BANNER CORP
Form 10-Q
November 06, 2017

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 SEPTEMBER 30, 2017

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 jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

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

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

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

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

Yes [x] No [ ]

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

Yes [x] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 [x]	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 [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 November 3, 2017
Common Stock, $.01 par value per share	32,806,473 shares
Non-voting Common Stock, $.01 par value per share	100,029 shares

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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: the credit risks of lending activities, including changes in the level and trend of loan delinquencies and write-offs and changes in our allowance for loan losses and provision for loan losses that may be impacted by deterioration in the housing and commercial real estate markets and may lead to increased losses and non-performing assets, and may result in our allowance for loan losses not being adequate to cover actual losses and require us to materially increase our reserves; changes in economic conditions in general and in Washington, Idaho, Oregon, Utah and California in particular; changes in the levels of general interest rates and the relative differences between short and long-term interest rates, loan and deposit interest rates, our net interest margin and funding sources; fluctuations in the demand for loans, the number of unsold homes, land and other properties and fluctuations in real estate values in our market areas; secondary market conditions for loans and our ability to sell loans in the secondary market; results of safety and soundness and compliance examinations of us by the Federal Reserve 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, require restitution or 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 and securities 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 personnel we may acquire into our operations and our ability to realize related revenue synergies and cost savings within expected time frames or at all, and any goodwill charges related thereto and costs or difficulties relating to integration matters, including but not limited to customer and employee retention, which might be greater than expected; future goodwill impairment due to changes in our business, changes in market conditions, or other factors; our ability to manage loan delinquency rates; increased competitive pressures among financial services companies; changes in consumer spending, borrowing and savings habits; the availability of resources to address changes in laws, rules, or regulations or to respond to regulatory actions; our ability to pay dividends on our common stock and non-voting 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 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, 2017 and December 31, 2016

ASSETS	September 30 2017	December 31 2016
Cash and due from banks	$192,278	$177,083
Interest bearing deposits	49,488	70,636
Total cash and cash equivalents	241,766	247,719
Securities—trading, amortized cost $28,663 and $30,154, respectively	23,466	24,568
Securities—available-for-sale, amortized cost $1,338,863 and $806,336, respectively	1,339,057	800,917
Securities—held-to-maturity, fair value $268,663 and $270,528, respectively	264,752	267,873
Federal Home Loan Bank (FHLB) stock	20,854	12,506
Loans held for sale (includes $64,399 and $9,600, at fair value, respectively)	71,905	246,353
Loans receivable	7,774,449	7,451,148
Allowance for loan losses	(89,100)	(85,997)
Net loans	7,685,349	7,365,151
Accrued interest receivable	33,837	30,178
Real estate owned (REO), held for sale, net	1,496	11,081
Property and equipment, net	159,893	166,481
Goodwill	244,583	244,583
Other intangibles, net	25,219	30,162
Bank-owned life insurance (BOLI)	161,648	158,936
Deferred tax assets, net	119,333	127,694
Other assets	49,928	59,466
Total assets	$10,443,086	$9,793,668
LIABILITIES		
Deposits:		
Non-interest-bearing	$3,379,841	$3,140,451
Interest-bearing transaction and savings accounts	4,058,435	3,935,630
Interest-bearing certificates	1,100,574	1,045,333
Total deposits	8,538,850	8,121,414
Advances from FHLB at fair value	263,349	54,216
Other borrowings	103,713	105,685
Junior subordinated debentures at fair value (issued in connection with Trust Preferred Securities)	97,280	95,200
Accrued expenses and other liabilities	72,604	71,369
Deferred compensation	40,279	40,074
Total liabilities	9,116,075	8,487,958
COMMITMENTS AND CONTINGENCIES (Note 12)		
SHAREHOLDERS' EQUITY		
Preferred stock - $0.01 par value per share, 500,000 shares authorized; no shares outstanding at September 30, 2017 and December 31, 2016	—	—
Common stock and paid in capital - $0.01 par value per share, 50,000,000 shares authorized; 33,154,755 shares issued and outstanding at September 30, 2017; 33,108,599 shares issued and outstanding at December 31, 2016	1,214,547	1,213,225
Common stock (non-voting) and paid in capital- $0.01 par value per share, 5,000,000 shares authorized; 100,029 shares issued and outstanding at September 30, 2017; 84,788 shares issued and outstanding at December 31, 2016	935	612
Retained earnings	111,405	95,328

Carrying value of shares held in trust for stock related compensation plans	(7,283)	(7,283)
Liability for common stock issued to deferred, stock related, compensation plans	7,283	7,283
Accumulated other comprehensive income (loss)	124	(3,455)
Total shareholders' equity	1,327,011	1,305,710
Total liabilities & shareholders' equity	$10,443,086	$9,793,668

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, 2017 and 2016

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
INTEREST INCOME:				
Loans receivable	$95,221	$ 89,805	$281,304	$265,697
Mortgage-backed securities	6,644	4,803	17,529	15,467
Securities and cash equivalents	3,413	3,241	9,976	9,306
Total interest income	105,278	97,849	308,809	290,470
INTEREST EXPENSE:				
Deposits	3,189	2,784	9,162	8,501
FHLB advances	569	256	1,142	874
Other borrowings	84	82	241	234
Junior subordinated debentures	1,226	1,019	3,494	2,962
Total interest expense	5,068	4,141	14,039	12,571
Net interest income	100,210	93,708	294,770	277,899
PROVISION FOR LOAN LOSSES	2,000	2,000	6,000	4,000
Net interest income after provision for loan losses	98,210	91,708	288,770	273,899
NON-INTEREST INCOME:				
Deposit fees and other service charges	13,316	12,927	38,739	36,957
Mortgage banking operations	4,498	8,141	15,854	20,409
Bank-owned life insurance (BOLI)	1,043	1,333	3,599	3,646
Miscellaneous	1,705	1,344	7,062	3,936
	20,562	23,745	65,254	64,948
Net gain on sale of securities	270	891	230	531
Net change in valuation of financial instruments carried at fair value	(493)	(1,124)	(1,831)	(1,472)
Total non-interest income	20,339	23,512	63,653	64,007
NON-INTEREST EXPENSE:				
Salary and employee benefits	48,931	44,758	144,014	136,497
Less capitalized loan origination costs	(4,331)	(4,953)	(13,245)	(14,110)
Occupancy and equipment	11,737	10,979	35,778	32,419
Information/computer data services	4,420	4,836	12,513	14,607
Payment and card processing expenses	5,839	5,878	16,651	16,164
Professional services	3,349	2,258	12,233	5,736
Advertising and marketing	2,130	2,282	5,225	6,489
Deposit insurance	1,101	890	3,438	3,539
State/municipal business and use taxes	780	956	1,857	2,564
REO operations	240	(21)	(1,089)	513
Amortization of core deposit intangibles	1,542	1,724	4,790	5,339
Miscellaneous	6,851	7,785	20,432	22,311
	82,589	77,372	242,597	232,068
Acquisition-related costs	—	1,720	—	10,945
Total non-interest expense	82,589	79,092	242,597	243,013
Income before provision for income taxes	35,960	36,128	109,826	94,893
PROVISION FOR INCOME TAXES	10,883	12,277	35,502	32,312
NET INCOME	$25,077	$ 23,851	$74,324	$62,581
Earnings per common share:				

Basic	$0.76	$ 0.70	$2.25	$1.84
Diluted	$0.76	$ 0.70	$2.25	$1.83
Cumulative dividends declared per common share	$0.25	$ 0.23	$1.75	$0.65
Weighted average number of common shares outstanding:				
Basic	32,982,532	34,045,225	32,966,214	34,050,459
Diluted	33,079,099	34,124,611	33,061,172	34,104,875

See Selected Notes to the Consolidated Financial Statements

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BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited) (In thousands)
For the Three and Nine Months Ended September 30, 2017 and 2016

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
NET INCOME	$25,077	$23,851	$74,324	$62,581
OTHER COMPREHENSIVE INCOME (LOSS), NET OF INCOME TAXES:				
Unrealized holding gain (loss) on available-for-sale securities arising during the period	493	(4,659)	5,841	14,043
Income tax (expense) benefit related to available-for-sale securities unrealized holding gain (loss)	(202)	1,677	(2,116)	(5,060)
Reclassification for net gains on available-for-sale securities realized in earnings	(270)	(735)	(230)	(376)
Income tax expense related to available-for-sale securities realized gains	97	265	84	136
Other comprehensive income (loss)	118	(3,452)	3,579	8,743
COMPREHENSIVE INCOME	$25,195	$20,399	$77,903	$71,324

See Selected Notes to the Consolidated Financial Statements

BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited) (In thousands, except shares)
For the Nine Months Ended September 30, 2017 and the Year Ended December 31, 2016

	Common Stock and Paid in Capital		Retained Earnings	Accumulated Other Comprehensive Loss	Shareholders' Equity
	Shares	Amount			
Balance, January 1, 2016	34,242,255	$1,261,174	$39,615	$ (730)	$1,300,059
Net income			85,385		85,385
Other comprehensive loss, net of income tax				(2,725)	(2,725)
Accrual of dividends on common stock ($0.88/share cumulative)			(29,672)		(29,672)
Repurchase of common stock	(1,145,250)	(50,772)			(50,772)
Amortization of stock-based compensation related to restricted stock grants, net of shares surrendered	96,382	3,401			3,401
Excess tax benefit on stock-based compensation		34			34
Balance, December 31, 2016	33,193,387	$1,213,837	$95,328	$ (3,455)	$1,305,710
Balance, January 1, 2017	33,193,387	$1,213,837	$95,328	$(3,455)	$1,305,710
Net income			74,324		74,324
Other comprehensive income, net of income tax				3,579	3,579
Accrual of dividends on common stock ($1.75/share cumulative)			(58,247)		(58,247)
Repurchase of common stock	(25,000)	(1,400)			(1,400)
Amortization of stock-based compensation related to restricted stock grants, net of shares surrendered	86,397	3,045			3,045
Balance, September 30, 2017	33,254,784	$1,215,482	$111,405	$124	$1,327,011

See Selected Notes to the Consolidated Financial Statements

BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited) (In thousands)
For the Nine Months Ended September 30, 2017 and 2016

	Nine Months Ended September 30,	
	2017	2016
OPERATING ACTIVITIES:		
Net income	$74,324	$62,581
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation	10,153	9,219
Deferred income and expense, net of amortization	(1,513)	419
Amortization of core deposit intangibles	4,790	5,339
Gain on sale of securities	(230)	(531)
Net change in valuation of financial instruments carried at fair value	1,831	1,472
Purchases of securities—trading	—	(1,725)
Proceeds from sales of securities—trading	—	1,682
Principal repayments and maturities of securities—trading	1,618	3,527
Decrease in deferred taxes	8,361	10,747
Increase in current taxes payable	2,853	2,108
Equity-based compensation	3,045	3,129
Increase in cash surrender value of BOLI	(3,046)	(3,628)
Gain on sale of loans, net of capitalized servicing rights	(11,653)	(14,583)
Gain on disposal of real estate held for sale and property and equipment	(2,438)	(748)
Provision for loan losses	6,000	4,000
Provision for losses on real estate held for sale	256	804
Origination of loans held for sale	(626,677)	(753,714)
Proceeds from sales of loans held for sale	812,778	691,355
Net change in:		
Other assets	(4,082)	(20,428)
Other liabilities	(144)	13,560
Net cash provided from operating activities	276,226	14,585
INVESTING ACTIVITIES:		
Purchases of securities—available-for-sale	(706,911)	(242,222)
Principal repayments and maturities of securities—available-for-sale	135,163	143,244
Proceeds from sales of securities—available-for-sale	35,559	233,252
Purchases of securities—held-to-maturity	(5,105)	(60,344)
Principal repayments and maturities of securities—held-to-maturity	6,544	7,458
Loan originations, net of principal repayments	(120,116)	(34,328)
Purchases of loans and participating interest in loans	(266,481)	(230,778)
Proceeds from sales of other loans	73,366	193,939
Purchases of property and equipment	(7,641)	(9,223)
Proceeds from sale of real estate held for sale and sale of other property, net	15,873	8,021
Proceeds from FHLB stock repurchase program	80,056	70,237
Purchase of FHLB stock	(88,404)	(67,006)
Other	327	1,922
Net cash (used in) provided from investing activities	(847,770)	14,172
FINANCING ACTIVITIES:		
Increase in deposits, net	417,436	56,904
Proceeds from long term FHLB advances	150,000	—

Repayment of long term FHLB advances	(7)	(70,007)
Proceeds from (repayments of) overnight and short term FHLB advances, net	59,000	(600)
(Decrease) increase in other borrowings, net	(1,971)	10,586
Cash dividends paid	(57,467)	(20,542)
Cash paid for the repurchase of common stock	(1,400)	(21,098)
Net cash provided from (used in) financing activities	565,591	(44,757)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(5,953)	(16,000)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	247,719	261,917
CASH AND CASH EQUIVALENTS, END OF PERIOD	$241,766	$245,917

(Continued on next page)

BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(Unaudited) (In thousands)
For the Nine Months Ended September 30, 2017 and 2016

	Nine Months Ended September 30,	
	2017	2016
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid in cash	$13,406	$12,781
Taxes paid, net of refunds received in cash	25,599	23,751
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	10	758
Dividends accrued but not paid until after period end	8,443	7,873

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 SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited condensed consolidated 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 condensed consolidated 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 preparing these financial statements, the Company has evaluated events and transactions subsequent to September 30, 2017 for potential recognition or disclosure. 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 and the accounting standards for interim financial statements. Certain reclassifications have been made to the 2016 Consolidated Financial Statements and/or schedules to conform to the 2017 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 significant 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 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 goodwill, core deposit intangibles (CDI) and mortgage servicing rights, (v) the valuation of real estate held for sale, (vi) the valuation of assets and liabilities acquired in business combinations and subsequent recognition of related income and expense, and (vii) the valuation 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, 2016 filed with the SEC. There have been no significant changes in our application of accounting policies during the first nine months of 2017.

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, 2016 as filed with the SEC (2016 Form 10-K). Interim results are not necessarily indicative of results for a full year or any other interim period.

Note 2: ACCOUNTING STANDARDS RECENTLY ISSUED OR ADOPTED

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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. Under the terms of ASU 2015-14 the standard is effective for interim and annual periods beginning after December 15, 2017. 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. Management intends to adopt the new guidance on January 1, 2018. Management has completed its identification of all revenue streams included in the financial statements (excluding interest income, which is outside of the scope of the pronouncement) and identified which revenue streams are within the scope of the pronouncement. Management is finalizing its evaluation on whether the implementation of this ASU will result in any accounting changes for the revenue streams within the scope of this ASU. Management does not expect the adoption of this ASU to have a material impact on the Company's Consolidated Financial Statements other than additional disclosure requirements.

In April 2016, FASB issued ASU No. 2016-10, Identifying Performance Obligations and Licensing. The amendments in this ASU do not change the core principle of the guidance in Topic 606. Rather, the amendments in this ASU clarify the following two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. The amendments in this ASU affect the guidance in ASU 2014-09, discussed above, which is not yet effective. The effective date and transition requirements for the amendments in this ASU are the same as the effective date and transition requirements in Topic 606 (Revenues from Contracts with Customers). The Company is evaluating the provisions of this ASU in conjunction with ASU No. 2014-09 to determine the potential impact Topic 606 and its amendments will have on the Company's Consolidated Financial Statements.

In May 2016, FASB issued ASU No. 2016-12, Narrow-Scope Improvements and Practical Expedients, amending ASC Topic 606 (Revenue from Contracts with Customers). The amendments in this ASU do not change the core principle of the guidance in Topic 606. Rather, the amendments in this ASU affect only several narrow aspects of Topic 606. The amendments in this ASU affect the guidance in ASU 2014-09, discussed above, which is not yet effective. The effective date and transition requirements for the amendments in this ASU are the same as the effective date and transition requirements in Topic 606. The Company is evaluating the provisions of this ASU in conjunction with ASU No. 2014-09 to determine the potential impact Topic 606 and its amendments will have on the Company's Consolidated Financial Statements.

Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, FASB issued ASU No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this ASU require equity securities to be measured at fair value with changes in the fair value recognized through net income. The amendments allow equity investments that do not have readily determinable fair values to be remeasured at fair value under certain circumstances and require enhanced disclosures about those investments. This ASU simplifies the impairment assessment of equity investments without readily determinable fair values. This ASU also eliminates the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. The amendments in this ASU require separate presentation in other comprehensive income of the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. This ASU excludes from net income gains or losses that the entity may not realize because those financial liabilities are not usually transferred or settled at their fair values before maturity. The amendments in this ASU require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or in the accompanying notes to the financial statements. The amendments in this ASU are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. At September 30, 2017, Banner held $5.6 million of available-for-sale equity investment securities. The provisions of ASU No. 2016-01 require changes in the value of equity securities to be recognized in the income statement which could result in additional volatility in income.

