

BANNER CORP  
Form 10-Q  
August 05, 2016

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

FORM 10-Q  
(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 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 (I.R.S.  
jurisdictionEmployer  
of Identification  
incorporationNumber)  
or  
organization)

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

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

Yes ☒ No ☐

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

Yes ☒ No ☐

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

Large accelerated filer	accelerated filer	Non-accelerated filer	Smaller reporting company
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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

Yes ☐ No ☒

APPLICABLE ONLY TO CORPORATE ISSUERS

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

Title of class:	As of July 31, 2016
Common Stock,	33,759,857 shares
\$.01 par	

value  
per share  
Nonvoting  
Common  
Stock, \$.01  
par value per  
share

591,094 shares

## 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 or conditional verbs such as “may,” “will,” “should,” “would” and “could.” Forward-looking statements include statements with respect to our beliefs, plans, objectives, goals, expectations, assumptions and statements about future economic performance and projections of financial items. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from the results anticipated or implied by our forward-looking statements, including, but not limited to: 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)

June 30, 2016 and December 31, 2015

	June 30 2016	December 31 2015
<b>ASSETS</b>		
Cash and due from banks	\$ 158,446	\$ 117,657
Interest bearing deposits	76,210	144,260
Total cash and cash equivalents	234,656	261,917
Securities—trading, amortized cost \$38,887 and \$39,344, respectively	33,753	34,134
Securities—available-for-sale, amortized cost \$1,159,863 and \$1,139,740, respectively	1,177,757	1,138,573
Securities—held-to-maturity, fair value \$267,501 and \$226,627, respectively	254,666	220,666
Federal Home Loan Bank (FHLB) stock	23,347	16,057
Loans held for sale	113,230	44,712
Loans receivable	7,325,925	7,314,504
Allowance for loan losses	(81,318)	(78,008)
Net loans	7,244,607	7,236,496
Accrued interest receivable	30,052	29,627
Real estate owned (REO), held for sale, net	6,147	11,627
Property and equipment, net	167,597	167,604
Goodwill	244,583	247,738
Other intangibles, net	33,724	37,472
Bank-owned life insurance (BOLI)	158,001	156,865
Deferred tax assets, net	123,818	134,970
Other assets	70,267	57,840
Total assets	\$9,916,205	\$9,796,298
<b>LIABILITIES</b>		
Deposits:		
Non-interest-bearing	\$3,023,986	\$2,619,618
Interest-bearing transaction and savings accounts	3,687,118	4,081,580
Interest-bearing certificates	1,208,671	1,353,870
Total deposits	7,919,775	8,055,068
Advances from FHLB at fair value	325,383	133,381
Other borrowings	112,308	98,325
Junior subordinated debentures at fair value (issued in connection with Trust Preferred Securities)	93,298	92,480
Accrued expenses and other liabilities	87,441	76,511
Deferred compensation	39,483	40,474
Total liabilities	8,577,688	8,496,239
<b>COMMITMENTS AND CONTINGENCIES (Note 13)</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Preferred stock - \$0.01 par value per share, 500,000 shares authorized; no shares outstanding at June 30, 2016 and December 31, 2015	—	—
Common stock and paid in capital - \$0.01 par value per share, 50,000,000 shares authorized; 33,454,666 shares issued and outstanding at June 30, 2016; 32,817,789 shares issued and outstanding at December 31, 2015	1,223,470	1,195,755
Common stock (non-voting) and paid in capital- \$0.01 par value per share, 5,000,000 shares authorized; 895,894 shares issued and outstanding at June 30, 2016; 1,424,466 shares issued and outstanding at December 31, 2015	39,615	65,419
Retained earnings	63,967	39,615



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Carrying value of shares held in trust for stock related compensation plans	(7,286	) (6,928	)
Liability for common stock issued to deferred, stock related, compensation plans	7,286	6,928	
Accumulated other comprehensive income (loss)	11,465	(730	)
Total shareholders' equity	1,338,517	1,300,059	
Total liabilities & shareholders' equity	\$9,916,205	\$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 and Six Months Ended June 30, 2016 and 2015

