BANNER CORP
Form FWP
December 07, 2009
Filed Pursuant to Rule 433

Issuer Free Writing Prospectus dated December 7, 2009

Relating to Preliminary Prospectus Supplement dated December 7, 2009

Registration No. 333-139520

Common Equity Offering
December 2009
Better ideas. Better banking.

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Disclosure Statement

The Company proposes to issue the common shares pursuant to a prospectus supplement that will be filed as part of an existing the Securities and Exchange Commission on Form S-3. The offering may be made only by means of a prospectus and related p read the prospectus in that registration statement, the preliminary prospectus supplement and the other documents incorporated with the SEC for more complete information about the Company and the offering. Investors may obtain these documents witho at www.sec.gov. Alternatively, copies of the preliminary prospectus supplement and the prospectus relating to the offering ma 919 Third Avenue, 6th Floor, New York, NY 10022, 1-866-805-4128 and D.A. Davidson & Co., 8 Third Street North, Great F can also be obtained for free from the website at www.sandleroneill.com/prospectus/BANR-Prospectus.pdf.

The Private Securities Litigation Report Act of 1995 provides a "safe harbor" for certain forward-looking statements. This pre respect to the Corporation's financial condition, results of operations, plans, objectives, future performance or business. These risks and uncertainties, including those identified below, which could cause future results to differ materially from historical re The words "believe," "expect," "anticipate," "intend," "estimate," "goals, "would," "could," "should" and other expressions w forward-looking statements. We caution readers not to place undue reliance on these forward-looking statements, which is bas speak only as of their dates, and if no date is provided, then such statements speak only as of today. There are a number of imp differ materially from historical results or those anticipated, including, but not limited to: the credit risks of lending activities, i delinquencies and write-offs and changes in our allowance for loan losses and provision for loan losses that may be impacted b estate markets; changes in general economic conditions, either nationally or in our market areas; changes in the levels of gener short and long term interest rates, deposit interest rates, our net interest margin and funding sources; fluctuations in the demanc other properties and fluctuations in real estate values in our market areas; secondary market conditions for loans and our ability examinations of us by the Board of Governors of the Federal Reserve System (the Federal Reserve Board) and of our bank s Corporation (the FDIC), the Washington State Department of Financial Institutions, Division of Banks (the Washington D possibility that any such regulatory authority may, among other things, institute a formal or informal enforcement action agains increase our reserve for loan losses, write-down assets, change our regulatory capital position or affect our ability to borrow fu adversely affect our liquidity and earnings; legislative or regulatory changes that adversely affect our business including chang interpretation of regulatory capital or other rules; our ability to attract and retain deposits; further increases in premiums for de and expenses; the use of estimates in determining fair value of certain of our assets, which estimates may prove to be incorrect staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our workforce and breach of computer systems on which we depend; our ability to retain key members of our senior management team; costs and judgments; our ability to implement our growth strategy; our ability to successfully integrate into our operations any assets, lia personnel we have acquired or may in the future acquire and our ability to realize related revenue synergies and cost savings w related thereto; increased competitive pressures among financial services companies; changes in consumer spending, borrowin address changes in laws, rules, or regulations or to respond to regulatory actions; our ability to pay dividends on our common a payments on our junior subordinated debentures; adverse changes in the securities markets; inability of key third-party provide accounting policies and practices, as may be adopted by the financial institution regulatory agencies or the Financial Accounti and interpretation on accounting issues and details of the implementation of new accounting methods; other economic, compet factors affecting our operations, pricing, products and services and the other risks described elsewhere in the preliminary prosp the documents incorporated therein by reference; and future legislative changes in the United States Department of Treasury ((TARP) Capital Purchase Program.

The Corporation does not undertake any obligation to update any forward-looking statement to reflect circumstances or events looking statement is made.

