

BANNER CORP
Form 10-Q
May 11, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2009 .

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 0-26584

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

Washington
(State or other jurisdiction of incorporation
or organization)

91-1691604
(I.R.S. Employer Identification Number)

10 South First Avenue, Walla Walla, Washington 99362
(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: (509) 527-3636

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the

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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 website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 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 (check one)

Large accelerated filer Accelerated filer Non-accelerated filer 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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

Title of class:	As of April 30, 2009
Common Stock, \$.01 par value per share	17,805,296 shares*

* Includes 240,381 shares held by the Employee Stock Ownership Plan that have not been released, committed to be released, or allocated to participant accounts.

BANNER CORPORATION AND SUBSIDIARIES

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BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Unaudited) (In thousands, except shares)
March 31, 2009 and December 31, 2008

	March 31 2009	December 31 2008
ASSETS		
Cash and due from banks	\$ 75,510	\$ 102,750
Securities—trading, cost \$215,057 and \$245,274, respectively	161,963	203,902
Securities—available-for-sale, cost \$65,468 and \$52,190, respectively	66,963	53,272
Securities—held-to-maturity, fair value \$67,506 and \$60,530, respectively	67,401	59,794
Federal Home Loan Bank (FHLB) stock	37,371	37,371
Loans receivable:		
Held for sale, fair value \$11,247 and \$7,540, respectively	11,071	7,413
Held for portfolio	3,904,476	3,953,995
Allowance for loan losses	(79,724)	(75,197)
	3,835,823	3,886,211
Accrued interest receivable	20,821	21,219
Real estate owned, held for sale, net	38,951	21,782
Property and equipment, net	97,847	97,647
Goodwill and other intangibles, net	13,026	13,716
Deferred income tax asset, net	6,551	5,528
Income taxes receivable, net	13,450	9,675
Bank-owned life insurance (BOLI)	53,163	52,680
Other assets	21,284	18,821
	\$ 4,510,124	\$ 4,584,368
LIABILITIES		
Deposits:		
Non-interest-bearing	\$ 508,593	\$ 509,105
Interest-bearing transaction and savings accounts	1,099,837	1,137,878
Interest-bearing certificates	2,019,074	2,131,867
	3,627,504	3,778,850
Advances from FHLB at fair value	172,102	111,415
Other borrowings	181,194	145,230
Junior subordinated debentures at fair value (issued in connection with Trust Preferred Securities)	53,819	61,776
Accrued expenses and other liabilities	37,759	40,600
Deferred compensation	13,203	13,149
	4,085,581	4,151,020
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred stock - \$0.01 par value, 500,000 shares authorized, none issued	--	--

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Preferred stock - Series A – liquidation preference \$1,000 per share, 124,000 shares authorized and issued	116,288	115,915
Common stock - \$0.01 par value per share, 25,000,000 shares authorized, 17,645,552 shares issued:		
17,405,171 shares and 16,911,657 shares outstanding at March 31, 2009 and December 31, 2008, respectively	318,628	316,740
Retained earnings (accumulated deficit)	(9,210)	2,150
Accumulated other comprehensive income (loss):		
Unrealized gain on securities available for sale and/or transferred to held to maturity	850	572
Unearned shares of common stock issued to Employee Stock Ownership Plan (ESOP) trust at cost:		
240,381 restricted shares outstanding at March 31, 2009 and December 31, 2008	(1,987)	(1,987)
Carrying value of shares held in trust for stock related compensation plans	(8,846)	(8,850)
Liability for common stock issued to deferred, stock related, compensation plans	8,820	8,808
	(26)	(42)
	424,543	433,348
	\$ 4,510,124	\$ 4,584,368

See selected notes to consolidated financial statements

BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited) (In thousands except for per share amounts)
For the Quarters Ended March 31, 2009 and 2008