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
<b>INTEREST INCOME:</b>				
Loans receivable	\$88,935	\$ 51,078	\$175,893	\$ 97,443
Mortgage-backed securities	5,274	1,275	10,664	2,302
Securities and cash equivalents	3,112	1,723	6,065	3,400
Total interest income	97,321	54,076	192,622	103,145
<b>INTEREST EXPENSE:</b>				
Deposits	2,771	1,768	5,717	3,501
FHLB advances	339	3	618	20
Other borrowings	78	48	153	91
Junior subordinated debentures	985	800	1,944	1,541
Total interest expense	4,173	2,619	8,432	5,153
Net interest income before provision for loan losses	93,148	51,457	184,190	97,992
<b>PROVISION FOR LOAN LOSSES</b>	2,000	—	2,000	—
Net interest income	91,148	51,457	182,190	97,992
<b>NON-INTEREST INCOME:</b>				
Deposit fees and other service charges	12,213	9,563	24,031	17,689
Mortgage banking operations	6,625	4,703	12,268	8,812
Bank-owned life insurance (BOLI)	1,128	453	2,313	891
Miscellaneous	1,328	653	2,592	1,136
	21,294	15,372	41,204	28,528
Loss on sale of securities	(380)	(28)	(359)	(537)
Net change in valuation of financial instruments carried at fair value	(377)	797	(348)	1,847
Total non-interest income	20,537	16,141	40,497	29,838
<b>NON-INTEREST EXPENSE:</b>				
Salary and employee benefits	45,175	26,744	91,738	51,031
Less capitalized loan origination costs	(4,907)	(3,787)	(9,157)	(6,625)
Occupancy and equipment	11,052	6,357	21,440	12,363
Information/computer data services	4,852	2,273	9,772	4,526
Payment and card processing expenses	5,501	3,742	10,286	6,758
Professional services	865	721	3,479	1,536
Advertising and marketing	2,474	2,198	4,207	3,808
Deposit insurance	1,311	625	2,649	1,192
State/municipal business and use taxes	770	455	1,608	908
REO operations	137	167	534	191
Amortization of core deposit intangibles	1,808	367	3,615	983
Miscellaneous	8,437	3,987	14,526	7,445
	77,475	43,849	154,697	84,116
Acquisition-related costs	2,412	3,885	9,224	5,533
Total non-interest expense	79,887	47,734	163,921	89,649
Income before provision for income taxes	31,798	19,864	58,766	38,181
<b>PROVISION FOR INCOME TAXES</b>	10,841	6,615	20,035	12,798
<b>NET INCOME</b>	<b>\$20,957</b>	<b>\$ 13,249</b>	<b>\$38,731</b>	<b>\$ 25,383</b>
Earnings per common share:				

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Basic	\$0.62	\$ 0.64	\$1.14	\$ 1.25
Diluted	\$0.61	\$ 0.64	\$1.14	\$ 1.25
Cumulative dividends declared per common share	\$0.21	\$ 0.18	\$0.42	\$ 0.36
Weighted average number of common shares outstanding:				
Basic	34,069,234	40,725,833	34,053,105	20,245,905
Diluted	34,116,498	40,789,533	34,090,647	20,301,448
See Selected Notes to the Consolidated Financial Statements				

BANNER CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(Unaudited) (In thousands)  
For the Three and Six Months Ended June 30, 2016 and 2015

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
NET INCOME	\$20,957	\$13,249	\$38,731	\$25,383
OTHER COMPREHENSIVE INCOME (LOSS), NET OF INCOME TAXES:				
Unrealized holding gain (loss) on available-for-sale securities arising during the period	5,230	(1,400 )	18,702	883
Income tax benefit (expense) related to available-for-sale securities unrealized holding gain or loss	(1,883 )	504	(6,737 )	(318 )
Reclassification for net losses (gains) on available-for-sale securities realized in earnings	380	(21 )	359	(125 )
Income tax benefit (expense) related to available-for-sale securities realized gains or losses	(137 )	8	(129 )	45
Other comprehensive income (loss)	3,590	(909 )	12,195	485
COMPREHENSIVE INCOME	\$24,547	\$12,340	\$50,926	\$25,868