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Use of Non-GAAP Financial Measures

Tangible equity, tangible common equity and tangible common equity to tangible assets are non-GAAP financial measures. We calculate tangible equity by excluding the balance of goodwill and other intangible
assets
from
shareholders
equity.
We
calculate
tangible
common

equity by excluding preferred equity from tangible equity. We calculate tangible assets by excluding the balance of goodwill and other intangible assets from total assets. We believe that this is consistent with the treatment by our bank regulatory agencies, which exclude goodwill and other intangible assets from the calculation of risk-based capital ratios. Accordingly, management believes that these non-GAAP financial measures provide information to investors that is useful in understanding the basis of our risk-based capital ratios. In addition, by excluding preferred equity (the level of which may vary from company to company), it allows investors to more easily compare our capital adequacy to other companies in the industry who also use this measure. We calculate normalized pre-tax, pre-provision earnings by adding provision for loan losses to income before income taxes. Management believes normalized pre-tax, pre-provision earnings is useful in assessing the Company's core performance and trends, particularly during times of economic stress.

These non-GAAP financial measures are supplemental and are not a substitute for any analysis based on GAAP financial measures. Because not all companies use the same calculations of tangible common equity, tangible assets and normalized pre-tax, pre-provision earnings, these presentations may not be comparable to other similarly titled measures as calculated by other companies. Reconciliations of the non-GAAP financial measures are provided on page 22 and in Appendix A of this presentation.

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Transaction Overview
Issuer:
Banner Corporation
Ticker / Exchange:
BANR / NASDAQ GSM
Type of Offering:
Follow-on Public Offering
Type of Security:
Common Stock
Transaction Size:
$75 million
Over-Allotment Option:

15%
Use of Proceeds:
Provide capital to Banner Bank to support growth and for general working capital purposes
Book-Running Manager:
Sandler O'Neill + Partners, L.P.
Co-Manager:
D.A. Davidson & Co.

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Presenting Today
D. Michael
Jones,
President
and
Chief
Executive
Officer

Mr. Jones joined Banner Corporation in 2002 as President and Chief Executive Officer. Mr. Jones is a Certified Public Accountant (Inactive) and served as President and Chief Executive Officer from 1996 to 2001 for Source Capital Corporation, a lending company in Spokane, Washington. From 1987 to 1995, Mr. Jones served as President of West One Bancorp, a large regional banking franchise based in Boise, Idaho.

He is also a director of Banner Corporation and Banner Bank.

Lloyd W. Baker, Executive Vice President & Chief Financial Officer

Mr. Baker joined Banner Bank as Asset Liability Manager in 1995. He was promoted to Senior Vice President and made a member of the Executive Committee in 1998 and was named to his current position in August of 2000. Prior to joining Banner, he served in several asset liability and portfolio management positions with Far West Federal Bank in Portland, Oregon, and Fidelity Mutual Savings Bank in Spokane, Washington. He also

served
as
Chief
Financial
Officer
of
Western
Heritage
Federal
Savings
&
Loan
in
Pendleton, Oregon, and Community Savings & Loan Association in Wenatchee, Washington.
Richard
B.
Barton,
Executive
Vice
President
&
Chief
Lending/Credit
Officer
Mr. Barton joined Banner Bank in 2002 as Chief Credit Officer and was named to his current position in 2008. Previously, Mr. Barton worked in a variety of commercial lending and credit risk management capacities
for
Seafirst
Bank/Bank
of
America
for
30
years,
beginning
in
1972.
Key
jobs
included
commercial lending, commercial credit administration, special credits collection work, including six years involving the Seafirst Penn Square/Energy loan portfolio, commercial/residential real estate credit administration for the Pacific Northwest, and homebuilder real estate credit administration for the West Coast.

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Offering Objectives

Strengthens our capital position

Pro forma TCE/TA of 7.2%[1]

Pro forma Tier 1 leverage ratio of 11.0%[1]

Pro forma Total risk based capital ratio of 14.3%[1]

Allows for continued execution of our problem loan resolution process

Better positions us to capture business opportunities resulting from market dislocation

[1] Based on September 30, 2009 ratios; assumes gross proceeds of $75mm, 5.75% underwriting discount and $300,000 in other e

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Investment Summary

Strategically-located Pacific Northwest branch network

Solid and growing deposit base

Loan portfolio with diversification in geographic and loan type

Diversified economic drivers across markets

Thorough and conservative approach to credit risk management has led to flattening credit quality trends

Management team with extensive operating and credit cycle experience in Pacific Northwest markets

Solid core operating results

Attractive current valuation

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Company Overview

Founded in 1890

89 branches and 8 loan production offices focused on complementary mix of urban and middle markets:

