BANNER CORP
Form 10-Q
May 07, 2013

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

FORM 10-Q
(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2013.
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM ______________ to ______________

Commission File Number 0-26584

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [x] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes [x] No [ ]

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

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

Large accelerated filer [ ]

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

Title of class:	As of April 30, 2013
Common Stock, $.01 par value per share	19,461,758 shares *

* Includes 34,340 shares held by the Employee Stock Ownership Plan that have not been released, committed to be released, or allocated to participant accounts.

BANNER CORPORATION AND SUBSIDIARIES

Table of Contents
PART I - FINANCIAL INFORMATION

Item 1 - Financial Statements. The Consolidated Financial Statements of Banner Corporation and Subsidiaries filed as a part of the report are as follows:

Special Note Regarding Forward-Looking Statements

Certain matters in this report on Form 10-Q contain certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 concerning our future operations. 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,” “targe “potentially,” “probably,” “projects,” “outlook” or similar expressions or future or conditional verbs such as “may,” “will,” “sh “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 nonperforming assets, and may result in our allowance for loan losses not being adequate to cover actual losses and require us to materially increase our reserves; changes in general economic conditions, either nationally or in our market areas; changes in the levels of general interest rates and the relative differences between short and long-term interest rates, loan and deposit interest rates, our net interest margin and funding sources; fluctuations in the demand for loans, the number of unsold homes, land and other properties and fluctuations in real estate values in our market areas; secondary market conditions for loans and our ability to sell loans in the secondary market; results of examinations of us by the Board of Governors of the Federal Reserve System (the Federal Reserve Board) and of our bank subsidiaries by the Federal Deposit Insurance Corporation (the FDIC), the Washington State Department of Financial Institutions, Division of Banks (the Washington DFI) or other regulatory authorities, including the possibility that any such regulatory authority may, among other things, institute a formal or informal enforcement action against us or any of our bank subsidiaries which could require us to increase our reserve for loan losses, write-down assets, change our regulatory capital position or affect our ability to borrow funds, or maintain or increase deposits, or impose additional requirements and restrictions on us, any of which could adversely affect our liquidity and earnings; legislative or regulatory changes that adversely affect our business including changes in regulatory policies and principles, or the interpretation of regulatory capital or other rules including changes related to Basel III; the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act and the implementing regulations; our ability to attract and retain deposits; increases in premiums for deposit insurance; our ability to control operating costs and expenses; the use of estimates in determining fair value of certain of our assets and liabilities, which estimates may prove to be incorrect and result in significant changes in valuation; difficulties in reducing risk associated with the loans on our balance sheet; staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our work force and potential associated charges; the failure or security breach of computer systems on which we depend; our ability to retain key members of our senior management team; costs and effects of litigation, including settlements and judgments; our ability to implement our business strategies; our ability to successfully integrate any assets, liabilities, customers, systems, and management personnel we may acquire into our operations and our ability to realize related revenue synergies and cost savings within expected time frames and any goodwill charges related thereto; our ability to manage loan delinquency rates; increased competitive pressures among financial services companies; changes in consumer spending, borrowing and savings habits; the availability of resources to address changes in laws, rules, or regulations or to respond to regulatory actions; our ability to pay dividends on our common stock and interest or principal payments on our junior subordinated debentures; adverse changes in the securities markets; inability of key third-party providers to perform their obligations to us; changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies or the Financial Accounting Standards Board including additional guidance and interpretation on accounting issues and details of the implementation of new accounting methods; the economic impact of war or any terrorist activities; other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, products and services; and other risks detailed from time to time in our filings with the Securities and Exchange Commission. Any forward-looking statements are based upon management's beliefs and assumptions at the time they are made. We do not undertake and specifically disclaim any obligation to update any forward-looking statements included in this report or the reasons why actual results could differ from those contained in such statements whether as a result of new information, future events or otherwise. These risks could cause our actual results to differ materially from those expressed in any forward-looking statements by, or on behalf of, us. In light of these risks, uncertainties and assumptions, the forward-looking statements discussed in this report might not occur, and you should not put undue reliance on any forward-looking statements.

As used throughout this report, the terms "we," "our," "us," or the "Company" refer to Banner Corporation and its consolidated subsidiaries, unless the context otherwise requires.

BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Unaudited) (In thousands, except shares)
March 31, 2013 and December 31, 2012

ASSETS	March 31 2013	December 31 2012
Cash and due from banks	$155,714	$181,298
Securities—trading, amortized cost $80,193 and $90,339, respectively	67,761	71,232
Securities—available-for-sale, amortized cost $473,908 and $469,650, respectively	476,683	472,920
Securities—held-to-maturity, fair value $93,785 and $92,458, respectively	88,408	86,452
Federal Home Loan Bank (FHLB) stock	36,373	36,705
Loans receivable:		
Held for sale	5,384	11,920
Held for portfolio	3,234,937	3,223,794
Allowance for loan losses	(77,128)	(77,491)
	3,163,193	3,158,223
Accrued interest receivable	15,235	13,930
Real estate owned (REO), held for sale, net	11,160	15,778
Property and equipment, net	88,414	89,117
Intangible assets, net	3,724	4,230
Bank-owned life insurance (BOLI)	60,425	59,891
Income taxes	34,242	35,007
Other assets	36,294	40,781
	$4,237,626	$4,265,564
LIABILITIES		
Deposits:		
Non-interest-bearing	$962,156	$981,240
Interest-bearing transaction and savings accounts	1,575,525	1,547,271
Interest-bearing certificates	982,903	1,029,293
	3,520,584	3,557,804
Advances from FHLB at fair value	278	10,304
Other borrowings	88,446	76,633
Junior subordinated debentures at fair value (issued in connection with Trust Preferred Securities)	73,220	73,063
Accrued expenses and other liabilities	24,157	26,389
Deferred compensation	14,879	14,452
	3,721,564	3,758,645
COMMITMENTS AND CONTINGENCIES (Note 15)		
STOCKHOLDERS' EQUITY		
Common stock and paid in capital - $0.01 par value per share, 50,000,000 shares authorized, 19,462,483 shares issued and 19,428,143 shares outstanding at March 31, 2013; 19,454,965 shares issued and 19,420,625 shares outstanding at December 31, 2012	568,116	567,907
Accumulated deficit	(51,851)	(61,102)
Accumulated other comprehensive income	1,784	2,101
Unearned shares of common stock issued to Employee Stock Ownership Plan (ESOP) trust at cost: 34,340 restricted shares outstanding at March 31, 2013 and December 31, 2012	(1,987)	(1,987)
	516,062	506,919

	$4,237,626	$4,265,564

See Selected Notes to the Consolidated Financial Statements

BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited) (In thousands except for per share amounts)
For the Three Months Ended March 31, 2013 and 2012

	Three Months Ended March 31	
	2013	2012
INTEREST INCOME:		
Loans receivable	$41,489	$44,352
Mortgage-backed securities	1,172	927
Securities and cash equivalents	1,847	2,283
	44,508	47,562
INTEREST EXPENSE:		
Deposits	2,719	4,448
FHLB advances	24	63
Other borrowings	56	549
Junior subordinated debentures	741	1,012
	3,540	6,072
Net interest income before provision for loan losses	40,968	41,490
PROVISION FOR LOAN LOSSES	—	5,000
Net interest income	40,968	36,490
OTHER OPERATING INCOME:		
Deposit fees and other service charges	6,301	5,869
Mortgage banking operations	2,838	2,475
Miscellaneous	790	578
	9,929	8,922
Gain on sale of securities	1,006	—
Other-than-temporary impairment recovery	409	—
Net change in valuation of financial instruments carried at fair value	(1,347)	1,685
Total other operating income	9,997	10,607
OTHER OPERATING EXPENSES:		
Salary and employee benefits	20,729	19,510
Less capitalized loan origination costs	(2,871)	(2,250)
Occupancy and equipment	5,329	5,477
Information/computer data services	1,720	1,515
Payment and card processing expenses	2,305	1,890
Professional services	905	1,344
Advertising and marketing	1,499	2,066
Deposit insurance	645	1,363
State/municipal business and use taxes	464	568
REO operations	(251)	2,598
Amortization of core deposit intangibles	505	552
Miscellaneous	3,120	3,280
Total other operating expenses	34,099	37,913
Income before provision for income taxes	16,866	9,184
PROVISION FOR INCOME TAXES	5,284	—
NET INCOME	11,582	9,184
PREFERRED STOCK DIVIDEND, DISCOUNT ACCRETION AND GAINS		
Preferred stock dividend	—	1,550

