BANNER CORP
Form 10-Q
May 09, 2014

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

FORM 10-Q
(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2014.

OR

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

Commission File Number 0-26584

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

Washington	91-1691604
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

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

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

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

Yes [x] No [ ]

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

Yes [x] No [ ]

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

Large accelerated filer [ ] Accelerated filer [x] Non-accelerated filer [ ] Smaller reporting company [ ]

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

Title of class:	As of April 30, 2014
Common Stock, $.01 par value per share	19,575,904 shares *

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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: 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 general economic conditions, either nationally or in our market areas; changes in the levels of general interest rates and the relative differences between short and long-term interest rates, loan and deposit interest rates, our net interest margin and funding sources; fluctuations in the demand for loans, the number of unsold homes, land and other properties and fluctuations in real estate values in our market areas; secondary market conditions for loans and our ability to sell loans in the secondary market; results of examinations of us by the Board of Governors of the Federal Reserve System (the Federal Reserve Board) and of our bank subsidiaries by the Federal Deposit Insurance Corporation (the FDIC), the Washington State Department of Financial Institutions, Division of Banks (the Washington DFI) or other regulatory authorities, including the possibility that any such regulatory authority may, among other things, institute 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; our ability to successfully integrate any assets, liabilities, customers, systems, and management personnel we may acquire into our operations and our ability to realize related revenue synergies and cost savings within expected time frames and any goodwill charges related thereto; the requisite regulatory approvals for the Banner Bank-Idaho Banking Company merger might not obtained; whether Banner will be successful in the sale process that is being conducted pursuant to Chapter 363 of the Bankruptcy Code; 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)
March 31, 2014 and December 31, 2013

ASSETS	March 31 2014	December 31 2013
Cash and due from banks	$144,775	$137,349
Securities—trading, amortized cost $71,110 and $75,150, respectively	58,387	62,472
Securities—available-for-sale, amortized cost $466,866 and $474,960, respectively	464,657	470,280
Securities—held-to-maturity, fair value $112,409 and $103,610, respectively	109,567	102,513
Federal Home Loan Bank (FHLB) stock	33,288	35,390
Loans receivable:		
Held for sale	3,239	2,734
Held for portfolio	3,519,673	3,415,711
Allowance for loan losses	(74,371)	(74,258)
	3,448,541	3,344,187
Accrued interest receivable	15,202	13,996
Real estate owned (REO), held for sale, net	3,236	4,044
Property and equipment, net	89,440	90,267
Intangible assets, net	1,970	2,449
Bank-owned life insurance (BOLI)	62,377	61,945
Deferred tax assets, net	26,341	27,479
Income tax receivable	1,163	9,728
Other assets	29,352	26,799
	$4,488,296	$4,388,898
LIABILITIES		
Deposits:		
Non-interest-bearing	$1,095,665	$1,115,346
Interest-bearing transaction and savings accounts	1,681,854	1,629,885
Interest-bearing certificates	905,016	872,695
	3,682,535	3,617,926
Advances from FHLB at fair value	48,351	27,250
Other borrowings	89,921	83,056
Junior subordinated debentures at fair value (issued in connection with Trust Preferred Securities)	74,135	73,928
Accrued expenses and other liabilities	29,189	31,324
Deferred compensation	16,641	16,442
	3,940,772	3,849,926
COMMITMENTS AND CONTINGENCIES (Note 15)		
STOCKHOLDERS' EQUITY		
Common stock and paid in capital - $0.01 par value per share, 50,000,000 shares authorized, 19,576,535 shares issued and outstanding at March 31, 2014; 19,543,769 shares issued and 19,509,429 shares outstanding at December 31, 2013	566,964	569,028
Accumulated deficit	(18,026)	(25,073)
Accumulated other comprehensive (loss) income	(1,414)	(2,996)
Unearned shares of common stock issued to Employee Stock Ownership Plan (ESOP) trust at cost: no shares outstanding at March 31, 2014 and 34,340 shares outstanding at December 31, 2013	—	(1,987)
	547,524	538,972
	$4,488,296	$4,388,898

See Selected Notes to the Consolidated Financial Statements

BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited) (In thousands except for per share amounts)
For the Three Months Ended March 31, 2014 and 2013

	Three Months Ended March 31	
	2014	2013
INTEREST INCOME:		
Loans receivable	$41,743	$41,489
Mortgage-backed securities	1,471	1,172
Securities and cash equivalents	1,892	1,847
	45,106	44,508
INTEREST EXPENSE:		
Deposits	1,964	2,719
FHLB advances	38	24
Other borrowings	44	56
Junior subordinated debentures	721	741
	2,767	3,540
Net interest income before provision for loan losses	42,339	40,968
PROVISION FOR LOAN LOSSES	—	—
Net interest income	42,339	40,968
OTHER OPERATING INCOME:		
Deposit fees and other service charges	6,602	6,301
Mortgage banking operations	1,840	2,838
Miscellaneous	636	790
	9,078	9,929
Gain on sale of securities	35	1,006
Other-than-temporary impairment recovery	—	409
Net change in valuation of financial instruments carried at fair value	(255)	(1,347)
Total other operating income	8,858	9,997
OTHER OPERATING EXPENSES:		
Salary and employee benefits	21,156	20,729
Less capitalized loan origination costs	(2,195)	(2,871)
Occupancy and equipment	5,696	5,329
Information/computer data services	1,935	1,720
Payment and card processing expenses	2,515	2,305
Professional services	1,038	905
Advertising and marketing	1,057	1,499
Deposit insurance	576	645
State/municipal business and use taxes	159	464
REO operations	39	(251)
Amortization of core deposit intangibles	479	505
Miscellaneous	3,126	3,120
Total other operating expenses	35,581	34,099
Income before provision for income taxes	15,616	16,866
PROVISION FOR INCOME TAXES	5,046	5,284
NET INCOME	$10,570	$11,582
Earnings per common share:		
Basic	$0.55	$0.60

Diluted	$0.54	$0.60
Cumulative dividends declared per common share	$0.18	$0.12

See Selected Notes to the Consolidated Financial Statements

BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited) (In thousands)
For the Three Months Ended March 31, 2014 and 2013

	Three Months Ended March 31	
	2014	2013
NET INCOME	$10,570	$11,582
OTHER COMPREHENSIVE INCOME (LOSS), NET OF INCOME TAXES:		
Unrealized holding gain (loss) on AFS securities arising during the period	2,437	(378)
Income tax benefit (expense) related to AFS unrealized holding gains (losses)	(877)	136
Reclassification for net (gains) losses on AFS securities realized in earnings	34	(117)
Income tax benefit (expense) related to AFS realized gains (losses)	(12)	42
Amortization of unrealized gain on tax exempt securities transferred from AFS to HTM	—	—
Other comprehensive income (loss)	1,582	(317)
COMPREHENSIVE INCOME	$12,152	$11,265

