BANNER CORP
Form 10-Q
August 05, 2011

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 June 30, 2011.

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.

Large accelerated filer [ ]	Accelerated filer [X]	Non-accelerated filer [ ]	Smaller reporting company [ ]

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 July 31, 2011
Common Stock, $.01 par value per share	16,815,255 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

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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, 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,” “probal “outlook” or similar expressions or future or conditional verbs such as “may,” “will,” “should,” “would” a “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 our compliance with the Memorandum of Understanding and 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 allowance 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; our compliance with regulatory enforcement actions; the requirements and restrictions that have been imposed upon Banner Corporation and Banner Bank under the memoranda of understanding with the Federal Reserve Bank of San Francisco (in the case of Banner Corporation) and the FDIC and the Washington DFI (in the case of Banner Bank) and the possibility that Banner Corporation and Banner Bank will be unable to fully comply with their respective memoranda of understanding, which could result in the imposition of additional requirements or restrictions; 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; 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 and preferred 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; future legislative changes in the United States Department of Treasury (Treasury) Troubled Asset Relief Program (TARP) Capital Purchase Program; 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 to update 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," "Banner" or the "Company" refer to Banner Corporation and consolidated subsidiaries, unless the context otherwise requires.

BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Unaudited) (In thousands, except shares)
June 30, 2011 and December 31, 2010

ASSETS	June 30 2011	December 31 2010
Cash and due from banks	$ 216,444	$ 361,652
Securities—trading, amortized cost $120,458 and $128,070, respectively	89,374	95,379
Securities—available-for-sale, amortized cost $284,798 and $199,058, respectively	287,255	200,227
Securities—held-to-maturity, fair value $79,129 and $73,916, respectively	76,596	72,087
Federal Home Loan Bank stock	37,371	37,371
Loans receivable:		
Held for sale	1,907	3,492
Held for portfolio	3,304,760	3,399,625
Allowance for loan losses	(92,000)	(97,401)
	3,214,667	3,305,716
Accrued interest receivable	15,907	15,927
Real estate owned, held for sale, net	71,205	100,872
Property and equipment, net	93,532	96,502
Other intangibles, net	7,442	8,609
Income taxes receivable, net	--	12,981
Bank-owned life insurance	57,578	56,653
Other assets	38,696	42,106
	$ 4,206,067	$ 4,406,082
LIABILITIES		
Deposits:		
Non-interest-bearing	$ 645,778	$ 600,457
Interest-bearing transaction and savings accounts	1,422,290	1,433,248
Interest-bearing certificates	1,398,332	1,557,493
	3,466,400	3,591,198
Advances from FHLB at fair value	10,572	43,523
Other borrowings	136,285	175,813
Junior subordinated debentures at fair value (issued in connection with Trust Preferred Securities)	47,986	48,425
Accrued expenses and other liabilities	19,181	21,048
Deferred compensation	14,617	14,603
	3,695,041	3,894,610
COMMITMENTS AND CONTINGENCIES (Note 15)		
STOCKHOLDERS' EQUITY		

Preferred stock - $0.01 par value, 500,000 shares authorized; Series A – liquidation preference		
$1,000 per share, 124,000 shares issued and outstanding	119,851	119,000
Common stock and paid in capital - $0.01 par value per share, 50,000,000 shares authorized, 16,668,694 shares		
issued: 16,634,354 shares and 16,130,441 shares outstanding at June 30, 2011 and December 31, 2010, respectively	517,782	509,457
Unearned shares of common stock issued to Employee Stock Ownership Plan (ESOP) trust at cost:		
34,340 restricted shares outstanding at June 30, 2011 and December 31, 2010	(1,987)	(1,987)
Retained earnings (accumulated deficit)	(126,268)	(115,348)
Accumulated other comprehensive income:		
Unrealized gain (loss) on securities available-for-sale and/or transferred to held-to-maturity	1,648	350
	511,026	511,472
	$ 4,206,067	$ 4,406,082

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 and Six Months Ended June 30, 2011 and 2010

