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

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

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

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

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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