)%
\$37.50	0.3667	851,822	\$ 25.00	1.20%	(7.10)%

The actual results achieved by the combined company may vary from projected results and the variations may be material.

In connection with its analyses, Sandler O'Neill considered and discussed with the Mountain Bank board how the pro forma analyses would be affected by changes in the underlying assumptions, including variations with respect to the growth rate of earnings per share of each company. Sandler O'Neill noted that the actual results achieved by the combined company may vary from projected results and the variations may be material.

Mountain Bank has agreed to pay Sandler O'Neill a transaction fee in connection with the merger of approximately \$600,000, of which \$90,000 has been paid and the balance of which is contingent, and payable, upon closing of the merger. Mountain Bank has paid Sandler O'Neill \$100,000 for rendering its opinion. Mountain Bank has also agreed to reimburse certain of Sandler O'Neill's reasonable out-of-pocket expenses incurred in connection with its engagement and to indemnify Sandler O'Neill and its affiliates and their respective partners, directors, officers, employees, agents, and controlling persons against certain expenses and liabilities, including liabilities under securities laws.

Sandler O'Neill may provide investment banking services to Columbia, and receive compensation for such services, in the future, including during the period prior to the closing of the Merger. In the ordinary course of its business as a broker-dealer, Sandler O'Neill may purchase securities from and sell securities to Mountain Bank

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and Columbia and their respective affiliates and may actively trade the debt and/or equity securities of Mountain Bank and Columbia and their respective affiliates for its own account and for the accounts of customers and, accordingly, may at any time hold a long or short position in such securities.

RECOMMENDATION OF THE MOUNTAIN BANK BOARD

The board of directors of Mountain Bank has concluded that the proposed merger as described in the merger agreement is in the best interest of Mountain Bank and its shareholders. The board of directors believes that the present banking climate offers an opportune time for shareholders of Mountain Bank to exchange their shares for Columbia common stock and cash at an attractive price. **After carefully considering the proposed merger, the board of directors unanimously recommends that the shareholders of Mountain Bank vote FOR the approval of the merger agreement.**

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THE MERGER

The following is a brief description of the material aspects of the merger. There are other aspects of the merger that are not discussed below but that are contained in the merger agreement. You are being asked to approve the merger in accordance with the terms of the merger agreement, and you are urged to read the merger agreement carefully. The merger agreement is attached to this proxy statement/prospectus as **Appendix A**.

BASIC TERMS OF THE MERGER

The merger agreement provides for the merger of Mountain Bank with and into Columbia, and the merger of Mt. Rainier National Bank with and into Columbia State Bank. After the merger, the resulting bank will be a wholly-owned subsidiary of Columbia with former branches of Mt. Rainier National Bank operating as Mt. Rainier Bank.

In the merger, Mountain Bank shareholders will receive a combination of Columbia common stock and cash for their Mountain Bank common stock, as described below.

While Columbia and Mountain Bank believe that they will receive the necessary regulatory approvals for the merger, there can be no assurance that such approvals will be received or, if received, as to the timing of such approvals or as to the ability to obtain such approvals on satisfactory terms. See **Conditions to the Merger** and **Regulatory Requirements** below.

MERGER CONSIDERATION

The merger agreement provides that as of the effective date of the merger, each share of Mountain Bank common stock will be converted into the right to receive a combination of Columbia common stock and cash, as described below.

The merger consideration that will be paid for each issued and outstanding share of Mountain Bank consists of a unit having both a stock portion and a cash portion:

Cash Portion of Merger Consideration

The cash consideration payable by Columbia is equal to \$11.25 per share of Mountain Bank common stock (that is, per unit).

Stock Portion of Merger Consideration

Method of Calculating Stock Portion - Columbia Average Closing Price

The amount of Columbia stock included in each unit is based on the Columbia Average Closing Price. The Columbia Average Closing Price is the average daily closing price for Columbia stock reported on the NASDAQ Stock Market for the 15-trading-day period ending on the sixth business day before the merger is completed.

If Columbia Average Closing Price is Between \$37.50 and \$32.50

If the Columbia Average Closing Price is between \$37.50 and \$32.50, the stock portion of each unit will be a number of shares of Columbia stock equal to the number obtained by dividing \$13.75 by the Columbia Average Closing Price. In that event, the value of the stock portion of each unit (based on the Columbia Average Closing Price, which may be different than the trading price of Columbia stock on any particular trading day) would be \$13.75.

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For purposes of illustration only, if the Columbia Average Closing Price was \$35.00, the stock portion of each unit would be 0.3928 shares of Columbia common stock (\$13.75 divided by \$35.00).

If Columbia Average Closing Price is \$37.50 or Greater

If the Columbia Average Closing Price is \$37.50 or greater, the stock portion of each unit will be 0.3667 shares of Columbia stock regardless of by how far the Columbia Average Closing Price exceeds \$37.50.

For purposes of illustration only, if the Columbia Average Closing Price was \$38.00, the stock portion of each unit would be 0.3667 shares. Using the hypothetical value of \$38.00 per share of Columbia stock, the stock portion of each unit would have a value of approximately \$13.93.

If Columbia Average Closing Price is \$32.50 or Less

If the Columbia Average Closing Price is \$32.50 or less, the stock portion of each unit will be 0.4231 shares of Columbia stock.

For purposes of illustration only, if the Columbia Average Closing Price is \$32.00, the stock portion of each unit would be 0.4231 shares. Using the hypothetical value of \$32.00 per share of Columbia stock, the stock portion of each unit would have a value of approximately \$13.54.

As noted, the hypothetical valuations shown above are for illustrative purposes only. The trading price of Columbia common stock fluctuates daily, and there can be no assurance as to the actual value of the shares of Columbia common stock that Mountain Bank shareholders will receive in the merger.

As described under **Termination of the Merger Agreement** below, Mountain Bank may terminate the merger agreement if the merger consideration to be received for each Mountain Bank share (that is, the value of each unit, including both the cash and stock portions) is less than \$22.00, unless Columbia elects to increase the cash portion or the stock portion of the consideration, or both, in its discretion, so that each unit has a value of at least \$22.00.

Letter of Transmittal

Following the closing of the merger, Columbia's exchange agent will send a letter of transmittal to each person who was a Mountain Bank shareholder at the effective time of the merger. This mailing will contain instructions on how to surrender shares of Mountain Bank common stock in exchange for the merger consideration that the holder is entitled to receive under the merger agreement.

All shares of Columbia common stock issued to the holders of Mountain Bank common stock pursuant to the merger will be deemed issued as of the effective date. Until you surrender your Mountain Bank stock certificates for exchange, you will accrue, but will not be paid, any dividends or other distributions declared after the effective date with respect to Columbia common stock into which any of your shares may have been converted. When you surrender your certificates, Columbia will pay any unpaid dividends or other distributions, as well as any merger consideration payable in cash, without interest. After the effective time, there will be no transfers on the stock transfer books of Mountain Bank of any shares of Mountain Bank common stock. If certificates representing shares of Mountain Bank common stock are presented for transfer after the completion of the merger, they will be cancelled and exchanged for the merger consideration into which the shares of Mountain Bank common stock represented by those certificates shall have been converted.

If a certificate for Mountain Bank common stock has been lost, stolen or destroyed, the exchange agent will issue the consideration properly payable under the merger agreement upon receipt of appropriate evidence as to that loss, theft or destruction, appropriate evidence as to the ownership of that certificate by the claimant, and reasonable assurances, such as a bond or indemnity, satisfactory to Columbia in consultation with Mountain Bank and appropriate and customary identification.

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FRACTIONAL SHARES

No fractional shares of Columbia common stock will be issued to any holder of Mountain Bank common stock in the merger. For each fractional share that would otherwise be issued, Columbia will pay cash in an amount equal to the fraction multiplied by the Columbia Average Closing Price, calculated as described above under Stock Portion of Merger Consideration. No interest will be paid or accrued on cash payable in lieu of fractional shares of Columbia common stock.

EFFECTIVE DATE OF THE MERGER

The merger will be completed as soon as practicable after all conditions to the merger have been satisfied or waived. If all of those conditions are satisfied or waived, it is currently anticipated that the merger will be consummated in July 2007. Either Columbia or Mountain Bank may, subject to certain conditions and limitations, terminate the merger agreement if the merger is not completed on or before October 15, 2007.

FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER

The following is a discussion of the material United States federal income tax consequences of the merger that are generally applicable to holders of Mountain Bank common stock who are citizens of, residents for purposes of taxation of, or are organized under the laws of the United States. This discussion is based on currently existing provisions of the Internal Revenue Code of 1986, as amended (the Code), existing treasury regulations (including final, temporary or proposed regulations), and current administrative rulings and court decisions, all of which are subject to change. Any such change, which may or may not be retroactive, could alter the tax consequences described in this discussion. The following discussion is intended only as a general summary of the material United States federal income tax consequences of the merger and is not a complete analysis or listing of all potential tax effects relevant to a decision on whether to vote in favor of approval of the merger.

This discussion does not address all aspects of United States federal income taxation that may be relevant to Mountain Bank shareholders in light of their particular circumstances or that may be applicable to them if they are subject to special treatment under the Code, including, without limitation, shareholders:

who do not hold their Mountain Bank common stock as a capital asset within the meaning of Section 1221 of the Code;

who are financial institutions, mutual funds, dealers in securities or insurance companies;

who are tax-exempt organizations;

who are S corporations or other pass-through entities;

whose shares are qualified small business stock for purposes of Section 1202 of the Code;

who may be subject to the alternative minimum tax provisions of the Code;

who received their Mountain Bank common stock through the exercise of employee stock options or otherwise as compensation or through a tax-qualified retirement plan; or

who are subject to foreign taxes.

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Consummation of the merger is conditioned upon the receipt by Columbia and Mountain Bank of the opinion (the Tax Opinion) of Miller Nash LLP, counsel to Columbia, dated as of the effective date of the merger, substantially to the effect that, on the basis of facts, representations and assumptions set forth or referred to in the Tax Opinion, which are consistent with the state of facts existing as of the effective date of the merger, the merger will be treated for United States federal income tax purposes as a reorganization within the meaning of section 368(a) of the Code. The Tax Opinion will not be binding on the Internal Revenue Service (IRS) or the courts, and neither Columbia nor Mountain Bank intends to request a ruling from the IRS with respect to the United States federal income tax consequences of the merger.

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A Mountain Bank shareholder who receives a combination of shares of Columbia common stock and cash in exchange for all of his or her shares of Mountain Bank common stock will generally recognize gain (but not loss) in an amount equal to the lesser of (1) the amount of gain realized (i.e., the excess of the sum of the amount of cash (excluding any cash received in lieu of fractional shares) and the fair market value of the Columbia common stock (including any fractional shares deemed received and exchanged for cash) received pursuant to the merger over the holder's adjusted tax basis in his or her shares of Mountain Bank common stock surrendered) and (2) the amount of cash (excluding any cash received in lieu of fractional shares) received pursuant to the merger. For this purpose, gain or loss must be calculated separately for each identifiable block of shares surrendered in the exchange, and a loss realized on one block of shares may not be used to offset a gain realized on another block of shares with a different holding period. Any recognized gain will generally be long-term capital gain if the shareholder's holding period with respect to the Mountain Bank common stock surrendered is more than one year. If, however, the cash received has the effect of the distribution of a dividend, the gain would be treated as a dividend to the extent of the shareholder's ratable share of accumulated earnings and profits as calculated for federal income tax purposes. See Possible Treatment of Cash as a Dividend below.

The aggregate tax basis of Columbia common stock received by a Mountain Bank shareholder who receives a combination of Columbia common stock and cash in exchange for his or her shares of Mountain Bank common stock pursuant to the merger (before reduction for the basis in any fractional shares deemed received and exchanged for cash) will be equal to the aggregate adjusted tax basis of the shares of Mountain Bank common stock surrendered for Columbia common stock and cash, reduced by the amount of cash received by the shareholder pursuant to the merger (other than cash received in lieu of a fractional share), and increased by the amount of gain (including any portion of the gain that is treated as a dividend as described below), if any, recognized by the shareholder on the exchange (other than gain recognized as a result of cash received in lieu of a fractional share). The holding period of the Columbia common stock will include the holding period of the shares of Mountain Bank common stock surrendered. If a Mountain Bank shareholder has differing bases or holding periods with respect to his or her shares of Mountain Bank common stock, the holder should consult his or her tax advisor with regard to identifying the bases or holding periods of the particular shares of Columbia common stock received in the exchange.

Possible Treatment of Cash as a Dividend

In general, the determination of whether the gain recognized in the exchange will be treated as capital gain or has the effect of a distribution of a dividend depends upon whether and to what extent the exchange reduces the Mountain Bank shareholder's deemed percentage stock ownership of Columbia. For purposes of this determination, the Mountain Bank shareholder is treated as if he or she first exchanged all of his or her shares of Mountain Bank common stock solely for Columbia common stock and then Columbia immediately redeemed (the deemed redemption) a portion of the Columbia common stock in exchange for the cash the holder actually received. The gain recognized in the exchange followed by deemed redemption will be treated as capital gain if the deemed redemption is (1) substantially disproportionate with respect to the Mountain Bank shareholder, or (2) not essentially equivalent to a dividend.

Whether the deemed redemption is not essentially equivalent to a dividend with respect to a Mountain Bank shareholder will depend upon the particular circumstances. At a minimum, however, in order for the deemed redemption to be not essentially equivalent to a dividend, the deemed redemption must result in a meaningful reduction in the holder's actual and constructive percentage stock ownership of Columbia. The IRS has ruled that a minority shareholder in a publicly held corporation whose relative stock interest is minimal and who exercises no control with respect to corporate affairs is considered to have a meaningful reduction if that shareholder has a relatively minor reduction in his or her percentage stock ownership under the above analysis. In general, determining whether a meaningful reduction has occurred requires a comparison of (1) the percentage of the outstanding stock of Columbia that the shareholder is deemed actually and constructively to have owned immediately before the deemed redemption and (2) the percentage of the outstanding stock of Columbia that is actually and constructively owned by the shareholder immediately after the deemed redemption. The deemed

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redemption, generally, will be substantially disproportionate with respect to a shareholder if the percentage described in (2) above is less than 80% of the percentage described in (1) above. In applying the above tests, a shareholder may, under the constructive ownership rules, be deemed to own stock that is owned by other persons or otherwise in addition to the stock actually owned by the shareholder. As these rules are complex, each shareholder that may be subject to these rules should consult his or her tax advisor.

Cash Received in Lieu of a Fractional Share

Cash received by a Mountain Bank shareholder in lieu of a fractional share of Columbia common stock generally will be treated as received in redemption of the fractional share, and gain or loss generally will be recognized based on the difference between the amount of cash received in lieu of the fractional share and the portion of the shareholder's aggregate adjusted tax basis of the share of Mountain Bank common stock surrendered allocable to the fractional share. Such gain or loss generally will be long-term capital gain or loss if the holding period for such share of Mountain Bank common stock is more than one year.

Dissenting Shareholders

Mountain Bank shareholders who dissent with respect to the merger, as discussed under the heading **Dissenters' Rights of Appraisal**, and who receive cash in exchange for their shares of Mountain Bank common stock, will recognize gain or loss equal to the difference between the amount of cash received and their aggregate tax basis in their shares of Mountain Bank common stock. The gain or loss will be long-term capital gain or loss if the holding period for the shares of Mountain Bank is more than one year.

Backup Withholding

Non-corporate shareholders of Mountain Bank may be subject to information reporting and backup withholding on any cash payments they receive. Mountain Bank shareholders will not be subject to backup withholding, however, if they:

furnish a correct taxpayer identification number and certify under penalty of perjury that they are not subject to backup withholding on the substitute Form W-9 or successor form included in the letter of transmittal they will receive; or

are otherwise exempt from backup withholding.

Any amounts withheld under the backup withholding rules will be allowed as a refund or credit against a shareholder's federal income tax liability, provided he or she furnishes the required information to the IRS.

Reporting Requirements

Mountain Bank shareholders who receive Columbia common stock as a result of the merger will be required to retain records pertaining to the merger and each shareholder will be required to file with his or her federal income tax return for the year in which the merger takes place a statement setting forth certain facts relating to the merger. Mountain Bank shareholders will be responsible for the preparation of their own tax returns.

Miller Nash LLP has delivered an opinion to the foregoing effect to Columbia and Mountain Bank. The opinion has been filed as an exhibit to the registration statement of which this proxy statement/prospectus is a part. The foregoing is only a summary of the tax consequences of the merger as described in the opinion. The opinion is based on assumptions and on representations made by officers of Columbia and Mountain Bank to Miller Nash LLP, and contains qualifications appropriate to the subject matter.

An opinion of counsel only represents counsel's best legal judgment and has no binding effect or official status of any kind. No assurance can be given that contrary positions will not be taken by the IRS or a court.