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
INTEREST INCOME:				
Loans receivable	$ 46,846	$ 52,473	$ 93,601	$ 105,232
Mortgage-backed securities	859	1,045	1,734	2,171
Other securities and cash equivalents	2,183	2,116	4,216	4,201
	49,888	55,634	99,551	111,604
INTEREST EXPENSE:				
Deposits	7,014	14,700	14,826	30,498
FHLB advances	64	320	242	681
Other borrowings	568	626	1,147	1,260
Junior subordinated debentures	1,041	1,047	2,079	2,074
	8,687	16,693	18,294	34,513
Net interest income before provision for loan losses	41,201	38,941	81,257	77,091
PROVISION FOR LOAN LOSSES	8,000	16,000	25,000	30,000
Net interest income (loss)	33,201	22,941	56,257	47,091
OTHER OPERATING INCOME:				
Deposit fees and other service charges	5,693	5,632	10,972	10,792
Mortgage banking operations	855	817	1,817	1,765
Loan servicing fees	397	315	653	628
Miscellaneous	369	243	862	869
	7,314	7,007	14,304	14,054
Other-than-temporary impairment losses	--	--	--	(1,231)
Net change in valuation of financial instruments carried at fair value	1,939	(821)	2,195	1,087
Total other operating income	9,253	6,186	16,499	13,910
OTHER OPERATING EXPENSES:				
Salary and employee benefits	18,288	16,793	35,543	33,352
Less capitalized loan origination costs	(1,948)	(1,740)	(3,668)	(3,345)
Occupancy and equipment	5,436	5,581	10,830	11,185
Information/computer data services	1,521	1,594	3,088	3,100
Payment and card processing expenses	1,939	1,683	3,586	3,107
Professional services	1,185	1,874	2,857	3,161
Advertising and marketing	1,903	1,742	3,643	3,692
Deposit insurance	1,389	2,209	3,358	4,341
State/municipal business and use taxes	544	533	1,038	1,013
REO operations	6,568	4,166	11,199	7,224
Amortization of core deposit intangibles	570	615	1,167	1,259
Miscellaneous	2,860	2,974	5,758	5,350

Total other operating expenses		40,255		38,024		78,399		73,439
Income (loss) before provision for (benefit from) income taxes		2,199		(8,897)		(5,643)		(12,438)
PROVISION FOR (BENEFIT FROM) INCOME TAXES		--		(3,951)		--		(5,975)
NET INCOME (LOSS)		2,199		(4,946)		(5,643)		(6,463)
PREFERRED STOCK DIVIDEND AND DISCOUNT ACCRETION								
Preferred stock dividend		1,550		1,550		3,100		3,100
Preferred stock discount accretion		425		399		851		797
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS	$	224	$	(6,895)	$	(9,594)	$	(10,360)
Earnings (loss) per common share:								
Basic	$	0.01	$	(1.97)	$	(0.58)	$	(3.11)
Diluted	$	0.01	$	(1.97)	$	(0.58)	$	(3.11)
Cumulative dividends declared per common share:	$	0.01	$	0.07	$	0.08	$	0.14

See Selected Notes to the Consolidated Financial Statements

BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited) (In thousands)
For the Three and Six Months Ended June 30, 2011 and 2010

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
NET INCOME (LOSS)	$2,199	$(4,946)	$(5,643)	$(6,463)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF INCOME TAXES:				
Unrealized holding gain (loss) during the period, net of deferred income tax (benefit) of $0, $323, $0 and $629, respectively	1,970	576	1,289	1,119
Amortization of unrealized loss on tax exempt securities transferred from available-for-sale to held-to-maturity	4	10	9	22
Other comprehensive income (loss)	1,974	586	1,298	1,141
COMPREHENSIVE INCOME (LOSS)	$4,173	$(4,360)	$(4,345)	$(5,322)

See Selected Notes to the Consolidated Financial Statements

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BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited) (In thousands)
For the Six Months Ended June 30, 2011

	Preferred Stock		Common Stock and Paid in Capital (1)		Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Stockholders' Equity
	Shares	Amount	Shares	Amount			
Balance, January 1, 2011	124,000	$ 119,000	16,130,441	$ 507,470	$ (115,348)	$ 350	$ 511,472
Net income (loss)					(5,643)		(5,643)
Change in valuation of securities—available-for-sale, net of income tax						1,289	1,289
Amortization of unrealized loss on tax exempt securities transferred from available-for-sale to held-to-maturity, net of income tax						9	9
Accretion of preferred stock discount		851			(851)		--
Accrual of dividends on preferred stock					(3,100)		(3,100)
Accrual of dividends on common stock ($.08/share cumulative)					(1,326)		(1,326)
Proceeds from issuance of common stock for stockholder reinvestment program, net of registration expenses and reverse stock split fractional share repurchases			503,913	8,265			8,265
Amortization of compensation related to restricted stock grant				42			42

