

BANNER CORP  
Form 10-Q  
November 04, 2013

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

FORM 10-Q  
(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2013.

OR  
☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-26584

BANNER CORPORATION  
(Exact name of registrant as specified in its charter)

Washington  
(State or other jurisdiction of incorporation or organization)

91-1691604  
(I.R.S. Employer Identification Number)

10 South First Avenue, Walla Walla, Washington 99362  
(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: (509) 527-3636

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

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

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Title of class:

As of October 31, 2013

Common Stock, \$.01 par value per share

19,543,769 shares \*

\* Includes 34,340 shares held by the Employee Stock Ownership Plan that have not been released, committed to be released, or allocated to participant accounts.

## BANNER CORPORATION AND SUBSIDIARIES

### Table of Contents

#### PART I - FINANCIAL INFORMATION

Item 1 - Financial Statements. The Consolidated Financial Statements of Banner Corporation and Subsidiaries filed as a part of the report are as follows:

Consolidated Statements of Financial Condition as of September 30, 2013 and December 31, 2012	<u>4</u>
Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2013 and 2012	<u>5</u>
Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2013 and 2012	<u>6</u>
Consolidated Statements of Changes in Stockholders' Equity for the Nine Months Ended September 30, 2013 and the Year Ended December 31, 2012	<u>7</u>
Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2013 and 2012	<u>9</u>
Selected Notes to the Consolidated Financial Statements	<u>11</u>

#### Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations

Executive Overview	<u>51</u>
Comparison of Financial Condition at September 30, 2013 and December 31, 2012	<u>56</u>
Comparison of Results of Operations for the Three and Nine Months Ended September 30, 2013 and 2012	<u>57</u>
Asset Quality	<u>62</u>
Liquidity and Capital Resources	<u>65</u>
Capital Requirements	<u>66</u>

#### Item 3 - Quantitative and Qualitative Disclosures About Market Risk

Market Risk and Asset/Liability Management	<u>67</u>
Sensitivity Analysis	<u>67</u>

#### Item 4 - Controls and Procedures 71

#### PART II - OTHER INFORMATION

Item 1 - Legal Proceedings	<u>72</u>
Item 1A - Risk Factors	<u>72</u>

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Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds	<u>72</u>
Item 3 - Defaults upon Senior Securities	<u>72</u>
Item 4 – Mine Safety Disclosures	<u>72</u>
Item 5 - Other Information	<u>72</u>
Item 6 - Exhibits	<u>73</u>
SIGNATURES	<u>75</u>

### Special Note Regarding Forward-Looking Statements

Certain matters in this report on Form 10-Q contain certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 concerning our future operations. These statements relate to our financial condition, liquidity, results of operations, plans, objectives, future performance or business. Forward-looking statements are not statements of historical fact, are based on certain assumptions and are generally identified by use of the words “believes,” “expects,” “anticipates,” “estimates,” “forecasts,” “intends,” “plans,” “targets,” “potentially,” “probably,” “projects,” “outlook” or similar expressions or future or conditional verbs such as “may,” “will,” “should,” “would” and “could.” Forward-looking statements include statements with respect to our beliefs, plans, objectives, goals, expectations, assumptions and statements about future economic performance and projections of financial items. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from the results anticipated or implied by our forward-looking statements, including, but not limited to: the credit risks of lending activities, including changes in the level and trend of loan delinquencies and write-offs and changes in our allowance for loan losses and provision for loan losses that may be impacted by deterioration in the housing and commercial real estate markets and may lead to increased losses and nonperforming assets, and may result in our allowance for loan losses not being adequate to cover actual losses and require us to materially increase our reserves; changes in general economic conditions, either nationally or in our market areas; changes in the levels of general interest rates and the relative differences between short and long-term interest rates, loan and deposit interest rates, our net interest margin and funding sources; fluctuations in the demand for loans, the number of unsold homes, land and other properties and fluctuations in real estate values in our market areas; secondary market conditions for loans and our ability to sell loans in the secondary market; results of examinations of us by the Board of Governors of the Federal Reserve System (the Federal Reserve Board) and of our bank subsidiaries by the Federal Deposit Insurance Corporation (the FDIC), the Washington State Department of Financial Institutions, Division of Banks (the Washington DFI) or other regulatory authorities, including the possibility that any such regulatory authority may, among other things, institute a formal or informal enforcement action against us or any of our bank subsidiaries which could require us to increase our reserve for loan losses, write-down assets, change our regulatory capital position or affect our ability to borrow funds, or maintain or increase deposits, or impose additional requirements and restrictions on us, any of which could adversely affect our liquidity and earnings; legislative or regulatory changes that adversely affect our business including changes in regulatory policies and principles, or the interpretation of regulatory capital or other rules including changes related to Basel III; the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act and the implementing regulations; our ability to attract and retain deposits; increases in premiums for deposit insurance; our ability to control operating costs and expenses; the use of estimates in determining fair value of certain of our assets and liabilities, which estimates may prove to be incorrect and result in significant changes in valuation; difficulties in reducing risk associated with the loans on our balance sheet; staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our work force and potential associated charges; the failure or security breach of computer systems on which we depend; our ability to retain key members of our senior management team; costs and effects of litigation, including settlements and judgments; our ability to implement our business strategies; our ability to successfully integrate any assets, liabilities, customers, systems, and management personnel we may acquire into our operations and our ability to realize related revenue synergies and cost savings within expected time frames and any goodwill charges related thereto; our ability to manage loan delinquency rates; increased competitive pressures among financial services companies; changes in consumer spending, borrowing and savings habits; the availability of resources to address changes in laws, rules, or regulations or to respond to regulatory actions; our ability to pay dividends on our common stock and interest or principal payments on our junior subordinated debentures; adverse changes in the securities markets; inability of key third-party providers to perform their obligations to us; changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies or the Financial Accounting Standards Board including additional guidance and interpretation on accounting issues and details of the implementation of new accounting methods; the economic impact of war or any terrorist activities; other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, products and services; and other risks detailed from time to time in our filings with the Securities

and Exchange Commission. Any forward-looking statements are based upon management's beliefs and assumptions at the time they are made. We do not undertake and specifically disclaim any obligation to update any forward-looking statements included in this report or the reasons why actual results could differ from those contained in such statements whether as a result of new information, future events or otherwise. These risks could cause our actual results to differ materially from those expressed in any forward-looking statements by, or on behalf of, us. In light of these risks, uncertainties and assumptions, the forward-looking statements discussed in this report might not occur, and you should not put undue reliance on any forward-looking statements.

As used throughout this report, the terms "we," "our," "us," or the "Company" refer to Banner Corporation and its consolidated subsidiaries, unless the context otherwise requires.

BANNER CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Unaudited) (In thousands, except shares)

September 30, 2013 and December 31, 2012

	September 30 2013	December 31 2012
<b>ASSETS</b>		
Cash and due from banks	\$ 175,965	\$ 181,298
Securities—trading, amortized cost \$76,525 and \$90,339, respectively	63,887	71,232
Securities—available-for-sale, amortized cost \$481,867 and \$469,650, respectively	477,407	472,920
Securities—held-to-maturity, fair value \$98,401 and \$92,458, respectively	96,545	86,452
Federal Home Loan Bank (FHLB) stock	35,708	36,705
Loans receivable:		
Held for sale	8,394	11,920
Held for portfolio	3,267,042	3,223,794
Allowance for loan losses	(76,657)	(77,491)
	3,198,779	3,158,223
Accrued interest receivable	15,164	13,930
Real estate owned (REO), held for sale, net	4,818	15,778
Property and equipment, net	89,092	89,117
Intangible assets, net	2,937	4,230
Bank-owned life insurance (BOLI)	61,442	59,891
Deferred tax assets, net	26,070	35,007
Income tax receivable	10,964	—
Other assets	23,775	40,781
	\$4,282,553	\$4,265,564
<b>LIABILITIES</b>		
Deposits:		
Non-interest-bearing	\$ 1,051,831	\$ 981,240
Interest-bearing transaction and savings accounts	1,583,430	1,547,271
Interest-bearing certificates	900,024	1,029,293
	3,535,285	3,557,804
Advances from FHLB at fair value	20,258	10,304
Other borrowings	82,909	76,633
Junior subordinated debentures at fair value (issued in connection with Trust Preferred Securities)	73,637	73,063
Accrued expenses and other liabilities	24,830	26,389
Deferred compensation	15,642	14,452
	3,752,561	3,758,645
<b>COMMITMENTS AND CONTINGENCIES (Note 15)</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Common stock and paid in capital - \$0.01 par value per share, 50,000,000 shares authorized, 19,543,050 shares issued and 19,508,710 shares outstanding at September 30, 2013; 19,454,965 shares issued and 19,420,625 shares outstanding at December 31, 2012	568,535	567,907
Accumulated deficit	(33,701)	(61,102)
Accumulated other comprehensive (loss) income	(2,855)	2,101
Unearned shares of common stock issued to Employee Stock Ownership Plan (ESOP) trust at cost: 34,340 restricted shares outstanding at September 30, 2013 and December 31, 2012	(1,987)	(1,987)
	529,992	506,919

