BANNER CORP
Form 10-Q
May 06, 2016

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

FORM 10-Q
(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2016.
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	91-1691604
(State or other jurisdiction of incorporation or organization)	(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 [x] 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 [x] 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 [x]	Accelerated filer [ ]	Non-accelerated filer [ ]	Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [x]

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 April 30, 2016
Common Stock, $.01 par	32,927,921 shares

value per share	
Nonvoting Common Stock, $.01 par value per share	1,427,663 shares

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BANNER CORPORATION AND SUBSIDIARIES

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Special Note Regarding Forward-Looking Statements

Certain matters in this Form 10-Q constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. 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 o 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: expected revenues, cost savings, synergies and other benefits from the merger of Banner Bank and Siuslaw Bank and of the merger of Banner Bank and AmericanWest Bank (AmericanWest) might not be realized within the expected time frames or at all and costs or difficulties relating to integration matters, including but not limited to customers, systems and employee retention, might be greater than expected; 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 non-performing 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 economic conditions in general and in Washington, Idaho, Oregon, Utah and California in particular; 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 safety and soundness and compliance 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, require restitution or institute an informal or formal 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 and securities 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; future goodwill impairment due to changes in our business, changes in market conditions, or other factors; our ability to manage loan delinquency rates; increased competitive pressures among financial services companies and 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 non-voting 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 U.S. Securities and Exchange Commission, including this report on Form 10-Q. 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. All references to "Banner" refer to Banner Corporation and those to "the Banks" refer to its wholly-owned subsidiaries, Banner Bank and Islanders Bank, collectively.

BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Unaudited) (In thousands, except shares)
March 31, 2016 and December 31, 2015

ASSETS	March 31 2016	December 31 2015
Cash and due from banks	$153,706	$117,657
Interest bearing deposits	106,864	144,260
Total cash and cash equivalents	260,570	261,917
Securities—trading, amortized cost $39,155 and $39,344, respectively	33,994	34,134
Securities—available-for-sale, amortized cost $1,186,995 and $1,139,740, respectively	1,199,279	1,138,573
Securities—held-to-maturity, fair value $255,823 and $226,627, respectively	246,320	220,666
Federal Home Loan Bank (FHLB) stock	13,347	16,057
Loans held for sale	47,523	44,712
Loans receivable	7,185,999	7,314,504
Allowance for loan losses	(78,197)	(78,008)
Net loans	7,107,802	7,236,496
Accrued interest receivable	30,674	29,627
Real estate owned (REO), held for sale, net	7,207	11,627
Property and equipment, net	168,807	167,604
Goodwill	244,811	247,738
Other intangibles, net	35,598	37,472
Bank-owned life insurance (BOLI)	156,928	156,865
Deferred tax assets, net	126,832	134,970
Other assets	65,902	57,840
Total assets	$9,745,594	$9,796,298
LIABILITIES		
Deposits:		
Non-interest-bearing	$3,036,330	$2,619,618
Interest-bearing transaction and savings accounts	3,705,658	4,081,580
Interest-bearing certificates	1,287,873	1,353,870
Total deposits	8,029,861	8,055,068
Advances from FHLB at fair value	75,400	133,381
Other borrowings	106,132	98,325
Junior subordinated debentures at fair value (issued in connection with Trust Preferred Securities)	92,879	92,480
Accrued expenses and other liabilities	81,485	76,511
Deferred compensation	39,682	40,474
Total liabilities	8,425,439	8,496,239
COMMITMENTS AND CONTINGENCIES (Note 13)		
SHAREHOLDERS' EQUITY		
Preferred stock - $0.01 par value per share, 500,000 shares authorized; no shares outstanding at March 31, 2016 and December 31, 2015	—	—
Common stock and paid in capital - $0.01 par value per share, 50,000,000 shares authorized; 32,830,675 shares issued and outstanding at March 31, 2016; 32,817,789 shares issued and outstanding at December 31, 2015	1,197,306	1,195,755
Common stock (non-voting) and paid in capital- $0.01 par value per share, 5,000,000 shares authorized; 1,390,776 shares issued and outstanding at March 31, 2016; 1,424,466 shares issued and outstanding at December 31, 2015	64,744	65,419
Retained earnings	50,230	39,615

Carrying value of shares held in trust for stock related compensation plans	(7,310)	(6,928)
Liability for common stock issued to deferred, stock related, compensation plans	7,310	6,928
Accumulated other comprehensive income (loss)	7,875	(730)
Total shareholders' equity	1,320,155	1,300,059
Total liabilities & shareholders' equity	$9,745,594	$9,796,298

See Selected Notes to the Consolidated Financial Statements

BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited) (In thousands, except shares and per share amounts)
For the Three Months Ended March 31, 2016 and 2015

	Three Months Ended March 31,	
	2016	2015
INTEREST INCOME:		
Loans receivable	$86,958	$ 46,365
Mortgage-backed securities	5,390	1,027
Securities and cash equivalents	2,953	1,677
Total interest income	95,301	49,069
INTEREST EXPENSE:		
Deposits	2,946	1,733
FHLB advances	279	17
Other borrowings	75	43
Junior subordinated debentures	958	740
Total interest expense	4,258	2,533
Net interest income before provision for loan losses	91,043	46,536
PROVISION FOR LOAN LOSSES	—	—
Net interest income	91,043	46,536
NON-INTEREST INCOME:		
Deposit fees and other service charges	11,818	8,126
Mortgage banking operations	5,643	4,109
Bank-owned life insurance (BOLI)	1,185	438
Miscellaneous	1,263	483
	19,909	13,156
Gain (loss) on sale of securities	21	(510)
Net change in valuation of financial instruments carried at fair value	29	1,050
Total non-interest income	19,959	13,696
NON-INTEREST EXPENSE:		
Salary and employee benefits	46,564	24,287
Less capitalized loan origination costs	(4,250)	(2,838)
Occupancy and equipment	10,388	6,006
Information/computer data services	4,920	2,253
Payment and card processing expenses	4,785	3,016
Professional services	2,614	814
Advertising and marketing	1,734	1,610
Deposit insurance	1,338	567
State/municipal business and use taxes	838	453
REO operations	397	24
Amortization of core deposit intangibles	1,808	616
Miscellaneous	6,085	3,458
	77,221	40,266
Acquisition-related costs	6,813	1,648
Total non-interest expense	84,034	41,914
Income before provision for income taxes	26,968	18,318
PROVISION FOR INCOME TAXES	9,194	6,184
NET INCOME	$17,774	$ 12,134
Earnings per common share:		

Basic	$0.52	$ 0.61
Diluted	$0.52	$ 0.61
Cumulative dividends declared per common share	$0.21	$ 0.18
Weighted average number of common shares outstanding:		
Basic	34,023,800	19,760,645
Diluted	34,103,727	19,845,019

See Selected Notes to the Consolidated Financial Statements

BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited) (In thousands)
For the Three Months Ended March 31, 2016 and 2015

	Three Months Ended March 31,	
	2016	2015
NET INCOME	$17,774	$12,134
OTHER COMPREHENSIVE INCOME, NET OF INCOME TAXES:		
Unrealized holding gain on available-for-sale securities arising during the period	13,473	2,283
Income tax expense related to available-for-sale securities unrealized holding gain	(4,854)	(822)
Reclassification for net gains on available-for-sale securities realized in earnings	(21)	(104)
Income tax benefit related to available-for-sale securities realized gains	7	38
Other comprehensive income	8,605	1,395
COMPREHENSIVE INCOME	$26,379	$13,529

See Selected Notes to the Consolidated Financial Statements

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BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited) (In thousands, except shares)
For the Three Months Ended March 31, 2016 and the Year Ended December 31, 2015

	Common Stock and Paid in Capital		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Shareholders' Equity
	Shares	Amount			
Balance, January 1, 2015	19,571,548	$568,882	$14,264	$ (258)	$582,888
Net income			45,222		45,222
Other comprehensive income, net of income tax				(472)	(472)
Accrual of dividends on common stock ($0.72/share cumulative)			(19,871)		(19,871)
Proceeds from issuance of common stock for shareholder reinvestment program	810	34			34
Issuance of restricted stock and recognition of share-based compensation	120,043	3,088			3,088
Issuance of shares for acquisitions	14,549,854	688,773			688,773
Excess tax benefit on stock-based compensation		397			397
Balance, December 31, 2015	34,242,255	$1,261,174	$39,615	$ (730)	$1,300,059
Balance, January 1, 2016	34,242,255	$1,261,174	$39,615	$(730)	$1,300,059
Net income			17,774		17,774
Other comprehensive income, net of income tax				8,605	8,605
Accrual of dividends on common stock ($0.21/share cumulative)			(7,159)		(7,159)
Issuance of (forfeiture of) restricted stock and recognition of share-based compensation	(20,804)	876			876
Balance, March 31, 2016	34,221,451	$1,262,050	$50,230	$7,875	$1,320,155

See Selected Notes to the Consolidated Financial Statements

BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited) (In thousands)
For the Three Months Ended March 31, 2016 and 2015

	Three Months Ended March 31,	
	2016	2015
OPERATING ACTIVITIES:		
Net income	$17,774	$12,134
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation	2,859	2,002
Deferred income and expense, net of amortization	1,158	885
Amortization of core deposit intangibles	1,808	616
(Gain) loss on sale of securities	(21)	510
Net change in valuation of financial instruments carried at fair value	(29)	(1,050)
Purchases of securities—trading	(1,725)	—
Proceeds from sales of securities—trading	—	2,290
Principal repayments and maturities of securities—trading	1,946	679
Decrease in deferred taxes	8,745	1,344
Increase (decrease) in current taxes payable	2,540	(3,555)
Equity-based compensation	876	539
Increase in cash surrender value of BOLI	(1,169)	(432)
Gain on sale of loans, net of capitalized servicing rights	(3,873)	(2,692)
Loss (gain) on disposal of real estate held for sale and property and equipment	427	(122)
Provision for losses on real estate held for sale	205	—
Origination of loans held for sale	(202,471)	(137,290)
Proceeds from sales of loans held for sale	205,023	133,349
Net change in:		
Other assets	(15,571)	(4,703)
Other liabilities	2,894	776
Net cash provided from operating activities	21,396	5,280
INVESTING ACTIVITIES:		
Purchases of securities—available-for-sale	(123,197)	(22,622)
Principal repayments and maturities of securities—available-for-sale	41,376	29,255
Proceeds from sales of securities—available-for-sale	30,566	22,310
Purchases of securities—held-to-maturity	(26,991)	(7,664)
Principal repayments and maturities of securities—held-to-maturity	843	4,972
Loan originations, net of principal repayments	57,558	(1,805)
Purchases of loans and participating interest in loans	(70,551)	(41,684)
Proceeds from sales of other loans	144,499	15,000
Net cash received from acquisitions	—	78,599
Purchases of property and equipment	(4,331)	(1,418)
Proceeds from sale of real estate held for sale, net	4,666	1,738
Proceeds from FHLB stock repurchase program	19,624	2,029
Purchase of FHLB stock	(16,914)	—
Other	1,276	37
Net cash provided from investing activities	58,424	78,747
FINANCING ACTIVITIES:		
Increase (decrease) in deposits, net	(25,206)	104,061
Proceeds from FHLB advances	422,200	222,500

Repayment of FHLB advances	(479,802)	(254,502)
Increase in other borrowings, net	7,807	19,835
Cash dividends paid	(6,166)	(3,512)
Cash proceeds from issuance of common stock for shareholder reinvestment plan	—	34
Net cash provided from (used by) financing activities	(81,167)	88,416
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,347)	172,443
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	261,917	126,072
CASH AND CASH EQUIVALENTS, END OF PERIOD	$260,570	$298,515

(Continued on next page)

BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(Unaudited) (In thousands)
For the Three Months Ended March 31, 2016 and 2015

	Three Months Ended March 31,	
	2016	2015
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid in cash	$4,349	$ 2,576
Taxes paid, net of refunds received in cash	2,581	8,935
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	135	690
ACQUISITIONS (Note 3):		
Assets acquired	—	370,306
Liabilities assumed	—	327,548

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 SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited consolidated interim 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 interim 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 preparing these financial statements, the Company has evaluated events and transactions subsequent to March 31, 2016 for potential recognition or disclosure. 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 annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the SEC and the accounting standards for interim financial statements. Certain reclassifications have been made to the 2015 Consolidated Financial Statements and/or schedules to conform to the 2016 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 significant 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 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 goodwill, core deposit intangibles (CDI) and mortgage servicing rights, (v) the valuation of real estate held for sale, (vi) the valuation of assets and liabilities acquired in business combinations and subsequent recognition of related income and expense, and (vii) the valuation 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, 2015 filed with the SEC. There have been no significant changes in our application of accounting policies during the first three months of 2016.

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, 2015 as filed with the SEC (2015 Form 10-K). Interim results are not necessarily indicative of results for a full year or any other interim period.

Note 2: ACCOUNTING STANDARDS RECENTLY ISSUED OR ADOPTED

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers, which creates Topic 606 and supersedes Topic 605, Revenue Recognition. The core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised

goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In general, the new guidance requires companies to use more judgment and make more estimates than under current guidance, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. Under the terms of ASU 2015-14 the standard is effective for interim and annual periods beginning after December 15, 2017. Early application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. For financial reporting purposes, the standard allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the standard recognized at the date of initial application. The Company is currently evaluating the provisions of ASU No. 2014-09 to determine the potential impact the standard will have on the Company's Consolidated Financial Statements.

