BANNER CORP
Form 10-Q
August 08, 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 JUNE 30, 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 (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 [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 July 31, 2014
Common Stock, $.01 par value per share	19,572,823 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; 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)
June 30, 2014 and December 31, 2013

ASSETS	June 30 2014	December 31 2013
Cash and due from banks	$146,561	$137,349
Securities—trading, amortized cost $70,472 and $75,150, respectively	61,393	62,472
Securities—available-for-sale, amortized cost $455,232 and $474,960, respectively	455,353	470,280
Securities—held-to-maturity, fair value $138,065 and $103,610, respectively	133,186	102,513
Federal Home Loan Bank (FHLB) stock	31,191	35,390
Loans receivable:		
Held for sale	7,322	2,734
Held for portfolio	3,755,277	3,415,711
Allowance for loan losses	(74,310)	(74,258)
	3,688,289	3,344,187
Accrued interest receivable	15,579	13,996
Real estate owned (REO), held for sale, net	4,388	4,044
Property and equipment, net	91,912	90,267
Intangible assets, net	3,892	2,449
Bank-owned life insurance (BOLI)	62,815	61,945
Deferred tax assets, net	22,065	27,479
Income tax receivable	166	9,728
Other assets	28,509	26,799
	$4,745,299	$4,388,898
LIABILITIES		
Deposits:		
Non-interest-bearing	$1,210,068	$1,115,346
Interest-bearing transaction and savings accounts	1,771,865	1,629,885
Interest-bearing certificates	936,986	872,695
	3,918,919	3,617,926
Advances from FHLB at fair value	45,251	27,250
Other borrowings	88,946	83,056
Junior subordinated debentures at fair value (issued in connection with Trust Preferred Securities)	77,313	73,928
Accrued expenses and other liabilities	35,619	31,324
Deferred compensation	16,238	16,442
	4,182,286	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, 19,568,704 shares issued and outstanding at June 30, 2014; 19,543,769 shares issued and 19,509,429 shares outstanding at December 31, 2013	567,483	569,028
Accumulated deficit	(4,541)	(25,073)
Accumulated other comprehensive income (loss)	71	(2,996)
Unearned shares of common stock issued to Employee Stock Ownership Plan (ESOP) trust at cost: no shares outstanding at June 30, 2014 and 34,340 shares outstanding at December 31, 2013	—	(1,987)
	563,013	538,972
	$4,745,299	$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 and Six Months Ended June 30, 2014 and 2013

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
INTEREST INCOME:				
Loans receivable	$43,199	$42,292	$84,942	$83,781
Mortgage-backed securities	1,446	1,394	2,917	2,566
Securities and cash equivalents	1,895	1,885	3,787	3,733
	46,540	45,571	91,646	90,080
INTEREST EXPENSE:				
Deposits	1,910	2,490	3,874	5,210
FHLB advances	51	40	90	64
Other borrowings	45	51	89	107
Junior subordinated debentures	726	742	1,446	1,482
	2,732	3,323	5,499	6,863
Net interest income before provision for loan losses	43,808	42,248	86,147	83,217
PROVISION FOR LOAN LOSSES	—	—	—	—
Net interest income	43,808	42,248	86,147	83,217
OTHER OPERATING INCOME:				
Deposit fees and other service charges	7,346	6,628	13,947	12,928
Mortgage banking operations	2,600	3,574	4,440	6,412
Miscellaneous	644	664	1,281	1,455
	10,590	10,866	19,668	20,795
Gain on sale of securities	—	12	35	1,018
Other-than-temporary impairment recovery	—	—	—	409
Net change in valuation of financial instruments carried at fair value	464	(255)	209	(1,601)
Acquisition bargain purchase gain	9,079	—	9,079	—
Total other operating income	20,133	10,623	28,991	20,621
OTHER OPERATING EXPENSES:				
Salary and employee benefits	22,330	21,224	43,486	41,953
Less capitalized loan origination costs	(3,282)	(3,070)	(5,477)	(5,941)
Occupancy and equipment	5,540	5,415	11,236	10,744
Information/computer data services	1,918	1,923	3,853	3,643
Payment and card processing expenses	2,746	2,449	5,261	4,753
Professional services	1,109	820	2,115	1,726
Advertising and marketing	1,370	1,798	2,425	3,297
Deposit insurance	637	617	1,213	1,263
State/municipal business and use taxes	388	538	547	1,003
REO operations	(109)	(195)	(70)	(446)
Amortization of core deposit intangibles	450	477	929	982
Acquisition related costs	1,979	—	2,024	—
Miscellaneous	3,359	3,461	6,473	6,580
Total other operating expenses	38,435	35,457	74,015	69,557
Income before provision for income taxes	25,506	17,414	41,123	34,281
PROVISION FOR INCOME TAXES	8,499	5,661	13,545	10,945

NET INCOME	$17,007	$11,753	$27,578	$23,336
Earnings per common share:				
Basic	$0.88	$0.61	$1.43	$1.21
Diluted	$0.88	$0.60	$1.42	$1.20
Cumulative dividends declared per common share	$0.18	$0.12	$0.36	$0.24

See Selected Notes to the Consolidated Financial Statements

BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited) (In thousands)
For the Three and Six Months Ended June 30, 2014 and 2013

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
NET INCOME	$17,007	$11,753	$27,578	$23,336
OTHER COMPREHENSIVE INCOME (LOSS), NET OF INCOME TAXES:				
Unrealized holding gain (loss) on AFS securities arising during the period	2,330	(8,476)	4,767	(8,854)
Income tax benefit (expense) related to AFS unrealized holding gains (losses)	(845)	3,043	(1,722)	3,179
Reclassification for net (gains) losses on AFS securities realized in earnings	—	1	34	(116)
Income tax benefit (expense) related to AFS realized gains (losses)	—	—	(12)	42
Other comprehensive income (loss)	1,485	(5,432)	3,067	(5,749)
COMPREHENSIVE INCOME	$18,492	$6,321	$30,645	$17,587

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 Six Months Ended June 30, 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			27,578			27,578
Other comprehensive income, net of income tax				3,067		3,067
Accrual of dividends on common stock ($0.36/share cumulative)			(7,046)			(7,046)
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	1,451	60				60
Issuance of restricted stock and amortization of related compensation	71,374	938				938
BALANCE, June 30, 2014	19,568,704	$567,483	$ (4,541)	$ 71	$—	$ 563,013

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
Other comprehensive loss, 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

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BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited) (In thousands)
For the Six Months Ended June 30, 2014 and 2013

	Six Months Ended June 30	
	2014	2013
OPERATING ACTIVITIES:		
Net income	$27,578	$23,336
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	4,053	3,679
Deferred income and expense, net of amortization	1,883	2,233
Amortization of core deposit intangibles	929	982
Gain on sale of securities	(35)	(1,018)
Other-than-temporary impairment recovery	—	(409)
Net change in valuation of financial instruments carried at fair value	(209)	1,601
Purchases of securities—trading	(2,387)	(23,377)
Proceeds from sales of securities—trading	2,387	25,267
Principal repayments and maturities of securities—trading	4,702	3,657
Bargain purchase gain on acquisition	(9,079)	—
Decrease in deferred taxes	5,414	570
Increase (decrease) in current taxes payable	9,562	(4,245)
Equity-based compensation	818	478
Increase in cash surrender value of BOLI	(858)	(982)
Gain on sale of loans, net of capitalized servicing rights	(2,528)	(4,303)
Gain on disposal of real estate held for sale and property and equipment	(453)	(1,454)
Provision for losses on real estate held for sale	37	299
Origination of loans held for sale	(160,625)	(263,111)
Proceeds from sales of loans held for sale	158,565	272,941
Net change in:		
Other assets	(1,967)	19,440
Other liabilities and equity	2,946	(5,019)
Net cash provided from operating activities	40,733	50,565
INVESTING ACTIVITIES:		
Purchases of securities—available-for-sale	(30,272)	(179,555)
Principal repayments and maturities of securities—available-for-sale	20,085	68,488
Proceeds from sales of securities—available-for-sale	28,207	103,274
Purchases of securities—held-to-maturity	(33,686)	(9,029)
Principal repayments and maturities of securities—held-to-maturity	2,603	987
Loan originations, net of principal repayments	(155,279)	(66,066)
Purchases of loans and participating interest in loans	(101,840)	(91)
Proceeds from sales of other loans	2,491	3,288
Net cash received from acquisition	127,557	—
Purchases of property and equipment	(2,617)	(2,439)
Proceeds from sale of real estate held for sale, net	2,672	11,787
Proceeds from FHLB stock repurchase program	4,199	665
Other	(2,054)	120
Net cash used by investing activities	(137,934)	(68,571)
FINANCING ACTIVITIES:		
Increase (decrease) in deposits, net	88,907	(97,480)