Amortization of compensation related to stock options				18			18
BALANCE, June 30, 2011	124,000	$ 119,851	16,634,354	$ 515,795	$ (126,268)	$ 1,648	$ 511,026

(1) Common Stock and Paid in Capital includes a reduction of $2 million related to 34,340 unearned shares of common stock issued to the ESOP.

See Selected Notes to the Consolidated Financial Statements

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BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In thousands)
For the Year Ended December 31, 2010

	Preferred Stock		Common Stock and Paid in Capital (1)		Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Stockholders' Equity
	Shares	Amount	Shares	Amount			
Balance, January 1, 2010	124,000	$ 117,407	3,042,744	$ 329,549	$ (42,077)	$ 249	$ 405,128
Net income (loss)					(61,896)		(61,896)
Change in valuation of securities—available-for-sale, net of income tax						59	59
Amortization of unrealized loss on tax exempt securities transferred from available-for-sale to held-to-maturity, net of income tax						42	42
Accretion of preferred stock discount		1,593			(1,593)		--
Accrual of dividends on preferred stock					(6,200)		(6,200)
Accrual of dividends on common stock ($.28/share cumulative)					(3,582)		(3,582)
Proceeds from issuance of common stock for stockholder reinvestment program, net of registration expenses			836,989	16,201			16,201
Proceeds from issuance of common stock, net of offering costs			12,234,143	161,637			161,637
Amortization of compensation related to Management Recognition Plan (MRP)				2			2

Amortization of compensation related to restricted stock grant			16,565	28			28
Amortization of compensation related to stock options				53			53
BALANCE, December 31, 2010	124,000	$ 119,000	16,130,441	$ 507,470	$ (115,348)	$ 350	$ 511,472

(1) Common Stock and Paid in Capital includes a reduction of $2 million related to 34,340 unearned shares of common stock issued to the ESOP.

See Selected Notes to the Consolidated Financial Statements

BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited) (In thousands)
For the Six Months Ended June 30, 2011 and 2010

	Six Months Ended June 30 2011	Six Months Ended June 30 2010
OPERATING ACTIVITIES:		
Net income (loss)	$(5,643)	$(6,463)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	4,358	4,683
Deferred income and expense, net of amortization	860	1,211
Amortization of core deposit and other intangibles	1,167	1,259
Other-than-temporary impairment losses	--	1,231
Net change in valuation of financial instruments carried at fair value	(2,195)	(1,088)
Purchases of securities—trading	--	(2,572)
Principal repayments and maturities of securities—trading	7,600	45,970
Deferred taxes	--	141
Equity-based compensation	60	38
Increase in cash surrender value of bank-owned life insurance	(925)	(881)
Gain on sale of loans, excluding capitalized servicing rights	(1,164)	(1,348)
Loss on disposal of real estate held for sale and property and equipment, net	521	1,383
Provision for losses on loans and real estate held for sale	32,838	31,340
Origination of loans held for sale	(114,706)	(121,652)
Proceeds from sales of loans held for sale	116,291	121,330
Net change in:		
Other assets	16,368	(3,631)
Other liabilities	(827)	1,025
Net cash provided from operating activities	54,603	71,976
INVESTING ACTIVITIES:		
Purchases of securities available-for-sale	(174,739)	(79,801)
Principal repayments and maturities of securities available-for-sale	88,031	34,725
Proceeds from sales of securities available-for-sale	--	1,965
Purchases of securities held-to-maturity	(7,488)	(499)
Principal repayments and maturities of securities held-to-maturity	2,964	1,675
Principal repayments of loans, net	39,025	84,328
Purchases of loans and participating interest in loans	(97)	(129)
Purchases of property and equipment, net	(1,413)	(698)
Proceeds from sale of other repossessed assets and REO held for sale, net	48,264	18,886
Other	(106)	(80)
Net cash provided from (used by) investing activities	(5,559)	60,372
FINANCING ACTIVITIES:		
Decrease in deposits, net	(124,798)	(26,555)
Repayment of FHLB advances	(32,802)	(142,502)