See Selected Notes to the Consolidated Financial Statements

BANNER CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
(Unaudited) (In thousands, except shares)  
For the Six Months Ended June 30, 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 (net) 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			38,731			38,731
Other comprehensive income, net of income tax				12,195		12,195
Accrual of dividends on common stock (\$0.42/share cumulative)			(14,379 )			(14,379 )
Issuance of restricted stock (net) and recognition of share-based compensation	108,305	1,911				1,911
Balance, June 30, 2016	34,350,560	\$1,263,085	\$63,967	\$11,465		\$1,338,517

See Selected Notes to the Consolidated Financial Statements

**BANNER CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited) (In thousands)

For the Six Months Ended June 30, 2016 and 2015

	Six Months Ended June 30,	
	2016	2015
<b>OPERATING ACTIVITIES:</b>		
Net income	\$38,731	\$25,383
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation	6,049	4,098
Deferred income and expense, net of amortization	415	1,307
Amortization of core deposit intangibles	3,615	983
Loss on sale of securities	359	537
Net change in valuation of financial instruments carried at fair value	348	(1,847 )
Purchases of securities—trading	(1,725 )	—
Proceeds from sales of securities—trading	—	2,485
Principal repayments and maturities of securities—trading	2,252	7,263
Increase (decrease) in deferred taxes	11,759	(46 )
Increase (decrease) in current taxes payable	3,755	(982 )
Equity-based compensation	1,910	1,313
Increase in cash surrender value of BOLI	(2,296 )	(880 )
Gain on sale of loans, net of capitalized servicing rights	(8,501 )	(5,548 )
Gain on disposal of real estate held for sale and property and equipment	(440 )	(225 )
Provision for losses on real estate held for sale	636	182
Origination of loans held for sale	(464,777 )	(289,311 )
Proceeds from sales of loans held for sale	406,251	296,490
Net change in:		
Other assets	(20,367 )	(3,024 )
Other liabilities	7,362	(1,394 )
Net cash (used by) provided from operating activities	(14,664 )	36,784
<b>INVESTING ACTIVITIES:</b>		
Purchases of securities—available-for-sale	(215,497 )	(51,600 )
Principal repayments and maturities of securities—available-for-sale	90,177	45,548
Proceeds from sales of securities—available-for-sale	96,785	40,293
Purchases of securities—held-to-maturity	(38,580 )	(10,765 )
Principal repayments and maturities of securities—held-to-maturity	3,551	9,188
Loan originations, net of principal repayments	(14,219 )	(64,249 )
Purchases of loans and participating interest in loans	(149,214 )	(120,563 )
Proceeds from sales of other loans	162,405	17,212
Net cash received from acquisitions	—	78,599
Purchases of property and equipment	(6,096 )	(5,927 )
Proceeds from sale of real estate held for sale, net	6,322	2,249
Proceeds from FHLB stock repurchase program	37,396	21,453
Purchase of FHLB stock	(44,685 )	—
Other	1,319	(206 )
Net cash used by investing activities	(70,336 )	(38,768 )
<b>FINANCING ACTIVITIES:</b>		
(Decrease) increase in deposits, net	(135,293 )	81,790
Proceeds from FHLB advances	1,164,000	222,500

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Repayment of FHLB advances	(971,604 )	(254,504 )
Increase in other borrowings, net	13,983	17,338
Cash dividends paid	(13,347 )	(7,272 )
Cash proceeds from issuance of common stock for shareholder reinvestment plan	—	34
Net cash provided from financing activities	57,739	59,886
NET CHANGE IN CASH AND CASH EQUIVALENTS	(27,261 )	57,902
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	261,917	126,072
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$234,656	\$183,974

(Continued on next page)

BANNER CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)  
(Unaudited) (In thousands)  
For the Six Months Ended June 30, 2016 and 2015

	Six Months Ended June 30, 2016 2015	
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid in cash	\$8,569	\$ 5,192
Taxes paid, net of refunds received in cash	11,025	13,610
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	592	2,166
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 June 30, 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 six 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 Accounting Standard Codification (ASC) Topic 606 and supersedes ASC 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.

In May 2016, FASB issued ASU No. 2016-12, Narrow-Scope Improvements and Practical Expedients, amending ASC Topic 606 (Revenue from Contracts with Customers). The core principle of the guidance in Topic 606 is that an entity should recognize revenue to represent 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. The amendments in this ASU do not change the core principle of the guidance in Topic 606. Rather, the amendments in this ASU affect only several narrow aspects of Topic 606. 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 and six months ended June 30, 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 eliminates 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 June 30, 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 issued 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 relate 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.

