

STERLING FINANCIAL CORP /WA/  
Form 10-Q  
August 07, 2013  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended JUNE 30, 2013

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number.....001-34696

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

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Washington 91-1572822  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)  
111 North Wall Street, Spokane, Washington 99201  
(Address of principal executive offices) (Zip Code)  
(509) 358-8097  
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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  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

Non-accelerated filer  (Do not check if a smaller reporting company) 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

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

Class	Outstanding as of July 31, 2013
Common Stock	62,314,862



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STERLING FINANCIAL CORPORATION  
CONSOLIDATED BALANCE SHEETS (UNAUDITED)  
(in thousands, except shares)

	June 30, 2013	December 31, 2012
<b>ASSETS:</b>		
Cash and cash equivalents:		
Interest bearing	\$221,192	\$173,962
Noninterest bearing	87,870	125,916
Total cash and cash equivalents	309,062	299,878
Restricted cash	16,648	31,672
Investments and mortgage-backed securities ("MBS"):		
Available for sale	1,538,880	1,513,157
Held to maturity	185	206
Loans held for sale, at fair value	307,511	465,983
Loans receivable, net (\$36,338 and \$23,177 at fair value)	6,868,866	6,101,749
Accrued interest receivable	31,013	28,019
Other real estate owned, net ("OREO")	26,511	25,042
Properties and equipment, net	98,483	93,850
Bank-owned life insurance ("BOLI")	188,178	179,828
Goodwill	36,633	22,577
Other intangible assets, net	17,830	19,072
Mortgage servicing rights, net	52,430	32,420
Deferred tax asset, net	290,377	292,082
Other assets, net	156,966	131,375
Total assets	\$9,939,573	\$9,236,910
<b>LIABILITIES:</b>		
Deposits:		
Noninterest bearing	\$1,702,022	\$1,702,740
Interest bearing	4,926,437	4,733,377
Total deposits	6,628,459	6,436,117
Advances from Federal Home Loan Bank ("FHLB")	1,197,857	605,330
Securities sold under repurchase agreements	527,925	586,867
Junior subordinated debentures	245,297	245,294
Accrued interest payable	4,084	4,229
Accrued expenses and other liabilities	129,615	141,150
Total liabilities	8,733,237	8,018,987
<b>SHAREHOLDERS' EQUITY:</b>		
Preferred stock, 10,000,000 shares authorized; no shares outstanding	0	0
Common stock, 151,515,151 shares authorized; 62,297,712 and 62,207,529 shares outstanding, respectively	1,970,229	1,968,025
Accumulated other comprehensive income	30,751	60,712
Accumulated deficit	(794,644)	(810,814)
Total shareholders' equity	1,206,336	1,217,923
Total liabilities and shareholders' equity	\$9,939,573	\$9,236,910

See notes to consolidated financial statements.



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STERLING FINANCIAL CORPORATION  
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)  
(in thousands, except share amounts)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Interest income:				
Loans	\$84,436	\$85,537	\$165,623	\$165,378
MBS	7,333	12,936	14,630	28,271
Investments and cash equivalents	2,248	2,517	4,521	5,306
Total interest income	94,017	100,990	184,774	198,955
Interest expense:				
Deposits	6,038	9,921	12,345	21,023
Short-term borrowings	288	1,825	734	4,031
Long-term borrowings	7,277	10,334	14,387	20,638
Total interest expense	13,603	22,080	27,466	45,692
Net interest income	80,414	78,910	157,308	153,263
Provision for credit losses	0	4,000	0	8,000
Net interest income after provision for credit losses	80,414	74,910	157,308	145,263
Noninterest income:				
Fees and service charges	15,618	14,131	29,748	26,871
Mortgage banking operations	23,180	24,181	36,974	42,725
BOLI	1,424	3,769	2,981	5,515
Gains on sales of securities	0	9,321	0	9,463
Other-than-temporary impairment credit losses on securities (1)	0	(6,819)	) 0	(6,819)
Charge on prepayment of debt	0	(2,664)	) 0	(2,664)
Gains on other loan sales	1,194	2,811	1,219	3,411
Other	587	11	8,647	(2,174)
Total noninterest income	42,003	44,741	79,569	76,328
Noninterest expense	81,678	87,607	163,607	176,256
Income before income taxes	40,739	32,044	73,270	45,335
Income tax (provision) benefit	(12,978)	) 288,842	(22,831)	) 288,842
Net income	\$27,761	\$320,886	\$50,439	\$334,177
Earnings per share - basic	\$0.45	\$5.17	\$0.81	\$5.38
Earnings per share - diluted	\$0.44	\$5.13	\$0.80	\$5.33
Dividends declared per share	\$0.55	\$0.00	\$0.55	\$0.00
Weighted average shares outstanding - basic	62,289,437	62,112,936	62,265,941	62,095,670
Weighted average shares outstanding - diluted	63,107,913	62,610,054	63,076,481	62,648,152

(1) The other-than-temporary impairment (1) recognized in earnings during the second quarter of 2012 did not have a portion recognized in accumulated other comprehensive income. See Note 3.

See notes to consolidated financial statements.

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STERLING FINANCIAL CORPORATION  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)  
 (in thousands)

	Three Months Ended June 30,	
	2013	2012
Net income	\$27,761	\$320,886
Beginning balance, accumulated other comprehensive income	\$56,076	\$65,571
Other comprehensive (loss) income:		
Change in unrealized gains on investments and MBS available for sale	(40,198 )	7,714
Realized net gains reclassified from other comprehensive income	0	(2,502 )
Less deferred income tax benefit (provision)	14,873	(3,681 )
Net other comprehensive (loss) income	(25,325 )	1,531
Ending balance, accumulated other comprehensive income	\$30,751	\$67,102
Comprehensive income	\$2,436	\$322,417
	Six Months Ended June 30,	
	2013	2012
Net income	\$50,439	\$334,177
Beginning balance, accumulated other comprehensive income	\$60,712	\$61,115
Other comprehensive (loss) income:		
Change in unrealized gains on investments and MBS available for sale	(47,557 )	12,312
Realized net gains reclassified from other comprehensive income	0	(2,644 )
Less deferred income tax benefit (provision)	17,596	(3,681 )
Net other comprehensive (loss) income	(29,961 )	5,987
Ending balance, accumulated other comprehensive income	\$30,751	\$67,102
Comprehensive income	\$20,478	\$340,164

For the periods presented, accumulated other comprehensive income was comprised solely of unrealized market value adjustments on available for sale securities. The realized portion reclassified out of other comprehensive income is reflected on the income statement in gains on sales of securities and other-than-temporary impairment.

See notes to consolidated financial statements.

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STERLING FINANCIAL CORPORATION  
 CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)  
 (in thousands)

	Six Months Ended June 30,	
	2013	2012
Cash flows from operating activities:		
Net income	\$50,439	\$334,177
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	0	8,000
Net gain on sales of loans	(30,621	) (42,969
Net gain on sales of investments and MBS	0	(9,463
Net gain on mortgage servicing rights	(5,614	)