Advances, net of repayments of FHLB borrowings	17,996	43,997
Increase in other borrowings, net	5,889	14,146
Cash dividends paid	(6,439)	(2,530)
Cash proceeds from issuance of stock for stockholder reinvestment plan	60	23
Net cash provided from (used by) financing activities	106,413	(41,844)
NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS	9,212	(59,850)
CASH AND DUE FROM BANKS, BEGINNING OF PERIOD	137,349	181,298
CASH AND DUE FROM BANKS, END OF PERIOD	$146,561	$121,448

(Continued on next page)

BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(Unaudited) (In thousands)
For the Six Months Ended June 30, 2014 and 2013

	Six Months Ended June 30	
	2014	2013
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid in cash	$5,527	$7,087
Taxes paid, net of refunds received in cash	292	11,376
NON-CASH INVESTING AND FINANCING TRANSACTIONS:		
Loans, net of discounts, specific loss allowances and unearned income, transferred to real estate owned and other repossessed assets	2,885	1,770
ACQUISITIONS (Note 2):		
Assets acquired	221,206	—
Liabilities assumed	212,127	—

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 Siuslaw Financial Group, Inc.

On August 7, 2014, the Company announced the execution of a definitive agreement to purchase Siuslaw Financial Group, Inc. (Siuslaw), the holding company of Siuslaw Bank, an Oregon state charted commercial bank. The consideration for the transaction is approximately 90% stock and 10% cash. Based on the Banner closing priced of $39.14 per share on August 7, 2014 the aggregate consideration would be $57.5 million. The purchase is subject to approval by Siuslaw shareholders, regulatory approval and other customary conditions of closing. Upon closing of the transaction, which is anticipated to take place in the latter part of the fourth quarter of 2014, Siuslaw will be merged into Banner and Siuslaw Bank will be merged into Banner Bank.

Termination of Proposed Acquisition of Idaho Banking Company

On June 30, 2014, the Company announced it had terminated its agreement to acquire Idaho Banking Company (Idaho Banking) through the bidding process under Section 363 of Chapter 11 of the United States Bankruptcy Code in the U.S. Bankruptcy Court for the District of Idaho (Bankruptcy Court). Banner proposed to purchase all of the issued and outstanding shares of Idaho Banking Company pursuant to an Asset Purchase Agreement (Agreement) it had entered into with Idaho Bancorp, the bank holding company of Idaho Banking, on April 24, 2014. In connection with the June 26, 2014 Bankruptcy Court-supervised auction process, as contemplated by the Agreement, Idaho Banking received the highest offer from another bidder. Accordingly, the Agreement has been terminated. Pursuant to the Agreement, the Company will be reimbursed for its expenses in connection with the transaction.

Acquisition of Six Oregon Branches

Effective as of the close of business on June 20, 2014, Banner Bank completed the purchase of six branches from Umpqua Bank, successor to Sterling Savings Bank. Five of the six branches are located in Coos County, Oregon and the sixth branch is located in Douglas County, Oregon. The purchase provided $212 million in deposit accounts, $88 million in loans, and $3 million in branch properties. Banner Bank received $128 million in cash from the transaction.

The assets acquired and liabilities assumed in the purchase have been accounted for under the acquisition method of accounting. The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the acquisition date, and are subject to change for up to one year after the closing date of the acquisition. The application of the acquisition method of accounting resulted in recognition of a core deposit intangible asset of $2.4 million and an acquisition bargain purchase gain of $9.1 million. The bargain purchase gain represents the excess fair value of the net assets acquired over the purchase price, including fair value of liabilities assumed. The bargain purchase gain consisted primarily of a $7 million discount on the assets acquired in this required branch divestiture combined with a $2.4 million core deposit intangible, net of approximately $300,000 in fair value adjustments. The acquired core deposit intangible has been determined to have a useful life of approximately eight years and will be amortized on an accelerated basis.

The following table displays the fair value as of the acquisition date for each major class of assets acquired and liabilities assumed (in thousands):

	Fair Value at June 20, 2014
Assets:	
Cash	$127,557
Loans receivable, net (contractual amount of $88.3 million)	87,923
Property and equipment, net	3,079
Core deposit intangible	2,372
Other assets	275
Total assets	221,206
Liabilities:	
Deposits	212,085
Other liabilities	42
Total liabilities	212,127
Acquisition bargain purchase gain	$9,079

Amounts recorded are preliminary estimates of fair value. The primary reason for the acquisition was to continue the Company's growth strategy, including expanding our geographic footprint in markets throughout the Northwest. As of June 20, 2014 the transaction had no remaining contingencies. Pro forma results of operations for the three and six months ended June 30, 2014 and 2013, as if the branch acquisitions had occurred on January 1, 2013, have not been presented because historical financial information was not available.

The operating results of the Company include the operating results produced by the six acquired branches from June 21, 2014 to June 30, 2014. In connection with the acquisition, Banner recognized $2.0 million of acquisition-related expenses for the three and six months ended June 30, 2014 as follows (in thousands):

	Three Months Ended June 30, 2014	Six Months Ended June 30, 2014
Acquisition-related costs recognized in other operating expenses:		
Non-capitalized equipment	$29	$29
Client communications	236	238
Information/computer data services	632	632
Payment and processing expenses	271	271
Professional services	587	619
Miscellaneous	224	235
	$1,979	$2,024

Stockholder Equity Transactions:

Omnibus Incentive Plan: On January 28, 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, the Financial Accounting Standards Board (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.

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which creates Topic 606 and supersedes Topic 605, Revenue Recognition. The core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In general, the new guidance requires companies to use more judgment and make more estimates than under current guidance, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The standard is effective for public entities for interim and annual periods beginning after December 15, 2016; early adoption is not permitted. For financial reporting purposes, the standard allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the standard recognized at the date of initial application. The Company is currently evaluating the provisions of ASU No. 2014-09 to determine the potential impact the standard will have on the Company's consolidated financial statements.