See Selected Notes to the Consolidated Financial Statements

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BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited) (In thousands, except for shares)
For the Three Months Ended March 31, 2014

	Common Stock and Paid in Capital		Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Unearned Restricted ESOP Shares	Stockholders' Equity
	Shares	Amount				
Balance, January 1, 2014	19,509,429	$569,028	$ (25,073)	$ (2,996)	$(1,987)	$ 538,972
Net income			10,570			10,570
Change in valuation of securities—available-for-sale, net of income tax				1,582		1,582
Accrual of dividends on common stock ($0.18/share cumulative)			(3,523)			(3,523)
Redemption of unallocated shares upon termination of ESOP		(1,987)			1,987	—
Repurchase of shares upon termination of ESOP	(13,550)	(556)				(556)
Proceeds from issuance of common stock for stockholder reinvestment program	612	27				27
Issuance of restricted stock and amortization of related compensation	80,044	452				452
BALANCE, March 31, 2014	19,576,535	$566,964	$ (18,026)	$ (1,414)	$—	$ 547,524

See Selected Notes to the Consolidated Financial Statements

BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited) (In thousands, except for shares)
For the Year Ended December 31, 2013

	Common Stock and Paid in Capital		Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Unearned Restricted ESOP Shares	Stockholders' Equity
	Shares	Amount				
Balance, January 1, 2013	19,420,625	$567,907	$ (61,102)	$ 2,101	$(1,987)	$ 506,919
Net income			46,555			46,555
Change in valuation of securities—available-for-sale, net of income tax				(5,097)		(5,097)
Accrual of dividends on common stock ($0.54/share cumulative)			(10,526)			(10,526)
Proceeds from issuance of common stock for stockholder reinvestment program	2,098	72				72
Issuance of restricted stock and amortization of related compensation	86,706	1,049				1,049
BALANCE, December 31, 2013	19,509,429	$569,028	$ (25,073)	$ (2,996)	$(1,987)	$ 538,972

See Selected Notes to the Consolidated Financial Statements

BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited) (In thousands)
For the Three Months Ended March 31, 2014 and 2013

	Three Months Ended March 31	
	2014	2013
OPERATING ACTIVITIES:		
Net income	$10,570	$11,582
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,059	1,852
Deferred income and expense, net of amortization	1,127	1,516
Amortization of core deposit intangibles	479	505
Gain on sale of securities	(35)	(1,006)
Other-than-temporary impairment recovery	—	(409)
Net change in valuation of financial instruments carried at fair value	255	1,347
Purchases of securities—trading	(2,387)	(4,190)
Proceeds from sales of securities—trading	2,387	6,070
Principal repayments and maturities of securities—trading	4,055	1,948
Decrease in deferred taxes	1,138	6,212
Increase (decrease) in current taxes payable	8,566	(6,537)
Equity-based compensation	452	207
Increase in cash surrender value of BOLI	(425)	(528)
Gain on sale of loans, net of capitalized servicing rights	(981)	(2,130)
Gain on disposal of real estate held for sale and property and equipment	(159)	(816)
Provision for losses on real estate held for sale	37	73
Origination of loans held for sale	(68,388)	(127,214)
Proceeds from sales of loans held for sale	68,864	135,880
Net change in:		
Other assets	(4,366)	3,707
Other liabilities and equity	(3,099)	(2,885)
Net cash provided from operating activities	20,149	25,184
INVESTING ACTIVITIES:		
Purchases of securities—available-for-sale	(28,846)	(52,673)
Principal repayments and maturities of securities—available-for-sale	7,868	33,055
Proceeds from sales of securities—available-for-sale	28,207	13,900
Purchases of securities—held-to-maturity	(7,269)	(2,083)
Principal repayments and maturities of securities—held-to-maturity	45	54
Loan originations, net of principal repayments	(52,247)	(13,980)
Purchases of loans and participating interest in loans	(53,978)	(91)
Proceeds from sales of other loans	1,319	995
Purchases of property and equipment	(1,231)	(1,133)
Proceeds from sale of real estate held for sale, net	1,641	6,480
Proceeds from FHLB stock repurchase program	2,102	333
Other	(5)	(23)
Net cash used by investing activities	(102,394)	(15,166)
FINANCING ACTIVITIES:		
Increase (decrease) in deposits, net	64,609	(37,220)
Advances, net of (repayments) of FHLB borrowings	21,098	(10,002)
Increase in other borrowings, net	6,864	11,813

Cash dividends paid	(2,927)	(195)
Cash proceeds from issuance of stock for stockholder reinvestment plan	27	2
Net cash provided from (used by) financing activities	89,671	(35,602)
NET INCREASE(DECREASE) IN CASH AND DUE FROM BANKS	7,426	(25,584)
CASH AND DUE FROM BANKS, BEGINNING OF PERIOD	137,349	181,298
CASH AND DUE FROM BANKS, END OF PERIOD	$144,775	$155,714

(Continued on next page)

BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(Unaudited) (In thousands)
For the Three Months Ended March 31, 2014 and 2013

	Three Months Ended March 31	
	2014	2013
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid in cash	$2,821	$3,710
Taxes paid (refunds received) in cash	(3,785)	5,431
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	870	1,341

See Selected Notes to the Consolidated Financial Statements

BANNER CORPORATION AND SUBSIDIARIES
SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1: BASIS OF PRESENTATION AND CRITICAL ACCOUNTING POLICIES

The accompanying unaudited consolidated 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 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. Certain reclassifications have been made to the 2013 Consolidated Financial Statements and/or schedules to conform to the 2014 presentation. These reclassifications may have affected certain ratios for the prior periods. The effect of these reclassifications is considered immaterial. All significant intercompany transactions and balances have been eliminated.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements. Various elements of the Company's accounting policies, by their nature, are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. In particular, management has identified several accounting policies that, due to the judgments, estimates and assumptions inherent in those policies, are critical to an understanding of Banner's financial statements. These policies relate to (i) the methodology for the recognition of interest income, (ii) determination of the provision and allowance for loan and lease losses, (iii) the valuation of financial assets and liabilities recorded at fair value, including other-than-temporary impairment (OTTI) losses, (iv) the valuation of intangibles, such as core deposit intangibles and mortgage servicing rights, (v) the valuation of real estate held for sale and (vi) the valuation of or recognition of deferred tax assets and liabilities. These policies and judgments, estimates and assumptions are described in greater detail in subsequent notes to the Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations (Critical Accounting Policies) in our Annual Report on Form 10-K for the year ended December 31, 2013 filed with the SEC. Management believes that the judgments, estimates and assumptions used in the preparation of the financial statements are appropriate based on the factual circumstances at the time. However, given the sensitivity of the financial statements to these critical accounting policies, the use of other judgments, estimates and assumptions could result in material differences in the Company's results of operations or financial condition. Further, subsequent changes in economic or market conditions could have a material impact on these estimates and the Company's financial condition and operating results in future periods.

