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BANNER CORP
Form 8-K
April 22, 2004

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event reported): April 22, 2004

Banner Corporation

(Exact name of registrant as specified in its charter)

| | | |
|---|---------------------------|---|
| Washington | 0-26584 | 91-1691604 |
| ----- | ----- | ----- |
| State or other jurisdiction of incorporation | Commission File Number | (I.R.S. Employer Identification No.) |
| 10 S. First Avenue, Walla Walla, Washington | | 99362 |
| ----- | | ----- |
| (Address of principal executive offices) | | (Zip Code) |
| Registrant's telephone number (including area code) | (509) 527-3636 | |

Not Applicable

(Former name or former address, if changed since last report)

Item 7. Financial Statements, Pro Forma Financial Information and Exhibits

(c) Exhibits

99.1 Press Release of Banner Corporation dated April 22, 2004.

Item 12. Results of Operations and Financial Condition

On April 22, 2004, Banner Corporation issued its earnings release for the first quarter ended March 31, 2004. A copy of the earnings release is attached hereto as Exhibit 99.1, which is incorporated herein by reference.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

BANNER CORPORATION

DATE: April 22, 2004

By: /s/ D. Michael Jones

D. Michael Jones
President and Chief Executive Officer

Exhibit 99.1

Contact: D. Michael Jones,
President and CEO
Lloyd W. Baker, CFO
(509) 527-3636

News Release

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BANNER CORPORATION FIRST QUARTER NET INCOME INCREASES
27% TO \$4.4 MILLION AS NET INTEREST MARGIN AND
KEY LOAN QUALITY RATIOS IMPROVE

Walla Walla, WA - April 22, 2004 - Banner Corporation (Nasdaq: BANR), the parent company of Banner Bank, today reported improved net interest margin contributed to an increase in net income for the first quarter ended March 31, 2004, compared to the first quarter a year ago. For the first quarter of 2004, the Company's net income increased 27% to \$4.4 million, or \$0.38 per diluted share, compared to \$3.4 million, or \$0.31 per diluted share, for the first quarter of 2003.

"We experienced continued improvement in our net interest margin during the first three months of 2004, as our cost of funds declined and earning assets increased. In addition, we expanded our franchise significantly during the quarter, opening four new branches and three new loan offices in key markets," said D. Michael Jones, President and Chief Executive Officer. "We have also made significant improvements in loan quality from the fourth quarter of 2003 and over the last 12 months. The ratio of net charge-offs to average loans outstanding was 0.04% for the current quarter, compared to 0.09% in the fourth quarter and 0.20% in the first quarter a year ago."

Credit Quality

Non-performing assets were \$29.6 million, or 1.09% of total assets, at March 31, 2004, a 30% reduction from \$42.4 million, or 1.76% of total assets, at March 31, 2003. The loan loss provision for the first quarter was \$1.5 million, a slight increase from the provision in the fourth quarter as a result of substantial loan growth, and a 36% reduction from the \$2.3 million provision for the first quarter a year ago. At March 31, 2004, the allowance for loan losses totaled \$26.9 million, representing 1.50% of total loans

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outstanding, compared to \$26.1 million, or 1.51% of total loans, at December 31, 2003, and \$25.6 million, or 1.61% of total loans, at March 31, 2003.

Income Statement Review

Banner's net interest margin increased 13 basis points to 3.70% for the quarter ended March 31, 2004, compared to 3.57% for the prior quarter, and increased four basis points from 3.66% in the first quarter of 2003. "The continued decline in funding costs, as well as growth in earning assets, has contributed to this expansion in our net interest margin," said Jones. "While recent increases in market interest rates may limit further declines in funding costs, we expect continued loan growth to improve net interest income in future periods."

For the quarter, net interest income before the provision for loan losses increased 17% to \$22.7 million, compared to \$19.4 million in the first quarter of 2003. Revenues (net interest income before the provision for loan losses plus other operating income) for the first quarter of 2004 increased 9% to \$26.5 million, compared to \$24.2 million for the same quarter of 2003.