Seattle

Spokane

Portland

Boise

Columbia Basin

Focused on serving small-to-midsize businesses and individuals

Financial Highlights:
Total Assets:
$4.8 billion
Total Loans:
$3.9 billion
Total Deposits:
$3.9 billion
Total Shareholders Equity[1]:
$407 million
Note: Financial data as of September 30, 2009

[1] Includes $124 million of preferred stock and warrants issued to the U.S. Treasury under the Capital Purchase Program (TARP)

Branch
Loan Center
Islanders Bank
Seattle
Portland
Boise
Spokane

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Loan Portfolio Composition
Geographic Breakdown
Loan Category Breakdown
Diversified lending by both collateral type and geography
Minimal out-of-market lending
Banner s strategic plan is aimed at changing the loan category mix by increasing commercial and consumer lending activity
$677
$226
$303
$153
$369

$678
$482
$585
$424
$0
$100
$200
$300
$400
$500
$600
$700
$800
Portland
$651
17%
Columbia Basin
$1,018
26%
Other
$43
1%
Puget Sound
$1,421
37%
Spokane
$513
13%
Boise
$251
6%
Note: Data as of September 30, 2009; dollars in millions

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Loan and Credit Quality Comparison
Proactive credit management and problem recognition
Commercial real estate portfolios are being proactively managed including loan by loan stress testing to identify potential problem assets
90% of past due loans are on nonaccrual
Credit issues remain concentrated in 1-4 family residential construction and land portfolios
68% ($4.2 million) of losses in the 1-4 family real estate category were mark-to-market charges for loans
made
in
conjunction
with

the
Great
Northwest
Home
Rush
program
that
focused
on
facilitating the sale of completed homes financed for builders
Credit losses in agriculture were related to a particular issue with a single borrower
(Dollars in Thousands)
Balances
Classified
NPL
YTD NCOs
Past Due
Loan Category
($)
(%)
($)
(%)
($)
(%)
($)
(%)
($)
(%)
CRE: Owner occupied
$481,698
12.4
$22,334
4.6
$3,069
0.6
-

0.0
$4,467
0.9
CRE: Investment properties
585,206

15.0
18,211

3.1
4,248

0.7

-

0.0
7,143

1.2
Multifamily real estate
152,832

3.9
263

0.2
-

0.0
-

0.0
452

0.3
Commercial construction
83,937

2.2
1,840

2.2
-

0.0
113

0.1
1,565

1.9
Multifamily construction
62,614

1.6
-

0.0
-

0.0
-

0.0
-

0.0
1-4 family construction
277,419

7.1
104,692

37.7
68,565

24.7
16,007

5.8
70,501

25.4
Residential land and development
322,030

8.3
166,512

51.7
109,668

34.1
34,165

10.6
95,799

29.7
Commercial land and development
47,182

1.2
20,793

44.1
17,138

36.3
2,212

4.7
17,138

36.3
Commercial business
678,187

17.4
55,205

8.1
15,070

2.2
8,946

1.3
18,404

2.7
Agricultural business, including secured by farmland
225,603

5.8
15,403

6.8
6,624

2.9
3,159

1.4
8,460

3.7
One- to four-family real estate
676,928

17.4
30,257

4.5
18,797

2.8
6,182

0.9
20,370

3.0

Consumer
302,558

7.8
390

0.1
110

0.0
1,230

0.4
980

0.3
Total
$3,896,194
100.0
$435,900
11.2
$243,289
6.2
$72,014
1.8
$245,279
6.3
Note: Data as of September 30, 2009; Percentages in table are expressed as a percentage of the total loan portfolio balances.

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Loan Portfolio: Construction
Commercial
and
Multifamily
Const.
-
$147mm
Residential
Construction
-
$277mm
The commercial construction portfolio is less than 4% of the total loan portfolio and has no non-

performing loans
There are no past due, classified or non-performing multifamily construction loans
The
residential
construction
portfolio
is
largely
in
the
Seattle
and
Portland
markets
with
significant
borrower and submarket diversification
Residential construction balances declined 58% from their peak at June 30, 2007
The residential construction portfolio represents approximately 28% of total non-performing loans
as of September 30, 2009
Idaho
$15
5%
Washington
$133
48%
Oregon
$130
47%
Note: Data as of September 30, 2009; dollars in millions
$31
$13
$6
$7
$63
$23
$4
$0
$10
$20
$30
$40
$50
$60
$70