The information included in this Form 10-Q should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2013 as filed with the SEC (2013 Form 10-K). Interim results are not necessarily indicative of results for a full year.

Note 2: RECENT DEVELOPMENTS AND SIGNIFICANT EVENTS

Proposed Acquisition of Idaho Banking Company

On April 24, 2014, the Company announced that it had entered into an agreement with Idaho Bancorp, the holding company for Idaho Banking Company, pursuant to which Banner Corporation will purchase all of the stock and equity interests in Idaho Banking Company and merge it with and into Banner Bank. The transaction is subject to regulatory approval and other customary conditions of closing and is anticipated to be completed in the third quarter of 2014. The purchase agreement contemplates that Idaho Bancorp (the holding company) will file a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code and that the sale will be conducted under Section 363 of the Bankruptcy Code.

Proposed Acquisition of Six Sterling Savings Bank Branches

On February 19, 2014, the Company announced that Banner Bank had entered into an agreement for the acquisition of six branches in Oregon from Sterling Savings Bank, now Umpqua Holdings Corporation, after the consummation of the merger between those two institutions. On April 23, 2014, we received regulatory approval for the transaction. The purchase of the branches is still subject to the satisfaction of customary closing conditions and is expected to be completed in the second quarter of 2014.

Stockholder Equity Transactions:

Omnibus Incentive Plan: On January 8, 2014, the Company's board of directors unanimously adopted, and on April 22, 2014 the Company's shareholders approved, the Banner Corporation 2014 Omnibus Incentive Plan. The purpose of the Plan is to promote the success and enhance the value of Banner by linking the personal interests of employees and directors with those of Banner's shareholders. The Plan is further intended to provide flexibility to Banner in its ability to motivate, attract, and retain the services of employees and directors upon whose judgment, interest and special effort Banner depends. The Plan also allows performance-based compensation to be provided in a manner that exempts such compensation from the deduction limits imposed by Section 162(m) of the Internal Revenue Code.

Note 3: ACCOUNTING STANDARDS RECENTLY ADOPTED

Unrecognized Tax Benefits

In July 2013, FASB issued Accounting Standards Update (ASU) No. 2013-11, Presentation of an Unrecognized Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. This ASU requires an unrecognized tax benefit to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. An exception exists to the extent that a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax of the applicable jurisdiction does not require the entity to use, and entity does not intend to use, the deferred tax asset for such a purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. ASU No. 2013-11 is effective for fiscal years and interim periods beginning after December 15, 2013. The Company adopted the provisions of ASU No. 2013-11 effective January 1, 2014. The adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

Investing in Qualified Affordable Housing Projects

In January 2014, FASB issued ASU No. 2014-01, Accounting for Investments in Qualified Affordable Housing Projects. The objective of this ASU is to provide guidance on accounting for investments by a reporting entity in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for the low-income housing tax credit. The amendments in this ASU modify the conditions that a reporting entity must meet to be eligible to use a method other than the equity or cost methods to account for qualified affordable housing project investments. If the modified conditions are met, the amendments permit an entity to amortize the initial cost of the investment in proportion to the amount of tax credits and other tax benefits received and recognize the net investment performance in the income statement as a component of income tax expense (benefit). Additionally, the amendments introduce new recurring disclosures about all investments in qualified affordable housing projects irrespective of the method used to account for the investments. The amendments in this ASU should be applied retrospectively to all periods presented. ASU No. 2014-01 is effective beginning after December 15, 2014 and is not expected to have a material impact on the Company's consolidated financial statements.

Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure

In January 2014, FASB issued ASU No. 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. The amendments in this ASU clarify that an in-substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASU No. 2014-04 is effective for fiscal years and interim periods beginning after December 15, 2014 and is not expected to have a material impact on the Company's consolidated financial statements.

Note 4: BUSINESS SEGMENTS

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

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

—Note 5: INTEREST-BEARING DEPOSITS AND SECURITIES

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

	March 31 2014	December 31 2013	March 31 2013
Interest-bearing deposits included in cash and due from banks	$71,459	$67,638	$96,300
U.S. Government and agency obligations	61,438	61,327	79,959
Municipal bonds:			
Taxable	30,372	34,216	43,921
Tax exempt	124,692	119,588	110,062
Total municipal bonds	155,064	153,804	153,983
Corporate bonds	42,097	44,154	47,233
Mortgage-backed or related securities:			
One- to four-family residential agency guaranteed	57,263	58,117	89,036
One- to four-family residential other	1,003	1,051	1,282
Multifamily agency guaranteed	279,912	281,319	200,012
Multifamily other	10,415	10,234	10,787
Total mortgage-backed or related securities	348,593	350,721	301,117
Asset-backed securities:			
Student Loan Marketing Association (SLMA)	15,749	15,681	32,239
Other asset-backed securities	9,608	9,510	18,261
Total asset-backed securities	25,357	25,191	50,500
Equity securities (excludes FHLB stock)	62	68	60
Total securities	632,611	635,265	632,852
FHLB stock (see Note 6)	33,288	35,390	36,373
	$737,358	$738,293	$765,525

Securities—Trading: The amortized cost and estimated fair value of securities—trading at March 31, 2014 and December 31, 2013 are summarized as follows (dollars in thousands):

	March 31, 2014				December 31, 2013			
	Amortized Cost	Fair Value	Percent of Total		Amortized Cost	Fair Value	Percent of Total	
U.S. Government and agency obligations	$1,370	$1,511	2.6	%	$1,370	$1,481	2.4	%
Municipal bonds:								
Tax exempt	1,666	1,719	2.9		4,969	5,023	8.0	
Corporate bonds	49,464	35,062	60.1		49,498	35,140	56.2	
Mortgage-backed or related securities:								
One- to four-family residential agency guaranteed	9,822	10,545	18.1		10,483	11,230	18.0	
Multifamily agency guaranteed	8,774	9,488	16.2		8,816	9,530	15.3	
Total mortgage-backed or related securities	18,596	20,033	34.3		19,299	20,760	33.3	
Equity securities	14	62	0.1		14	68	0.1	
	$71,110	$58,387	100.0	%	$75,150	$62,472	100.0	%

There were three sales of securities—trading totaling $2.4 million with a resulting net gain of $1,000 during the three months ended March 31, 2014. There were 21 sales of securities—trading totaling $6.1 million with a resulting net gain of $1.1 million during the three months ended March 31, 2013, including $1.0 million which represented recoveries on certain collateralized debt obligations that had previously been written

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off. In addition to the $1.1 million net gain, the Company also recognized a $409,000 OTTI recovery on sales of securities—trading during the three months ended March 31, 2013, which was related to the sale of certain equity securities issued by government-sponsored entities. The Company recognized no OTTI charges or recoveries on securities—trading during the three months ended March 31, 2014. There were no securities—trading on nonaccrual status at March 31, 2014 and 2013.