"Income from fees and service charges increased 11% from the first quarter of 2003 as new deposit accounts and balances both increased. At the same time, mortgage banking operations remained about level with the fourth quarter, although down from the first quarter a year ago. We believe we are at a relatively sustainable level of activity for this division, although it is somewhat dependent upon what happens with interest rates in the future," said Jones. For the quarter, income from mortgage banking operations, including loan servicing fees, was \$1.5 million, compared to \$2.6 million for the first quarter of 2003. Deposit fees and other service charges increased to \$1.8 million, compared to \$1.7 million for the same quarter of 2003. Total other operating income for the quarter was \$3.8 million, compared to \$4.8 million for the same quarter last year.

(more)

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"We have expanded into the Idaho market with new branches in Boise and Twin Falls. In addition, we have added to our Portland, Oregon-area presence with a new branch in the rapidly growing community of Tanasbourne, located in Hillsboro, the heart of Oregon's Silicon Forest. We opened another branch in our hometown of Walla Walla, Washington, and three loan offices in the cities of Burlington, Seattle and Federal Way, Washington. This franchise expansion has already started adding to our balance sheet, with new loans and deposits. While these new locations will increase our overhead expense, we expect that the branches will break even in 14 to 18 months," said Jones. Other operating expense was \$18.8 million for the quarter ended March 31, 2004, compared to \$17.7 million for the fourth quarter of 2003 and \$17.1 million for the first quarter of 2003. The ratio of other operating expense to average assets was 2.88% for the first quarter, compared to 2.75% for the fourth quarter of 2003 and 3.00% for the first quarter of 2003.

Balance Sheet Review

"Our loan portfolio continued to grow at a double digit rate during the quarter," said Jones. "Commercial and multifamily real estate, construction and land development loans have increased 23% from a year ago and now account for 55% of the loan portfolio, compared to 50% of the portfolio at March 31,

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2003. Commercial business and agricultural lending has increased 14% over the past twelve months and now represents 26% of the total portfolio." Net loans grew 13%, to \$1.8 billion at March 31, 2004, from \$1.6 billion a year ago.

Assets increased 12%, to \$2.7 billion at March 31, 2004, compared to \$2.4 billion a year earlier. Deposits grew 8%, to \$1.7 billion, compared to \$1.6 billion at March 31, 2003, while the cost of deposits declined nine basis points compared to the fourth quarter of 2003 and was 50 basis points lower than a year earlier. Book value per share increased to \$18.81 at March 31, 2004, from \$17.77 per share a year earlier. Tangible book value totaled \$15.53 per share at March 31, 2004, compared to \$14.38 a year earlier.

The Company also completed the issuance of an additional \$15 million in trust preferred securities during the quarter. "We continue to believe trust preferred securities are a cost effective way to augment our capital structure to support our growth plans," said Jones.

On December 18, 2003, the Company announced a 7% increase in its quarterly cash dividend to \$0.16 per share. The most recent dividend was paid April 9, 2004, to shareholders of record on March 31, 2004.

Conference Call

The Company will host a conference call today, Thursday, April 22, 2004, at 8:00 a.m. PDT, to discuss the first quarter results. The conference call can be accessed live by telephone at 303-262-2211. To listen to the call online, go to the Company's website at www.bannerbank.com or to www.fulldisclosure.com. Institutional investors may access the call via the subscriber-only site, www.streetevents.com. An archived recording of the call can be accessed by dialing 303-590-3000, passcode 576707 until Thursday, April 29, 2004 or via the Internet at www.fulldisclosure.com through May 6, 2004.

About the Company

Banner Corporation is the parent company of Banner Bank, a commercial bank which operates a total of 46 branch offices and 12 loan offices in 23 counties in Washington, Oregon and Idaho. Banner Bank serves the Pacific Northwest region with a full range of deposit services and business, commercial real estate, construction, residential, agricultural and consumer loans. Visit Banner Bank on the Web at www.bannerbank.com.