In April 2016, FASB issued ASU No. 2016-10, Identifying Performance Obligations and Licensing. The amendments in this ASU do not change the core principle of the guidance in Topic 606. Rather, the amendments in this ASU clarify the following two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. The amendments in this ASU affect the guidance in ASU 2014-09, discussed above, which is not yet effective. The effective date and transition requirements for the amendments in this ASU are the same as the effective date and transition requirements in Topic 606 (Revenues from Contracts with Customers). The Company is evaluating the provisions of this ASU in conjunction with ASU No. 2014-09 to determine the potential impact Topic 606 and its amendments will have on the Company's Consolidated Financial Statements.

Customer's Accounting for Fees Paid in a Cloud Computing Arrangement

In April 2015, FASB issued ASU No. 2015-05, Customer's Accounting for Fees Paid in a Cloud Computing Arrangement. The amendments in this ASU provide guidance to customers in cloud computing arrangements about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The amendments were effective for adoption of annual periods, including interim periods within those annual periods, beginning after December 15, 2015 and were adopted by the Company, as of January 1, 2016. This ASU did not have a material effect on the Company's Consolidated Financial Statements.

Business Combinations—Simplifying the Accounting for Measurement-Period Adjustments

In September 2015, FASB issued ASU No. 2015-16, Simplifying the Accounting for Measurement-Period Adjustments. The amendments in this ASU require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period when the adjustment amounts are determined. The acquirer is required to record in the same period's financial statements the effect on earnings from changes in depreciation, amortization, or other income effects resulting from the change to provisional amounts, calculated as if the accounting had been completed at the acquisition date. The acquirer must present separately on the income statement, or disclose in the notes, the amount recorded in current-period earnings that would have been recorded in previous reporting periods if the provisional amount had been recognized at the acquisition date. The amendments in this ASU were effective for fiscal years beginning after December 15, 2015 and were adopted by the Company, as of January 1, 2016. As a result of this ASU, the adjustments recorded during the three months ended March 31, 2016 to the provisional amounts recorded as of December 31, 2015 related to the acquisition of Starbuck Bancshares, Inc. (Starbuck) were recorded in the current period.

Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, FASB issued ASU No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this ASU require equity securities to be measured at fair value with changes in the fair value recognized through net income. The amendments allow equity investments that do not have readily determinable fair values to be remeasured at fair value under certain circumstances and require enhanced disclosures about those investments. This ASU simplifies the impairment assessment of equity investments without readily determinable fair values. This ASU also eliminate the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. The amendments in this ASU require separate presentation in other comprehensive income of the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. This ASU excludes from net income gains or losses that the entity may not realize because those financial liabilities are not usually transferred or settled at their fair values before maturity. The amendments in this ASU require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or in the accompanying notes to the financial statements. The amendments in this ASU are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the provisions of ASU No. 2016-01 to determine the potential impact the new standard will have on the Company's Consolidated Financial Statements.

Leases (Topic 842)

In February 2016, FASB issued ASU No. 2016-02, Leases (Topic 842). The amendments in this ASU require lessees to recognize the following for all leases (with the exception of short-term) at the commencement date; a lease liability, which is a lessee‘s obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. The amendments in this ASU leave lessor accounting largely unchanged, although certain targeted improvements were made to align lessor accounting with the lessee accounting model. This ASU simplifies the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees will no longer be provided with a source of off-balance sheet financing. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted upon issuance. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The Company is currently evaluating the provisions of ASU No. 2016-02 to determine the potential impact the new standard will have on the Company's Consolidated Financial Statements.

Derivatives and Hedging (Topic 815)

In March 2016, FASB issued ASU No. 2016-05, Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships. The amendments in this ASU clarify that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under Topic 815 (Derivatives and Hedging) does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. The amendments in this ASU are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. An entity has an option to apply the amendments in this ASU on either a prospective basis or a modified retrospective basis. Early adoption is permitted, including adoption in an interim period. At March 31, 2016, Banner had four swap relationships using hedge accounting with a total market value of approximately $1.0 million. This ASU is not expected to have a material impact on the Company’s Consolidated Financial Statements.

In March 2016, FASB issued ASU No. 2016-06, Contingent Put and Call Options in Debt Instruments. The amendments in this ASU clarify the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. To determine how to account for debt instruments with embedded features, including contingent put and call options, an entity is required to assess whether the embedded derivatives must be bifurcated from the host contract and accounted for separately. Part of this assessment consists of evaluating whether the embedded derivative features are clearly and closely related to the debt host. Under existing guidance, for contingently exercisable options to be considered clearly and closely related to a debt host, they must be indexed only to interest rates or credit risk. ASU 2016-06 addresses inconsistent interpretations of whether an event that triggers an entity’s ability to exercise the embedded contingent option must be indexed to interest rates or credit risk for that option to qualify as clearly and closely related. Diversity in practice has developed because the existing four-step decision sequence in ASC 815 focuses only on whether the payoff was indexed to something other than an interest rate or credit risk. As a result, entities have been uncertain whether they should (1) determine whether the embedded features are clearly and closely related to the debt host solely on the basis of the four-step decision sequence or (2) first apply the four-step decision sequence and then also evaluate whether the event triggering the exercisability of the contingent put or call option is indexed only to an interest rate or credit risk. This ASU clarifies that in assessing whether an embedded contingent put or call option is clearly and closely related to the debt host, an entity is required to perform only the four-step decision sequence in ASC 815 as amended by this ASU. The entity does not have to separately assess whether the event that triggers its ability to exercise the contingent option is itself indexed only to interest rates or credit risk. The amendments in this ASU are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. This ASU is not expected to have a material impact on the Company’s Consolidated Financial Statements.

Compensation-Stock Compensation (Topic 718)

In March 2016, FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting. FASB is issuing this ASU as part of its Simplification Initiative. The areas for simplification in this ASU involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendments in this ASU are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for any entity in any interim or annual period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. Amendments in this ASU related to the timing of when excess tax benefits are recognized, minimum statutory withholding requirements, forfeitures, and intrinsic value should be applied using a modified retrospective transition method by means of a cumulative-effect adjustment to equity as of the beginning of the period in which the guidance is adopted. Amendments related to the presentation of employee taxes paid on the statement of cash flows

when an employer withholds shares to meet the minimum statutory withholding requirement should be applied retrospectively. Amendments in this ASU require recognition of excess tax benefits and tax deficiencies in the income statement and the practical expedient for estimating expected term should be applied prospectively. An entity may elect to apply the amendments in this ASU related to the presentation of excess tax benefits on the statement of cash flows using either a prospective transition method or a retrospective transition method. This ASU is not expected to have a material impact on the Company's Consolidated Financial Statements.

Note 3: BUSINESS COMBINATIONS

All business combinations are accounted for using the acquisition method of accounting and, accordingly, assets acquired and liabilities assumed, both tangible and intangible, and consideration exchanged were recorded at acquisition date fair values. The excess cost over fair value of net assets acquired is recorded as goodwill. In the event that the fair value of net assets acquired exceeds the purchase price, including fair value of liabilities assumed, a bargain purchase gain is recorded on the acquisition. Fair values are preliminary and subject to refinement for up to one year after the closing date of the acquisition as additional information regarding the closing date fair values becomes available.

Acquisition of Starbuck Bancshares, Inc.

Effective as of the close of business on October 1, 2015, the Company acquired Starbuck Bancshares, Inc. and its subsidiary, AmericanWest Bank (AmericanWest), a Washington state chartered commercial bank headquartered in Spokane, Washington with 98 branches serving markets in Washington, Oregon, Idaho, California and Utah. On that date, Starbuck merged with and into Banner and AmericanWest merged with and into Banner Bank. The merged banks are operating as Banner Bank. Pursuant to the previously announced terms of the merger, the equity holders of Starbuck received an aggregate of $130.0 million in cash and 13.23 million shares of Banner voting common stock and nonvoting common stock. The acquisition provided $4.46 billion in assets, $3.64 billion in deposits and $3.00 billion in loans to Banner. At the closing date, the combined company had approximately $9.9 billion in assets and 203 branches.

The application of the acquisition method of accounting resulted in recognition of a CDI asset of $33.5 million and goodwill of $223.1 million. The acquired CDI has been determined to have a useful life of approximately ten years and will be amortized on an accelerated basis. Goodwill is not amortized but will be evaluated for impairment on an annual basis or more often if circumstances dictate to determine if the carrying value remains appropriate. Goodwill will not be deductible for income tax purposes as the acquisition is accounted for as a tax-free exchange for tax purposes.

The following table presents a summary of the consideration paid and the estimated fair values as of the acquisition date for each major class of assets acquired and liabilities assumed (in thousands):

	Starbuck October 1, 2015	
Consideration to Starbuck equityholders:		
Cash paid		$130,000
Fair value of common shares issued		630,674
Total consideration		760,674
Fair value of assets acquired:		
Cash and cash equivalents	$95,821	
Securities	1,037,238	
Loans receivable (contractual amount of $3.04 billion)	2,999,130	
REO, held for sale	6,105	
Property and equipment	66,728	
CDI	33,500	
Deferred tax asset	108,454	
Other assets	112,782	
Total assets acquired	4,459,758	
Fair value of liabilities assumed:		
Deposits	3,638,596	
FHLB advances	221,442	
Junior subordinated debentures	5,806	
Other liabilities	56,359	
Total liabilities assumed	3,922,203	
Net assets acquired		537,555
Goodwill		$223,119

Acquired goodwill represents the premium the Company paid over the fair value of the net tangible and intangible assets acquired. The acquisition complemented the Company's growth strategy, including expanding our geographic footprint in markets throughout the Northwest, Utah and California. The Company paid this premium for a number of reasons, including growing the Company's customer base, acquiring assembled workforces, and expanding its presence in new markets. See Note 7, Goodwill, Other Intangible Assets and Mortgage Servicing Rights for the accounting for goodwill and other intangible assets.

Amounts recorded are preliminary estimates of fair value. Additional adjustments to the acquisition accounting may be required and would most likely involve loans, or property and equipment, or the deferred tax asset. As of October 1, 2015, the unpaid principal balance on purchased non-credit-impaired loans was $2.95 billion. The fair value of the purchased non-credit-impaired loans was $2.94 billion, resulting in a discount of $17.7 million recorded on these loans. The principal cash flows not expected to be collected on these loans was estimated to be $44.1 million. This discount is being accreted into income over the life of the loans on an effective yield basis.

The following table presents the acquired purchased credit-impaired loans as of the acquisition date (in thousands):

	Starbuck October 1, 2015
Acquired PCI loans:	
Contractually required principal and interest payments	$98,746
Nonaccretable difference	(26,162)
Cash flows expected to be collected	72,584
Accretable yield	(11,071)
Fair value of PCI loans	$61,513

The following table presents certain unaudited pro forma information for illustrative purposes only, for the three months ended March 31, 2016 and 2015 as if Starbuck had been acquired on January 1, 2014. This unaudited estimated pro forma financial information combines the historical results of Starbuck with the Company’s consolidated historical results. Pro forma adjustments include accretion of loan discount, accretion of investment premiums, amortization of deposit premium, amortization of CDI, reversal of acquisition expense, and reversal of historical recorded amounts for similar items, with all adjustments tax effected. The pro forma information is not indicative of what would have occurred had the acquisition actually occurred on January 1, 2014. In particular, no adjustments have been made to eliminate the impact of other-than-temporary impairment losses and losses recognized on the sale of securities that may not have been necessary had the investment securities been recorded at fair value as of January 1, 2014. The unaudited pro forma information does not consider any changes to the provision for credit losses resulting from recording loan assets at fair value. Additionally, Banner expects to achieve further operating cost savings and other business synergies, including revenue growth, as a result of the acquisition which are not reflected in the pro forma amounts that follow. As a result, actual amounts would have differed from the unaudited pro forma information presented (in thousands except per share amounts):

	Pro Forma Three months ended March 31, 2015
Total revenues (net interest income plus non-interest income)	$113,926
Net income	$19,924
Earnings per share - basic	$0.61
Earnings per share - diluted	$0.61

The operating results of the Company include the operating results produced by the acquired assets and assumed liabilities of Starbuck since October 2, 2015. Disclosure of the amount of Starbuck's revenue and net income (excluding integration costs) included in the Company’s Consolidated Statements of Operations is impracticable due to the integration of the operations, systems and accounting for this acquisition occurring in different stages.

Acquisition of Siuslaw Financial Group, Inc.

Effective as of the close of business on March 6, 2015, the Company completed the acquisition of Siuslaw, the holding company of Siuslaw Bank. Siuslaw merged with and into the Company and, immediately following, Siuslaw Bank merged with and into Banner Bank. Siuslaw shareholders received 0.32231 shares of the Company's common stock and $1.41622 in cash in exchange for each share of Siuslaw common stock. The acquisition provided $369.8 million in assets, $316.4 million in deposits and $247.1 million in loans.

The application of the acquisition method of accounting resulted in recognition of a CDI asset of $3.9 million and goodwill of $21.7 million. The acquired CDI has been determined to have a useful life of approximately eight years and will be amortized on an accelerated basis. Goodwill is not amortized but will be evaluated for impairment on an annual basis or more often if circumstances dictate to determine if the carrying value remains appropriate. Goodwill will not be deductible for income tax purposes as the acquisition is accounted for as a tax-free exchange for tax purposes.