Leases (Topic 842)

In February 2016, FASB issued ASU No. 2016-02, Leases (Topic 842). The amendments in this ASU require lessees to recognize the following for all leases (with the exception of short-term) at the commencement date; a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The amendments in this ASU leave lessor accounting largely unchanged, although certain targeted improvements were made to align lessor accounting with the lessee accounting model. This ASU simplifies the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees will no longer be provided with a source of off-balance sheet financing. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted upon issuance. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The Company is currently evaluating the provisions of ASU No. 2016-02 to determine the potential impact the new standard will have on the Company's Consolidated Financial Statements and regulatory capital ratios. The Company leases 115 buildings and offices under non-cancelable operating leases, the majority of which will be subject to this

ASU. While the Company has not quantified the impact to its balance sheet, upon the adoption of this ASU the Company expects to report increased assets and increased liabilities on its Consolidated Statements of Financial Condition as a result of recognizing right-of-use assets and lease liabilities related to these leases and certain equipment under non-cancelable operating lease agreements, which currently are not reflected in its Consolidated Statements of Financial Condition.

Derivatives and Hedging (Topic 815)

In March 2016, FASB issued ASU No. 2016-05, Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships. The amendments in this ASU clarify that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under Topic 815 (Derivatives and Hedging) does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. The amendments in this ASU were effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. An entity has an option to apply the amendments in this ASU on either a prospective basis or a modified retrospective basis. Early adoption is permitted, including adoption in an interim period. At September 30, 2017, Banner had three swap relationships using hedge accounting with a total market value of $531,000. This ASU has not had a material impact on the Company's Consolidated Financial Statements.

In March 2016, FASB issued ASU No. 2016-06, Contingent Put and Call Options in Debt Instruments. The amendments in this ASU clarify the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. To determine how to account for debt instruments with embedded features, including contingent put and call options, an entity is required to assess whether the embedded derivatives must be bifurcated from the host contract and accounted for separately. Part of this assessment consists of evaluating whether the embedded derivative features are clearly and closely related to the debt host. Under existing guidance, for contingently exercisable options to be considered clearly and closely related to a debt host, they must be indexed only to interest rates or credit risk. ASU 2016-06 addresses inconsistent interpretations of whether an event that triggers an entity's ability to exercise the embedded contingent option must be indexed to interest rates or credit risk for that option to qualify as clearly and closely related. Diversity in practice has developed because the existing four-step decision sequence in ASC 815 focuses only on whether the payoff

was indexed to something other than an interest rate or credit risk. As a result, entities have been uncertain whether they should (1) determine whether the embedded features are clearly and closely related to the debt host solely on the basis of the four-step decision sequence or (2) first apply the four-step decision sequence and then also evaluate whether the event triggering the exercisability of the contingent put or call option is indexed only to an interest rate or credit risk. This ASU clarifies that in assessing whether an embedded contingent put or call option is clearly and closely related to the debt host, an entity is required to perform only the four-step decision sequence in ASC 815 as amended by this ASU. The entity does not have to separately assess whether the event that triggers its ability to exercise the contingent option is itself indexed only to interest rates or credit risk. The amendments in this ASU are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. This ASU has not had a material impact on the Company’s Consolidated Financial Statements.

In August 2017, FASB issued ASU No. 2017-12, Targeted Improvements to Accounting for Hedging Activities. The amendments in this ASU are intended to provide investors better insight to an entity's risk management hedging strategies by permitting a company to recognize the economic results of its hedging strategies in its financial statements. The amendments in this ASU permit hedge accounting for hedging relationships involving nonfinancial risk and interest rate risk by removing certain limitations in cash flow and fair value hedging relationships. In addition, the ASU requires an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. This ASU is effective for fiscal years beginning after December 15, 2018, and early adoption is permitted. Adoption of ASU 2017-12 is not expected to have a material impact on the Company's Consolidated Financial Statements.

Financial Instruments—Credit Losses (Topic 326)

In June 2016, FASB issued ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments. Current GAAP requires an “incurred loss” methodology for recognizing credit losses that delays recognition until it is probable a loss has been incurred. The main objective of this ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The amendment affects loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial asset not excluded from the scope that have the contractual right to receive cash. The amendments in this ASU replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The amendments in this ASU require a financial asset (or group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. The measurement of expected credit losses will be based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The amendments in this ASU broaden the information that an entity must consider in developing its expected credit loss estimate for assets measured either collectively or individually. The use of forecasted information incorporates more timely information in the estimate of expected credit loss, which will be more decision useful to users of the financial statements. The amendments in this ASU will be effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is still evaluating the effects this ASU will have on the Company’s Consolidated Financial Statements. The Company has formed an internal committee to oversee the project and has engaged a third-party vendor to assist with the project. Upon adoption, the Company expects a change in the processes and procedures to calculate the allowance for loan losses, including changes in assumptions and estimates to consider expected credit losses over the life of the loan versus the current accounting practice that utilizes the incurred loss model. The new guidance may result in an increase in the allowance for loan losses which will also reflect the new requirement to include the nonaccretable principal differences on purchased credit-impaired loans; however, the Company is still in

the process of determining the magnitude of the change and its impact on the Consolidated Financial Statements. In addition, the current accounting policy and procedures for other-than-temporary impairment on investment securities available-for-sale will be replaced with an allowance approach. The Company has begun developing and implementing processes to address the amendments of this ASU.

Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20)

In March 2017, FASB issued ASU No. 2017-08, Premium Amortization on Purchased Callable Debt Securities. The amendments in this ASU shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. Under current GAAP, premiums and discounts on callable debt securities generally are amortized to the maturity date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to the maturity date. The amendments in this ASU more closely align the amortization period of premiums and discounts to expectations incorporated in market pricing on the underlying securities. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Company is still evaluating the effects this ASU will have on the Company's Consolidated Financial Statements.

Compensation—Stock Compensation (Topic 718)

In May 2017, FASB issued ASU 2017-09, Scope of Modification Accounting. The amendments in this ASU are intended to provide clarity and reduce both (1) diversity in practice and (2) cost and complexity when applying the guidance in Topic 718, Compensation—Stock Compensation, to a change to the terms or conditions of a share-based payment award. The amendments in this ASU provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. An entity should account for the effects of a modification unless all the following are met: (1) the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the modified award is the same as the fair value (or calculated value or intrinsic value, if such an

alternative measurement method is used) of the original award immediately before the original award is modified. If the modification does not affect any of the inputs to the valuation technique that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification, (2) the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified and (3) the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The amendments in this ASU are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period, for (1) public business entities for reporting periods for which financial statements have not yet been issued and (2) all other entities for reporting periods for which financial statements have not yet been made available for issuance. The Company's early adoption of the amendments in this ASU in the quarter ended June 30, 2017 did not have a material impact on the Company’s Consolidated Financial Statements.

Note 3: SECURITIES

The amortized cost, gross unrealized gains and losses and estimated fair value of securities at September 30, 2017 and December 31, 2016 are summarized as follows (in thousands):

	September 30, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Trading:				
U.S. Government and agency obligations	$1,230			$1,305
Municipal bonds	330			331
Corporate bonds	27,089			21,675
Equity securities	14			155
	$28,663			$23,466
Available-for-Sale:				
U.S. Government and agency obligations	$87,509	$ 379	$ (303)	$87,585
Municipal bonds	113,794	1,194	(342)	114,646
Corporate bonds	10,567	79	(44)	10,602
Mortgage-backed or related securities	1,093,203	4,103	(4,874)	1,092,432
Asset-backed securities	28,104	157	(54)	28,207
Equity securities	5,686	10	(111)	5,585
	$1,338,863	$ 5,922	$ (5,728)	$1,339,057
Held-to-Maturity:				
U.S. Government and agency obligations	$1,035	$ 24	$ —	$1,059
Municipal bonds:	193,987	4,638	(1,015)	197,610
Corporate bonds	4,265	—	—	4,265
Mortgage-backed or related securities	65,465	476	(212)	65,729
	$264,752	$ 5,138	$ (1,227)	$268,663

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Trading:				
U.S. Government and agency obligations	$1,230			$1,326
Municipal bonds	331			335
Corporate bonds	26,959			21,143
Mortgage-backed or related securities	1,620			1,641
Equity securities	14			123
	$30,154			$24,568
Available-for-Sale:				
U.S. Government and agency obligations	$57,288	$ 146	$ (456)	$56,978
Municipal bonds	110,487	455	(1,089)	109,853
Corporate bonds	10,255	77	(49)	10,283
Mortgage-backed or related securities	598,899	2,064	(6,251)	594,712
Asset-backed securities	29,319	—	(326)	28,993
Equity securities	88	10	—	98
	$806,336	$ 2,752	$ (8,171)	$800,917
Held-to-Maturity:				
U.S. Government and agency obligations	$1,065	$ —	$ (18)	$1,047
Municipal bonds:	196,989	4,173	(1,272)	199,890
Corporate bonds	3,876	—	—	3,876
Mortgage-backed or related securities	65,943	309	(537)	65,715
	$267,873	$ 4,482	$ (1,827)	$270,528

At September 30, 2017 and December 31, 2016, the gross unrealized losses and the fair value for securities available-for-sale and held-to-maturity aggregated by the length of time that individual securities have been in a continuous unrealized loss position was as follows (in thousands):

	September 30, 2017					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale:						
U.S. Government and agency obligations	$39,846	$(286)	$5,680	$(17)	$45,526	$(303)
Municipal bonds	32,559	(169)	13,023	(173)	45,582	(342)
Corporate bonds	300	(1)	4,814	(43)	5,114	(44)
Mortgage-backed or related securities	437,934	(3,417)	95,051	(1,457)	532,985	(4,874)
Asset-backed securities	9,968	(54)	—	—	9,968	(54)
Equity securities	5,487	(111)	—	—	5,487	(111)
	$526,094	$(4,038)	$118,568	$(1,690)	$644,662	$(5,728)
Held-to-Maturity						
Municipal bonds	$40,230	$(903)	$4,347	$(112)	$44,577	$(1,015)
Mortgage-backed or related securities	18,889	(212)	—	—	18,889	(212)
	$59,119	$(1,115)	$4,347	$(112)	$63,466	$(1,227)

	December 31, 2016					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale:						
U.S. Government and agency obligations	$39,043	$(442)	$1,012	$(14)	$40,055	$(456)
Municipal bonds	60,765	(1,087)	556	(2)	61,321	(1,089)
Corporate bonds	5,206	(49)	—	—	5,206	(49)
Mortgage-backed or related securities	403,431	(5,604)	47,467	(647)	450,898	(6,251)
Asset-backed securities	9,928	(101)	19,064	(225)	28,992	(326)
	$518,373	$(7,283)	$68,099	$(888)	$586,472	$(8,171)
Held-to-Maturity						
U.S. Government and agency obligations	$1,047	$(18)	$—	$—	$1,047	$(18)
Municipal bonds	64,802	(1,267)	204	(5)	65,006	(1,272)
Mortgage-backed or related securities	42,245	(537)	—	—	42,245	(537)
	$108,094	$(1,822)	$204	$(5)	$108,298	$(1,827)

At September 30, 2017, there were 221 securities—available-for-sale with unrealized losses, compared to 243 at December 31, 2016. At September 30, 2017, there were 31 securities—held-to-maturity with unrealized losses, compared to 73 at December 31, 2016. Management does not believe that any individual unrealized loss as of September 30, 2017 or December 31, 2016 represented other-than-temporary impairment (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 sales of securities—trading during the nine months ended September 30, 2017 compared with sales of $1.7 million with a resulting net gain of $156,000 for the nine months ending September 30, 2016. The Company did not recognize any OTTI charges or recoveries on securities—trading during the nine months ended September 30, 2017 or the nine months ended September 30, 2016. There were no securities—trading in a nonaccrual status at September 30,

2017 or December 31, 2016. Net unrealized holding gains of $389,000 were recognized during the nine months ended September 30, 2017.

Sales of securities—available-for-sale totaled $35.6 million with a resulting net gain of $230,000 for the nine months ended September 30, 2017. Sales of securities—available-for-sale totaled $233.3 million with a resulting net gain of $374,000 for the nine months ended September 30, 2016. There were no securities—available-for-sale in a nonaccrual status at September 30, 2017 or December 31, 2016.

There were no sales of securities—held-to-maturity during the nine months ended September 30, 2017 or September 30, 2016. There were no securities—held-to-maturity in a nonaccrual status at September 30, 2017 or December 31, 2016.

The amortized cost and estimated fair value of securities at September 30, 2017, 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.

	September 30, 2017					
	Trading		Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Maturing in one year or less	$130	$131	$26,951	$26,911	$1,226	$1,226
Maturing after one year through five years	230	231	110,023	110,293	24,269	24,432
Maturing after five years through ten years	1,200	1,274	265,137	264,366	108,739	110,368
Maturing after ten years through twenty years	17,089	14,248	255,076	256,319	88,407	91,280
Maturing after twenty years	10,000	7,427	675,990	675,583	42,111	41,357
	28,649	23,311	1,333,177	1,333,472	264,752	268,663
Equity securities	14	155	5,686	5,585	—	—
	$28,663	$23,466	$1,338,863	$1,339,057	$264,752	$268,663

The following table presents, as of September 30, 2017, investment securities which were pledged to secure borrowings, public deposits or other obligations as permitted or required by law (in thousands):

	September 30, 2017		
	Carrying Value	Amortized Cost	Fair Value
Purpose or beneficiary:			
State and local governments public deposits	$127,661	$127,549	$130,380
Interest rate swap counterparties	16,172	16,197	16,218
Repurchase agreements	127,632	127,803	127,797
Other	3,949	3,948	3,888
Total pledged securities	$275,414	$275,497	$278,283

Note 4: LOANS RECEIVABLE AND THE ALLOWANCE FOR LOAN LOSSES

Loans receivable at September 30, 2017 and December 31, 2016 are summarized as follows (dollars in thousands):

	September 30, 2017		December 31, 2016	
	Amount	Percent of Total	Amount	Percent of Total
Commercial real estate:				
Owner-occupied	$1,369,130	17.6 %	$1,352,999	18.1 %
Investment properties	1,993,144	25.6	1,986,336	26.7
Multifamily real estate	311,706	4.0	248,150	3.3
Commercial construction	157,041	2.0	124,068	1.7
Multifamily construction	136,532	1.8	124,126	1.7
One- to four-family construction	399,361	5.1	375,704	5.0
Land and land development:				
Residential	158,384	2.0	170,004	2.3
Commercial	27,095	0.4	29,184	0.4
Commercial business	1,311,409	16.9	1,207,879	16.2
Agricultural business, including secured by farmland	339,932	4.4	369,156	5.0
One- to four-family residential	869,556	11.2	813,077	10.9
Consumer:				
Consumer secured by one- to four-family	535,300	6.9	493,211	6.6
Consumer—other	165,859	2.1	157,254	2.1
Total loans	7,774,449	100.0%	7,451,148	100.0%
Less allowance for loan losses	(89,100)		(85,997)	
Net loans	$7,685,349		$7,365,151	

Loan amounts included unamortized costs of $389,000 as of September 30, 2017 and were net of unearned fees of $5.8 million as of December 31, 2016. Net loans include net discounts on acquired loans of $23.4 million and $31.1 million as of September 30, 2017 and December 31, 2016, respectively.

Purchased credit-impaired loans and purchased non-credit-impaired loans. Purchased loans, including loans acquired in business combinations, are recorded at their fair value at the acquisition date. Credit discounts are included in the determination of fair value; therefore, an allowance for loan and lease losses is not recorded at the acquisition date. Acquired loans are evaluated upon acquisition and classified as either purchased credit-impaired (PCI) or purchased non-credit-impaired. PCI loans reflect credit deterioration since origination such that it is probable at acquisition that the Company will be unable to collect all contractually required payments. The outstanding contractual unpaid principal balance of PCI loans, excluding acquisition accounting adjustments, was $34.9 million at September 30, 2017 and $48.4 million at December 31, 2016. The carrying balance of PCI loans was $23.2 million at September 30, 2017 and $32.3 million at December 31, 2016.

The following table presents the changes in the accretable yield for PCI loans for the three and nine months ended September 30, 2017 and 2016 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Balance, beginning of period	$7,666	$11,035	$8,717	$10,375
Accretion to interest income	(1,720)	(1,811)	(5,210)	(6,349)
Disposals	—	(899)	(497)	(1,018)
Reclassifications from non-accretable difference	918	1,120	3,854	6,437
Balance, end of period	$6,864	$9,445	$6,864	$9,445

As of September 30, 2017 and December 31, 2016, the non-accretable difference between the contractually required payments and cash flows expected to be collected were $11.7 million and $15.7 million, respectively.

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. Factors involved in determining impairment include, but are not limited to, the financial condition of

the borrower, the value of the underlying collateral and the current status of the economy. 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. PCI loans are considered performing within the scope of the purchased credit-impaired accounting guidance and are not included in the impaired loan tables.