The amortized cost and estimated fair value of securities—trading at March 31, 2014 and December 31, 2013, by contractual maturity, are shown below (in thousands). Expected maturities will differ from contractual maturities because some securities may be called or prepaid with or without call or prepayment penalties.

	March 31, 2014		December 31, 2013	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Maturing in one year or less	$260	$261	$260	$263
Maturing after one year through five years	5,803	6,147	7,056	7,298
Maturing after five years through ten years	10,181	11,063	12,602	13,572
Maturing after ten years through twenty years	33,005	26,608	33,335	27,472
Maturing after twenty years	21,847	14,246	21,883	13,799
	71,096	58,325	75,136	62,404
Equity securities	14	62	14	68
	$71,110	$58,387	$75,150	$62,472

Securities—Available-for-Sale: The amortized cost and estimated fair value of securities—available-for-sale at March 31, 2014 and December 31, 2013 are summarized as follows (dollars in thousands):

	March 31, 2014				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Total
U.S. Government and agency obligations	$59,139	$83	$(471)	$58,751	12.6 %
Municipal bonds:					
Taxable	19,774	125	(78)	19,821	4.2
Tax exempt	30,505	173	(165)	30,513	6.6
Total municipal bonds	50,279	298	(243)	50,334	10.8
Corporate bonds	5,000	—	(15)	4,985	1.1
Mortgage-backed or related securities:					
One- to four-family residential agency guaranteed	46,234	971	(487)	46,718	10.1
One- to four-family residential other	945	58	—	1,003	0.2
Multifamily agency guaranteed	269,103	457	(2,466)	267,094	57.5
Multifamily other	10,580	—	(165)	10,415	2.2
Total mortgage-backed or related securities	326,862	1,486	(3,118)	325,230	70.0
Asset-backed securities:					
SLMA	15,528	221	—	15,749	3.4
Other asset-backed securities	10,058	—	(450)	9,608	2.1
Total asset-backed securities	25,586	221	(450)	25,357	5.5
	$466,866	$2,088	$(4,297)	$464,657	100.0 %

	December 31, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Total
U.S. Government and agency obligations	$59,178	$117	$(635)	$58,660	12.5 %
Municipal bonds:					
Taxable	23,842	100	(278)	23,664	5.0
Tax exempt	29,229	170	(208)	29,191	6.2
Total municipal bonds	53,071	270	(486)	52,855	11.2
Corporate bonds	7,001	2	(39)	6,964	1.5
Mortgage-backed or related securities:					
One- to four-family residential agency guaranteed	47,077	648	(838)	46,887	10.0
One- to four-family residential other	988	63	—	1,051	0.2
Multifamily agency guaranteed	271,428	402	(3,392)	268,438	57.1
Multifamily other	10,604	—	(370)	10,234	2.2
Total mortgage-backed or related securities	330,097	1,113	(4,600)	326,610	69.5
Asset-backed securities:					
SLMA	15,553	128	—	15,681	3.3
Other asset-backed securities	10,060	—	(550)	9,510	2.0
Total asset-backed securities	25,613	128	(550)	25,191	5.3
	$474,960	$1,630	$(6,310)	$470,280	100.0 %

At March 31, 2014 and December 31, 2013, an aging of unrealized losses and fair value of related securities—available-for-sale was as follows (in thousands):

	March 31, 2014					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government and agency obligations	$29,777	$(471)	$—	$—	$29,777	$(471)
Municipal bonds:						
Taxable	7,413	(73)	425	(5)	7,838	(78)
Tax exempt	8,863	(58)	1,626	(107)	10,489	(165)
Total municipal bonds	16,276	(131)	2,051	(112)	18,327	(243)
Corporate bonds	4,986	(15)	—	—	4,986	(15)
Mortgage-backed or related securities:						
One- to four-family residential agency guaranteed	3,514	(44)	12,297	(443)	15,811	(487)
Multifamily agency guaranteed	170,998	(2,143)	23,891	(323)	194,889	(2,466)
Multifamily other	10,415	(165)	—	—	10,415	(165)
Total mortgage-backed or related securities	184,927	(2,352)	36,188	(766)	221,115	(3,118)
Asset-backed securities:						
Other asset-backed securities	—	—	9,608	(450)	9,608	(450)
	$235,966	$(2,969)	$47,847	$(1,328)	$283,813	$(4,297)

	December 31, 2013					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government and agency obligations	$39,621	$(633)	$998	$(2)	$40,619	$(635)
Municipal bonds:						
Taxable	15,580	(261)	413	(17)	15,993	(278)
Tax exempt	8,217	(205)	487	(3)	8,704	(208)
Total municipal bonds	23,797	(466)	900	(20)	24,697	(486)
Corporate bonds	4,961	(39)	—	—	4,961	(39)
Mortgage-backed or related securities:						
One- to four-family residential agency guaranteed	14,972	(133)	22,560	(705)	37,532	(838)
Multifamily agency guaranteed	199,407	(3,162)	10,096	(230)	209,503	(3,392)
Multifamily other	10,234	(370)	—	—	10,234	(370)
Total mortgage-backed or related securities	224,613	(3,665)	32,656	(935)	257,269	(4,600)
Asset-backed securities:						
Other asset-backed securities	—	—	9,510	(550)	9,510	(550)
	$292,992	$(4,803)	$44,064	$(1,507)	$337,056	$(6,310)

There were six sales of securities—available-for-sale totaling $28.2 million with a resulting net gain of $34,000 during the three months ended March 31, 2014. There were four sales of securities—available-for-sale totaling $13.9 million with a resulting net loss of $117,000 during the three months ended March 31, 2013. At March 31, 2014, there were 94 securities—available for sale with unrealized losses, compared to 114 securities at December 31, 2013. Management does not believe that any individual unrealized loss as of March 31, 2014 represents OTTI. The decline in fair market values of these securities was generally due to changes in interest rates and changes in market-desired spreads subsequent to their purchase. There were no securities—available-for-sale on nonaccrual status at March 31, 2014 and 2013.

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The amortized cost and estimated fair value of securities—available-for-sale at March 31, 2014 and December 31, 2013, by contractual maturity, are shown below (in thousands). Expected maturities will differ from contractual maturities because some securities may be called or prepaid with or without call or prepayment penalties.