The following table presents a summary of the consideration paid and the estimated fair values as of the acquisition date for each major class of assets acquired and liabilities assumed (in thousands):

	Siuslaw March 6, 2015	
Consideration to Siuslaw shareholders:		
Cash paid		$5,806
Fair value of common shares issued		58,100
Total consideration		63,906
Fair value of assets acquired:		
Cash and cash equivalents	$84,405	
Securities—available-for-sale	12,865	
Loans receivable (contractual amount of $252.2 million)	247,098	
REO, held for sale	2,525	
Property and equipment	8,127	
Core deposit intangible	3,895	
Other assets	10,848	
Total assets acquired	369,763	
Fair value of liabilities assumed:		
Deposits	316,406	
Junior subordinated debentures	5,959	
Other liabilities	5,183	
Total liabilities assumed	327,548	
Net assets acquired		42,215
Goodwill		$21,691

Acquired goodwill represents the premium the Company paid over the fair value of the net tangible and intangible assets acquired. The acquisition complemented the Company's growth strategy, including expanding our geographic footprint in markets throughout the Northwest. The Company paid this premium for a number of reasons, including growing the Company's customer base, acquiring assembled workforces, and expanding its presence in new markets. See Note 7, Goodwill, Other Intangible Assets and Mortgage Servicing Rights for the accounting for goodwill and other intangible assets.

As of March 6, 2015, the unpaid principal balance on purchased non-credit-impaired loans was $244.2 million. The fair value of the purchased non-credit-impaired loans was $241.4 million, resulting in a discount of $2.8 million recorded on these loans. This discount is being accreted into income over the life of the loans on an effective yield basis.

The following table presents the acquired purchased credit-impaired loans as of the acquisition date (in thousands):

	Siuslaw March 6, 2015
Acquired purchased credit-impaired loans:	
Contractually required principal and interest payments	$11,134
Nonaccretable difference	(3,238)
Cash flows expected to be collected	7,896
Accretable yield	(2,239)
Fair value of purchased credit-impaired loans	$5,657

The following table presents certain unaudited pro forma information for illustrative purposes only, for the three months ended March 31, 2015 as if Siuslaw had been acquired on January 1, 2014. This unaudited estimated pro forma financial information combines the historical results of Siuslaw with the Company's consolidated historical results. Pro forma adjustments include accretion of loan discount, accretion of investment premiums, amortization of deposit premium, amortization of CDI, reversal of acquisition expense, and reversal of historical recorded amounts for similar items, with all adjustments tax effected. The pro forma information is not indicative of what would have occurred had the acquisition actually occurred on January 1, 2014. In particular, no adjustments have been made to eliminate the impact of other-than-temporary impairment losses and losses recognized on the sale of securities that may not have been necessary had the investment securities been recorded at fair value as of January 1, 2014. The unaudited pro forma information does not consider any changes to the provision for credit losses resulting from recording loan assets at fair value. Additionally, Banner expects to achieve further operating cost savings and other business synergies, including

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revenue growth, as a result of the acquisition which are not reflected in the pro forma amounts that follow. As a result, actual amounts would have differed from the unaudited pro forma information presented (in thousands except per share amounts):

	Pro Forma Three Months Ended March 31, 2015
Total revenues (net interest income plus non-interest income)	$66,453
Net income	$10,582
Earnings per share - basic	$0.51
Earnings per share - diluted	$0.51

The operating results of the Company include the operating results produced by the acquired assets and assumed liabilities of Siuslaw since March 7, 2015. Disclosure of the amount of Siuslaw's revenue and net income (excluding integration costs) included in the Company's Consolidated Statements of Operations is impracticable due to the integration of the operations and accounting for this acquisition.

Acquisition-Related Costs

The following tables present the key components of acquisition-related costs in connection with the acquisition of Siuslaw and the acquisition of Starbuck, including AmericanWest, for the three months ended March 31, 2016 and 2015 (in thousands):

	Three Months Ended March 31,	
	2016	2015
Acquisition-related costs recognized in non-interest expenses:		
Personnel severance/retention fees	$1,313	$—
Branch consolidation and other occupancy expenses	1,949	24
Client communications	251	66
Information/computer data services	1,417	40
Professional services	852	1,280
Miscellaneous	1,031	238
	$6,813	$1,648
Siuslaw	$—	$670
Starbuck	6,813	978
	$6,813	$1,648

Note 4: SECURITIES

The amortized cost, gross unrealized gains and losses and estimated fair value of securities at March 31, 2016 and December 31, 2015 are summarized as follows (in thousands):

	March 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Trading:				
U.S. Government and agency obligations	$1,230			$1,381
Municipal bonds	332			339
Corporate bonds	26,828			20,543
Mortgage-backed or related securities	10,751			11,650
Equity securities	14			81
	$39,155			$33,994
Available-for-Sale:				
U.S. Government and agency obligations	$52,009	$ 270	$ (51)	$52,228
Municipal bonds	148,358	2,884	(39)	151,203
Corporate bonds	15,747	50	(804)	14,993
Mortgage-backed or related securities	939,515	11,683	(1,235)	949,963
Asset-backed securities	31,278	—	(484)	30,794
Equity securities	88	10	—	98
	$1,186,995	$ 14,897	$ (2,613)	$1,199,279
Held-to-Maturity:				
U.S. Government and agency obligations	$1,096	$ 25	$ —	$1,121
Municipal bonds:	172,968	8,169	(41)	181,096
Corporate bonds	4,236	—	—	4,236
Mortgage-backed or related securities	68,020	1,396	(46)	69,370
	$246,320	$ 9,590	$ (87)	$255,823

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Trading:				
U.S. Government and agency obligations	$1,230			$1,368
Municipal bonds	332			341
Corporate bonds	25,063			18,699
Mortgage-backed or related securities	12,705			13,663
Equity securities	14			63
	$39,344			$34,134
Available-for-Sale:				
U.S. Government and agency obligations	$30,211	$ 213	$ (193)	$30,231
Municipal bonds	142,898	853	(432)	143,319
Corporate bonds	15,937	56	(12)	15,981
Mortgage-backed or related securities	919,318	4,056	(5,115)	918,259
Asset-backed securities	31,288	—	(603)	30,685
Equity securities	88	10	—	98
	$1,139,740	$ 5,188	$ (6,355)	$1,138,573
Held-to-Maturity:				
U.S. Government and agency obligations	$1,106	$ 5	$ —	$1,111
Municipal bonds:	162,778	6,219	(191)	168,806
Corporate bonds	4,273	—	—	4,273
Mortgage-backed or related securities	52,509	253	(325)	52,437
	$220,666	$ 6,477	$ (516)	$226,627

At March 31, 2016 and December 31, 2015, the gross unrealized losses and the fair value for securities available-for-sale and held-to-maturity aggregated by the length of time that individual securities have been in a continuous unrealized loss position was as follows (in thousands):

	March 31, 2016					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale:						
U.S. Government and agency obligations	$10,792	$ (42)	$10,439	$ (9)	$21,231	$ (51)
Municipal bonds	6,892	(35)	906	(4)	7,798	(39)
Corporate bonds	9,943	(804)	—	—	9,943	(804)
Mortgage-backed or related securities	119,249	(925)	46,833	(310)	166,082	(1,235)
Asset-backed securities	30,794	(484)	—	—	30,794	(484)
	$177,670	$ (2,290)	$58,178	$ (323)	$235,848	$ (2,613)
Held-to-Maturity						
Municipal bonds	$3,179	$ (30)	$1,229	$ (11)	$4,408	$ (41)
Corporate bonds	—	—	—	—	—	—
Mortgage-backed or related securities	2,906	(46)	229	—	3,135	(46)
	$6,085	$ (76)	$1,458	$ (11)	$7,543	$ (87)

	December 31, 2015					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale:						
U.S. Government and agency obligations	$8,707	$ (97)	$10,489	$ (96)	$19,196	$ (193)
Municipal bonds	69,848	(426)	905	(6)	70,753	(432)
Corporate bonds	5,153	(12)	—	—	5,153	(12)
Mortgage-backed or related securities	533,143	(4,380)	68,562	(735)	601,705	(5,115)
Asset-backed securities	20,893	(355)	9,792	(248)	30,685	(603)
	$637,744	$ (5,270)	$89,748	$ (1,085)	$727,492	$ (6,355)
Held-to-Maturity						
Municipal bonds	$28,545	$ (188)	$254	$ (3)	$28,799	$ (191)
Corporate bonds	—	—	—	—	—	—
Mortgage-backed or related securities	34,493	(323)	255	(2)	34,748	(325)
	$63,038	$ (511)	$509	$ (5)	$63,547	$ (516)

At March 31, 2016, there were 85 securities—available-for-sale with unrealized losses, compared to 242 at December 31, 2015. At March 31, 2016, there were seven securities—held-to-maturity with unrealized losses, compared to 32 at December 31, 2015. Management does not believe that any individual unrealized loss as of March 31, 2016, or December 31, 2015 represented other-than-temporary impairment (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.

There were no sales of securities—trading for the three months ended March 31, 2016 compared to $2.3 million with a resulting net loss of $642,000 for the three months ended March 31, 2015. The Company did not recognize any OTTI charges or recoveries on securities—trading during the three months ended March 31, 2016, or the three months ended March 31, 2015. There were no securities—trading in a nonaccrual status at March 31, 2016, or December 31,

2015. Net unrealized holding gains of $49,000 were recognized during the three months ended March 31, 2016.

Sales of securities—available-for-sale totaled $30.6 million with a resulting net gain of $21,000 for the three months ended March 31, 2016. Sales of securities—available-for-sale totaled $22.3 million with a resulting net gain of $103,000 for the three months ended March 31, 2015. There were no securities—available-for-sale in a nonaccrual status at March 31, 2016 or December 31, 2015.

There were no sales of securities—held-to-maturity during the three months ended March 31, 2016, or the three months ended March 31, 2015. There were no securities—held-to-maturity in a nonaccrual status at March 31, 2016 or December 31, 2015.

The amortized cost and estimated fair value of securities at March 31, 2016, 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.

	March 31, 2016					
	Trading		Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Maturing in one year or less	$—	$—	$12,792	$12,741	$4,984	$5,014
Maturing after one year through five years	7,004	7,476	241,156	241,714	14,600	14,846
Maturing after five years through ten years	3,401	3,786	242,007	243,516	98,569	101,401
Maturing after ten years through twenty years	1,908	2,109	327,867	333,014	106,288	112,487
Maturing after twenty years	26,828	20,542	363,085	368,196	21,879	22,075
	39,141	33,913	1,186,907	1,199,181	246,320	255,823
Equity securities	14	81	88	98	—	—
	$39,155	$33,994	$1,186,995	$1,199,279	$246,320	$255,823

The following table presents, as of March 31, 2016, 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	$183,462	$182,730	$191,364
Interest rate swap counterparties	29,303	28,980	29,736
Repurchase agreements	122,566	121,595	123,018
Other	1,865	1,786	1,865
Total pledged securities	$337,196	$335,091	$345,983

Note 5: LOANS RECEIVABLE AND THE ALLOWANCE FOR LOAN LOSSES

Loans receivable at March 31, 2016 and December 31, 2015 are summarized as follows (dollars in thousands):

	March 31, 2016		December 31, 2015	
	Amount	Percent of Total	Amount	Percent of Total
Commercial real estate:				
Owner-occupied	$1,328,034	18.5 %	$1,327,807	18.2 %
Investment properties	1,805,243	25.1	1,765,353	24.1
Multifamily real estate	307,019	4.3	472,976	6.5
Commercial construction	87,711	1.2	72,103	1.0
Multifamily construction	79,737	1.1	63,846	0.9
One- to four-family construction	297,348	4.1	278,469	3.8
Land and land development:				
Residential	142,841	2.0	126,773	1.7
Commercial	24,493	0.3	33,179	0.5
Commercial business	1,224,915	17.1	1,207,944	16.5
Agricultural business, including secured by farmland	340,350	4.7	376,531	5.1
One- to four-family residential	910,719	12.7	952,633	13.0
Consumer:				
Consumer secured by one- to four-family	481,590	6.7	478,420	6.5
Consumer—other	155,999	2.2	158,470	2.2
Total loans outstanding	7,185,999	100.0%	7,314,504	100.0%
Less allowance for loan losses	(78,197)		(78,008)	
Net loans	$7,107,802		$7,236,496	

Loan amounts are net of unearned loan fees in excess of unamortized costs of $2.8 million as of March 31, 2016 and $5.5 million as of December 31, 2015. Net loans include net discounts on acquired loans of $42.3 million and $43.7 million as of March 31, 2016 and December 31, 2015, respectively.

Purchased credit-impaired loans and purchased non-credit-impaired loans. Purchased loans, including loans acquired in business combinations, are recorded at their fair value at the acquisition date. Credit discounts are included in the determination of fair value; therefore, an allowance for loan and lease losses is not recorded at the acquisition date. Acquired loans are evaluated upon acquisition and classified as either purchased credit-impaired or purchased non-credit-impaired. PCI loans reflect credit deterioration since origination such that it is probable at acquisition that the Company will be unable to collect all contractually required payments. The outstanding contractual unpaid principal balance of purchased credit-impaired loans, excluding acquisition accounting adjustments, was $76.6 million at March 31, 2016 and $83.4 million at December 31, 2015. The carrying balance of purchased credit-impaired loans was $53.3 million at March 31, 2016 and $58.6 million at December 31, 2015.
The following table presents the changes in the accretable yield for purchased credit-impaired loans for the three months ended March 31, 2016 and 2015 (in thousands):

	Three Months Ended March 31,	
	2016	2015
Balance, beginning of period	$10,375	$—
Additions	—	2,239
Accretion to interest income	(1,931)	(35)
Disposals	(18)	—
Reclassifications from non-accretable difference	2,291	—

Balance, end of period	$10,717	$2,204

As of March 31, 2016 and December 31, 2015, the non-accretable difference between the contractually required payments and cash flows expected to be collected were $25.3 million and $29.5 million, respectively.

