BANNER CORP
Form 8-K
October 25, 2004

UNITED STATES
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): October 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)	(IRS 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)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions.

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02 Results of Operations and Financial Condition

On October 22, 2004, Banner Corporation issued its earnings release for the quarter ended September 30, 2004. A copy of the earnings release is attached hereto as Exhibit 99.1, which is incorporated herein by reference.

Item 9.01 Financial Statements and Exhibits

(c) Exhibits

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

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: October 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

BANNER CORPORATION'S THIRD QUARTER PROFITS INCREASE 24% TO $5.2 MILLION

AS LOANS INCREASE 17%, MARGINS EXPAND AND LOAN QUALITY IMPROVES

Walla Walla, WA--October 22, 2004--Banner Corporation (Nasdaq:BANR), the parent company of Banner Bank, today reported that improved net interest income and continued growth in loans and deposits contributed to a 24% increase in profits for the third quarter of 2004. For the quarter ended September 30, 2004, net income was $5.2 million, or $0.44 per diluted share, compared to $4.2 million, or $0.37 per diluted share, for the same period a year earlier. For the first nine months of 2004, net income grew 20% to $14.1 million, or $1.20 per diluted share, compared to $11.7 million, or $1.05 per diluted share, for the first nine months of 2003.

"We have generated both top and bottom line improvements, with revenues increasing 18%, loans expanding 17% and net income improving 24% from year ago levels," said D. Michael Jones, President and Chief Executive Officer. "We also continue to focus efforts into growing our franchise in key markets. Last week we announced plans to build three new full-service branches in the Boise and Twin Falls markets, which we expect to open during the summer of 2005. These branches complement our existing network and will allow us to deliver improved customer service and convenient locations to new and existing customers. Earlier this year, we opened new offices in Hillsboro, Oregon, Walla Walla, Washington, and Boise and Twin Falls, Idaho. The previously announced purchased branches in Kent, Edmonds and Everett, Washington will also open later this year."

Third Quarter 2004 Highlights (Compared to Third Quarter 2003)

- Net income increased 24% to $5.2 million.
- Net interest income, after the provision for loan loss, increased 30% to $23.7 million.
- Non-performing assets are 25% lower.
- Net interest margin improved by 44 basis points.
- Revenues increased 18% to $29.9 million.
- Assets grew 13% to $2.8 billion.
- Loans grew 17% to $1.95 billion.
- Deposits grew 12% to $1.91 billion.

Income Statement Review

Third quarter revenues (net interest income before the provision for loan losses plus other operating income) increased 18% to $29.9 million, compared to $25.2 million for the same quarter of 2003. For the first nine months, revenues increased 12% to $83.9 million, compared to $74.9 million for the same period of 2003. For the quarter, net interest income before the provision for loan losses increased 28% to $25.1 million, compared to $19.7 million in the third quarter of 2003. For the first nine months of the year, net interest income before the provision for loan losses increased 20% to $71.2 million, compared to $59.1 million in the same period of 2003.

"We experienced improved performance in our net interest margin during the third quarter, aided by the collection of more than $600,000 of delinquent interest on non-accrual loans, as strong loan growth and increasing asset yields more than offset recent pressures on funding costs," said Jones. Banner's net interest margin increased 44 basis points to 3.79% for the quarter ended September 30, 2004, from 3.35% in the third quarter of 2003 and 14 basis points from 3.65% in the quarter ended June 30, 2004. While funding costs increased modestly, up six basis points compared to the previous quarter, they remained significantly -- 21 basis points -- below the same quarter a year earlier. By contrast, asset yields were higher by 20 and 21 basis points, respectively, compared to the quarters ended June 30, 2004 and September 30, 2003. For the first nine months of 2004, net interest margin increased to 3.71%, from 3.52% in the first nine months of 2003, as substantially lower funding costs led to an improved net interest rate spread.

Income from fees and service charges increased 13% for the quarter and 12% for

the first nine months compared to the respective periods last year. Deposit fees and other service charges increased to $2.1 million in the third quarter, compared to $1.9 million for the third quarter of 2003, reflecting core deposit growth. Mortgage banking operations declined from the third quarter a year ago when refinancing activity was at higher levels. For the third quarter of 2004, income from mortgage banking operations, including loan servicing fees, was $2.1 million compared to $3.2 million for the third quarter of 2003. Total other operating income for the quarter ended September 30, 2004 was $4.8 million compared to $5.5 million for the same quarter last year, declining principally as a result of the decrease in mortgage banking operations.