The following tables provide information on impaired loans, excluding PCI loans, with and without allowance reserves at September 30, 2017 and December 31, 2016. Recorded investment includes the unpaid principal balance or the carrying amount of loans less charge-offs and net deferred loan fees (in thousands):

	September 30, 2017			
	Unpaid Principal Balance	Recorded Investment Without Allowance (1)	Recorded Investment With Allowance (2)	Related Allowance
Commercial real estate:				
Owner-occupied	$8,250	$7,438	$ 200	$ 19
Investment properties	7,657	4,247	3,208	245
Land and land development:				
Residential	1,322	798	193	66
Commercial	1,538	928	—	—
Commercial business	7,945	7,195	573	52
Agricultural business/farmland	8,579	6,956	500	196
One- to four-family residential	8,858	2,878	5,904	184
Consumer:				
Consumer secured by one- to four-family	1,698	1,492	140	7
Consumer—other	147	71	77	4
	$45,994	$32,003	$ 10,795	$ 773

	December 31, 2016			
	Unpaid Principal Balance	Recorded Investment Without Allowance (1)	Recorded Investment With Allowance (2)	Related Allowance
Commercial real estate:				
Owner-occupied	$3,786	$3,373	$ 203	$ 20
Investment properties	9,916	5,565	4,304	408
Multifamily real estate	508	147	349	64
One- to four-family construction	1,180	—	1,180	156
Land and land development:				
Residential	3,012	750	1,106	219
Commercial	1,608	998	—	—
Commercial business	3,753	3,074	651	69
Agricultural business/farmland	6,438	6,354	—	—
One- to four-family residential	11,439	3,149	8,026	479
Consumer:				
Consumer secured by one- to four-family	1,904	1,721	144	1
Consumer—other	391	226	166	4
	$43,935	$25,357	$ 16,129	$ 1,420

(1) Includes loans without an allowance reserve that have been individually evaluated for impairment and that evaluation concluded that no reserve was needed and $9.3 million and $10.0 million of homogenous and small balance loans as of September 30, 2017 and December 31, 2016, respectively, that are collectively evaluated for impairment for which a general reserve has been established.

(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 less costs to sell to establish realizable value.

The following tables summarize our average recorded investment and interest income recognized on impaired loans by loan class for the three and nine months ended September 30, 2017 and 2016 (in thousands):

	Three Months Ended September 30, 2017		Three Months Ended September 30, 2016	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Commercial real estate:				
Owner-occupied	$3,657	$ 3	$2,544	$ 3
Investment properties	8,849	37	19,046	74
Multifamily real estate	115	1	529	27
One- to four-family construction	—	—	1,176	3
Land and land development:				
Residential	1,095	6	1,964	20
Commercial	928	—	997	—
Commercial business	8,128	6	4,283	16
Agricultural business/farmland	6,196	69	4,973	6
One- to four-family residential	8,899	73	11,973	131
Consumer:				
Consumer secured by one- to four-family	1,608	2	1,894	5
Consumer—other	140	1	512	3
	$39,615	$ 198	$49,891	$ 288

	Nine Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Commercial real estate:				
Owner-occupied	$3,079	$ 7	$2,673	$ 9
Investment properties	8,393	124	19,775	224
Multifamily real estate	335	10	518	36
One- to four-family construction	524	27	1,151	56
Land and land development:				
Residential	1,574	42	1,971	63
Commercial	950	—	1,005	—
Commercial business	5,838	63	4,470	28
Agricultural business/farmland	5,605	131	4,824	19
One- to four-family residential	9,602	240	12,193	358
Consumer:				
Consumer secured by one- to four-family	1,647	7	1,913	13
Consumer—other	194	5	572	10
	$37,741	$ 656	$51,065	$ 816

Troubled Debt Restructurings. 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 following table presents TDRs by accrual and nonaccrual status at September 30, 2017 and December 31, 2016 (in thousands):

	September 30, 2017			December 31, 2016		
	Accrual Status	Nonaccrual Status	Total TDRs	Accrual Status	Nonaccrual Status	Total TDRs
Commercial real estate:						
Owner-occupied	$200	$ 89	$289	$203	$ 96	$299
Investment properties	3,207	—	3,207	4,304	—	4,304
Multifamily real estate	—	—	—	349	—	349
One- to four-family construction	—	—	—	1,180	—	1,180
Land and land development:						
Residential	193	—	193	1,106	—	1,106
Commercial business	573	—	573	653	—	653
Agricultural business, including secured by farmland	3,172	29	3,201	3,125	79	3,204
One- to four-family residential	5,182	810	5,992	7,678	843	8,521
Consumer:						
Consumer secured by one- to four-family	140	1	141	143	6	149
Consumer—other	77	—	77	166	—	166
	$12,744	$ 929	$13,673	$18,907	$ 1,024	$19,931

As of September 30, 2017 and December 31, 2016, the Company had commitments to advance additional funds related to TDRs up to $59,000 and $127,000, respectively.

No new TDRs occurred during the nine months ended September 30, 2017 or 2016.

There were no TDRs which incurred a payment default within twelve months of the restructure date during the three and nine-month periods ended September 30, 2017 and 2016. A default on a TDR results in either a transfer to nonaccrual status or a partial charge-off, or both.

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 nine months ended September 30, 2017.

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 tables present the Company's portfolio of risk-rated loans and non-risk-rated loans by grade or other characteristics as of September 30, 2017 and December 31, 2016 (in thousands):

	September 30, 2017					
By class:	Pass (Risk Ratings 1-5)[1]	Special Mention	Substandard	Doubtful	Loss	Total Loans
Commercial real estate:						
Owner-occupied	$ 1,339,550	$ 996	$ 28,584	$ —	$ —	$ 1,369,130
Investment properties	1,978,603	3,601	10,940	—	—	1,993,144
Multifamily real estate	310,936	—	770	—	—	311,706
Commercial construction	157,041	—	—	—	—	157,041
Multifamily construction	136,532	—	—	—	—	136,532
One- to four-family construction	397,135	—	2,226	—	—	399,361
Land and land development:						
Residential	147,874	9,374	1,136	—	—	158,384
Commercial	23,202	—	3,893	—	—	27,095
Commercial business	1,241,338	19,068	51,003	—	—	1,311,409
Agricultural business, including secured by farmland	317,808	3,390	18,734	—	—	339,932
One- to four-family residential	864,053	674	4,829	—	—	869,556
Consumer:						
Consumer secured by one- to four-family	532,907	—	2,393	—	—	535,300
Consumer—other	165,444	17	398	—	—	165,859
Total	$ 7,612,423	$ 37,120	$ 124,906	$ —	$ —	$ 7,774,449

By class:	December 31, 2016 Pass (Risk Ratings 1-5)[1]	Special Mention	Substandard	Doubtful	Loss	Total Loans
Commercial real estate:						
Owner-occupied	$1,313,142	$14,394	$ 25,463	$ —	$ —	$1,352,999
Investment properties	1,948,822	23,846	13,668	—	—	1,986,336
Multifamily real estate	247,258	—	892	—	—	248,150
Commercial construction	124,068	—	—	—	—	124,068
Multifamily construction	124,126	—	—	—	—	124,126
One- to four-family construction	371,636	—	4,068	—	—	375,704
Land and land development:						
Residential	167,764	—	2,240	—	—	170,004
Commercial	25,090	—	4,094	—	—	29,184
Commercial business	1,148,585	35,036	24,258	—	—	1,207,879
Agricultural business, including secured by farmland	356,656	3,335	9,165	—	—	369,156
One- to four-family residential	807,837	967	4,273	—	—	813,077
Consumer:						
Consumer secured by one- to four-family	490,877	5	2,327	2	—	493,211
Consumer—other	156,547	108	594	5	—	157,254
Total	$7,282,408	$77,691	$ 91,042	$ 7	$ —	$7,451,148

(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 September 30, 2017 and December 31, 2016, in the commercial business category, $296.0 million and $225.0 million, respectively, of credit-scored small business loans. As loans in these pools become non-performing, they are individually risk-rated.

The following tables provide additional detail on the age analysis of the Company's past due loans as of September 30, 2017 and December 31, 2016 (in thousands):

	September 30, 2017								
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Purchased Credit-Impaired	Current	Total Loans	Loans 90 Days or More Past Due and Accruing	Non-accrual
Commercial real estate:									
Owner-occupied	$414	$3,156	$3,360	$6,930	$ 7,896	$1,354,304	$1,369,130	$ —	$ 7,438
Investment properties	—	—	4,136	4,136	7,788	1,981,220	1,993,144	53	4,194
Multifamily real estate	1,101	—	—	1,101	173	310,432	311,706	—	—
Commercial construction	223	—	—	223	—	156,818	157,041	—	—
Multifamily construction	—	—	—	—	—	136,532	136,532	—	—
One-to-four-family construction	—	—	—	—	794	398,567	399,361	—	—
Land and land development:									
Residential	819	—	798	1,617	—	156,767	158,384	—	798
Commercial	—	—	928	928	2,965	23,202	27,095	—	928
Commercial business	1,712	371	5,192	7,275	2,608	1,301,526	1,311,409	51	7,144
Agricultural business, including secured by farmland	1,051	—	2,330	3,381	683	335,868	339,932	—	4,285
One- to four-family residential	431	628	2,211	3,270	265	866,021	869,556	722	2,878
Consumer:									
Consumer secured by one- to four-family	1,537	220	788	2,545	5	532,750	535,300	76	1,416
Consumer—other	290	173	26	489	44	165,326	165,859	25	46
Total	$7,578	$4,548	$19,769	$31,895	$ 23,221	$7,719,333	$7,774,449	$ 927	$ 29,127

	December 31, 2016								
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Purchased Credit-Impaired	Current	Total Loans	Loans 90 Days or More Past Due and Accruing	Non-accrual
Commercial real estate:									
Owner-occupied	$1,938	$—	$2,538	$4,476	$ 13,281	$1,335,242	$1,352,999	$ —	$ 3,373
Investment properties	117	—	5,447	5,564	10,168	1,970,604	1,986,336	701	4,864
Multifamily real estate	—	—	147	147	139	247,864	248,150	147	—
Commercial construction	—	—	—	—	—	124,068	124,068	—	—
Multifamily construction	—	—	—	—	—	124,126	124,126	—	—
One-to-four-family construction	—	—	—	—	862	374,842	375,704	—	—
Land and land development:									
Residential	48	—	750	798	—	169,206	170,004	—	750
Commercial	—	—	998	998	3,016	25,170	29,184	—	998
Commercial business	2,314	647	1,591	4,552	3,821	1,199,506	1,207,879	—	3,074
Agricultural business, including secured by farmland	360	1,244	2,768	4,372	684	364,100	369,156	—	3,229
One-to four-family residential	1,793	249	2,110	4,152	274	808,651	813,077	1,233	2,263
Consumer:									
Consumer secured by one- to four-family	932	160	986	2,078	18	491,115	493,211	61	1,660
Consumer—other	1,421	154	147	1,722	59	155,473	157,254	11	215
Total	$8,923	$2,454	$17,482	$28,859	$ 32,322	$7,389,967	$7,451,148	$ 2,153	$ 20,426

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 nine months ended September 30, 2017 and 2016 (in thousands):

	For the Three Months Ended September 30, 2017								
	Commercial Real Estate	Multifamily Real Estate	Construction and Land	Commercial Business	Agricultural Business	One- to Four-Family Residential	Consumer	Unallocated	Total
Allowance for loan losses:									
Beginning balance	$24,232	$ 1,562	$ 27,312	$ 19,126	$ 3,808	$ 2,010	$ 3,987	$ 6,549	$ 88,586
Provision for loan losses	(236)	63	2,037	(555)	1,141	22	117	(589)	2,000
Recoveries	19	—	73	577	1	8	98	—	776
Charge-offs	(584)	—	—	(491)	(1,001)	—	(186)	—	(2,262)
Ending balance	$23,431	$ 1,625	$ 29,422	$ 18,657	$ 3,949	$ 2,040	$ 4,016	$ 5,960	$ 89,100

	For the Nine months ended September 30, 2017								
	Commercial Real Estate	Multifamily Real Estate	Construction and Land	Commercial Business	Agricultural Business	One- to Four-Family Residential	Consumer	Unallocated	Total
Allowance for loan losses:									
Beginning balance	$20,993	$ 1,360	$ 34,252	$ 16,533	$ 2,967	$ 2,238	$ 4,104	$ 3,550	$ 85,997
Provision for loan losses	2,716	254	(6,010)	4,489	2,113	(460)	488	2,410	6,000
Recoveries	353	11	1,180	921	133	262	293	—	3,153
Charge-offs	(631)	—	—	(3,286)	(1,264)	—	(869)	—	(6,050)
Ending balance	$23,431	$ 1,625	$ 29,422	$ 18,657	$ 3,949	$ 2,040	$ 4,016	$ 5,960	$ 89,100

	September 30, 2017								
	Commercial Real Estate	Multifamily Real Estate	Construction and Land	Commercial Business	Agricultural Business	One- to Four-Family Residential	Consumer	Unallocated	Total
Allowance for loan losses:									
Individually evaluated for impairment	$263	$ —	$ 67	$ 52	$ 196	$ 184	$ 11	$ —	$773
Collectively evaluated for impairment	23,168	1,625	29,348	18,605	3,753	1,856	4,005	5,960	88,320
Purchased credit-impaired loans	—	—	7	—	—	—	—	—	7
Total allowance for loan losses	$23,431	$ 1,625	$ 29,422	$ 18,657	$ 3,949	$ 2,040	$ 4,016	$ 5,960	$89,100
Loan balances:									
Individually evaluated for impairment	$13,866	$—	$1,871	$5,899	$6,495	$5,182	$218	$—	$33,531
Collectively evaluated for impairment	3,332,724	311,533	872,783	1,302,902	332,754	864,109	700,892	—	7,717,697
Purchased credit-impaired loans	15,684	173	3,759	2,608	683	265	49	—	23,221
Total loans	$3,362,274	$311,706	$878,413	$1,311,409	$339,932	$869,556	$701,159	$—	$7,774,449

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	For the Three Months Ended September 30, 2016								
	Commercial Real Estate	Multifamily Real Estate	Construction and Land	Commercial Business	Agricultural Business	One- to Four-Family Residential	Consumer	Unallocated	Total
Allowance for loan losses:									
Beginning balance	$20,149	$1,515	$31,861	$17,758	$2,891	$2,204	$3,743	$1,197	$81,318
Provision for loan losses	(337)	(79)	1,269	(1,351)	80	(404)	348	2,474	2,000
Recoveries	34	—	673	433	(138)	482	73	—	1,557
Charge-offs	—	—	—	(333)	—	(92)	(230)	—	(655)
Ending balance	$19,846	$1,436	$33,803	$16,507	$2,833	$2,190	$3,934	$3,671	$84,220

	For the Nine Months Ended September 30, 2016								
	Commercial Real Estate	Multifamily Real Estate	Construction and Land	Commercial Business	Agricultural Business	One- to Four-Family Residential	Consumer	Unallocated	Total
Allowance for loan losses:									
Beginning balance	$20,716	$4,195	$27,131	$13,856	$3,645	$4,732	$902	$2,831	$78,008
Provision for loan losses	(788)	(2,759)	5,404	1,519	(284)	(3,468)	3,536	840	4,000
Recoveries	98	—	1,268	1,775	39	1,052	529	—	4,761
Charge-offs	(180)	—	—	(643)	(567)	(126)	(1,033)	—	(2,549)
Ending balance	$19,846	$1,436	$33,803	$16,507	$2,833	$2,190	$3,934	$3,671	$84,220

	September 30, 2016								
	Commercial Real Estate	Multifamily Real Estate	Construction and Land	Commercial Business	Agricultural Business	One- to Four-Family Residential	Consumer	Unallocated	Total
Allowance for loan losses:									
Individually evaluated for impairment	$832	$65	$396	$54	$—	$456	$6	$—	$1,809
Collectively evaluated for impairment	19,014	1,371	33,374	16,453	2,833	1,734	3,928	3,671	82,378
Purchased credit-impaired loans	—	—	33	—	—	—	—	—	33
Total allowance for loan losses	$19,846	$1,436	$33,803	$16,507	$2,833	$2,190	$3,934	$3,671	$84,220
Loan balances:									
Individually evaluated for impairment	$16,630	$351	$4,137	$2,026	$2,758	$8,270	$315	$—	$34,487
Collectively evaluated for impairment	3,214,042	266,274	789,037	1,181,558	379,710	838,328	656,527	—	7,325,476
Purchased credit impaired loans	28,544	258	4,153	4,264	807	301	347	—	38,674
Total loans	$3,259,216	$266,883	$797,327	$1,187,848	$383,275	$846,899	$657,189	$—	$7,398,637

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Note 5: REAL ESTATE OWNED, NET

The following table presents the changes in REO for the three and nine months ended September 30, 2017 and 2016 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Balance, beginning of the period	$2,427	$6,147	$11,081	$11,627
Additions from loan foreclosures	—	156	46	534
Additions from acquisitions	—	—	—	400
Additions from capitalized costs	—	—	54	—
Proceeds from dispositions of REO	(961)	(1,699)	(11,382)	(8,021)
Gain on sale of REO	30	281	1,953	981
Valuation adjustments in the period	—	(168)	(256)	(804)
Balance, end of the period	$1,496	$4,717	$1,496	$4,717

REO properties are recorded at the estimated fair value of the property, less expected selling costs, 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. At September 30, 2017 and December 31, 2016, the Company had none and $917,000, respectively, of foreclosed one- to four-family residential real estate properties held as REO. The recorded investment in one- to four-family residential loans in the process of foreclosure was $2.0 million at September 30, 2017 compared with $715,000 at December 31, 2016.