\$4,282,553      \$4,265,564

See Selected Notes to the Consolidated Financial Statements

4

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**BANNER CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited) (In thousands except for per share amounts)

For the Three and Nine Months Ended September 30, 2013 and 2012

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
<b>INTEREST INCOME:</b>				
Loans receivable	\$41,953	\$43,953	\$125,734	\$131,981
Mortgage-backed securities	1,281	1,089	3,847	3,011
Securities and cash equivalents	1,803	2,132	5,535	6,645
	45,037	47,174	135,116	141,637
<b>INTEREST EXPENSE:</b>				
Deposits	2,330	3,536	7,539	12,019
FHLB advances	28	64	92	191
Other borrowings	44	71	151	694
Junior subordinated debentures	742	805	2,225	2,619
	3,144	4,476	10,007	15,523
Net interest income before provision for loan losses	41,893	42,698	125,109	126,114
<b>PROVISION FOR LOAN LOSSES</b>	—	3,000	—	12,000
Net interest income	41,893	39,698	125,109	114,114
<b>OTHER OPERATING INCOME:</b>				
Deposit fees and other service charges	6,982	6,681	19,911	18,833
Mortgage banking operations	2,590	3,774	9,002	9,838
Miscellaneous	920	1,146	2,375	2,182
	10,492	11,601	31,288	30,853
Gain on sale of securities	2	19	1,020	48
Other-than-temporary impairment recovery (loss)	—	(409)	) 409	(409)
Net change in valuation of financial instruments carried at fair value	(352)	) 473	(1,954)	) (16,901)
Total other operating income	10,142	11,684	30,763	13,591
<b>OTHER OPERATING EXPENSES:</b>				
Salary and employee benefits	21,244	19,614	63,197	58,514
Less capitalized loan origination costs	(2,915)	) (2,655)	) (8,856)	) (7,652)
Occupancy and equipment	5,317	5,811	16,061	16,492
Information/computer data services	1,710	1,807	5,353	5,068
Payment and card processing expenses	2,530	2,335	7,284	6,341
Professional services	1,074	993	2,799	3,561
Advertising and marketing	1,556	1,897	4,853	5,613
Deposit insurance	564	791	1,826	2,970
State/municipal business and use taxes	461	582	1,463	1,715
REO operations	(601)	) (1,304)	) (1,047)	) 3,263
Amortization of core deposit intangibles	471	508	1,453	1,583
Miscellaneous	3,079	2,976	9,660	9,466
Total other operating expenses	34,490	33,355	104,046	106,934
Income before provision for income taxes	17,545	18,027	51,826	20,771
<b>PROVISION FOR (BENEFIT FROM) INCOME TAXES</b>	5,880	2,407	16,825	(29,423)
<b>NET INCOME</b>	11,665	15,620	35,001	50,194
<b>PREFERRED STOCK DIVIDEND, DISCOUNT ACCRETION AND GAINS</b>				

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Preferred stock dividend	—	1,227	—	4,327
Preferred stock discount accretion	—	1,216	—	2,124
Gain on repurchase of preferred stock	—	(2,070	) —	(2,070 )
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	\$ 11,665	\$ 15,247	\$ 35,001	\$ 45,813
Earnings per common share:				
Basic	\$0.60	\$0.80	\$1.81	\$2.49
Diluted	\$0.60	\$0.79	\$1.80	\$2.48
Cumulative dividends declared per common share	\$0.15	\$0.01	\$0.39	\$0.03
See Selected Notes to the Consolidated Financial Statements				

BANNER CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(Unaudited) (In thousands)  
For the Three and Nine Months Ended September 30, 2013 and 2012

	Three Months Ended September 30		Nine Months Ended September 30		
	2013	2012	2013	2012	
NET INCOME	\$11,665	\$15,620	\$35,001	\$50,194	
OTHER COMPREHENSIVE INCOME (LOSS), NET OF INCOME TAXES:					
Unrealized holding gain (loss) on AFS securities arising during the period	1,239	641	(7,615	) 476	
Income tax benefit (expense) related to AFS unrealized holding gains (losses)	(446	) (225	) 2,733	(165	)
Reclassification for net (gains) losses on AFS securities realized in earnings	—	9	(116	) 38	
Income tax benefit (expense) related to net gains (losses) on AFS securities realized in losses	—	(3	) 42	(14	)
Amortization of unrealized gain on tax exempt securities transferred from available-for-sale to held-to-maturity	—	2	—	7	
Other comprehensive income (loss)	793	424	(4,956	) 342	
COMPREHENSIVE INCOME	\$12,458	\$16,044	\$30,045	\$50,536	

See Selected Notes to the Consolidated Financial Statements

BANNER CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
(Unaudited) (In thousands, except for shares)  
For the Nine Months Ended September 30, 2013

	Common Stock and Paid in Capital		(Accumulated Deficit)	Accumulated Other Comprehensive Income (loss)	Unearned Restricted ESOP Shares	Stockholders' Equity
	Shares	Amount				
Balance, January 1, 2013	19,420,625	\$567,907	\$ (61,102 )	\$ 2,101	(1,987 )	\$ 506,919
Net income			35,001			35,001
Change in valuation of securities—available-for-sale, net of income tax				(4,956 )		(4,956 )
Accrual of dividends on common stock (\$0.39/share cumulative)			(7,600 )			(7,600 )
Proceeds from issuance of common stock for stockholder reinvestment program	1,379	45				45
Amortization of stock-based compensation	86,706	583				583
BALANCE, September 30, 2013	19,508,710	\$568,535	\$ (33,701 )	\$ (2,855 )	\$ (1,987 )	\$ 529,992

See Selected Notes to the Consolidated Financial Statements

BANNER CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
(Unaudited) (In thousands, except for shares)  
For the Year Ended December 31, 2012

	Preferred Stock		Common Stock and Paid in Capital		(Accumulated Deficit)	Accumulated Other Comprehensive Income	Unearned Restricted Stock Shares	Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance, January 1, 2012	124,000	\$ 120,702	17,519,132	\$ 531,149	\$(119,465)	\$ 2,051	\$(1,987)	\$ 532,450
Net income					64,882			64,882
Change in valuation of securities—available-for-sale, net of income tax						42		42
Amortization of unrealized loss on tax exempt securities transferred from available-for-sale to held-to-maturity, net of income tax						8		8
Accretion of preferred stock discount		3,298			(3,298)			—
Accrual of dividends on preferred stock					(4,938)			(4,938)
Repurchase of preferred stock	(124,000)	(124,000)						(124,000)
Gain on repurchase of preferred stock					2,471			2,471
Accrual of dividends on common stock (\$0.04/share cumulative)					(754)			(754)
Proceeds from issuance of common stock for stockholder reinvestment program			1,814,320	36,317				36,317
Amortization of compensation related to restricted stock grant			87,173	434				434
Amortization of compensation related to stock options				7				7
<b>BALANCE, December 31, 2012</b>	<b>—</b>	<b>\$—</b>	<b>19,420,625</b>	<b>\$ 567,907</b>	<b>\$(61,102)</b>	<b>\$ 2,101</b>	<b>\$(1,987)</b>	<b>\$ 506,919</b>

See Selected Notes to the Consolidated Financial Statements

BANNER CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited) (In thousands)

For the Nine Months Ended September 30, 2013 and 2012

	Nine Months Ended September 30	
	2013	2012
<b>OPERATING ACTIVITIES:</b>		
Net income	\$35,001	\$50,194
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	5,540	6,048
Deferred income and expense, net of amortization	2,786	1,871
Amortization of core deposit intangibles	1,453	1,583
Gain on sale of securities	(1,020)	(48)
Other-than-temporary impairment (recovery) or loss	(409)	409
Net change in valuation of financial instruments carried at fair value	1,954	16,901
Purchases of securities-trading	(27,458)	(2,161)
Proceeds from sales of securities-trading	29,351	2,170
Principal repayments and maturities of securities—trading	5,119	13,838
(Increase) decrease in deferred taxes	8,937	(41,474)
Increase (decrease) in current taxes payable	(12,054)	10,177
Equity-based compensation	583	195
Increase in cash surrender value of BOLI	(1,503)	(1,489)
Gain on sale of loans, net of capitalized servicing rights	(5,505)	(6,117)
Gain on disposal of real estate held for sale and property and equipment	(2,445)	(3,645)
Provision for losses on loans and real estate held for sale	490	16,451
Origination of loans held for sale	(360,602)	(369,251)
Proceeds from sales of loans held for sale	369,560	371,477
Net change in:		
Other assets	20,666	(1,952)
Other liabilities	(2,098)	3,678
Net cash provided from operating activities	68,346	68,855
<b>INVESTING ACTIVITIES:</b>		
Purchases of available-for-sale securities	(193,901)	(299,985)
Principal repayments and maturities of available-for-sale securities	74,642	290,440
Proceeds from sales of securities available-for-sale	103,274	13,282
Purchases of securities held-to-maturity	(12,963)	(16,115)
Principal repayments and maturities of securities held-to-maturity	2,613	2,800
Loan originations, net of principal repayments	(46,989)	63,755
Purchases of loans and participating interest in loans	(166)	(4,863)
Purchases of property and equipment	(5,510)	(3,823)
Proceeds from sale of real estate held for sale, net	15,758	33,607
Proceeds from FHLB stock repurchase program	997	333
Other	(359)	(432)
Net cash (used by) provided from investing activities	(62,604)	78,999
<b>FINANCING ACTIVITIES:</b>		
Increase (decrease) in deposits, net	(22,519)	10,718
Advances, net of repayments of FHLB borrowings	9,995	(4)
Increase (decrease) in other borrowings, net	6,276	(69,853)
Cash dividends paid	(4,872)	(5,195)

