

BANNER CORP  
Form 10-Q  
November 06, 2015

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

FORM 10-Q  
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2015.

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

Commission File Number 0-26584

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

Washington  
(State or other jurisdiction of incorporation or  
organization)

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

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

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

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

Yes  No

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

Yes  No

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

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

Yes  No

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

Title of class:	As of October 31, 2015
Common Stock, \$.01 par value per share	32,823,123 shares
Nonvoting Common Stock, \$.01 par value per share	1,424,466 shares

BANNER CORPORATION AND SUBSIDIARIES

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## Special Note Regarding Forward-Looking Statements

Certain matters in this report on Form 10-Q contain certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. 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 or future or conditional verbs such as “may,” “will,” “should,” “would” and “could.” Forward-looking statements include statements with respect to our beliefs, plans, objectives, goals, expectations, assumptions and statements about future economic performance and projections of financial items. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from the results anticipated or implied by our forward-looking statements, including, but not limited to: expected revenues, cost savings, synergies and other benefits from the merger of Banner Bank and Siuslaw Bank and of Banner Bank and AmericanWest Bank 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 examinations of us by the Board of Governors of the Federal Reserve System (the Federal Reserve Board) and of our bank subsidiaries by the Federal Deposit Insurance Corporation (the FDIC), the Washington State Department of Financial Institutions, Division of Banks (the Washington DFI) or other regulatory authorities, including the possibility that any such regulatory authority may, among other things, institute 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 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; changes in consumer spending, borrowing and savings habits; the availability of resources to address changes in laws, rules, or regulations or to respond to regulatory actions; our ability to pay dividends on our common stock and interest or principal payments on our junior subordinated debentures; adverse changes in the securities markets; inability of key third-party providers to perform their obligations to us; changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies or the Financial Accounting Standards Board including additional guidance and interpretation on accounting issues and details of the implementation of new accounting methods; the economic impact of war or any terrorist activities; other economic, competitive,

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

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

BANNER CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Unaudited) (In thousands, except shares)

September 30, 2015 and December 31, 2014

	September 30 2015	December 31 2014
<b>ASSETS</b>		
Cash and due from banks	\$74,695	\$71,077
Interest bearing deposits	60,544	54,995
Total cash and cash equivalents	135,239	126,072
Securities—trading, amortized cost \$42,716 and \$47,480, respectively	37,515	40,258
Securities—available-for-sale, amortized cost \$416,731 and \$411,424, respectively	418,254	411,021
Securities—held-to-maturity, fair value \$138,255 and \$137,608, respectively	132,150	131,258
Federal Home Loan Bank (FHLB) stock	6,767	27,036
Loans receivable:		
Held for sale	3,136	2,786
Held for portfolio	4,369,458	3,831,034
Allowance for loan losses	(77,320)	(75,907)
	4,295,274	3,757,913
Accrued interest receivable	17,966	15,279
Real estate owned (REO), held for sale, net	6,363	3,352
Property and equipment, net	102,881	91,185
Goodwill and other intangibles, net	26,605	2,831
Bank-owned life insurance (BOLI)	71,842	63,759
Deferred tax assets, net	23,536	23,871
Other assets	37,918	29,328
	\$5,312,310	\$4,723,163
<b>LIABILITIES</b>		
Deposits:		
Non-interest-bearing	\$1,561,516	\$1,298,866
Interest-bearing transaction and savings accounts	2,095,476	1,829,568
Interest-bearing certificates	730,661	770,516
	4,387,653	3,898,950
Advances from FHLB at fair value	16,435	32,250
Other borrowings	88,083	77,185
Junior subordinated debentures at fair value (issued in connection with Trust Preferred Securities)	85,183	78,001
Accrued expenses and other liabilities	42,844	37,082
Deferred compensation	20,910	16,807
	4,641,108	4,140,275
<b>COMMITMENTS AND CONTINGENCIES (Note 14)</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock - \$0.01 par value per share, 500,000 shares authorized; no shares outstanding at September 30, 2015 and December 31, 2014	—	—
Common stock and paid in capital - \$0.01 par value per share, 50,000,000 shares authorized; 20,962,300 shares issued and outstanding at September 30, 2015; 19,571,548 shares issued and outstanding at December 31, 2014	628,958	568,882
Common stock (non-voting) - \$0.01 par value per share, 5,000,000 shares authorized; no shares issued and outstanding at September 30, 2015; and December 31, 2014	—	—
Retained earnings	41,269	14,264
Carrying value of shares held in trust for stock related compensation plans	(6,833)	(6,669)