Note 6: GOODWILL, OTHER INTANGIBLE ASSETS AND MORTGAGE SERVICING RIGHTS

Goodwill and Other Intangible Assets: At September 30, 2017, intangible assets are comprised of goodwill, CDI, and favorable leasehold intangibles (LHI) acquired in business combinations. Goodwill represents the excess of the purchase considerations paid over the fair value of the assets acquired, net of the fair values of liabilities assumed in a business combination, and is not amortized but is reviewed annually for impairment. At December 31, 2016, the Company completed its qualitative assessment of goodwill and concluded that it is more likely than not that the fair value of Banner, the reporting unit, exceeds the carrying value. The adjustments to goodwill in 2016 relate to changes in the preliminary goodwill recorded for the merger of Banner Bank and AmericanWest Bank (AmericanWest) in October, 2015, including adjustments to loan discount, deferred taxes and REO valuations.

CDI represents the value of transaction-related deposits and the value of the customer relationships associated with the deposits. LHI represents the value ascribed to leases assumed in an acquisition in which the lease terms are favorable compared to a market lease at the date of acquisition. The Company amortizes CDI and LHI over their estimated useful lives and reviews them at least annually for events or circumstances that could impair their value.

The following table summarizes the changes in the Company's goodwill and other intangibles for the nine months ended September 30, 2017 and the year ended December 31, 2016 (in thousands):

	Goodwill	CDI	Favorable LHI	Total
Balance, December 31, 2015	$247,738	$36,762	$ 710	$285,210
Amortization	—	(7,061)	(249)	(7,310)
Adjustments to goodwill	(3,155)	—	—	(3,155)
Balance, December 31, 2016	244,583	29,701	461	274,745

Amortization	—	(4,790)	(153)	(4,943)
Balance, September 30, 2017	$244,583	$24,911	$ 308	$269,802

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

	Estimated Amortization
Remainder of 2017	$ 1,542
2018	5,609
2019	4,889
2020	4,169
2021	3,448
Thereafter	5,254
	$ 24,911

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, which is recognized in servicing fee income on the consolidated statement of operations. 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 three and nine months ended September 30, 2017 and 2016, the Company did not record any impairment charges or recoveries against mortgage servicing rights. The unpaid principal balance for loans which mortgage servicing rights have been recorded totaled $2.13 billion and $2.05 billion at September 30, 2017 and December 31, 2016, respectively. Custodial accounts maintained in connection with this servicing totaled $22.5 million and $10.3 million at September 30, 2017 and December 31, 2016, respectively.

An analysis of our mortgage servicing rights for the three and nine months ended September 30, 2017 and 2016 is presented below (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Balance, beginning of the period	$14,985	$14,276	$15,249	$13,354
Additions—amounts capitalized	826	1,652	2,477	4,371
Amortization [1]	(1,057)	(1,102)	(2,972)	(2,899)
Balance, end of the period [2]	$14,754	$14,826	$14,754	$14,826

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

(2) There was no valuation allowance as of September 30, 2017 and 2016.

Note 7: DEPOSITS

Deposits consisted of the following at September 30, 2017 and December 31, 2016 (in thousands):

	September 30, 2017	December 31, 2016
Non-interest-bearing accounts	$ 3,379,841	$ 3,140,451
Interest-bearing checking	955,486	914,484
Regular savings accounts	1,577,292	1,523,391
Money market accounts	1,525,657	1,497,755
Total interest-bearing transaction and saving accounts	4,058,435	3,935,630
Certificates of deposit:		
Certificates of deposit less than or equal to $250,000	945,161	884,403
Certificates of deposit greater than $250,000	155,413	160,930
Total certificates of deposit[1]	1,100,574	1,045,333
Total deposits	$ 8,538,850	$ 8,121,414
Included in total deposits:		
Public fund transaction and savings accounts	$ 194,519	$ 221,765
Public fund interest-bearing certificates	26,543	25,650
Total public deposits	$ 221,062	$ 247,415
Total brokered deposits	$ 171,718	$ 34,074

(1) Certificates of deposit include $30,000 and $426,000 of acquisition premiums at September 30, 2017 and December 31, 2016, respectively.

At September 30, 2017 and December 31, 2016, the Company had certificates of deposit of $159.9 million and $165.4 million, respectively, that were equal to or greater than $250,000.

Scheduled maturities and weighted average interest rates of certificate accounts at September 30, 2017 are as follows (dollars in thousands):

	September 30, 2017	
	Amount	Weighted Average Rate
Maturing in one year or less	$808,770	0.51 %
Maturing after one year through two years	107,060	0.69
Maturing after two years through three years	137,253	1.26
Maturing after three years through four years	27,870	1.08
Maturing after four years through five years	17,208	1.21
Maturing after five years	2,413	1.05
Total certificates of deposit	$1,100,574	0.65 %

Note 8: FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents estimated fair values of the Company's financial instruments as of September 30, 2017 and December 31, 2016, whether or not measured at fair value in the Consolidated Statements of Financial Condition (in thousands):

	Level	September 30, 2017		December 31, 2016	
		Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Assets:					
Cash and cash equivalents	1	$241,766	$241,766	$247,719	$247,719
Securities—trading	2,3	23,466	23,466	24,568	24,568
Securities—available-for-sale	2	1,339,057	1,339,057	800,917	800,917
Securities—held-to-maturity	2,3	264,752	268,663	267,873	270,528
Loans held for sale	2	71,905	72,018	246,353	246,815
Loans receivable	3	7,774,449	7,666,707	7,451,148	7,337,608
FHLB stock	3	20,854	20,854	12,506	12,506
Bank-owned life insurance	1	161,648	161,648	158,936	158,936
Mortgage servicing rights	3	14,754	18,312	15,249	16,740
Derivatives:					
Interest rate swaps	2	7,186	7,186	8,330	8,330
Interest rate lock and forward sales commitments	2	664	664	482	482
Liabilities:					
Demand, interest checking and money market accounts	2	5,860,984	5,860,984	5,552,690	5,552,690
Regular savings	2	1,577,292	1,577,292	1,523,391	1,523,391
Certificates of deposit	2	1,100,574	1,082,829	1,045,333	1,028,866
FHLB advances	2	263,349	263,349	54,216	54,216
Other borrowings	2	103,713	103,713	105,685	105,685
Junior subordinated debentures	3	97,280	97,280	95,200	95,200
Derivatives:					
Interest rate swaps	2	7,186	7,186	8,330	8,330
Interest rate lock and forward sales commitments	2	115	115	289	289

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 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 at a future date. 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:

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 and liabilities as of September 30, 2017 and December 31, 2016 (in thousands):

	September 30, 2017			
	Level 1	Level 2	Level 3	Total
Assets:				
Securities—trading				
U.S. Government and agency obligations	$—	$1,305	$—	$1,305
Municipal bonds	—	331	—	331
Corporate bonds (Trust Preferred Securities)	—	—	21,675	21,675
Equity securities	—	155	—	155
	—	1,791	21,675	23,466
Securities—available-for-sale				
U.S. Government and agency obligations	—	87,585	—	87,585
Municipal bonds	—	114,646	—	114,646
Corporate bonds	—	10,602	—	10,602
Mortgage-backed or related securities	—	1,092,432	—	1,092,432
Asset-backed securities	—	28,207	—	28,207
Equity securities	—	5,585	—	5,585
	—	1,339,057	—	1,339,057
Loans held for sale	—	64,399	—	64,399
Derivatives				
Interest rate swaps	—	7,186	—	7,186
Interest rate lock and forward sales commitments	—	664	—	664
	$—	$1,413,097	$21,675	$1,434,772
Liabilities:				
Advances from FHLB	$—	$263,349	$—	$263,349
Junior subordinated debentures, net of unamortized deferred issuance costs	—	—	97,280	97,280
Derivatives				
Interest rate swaps	—	7,186	—	7,186
Interest rate lock and forward sales commitments	—	115	—	115
	$—	$270,650	$97,280	$367,930

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Assets:				
Securities—trading				
U.S. Government and agency obligations	$—	$1,326	$—	$1,326
Municipal bonds	—	335	—	335
Corporate Bonds (Trust Preferred Securities)	—	—	21,143	21,143
Mortgage-backed securities	—	1,641	—	1,641
Equity securities	—	123	—	123
	—	3,425	21,143	24,568
Securities—available-for-sale				
U.S. Government and agency obligations	—	56,978	—	56,978
Municipal bonds	—	109,853	—	109,853
Corporate bonds	—	10,283	—	10,283
Mortgage-backed securities	—	594,712	—	594,712
Asset-backed securities	—	28,993	—	28,993
Equity securities	—	98	—	98
	—	800,917	—	800,917
Loans held for sale	—	9,600	—	9,600
Derivatives				
Interest rate swaps	—	8,330	—	8,330
Interest rate lock and forward sales commitments	—	482	—	482
	$—	$822,754	$21,143	$843,897
Liabilities:				
Advances from FHLB	$—	$54,216	$—	$54,216
Junior subordinated debentures, net of unamortized deferred issuance costs	—	—	95,200	95,200
Derivatives				
Interest rate swaps	—	8,330	—	8,330
Interest rate lock and forward sales commitments	—	289	—	289
	$—	$62,835	$95,200	$158,035

The following methods were used to estimate the fair value of each class of financial instruments above:

Cash and Cash Equivalents: The carrying amount of these items is a reasonable estimate of their fair value.

Securities: The estimated fair values of investment securities and mortgaged-backed securities are priced using current active market quotes, if available, which are considered Level 1 measurements. For most of the portfolio, matrix pricing based on the securities' relationship to other benchmark quoted prices is used to establish the fair value. These measurements are considered Level 2. Due to the continued limited activity in the trust preferred markets that have limited the observability of market spreads for some of the Company's Trust Preferred Securities (TPS) securities, management has classified these securities as a Level 3 fair value measure. Management periodically reviews the pricing information received from third-party pricing services and tests those prices against other sources to validate the reported fair values.

Loans Held for Sale: Fair values for residential mortgage loans held for sale are determined by comparing actual loan rates to current secondary market prices for similar loans. Fair values for multifamily loans held for sale are calculated

based on discounted cash flows using as a discount rate a combination of market spreads for similar loan types added to selected index rates.

Loans Receivable: Fair values are estimated first by stratifying the portfolios of loans with similar financial characteristics. Loans are segregated by type such as multifamily real estate, residential mortgage, nonresidential mortgage, commercial/agricultural, consumer and other. Each loan category is further segmented into fixed- and adjustable-rate interest terms. A preliminary estimate of fair value is then calculated based on discounted cash flows using as a discount rate the current rate offered on similar products, plus an adjustment for liquidity to reflect the non-homogeneous nature of the loans. The preliminary estimate is then further reduced by the amount of the allowance for loan losses to arrive at a final estimate of fair value. Fair value for impaired loans is also based on recent appraisals or estimated cash flows discounted using rates commensurate with risk associated with the estimated cash flows. Assumptions regarding credit risk, cash flows and discount rates are judgmentally determined using available market information and specific borrower information.

FHLB Stock: The fair value is based upon the redemption value of the stock which equates to its carrying value.

Bank-Owned Life Insurance: The fair value of BOLI policies owned is based on the various insurance contracts' cash surrender value.

Mortgage Servicing Rights: Fair values are estimated based on an independent dealer analysis of discounted cash flows. The evaluation utilizes assumptions market participants would use in determining fair value including prepayment speeds, delinquency and foreclosure rates, the discount rate, servicing costs, and the timing of cash flows. The mortgage servicing portfolio is stratified by loan type and fair value estimates are adjusted up or down based on the serviced loan interest rates versus current rates on new loan originations since the most recent independent analysis.

Deposits: The carrying amount of deposits with no stated maturity, such as savings and checking accounts, is a reasonable estimate of their fair value. The market value of certificates of deposit is based upon the discounted value of contractual cash flows. The discount rate is determined using current market rates on comparable instruments.

FHLB Advances: Fair valuations for Banner’s FHLB advances are estimated using fair market values provided by the lender, the FHLB of Des Moines. The FHLB of Des Moines prices advances by discounting the future contractual cash flows for individual advances, using its current cost of funds curve to provide the discount rate.

Junior Subordinated Debentures: The fair value of junior subordinated debentures is estimated using a discounted cash flow approach. The significant inputs included in the estimation of fair value are the credit risk adjusted spread and three month LIBOR. The credit risk adjusted spread represents the nonperformance risk of the liability. The Company utilizes an external valuation firm to assist management in validating the reasonableness of the credit risk adjusted spread used to determine the fair value. The junior subordinated debentures are carried at fair value which represents the estimated amount that would be paid to transfer these liabilities in an orderly transaction amongst market participants. Due to credit concerns in the capital markets and inactivity in the trust preferred markets that have limited the observability of market spreads, management has classified this as a Level 3 fair value measure.

Other Borrowings: Other borrowings include securities sold under agreements to repurchase and occasionally federal funds purchased and their carrying amount is considered a reasonable approximation of their fair value.

Derivatives: Derivatives include interest rate swap agreements, interest rate lock commitments to originate loans held for sale and forward sales contracts to sell loans and securities related to mortgage banking activities. Fair values for these instruments, which generally change as a result of changes in the level of market interest rates, are estimated based on dealer quotes and secondary market sources.

Off-Balance-Sheet Items: Off-balance-sheet financial instruments include unfunded commitments to extend credit, including standby letters of credit, and commitments to purchase investment securities. The fair value of these instruments is not considered to be material.

Limitations: The fair value estimates presented herein are based on pertinent information available to management as of September 30, 2017 and December 31, 2016. The factors used in the fair values estimates are subject to change subsequent to the dates the fair value estimates are completed, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

Assets and Liabilities Measured at Fair Value Using Significant Unobservable Inputs (Level 3):

The following table provides a description of the valuation technique, unobservable inputs, and qualitative information about the unobservable inputs for certain of the Company's assets and liabilities classified as Level 3 and

measured at fair value on a recurring and non-recurring basis at September 30, 2017 and December 31, 2016:

Financial Instruments	Valuation Techniques	Unobservable Inputs	Weighted Average Rate / Range	
			September 30, 2017	December 31, 2016
Corporate Bonds (TPS securities)	Discounted cash flows	Discount rate	6.33 %	6.00 %
Junior subordinated debentures	Discounted cash flows	Discount rate	6.33 %	6.00 %
Impaired loans	Collateral Valuations	Discount to appraised value	8.5% to 9.0%	n/a
REO	Appraisals	Discount to appraised value	17.0% to 42.0%	0% to 45%

TPS securities : Management believes that the credit risk-adjusted spread used to develop the discount rate utilized in the fair value measurement of TPS securities is indicative of the risk premium a willing market participant would require under current market conditions for instruments with similar contractual rates and terms and conditions and issuers with similar credit risk profiles and with similar expected probability of default. Management attributes the change in fair value of these instruments, compared to their par value, primarily to perceived general market adjustments to the risk premiums for these types of assets subsequent to their issuance.

Junior subordinated debentures: Similar to the TPS securities discussed above, management believes that the credit risk-adjusted spread utilized in the fair value measurement of the junior subordinated debentures is indicative of the risk premium a willing market participant would require under current market conditions for an issuer with Banner's credit risk profile. Management attributes the change in fair value of the junior subordinated debentures, compared to their par value, primarily to perceived general market adjustments to the risk premiums for these types

of liabilities subsequent to their issuance. Future contractions in the risk adjusted spread relative to the spread currently utilized to measure the Company's junior subordinated debentures at fair value as of September 30, 2017, or the passage of time, will result in negative fair value adjustments. At September 30, 2017, the discount rate utilized was based on a credit spread of 500 basis points and three-month LIBOR of 133 basis points.

The following tables provide a reconciliation of the assets and liabilities measured at fair value using significant unobservable inputs (Level 3) on a recurring basis during the three and nine months ended September 30, 2017 and 2016 (in thousands):

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017	
	Level 3 Fair Value Inputs		Level 3 Fair Value Inputs	
	TPS Securities	Borrowings—Junior Subordinated Debentures	TPS Securities	Borrowings—Junior Subordinated Debentures
Beginning balance	$21,568	$ 96,852	$21,143	$ 95,200
Total gains or losses recognized				
Assets gains	107	—	532	—
Liabilities losses	—	428	—	2,080
Ending balance at September 30, 2017	$21,675	$ 97,280	$21,675	$ 97,280

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2016	
	Level 3 Fair Value Inputs		Level 3 Fair Value Inputs	
	TPS Securities	Borrowings—Junior Subordinated Debentures	TPS Securities	Borrowings—Junior Subordinated Debentures
Beginning balance	$20,645	$ 93,298	$18,699	$ 92,480
Total gains or losses recognized				
Assets gains	280	—	501	—
Liabilities losses	—	1,066	—	1,884
Purchases, issuances and settlements, including acquisitions	—	—	1,725	—
Ending balance at September 30, 2016	$20,925	$ 94,364	$20,925	$ 94,364

The Company has elected to continue to recognize the interest income and dividends from the securities reclassified to fair value as a component of interest income as was done in prior years when they were classified as available-for-sale. Interest expense related to the FHLB advances and junior subordinated debentures continues to be measured based on contractual interest rates and reported in interest expense. The change in fair market value of these financial instruments has been recorded as a component of non-interest income.

