

BANNER CORP
Form 10-Q
August 03, 2018

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

FORM 10-Q
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2018

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 000-26584

BANNER CORPORATION

(Exact name of registrant as specified in its charter)

Washington 91-1691604

(State

or

other (I.R.S.

jurisdiction Employer

of Identification

incorporation number)

or

organization)

10 South First
Avenue, Walla
Walla,
Washington
99362

(Address of
principal
executive offices
and zip code)

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

Indicate by check mark whether the registrant
(1) has filed all reports required to be filed by
Section 13 or 15(d) of the Securities Exchange

Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Yes No

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

Large accelerated filer Non-accelerated filer Smaller reporting company
Large accelerated filer Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

Title of class:	As of July 31, 2018
Common Stock, \$.01 par value per share	32,327,979 shares
Non-voting Common Stock, \$.01 par value per share	74,933 shares

BANNER CORPORATION AND SUBSIDIARIES

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Special Note Regarding Forward-Looking Statements

Certain matters in this Form 10-Q constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to our financial condition, liquidity, results of operations, plans, objectives, future performance or business. Forward-looking statements are not statements of historical fact, are based on certain assumptions and are generally identified by use of the words “believes,” “expects,” “anticipates,” “estimates,” “forecasts,” “intends,” “plans,” “targets,” “potentially,” “probably,” “projects,” “outlook” or similar expressions or conditional verbs such as “may,” “will,” “should,” “would” and “could.” Forward-looking statements include statements with respect to our beliefs, plans, objectives, goals, expectations, assumptions and statements about future economic performance and projections of financial items. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from the results anticipated or implied by our forward-looking statements, including, but not limited to: expected revenues, cost savings, synergies and other benefits from the proposed merger of Banner and Skagit Bancorp, Inc. (Skagit) might not be realized within the expected time frames or at all and costs or difficulties relating to integration matters, including but not limited to customer and employee retention, might be greater than expected; the requisite regulatory approvals for the proposed merger of Banner and Skagit may be delayed or may not be obtained (or may result in the imposition of conditions that could adversely affect the combined company or the expected benefits of the proposed merger); the requisite approval of Skagit shareholders may be delayed or may not be obtained, the other closing conditions to the merger may be delayed or may not be obtained, or the merger agreement may be terminated; business disruption may occur following or in connection with the proposed merger of Banner and Skagit; Banner’s or Skagit’s businesses may experience disruptions due to transaction-related uncertainty or other factors making it more difficult to maintain relationships with employees, customers, other business partners or governmental entities; the possibility that the proposed merger is more expensive to complete than anticipated, including as a result of unexpected factors or events; diversion of managements’ attention from ongoing business operations and opportunities as a result of the proposed merger or otherwise; the credit risks of lending activities, including changes in the level and trend of loan delinquencies and write-offs and changes in estimates of the adequacy of the allowance for loan losses and provisions 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 the allowance for loan losses not being adequate to cover actual losses and require a material increase in reserves; results of examinations by regulatory authorities, including the possibility that any such regulatory authority may, among other things, require the writing down of assets or increases in the allowance for loan losses; the ability to manage loan delinquency rates; competitive pressures among financial services companies; changes in consumer spending or borrowing and spending habits; interest rate movements generally and the relative differences between short and long-term interest rates, loan and deposit interest rates, net interest margin and funding sources; the impact of repricing and competitors’ pricing initiatives on loan and deposit products; fluctuations in the demand for loans, the number of unsold homes, land and other properties and fluctuations in real estate values; the ability to adapt successfully to technological changes to meet customers’ needs and developments in the marketplace; the ability to access cost-effective funding; increases in premiums for deposit insurance; the ability to control operating costs and expenses; the use of estimates in determining fair value of certain assets and liabilities, which estimates may prove to be incorrect and result in significant changes in valuation; staffing fluctuations in response to product demand or the implementation of corporate strategies that affect employees, and potential associated charges; disruptions, security breaches or other adverse events, failures or interruptions in, or attacks on, information technology systems or on the third-party vendors who perform critical processing functions; changes in financial markets; changes in economic conditions in general and in Washington, Idaho, Oregon and California in particular; secondary market conditions for loans and the ability to sell loans in the secondary market; the costs, effects and outcomes of litigation; legislation or regulatory changes or reforms, 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 of 2010 and the implementing regulations; results of safety and soundness and compliance examinations by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation (the FDIC), the Washington State Department of Financial Institutions, Division of Banks, (the Washington DFI) or