Decrease in other borrowings, net	(39,528)	(4,110)
Cash dividends paid	(5,389)	(3,545)
Cash proceeds from issuance of stock for stockholder reinvestment program, net of reverse stock split fractional share repurchases	8,265	10,503
Cash proceeds from issuance of stock in secondary offering, net of offering costs	--	148,042
Net cash used by financing activities	(194,252)	(18,167)
NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS	(145,208)	114,181
CASH AND DUE FROM BANKS, BEGINNING OF PERIOD	361,652	323,005
CASH AND DUE FROM BANKS, END OF PERIOD	$216,444	$437,186

(Continued on next page)

BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(Unaudited) (In thousands)
For the Six Months Ended June 30, 2011 and 2010

	Six Months Ended June 30	
	2011	2010
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid in cash	$ 19,575	$ 35,784
Taxes received in cash	(13,058)	(561)
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	26,917	45,487

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), 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 2010 Consolidated Financial Statements and/or schedules to conform to the 2011 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 goodwill, 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, 2010 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, 2010 filed with the SEC (2010 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 23, 2010, Banner Bank entered into a Memorandum of Understanding (Bank MOU) with the FDIC and Washington DFI. Banner Corporation also entered into a similar MOU with the Federal Reserve

Bank of San Francisco on March 29, 2010 (FRB MOU). Under the Bank MOU, Banner Bank is required, among other things, to develop and implement plans to reduce commercial real estate concentrations; to improve asset quality and reduce classified assets; to improve profitability; and to increase Tier 1 leverage capital to equal or exceed 10% of average assets. In addition, Banner Bank is not permitted to pay cash dividends to Banner Corporation without prior approval from the FDIC and Washington DFI and the Company and Banner Bank must obtain prior regulatory approval before adding any new director or senior executive officer or changing the responsibilities of any current senior executive officer. Further, the Company may not pay any dividends on common or preferred stock, pay interest or principal on the balance of its junior subordinated debentures or repurchase our common stock without the prior written non-objection of the Federal Reserve Bank. See Item 1A, Risk Factors, “We are required to comply with the terms of memoranda of understanding that we have entered into with the FDIC and DFI and the Federal Reserve and lack of compliance could result in additional regulatory actions” in our 2010 Form 10-K.

Reverse stock split: On May 26, 2011, Banner Corporation filed with the Secretary of State of the State of Washington Articles of Amendment to the Amended and Restated Articles of Incorporation of the Company, which effected a 1-for-7 reverse stock split. The amendment to the Company's Amended and Restated Articles of Incorporation was effective June 1, 2011.

As a result of the reverse stock split, every seven shares of the Company's common stock issued and outstanding immediately prior to the effective date automatically consolidated into one share of common stock. No fractional shares of common stock were issued by the Company in connection with the reverse stock split. Approximately $50,000 in cash was paid for fractional shares based on the closing price of the common stock on May 31, 2011. All prior shares and per share information have been retroactively adjusted for the reverse stock split.

Secondary Offering of Common Stock: On June 30, 2010, the Company announced the initial closing of its offering of 75,000,000 shares of its common stock and the sale of an additional 3,500,000 shares pursuant to the partial exercise of the underwriters’ over-allotment option, at a price to the public of $2.00 per share. On July 2, 2010, the Company further announced the completion of this offering as the underwriters exercised their over-allotment option for an additional 7,139,000 shares, at a price to the public of $2.00 per share. Together with the 78,500,000 shares the Company issued on June 30, 2010 (including 3,500,000 shares issued pursuant to the underwriters’ initial exercise of their over-allotment option), the Company issued a total of 85,639,000 shares in the offering, resulting in net proceeds, after deducting underwriting discounts and commissions and offering expenses, of approximately $161.6 million.

Banner intends to use a significant portion of the net proceeds from the offering to strengthen Banner Bank's regulatory capital ratios in accordance with the Bank MOU and to support managed growth as economic conditions improve. To that end, at June 30, 2011, the Company had invested a cumulative $110 million as additional paid-in common equity in Banner Bank. The Tier 1 leverage capital of Banner Bank was 11.37% of average assets on June 30, 2011, compared to 10.84% at December 31, 2010. The Company expects to use the remaining net proceeds for general working capital purposes, including additional capital investments in its subsidiary banks if appropriate.