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Loan Portfolio: Land and Land Development
Breakdown by Type
Geographic Breakdown
Idaho
$46
12%
Washington
$180
49%
Oregon
$143
39%

Note: Data as of September 30, 2009; dollars in millions
Total land and land development portfolio of $369 million at September 30, 2009
Land
and
land
development
balances
have
decreased
over
23%
since
September
30,
2008
Concentration has fallen from 12% to 10% of total loans
As of September 30, 2009, non-performing loans in this segment were $127 million
(approximately 52% of
total non-performing loans)
$51
$21
$17
$182
$89
$9
$0
$20
$40
$60
$80
$100
$120
$140
$160
$180
$200

13
Loan
Portfolio:
CRE

Owner
Occupied
Breakdown by Type
Geographic Breakdown
Idaho
$42
9%
Washington

$380
79%
Oregon
$60
12%
Note: Data as of September 30, 2009; dollars in millions
Total CRE-owner occupied portfolio of $482 million at September 30, 2009
Average portfolio loan size of $536 thousand
As of September 30, 2009, non-performing loans in this segment were $3 million, or approximately 1% of total non-performing loans
Delinquency rate of 0.9% as of September 30, 2009
$45
$124
$38
$92
$82
$84
$17
$0
$20
$40
$60
$80
$100
$120
$140

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Loan
Portfolio:
CRE

Income
Property
and
Multifamily
Loans
Breakdown by Type
Geographic Breakdown
Note: Data as of September 30, 2009; dollars in millions

Total CRE income property and multifamily portfolio of $738 million at September 30, 2009
Average portfolio loan size of $682 thousand
At
September
30,
2009,
non-performing
loans
were
$4.2
million,
or
approximately
2%
of
total
non-
performing loans
Delinquency rate of 1.0% as of September 30, 2009
$81
$45
$127
$53
$43
$153
$181
$55
$0
$20
$40
$60
$80
$100
$120
$140
$160
$180
$200
Idaho
$52
7%
Washington
$566
77%
Oregon
$105
14%
Other
$14
2%

15
Credit Philosophy Is Yielding Results
Banner s goal is to identify and resolve problems early instead of waiting for problems to mature before taking action
No single template that fits all problem credits
The
actions
below
are
a
representative
cross
sample

of
Banner s
credit
risk
management
in
action
Actions:
Results:
1)
Great
NW
Home
Rush
program
to
assist
builders in
selling completed homes. Banner provided special financing, advertizing and required builder and realtor participation
2)
Stress testing of CRE portfolio loan by loan
3)
Asset Disposition Committee formed to consider alternatives for RE loans and OREO
4)
On site C&I/Agriculture portfolio review by executive management/senior credit staff
5)
Annual loan by loan risk rating certification
6)
Special issue research to determine portfolio impact (example: project to determine credits vulnerable to spiked energy costs)
7)
Rolling four quarter forecast of portfolio metrics
8)
Adequate staffing for credit risk management
1)
Since
March
2009,
375
of
612
homes
sold,
reducing
loan totals by over $120 million

2) Identified credits to watch while CRE credit still performing

3) With involvement of RE industry members, higher recoveries anticipated

4) Identify emerging credit issues, portfolio management weaknesses and training needs

5) Ensure accuracy of portfolio risk ratings

6) Identification of hot spots in the portfolio and changes needed in new loan underwriting

7) Assess trends in portfolio quality and ALLL adequacy

8) In the past 12 months staff adds have been made in Special Assets, Credit Examination, and Credit Administration

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Charge-offs and Reserves
Charge offs have been concentrated in the residential construction and land portfolio with the majority of the losses coming from the land portion of the portfolio
90%
of
non-performing
loans
have
had
detailed
individual
SFAS

114
specific
impairment
analysis
at September 30, 2009
Non performing loans have been reduced by $38 million of charge-offs and have an additional $17 million of specific reserves
Renegotiated loans were underwritten using current property valuations
$9.0 million (9.4% of total allowance) of unallocated reserves
(Dollars in Thousands)
Gross
NPAs /
Renegotiated
Quarterly
Loan Loss
Reserves /
Quarter
Loans
NPLs
OREO
Other[1]
NPAs
Assets
Loans
NCOs
Reserves
Loans
2008Q1
3,839,993
54,435
7,572
7
62,014
1.36%
2,026
1,881
50,446
1.31%
2008Q2
3,973,299
89,918
11,390
7
101,315
2.19%
7,771
6,876
58,570
1.47%
2008Q3