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Cash proceeds from issuance of stock for stockholder reinvestment plan	45	36,314	
Repurchase of preferred stock	—	(48,514	)
Net cash used by financing activities	(11,075	) (76,534	)
NET (DECREASE) INCREASE IN CASH AND DUE FROM BANKS	(5,333	) 71,320	
CASH AND DUE FROM BANKS, BEGINNING OF PERIOD	181,298	132,436	
CASH AND DUE FROM BANKS, END OF PERIOD	\$175,965	\$203,756	

(Continued on next page)

BANNER CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)  
(Unaudited) (In thousands)  
For the Nine Months Ended September 30, 2013 and 2012

	Nine Months Ended September 30	
	2013	2012
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid in cash	\$10,337	\$16,585
Taxes paid in cash	17,147	2,579
NON-CASH INVESTING AND FINANCING TRANSACTIONS:		
Loans, net of discounts, specific loss allowances and unearned income, transferred to real estate owned and other repossessed assets	2,743	11,632

See Selected Notes to the Consolidated Financial Statements



BANNER CORPORATION AND SUBSIDIARIES  
SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1: BASIS OF PRESENTATION AND CRITICAL ACCOUNTING POLICIES

The accompanying unaudited consolidated financial statements include the accounts of Banner Corporation (the Company or Banner), a bank holding company incorporated in the State of Washington and its wholly-owned subsidiaries, Banner Bank and Islanders Bank (the Banks).

These unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X as promulgated by the Securities and Exchange Commission (SEC). In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the financial position and results of operations for the periods presented have been included. Certain information and disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the SEC. Certain reclassifications have been made to the 2012 Consolidated Financial Statements and/or schedules to conform to the 2013 presentation. These reclassifications may have affected certain ratios for the prior periods. The effect of these reclassifications is considered immaterial. All significant intercompany transactions and balances have been eliminated.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements. Various elements of the Company's accounting policies, by their nature, are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. In particular, management has identified several accounting policies that, due to the judgments, estimates and assumptions inherent in those policies, are critical to an understanding of Banner's financial statements. These policies relate to (i) the methodology for the recognition of interest income, (ii) determination of the provision and allowance for loan and lease losses, (iii) the valuation of financial assets and liabilities recorded at fair value, including other-than-temporary impairment (OTTI) losses, (iv) the valuation of intangibles, such as core deposit intangibles and mortgage servicing rights, (v) the valuation of real estate held for sale and (vi) the valuation of or recognition of deferred tax assets and liabilities. These policies and judgments, estimates and assumptions are described in greater detail in subsequent notes to the Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations (Critical Accounting Policies) in our Annual Report on Form 10-K for the year ended December 31, 2012 filed with the SEC. Management believes that the judgments, estimates and assumptions used in the preparation of the financial statements are appropriate based on the factual circumstances at the time. However, given the sensitivity of the financial statements to these critical accounting policies, the use of other judgments, estimates and assumptions could result in material differences in the Company's results of operations or financial condition. Further, subsequent changes in economic or market conditions could have a material impact on these estimates and the Company's financial condition and operating results in future periods.

The information included in this Form 10-Q should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2012 filed with the SEC (2012 Form 10-K). Interim results are not necessarily indicative of results for a full year.

Note 2: RECENT DEVELOPMENTS AND SIGNIFICANT EVENTS

Proposed Acquisition of Home Federal Bancorp, Inc.

On September 24, 2013, Banner and Home Federal Bancorp, Inc. (NASDAQ: HOME), announced the signing of a definitive Agreement and Plan of Merger. The Agreement allowed a thirty-day period during which the board of

directors of Home Federal could evaluate purchase offers from other institutions. On October 16, 2013, Home Federal's board declared that it had received a superior proposal from Cascade Bancorp. Under the terms of the Agreement, Banner's board of directors had the right but elected not to match Cascade's offer. Consequently, on October 23, 2013, Banner announced that the Agreement between it and Home Federal had been terminated. In connection with the termination of the Agreement, Home Federal paid a termination fee of \$2.95 million to Banner.

#### Income Tax Reporting and Accounting:

**Amended Federal Income Tax Returns:** The Company has years 2010-2012 open for tax examination under the statute of limitation provisions of the Internal Revenue Code of 1986 (Code). Tax years 2006-2009 are not open for assessment of additional tax, but remain open for adjustment to the amount of Net Operating Losses (NOLs), credit, and other carryforwards utilized in open years or to be utilized in the future. The Company filed amended federal income tax returns for tax years 2008 and 2009 to claim additional bad debt deductions, which resulted in additional NOLs for tax years 2008 and 2009. The Company also filed amended federal income tax returns for tax years 2005-2006 and a tentative refund claim for tax year 2007 to carryback the NOLs and general business credits from 2008 and 2009 to those earlier years. Review of the amended returns for all years was completed by the Internal Revenue Service (IRS) in the three months ended September 30, 2013. The Company signed a closing agreement with the IRS related to refund claims of \$9.8 million, primarily all related to tax year 2006. Due to the uncertainty of the outcome, the Company had neither previously recorded a receivable nor adjusted deferred tax assets for the amendment. During the three months ended September 30, 2013, the Company recorded a tax receivable of \$9.8 million with an offsetting adjustment to its deferred tax assets. Additionally, the Company received interest on the tax receivable of \$450,000 in the quarter ending September 30, 2013, which is recorded in miscellaneous income. The Company will further analyze the impact of the closing agreement on subsequent tax years as well as the state income tax impact and record the necessary adjustments at year-end which are not expected to have a material effect on the Company's financial condition or results of operations.

**Deferred Tax Asset Valuation Allowance:** The Company and its wholly-owned subsidiaries file consolidated U.S. federal income tax returns, as well as state income tax returns in Oregon and Idaho. Income taxes are accounted for using the asset and liability method. Under this method a deferred tax asset or liability is determined based on the enacted tax rates which are expected to be in effect when the differences between the financial statement carrying amounts and tax basis of existing assets and liabilities are expected to be reported in the Company's income tax returns. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. Under GAAP, a valuation allowance is required to be recognized if it is "more likely than not" that all or a portion of Banner's deferred tax assets will not be realized. During the quarter ended September 30, 2010, the Company evaluated its net deferred tax asset and determined it was prudent to establish a full valuation allowance against the net asset. At each subsequent quarter-end, the Company re-analyzed that position and the Company continued to maintain a full valuation allowance through March 31, 2012. During the quarter ended June 30, 2012, management analyzed the Company's performance and trends over the previous five quarters, focusing on trends in asset quality, loan loss provisioning, capital position, net interest margin, core operating income and net income and the likelihood of continued profitability. Based on this analysis, management determined that a full valuation allowance was no longer appropriate and reversed nearly all of the valuation allowance at that time. The Company utilized the remaining valuation allowance to offset tax expense in the third and fourth quarters of 2012. The ultimate realization of deferred tax assets is dependent upon the existence, or generation, of taxable income in the periods when those temporary differences and net operating loss and credit carryforwards are deductible. See Note 12 of the Selected Notes to the Consolidated Financial Statements for more information.

#### Preferred Stock Transactions:

On March 29, 2012, the Company's \$124 million of senior preferred stock with a liquidation value of \$1,000 per share, originally issued to the U.S. Treasury as part of its Capital Purchase Program, was sold by the Treasury as part of its efforts to manage and recover its investments under the Troubled Asset Relief Program (TARP). While the sale of these preferred shares to new owners did not result in any proceeds to the Company and did not change the Company's capital position or accounting for these securities, it did eliminate restrictions put in place by the Treasury on TARP recipients. During the year ended December 31, 2012, the Company repurchased or redeemed all of its Series A Preferred Stock. The related warrants to purchase up to \$18.6 million in Banner common stock (243,998 shares) were sold by the Treasury at public auction in June 2013. That sale did not change the Company's capital position and did not have any impact on the financial accounting and reporting for these securities.