	March 31, 2014		December 31, 2013	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Maturing in one year or less	$22,596	$22,669	$25,136	$25,256
Maturing after one year through five years	320,498	318,483	322,493	319,489
Maturing after five years through ten years	56,619	56,325	58,468	57,782
Maturing after ten years through twenty years	5,220	5,045	15,535	15,135
Maturing after twenty years	61,933	62,135	53,328	52,618
	$466,866	$464,657	$474,960	$470,280

Securities—Held-to-Maturity: The amortized cost and estimated fair value of securities—held-to-maturity at March 31, 2014 and December 31, 2013 are summarized as follows (dollars in thousands):

	March 31, 2014				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Total Amortized Cost
U.S. Government and agency obligations	$1,176	$—	$(59)	$1,117	1.1 %
Municipal bonds:					
Taxable	10,551	208	(80)	10,679	9.6
Tax exempt	92,460	3,523	(723)	95,260	84.4
Total municipal bonds	103,011	3,731	(803)	105,939	94.0
Corporate bonds	2,050	—	—	2,050	1.9
Mortgage-backed or related securities:					
Multifamily agency guaranteed	3,330	3	(30)	3,303	3.0
	$109,567	$3,734	$(892)	$112,409	100.0 %

	December 31, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Total Amortized Cost
U.S. Government and agency obligations	$1,186	$—	$(80)	$1,106	1.2 %
Municipal bonds:					
Taxable	10,552	193	(204)	10,541	10.3
Tax exempt	85,374	2,545	(1,299)	86,620	83.3
Total municipal bonds	95,926	2,738	(1,503)	97,161	93.6
Corporate bonds	2,050	—	—	2,050	2.0
Mortgage-backed or related securities:					
Multifamily agency guaranteed	3,351	—	(58)	3,293	3.2
	$102,513	$2,738	$(1,641)	$103,610	100.0 %

At March 31, 2014 and December 31, 2013, an age analysis of unrealized losses and fair value of related securities—held-to-maturity was as follows (in thousands):

	March 31, 2014					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government and agency obligations	$1,117	$(59)	$—	$—	$1,117	$(59)
Municipal bonds:						
Taxable	1,593	(25)	3,002	(55)	4,595	(80)
Tax exempt	22,129	(708)	306	(15)	22,435	(723)
Total municipal bonds	23,722	(733)	3,308	(70)	27,030	(803)
Mortgage-backed or related securities:						
Multifamily agency guaranteed	2,231	(30)	—	—	2,231	(30)
	$27,070	$(822)	$3,308	$(70)	$30,378	$(892)

	December 31, 2013					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government and agency obligations	$1,106	$(80)	$—	$—	$1,106	$(80)
Municipal bonds:						
Taxable	3,344	(110)	2,964	(94)	6,308	(204)
Tax exempt	31,234	(1,282)	303	(17)	31,537	(1,299)
Total municipal bonds	34,578	(1,392)	3,267	(111)	37,845	(1,503)
Mortgage-backed or related securities:						
Multifamily agency guaranteed	3,293	(58)	—	—	3,293	(58)
	$38,977	$(1,530)	$3,267	$(111)	$42,244	$(1,641)

There were no sales of securities—held-to-maturity during the three months ended March 31, 2014 and 2013. At March 31, 2014, there were 31 securities—held-to-maturity with unrealized losses, compared to 36 securities at December 31, 2013. Management does not believe that any individual unrealized loss as of March 31, 2014 represents OTTI. The decline in fair market value of these securities was generally due to changes in interest rates and changes in market-desired spreads subsequent to their purchase. There were no securities—held-to-maturity on nonaccrual status at March 31, 2014 and 2013.

The amortized cost and estimated fair value of securities—held-to-maturity at March 31, 2014 and December 31, 2013, by contractual maturity, are shown below (in thousands). Expected maturities will differ from contractual maturities because some securities may be called or prepaid with or without call or prepayment penalties.

	March 31, 2014		December 31, 2013	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Maturing in one year or less	$1,270	$1,277	$1,270	$1,281
Maturing after one year through five years	10,824	11,170	10,834	11,206
Maturing after five years through ten years	21,001	21,059	17,948	17,908
Maturing after ten years through twenty years	60,268	62,598	59,643	60,791
Maturing after twenty years	16,204	16,305	12,818	12,424
	$109,567	$112,409	$102,513	$103,610

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Pledged Securities: The following table presents, as of March 31, 2014, investment securities which were pledged to secure borrowings, public deposits or other obligations as permitted or required by law (in thousands):

	Carrying Value	Amortized Cost	Fair Value
Purpose or beneficiary:			
State and local governments public deposits	$128,207	$127,997	$130,975
Interest rate swap counterparties	8,850	8,527	8,850
Retail repurchase agreements	103,394	103,120	103,394
Total pledged securities	$240,451	$239,644	$243,219

Note 6: FHLB STOCK

The Banks' investments in Federal Home Loan Bank of Seattle stock are carried at par value ($100 per share), which reasonably approximates its fair value. As members of the FHLB system, the Banks are required to maintain a minimum level of investment in FHLB stock based on specific percentages of their outstanding FHLB advances. At March 31, 2014 and December 31, 2013, respectively, the Company had recorded $33.3 million and $35.4 million in investments in FHLB stock. This stock is generally viewed as a long-term investment and it does not have a readily determinable fair value. Ownership of FHLB stock is restricted to the FHLB and member institutions and can only be purchased and redeemed at par. For the three months ended March 31, 2014, the Banks received dividend income of $9,000 on FHLB stock. For the three months ended March 31, 2013, the Banks did not receive any dividend income on FHLB stock.

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

Previously, the Federal Housing Finance Agency (the FHFA), the FHLB of Seattle's primary regulator, determined that the FHLB of Seattle had a risk-based capital deficiency as of December 31, 2008, and required the FHLB to suspend future dividends and the repurchase and redemption of outstanding common stock. Subsequent improvement in the FHLB's operating performance and financial condition, however, led to a September 7, 2012 announcement by the FHLB that the FHFA now considers the FHLB of Seattle to be adequately capitalized. Dividends on, or repurchases of, the FHLB of Seattle stock continue to require the consent of the FHFA. However, the FHFA has subsequently approved the repurchase of portions of FHLB of Seattle stock in each quarter since the third quarter of 2012, and has approved the payment of cash dividends by the FHLB of Seattle in each quarter since the third quarter of 2013. The FHLB repurchased $2.1 million of the Banks' stock during the quarter ending March 31, 2014. The FHLB of Seattle announced on February 20, 2014 that, based on fourth quarter 2013 financial results, its Board of Directors had declared a $0.025 per share cash dividend. It is the third dividend in a number of years and represents a significant milestone in FHLB of Seattle's return to normal operations. The Company will continue to monitor the financial condition of the FHLB as it relates to, among other things, the recoverability of Banner's investment. Based on the above, the Company has determined there is no impairment on the FHLB stock investment as of March 31, 2014.