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considering the issues. Neither Columbia nor Mountain Bank has requested or will request a ruling from the IRS with regard to the federal income tax consequences of the merger.

The foregoing is a general summary of the material United States federal income tax consequences of the merger to Mountain Bank shareholders, without regard to the particular facts and circumstances of each shareholder's tax situation and status. In addition, there may be relevant state, local, foreign, or other tax consequences, none of which is described above. Because certain tax consequences of the merger may vary depending on the particular circumstances of each shareholder, each Mountain Bank shareholder is urged to consult his or her own tax advisor regarding his or her specific tax situation and status, including the specific application of state, local, and foreign laws to such shareholder and the possible effect of changes in federal and other tax laws.

VOTING AGREEMENT

The directors and executive officers of Mountain Bank have entered into a Voting Agreement, dated as of March 27, 2007. In the Voting Agreement, each director and executive officer agrees to vote Mountain Bank shares that he or she owns or controls in favor of the merger. The directors and executive officers who have entered into this Voting Agreement are entitled to vote a total of 419,273 outstanding shares of Mountain Bank common stock, which is approximately 18% of the total Mountain Bank shares outstanding.

STOCK OPTIONS

The merger agreement provides that if any holder of a Mountain Bank stock option exercises the option before the merger is completed, the Mountain Bank shares issued on exercise will convert into a right to receive the merger consideration.

The merger agreement provides that Mountain Bank stock options that are outstanding and unexercised on the effective date of the merger will automatically convert into an option to purchase Columbia common stock on the same terms and conditions with proportionate adjustments to the number of shares subject to the option and the exercise price.

DISSENTERS' RIGHT OF APPRAISAL

Under provisions of Washington law (Chapter 23B.13 of the Revised Code of Washington, or "RCW") shareholders have the right to dissent from the merger and to receive payment in cash of the fair value of their shares of Mountain Bank common stock.

Failure of a shareholder to comply strictly with the statutory requirements will result in loss of his or her dissenter's rights. No advice can be given as to the ultimate value that an appraiser may place upon the shares held by those who choose to dissent. Accordingly, we strongly encourage you to consult with a knowledgeable professional advisor before exercising your dissenters' rights.

Mountain Bank shareholders electing to exercise dissenters' rights must comply with the applicable provisions of Washington law in order to perfect their rights. The following is intended as a brief summary of the material provisions of the procedures that a Mountain Bank shareholder must follow in order to dissent from the merger and perfect dissenters' rights. **This summary, however, is qualified in its entirety by reference to the applicable provisions of RCW Chapter 23B.13, the full text of which is set forth in Appendix B to this document.**

A Mountain Bank shareholder who wishes to assert dissenters' rights must (i) deliver to Mountain Bank before the special shareholders' meeting written notice of the shareholder's intent to demand payment for the shareholder's shares if the merger is effected, and (ii) not vote such shares in favor of the merger. A shareholder

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wishing to deliver such notice should hand deliver or mail such notice to Mountain Bank at the following address:

Mountain Bank Holding Company

501 Roosevelt Avenue

Enumclaw, Washington 98022

ATTN: Roy T. Brooks

A shareholder who wishes to exercise dissenters' rights generally must dissent with respect to all of the shares the shareholder owns or over which the shareholder has the power to direct the vote. However, if a record shareholder is a nominee for several beneficial shareholders, some of whom wish to dissent and some of whom do not, then the record holder may dissent with respect to some of the shares beneficially owned by any one person by notifying Mountain Bank in writing of the name and address of each person on whose behalf the record shareholder asserts dissenters' rights. A beneficial shareholder may assert dissenters' rights directly by submitting to Mountain Bank the record shareholder's written consent and by dissenting with respect to all the shares of which the shareholder is the beneficial shareholder or over which such shareholder has power to direct the vote.

A shareholder who does not deliver to Mountain Bank, prior to the special meeting, a written notice of the shareholder's intent to demand payment for the fair value of the shares will lose the right to exercise dissenters' rights. In addition, any shareholder electing to exercise dissenters' rights must either vote against the merger or abstain from voting.

If the merger is completed, Columbia will, within 10 days after the effective date of the merger, deliver a written notice to all shareholders who properly perfected their dissenters' rights. The notice will, among other things, (i) state where the payment demand must be sent and where and when stock certificates must be deposited, (ii) inform holders of uncertificated shares to what extent transfer of the shares will be restricted after the payment demand is received, (iii) supply a form for demanding payment, and (iv) set a date by which Columbia must receive the payment demand, which date will be between 30 and 60 days after notice is delivered.

A shareholder wishing to exercise dissenters' rights must at that time file the payment demand and deliver share certificates as required in the notice. Failure to do so will cause such person to lose dissenters' rights.

Within 30 days after the merger occurs or receipt of the payment demand, whichever is later, Columbia will pay each dissenter with properly perfected dissenters' rights Columbia's estimate of the fair value of the shareholder's interest, plus accrued interest from the effective date of the merger. With respect to a dissenter who does not beneficially own shares of Mountain Bank prior to the public announcement of the merger, Columbia is required to make the payment only after the dissenter has agreed to accept the payment in full satisfaction of the dissenter's demands. Fair value means the value of the shares immediately before the effective date of the merger, excluding any appreciation in anticipation of the merger. The rate of interest is generally required to be the rate at which Columbia can borrow money from other banks.

A dissenter dissatisfied with Columbia's estimate of the fair value may (within 30 days after Columbia made or offered payment for the dissenter's shares) notify Columbia of the dissenter's estimate of the fair value. If Columbia does not accept the dissenter's estimate and the parties do not otherwise settle on a fair value, then Columbia must within 60 days petition a court to determine the fair value.

The failure of a Mountain Bank shareholder to comply strictly with the applicable requirements of Washington law will result in a loss of his or her dissenter's rights. A copy of the relevant statutory provisions is attached as Appendix B. You should refer to this Appendix for a complete statement concerning dissenters' rights and the foregoing summary of such rights is qualified in its entirety by reference to that appendix.

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CONDITIONS TO THE MERGER

Consummation of the merger is subject to various conditions. No assurance can be provided as to whether these conditions will be satisfied or waived by the appropriate party. Accordingly, there can be no assurance that the merger will be completed.

Certain conditions must be satisfied or events must occur before the parties will be obligated to complete the merger. Each party's obligations under the merger agreement are conditioned on satisfaction by the other party of conditions applicable to them. Some of these conditions, applicable to the respective obligations of both Columbia and Mountain Bank, are as follows:

approval of the merger by Mountain Bank shareholders;

accuracy of the other party's representations in the merger agreement and any certificate or other instrument delivered in connection with the merger agreement;

compliance by the other party with all material terms, covenants, and conditions of the merger agreement;

that there shall have been no damage, destruction, or loss, or other event or sequence of events, that has had or potentially may have a material adverse effect with respect to the other party;

that no action or proceeding has been commenced or threatened by any governmental agency to restrain or prohibit or invalidate the merger;

Columbia's and Mountain Bank's receipt of a tax opinion from Miller Nash LLP; and

the registration statement filed with the SEC, required to register the Columbia common stock to be issued to shareholders of Mountain Bank in the merger, has become effective, and no stop-order suspending such effectiveness has been issued and no proceedings for that purpose have been initiated or threatened by the SEC.

In addition to the above, the obligations of Columbia under the merger agreement are subject to conditions that include the following:

Mountain Bank's merger fees (as defined in the merger agreement) have not exceeded \$1,200,000;

Mountain Bank's Tangible Equity Capital (as defined in the merger agreement) is not less than specified target amounts as of the effective date of the merger; and

Mountain Bank maintains through the effective date of the merger an adequate allowance for loan and lease losses. Additionally, either Columbia or Mountain Bank may terminate the merger agreement if certain conditions applicable to the other party are not satisfied or waived. Those conditions are discussed below under Termination of the Merger Agreement.

Either Columbia or Mountain Bank may waive any of the other party's conditions, except those that are required by law (such as receipt of regulatory and Mountain Bank shareholder approval). Either Columbia or Mountain Bank may also grant extended time to the other party to complete an obligation or condition.

AMENDMENT OF THE MERGER AGREEMENT

The merger agreement may be amended upon authorization of the boards of directors of the parties, whether before or after the Mountain Bank special meeting of shareholders. To the extent permitted under applicable law, the parties may make any amendment without further approval of Mountain Bank shareholders. However, after shareholder approval, any amendments that would reduce the amount or change the form of consideration Mountain Bank shareholders will receive in the merger would require further Mountain Bank shareholder approval.