#### Note 3: ACCOUNTING STANDARDS RECENTLY ADOPTED

##### Offsetting Assets and Liabilities

In December 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update ("ASU") No. 2011-11, "Disclosures About Offsetting Assets and Liabilities." The new disclosure requirements mandate that entities disclose both gross and net information about instruments and transactions eligible for offset in the statement of financial condition as well as instruments and transactions subject to an agreement similar to a master netting arrangement. ASU No. 2011-11 also requires disclosure of collateral received and posted in connection with master netting agreements or similar arrangements.

In January 2013, FASB issued ASU No. 2013-01, "Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities." The provisions of ASU No. 2013-01 limit the scope of the new balance sheet offsetting disclosures to the following financial instruments, to the extent they are offset in the financial statements or subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in the statement of financial position: (1) derivative financial instruments; (2) repurchase agreements and reverse repurchase agreements; and (3) securities borrowing and securities lending transactions.

The Company adopted the provisions of ASU No. 2011-11 and ASU No. 2013-01 effective January 1, 2013. As the provisions of ASU No. 2011-11 and ASU No. 2013-01 only impact disclosure requirements related to the offsetting of assets and liabilities and information instruments and transactions eligible for offset in the statement of financial condition, the adoption had no impact on the Company's consolidated statements of operations and financial condition.

#### Reclassifications Out of Accumulated Other Comprehensive Income

In February 2013, FASB issued ASU No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. ASU No. 2013-02 does not amend any existing requirements for reporting net income or other comprehensive income in the financial statements. ASU No. 2013-02 requires an entity to disaggregate the total change of each component of other comprehensive income (e.g., unrealized gains or losses on available-for-sale investment securities) and separately present reclassification adjustments and current period other comprehensive income. The provisions of ASU No. 2013-02 also require that entities present, either in a single note or parenthetically on the face of the financial statements, the effect of significant amounts reclassified from each component of accumulated other comprehensive income based on its source (e.g., unrealized gains or losses on available-for-sale investment securities). The Company adopted the provisions of ASU No. 2013-02 effective January 1, 2013. The adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

#### Unrecognized Tax Benefits

In July 2013, FASB issued ASU No. 2013-11, "Presentation of an Unrecognized Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists." This ASU requires an unrecognized tax benefit to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. An exception exists to

the extent that a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax of the applicable jurisdiction does not require the entity to use, and entity does not intend to use, the deferred tax asset for such a purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. ASU No. 2013-11 is effective for fiscal years and interim periods beginning after December 15, 2013 and is not expected to have a material impact on the Company's consolidated financial statements.

#### Note 4: BUSINESS SEGMENTS

The Company is managed by legal entity and not by lines of business. Each of the Banks is a community oriented commercial bank chartered in the State of Washington. Each of the Banks' primary business is that of traditional banking institutions, gathering deposits and originating loans for portfolios in their respective markets. The Banks offer a wide variety of deposit products to their consumer and commercial customers. Lending activities include the origination of real estate, commercial/agriculture business and consumer loans. Banner Bank is also an active participant in the secondary market, originating residential loans for sale on both a servicing released and servicing retained basis. In addition to interest income on loans and investment securities, the Banks receive other income from deposit service charges, loan servicing fees and from the sale of loans and investments. The performance of the Banks is reviewed by the Company's executive management and Board of Directors on a monthly basis. All of the executive officers of the Company are members of Banner Bank's management team.

Generally accepted accounting principles establish standards to report information about operating segments in annual financial statements and require reporting of selected information about operating segments in interim reports to stockholders. The Company has determined that its current business and operations consist of a single business segment.

#### Note 5: INTEREST-BEARING DEPOSITS AND SECURITIES

The following table sets forth additional detail regarding our interest-bearing deposits and securities at the dates indicated (includes securities—trading, available-for-sale and held-to-maturity, all at carrying value) (in thousands):

	September 30 2013	December 31 2012	September 30 2012
Interest-bearing deposits included in cash and due from banks	\$106,625	\$114,928	\$143,251
U.S. Government and agency obligations	61,473	98,617	159,885
Municipal bonds:			
Taxable	36,501	31,480	26,742
Tax exempt	115,333	103,545	106,171
Total municipal bonds	151,834	135,025	132,913
Corporate bonds	46,145	48,519	40,505
Mortgage-backed or related securities:			
One- to four-family residential agency guaranteed	58,616	105,770	108,830
One- to four-family residential other	1,100	1,299	1,412
Multifamily agency guaranteed	283,252	188,136	144,830
Multifamily other	10,102	10,659	—
Total mortgage-backed or related securities	353,070	305,864	255,072
Asset-backed securities:			
Student Loan Marketing Association (SLMA)	15,676	32,474	32,752
Other asset-backed securities	9,573	10,042	—
Total asset-backed securities	25,249	42,516	32,752
Equity securities (excludes FHLB stock)	68	63	50

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Total securities	637,839	630,604	621,177
FHLB stock	35,708	36,705	37,038
	\$780,172	\$782,237	\$801,466

13

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Securities—Trading: The amortized cost and estimated fair value of securities—trading at September 30, 2013 and December 31, 2012 are summarized as follows (dollars in thousands):

	September 30, 2013				December 31, 2012			
	Amortized Cost	Fair Value	Percent of Total	%	Amortized Cost	Fair Value	Percent of Total	%
U.S. Government and agency obligations	\$1,370	\$1,510	2.4	%	\$1,380	\$1,637	2.3	%
Municipal bonds:								
Tax exempt	4,966	4,987	7.8		5,590	5,684	8.0	
Total municipal bonds	4,966	4,987	7.8		5,590	5,684	8.0	
Corporate bonds	49,507	35,095	54.9		57,807	35,741	50.2	
Mortgage-backed or related securities:								
One- to four-family residential agency guaranteed	11,811	12,587	19.7		16,574	17,911	25.1	
Multifamily agency guaranteed	8,857	9,640	15.1		8,974	10,196	14.3	
Total mortgage-backed or related securities	20,668	22,227	34.8		25,548	28,107	39.4	
Equity securities	14	68	0.1		14	63	0.1	
	\$76,525	\$63,887	100.0	%	\$90,339	\$71,232	100.0	%

There were 40 sales of securities—trading totaling \$29.4 million with a resulting net gain of \$1.5 million during the nine months ended September 30, 2013, including \$1.0 million which represented recoveries on certain collateralized debt obligations that had previously been written off. There were three sales of securities—trading during the nine months ended September 30, 2012. Included in the net gain of \$1.5 million was a \$409,000 OTTI recovery on securities—trading related to the sale of certain equity securities issued by government-sponsored entities during the nine months ended September 30, 2013 and a \$409,000 OTTI charge during the nine months ended September 30, 2012 related to these same equity securities. As of September 30, 2013 and 2012, there were no securities—trading on a nonaccrual status.

The amortized cost and estimated fair value of securities—trading at September 30, 2013 and December 31, 2012, by contractual maturity, are shown below (in thousands). Expected maturities will differ from contractual maturities because some securities may be called or prepaid with or without call or prepayment penalties.

	September 30, 2013		December 31, 2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$—	\$—	\$—	\$—
Due after one year through five years	3,957	4,219	4,496	4,867
Due after five years through ten years	16,483	17,502	14,251	15,536
Due after ten years through twenty years	21,947	18,737	12,055	11,346
Due after twenty years	34,124	23,361	59,523	39,420
	76,511	63,819	90,325	71,169
Equity securities	14	68	14	63
	\$76,525	\$63,887	\$90,339	\$71,232

Securities—Available-for-Sale: The amortized cost and estimated fair value of securities—available-for-sale at September 30, 2013 and December 31, 2012 are summarized as follows (dollars in thousands):