Items Measured at Fair Value on a Non-recurring Basis:

The following tables present financial assets measured at fair value on a non-recurring basis and the level within the fair value hierarchy of the fair value measurements for those assets as of September 30, 2017 and December 31, 2016 (in thousands):

	September 30, 2017	
	Level 3	Total

	Level 1	Level 2	Level 3	Total
Impaired loans	$—	$7,494	$—	$7,494
REO	—	—	1,496	1,496

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
REO	$—	$—	$11,081	$11,081

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The following table presents the losses resulting from non-recurring fair value adjustments for the three and nine months ended September 30, 2017 and 2016 (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Impaired loans	$(1,584)	$(128)	$(2,059)	$(182)
REO	—	(168)	(256)	(599)
Total loss from non-recurring measurements	$(1,584)	$(296)	$(2,315)	$(781)

Impaired loans: Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of collateral if the loan is collateral dependent. If this practical expedient is used, the impaired loans are considered to be held at fair value. Subsequent changes in the value of impaired loans are included within the provision for loan losses in the same manner in which impairment initially was recognized or as a reduction in the provision that would otherwise be reported. Impaired loans are periodically evaluated to determine if valuation adjustments, or partial write-downs, should be recorded. The need for valuation adjustments arises when observable market prices or current appraised values of collateral indicate a shortfall in collateral value compared to current carrying values of the related loan. If the Company determines that the value of the impaired loan is less than the carrying value of the loan, the Company either establishes an impairment reserve as a specific component of the allowance for loan losses or charges off the impaired amount. These valuation adjustments are considered non-recurring fair value adjustments. The remaining impaired loans are evaluated for reserve needs in homogenous pools within the Company’s methodology for assessing the adequacy of the allowance for loan losses.

REO: The Company records REO (acquired through a lending relationship) at fair value on a non-recurring basis. Fair value adjustments on REO are based on updated real estate appraisals which are based on current market conditions. All REO properties are recorded at the lower of the estimated fair value of the real estate, less expected selling costs, or the carrying amount of the defaulted loans. From time to time, non-recurring fair value adjustments to REO are recorded to reflect partial write-downs based on an observable market price or current appraised value of property. Banner considers any valuation inputs related to REO to be Level 3 inputs. The individual carrying values of these assets are reviewed for impairment at least annually and any additional impairment charges are expensed to operations.

Note 9: INCOME TAXES AND DEFERRED TAXES

The Company files a consolidated income tax return including all of its wholly-owned subsidiaries on a calendar year basis. Income taxes are accounted for using the asset and liability method. Under this method, a deferred tax asset or liability is determined based on the enacted tax rates which will be in effect when the differences between the financial statement carrying amounts and tax basis of existing assets and liabilities are expected to be reported in the Company’s income tax returns. The effect on deferred taxes of a change in tax rates is recognized in income in the period of change. A valuation allowance is recognized as a reduction to deferred tax assets when management determines it is more likely than not that deferred tax assets will not be available to offset future income tax liabilities.

Accounting standards for income taxes prescribe a recognition threshold and measurement process for financial statement recognition and measurement of uncertain tax positions taken or expected to be taken in a tax return, and also provide guidance on the de-recognition of previously recorded benefits and their classification, as well as the proper recording of interest and penalties, accounting in interim periods, disclosures and transition. The Company periodically reviews its income tax positions based on tax laws and regulations and financial reporting considerations, and records adjustments as appropriate. This review takes into consideration the status of current taxing authorities’

examinations of the Company’s tax returns, recent positions taken by the taxing authorities on similar transactions, if any, and the overall tax environment.

As of September 30, 2017, the Company had an insignificant amount of unrecognized tax benefits for uncertain tax positions, none of which would materially affect the effective tax rate if recognized. The Company does not anticipate that the amount of unrecognized tax benefits will significantly increase or decrease in the next twelve months. The Company’s policy is to recognize interest and penalties on unrecognized tax benefits in the income tax expense. The Company files consolidated income tax returns in the U.S. federal jurisdiction and in the Oregon, California, Utah and Idaho state jurisdictions.

Tax credit investments: The Company invests in low income housing tax credit funds that are designed to generate a return primarily through the realization of federal tax credits. The Company accounts for these investments by amortizing the cost of tax credit investments over the life of the investment using a proportional amortization method and tax credit investment amortization expense is a component of the provision for income taxes.

The following table presents the balances of the Company’s tax credit investments and related unfunded commitments at September 30, 2017 and December 31, 2016 (in thousands):

	September 30, 2017	December 31, 2016
Tax credit investments	$ 4,058	$ 4,654
Unfunded commitments—tax credit investments	$ 638	$ 665

The following table presents other information related to the Company's tax credit investments for the three and nine months ended September 30, 2017 and 2016 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Tax credits and other tax benefits recognized	$285	$284	$855	$852
Tax credit amortization expense included in provision for income taxes	$199	$168	597	504

Note 10: CALCULATION OF WEIGHTED AVERAGE SHARES OUTSTANDING FOR EARNINGS PER SHARE (EPS)

The following table reconciles basic to diluted weighted shares outstanding used to calculate earnings per share data (in thousands, except shares and per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	$25,077	$ 23,851	$74,324	$ 62,581
Basic weighted average shares outstanding	32,982,532	34,045,225	32,966,214	34,050,459
Plus unvested restricted stock	96,567	79,386	94,958	54,416
Diluted weighted shares outstanding	33,079,099	34,124,611	33,061,172	34,104,875
Earnings per common share				
Basic	$0.76	$ 0.70	$2.25	$ 1.84
Diluted	$0.76	$ 0.70	$2.25	$ 1.83

As of September 30, 2017, warrants expiring on November 21, 2018 to purchase up to $18.6 million (243,998 shares, post reverse-split) of common stock were not included in the computation of diluted earnings per share because the exercise price of the warrants was greater than the average market price of common shares.

Note 11: STOCK-BASED COMPENSATION PLANS

The Company operates the following stock-based compensation plans as approved by its shareholders:
- 2012 Restricted Stock and Incentive Bonus Plan (2012 Restricted Stock Plan).
- 2014 Omnibus Incentive Plan (the 2014 Plan).

The purpose of these plans is to promote the success and enhance the value of the Company by providing a means for attracting and retaining highly skilled employees, officers and directors of Banner Corporation and its affiliates and linking their personal interests with those of the Company's shareholders. Under these plans the Company currently has outstanding restricted stock share grants and restricted stock unit grants.

2012 Restricted Stock and Incentive Bonus Plan

Under the 2012 Restricted Stock Plan, which was initially approved on April 24, 2012, the Company is authorized to issue up to 300,000 shares of its common stock to provide a means for attracting and retaining highly skilled officers of Banner Corporation and its affiliates. Shares granted under the 2012 Restricted Stock Plan have a minimum vesting period of three years. The 2012 Restricted Stock Plan will continue in effect for a term of ten years, after which no further awards may be granted.

The 2012 Restricted Stock Plan was amended on April 23, 2013 to provide for the ability to grant (1) cash-denominated incentive-based awards payable in cash or common stock, including those that are eligible to qualify as qualified performance-based compensation for the purposes of Section 162(m) of the Code and (2) restricted stock awards that qualify as qualified performance-based compensation for the purposes of Section 162(m) of the Code. Vesting requirements may include time-based conditions, performance-based conditions, or market-based conditions.

As of September 30, 2017, the Company had granted 270,961 shares of restricted stock from the 2012 Restricted Stock Plan (as amended and restated), of which 242,972 shares had vested and 27,989 shares remain unvested.

2014 Omnibus Incentive Plan

The 2014 Plan was approved by shareholders on April 22, 2014. The 2014 Plan provides for the grant of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units, other stock-based awards and other cash awards, and provides for vesting requirements which may include time-based or performance-based conditions. The Company reserved 900,000 shares of its common stock for issuance under the 2014 Plan in connection with the exercise of awards. As of September 30, 2017, 372,512 restricted stock shares and 34,975 restricted stock units have been granted under the 2014 Plan of which 81,148 restricted stock shares and 20,967 restricted stock units have vested.

The expense associated with all restricted stock grants (including restricted stock shares and restricted stock units) was $1.6 million and $4.2 million for the three and nine-month periods ended September 30, 2017 and $1.4 million and $4.0 million for the three and nine-month periods ended September 30, 2016, respectively. Unrecognized compensation expense for these awards as of September 30, 2017 was $9.8 million and will be amortized over the next 34 months.

Note 12: COMMITMENTS AND CONTINGENCIES

Lease Commitments — The Company leases 115 buildings and offices under non-cancelable operating leases. The leases contain various provisions for increases in rental rates, based either on changes in the published Consumer Price Index or a predetermined escalation schedule. Substantially all of the leases provide the Company with the option to extend the lease term one or more times following expiration of the initial term.

Financial Instruments with Off-Balance-Sheet Risk — The Company has financial instruments with off-balance-sheet risk generated in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to extend credit, commitments related to standby letters of credit, commitments to originate loans, commitments to sell loans, commitments to buy and sell securities. These instruments involve, to varying degrees, elements of credit and interest rate risk similar to the risk involved in on-balance-sheet items recognized in our Consolidated Statements of Financial Condition.

Our exposure to credit loss in the event of nonperformance by the other party to the financial instrument from commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. We use the same credit policies in making commitments and conditional obligations as for on-balance-sheet instruments.

Outstanding commitments for which no asset or liability for the notional amount has been recorded consisted of the following at the dates indicated (in thousands):

	Contract or Notional Amount	
	September 30, 2017	December 31, 2016
Commitments to extend credit	$2,339,558	$ 2,204,795
Standby letters of credit and financial guarantees	15,432	17,694
Commitments to originate loans	64,263	69,833
Risk participation agreement	11,516	7,488

Derivatives also included in Note 13:

Commitments to originate loans held for sale	68,976	69,487
Commitments to sell loans secured by one- to four-family residential properties	39,848	36,907
Commitments to sell securities related to mortgage banking activities	100,500	44,000

Commitments to extend credit are agreements to lend to a customer, as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Many of the commitments may expire without being drawn upon; therefore, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the customer. The type of collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, and income producing commercial properties. The Company's reserve for unfunded loan commitments was $2.4 million and $3.6 million at September 30, 2017 and December 31, 2016, respectively.

Standby letters of credit are conditional commitments issued to guarantee a customer's performance or payment to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Through the acquisition of AmericanWest, Banner Bank assumed a risk participation agreement. Under the risk participation agreement, Banner Bank guarantees the financial performance of a borrower on the participated portion of an interest rate swap on a loan.

Interest rates on residential one- to four-family mortgage loan applications are typically rate locked (committed) to customers during the application stage for periods ranging from 30 to 60 days, the most typical period being 45 days. Traditionally, these loan applications with rate lock commitments had the pricing for the sale of these loans locked with various qualified investors under a best-efforts delivery program at or near the time the interest rate is locked with the customer. The Bank then attempts to deliver these loans before their rate locks expired. This arrangement generally required delivery of the loans prior to the expiration of the rate lock. Delays in funding the loans required a lock extension. The cost of a lock extension at times was borne by the customer and at times by the Bank. These lock extension costs have not had a material impact to our operations. The Company enters into forward commitments at specific prices and settlement dates to deliver either: (1) residential mortgage loans for purchase by secondary market investors (i.e., Freddie Mac or Fannie Mae), or (2) mortgage-backed securities to broker/dealers. The purpose of these forward commitments is to offset the movement in interest rates between the execution of its residential mortgage rate lock commitments with borrowers and the sale of those loans to the secondary market investor. There were no counterparty default losses on forward contracts during the three and nine months ended September 30, 2017 or September 30, 2016. Market risk with respect to forward contracts arises principally from changes in the value of contractual positions due to changes in interest rates. The Company limits its exposure to market risk by monitoring differences between commitments to customers and forward contracts with market investors and securities broker/dealers. In the event the Company has forward delivery contract commitments in excess of available mortgage loans, the transaction is completed by either paying or receiving a fee to or from the investor or broker/dealer equal to the increase or decrease in the market value of the forward contract.

In the normal course of business, the Company and/or its subsidiaries have various legal proceedings and other contingent matters outstanding. These proceedings and the associated legal claims are often contested and the outcome of individual matters is not always predictable. These claims and counter-claims typically arise during the course of collection efforts on problem loans or with respect to action to enforce liens on properties in which the Banks hold a security interest. Based upon the information known to management at this time, the Company and the Banks are not a party to any legal proceedings that management believes would have a material adverse effect on the results of operations or consolidated financial position at September 30, 2017.

In connection with certain asset sales, the Banks typically make representations and warranties about the underlying assets conforming to specified guidelines. If the underlying assets do not conform to the specifications, the Bank may have an obligation to repurchase the assets or indemnify the purchaser against any loss. The Banks believe that the potential for material loss under these arrangements is remote. Accordingly, the fair value of such obligations is not material.

NOTE 13: DERIVATIVES AND HEDGING

The Company, through its Banner Bank subsidiary, is party to various derivative instruments that are used for asset and liability management and customer financing needs. Derivative instruments are contracts between two or more parties that have a notional amount and an underlying variable, require no net investment and allow for the net settlement of positions. The notional amount serves as the basis for the payment provision of the contract and takes the form of units, such as shares or dollars. The underlying variable represents a specified interest rate, index, or other component. The interaction between the notional amount and the underlying variable determines the number of units to be exchanged between the parties and influences the market value of the derivative contract. The Company obtains dealer quotations to value its derivative contracts.

The Company's predominant derivative and hedging activities involve interest rate swaps related to certain term loans and forward sales contracts associated with mortgage banking activities. Generally, these instruments help the Company manage exposure to market risk and meet customer financing needs. Market risk represents the possibility that economic value or net interest income will be adversely affected by fluctuations in external factors such as market-driven interest rates and prices or other economic factors.

Derivatives Designated in Hedge Relationships

The Company's fixed rate loans result in exposure to losses in value or net interest income as interest rates change. The risk management objective for hedging fixed rate loans is to effectively convert the fixed rate received to a floating rate. The Company has hedged exposure to changes in the fair value of certain fixed rate loans through the use of interest rate swaps. For a qualifying fair value hedge, changes in the value of the derivatives are recognized in current period earnings along with the corresponding changes in the fair value of the designated hedged item attributable to the risk being hedged.

Under a prior program, customers received fixed interest rate commercial loans and the Banner Bank subsequently hedged that fixed rate loan by entering into an interest rate swap with a dealer counterparty. Banner Bank receives fixed rate payments from the customers on the loans and makes similar fixed rate payments to the dealer counterparty on the swaps in exchange for variable rate payments based on the one-month LIBOR index. Some of these interest rate swaps are designated as fair value hedges. Through application of the “short cut method of accounting,” there is an assumption that the hedges are effective. Banner Bank discontinued originating interest rate swaps under this program in 2008.

As of September 30, 2017 and December 31, 2016, the notional values or contractual amounts and fair values of the Company's derivatives designated in hedge relationships were as follows (in thousands):

	Asset Derivatives				Liability Derivatives			
	September 30, 2017		December 31, 2016		September 30, 2017		December 31, 2016	
	Notional/ Contract Amount	Fair Value (1)	Notional/ Contract Amount	Fair Value (1)	Notional/ Contract Amount	Fair Value (2)	Notional/ Contract Amount	Fair Value (2)
Interest rate swaps	$4,441	$ 531	$5,855	$ 660	$4,441	$ 531	$5,855	$ 660

(1) Included in Loans receivable on the Consolidated Statements of Financial Condition.
(2) Included in Other liabilities on the Consolidated Statements of Financial Condition.

Derivatives Not Designated in Hedge Relationships

Interest Rate Swaps: Banner Bank uses an interest rate swap program for commercial loan customers, that provides the client with a variable rate loan and enters into an interest rate swap in which the client locks in a fixed rate and the Bank receives a variable rate payment. The Bank offsets its risk exposure by entering into an offsetting interest rate swap with a dealer counterparty for the same notional amount and length of term as the client interest rate swap providing the dealer counterparty with a fixed-rate payment in exchange for a variable-rate payment. These swaps do not qualify as designated hedges; therefore, each swap is accounted for as a free standing derivative.

Mortgage Banking: In the normal course of business, the Company sells originated one- to four-family and multifamily mortgage loans into the secondary mortgage loan markets. During the period of loan origination and prior to the sale of the loans in the secondary market, the Company has exposure to movements in interest rates associated with written interest rate lock commitments with potential borrowers to originate one- to four-family loans that are intended to be sold and for closed one- to four-family and multifamily mortgage loans held for sale that are awaiting sale and delivery into the secondary market. The Company attempts to economically hedge the risk of changing interest rates associated with these mortgage loan commitments by entering into forward sales contracts to sell one- to four-family and multifamily mortgage loans or mortgage-backed securities to broker/dealers as specific prices and dates.