other regulatory authorities, including the possibility that any such regulatory authority may, among other things, require restitution or institute an informal or formal enforcement action which could require an increase in reserves for loan losses, write-downs of assets or changes in regulatory capital position, or affect the ability to borrow funds, or maintain or increase deposits, or impose additional requirements and restrictions, any of which could adversely affect liquidity and earnings; the availability of resources to address changes in laws, rules, or regulations or to respond to regulatory actions; adverse changes in the securities markets; the inability of key third-party providers to perform their obligations; changes in accounting principles, policies or guidelines, 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 operations, pricing, products and services; future acquisitions by Banner of other depository institutions or lines of business; and future goodwill impairment due to changes in Banner's business, changes in market conditions, or other factors; and other risks detailed from time to time in our filings with the U.S. Securities and Exchange Commission (SEC), including this report on Form 10-Q. Any forward-looking statements are based upon management's beliefs and assumptions at the time they are made. We do not undertake and specifically disclaim any obligation to update any forward-looking statements included in this report or the reasons why actual results could differ from those contained in such statements, whether as a result of new information, future events or otherwise. These risks could cause our actual results to differ materially from those expressed in any forward-looking statements by, or on behalf of, us. In light of these risks, uncertainties and assumptions, the forward-looking statements discussed in this report might not occur, and you should not put undue reliance on any forward-looking statements.

As used throughout this report, the terms "we," "our," "us," or the "Company" refer to Banner Corporation and its consolidated subsidiaries, unless the context otherwise requires. All references to "Banner" refer to Banner Corporation and those to "the Banks" refer to its wholly-owned subsidiaries, Banner Bank and Islanders Bank, collectively.

BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Unaudited) (In thousands, except shares)

June 30, 2018 and December 31, 2017

	June 30 2018	December 31 2017
ASSETS		
Cash and due from banks	\$195,652	\$199,624
Interest bearing deposits	53,773	61,576
Total cash and cash equivalents	249,425	261,200
Securities—trading, amortized cost \$27,303 and \$27,246, respectively	25,640	22,318
Securities—available-for-sale, amortized cost \$1,429,925 and \$926,112, respectively	1,400,312	919,485
Securities—held-to-maturity, fair value \$260,318 and \$262,188, respectively	263,176	260,271
Federal Home Loan Bank (FHLB) stock	19,916	10,334
Loans held for sale (includes \$75.8 million and \$32.4 million, at fair value, respectively)	78,833	40,725
Loans receivable	7,684,732	7,598,884
Allowance for loan losses	(93,875)	(89,028)
Net loans receivable	7,590,857	7,509,856
Accrued interest receivable	34,004	31,259
Real estate owned (REO), held for sale, net	473	360
Property and equipment, net	153,224	154,815
Goodwill	242,659	242,659
Other intangibles, net	19,858	22,655
Bank-owned life insurance (BOLI)	164,225	162,668
Deferred tax assets, net	77,937	71,427
Other assets	58,655	53,177
Total assets	\$10,379,194	\$9,763,209
LIABILITIES		
Deposits:		
Non-interest-bearing	\$3,346,777	\$3,265,544
Interest-bearing transaction and savings accounts	4,032,283	3,950,950
Interest-bearing certificates	1,148,607	966,937
Total deposits	8,527,667	8,183,431
Advances from FHLB	239,190	202
Other borrowings	112,458	95,860
Junior subordinated debentures at fair value (issued in connection with Trust Preferred Securities)	112,774	98,707
Accrued expenses and other liabilities	93,281	71,344
Deferred compensation	40,814	41,039
Total liabilities	9,126,184	8,490,583
COMMITMENTS AND CONTINGENCIES (Note 12)		
SHAREHOLDERS' EQUITY		
Preferred stock - \$0.01 par value per share, 500,000 shares authorized; no shares outstanding at June 30, 2018 and December 31, 2017	—	—
Common stock and paid in capital - \$0.01 par value per share, 50,000,000 shares authorized; 32,330,763 shares issued and outstanding at June 30, 2018; 32,626,456 shares issued and outstanding at December 31, 2017	1,172,402	1,185,919
Common stock (non-voting) and paid in capital - \$0.01 par value per share, 5,000,000 shares authorized; 74,933 shares issued and outstanding at June 30, 2018; 100,029 shares issued and outstanding at December 31, 2017	1,254	1,208
Retained earnings	84,485	90,535