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. Factors involved in determining impairment include, but are not limited to, the financial condition of the borrower, the value of the underlying collateral and the current status of the economy. Impaired loans are comprised of loans on nonaccrual, troubled debt restructures (TDRs) that are performing under their restructured terms, and loans that are 90 days or more past due, but are still on accrual. Purchased credit-impaired loans are considered performing within the scope of the purchased credit-impaired accounting guidance and are not included in the impaired loan tables.

The following tables provide information on impaired loans, excluding purchased credit impaired loans, with and without allowance reserves at March 31, 2016 and December 31, 2015. Recorded investment includes the unpaid principal balance or the carrying amount of loans less charge-offs and net deferred loan fees (in thousands):

	March 31, 2016			
		Recorded Investment		
	Unpaid Principal Balance	Without Allowance (1)	With Allowance (2)	Related Allowance
Commercial real estate:				
Owner-occupied	$1,985	$—	$ 1,737	$ 126
Investment properties	8,774	2,458	5,923	455
Multifamily real estate	357	—	355	68
Commercial construction	—	—	—	—
One- to four-family construction	1,644	—	1,644	40
Land and land development:				
Residential	3,139	—	1,984	481
Commercial	1,628	1,027	—	—
Commercial business	2,314	928	1,191	152
Agricultural business/farmland	1,294	563	663	48
One- to four-family residential	16,170	1,344	13,775	564
Consumer:				
Consumer secured by one- to four-family	1,096	—	1,036	8
Consumer—other	526	9	427	7
	$38,927	$6,329	$ 28,735	$ 1,949

	December 31, 2015			
		Recorded Investment		
	Unpaid Principal Balance	Without Allowance (1)	With Allowance (2)	Related Allowance
Commercial real estate:				
Owner-occupied	$1,465	$—	$ 1,416	$ 70
Investment properties	8,740	2,503	5,846	602
Multifamily real estate	359	—	357	71
Commercial construction	1,141	1,069	—	—
One- to four-family construction	1,741	—	1,741	161
Land and land development:				
Residential	3,540	750	1,634	444
Commercial	1,628	1,027	—	—
Commercial business	2,266	538	1,184	150
Agricultural business/farmland	1,309	544	697	43

One- to four-family residential	17,897	2,206	14,418	736
Consumer:				
Consumer secured by one- to four-family	776	—	716	23
Consumer—other	433	—	351	7
	$41,295	$8,637	$ 28,360	$ 2,307

(1) Loans without an allowance reserve have been individually evaluated for impairment and that evaluation concluded that no reserve was needed.

(2) Includes general reserves for loans evaluated in pools of homogeneous loans and loans with a specific allowance reserve. 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 less costs to sell to establish realizable value.

The following tables summarize our average recorded investment and interest income recognized on impaired loans by loan class for the three months ended March 31, 2016 and 2015 (in thousands):

	Three Months Ended March 31, 2016		Three Months Ended March 31, 2015	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Commercial real estate:				
Owner-occupied	$2,116	$ 4	$2,698	$ 3
Investment properties	8,415	75	6,490	77
Multifamily real estate	356	4	975	11
Commercial construction	—	—	—	—
One- to four-family construction	1,610	27	3,097	31
Land and land development:				
Residential	1,988	10	2,547	16
Commercial	1,027	—	1,624	—
Commercial business	2,495	8	1,172	9
Agricultural business/farmland	1,215	5	2,317	5
One- to four-family residential	15,181	126	24,025	204
Consumer:				
Consumer secured by one- to four-family	1,042	3	1,209	3
Consumer—other	455	4	773	4
	$35,900	$ 266	$46,927	$ 363

Troubled Debt Restructures (TDRs). 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 Company 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 following tables present TDRs at March 31, 2016 and December 31, 2015 (in thousands):

	March 31, 2016		
	Accrual Status	Nonaccrual Status	Total TDRs
Commercial real estate:			
Owner-occupied	$181	$ 102	$283
Investment properties	5,792	6	5,798
Multifamily real estate	355	—	355
Commercial construction	—	—	—
One- to four-family construction	1,644	—	1,644
Land and land development:			
Residential	762	472	1,234
Commercial	—	—	—
Commercial business	561	—	561
Agricultural business, including secured by farmland	563	243	806

One- to four-family residential	9,277	1,401	10,678
Consumer:			
Consumer secured by one- to four-family	146	12	158
Consumer—other	169	—	169
	$19,450	$ 2,236	$21,686

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	December 31, 2015		
	Accrual Status	Nonaccrual Status	Total TDRs
Commercial real estate:			
Owner-occupied	$181	$ 104	$285
Investment properties	5,834	13	5,847
Multifamily real estate	357	—	357
One- to four-family construction	1,741	—	1,741
Land and land development:			
Residential	1,151	483	1,634
Commercial business	624	—	624
Agricultural business, including secured by farmland	545	277	822
One- to four-family residential	11,025	1,428	12,453
Consumer:			
Consumer secured by one- to four-family	147	14	161
Consumer—other	172	—	172
	$21,777	$ 2,319	$24,096

As of March 31, 2016 and December 31, 2015, the Company had commitments to advance funds related to TDRs up to additional amounts of $197,000 and $237,000, respectively.

No new TDRs occurred during the three months ended March 31, 2016. The following table presents new TDRs that occurred during the three months ended March 31, 2015 (dollars in thousands):

	Three Months Ended March 31, 2015		
	Number of Contracts	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Recorded Investment [1] [2]			
One- to four-family construction	2	592	592
Agricultural business/farmland	2	288	288
	4	$ 880	$ 880

(1) Since these 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.

(2) 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.

There were no TDRs which incurred a payment default within twelve months of the restructure date during the three-month periods ended March 31, 2016 and 2015. A default on a TDR results in either a transfer to nonaccrual status or a partial charge-off, or both.

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 three months ended March 31, 2016.

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.

The following table shows the Company's portfolio of risk-rated loans and non-risk-rated loans by grade or other characteristics as of March 31, 2016 and December 31, 2015 (in thousands):

	March 31, 2016							
	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) (1)	$3,074,115	$303,562	$617,073	$1,182,263	$330,929	$902,335	$634,494	$7,044,771
Special mention	19,845	596	3,232	25,152	1,885	903	200	51,813
Substandard	39,317	2,861	11,825	17,500	7,536	7,481	2,886	89,406
Doubtful	—	—	—	—	—	—	9	9
Loss	—	—	—	—	—	—	—	—
Total loans	$3,133,277	$307,019	$632,130	$1,224,915	$340,350	$910,719	$637,589	$7,185,999
Performing loans	$3,090,836	$305,337	$625,955	$1,216,322	$338,256	$904,590	$635,817	$7,117,113
Purchased credit-impaired loans	38,296	1,682	3,925	7,036	1,431	286	615	53,271
Non-performing loans (2)	4,145	—	2,250	1,557	663	5,843	1,157	15,615
Total loans	$3,133,277	$307,019	$632,130	$1,224,915	$340,350	$910,719	$637,589	$7,185,999

	December 31, 2015							
	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) (1)	$3,022,281	$468,467	$558,425	$1,167,933	$354,760	$943,098	$633,734	$7,148,698
Special mention	30,928	138	2,386	25,286	17,526	1,346	22	77,632
Substandard	39,951	4,371	13,559	14,725	4,245	8,189	3,124	88,164
Doubtful	—	—	—	—	—	—	10	10
Loss	—	—	—	—	—	—	—	—
Total loans	$3,093,160	$472,976	$574,370	$1,207,944	$376,531	$952,633	$636,890	$7,314,504
Performing loans	$3,048,424	$470,982	$566,460	$1,198,475	$374,305	$945,968	$636,068	$7,240,682
Purchased credit-impaired loans	40,985	1,994	5,650	7,302	1,529	1,066	74	58,600
Non-performing loans (2)	3,751	—	2,260	2,167	697	5,599	748	15,222
Total loans	$3,093,160	$472,976	$574,370	$1,207,944	$376,531	$952,633	$636,890	$7,314,504

(1) The Pass category includes some performing loans that are part of homogenous pools which are not individually risk-rated. This includes all consumer loans, all one- to four-family residential loans and, as of March 31, 2016 and December 31, 2015, in the commercial business category, $168.1 million and $150.0 million, respectively, of credit-scored small business loans. As loans in these pools become non-performing, they are individually risk-rated.

(2) Non-performing loans include non-accrual loans and loans past due greater than 90 days and on accrual status.

The following tables provide additional detail on the age analysis of the Company's past due loans as of March 31, 2016 and December 31, 2015 (in thousands):

	March 31, 2016								
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Purchased Credit-Impaired	Current	Total Loans	Loans 90 Days or More Past Due and Accruing	Non-accrual
Commercial real estate:									
Owner-occupied	$2,906	$362	$526	$3,794	$ 20,135	$1,304,105	$1,328,034	$—	$ 1,555
Investment properties	8,484	—	2,458	10,942	18,161	1,776,140	1,805,243	—	2,590
Multifamily real estate	324	—	—	324	1,682	305,013	307,019	—	—
Commercial construction	—	—	—	—	—	87,711	87,711	—	—
Multifamily construction	—	—	—	—	—	79,737	79,737	—	—
One-to-four-family construction	3,457	—	—	3,457	901	292,990	297,348	—	—
Land and land development:									
Residential	—	—	750	750	76	142,015	142,841	—	1,222
Commercial	1,027	—	—	1,027	2,948	20,518	24,493	—	1,028
Commercial business	864	469	1,251	2,584	7,036	1,215,295	1,224,915	—	1,558
Agricultural business, including secured by farmland	4,238	972	663	5,873	1,431	333,046	340,350	—	663
One- to four-family residential	2,920	27	4,485	7,432	286	903,001	910,719	1,039	4,803
Consumer:									
Consumer secured by one- to four-family	1,436	115	271	1,822	229	479,539	481,590	147	743
Consumer—other	718	166	179	1,063	386	154,550	155,999	104	163
Total	$26,374	$2,111	$10,583	$39,068	$ 53,271	$7,093,660	$7,185,999	$ 1,290	$ 14,325

	December 31, 2015								
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Purchased Credit-Impaired	Current	Total Loans	Loans 90 Days or More Past Due and Accruing	Non-accrual
Commercial real estate:									
Owner-occupied	$3,981	$139	$885	$5,005	$ 24,261	$1,298,541	$1,327,807	$ —	$ 1,235
Investment properties	1,763	132	2,503	4,398	16,724	1,744,231	1,765,353	—	2,516
Multifamily real estate	4	—	—	4	1,994	470,978	472,976	—	—
Commercial construction	—	—	—	—	—	72,103	72,103	—	—
Multifamily construction	771	13	—	784	—	63,062	63,846	—	—
One-to-four-family construction	2,466	220	—	2,686	905	274,878	278,469	—	1,233
Land and land development:									
Residential	—	—	747	747	77	125,949	126,773	—	1,027
Commercial	—	96	—	96	4,668	28,415	33,179	—	—
Commercial business	1,844	174	1,024	3,042	7,302	1,197,600	1,207,944	8	2,159
Agricultural business, including secured by farmland	323	729	278	1,330	1,529	373,672	376,531	—	697
One-to four-family residential	620	873	3,811	5,304	1,066	946,263	952,633	899	4,700
Consumer:									
Consumer secured by one- to four-family	465	60	38	563	40	477,817	478,420	4	565
Consumer—other	488	155	131	774	34	157,662	158,470	41	138
Total	$12,725	$2,591	$9,417	$24,733	$ 58,600	$7,231,171	$7,314,504	$ 952	$ 14,270

The following tables provide additional information on the allowance for loan losses and loan balances individually and collectively evaluated for impairment at or for the three months ended March 31, 2016 and 2015 (in thousands):

	For the Three Months Ended March 31, 2016								
	Commercial Real Estate	Multifamily Real Estate	Construction and Land	Commercial Business	Agricultural Business	One- to Four-Family Residential	Consumer	Unallocated	Total
Allowance for loan losses:									
Beginning balance	$20,716	$ 4,195	$ 27,131	$ 13,856	$ 3,645	$ 4,732	$ 902	$ 2,831	$78,008
Provision for loan losses	(842)	(1,342)	1,716	681	1,187	(2,574)	2,822	(1,648)	—
Recoveries	38	—	471	720	17	12	207	—	1,465
Charge-offs	(180)	—	—	(139)	(567)	—	(390)	—	(1,276)
Ending balance	$19,732	$ 2,853	$ 29,318	$ 15,118	$ 4,282	$ 2,170	$ 3,541	$ 1,183	$78,197