Preferred stock discount accretion	—	454
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	$11,582	$7,180
Earnings per common share:		
Basic	$0.60	$0.40
Diluted	$0.60	$0.40
Cumulative dividends declared per common share	$0.12	$0.01

See Selected Notes to the Consolidated Financial Statements

BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited) (In thousands)
For the Three Months Ended March 31, 2013 and 2012

	Three Months Ended March 31	
	2013	2012
NET INCOME	$11,582	$9,184
OTHER COMPREHENSIVE INCOME (LOSS), NET OF INCOME TAXES:		
Unrealized holding gain (loss) on AFS securities arising during the period	(378)	(55)
Income tax benefit (expense) related to AFS unrealized holding gains (losses)	136	20
Reclassification for net (gains) losses on AFS securities realized in earnings	(117)	—
Income tax benefit (expense) related to AFS unrealized holding gains (losses)	42	—
Amortization of unrealized gain on tax exempt securities transferred from available-for-sale to held-to-maturity	—	2
Other comprehensive income (loss)	(317)	(33)
COMPREHENSIVE INCOME	$11,265	$9,151

See Selected Notes to the Consolidated Financial Statements

6

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

	Preferred Stock		Common Stock and Paid in Capital		(Accumulated Deficit)	Accumulated Other Comprehensive Income (loss)	Unearned Restricted ESOP Shares	Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance, January 1, 2013	—	$—	19,420,625	$567,907	$ (61,102)	$ 2,101	(1,987)	$ 506,919
Net income					11,582			11,582
Change in valuation of securities—available-for-sale, net of income tax						(317)		(317)
Accrual of dividends on common stock ($.12/share cumulative)					(2,331)			(2,331)
Proceeds from issuance of common stock for stockholder reinvestment program			58	2				2
Amortization of compensation related to restricted stock grant			7,460	207				207
BALANCE, March 31, 2013	—	$—	19,428,143	$568,116	$ (51,851)	$ 1,784	$(1,987)	$ 516,062

See Selected Notes to the Consolidated Financial Statements

BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited) (In thousands, except for shares)
For the Year Ended December 31, 2012

	Preferred Stock		Common Stock and Paid in Capital		(Accumulated Deficit)	Accumulated Other Comprehensive Income	Unearned Restricted ESOP Shares	Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance, January 1, 2012	124,000	$120,702	17,519,132	$531,149	$(119,465)	$2,051	$(1,987)	$532,450
Net income					64,882			64,882
Change in valuation of securities—available-for-sale, net of income tax						42		42
Amortization of unrealized loss on tax exempt securities transferred from available-for-sale to held-to-maturity, net of income tax						8		8
Accretion of preferred stock discount		3,298			(3,298)			—
Accrual of dividends on preferred stock					(4,938)			(4,938)
Repurchase of preferred stock	(124,000)	(124,000)						(124,000)
Gain on repurchase of preferred stock					2,471			2,471
Accrual of dividends on common stock ($.04/share cumulative)					(754)			(754)
Proceeds from issuance of common stock for stockholder reinvestment program			1,814,320	36,317				36,317
Amortization of compensation related to restricted stock grant			87,173	434				434
Amortization of compensation related to stock options				7				7
BALANCE, December 31, 2012	—	$—	19,420,625	$567,907	$(61,102)	$2,101	$(1,987)	$506,919

See Selected Notes to the Consolidated Financial Statements

8

BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited) (In thousands)
For the Three Months Ended March 31, 2013 and 2012

	Three Months Ended March 31	
	2013	2012
OPERATING ACTIVITIES:		
Net income	$11,582	$9,184
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,852	1,907
Deferred income and expense, net of amortization	1,516	542
Amortization of core deposit intangibles	505	552
Gain on sale of securities	(1,006)	—
Other-than-temporary impairment recovery	(409)	—
Net change in valuation of financial instruments carried at fair value	1,347	(1,685)
Purchases of securities-trading	(4,190)	—
Proceeds from sales of securities-trading	6,070	—
Principal repayments and maturities of securities—trading	1,948	4,046
Decrease in deferred taxes	6,212	—
Decrease in current taxes payable	(6,537)	—
Equity-based compensation	207	45
Increase in cash surrender value of bank-owned life insurance	(528)	(489)
Gain on sale of loans, net of capitalized servicing rights	(2,130)	(1,736)
Gain on disposal of real estate held for sale and property and equipment	(816)	(113)
Provision for losses on loans and real estate held for sale	73	6,629
Origination of loans held for sale	(127,214)	(122,732)
Proceeds from sales of loans held for sale	135,880	122,853
Net change in:		
Other assets	3,707	1,360
Other liabilities	(2,885)	(1,866)
Net cash provided from operating activities	25,184	18,497
INVESTING ACTIVITIES:		
Purchases of available-for-sale securities	(52,673)	(46,409)
Principal repayments and maturities of available-for-sale securities	33,055	124,547
Proceeds from sales of securities available-for-sale	13,900	—
Purchases of securities held-to-maturity	(2,083)	(1,896)
Principal repayments and maturities of securities held-to-maturity	54	451
Principal repayments of loans, net of originations	(12,985)	65,012
Purchases of loans and participating interest in loans	(91)	(4,635)
Purchases of property and equipment	(1,133)	(587)
Proceeds from sale of real estate held for sale, net	6,464	15,410
Other	326	(3)
Net cash (used by) provided from investing activities	(15,166)	151,890
FINANCING ACTIVITIES:		
Decrease in deposits, net	(37,220)	(49,483)
Repayment of FHLB advances	(10,002)	(2)
Increase (decrease) in other borrowings, net	11,813	(60,878)
Cash dividends paid	(195)	(1,725)

Cash proceeds from issuance of stock for stockholder reinvestment plan	2	8,874
Net cash used by financing activities	(35,602)	(103,214)
NET (DECREASE) INCREASE IN CASH AND DUE FROM BANKS	(25,584)	67,173
CASH AND DUE FROM BANKS, BEGINNING OF PERIOD	181,298	132,436
CASH AND DUE FROM BANKS, END OF PERIOD	$155,714	$199,609

(Continued on next page)

BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(Unaudited) (In thousands)
For the Three Months Ended March 31, 2013 and 2012

	Three Months Ended March 31	
	2013	2012
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid in cash	$3,710	$6,715
Taxes paid in cash	5,431	—
NON-CASH INVESTING AND FINANCING TRANSACTIONS:		
Loans, net of discounts, specific loss allowances and unearned income, transferred to real estate owned and other repossessed assets	1,341	1,611

See Selected Notes to the Consolidated Financial Statements

BANNER CORPORATION AND SUBSIDIARIES
SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1: BASIS OF PRESENTATION AND CRITICAL ACCOUNTING POLICIES

The accompanying unaudited consolidated financial statements include the accounts of Banner Corporation (the Company or Banner), a bank holding company incorporated in the State of Washington and its wholly-owned subsidiaries, Banner Bank and Islanders Bank (the Banks).

These unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X as promulgated by the Securities and Exchange Commission (SEC). In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the financial position and results of operations for the periods presented have been included. Certain information and disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the SEC. Certain reclassifications have been made to the 2012 Consolidated Financial Statements and/or schedules to conform to the 2013 presentation. These reclassifications may have affected certain ratios for the prior periods. The effect of these reclassifications is considered immaterial. All significant intercompany transactions and balances have been eliminated.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements. Various elements of the Company's accounting policies, by their nature, are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. In particular, management has identified several accounting policies that, due to the judgments, estimates and assumptions inherent in those policies, are critical to an understanding of Banner's financial statements. These policies relate to (i) the methodology for the recognition of interest income, (ii) determination of the provision and allowance for loan and lease losses, (iii) the valuation of financial assets and liabilities recorded at fair value, including other-than-temporary impairment (OTTI) losses, (iv) the valuation of intangibles, such as core deposit intangibles and mortgage servicing rights, (v) the valuation of real estate held for sale and (vi) the valuation of or recognition of deferred tax assets and liabilities. These policies and judgments, estimates and assumptions are described in greater detail in subsequent notes to the Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations (Critical Accounting Policies) in our Annual Report on Form 10-K for the year ended December 31, 2012 filed with the Securities and Exchange Commission (SEC). Management believes that the judgments, estimates and assumptions used in the preparation of the financial statements are appropriate based on the factual circumstances at the time. However, given the sensitivity of the financial statements to these critical accounting policies, the use of other judgments, estimates and assumptions could result in material differences in the Company's results of operations or financial condition. Further, subsequent changes in economic or market conditions could have a material impact on these estimates and the Company's financial condition and operating results in future periods.