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Carrying value of shares held in trust for stock related compensation plans	(7,083)	(7,351)
Liability for common stock issued to stock related compensation plans	7,083		7,351	
Accumulated other comprehensive loss	(5,131	)	(5,036)
Total shareholders' equity	1,253,010		1,272,626	
Total liabilities & shareholders' equity	\$ 10,379,194		\$ 9,763,209	
See Selected Notes to the Consolidated Financial Statements				

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BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited) (In thousands, except shares and per share amounts)
For the Three and Six Months Ended June 30, 2018 and 2017

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
INTEREST INCOME:				
Loans receivable	\$99,853	\$ 94,795	\$193,875	\$ 186,083
Mortgage-backed securities	8,899	6,239	16,230	10,886
Securities and cash equivalents	3,671	3,402	7,138	6,563
Total interest income	112,423	104,436	217,243	203,532
INTEREST EXPENSE:				
Deposits	4,264	3,182	7,622	5,973
FHLB advances	1,499	301	2,177	574
Other borrowings	49	83	119	157
Junior subordinated debentures	1,548	1,164	2,889	2,268
Total interest expense	7,360	4,730	12,807	8,972
Net interest income	105,063	99,706	204,436	194,560
PROVISION FOR LOAN LOSSES	2,000	2,000	4,000	4,000
Net interest income after provision for loan losses	103,063	97,706	200,436	190,560
NON-INTEREST INCOME:				
Deposit fees and other service charges	11,985	11,165	23,281	21,553
Mortgage banking operations	4,643	6,754	9,507	11,357
Bank-owned life insurance (BOLI)	933	1,461	1,785	2,556
Miscellaneous	3,388	1,720	4,426	5,356
	20,949	21,100	38,999	40,822
Net gain (loss) on sale of securities	44	(54)	) 48	(41)
Net change in valuation of financial instruments carried at fair value	224	(650)	) 3,532	(1,338)
Total non-interest income	21,217	20,396	42,579	39,443
NON-INTEREST EXPENSE:				
Salary and employee benefits	51,494	49,019	101,561	95,083
Less capitalized loan origination costs	(4,733)	) (4,598)	) (8,744)	) (8,914)
Occupancy and equipment	11,574	12,045	23,340	24,041
Information/computer data services	4,564	4,100	8,945	8,094
Payment and card processing expenses	3,731	3,719	7,431	6,942
Professional services	3,838	3,732	8,266	8,885
Advertising and marketing	2,141	1,766	3,971	3,095
Deposit insurance	1,021	1,071	2,362	2,337
State/municipal business and use taxes	816	279	1,529	1,078
REO operations	(319)	) (363)	) 121	(1,329)
Amortization of core deposit intangibles	1,382	1,624	2,764	3,248
Miscellaneous	7,128	7,463	12,797	13,577
Total non-interest expense	82,637	79,857	164,343	156,137
Income before provision for income taxes	41,643	38,245	78,672	73,866
PROVISION FOR INCOME TAXES	9,219	12,791	17,458	24,619
NET INCOME	\$32,424	\$ 25,454	\$61,214	\$49,247
Earnings per common share:				
Basic	\$1.01	\$ 0.77	\$1.89	\$ 1.49
Diluted	\$1.00	\$ 0.77	\$1.89	\$ 1.49

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Cumulative dividends declared per common share	\$0.85	\$ 1.25	\$1.20	\$ 1.50
Weighted average number of common shares outstanding:				
Basic	32,250,514	32,982,126	32,323,635	32,957,920
Diluted	32,331,609	33,051,527	32,422,287	33,052,205
See Selected Notes to the Consolidated Financial Statements				

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BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited) (In thousands)
For the Three and Six Months Ended June 30, 2018 and 2017