

BANNER CORP
Form 10-Q
November 02, 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 SEPTEMBER 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 every Interactive Data File required to be submitted 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 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
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.

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Title of class:	As of October 31, 2018
Common Stock, \$.01 par value per share	32,324,789 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 remaining 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)

September 30, 2018 and December 31, 2017

	September 30 2018	December 31 2017
ASSETS		
Cash and due from banks	\$184,417	\$199,624
Interest bearing deposits	64,244	61,576
Total cash and cash equivalents	248,661	261,200
Securities—trading, amortized cost \$27,340 and \$27,246, respectively	25,764	22,318
Securities—available-for-sale, amortized cost \$1,451,897 and \$926,112, respectively	1,412,273	919,485
Securities—held-to-maturity, fair value \$254,094 and \$262,188, respectively	258,699	260,271
Total securities	1,696,736	1,202,074
Federal Home Loan Bank (FHLB) stock	19,196	10,334
Loans held for sale (includes \$67.1 million and \$32.4 million, at fair value, respectively)	72,850	40,725
Loans receivable	7,822,519	7,598,884
Allowance for loan losses	(95,263)	(89,028)
Net loans receivable	7,727,256	7,509,856
Accrued interest receivable	37,676	31,259
Real estate owned (REO), held for sale, net	364	360
Property and equipment, net	151,212	154,815
Goodwill	242,659	242,659
Other intangibles, net	18,499	22,655
Bank-owned life insurance (BOLI)	163,265	162,668
Deferred tax assets, net	78,471	71,427
Other assets	57,458	53,177
Total assets	\$10,514,303	\$9,763,209
LIABILITIES		
Deposits:		
Non-interest-bearing	\$3,469,294	\$3,265,544
Interest-bearing transaction and savings accounts	4,035,856	3,950,950
Interest-bearing certificates	1,180,674	966,937
Total deposits	8,685,824	8,183,431
Advances from FHLB	221,184	202
Other borrowings	98,979	95,860
Junior subordinated debentures at fair value (issued in connection with Trust Preferred Securities)	113,110	98,707
Accrued expenses and other liabilities	82,530	71,344
Deferred compensation	40,478	41,039
Total liabilities	9,242,105	8,490,583
COMMITMENTS AND CONTINGENCIES (Note 13)		
SHAREHOLDERS' EQUITY		
Preferred stock - \$0.01 par value per share, 500,000 shares authorized; no shares outstanding at September 30, 2018 and December 31, 2017	—	—
Common stock and paid in capital - \$0.01 par value per share, 50,000,000 shares authorized; 32,327,824 shares issued and outstanding at September 30, 2018; 32,626,456 shares issued and outstanding at December 31, 2017	1,174,004	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 September 30, 2018; 100,029 shares issued and outstanding at December 31, 2017	1,246	1,208

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Retained earnings	109,942	90,535
Carrying value of shares held in trust for stock related compensation plans	(7,182) (7,351)
Liability for common stock issued to stock related compensation plans	7,182	7,351
Accumulated other comprehensive loss	(12,994) (5,036)
Total shareholders' equity	1,272,198	1,272,626
Total liabilities & shareholders' equity	\$10,514,303	\$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 Nine Months Ended September 30, 2018 and 2017

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
INTEREST INCOME:				
Loans receivable	\$ 104,868	\$ 95,221	\$ 298,743	\$ 281,304
Mortgage-backed securities	8,915	6,644	25,145	17,529
Securities and cash equivalents	3,865	3,413	11,003	9,976
Total interest income	117,648	105,278	334,891	308,809
INTEREST EXPENSE:				
Deposits	5,517	3,189	13,139	9,162
FHLB advances	1,388	569	3,564	1,142
Other borrowings	60	84	179	241
Junior subordinated debentures	1,605	1,226	4,495	3,494
Total interest expense	8,570	5,068	21,377	14,039
Net interest income	109,078	100,210	313,514	294,770
PROVISION FOR LOAN LOSSES	2,000	2,000	6,000	6,000
Net interest income after provision for loan losses	107,078	98,210	307,514	288,770
NON-INTEREST INCOME:				
Deposit fees and other service charges	12,255	11,058	35,535	32,611
Mortgage banking operations	5,816	4,498	15,324	15,854
Bank-owned life insurance (BOLI)	1,726	1,043	3,511	3,599
Miscellaneous	569	1,705	4,995	7,062
	20,366	18,304	59,365	59,126
Net gain on sale of securities	—	270	48	230
Net change in valuation of financial instruments carried at fair value	45	(493)	3,577	(1,831)
Total non-interest income	20,411	18,081	62,990	57,525
NON-INTEREST EXPENSE:				
Salary and employee benefits	48,930	48,931	150,491	144,014
Less capitalized loan origination costs	(4,318)	(4,331)	(13,062)	(13,245)
Occupancy and equipment	12,385	11,737	35,725	35,778
Information/computer data services	4,766	4,420	13,711	12,513
Payment and card processing expenses	3,748	3,581	11,179	10,523
Professional services	3,010	3,349	11,276	12,233
Advertising and marketing	1,786	2,130	5,758	5,225
Deposit insurance	991	1,101	3,353	3,438
State/municipal business and use taxes	902	780	2,430	1,857
REO operations	433	240	553	(1,089)
Amortization of core deposit intangibles	1,348	1,542	4,112	4,790
Miscellaneous	6,646	6,851	19,444	20,432
	80,627	80,331	244,970	236,469
Acquisition-related costs	1,005	—	1,005	—
Total non-interest expense	81,632	80,331	245,975	236,469
Income before provision for income taxes	45,857	35,960	124,529	109,826
PROVISION FOR INCOME TAXES	8,084	10,883	25,542	35,502
NET INCOME	\$ 37,773	\$ 25,077	\$ 98,987	\$ 74,324
Earnings per common share:				

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Basic	\$1.17	\$0.76	\$3.06	\$2.25
Diluted	\$1.17	\$0.76	\$3.05	\$2.25
Cumulative dividends declared per common share	\$0.38	\$0.25	\$1.58	\$1.75
Weighted average number of common shares outstanding:				
Basic	32,256,789	32,982,532		