#### Financial Instruments—Credit Losses (Topic 326)

In June 2016, FASB issued ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments. Current GAAP requires an “incurred loss” methodology for recognizing credit losses that delays recognition until it is probable a loss has been incurred. The main objective of this ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The amendments in this ASU replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The amendments in this ASU require a financial asset (or group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. The measurement of expected credit losses will be based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The amendments in this ASU broaden the information that an entity must consider in developing its expected credit loss estimate for assets measured either collectively or individually. The use of forecasted information incorporates more timely information in the estimate of expected credit loss, which will be more decision useful to users of the financial statements. The amendments in this ASU will be effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is still evaluating the effects this ASU will have 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 \$222.9 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	113,009
Total assets acquired	4,459,985
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	537,782
Goodwill	\$222,892

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 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 (PCI) 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 and six months ended June 30, 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 June 30 2015	Six months ended June 30 2015
Total revenues (net interest income plus non-interest income)	\$118,905	\$228,313
Net income	\$24,014	\$43,937
Earnings per share - basic	\$0.74	\$1.31
Earnings per share - diluted	\$0.74	\$1.31

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 and six months ended June 30, 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 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 June 30, 2015	Six Months Ended June 30, 2015
Total revenues (net interest income plus non-interest income)	\$67,598	\$130,762
Net income	\$13,249	\$25,767
Earnings per share - basic	\$0.64	\$1.24
Earnings per share - diluted	\$0.64	\$1.24

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 and six months ended June 30, 2016 and 2015 (in thousands):

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2016	
	2016	2015	2016	2015
Acquisition-related costs recognized in non-interest expenses:				
Personnel severance/retention fees	\$(24 )	\$216	\$1,288	\$216
Branch consolidation and other occupancy expenses	924	26	2,422	50
Client communications	126	4	377	70
Information/computer data services	532	466	1,949	506
Payment and processing expenses	6	—	316	—
Professional services	599	2,946	1,451	4,226
Miscellaneous	249	227	1,421	465
	\$2,412	\$3,885	\$9,224	\$5,533
Siuslaw	\$94	\$857	94	1,526
Starbuck	2,318	3,028	9,130	4,007
	\$2,412	\$3,885	\$9,224	\$5,533

## Note 4: SECURITIES

The amortized cost, gross unrealized gains and losses and estimated fair value of securities at June 30, 2016 and December 31, 2015 are summarized as follows (in thousands):

	June 30, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Trading:				
U.S. Government and agency obligations	\$1,230			\$1,380
Municipal bonds	332			338
Corporate bonds	26,871			20,645
Mortgage-backed or related securities	10,440			11,316
Equity securities	14			74
	\$38,887			\$33,753
Available-for-Sale:				
U.S. Government and agency obligations	\$52,182	\$ 276	\$ (14 )	\$52,444
Municipal bonds	150,406	4,367	(11 )	154,762
Corporate bonds	10,515	51	(55 )	10,511
Mortgage-backed or related securities	916,028	14,098	(457 )	929,669
Asset-backed securities	30,644	40	(411 )	30,273
Equity securities	88	10	—	98
	\$1,159,863	\$ 18,842	\$ (948 )	\$1,177,757
Held-to-Maturity:				
U.S. Government and agency obligations	\$1,086	\$ 8	\$ —	\$1,094
Municipal bonds:	181,369	10,190	(6 )	191,553
Corporate bonds	4,199	—	—	4,199
Mortgage-backed or related securities	68,012	2,643	—	70,655
	\$254,666	\$ 12,841	\$ (6 )	\$267,501

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	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

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At June 30, 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):