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 a traditional banking institution, gathering deposits and originating loans for its portfolios in its 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, or GAAP, 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):

	June 30 2014	December 31 2013
Interest-bearing deposits included in cash and due from banks	$62,990	$67,638
U.S. Government and agency obligations	55,908	61,327
Municipal bonds:		
Taxable	35,227	34,216
Tax exempt	138,859	119,588
Total municipal bonds	174,086	153,804
Corporate bonds	45,340	44,154
Mortgage-backed or related securities:		
One- to four-family residential agency guaranteed	56,063	58,117
One- to four-family residential other	911	1,051
Multifamily agency guaranteed	281,421	281,319
Multifamily other	10,676	10,234
Total mortgage-backed or related securities	349,071	350,721
Asset-backed securities:		
Student Loan Marketing Association (SLMA)	15,732	15,681
Other asset-backed securities	9,734	9,510
Total asset-backed securities	25,466	25,191
Equity securities (excludes FHLB stock)	61	68
Total securities	649,932	635,265
Total interest-bearing deposits and securities	$712,922	$702,903

Securities—Trading: The amortized cost and estimated fair value of securities—trading at June 30, 2014 and December 31, 2013 are summarized as follows (dollars in thousands):

	June 30, 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	$1,530	2.5 %	$1,370	$1,481	2.4 %
Municipal bonds:						
Tax exempt	1,666	1,716	2.8	4,969	5,023	8.0
Corporate bonds	49,466	38,529	62.7	49,498	35,140	56.2
Mortgage-backed or related securities:						
One- to four-family residential agency guaranteed	9,222	9,987	16.3	10,483	11,230	18.0
Multifamily agency guaranteed	8,734	9,570	15.6	8,816	9,530	15.3
Total mortgage-backed or related securities	17,956	19,557	31.9	19,299	20,760	33.3
Equity securities	14	61	0.1	14	68	0.1
	$70,472	$61,393	100.0 %	$75,150	$62,472	100.0 %

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There were three sales of securities—trading totaling $2.4 million with a resulting net gain of $1,000 during the six months ended June 30, 2014. There were 37 sales of securities—trading totaling $25.3 million with a resulting net gain of $1.0 million during the six months ended June 30, 2013, including $1.0 million which represented recoveries on certain collateralized debt obligations that had previously been written off. In addition to the $1.0 million net gain, the Company also recognized a $409,000 OTTI recovery on sales of securities—trading during the six months ended June 30, 2013, which was related to the sale of certain equity securities issued by government-sponsored entities. The Company did not recognize any OTTI charges or recoveries on securities—trading during the six months ended June 30, 2014. No securities—trading were on nonaccrual status at June 30, 2014 and 2013.

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

	June 30, 2014		December 31, 2013	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Maturing in one year or less	$11,759	$11,763	$260	$263
Maturing after one year through five years	6,524	6,969	7,056	7,298
Maturing after five years through ten years	8,976	9,915	12,602	13,572
Maturing after ten years through twenty years	21,352	17,930	33,335	27,472
Maturing after twenty years	21,847	14,755	21,883	13,799
	70,458	61,332	75,136	62,404
Equity securities	14	61	14	68
	$70,472	$61,393	$75,150	$62,472

Securities—Available-for-Sale: The amortized cost and estimated fair value of securities—available-for-sale at June 30, 2014 and December 31, 2013 are summarized as follows (dollars in thousands):

June 30, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Total
U.S. Government and agency obligations	$52,424	$41	$(253)	$52,212	11.5 %
Municipal bonds:					
Taxable	19,733	116	(40)	19,809	4.4
Tax exempt	30,876	194	(78)	30,992	6.8
Total municipal bonds	50,609	310	(118)	50,801	11.2
Corporate bonds	5,000	11	—	5,011	1.1
Mortgage-backed or related securities:					
One- to four-family residential agency guaranteed	43,883	839	(452)	44,270	9.7
One- to four-family residential other	860	51	—	911	0.2
Multifamily agency guaranteed	266,339	877	(1,210)	266,006	58.4
Multifamily other	10,554	122	—	10,676	2.3
Total mortgage-backed or related securities	321,636	1,889	(1,662)	321,863	70.6
Asset-backed securities:					
SLMA	15,508	224	—	15,732	3.5
Other asset-backed securities	10,055	—	(321)	9,734	2.1
Total asset-backed securities	25,563	224	(321)	25,466	5.6
	$455,232	$2,475	$(2,354)	$455,353	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 June 30, 2014 and December 31, 2013, an aging of unrealized losses and fair value of related securities—available-for-sale was as follows (in thousands):

	June 30, 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	$6,691	$(8)	$20,299	$(245)	$26,990	$(253)
Municipal bonds:						
Taxable	3,031	(6)	3,829	(34)	6,860	(40)
Tax exempt	1,617	(3)	3,757	(75)	5,374	(78)
Total municipal bonds	4,648	(9)	7,586	(109)	12,234	(118)
Mortgage-backed or related securities:						
One- to four-family residential agency guaranteed	10,338	(79)	12,107	(373)	22,445	(452)
Multifamily agency guaranteed	21,224	(84)	119,731	(1,126)	140,955	(1,210)
Total mortgage-backed or related securities	31,562	(163)	131,838	(1,499)	163,400	(1,662)
Asset-backed securities:						
Other asset-backed securities	—	—	9,734	(321)	9,734	(321)
	$42,901	$(180)	$169,457	$(2,174)	$212,358	$(2,354)

	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 six months ended June 30, 2014. There were 35 sales of securities—available-for-sale totaling $103.3 million with a resulting net loss of $116,000 during the six months ended June 30, 2013. At June 30, 2014, there were 64 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 June 30, 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 June 30, 2014 or 2013.

The amortized cost and estimated fair value of securities—available-for-sale at June 30, 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.

	June 30, 2014		December 31, 2013	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Maturing in one year or less	$20,198	$20,248	$25,136	$25,256
Maturing after one year through five years	314,605	314,067	322,493	319,489
Maturing after five years through ten years	56,558	56,708	58,468	57,782
Maturing after ten years through twenty years	5,923	5,819	15,535	15,135
Maturing after twenty years	57,948	58,511	53,328	52,618
	$455,232	$455,353	$474,960	$470,280

Securities—Held-to-Maturity: The amortized cost and estimated fair value of securities—held-to-maturity at June 30, 2014 and December 31, 2013 are summarized as follows (dollars in thousands):

	June 30, 2014				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Total Amortized Cost
U.S. Government and agency obligations	$2,166	$—	$(29)	$2,137	1.6 %
Municipal bonds:					
Taxable	15,418	287	(38)	15,667	11.6
Tax exempt	106,151	4,970	(361)	110,760	79.7
Total municipal bonds	121,569	5,257	(399)	126,427	91.3
Corporate bonds	1,800	—	—	1,800	1.4
Mortgage-backed or related securities:					
One- to four-family residential agency guaranteed	1,806	—	(10)	1,796	1.4
Multifamily agency guaranteed	5,845	60	—	5,905	4.3
Total mortgage-backed or related securities	7,651	60	(10)	7,701	5.7
	$133,186	$5,317	$(438)	$138,065	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 %

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At June 30, 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):

	June 30, 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	$1,000	$(1)	$1,137	$(28)	$2,137	$(29)
Municipal bonds:						
Taxable	2,222	(8)	2,837	(30)	5,059	(38)
Tax exempt	7,499	(82)	9,080	(279)	16,579	(361)
Total municipal bonds	9,721	(90)	11,917	(309)	21,638	(399)
Mortgage-backed or related securities:						
One- to four-family residential agency guaranteed	1,796	(10)	—	—	1,796	(10)
	$12,517	$(101)	$13,054	$(337)	$25,571	$(438)

	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 six months ended June 30, 2014 and 2013. At June 30, 2014, there were 37 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 June 30, 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 June 30, 2014 or 2013.

The amortized cost and estimated fair value of securities—held-to-maturity at June 30, 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.