Deferred Tax Asset Valuation Allowance: The Company and the Banks 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 U.S. generally acceptable accounting principles (GAAP), a valuation allowance is required to be recognized if it is "more likely than not" that all or a portion of our deferred tax assets will not be realized. While realization of the deferred tax asset is ultimately dependent on a return to sustained profitability, which management believes is more likely than not, the guidance reflected in the accounting standard is significantly influenced by consideration of recent historical operating results. During the third quarter of 2010, we evaluated our net deferred tax asset and determined it was prudent to establish a valuation allowance against the entire asset. This action caused our income tax expense to be $24.0 million for that period. As a result, we recorded $18.0 million income tax expense for the year ended December 31, 2010. No tax benefit or expense was recognized during the three or six months ended June 30, 2011. See Note 12 of the Notes to the Consolidated Financial Statements for more information.

Note 3: ACCOUNTING STANDARDS RECENTLY ADOPTED OR ISSUED

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (International Financial Reporting Standards). This guidance is effective for the first interim or annual period beginning on or after December 15, 2011, and will be applied prospectively beginning in the period of adoption. The amendments change the wording used to describe requirements for measuring fair value under U.S. GAAP to be more consistent with IFRSs. The adoption of this guidance is not expected to have a material effect on the Company's Consolidated Financial Statements.

In April 2011, FASB issued ASU No. 2011-02, A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring. ASU No. 2011-02 clarifies when a loan modification or restructuring is considered a troubled debt restructuring. This guidance is effective for the first interim or annual period beginning on or after June 15, 2011, and will be applied retrospectively to the beginning of the annual period of adoption. The adoption of this guidance is not expected to have a material effect on the Company's Consolidated Financial Statements but may result in a change in the amount of loans classified as troubled debt restructurings.

In July 2010, FASB issued ASU No. 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. ASU No. 2010-20 provides enhanced disclosures related to the credit quality of financing receivables and the allowance for credit losses, and provides that new and existing disclosures should be disaggregated based on how an entity develops its allowance for credit losses and how it manages credit exposures. Under the provisions of this ASU, additional disclosures required for financing receivables include information regarding the aging of past due receivables, credit quality indicators, and modifications of financing receivables. The provisions of ASU No. 2010-20 are effective for periods ending after December 15, 2010, with the exception of the amendments to the rollforward of the allowance for credit losses and the disclosures about modifications which are effective for periods beginning after December 15, 2010. Comparative disclosures are required only for periods ending subsequent to initial adoption. This ASU was implemented for the period ended

December 31, 2010 and did not have a material effect on the Company's Consolidated Financial Statements.

In January 2010, FASB issued ASU No. 2010-06, Fair Value Measurements and Disclosures (Topic 820)—Improving Disclosures about Fair Value Measurements. ASU No. 2010-06 requires (i) fair value disclosures by each class of assets and liabilities (generally a subset within a line item as presented in the statement of financial position) rather than major category, (ii) for items measured at fair value on a recurring basis, the amounts of significant transfers between Levels 1 and 2, and transfers into and out of Level 3, and the reasons for those transfers, including separate discussion related to the transfers into each level apart from transfers out of each level, and (iii) gross presentation of the amounts of purchases, sales, issuances, and settlements in the Level 3 recurring measurement reconciliation.

Additionally, the ASU clarifies that a description of the valuation techniques(s) and inputs used to measure fair values is required for both recurring and nonrecurring fair value measurements. Also, if a valuation technique has changed, entities should disclose that change and the reason for the change. Disclosures other than the gross presentation changes in the Level 3 reconciliation are effective for the first reporting period beginning after December 15, 2009. The requirement to present the Level 3 activity of purchases, sales, issuances, and settlements on a gross basis became effective for fiscal years beginning after December 15, 2010. The implementation of this ASU did not have a material impact 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):