	June 30, 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	\$776	\$ (6 )	\$352	\$ (8 )	\$1,128	\$ (14 )
Municipal bonds	4,114	(10 )	907	(1 )	5,021	(11 )
Corporate bonds	5,460	(55 )	—	—	5,460	(55 )
Mortgage-backed or related securities	87,760	(305 )	34,822	(152 )	122,582	(457 )
Asset-backed securities	20,198	(411 )	—	—	20,198	(411 )
	\$118,308	\$ (787 )	\$36,081	\$ (161 )	\$154,389	\$ (948 )
Held-to-Maturity						
Municipal bonds	\$738	\$ (6 )	\$—	\$—	\$738	\$ (6 )
	\$738	\$ (6 )	\$—	\$—	\$738	\$ (6 )
December 31, 2015						
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	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 )
Mortgage-backed or related securities	34,493	(323 )	255	(2 )	34,748	(325 )
	\$63,038	\$ (511 )	\$509	\$ (5 )	\$63,547	\$ (516 )

At June 30, 2016, there were 51 securities—available-for-sale with unrealized losses, compared to 242 at December 31, 2015. At June 30, 2016, there were two 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 June 30, 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 six months ended June 30, 2016 compared to \$2.5 million with a resulting net loss of \$690,000 for the six months ended June 30, 2015. The Company did not recognize any OTTI charges or recoveries on securities—trading during the six months ended June 30, 2016, or the six months ended June 30, 2015. There were no securities—trading in a nonaccrual status at June 30, 2016, or December 31, 2015. Net unrealized holding gains of \$76,000 were recognized during the six months ended June 30, 2016.



Sales of securities—available-for-sale totaled \$96.8 million with a resulting net loss of \$359,000 for the six months ended June 30, 2016. Sales of securities—available-for-sale totaled \$40.3 million with a resulting net gain of \$126,000 for the six months ended June 30, 2015. There were no securities—available-for-sale in a nonaccrual status at June 30, 2016 or December 31, 2015.

There were no sales of securities—held-to-maturity during the six months ended June 30, 2016, or June 30, 2015. There were no securities—held-to-maturity in a nonaccrual status at June 30, 2016 or December 31, 2015.

The amortized cost and estimated fair value of securities at June 30, 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.

	June 30, 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	\$—	\$—	\$10,903	\$10,908	\$4,062	\$4,071
Maturing after one year through five years	6,827	7,267	216,245	218,468	15,694	16,048
Maturing after five years through ten years	3,326	3,718	249,693	252,728	106,878	111,965
Maturing after ten years through twenty years	1,848	2,050	298,811	304,851	99,151	106,159
Maturing after twenty years	26,872	20,644	384,123	390,704	28,881	29,258
	38,873	33,679	1,159,775	1,177,659	254,666	267,501
Equity securities	14	74	88	98	—	—
	\$38,887	\$33,753	\$1,159,863	\$1,177,757	\$254,666	\$267,501

The following table presents, as of June 30, 2016, investment securities which were pledged to secure borrowings, public deposits or other obligations as permitted or required by law (in thousands):

Purpose or beneficiary:	June 30, 2016		
	Carrying Value	Amortized Cost	Fair Value
State and local governments public deposits	\$203,421	\$202,139	\$213,458
Interest rate swap counterparties	24,914	24,792	25,753
Repurchase agreements	131,857	130,367	132,874
Other	1,742	1,650	1,742
Total pledged securities	\$361,934	\$358,948	\$373,827

## Note 5: LOANS RECEIVABLE AND THE ALLOWANCE FOR LOAN LOSSES

Loans receivable at June 30, 2016 and December 31, 2015 are summarized as follows (dollars in thousands):

	June 30, 2016		December 31, 2015	
	Amount	Percent of Total	Amount	Percent of Total
Commercial real estate:				
Owner-occupied	\$1,351,015	18.5 %	\$1,327,807	18.2 %
Investment properties	1,849,123	25.2	1,765,353	24.1
Multifamily real estate	287,783	3.9	472,976	6.5
Commercial construction	105,594	1.4	72,103	1.0
Multifamily construction	97,697	1.3	63,846	0.9
One- to four-family construction	330,474	4.5	278,469	3.8
Land and land development:				
Residential	156,964	2.2	126,773	1.7
Commercial	22,578	0.3	33,179	0.5
Commercial business	1,231,182	16.8	1,207,944	16.5
Agricultural business, including secured by farmland	370,515	5.1	376,531	5.1
One- to four-family residential	878,986	12.0	952,633	13.0
Consumer:				
Consumer secured by one- to four-family	485,545	6.6	478,420	6.5
Consumer—other	158,469	2.2	158,470	2.2
Total loans	7,325,925	100.0%	7,314,504	100.0%
Less allowance for loan losses	(81,318 )		(78,008 )	
Net loans	\$7,244,607		\$7,236,496	