The information included in this Form 10-Q should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2012 filed with the SEC (2012 Form 10-K). Interim results are not necessarily indicative of results for a full year.

Note 2: RECENT DEVELOPMENTS AND SIGNIFICANT EVENTS

Regulatory Actions: On March 19, 2012, the Memorandum of Understanding (MOU) by and between Banner Bank and the FDIC and Washington State Department of Financial Institutions, Division of Banks (originally effective

March 29, 2010) was terminated. On April 10, 2012, a similar MOU by and between the Company and the Federal Reserve Bank of San Francisco (originally effective March 23, 2010) was also terminated.

Income Tax Reporting and Accounting:

Amended Federal Income Tax Returns: The Company has years 2008-2012 open under the Statute of Limitations provisions of the Internal Revenue Code of 1986. Refund claims have been filed for 2008 and 2009 for which carry back of NOLs and tax credits has been applied for in 2005-2007. Aside from the refund claims applied for in 2005-2007, those years are otherwise closed under the Statute of Limitations. The amended tax returns, which are under review by the Internal Revenue Service (IRS), could significantly affect the timing for recognition of credit losses within previously filed income tax returns and, if approved, would result in the refund of up to $13.6 million of previously paid taxes from the utilization of net operating loss carryback claims into prior tax years. The outcome of the IRS review is inherently uncertain, and since there can be no assurance of approval of some or all of the tax carryback claims, no asset has been recognized to reflect the possible results of these amendments as of March 31, 2013 and 2012. Accordingly, the Company does not anticipate recognizing any tax benefit until the results of the IRS review have been determined. We expect this review to be completed and the issue resolved during 2013.

Deferred Tax Asset Valuation Allowance: The Company and its wholly-owned subsidiaries file consolidated U.S. federal income tax returns, as well as state income tax returns in Oregon and Idaho. 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. Under GAAP, a valuation allowance is required to be recognized if it is “more likely than not” that all or a portion of Banner’s deferred tax assets will not be realized. During the quarter ended September 30, 2010, the Company evaluated its net deferred tax asset and determined it was prudent to establish a full valuation allowance against the net asset. At each subsequent quarter-end, the Company has re-analyzed that position and the Company continued to maintain a full valuation allowance through March 31, 2012. During the quarter ended June 30, 2012, management analyzed the Company’s performance and trends over the previous five quarters, focusing on trends in asset quality, loan loss provisioning, capital position, net interest margin, core operating income and net income and the likelihood of continued profitability. Based on this analysis, management determined that a full valuation allowance was no longer appropriate and reversed nearly all of the valuation allowance at that time. The Company utilized the remaining valuation allowance to offset tax expense in the third and fourth quarters of 2012. The ultimate utilization of a deferred tax valuation allowance and realization of 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. See Note 12 of the Selected Notes to the Consolidated Financial Statements for more information.

Stockholder Equity Transactions:

Restricted Stock Grants: On April 24, 2012, shareholders approved the Banner Corporation 2012 Restricted Stock Plan (the Plan). Under the Plan, the Company was 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 and its affiliates. Shares granted under the Plan have a minimum vesting period of three years. The Plan shall continue in effect for a term of ten years, after which no further awards may be granted. As of March 31, 2013, the Company had granted 97,995 shares of restricted stock from the 2012 Restricted Stock Plan and 34,257 shares in accordance with the CEO's employment agreement.

Preferred Stock: On March 29, 2012, the Company’s $124 million of senior preferred stock with a liquidation value of $1,000 per share, originally issued to the U.S. Treasury as part of its Capital Purchase Program, was sold by the Treasury as part of its efforts to manage and recover its investments under the Troubled Asset Relief Program (TARP). While the sale of these preferred shares to new owners did not result in any proceeds to the Company and did not change the Company’s capital position or accounting for these securities, it did eliminate restrictions put in place by the Treasury on TARP recipients. The Treasury retained its related warrants to purchase up to $18.6 million in Banner common stock (243,998 shares). Subsequent to March 29, 2012 and by the end of the year ended December 31, 2012, the Company repurchased or redeemed all of its Series A Preferred Stock.

Note 3: ACCOUNTING STANDARDS RECENTLY ADOPTED

Offsetting Assets and Liabilities

In December 2011, the Financial Accounting Standards Board (the "FASB") issued Accounting Standard Update ("ASU") No. 2011-11, "Disclosures About Offsetting Assets and Liabilities." The new disclosure requirements mandate that entities disclose both gross and net information about instruments and transactions eligible for offset in the statement of financial condition as well as instruments and transactions subject to an agreement similar to a master netting arrangement. ASU No. 2011-11 also requires disclosure of collateral received and posted in connection with master netting agreements or similar arrangements.

In January 2013, the FASB issued ASU No. 2013-01, "Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities." The provisions of ASU No. 2013-01 limits the scope of the new balance sheet offsetting disclosures to the following financial instruments, to the extent they are offset in the financial statements or subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in the statement of financial position: (1) derivative financial instruments; (2) repurchase agreements and reverse repurchase agreements; and (3) securities borrowing and securities lending transactions.

The Company adopted the provisions of ASU No. 2011-11 and ASU No. 2013-01 effective January 1, 2013. As the provisions of ASU No. 2011-11 and ASU No. 2013-01 only impact disclosure requirements related to the offsetting of assets and liabilities and information instruments and transactions eligible for offset in the statement of financial condition, the adoption had no impact on the Company's consolidated statements of operations and financial condition.

Reclassifications Out of Accumulated Other Comprehensive Income

In February 2013, the FASB issued ASU No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. ASU No. 2013-02 does not amend any existing requirements for reporting net income or other comprehensive income in the financial statements. ASU No. 2013-02 requires an entity to disaggregate the total change of each component of other comprehensive income (e.g., unrealized gains or losses on available-for-sale investment securities) and separately present reclassification adjustments and current period other comprehensive income. The provisions of ASU No. 2013-02 also require that entities present, either in a single note or parenthetically on the face of the financial statements, the effect of significant amounts reclassified from each component of accumulated other comprehensive income based on its source (e.g., unrealized gains or losses on available-for-sale investment securities). The Company adopted the provisions of ASU No. 2013-02 effective January 1, 2013. The adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

Note 4: BUSINESS SEGMENTS

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

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

Note 5: INTEREST-BEARING DEPOSITS AND SECURITIES

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

	March 31 2013	December 31 2012	March 31 2012
Interest-bearing deposits included in cash and due from banks	$96,300	$114,928	$143,885
U.S. Government and agency obligations	79,959	98,617	238,866
Municipal bonds:			
Taxable	43,921	31,480	18,071
Tax exempt	110,062	103,545	90,965
Total municipal bonds	153,983	135,025	109,036
Corporate bonds	47,233	48,519	43,674
Mortgage-backed or related securities:			
One- to four-family residential agency guaranteed	89,036	105,770	112,328
One- to four-family residential other	1,282	1,299	1,808
Multifamily agency guaranteed	200,012	188,136	35,156
Multifamily other	10,787	10,659	—
Total mortgage-backed or related securities	301,117	305,864	149,292
Asset-backed securities:			
Student Loan Marketing Association (SLMA)	32,239	32,474	—
Other asset-backed securities	18,261	10,042	—
Total asset-backed securities	50,500	42,516	—
Equity securities (excludes FHLB stock)	60	63	407
Total securities	632,852	630,604	541,275
FHLB stock	36,373	36,705	37,371
	$765,525	$782,237	$722,531