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Liability for common stock issued to deferred, stock related, compensation plans	6,833	6,669
Accumulated other comprehensive income (loss)	975	(258 )
	671,202	582,888
	\$5,312,310	\$4,723,163

See Selected Notes to the Consolidated Financial Statements

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BANNER CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS

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

For the Three and Nine Months Ended September 30, 2015 and 2014

	Three Months Ended September 30		Nine Months Ended September 30	
	2015	2014	2015	2014
<b>INTEREST INCOME:</b>				
Loans receivable	\$51,749	\$46,496	\$149,192	\$131,439
Mortgage-backed securities	1,307	1,459	3,609	4,376
Securities and cash equivalents	1,737	1,809	5,138	5,595
	54,793	49,764	157,939	141,410
<b>INTEREST EXPENSE:</b>				
Deposits	1,738	1,903	5,240	5,776
FHLB advances	4	20	24	110
Other borrowings	47	43	137	133
Junior subordinated debentures	816	734	2,357	2,180
	2,605	2,700	7,758	8,199
Net interest income before provision for loan losses	52,188	47,064	150,181	133,211
<b>PROVISION FOR LOAN LOSSES</b>	—	—	—	—
Net interest income	52,188	47,064	150,181	133,211
<b>OTHER OPERATING INCOME:</b>				
Deposit fees and other service charges	9,746	8,289	27,435	22,237
Mortgage banking operations	4,426	2,842	13,238	7,282
Miscellaneous	1,039	946	3,064	2,577
	15,211	12,077	43,737	32,096
Gain (loss) on sale of securities	—	6	(537	) 41
Net change in valuation of financial instruments carried at fair value	(1,113	) 1,452	735	1,662
Acquisition bargain purchase gain	—	—	—	9,079
Total other operating income	14,098	13,535	43,935	42,878
<b>OTHER OPERATING EXPENSES:</b>				
Salary and employee benefits	27,026	22,971	78,057	66,457
Less capitalized loan origination costs	(3,747	) (3,204	) (10,372	) (8,680
Occupancy and equipment	6,470	5,819	18,833	17,055
Information/computer data services	2,219	2,131	6,744	5,984
Payment and card processing expenses	4,168	3,201	10,926	8,462
Professional services	951	784	2,489	2,900
Advertising and marketing	1,959	2,454	5,767	4,878
Deposit insurance	713	607	1,905	1,820
State/municipal business and use taxes	475	475	1,383	1,022
REO operations	(2	) (190	) 190	(260
Amortization of core deposit intangibles	286	531	1,268	1,460
Miscellaneous	3,972	3,410	11,416	9,884
	44,490	38,989	128,606	110,982
Acquisition-related costs (recovery)	2,207	(494	) 7,741	1,530
Total other operating expenses	46,697	38,495	136,347	112,512
Income before provision for income taxes	19,589	22,104	57,769	63,577
<b>PROVISION FOR INCOME TAXES</b>	6,642	7,285	19,440	21,221
<b>NET INCOME</b>	<b>\$12,947</b>	<b>\$14,819</b>	<b>\$38,329</b>	<b>\$42,356</b>

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Earnings per common share:

Basic	\$0.62	\$0.76	\$1.88	\$2.19
Diluted	\$0.62	\$0.76	\$1.87	\$2.18
Cumulative dividends declared per common share	\$0.18	\$0.18	\$0.54	\$0.54

See Selected Notes to the Consolidated Financial Statements

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BANNER CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited) (In thousands)