As of September 30, 2017 and December 31, 2016, the notional values or contractual amounts and fair values of the Company's derivatives not designated in hedge relationships were as follows (in thousands):

	Asset Derivatives				Liability Derivatives			
	September 30, 2017		December 31, 2016		September 30, 2017		December 31, 2016	
	Notional/ Contract Amount	Fair Value (1)	Notional/ Contract Amount	Fair Value (1)	Notional/ Contract Amount	Fair Value (2)	Notional/ Contract Amount	Fair Value (2)
Interest rate swaps	$303,500	$6,655	$309,936	$7,670	$303,500	$6,655	$309,936	$7,670
Mortgage loan commitments	46,351	265	42,296	30	22,625	115	27,191	174
Forward sales contracts	140,348	399	71,192	452	—	—	9,715	115
	$490,199	$7,319	$423,424	$8,152	$326,125	$6,770	$346,842	$7,959

(1) Included in Other assets on the Consolidated Statements of Financial Condition, with the exception of certain interest swaps and mortgage loan commitments (with a fair value of $216,000 at September 30, 2017 and $822,000 at December 31, 2016), which are included in Loans receivable.
(2) Included in Other liabilities on the Consolidated Statements of Financial Condition.

Gains (losses) recognized in income on derivatives not designated in hedge relationships for the three and nine months ended September 30, 2017 and 2016 were as follows (in thousands):

	Location on Consolidated Statements of Operations	Three Months Ended September 30,		Nine Months Ended September 30,	
		2017	2016	2017	2016
Mortgage loan commitments	Mortgage banking operations	$50	$(376)	$235	$516
Forward sales contracts	Mortgage banking operations	(398)	315	(654)	(297)
		$(348)	$(61)	$(419)	$219

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The Company is exposed to credit-related losses in the event of nonperformance by the counterparty to these agreements. Credit risk of the financial contract is controlled through the credit approval, limits, and monitoring procedures and management does not expect the counterparties to fail their obligations.

In connection with the interest rate swaps between Banner Bank and the dealer counterparties, the agreements contain a provision where if Banner Bank fails to maintain its status as a well/adequately capitalized institution, then the counterparty could terminate the derivative positions and Banner Bank would be required to settle its obligations. Similarly, Banner Bank could be required to settle its obligations under certain of its agreements if specific regulatory events occur, such as a publicly issued prompt corrective action directive, cease and desist order, or a capital maintenance agreement that required Banner Bank to maintain a specific capital level. If Banner Bank had breached any of these provisions at September 30, 2017 or December 31, 2016, it could have been required to settle its obligations under the agreements at the termination value. As of September 30, 2017 and December 31, 2016, the termination value of derivatives in a net liability position related to these agreements was $4.5 million and $7.6 million, respectively. The Company generally posts collateral against derivative liabilities in the form of cash, government agency-issued bonds, mortgage-backed securities, or commercial mortgage-backed securities. Collateral posted against derivative liabilities was $18.4 million and $29.3 million as of September 30, 2017 and December 31, 2016, respectively.

Derivative assets and liabilities are recorded at fair value on the balance sheet and do not take into account the effects of master netting agreements. Master netting agreements allow the Company to settle all derivative contracts held with a single counterparty on a net basis and to offset net derivative positions with related collateral where applicable.

The following tables illustrate the potential effect of the Company's derivative master netting arrangements, by type of financial instrument, on the Company's Consolidated Statements of Financial Condition as of September 30, 2017 and December 31, 2016 (in thousands):

	September 30, 2017					
				Gross Amounts of Financial Instruments Not Offset in the Consolidated Statements of Financial Condition		
	Gross Amounts Recognized	Amounts offset in the Statement of Financial Condition	Net Amounts in the Statement of Financial Condition	Netting Adjustment Per Applicable Master Netting Agreements	Fair Value of Financial Collateral in the Statement of Financial Condition	Net Amount
Derivative assets						
Interest rate swaps	$7,186	$ —	$ 7,186	$(1,148)	$ —	$ 6,038
	$7,186	$ —	$ 7,186	$(1,148)	$ —	$ 6,038
Derivative liabilities						
Interest rate swaps	$7,186	$ —	$ 7,186	$(1,148)	$ (4,461)	$ 1,577
	$7,186	$ —	$ 7,186	$(1,148)	$ (4,461)	$ 1,577

	December 31, 2016					
				Gross Amounts of Financial Instruments Not Offset in the Consolidated Statements of Financial Condition		
	Gross Amounts Recognized	Amounts offset in the Statement of Financial Condition	Net Amounts in the Statement of Financial Condition	Netting Adjustment Per Applicable Master Netting Agreements	Fair Value of Financial Collateral in the Statement of Financial Condition	Net Amount
Derivative assets						
Interest rate swaps	$8,330	$ —	$ 8,330	$(362)	$ —	$ 7,968
	$8,330	$ —	$ 8,330	$(362)	$ —	$ 7,968
Derivative liabilities						

Interest rate swaps	$8,330	$ —	$ 8,330	$(362)	$ (7,557)	$ 411
	$8,330	$ —	$ 8,330	$(362)	$ (7,557)	$ 411

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NOTE 14: SUBSEQUENT EVENT

On October 6, 2017, Banner Bank completed the sale of its Utah branches and related assets and liabilities to People’s Intermountain Bank, a banking subsidiary of People’s Utah Bancorp (NASDAQ: PUB).

Under the terms of the purchase and assumption agreement, the sale included approximately $255 million in loans, $160 million in deposits and all of Banner Bank’s seven Utah branches located in Provo, Orem, Salem, Springville, South Jordan, Salt Lake City and Woods Cross. The sale also included $3.9 million of property and equipment and $581,000 of accrued interest. In addition, Banner wrote off an associated $1.8 million of goodwill and $1.1 million of other intangibles. The deposit premium paid to Banner was $13.8 million based on average deposits at closing. The net gain recorded on the sale was approximately $12 million.

ITEM 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations

Executive Overview

We are a bank holding company incorporated in the State of Washington which owns two subsidiary banks, Banner Bank and Islanders Bank. Banner Bank is a Washington-chartered commercial bank that conducts business from its main office in Walla Walla, Washington and, as of September 30, 2017, its 182 branch offices and 12 loan production offices located in Washington, Oregon, California, Utah and Idaho. On October 9, 2017, Banner Bank announced that it had completed the sale of its seven Utah branches and related operations. Islanders Bank is a Washington-chartered commercial bank and conducts its business from three locations in San Juan County, Washington. Banner Corporation is subject to regulation by the Board of Governors of the Federal Reserve System (the Federal Reserve Board). Banner Bank and Islanders Bank (the Banks) are subject to regulation by the Washington State Department of Financial Institutions, Division of Banks and the Federal Deposit Insurance Corporation (the FDIC). As of September 30, 2017, we had total consolidated assets of $10.44 billion, total loans of $7.77 billion, total deposits of $8.54 billion and total shareholders’ equity of $1.33 billion.

Banner Bank is a regional bank which offers a wide variety of commercial banking services and financial products to individuals, businesses and public sector entities in its primary market areas. Islanders Bank is a community bank which offers similar banking services to individuals, businesses and public entities located in the San Juan Islands. The Banks’ primary business is that of traditional banking institutions, accepting deposits and originating loans in locations surrounding their offices in portions of Washington, Oregon, California and Idaho. Banner Bank is also an active participant in the secondary market, engaging in mortgage banking operations largely through the origination and sale of one- to four-family and multifamily residential loans. Lending activities include commercial business and commercial real estate loans, agriculture business loans, construction and land development loans, one- to four-family and multifamily residential loans and consumer loans.

Banner Corporation's successful execution of its super community bank model and strategic initiatives has delivered solid profitability and growth. We continue to execute on our goals to maintain the Company's moderate risk profile as well as to develop and continue strong earnings momentum. Highlights of this success have included maintaining strong asset quality, outstanding client acquisition and account growth, increased non-interest-bearing deposit balances and strong revenue generation from core operations.

For the quarter ended September 30, 2017, our net income was $25.1 million, or $0.76 per diluted share, compared to net income of $23.9 million, or $0.70 per diluted share, for the quarter ended September 30, 2016. For the nine months ended September 30, 2017, our net income was $74.3 million, or $2.25 per diluted share, compared to net income of $62.6 million, or $1.83 per diluted share for the same period a year earlier. Our net income for the quarter

and nine months ended September 30, 2016 was negatively impacted by $1.7 million and $10.9 million, respectively, of acquisition-related expenses, which net of related tax benefits reduced earnings per diluted share by $0.03 and $0.21, respectively, for those periods. There were no acquisition-related expenses in the quarter or nine months ended September 30, 2017.

Highlights for the current quarter included additional client acquisition, solid asset quality, strong revenues from core operations, and growth in loans and core deposits. Compared to the same quarter a year ago, we had a significant increase in net interest income, reflecting the organic growth of the Company.

Our operating results depend primarily on our net interest income, which is the difference between interest income on interest-earning assets, consisting primarily of loans and investment securities, and interest expense on interest-bearing liabilities, composed primarily of customer deposits, FHLB advances, other borrowings and junior subordinated debentures. Net interest income is primarily a function of our interest rate spread which is the difference between the yield earned on interest-earning assets and the rate paid on interest-bearing liabilities, as well as a function of the average balances of interest-earning assets, interest-bearing liabilities and non-interest-bearing funding sources including non-interest-bearing deposits. Our net interest income increased $6.5 million, or 7%, to $100.2 million for the quarter ended September 30, 2017, compared to $93.7 million for the same quarter one year earlier. This increase in net interest income reflects the organic growth in earning assets and a continued strong net interest margin.

Our net income also is affected by the level of our non-interest income, including deposit fees and other service charges, results of mortgage banking operations, which includes loan origination and servicing fees and gains and losses on the sale of loans, and gains and losses on the sale of loans and securities, as well as our non-interest expenses, provisions for loan losses and income tax provisions. In addition, our net income is affected by the net change in the value of certain financial instruments carried at fair value.

Our total revenues (net interest income before the provision for loan losses plus total non-interest income) for the third quarter of 2017 increased $3.3 million, or 3%, to $120.5 million, compared to $117.2 million for the same period a year earlier, as a result of increased net interest income as well as increased deposit fees and service charges. Our total non-interest income, which is a component of total revenue and includes the net gain on sale of securities and changes in the value of financial instruments carried at fair value, was $20.3 million for the quarter ended September 30, 2017, compared to $23.5 million for the quarter ended September 30, 2016.

Our total revenues, excluding changes in the fair value of financial instruments and the net gain on sale of securities, which we believe are more indicative of our core operations*, also were strong at $120.8 million for the quarter ended September 30, 2017, a $3.3 million, or 3%, increase compared to $117.5 million for the same period a year earlier.

Our non-interest expense increased in the third quarter of 2017 compared to a year earlier largely as a result of costs incurred related to enhanced regulatory requirements attributable to compliance and risk management infrastructure build-out as a result of crossing the $10 billion asset threshold. There were no acquisition-related expenses in the current quarter compared to $1.7 million in the same quarter a year ago. Non-interest expense was $82.6 million for the quarter ended September 30, 2017, compared to $79.1 million for the same quarter a year earlier.

Although our credit quality metrics continue to reflect our moderate risk profile, we recorded a $2.0 million provision for loan losses in the quarter ended September 30, 2017, primarily due to loan growth and the renewal of acquired loans out of the discounted loan portfolios, as well as net charge-offs during the quarter, compared to a $2.0 million loan loss provision recorded in the third quarter a year ago. The allowance for loan losses at September 30, 2017 was $89.1 million, representing 296% of non-performing loans. Non-performing loans were $30.1 million at September 30, 2017, compared to $22.6 million at December 31, 2016 and $27.3 million a year earlier. (See Note 4, Loans Receivable and the Allowance for Loan Losses, as well as “Asset Quality” below in this Form 10-Q.)

During 2016 our strategy was to maintain assets below $10.0 billion through December 31, 2016. Remaining below $10.0 billion in assets through the year end had the beneficial effect of delaying the adverse impact on our future operating results from certain enhanced regulatory compliance requirements and the Durbin Amendment cap on interchange fees. Beginning in early 2017, we renewed our strategy of funding additional investment securities purchases/interest-earning assets with deposits and borrowings to leverage our capital, resulting in a $649.4 million increase in total assets during the first nine months of 2017, further enhancing our revenue growth.

*Non-GAAP financial measures: Non-interest income, revenues and other earnings information excluding fair value adjustments, OTTI losses or recoveries, gains or losses on the sale of securities and, in certain periods, acquisition-related costs are non-GAAP financial measures. Management has presented these and other non-GAAP financial measures in this discussion and analysis because it believes that they provide useful and comparative information to assess trends in our core operations and in understanding our capital position. However, these non-GAAP financial measures are supplemental and are not a substitute for any analysis based on GAAP. Where applicable, we have also presented comparable earnings information using GAAP financial measures. For a reconciliation of these non-GAAP financial measures, see the tables below. Because not all companies use the same calculations, our presentation may not be comparable to other similarly titled measures as calculated by other companies. See “Comparison of Results of Operations for the Three and Nine Months Ended September 30, 2017 and 2016” for more detailed information about our financial performance.

The following tables set forth reconciliations of non-GAAP financial measures discussed in this report (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016

REVENUE FROM CORE OPERATIONS:				
Net interest income	$100,210	$93,708	$294,770	$277,899
Total non-interest income	20,339	23,512	63,653	64,007
Total GAAP revenue	120,549	117,220	358,423	341,906
Exclude net gain on sale of securities	(270)	(891)	(230)	(531)
Exclude change in valuation of financial instruments carried at fair value	493	1,124	1,831	1,472
Revenue from core operations (non-GAAP)	$120,772	$117,453	$360,024	$342,847
NON-INTEREST INCOME FROM CORE OPERATIONS:				
Total non-interest income (GAAP)	$20,339	$23,512	$63,653	$64,007
Exclude net gain on sale of securities	(270)	(891)	(230)	(531)
Exclude change in valuation of financial instruments carried at fair value	493	1,124	1,831	1,472
Total non-interest income from core operations (non-GAAP)	$20,562	$23,745	$65,254	$64,948

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
EARNINGS FROM CORE OPERATIONS:				
Net income (GAAP)	$25,077	$23,851	$74,324	$62,581
Exclude net gain on sale of securities	(270)	(891)	(230)	(531)
Exclude change in valuation of financial instruments carried at fair value	493	1,124	1,831	1,472
Exclude acquisition related costs	—	1,720	—	10,945
Exclude related tax benefit	(80)	(703)	(576)	(4,261)
Total earnings from core operations (non-GAAP)	$25,220	$25,101	$75,349	$70,206
Diluted earnings per share (GAAP)	$0.76	$0.70	$2.25	$1.83
Diluted core earnings per share (non-GAAP)	$0.76	$0.74	$2.28	$2.06
ADJUSTED EFFICIENCY RATIO				
Non-interest expense (GAAP)	$82,589	$79,092	$242,597	$243,013
Exclude acquisition-related costs	—	(1,720)	—	(10,945)
Exclude CDI amortization	(1,542)	(1,724)	(4,790)	(5,339)
Exclude Business and Occupancy (B&O) tax expense	(780)	(956)	(1,857)	(2,564)
Exclude REO gain (loss)	(240)	21	1,089	(513)
Adjusted non-interest expense (non-GAAP)	$80,027	$74,713	$237,039	$223,652
Net interest income (GAAP)	$100,210	$93,708	$294,770	$277,899
Non-interest income (GAAP)	20,339	23,512	63,653	64,007
Total revenue	120,549	117,220	358,423	341,906
Exclude net gain on sale of securities	(270)	(891)	(230)	(531)
Exclude net change in valuation of financial instruments carried at fair value	493	1,124	1,831	1,472
Adjusted revenue (non-GAAP)	$120,772	$117,453	$360,024	$342,847
Efficiency ratio (GAAP)	68.51%	67.47%	67.68%	71.08%
Adjusted efficiency ratio (non-GAAP)	66.26%	63.61%	65.84%	65.23%

The ratio of tangible common shareholders' equity to tangible assets is also a non-GAAP financial measure. We calculate tangible common equity by excluding goodwill and other intangible assets from shareholders' equity. We calculate tangible assets by excluding the balance of goodwill and other intangible assets from total assets. We believe that this is consistent with the treatment by our bank regulatory agencies, which exclude goodwill and other intangible assets from the calculation of risk-based capital ratios. Management believes that this non-GAAP financial measure provides information to investors that is useful in understanding the basis of our capital position (dollars in thousands).