Note 7: LOANS RECEIVABLE AND THE ALLOWANCE FOR LOAN LOSSES

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

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

Loans receivable, including loans held for sale, at March 31, 2014, December 31, 2013 and March 31, 2013 are summarized as follows (dollars in thousands):

	March 31, 2014		December 31, 2013		March 31, 2013	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Commercial real estate:						
Owner-occupied	$504,429	14.3 %	$502,601	14.7 %	$497,442	15.3 %
Investment properties	746,670	21.2	692,457	20.3	602,761	18.6
Multifamily real estate	153,003	4.3	137,153	4.0	134,290	4.1
Commercial construction	11,146	0.3	12,168	0.4	34,762	1.1
Multifamily construction	63,862	1.8	52,081	1.5	34,147	1.1
One- to four-family construction	219,169	6.2	200,864	5.8	171,876	5.3
Land and land development:						
Residential	73,733	2.1	75,695	2.2	78,446	2.4
Commercial	10,864	0.3	10,450	0.3	12,477	0.4
Commercial business	716,546	20.4	682,169	20.0	619,478	19.1
Agricultural business, including secured by farmland	208,817	5.9	228,291	6.7	210,225	6.5
One- to four-family residential	517,621	14.7	529,494	15.5	566,730	17.5
Consumer:						
Consumer secured by one- to four-family	177,855	5.1	173,188	5.1	165,305	5.1
Consumer-other	119,197	3.4	121,834	3.5	112,382	3.5
Total loans outstanding	3,522,912	100.0 %	3,418,445	100.0 %	3,240,321	100.0 %
Less allowance for loan losses	(74,371)		(74,258)		(76,396)	
Net loans	$3,448,541		$3,344,187		$3,163,925	

Loan amounts are net of unearned loan fees in excess of unamortized costs of $8.2 million as of March 31, 2014, $8.3 million as of December 31, 2013 and $9.0 million as of March 31, 2013.

The Company's total loans by geographic concentration at March 31, 2014 were as follows (dollars in thousands):

	Washington	Oregon	Idaho	Other	Total
Commercial real estate:					
Owner-occupied	$375,100	$58,446	$58,503	$12,380	$504,429
Investment properties	512,057	105,742	58,988	69,883	746,670
Multifamily real estate	119,490	18,360	15,014	139	153,003
Commercial construction	10,663	—	483	—	11,146
Multifamily construction	46,652	17,210	—	—	63,862
One- to four-family construction	117,699	100,208	1,262	—	219,169
Land and land development:					
Residential	41,348	31,143	1,242	—	73,733
Commercial	5,393	3,339	2,132	—	10,864
Commercial business	420,900	90,299	66,677	138,670	716,546
Agricultural business, including secured by farmland	115,341	49,250	44,226	—	208,817
One- to four-family residential	327,889	166,592	20,994	2,146	517,621
Consumer:					
Consumer secured by one- to four-family	115,758	47,961	13,494	642	177,855
Consumer—other	80,993	32,089	5,747	368	119,197

Total loans	$2,289,283	$720,639	$288,762	$224,228	$3,522,912
Percent of total loans	65.0 %	20.5 %	8.2 %	6.3 %	100.0 %

The geographic concentrations of the Company's land and land development loans by state at March 31, 2014 were as follows (dollars in thousands):

	Washington	Oregon	Idaho	Total
Residential:				
Acquisition and development	$17,523	$11,899	$1,018	$30,440
Improved land and lots	17,866	18,643	224	36,733
Unimproved land	5,959	601	—	6,560
Commercial:				
Acquisition and development	—	—	351	351
Improved land and lots	2,739	513	625	3,877
Unimproved land	2,654	2,826	1,156	6,636
Total land and land development loans	$46,741	$34,482	$3,374	$84,597
Percent of land and land development loans	55.2 %	40.8 %	4.0 %	100.0 %

The Company originates both adjustable- and fixed-rate loans. The maturity and repricing composition of those loans, less undisbursed amounts and deferred fees and origination costs, at March 31, 2014, December 31, 2013 and March 31, 2013 were as follows (in thousands):

	March 31, 2014	December 31, 2013	March 31, 2013
Fixed-rate (term to maturity):			
Maturing in one year or less	$138,143	$122,313	$152,586
Maturing after one year through three years	129,715	143,322	176,372
Maturing after three years through five years	186,169	187,279	187,021
Maturing after five years through ten years	213,774	209,869	172,654
Maturing after ten years	476,228	439,004	445,872
Total fixed-rate loans	1,144,029	1,101,787	1,134,505
Adjustable-rate (term to rate adjustment):			
Maturing or repricing in one year or less	1,413,240	1,390,579	1,274,415
Maturing or repricing after one year through three years	313,218	279,791	253,048
Maturing or repricing after three years through five years	546,291	541,529	515,861
Maturing or repricing after five years through ten years	104,609	99,503	62,443
Maturing or repricing after ten years	1,525	5,256	49
Total adjustable-rate loans	2,378,883	2,316,658	2,105,816
Total loans	$3,522,912	$3,418,445	$3,240,321

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

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

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

The amount of impaired loans and the related allocated reserve for loan losses as of March 31, 2014 and December 31, 2013 were as follows (in thousands):

	March 31, 2014		December 31, 2013	
	Loan Amount	Allocated Reserves	Loan Amount	Allocated Reserves
Impaired loans:				
Nonaccrual loans				
Commercial real estate:				
Owner-occupied	$2,509	$39	$2,466	$31
Investment properties	3,692	62	3,821	89
One- to four-family construction	269	70	269	—
Land and land development:				
Residential	1,866	234	924	6
Commercial business	977	80	724	104
One- to four-family residential	10,587	63	12,532	250
Consumer:				
Consumer secured by one- to four-family	1,178	33	903	13
Consumer—other	221	—	269	1
Total nonaccrual loans	21,299	581	21,908	494
Loans past due and still accruing				
Agricultural business, including secured by farmland	104	7	105	8
One- to four-family residential	1,465	9	2,611	16
Consumer:				
Consumer secured by one- to four-family	—	—	13	—
Consumer—other	—	—	131	1
Total loans past due and still accruing	1,569	16	2,860	25
Troubled debt restructuring on accrual status:				
Commercial real estate:				
Owner-occupied	185	4	186	4
Investment properties	4,621	570	5,367	415
Multifamily real estate	5,726	1,060	5,744	1,139
One- to four-family construction	5,727	846	6,864	1,002
Land and land development:				
Residential	2,271	371	4,061	754
Commercial business	1,040	159	1,299	222
One- to four-family residential	19,998	1,250	23,302	1,355
Consumer:				
Consumer secured by one- to four-family	360	32	360	33
Consumer—other	239	34	245	34
Total troubled debt restructurings on accrual status	40,167	4,326	47,428	4,958
Total impaired loans	$63,035	$4,923	$72,196	$5,477

As of March 31, 2014 and December 31, 2013, the Company had commitments to advance funds up to an additional amount of $913,000 and $225,000, respectively, related to TDRs.