	June 30 2011	December 31 2010	June 30 2010
Interest-bearing deposits included in cash and due from banks	$ 168,198	$ 321,896	$ 369,864
U.S. Government and agency obligations	216,761	139,807	108,672
Municipal bonds:			
Taxable	14,486	7,123	3,221
Tax exempt	83,315	75,509	69,051
Total municipal bonds	97,801	82,632	72,272
Corporate bonds	59,788	58,495	43,710
Mortgage-backed or related securities:			
GNMA	21,818	23,732	16,844
FHLMC	25,941	26,952	37,087
FNMA	27,362	32,341	36,691
Private issuer	3,108	3,544	3,949
Total mortgage-backed or related securities	78,229	86,569	94,571
Equity securities (excludes FHLB stock)	646	190	130
Total securities	453,225	367,693	319,355
FHLB stock	37,371	37,371	37,371
	$ 658,794	$ 726,960	$ 726,590

Securities—Trading: The amortized cost and estimated fair value of securities—trading at June 30, 2011 and December 31, 2010 are summarized as follows (dollars in thousands):

	June 30, 2011			December 31, 2010		
	Amortized Cost	Fair Value	Percent of Total	Amortized Cost	Fair Value	Percent of Total
U.S. Government and agency obligations	$ 4,163	$ 4,321	4.9%	$ 4,167	$ 4,379	4.6 %
Municipal bonds:						
Taxable	632	661	0.7	682	693	0.7
Tax exempt	5,426	5,695	6.4	5,422	5,705	6.0
Total municipal bonds	6,058	6,356	7.1	6,104	6,398	6.7
Corporate bonds	63,530	35,834	40.1	63,581	34,724	36.4
Mortgage-backed or related securities:						
FHLMC	13,023	13,796	15.4	16,554	17,347	18.2
FNMA	26,769	28,421	31.8	30,749	32,341	33.9
Total mortgage-backed or related securities	39,792	42,217	47.2	47,303	49,688	52.1
Equity securities	6,915	646	0.7	6,915	190	0.2
	$ 120,458	$ 89,374	100.0%	$ 128,070	$ 95,379	100.0 %

There were no sales of securities—trading during the six months ended June 30, 2011 or 2010. The Company did not recognize an OTTI charge on securities—trading during the six months ended June 30, 2011. However, for the six months ended June 30, 2010, we recognized a $1.2 million OTTI charge on a corporate bond that is a single-issue trust preferred security. At June 30, 2011, there was one single-issuer trust preferred security in our trading portfolio on nonaccrual status with an amortized cost of $4.3 million and an estimated fair value of $1.4 million. This same security was on nonaccrual status as of December 31, 2010.

The amortized cost and estimated fair value of securities—trading at June 30, 2011 and December 31, 2010, 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.

	June 30, 2011		December 31, 2010	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 2,761	$ 2,810	$ 1,762	$ 1,816
Due after one year through five years	1,546	1,623	2,549	2,668
Due after five years through ten years	19,065	20,084	20,442	21,328
Due after ten years through twenty years	14,436	15,077	16,234	16,840

Due after twenty years		75,735		49,134		80,168		52,537
		113,543		88,728		121,155		95,189
Equity securities		6,915		646		6,915		190
	$	120,458	$	89,374	$	128,070	$	95,379

Securities—Available-for-Sale: The amortized cost and estimated fair value of securities—available-for-sale at June 30, 2011 and December 31, 2010 are summarized as follows (dollars in thousands):

June 30, 2011	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Total
U.S. Government and agency obligations	$ 211,914	$ 629	$ (103)	$ 212,440	74.0%
Municipal bonds:					
Taxable	6,802	100	--	6,902	2.4
Tax exempt	9,176	63	(41)	9,198	3.2
Total municipal bonds	15,978	163	(41)	16,100	5.6
Corporate bonds	22,704	10	(11)	22,703	7.9
Mortgage-backed or related securities:					
FHLMC	6,768	244	--	7,012	2.4
FNMA	4,067	32	(25)	4,074	1.4
GNMA	20,430	1,388	--	21,818	7.6
Private issuer	2,937	171	--	3,108	1.1
Total mortgage-backed or related securities	34,202	1,835	(25)	36,012	12.5
	$ 284,798	$ 2,637	$ (180)	$ 287,255	100.0%