For the Three and Nine Months Ended September 30, 2015 and 2014

	Three Months Ended September 30		Nine Months Ended September 30	
	2015	2014	2015	2014
NET INCOME	\$ 12,947	\$ 14,819	\$ 38,329	\$ 42,356
OTHER COMPREHENSIVE INCOME, NET OF INCOME TAXES:				
Unrealized holding gain (loss) on available-for-sale securities arising during the period	1,169	(1,641	) 2,051	3,195
Income tax benefit (expense) related to available-for-sale securities unrealized holding gain (loss)	(421	) 597	(738	) (1,150
Reclassification for net gains on available-for-sale securities realized in earnings	—	(6	) (125	) (40
Income tax benefit related to available-for-sale securities realized gains	—	2	45	14
Other comprehensive income (loss)	748	(1,048	) 1,233	2,019
COMPREHENSIVE INCOME	\$ 13,695	\$ 13,771	\$ 39,562	\$ 44,375

See Selected Notes to the Consolidated Financial Statements

BANNER CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Unaudited) (In thousands, except for shares)

For the Nine Months Ended September 30, 2015 and the Year Ended December 31, 2014

	Common Stock and Paid in Capital		Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Unearned Restricted ESOP Shares	Stockholders' Equity
	Shares	Amount				
Balance, January 1, 2014	19,543,769	\$569,028	\$ (25,714 )	\$ (2,996 )	\$(1,987 )	\$ 538,331
Net income			54,070			54,070
Other comprehensive income, net of income tax				2,738		2,738
Accrual of dividends on common stock (\$0.72/share cumulative)			(14,092 )			(14,092 )
Redemption of unallocated shares upon termination of ESOP	(34,340 )	(1,987 )			1,987	—
Repurchase of shares upon termination of ESOP	(13,550 )	(555 )				(555 )
Proceeds from issuance of common stock for stockholder reinvestment program	3,170	127				127
Issuance of restricted stock and recognition of share-based compensation	72,499	2,269				2,269
BALANCE, December 31, 2014	19,571,548	\$568,882	\$ 14,264	\$ (258 )	\$—	\$ 582,888
Balance, January 1, 2015	19,571,548	\$568,882	\$14,264	\$(258 )	\$—	\$582,888
Net income			38,329			38,329
Other comprehensive income, net of income tax				1,233		1,233
Accrual of dividends on common stock (\$0.54/share cumulative)			(11,324 )			(11,324 )
Proceeds from issuance of common stock for stockholder reinvestment program	810	33				33
Issuance of restricted stock and recognition of share-based compensation	70,088	1,944				1,944
Issuance of shares for acquisition	1,319,854	58,099				58,099
BALANCE, September 30, 2015	20,962,300	\$628,958	\$41,269	\$975	\$—	\$671,202

See Selected Notes to the Consolidated Financial Statements

BANNER CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited) (In thousands)

For the Nine Months Ended September 30, 2015 and 2014

	Nine Months Ended September 30	
	2015	2014
<b>OPERATING ACTIVITIES:</b>		
Net income	\$38,329	\$42,356
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation	6,279	6,081
Deferred income and expense, net of amortization	2,194	2,555
Amortization of core deposit intangibles	1,268	1,460
Loss (gain) on sale of securities	537	(41)
Net change in valuation of financial instruments carried at fair value	(735)	(1,662)
Purchases of securities—trading	(6,337)	(2,387)
Proceeds from sales of securities—trading	2,485	2,387
Principal repayments and maturities of securities—trading	7,905	16,791
Bargain purchase gain on acquisition	—	(9,079)
Change in deferred taxes	97	5,713
Increase in current taxes payable	2,800	9,995
Equity-based compensation	1,944	1,677
Increase in cash surrender value of BOLI	(1,425)	(1,329)
Gain on sale of loans, net of capitalized servicing rights	(8,139)	(4,235)
Gain on disposal of real estate held for sale and property and equipment	(338)	(817)
Provision for losses on real estate held for sale	216	37
Origination of loans held for sale	(455,178)	(262,159)
Proceeds from sales of loans held for sale	462,967	262,179
Net change in:		
Other assets	(5,888)	(2,118)
Other liabilities	1,625	(33)
Net cash provided from operating activities	50,606	67,371
<b>INVESTING ACTIVITIES:</b>		
Purchases of securities—available-for-sale	(93,508)	(48,022)
Principal repayments and maturities of securities—available-for-sale	57,301	29,198
Proceeds from sales of securities—available-for-sale	40,293	