	September 30, 2013					
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Total	
U.S. Government and agency obligations	\$59,217	\$173	\$(622)	) \$58,768	12.3	%
Municipal bonds:						
Taxable	25,669	113	(230)	) 25,552	5.4	
Tax exempt	29,847	160	(244)	) 29,763	6.2	
Total municipal bonds	55,516	273	(474)	) 55,315	11.6	
Corporate bonds	9,006	13	(19)	) 9,000	1.9	
Mortgage-backed or related securities:						
One- to four-family residential agency guaranteed	46,162	807	(940)	) 46,029	9.6	
One- to four-family residential other	1,025	75	—	) 1,100	0.2	
Multifamily agency guaranteed	274,674	455	(3,285)	) 271,844	57.0	
Multifamily other	10,628	—	(526)	) 10,102	2.1	
Total mortgage-backed or related securities	332,489	1,337	(4,751)	) 329,075	68.9	
Asset-backed securities:						
SLMA	15,576	100	—	) 15,676	3.3	
Other asset-backed securities	10,063	—	(490)	) 9,573	2.0	
Total asset-backed securities	25,639	100	(490)	) 25,249	5.3	
	\$481,867	\$1,896	\$(6,356)	) \$477,407	100.0	%
	December 31, 2012					
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Total	
U.S. Government and agency obligations	\$96,666	\$367	\$(53)	) \$96,980	20.5	%
Municipal bonds:						
Taxable	20,987	233	(67)	) 21,153	4.5	
Tax exempt	23,575	221	(11)	) 23,785	5.0	
Total municipal bonds	44,562	454	(78)	) 44,938	9.5	
Corporate bonds	10,701	37	(9)	) 10,729	2.3	
Mortgage-backed or related securities:						
One- to four-family residential agency guaranteed	87,392	1,051	(584)	) 87,859	18.6	
One- to four-family residential other	1,223	76	—	) 1,299	0.3	
Multifamily agency guaranteed	176,026	2,140	(226)	) 177,940	37.6	
Multifamily other	10,700	4	(45)	) 10,659	2.2	
Total mortgage-backed or related securities	275,341	3,271	(855)	) 277,757	58.7	
Asset-backed securities:						
SLMA	32,309	210	(45)	) 32,474	6.9	
Other asset-backed securities	10,071	—	(29)	) 10,042	2.1	
Total asset-backed securities	42,380	210	(74)	) 42,516	9.0	
	\$469,650	\$4,339	\$(1,069)	) \$472,920	100.0	%





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At September 30, 2013 and December 31, 2012, an aging of unrealized losses and fair value of related securities—available-for-sale was as follows (in thousands):

	September 30, 2013					
	Less Than 12 Months	Unrealized	12 Months or More	Unrealized	Total	Unrealized
	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
U.S. Government and agency obligations	\$40,637	\$(622 )	\$—	\$—	\$40,637	\$(622 )
Municipal bonds:						
Taxable	17,756	(230 )	—	—	17,756	(230 )
Tax exempt	11,363	(243 )	379	(1 )	11,742	(244 )
Total municipal bonds	29,119	(473 )	379	(1 )	29,498	(474 )
Corporate bonds	4,981	(19 )	—	—	4,981	(19 )
Mortgage-backed or related securities:						
One- to four-family residential agency guaranteed	4,133	(274 )	19,478	(666 )	23,611	(940 )
Multifamily agency guaranteed	194,062	(3,219 )	3,040	(66 )	197,102	(3,285 )
Multifamily other	10,102	(526 )	—	—	10,102	(526 )
Total mortgage-backed or related securities	208,297	(4,019 )	22,518	(732 )	230,815	(4,751 )
Asset-backed securities:						
Other asset-backed securities	9,573	(490 )	—	—	9,573	(490 )
Total asset-backed securities	9,573	(490 )	—	—	9,573	(490 )
	\$292,607	\$(5,623 )	\$22,897	\$(733 )	\$315,504	\$(6,356 )
December 31, 2012						
	Less Than 12 Months	Unrealized	12 Months or More	Unrealized	Total	Unrealized
	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
U.S. Government and agency obligations	\$22,955	\$(53 )	\$—	\$—	\$22,955	\$(53 )
Municipal bonds:						
Taxable	11,009	(67 )	—	—	11,009	(67 )
Tax exempt	4,619	(11 )	—	—	4,619	(11 )
Total municipal bonds	15,628	(78 )	—	—	15,628	(78 )
Corporate bonds	6,670	(9 )	—	—	6,670	(9 )
Mortgage-backed or related securities:						
One- to four-family residential agency guaranteed	32,459	(503 )	5,746	(81 )	38,205	(584 )
Multifamily agency guaranteed	32,170	(226 )	—	—	32,170	(226 )
Multifamily other	7,279	(45 )	—	—	7,279	(45 )
Total mortgage-backed or related securities	71,908	(774 )	5,746	(81 )	77,654	(855 )
Asset-backed securities:						
SLMA	9,674	(45 )	—	—	9,674	(45 )
Other asset-backed securities	10,042	(29 )	—	—	10,042	(29 )
Total asset-backed securities	19,716	(74 )	—	—	19,716	(74 )
	\$136,877	\$(988 )	\$5,746	\$(81 )	\$142,623	\$(1,069 )

Proceeds from the sale of 35 securities—available-for-sale during the nine months ended September 30, 2013 were \$103.3 million with a resulting loss of \$116,000. There were three sales of securities—available-for-sale totaling \$13.3 million with a resulting gain of \$38,000 during the nine months ended September 30, 2012. At September 30, 2013, there were 124 securities—available for sale with unrealized losses, compared to 52 securities at December 31, 2012. Management does not believe that any individual unrealized loss as of September 30, 2013 represents

OTTI. The decline in fair market values of these securities was generally due to changes in interest rates and changes in market-desired spreads subsequent to their purchase.

The amortized cost and estimated fair value of securities—available-for-sale at September 30, 2013 and December 31, 2012, by contractual maturity, are shown below (in thousands). Expected maturities will differ from contractual maturities because some securities may be called or prepaid with or without call or prepayment penalties.

	September 30, 2013		December 31, 2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$25,195	\$25,361	\$16,369	\$16,393
Due after one year through five years	301,409	298,978	205,913	207,147
Due after five years through ten years	86,050	84,906	132,372	133,407
Due after ten years through twenty years	13,219	12,856	43,386	43,414
Due after twenty years	55,994	55,306	71,610	72,559
	\$481,867	\$477,407	\$469,650	\$472,920

Securities—Held-to-Maturity: The amortized cost and estimated fair value of securities—held-to-maturity at September 30, 2013 and December 31, 2012 are summarized as follows (dollars in thousands):

	September 30, 2013					Percent of Total Amortized Cost	
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value			
U.S. Government and agency obligations	\$1,195	\$—	\$(62)	\$1,133	1.2	%	
Municipal bonds:							
Taxable	10,949	237	(182)	11,004	11.3		
Tax exempt	80,583	3,080	(1,203)	82,460	83.6		
Total municipal bonds	91,532	3,317	(1,385)	93,464	94.9		
Corporate bonds	2,050	—	—	2,050	2.1		
Mortgage-backed or related securities:							
Multifamily agency guaranteed	1,768	—	(14)	1,754	1.8		
Total mortgage-backed or related securities	1,768	—	(14)	1,754	1.8		
	\$96,545	\$3,317	\$(1,461)	\$98,401	100.0	%	
	December 31, 2012					Percent of Total Amortized Cost	
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value			
Municipal bonds:							
Taxable	\$10,326	\$436	\$(157)	\$10,605	11.9	%	
Tax exempt	74,076	5,757	(30)	79,803	85.7		
Total municipal bonds	84,402	6,193	(187)	90,408	97.6		
Corporate bonds	2,050	—	—	2,050	2.4		
	\$86,452	\$6,193	\$(187)	\$92,458	100.0	%	

At September 30, 2013 and December 31, 2012, an age analysis of unrealized losses and fair value of related securities—held-to-maturity was as follows (in thousands):

	September 30, 2013					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government and agency obligations	\$1,133	\$(62 )	\$—	\$—	\$1,133	\$(62 )
Municipal bonds:						
Taxable	5,827	(182 )	—	—	5,827	(182 )
Tax exempt	20,954	(1,203 )	—	—	20,954	(1,203 )
Total municipal bonds	26,781	(1,385 )	—	—	26,781	(1,385 )
Mortgage-backed or related securities:						
Multifamily agency guaranteed	1,754	(14 )	—	—	1,754	(14 )
Total mortgage-backed or related securities	1,754	(14 )	—	—	1,754	(14 )
	\$29,668	\$(1,461 )	\$—	\$—	\$29,668	\$(1,461 )
	December 31, 2012					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Municipal bonds:						
Taxable	\$4,137	\$(157 )	\$—	\$—	\$4,137	\$(157 )
Tax exempt	910	(30 )	—	—	910	(30 )
Total municipal bonds	\$5,047	\$(187 )	\$—	\$—	\$5,047	\$(187 )

There were no sales of securities—held-to-maturity and the Company did not recognize any OTTI charges on securities—held-to-maturity during the nine months ended September 30, 2013 and 2012. As of September 30, 2013, there were no securities—held-to-maturity in a nonaccrual status. There were 32 securities—held-to-maturity with unrealized losses at September 30, 2013, compared to five securities at December 31, 2012. Management does not believe that any individual unrealized loss on a security as of September 30, 2013 represents OTTI. The decline in fair market value of these securities was generally due to changes in interest rates and changes in market-desired spreads subsequent to their purchase.

The amortized cost and estimated fair value of securities—held-to-maturity at September 30, 2013 and December 31, 2012, by contractual maturity, are shown below (in thousands). Expected maturities will differ from contractual maturities because some securities may be called or prepaid with or without call or prepayment penalties.