December 31, 2010	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Total
U.S. Government and agency obligations	$ 135,770	$ 323	$ (665)	$ 135,428	67.6%
Municipal bonds:					
Taxable	800	--	(25)	775	0.4
Tax exempt	4,723	--	(102)	4,621	2.3
Total municipal bonds	5,523	--	(127)	5,396	2.7
Corporate bonds	22,536	--	(14)	22,522	11.2
Mortgage-backed or related securities:					
FHLMC	9,314	291	--	9,605	4.8
GNMA	22,597	1,167	(32)	23,732	11.9

Private issuer		3,318		226		--		3,544	1.8
Total mortgage-backed or related securities		35,229		1,684		(32)		36,881	18.5
	$	199,058	$	2,007	$	(838)	$	200,227	100.0%

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At June 30, 2011 and December 31, 2010, an aging of unrealized losses and fair value of related securities—available-for-sale was as follows (in thousands):

	June 30, 2011					
	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	$25,697	$(103)	$--	$--	$25,697	$(103)
Municipal bonds:						
Taxable	455	--	--	--	455	--
Tax exempt	2,817	(41)	--	--	2,817	(41)
Total municipal bonds	3,272	(41)	--	--	3,272	(41)
Corporate bonds	5,263	(11)	--	--	5,263	(11)
Mortgage-backed or related securities	3,029	(25)	--	--	3,029	(25)
	$37,261	$(180)	$--	$--	$37,261	$(180)

	December 31, 2010					
	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	$70,426	$(665)	$--	$--	$70,426	$(665)
Municipal bonds:						
Taxable	775	(25)	--	--	775	(25)
Tax exempt	4,621	(102)	--	--	4,621	(102)
Total municipal bonds	5,396	(127)	--	--	5,396	(127)
Corporate bonds	17,604	(14)	--	--	17,604	(14)
Mortgage-backed or related securities	2,488	(32)	--	--	2,488	(32)
	$95,914	$(838)	$--	$--	$95,914	$(838)

There were no sales of securities—available-for-sale during the six months ended June 30, 2011 as compared to the sale of one security during the six months ended June 30, 2010 for $2.0 million. There were no OTTI charges on securities—available-for-sale for the six months ended June 30, 2011 and 2010. At June 30, 2011, there were 13 securities—available-for-sale with unrealized losses, compared to 24 at December 31, 2010. Management does not believe that any individual unrealized loss as of June 30, 2011 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—available-for-sale at June 30, 2011 and December 31, 2010, 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.

	June 30, 2011		December 31, 2010	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 42,603	$ 42,630	$ 55,135	$ 55,132
Due after one year through five years	171,604	172,148	107,356	106,916
Due after five years through ten years	40,456	40,539	1,338	1,298
Due after ten years through twenty years	2,937	3,108	3,318	3,544
Due after twenty years	27,198	28,830	31,911	33,337
	$ 284,798	$ 287,255	$ 199,058	$ 200,227

Securities—Held-to-Maturity: The amortized cost and estimated fair value of securities—held-to-maturity at June 30, 2011 and December 31, 2010 are summarized as follows (dollars in thousands):

	June 30, 2011				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Total
Municipal bonds:					
Taxable	$ 6,924	$ 216	$ --	$ 7,140	9.0%
Tax exempt	68,422	2,389	(64)	70,747	89.4
Total municipal bonds	75,346	2,605	(64)	77,887	98.4
Corporate bonds	1,250	--	(8)	1,242	1.6
	$ 76,596	$ 2,605	$ (72)	$ 79,129	100.0%

	December 31, 2010				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Total
Municipal bonds:					
Taxable	$ 5,654	$ 68	$ (71)	$ 5,651	7.6%
Tax exempt	65,183	1,952	(106)	67,029	90.7
Total municipal bonds	70,837	2,020	(177)	72,680	98.3
Corporate bonds	1,250	8	(22)	1,236	1.7
	$ 72,087	$ 2,028	$ (199)	$ 73,916	100.0%

At June 30, 2011 and December 31, 2010, an age analysis of unrealized losses and fair value of related securities—held-to-maturity was as follows (in thousands):

	June 30, 2011					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Municipal bonds:						
Taxable	$ --	$ --	$ --	$ --	$ --	$ --
Tax exempt	3,629	(31)	1,828	(33)	5,457	(64)
Total municipal bonds	3,629	(31)	1,828	(33)	5,457	(64)
Corporate bonds	--	--	492	(8)	492	(8)
	$ 3,629	$ (31)	$ 2,320	$ (41)	$ 5,949	$ (72)