	June 30, 2014		December 31, 2013	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Maturing in one year or less	$1,365	$1,377	$1,270	$1,281
Maturing after one year through five years	14,447	14,774	10,834	11,206
Maturing after five years through ten years	26,912	27,231	17,948	17,908
Maturing after ten years through twenty years	64,444	68,049	59,643	60,791
Maturing after twenty years	26,018	26,634	12,818	12,424

$133,186	$138,065	$102,513	$103,610

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Pledged Securities: The following table presents, as of June 30, 2014, investment securities and interest-bearing deposits 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	$131,022	$130,863	$135,798
Interest rate swap counterparties	9,902	9,468	9,902
Retail repurchase agreements	102,175	101,574	102,175
Other	248	248	248
Total pledged securities and interest-bearing deposits	$243,347	$242,153	$248,123

Note 6: FHLB STOCK

The Banks' investments in Federal Home Loan Bank of Seattle stock are carried at cost, which is its par value ($100 per share), and 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 June 30, 2014 and December 31, 2013, respectively, the Company had recorded $31.2 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 six months ended June 30, 2014, the Banks received dividend income of $18,000 on FHLB stock. For the six months ended June 30, 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. Since the third quarter of 2012, the FHFA has approved the repurchase of portions of FHLB of Seattle stock in each subsequent quarter and since the third quarter of 2013 has approved the payment of cash dividends by the FHLB of Seattle in each subsequent quarter. The FHLB repurchased $2.1 million of the Banks' stock during the quarter ending June 30, 2014. The FHLB of Seattle announced on July 29, 2014 that, based on second quarter 2014 financial results, its Board of Directors had declared a $0.025 per share cash dividend. This is the fourth dividend received since dividends recommenced in the third quarter of 2013. Even though the payment of dividends and stock repurchases have resumed, 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 June 30, 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 June 30, 2014, December 31, 2013 and June 30, 2013 are summarized as follows (dollars in thousands):

	June 30, 2014		December 31, 2013		June 30, 2013	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Commercial real estate:						
Owner-occupied	$541,558	14.4 %	$502,601	14.7 %	$500,812	15.2 %
Investment properties	807,499	21.5	692,457	20.3	595,896	18.1
Multifamily real estate	188,792	5.0	137,153	4.0	137,027	4.2
Commercial construction	12,638	0.3	12,168	0.4	25,629	0.8
Multifamily construction	39,864	1.1	52,081	1.5	39,787	1.2
One- to four-family construction	213,414	5.7	200,864	5.8	191,003	5.8
Land and land development:						
Residential	73,030	1.9	75,695	2.2	86,037	2.6
Commercial	10,679	0.3	10,450	0.3	11,228	0.3
Commercial business	735,128	19.5	682,169	20.0	639,840	19.5
Agricultural business, including secured by farmland	245,742	6.5	228,291	6.7	233,967	7.1
One- to four-family residential	558,744	14.9	529,494	15.5	552,698	16.8
Consumer:						
Consumer secured by one- to four-family	209,511	5.6	173,188	5.1	163,339	5.0
Consumer-other	126,000	3.3	121,834	3.5	112,938	3.4
Total loans outstanding	3,762,599	100.0 %	3,418,445	100.0 %	3,290,201	100.0 %
Less allowance for loan losses	(74,310)		(74,258)		(76,121)	
Net loans	$3,688,289		$3,344,187		$3,214,080	

Loan amounts are net of unearned loan fees in excess of unamortized costs of $8.4 million as of June 30, 2014, $8.3 million as of December 31, 2013 and $8.9 million as of June 30, 2013.

The Company’s total loans by geographic concentration at June 30, 2014 were as follows (dollars in thousands):

	Washington	Oregon	Idaho	Other	Total
Commercial real estate:					
Owner-occupied	$388,662	$85,787	$54,529	$12,580	$541,558
Investment properties	535,393	116,493	59,700	95,913	807,499
Multifamily real estate	146,291	27,175	14,932	394	188,792
Commercial construction	11,770	—	868	—	12,638
Multifamily construction	33,454	6,410	—	—	39,864
One- to four-family construction	127,627	83,832	1,955	—	213,414
Land and land development:					
Residential	40,492	31,358	1,180	—	73,030
Commercial	5,163	2,605	2,911	—	10,679
Commercial business	397,570	120,286	66,940	150,332	735,128
Agricultural business, including secured by farmland	134,477	59,120	52,145	—	245,742
One- to four-family residential	332,850	202,853	22,025	1,016	558,744
Consumer:					
Consumer secured by one- to four-family	125,888	68,272	14,314	1,037	209,511
Consumer—other	81,884	37,708	6,000	408	126,000

Total loans	$2,361,521	$841,899	$297,499	$261,680	$3,762,599
Percent of total loans	62.7 %	22.4 %	7.9 %	7.0 %	100.0 %

The geographic concentrations of the Company's land and land development loans by state at June 30, 2014 were as follows (dollars in thousands):

	Washington	Oregon	Idaho	Total
Residential:				
Acquisition and development	$15,752	$13,457	$983	$30,192
Improved land and lots	19,261	17,289	197	36,747
Unimproved land	5,479	612	—	6,091
Commercial:				
Acquisition and development	—	—	—	—
Improved land and lots	2,913	500	1,785	5,198
Unimproved land	2,250	2,105	1,126	5,481
Total land and land development loans	$45,655	$33,963	$4,091	$83,709
Percent of land and land development loans	54.5 %	40.6 %	4.9 %	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 June 30, 2014, December 31, 2013 and June 30, 2013 were as follows (in thousands):

	June 30, 2014	December 31, 2013	June 30, 2013
Fixed-rate (term to maturity):			
Maturing in one year or less	$122,304	$122,313	$145,221
Maturing after one year through three years	148,398	143,322	167,187
Maturing after three years through five years	195,309	187,279	201,672
Maturing after five years through ten years	222,369	209,869	192,594
Maturing after ten years	511,972	439,004	425,603
Total fixed-rate loans	1,200,352	1,101,787	1,132,277
Adjustable-rate (term to rate adjustment):			
Maturing or repricing in one year or less	1,510,684	1,390,579	1,292,387
Maturing or repricing after one year through three years	372,477	279,791	266,841
Maturing or repricing after three years through five years	568,997	541,529	526,563
Maturing or repricing after five years through ten years	108,989	99,503	69,797
Maturing or repricing after ten years	1,100	5,256	2,336
Total adjustable-rate loans	2,562,247	2,316,658	2,157,924
Total loans	$3,762,599	$3,418,445	$3,290,201

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 Company will not collect all amounts due, both principal and interest, in accordance with the terms of the original loan agreement. Loans identified as TDRs are accounted for in accordance with the Company's impaired loan accounting policies.

The amount of impaired loans and the related allocated reserve for loan losses as of June 30, 2014 and December 31, 2013 were as follows (in thousands):

	June 30, 2014		December 31, 2013	
	Loan Amount	Allocated Reserves	Loan Amount	Allocated Reserves
Impaired loans:				
Nonaccrual loans				
Commercial real estate:				
Owner-occupied	$2,381	$36	$2,466	$31
Investment properties	311	62	3,821	89
Multifamily real estate	422	60	—	—
One- to four-family construction	—	—	269	—
Land and land development:				
Residential	1,296	176	924	6
Commercial business	925	69	724	104
Agricultural business, including secured by farmland	104	6	—	—
One- to four-family residential	9,354	53	12,532	250
Consumer:				
Consumer secured by one- to four-family	1,024	49	903	13
Consumer—other	181	—	269	1
Total nonaccrual loans	15,998	511	21,908	494
Loans 90 days or more past due and still accruing				
Commercial real estate:				
Owner-occupied	993	1	—	—
Commercial business	280	6	—	—
Agricultural business, including secured by farmland	—	—	105	8
One- to four-family residential	2,181	11	2,611	16
Consumer:				
Consumer secured by one- to four-family	6	—	13	—
Consumer—other	287	—	131	1
Total loans past due and still accruing	3,747	18	2,860	25
Troubled debt restructuring on accrual status:				
Commercial real estate:				
Owner-occupied	184	4	186	4
Investment properties	6,101	747	5,367	415
Multifamily real estate	5,705	850	5,744	1,139
One- to four-family construction	4,831	656	6,864	1,002
Land and land development:				
Residential	1,638	459	4,061	754
Commercial business	989	163	1,299	222
One- to four-family residential	17,521	1,131	23,302	1,355
Consumer:				
Consumer secured by one- to four-family	259	28	360	33
Consumer—other	233	33	245	34
Total troubled debt restructurings on accrual status	37,461	4,071	47,428	4,958

Total impaired loans	$57,206	$4,600	$72,196	$5,477

As of June 30, 2014 and December 31, 2013, the Company had commitments to advance funds up to an additional amount of $731,000 and $225,000, respectively, related to TDRs.