	September 30, 2013		December 31, 2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$3,185	\$3,201	\$3,323	\$3,410
Due after one year through five years	12,970	13,410	13,641	14,335
Due after five years through ten years	15,870	15,880	13,295	13,452
Due after ten years through twenty years	61,422	63,032	53,031	57,868
Due after twenty years	3,098	2,878	3,162	3,393
	\$96,545	\$98,401	\$86,452	\$92,458

Pledged Securities: The following table presents, as of September 30, 2013, investment securities which were pledged to secure borrowings, public deposits or other obligations as permitted or required by law (in thousands):

	Carrying Value	Amortized Cost	Fair Value
Purpose or beneficiary:			
State and local governments public deposits	\$107,920	\$107,867	\$110,139
Interest rate swap counterparties	7,634	7,290	7,634
Retail repurchase agreements	107,307	107,366	107,307
Total pledged securities	\$222,861	\$222,523	\$225,080

#### Note 6: FHLB STOCK

The Banks' investments in Federal Home Loan Bank of Seattle stock are carried at par value (\$100 per share), which reasonably approximates its fair value. As members of the FHLB system, the Banks are required to maintain a minimum level of investment in FHLB stock based on specific percentages of their outstanding FHLB advances. For the three months and nine months ended September 30, 2013, the Banks received dividend income of \$9,000 on FHLB stock. For the three months and nine months ended September 30, 2012, the Banks did not receive any dividend income on FHLB stock. At September 30, 2013 and December 31, 2012, respectively, the Company had recorded \$35.7 million and \$36.7 million in FHLB stock. This stock is generally viewed as a long-term investment and is carried at par. It does not have a readily determinable fair value. Ownership of FHLB stock is restricted to the FHLB and member institutions and can only be purchased and redeemed at par.

Management periodically evaluates FHLB stock for impairment. Management's determination of whether these investments are impaired is based on its assessment of the ultimate recoverability of cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of cost is influenced by criteria such as (1) the significance of any decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, (3) the impact of legislative and regulatory changes on institutions and, accordingly, the customer base of the FHLB, and (4) the liquidity position of the FHLB.

The FHLB of Seattle announced that it had a risk-based capital deficiency under the regulations of the Federal Housing Finance Agency (the FHFA), its primary regulator, as of December 31, 2008, and that it would suspend future dividends and the repurchase and redemption of outstanding common stock. The FHLB of Seattle announced on September 7, 2012 that the FHFA now considers the FHLB of Seattle to be adequately capitalized. Dividends on, or repurchases of, the FHLB of Seattle stock continue to require the consent of the FHFA. The FHFA subsequently approved the repurchase of portions of FHLB of Seattle stock, and as of September 30, 2013, the FHLB had repurchased \$1.7 million of the Banks' stock, including \$333,000 during the quarter ending September 30, 2013. The FHLB of Seattle announced on October 28, 2013 that, based on third quarter 2013 financial results, its Board of Directors had declared a \$0.025 per share cash dividend. It is the second dividend in a number of years and represents a significant milestone in FHLB of Seattle's return to normal operations. The Company will continue to monitor the financial condition of the FHLB as it relates to, among other things, the recoverability of Banner's investment. Based on the above, the Company has determined there is not any impairment on the FHLB stock investment as of September 30, 2013.

## Note 7: LOANS RECEIVABLE AND THE ALLOWANCE FOR LOAN LOSSES

We originate residential mortgage loans for both portfolio investment and sale in the secondary market. At the time of origination, mortgage loans are designated as held for sale or held for investment. Loans held for sale are stated at the lower of cost or estimated market value determined on an aggregate basis. Net unrealized losses on loans held for sale are recognized through a valuation allowance by charges to income. The Banks also originate construction, land and land development, commercial and multifamily real estate, commercial business, agricultural business and consumer loans for portfolio investment. Loans receivable not designated as held for sale are recorded at the principal amount outstanding, net of allowance for loan losses, deferred fees and origination costs, discounts and premiums. Premiums, discounts and deferred loan fees and origination costs are amortized to maturity using the level-yield methodology.

Interest is accrued as earned unless management doubts the collectability of the loan or the unpaid interest. Interest accruals are generally discontinued when loans become 90 days past due for scheduled interest payments. All previously accrued but uncollected interest is deducted from interest income upon transfer to nonaccrual status. Future collection of interest is included in interest income based upon an assessment of the likelihood that the loans will be repaid or recovered. A loan may be put on nonaccrual status sooner than this policy would dictate if, in management's judgment, the loan may be uncollectable. Such interest is then recognized as income only if it is ultimately collected.

Loans receivable, including loans held for sale, at September 30, 2013, December 31, 2012 and September 30, 2012 are summarized as follows (dollars in thousands):

	September 30, 2013		December 31, 2012		September 30, 2012		
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	
Commercial real estate:							
Owner-occupied	\$508,341	15.5	% \$489,581	15.1	% \$477,871	14.9	%
Investment properties	613,757	18.8	583,641	18.0	604,265	18.8	
Multifamily real estate	133,770	4.1	137,504	4.3	138,716	4.3	
Commercial construction	18,730	0.6	30,229	0.9	28,598	0.9	
Multifamily construction	33,888	1.0	22,581	0.7	14,502	0.5	
One- to four-family construction	194,187	5.9	160,815	5.0	163,521	5.1	
Land and land development:							
Residential	75,576	2.3	77,010	2.4	79,932	2.5	
Commercial	11,231	0.3	13,982	0.4	14,242	0.4	
Commercial business	635,658	19.4	618,049	19.1	603,606	18.8	
Agricultural business, including secured by farmland	223,187	6.8	230,031	7.1	219,084	6.8	
One- to four-family residential	543,263	16.6	581,670	18.0	594,413	18.5	
Consumer:							
Consumer secured by one- to four-family	170,019	5.2	% 170,123	5.3	% 171,380	5.3	%
Consumer-other	113,829	3.5	120,498	3.7	103,393	3.2	
Total loans outstanding	3,275,436	100.0	% 3,235,714	100.0	% 3,213,523	100.0	%
Less allowance for loan losses	(76,657 )		(77,491 )		(78,783 )		
Net loans	\$3,198,779		\$3,158,223		\$3,134,740		

Loan amounts are net of unearned loan fees in excess of unamortized costs of \$8.8 million as of September 30, 2013, \$8.9 million as of December 31, 2012 and \$9.0 million as of September 30, 2012.





The Company's total loans by geographic concentration at September 30, 2013 were as follows (dollars in thousands):

	Washington	Oregon	Idaho	Other	Total
Commercial real estate:					
Owner-occupied	\$384,706	\$58,468	\$59,077	\$6,090	\$508,341
Investment properties	467,161	90,518	50,464	5,614	613,757
Multifamily real estate	107,744	15,998	9,828	200	133,770
Commercial construction	9,918	3,942	377	4,493	18,730
Multifamily construction	22,141	11,747	—	—	33,888
One- to four-family construction	108,011	84,749	1,427	—	194,187
Land and land development:					
Residential	45,281	28,973	1,322	—	75,576
Commercial	5,915	3,379	1,937	—	11,231
Commercial business	392,741	76,314	62,428	104,175	635,658
Agricultural business, including secured by farmland	111,795	52,670	58,722	—	223,187
One- to four-family residential	337,369	180,047	23,846	2,001	543,263
Consumer:					
Consumer secured by one- to four-family	112,130	44,049	13,195	645	170,019
Consumer—other	75,307	32,942	5,565	15	113,829
Total loans	\$2,180,219	\$683,796	\$288,188	\$123,233	\$3,275,436
Percent of total loans	66.6	% 20.9	% 8.8	% 3.7	% 100.0

The geographic concentrations of the Company's land and land development loans by state at September 30, 2013 were as follows (dollars in thousands):

	Washington	Oregon	Idaho	Total
Residential:				
Acquisition and development	\$17,094	\$9,901	\$1,124	\$28,119
Improved land and lots	23,201	18,662	198	42,061
Unimproved land	4,986	410	—	5,396
Commercial:				
Acquisition and development	—	—	484	484
Improved land and lots	3,213	525	507	4,245
Unimproved land	2,702	2,854	946	6,502
Total land and land development loans	\$51,196	\$32,352	\$3,259	\$86,807
Percent of land and land development loans	59.0	% 37.3	% 3.7	% 100.0

The Company originates both adjustable- and fixed-rate loans. The maturity and repricing composition of those loans, less undisbursed amounts and deferred fees and origination costs, at September 30, 2013, December 31, 2012 and September 30, 2012 were as follows (in thousands):

	September 30, 2013	December 31, 2012	September 30, 2012
Fixed-rate (term to maturity):			
Maturing in one year or less	\$ 134,632	\$ 183,004	\$ 185,379
Maturing after one year through three years	139,878	171,724	168,307
Maturing after three years through five years	205,830	173,251	168,348
Maturing after five years through ten years	208,625	167,858	165,973
Maturing after ten years	406,715	473,927	456,758
Total fixed-rate loans	1,095,680	1,169,764	1,144,765
Adjustable-rate (term to rate adjustment):			
Maturing or repricing in one year or less	1,290,793	1,260,472	1,283,783
Maturing or repricing after one year through three years	274,789	275,223	291,778
Maturing or repricing after three years through five years	527,999	467,895	441,773
Maturing or repricing after five years through ten years	84,399	60,316	45,951
Maturing or repricing after ten years	1,776	2,044	5,473
Total adjustable-rate loans	2,179,756	2,065,950	2,068,758
Total loans	\$3,275,436	\$3,235,714	\$3,213,523

The adjustable-rate loans have interest rate adjustment limitations and are generally indexed to various prime (The Wall Street Journal) or London Inter-bank Offering Rate (LIBOR) rates, One to Five Year Constant Maturity Treasury Indices or FHLB advance rates. Future market factors may affect the correlation of the interest rate adjustment with the rates the Banks pay on the short-term deposits that were primarily utilized to fund these loans.