Loan amounts are net of unearned loan fees in excess of unamortized costs of \$5.2 million as of June 30, 2016 and \$5.5 million as of December 31, 2015. Net loans include net discounts on acquired loans of \$38.8 million and \$43.7 million as of June 30, 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 \$66.7 million at June 30, 2016 and \$83.4 million at December 31, 2015. The carrying balance of purchased credit-impaired loans was \$45.4 million at June 30, 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 and six months ended June 30, 2016 and 2015 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Balance, beginning of period	\$10,717	\$2,204	\$10,375	\$—
Additions	—	—	—	2,239
Accretion to interest income	(2,607 )	(55 )	(4,538 )	(90 )
Disposals	(101 )	—	(119 )	—
Reclassifications from non-accretable difference	3,026	—	5,317	—

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Balance, end of period	\$ 11,035	\$ 2,149	\$ 11,035	\$ 2,149
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As of June 30, 2016 and December 31, 2015, the non-accretable difference between the contractually required payments and cash flows expected to be collected were \$22.1 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,

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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 June 30, 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):

	June 30, 2016			
	Unpaid Principal Balance	Recorded Investment		Related Allowance
		Without Allowance (1)	With Allowance (2)	
Commercial real estate:				
Owner-occupied	\$1,989	\$—	\$ 1,740	\$ 131
Investment properties	17,110	6,847	9,101	614
Multifamily real estate	384	—	384	70
Commercial construction	—	—	—	—
One- to four-family construction	1,501	—	1,501	177
Land and land development:				
Residential	3,636	750	1,207	246
Commercial	2,458	995	—	—
Commercial business	2,596	923	960	137
Agricultural business/farmland	5,072	4,300	698	15
One- to four-family residential	13,382	—	12,922	594
Consumer:				
Consumer secured by one- to four-family	1,595	—	1,326	10
Consumer—other	788	—	497	7
	\$50,511	\$13,815	\$ 30,336	\$ 2,001
December 31, 2015				
	Unpaid Principal Balance	Recorded Investment		Related Allowance
		Without Allowance (1)	With Allowance (2)	
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

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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 and six months ended June 30, 2016 and 2015 (in thousands):

	Three Months Ended June 30, 2016		Three Months Ended June 30, 2015	
	Average Interest Recorded		Average Interest Recorded	
	Investment Recognized		Investment Recognized	
Commercial real estate:				
Owner-occupied	\$1,764	\$ 2	\$1,288	\$ 2
Investment properties	16,000	75	5,947	75
Multifamily real estate	386	5	777	—
One- to four-family construction	1,621	25	2,385	27
Land and land development:				
Residential	1,961	22	2,502	15
Commercial	994	—	1,899	—
Commercial business	1,910	6	888	10
Agricultural business/farmland	5,038	8	2,250	4
One- to four-family residential	12,990	113	22,029	176
Consumer:				
Consumer secured by one- to four-family	1,333	3	971	4
Consumer—other	523	3	346	5
	\$44,520	\$ 262	\$41,282	\$ 318
	Six Months Ended June 30, 2016		Six Months Ended June 30, 2015	
	Average Interest Recorded		Average Interest Recorded	
	Investment Recognized		Investment Recognized	
Commercial real estate:				
Owner-occupied	\$1,719	\$ 6	\$1,342	\$ 5
Investment properties	16,001	150	5,970	152
Multifamily real estate	388	9	780	11
One- to four-family construction	1,616	53	2,313	58
Land and land development:				
Residential	1,966	43	2,524	31
Commercial	1,010	—	1,899	—
Commercial business	1,980	12	913	19
Agricultural business/farmland	4,428	13	2,370	9
One- to four-family residential	12,986	227	22,253	380
Consumer:				
Consumer secured by one- to four-family	1,255	8	988	7
Consumer—other	547	7	359	9
	\$43,896	\$ 528	\$41,711	\$ 681

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 June 30, 2016 and December 31, 2015 (in thousands):