"Over the last nine months, we have been building our franchise through the addition of four branches, three lending centers and one operations center. Hiring personnel to staff this expansion and increased occupancy costs have contributed to a higher level of non-interest expenses," said Jones. "In addition, the continued legal and collection costs associated with certain non-performing assets, and expenses related to compliance with the Sarbanes-Oxley Act also added to operating expense in the period." Other operating expense was $20.9 million for the quarter ended September 30, 2004, compared to $17.9 million in the third quarter of 2003. For the first nine months of the year, other operating expense was $59.3 million compared to $52.2 million for the first nine months of 2003.

Balance Sheet Review

Net loans increased 17%, to $2.0 billion at September 30, 2004, from $1.7 billion a year ago. "Our lending personnel have generated steady growth in commercial and multifamily real estate loans, construction and land loans, and agricultural business loans," said Jones. "Commercial and multifamily real estate and construction and land development loans have increased 20% from year ago levels and now represent 55% of the loan portfolio. Commercial business and agricultural lending has increased 16% over the past twelve months and now represents 26% of the total portfolio."

Assets reached record levels, closing the quarter at $2.8 billion, a 13% increase from $2.5 billion a year earlier. Deposits grew 12%, to $1.9 billion, compared to $1.7 billion at September 30, 2003, including a 13% increase in non-interest-bearing deposits. "Strong deposit growth reflecting our significant commitment to growing our franchise continues to be an important element of our strategic plan which is producing improving results," said Jones. Book value per share increased to $18.77 at September 30, 2004, from $18.18 per share a year earlier. Tangible book value increased to $15.53 per share at September 30, 2004, compared to $14.83 a year earlier.

Credit Quality

"Our key credit quality ratios have improved significantly, with a 25% reduction in non-performing assets since the first of the year," continued Jones. "Net charge-offs to average loans outstanding, at five basis points year-to-date, also shows dramatic improvement from 38 basis points at the same time last year." Non-performing assets were $23.7 million, or 0.84% of total assets, at September 30, 2004, a 25% improvement from $31.6 million, or 1.26% of total assets, at September 30, 2003. The loan loss provision for the third quarter of 2004 was $1.4 million, which is about level with the provision in the second quarter and the provision for the third quarter a year ago. At September 30, 2004, the allowance for loan losses totaled $29.4 million, representing 1.48% of total loans outstanding.

Conference Call

The Company will host a conference call today, Friday, October 22, 2004, at 8:00 a.m. PDT, to discuss the third 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 11010735# until Friday, October 29, 2004 or via the Internet at www.fulldisclosure.com.

About the Company

Banner Corporation is the parent company of Banner Bank, a commercial bank which operates a total of 46 branch offices and twelve 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)

RESULTS OF OPERATIONS

(In thousands except share and per share data)

	Quarters Ended			9 Months Ended	
	Sept 30, 2004	Jun 30, 2004	Sep 30, 2003	Sept 30, 2004	Se 2

INTEREST INCOME:					
Loans receivable	$ 33,051	$ 30,298	$ 29,260	$ 92,368	$
Mortgage-backed securities	4,155	4,394	2,227	13,076	
Securities and cash equivalents	3,194	3,140	3,035	9,415	
	40,400	37,832	34,522	114,859	1
INTEREST EXPENSE:					
Deposits	9,074	8,404	8,889	25,342	
Federal Home Loan Bank advances	5,058	4,962	5,339	15,145	
Junior subordinated debentures / trust preferred securities	911	843	446	2,446	
Other borrowings	257	223	188	717	
	15,300	14,432	14,862	43,650	
Net interest income before provision for loan losses	25,100	23,400	19,660	71,209	
PROVISION FOR LOAN LOSSES	1,444	1,450	1,400	4,344	
Net interest income	23,656	21,950	18,260	66,865	
OTHER OPERATING INCOME:					
Deposit fees and other service charges	2,148	2,057	1,895	6,048	
Mortgage banking operations	1,383	1,452	2,924	4,087	
Loan servicing fees	711	347	241	1,324	
Gain (loss) on sale of securities	67	62	15	140	
Miscellaneous	441	207	464	1,092	
Total other operating income	4,750	4,125	5,539	12,691	
OTHER OPERATING EXPENSE:					
Salary and employee benefits	13,719	13,024	12,495	38,846	
Less capitalized loan origination costs	(1,806)	(1,891)	(2,028)	(5,184)	
Occupancy and equipment	2,791	2,645	2,447	7,923	
Information / computer data services	1,107	1,016	930	3,149	
Professional services	746	790	626	2,451	
Advertising	1,108	1,341	919	3,557	
Miscellaneous	3,257	2,611	2,479	8,544	
Total other operating expense	20,922	19,536	17,868	59,286	
Income before provision for income taxes	7,484	6,539	5,931	20,270	
PROVISION FOR INCOME TAXES	2,322	1,991	1,778	6,197	
NET INCOME	$ 5,162	$ 4,548	$ 4,153	$ 14,073	$
Earnings per share					
Basic	$ 0.46	$ 0.41	$ 0.38	$ 1.27	$