	March 31, 2016								
	Commercial Real Estate	Multifamily Real Estate	Construction and Land	Commercial Business	Agricultural Business	One- to Four-Family Residential	Consumer	Unallocated	Total
Allowance for loan losses:									
Individually evaluated for impairment	$578	$ 68	$ 382	$ 60	$ —	$ 557	$ 9	$ —	$1,654
Collectively evaluated for impairment	19,144	2,784	28,881	15,058	4,282	1,613	3,529	1,183	76,474
Purchased credit-impaired loans	10	1	55	—	—	—	3	—	69
Total allowance for loan losses	$19,732	$ 2,853	$ 29,318	$ 15,118	$ 4,282	$ 2,170	$ 3,541	$ 1,183	$78,197
Loan balances:									
Individually evaluated for impairment	$8,432	$355	$4,183	$1,402	$563	$9,277	$402	$—	$24,614
Collectively evaluated for impairment	3,086,549	304,982	624,022	1,216,477	338,356	901,156	636,572	—	7,108,114
Purchased credit-impaired loans	38,296	1,682	3,925	7,036	1,431	286	615	—	53,271
Total loans	$3,133,277	$307,019	$632,130	$1,224,915	$340,350	$910,719	$637,589	$—	$7,185,999

	For the Three Months Ended March 31, 2015								
	Commercial Real Estate	Multifamily Real Estate	Construction and Land	Commercial Business	Agricultural Business	One- to Four-Family Residential	Consumer	Unallocated	Total
Allowance for loan losses:									
Beginning balance	$18,784	$ 4,562	$ 23,545	$ 12,043	$ 2,821	$ 8,447	$ 483	$ 5,222	$75,907
Provision for loan losses	305	(161)	745	778	1,434	(237)	245	(3,109)	—
Recoveries	14	—	108	178	295	6	46	—	647
Charge-offs	—	—	—	(107)	(818)	(75)	(189)	—	(1,189)
Ending balance	$19,103	$ 4,401	$ 24,398	$ 12,892	$ 3,732	$ 8,141	$ 585	$ 2,113	$75,365

	March 31, 2015								
	Commercial Real Estate	Multifamily Real Estate	Construction and Land	Commercial Business	Agricultural Business	One- to Four-Family Residential	Consumer	Unallocated	Total
Allowance for loan losses:									
Individually evaluated for impairment	$643	$ 84	$ 808	$ 78	$ 3	$ 925	$ 65	$ —	$2,606
Collectively evaluated for impairment	18,460	4,317	23,590	12,814	3,729	7,216	520	2,113	72,759
Purchased credit-impaired loans	—	—	—	—	—	—	—	—	—
Total allowance for loan losses	$19,103	$ 4,401	$ 24,398	$ 12,892	$ 3,732	$ 8,141	$ 585	$ 2,113	$75,365
Loan balances:									
Individually evaluated for impairment	$8,958	$1,359	$11,573	$725	$289	$16,036	$1,145	$—	$40,085
Collectively evaluated for impairment	1,550,691	207,328	419,390	775,854	208,346	525,876	372,155	—	4,059,640
Purchased credit impaired loans	4,575	—	—	—	—	1,092	7	—	5,674
Total loans	$1,564,224	$208,687	$430,963	$776,579	$208,635	$543,004	$373,307	$—	$4,105,399

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Note 6: REAL ESTATE OWNED, NET

The following table presents the changes in REO for the three months ended March 31, 2016 and 2015 (in thousands):

	Three Months Ended March 31,	
	2016	2015
Balance, beginning of the period	$11,627	$3,352
Additions from loan foreclosures	2	668
Additions from acquisitions	400	2,525
Proceeds from dispositions of REO	(4,666)	(1,738)
Gain on sale of REO	49	115
Valuation adjustments in the period	(205)	—
Balance, end of the period	$7,207	$4,922

REO properties are recorded at the estimated fair value of the property, less expected selling costs, establishing a new cost basis. Subsequently, REO properties are carried at the lower of the new cost basis or updated fair market values, based on updated appraisals of the underlying properties, as received. Valuation allowances on the carrying value of REO may be recognized based on updated appraisals or on management's authorization to reduce the selling price of a property. At March 31, 2016, the Company had $2.7 million of foreclosed one- to four-family residential real estate properties held as REO. The recorded investment in one- to four-family residential loans in the process of foreclosure was $2.8 million at March 31, 2016.

Note 7: GOODWILL, OTHER INTANGIBLE ASSETS AND MORTGAGE SERVICING RIGHTS

Goodwill and Other Intangible Assets: At March 31, 2016, intangible assets are comprised of goodwill, CDI, and favorable leasehold intangibles (LHI) acquired in business combinations. Goodwill represents the excess of the purchase considerations paid over the fair value of the assets acquired, net of the fair values of liabilities assumed in a business combination, and is not amortized but is reviewed annually for impairment. At December 31, 2015, the Company completed its qualitative assessment of goodwill and concluded that it is more likely than not that the fair value of Banner, the reporting unit, exceeds the carrying value. The adjustments to goodwill in 2016 relate to changes in the preliminary goodwill recorded for the AmericanWest acquisition including adjustments to loan discount, deferred taxes and REO valuations. Additions to goodwill during 2015 relate to the AmericanWest and Siuslaw acquisitions. See Note 3, Business Combinations, for additional information on the acquisition and purchase price allocation.

CDI represents the value of transaction-related deposits and the value of the customer relationships associated with the deposits. The additions to CDI in the table below relate to the AmericanWest and Siuslaw acquisitions in 2015. LHI represents the value ascribed to leases assumed in an acquisition in which the lease terms are favorable compared to a market lease at the date of acquisition. The additions to LHI in 2015 relate to the acquisition of AmericanWest. The Company amortizes CDI and LHI over their estimated useful lives and reviews them at least annually for events or circumstances that could impair their value.

The following table summarizes the changes in the Company's goodwill and other intangibles for the three months ended March 31, 2016 and the year ended December 31, 2015 (in thousands):

	Goodwill	CDI	Favorable LHI	Total
Balance, December 31, 2014	$—	$2,831	$ —	$2,831
Additions through acquisitions	247,738	37,395	776	285,909
Amortization		(3,164)	(66)	(3,230)

Other changes [1]	—	(300)	—	(300)
Balance, December 31, 2015	247,738	36,762	710	285,210
Amortization		(1,808)	(66)	(1,874)
Adjustments to goodwill	(2,927)			(2,927)
Balance, March 31, 2016	$244,811	$34,954	$ 644	$280,409

(1) Acquired CDI from AmericanWest was adjusted for a branch that was subsequently sold.

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The following table presents the estimated amortization expense with respect to CDI for the periods indicated (in thousands):

Remainder of 2016	$5,253
2017	6,332
2018	5,610
2019	4,889
2020	4,169
Thereafter	8,701
	$34,954

Mortgage Servicing Rights: Mortgage servicing rights are reported in other assets. Mortgage servicing rights are initially recorded at fair value and are amortized in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Mortgage servicing rights are subsequently evaluated for impairment based upon the fair value of the rights compared to the amortized cost (remaining unamortized initial fair value). If the fair value is less than the amortized cost, a valuation allowance is created through an impairment charge, which is recognized in servicing fee income on the consolidated statement of operations. However, if the fair value is greater than the amortized cost, the amount above the amortized cost is not recognized in the carrying value. During the three months ended March 31, 2016 and 2015, the Company did not record any impairment charges or recoveries against mortgage servicing rights. The unpaid principal balance for loans which mortgage servicing rights have been recorded totaled $1.91 billion and $1.86 billion at March 31, 2016 and December 31, 2015, respectively. Custodial accounts maintained in connection with this servicing totaled $6.9 million and $8.7 million at March 31, 2016 and December 31, 2015, respectively.

An analysis of our mortgage servicing rights, net of valuation allowances, for the three months ended March 31, 2016 and 2015 is presented below (in thousands):

	Three Months Ended March 31,	
	2016	2015
Balance, beginning of the period	$13,295	$9,030
Additions—amounts capitalized	1,204	1,216
Additions—acquired through business combinations	—	2,172
Amortization [1]	(823)	(709)
Balance, end of the period [2]	$13,676	$11,709

(1) Amortization of mortgage servicing rights is recorded as a reduction of loan servicing income and any unamortized balance is fully written off if the loan repays in full.

(2) There was no valuation allowance as of March 31, 2016 and 2015.

Note 8: DEPOSITS

Deposits consisted of the following at March 31, 2016 and December 31, 2015 (in thousands):

	March 31, 2016	December 31, 2015
Non-interest-bearing accounts	$3,036,330	$ 2,619,618
Interest-bearing checking	767,460	1,159,846
Regular savings accounts	1,327,558	1,284,642
Money market accounts	1,610,640	1,637,092
Total transaction and saving accounts	6,741,988	6,701,198
Certificates of deposit:		
Certificates of deposit less than or equal to the FDIC insured limit of $250,000	1,030,755	1,168,495
Certificates of deposit greater than the FDIC insured limit of $250,000	257,118	185,375
Total certificates of deposit	1,287,873	1,353,870
Total deposits	$8,029,861	$ 8,055,068
Included in total deposits:		
Public fund transaction accounts	$206,240	$ 209,430
Public fund interest-bearing certificates	29,983	31,281
Total public deposits	$236,223	$ 240,711
Total brokered deposits	$135,603	$ 162,936

Scheduled maturities and repricing of certificate accounts at March 31, 2016 were as follows (in thousands):

	March 31, 2016
Certificates which mature or reprice:	
Within one year or less	$955,924
After one year through two years	200,547
After two years through three years	75,171
After three years through four years	27,421
After four years through five years	25,523
After five years	3,287
Total certificates of deposit	$1,287,873

Note 9: FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents estimated fair values of the Company’s financial instruments as of March 31, 2016 and December 31, 2015, whether or not measured at fair value in the Consolidated Statements of Financial Condition. (in thousands):

		March 31, 2016		December 31, 2015	
	Level	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Assets:					
Cash and cash equivalents	1	$260,570	$260,570	$261,917	$261,917
Securities—trading	2,3	33,994	33,994	34,134	34,134
Securities—available-for-sale	2	1,199,279	1,199,279	1,138,573	1,138,573
Securities—held-to-maturity	3	246,320	255,823	220,666	226,627
Loans held for sale	2	47,523	48,461	44,712	45,600
Loans receivable	3	7,107,802	6,982,492	7,314,504	7,084,631
FHLB stock	3	13,347	13,347	16,057	16,057
Bank-owned life insurance	1	156,928	156,928	156,865	156,865
Mortgage servicing rights	3	13,676	15,983	13,295	17,370
Derivatives:					
Interest rate swaps	2	18,959	18,959	11,984	11,984
Interest rate forward sales commitments	2	1,067	1,067	471	471
Liabilities:					
Demand, interest checking and money market accounts	2	5,414,431	5,414,431	5,416,556	5,416,556
Regular savings	2	1,327,558	1,327,558	1,284,642	1,284,642
Certificates of deposit	2	1,287,873	1,273,897	1,353,870	1,332,825
FHLB advances	2	75,400	75,400	133,381	133,381
Other borrowings	2	106,132	106,132	98,325	98,325
Junior subordinated debentures	3	92,879	92,879	92,480	92,480
Derivatives:					
Interest rate swaps	2	18,959	18,959	11,984	11,984
Interest rate forward sales commitments	2	417	417	50	50

The Company measures and discloses certain assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (that is, not a forced liquidation or distressed sale). GAAP establishes a consistent framework for measuring fair value and disclosure requirements about fair value measurements. Among other things, the accounting standard requires the reporting entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company’s estimates for market assumptions. These two types of inputs create the following fair value hierarchy:

- Level 1 – Quoted prices in active markets for identical instruments. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis. A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.

- Level 2 – Observable inputs other than Level 1 including quoted prices in active markets for similar instruments, quoted prices in less active markets for identical or similar instruments, or other observable inputs that can be corroborated by observable market data.

- Level 3 – Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs from non-binding single dealer quotes not corroborated by observable market data.

The estimated fair value amounts of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize at a future date. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. In addition, reasonable comparability between financial institutions may not be likely due to the wide range of permitted valuation techniques and numerous estimates that must be made given the absence of active secondary markets for certain financial instruments. This lack of uniform valuation methodologies also introduces a greater degree of subjectivity to these estimated fair values. Transfers between levels of the fair value hierarchy are deemed to occur at the end of the reporting period.