Statements concerning future performance, developments or events, expectations for earnings, growth and market forecasts, and any other guidance on future periods, constitute forward-looking statements, which are subject to a number of risks and uncertainties that are beyond the Company's control and might cause actual results to differ materially from the expectations and stated objectives. Factors which could cause actual results to differ materially include, but are not limited to, regional and general economic conditions, management's ability to generate continued improvement in asset quality and profitability, changes in interest rates, deposit flows, demand for mortgages and other loans, real estate values, competition, loan delinquency rates, the successful operation of the newly-opened branches and loan offices, changes in accounting principles, practices, policies or guidelines, changes in legislation or regulation, other economic, competitive, governmental, regulatory and technological factors affecting operations, pricing, products and services and Banner's ability to successfully resolve the outstanding credit issues and/or recover check kiting losses. Accordingly, these factors should be considered in evaluating the forward-looking statements, and undue reliance should not be placed on such statements. Banner undertakes no responsibility to update or revise any forward-looking statements.

(tables follow)

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RESULTS OF OPERATIONS

(In thousands except share and per share data)

| | Quarters Ended | | |
|---|----------------|--------------|--------------|
| | Mar 31, 2004 | Dec 31, 2003 | Mar 31, 2003 |
| INTEREST INCOME: | | | |
| Loans receivable | \$ 29,019 | \$ 28,711 | \$ 28,844 |
| Mortgage-backed securities | 4,527 | 3,857 | 3,052 |
| Securities and cash equivalents | 3,081 | 3,221 | 2,822 |
| | ----- | ----- | ----- |
| | 36,627 | 35,789 | 34,718 |
| INTEREST EXPENSE: | | | |
| Deposits | 7,864 | 8,373 | 8,871 |
| Federal Home Loan Bank advances | 5,125 | 5,056 | 5,700 |
| Junior subordinated debentures/trust preferred securities | 692 | 674 | 567 |
| Other borrowings | 237 | 226 | 172 |
| | ----- | ----- | ----- |
| | 13,918 | 14,329 | 15,310 |
| Net interest income before provision for loan losses | 22,709 | 21,460 | 19,408 |
| PROVISION FOR LOAN LOSSES | 1,450 | 1,400 | 2,250 |
| | ----- | ----- | ----- |
| Net interest income | 21,259 | 20,060 | 17,158 |
| OTHER OPERATING INCOME: | | | |
| Loan servicing fees | 266 | 368 | 530 |
| Other fees and service charges | 1,843 | 1,832 | 1,658 |
| Mortgage banking operations | 1,252 | 1,217 | 2,062 |
| Gain (loss) on sale of securities | 11 | 45 | 3 |
| Miscellaneous | 444 | 379 | 565 |
| | ----- | ----- | ----- |
| Total other operating income | 3,816 | 3,841 | 4,818 |
| OTHER OPERATING EXPENSE: | | | |
| Salary and employee benefits | 12,103 | 11,737 | 11,211 |
| Less capitalized loan origination costs | (1,487) | (1,618) | (1,575) |
| Occupancy and equipment | 2,487 | 2,407 | 2,372 |

