

BANNER CORP  
Form 8-K  
April 28, 2005

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 28, 2005

Banner Corporation

(Exact name of registrant as specified in its charter)

<u>Washington</u>	<u>0-26584</u>	<u>91-1691604</u>
State or other jurisdiction of incorporation	Commission File Number	(I.R.S. Employer Identification No.)

10 S. First Avenue, Walla Walla, Washington  
(Address of principal executive offices)

99362  
(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))

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**Item 2.02 Results of Operations and Financial Condition**

On April 28, 2005, Banner Corporation issued its earnings release for the quarter ended March 31, 2005. 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 April 28, 2005.

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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 28, 2005

By: /s/D. Michael Jones \_\_\_\_\_  
D. Michael Jones  
President and Chief Executive Officer

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**Exhibit 99.1**

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**THE CEREGHINO  
GROUP**

CORPORATE INVESTOR RELATIONS  
5333 - 15<sup>th</sup> AVE So., SUITE 1500  
SEATTLE, WA 98108  
206.762.0993  
[www.stockvalues.com](http://www.stockvalues.com)

Contact: D. Michael Jones,  
President and CEO  
Lloyd W. Baker, CFO

(509) 527-3636 **NEWS RELEASE**

BANNER CORPORATION'S NET INCOME INCREASES 8% FOR FIRST QUARTER:  
NET INTEREST INCOME CLIMBS 11% AS LOANS GROW 20%

Walla Walla, WA - April 28, 2005 - Banner Corporation (Nasdaq: BANR), the parent company of Banner Bank, today reported that continued strong growth in loans and core deposits contributed to an increase in profits for the first quarter ended March 31, 2005, compared to the first quarter a year ago. For the first quarter of 2005, the Company's net income increased 8% to \$4.7 million, or \$0.39 per diluted share, compared to \$4.4 million, or \$0.38 per diluted share, for the first quarter of 2004.

"We have had a very busy first quarter with the grand opening of five new branches in western Washington," said D. Michael Jones, President and Chief Executive Officer. "We recently opened branch offices in Kent, Everett, Edmonds, Lynnwood and Mercer Island and we relocated branches in Lynden and Spokane. We are encouraged by the deposit growth and customer activity these new locations have experienced. We also saw significant progress on construction of new offices in Vancouver and Walla Walla, Washington and Boise, Idaho. In addition, we moved forward on the four other southwestern Idaho branch offices we expect to open later this year. Over time, this expansion should improve our cost of funds and build long-term franchise value. However, this branch expansion activity does not come without a cost. As we hire staff and incur operating expenses ahead of earnings, these new branches will initially reduce our profitability. As previously announced, during 2005 we expect to incur net after-tax costs of approximately \$2.5 million from the opening of these facilities."

"We also launched an international banking department earlier in the quarter. We previously outsourced these services to bigger banks but as customer requests for better international service increased we saw a new opportunity," said Jones. "The department will allow us to offer expanded letter of credit services and will soon offer trade financing, currency exchange and foreign wire transfers. There are an estimated 4,000 businesses in the Puget Sound region that now trade overseas."

### First Quarter 2005 Highlights

(Compared to First Quarter 2004)

- Loans increased 20% to \$2.13 billion.
- Non-interest bearing deposits increased 26% and total deposits grew 14% to \$1.99 billion.
- Non-performing assets declined by 36%.
- Net interest income, after the provision for loan loss, increased 13% to \$24.0 million.
- Revenues increased 10% to \$29.2 million.
- Assets increased 10% to \$2.97 billion.
- Opened five new branches in the Puget Sound area.
- Launched an international banking department.

### Income Statement Review

Banner's net interest margin was 3.71% for the first quarter of 2005, compared to 3.70% in the first quarter a year ago. Banner's fourth quarter net interest margin was 3.72%. "Although we saw strong loan growth and increasing asset yields for the first quarter, our net interest margin remained steady as a result of higher funding costs," said Jones. Funding costs were up 16 basis points compared to the previous quarter and up 31 basis points from the first quarter a year earlier. Asset yields were also higher, increasing by 15 and 30 basis points, respectively, compared to the quarters ended December 31, 2004 and March 31, 2004.