Items Measured at Fair Value on a Recurring Basis:

The following tables present financial assets and liabilities measured at fair value on a recurring basis and the level within the fair value hierarchy of the fair value measurements for those assets and liabilities as of March 31, 2016 and December 31, 2015 (in thousands):

	March 31, 2016			
	Level 1	Level 2	Level 3	Total
Assets:				
Securities—trading				
U.S. Government and agency obligations	$—	$1,381	$—	$1,381
Municipal bonds	—	339	—	339
Corporate Bonds (Trust Preferred Securities)	—	—	20,543	20,543
Mortgage-backed or related securities	—	11,650	—	11,650
Equity securities	—	81	—	81
	—	13,451	20,543	33,994
Securities—available-for-sale				
U.S. Government and agency obligations	—	52,228	—	52,228
Municipal bonds	—	151,203	—	151,203
Corporate bonds	—	14,993	—	14,993
Mortgage-backed or related securities	—	949,963	—	949,963
Asset-backed securities	—	30,794	—	30,794
Equity securities	—	98	—	98
	—	1,199,279	—	1,199,279
Derivatives				
Interest rate swaps	—	18,959	—	18,959
Interest rate sales forward commitments	—	1,067	—	1,067
	$—	$1,232,756	$20,543	$1,253,299
Liabilities:				
Advances from FHLB	$—	$75,400	$—	$75,400
Junior subordinated debentures, net of unamortized deferred issuance costs	—	—	92,879	92,879
Derivatives				
Interest rate swaps	—	18,959	—	18,959
Interest rate sales forward commitments	—	417	—	417
	$—	$94,776	$92,879	$187,655

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Assets:				
Securities—trading				
U.S. Government and agency obligations	$—	$1,368	$—	$1,368
Municipal bonds	—	341	—	341
Corporate Bonds (Trust Preferred Securities)	—	—	18,699	18,699
Mortgage-backed securities	—	13,663	—	13,663
Equity securities	—	63	—	63
	—	15,435	18,699	34,134
Securities—available-for-sale				
U.S. Government and agency obligations	—	30,231	—	30,231
Municipal bonds	—	143,319	—	143,319
Corporate bonds	—	15,981	—	15,981
Mortgage-backed securities	—	918,259	—	918,259
Asset-backed securities	—	30,685	—	30,685
Equity securities	—	98	—	98
	—	1,138,573	—	1,138,573
Derivatives				
Interest rate swaps	—	11,984	—	11,984
Interest rate lock commitments	—	471	—	471
	$—	$1,166,463	$18,699	$1,185,162
Liabilities:				
Advances from FHLB	$—	$133,381	$—	$133,381
Junior subordinated debentures, net of unamortized deferred issuance costs	—	—	92,480	92,480
Derivatives				
Interest rate swaps	—	11,984	—	11,984
Interest rate lock commitments	—	50	—	50
	$—	$145,415	$92,480	$237,895

The following methods were used to estimate the fair value of each class of financial instruments above:

Cash and Cash Equivalents: The carrying amount of these items is a reasonable estimate of their fair value.

Securities: The estimated fair values of investment securities and mortgaged-backed securities are priced using current active market quotes, if available, which are considered Level 1 measurements. For most of the portfolio, matrix pricing based on the securities' relationship to other benchmark quoted prices is used to establish the fair value. These measurements are considered Level 2. Due to the continued limited activity in the trust preferred markets that have limited the observability of market spreads for some of the Company's Trust Preferred Securities (TPS) securities, management has classified these securities as a Level 3 fair value measure. Management periodically reviews the pricing information received from third-party pricing services and tests those prices against other sources to validate the reported fair values.

Loans Held for Sale: Fair values for residential mortgage loans held for sale are determined by comparing actual loan rates to current secondary market prices for similar loans. Fair values for multifamily loans held for sale are calculated using recent sales data for comparable loans.

Loans Receivable: Fair values are estimated first by stratifying the portfolios of loans with similar financial characteristics. Loans are segregated by type such as multifamily real estate, residential mortgage, nonresidential mortgage, commercial/agricultural, consumer and other. Each loan category is further segmented into fixed- and adjustable-rate interest terms. A preliminary estimate of fair value is then calculated based on discounted cash flows using as a discount rate the current rate offered on similar products, plus an adjustment for liquidity to reflect the non-homogeneous nature of the loans. The preliminary estimate is then further reduced by the amount of the allowance for loan losses to arrive at a final estimate of fair value. Fair value for impaired loans is also based on recent appraisals or estimated cash flows discounted using rates commensurate with risk associated with the estimated cash flows. Assumptions regarding credit risk, cash flows and discount rates are judgmentally determined using available market information and specific borrower information.

FHLB Stock: The fair value is based upon the redemption value of the stock which equates to its carrying value.

Bank-Owned Life Insurance: The fair value of BOLI policies owned is based on the various insurance contracts' cash surrender value.

Mortgage Servicing Rights: Fair values are estimated based on an independent dealer analysis of discounted cash flows. The evaluation utilizes assumptions market participants would use in determining fair value including prepayment speeds, delinquency and foreclosure rates, the discount rate, servicing costs, and the timing of cash flows. The mortgage servicing portfolio is stratified by loan type and fair value estimates are adjusted up or down based on the serviced loan interest rates versus current rates on new loan originations since the most recent independent analysis.

Deposits: The carrying amount of deposits with no stated maturity, such as savings and checking accounts, is a reasonable estimate of their fair value. The market value of certificates of deposit is based upon the discounted value of contractual cash flows. The discount rate is determined using current market rates on comparable instruments.

FHLB Advances: Fair valuations for Banner's FHLB advances are estimated using fair market values provided by the lender, the FHLB of Des Moines. The FHLB of Des Moines prices advances by discounting the future contractual cash flows for individual advances, using its current cost of funds curve to provide the discount rate.

Junior Subordinated Debentures: The fair value of junior subordinated debentures is estimated using an income approach technique. The significant inputs included in the estimation of fair value are the credit risk adjusted spread and three month LIBOR. The credit risk adjusted spread represents the nonperformance risk of the liability. The Company utilizes an external valuation firm to validate the reasonableness of the credit risk adjusted spread used to determine the fair value. The junior subordinated debentures are carried at fair value which represents the estimated amount that would be paid to transfer these liabilities in an orderly transaction amongst market participants. Due to credit concerns in the capital markets and inactivity in the trust preferred markets that have limited the observability of market spreads, management has classified this as a Level 3 fair value measure.

Other Borrowings: Other borrowings include securities sold under agreements to repurchase and occasionally federal funds purchased and their carrying amount is considered a reasonable approximation of their fair value.

Derivatives: Derivatives include interest rate swap agreements, interest rate lock commitments to originate loans held for sale and forward sales contracts to sell loans and securities related to mortgage banking activities. Fair values for these instruments, which generally change as a result of changes in the level of market interest rates, are estimated based on dealer quotes and secondary market sources.

Off-Balance Sheet Items: Off-balance sheet financial instruments include unfunded commitments to extend credit, including standby letters of credit, and commitments to purchase investment securities. The fair value of these instruments is not considered to be material.

Limitations: The fair value estimates presented herein are based on pertinent information available to management as of March 31, 2016 and December 31, 2015. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

Assets and Liabilities Measured at Fair Value Using Significant Unobservable Inputs (Level 3):

The following table provides a description of the valuation technique, unobservable inputs, and qualitative information about the unobservable inputs for certain of the Company's assets and liabilities classified as Level 3 and measured at fair value on a recurring and nonrecurring basis at March 31, 2016 and December 31, 2015:

Financial Instruments	Valuation Techniques	Weighted Average Rate

		Unobservable Inputs	March 31, 2016	December 31, 2015
Corporate Bonds (TPS securities)	Discounted cash flows	Discount rate	5.63 %	5.61 %
Junior subordinated debentures	Discounted cash flows	Discount rate	5.63	5.61
Impaired loans	Discounted cash flows	Discount rate	Various	Various
Impaired loans	Collateral Valuations	Market values	n/a	n/a
REO	Appraisals	Market values	n/a	n/a

TPS securities : Management believes that the credit risk-adjusted spread used to develop the discount rate utilized in the fair value measurement of TPS securities is indicative of the risk premium a willing market participant would require under current market conditions for instruments with similar contractual rates and terms and conditions and issuers with similar credit risk profiles and with similar expected probability of default. Management attributes the change in fair value of these instruments, compared to their par value, primarily to perceived general market adjustments to the risk premiums for these types of assets subsequent to their issuance.

Junior subordinated debentures: Similar to the TPS securities discussed above, management believes that the credit risk-adjusted spread utilized in the fair value measurement of the junior subordinated debentures is indicative of the risk premium a willing market participant would require under current market conditions for an issuer with Banner's credit risk profile. Management attributes the change in fair value of the junior

subordinated debentures, compared to their par value, primarily to perceived general market adjustments to the risk premiums for these types of liabilities subsequent to their issuance. Future contractions in the risk adjusted spread relative to the spread currently utilized to measure the Company's junior subordinated debentures at fair value as of March 31, 2016, or the passage of time, will result in negative fair value adjustments. At March 31, 2016, the discount rate utilized was based on a credit spread of 500 basis points and three-month LIBOR of 63 basis points.

The following table provides a reconciliation of the assets and liabilities measured at fair value using significant unobservable inputs (Level 3) on a recurring basis during the three months ended March 31, 2016 and 2015 (in thousands):

	Three Months Ended March 31, 2016 Level 3 Fair Value Inputs	
	TPS Securities	Borrowings—Junior Subordinated Debentures
Beginning balance	$18,699	$ 92,480
Total gains or losses recognized		
Assets gains	119	—
Liabilities losses	—	399
Purchases, issuances and settlements, including acquisitions	1,725	—
Ending balance at March 31, 2016	$20,543	$ 92,879

	Three Months Ended March 31, 2015 Level 3 Fair Value Inputs	
	TPS and TRUP CDOs	Borrowings—Junior Subordinated Debentures
Beginning balance	$19,119	$ 78,001
Total gains or losses recognized		
Assets gains	723	—
Liabilities losses	—	366
Purchases, issuances and settlements, including acquisitions	—	5,959
Sales, maturities and paydowns, net of discount amortization	(2,386)	—
Ending balance at March 31, 2015	$17,456	$ 84,326

The Company has elected to continue to recognize the interest income and dividends from the securities reclassified to fair value as a component of interest income as was done in prior years when they were classified as available-for-sale. Interest expense related to the FHLB advances and junior subordinated debentures continues to be measured based on contractual interest rates and reported in interest expense. The change in fair market value of these financial instruments has been recorded as a component of non-interest income.

Items Measured at Fair Value on a Non-recurring Basis:

The following tables present financial assets measured at fair value on a non-recurring basis and the level within the fair value hierarchy of the fair value measurements for those assets as of March 31, 2016 and December 31, 2015 (in thousands):

	At or For the Three Months Ended March 31, 2016			
	Level 1	Level 2	Level 3	Total
Impaired loans	$—	$ —	$654	$654
REO	—	—	7,207	7,207

	At or For the Year Ended December 31, 2015			
	Level 1	Level 2	Level 3	Total
Impaired loans	$—	$ —	$2,372	$2,372
REO	—	—	11,627	11,627

The following table presents the losses resulting from nonrecurring fair value adjustments for the three months ended March 31, 2016 and 2015 (in thousands):

	Three months ended March 31,	
	2016	2015
Impaired loans	$(16)	$(649)
REO	(205)	—
Total loss from nonrecurring measurements	$(221)	$(649)

Impaired loans: Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of collateral if the loan is collateral dependent. If this practical expedient is used, the impaired loans are considered to be held at fair value. Subsequent changes in the value of impaired loans are included within the provision for loan losses in the same manner in which impairment initially was recognized or as a reduction in the provision that would otherwise be reported. Impaired loans are periodically evaluated to determine if valuation adjustments, or partial write-downs, should be recorded. The need for valuation adjustments arises when observable market prices or current appraised values of collateral indicate a shortfall in collateral value compared to current carrying values of the related loan. If the Company determines that the value of the impaired loan is less than the carrying value of the loan, the Company either establishes an impairment reserve as a specific component of the allowance for loan losses or charges off the impaired amount. These valuation adjustments are considered non-recurring fair value adjustments. The remaining impaired loans are evaluated for reserve needs in homogenous pools within the Company’s methodology for assessing the adequacy of the allowance for loan losses.

REO: The Company records REO (acquired through a lending relationship) at fair value on a non-recurring basis. Fair value adjustments on REO are based on updated real estate appraisals which are based on current market conditions. All REO properties are recorded at the lower of the estimated fair value of the real estate, less expected selling costs, or the carrying amount of the defaulted loans. From time to time, non-recurring fair value adjustments to REO are recorded to reflect partial write-downs based on an observable market price or current appraised value of property.

Banner considers any valuation inputs related to REO to be Level 3 inputs. The individual carrying values of these assets are reviewed for impairment at least annually and any additional impairment charges are expensed to operations.

Note 10: INCOME TAXES AND DEFERRED TAXES

The Company files a consolidated income tax return including all of its wholly-owned subsidiaries on a calendar year basis. 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 will 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 of change. A valuation allowance is recognized as a reduction to deferred tax assets when management determines it is more likely than not that deferred tax assets will not be available to offset future income tax liabilities.

Accounting standards for income taxes prescribe a recognition threshold and measurement process for financial statement recognition and measurement of uncertain tax positions taken or expected to be taken in a tax return, and also provide guidance on the de-recognition of previously recorded benefits and their classification, as well as the proper recording of interest and penalties, accounting in interim periods, disclosures and transition. The Company periodically reviews its income tax positions based on tax laws and regulations and financial reporting considerations, and records adjustments as appropriate. This review takes into consideration the status of current taxing authorities’ examinations of the Company’s tax returns, recent positions taken by the taxing authorities on similar transactions, if any, and the overall tax environment.

As of March 31, 2016, the Company had an insignificant amount of unrecognized tax benefits for uncertain tax positions, none of which would materially affect the effective tax rate if recognized. The Company does not anticipate that the amount of unrecognized tax benefits will significantly increase or decrease in the next twelve months. The Company’s policy is to recognize interest and penalties on unrecognized tax benefits in the income tax expense. The Company files consolidated income tax returns in U.S. federal jurisdiction and in the Oregon, California, Utah and Idaho state jurisdictions.

Tax credit investments: The Company invests in low income housing tax credit funds that are designed to generate a return primarily through the realization of federal tax credits. The Company accounts for these investments by amortizing the cost of tax credit investments over the life of the investment using a proportional amortization method and tax credit investment amortization expense is a component of the provision for income taxes.