Securities—Trading: The amortized cost and estimated fair value of securities—trading at March 31, 2013 and December 31, 2012 are summarized as follows (dollars in thousands):

	March 31, 2013				December 31, 2012			
	Amortized Cost	Fair Value	Percent of Total		Amortized Cost	Fair Value	Percent of Total	
U.S. Government and agency obligations	$1,370	$1,617	2.4	%	$1,380	$1,637	2.3	%
Municipal bonds:								
Tax exempt	5,245	5,347	7.9		5,590	5,684	8.0	
Corporate bonds	49,678	34,520	50.9		57,807	35,741	50.2	
Mortgage-backed or related securities:								
One- to four-family residential agency guaranteed	14,952	16,166	23.9		16,574	17,911	25.1	
Multifamily agency guaranteed	8,934	10,051	14.8		8,974	10,196	14.3	
Total mortgage-backed or related securities	23,886	26,217	38.7		25,548	28,107	39.4	
Equity securities	14	60	0.1		14	63	0.1	
	$80,193	$67,761	100.0	%	$90,339	$71,232	100.0	%

There were 21 sales of securities—trading totaling $6.1 million with a resulting net gain of $1.1 million during the three months ended March 31, 2013, including $1.0 million which represented recoveries on certain collateralized debt obligations that had previously been written off. There were no sales of securities—trading during the three months ended March 31, 2012. The Company recognized a $409,000 OTTI recovery on securities—trading related to the sale of certain equity securities issued by government sponsored entities during the three months ended March 31, 2013 and no OTTI charges or recoveries during the three months ended March 31, 2012. As of March 31, 2013 and 2012, there were no securities—trading in a nonaccrual status.

The amortized cost and estimated fair value of securities—trading at March 31, 2013 and December 31, 2012, by contractual maturity, are shown below (in thousands). Expected maturities will differ from contractual maturities because some securities may be called or prepaid with or without call or prepayment penalties.

	March 31, 2013		December 31, 2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$—	$—	$—	$—
Due after one year through five years	4,390	4,732	4,496	4,867
Due after five years through ten years	13,830	15,021	14,251	15,536
Due after ten years through twenty years	11,882	10,945	12,055	11,346
Due after twenty years	50,077	37,003	59,523	39,420
	80,179	67,701	90,325	71,169
Equity securities	14	60	14	63
	$80,193	$67,761	$90,339	$71,232

Securities—Available-for-Sale: The amortized cost and estimated fair value of securities—available-for-sale at March 31, 2013 and December 31, 2012 are summarized as follows (dollars in thousands):

	March 31, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Total
U.S. Government and agency obligations	$78,085	$295	$(38)	$78,342	16.4 %
Municipal bonds:					
Taxable	32,613	232	(39)	32,806	6.9
Tax exempt	29,272	254	(54)	29,472	6.2
Total municipal bonds	61,885	486	(93)	62,278	13.1
Corporate bonds	10,629	35	(1)	10,663	2.2
Mortgage-backed or related securities:					
One- to four-family residential agency guaranteed	72,468	954	(552)	72,870	15.3
One- to four-family residential other	1,195	87	—	1,282	0.3
Multifamily agency guaranteed	188,553	1,691	(283)	189,961	39.8
Multifamily other	10,677	110	—	10,787	2.3
Total mortgage-backed or related securities	272,893	2,842	(835)	274,900	57.7
Asset-backed securities:					
SLMA	32,083	173	(17)	32,239	6.8
Other asset-backed securities	18,333	—	(72)	18,261	3.8
Total asset-backed securities	50,416	173	(89)	50,500	10.6
	$473,908	$3,831	$(1,056)	$476,683	100.0 %

	December 31, 2012				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Total
U.S. Government and agency obligations	$96,666	$367	$(53)	$96,980	20.5 %
Municipal bonds:					
Taxable	20,987	233	(67)	21,153	4.5
Tax exempt	23,575	221	(11)	23,785	5.0
Total municipal bonds	44,562	454	(78)	44,938	9.5
Corporate bonds	10,701	37	(9)	10,729	2.3
Mortgage-backed or related securities:					
One- to four-family residential agency guaranteed	87,392	1,051	(584)	87,859	18.6
One- to four-family residential other	1,223	76	—	1,299	0.3
Multifamily agency guaranteed	176,026	2,140	(226)	177,940	37.6
Multifamily other	10,700	4	(45)	10,659	2.2
Total mortgage-backed or related securities	275,341	3,271	(855)	277,757	58.7
Asset-backed securities:					
SLMA	32,309	210	(45)	32,474	6.9
Other asset-backed securities	10,071	—	(29)	10,042	2.1
Total asset-backed securities	42,380	210	(74)	42,516	9.0
	$469,650	$4,339	$(1,069)	$472,920	100.0 %

At March 31, 2013 and December 31, 2012, an aging of unrealized losses and fair value of related securities—available-for-sale was as follows (in thousands):

	March 31, 2013					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government and agency obligations	$15,964	$(38)	$—	$—	$15,964	$(38)
Municipal bonds:						
Taxable	11,776	(39)	—	—	11,776	(39)
Tax exempt	10,574	(53)	382	(1)	10,956	(54)
Total municipal bonds	22,350	(92)	382	(1)	22,732	(93)
Corporate bonds	3,179	(1)	—	—	3,179	(1)
Mortgage-backed or related securities:						
One- to four-family residential agency guaranteed	23,923	(309)	10,798	(243)	34,721	(552)
Multifamily agency guaranteed	49,007	(283)	—	—	49,007	(283)
Total mortgage-backed or related securities	72,930	(592)	10,798	(243)	83,728	(835)
Asset-backed securities:						
SLMA	16,451	(17)	—	—	16,451	(17)
Other asset-backed securities	18,261	(72)	—	—	18,261	(72)
Total asset-backed securities	34,712	(89)	—	—	34,712	(89)
	$149,135	$(812)	$11,180	$(244)	$160,315	$(1,056)

	December 31, 2012					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government and agency obligations	$22,955	$(53)	$—	$—	$22,955	$(53)
Municipal bonds:						
Taxable	11,009	(67)	—	—	11,009	(67)
Tax exempt	4,619	(11)	—	—	4,619	(11)
Total municipal bonds	15,628	(78)	—	—	15,628	(78)
Corporate bonds	6,670	(9)	—	—	6,670	(9)
Mortgage-backed or related securities:						
One- to four-family residential agency guaranteed	32,459	(503)	5,746	(81)	38,205	(584)
Multifamily agency guaranteed	32,170	(226)	—	—	32,170	(226)
Multifamily other	7,279	(45)	—	—	7,279	(45)
Total mortgage-backed or related securities	71,908	(774)	5,746	(81)	77,654	(855)
Asset-backed securities:						
SLMA	9,674	(45)	—	—	9,674	(45)
Other asset-backed securities	10,042	(29)	—	—	10,042	(29)
Total asset-backed securities	19,716	(74)	—	—	19,716	(74)
	$136,877	$(988)	$5,746	$(81)	$142,623	$(1,069)

Proceeds from the sale of four securities—available-for-sale during the three months ended March 31, 2013 were $13.9 million with a resulting loss of $117,000. There were no sales of securities—available-for-sale during the three months ended March 31, 2012. At March 31, 2013, there were 59 securities—available for sale with unrealized losses, compared to 52 securities at December 31, 2012. Management does not believe that any individual unrealized loss as of March 31, 2013 represents OTTI. The decline in fair market values of these securities was generally due to changes in interest rates and changes in market-desired spreads subsequent to their purchase.

The amortized cost and estimated fair value of securities—available-for-sale at March 31, 2013 and December 31, 2012, by contractual maturity, are shown below (in thousands). Expected maturities will differ from contractual maturities because some securities may be called or prepaid with or without call or prepayment penalties.