TANGIBLE COMMON SHAREHOLDERS' EQUITY TO TANGIBLE ASSETS	September 30, 2017	December 31, 2016	September 30, 2016
Shareholders' equity (GAAP)	$1,327,011	$1,305,710	$1,331,271
Exclude goodwill and other intangible assets, net	269,802	274,745	276,517
Tangible common shareholders' equity (non-GAAP)	$1,057,209	$1,030,965	$1,054,754
Total assets (GAAP)	$10,443,086	$9,793,668	$9,841,028
Exclude goodwill and other intangible assets, net	269,802	274,745	276,517
Total tangible assets (non-GAAP)	$10,173,284	$9,518,923	$9,564,511
Common shareholders' equity to total assets (GAAP)	12.71 %	13.33 %	13.53 %
Tangible common shareholders' equity to tangible assets (non-GAAP)	10.39 %	10.83 %	11.03 %
TANGIBLE COMMON SHAREHOLDERS' EQUITY PER SHARE			
Tangible common shareholders' equity (non-GAAP)	$1,057,209	$1,030,965	$1,054,754
Common shares outstanding at end of period	33,254,784	33,193,387	33,867,311
Common shareholders' equity (book value) per share (GAAP)	$39.90	$39.34	$39.31
Tangible common shareholders' equity (tangible book value) per share (non-GAAP)	$31.79	$31.06	$31.14

Management's Discussion and Analysis of Financial Condition and Results of Operations is intended to assist in understanding our financial condition and results of operations. The information contained in this section should be read in conjunction with the Consolidated Financial Statements and accompanying Selected Notes to the Consolidated Financial Statements contained in Item 1 of this Form 10-Q.

Summary of Critical Accounting Policies

In the opinion of management, the accompanying Consolidated Statements of Financial Condition and related Consolidated Statements of Operations, Comprehensive Income, Changes in Shareholders' Equity and Cash Flows reflect all adjustments (which include reclassification and normal recurring adjustments) that are necessary for a fair presentation in conformity with GAAP. 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 our 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 our financial statements. These policies relate to (i) the methodology for the recognition of interest income, (ii) determination of the provision and allowance for loan losses, (iii) the valuation of financial assets and liabilities recorded at fair value, including OTTI losses, (iv) the valuation of intangibles, such as goodwill, core deposit intangibles and mortgage servicing rights, (v) the valuation of real estate held for sale, (vi) the valuation of assets and liabilities acquired in business combinations and subsequent recognition of related income and expense, and (vii) the valuation of or recognition of deferred tax assets and liabilities. These policies and judgments, estimates and assumptions are described in greater detail below. Management believes 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 our results of operations or financial condition. Further, subsequent changes in economic or market conditions could have a material impact on these estimates and our financial condition and operating results in future periods. There have been no significant changes in our application of accounting policies since December 31, 2016. For additional information concerning critical accounting policies, see the Selected Notes to the Consolidated Financial Statements and the following:

Interest Income: (Notes 3 and 4) Interest on loans and securities is accrued as earned unless management doubts the collectability of the asset or the unpaid interest. Interest accruals on loans are generally discontinued when loans become 90 days past due for payment of interest and the loans are then placed on nonaccrual status. All previously accrued but uncollected interest is deducted from interest income upon transfer to nonaccrual status. For any future payments collected, interest income is recognized only upon management's assessment that there is a strong likelihood that the full amount of a loan 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 amounts owed, principal or interest, may be uncollectable. While less common, similar interest reversal and nonaccrual treatment is applied to investment securities if their ultimate collectability becomes questionable.

Provision and Allowance for Loan Losses: (Note 4) The provision for loan losses reflects the amount required to maintain the allowance for losses at an appropriate level based upon management's evaluation of the adequacy of general and specific loss reserves. We have established systematic methodologies for the determination of the adequacy of our allowance for loan losses. The methodologies are set forth in a formal policy and take into consideration the need for an overall general valuation allowance as well as specific allowances that are tied to individual problem loans. We increase our allowance for loan losses by charging provisions for probable loan losses against our income.

The allowance for loan losses is maintained at a level sufficient to provide for probable losses based on evaluating known and inherent risks in the loan portfolio and upon our continuing analysis of the factors underlying the quality of the loan portfolio. These factors include, among others, changes in the size and composition of the loan portfolio, delinquency rates, actual loan loss experience, current and economic conditions, detailed analysis of individual loans for which full collectability may not be assured, and determination of the existence and realizable value of the collateral and guarantees securing the loans. Realized losses related to specific assets are applied as a reduction of the carrying value of the assets and charged immediately against the allowance for loan loss reserve. Recoveries on previously charged off loans are credited to the allowance for loan losses. The reserve is based upon factors and trends identified by us at the time financial statements are prepared. Although we use the best information available, future adjustments to the allowance for loan losses may be necessary due to economic, operating, regulatory and other conditions beyond our control. The adequacy of general and specific reserves is based on our continuing evaluation of the pertinent factors underlying the quality of the loan portfolio as well as individual review of certain large balance loans. Loans are considered impaired when, based on current information and events, we determine that it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. Factors involved in determining impairment include, but are not limited to, the financial condition of the borrower, the value of the underlying collateral less selling costs and the current status of the economy. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of collateral if the loan is collateral dependent. Subsequent changes in the value of impaired loans are included within the provision for loan losses in the same manner in which impairment initially was recognized or as a reduction in the provision that would otherwise be reported. Large groups of smaller-balance homogeneous loans are collectively evaluated for impairment. Loans that are collectively evaluated for impairment include residential real estate and consumer loans and, as appropriate, smaller balance non-homogeneous loans. Larger balance non-homogeneous residential construction and land, commercial real estate, commercial business loans and unsecured loans are individually evaluated for impairment.

Our methodology for assessing the appropriateness of the allowance for loan losses consists of several key elements, which include specific allowances, an allocated formula allowance and an unallocated allowance. Losses on specific loans are provided for when the losses are probable and estimable. General loan loss reserves are established to provide for inherent loan portfolio risks not specifically provided for. The level of general reserves is based on analysis of potential exposures existing in our loan portfolio including evaluation of historical trends, current market conditions and other relevant factors identified by us at the time the financial statements are prepared. The formula allowance is calculated by applying loss factors to outstanding loans, excluding those loans that are subject to

individual analysis for specific allowances. Loss factors are based on our historical loss experience adjusted for significant environmental considerations, including the experience of other banking organizations, which in our judgment affect the collectability of the loan portfolio as of the evaluation date. The unallocated allowance is based upon our evaluation of various factors that are not directly measured in the determination of the formula and specific allowances. This methodology may result in actual losses or recoveries differing significantly from the allowance for loan losses in the Consolidated Financial Statements.

While we believe the estimates and assumptions used in our determination of the adequacy of the allowance for loan losses are reasonable, there can be no assurance that such estimates and assumptions will not be proven incorrect in the future, or that the actual amount of future provisions will not exceed the amount of past provisions or that any increased provisions that may be required will not adversely impact our financial condition and results of operations. In addition, the determination of the amount of the Banks' allowance for loan losses is subject to review by bank regulators as part of the routine examination process, which may result in the adjustment of reserves based upon their judgment of information available to them at the time of their examination.

Fair Value Accounting and Measurement: (Note 8) We use fair value measurements to record fair value adjustments to certain financial assets and liabilities and to determine fair value disclosures. We include in the Notes to the Consolidated Financial Statements information about the extent to which fair value is used to measure financial assets and liabilities, the valuation methodologies used and the impact on our results of operations and financial condition. Additionally, for financial instruments not recorded at fair value we disclose, where appropriate, our estimate of their fair value. For more information regarding fair value accounting, please refer to Note 8 in the Selected Notes to the Consolidated Financial Statements.

Acquired Loans: (Note 4) Purchased loans, including loans acquired in business combinations, are recorded at their fair value at the acquisition date. Credit discounts are included in the determination of fair value; therefore, an allowance for loan losses is not recorded at the acquisition date. Acquired loans are evaluated upon acquisition and classified as either purchased credit-impaired or purchased non-credit-impaired. Purchased credit-impaired (PCI) loans reflect credit deterioration since origination such that it is probable at acquisition that the Company will

be unable to collect all contractually required payments. The accounting for PCI loans is periodically updated for changes in cash flow expectations, and reflected in interest income over the life of the loans as accretable yield. Any subsequent decreases in expected cash flows attributable to credit deterioration are recognized by recording a provision for loan losses.

For purchased non-credit-impaired loans, the difference between the fair value and unpaid principal balance of the loan at the acquisition date is amortized or accreted to interest income over the life of the loans. Any subsequent deterioration in credit quality is recognized by recording a provision for loan losses.

Goodwill: (Note 6) Goodwill represents the excess of the purchase considerations paid over the fair value of the assets acquired, net of the fair values of liabilities assumed in a business combination and is not amortized but is reviewed annually, or more frequently as current circumstances and conditions warrant, for impairment. An assessment of qualitative factors is completed to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the qualitative analysis concludes that further analysis is required, then a quantitative impairment test would be completed. The quantitative goodwill impairment test is a two-step process. The first step compares the reporting unit's estimated fair values, including goodwill, to its carrying amount. If the carrying amount exceeds its fair value, then goodwill impairment may be indicated. The second step allocates the reporting units fair value to its assets and liabilities. If the unallocated fair value does not exceed the carrying amount of goodwill then an impairment loss would be recognized as a charge to earnings.

Other Intangible Assets: (Note 6) Other intangible assets consists 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. Core deposit intangibles are being amortized on an accelerated basis over a weighted average estimated useful life of eight to ten years. These assets are reviewed at least annually for events or circumstances that could impact their recoverability. These events could include loss of the underlying core deposits, increased competition or adverse changes in the economy. To the extent other identifiable intangible assets are deemed unrecoverable, impairment losses are recorded in other non-interest expense to reduce the carrying amount of the assets.

Other intangibles also include favorable leasehold intangibles (LHI). LHI represents the value assigned to leases assumed in an acquisition in which the lease terms are favorable compared to a market lease at the date of acquisition. LHI is amortized over the underlying lease term and is reviewed at least annually for events or circumstances that could impair the value.

Mortgage Servicing Rights: (Note 6) Mortgage servicing rights (MSRs) are recognized as separate assets when rights are acquired through purchase or through sale of loans. Generally, purchased MSRs are capitalized at the cost to acquire the rights. For sales of mortgage loans, the value of the MSR is estimated and capitalized. Fair value is based on market prices for comparable mortgage servicing contracts. Capitalized MSRs are reported in other assets and are amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

Real Estate Owned Held for Sale: (Note 5) Property acquired by foreclosure or deed in lieu of foreclosure is recorded at the estimated fair value of the property, less expected selling costs. Development and improvement costs relating to the property may be capitalized, while other holding costs are expensed. The carrying value of the property is periodically evaluated by management and, if necessary, allowances are established to reduce the carrying value to net realizable value. Gains or losses at the time the property is sold are charged or credited to operations in the period in which they are realized. The amounts the Banks will ultimately recover from real estate held for sale may differ substantially from the carrying value of the assets because of market factors beyond the Banks’ control or because of changes in the Banks’ strategies for recovering the investment.

Income Taxes and Deferred Taxes: (Note 9) The Company and its wholly-owned subsidiaries file consolidated U.S. federal income tax returns, as well as state income tax returns in Oregon, California, Idaho and Utah. Income taxes are accounted for using the asset and liability method. Under this method a deferred tax asset or liability is determined based on the enacted tax rates which are expected to be in effect when the differences between the financial statement carrying amounts and tax basis of existing assets and liabilities are expected to be reported in the Company's income tax returns. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is required to be recognized if it is "more likely than not" that all or a portion of our deferred tax assets will not be realized. The ultimate realization of the deferred tax assets is dependent upon the existence, or generation, of taxable income in the periods when those temporary differences and net operating loss and credit carryforwards are deductible.

Comparison of Financial Condition at September 30, 2017 and December 31, 2016

General: Total assets increased $649.4 million, to $10.44 billion at September 30, 2017, from $9.79 billion at December 31, 2016. The increase in total assets reflects the re-leveraging of the balance sheet following our strategy to maintain total assets below $10.0 billion through December 31, 2016. The increase was largely the result of increases in securities and loans which were primarily funded by increases in deposits as well as FHLB advances to a lesser extent.

Loans and lending: Loans are our most significant and generally highest yielding earning assets. We attempt to maintain a portfolio of loans in a range of 90% to 95% of total deposits to enhance our revenues, while adhering to sound underwriting practices and appropriate diversification guidelines in order to maintain a moderate risk profile. We offer a wide range of loan products to meet the demands of our customers. Our lending activities are primarily directed toward the origination of real estate and commercial loans. We had a $323.3 million increase in portfolio loans during the nine months ended September 30, 2017, primarily reflecting increased commercial business, construction, multifamily, one- to four-family and consumer lending partially offset by seasonal and other market factors resulting in decreased agricultural loan balances. At September 30, 2017, our loan portfolio totaled $7.77 billion compared to $7.45 billion at December 31, 2016 and $7.40 billion at September 30, 2016.

The following table sets forth the composition of the Company's loans receivable by type of loan as of the dates indicated (dollars in thousands):

	Sep 30, 2017	Dec 31, 2016	Sep 30, 2016	Percentage Change Prior Yr End	Prior Year
Commercial real estate:					
Owner occupied	$1,369,130	$1,352,999	$1,340,577	1.2 %	2.1 %
Investment properties	1,993,144	1,986,336	1,918,639	0.3	3.9
Multifamily real estate	311,706	248,150	266,883	25.6	16.8
Commercial construction	157,041	124,068	135,487	26.6	15.9
Multifamily construction	136,532	124,126	105,669	10.0	29.2
One- to four-family construction	399,361	375,704	363,586	6.3	9.8
Land and land development:					
Residential	158,384	170,004	162,029	(6.8)	(2.2)
Commercial	27,095	29,184	30,556	(7.2)	(11.3)
Commercial business	1,311,409	1,207,879	1,187,848	8.6	10.4
Agricultural business including secured by farmland	339,932	369,156	383,275	(7.9)	(11.3)
One- to four-family real estate	869,556	813,077	846,899	6.9	2.7
Consumer:					
Consumer secured by one- to four-family real estate	535,300	493,211	497,643	8.5	7.6
Consumer-other	165,859	157,254	159,546	5.5	4.0
Total loans receivable	$7,774,449	$7,451,148	$7,398,637	4.3 %	5.1 %

Our commercial real estate loans for both owner-occupied and investment properties totaled $3.36 billion, or 43% of our loan portfolio at September 30, 2017. In addition, multifamily residential real estate loans totaled $311.7 million and comprised 4% of our loan portfolio. Commercial real estate loans increased by $22.9 million during the first nine months of 2017, while multifamily real estate loans increased by $63.6 million. Although multifamily real estate loans remain a modest portion of our loan portfolio, originations and sales of multifamily real estate loans have made a significant contribution to our mortgage banking revenue.

We also originate commercial and residential construction, land and land development loans, which totaled $878.4 million, or 11% of our loan portfolio at September 30, 2017. Our residential construction loans are a significant component of construction lending. Originations for residential construction loans have increased in recent years as builders have expanded production and experienced strong sales in many markets where we operate. We have also experienced a meaningful increase in originations of residential construction loans for owner occupants, although construction balances for these loans are modest as the loans convert to one- to four-family real estate loans upon completion of the homes and are often sold in the secondary market. Residential construction, land and land development balances increased $12.0 million, or 2%, to $557.7 million at September 30, 2017 compared to $545.7 million at December 31, 2016 and increased $32.1 million, or 6%, compared to $525.6 million at September 30, 2016.

Residential construction, residential land and land development loans represented approximately 7% of our total loan portfolio at September 30, 2017.

Our commercial business lending is directed toward meeting the credit and related deposit needs of various small- to medium-sized business and agribusiness borrowers operating in our primary market areas. In recent years, our commercial business lending has also included participation in certain syndicated loans, including shared national credits, which totaled $124.6 million at September 30, 2017. Our commercial and agricultural business loans increased $74.3 million, or 5%, to $1.65 billion at September 30, 2017, compared to $1.58 billion at December 31, 2016, and increased $80.2 million, or 5%, compared to $1.57 billion at September 30, 2016, in each comparison primarily reflecting growth in commercial business loans partially offset by decreased agricultural loan balances. Commercial and agricultural business loans represented approximately 21% of our portfolio at September 30, 2017.

Our one- to four-family real estate loan originations have been relatively strong in recent years, as exceptionally low interest rates have supported demand for loans to refinance existing debt as well as loans to finance home purchases. We are active originators of one- to four-family real estate loans in most communities where we have established offices in Washington, Oregon, California and Idaho. Most of the one- to four-

family real estate loans that we originate are sold in the secondary markets with net gains on sales and loan servicing fees reflected in our revenues from mortgage banking. At September 30, 2017, our outstanding balances of one- to four-family real estate loans retained in our portfolio increased $56.5 million, or 7%, to $869.6 million, compared to $813.1 million at December 31, 2016, and increased $22.7 million, or 3%, compared to $846.9 million at September 30, 2016 as a result of an increase in the amount of loans originated for the portfolio compared to loans sold in the secondary market. One- to four-family real estate loans represented 11% of our loan portfolio at September 30, 2017.

Our consumer loan activity is primarily directed at meeting demand from our existing deposit customers. At September 30, 2017, consumer loans, including consumer loans secured by one- to four-family residences, increased $50.7 million to $701.2 million, compared to $650.5 million at December 31, 2016, and increased $44.0 million compared to $657.2 million at September 30, 2016. Consumer loans increased during 2017 largely as a result of a successful campaign in the second quarter to generate additional home equity lines of credit.