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The following tables provide additional information on impaired loans with and without specific allowance reserves at or for the three months ended March 31, 2014 and at or for the year ended December 31, 2013 (in thousands):

	At or For the Three Months Ended March 31, 2014				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Without a specific allowance reserve (1)					
Commercial real estate:					
Owner-occupied	$608	$658	$39	$615	$—
Investment properties	336	882	63	351	—
Commercial business	977	1,546	80	1,188	—
Agricultural business/farmland	104	104	7	104	—
One- to four-family residential	7,091	7,572	30	7,098	—
Consumer:					
Consumer secured by one- to four-family	811	954	11	815	—
Consumer—other	99	119	—	107	—
	10,026	11,835	230	10,278	—
With a specific allowance reserve (2)					
Commercial real estate:					
Owner-occupied	2,086	2,086	4	2,101	3
Investment properties	7,977	9,030	569	7,996	56
Multifamily real estate	5,726	5,726	1,060	5,731	78
One- to-four family construction	5,996	6,076	916	5,962	62
Land and land development:					
Residential	4,137	5,292	605	4,218	32
Commercial business	1,040	1,040	159	1,044	13
One- to four-family residential	24,959	25,969	1,292	25,148	256
Consumer:					
Consumer secured by one- to four-family	727	727	54	727	5
Consumer—other	361	378	34	364	6
	53,009	56,324	4,693	53,291	511
Total					
Commercial real estate:					
Owner-occupied	2,694	2,744	43	2,716	3
Investment properties	8,313	9,912	632	8,347	56
Multifamily real estate	5,726	5,726	1,060	5,731	78
One- to four-family construction	5,996	6,076	916	5,962	62
Land and land development:					
Residential	4,137	5,292	605	4,218	32
Commercial business	2,017	2,586	239	2,232	13
Agricultural business/farmland	104	104	7	104	—
One- to four-family residential	32,050	33,541	1,322	32,246	256
Consumer:					
Consumer secured by one- to four-family	1,538	1,681	65	1,542	5
Consumer—other	460	497	34	471	6
	$63,035	$68,159	$4,923	$63,569	$511

	At or For the Year Ended December 31, 2013				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Without a specific allowance reserve [1]					
Commercial real estate:					
Owner-occupied	$534	$584	$31	$569	$—
Investment properties	429	974	89	624	—
Commercial business	724	1,040	104	896	—
Agricultural business/farmland	105	105	8	110	8
One- to four-family residential	8,611	9,229	42	8,889	31
Consumer:					
Consumer secured by one- to four-family	870	1,013	13	900	1
Consumer—other	276	285	2	287	8
	11,549	13,230	289	12,275	48
With a specific allowance reserve [2]					
Commercial real estate:					
Owner-occupied	2,118	2,118	4	2,192	12
Investment properties	8,759	10,395	415	8,353	241
Multifamily real estate	5,744	5,744	1,139	5,705	298
One- to-four family construction	7,133	7,213	1,002	5,870	239
Land and land development:					
Residential	4,985	6,140	760	6,053	221
Commercial business	1,298	1,298	222	1,340	59
One- to four-family residential	29,834	31,440	1,579	31,668	1,032
Consumer:					
Consumer secured by one- to four-family	406	407	33	503	24
Consumer—other	370	386	34	390	21
	60,647	65,141	5,188	62,074	2,147
Total					
Commercial real estate					
Owner-occupied	2,652	2,702	35	2,761	12
Investment properties	9,188	11,369	504	8,977	241
Multifamily real estate	5,744	5,744	1,139	5,705	298
One- to four-family construction	7,133	7,213	1,002	5,870	239
Land and land development					
Residential	4,985	6,140	760	6,053	221
Commercial business	2,022	2,338	326	2,236	59
Agricultural business/farmland	105	105	8	110	8
One- to four-family residential	38,445	40,669	1,621	40,557	1,063
Consumer					
Consumer secured by one- to four-family	1,276	1,420	46	1,403	25
Consumer—other	646	671	36	677	29
	$72,196	$78,371	$5,477	$74,349	$2,195

(1) Loans without a specific allowance reserve have not been individually evaluated for impairment, but have been included in pools of homogeneous loans for evaluation of related allowance reserves.

(2) Loans with a specific allowance reserve have been individually evaluated for impairment using either a discounted cash flow analysis or, for collateral dependent loans, current appraisals to establish realizable value. These analyses may identify a specific impairment amount needed or may conclude that no reserve is needed. Any

specific impairment that is identified is included in the category’s Related Allowance column.

The following tables present TDRs at March 31, 2014 and December 31, 2013 (in thousands):

	March 31, 2014		
	Accrual Status	Nonaccrual Status	Total TDRs
Commercial real estate:			
Owner-occupied	$185	$700	$885
Investment properties	4,621	1,587	6,208
Multifamily real estate	5,726	—	5,726
One- to four-family construction	5,727	269	5,996
Land and land development:			
Residential	2,271	1,116	3,387
Commercial business	1,040	143	1,183
One- to four-family residential	19,998	2,751	22,749
Consumer:			
Consumer secured by one- to four-family	360	249	609
Consumer—other	239	122	361
	$40,167	$6,937	$47,104

	December 31, 2013		
	Accrual Status	Nonaccrual Status	Total TDRs
Commercial real estate:			
Owner-occupied	$186	$613	$799
Investment properties	5,367	1,630	6,997
Multifamily real estate	5,744	—	5,744
One- to four-family construction	6,864	269	7,133
Land and land development:			
Residential	4,061	174	4,235
Commercial business	1,299	164	1,463
One- to four-family residential	23,302	2,474	25,776
Consumer:			
Consumer secured by one- to four-family	360	252	612
Consumer—other	245	123	368
	$47,428	$5,699	$53,127

The following tables present new TDRs that occurred during the three months ended March 31, 2014 and 2013 (dollars in thousands):

	Three Months Ended March 31, 2014		
	Number of Contracts	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Recorded Investment [1] [2]			
Commercial real estate			
Owner occupied	1	$ 94	$ 94
Commercial business	1	100	100
	2	$ 194	$ 194

	Three Months Ended March 31, 2013		
	Number of Contracts	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Recorded Investment [1] [2]			
One- to four-family construction	4	$ 427	$ 427
One- to four-family residential	10	3,709	3,695
	14	$ 4,136	$ 4,122

(1) Since most loans were already considered classified and/or on nonaccrual status prior to restructuring, the modifications did not have a material effect on the Company's determination of the allowance for loan losses.