3,999,179
119,366
10,147
6
129,519
2.79%
15,514
7,724
58,846
1.47%
2008Q4
3,961,408
187,345
21,782
104
209,231
4.56%
23,635
16,649
75,197
1.90%
2009Q1
3,915,547
224,097
38,951
318
263,366
5.84%
27,550
17,473
79,724
2.04%
2009Q2
3,913,081
225,069
56,967
230
282,266
6.23%
55,031
34,030
90,694
2.32%
2009Q3
3,896,194
243,288
53,576
1,425
298,289
6.23%

55,161
20,511
95,183
2.44%

[1] Represents securities on nonaccrual at fair value and other repossessed assets held for sale, net

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Illustrative SCAP Analysis
[1]
Loss rates based on midpoints of rate ranges in Table 1 of FRB's May 7, 2009 SCAP results
Balance as of 12/31/08
Loss Severity
[1]
(%)
Total Loss ($000s)
Loan Type
($000s)
(%)
Baseline

More Adverse
Baseline
More Adverse
First Lien Mortgages
$612,692
15.5%
2.00%
3.50%
$12,254
$21,444
Closed-end Junior Lien Mortgages
50,669
1.3%
19.00%
23.50%
9,627
11,907
HELOCs
153,327
3.9%
7.00%
9.50%
10,733
14,566
C&I
623,455
15.7%
3.50%
6.50%
21,821
40,525
Agriculture Product
148,290
3.7%
3.50%
6.50%
5,190
9,639
Farm Real Estate
55,764
1.4%
6.25%
10.50%
3,485
5,855
Construction & Development
1,047,055
26.4%
10.00%
16.50%

104,706
172,764
Multi-Family
151,815
3.8%
5.00%
10.50%
7,591
15,941
CRE (Non-Farm, Non-Resi)
1,015,717
25.6%
4.50%
8.00%
45,707
81,257
Credit Cards
22,605
0.6%
14.50%
19.00%
3,278
4,295
Consumer
68,752
1.7%
5.00%
10.00%
3,438
6,875
Other Loans
18,372
0.5%
3.00%
7.00%
551
1,286
Loan
Portfolio
-
12/31/08
$3,961,408
5.59%
9.57%
$221,275
$379,249
Roll Forward to 9/30/09
Net Charge-offs Q1 2009
17,473
17,473

Net Charge-offs Q2 2009
34,030
34,030
Net Charge-offs Q3 2009
20,511
20,511
September 30, 2009 Exposure
$149,261
$307,235

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Pro Forma Capital Position

1

Assumes gross proceeds of $75mm with underwriters' discount of 5.75% and expenses of $300,000

2

Assumes proceeds risk-weighted at 20%

3

Assumes quarterly intangible amortization of $647 thousand, quarterly pre-tax, pre-provision earnings of $10 million and $4.5
issued quarterly as part of the DRIP program; earnings will be applied to assets, and capital raised will be applied to liabilities

As of September 30, 2009

Projected September 30, 2011[3]

Actual

Pro Forma[1]

Baseline[1]
More Adverse[1]
SCAP Projected Loan Losses (Less YTD 2009 NCO's)
--
--
$149,261
$307,235
Common Equity / Assets
6.05%
7.41%
7.75%
4.65%
Equity / Assets
8.49%
9.82%
10.19%
7.17%
Tangible Common Equity / Tangible Assets
5.82%
7.19%
7.59%
4.48%
Tangible Equity / Tangible Assets
8.27%
9.60%
10.12%
7.10%
Well-
Capitalized
Tier 1 Leverage Ratio
5.00%
9.66%
11.02%
11.58%
8.47%
Tier 1 Risk-Based Ratio[2]
6.00%
11.27%
13.02%
13.67%
10.06%
Total Risk-Based Ratio[2]
10.00%
12.54%
14.28%
14.87%
11.26%

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Geographic Deposit Composition and Market Share
Note: Data as of September 30, 2009; dollars in millions
Source: Company filings and SNL Financial
Boise / So Idaho
$264
7%
Greater Portland