The following table presents the balances of the Company’s tax credit investments and related unfunded commitments at March 31, 2016 and 2015 (in thousands):

	March 31, 2016	March 31, 2015
Tax credit investments	$ 5,158	$ 5,948
Unfunded commitments—tax credit investments	$ 1,370	$ 2,690

The following table presents other information related to the Company's tax credit investments for the three months ended March 31, 2016 and 2015 (in thousands):

	Three Months Ended March 31,	
	2016	2015
Tax credits and other tax benefits recognized	$284	$319
Tax credit amortization expense included in provision for income taxes	$168	$244

Note 11: CALCULATION OF WEIGHTED AVERAGE SHARES OUTSTANDING FOR EARNINGS PER SHARE (EPS)

The following table reconciles basic to diluted weighted shares outstanding used to calculate earnings per share data (in thousands, except shares and per share data):

	Three Months Ended March 31,	
	2016	2015
Net income	$17,774	$ 12,134
Basic weighted average shares outstanding	34,023,800	19,760,645
Plus unvested restricted stock	79,927	84,374
Diluted weighted shares outstanding	34,103,727	19,845,019
Earnings per common share		
Basic	$0.52	$ 0.61
Diluted	$0.52	$ 0.61

Options to purchase an additional 5,000 shares of common stock were outstanding as of March 31, 2016, but were not included in the computation of diluted earnings per share because their exercise price was significantly greater than

the average market price of common shares which would not dilute earnings per share. Also, as of March 31, 2016, warrants expiring on November 21, 2018, to purchase up to $18.6 million (243,998 shares, post reverse-split) of common stock were not included in the computation of diluted earnings per share because the exercise price of the warrants was greater than the average market price of common shares.

Note 12: STOCK-BASED COMPENSATION PLANS

The Company operates the following stock-based compensation plans as approved by its shareholders:

- 2001 Stock Option Plan (the SOP).
- 2012 Restricted Stock and Incentive Bonus Plan (2012 Restricted Stock Plan).
- 2014 Omnibus Incentive Plan (the 2014 Plan).

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The purpose of these plans is to promote the success and enhance the value of the Company by providing a means for attracting and retaining highly skilled employees, officers and directors of Banner Corporation and its affiliates and linking their personal interests with those of the Company's shareholders. Under these plans the Company currently has outstanding restricted stock share grants, restricted stock unit grants, and stock options.

Stock Option Plans

Authority to grant additional options under the SOP terminated on April 20, 2011. The exercise price of the stock options was set at 100% of the fair market value of the stock price on the date of grant. Options granted vest at a rate of 20% per year from the date of grant and any unexercised incentive stock options will expire 10 years after date of grant or 90 days after employment or service ends.

During the three months ended March 31, 2016 and 2015, there were no grants of stock options. Additionally, there were no significant modifications made to any stock option grants during the period. The fair values of stock options granted are amortized as compensation expense on a straight-line basis over the vesting period of the grant. There were no stock-based compensation costs related to the SOP for the three months ended March 31, 2016 or March 31, 2015.

During the three months ended March 31, 2016 and 2015, there were no exercises of stock options. Cash was not used to settle any equity instruments previously granted. The Company issues shares from authorized but unissued shares upon the exercise of stock options. The Company does not currently expect to repurchase shares from any source to satisfy such obligations under the SOP.

2012 Restricted Stock and Incentive Bonus Plan

Under the 2012 Restricted Stock Plan, which was initially approved on April 24, 2012, the Company is authorized to issue up to 300,000 shares of its common stock to provide a means for attracting and retaining highly skilled officers of Banner Corporation and its affiliates. Shares granted under the 2012 Restricted Stock Plan have a minimum vesting period of three years. The 2012 Restricted Stock Plan will continue in effect for a term of ten years, after which no further awards may be granted.

The 2012 Restricted Stock Plan was amended on April 23, 2013 to provide for the ability to grant (1) cash-denominated incentive-based awards payable in cash or common stock, including those that are eligible to qualify as qualified performance-based compensation for the purposes of Section 162(m) of the Code and (2) restricted stock awards that qualify as qualified performance-based compensation for the purposes of Section 162(m) of the Code. Vesting requirements may include time-based conditions, performance-based conditions, or market-based conditions.

As of March 31, 2016, the Company had granted 271,849 shares of restricted stock from the 2012 Restricted Stock Plan (as amended and restated), of which 165,957 shares had vested and 105,892 shares remain unvested.

2014 Omnibus Incentive Plan

The 2014 Plan was approved by shareholders on April 22, 2014. The 2014 Plan provides for the grant of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units, other stock-based awards and other cash awards, and provides for vesting requirements which may include time-based or performance-based conditions. The Company has reserved 900,000 shares of its common stock for issuance under the 2014 Plan in connection with the exercise of awards. As of March 31, 2016, 136,246 restricted stock shares and 18,331 restricted stock units have been granted under the 2014 Plan of which 16,852 restricted stock shares and 11,000 restricted stock units have vested.

The expense associated with all restricted stock grants (including restricted stock shares and restricted stock units) was $1.1 million and $671,000 for the three-month periods ended March 31, 2016 and March 31, 2015, respectively. Unrecognized compensation expense for these awards as of March 31, 2016 was $6.3 million and will be amortized over the next 35 months.

Note 13: COMMITMENTS AND CONTINGENCIES

Lease Commitments — The Company leases 148 sites under non-cancelable operating leases. The leases contain various provisions for increases in rental rates, based either on changes in the published Consumer Price Index or a predetermined escalation schedule. Substantially all of the leases provide the Company with the option to extend the lease term one or more times following expiration of the initial term.

Financial Instruments with Off-Balance-Sheet Risk — The Company has financial instruments with off-balance-sheet risk generated in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to extend credit, commitments related to standby letters of credit, commitments to originate loans, commitments to sell loans, commitments to buy and sell securities. These instruments involve, to varying degrees, elements of credit and interest rate risk similar to the risk involved in on-balance sheet items recognized in our Consolidated Statements of Financial Condition.

Our exposure to credit loss in the event of nonperformance by the other party to the financial instrument from commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. We use the same credit policies in making commitments and conditional obligations as for on-balance-sheet instruments.

Outstanding commitments for which no asset or liability for the notional amount has been recorded consisted of the following at the dates indicated (in thousands):

	Contract or Notional Amount	
	March 31, 2016	December 31, 2015
Commitments to extend credit	$2,147,174	$ 2,132,996
Standby letters of credit and financial guarantees	23,464	22,315
Commitments to originate loans	40,978	32,908
Risk participation agreement	7,627	7,672
Derivatives also included in Note 14:		
Commitments to originate loans held for sale	104,227	76,146
Commitments to sell loans secured by one- to four-family residential properties	48,546	37,545
Commitments to sell securities related to mortgage banking activities	44,467	41,500

Commitments to extend credit are agreements to lend to a customer, as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Many of the commitments may expire without being drawn upon; therefore, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the customer. The type of collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, and income producing commercial properties. The Company's reserve for unfunded loan commitments was $3.6 million and $3.9 million at March 31, 2016 and December 31, 2015, respectively.

Standby letters of credit are conditional commitments issued to guarantee a customer's performance or payment to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Through the acquisition of AmericanWest, Banner Bank assumed a risk participation agreement. Under the risk participation agreement, Banner Bank guarantees the financial performance of a borrower on the participated portion of an interest rate swap on a loan.

Interest rates on residential one- to four-family mortgage loan applications are typically rate locked (committed) to customers during the application stage for periods ranging from 30 to 60 days, the most typical period being 45 days. Traditionally, these loan applications with rate lock commitments had the pricing for the sale of these loans locked with various qualified investors under a best-efforts delivery program at or near the time the interest rate is locked with the customer. The Bank then attempts to deliver these loans before their rate locks expired. This arrangement generally required delivery of the loans prior to the expiration of the rate lock. Delays in funding the loans required a lock extension. The cost of a lock extension at times was borne by the customer and at times by the Bank. These lock extension costs have not had a material impact to our operations. The Company enters into forward commitments at specific prices and settlement dates to deliver either: (1) residential mortgage loans for purchase by secondary market investors (i.e., Freddie Mac or Fannie Mae), or (2) mortgage-backed securities to broker/dealers. The purpose of these forward commitments is to offset the movement in interest rates between the execution of its residential mortgage rate lock commitments with borrowers and the sale of those loans to the secondary market investor. There were no counterparty default losses on forward contracts during the three months ended March 31, 2016 or March 31, 2015. Market risk with respect to forward contracts arises principally from changes in the value of contractual positions due to changes in interest rates. The Company limits its exposure to market risk by monitoring differences between commitments to customers and forward contracts with market investors and securities broker/dealers. In the event the Company has forward delivery contract commitments in excess of available mortgage loans, the transaction is completed by either paying or receiving a fee to or from the investor or broker/dealer equal to the increase or decrease

in the market value of the forward contract.

In the normal course of business, the Company and/or its subsidiaries have various legal proceedings and other contingent matters outstanding. These proceedings and the associated legal claims are often contested and the outcome of individual matters is not always predictable. These claims and counter-claims typically arise during the course of collection efforts on problem loans or with respect to action to enforce liens on properties in which the Banks hold a security interest. Based upon the information known to management at this time, the Company and the Banks are not a party to any legal proceedings that management believes would have a material adverse effect on the results of operations or consolidated financial position at March 31, 2016.

In connection with certain asset sales, the Banks typically make representations and warranties about the underlying assets conforming to specified guidelines. If the underlying assets do not conform to the specifications, the Bank may have an obligation to repurchase the assets or indemnify the purchaser against any loss. The Banks believe that the potential for material loss under these arrangements is remote. Accordingly, the fair value of such obligations is not material.

NOTE 14: DERIVATIVES AND HEDGING

The Company, through its Banner Bank subsidiary, is party to various derivative instruments that are used for asset and liability management and customer financing needs. Derivative instruments are contracts between two or more parties that have a notional amount and an underlying variable, require no net investment and allow for the net settlement of positions. The notional amount serves as the basis for the payment provision of the contract and takes the form of units, such as shares or dollars. The underlying variable represents a specified interest rate, index, or other component. The interaction between the notional amount and the underlying variable determines the number of units to be exchanged

between the parties and influences the market value of the derivative contract. The Company obtains dealer quotations to value its derivative contracts.

The Company's predominant derivative and hedging activities involve interest rate swaps related to certain term loans and forward sales contracts associated with mortgage banking activities. Generally, these instruments help the Company manage exposure to market risk and meet customer financing needs. Market risk represents the possibility that economic value or net interest income will be adversely affected by fluctuations in external factors such as market-driven interest rates and prices or other economic factors.

Derivatives Designated in Hedge Relationships

The Company's fixed rate loans result in exposure to losses in value or net interest income as interest rates change. The risk management objective for hedging fixed rate loans is to effectively convert the fixed rate received to a floating rate. The Company has hedged exposure to changes in the fair value of certain fixed rate loans through the use of interest rate swaps. For a qualifying fair value hedge, changes in the value of the derivatives are recognized in current period earnings along with the corresponding changes in the fair value of the designated hedged item attributable to the risk being hedged.

Under a prior program, customers received fixed interest rate commercial loans and the Banner Bank subsequently hedged that fixed rate loan by entering into an interest rate swap with a dealer counterparty. Banner Bank receives fixed rate payments from the customers on the loans and makes similar fixed rate payments to the dealer counterparty on the swaps in exchange for variable rate payments based on the one-month LIBOR index. Some of these interest rate swaps are designated as fair value hedges. Through application of the “short cut method of accounting,” there is an assumption that the hedges are effective. Banner Bank discontinued originating interest rate swaps under this program in 2008.

As of March 31, 2016 and December 31, 2015, the notional values or contractual amounts and fair values of the Company's derivatives designated in hedge relationships were as follows (in thousands):

	Asset Derivatives				Liability Derivatives			
	March 31, 2016		December 31, 2015		March 31, 2016		December 31, 2015	
	Notional Contract Amount[1]	Fair Value	Notional Contract Amount[1]	Fair Value	Notional Contract Amount[2]	Fair Value	Notional Contract Amount[2]	Fair Value
Interest rate swaps	$6,641	$ 998	$6,734	$ 938	$6,641	$ 998	$6,734	$ 938

[1] Included in Loans receivable on the Consolidated Statements of Financial Condition.
[2] Included in Other liabilities on the Consolidated Statements of Financial Condition.

Derivatives Not Designated in Hedge Relationships

Interest Rate Swaps: Banner Bank uses an interest rate swap program for commercial loan customers, that provides the client with a variable rate loan and enters into an interest rate swap in which the client receives a variable rate payment in exchange for a fixed rate payment. The Bank offsets its risk exposure by entering into an offsetting interest rate swap with a dealer counterparty for the same notional amount and length of term as the client interest rate swap providing the dealer counterparty with a fixed rate payment in exchange for a variable rate payment. These swaps do not qualify as designated hedges; therefore, each swap is accounted for as a free standing derivative.

Mortgage Banking: In the normal course of business, the Company sells originated mortgage loans into the secondary mortgage loan markets. During the period of loan origination and prior to the sale of the loans in the secondary

market, the Company has exposure to movements in interest rates associated with written rate lock commitments with potential borrowers to originate loans that are intended to be sold and for closed loans that are awaiting sale and delivery into the secondary market.

Written loan commitments that relate to the origination of mortgage loans that will be held for resale are considered free-standing derivatives and do not qualify for hedge accounting. Written loan commitments generally have a term of up to 60 days before the closing of the loan. The loan commitment does not bind the potential borrower to enter into the loan, nor does it guarantee that the Company will approve the potential borrower for the loan. Therefore, when determining fair value, the Company makes estimates of expected “fallout” (loan commitments not expected to close), using models which consider cumulative historical fallout rates, current market interest rates and other factors.