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TERMINATION OF THE MERGER AGREEMENT

The merger agreement contains several provisions entitling either Columbia or Mountain Bank to terminate the merger agreement under certain circumstances. The following briefly describes these provisions:

Lapse of Time. If the merger has not been consummated by October 15, 2007, then at any time after that date, the board of directors of either Columbia or Mountain Bank may terminate the merger agreement. These provisions do not apply if all regulatory approvals have been obtained prior to October 15, 2007, and the closing has not occurred solely because of an applicable post-approval waiting period. Additionally, Columbia may not terminate the merger agreement under these provisions if Columbia has entered into or announced a transaction in which Columbia would be acquired by a third party and Columbia has delayed the closing in bad faith.

Columbia Average Closing Price Less than \$25.41. Mountain Bank may give notice of its intent to terminate the merger agreement if the Columbia Average Closing Price (as defined in the merger agreement and discussed under Merger Consideration Stock Portion of Merger Consideration above) is less than \$25.41. Unless adjusted as described below, a Columbia Average Closing Price of less than \$25.41 would result in the value of each unit (the cash portion and the stock portion together) being less than \$22.00.

If Mountain Bank provides written notice of its intent to terminate the merger agreement because the Columbia average closing price is less than \$25.41, Columbia may elect to increase the per share consideration (the unit to be received for each share of Mountain Bank common stock) such that the value of each unit is no less than \$22.00.

Columbia may increase the per share consideration by increasing the cash portion of each unit, the amount of Columbia stock in the stock portion of each unit, or a combination of cash and additional Columbia shares, at its option. However, any adjustment to the value of each unit must result in the cash portion being at least \$11.25, and the stock portion of each unit being at least 0.4231 Columbia shares. Additionally, any such adjustment may not result in the cash portion of the total merger consideration constituting more than 55% of the value of the total merger consideration. If this election is made by Columbia, no termination of the merger agreement will occur and the merger agreement will remain in effect according to its terms, except that the per share consideration will have been adjusted.

Mutual Consent. The parties may terminate the merger agreement at any time before closing, whether before or after approval by Mountain Bank shareholders, by mutual consent upon approval of the parties' boards of directors.

Denial of Regulatory Approvals. Either party may terminate the merger agreement if the regulatory approvals required to be obtained are denied, or if any such approval is conditioned on a substantial deviation from the transactions contemplated by the merger agreement, subject to certain rights granted in the merger agreement to appeal the denial of such regulatory approval.

Breach of Covenant or Representation. Either party may terminate the merger agreement (so long as the terminating party is not then in material breach of any of its representations, warranties, covenants or agreements in the merger agreement) if there has been a material breach of any covenants, agreements, representations, or warranties set forth in the merger agreement by the other party, which is not cured within 30 days following written notice to the party committing such breach, or which breach, by its nature, cannot be cured prior to the closing of the merger.

Failure to Recommend or Obtain Shareholder Approval. Columbia may terminate the merger agreement (so long as it is not then in material breach of any of its representations, warranties, covenants or agreements in the merger agreement), if (i) the Mountain Bank board of directors fails to recommend to its shareholders approval of the merger, or (ii) modifies, withdraws or changes in a manner adverse to Columbia its recommendation to shareholders to approve the merger, and Mountain Bank's shareholders fail to approve the merger. Additionally,

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regardless of whether the Mountain Bank board of directors recommends approval of the merger to its shareholders, Columbia may terminate the merger agreement if Mountain Bank shareholders elect not to approve the merger.

Impracticability. Either party may terminate the merger agreement upon written notice to the other party if the board of directors of the party seeking termination has determined in its sole judgment, made in good faith and after due consideration and consultation with counsel, that the merger has become inadvisable or impracticable by reason of actions taken by the federal government or the government of the State of Washington to restrain or invalidate the merger or the merger agreement.

Potential Dissenting Shares. Columbia may terminate the merger agreement if holders of 10% or more of the outstanding shares of Mountain Bank common stock give notice that they intend to exercise dissenters' rights and do not vote to approve the merger.

Superior Proposal. Mountain Bank may terminate the merger agreement if its board of directors determines in good faith that Mountain Bank has received a Superior Proposal. A Superior Proposal generally includes a proposal for a transaction that is more favorable to Mountain Bank shareholders from a financial point of view and that is reasonably capable of being completed, as further discussed in the merger agreement. The right to terminate the merger agreement upon receipt of a Superior Proposal is subject to the requirements that Mountain Bank:

has not breached its covenants regarding the initiation or solicitation of acquisition proposals from third parties,

intends to enter into a letter of intent, acquisition agreement or similar agreement relating to such Superior Proposal at the time it delivers notice of termination,

has provided Columbia with at least five business days prior notice that Mountain Bank intends to accept a Superior Proposal and has given Columbia, if it so elects, an opportunity to amend the terms of the merger agreement (negotiated in good faith between Columbia and Mountain Bank) in such a manner as would enable Mountain Bank to proceed with the merger, and

delivers to Columbia the break-up fee described below upon entering into a letter of intent, acquisition agreement or similar agreement relating to a Superior Proposal.

TERMINATION FEES

Subject to certain exceptions, Mountain Bank will pay Columbia a termination fee of \$500,000 if Columbia terminates the merger agreement because Mountain Bank breached its representations or covenants or if the Mountain Bank board of directors fails to recommend the merger to Mountain Bank shareholders as required. Columbia will pay Mountain Bank a termination fee of \$500,000 if Mountain Bank terminates the merger agreement because Columbia breached its representations or covenants.

BREAK-UP FEE

If the merger agreement is terminated by Mountain Bank because it received a Superior Proposal and Columbia declined the opportunity to amend the terms of the merger agreement to enable Mountain Bank's board of directors to proceed with the merger, Mountain Bank is required to pay Columbia a break-up fee of \$2,500,000.

Mountain Bank is required to pay Columbia a break-up fee of \$2,500,000 (less the amount of any termination fee previously paid) if, after a third-party acquisition proposal with respect to Mountain Bank becomes publicly known, the merger agreement is terminated either because:

the Mountain Bank board of directors fails to recommend that Mountain Bank shareholders approve the merger agreement, or

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the Mountain Bank shareholders fail to approve the merger agreement, and in either case, within six months after such termination, Mountain Bank or Mt. Rainier National Bank enters into an agreement (or announces that it intends to enter into an agreement) to engage in an acquisition proposal.

ALLOCATION OF COSTS UPON TERMINATION

If the merger agreement is terminated (except under circumstances that would require the payment of a termination fee or break-up fee) Columbia and Mountain Bank will each pay their own out-of-pocket expenses incurred in connection with the transaction and will have no other liability to the other party.

CONDUCT PENDING THE MERGER

The merger agreement provides that, until the merger is effective, Mountain Bank will conduct its business only in the ordinary and usual course. The merger agreement also provides that, unless Columbia otherwise consents in writing, and except as required by applicable regulatory authorities, Mountain Bank will refrain from engaging in various activities such as:

effecting any stock split or other recapitalization with respect to Mountain Bank common stock, or issuing, pledging, redeeming, or encumbering any shares of Mountain Bank (except shares issued upon exercise of options under existing stock options or stock purchase plans), or granting any options for such stock;

declaring or paying any dividends, or making any other distributions;

acquiring, selling, transferring, assigning or encumbering or otherwise disposing of assets or making any commitment with respect to its assets other than in the ordinary course of business;

soliciting or accepting deposit accounts of a different type than previously accepted by Mountain Bank or at rates materially in excess of rates previously paid, except to reflect changes in prevailing interest rates, or, with specified exceptions, incurring any indebtedness greater than \$100,000;

acquiring an ownership or leasehold interest in real property without conducting an appropriate environmental evaluation;

with specified exceptions, entering into or amending any contracts calling for a payment of more than \$100,000, unless the contract can be terminated without cause or penalty upon 30 days' notice or less;

with specified exceptions, entering into, amending or terminating any material contract with or for a term of one year or more;

with specified exceptions, entering into any personal services contract;

selling any securities other than in the ordinary course of business, or selling any securities even in the ordinary course of business if the aggregate gain realized from all sales after the date of execution of the merger agreement would exceed \$100,000, or transferring investment securities between portfolios of securities available for sale and securities to be held to maturity;

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amending or materially changing its operations, policies or procedures, including loan loss reserve policies, other than as required by law;

other than in accordance with binding existing commitments, making capital expenditures in excess of \$20,000 per project or related series of projects or \$50,000 in the aggregate;

entering into transactions or making any expenditures other than in the ordinary course of business; and

permitting the allowance for loan and lease losses to be less than 1% of total loans and leases outstanding as of 10 days prior to the effective date of the merger.