Diluted	$ 0.44	$ 0.39	$ 0.37	$ 1.20	$
Cumulative dividends declared per common share	$ 0.16	$ 0.16	$ 0.15	$ 0.48	$
Weighted average shares outstanding					
Basic	11,168,735	11,140,502	10,842,791	11,120,318	10,8
Diluted	11,736,415	11,720,499	11,268,718	11,702,890	11,1
Shares repurchased during the period	104	11,953	5,701	19,786	

(more)

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FINANCIAL CONDITION

In thousands except share and per share data)

ASSETS	Sept 30, 2004	Jun 30, 2004	Sept 30, 2003	Dec 31, 2003
Cash and due from banks	$ 65,800	$ 53,699	$ 72,320	$ 77,298
Securities available for sale	583,196	600,048	592,830	674,942
Securities held to maturity	49,554	51,211	12,528	27,232
Federal Home Loan Bank stock	35,698	35,387	34,262	34,693
Loans receivable:				
Held for sale	8,303	5,887	23,593	15,912
Held for portfolio	1,976,100	1,903,532	1,668,392	1,711,013
Allowance for loan losses	(29,407)	(28,037)	(26,161)	(26,060)
	1,954,996	1,881,382	1,665,824	1,700,865
Accrued interest receivable	14,930	14,341	13,944	13,410
Real estate owned held for sale, net	2,923	3,564	6,849	2,967
Property and equipment, net	35,351	32,815	22,074	22,818
Goodwill and other intangibles, net	36,405	36,441	36,563	36,513
Deferred income tax asset, net	5,266	7,024	1,391	1,941
Bank-owned life insurance	34,957	34,529	33,218	33,669
Other assets	11,086	9,629	10,563	8,965
	$ 2,830,162	$ 2,760,070	$ 2,502,366	$ 2,635,313

LIABILITIES				
Deposits:				
Non-interest-bearing	$ 229,624	$ 209,704	$ 203,396	$ 205,656
Interest-bearing	1,681,548	1,622,889	1,502,324	1,465,284
	1,911,172	1,832,593	1,705,720	1,670,940
Borrowings:				
Advances from Federal Home Loan Bank	530,958	555,058	461,552	612,552
Junior subordinated debentures	72,168	72,168	55,000	56,703
Other borrowings	79,080	72,539	58,764	69,444
	682,206	699,765	575,316	738,699
Accrued expenses and other liabilities	21,288	17,911	19,139	18,444
Deferred compensation	4,931	4,739	4,006	4,252
Income taxes payable	50	2,768	- -	178
	2,619,647	2,557,776	2,304,181	2,432,513
STOCKHOLDERS' EQUITY				
Common stock	125,672	125,438	121,383	123,375
Retained earnings	88,796	85,494	77,411	80,286
Accumulated other comprehensive income	183	(4,461)	4,166	3,191
Unearned shares of common stock issued to Employee Stock Ownership Plan (ESOP) trust: at cost	(3,628)	(3,628)	(4,264)	(3,589)
Net carrying value of stock related deferred compensation plans	(508)	(549)	(511)	(463)
	210,515	202,294	198,185	202,800
	$ 2,830,162	$ 2,760,070	$ 2,502,366	$ 2,635,313
Shares Issued:				
Shares outstanding at end of period	11,652,816	11,630,434	11,415,636	11,473,331
Less unearned ESOP shares at end of period	438,985	438,985	515,960	434,299
Shares outstanding at end of period				

excluding unearned ESOP shares	11,213,831	11,191,449	10,899,676	11,039,032
Book value per share (1)	$ 18.77	$ 18.08	$ 18.18	$ 18.37
Tangible book value per share (1)	$ 15.53	$ 14.82	$ 14.83	$ 15.06
Consolidated Tier 1 leverage capital ratio	8.85%	8.86%	8.64%	8.73%