The following tables provide additional information on impaired loans with and without specific allowance reserves at or for the six months ended June 30, 2014 and at or for the year ended December 31, 2013 (in thousands):

	At or For the Six Months Ended June 30, 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	$1,599	$1,649	$37	$1,604	$18
Investment properties	311	857	62	334	—
Multifamily real estate	422	422	60	433	—
Commercial business	1,205	1,571	75	1,299	5
Agricultural business/farmland	104	104	6	104	—
One- to four-family residential	7,923	8,395	26	7,804	13
Consumer:					
Consumer secured by one- to four-family	663	676	11	672	—
Consumer—other	348	352	—	354	4
	12,575	14,026	277	12,604	40
With a specific allowance reserve (2)					
Commercial real estate:					
Owner-occupied	1,959	1,959	4	2,070	6
Investment properties	6,101	6,506	747	6,147	160
Multifamily real estate	5,705	5,705	850	5,719	127
One- to-four family construction	4,831	4,831	656	4,592	103
Land and land development:					
Residential	2,934	4,089	635	2,943	46
Commercial business	989	989	162	1,035	28
One- to four-family residential	21,133	21,892	1,170	21,870	453
Consumer:					
Consumer secured by one- to four-family	627	627	66	677	9
Consumer—other	352	369	33	360	11
	44,631	46,967	4,323	45,413	943
Total					
Commercial real estate:					
Owner-occupied	3,558	3,608	41	3,674	24
Investment properties	6,412	7,363	809	6,481	160
Multifamily real estate	6,127	6,127	910	6,152	127
One- to four-family construction	4,831	4,831	656	4,592	103
Land and land development:					
Residential	2,934	4,089	635	2,943	46
Commercial business	2,194	2,560	237	2,334	33
Agricultural business/farmland	104	104	6	104	—
One- to four-family residential	29,056	30,287	1,196	29,674	466
Consumer:					
Consumer secured by one- to four-family	1,290	1,303	77	1,349	9
Consumer—other	700	721	33	714	15
	$57,206	$60,993	$4,600	$58,017	$983

	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 June 30, 2014 and December 31, 2013 (in thousands):

	June 30, 2014		
	Accrual Status	Nonaccrual Status	Total TDRs
Commercial real estate:			
Owner-occupied	$184	$710	$894
Investment properties	6,101	45	6,146
Multifamily real estate	5,705	—	5,705
One- to four-family construction	4,831	—	4,831
Land and land development:			
Residential	1,638	546	2,184
Commercial business	989	123	1,112
One- to four-family residential	17,521	2,211	19,732
Consumer:			
Consumer secured by one- to four-family	259	168	427
Consumer—other	233	119	352
	$37,461	$3,922	$41,383

	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 and six months ended June 30, 2014 and 2013 (dollars in thousands):

	Three Months Ended June 30, 2014			Six Months Ended June 30, 2014		
	Number of Contracts	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment	Number of Contracts	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Recorded Investment [1] [2]						
Commercial real estate						
Owner occupied	—	$ —	$ —	1	$94	$94
One- to four-family construction	4	980	980	4	980	980
Commercial business	—	—	—	1	100	100
	4	$ 980	$ 980	6	$1,174	$1,174

	Three Months Ended June 30, 2013			Six Months Ended June 30, 2013		
	Number of Contracts	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment	Number of Contracts	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Recorded Investment [1] [2]						
Commercial real estate						
Investment properties	1	$ 900	$ 781	1	$900	$781
Multifamily real estate	1	378	378	1	378	378
Land and land development—residential	5	521	521	9	1,597	1,597
One- to four-family residential	—	—	—	9	3,115	3,115
	7	$ 1,799	$ 1,680	20	$5,990	$5,871

(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 and six month periods ended June 30, 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 June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Commercial business	$—	$—	$—	$343
Total	$—	$—	$—	$343

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

Overall Risk Rating Definitions: Risk-ratings contain both qualitative and quantitative measurements and take into account the financial strength of a borrower and the structure of the loan or lease. Consequently, the definitions are to be applied in the context of each lending transaction and judgment must also be used to determine the appropriate risk rating, as it is not unusual for a loan or lease to exhibit characteristics of more than one risk-rating category. Consideration for the final rating is centered in the borrower's ability to repay, in a timely fashion, both principal and interest. There were no material changes in the risk-rating or loan grading system in the six months ended June 30, 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 June 30, 2014 and December 31, 2013 (in thousands):

	June 30, 2014							
	Commercial Real Estate	Multifamily	Construction and Land	Commercial Business	Agricultural Business	One- to Four-Family	Consumer	Total Loans
Risk-rated loans:								
Pass (Risk Ratings 1-5) (1)	$1,316,537	$182,634	$331,354	$717,421	$244,510	$545,231	$332,059	$3,669,746
Special mention	5,623	—	—	8,188	578	64	134	14,587
Substandard	26,453	6,158	18,271	9,511	654	13,449	3,306	77,802
Doubtful	444	—	—	8	—	—	12	464
Loss	—	—	—	—	—	—	—	—
Total loans	$1,349,057	$188,792	$349,625	$735,128	$245,742	$558,744	$335,511	$3,762,599
Performing loans	$1,345,372	$188,370	$348,329	$733,923	$245,638	$547,209	$334,013	$3,742,854
Non-performing loans (2)	3,685	422	1,296	1,205	104	11,535	1,498	19,745
Total loans	$1,349,057	$188,792	$349,625	$735,128	$245,742	$558,744	$335,511	$3,762,599

	December 31, 2013							
	Commercial Real Estate	Multifamily	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 June 30, 2014 and December 31, 2013, in the commercial business category, $103 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.

The following tables provide additional detail on the age analysis of the Company’s past due loans as of June 30, 2014 and December 31, 2013 (in thousands):

	June 30, 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	$2,896	$18	$1,437	$4,351	$537,207	$541,558	$993
Investment properties	—	—	—	—	807,499	807,499	—
Multifamily real estate	423	—	—	423	188,369	188,792	—
Commercial construction	—	—	—	—	12,638	12,638	—
Multifamily construction	—	—	—	—	39,864	39,864	—
One-to-four-family construction	—	—	—	—	213,414	213,414	—
Land and land development:							
Residential	—	—	—	—	73,030	73,030	—
Commercial	—	—	—	—	10,679	10,679	—
Commercial business	673	209	1,622	2,504	732,624	735,128	280
Agricultural business, including secured by farmland	12	250	104	366	245,376	245,742	—
One- to four-family residential	484	2,720	7,552	10,756	547,988	558,744	2,181
Consumer:							
Consumer secured by one- to four-family	182	757	474	1,413	208,098	209,511	6
Consumer—other	545	75	287	907	125,093	126,000	287
Total	$5,215	$4,029	$11,476	$20,720	$3,741,879	$3,762,599	$3,747