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MOUNTAIN BANK MANAGEMENT AND OPERATIONS AFTER THE MERGER

Following the merger, the resulting bank's board of directors will consist of the current directors of Columbia State Bank. As provided in the merger agreement, Columbia will invite the current Mountain Bank directors to serve as advisory directors of Columbia State Bank until December 31, 2008. See [Interests of Certain Persons in the Merger](#) below.

As described below under [Interests of Certain Persons in the Merger](#), Steve Moergeli, President and Chief Executive Officer of Mt. Rainier National Bank and a director of Mountain Bank, will serve as President of its former branches operating as Mt. Rainier Bank pursuant to an employment agreement having a two-year term. Roy T. Brooks, Chairman of the Board of Mountain Bank and Mt. Rainier National Bank and President and Chief Executive Officer of Mountain Bank, will be employed by Columbia State Bank as Liaison Director for a period of one year following the merger.

EMPLOYEE BENEFIT PLANS

The merger agreement confirms Columbia's intent that Columbia's current personnel policies and benefits will apply to any employees of Mountain Bank and Mt. Rainier National Bank who remain employed following the closing of the merger. Such employees will be eligible to participate in all of the benefit plans of Columbia that are generally available to similarly-situated employees of Columbia once their participation in comparable Mountain Bank plans ceases. For purposes of participation in such plans, service with Mountain Bank and/or Mt. Rainier National Bank prior to the merger will constitute prior service with Columbia for purposes of determining eligibility and vesting.

INTERESTS OF CERTAIN PERSONS IN THE MERGER

Certain members of the Mountain Bank board of directors and management may be deemed to have interests in the merger, in addition to their interests as shareholders of Mountain Bank generally. The Mountain Bank board of directors was aware of these factors and considered them, among other things, in approving the merger agreement.

Stock Ownership

The Mountain Bank directors beneficially owned, as of the record date for the special meeting, 475,747 shares of Mountain Bank common stock, representing 20.5% of all outstanding Mountain Bank shares. The directors of Mountain Bank will receive the same consideration in the merger for their shares as other shareholders of Mountain Bank.

Voting Agreements

The directors and executive officers of Mountain Bank have entered into a Voting Agreement. Pursuant to the voting agreement, each director and executive officer has agreed to vote the shares of Mountain Bank common stock that he or she controls in favor of the merger. The 419,273 shares controlled by the directors and executive officers equal approximately 18% of Mountain Bank's outstanding shares.

Service as Advisory Directors

The merger agreement provides that Columbia will invite the current directors of Mountain Bank to serve on an advisory board of the resulting bank, relating to the integration of Mountain Bank's operations into Columbia, through December 31, 2008. Pursuant to the terms of the Non-Competition Agreements entered into with such directors, the advisory board will meet quarterly, and Columbia will pay each director \$900 for each advisory board meeting attended during that term.

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Employment Agreements

Steve W. Moergeli

Steve Moergeli, Mt. Rainier National Bank's President and Chief Executive Officer and a director of Mountain Bank, has entered into an employment agreement, ratified by Columbia, with Columbia State Bank. The term of the agreement begins on the effective date of the merger and ends two years from that date. The employment agreement provides that Mr. Moergeli will serve as President of Mt. Rainier Bank (the assumed business name under which former Mt. Rainier National Bank branches will operate following the merger).

The employment agreement provides for a base salary of \$165,000 per year. Mr. Moergeli will also be eligible to participate in the bonus pools, if any, that the board of directors of Columbia State Bank may establish for senior executives, either under an executive incentive plan or otherwise.

The employment agreement provides that if the employment of Mr. Moergeli is terminated without cause (as defined in the agreement) or if Mr. Moergeli resigns with good reason (as defined in the agreement), Columbia State Bank will pay him a lump sum payment equal to the amount of base salary that he would have otherwise received for the remainder of the term of the agreement. The agreement also provides for payments equal to two times his base salary in the event of termination of his employment in certain circumstances in connection with a change in control of Columbia State Bank.

The employment agreement provides that during the term of employment and for a two-year period after Mr. Moergeli's employment has ended, except in the event of a termination by Columbia State Bank without cause or by Mr. Moergeli for good reason, Mr. Moergeli will not become involved in any manner with a competing business, which is defined as any business that competes or will compete with Columbia State Bank in King or Pierce Counties, Washington, or any other county in which the resulting bank does business during Mr. Moergeli's term of employment.

Roy T. Brooks

Roy Brooks, Mountain Bank's Chairman of the Board, President and Chief Executive Officer, has entered into an agreement with Columbia State Bank, effective as of the effective date of the merger, under which he will serve as Liaison Director of the resulting bank, with such duties as assisting in managing the transition of Mountain Bank's employees, customers and shareholders after the merger and chairing the advisory board described above. The term of the agreement is one year from the effective date of the merger. Mr. Brooks' compensation under the agreement will be \$11,000 per month. To the extent otherwise eligible, Mr. Brooks will be entitled to participate in the benefits that Columbia State Bank makes available to other senior executives generally.

Sheila Brumley

Sheila Brumley, Mountain Bank's Chief Financial Officer, has entered into an agreement with Columbia State Bank, effective as of the effective date of the merger, under which she will serve as Vice President of Accounting and Finance of Columbia State Bank. Initially Ms. Brumley will report to Mr. Moergeli until the transition of Mt. Rainier National Bank is completed or until January 1, 2008, whichever comes first. Subsequently, she will report to the Chief Accounting Officer of Columbia State Bank. Ms. Brumley's base salary will be \$10,500 per month until December 31, 2007. Thereafter she will be compensated on terms mutually agreed between Ms. Brumley and Columbia State Bank. To the extent otherwise eligible, Ms. Brumley will be entitled to participate in the benefits that Columbia State Bank makes available to other senior executives generally.

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Change in Control Severance Agreements

In 2002, Mountain Bank and Mt. Rainier National Bank entered into severance agreements with Mr. Moergeli and Ms. Brumley (the Severance Agreements). The Severance Agreements provide for payments in the event of a change in the ownership or effective control of, or in the ownership of a substantial portion of the assets of, Mountain Bank or Mt. Rainier National Bank. If Mr. Moergeli and/or Ms. Brumley remain employed with Mountain Bank and Mt. Rainier National Bank through the closing of a change in control, he and/or she, as the case may be, will receive a single cash payment equal to two times his or her highest W-2 income received from Mountain Bank and/or Mt. Rainier National Bank over the three years preceding the closing.

Upon closing of the merger, the amounts payable to Mr. Moergeli and Ms. Brumley under the Severance Agreements will be \$390,631 and \$266,269, respectively.

Salary Continuation Agreement

In 2002, Mountain Bank and Mt. Rainier National Bank entered into a Salary Continuation Agreement with Sterlin Franks. The Salary Continuation Agreement provides that if Mr. Franks' employment with Mountain Bank terminates following a change in control, he will continue to receive payments of salary in certain circumstances for a period of 18 months following the change in control. Mr. Franks will be entitled to receive the salary continuation if any of the following events occur: (i) he terminates his employment for good reason (as defined in the Salary Continuation Agreement); (ii) Mountain Bank or Mt. Rainier National Bank terminate his employment other than for cause or disability (both as defined in the Salary Continuation Agreement); or (iii) Mountain Bank or Mt. Rainier National Bank terminate his employment other than for cause, disability or death prior to a change in control, if such termination occurs within six months before the execution of a definitive agreement providing for a change in control of Mountain Bank or Mt. Rainier National Bank.

After the closing of the merger, if Mr. Franks' employment is terminated under the circumstances described above, the amount that will be payable to Mr. Franks is \$172,500.

Supplemental Compensation Agreements

In 2002, Mountain Bank and Mt. Rainier National Bank entered into Supplemental Compensation Agreements with Messrs. Moergeli and Franks and Ms. Brumley, to provide retirement benefits to them. Certain restrictions (relating to agreements by the executives not to compete and constructive termination by the employer) on payments under the Supplemental Compensation Agreements are eliminated if a participant's employment terminates following a change in control.

Vesting of Options

As a result of the merger, any unvested options for shares of Mountain Bank common stock held by members of Mountain Bank's board of directors or management will become fully exercisable. All unexercised options for Mountain Bank stock on the effective date will convert into options to purchase Columbia stock as described further under "The Merger Stock Options" on page 40. As of the date of this proxy statement/prospectus, Mountain Bank executive officers held no unvested options to purchase shares of Mountain Bank stock, and Mountain Bank directors held unvested options to purchase a total of 6,917 shares of Mountain Bank stock.