The following table presents loans by geographic concentration at September 30, 2017, December 31, 2016 and September 30, 2016 (in thousands):

	September 30, 2017		December 31, 2016		September 30, 2016	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Washington	$3,515,881	45.2 %	$3,433,617	46.1 %	$3,415,413	46.2 %
Oregon	1,561,723	20.1	1,505,369	20.2	1,466,845	19.8
California	1,381,572	17.8	1,239,989	16.6	1,204,273	16.3
Idaho	495,041	6.4	495,992	6.7	517,607	7.0
Utah	304,740	3.9	283,890	3.8	292,088	3.9
Other	515,492	6.6	492,291	6.6	502,411	6.8
Total loans receivable	$7,774,449	100.0 %	$7,451,148	100.0 %	$7,398,637	100.0 %

Loans held for sale decreased significantly to $71.9 million at September 30, 2017, compared to $246.4 million at December 31, 2016, due to sales of held-for-sale loans exceeding origination of held-for-sale loans during the first nine months of 2017. Origination of loans held for sale declined to $626.7 million for the nine months ended September 30, 2017 as compared to $753.7 million for the same period last year primarily as a result of decreased originations of one- to four-family loans reflecting reduced refinance activity due to recent interest rate increases. Loans held for sale were $123.1 million at September 30, 2016. Loans held for sale at September 30, 2017 included $47.0 million of multifamily loans and $24.9 million of one- to four-family loans.

Investment Securities: Our total investment in securities increased $533.9 million from December 31, 2016 to $1.63 billion at September 30, 2017. Security purchases during the nine-month period exceeded sales, paydowns and maturities reflecting the Company's re-leveraged balance sheet following the previously announced strategy to remain below $10 billion in assets through December 31, 2016. Purchases were primarily in mortgage-backed or related securities issued by government-sponsored entities. The average effective duration of Banner's securities portfolio was approximately 3.6 years at September 30, 2017. Net fair value adjustments to the portfolio of securities held for trading, which are included in net income, were an increase of $389,000 in the nine months ended September 30, 2017. In addition, fair value adjustments for securities designated as available-for-sale reflected an increase of $5.8 million for the nine months ended September 30, 2017, which was included net of the associated tax expense of $2.1 million as a component of other comprehensive income and largely occurred as a result of decreased market interest rates. (See Note 8 of the Selected Notes to the Consolidated Financial Statements in this Form 10-Q.)

Deposits: Deposits, customer retail repurchase agreements and loan repayments are the major sources of our funds for lending and other investment purposes. We compete with other financial institutions and financial intermediaries in attracting deposits and we generally attract deposits within our primary market areas. Increasing core deposits (non-interest-bearing and interest-bearing transaction and savings accounts) is a fundamental element of our business

strategy. Much of the focus of our branch expansion over many years, including our recent acquisitions, and current marketing efforts have been directed toward attracting additional deposit customer relationships and balances. This effort has been particularly directed towards remixing our deposits away from higher cost certificates of deposit and emphasizing core deposit activity in non-interest-bearing and other transaction and savings accounts. The long-term success of our deposit gathering activities is reflected not only in the growth of core deposit balances, but also in increases in the level of deposit fees, service charges and other payment processing revenues compared to prior periods.

The following table sets forth the Company's deposits by type of deposit account as of the dates indicated (dollars in thousands):

	Sep 30, 2017	Dec 31, 2016	Sep 30, 2016	Percentage Change Prior Yr End	Prior Year
Non-interest-bearing	$3,379,841	$3,140,451	$3,190,293	7.6%	5.9 %
Interest-bearing checking	955,486	914,484	853,594	4.5	11.9
Regular savings accounts	1,577,292	1,523,391	1,387,123	3.5	13.7
Money market accounts	1,525,657	1,497,755	1,557,951	1.9	(2.1)
Interest-bearing transaction & savings accounts	4,058,435	3,935,630	3,798,668	3.1	6.8
Interest-bearing certificates	1,100,574	1,045,333	1,123,011	5.3	(2.0)
Total deposits	$8,538,850	$8,121,414	$8,111,972	5.1%	5.3 %

Total deposits were $8.54 billion at September 30, 2017, compared to $8.12 billion at December 31, 2016 and $8.11 billion a year ago. The increase in total deposits compared to December 31, 2016 and September 30, 2016 reflects meaningful organic growth in the total balances and number of client relationships, as well as an increase in brokered deposits. Non-interest-bearing account balances increased 8% to $3.38 billion at September 30, 2017, compared to $3.14 billion at December 31, 2016, and increased 6% compared to $3.19 billion a year ago. Interest-bearing transaction and savings accounts increased 3% to $4.06 billion at September 30, 2017, compared to $3.94 billion at December 31, 2016, and increased 7% compared to $3.80 billion a year ago. Certificates of deposit increased 5% to $1.10 billion at September 30, 2017, compared to $1.05 billion at December 31, 2016 but decreased compared to $1.12 billion a year ago. Brokered deposits totaled $171.7 million at September 30, 2017, compared to $34.1 million at December 31, 2016 and $60.3 million a year ago. Brokered deposits increased during 2017 in connection with our leveraging strategy as higher yielding investment securities were purchased. Core deposits represented 87% of total deposits at September 30, 2017, compared to 86% of total deposits a year earlier.

The following table presents deposits by geographic concentration at September 30, 2017, December 31, 2016 and September 30, 2016 (in thousands):

	September 30, 2017		December 31, 2016		September 30, 2016	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Washington	$4,654,406	54.6 %	$4,347,644	53.6 %	$4,283,522	52.8 %
Oregon	1,811,459	21.2	1,708,973	21.0	1,737,754	21.4
California	1,442,727	16.9	1,469,748	18.1	1,491,903	18.4
Idaho	465,104	5.4	447,019	5.5	435,090	5.4
Utah	165,154	1.9	148,030	1.8	163,703	2.0
Total deposits	$8,538,850	100.0 %	$8,121,414	100.0 %	$8,111,972	100.0 %

Borrowings: FHLB advances increased to $263.3 million at September 30, 2017 from $54.2 million at December 31, 2016 as FHLB advances were used to fund a portion of the growth in the loan and securities portfolios. Other borrowings, consisting of retail repurchase agreements primarily related to customer cash management accounts, decreased $2.0 million, or 2%, to $103.7 million at September 30, 2017, compared to $105.7 million at December 31, 2016. No additional junior subordinated debentures were issued or matured during the nine months ended September 30, 2017; however, the estimated fair value of these instruments increased by $2.1 million. Junior subordinated debentures totaled $97.3 million at September 30, 2017 compared to $95.2 million at December 31, 2016.

Shareholders' Equity: Total shareholders' equity increased $21.3 million to $1.33 billion at September 30, 2017 compared to $1.31 billion at December 31, 2016. The increase in equity primarily reflects the year-to-date net income

of $74.3 million and a $3.6 million improvement in accumulated other comprehensive income representing unrealized gains, net of tax, on securities available-for-sale, reduced by the accrual of $58.2 million of dividends to common shareholders, which included three regular $0.25 per share quarterly dividends as well as a $1.00 per share special dividend. During the nine months ended September 30, 2017, Banner repurchased 25,000 shares of common stock as part of the publicly announced repurchase authorization, 38,160 shares of restricted stock were forfeited and 22,553 shares were surrendered by employees to satisfy tax withholding obligations upon the vesting of restricted stock grants. (See Part II, Item 2, "Unregistered Sales of Equity Securities and Use of Proceeds" in this Form 10-Q.) Tangible common shareholders' equity, which excludes intangible assets, increased $26.2 million to $1.06 billion, or 10.39% of tangible assets at September 30, 2017, compared to $1.03 billion, or 10.83% of tangible assets at December 31, 2016.

Comparison of Results of Operations for the Three and Nine Months Ended September 30, 2017 and 2016

For the quarter ended September 30, 2017, our net income was $25.1 million, or $0.76 per diluted share. This compares to net income of $23.9 million, or $0.70 per diluted share, for the quarter ended September 30, 2016. For the nine months ended September 30, 2017, our net income

was $74.3 million, or $2.25 per diluted share, compared to net income of $62.6 million, or $1.83 per diluted share for the same period a year earlier. Our net income for the quarter and nine months ended September 30, 2016 was negatively impacted by $1.7 million and $10.9 million, respectively, of acquisition-related expenses, which net of related tax benefits reduced earnings per diluted share $0.03 and $0.21, respectively, for those periods.

Growth in average interest-earning assets, coupled with a strong net interest margin, produced increased net interest income in both periods. This resulted in increases in revenues from core operations in the quarter and nine months ended September 30, 2017 compared to the same periods a year earlier. Credit costs remained low in both periods, while non-interest expenses, excluding acquisition-related expenses, increased meaningfully compared to both periods a year ago. Net income for the current year was solid, representing further progress on our strategic priorities and initiatives, and produced an annualized return on average assets of 0.97% for the current quarter and 0.98% for the nine months ended September 30, 2017.

Our earnings from core operations, which excludes net gains or losses on sales of securities, changes in the valuation of financial instruments carried at fair value, acquisition-related costs, and related tax benefits, were $25.2 million, or $0.76 per diluted share, for the quarter ended September 30, 2017, compared to $25.1 million, or $0.74 per diluted share, for the quarter ended September 30, 2016. For the nine months ended September 30, 2017, our earnings from core operations was $75.3 million, or $2.28 per diluted share, compared with $70.2 million, or $2.06 per diluted share, for the same period a year earlier.

Net Interest Income. Net interest income increased by $6.5 million, or 7%, to $100.2 million for the quarter ended September 30, 2017, compared to $93.7 million for the same quarter one year earlier, as an increase of $441.9 million in the average balance of interest-earning assets produced strong growth for this key source of revenue. Net interest margin was enhanced by the amortization of acquisition accounting discounts on purchased loans received in the acquisitions, which is accreted into loan interest income, as well as by net premiums on non-market-rate certificates of deposit assumed, which are amortized as a reduction to deposit interest expense. The net interest margin of 4.22% for the quarter ended September 30, 2017 was enhanced by 10 basis points as a result of acquisition accounting adjustments, primarily loan discount accretion. This compares to net interest margin of 4.15% for the quarter ended September 30, 2016, which included 14 basis points from acquisition accounting adjustments. The increase in net interest margin compared to a year earlier primarily reflects higher average loan and security yields.

Net interest income before provision for loan losses for the nine months ended September 30, 2017 increased by $16.9 million, or 6.1%, to $294.8 million compared to $277.9 million for the same period one year earlier, as a result of a $309.6 million increase in average interest-earning assets and enhanced by an 11 basis point increase in the net interest margin. The net interest margin increased to 4.27% for the nine months ended September 30, 2017 compared to 4.16% for the same period in the prior year. The net interest margin for the nine months ended September 30, 2017 included 12 basis points of accretion acquisition accounting adjustments, compared to 15 basis points from acquisition accounting adjustments for the same period a year ago.

Interest Income. Interest income for the quarter ended September 30, 2017 was $105.3 million, compared to $97.8 million for the same quarter in the prior year, an increase of $7.4 million, or 8%. The increase in interest income occurred as a result of an increase in the average balances and yields on interest-earning assets, in particular loans and mortgage-backed securities. The average balance of interest-earning assets was $9.42 billion for the quarter ended September 30, 2017, compared to $8.98 billion for the same period a year earlier. The yield on average interest-earning assets was 4.43% for quarter ended September 30, 2017, compared to 4.34% for the same quarter one year earlier. The increase in yield between periods reflects a 10 basis point increase in the average yield on loans as well as a 25 basis point increase in the average yield on investment securities. Average loans receivable for the quarter ended September 30, 2017 increased $266.3 million, or 4%, to $7.75 billion, compared to $7.48 billion for the same quarter in the prior year. Interest income on loans increased by $5.4 million, or 6%, to $95.2 million for the current quarter from $89.8 million for the quarter ended September 30, 2016, reflecting the impact of the previously

mentioned increases in average loan balances and in average yields on loans. The increase in average loan yields reflects the impact of higher Prime and Libor rates over the last year as well as changes in the loan portfolio composition. The acquisition accounting loan discount accretion and the related balance sheet impact added 12 basis points to the current quarter loan yield, compared to 15 basis points for the same quarter one year earlier.

The combined average balance of mortgage-backed securities, other investment securities, daily interest-bearing deposits and FHLB stock (total investment securities or combined portfolio) increased to $1.67 billion for the quarter ended September 30, 2017 (excluding the effect of fair value adjustments), compared to $1.50 billion for the quarter ended September 30, 2016; and the interest and dividend income from those investments increased by $2.0 million compared to the same quarter in the prior year. The average yield on the combined portfolio increased to 2.39% for the quarter ended September 30, 2017, from 2.14% for the same quarter one year earlier due to security purchases during 2017 having higher yields than the existing portfolio. The increase in security purchases early in 2017 occurred in connection with our re-leveraging strategy.

Interest income for the nine months ended September 30, 2017 was $308.8 million, compared to $290.5 million for the same period in the prior year, an increase of $18.3 million, or 6%. As with the quarterly results, the year-to-date results reflect a $309.6 million, or 3%, increase in the average balance of interest-earning assets as well as a 12 basis point increase in the yield on interest-earning assets.

Interest Expense. Interest expense for the quarter ended September 30, 2017 was $5.1 million, compared to $4.1 million for the same quarter in the prior year. The interest expense increase between periods reflects a $440.9 million, or 5%, increase in the average balance of funding liabilities and a four basis point increase in the average cost of all funding liabilities.

Interest expense for the nine months ended September 30, 2017 was $14.0 million, compared to $12.6 million for the same period in the prior year. As with the quarterly results, the nine-month results reflect a $314.5 million, or 4%, increase in the average balance of funding liabilities and a one basis point increase in the average cost of all funding liabilities.

Deposit interest expense increased $405,000, or 15%, to $3.2 million for the quarter ended September 30, 2017, compared to $2.8 million for the same quarter in the prior year, as a result of increases in the average balance and cost of interest-bearing deposits. Average deposit balances increased to $8.49 billion for the quarter ended September 30, 2017, from $8.07 billion for the quarter ended September 30, 2016, while the average rate paid on deposit balances increased to 0.15% in the third quarter of 2017 from 0.14% for the quarter ended September 30, 2016, reflecting primarily the increase in the cost of certificates of deposits partially offset by the increase in non-interest-bearing deposits. Deposit interest expense increased $661,000, or 8%, to $9.2 million for the nine months ended September 30, 2017, compared to $8.5 million for the same period in the prior year. Average deposit balances increased to $8.36 billion for the nine months ended September 30, 2017, from $8.01 billion for the nine months ended September 30, 2016, while the average rate paid on deposit balances increased to 0.15% in the nine months ended September 30, 2017 from 0.14% in the nine months ended September 30, 2016. The acquisition accounting amortization of deposit premiums reduced the average rate paid on deposit balances by one basis point for the quarter ended September 30, 2017 and by one basis point for the quarter ended September 30, 2016. The cost of interest-bearing deposits increased by two basis points to 0.24% for the quarter ended September 30, 2017 compared to 0.22% in the same quarter a year earlier. Deposit costs are significantly affected by changes in the level of market interest rates; however, changes in the average rate paid for interest-bearing deposits frequently tend to lag changes in market interest rates and were not meaningfully impacted by the increase in short-term rates following changes in the Fed Funds target rate over the last year, although these did contribute to the two basis point increase in the cost of deposits.

Average total borrowings were $422.1 million for the quarter ended September 30, 2017, compared to $403.4 million for the same quarter one year earlier and the average rate paid on total borrowings for the quarter ended September 30, 2017 increased to 1.77% from 1.34% for the same quarter one year earlier. The increase in the average balance from the quarter ended September 30, 2017 from the same period a year earlier was primarily due to a $13.4 million increase in average FHLB advances. Interest expense on total borrowings increased to $1.9 million for the quarter ended September 30, 2017 from $1.4 million for the quarter ended September 30, 2016. Average total borrowings were $387.2 million for the nine months ended September 30, 2017, compared to $427.3 million for the same period one year earlier, while the average rate paid on total borrowings for the nine months ended September 30, 2017 increased to 1.68% from 1.27% for the same period in 2016 reflecting three changes to the Fed Funds target rate over the last year. The decrease in the average balance was due to a $45.1 million decrease in average FHLB advances, slightly offset by a $5.0 million increase in average other borrowings, which reflects our funding a larger portion of the balance sheet with deposits.

Analysis of Net Interest Spread. The following tables present for the periods indicated our condensed average balance sheet information, together with interest income and yields earned on average interest-earning assets and interest expense and rates paid on average interest-bearing liabilities with additional comparative data on our operating performance (dollars in thousands):

	Three Months Ended September 30, 2017			Three Months Ended September 30, 2016		
	Average Balance	Interest and Dividends	Yield/ Cost (3)	Average Balance	Interest and Dividends	Yield/ Cost (3)
Interest-earning assets:						
Mortgage loans	$6,086,554	$ 75,020	4.89%	$5,843,381	$ 70,223	4.78%
Commercial/agricultural loans	1,520,946	17,992	4.69	1,495,611	17,373	4.62
Consumer and other loans	140,758	2,209	6.23	142,977	2,209	