	March 31, 2013		December 31, 2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$9,539	$9,576	$16,369	$16,393
Due after one year through five years	250,405	251,532	205,913	207,147
Due after five years through ten years	115,019	115,980	132,372	133,407
Due after ten years through twenty years	39,877	39,892	43,386	43,414
Due after twenty years	59,068	59,703	71,610	72,559
	$473,908	$476,683	$469,650	$472,920

Securities—Held-to-Maturity: The amortized cost and estimated fair value of securities—held-to-maturity at March 31, 2013 and December 31, 2012 are summarized as follows (dollars in thousands):

	March 31, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Total
Municipal bonds:					
Taxable	$11,115	$461	$(18)	$11,558	12.3 %
Tax exempt	75,243	5,008	(74)	80,177	85.5
Total municipal bonds	86,358	5,469	(92)	91,735	97.8
Corporate bonds	2,050	—	—	2,050	2.2
	$88,408	$5,469	$(92)	$93,785	100.0 %

	December 31, 2012				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Total
Municipal bonds:					
Taxable	$10,326	$436	$(157)	$10,605	11.5 %
Tax exempt	74,076	5,757	(30)	79,803	86.3
Total municipal bonds	84,402	6,193	(187)	90,408	97.8
Corporate bonds	2,050	—	—	2,050	2.2
	$86,452	$6,193	$(187)	$92,458	100.0 %

At March 31, 2013 and December 31, 2012, an age analysis of unrealized losses and fair value of related securities—held-to-maturity was as follows (in thousands):

	March 31, 2013					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Municipal bonds:						
Taxable	$3,313	$(18)	$—	$—	$3,313	$(18)
Tax exempt	5,354	(74)	—	—	5,354	(74)
	$8,667	$(92)	$—	$—	$8,667	$(92)

	December 31, 2012					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Municipal bonds:						
Taxable	$4,137	$(157)	$—	$—	$4,137	$(157)
Tax exempt	910	(30)	—	—	910	(30)
	$5,047	$(187)	$—	$—	$5,047	$(187)

There were no sales of securities—held-to-maturity and the Company recognized no OTTI charges on securities—held-to-maturity during the three months ended March 31, 2013 and 2012. As of March 31, 2013, there were no securities—held-to-maturity in a nonaccrual status. There were seven securities—held-to-maturity with unrealized losses at March 31, 2013, compared to five securities at December 31, 2012. Management does not believe that any individual unrealized loss as of March 31, 2013 represents OTTI. The decline in fair market value of these securities was generally due to changes in interest rates and changes in market-desired spreads subsequent to their purchase.

The amortized cost and estimated fair value of securities—held-to-maturity at March 31, 2013 and December 31, 2012, by contractual maturity, are shown below (in thousands). Expected maturities will differ from contractual maturities because some securities may be called or prepaid with or without call or prepayment penalties.

	March 31, 2013		December 31, 2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$3,322	$3,383	$3,323	$3,410
Due after one year through five years	13,634	14,261	13,641	14,335
Due after five years through ten years	13,230	13,475	13,295	13,452
Due after ten years through twenty years	55,097	59,403	53,031	57,868
Due after twenty years	3,125	3,263	3,162	3,393
	$88,408	$93,785	$86,452	$92,458

Pledged Securities: The following table presents, as of March 31, 2013, investment securities which were pledged to secure borrowings, public deposits or other obligations as permitted or required by law (in thousands):

	Amortized Cost	Fair Value
Purpose or beneficiary:		
State and local governments public deposits	$116,343	$121,720
Interest rate swap counterparties	10,967	11,152
Retail repurchase agreements	104,594	106,562
Total pledged securities	$231,904	$239,434

The carrying value of investment securities pledged to secure borrowings as of March 31, 2013 was $235 million.

Note 6: FHLB STOCK

The Banks' investments in Federal Home Loan Bank of Seattle stock are carried at par value ($100 per share), which reasonably approximates its fair value. As members of the FHLB system, the Banks are required to maintain a minimum level of investment in FHLB stock based on specific percentages of their outstanding FHLB advances. For the three months ended March 31, 2013 and 2012, the Banks did not receive any dividend income on FHLB stock. At March 31, 2013 and December 31, 2012, respectively, the Company had recorded $36.4 million and $36.7 million in FHLB stock. This stock is generally viewed as a long-term investment and is carried at par. It does not have a readily determinable fair value. Ownership of FHLB stock is restricted to the FHLB and member institutions and can only be purchased and redeemed at par.

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

The FHLB of Seattle announced that it had a risk-based capital deficiency under the regulations of the Federal Housing Finance Agency (the FHFA), its primary regulator, as of December 31, 2008, and that it would suspend future dividends and the repurchase and redemption of outstanding common stock. The FHLB of Seattle announced on September 7, 2012 that the FHFA now considers the FHLB of Seattle to be adequately capitalized. Dividends on, or repurchases of, the FHLB of Seattle stock continue to require consent of the FHFA. The FHFA subsequently approved the repurchase of portions of FHLB of Seattle stock, and as of March 31, 2013, the FHLB had repurchased $998,500 of the Banks' stock, including $332,600 during the quarter ending March 31, 2013. The Company will continue to monitor the financial condition of the FHLB as it relates to, among other things, the recoverability of Banner's investment. Based on the above, the Company has determined there is not any impairment on the FHLB stock investment as of March 31, 2013.

Note 7: LOANS RECEIVABLE AND THE ALLOWANCE FOR LOAN LOSSES

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

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

19

Loans receivable, including loans held for sale, at March 31, 2013, December 31, 2012 and March 31, 2012 are summarized as follows (dollars in thousands):

	March 31, 2013		December 31, 2012		March 31, 2012	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Commercial real estate:						
Owner-occupied	$497,442	15.3 %	$489,581	15.1 %	$468,318	14.5 %
Investment properties	602,761	18.6	583,641	18.0	612,617	19.0
Multifamily real estate	134,290	4.1	137,504	4.3	132,306	4.1
Commercial construction	34,762	1.1	30,229	0.9	40,276	1.2
Multifamily construction	34,147	1.1	22,581	0.7	20,654	0.6
One- to four-family construction	171,876	5.3	160,815	5.0	148,717	4.6
Land and land development:						
Residential	78,446	2.4	77,010	2.4	89,329	2.7
Commercial	12,477	0.4	13,982	0.4	12,044	0.4
Commercial business	619,478	19.1	618,049	19.1	609,497	18.9
Agricultural business, including secured by farmland	210,225	6.5	230,031	7.1	188,955	5.9
One- to four-family real estate	566,730	17.5	581,670	18.0	619,511	19.2
Consumer:						
Consumer	112,382	3.5	120,498	3.7	106,978	3.3
Consumer secured by one- to four-family	165,305	5.1	170,123	5.3	180,460	5.6
Total loans outstanding	3,240,321	100.0 %	3,235,714	100.0 %	3,229,662	100.0 %
Less allowance for loan losses	(77,128)		(77,491)		(81,544)	
Net loans	$3,163,193		$3,158,223		$3,148,118	

Loan amounts are net of unearned loan fees and unamortized costs of $9 million as of March 31, 2013 and December 31, 2012 and $10 million as of March 31, 2012.

The Company’s total loans by geographic concentration at March 31, 2013 were as follows (dollars in thousands):

	Washington	Oregon	Idaho	Other	Total
Commercial real estate:					
Owner-occupied	$376,330	$58,671	$57,363	$5,078	$497,442
Investment properties	467,720	87,184	43,750	4,107	602,761
Multifamily real estate	112,625	13,208	8,196	261	134,290
Commercial construction	23,636	6,566	1,207	3,353	34,762
Multifamily construction	15,566	18,581	—	—	34,147
One- to four-family construction	97,016	72,729	2,131	—	171,876
Land and land development:					
Residential	47,106	29,614	1,726	—	78,446
Commercial	7,482	3,043	1,952	—	12,477
Commercial business	393,638	83,574	55,047	87,219	619,478
Agricultural business, including secured by farmland	105,886	38,934	65,405	—	210,225
One- to four-family real estate	352,209	188,804	23,660	2,057	566,730
Consumer:					
Consumer secured by one- to four-family	111,010	41,897	11,721	677	165,305

Consumer—other	76,807		30,233		5,337		5		112,382	
Total loans	$2,187,031		$673,038		$277,495		$102,757		$3,240,321	
Percent of total loans	67.5	%	20.8	%	8.5	%	3.2	%	100.0	%