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| | | | |
|--|------------|------------|------------|
| Information/computer data services | 1,026 | 896 | 838 |
| Professional services | 915 | 784 | 430 |
| Advertising | 1,108 | 788 | 866 |
| Miscellaneous | 2,676 | 2,682 | 2,915 |
| | ----- | ----- | ----- |
| Total other operating expense | 18,828 | 17,676 | 17,057 |
| | ----- | ----- | ----- |
| Income before provision for income taxes | 6,247 | 6,225 | 4,919 |
| | ----- | ----- | ----- |
| PROVISION FOR INCOME TAXES | 1,884 | 1,821 | 1,490 |
| | ----- | ----- | ----- |
| NET INCOME | \$ 4,363 | \$ 4,404 | \$ 3,429 |
| | ===== | ===== | ===== |
| Earnings per share | | | |
| Basic | \$ 0.39 | \$ 0.40 | \$ 0.32 |
| Diluted | \$ 0.38 | \$ 0.39 | \$ 0.31 |
| Cumulative dividends declared per common share | \$ 0.16 | \$ 0.16 | \$ 0.15 |
| Weighted average shares outstanding | | | |
| Basic | 11,051,187 | 10,885,611 | 10,786,474 |
| Diluted | 11,634,105 | 11,423,747 | 11,040,425 |
| Shares repurchased during the period | 7,729 | 14,931 | - - |

(more)

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FINANCIAL CONDITION

(In thousands except share and per share data)

| | Mar 31, 2004 | Dec 31, 2003 | Mar 31, 2003 |
|--------------------------------------|--------------|--------------|--------------|
| | ----- | ----- | ----- |
| ASSETS | | | |
| ----- | | | |
| Cash and due from banks | \$ 61,894 | \$ 77,298 | \$ 126,396 |
| Securities available for sale | 693,257 | 674,942 | 567,592 |
| Securities held to maturity | 31,498 | 27,232 | 11,469 |
| Federal Home Loan Bank stock | 35,038 | 34,693 | 33,378 |
| Loans receivable: | | | |
| Held for sale | 12,100 | 15,912 | 47,213 |
| Held for portfolio | 1,784,482 | 1,711,013 | 1,543,325 |
| Allowance for loan losses | (26,885) | (26,060) | (25,551) |
| | ----- | ----- | ----- |
| | 1,769,697 | 1,700,865 | 1,564,987 |
| Accrued interest receivable | 13,889 | 13,410 | 13,775 |
| Real estate owned held for sale, net | 2,077 | 2,967 | 5,183 |

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| | | | |
|-------------------------------------|--------------|--------------|--------------|
| Property and equipment, net | 24,779 | 22,818 | 20,629 |
| Goodwill and other intangibles, net | 36,477 | 36,513 | 36,664 |
| Deferred income tax asset, net | 1,335 | 1,941 | 1,658 |
| Bank-owned life insurance | 34,143 | 33,669 | 32,260 |
| Other assets | 8,901 | 8,965 | 3,863 |
| | ----- | ----- | ----- |
| | \$ 2,712,985 | \$ 2,635,313 | \$ 2,417,854 |
| | ===== | ===== | ===== |

LIABILITIES

Deposits:

| | | | |
|----------------------|------------|------------|------------|
| Non-interest-bearing | \$ 203,695 | \$ 205,656 | \$ 192,287 |
| Interest-bearing | 1,546,195 | 1,465,284 | 1,422,060 |
| | ----- | ----- | ----- |
| | 1,749,890 | 1,670,940 | 1,614,347 |

Borrowings:

| | | | |
|--------------------------------------|---------|---------|---------|
| Advances from Federal Home Loan Bank | 585,158 | 612,552 | 511,452 |
| Junior subordinated debentures | 72,168 | 56,703 | - - |
| Trust preferred securities | - - | - - | 40,000 |
| Other borrowings | 74,445 | 69,444 | 41,400 |
| | ----- | ----- | ----- |
| | 731,771 | 738,699 | 592,852 |

| | | | |
|--|-----------|-----------|-----------|
| Accrued expenses and other liabilities | 16,538 | 18,444 | 14,623 |
| Deferred compensation | 4,500 | 4,252 | 3,601 |
| Income taxes payable | 751 | 178 | -- |
| | ----- | ----- | ----- |
| | 2,503,450 | 2,432,513 | 2,225,423 |