	June 30, 2016		
	Accrual Status	Nonaccrual Status	Total TDRs
Commercial real estate:			
Owner-occupied	\$181	\$ 101	\$282
Investment properties	5,755	—	5,755
Multifamily real estate	353	—	353
One- to four-family construction	1,501	—	1,501
Land and land development:			
Residential	1,214	—	1,214
Commercial business	457	—	457
Agricultural business, including secured by farmland	540	87	627
One- to four-family residential	8,514	984	9,498
Consumer:			
Consumer secured by one- to four-family	145	10	155
Consumer—other	175	—	175
	\$18,835	\$ 1,182	\$20,017

	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 June 30, 2016 and December 31, 2015, the Company had commitments to advance funds related to TDRs up to additional amounts of \$233,000 and \$237,000, respectively.

No new TDRs occurred during the six months ended June 30, 2016. The following table presents new TDRs that occurred during the three and six month periods ended June 30, 2015 (dollars in thousands):

	Three Months Ended June 30, 2015		Six months ended June 30, 2015	
	Pre-modification Number of Outstanding Recorded Contracts Investment	Post-modification Outstanding Recorded Investment	Pre-modification Number of Outstanding Recorded Contracts Investment	Post-modification Outstanding Recorded Investment
Recorded Investment <sup>(1) (2)</sup>				
Land and land development—residential	2 \$ 504	\$ 504	2 \$ 504	\$ 504
One- to four-family residential	—	—	2 592	592
Agricultural business/farmland	1 416	416	3 694	694
	3 \$ 920	\$ 920	7 \$ 1,790	\$ 1,790

- (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. 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 and six-month periods ended June 30, 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 six months ended June 30, 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 June 30, 2016 and December 31, 2015 (in thousands):

	June 30, 2016							Total Loans
	Commercial Real Estate	Multifamily Real Estate	Construction and Land	Commercial Business	Agricultural Business	One- to Four-Family Residential	Consumer	
Risk-rated loans:								
Pass (Risk Ratings 1-5) <sup>(1)</sup>	\$3,131,031	\$285,762	\$699,662	\$1,181,844	\$359,353	\$872,506	\$640,526	\$7,170,684
Special mention	29,367	592	3,183	21,615	2,535	880	191	58,363
Substandard	39,740	1,429	10,462	27,723	8,627	5,600	3,289	96,870
Doubtful	—	—	—	—	—	—	8	8
Loss	—	—	—	—	—	—	—	—
Total loans	\$3,200,138	\$287,783	\$713,307	\$1,231,182	\$370,515	\$878,986	\$644,014	\$7,325,925
Performing loans	\$3,155,053	\$287,438	\$707,766	\$1,223,824	\$364,924	\$874,314	\$641,913	\$7,255,232
Purchased credit-impaired loans	33,332	314	3,803	5,932	1,132	264	599	45,376
Non-performing loans <sup>(2)</sup>	11,753	31	1,738	1,426	4,459	4,408	1,502	25,317
Total loans	\$3,200,138	\$287,783	\$713,307	\$1,231,182	\$370,515	\$878,986	\$644,014	\$7,325,925
	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) <sup>(1)</sup>	\$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 <sup>(2)</sup>	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

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 June 30, 2016 and December 31, 2015, in the commercial business category, \$182.1 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.

<sup>(2)</sup> 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 June 30, 2016 and December 31, 2015 (in thousands):

June 30, 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	\$2,168	\$145	\$807	\$3,120	\$ 16,547	\$1,331,348	\$1,351,015	\$—	\$ 1,558
Investment properties	1,759	—	9,673	11,432	16,785	1,820,906	1,849,123	—	10,195
Multifamily real estate	147	—	—	147	314	287,322	287,783	—	31
Commercial construction	—	—	—	—	—	105,594	105,594	—	—
Multifamily construction	—	—	—	—	—	97,697	97,697	—	—
One-to-four-family construction	—	—	—	—	895	329,579	330,474	—	—
Land and land development:									
Residential	—	119	750	869	78	156,017	156,964	—	743
Commercial	—	—	—	—	2,830	19,748	22,578	—	995
Commercial business	1,938	2,416	1,280	5,634	5,932	1,219,616	1,231,182	—	1,426
Agricultural business, including secured by farmland	843	1,177	2,813	4,833	1,132	364,550	370,515	—	4,459
One- to four-family residential	758	1,518	2,851	5,127	264	873,595	878,986	896	3,512
Consumer:									
Consumer secured by one- to four-family	613	340	576	1,529	211	483,805	485,545	274	907
Consumer—other	577	77	245	899	388	157,182	158,469	63	258
Total	\$8,803	\$5,792	\$18,995	\$33,590	\$ 45,376	\$7,246,959	\$7,325,925	\$ 1,233	\$ 24,084

