

Columbia Banking System

March 5, 2009

Mr. Neil M. Barofsky
Special Inspector General
Office Of The Special Inspector General
Troubled Asset Relief Program
1500 Pennsylvania Ave., N.W., Suite 1064
Washington, D.C. 20220

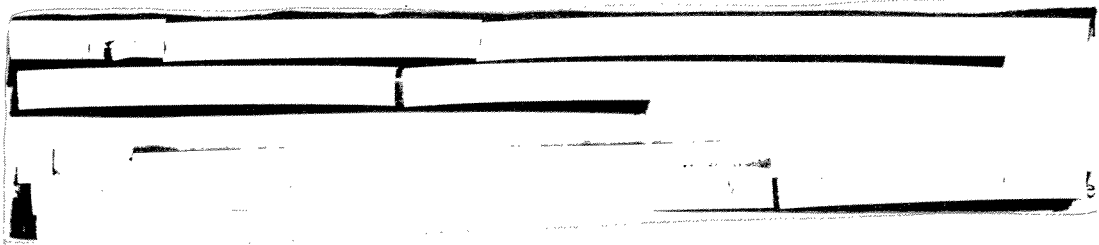
Dear Mr. Barofsky:

On November 21, 2008, Columbia Banking System, Inc. (Company, we, or our) issued approximately \$77 million in preferred stock by participating in the U.S. Treasury's Capital Purchase Program (CPP). The additional equity from this preferred stock issuance bolstered our already strong capital levels, and affirmed our financial strength and our successful business model. Our total risk-based capital ratio at December 31, 2008 was 14.25% including the CPP funds and 11.25% not including the CPP funds. The issuance of the preferred stock under the CPP enhanced our ability to lend while providing our shareholders and customers a measure of confidence as we work our way through a difficult economic climate. Consequently, if we did not choose to receive the CPP funding we may have taken a different approach to loan growth until we were satisfied the economic uncertainties were beginning to subside.

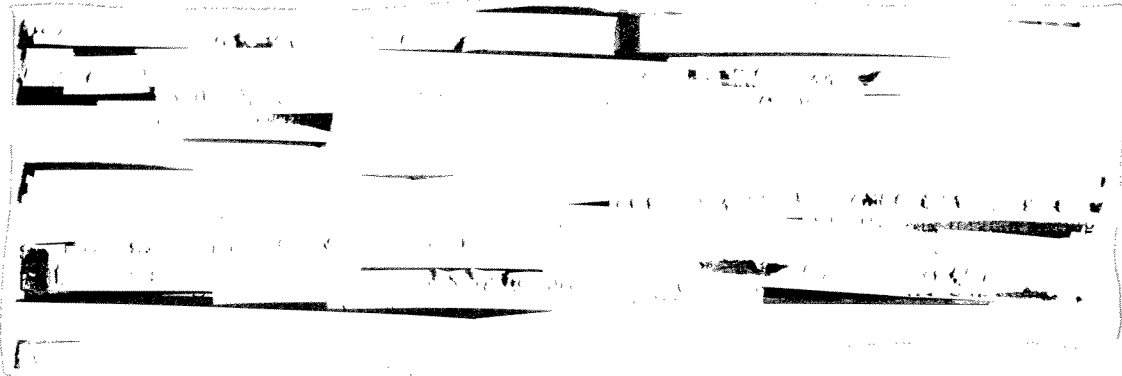
We have not segregated our CPP funds. We view the CPP capital as a component of our overall capital structure. Despite the challenges we face, we are well positioned to survive the current business cycle and positioned to provide a source of strength to our markets and customers, and our participation in the CPP enhances and helps bolster that strength.

We decided to participate in the CPP to enhance the strength of the Company and provide the needed boost in confidence for our retail and commercial customers. We have communicated publicly on numerous occasions outlining our ability and intent to provide financing to both consumers and businesses, as well as answering questions pertaining to the intended uses of CPP and any misperceptions concerning the program.

For the fourth quarter 2008, our financial strength was evident as our Commercial Business loans increased \$30.5 million, Commercial Real Estate loans increased \$20.7 million and Consumer loans increased \$8.2 million. We continue to look for opportunities to make new loans to creditworthy borrowers.



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In terms of executive compensation guidelines under the CPP, as you know, Section 111 of the Emergency Economic Stabilization Act (EESA) was amended by the American Recovery and Reinvestment Act of 2009, which was passed on February 17, 2009 (ARRA). As most other participants in the CPP, we are awaiting guidance from Treasury explaining how they will implement the amended statute and have been closely following all developments. Pursuant to the requirements under ARRA we have included a separate non-binding shareholder vote to approve compensation of executives as disclosed pursuant to the Compensation Disclosure and Analysis included our proxy statement this year.

We have also instituted controls and policies to ensure that we (1) limit the annual tax deduction for each covered executive under Section 162(m) of the Internal Revenue Code to \$500,000, including performance-based compensation; (2) prohibit golden parachute payments in the event of termination; (3) "claw back" any incentive compensation paid based on materially inaccurate financial or other performance criteria; and (4) comply with limits on luxury expenditures. Further, the Company will require annual reviews and certifications to ensure compliance with applicable restrictions. Notwithstanding the foregoing, we understand that these restrictions may be further clarified in regulations promulgated by Treasury. When such regulations are promulgated, we plan to further refine our policies and controls.

Further, under original Section 111 of the EESA and the regulations promulgated thereunder, our board compensation committee was required to review our senior executive officer (SEO) incentive compensation arrangements to ensure that those arrangements did not encourage excessive risk. The board's compensation committee completed a review of senior executive officer incentive compensation arrangements at the end of January 2009. The purpose of the committee's review of SEO incentive compensation arrangements was to ensure that the arrangements do not encourage SEOs to take unnecessary and excessive risks that threaten the stability and value of the Company. The compensation committee determined that the SEO incentive compensation arrangements consist principally of plans providing for payment of cash, equity awards, or equity-based awards. The short and long term risks identified by senior risk officers relate to the bank's credit and investment transactions. However, since strategic decisions are always made by more than one individual and generally have the approval of the full board of directors, no executives are rewarded with incentive compensation as a result of taking risks that could threaten the value of the Company. Based on this review and on discussions with and analysis provided by the senior risk officers, the compensation committee

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concluded that, as currently administered, the SEO incentive compensation arrangements do not contain any features that could lead the SEOs to take unnecessary and excessive risks that threaten the stability and value of the Company and no remedial action was deemed necessary.

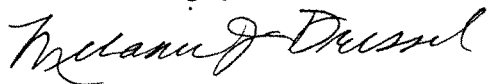
Although we do not use CPP funds for this purpose, the Company remains dedicated to being involved in our community by supporting non-profit organizations that focus on affordable housing, help for low income families to meet daily needs and a host of other programs designed to offer assistance to those needing it the most. In addition to financial support, the Company's employees provide many hours of time to various community activities which help to foster improvement in the economic environment in the communities we serve.

We are committed to continually refining the best ways to use the CPP funds to further bolster the strength of the Company and to provide loans to our community and help stimulate our local economy. We also will continue to refine and discuss our executive compensation arrangements so they will comply with Treasury guidelines as they become available.

We trust that this is fully responsive to your letter of February 9, 2009. Feel free to contact us should you have any further questions.

Sincerely,

Columbia Banking System, Inc.



Melanie J. Dressel
President and Chief Executive Officer

I, Melanie J. Dressel, President and Chief Executive Officer of Columbia Banking System, Inc., do hereby certify that the statements, representations and supporting information provided herein are accurate.

Executed this 5th day of March, 2009:



Melanie J. Dressel
President and Chief Executive Officer