	December 31, 2010					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses

Municipal bonds:												
Taxable	$	3,443	$	(71)	$	--	$	--	$	3,443	$	(71)
Tax exempt		13,301		(106)		--		--		13,301		(106)
Total municipal bonds		16,744		(177)		--		--		16,744		(177)
Corporate bonds		--		--		478		(22)		478		(22)
	$	16,744	$	(177)	$	478	$	(22)	$	17,222	$	(199)

There were no sales of securities—held-to-maturity during the six months ended June 30, 2011 or 2010. The Company did not recognize any OTTI charge on securities—held-to-maturity during the six months ended June 30, 2011 or 2010. As of June 30, 2011, there were two held-to-maturity non-rated corporate bonds issued by a housing authority on nonaccrual status each with an amortized cost of $250,000 and estimated fair value of $246,000. Management expects to collect all amounts due for these securities. There were six securities—held-to-maturity with unrealized losses at June 30, 2011, compared to 13 at December 31, 2010. Management does not believe that any individual unrealized loss as of June 30, 2011 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 June 30, 2011 and December 31, 2010, 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.

	June 30, 2011		December 31, 2010	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 3,200	$ 3,256	$ 2,297	$ 2,342
Due after one year through five years	11,834	12,358	10,634	11,145
Due after five years through ten years	11,697	12,188	15,143	15,368
Due after ten years through twenty years	47,775	49,140	41,832	42,765
Due after twenty years	2,090	2,187	2,181	2,296
	$ 76,596	$ 79,129	$ 72,087	$ 73,916

The following table presents, as of June 30, 2011, 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	$ 111,476	$ 114,956
Interest rate swap counterparties	5,363	5,481
Retail repurchase transaction accounts	120,173	123,828
Other	4,250	4,446
Total pledged securities	$ 241,262	$ 248,711

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, we are required to maintain a minimum level of investment in FHLB stock based on specific percentages of its outstanding FHLB advances. For the three and six months ended June 30, 2011 and 2010, we did not receive any dividend income on FHLB stock. The Seattle FHLB announced that it had a risk-based capital deficiency as of December 31, 2008 under the regulations of the Federal Housing Finance Agency (the FHFA), its primary regulator, and that it would suspend future dividends and the repurchase and redemption of outstanding common stock. At June 30, 2011, the Company had recorded $37.4 million in FHLB stock, unchanged from December 31, 2010. 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 has communicated that it believes the calculation of risk-based capital under the current rules of the FHFA significantly overstates the market risk of the FHLB's private-label mortgage-backed securities in the current market environment and that it has enough capital to cover the risks reflected in its balance sheet. The Company has reviewed the financial statements of the FHLB and has concurred with its conclusion. Accordingly, the Company has not recorded an impairment on its investment in FHLB stock. However, further deterioration in the FHLB's financial position may result in impairment in the value of those securities. The Company will continue to monitor the financial condition of the FHLB as it relates to, among other things, the recoverability of its investment.

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 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.

Some of the Company’s loans are reported as troubled debt restructurings (TDRs). Loans are reported as restructured 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. 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.

Loans receivable, including loans held for sale, at June 30, 2011, December 31, 2010 and June 30, 2010 are summarized as follows (dollars in thousands):

	June 30, 2011		December 31, 2010		June 30, 2010	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Commercial real estate						
Owner-occupied	$ 507,751	15.3%	$ 515,093	15.1%	$ 503,796	13.9%
Investment properties	582,569	17.6	550,610	16.2	553,689	15.3
Multifamily real estate	147,951	4.5	134,634	4.0	149,980	4.1
Commercial construction	35,790	1.1	62,707	1.8	84,379	2.3
Multifamily construction	20,552	0.6	27,394	0.8	56,573	1.6
One- to four-family construction	140,669	4.4	153,383	4.5	182,928	5.0
Land and land development						
Residential	128,920	3.9	167,764	4.9	228,156	6.3
Commercial	29,347	0.9	32,386	1.0	29,410	0.8
Commercial business	566,243	17.1	585,457	17.2	635,130	17.5
Agricultural business, including secured by farmland	208,485	6.3	204,968	6.0	208,815	5.8
One- to four-family real estate	658,216	19.9	682,924			