Mountain Bank Director Non-Competition Agreement

All members of the board of directors of Mountain Bank have entered into a non-competition agreement with Columbia. Except under certain limited circumstances, the non-competition agreement prohibits directors from competing with Columbia within King or Pierce Counties in Washington, and additional counties in Washington under certain circumstances. The term of the non-competition agreement commences upon the effective date of the merger and continues for two years.

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Indemnification of Directors and Officers; Insurance

The merger agreement provides that Columbia will indemnify the present and former directors and officers of Mountain Bank against certain liabilities or costs that may arise in the future in connection with matters that existed or occurred prior to the merger. The scope of this indemnification is to the fullest extent that such persons would have been entitled to indemnification under applicable law and the articles of incorporation or bylaws of Mountain Bank.

The merger agreement also provides that for a period of six years following the closing of the merger, Columbia will cause the persons serving as officers and directors of Mountain Bank and Mt. Rainier National Bank immediately prior to the execution of the merger agreement to be covered by the current policies of directors or officers liability insurance maintained by Mountain Bank and Mt. Rainier National Bank, or substitute policies substantially similar to such policies, with respect to acts or omissions prior to the effective date of the merger.

REGULATORY REQUIREMENTS

Closing of the merger is subject to approval by the appropriate banking regulatory authorities, including the FDIC and the Commissioner of the Washington Department of Financial Institutions. The parties have agreed in the merger agreement to take actions necessary to obtain these approvals. The parties plan to submit applications to the relevant authorities by June 1, 2007. Although Mountain Bank and Columbia expect to obtain these approvals, there can be no assurances if and when these approvals will be obtained.

ACCOUNTING TREATMENT OF THE MERGER

The acquisition of Mountain Bank will be accounted for using the purchase method of accounting by Columbia under accounting principles generally accepted in the United States of America. Accordingly, using the purchase method of accounting, the assets and liabilities of Mountain Bank will be recorded by Columbia at their respective fair values at the time of the merger. The excess of Columbia's purchase price over the net fair value of assets acquired including identifiable intangible assets and liabilities assumed is recorded as goodwill. Goodwill will be periodically assessed for impairment but no less frequently than on an annual basis. Prior period financial statements are not restated and results of operations of Mountain Bank will be included in Columbia's consolidated statement of operations after the date of the merger. The identifiable intangible assets with finite lives, other than goodwill, will be amortized against the combined company's earnings following completion of the merger.

STOCK REALES BY MOUNTAIN BANK AFFILIATES

The Columbia common stock to be issued in the merger will be transferable free of restrictions under the Securities Act of 1933 (1933 Act), except for shares received by persons, including directors and executive officers of Mountain Bank, who may be deemed to be affiliates of Mountain Bank, as that term is defined in the rules under the 1933 Act. Affiliates may not sell their shares of Columbia common stock acquired in the merger, except (a) pursuant to an effective registration statement under the 1933 Act covering those shares, (b) in compliance with Rule 145, or (c) in accordance with an opinion of counsel reasonably satisfactory to Columbia, under other applicable exemptions from the registration requirements of the 1933 Act. Columbia has obtained customary agreements with all Mountain Bank directors, officers, and affiliates of Mountain Bank, under which such persons represent that they will not dispose of their shares of Columbia received in the merger or the shares of capital stock of Mountain Bank or Columbia held by them before the merger, except in compliance with the 1933 Act and the rules and regulations promulgated under the 1933 Act. This proxy statement/prospectus does not cover any resales of the Columbia common stock received by affiliates of Mountain Bank.

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INFORMATION CONCERNING COLUMBIA

GENERAL

Columbia is a registered bank holding company whose wholly owned banking subsidiaries, Columbia State Bank and Bank of Astoria (Astoria), conduct full-service commercial banking business in the states of Washington and Oregon, respectively. Headquartered in Tacoma, Washington, Columbia provides a full range of banking services to small and medium-sized businesses, professionals and other individuals.

Columbia's current organizational structure was put in place and additional management was brought on board in 1993 in order to take advantage of commercial banking business opportunities in Columbia's principal market area. At that time, increased consolidations of banks, primarily through acquisitions by out-of-state holding companies, created dislocation of customers and presented opportunities to capture market share. Columbia has grown from four branch offices at January 1, 1993 to 40 branch offices at December 31, 2006.

Columbia's largest wholly owned banking subsidiary, Columbia State Bank, has 35 banking offices located in the Tacoma metropolitan area and contiguous parts of the Puget Sound region of Washington state, as well as the Longview and Woodland communities in southwestern Washington state. Substantially all of Columbia State Bank's loans, loan commitments and core deposits are within its service areas. Columbia State Bank is a Washington state-chartered commercial bank, the deposits of which are insured in whole or in part by the FDIC. Columbia State Bank is subject to regulation by the FDIC and the Washington State Department of Financial Institutions Division of Banks. Although Columbia State Bank is not a member of the Federal Reserve System, the Board of Governors of the Federal Reserve System has certain supervisory authority over Columbia, which can also affect Columbia State Bank.

ACQUISITIONS

On March 28, 2007, Columbia announced its proposed acquisition of both Mountain Bank and Town Center Bancorp of Portland, Oregon. See Summary Summary Information About the Parties and the Transaction Recent Developments on page 4 for additional information about Town Center Bancorp.

On October 1, 2004, Columbia completed its acquisition of Astoria, an Oregon state-chartered commercial bank headquartered in Astoria, Oregon. The acquisition was accounted for as a purchase and Astoria's results of operations are included in Columbia's results beginning October 1, 2004. Astoria operates as a separate banking subsidiary of Columbia and has five full service branch offices located within Clatsop and Tillamook Counties, along the northern Oregon coast. The deposits of Astoria are insured in whole or in part by the FDIC. Astoria is subject to regulation by the FDIC and the State of Oregon Department of Consumer and Business Services Division of Finance and Corporate Securities. Although Astoria is not a member of the Federal Reserve System, the Board of Governors of the Federal Reserve System has certain supervisory authority over Columbia, which can also affect Astoria.

COLUMBIA MANAGEMENT

Name	Principal Position
Melanie J. Dressel	President & Chief Executive Officer
Andrew McDonald	Executive Vice President & Chief Credit Officer
Mark W. Nelson	Executive Vice President & Chief Banking Officer
Gary R. Schminkey	Executive Vice President & Chief Financial Officer

BUSINESS OVERVIEW

Columbia's goal is to be the leading Pacific Northwest regional community banking company while consistently increasing earnings and shareholder value. Columbia continues to build on its reputation for excellent customer service in order to be recognized in all markets it serves as the bank of choice for retail deposit customers, small to medium-sized businesses and affluent households.

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Columbia has established a network of 40 branches as of March 31, 2007, from which it intends to grow market share. All Washington branches operate as Columbia State Bank and currently all Oregon branches operate as Bank of Astoria. Western Washington locations consist of twenty-two branches in Pierce County, eight in King County, three in Cowlitz County, and one each in Kitsap and Thurston Counties. Northern Oregon coastal area locations consist of four branches in Clatsop County and one in Tillamook County.

In order to fund Columbia's lending activities and to allow for increased contact with customers, Columbia utilizes a branch system to better serve retail and business customer depositors. Columbia believes this approach will enable it to expand lending activities while attracting a stable core deposit base. In order to support its strategy of market penetration and increased profitability, while continuing its personalized banking approach and its commitment to asset quality, Columbia has invested in experienced branch, lending and administrative personnel and has incurred related costs in the creation of its branch network. Many of these branches are becoming established within their markets. The resulting efficiencies will enable management to reallocate the resources previously consumed by these branches to new endeavors.

Business Strategy

Columbia's business strategy is to provide its customers with the financial sophistication and breadth of products of a regional banking company while retaining the appeal and service level of a community bank. Columbia continually evaluates its existing business processes while focusing on maintaining asset quality, expanding total revenue and controlling expenses in an effort to increase its return on average equity and gain operational efficiencies. Columbia believes that as a result of its strong commitment to highly personalized, relationship-oriented customer service, its varied products, its strategic branch locations and the long-standing community presence of its managers, lending officers and branch personnel, it is well positioned to attract and retain new customers and to increase its market share of loans, deposits, and other financial services in the communities it serves. Columbia is committed to increasing market share in the communities it serves by continuing to leverage its existing branch network, adding new branch locations and considering business combinations that are consistent with Columbia's expansion strategy throughout the Pacific Northwest.