(2) The majority of these modifications do not fit into one separate type, such as rate, term, amount, interest-only or payment, but instead are a combination of multiple types of modifications; therefore, they are disclosed in aggregate.

The following table presents TDRs which incurred a payment default within twelve months of the restructure date during the three-month periods ended March 31, 2014 and 2013 (in thousands). A default on a TDR results in either a transfer to nonaccrual status or a partial charge-off:

	Three Months Ended March 31	
	2014	2013
Commercial business	$—	$351
Total	$—	$351

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

Overall Risk Rating Definitions: Risk-ratings contain both qualitative and quantitative measurements and take into account the financial strength of a borrower and the structure of the loan or lease. Consequently, the definitions are to be applied in the context of each lending transaction and judgment must also be used to determine the appropriate risk rating, as it is not unusual for a loan or lease to exhibit characteristics of more than one risk-rating category. Consideration for the final rating is centered in the borrower's ability to repay, in a timely fashion, both principal and interest. There were no material changes in the risk-rating or loan grading system in the three months ended March 31, 2014.

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

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

Risk Rating 3: Strong
A credit supported by good overall financial strength and stability. Collateral margins are strong; cash flow is stable although susceptible to cyclical market changes.

Risk Rating 4: Acceptable
A credit supported by the borrower's adequate financial strength and stability. Assets and cash flow are reasonably sound and provide for orderly debt reduction. Access to alternative financing sources will be more difficult to obtain.

Risk Rating 5: Watch
A credit with the characteristics of an acceptable credit which requires, however, more than the normal level of supervision and warrants formal quarterly management reporting. Credits in this category are not yet criticized or classified, but due to adverse events or aspects of underwriting require closer than normal supervision. Generally, credits should be watch credits in most cases for six months or less as the impact of stress factors are analyzed.

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

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

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

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

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

The following table shows the Company's portfolio of risk-rated loans and non-risk-rated loans by grade or other characteristics as of March 31, 2014 and December 31, 2013 (in thousands):

	March 31, 2014							
	Commercial Real Estate	Multifamily Real Estate	Construction and Land	Commercial Business	Agricultural Business	One- to Four-Family	Consumer	Total Loans
Risk-rated loans:								
Pass (Risk Ratings 1-5) [(1)]	$1,216,193	$147,391	$358,451	$693,520	$207,851	$502,701	$293,947	$3,420,054
Special mention	8,752	—	350	12,092	606	—	104	21,904
Substandard	25,610	5,612	19,973	10,926	360	14,920	3,001	80,402
Doubtful	544	—	—	8	—	—	—	552
Loss	—	—	—	—	—	—	—	—
Total loans	$1,251,099	$153,003	$378,774	$716,546	$208,817	$517,621	$297,052	$3,522,912
Performing loans	$1,244,898	$153,003	$376,639	$715,569	$208,713	$505,569	$295,653	$3,500,044
Non-performing loans [(2)]	6,201	—	2,135	977	104	12,052	1,399	22,868
Total loans	$1,251,099	$153,003	$378,774	$716,546	$208,817	$517,621	$297,052	$3,522,912

	December 31, 2013							
	Commercial Real Estate	Multifamily Real Estate	Construction and Land	Commercial Business	Agricultural Business	One- to Four-Family	Consumer	Total Loans
Risk-rated loans:								
Pass (Risk Ratings 1-5) [(1)]	$1,160,921	$131,523	$332,150	$655,007	$225,329	$511,967	$291,992	$3,308,889
Special mention	6,614	—	350	10,484	561	—	106	18,115
Substandard	26,979	5,630	18,758	16,669	2,401	17,527	2,924	90,888
Doubtful	544	—	—	9	—	—	—	553
Loss	—	—	—	—	—	—	—	—
Total loans	$1,195,058	$137,153	$351,258	$682,169	$228,291	$529,494	$295,022	$3,418,445
Performing loans	$1,188,771	$137,153	$350,065	$681,445	$228,187	$514,351	$293,705	$3,393,677
Non-performing loans [(2)]	6,287	—	1,193	724	104	15,143	1,317	24,768
Total loans	$1,195,058	$137,153	$351,258	$682,169	$228,291	$529,494	$295,022	$3,418,445

(1) The Pass category includes some performing loans that are part of homogenous pools which are not individually risk-rated. This includes all consumer loans, all one- to four-family residential loans and, as of March 31, 2014 and December 31, 2013, in the commercial business category, $97 million and $94 million, respectively, of credit-scored small business loans. As loans in these pools become non-performing, they are individually risk-rated.

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

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The following tables provide additional detail on the age analysis of the Company's past due loans as of March 31, 2014 and December 31, 2013 (in thousands):

	March 31, 2014						
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Loans 90 Days or More Past Due and Accruing
Commercial real estate:							
Owner-occupied	$3,312	$—	$544	$3,856	$500,573	$504,429	$—
Investment properties	—	—	1,820	1,820	744,850	746,670	—
Multifamily real estate	—	—	—	—	153,003	153,003	—
Commercial construction	—	—	—	—	11,146	11,146	—
Multifamily construction	—	—	—	—	63,862	63,862	—
One-to-four-family construction	1,516	—	269	1,785	217,384	219,169	—
Land and land development:							
Residential	—	560	750	1,310	72,423	73,733	—
Commercial	—	—	—	—	10,864	10,864	—
Commercial business	3,714	822	118	4,654	711,892	716,546	—
Agricultural business, including secured by farmland	450	—	105	555	208,262	208,817	104
One- to four-family residential	843	1,836	5,796	8,475	509,146	517,621	1,465
Consumer:							
Consumer secured by one- to four-family	232	660	459	1,351	176,504	177,855	—
Consumer—other	451	331	15	797	118,400	119,197	—
Total	$10,518	$4,209	$9,876	$24,603	$3,498,309	$3,522,912	$1,569

	December 31, 2013						
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Loans 90 Days or More Past Due and Accruing
Commercial real estate:							
Owner-occupied	$883	$550	$813	$2,246	$500,355	$502,601	$—
Investment properties	—	—	—	—	692,457	692,457	—
Multifamily real estate	1,845	785	—	2,630	134,523	137,153	—
Commercial construction	—	—	—	—	12,168	12,168	—
Multifamily construction	—	—	—	—			