	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	—	—	—	—	52,081	52,081	—
One-to-four-family construction	9	7	4	20	200,844	200,864	—
Land and land development:							
Residential	—	—	251	251	75,444	75,695	—
Commercial	—	—	—	—	10,450	10,450	—
Commercial business	2,001	2	299	2,302	679,867	682,169	—
Agricultural business, including secured by farmland	—	—	—	—	228,291	228,291	105
One-to four-family residential	521	2,550	9,142	12,213	517,281	529,494	2,611
Consumer:							
Consumer secured by one- to four-family	723	93	918	1,734	171,454	173,188	13
Consumer—other	384	99	131	614	121,220	121,834	131
Total	$6,366	$4,086	$11,558	$22,010	$3,396,435	$3,418,445	$2,860

The following tables provide additional information on the allowance for loan losses and loan balances individually and collectively evaluated for impairment at or for the three and six months ended June 30, 2014 and 2013 (in thousands):

	For the Three Months Ended June 30, 2014								
	Commercial Real Estate	Multifamily	Construction and Land	Commercial Business	Agricultural Business	One- to Four-Family	Consumer	Unallocated	Total
Allowance for loan losses:									
Beginning balance	$17,412	$ 5,652	$ 18,620	$ 11,363	$ 2,636	$ 10,913	$912	$ 6,863	$74,371
Provision for loan losses	2,199	113	(1,048)	625	(123)	(1,833)	(38)	105	—
Recoveries	274	—	472	286	311	204	58	—	1,605
Charge-offs	(1,001)	—	(207)	(260)	—	(14)	(184)	—	(1,666)
Ending balance	$18,884	$ 5,765	$ 17,837	$ 12,014	$ 2,824	$ 9,270	$748	$ 6,968	$74,310

	For the Six Months Ended June 30, 2014								
	Commercial Real Estate	Multifamily	Construction and Land	Commercial Business	Agricultural business	One- to Four-Family	Consumer	Unallocated	Total
Allowance for loan losses:									
Beginning balance	$16,759	$ 5,306	$ 17,640	$ 11,773	$ 2,841	$ 11,486	$1,335	$ 7,118	$74,258
Provision for loan losses	2,794	459	(300)	660	(678)	(2,215)	(570)	(150)	—
Recoveries	570	—	704	579	661	392	340	—	3,246
Charge-offs	(1,239)	—	(207)	(998)	—	(393)	(357)	—	(3,194)
Ending balance	$18,884	$ 5,765	$ 17,837	$ 12,014	$ 2,824	$ 9,270	$748	$ 6,968	$74,310

	At June 30, 2014								
	Commercial Real Estate	Multifamily	Construction and Land	Commercial Business	Agricultural Business	One- to Four-Family	Consumer	Unallocated	Total
Allowance individually evaluated for impairment	$751	$ 850	$ 1,291	$ 162	$ —	$ 1,170	$99	$ —	$4,323
Allowance collectively evaluated for impairment	18,133	4,915	16,546	11,852	2,824	8,100	649	6,968	69,987
Total allowance for loan losses	$18,884	$ 5,765	$ 17,837	$ 12,014	$ 2,824	$ 9,270	$748	$ 6,968	$74,310

	At June 30, 2014								
	Commercial Real Estate	Multifamily	Construction and Land	Commercial Business	Agricultural Business	One- to Four-Family	Consumer	Unallocated	Total
Loan balances:									
	$8,060	$5,705	$7,765	$989	$—	$21,133	$979	$—	$44,631

Loans individually evaluated for impairment									
Loans collectively evaluated for impairment	1,340,997	183,087	341,860	734,139	245,742	537,611	334,532	—	3,717,968
Total loans	$ 1,349,057	$ 188,792	$ 349,625	$ 735,128	$ 245,742	$ 558,744	$ 335,511	$ —	$ 3,762,599

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	For the Three Months Ended June 30, 2013								
	Commercial Real Estate	Multifamily	Construction and Land	Commercial Business	Agricultural Business	One- to Four-Family	Consumer	Unallocated	Total
Allowance for loan losses:									
Beginning balance	$14,776	$ 5,075	$ 15,214	$ 10,011	$ 2,282	$ 15,930	$1,238	$ 11,870	$76,396
Provision for loan losses	162	(102)	1,493	527	1,213	(557)	105	(2,841)	—
Recoveries	378	—	337	666	310	3	117	—	1,811
Charge-offs	(418)	—	(419)	(398)	—	(402)	(449)	—	(2,086)
Ending balance	$14,898	$ 4,973	$ 16,625	$ 10,806	$ 3,805	$ 14,974	$1,011	$ 9,029	$76,121

	For the Six Months Ended June 30, 2013								
	Commercial Real Estate	Multifamily	Construction and Land	Commercial Business	Agricultural business	One- to Four-Family	Consumer	Unallocated	Total
Allowance for loan losses:									
Beginning balance	$15,322	$ 4,506	$ 14,991	$ 9,957	$ 2,295	$ 16,475	$1,348	$ 11,865	$76,759
Provision for loan losses	(1,622)	467	2,050	1,124	1,163	(567)	221	(2,836)	—
Recoveries	1,964	—	438	1,052	347	119	219	—	4,139
Charge-offs	(766)	—	(854)	(1,327)	—	(1,053)	(777)	—	(4,777)
Ending balance	$14,898	$ 4,973	$ 16,625	$ 10,806	$ 3,805	$ 14,974	$1,011	$ 9,029	$76,121

	At June 30, 2013								
	Commercial Real Estate	Multifamily	Construction and Land	Commercial Business	Agricultural Business	One- to Four-Family	Consumer	Unallocated	Total
Allowance individually evaluated for impairment	$750	$ 1,326	$ 1,955	$ 216	$ —	$ 1,923	$84	$ —	$6,254
Allowance collectively evaluated for impairment	14,148	3,647	14,670	10,590	3,805	13,051	927	9,029	69,867
Total allowance for loan losses	$14,898	$ 4,973	$ 16,625	$ 10,806	$ 3,805	$ 14,974	$1,011	$ 9,029	$76,121

	At June 30, 2013								
	Commercial Real Estate	Multifamily	Construction and Land	Commercial Business	Agricultural Business	One- to Four-Family	Consumer	Unallocated	Total
Loan balances:									
Loans individually evaluated for	$10,647	$5,815	$12,723	$2,818	$—	$29,419	$1,066	$—	$62,488

impairment									
Loans collectively evaluated for impairment	1,086,061	131,212	340,961	637,022	233,967	523,279	275,211	—	3,227,713
Total loans	$ 1,096,708	$ 137,027	$ 353,684	$ 639,840	$ 233,967	$ 552,698	$ 276,277	$ —	$ 3,290,201

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Note 8: REAL ESTATE OWNED, NET

The following table presents the changes in REO for the three and six months ended June 30, 2014 and 2013 (in thousands):

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Balance, beginning of the period	$3,236	$11,160	$4,044	$15,778
Additions from loan foreclosures	1,996	418	2,703	1,504
Additions from capitalized costs	33	—	37	46
Proceeds from dispositions of REO	(1,034)	(5,305)	(2,675)	(11,787)
Gain on sale of REO	157	667	316	1,472
Valuation adjustments in the period	—	(226)	(37)	(299)
Balance, end of the period	$4,388	$6,714	$4,388	$6,714

The following table shows REO by type and geographic location by state as of June 30, 2014 (in thousands):

	Washington	Oregon	Idaho	Total
Commercial real estate	$—	$—	$175	$175
Land development—residential	614	1,637	32	2,283
One- to four-family real estate	1,187	743	—	1,930
Balance, end of period	$1,801	$2,380	$207	$4,388

REO properties are recorded at the lower of the estimated fair value of the property, less expected selling costs, or the carrying value of the defaulted loan, establishing a new cost basis. Subsequently, REO properties are carried at the lower of the new cost basis or updated fair market values, based on updated appraisals of the underlying properties, as received. Valuation allowances on the carrying value of REO may be recognized based on updated appraisals or on management’s authorization to reduce the selling price of a property.