The geographic concentrations of the Company's land and land development loans by state at March 31, 2013 were as follows (dollars in thousands):

	Washington	Oregon	Idaho	Total
Residential:				
Acquisition and development	$8,982	$12,071	$1,523	$22,576
Improved land and lots	29,463	17,093	203	46,759
Unimproved land	8,661	450	—	9,111
Commercial:				
Acquisition and development	—	—	482	482
Improved land and lots	4,143	136	541	4,820
Unimproved land	3,339	2,907	929	7,175
Total land and land development loans	$54,588	$32,657	$3,678	$90,923
Percent of land and land development loans	60.0 %	35.9 %	4.1 %	100.0 %

The Company originates both adjustable- and fixed-rate loans. The maturity and repricing composition of those loans, less undisbursed amounts and deferred fees, at March 31, 2013, December 31, 2012 and March 31, 2012 were as follows (in thousands):

	March 31, 2013	December 31, 2012	March 31, 2012
Fixed-rate (term to maturity):			
Due in one year or less	$152,586	$183,004	$213,503
Due after one year through three years	176,372	171,724	231,148
Due after three years through five years	187,021	173,251	175,846
Due after five years through ten years	172,654	167,858	159,453
Due after ten years	445,872	473,927	477,495
Total fixed-rate loans	1,134,505	1,169,764	1,257,445
Adjustable-rate (term to rate adjustment):			
Due in one year or less	1,274,415	1,260,472	1,188,664
Due after one year through three years	253,048	275,223	387,588
Due after three years through five years	515,861	467,895	363,719
Due after five years through ten years	62,443	60,316	25,863
Due after ten years	49	2,044	6,383
Total adjustable-rate loans	2,105,816	2,065,950	1,972,217
Total loans	$3,240,321	$3,235,714	$3,229,662

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

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

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

The amount of impaired loans and the related allocated reserve for loan losses as of March 31, 2013 and December 31, 2012 were as follows (in thousands):

	March 31, 2013		December 31, 2012	
	Loan Amount	Allocated Reserves	Loan Amount	Allocated Reserves
Impaired loans:				
Nonaccrual loans				
Commercial real estate:				
Owner-occupied	$3,558	$52	$4,105	$618
Investment properties	3,169	53	2,474	56
Multifamily real estate	339	71	—	—
One- to four-family construction	1,951	308	1,565	326
Land and land development:				
Residential	1,777	233	2,061	323
Commercial	—	—	46	12
Commercial business	4,370	341	4,750	344
One- to four-family residential	12,875	387	12,964	520
Consumer:				
Consumer secured by one- to four-family	1,838	24	2,073	41
Consumer—other	1,240	121	1,323	16
Total nonaccrual loans	$31,117	$1,590	$31,361	$2,256
Past due and still accruing	$2,289	$4	$3,029	$62
Troubled debt restructuring on accrual status:				
Commercial real estate:				
Owner-occupied	$187	$4	$188	$4
Investment properties	7,020	1,026	7,034	664
Multifamily real estate	7,075	1,775	7,131	1,665
One- to four-family construction	6,551	1,007	6,726	1,115
Land and land development:				
Residential	4,542	788	4,842	667
Commercial business	1,194	215	2,975	610
One- to four-family residential	27,013	1,916	27,540	1,228
Consumer:				

Consumer secured by one- to four-family	544	32	538	29
Consumer—other	485	62	488	38
Total troubled debt restructurings on accrual status	54,611	6,825	57,462	6,020
Total impaired loans	$88,017	$8,419	$91,852	$8,338

As of March 31, 2013 and December 31, 2012, the Company had additional commitments to advance funds up to an amount of $1.8 million related to TDRs.

The following tables provide additional information on impaired loans with and without specific allowance reserves as of March 31, 2013 and December 31, 2012 (in thousands):

	At or For the Three Months Ended March 31, 2013				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Without a specific allowance reserve (1)					
Commercial real estate:					
Owner-occupied	$1,018	$1,168	$52	$1,027	$—
Investment properties	284	467	53	289	—
Multifamily real estate	339	339	71	339	—
One- to four-family construction	992	1,108	96	1,036	—
Land and land development:					
Residential	691	905	233	731	—
Commercial business	1,427	2,145	271	1,537	—
One- to four-family residential	8,187	9,013	80	8,260	2
Consumer:					
Consumer secured by one- to four-family	1,496	2,001	23	1,502	—
Consumer—other	952	1,070	9	942	—
	15,386	18,216	888	15,663	2
With a specific allowance reserve (2)					
Commercial real estate:					
Owner-occupied	$2,727	$2,727	$4	$2,750	$3
Investment properties	9,905	11,532	1,026	10,138	85
Multifamily real estate	7,075	7,075	1,775	7,076	90
One- to-four family construction	7,511	7,511	1,219	6,947	65
Land and land development:					
Residential	5,628	5,628	789	5,719	52
Commercial business	4,137	4,498	285	4,247	14
One- to four-family residential	33,944	34,843	2,225	33,730	311
Consumer:					
Consumer secured by one- to four-family	885	898	33	891	7
Consumer—other	819	834	175	820	8
	72,631	75,546	7,531	72,318	635
Total					
Commercial real estate:					
Owner-occupied	$3,745	$3,895	$56	$3,777	$3
Investment properties	10,189	11,999	1,079	10,427	85
Multifamily real estate	7,414	7,414	1,846	7,415	90
One- to four-family construction	8,503	8,619	1,315	7,983	65
Land and land development:					
Residential	6,319	6,533	1,022	6,450	52
Commercial business	5,564	6,643	556	5,784	14
One- to four-family residential	42,131	43,856	2,305	41,990	313
Consumer:					
Consumer secured by one- to four-family	2,381	2,899	56	2,393	7
Consumer—other	1,771	1,904	184	1,762	8
	$88,017	$93,762	$8,419	$87,981	$637

23

	At or For the Year Ended December 31, 2012				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Without a specific allowance reserve (1)					
Commercial real estate:					
Owner-occupied	$1,300	$1,551	$103	$1,470	$—
Investment properties	624	861	90	735	17
Multifamily real estate	2,131	2,131	392	2,136	113
One- to four-family construction	4,460	4,460	571	3,335	145
Land and land development:					
Residential	2,122	2,587	404	2,948	73
Commercial	46	46	12	46	—
Commercial business	4,352	4,970	821	2,121	154
One- to four-family residential	10,886	12,004	150	11,458	44
Consumer:					
Consumer secured by one- to four-family	1,641	2,335	54	1,966	14
Consumer—other	1,167	1,275	16	1,297	5
	28,729	32,220	2,613	27,512	565
With a specific allowance reserve (2)					
Commercial real estate:					
Owner-occupied	$2,993	$2,993	$518	$3,113	$—
Investment properties	8,884	10,120	630	9,449	229
Multifamily real estate	5,000	5,000	1,273	5,000	295
One- to-four family construction	3,831	3,831	870	3,611	194
Land and land development:					
Residential	4,782	4,782	586	5,039	185
Commercial	—	—	—	—	—
Commercial business	3,373	3,734	134	3,931	6
One- to four-family residential	32,494	33,672	1,656	33,100	1,259
Consumer:					
Consumer secured by one- to four-family	1,042	1,140	26	1,074	15
Consumer—other	724	740	32	754	—
	63,123	66,012	5,725	65,071	2,183
Total					
Commercial real estate					
Owner-occupied	$4,293	$4,544	$621	$4,583	$—
Investment properties	9,508	10,981	720	10,184	246
Multifamily real estate	7,131	7,131	1,665	7,136	408
One- to four-family construction	8,291	8,291	1,441	6,946	339
Land and land development					
Residential	6,904	7,369	990	7,987	258
Commercial	46	46	12	46	—
Commercial business	7,725	8,704	955	6,052	160
One- to four-family residential	43,380	45,676	1,806	44,558	1,303
Consumer					
Consumer secured by one- to four-family	2,683	3,475	80	3,040	29
Consumer—other	1,891	2,015	48	2,051	5
	$91,852	$98,232	$8,338	$92,583	$2,748

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

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

The following tables present TDRs at March 31, 2013 and December 31, 2012 (in thousands):