Products & Services

Columbia places the highest priority on customer service and assists its customers in making informed decisions when selecting from the products and services it offers. Columbia continuously reviews its products and services to ensure that it provides its customers with the tools to meet their financial institution needs. A more complete listing of all the services and products available to Columbia's customers can be found at: www.columbiabank.com. Some of the core products and services Columbia offers include:

Personal Banking

- Checking and Saving Accounts
- Online Banking
- Electronic Bill Pay
- Consumer Lending
- Residential Lending
- Visa Card Services
- Investment Services
- Private Banking

Business Banking

- Checking & Saving Accounts
- Online Banking
- Electronic Bill Pay
- Cash Management
- Commercial & Industrial Lending
- Real Estate and Real Estate Construction Lending
- Equipment Finance
- Small Business Services
- Visa Card Services
- Investment Services
- International Banking
- Merchant Card Services

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Personal Banking

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

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

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

Business Banking

Columbia offers its business banking customers an assortment of checking and saving account products including checking, interest bearing money market and certificate of deposit accounts. Cash management customers can access, monitor and manage cash flows effectively and efficiently through a variety of tools, including account analysis, sweep accounts, ACH and other electronic banking services. Business customers, through Columbia Online, have the ability to save time and money through Columbia's custom eBusiness solutions products. Standard features of Columbia Online provide customers with the ability to tailor user access by individual, view balances, statements and checks as well as transfer funds, pay bills electronically and export transaction history to accounting software.

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

Columbia offers its business banking customers a selection of Visa® Cards including the Business Check Card that works like a check wherever Visa® is accepted including ATMs; the Corporate Card which can be used all over the world; the Purchasing Card with established purchasing capabilities based on the customer's business needs; and Business Edition® Plus that earns reward points with every purchase. Columbia's Business ATM Cash Card is also available for fast, easy cash withdrawals 24 hours a day, 7 days a week.

Through CB Financial Services, Columbia's business customers are provided with an array of investment options and tools and resources to assist them in reaching their investment goals. Some of the investment options

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available to Columbia's business customers include 401(k), Simple IRA, Simple Employee Pensions, buy-sell agreements, key-man insurance, business succession planning and personal investments.

Columbia's International Banking Department provides both large and small businesses with the ability to buy and sell foreign currencies as well as obtain letters of credit and wire funds to their customers and suppliers in foreign countries.

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

COMPETITION

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

MARKET AREAS

Washington

Nearly two-thirds of Columbia's total branches within Washington are located in Pierce County, with an estimated population of 773,500 residents. At year end Columbia operated 22 branch locations in Pierce County that accounted for 16% (based on FDIC Annual Summary of Deposit Report as of June 30, 2006) of the total deposit market share ranking second amongst Columbia's competition. Columbia's headquarters, in Tacoma, is also located in Pierce County. Some of the most significant contributors to the Pierce County economy are the Port of Tacoma, which accounts for more than 43,000 jobs, McChord Air Force Base and Fort Lewis Army Base, which account for nearly 20% of the County's total employment, and the manufacturing industry, which supplies the Boeing Company.

Columbia operates eight branch locations in King County, which is Washington's most highly populated county at approximately 1.8 million residents. King County, in particular the Seattle metropolitan area, is a market that has significant growth potential for Columbia and will play a key role in its expansion strategy in the future. At year end Columbia's share of the King County deposit market was less than 1% (based on FDIC Annual Summary of Deposit Report as of June 30, 2006); however, Columbia has made significant inroads within this market through the strategic expansion of its banking team. The north King County economy is primarily made up of the aerospace, construction, computer software and biotechnology industries. South King County with its close proximity to Pierce County is considered a natural extension of Columbia's primary market area. The economy of south King County is primarily comprised of residential communities supported by light industrial, retail, aerospace and distributing and warehousing industries.

Other market areas served by Columbia include Cowlitz County, where Columbia operates three branch locations that account for 13% (based on FDIC Annual Summary of Deposit Report as of June 30, 2006) of the deposit market share, and Kitsap and Thurston County, where Columbia operates one branch in each county.

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Oregon

Through the acquisition of Astoria in October 2004, Columbia added five branches located in the western portions of Clatsop and Tillamook Counties, in the northern Oregon coastal area. In Clatsop and Tillamook Counties, Columbia has 33% and 6% (based on FDIC Annual Summary of Deposit Report as of June 30, 2006) of the deposit market share, respectively. Oregon market areas provide a significant opportunity for expansion strategies in the future. Both Clatsop and Tillamook Counties are comprised primarily of forestry, commercial fishing, and tourism related businesses.

EMPLOYEES

As of March 31, 2007, Columbia and its banking subsidiaries employed approximately 675 full time equivalent employees. Columbia values its employees and prides itself on providing a professional work environment accompanied by comprehensive benefit programs. Columbia is committed to providing flexible and value-added benefits to its employees through a Total Compensation Philosophy, which incorporates all compensation and benefits.

FINANCIAL AND OTHER INFORMATION

Financial and other information relating to Columbia is set forth in its Annual Report on Form 10-K for the year ended December 31, 2006, and its quarterly report on Form 10-Q for the quarter ended March 31, 2007. Information regarding the names, ages, positions, and business backgrounds of the executive officers and directors of Columbia, as well as additional information, including executive compensation, and certain relationships and related person transactions, is set forth in or incorporated by reference in Columbia's 10-K and in its proxy statement dated March 19, 2007, for its 2007 annual meeting of shareholders. See [Where You Can Find More Information About Columbia](#) beginning on page 98.

INFORMATION CONCERNING MOUNTAIN BANK

MOUNTAIN BANK HOLDING COMPANY

Mountain Bank is a Washington corporation formed in 1993 primarily to hold all of the common stock of Mt. Rainier National Bank, a national banking association organized under the laws of the United States. Mt. Rainier National Bank provides personal and commercial banking and related financial services at its main office located in Enumclaw, Washington, and from five branch offices located in Buckley, Black Diamond, Auburn, Maple Valley, and Sumner, Washington. Mt. Rainier National Bank also provides loan services at a loan production office located in Federal Way, Washington. Mountain Bank is regulated by the Federal Reserve Board (the "FRB") under the Bank Holding Company Act of 1956, as amended. A bank holding company is generally defined as a company that has direct or indirect control of a bank.

At March 31, 2007, Mountain Bank reported on a consolidated basis total assets of approximately \$236 million, total deposits of approximately \$209 million, and shareholders' equity of approximately \$23 million.

Mountain Bank's strategy is to capitalize on its investment in Mt. Rainier National Bank through continued growth in the bank's assets, deposits and earnings, and creation of long-term value for Mountain Bank shareholders by pursuing the following:

Carefully monitoring the credit quality of the bank's existing asset base;

Concentrating on expense control, interest spread maximization and marketing of fee-based products, as well as maintaining adequate liquidity and capital levels;

Emphasizing close working relationships between and among the bank's senior management, directors, loan officers and commercial customers; and

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Focusing on training programs to ensure that management and staff has knowledge necessary to serve customers and remain in compliance with all legal and regulatory obligations.

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There can be no assurance that Mt. Rainier National Bank will achieve these objectives.

Mt. RAINIER NATIONAL BANK

Mt. Rainier National Bank is a wholly owned subsidiary of Mountain Bank. While Mountain Bank and Mt. Rainier National Bank are distinctly different entities regulated by different regulatory bodies, the cash flow of Mountain Bank presently is entirely derived from dividends upstreamed from the bank to Mountain Bank. Therefore, the value of the securities of Mountain Bank is, to a large extent, dependent on the success of Mt. Rainier National Bank.

HISTORY

Mt. Rainier National Bank opened on July 2, 1990, in Enumclaw, Washington, and has been operating since that date.

BUSINESS

Mt. Rainier National Bank, through its main office, five branches and one loan production office, offers a full line of commercial banking services.

The principal sources of the bank's revenues are: (i) interest and fees on loans; (ii) deposit service charges; (iii) interest on deposits in other banks (generally on an overnight basis); (iv) gains on mortgages originated and sold to the secondary market; (v) interest on investments, and (vi) fees from sales of nondeposit investment products. Loans include short to medium-term commercial and consumer loans, including real estate loans, construction loans, operating loans and lines, equipment loans, automobile loans, recreational vehicle and truck loans, personal loans and lines of credit, home improvement and rehabilitation loans, and residential mortgage lending. Mt. Rainier National Bank also offers safe deposit boxes, direct deposit of payroll and social security checks, ATM access, debit cards, automatic drafts for various accounts, telephone banking, Internet banking and bill payment services. The bank has a night depository and an ATM, as well as drive-up services, at each of its branch offices.