$297
8%
Puget Sound
$1,227
32%
Admin
$250
6%
Columbia Basin
$1,353
35%
Greater
Spokane
$470
12%
Deposit growth opportunity in key Northwest metropolitan markets
complemented by our historically strong market position in the Columbia
Basin
June 30, 2009
MSA
Rank
Branches
Deposits
($000)
Market
Share
(%)
Seattle-Tacoma-Bellevue, WA
14
17
686,653
1.0
Walla Walla, WA
1
6
567,136
46.7
Spokane, WA
6
16
440,592
6.0
Yakima, WA
3
6
312,297
13.3
Pendleton-Hermiston, OR
1
6

277,258
33.2
Portland-Vancouver-Beaverton, OR-WA
15
9
263,281
0.8
Bellingham, WA
5
7
232,748
7.3
Kennewick-Pasco-Richland, WA
4
4
179,497
8.2
Lewiston, ID-WA
2
3
156,492
20.5
Wenatchee-East Wenatchee, WA
4
2
143,374
7.6
Boise City-Nampa, ID
16
5
120,009
1.6
La Grande, OR
4
1
47,628
14.4
Oak Harbor, WA
8
1
46,451
4.7
Twin Falls, ID
9
1
38,122
2.8
Mount Vernon-Anacortes, WA
14
1

34,601
1.6
Counties not in an MSA
Baker, Oregon
3
1
36,428
17.3
San Juan, Washington
1
3
176,475
42.6
Columbia, Washington
1
1
26,590
31.2

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Deposit Franchise Highlights
Deposit Composition
2.16%
2.36%
2.54%
2.96%
3.88%
3.55%
2.46%
1.50%
2.00%
2.50%

3.00%
3.50%
4.00%
2005
2006
2007
2008
Q1 2009
Q2 2009
Q3 2009
Historical Deposit Cost
Retail deposits have increased $361 million (over 11%) year-to-date
Significant opportunity exists to further lower our cost of deposits as higher cost
deposits re-price in the near term
Regular savings
$522
14%
CDs <$100k
$956
25%
CDs >$100k
$1,053
26%
Non-int.-bearing
$547
14%
Int.-bearing
checking
$330
9%
Money market
$454
12%
Note: Data as of September 30, 2009; dollars in millions
Deposit Sources
CD Maturity Schedule
After 3 years
$39
2%
Within 1 year
$1,563
78%
Between 1 and 3
years
$407
20%
$3,532
$3,320
$3,158
$3,171

$3,225
$2,403
$2,061
$144
$183
$232
$339
$338
$257
$171
$186
$248
$238
$269
$57
$134
$92
$0
$500
$1,000
$1,500
$2,000
$2,500
$3,000
$3,500
$4,000
2005
2006
2007
2008
Q1 2009
Q2 2009
Q3 2009
Retail Deposits
Public Funds
Brokered Funds

21
Core Operating Results
Actively expanding core deposit account base
Diversified lending platform including commercial, agriculture, consumer and real estate
Potential net interest margin opportunity as higher-cost deposits re-price
Increasing mortgage banking fee activity
Demonstrated expense control
(Dollars in Thousands)
Q4 2008
Q1 2009
Q2 2009
Q3 2009

Income (Loss) Before Provision For Income Taxes	($83,473)	($16,186)	($26,989)	($11,824)
ADD: Provision For Loan Losses	33,000	22,000	45,000	25,000
LESS: Net Change In Valuation Of Financial Instruments Carried At Fair Value	13,740	(3,253)	11,049	4,633
ADD: Goodwill Write-Off	71,121	0	0	0
Normalized Pre-Tax, Pre-Provision Earnings	$6,908	$9,067	$6,962	$8,543

22
Investment Portfolio
As
of
September
30,
2009,
the
securities
portfolio
had
a
carrying

value
of
$319
million
The portfolio primarily serves as collateral for public funds deposits and retail repo/sweep
accounts
The corporate bonds segment (primarily Trust Preferred securities and CDOs) has had significant
downward fair value adjustments
The municipal securities consist of local state issuers (WA, OR and ID)
The
mortgage-backed
securities
and
CMO
securities
are
either
seasoned
premium
coupons
or
senior non-complex structures
Note: Data as of September 30, 2009
Equity securities
0%
Corporate bonds
14%
Tax-exempt
municipal bonds
23%
FNMA
13%
U.S. Agency
obligations
26%
Taxable
municipal bonds
1%
GNMA
6%
FHLMC
15%
Private issuer
MBS
2%