(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):	Sept 30, 2004	Jun 30, 2004	Sept 30, 2003	Dec 31, 2003
Commercial real estate	$ 531,714	$ 506,411	$ 433,800	$ 455,964
Multifamily real estate	104,713	104,936	76,397	89,072
Construction and land	451,393	433,611	392,819	398,954
Commercial business	364,235	340,493	326,368	321,671
Agricultural business including secured by farmland	156,110	160,920	122,890	118,903
One- to four-family real estate	298,759	287,990	274,723	275,197
Consumer	77,479	75,058	64,988	67,164
Total loans outstanding	$1,984,403	$1,909,419	$1,691,985	$1,726,925

NON-PERFORMING ASSETS:	Sept 30, 2004	Jun 30, 2004	Sept 30, 2003	Dec 31, 2003
Loans on non-accrual status	$ 20,091	$ 24,118	$ 23,209	$ 28,010
Loans more than 90 days delinquent, still on accrual	579	1,139	1,227	421

Total non-performing loans	20,670	25,257	24,436	28,431
Real estate owned (REO) / Repossessed assets	3,051	3,613	7,164	3,132
Total non-performing assets	$ 23,721	$ 28,870	$ 31,600	$ 31,563
Total non-performing assets / Total assets	0.84%	1.05%	1.26%	1.20%

	Quarters Ended			9 Months Ended	
CHANGE IN THE ALLOWANCE FOR LOAN LOSSES:	Sept 30, 2004	Jun 30, 2004	Sept 30, 2003	Sept 30, 2004	Sept 30, 2003
Balance, beginning of period	$28,037	$26,885	$26,075	$26,060	$26,539
Provision	1,444	1,450	1,400	4,344	5,900
Recoveries of loans previously charged off	975	285	566	1,411	920
Loans charged-off	(1,049)	(583)	(1,880)	(2,408)	(7,198)
Net (charge-offs) recoveries	(74)	(298)	(1,314)	(997)	(6,278)
Balance, end of period	$29,407	$28,037	$26,161	$29,407	$26,161
Net charge-offs / Average loans outstanding	0.00%	0.02%	0.08%	0.05%	0.38%
Allowance for loan losses / Total loans outstanding	1.48%	1.47%	1.55%	1.48%	1.55%

(more)

ADDITIONAL FINANCIAL INFORMATION
(Dollars in thousands)
(Rates / Ratios Annualized)

	Quarters Ended			9 Months Ended	
OPERATING PERFORMANCE:	Sept 30, 2004	Jun 30, 2004	Sep 30, 2003	Sept 30, 2004	Sep 200
Average loans	$1,952,163	$1,858,449	$1,698,796	$1,854,229	$1,638
Average securities and deposits	683,520	721,778	628,485	706,990	605
Average non-interest-earning assets	155,668	149,293	170,972	156,169	162

Total average assets	$2,791,351	$2,729,520	$2,498,253	$2,717,388	$2,406
Average deposits	$1,858,240	$1,776,837	$1,691,159	$1,768,856	$1,599
Average borrowings	700,034	725,047	586,894	719,220	594
Average non-interest-earning liabilities	24,321	20,468	23,470	21,429	17
Total average liabilities	2,582,595	2,522,352	2,301,523	2,509,505	2,211
Total average stock-holders' equity	208,756	207,168	196,730	207,883	195
Total average liabilities and equity	$2,791,351	$2,729,520	$2,498,253	$2,717,388	$2,406
Interest rate yield on loans	6.74%	6.56%	6.83%	6.65%	7
Interest rate yield on securities and deposits	4.28%	4.20%	3.32%	4.25%	3
Interest rate yield on interest-earning assets	6.10%	5.90%	5.89%	5.99%	6
Interest rate expense on deposits	1.94%	1.90%	2.09%	1.91%	2
Interest rate expense on borrowings	3.54%	3.34%	4.04%	3.40%	4
Interest rate expense on interest-bearing liabilities	2.38%	2.32%	2.59%	2.34%	2
Interest rate spread	3.72%	3.58%	3.30%	3.65%	3
Net interest margin	3.79%	3.65%	3.35%	3.71%	3
Other operating income / Average assets	0.68%	0.61%	0.88%	0.62%	0
Other operating expense / Average assets	2.98%	2.88%	2.84%	2.91%	2
Efficiency ratio (other operating expense / revenue)	70.09%	70.98%	70.91%	70.66%	69
Return on average assets	0.74%	0.67%	0.66%	0.69%	0
Return on average equity	9.84%	8.83%	8.38%	9.04%	8
Average equity / Average assets	7.48%	7.59%	7.87%	7.65%	8

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