Note 9: INTANGIBLE ASSETS AND MORTGAGE SERVICING RIGHTS

Intangible Assets: At June 30, 2014, intangible assets consisted primarily of core deposit intangibles (CDI), which are amounts recorded in business combinations or deposit purchase transactions related to the value of transaction-related deposits and the value of the customer relationships associated with the deposits.

The Company amortizes CDI over their estimated useful life and reviews them at least annually for events or circumstances that could impair their value. The CDI assets shown in the table below represent the value ascribed to the long-term deposit relationships acquired in three separate bank acquisitions during 2007, a single branch acquisition in the quarter ended September 30, 2013, and the acquisition of six branches in the quarter ended June 30, 2014. These intangible assets are being amortized using an accelerated method over estimated useful lives of three to eight years. The CDI assets are not estimated to have a significant residual value.

The following table summarizes the changes in the Company’s core deposit intangibles for the six months ended June 30, 2014 and the year ended December 31, 2013 (in thousands):

	CDI
Balance, December 31, 2013	$2,449
Additions through acquisitions	2,372
Amortization	(929)
Balance, June 30, 2014	$3,892

	CDI

Balance, December 31, 2012	$4,230
Additions through acquisitions	160
Amortization	(1,941)
Balance, December 31, 2013	$2,449

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

	CDI
Remainder of 2014	$1,061
2015	1,007
2016	353
2017	321
2018	296
Thereafter	854
	$3,892

Mortgage Servicing Rights: Mortgage servicing rights are reported in other assets. Mortgage servicing rights are initially recorded at fair value and are amortized in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Mortgage servicing rights are subsequently evaluated for impairment based upon the fair value of the rights compared to the amortized cost (remaining unamortized initial fair value). If the fair value is less than the amortized cost, a valuation allowance is created through an impairment charge to servicing fee income. However, if the fair value is greater than the amortized cost, the amount above the amortized cost is not recognized in the carrying value. During the six months ended June 30, 2014, the Company did not record an impairment charge. During the six months ended June 30, 2013, the Company reversed $600,000 of valuation allowance for previously recorded impairment charges. Loans serviced for others totaled $1.190 billion and $1.116 billion at June 30, 2014 and December 31, 2013, respectively. Custodial accounts maintained in connection with this servicing totaled $6.3 million and $5.4 million at June 30, 2014 and December 31, 2013, respectively.

An analysis of our mortgage servicing rights, net of valuation allowances, for the three and six months ended June 30, 2014 and 2013 is presented below (in thousands):

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Balance, beginning of the period	$8,199	$6,335	$8,086	$6,244
Amounts capitalized	794	807	1,369	1,583
Amortization [1]	(512)	(706)	(974)	(1,391)
Valuation adjustments in the period	—	600	—	600
Balance, end of the period [2]	$8,481	$7,036	$8,481	$7,036

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

(2) There was no valuation allowance as of June 30, 2014 and a $700,000 valuation allowance as of June 30, 2013.

Note 10: DEPOSITS AND RETAIL REPURCHASE AGREEMENTS

Deposits consisted of the following at June 30, 2014 and December 31, 2013 (dollars in thousands):

	June 30, 2014			December 31, 2013		
	Amount	Percent of Total		Amount	Percent of Total	
Non-interest-bearing accounts	$1,210,068	30.9	%	$1,115,346	30.8	%
Interest-bearing checking	437,810	11.2		422,910	11.7	
Regular savings accounts	843,950	21.5		798,764	22.1	
Money market accounts	490,105	12.5		408,211	11.3	
Total transaction and saving accounts	2,981,933	76.1		2,745,231	75.9	
Certificates of deposit	936,986	23.9		872,695	24.1	
Total deposits	$3,918,919	100.0	%	$3,617,926	100.0	%
Included in total deposits:						
Public fund transaction accounts	$93,550	2.4	%	$87,521	2.4	%
Public fund interest-bearing certificates	48,180	1.2		51,465	1.4	
Total public deposits	$141,730	3.6	%	$138,986	3.8	%
Total brokered deposits	$88,209	2.3	%	$4,291	0.1	%

Certificate of deposit accounts by total balance at June 30, 2014 and December 31, 2013 were as follows (in thousands):

	June 30, 2014	December 31, 2013
Certificates of deposit less than $100,000	$467,058	$386,745
Certificates of deposit $100,000 through $250,000	301,075	308,130
Certificates of deposit more than $250,000	168,853	177,820
Total certificates of deposit	$936,986	$872,695

Scheduled maturities and repricing of certificate accounts at June 30, 2014 and December 31, 2013 (in thousands):

	June 30, 2014	December 31, 2013
Certificates which mature or reprice:		
Within one year or less	$709,335	$660,394
After one year through two years	135,677	117,789
After two years through three years	45,403	47,362
After three years through four years	24,414	26,443
After four years through five years	16,991	17,075
After five years	5,166	3,632
Total certificates of deposit	$936,986	$872,695

The following table presents the geographic concentration of deposits at June 30, 2014 (dollars in thousands):

	Washington		Oregon		Idaho		Total	
Total deposits	$2,835,383		$848,991		$234,545		$3,918,919	
Percent of total deposits	72.3	%	21.7	%	6.0	%	100.0	%

In addition to deposits, the banks also offer retail repurchase agreements which are customer funds that are primarily associated with sweep account arrangements tied to transaction deposit accounts. While the banks include these collateralized borrowings in other borrowings reported in our Consolidated Statements of Financial Condition, these accounts primarily represent customer utilization of our cash management services and related deposit accounts.

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The following table presents retail repurchase agreement balances as of June 30, 2014, December 31, 2013 and June 30, 2013 (in thousands):

	June 30, 2014	December 31, 2013	June 30, 2013
Retail repurchase agreements	$88,946	$83,056	$90,779

Note 11: FAIR VALUE ACCOUNTING AND MEASUREMENT

The Company measures and discloses certain assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (that is, not a forced liquidation or distressed sale). GAAP (ASC 820, Fair Value Measurements) establishes a consistent framework for measuring fair value and disclosure requirements about fair value measurements. Among other things, the accounting standard requires the reporting entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's estimates for market assumptions. These two types of inputs create the following fair value hierarchy:

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

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

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

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

Items Measured at Fair Value on a Recurring Basis:

Banner records trading account securities, securities available-for-sale, FHLB advances, junior subordinated debentures and certain derivative transactions at fair value on a recurring basis.

- The securities assets primarily consist of U.S. Government and agency obligations, municipal bonds, corporate bonds, single issue trust preferred securities (TPS), pooled trust preferred collateralized debt obligation securities (TRUP CDO), mortgage-backed securities, asset-backed securities, equity securities and certain other financial instruments.

From mid-2008 through the current quarter, the lack of active markets and market participants for certain securities resulted in an increase in Level 3 measurements. In particular, the market for our TRUP CDO securities has been generally inactive during this period. This was evidenced first by a significant widening of the bid-ask spread in the brokered markets in which TRUP CDOs trade and then by a significant decrease in the volume of trades relative to historical levels. The new issue market also has been inactive as almost no new TRUP CDOs have been issued since 2007. There are still very few market participants who are willing and/or able to transact for these securities. Thus, a low market price for a particular bond may only provide evidence of stress in the credit markets in general rather than being an indicator of credit problems with a particular issuer or of the fair value of the security. As of June 30, 2014, Banner owned $31 million in par value of these securities.

