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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.

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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	- -

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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		
	-----	-----	-----
	Mar 31, 2004	Dec 31, 2003	Mar 31, 2003
	-----	-----	-----
OPERATING PERFORMANCE:			
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%

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