STOCKHOLDERS' EQUITY

| | | | |
|---|--------------|--------------|--------------|
| Common stock | 124,730 | 123,375 | 121,119 |
| Retained earnings | 82,801 | 80,286 | 72,545 |
| Accumulated other comprehensive income | 6,062 | 3,191 | 3,576 |
| Unearned shares of common stock issued to Employee Stock Ownership Plan (ESOP) trust: at cost | (3,628) | (3,589) | (4,264) |
| Net carrying value of stock related deferred compensation plans | (430) | (463) | (545) |
| | ----- | ----- | ----- |
| | 209,535 | 202,800 | 192,431 |
| | ----- | ----- | ----- |
| | \$ 2,712,985 | \$ 2,635,313 | \$ 2,417,854 |
| | ===== | ===== | ===== |

Shares Issued:

| | | | |
|--|------------|------------|------------|
| Shares outstanding at end of period | 11,578,934 | 11,473,331 | 11,347,571 |
| Less unearned ESOP shares at end of period | 438,985 | 434,299 | 515,707 |
| | ----- | ----- | ----- |

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| | | | |
|--|------------|------------|------------|
| Shares outstanding at end of period excluding unearned ESOP shares | 11,139,949 | 11,039,032 | 10,831,864 |
| | ===== | ===== | ===== |
| Book value per share (1) | \$ 18.81 | \$ 18.37 | \$ 17.77 |
| Tangible book value per share (1) | \$ 15.53 | \$ 15.06 | \$ 14.38 |
| Consolidated Tier 1 leverage capital ratio | 9.07% | 8.73% | 8.48% |

(1) - Calculation is based on number of shares outstanding at the end of the period rather than weighted average shares outstanding and excludes unallocated shares in the employee stock ownership plan (ESOP).

(more)

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ADDITIONAL FINANCIAL INFORMATION
(Dollars in thousands)

| LOANS (including loans held for sale): | Mar 31, 2004 | Dec 31, 2003 | Mar 31, 2003 |
|--|------------------|------------------|------------------|
| ----- | ----- | ----- | ----- |
| Secured by real estate: | | | |
| One- to four-family Consumer secured by one to four-family | \$ 279,497 | \$ 275,197 | \$ 323,495 |
| | 32,600 | 31,277 | 25,004 |
| | ----- | ----- | ----- |
| Total one to four-family | 312,097 | 306,474 | 348,499 |
| Commercial | 488,137 | 455,964 | 384,589 |
| Multifamily | 92,687 | 89,072 | 68,494 |
| Construction and land | 407,561 | 398,954 | 347,956 |
| Commercial business | 321,979 | 321,671 | 301,418 |
| Agricultural business including secured by farmland | 138,501 | 118,903 | 102,737 |
| Consumer | 35,620 | 35,887 | 36,845 |
| | ----- | ----- | ----- |
| Total loans outstanding | \$1,796,582 | \$1,726,925 | \$1,590,538 |
| | ===== | ===== | ===== |
| NON-PERFORMING ASSETS: | Mar 31, 2004 | Dec 31, 2003 | Mar 31, 2003 |
| ----- | ----- | ----- | ----- |
| Loans on non-accrual status | \$ 26,686 | \$ 28,010 | \$ 36,834 |
| Loans more than 90 days delinquent, still on accrual | 766 | 421 | 290 |
| | ----- | ----- | ----- |
| Total non-performing loans | 27,452 | 28,431 | 37,124 |
| Real estate owned (REO)/ Repossessed assets | 2,166 | 3,132 | 5,319 |
| | ----- | ----- | ----- |
| Total non-performing assets | \$ 29,618 | \$ 31,563 | \$ 42,443 |