	March 31, 2013		
	Accrual Status	Nonaccrual Status	Total Modifications
Commercial real estate:			
Owner-occupied	$187	$1,287	$1,474
Investment properties	7,020	1,486	8,506
Multifamily real estate	7,075	—	7,075
One- to four-family construction	6,551	1,143	7,694
Land and land development:			
Residential	4,542	—	4,542
Commercial business	1,194	577	1,771
One- to four-family residential	27,013	3,525	30,538
Consumer:			
Consumer secured by one- to four-family	544	467	1,011
Consumer—other	485	334	819
	$54,611	$8,819	$63,430

	December 31, 2012		
	Accrual Status	Nonaccrual Status	Total Modifications
Commercial real estate:			
Owner-occupied	$188	$1,551	$1,739
Investment properties	7,034	1,514	8,548
Multifamily real estate	7,131	—	7,131
One- to four-family construction	6,726	1,044	7,770
Land and land development:			
Residential	4,842	15	4,857
Commercial business	2,975	247	3,222
One- to four-family residential	27,540	2,703	30,243
Consumer:			
Consumer secured by one- to four-family	538	496	1,034
Consumer—other	488	396	884
	$57,462	$7,966	$65,428

The following tables present new TDRs that occurred during the three months ended March 31, 2013 and 2012 (dollars in thousands):

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

	Three Months Ended March 31, 2012		
	Number of Contracts	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Recorded Investment [(1)] [(2)]			
Commercial real estate			
Investment properties	2	$877	$877
One- to four-family construction	2	750	750
Land and land development—residential	2	560	560
Commercial business	3	355	355
One- to four-family residential	15	8,489	8,489
Consumer	2	291	291
	26	$11,322	$11,322

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

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

The following table presents TDRs which incurred a payment default within twelve months of the restructure date during the three-month periods ended March 31, 2013 and 2012 (in thousands). A default on a TDR results in either a transfer to nonaccrual status or a partial charge-off:

	Three Months Ended March 31	
	2013	2012
Commercial real estate:		
Owner occupied	$—	$29
Investment properties	—	2,353
Commercial business	351	—
One- to four-family residential	—	231
Consumer secured by one- to four-family	—	85
Total	$351	$2,698

26

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

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

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

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

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

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

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

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

Risk Rating 7: Substandard

A credit with well defined weaknesses that jeopardize the ability to repay in full is risk rated a 7. These credits are inadequately protected by either the sound net worth and payment capacity of the borrower or the value of pledged collateral. These are credits with a distinct possibility of loss. Loans headed for foreclosure and/or legal action due to deterioration are rated 7 or worse.

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

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

The following table shows the Company's portfolio of risk-rated loans and non-risk-rated loans by grade or other characteristics as of March 31, 2013 and December 31, 2012 (in thousands):

	March 31, 2013							
	Commercial Real Estate	Multifamily Real Estate	Construction and Land	Commercial Business	Agricultural Business	One- to Four- Family Residential	Consumer	Total Loans
Risk-rated loans:								
Pass (Risk Ratings 1-5) (1)	$1,049,911	$127,315	$304,986	$590,905	$209,291	$546,874	$271,767	$3,101,049
Special mention	13,338	—	2,015	4,798	685	437	145	21,418
Substandard	36,410	6,975	24,707	23,764	249	19,419	5,775	117,299
Doubtful	544	—	—	11	—	—	—	555
Loss	—	—	—	—	—	—	—	—
Total loans	$1,100,203	$134,290	$331,708	$619,478	$210,225	$566,730	$277,687	$3,240,321
Performing loans	$1,093,477	$133,951	$327,979	$615,108	$210,225	$551,611	$274,564	$3,206,915
Non-performing loans	6,726	339	3,729	4,370	—	15,119	3,123	33,406
Total loans	$1,100,203	$134,290	$331,708	$619,478	$210,225	$566,730	$277,687	$3,240,321

	December 31, 2012							
	Commercial Real Estate	Multifamily Real Estate	Construction and Land	Commercial Business	Agricultural Business	One- to Four-Family Residential	Consumer	Total Loans
Risk-rated loans:								
Pass (Risk Ratings 1-5) (1)	$1,016,964	$130,815	$274,407	$581,846	$228,304	$560,781	$284,816	$3,077,933
Special mention	14,332	—	3,146	7,905	713	438	148	26,682
Substandard	41,382	6,689	27,064	28,287	1,014	20,451	5,657	130,544
Doubtful	544	—	—	11	—	—	—	555
Loss	—	—	—	—	—	—	—	—
Total loans	$1,073,222	$137,504	$304,617	$618,049	$230,031	$581,670	$290,621	$3,235,714
Performing loans	$1,066,643	$137,504	$300,945	$613,299	$230,031	$565,829	$287,073	$3,201,324
Non-performing loans (2)	6,579	—	3,672	4,750	—	15,841	3,548	34,390
Total loans	$1,073,222	$137,504	$304,617	$618,049	$230,031	$581,670	$290,621	$3,235,714

(1) The Pass category includes some performing loans that are part of homogenous pools which are not individually risk-rated. This includes all consumer loans, all one- to four-family residential loans and, as of March 31, 2013 and December 31, 2012, in the commercial business category, $78 million and $77 million, respectively, of credit-scored small business loans. As loans in these pools become non-performing, they are individually risk-rated.

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

28

The following tables provide additional detail on the age analysis of the Company's past due loans as of March 31, 2013 and December 31, 2012 (in thousands):

	March 31, 2013						
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Loans 90 Days or More Past Due and Accruing
Commercial real estate:							
Owner-occupied	$1,794	$4	$824	$2,622	$494,820	$497,442	$—
Investment properties	715	49	1,410	2,174	600,587	602,761	—
Multifamily real estate	—	—	—	—	134,290	134,290	—
Commercial construction	—	—	—	—	34,762	34,762	—
Multifamily construction	—	—	—	—	34,147	34,147	—
One-to-four-family construction	430	—	196	626	171,250	171,876	—
Land and land development:							
Residential	286	—	1,777	2,063	76,383	78,446	—
Commercial	—	—	—	—	12,477	12,477	—
Commercial business	1,326	248	1,430	3,004	616,474	619,478	—
Agricultural business	181	30	—	211	210,014	210,225	—
One- to four-family residential	241	1,802	9,422	11,465	555,265	566,730	2,243
Consumer:							
Consumer secured by one- to four-family	129	—	1,592	1,721	163,584	165,305	—
Consumer—other	1,261	190	1,062	2,513	109,869	112,382	46
Total	$6,363	$2,323	$17,713	$26,399	$3,213,922	$3,240,321	$2,289

	December 31, 2012						
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Loans 90 Days or More Past Due and Accruing
Commercial real estate:							
Owner-occupied	$1,693	$—	$1,371	$3,064	$486,517	$489,581	$—
Investment properties	743	—	1,431	2,174	581,467	583,641	—
Multifamily real estate	—	—	—	—	137,504	137,504	—
Commercial construction	—	—	—	—	30,229	30,229	—
Multifamily construction	—	—	—	—	22,581	22,581	—
One-to-four-family construction	611	—	—	611	160,204	160,815	—
Land and land development:							
Residential	—	—	2,047	2,047	74,963	77,010	—
Commercial	2,083	—	45	2,128	11,854	13,982	—
Commercial business	1,849	49	842	2,740	615,309	618,049	—
Agricultural business	—	—	—	—	230,031	230,031	—
One-to four-family residential	1,376	3,468	11,488	16,332	565,338	581,670	2,877
Consumer:							
Consumer secured by one- to four-family	699	74	1,204	1,977	168,146	170,123	—
Consumer—other	816	673	839	2,328	118,170	120,498	152
Total	$9,870	$4,264	$19,267	$33,401	$3,202,313	$3,235,714	$3,029

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 months ended March 31, 2013 and 2012 (in thousands):