**Impaired Loans and the Allowance for Loan Losses.** A loan is considered impaired when, based on current information and circumstances, the Company determines it is probable that it will be unable to collect all amounts due according to the contractual terms of the loan agreement, including scheduled interest payments. Impaired loans are comprised of loans on nonaccrual, troubled debt restructurings (TDRs) that are performing under their restructured terms, and loans that are 90 days or more past due, but are still on accrual.

**Troubled Debt Restructures.** Some of the Company's loans are reported as TDRs. Loans are reported as TDRs when the bank grants one or more concessions to a borrower experiencing financial difficulties that it would not otherwise consider. Examples of such concessions include forgiveness of principal or accrued interest, extending the maturity date(s) or providing a lower interest rate than would be normally available for a transaction of similar risk. Our TDRs have generally not involved forgiveness of amounts due, but almost always include a modification of multiple factors; the most common combination includes interest rate, payment amount and maturity date. As a result of these concessions, restructured loans are impaired as the bank will not collect all amounts due, both principal and interest, in accordance with the terms of the original loan agreement. Loans identified as TDRs are accounted for in accordance with the Company's impaired loan accounting policies.

The amount of impaired loans and the related allocated reserve for loan losses as of September 30, 2013 and December 31, 2012 were as follows (in thousands):

	September 30, 2013		December 31, 2012	
	Loan Amount	Allocated Reserves	Loan Amount	Allocated Reserves
Impaired loans:				
Nonaccrual loans				
Commercial real estate:				
Owner-occupied	\$2,798	\$38	\$4,105	\$618
Investment properties	1,965	97	2,474	56
Multifamily real estate	333	59	—	—
One- to four-family construction	910	81	1,565	326
Land and land development:				
Residential	750	—	2,061	323
Commercial	—	—	46	12
Commercial business	963	151	4,750	344
One- to four-family residential	10,717	307	12,964	520
Consumer:				
Consumer secured by one- to four-family	940	16	2,073	41
Consumer—other	693	3	1,323	16
Total nonaccrual loans	20,069	752	31,361	2,256
Past due and still accruing	4,793	409	3,029	62
Troubled debt restructuring on accrual status:				
Commercial real estate:				
Owner-occupied	186	4	188	4
Investment properties	5,456	455	7,034	664
Multifamily real estate	5,810	1,256	7,131	1,665
One- to four-family construction	7,285	1,070	6,726	1,115
Land and land development:				
Residential	5,230	1,112	4,842	667
Commercial business	1,115	203	2,975	610
One- to four-family residential	24,469	1,374	27,540	1,228
Consumer:				
Consumer secured by one- to four-family	411	29	538	29

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Consumer—other	468	56	488	38
Total troubled debt restructurings on accrual status	50,430	5,559	57,462	6,020
Total impaired loans	\$75,292	\$6,720	\$91,852	\$8,338

As of September 30, 2013 and December 31, 2012, the Company had commitments to advance funds up to an additional amount of \$1.7 million and \$1.6 million, respectively, related to TDRs.

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The following tables provide additional information on impaired loans with and without specific allowance reserves at or for the nine months ended September 30, 2013 and at or for the year ended December 31, 2012 (in thousands):

	At or For the Nine Months Ended September 30, 2013				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Without a specific allowance reserve <sup>(1)</sup>					
Commercial real estate:					
Owner-occupied	\$803	\$1,003	\$38	\$879	\$—
Investment properties	466	1,011	97	684	—
Multifamily real estate	2,034	2,034	359	2,053	58
One- to four-family construction	561	737	81	578	—
Land and land development:					
Residential	242	243	87	246	13
Commercial business	2,697	3,238	165	3,083	1
One- to four-family residential	7,538	8,024	49	7,681	37
Consumer:					
Consumer secured by one- to four-family	917	1,062	17	940	—
Consumer—other	508	658	3	532	1
	15,766	18,010	896	16,676	110
With a specific allowance reserve <sup>(2)</sup>					
Commercial real estate:					
Owner-occupied	\$2,182	\$2,182	\$4	\$2,203	\$9
Investment properties	6,955	7,941	455	7,598	242
Multifamily real estate	5,810	5,810	1,256	5,689	218
One- to four family construction	7,634	7,634	1,070	6,326	180
Land and land development:					
Residential	5,980	6,316	1,112	6,326	198
Commercial business	1,115	1,115	203	1,147	39
One- to four-family residential	28,711	29,778	1,639	29,893	786
Consumer:					
Consumer secured by one- to four-family	457	457	29	530	19
Consumer—other	682	698	56	698	27
	59,526	61,931	5,824	60,410	1,718
Total					
Commercial real estate:					
Owner-occupied	\$2,985	\$3,185	\$42	\$3,082	\$9
Investment properties	7,421	8,952	552	8,282	242
Multifamily real estate	7,844	7,844	1,615	7,742	276
One- to four-family construction	8,195	8,371	1,151	6,904	180
Land and land development:					
Residential	6,222	6,559	1,199	6,572	211
Commercial business	3,812	4,353	368	4,230	40
One- to four-family residential	36,249	37,802	1,688	37,574	823
Consumer:					
Consumer secured by one- to four-family	1,374	1,519	46	1,470	19
Consumer—other	1,190	1,356	59	1,230	28
	\$75,292	\$79,941	\$6,720	\$77,086	\$1,828



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	At or For the Year Ended December 31, 2012				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Without a specific allowance reserve <sup>(1)</sup>					
Commercial real estate:					
Owner-occupied	\$1,300	\$1,551	\$103	\$1,470	\$—
Investment properties	624	861	90	735	17
Multifamily real estate	2,131	2,131	392	2,136	113
One- to four-family construction	4,460	4,460	571	3,335	145
Land and land development:					
Residential	2,122	2,587	404	2,948	73
Commercial	46	46	12	46	—
Commercial business	4,352	4,970	821	2,121	154
One- to four-family residential	10,886	12,004	150	11,458	44
Consumer:					
Consumer secured by one- to four-family	1,641	2,335	54	1,966	14
Consumer—other	1,167	1,275	16	1,297	5
	28,729	32,220	2,613	27,512	565
With a specific allowance reserve <sup>(2)</sup>					
Commercial real estate:					
Owner-occupied	\$2,993	\$2,993	\$518	\$3,113	\$—
Investment properties	8,884	10,120	630	9,449	229
Multifamily real estate	5,000	5,000	1,273	5,000	295
One- to four family construction	3,831	3,831	870	3,611	194
Land and land development:					
Residential	4,782	4,782	586	5,039	185
Commercial	—	—	—	—	—
Commercial business	3,373	3,734	134	3,931	6
One- to four-family residential	32,494	33,672	1,656	33,100	1,259
Consumer:					
Consumer secured by one- to four-family	1,042	1,140	26	1,074	15
Consumer—other	724	740	32	754	—
	63,123	66,012	5,725	65,071	2,183
Total					
Commercial real estate					
Owner-occupied	\$4,293	\$4,544	\$621	\$4,583	\$—
Investment properties	9,508	10,981	720	10,184	246
Multifamily real estate	7,131	7,131	1,665	7,136	408
One- to four-family construction	8,291	8,291	1,441	6,946	339
Land and land development					
Residential	6,904	7,369	990	7,987	258
Commercial	46	46	12	46	—
Commercial business	7,725	8,704	955	6,052	160
One- to four-family residential	43,380	45,676	1,806	44,558	1,303
Consumer					
Consumer secured by one- to four-family	2,683	3,475	80	3,040	29
Consumer—other	1,891	2,015	48	2,051	5
	\$91,852	\$98,232	\$8,338	\$92,583	\$2,748