23
Attractive Market Demographics
Our markets demonstrate both strong past and projected growth trends
Five-Year
MSA
Market
Rank
Branches

Deposits
in Market
($000)
Percent of
Franchise
(%)
Population
Change
2000-2009
(%)
Proj.
Population
Change
(%)
Proj.
HHI Change
(%)
Seattle-Tacoma-Bellevue, WA
14
17
686,653
18.1
12.64
6.04
5.58
Walla Walla, WA
1
6
567,136
15.0
6.98
2.93
6.10
Spokane, WA
6
16
440,592
11.6
11.97
5.52
5.37
Yakima, WA
3
6
312,297
8.3
7.34
3.49
5.84
Pendleton-Hermiston, OR

1
6
277,258
7.3
6.38
1.93
6.65
Portland-Vancouver-Beaverton, OR-WA
15
9
263,281
7.0
15.84
7.31
3.70
Bellingham, WA
5
7
232,748
6.2
18.14
8.40
6.57
Kennewick-Pasco-Richland, WA
4
4
179,497
4.7
26.42
11.79
7.00
Lewiston, ID-WA
2
3
156,492
4.1
4.58
2.33
7.15
Wenatchee-East Wenatchee, WA
4
2
143,374
3.8
11.85
5.63
6.21
Boise City-Nampa, ID
16
5

120,009
3.2
32.63
14.05
4.71
La Grande, OR
4
1
47,628
1.3
2.30
1.24
4.67
Oak Harbor, WA
8
1
46,451
1.2
13.77
5.76
5.64
Twin Falls, ID
9
1
38,122
1.0
16.48
8.16
6.70
Mount Vernon-Anacortes, WA
14
1
34,601
0.9
16.74
7.53
6.85
Banner: Weighted Average by MSA
93.7
12.24
5.53
5.82
Nationwide: Weighted Average by MSA
10.06
4.63
4.06
Counties not in an MSA
Baker, Oregon
3
1

36,428
1.0
(2.02)
(2.16)
4.10
San Juan, Washington
1
3
176,475
4.7
13.53
4.94
1.63
Columbia, Washington
1
1
26,590
0.7
0.71
(0.24)
4.45
Banner: Weighted Average Franchise
6.3
12.08
5.39
5.60
Nationwide: Aggregate
10.06
4.63
4.06
Source: SNL Financial

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Investment Summary

Strategically-located Pacific Northwest branch network

Solid and growing deposit base

Loan portfolio with diversification in geographic and loan type

Diversified economic drivers across markets

Thorough and conservative approach to credit risk management has led to flattening credit quality trends

Management team with extensive operating and credit cycle experience in Pacific Northwest markets

Solid core operating results

Attractive current valuation

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Appendix A: Reconciliation of Non-GAAP Measures

1

Assumes gross proceeds of $75mm with underwriters' discount of 5.75% and expenses of $300,000

2

Assumes proceeds risk-weighted at 20%

3

Assumes quarterly intangible amortization of $647 thousand, quarterly pre-tax pre-provision earnings of $10 million and $4.5
issued quarterly as part of the DRIP program; earnings will be applied to assets, and capital raised will be applied to liabilities

(Dollars in Thousands)

As of September 30, 2009

Projected September 30, 2011[3]

Actual

Pro Forma[1]
Baseline[1]
More Adverse[1]
Stockholders equity
$406,723
$477,111
$488,961
$332,962
Goodwill
0
0
0
0
Other intangible assets, net
11,718
11,718
8,483
8,483
Tangible equity
395,005
465,393
480,478
324,479
Preferred equity
117,034
117,034
117,034
117,034
Tangible common equity
277,971
348,359
363,444
207,445
Total assets
4,788,008
4,858,396
4,799,858
4,643,859
Goodwill
0
0
0
0
Other intangible assets, net
11,718
11,718
8,483
8,483
Tangible assets
$4,776,290

$4,846,678
$4,791,375
$4,635,376