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| | ===== | ===== | ===== |
|---|----------------|--------------|--------------|
| Total non-performing assets/Total assets | 1.09% | 1.20% | 1.76% |
| | ----- | | |
| | Quarters Ended | | |
| | ----- | ----- | ----- |
| | Mar 31, 2004 | Dec 31, 2003 | Mar 31, 2003 |
| | ----- | ----- | ----- |
| CHANGE IN THE ALLOWANCE FOR LOAN LOSSES: | | | |
| ----- | | | |
| Balance, beginning of period | \$ 26,060 | \$ 26,161 | \$ 26,539 |
| Provision | 1,450 | 1,400 | 2,250 |
| Recoveries of loans previously charged off: | 151 | 155 | 110 |
| Loans charged-off: | (776) | (1,656) | (3,348) |
| | ----- | ----- | ----- |
| Net (charge-offs) recoveries | (625) | (1,501) | (3,238) |
| | ----- | ----- | ----- |
| Balance at end of period | \$ 26,885 | \$ 26,060 | \$ 25,551 |
| | ===== | ===== | ===== |
| Net charge-offs/Average loans outstanding | 0.04% | 0.09% | 0.20% |
| Allowance for loan losses/Total loans outstanding | 1.50% | 1.51% | 1.61% |

(more)

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ADDITIONAL FINANCIAL INFORMATION

(Dollars in thousands)

(Rates/Ratios Annualized)

| | ----- | | |
|-------------------------------------|----------------|--------------|--------------|
| | Quarters Ended | | |
| | ----- | ----- | ----- |
| OPERATING PERFORMANCE: | Mar 31, 2004 | Dec 31, 2003 | Mar 31, 2003 |
| ----- | ----- | ----- | ----- |
| Average loans | \$ 1,750,998 | \$ 1,701,335 | \$ 1,582,231 |
| Average securities and deposits | 716,046 | 685,836 | 565,400 |
| Average non-interest-earning assets | 163,435 | 167,042 | 157,412 |
| | ----- | ----- | ----- |
| Total average assets | \$ 2,630,479 | \$ 2,554,213 | \$ 2,305,043 |

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| | | | |
|---|--------------|--------------|--------------|
| | ===== | ===== | ===== |
| Average deposits | \$ 1,670,509 | \$ 1,678,097 | \$ 1,506,427 |
| Average borrowings | 732,789 | 654,057 | 588,517 |
| Average non-interest- earning liabilities | 19,467 | 22,407 | 17,120 |
| | ----- | ----- | ----- |
| Total average liabilities | 2,422,765 | 2,354,561 | 2,112,064 |
| Total average stockholders' equity | 207,714 | 199,652 | 192,979 |
| | ----- | ----- | ----- |
| Total average liabilities and equity | \$ 2,630,479 | \$ 2,554,213 | \$ 2,305,043 |
| | ===== | ===== | ===== |
| Interest rate yield on loans | 6.67% | 6.70% | 7.39% |
| Interest rate yield on securities and deposits | 4.27% | 4.09% | 4.21% |
| | ----- | ----- | ----- |
| Interest rate yield on interest- earning assets | 5.97% | 5.95% | 6.56% |
| | ----- | ----- | ----- |
| Interest rate expense on deposits | 1.89% | 1.98% | 2.39% |
| Interest rate expense on borrowings | 3.32% | 3.61% | 4.44% |
| | ----- | ----- | ----- |
| Interest rate expense on interest-bearing liabilities | 2.33% | 2.44% | 2.96% |
| | ----- | ----- | ----- |
| Interest rate spread | 3.64% | 3.51% | 3.60% |
| | ===== | ===== | ===== |
| Net interest margin | 3.70% | 3.57% | 3.66% |
| | ===== | ===== | ===== |
| Other operating income/ Average assets | 0.58% | 0.60% | 0.85% |
| Other operating expense/ Average assets | 2.88% | 2.75% | 3.00% |
| Efficiency ratio (other operating expense/revenue) | 70.98% | 69.86% | 70.41% |
| Return on average assets | 0.67% | 0.68% | 0.60% |
| Return on average equity | 8.45% | 8.75% | 7.21% |
| Average equity/Average assets | 7.90% | 7.82% | 8.37% |

#