Given these conditions in the debt markets and the absence of observable transactions in the secondary and new issue markets, management determined that for the TRUP CDOs at June 30, 2014 and December 31, 2013:

- The few observable transactions and market quotations that were available were not reliable for purposes of determining fair value,
- An income valuation approach technique (present value technique) that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs was equally or more representative of fair value than the market approach valuation technique, and
- The Company’s TRUP CDOs should be classified exclusively within Level 3 of the fair value hierarchy because of the significant assumptions required to determine fair value at the measurement date.

The TRUP CDO valuations were derived using input from independent third parties who used proprietary cash flow models for analyzing collateralized debt obligations. Their approaches to determining fair value involve considering the credit quality of the collateral, assuming a level of defaults based on the probability of default of each underlying trust preferred security, creating expected cash flows for each TRUP CDO security and discounting that cash flow at an appropriate risk-adjusted rate plus a liquidity premium.

Where appropriate, management reviewed the valuation methodologies and assumptions used by the independent third party providers and determined that the fair value estimates were reasonable and utilized those estimates in the Company's reported financial statements. For one TRUP CDO, management became aware that a marketplace auction occurred one day after quarter-end that would payoff this security at par in the subsequent quarter. That successful auction caused management to increase the fair value of this security at June 30, 2014 to par and resulted in the recognition of a fair value gain on this security of $2.9 million. The aggregate result of the fair value analysis of all the Level 3 TRUP CDO measurements was a fair value gain of $2.9 million in the quarter ended June 30, 2014.

At June 30, 2014, Banner also owned approximately $19 million in amortized cost of single issuer TPS securities for which no direct market data or independent valuation source is available. Similar to the TRUP CDOs above, there were too few, if any, issuances of new TPS securities or sales of existing TPS securities to provide Level 1 or even Level 2 fair value measurements for these securities. Management, therefore, utilized a discounted cash-flow model to calculate the present value of each security's expected future cash flows to determine their respective fair values. Management took into consideration the limited market data that was available regarding similar securities and assessed the performance of the three individual issuers of TPS securities owned by the Company. In the current quarter, the Company again sought input from independent third parties to help it establish an appropriate set of parameters to identify a reasonable range of discount rates for use in its fair value model. Management concluded that the indicated spreads and implied yields for non-investment grade securities as well as the yields associated with individual issuers in the third party analyst reports indicated that spreads have tightened in the six months ended June 30, 2014 and that the previous spread of 525 basis points over the three-month LIBOR index was no longer appropriate. At June 30, 2014, the spread to three-month LIBOR used to estimate the fair value analysis of these securities was decreased by 25 basis points to 500 basis points. The result of this Level 3 fair value measurement was a fair value gain of $518,000 in the quarter ended June 30, 2014. The Company has and will continue to assess the appropriate fair value hierarchy for determination of fair values on TRUP CDO and TPS securities on a quarterly basis. For all other trading securities and securities available-for-sale we used matrix pricing models from investment reporting and valuation services. Management considers this to be a Level 2 input method.

- Fair valuations for FHLB advances are estimated using fair market values provided by the lender, the FHLB of Seattle. The FHLB of Seattle prices advances by discounting the future contractual cash flows for individual advances using its current cost of funds curve to provide the discount rate. Management considers this to be a Level 2 input method.

- The fair valuations of junior subordinated debentures (TPS-related debt that the Company has issued) were also valued using discounted cash flows. These debentures carry interest rates that reset quarterly, using the three-month LIBOR index plus spreads of 1.38% to 3.35%. While the quarterly reset of the index on this debt would seemingly keep its fair value reasonably close to book value, the disparity in the fixed spreads above the index and the inability to determine realistic current market spreads, due to lack of new issuances and trades, resulted in having to rely more heavily on assumptions about what spread would be appropriate if market transactions were to take place. In periods prior to the third quarter of 2008, the discount rate used was based on recent issuances or quotes from brokers on the date of valuation for comparable bank holding companies and was considered to be a Level 2 input method. However, as noted above in the discussions of TPS and TRUP CDOs, due to the unprecedented disruption of certain financial markets, management concluded that there were insufficient transactions or other indicators to continue to reflect these measurements as Level 2 inputs. Due to this reliance on assumptions and not on directly observable transactions, management believes fair value for these instruments should follow a Level 3 input methodology. Since the discount rate used in the fair value modeling is the most sensitive unobservable estimate in the calculation, the Company again utilized input from the same independent third party noted above to help it establish an appropriate set of parameters to identify a reasonable range of discount rates for use in its fair value model. In valuing the debentures at June 30, 2014, management evaluated the general market for credit spreads as noted above and for the discount rate used the period-ending three-month LIBOR plus 500 basis points. As noted above in the discussion about single-issuer TPS securities, since market spreads have tightened in the six months ended June 30, 2014, management also decreased the spread on the debentures by 25 basis points, resulting in a fair value loss on these instruments of $3.2 million for the quarter ended June 30, 2014. The fair value adjustment in the current period was primarily the result of the decreased spread with a minor amount attributed to the passage of time on the years to maturity in the discounted present value calculation used to estimate the fair value.

- Derivative instruments include interest rate commitments related to one- to four-family loans and residential mortgage-backed securities and interest rate swaps. The fair value of interest rate lock commitments and forward sales commitments are estimated using quoted or published market prices for similar instruments, adjusted for factors such as pull-through rate assumptions based on historical trends, where appropriate. The fair value of interest rate swaps is determined by using current market quotes on similar instruments provided by active broker/dealers in the swap market. Management considers these to be Level 2 input methods. The changes in the fair value of all of these derivative instruments are primarily attributable to changes in the level of market interest rates. The Company has elected to record the fair value of these derivative instruments on a net basis.

The following tables present financial assets and liabilities measured at fair value on a recurring basis and the level within the fair value hierarchy of the fair value measurements for those assets as of June 30, 2014 and December 31, 2013 (in thousands):

	June 30, 2014			
	Level 1	Level 2	Level 3	Total
Assets:				
Securities—available-for-sale				
U.S. Government and agency	$—	$52,212	$—	$52,212
Municipal bonds	—	50,801	—	50,801
Corporate bonds	—	5,011	—	5,011
Mortgage-backed or related securities	—	321,863	—	321,863
Asset-backed securities	—	25,466	—	25,466
	—	455,353	—	455,353
Securities—trading				
U.S. Government and agency	—	1,530	—	1,530
Municipal bonds	—	1,716	—	1,716
TPS and TRUP CDOs	—	—	38,529	38,529
Mortgage-backed or related securities	—	19,557	—	19,557
Equity securities and other	—	61	—	61
	—	22,864	38,529	61,393
Derivatives				
Interest rate lock commitments	—	563	—	563
Interest rate swaps	—	5,650	—	5,650
	$—	$484,430	$38,529	$522,959
Liabilities:				
Advances from FHLB at fair value	$—	$45,251	$—	$45,251
Junior subordinated debentures net of unamortized deferred issuance costs at fair value	—	—	77,313	77,313
Derivatives				
Interest rate sales forward commitments, net	—	351	—	351
Interest rate swaps	—	5,650	—	5,650
	$—	$51,252	$77,313	$128,565

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
Assets:				
Securities—available-for-sale				
U.S. Government and agency	$—	$58,660	$—	$58,660
Municipal bonds	—	52,855	—	52,855
Corporate bonds	—	6,964	—	6,964
Mortgage-backed or related securities	—	326,610	—	326,610
Asset-backed securities	—	25,191	—	25,191
	—	470,280	—	470,280
Securities—trading				
U.S. Government and agency	—	1,481	—	1,481
Municipal bonds	—	5,023	—	5,023
TPS and TRUP CDOs	—			