Written loan commitments in which the borrower has locked in an interest rate results in market risk to the Company to the extent market interest rates change from the rate quoted to the borrower. The Company economically hedges the risk of changing interest rates associated with its interest rate lock commitments by entering into forward sales contracts.

Mortgage loans which are held for sale are subject to changes in fair value due to fluctuations in interest rates from the loan's closing date through the date of sale of the loans into the secondary market. Typically, the fair value of these loans declines when interest rates increase and rises when interest rates decrease. To mitigate this risk, the Company enters into forward sales contracts on a significant portion of these loans to provide an economic hedge against those changes in fair value. Mortgage loans held for sale and the forward sales contracts are recorded at fair value with ineffective changes in value recorded in current earnings as loan sales and servicing income.

As of March 31, 2016 and December 31, 2015, the notional values or contractual amounts and fair values of the Company's derivatives not designated in hedge relationships were as follows (in thousands):

	Asset Derivatives				Liability Derivatives			
	March 31, 2016		December 31, 2015		March 31, 2016		December 31, 2015	
	Notional/ Contract Amount	Fair Value (1)	Notional/ Contract Amount	Fair Value (1)	Notional/ Contract Amount	Fair Value (2)	Notional/ Contract Amount	Fair Value (2)
Interest rate swaps	$301,673	$17,961	$293,937	$11,046	$301,673	$17,961	$293,937	$11,046
Mortgage loan commitments	59,760	941	76,146	428	44,467	126	—	—
Forward sales contracts	44,467	126	41,500	43	54,713	291	32,763	50
	$405,900	$19,028	$411,583	$11,517	$400,853	$18,378	$326,700	$11,096

(1) Included in Other assets on the Consolidated Statements of Financial Condition, with the exception of those interest rate swaps that were not designated in hedge relationships (with a fair value of $293,000 at March 31, 2016 and $327,000 at December 31, 2015), which are included in Loans receivable.
(2) Included in Other liabilities on the Consolidated Statements of Financial Condition.

Gains (losses) recognized in income on non-designated hedging instruments for the three months ended March 31, 2016 and 2015 were as follows (in thousands):

	Location on Consolidated Statements of Operations	Three Months Ended March 31, 2016	2015
Mortgage loan commitments	Mortgage banking operations	$ 563	$ 412
Forward sales contracts	Mortgage banking operations	(273)	(140)
		$ 290	$ 272

The Company is exposed to credit-related losses in the event of nonperformance by the counterparty to these agreements. Credit risk of the financial contract is controlled through the credit approval, limits, and monitoring procedures and management does not expect the counterparties to fail their obligations.

In connection with the interest rate swaps between Banner Bank and the dealer counterparties, the agreements contain a provision where if Banner Bank fails to maintain its status as a well/adequately capitalized institution, then the counterparty could terminate the derivative positions and Banner Bank would be required to settle its obligations. Similarly, Banner Bank could be required to settle its obligations under certain of its agreements if specific regulatory events occur, such as a publicly issued prompt corrective action directive, cease and desist order, or a capital maintenance agreement that required Banner Bank to maintain a specific capital level. If Banner Bank had breached any of these provisions at March 31, 2016 or December 31, 2015, it could have been required to settle its obligations under the agreements at the termination value. As of March 31, 2016 and December 31, 2015, the termination value of derivatives in a net liability position related to these agreements was $19.0 million and $12.0 million, respectively. The Company generally posts collateral against derivative liabilities in the form of cash, government agency-issued bonds, mortgage-backed securities, or commercial mortgage-backed securities. Collateral posted against derivative

liabilities was $29.9 million and $20.8 million as of March 31, 2016 and December 31, 2015, respectively.

Derivative assets and liabilities are recorded at fair value on the balance sheet and do not take into account the effects of master netting agreements. Master netting agreements allow the Company to settle all derivative contracts held with a single counterparty on a net basis and to offset net derivative positions with related collateral where applicable.

The following table illustrates the potential effect of the Company's derivative master netting arrangements, by type of financial instrument, on the Company's Consolidated Statements of Financial Condition as of March 31, 2016 and December 31, 2015 (in thousands):

	March 31, 2016					
				Gross Amounts of Financial Instruments Not Offset in the Consolidated Statements of Financial Condition		
	Gross Amounts Recognized	Amounts offset in the Statement of Financial Condition	Net Amounts in the Statement of Financial Condition	Netting Adjustment Per Applicable Master Netting Agreements	Fair Value of Financial Collateral in the Statement of Financial Condition	Net Amount
Derivative assets						
Interest rate swaps	$18,959	$ —	$ 18,959	$ —	$ —	$18,959
	$18,959	$ —	$ 18,959	$ —	$ —	$18,959
Derivative liabilities						
Interest rate swaps	$18,959	$ —	$ 18,959	$ —	$ (18,938)	$21
	$18,959	$ —	$ 18,959	$ —	$ (18,938)	$21

	December 31, 2015					
				Gross Amounts of Financial Instruments Not Offset in the Consolidated Statements of Financial Condition		
	Gross Amounts Recognized	Amounts offset in the Statement of Financial Condition	Net Amounts in the Statement of Financial Condition	Netting Adjustment Per Applicable Master Netting Agreements	Fair Value of Financial Collateral in the Statement of Financial	Net Amount

Condition

Derivative assets						
Interest rate swaps	$11,984	$ —	$ 11,984	$ —	$ —	$11,984
	$11,984	$ —	$ 11,984	$ —	$ —	$11,984
Derivative liabilities						
Interest rate swaps	$11,984	$ —	$ 11,984	$ —	$(11,984)	$—
	$11,984	$ —	$ 11,984	$ —	$(11,984)	$—

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ITEM 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations

Executive Overview

We are a bank holding company incorporated in the State of Washington which owns two subsidiary banks, Banner Bank and Islanders Bank. Banner Bank is a Washington-chartered commercial bank that conducts business from its main office in Walla Walla, Washington and, as of March 31, 2016, its 187 branch offices and nine loan production offices located in Washington, Oregon, California, Utah and Idaho. Islanders Bank is a Washington-chartered commercial bank and conducts its business from three locations in San Juan County, Washington. Banner Corporation is subject to regulation by the Board of Governors of the Federal Reserve System (the Federal Reserve Board). Banner Bank and Islanders Bank (the Banks) are subject to regulation by the Washington State Department of Financial Institutions, Division of Banks and the Federal Deposit Insurance Corporation (the FDIC). As of March 31, 2016, we had total consolidated assets of $9.75 billion, total loans of $7.19 billion, total deposits of $8.03 billion and total shareholders' equity of $1.32 billion.

Banner Bank is a regional bank which offers a wide variety of commercial banking services and financial products to individuals, businesses and public sector entities in its primary market areas. Islanders Bank is a community bank which offers similar banking services to individuals, businesses and public entities located in the San Juan Islands. The Banks' primary business is that of traditional banking institutions, accepting deposits and originating loans in locations surrounding their offices in portions of Washington, Oregon, California, Utah and Idaho. Banner Bank is also an active participant in the secondary market, engaging in mortgage banking operations largely through the origination and sale of one-to-four-family and multifamily residential loans. Lending activities include commercial business and commercial real estate loans, agriculture business loans, construction and land development loans, one- to four-family and multifamily residential loans and consumer loans.

Banner Corporation's successful execution of its super community bank model and strategic initiatives has delivered solid profitability and growth in recent years. We have made substantial progress on our goals to achieve and maintain the Company's moderate risk profile as well as to develop and continue strong earnings momentum. Highlights of this success have included substantial improvement in our asset quality, outstanding client acquisition and account growth, significantly increased non-interest-bearing deposit balances and strong revenue generation from core operations.

For the quarter ended March 31, 2016, our net income was $17.8 million, or $0.52 per diluted share, compared to net income of $12.1 million, or $0.61 per diluted share, for the quarter ended March 31, 2015. Our net income for the quarter ended March 31, 2016 was significantly impacted by $6.8 million of acquisition-related expenses, which net of related tax benefits reduced earnings per diluted share by $0.13.

Highlights for the current quarter included additional client acquisition, solid asset quality, and strong revenues from core operations. Compared to the same quarter a year ago, we had a significant increase in net interest income as well as substantial increases in deposit fees and service charges and in revenue from mortgage banking, all reflecting the increased scale of the Company.

Our operating results depend primarily on our net interest income, which is the difference between interest income on interest-earning assets, consisting primarily of loans and investment securities, and interest expense on interest-bearing liabilities, composed primarily of customer deposits and borrowings. Net interest income is driven by the net interest margin, which is primarily a function of our interest rate spread. Interest rate spread is the difference between the yield earned on interest-earning assets and the rate paid on interest-bearing liabilities, as well as a function of the average balances of interest-earning assets, interest-bearing liabilities and non-interest-bearing funding sources including non-interest-bearing deposits. Our net interest income before provision for loan losses increased $44.5 million, or 96%, to $91.0 million for the quarter ended March 31, 2016, compared to $46.5 million for the same quarter one year earlier. This increase in net interest income reflects the significant growth in earning assets. The

increase in earning assets was largely due to the acquisition of Starbuck Bancshares, Inc. (Starbuck), the holding company for AmericanWest Bank (AmericanWest), which closed on October 1, 2015, and the acquisition of Siuslaw Financial Group (Siuslaw), holding company of Siuslaw Bank, which closed on March 6, 2015.

Our net income also is affected by the level of our non-interest income, including deposit fees and service charges, results of mortgage banking operations, which includes loan origination and servicing fees and gains and losses on the sale of loans, and gains and losses on the sale of securities, as well as our non-interest expenses, provisions for loan losses and income tax provisions. In addition, net income is affected by the net change in the value of certain financial instruments carried at fair value.

Our total revenues (net interest income before the provision for loan losses plus total non-interest income) for the first quarter of 2016 increased $50.8 million or 84%, to $111.0 million, compared to $60.2 million for the same period a year earlier, as a result of increased net interest income and deposit fees and service charges, as well as increased mortgage banking revenues. Our total non-interest income, which is a component of total revenue and includes the net gain on sale of securities and changes in the value of financial instruments carried at fair value, was $20.0 million for the quarter ended March 31, 2016, compared to $13.7 million for the quarter ended March 31, 2015.

Our total revenues, excluding changes in the fair value of financial instruments and the net gain on sale of securities, which we believe are more indicative of our core operations, also were strong at $111.0 million for the quarter ended March 31, 2016, a $51.3 million, or 86% increase, compared to $59.7 million for the same period a year earlier.

Our non-interest expense also increased significantly in the first quarter of 2016 compared to a year earlier largely as a result of acquisition-related expenses and other normal operating expenses related to the operations acquired in the acquisitions of AmericanWest and Siuslaw Bank. Non-interest expense was $84.0 million for the quarter ended March 31, 2016, compared to $41.9 million for the same quarter a year earlier.

We did not record a provision for loan losses in the three months ended March 31, 2016, as continued improvement in credit quality metrics and net loan recoveries offset the need for any additional provision to loan loss reserves. The allowance for loan losses at March 31, 2016 was $78.2 million, representing 501% of non-performing loans. Non-performing loans were $15.6 million at March 31, 2016, compared to $15.2 million at December 31, 2015, and decreased 37% when compared to $24.7 million a year earlier primarily. (See Note 5, Loans Receivable and the Allowance for Loan Losses, as well as "Asset Quality" below in this Form 10-Q.)

Non-GAAP financial measures: Non-interest income, revenues and other earnings information excluding fair value adjustments, OTTI losses or recoveries, gains or losses on the sale of securities and, in certain periods, acquisition-related costs are non-GAAP financial measures. Management has presented these and other non-GAAP financial measures in this discussion and analysis because it believes that they provide useful and comparative information to assess trends in our core operations and in understanding our capital position. However, these non-GAAP financial measures are supplemental and are not a substitute for any analysis based on GAAP. Where applicable, we have also presented comparable earnings information using GAAP financial measures. For a reconciliation of these non-GAAP financial measures, see the tables below. Because not all companies use the same calculations, our presentation may not be comparable to other similarly titled measures as calculated by other companies. See "Comparison of Results of Operations for the Three Months Ended March 31, 2016 and 2015" for more detailed information about our financial performance.

The following tables set forth reconciliations of non-GAAP financial measures discussed in this report (in thousands):

	For the Three Months Ended March 31,	
NON-INTEREST INCOME FROM CORE OPERATIONS:	2016	2015
Total non-interest income (GAAP)	$19,959	$13,696
Exclude net (gain) loss on sale of securities	(21)	510
Exclude change in valuation of financial instruments carried at fair value	(29)	(1,050)
Total non-interest income from core operations (non-GAAP)	$19,909	$13,156
REVENUE FROM CORE OPERATIONS:		
Net interest income before provision for loan losses	$91,043	$46,536
Total non-interest income	19,959	13,696
Total GAAP revenue	111,002	60,232
Exclude net (gain) loss on sale of securities	(21)	510
Exclude change in valuation of financial instruments carried at fair value	(29)	(1,050)
Revenue from core operations (non-GAAP)	$110,952	$59,692
INCOME FROM CORE OPERATIONS:		
Income before provision for taxes (GAAP)	$26,968	$18,318
Exclude net (gain) loss on sale of securities	(21)	510
Exclude change in valuation of financial instruments carried at fair value	(29)	(1,050)
Exclude acquisition related costs	6,813	1,648
Income from core operations before provision for taxes (non-GAAP)	$33,731	