	For the Three Months Ended March 31, 2013								
	Commercial Real Estate	Multifamily	Construction and Land	Commercial Business	Agricultural business	One- to Four-Family	Consumer	Commitments and Unallocated	Total
Allowance for loan losses:									
Beginning balance	$15,322	$ 4,506	$ 14,991	$ 9,957	$ 2,295	$16,475	$1,348	$ 12,597	$77,491
Provision for loan losses	(1,784)	569	557	597	(50)	(10)	116	5	—
Recoveries	1,586	—	101	386	37	116	102	—	2,328
Charge-offs	(348)	—	(435)	(929)	—	(651)	(328)	—	(2,691)
Ending balance	$14,776	$ 5,075	$ 15,214	$ 10,011	$ 2,282	$15,930	$1,238	$ 12,602	$77,128

	At March 31, 2013								
	Commercial Real Estate	Multifamily	Construction and Land	Commercial Business	Agricultural business	One- to Four-Family	Consumer	Commitments and Unallocated	Total
Allowance individually evaluated for impairment	$1,030	$ 1,775	$ 2,008	$ 285	$ —	$2,225	$208	$ —	$7,531
Allowance collectively evaluated for impairment	13,746	3,300	13,206	9,726	2,282	13,705	1,030	12,602	69,597
Total allowance for loan losses	$14,776	$ 5,075	$ 15,214	$ 10,011	$ 2,282	$15,930	$1,238	$ 12,602	$77,128

	At March 31, 2013								
	Commercial Real Estate	Multifamily	Construction and Land	Commercial Business	Agricultural business	One- to Four-Family	Consumer	Commitments and Unallocated	Total
Loan balances:									
Loans individually evaluated for impairment	$12,632	$7,075	$13,139	$4,137	$—	$33,945	$1,704	$ —	$72,632
Loans collectively evaluated for impairment	1,087,571	127,215	318,569	615,341	210,225	532,785	275,983	—	3,167,689
Total loans	$1,100,203	$134,290	$331,708	$619,478	$210,225	$566,730	$277,687	$ —	$3,240,321

31

	For the Three Months Ended March 31, 2012								
	Commercial Real Estate	Multifamily	Construction and Land	Commercial Business	Agricultural business	One- to Four-Family	Consumer	Commitments and Unallocated	Total
Allowance for loan losses:									
Beginning balance	$16,457	$ 3,952	$ 18,184	$ 15,159	$ 1,548	$12,299	$1,253	$ 14,060	$82,912
Provision for loan losses	1,335	(691)	241	(865)	614	1,531	719	2,116	5,000
Recoveries	614	—	370	236	—	5	136	—	1,361
Charge-offs	(1,323)	—	(2,924)	(1,407)	(275)	(966)	(834)	—	(7,729)
Ending balance	$17,083	$ 3,261	$ 15,871	$ 13,123	$ 1,887	$12,869	$1,274	$ 16,176	$81,544

	At March 31, 2012								
	Commercial Real Estate	Multifamily	Construction and Land	Commercial Business	Agricultural business	One- to Four-Family	Consumer	Commitments and Unallocated	Total
Allowance individually evaluated for impairment	$239	$ 37	$ 2,100	$ 799	$ 480	$824	$71	$ —	$4,550
Allowance collectively evaluated for impairment	16,844	3,224	13,771	12,324	1,407	12,045	1,203	16,176	76,994
Total allowance for loan losses	$17,083	$ 3,261	$ 15,871	$ 13,123	$ 1,887	$12,869	$1,274	$ 16,176	$81,544

	At March 31, 2012								
	Commercial Real Estate	Multifamily	Construction and Land	Commercial Business	Agricultural business	One- to Four-Family	Consumer	Commitments and Unallocated	Total
Loan balances:									
Loans individually evaluated for impairment	$13,123	$1,635	$22,149	$9,816	$961	$23,261	$1,445	$ —	$72,390
Loans collectively evaluated for impairment	1,067,812	130,671	288,871	599,681	187,994	596,250	285,993	—	3,157,272
Total loans	$1,080,935	$132,306	$311,020	$609,497	$188,955	$619,511	$287,438	$ —	$3,229,662

Note 8: REAL ESTATE OWNED, NET

The following table presents the changes in REO, net of valuation adjustments, for the three months ended March 31, 2013 and 2012 (in thousands):

	Three Months Ended March 31	
	2013	2012
Balance, beginning of the period	$15,778	$42,965
Additions from loan foreclosures	1,086	1,601
Additions from capitalized costs	46	127
Dispositions of REO	(6,481)	(15,441)
Gain on sale of REO	804	100
Valuation adjustments in the period	(73)	(1,629)
Balance, end of the period	$11,160	$27,723

The following table shows REO by type and geographic location by state as of March 31, 2013 (in thousands):

	Washington	Oregon	Idaho	Total
Commercial real estate	$—	$—	$198	$198
One- to four-family construction	401	—	—	401
Land development—residential	1,610	6,321	70	8,001
One- to four-family real estate	1,077	1,483	—	2,560
Balance, end of period	$3,088	$7,804	$268	$11,160

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

Note 9: INTANGIBLE ASSETS AND MORTGAGE SERVICING RIGHTS

Intangible Assets: At March 31, 2013, intangible assets consisted primarily of core deposit intangibles (CDI), which are amounts recorded in business combinations or deposit purchase transactions related to the value of transaction-related deposits and the value of the customer relationships associated with the deposits.

The Company amortizes CDI over their estimated useful life and reviews them at least annually for events or circumstances that could impact their recoverability. The CDI assets shown in the table below represent the value ascribed to the long-term deposit relationships acquired in three separate bank acquisitions during 2007. These intangible assets are being amortized using an accelerated method over estimated useful lives of eight years. The CDI assets are not estimated to have a significant residual value. Intangible assets are amortized over their useful lives and are also reviewed for impairment.

The following table summarizes the changes in the Company’s core deposit intangibles and other intangibles for the three months ended March 31, 2013 and the year ended December 31, 2012 (in thousands):

	Core Deposit Intangibles	Other	Total
Balance, December 31, 2012	$4,230	$—	$4,230
Amortization	(506)	—	(506)
Balance, March 31, 2013	$3,724	$—	$3,724

	Core Deposit Intangibles	Other	Total
Balance, December 31, 2011	$6,322	$9	$6,331
Amortization	(552)	(2)	(554)
Balance, March 31, 2012	$5,770	$7	$5,777

The following table presents the estimated annual amortization expense with respect to existing intangibles as of March 31, 2013 (in thousands):

Year Ended	Core Deposit Intangibles
December 31, 2013	$1,908
December 31, 2014	1,724
December 31, 2015	598
	$4,230

Mortgage Servicing Rights: Mortgage servicing rights are reported in other assets. Mortgage servicing rights are initially recorded at fair value and are amortized in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Mortgage servicing rights are subsequently evaluated for impairment based upon the fair value of the rights compared to the amortized cost (remaining unamortized initial fair value). If the fair value is less than the amortized cost, a valuation allowance is created through an impairment charge to servicing fee income. However, if the fair value is greater than the amortized cost, the amount above the amortized cost is not recognized in the carrying value. During the three months ended March 31, 2013 and 2012, the Company did not record an impairment charge. Loans serviced for others totaled $984 million, $918 million and $717 million at March 31, 2013, December 31, 2012 and March 31, 2012, respectively. Custodial accounts maintained in connection with this servicing totaled $2.8 million, $4.7 million and $1.8 million at March 31, 2013, December 31, 2012, and March 31, 2012, respectively.

An analysis of our mortgage servicing rights for the three months ended March 31, 2013 and 2012 is presented below (in thousands):

	Three Months Ended March 31	
	2013	2012
Balance, beginning of the period	$6,244	$5,584
Amounts capitalized	776	913
Amortization [1]	(685)	(627)
Balance, end of the period	$6,335	$5,870

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

Note 10: DEPOSITS AND RETAIL REPURCHASE AGREEMENTS

Deposits consisted of the following at March 31, 2013, December 31, 2012 and March 31, 2012 (dollars in thousands):

	March 31, 2013			December 31, 2012			March 31, 2012		
	Amount	Percent of Total		Amount	Percent of Total		Amount	Percent of Total	
Non-interest-bearing accounts	$962,156	27.3	%	$981,240	27.6	%	$771,812	22.5	%
Interest-bearing checking	400,598	11.4		410,316	11.5		368,810	10.8	
Regular savings accounts	759,866	21.6		727,957	20.5		673,704	19.7	
Money market accounts	415,061	11.8		408,998	11.5				