	Quarters Ended March 31	
	2009	2008
INTEREST INCOME:		
Loans receivable	\$ 56,347	\$ 68,126
Mortgage-backed securities	1,801	1,153
Securities and cash equivalents	2,183	2,727
	60,331	72,006
INTEREST EXPENSE:		
Deposits	23,092	30,063
FHLB advances	720	1,849
Other borrowings	227	610
Junior subordinated debentures	1,333	2,064
	25,372	34,586
Net interest income before provision for loan losses	34,959	37,420
PROVISION FOR LOAN LOSSES	22,000	6,500
Net interest income	12,959	30,920
OTHER OPERATING INCOME:		
Deposit fees and other service charges	4,936	5,013
Mortgage banking operations	2,715	1,615
Loan servicing fees	(270)	349
Miscellaneous	520	331
	7,901	7,308
Net change in valuation of financial instruments carried at fair value	(3,253)	823
Total other operating income	4,648	8,131
OTHER OPERATING EXPENSES:		
Salary and employee benefits	17,601	19,638
Less capitalized loan origination costs	(2,116)	(2,241)
Occupancy and equipment	6,054	5,868
Information/computer data services	1,534	1,989
Payment and card processing expenses	1,453	1,531
Professional services	1,194	755
Advertising and marketing	1,832	1,418
Deposit insurance	1,497	327
State/municipal business and use taxes	540	564
Amortization of core deposit intangibles	690	736
Miscellaneous	3,514	3,123
Total other operating expenses	33,793	33,708
	(16,186)	5,343

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Income (loss) before provision for (benefit from) income taxes		
PROVISION FOR (BENEFIT FROM) INCOME TAXES	(6,923)	1,509
NET INCOME (LOSS)	\$ (9,263)	\$ 3,834
PREFERRED STOCK DIVIDEND AND DISCOUNT ACCRETION		
Preferred stock dividend	\$ 1,550	\$ --
Preferred stock discount accretion	373	--
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS	\$ (11,186)	\$ 3,834
Earnings (loss) per common share (see Note 11):		
Basic	\$ (0.65)	\$ 0.24
Diluted	\$ (0.65)	\$ 0.24
Cumulative dividends declared per common share:	\$ 0.01	\$ 0.20

See selected notes to consolidated financial statements

BANNER CORPORATION AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
 (Unaudited) (In thousands)
 For the Quarters Ended March 31, 2009 and 2008

	Quarters Ended March 31	
	2009	2008
NET INCOME (LOSS)	\$ (9,263)	\$ 3,834
OTHER COMPREHENSIVE INCOME, NET OF INCOME TAXES:		
Unrealized holding gain (loss) during the period, net of deferred income tax (benefit) of \$150 and \$0	264	--
Amortization of unrealized loss on tax exempt securities transferred from available-for-sale to held-to-maturity	14	14
Other comprehensive income	278	14
COMPREHENSIVE INCOME (LOSS)	\$ (8,985)	\$ 3,848

See selected notes to consolidated financial statements

BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited) (In thousands, except per share amounts)
For the Quarters Ended March 31, 2009 and 2008

	Preferred Stock	Common Stock and Paid in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Unearned Restricted ESOP Shares	Carrying Value, Net of Liability, Of Shares Held in Trust for Stock-Related Compensation	Stockholders' Equity
Balance, January 1, 2009	\$ 115,915	\$ 316,740	\$ 2,150	\$ 572	\$ (1,987)	\$ (42)	\$ 433,348
Net income (loss)			(9,263)				(9,263)
Change in valuation of securities—available-for-sale, net of income tax				264			264
Amortization of unrealized loss on tax exempt securities transferred from available-for-sale to held-to-maturity, net of income taxes				14			14
Additional registration costs for issuance of preferred stock		(42)					(42)
Accretion of preferred stock discount	373		(373)				--
Accrual of dividends on preferred stock			(1,550)				(1,550)
Accrual of dividends on common stock (\$.01/share cumulative)			(174)				(174)
Proceeds from issuance of common stock for stockholder reinvestment program, net of registration expenses		1,897					1,897
Amortization of compensation related to MRP						16	16

Amortization of compensation related to stock options	33	33
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