- (1) Loans without a specific allowance reserve have not been individually evaluated for impairment, but have been included in pools of homogeneous loans for evaluation of related allowance reserves.  
Loans with a specific allowance reserve have been individually evaluated for impairment using either a discounted cash flow analysis or, for collateral dependent loans, current appraisals to establish realizable value. These analyses may identify a specific impairment amount needed or may conclude that no reserve is needed. Any specific impairment that is identified is included in the category's Related Allowance column.
- (2)



The following tables present TDRs at September 30, 2013 and December 31, 2012 (in thousands):

	September 30, 2013		Total Modifications
	Accrual Status	Nonaccrual Status	
Commercial real estate:			
Owner-occupied	\$186	\$620	\$806
Investment properties	5,456	1,563	7,019
Multifamily real estate	5,810	—	5,810
One- to four-family construction	7,285	712	7,997
Land and land development:			
Residential	5,230	—	5,230
Commercial business	1,115	322	1,437
One- to four-family residential	24,469	2,146	26,615
Consumer:			
Consumer secured by one- to four-family	411	254	665
Consumer—other	468	129	597
	\$50,430	\$5,746	\$56,176
	December 31, 2012		Total Modifications
	Accrual Status	Nonaccrual Status	
Commercial real estate:			
Owner-occupied	\$188	\$1,551	\$1,739
Investment properties	7,034	1,514	8,548
Multifamily real estate	7,131	—	7,131
One- to four-family construction	6,726	1,044	7,770
Land and land development:			
Residential	4,842	15	4,857
Commercial business	2,975	247	3,222
One- to four-family residential	27,540	2,703	30,243
Consumer:			
Consumer secured by one- to four-family	538	496	1,034
Consumer—other	488	396	884
	\$57,462	\$7,966	\$65,428

The following tables present new TDRs that occurred during the three and nine months ended September 30, 2013 and 2012 (dollars in thousands):

	Three Months Ended September 30, 2013			Nine Months Ended September 30, 2013		
	Number of Contracts	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment	Number of Contracts	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Recorded Investment <sup>(1) (2)</sup>						
Multifamily real estate	—	\$—	\$—	1	\$376	\$376
One- to four-family construction	3	773	773	11	3,008	3,008
Land and land development—residential	2	1,029	1,029	2	1,029	1,029
	5	\$1,802	\$1,802	24	\$7,336	\$7,336
	Three Months Ended September 30, 2012			Nine Months Ended September 30, 2012		
	Number of Contracts	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment	Number of Contracts	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Recorded Investment <sup>(1) (2)</sup>						
Commercial real estate						
Owner-occupied	1	\$946	\$946	1	\$946	\$946
Investment properties	3	2,784	2,784	6	3,708	3,708
Multifamily real estate	—	—	—	2	5,054	5,054
One- to four-family construction	11	1,711	1,711	19	4,504	4,504
Land and land development—residential	—	—	—	6	2,059	2,059
Commercial business	3	94	94	9	1,309	1,309
One- to four-family residential	1	153	153	18	9,182	9,182
Consumer secured by one-to four-family	—	—	—	1	151	151
Consumer-other	—	—	—	3	220	220
	19	\$5,688	\$5,688	65	\$27,133	\$27,133

- (1) Since most loans were already considered classified and/or on nonaccrual status prior to restructuring, the modifications did not have a material effect on the Company's determination of the allowance for loan losses.
- The majority of these modifications do not fit into one separate type, such as rate, term, amount, interest-only or payment, but instead are a combination of multiple types of modifications; therefore, they are disclosed in aggregate.
- (2)

The following table presents TDRs which incurred a payment default within twelve months of the restructure date during the three-month and nine-month periods ended September 30, 2013 and 2012 (in thousands). A default on a TDR results in either a transfer to nonaccrual status or a partial charge-off:

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	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Commercial real estate:				
Owner occupied	\$—	\$—	\$—	\$1,358
Commercial business	137	—	137	—
One- to four-family residential	—	—	—	559
Total	\$137	\$—	\$137	\$1,917

27

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**Credit Quality Indicators:** To appropriately and effectively manage the ongoing credit quality of the Company's loan portfolio, management has implemented a risk-rating or loan grading system for its loans. The system is a tool to evaluate portfolio asset quality throughout each applicable loan's life as an asset of the Company. Generally, loans and leases are risk rated on an aggregate borrower/relationship basis with individual loans sharing similar ratings. There are some instances when specific situations relating to individual loans will provide the basis for different risk ratings within the aggregate relationship. Loans are graded on a scale of 1 to 9. A description of the general characteristics of these categories is shown below:

**Overall Risk Rating Definitions:** Risk-ratings contain both qualitative and quantitative measurements and take into account the financial strength of a borrower and the structure of the loan or lease. Consequently, the definitions are to be applied in the context of each lending transaction and judgment must also be used to determine the appropriate risk rating, as it is not unusual for a loan or lease to exhibit characteristics of more than one risk-rating category. Consideration for the final rating is centered in the borrower's ability to repay, in a timely fashion, both principal and interest. There were no material changes in the risk-rating or loan grading system in the nine months ended September 30, 2013.

**Risk Rating 1: Exceptional**

A credit supported by exceptional financial strength, stability, and liquidity. The risk rating of 1 is reserved for the Company's top quality loans, generally reserved for investment grade credits underwritten to the standards of institutional credit providers.

**Risk Rating 2: Excellent**

A credit supported by excellent financial strength, stability and liquidity. The risk rating of 2 is reserved for very strong and highly stable customers with ready access to alternative financing sources.

**Risk Rating 3: Strong**

A credit supported by good overall financial strength and stability. Collateral margins are strong; cash flow is stable although susceptible to cyclical market changes.

**Risk Rating 4: Acceptable**

A credit supported by the borrower's adequate financial strength and stability. Assets and cash flow are reasonably sound and provide for orderly debt reduction. Access to alternative financing sources will be more difficult to obtain.

**Risk Rating 5: Watch**

A credit with the characteristics of an acceptable credit which requires, however, more than the normal level of supervision and warrants formal quarterly management reporting. Credits in this category are not yet criticized or classified, but due to adverse events or aspects of underwriting require closer than normal supervision. Generally, credits should be watch credits in most cases for six months or less as the impact of stress factors are analyzed.

**Risk Rating 6: Special Mention**

A credit with potential weaknesses that deserves management's close attention is risk rated a 6. If left uncorrected, these potential weaknesses will result in deterioration in the capacity to repay debt. A key distinction between Special Mention and Substandard is that in a Special Mention credit, there are identified weaknesses that pose potential risk(s) to the repayment sources, versus well defined weaknesses that pose risk(s) to the repayment sources. Assets in this category are expected to be in this category no more than 9-12 months as the potential weaknesses in the credit are resolved.

**Risk Rating 7: Substandard**

A credit with well defined weaknesses that jeopardize the ability to repay in full is risk rated a 7. These credits are inadequately protected by either the sound net worth and payment capacity of the borrower or the value of pledged

collateral. These are credits with a distinct possibility of loss. Loans headed for foreclosure and/or legal action due to deterioration are rated 7 or worse.

**Risk Rating 8: Doubtful**

A credit with an extremely high probability of loss is risk rated 8. These credits have all the same critical weaknesses that are found in a substandard loan; however, the weaknesses are elevated to the point that based upon current information, collection or liquidation in full is improbable. While some loss on doubtful credits is expected, pending events may strengthen a credit making the amount and timing of any loss indeterminable. In these situations taking the loss is inappropriate until it is clear that the pending event has failed to strengthen the credit and improve the capacity to repay debt.

**Risk Rating 9: Loss**

A credit that is considered to be currently uncollectible or of such little value that it is no longer a viable Bank asset is risk rated 9. Losses should be taken in the accounting period in which the credit is determined to be uncollectible. Taking a loss does not mean that a credit has absolutely no recovery or salvage value but, rather, it is not practical or desirable to defer writing off the credit, even though partial recovery may occur in the future.

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The following table shows the Company's portfolio of risk-rated loans and non-risk-rated loans by grade or other characteristics as of September 30, 2013 and December 31, 2012 (in thousands):

September 30, 2013

	Commercial Real Estate	Multifamily Real Estate	Construction and Land	Commercial Business	Agricultural Business	One- to Four- Family Residential	Consumer	Total Loans
Risk-rated loans:								
Pass (Risk Ratings 1-5) <sup>(1)</sup>	\$ 1,084,540	\$ 126,360	\$ 313,108	\$ 611,668	\$ 212,012	\$ 527,655	\$ 279,908	\$ 3,155,251
Special mention	6,033	—	481	5,802	621	—	139	13,076
Substandard	30,981	7,410	20,023	18,179	10,554	15,608	3,801	106,556
Doubtful	544	—	—	9	—	—	—	553
Loss	—	—	—	—	—	—	—	—
Total loans	\$ 1,122,098	\$ 133,770						