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



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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 and six months ended June 30, 2016 and 2015 (in thousands):

	For the Three Months Ended June 30, 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	\$ 19,732	\$ 2,853	\$ 29,318	\$ 15,118	\$ 4,282	\$ 2,170	\$ 3,541	\$ 1,183	\$ 78,197
Provision for loan losses	391	(1,338 )	2,419	2,189	(1,551 )	(490 )	366	14	2,000
Recoveries	26	—	124	622	160	558	249	—	1,739
Charge-offs	—	—	—	(171 )	—	(34 )	(413 )	—	(618 )
Ending balance	\$ 20,149	\$ 1,515	\$ 31,861	\$ 17,758	\$ 2,891	\$ 2,204	\$ 3,743	\$ 1,197	\$ 81,318
	For the Six Months Ended June 30, 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	(451 )	(2,680 )	4,135	2,870	(364 )	(3,064 )	3,188	(1,634 )	2,000
Recoveries	64	—	595	1,342	177	570	456	—	3,204
Charge-offs	(180 )	—	—	(310 )	(567 )	(34 )	(803 )	—	(1,894 )
Ending balance	\$ 20,149	\$ 1,515	\$ 31,861	\$ 17,758	\$ 2,891	\$ 2,204	\$ 3,743	\$ 1,197	\$ 81,318
	June 30, 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	\$ 556	\$ 66	\$ 423	\$ 60	\$ —	\$ 582	\$ 6	\$ —	\$ 1,693
Collectively evaluated for impairment	19,593	1,449	31,405	17,698	2,891	1,622	3,737	1,197	79,592
Purchased credit-impaired loans	—	—	33	—	—	—	—	—	33
Total allowance for loan losses	\$ 20,149	\$ 1,515	\$ 31,861	\$ 17,758	\$ 2,891	\$ 2,204	\$ 3,743	\$ 1,197	\$ 81,318
Loan balances:									
Individually evaluated for impairment	\$ 15,603	\$ 353	\$ 4,470	\$ 1,385	\$ 3,653	\$ 8,514	\$ 320	\$ —	\$ 34,298
Collectively evaluated for impairment	3,151,203	287,116	705,034	1,223,865	365,730	870,208	643,095	—	7,246,251
Purchased credit-impaired loans	33,332	314	3,803	5,932	1,132	264	599	—	45,376
Total loans	\$ 3,200,138	\$ 287,783	\$ 713,307	\$ 1,231,182	\$ 370,515	\$ 878,986	\$ 644,014	\$ —	\$ 7,325,925



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For the Three Months Ended June 30, 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	\$ 19,103	\$ 4,401	\$ 24,398	\$ 12,892	\$ 3,732	\$ 8,141	\$ 585	\$ 2,113	\$ 75,365
Provision for loan losses	(288 )	(241 )	176	120	(2,032 )	348	522	1,395	—
Recoveries	197	113	843	499	1,225	93	236	—	3,206
Charge-offs	(64 )	—	(2 )	(327 )	(246 )	(40 )	(563 )	—	(1,242 )
Ending balance	\$ 18,948	\$ 4,273	\$ 25,415	\$ 13,184	\$ 2,679	\$ 8,542	\$ 780	\$ 3,508	\$ 77,329

For the Six Months Ended June 30, 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	17	(402 )	921	898	(598 )	111	767	(1,714 )	—
Recoveries	211	113	951	677	1,520	99	282	—	3,853
Charge-offs	(64 )	—	(2 )	(434 )	(1,064 )	(115 )	(752 )	—	(2,431 )
Ending balance	\$ 18,948	\$ 4,273	\$ 25,415	\$ 13,184	\$ 2,679				