Mt. Rainier National Bank's core deposit base has generally been enhanced through advertising and deposit promotions, and focusing on securing the entire banking relationship of each of its customers. Deposit products include checking accounts, savings programs, NOW accounts and certificates of deposit. The bank has not used brokered deposits as a source of funds.

Mt. Rainier National Bank's commercial banking activities target high-net-worth individuals and their businesses, with an emphasis on small to medium-sized businesses. The bank's operating strategy is to offer personal service, flexibility and timely responsiveness to the needs of its customers. Senior management of Mt. Rainier National Bank and Mountain Bank maintain close personal contact and close working relationships with Mt. Rainier National Bank's commercial customers and their businesses, and Mt. Rainier National Bank's and Mountain Bank's boards of directors primarily include local business people from Mt. Rainier National Bank's primary service area. Most of Mt. Rainier National Bank's new commercial banking business consists of referrals from existing customers.

Mountain Bank believes that the growth in loans and profitability achieved by Mt. Rainier National Bank is also attributable in large measure to its strategy of targeting small and medium-sized businesses in the manner described above and to the business and personal relationships and experience of Mt. Rainier National Bank's and Mountain Bank's management and directors, rather than the result of greater risk-taking or price concessions. In addition, there have been numerous acquisitions and mergers of banks in Mt. Rainier National Bank's primary service area, which have made the larger institutions in the market even larger. This has resulted in Mt. Rainier National Bank's focusing primarily on the needs of the smaller and medium-sized commercial customers.

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SERVICE AREA

Mt. Rainier National Bank's primary service area is south King County and east Pierce County, including Enumclaw, Buckley, Black Diamond, Auburn, Maple Valley, Sumner, and Federal Way and surrounding communities. Enumclaw's population is 11,220, having experienced 48% growth since 1990. Enumclaw is primarily considered a residential community, with most growth in single-family residences. The local economy is dependent on the forest products industry, farming, and tourism. Buckley has experienced less growth with a population of 4,515. Buckley is a residential community with very little business growth in the past few years. Black Diamond has a current population of 4,080, up from 1,760 in 1990. Auburn is a larger community with a population of 48,955, up from 35,230 in 1990. Auburn has led the region in economic growth. Auburn leads King County in job creation. Maple Valley has a current population of 19,140, up from 10,500 in 1997 when it became a city. Sumner's population has increased approximately 44% to 9,025. Federal Way has a growing population of approximately 85,800 people within the city limits. The city is home to world-class companies, as well as small businesses of all kinds, with the city boasting the second highest number of businesses in South King County.

EMPLOYEES

As of December 31, 2006, Mountain Bank employed a full-time President and CEO and a Chief Financial Officer shared with Mt. Rainier National Bank. As of the same date, Mt. Rainier National Bank had 72 full-time-equivalent employees, including three executive officers. None of Mt. Rainier National Bank's employees is presently represented by a union or covered by a collective bargaining agreement. Mt. Rainier National Bank considers its relationships with its employees to be good.

COMPETITION

The banking business in Mt. Rainier National Bank's primary service area is highly competitive with respect to both loans and deposits. All the major out-of-state commercial banks that operate in Washington (including Bank of America, Key Bank, Wells Fargo and U.S. Bank) have a branch or branches within the bank's primary service area. Among the advantages of such major banks are their ability to finance wide-ranging advertising campaigns and to allocate their investment assets to geographic regions of higher yield and demand. Such banks offer certain services that are not directly offered by Mt. Rainier National Bank (but are indirectly offered through correspondent institutions); and, by virtue of their greater total capitalization (legal lending limits to an individual customer are based on a percentage of a bank's shareholder's equity accounts), such banks have substantially higher lending limits than Mt. Rainier National Bank.

Mt. Rainier National Bank also competes with a number of nonbank competitors, such as insurance companies, small loan companies, finance companies, mortgage companies, credit unions, brokerage houses, and other financial institutions. Many of Mountain Bank's nonbank competitors are not subject to the extensive federal and state regulations that govern Mountain Bank and, as a result, have a competitive advantage over Mountain Bank in providing certain services.

Mt. Rainier National Bank believes its competitive position has been strengthened by the consolidation in the banking industry, which has resulted in a focus by the larger banks on their larger accounts, with less direct contact between the officers and their customers. Mt. Rainier National Bank's strategy, by contrast, is to remain a middle-market lender that maintains close, long-term contact with its customers.

PRODUCTS AND SERVICES

In conjunction with the growth of its asset base, Mt. Rainier National Bank has introduced new products and services to position it to better compete in its highly competitive market. The bank's customers demand not only a wide range of financial products but also efficient and convenient service. In response to these demands, the

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bank has developed a mix of products and services utilizing technology available to the banking industry, such as telephone banking, Internet banking, bill-payment services and automated teller machines. Additionally, the bank offers a wide range of commercial and retail banking products and services to its customers. Deposit accounts include certificates of deposit, individual retirement accounts and other time deposits, checking and other demand deposit accounts, interest-bearing checking accounts, savings accounts and money market accounts. Loans include residential real estate, commercial, real estate construction and development, installment and consumer loans. Other products and services include credit-related insurance, ATMs, safe deposit boxes and nondeposit investment products.

MARKETING

Mt. Rainier National Bank uses, to the fullest extent possible, the flexibility accorded by its independent status to improve its market share. This includes an emphasis on specialized services, local promotional activity, and personal contacts by the bank's officers, directors and employees. The bank also seeks to provide special services and programs for individuals in its primary service area who are employed in the business and professional fields. In the event there are customers whose loan demands exceed the bank's lending limits, the bank arranges for such loans on a participation basis with other financial institutions.

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The following statistical information should be read in conjunction with the consolidated financial statements and accompanying notes included elsewhere herein.

DISTRIBUTION OF AVERAGE ASSETS, LIABILITIES AND SHAREHOLDERS EQUITY AND INTEREST YIELDS

The following table sets forth the average balance sheets of Mountain Bank for the past three years along with an analysis of interest income and expenses for each major category of interest earning assets and interest bearing liabilities, the average rate paid in each category, and net yield on earning assets. Average non-accrual loans were \$39,000 in 2006, \$24,000 in 2005 and \$62,000 in 2004 and are included in average total loans. Loan fees of \$986,000 in 2006, \$728,000 in 2005 and \$894,000 in 2004 are included in interest income.

	2006			Year ended December 31, 2005			2004		
	Average Balance	Int. Earned/ Expense	Annualized Yield/ Rate	Average Balance	Int. Earned/ Expense	Annualized Yield/ Rate	Average Balance	Int. Earned/ Expense	Annualized Yield/ Rate
<i>(dollars in thousands)</i>									
Assets									
Interest and dividend earning assets:									
Loans*	\$ 148,410	\$ 12,260	8.3%	\$ 122,251	\$ 9,309	7.6%	\$ 109,439	\$ 8,139	7.4%
Taxable investments	40,808	1,583	3.9%	36,683	1,238	3.4%	36,323	1,130	3.1%
Non-taxable investments	3,260	111	3.4%	1,248	41	3.3%	235	8	3.4%
Federal funds sold	995	37	3.7%	1,841	91	4.9%			0.0%
Deposits in banks	2,476	100	4.0%	9,613	199	2.1%	11,465	127	1.1%
Total interest earning assets	195,949	14,091	7.2%	171,636	10,878	6.3%	157,462	9,404	6.0%
Non-interest earning assets:									
Cash and due from banks	5,222			3,428			1,842		
Premises and equipment	7,288			6,797			5,712		
Other assets	6,215			5,163			4,831		
Reserve for possible loan losses	(1,706)			(1,476)			(1,234)		
Total assets	\$ 212,968			\$ 185,548			\$ 168,613		
Liabilities and shareholders equity									
Interest bearing liabilities:									
Interest bearing demand deposits									
deposits	\$ 53,554	808	1.5%	\$ 57,753	658	1.1%	\$ 53,980	568	1.1%
Savings	18,942	141	0.7%	18,235	136	0.7%	16,724	125	0.7%
Certificates of deposit	40,799	1,594	3.9%	33,285	929	2.8%	32,159	701	2.2%
Certificates of deposit over \$100,000	33,346	1,470	4.4%	22,492	735	3.3%	20,848	535	2.6%
Total interest bearing deposits	146,641	4,013	2.7%	131,765	2,458	1.9%	123,711	1,929	1.6%
Federal funds purchased	9,226	507	5.5%	2		0.0%			
Other borrowings	535	9	1.7%	416	7	1.7%	33	3	8.0%
Total interest bearing liabilities	156,402								