For the first quarter, net interest income before the provision for loan losses increased 11% to \$25.2 million, compared to \$22.7 million in the same quarter a year ago, reflecting strong loan growth and improved credit quality. Revenues (net interest income before the provision for loan losses plus other operating income) increased 10% to \$29.2 million,

compared to \$26.5 million for the same quarter of 2004. Banner's net interest income, after the provision for loan losses, increased 13% for the first quarter of 2005 compared to the same period a year ago.

Total other operating income for the first quarter increased 5% to \$4.0 million, compared to \$3.8 million for the same quarter last year. Income from deposit fees and other service charges increased to \$2.0 million in the first quarter, compared to \$1.8 million for the same period in 2004. Mortgage banking operations and loan servicing fees increased 10% to \$1.7 million in the first quarter compared to \$1.5 million for the first quarter a year ago.

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As a result of Banner's expansion strategy and its increased size, other operating expense was \$21.3 million for the quarter ended March 31, 2005, compared to \$18.8 million for the first quarter a year ago and \$20.4 million for the fourth quarter of 2004. The ratio of other operating expense (expense ratio) to average assets was 2.95% for the first quarter, compared to 2.85% for the fourth quarter of 2004 and 2.88% for the first quarter of 2004.

"We have added to our Puget Sound-area presence with new branches in Kent, Everett, Edmonds, Lynnwood and Mercer Island, Washington. These branches are in the heart of Puget Sound, a thriving business community with ties to aerospace, computer software, biomedical research, medical technology and international business. This franchise expansion has already added to our balance sheet, with new loans and deposits. While these new locations will increase our overhead expenses and temporarily decrease our short-term profitability, over time they should help reduce our dependence on borrowed funds and improve our net interest margin," said Jones.

## Balance Sheet Review

"Our loan portfolio continued to grow at double-digit rates," said Jones. "Our lending personnel have generated steady growth in commercial and multifamily real estate loans, construction and land loans, and commercial and agricultural business loans, which combined now account for 82% of the loan portfolio." Net loans increased 20%, to \$2.13 billion at March 31, 2005, from \$1.77 billion a year ago. Assets reached a record \$2.97 billion, a 10% increase from \$2.71 billion a year earlier.

"Our deposit growth was solid this quarter, in part reflecting some of our new locations, but also resulting from continued success at many of our existing branches," added Jones. Total deposits grew 14%, to \$1.99 billion, compared to \$1.75 billion at March 31, 2004. Non-interest bearing deposits increased 26% at March 31, 2005 compared to March 31, 2004, and increased 10% compared to the quarter ended December 31, 2004. Transaction and savings accounts grew 28% during the twelve months ending March 31, 2005, while certificates of deposit increased only 4% as Banner continues to change its funding mix. Book value per share was \$18.55 at March 31, 2005, compared to \$18.81 a year earlier. Tangible book value per share was \$15.40 at March 31, 2005, compared to \$15.53 a year earlier.

## Credit Quality

"Compared to a year earlier, our key credit quality ratios improved as a result of a 36% reduction in non-performing assets," said Jones. Non-performing assets were \$18.9 million, or 0.64% of total assets, at March 31, 2005, compared to \$29.6 million, or 1.09% of total assets, at March 31, 2004. The provision for loan losses for the first quarter was \$1.2 million, compared to \$1.5 million in the same quarter of 2004. Net loan charge-offs in the first quarter of 2005 were 0.05% of average loans outstanding. At March 31, 2005, the allowance for loan losses totaled \$29.7 million, representing 1.38% of total loans outstanding.

#### Conference Call

The Company will host a conference call today, Thursday, April 28, 2005, at 8:00 a.m. PDT, to discuss 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](http://www.bannerbank.com) or to [www.fulldisclosure.com](http://www.fulldisclosure.com). Institutional investors may access the call via the subscriber-only site, [www.streetevents.com](http://www.streetevents.com). An archived recording of the call can be accessed by dialing 303-590-3000, passcode 11027824# until Thursday, May 5, 2005 or via the Internet at [www.fulldisclosure.com](http://www.fulldisclosure.com).

#### About the Company

Banner Corporation is the parent company of Banner Bank, a commercial bank, which operates a total of 51 branch offices and 13 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](http://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 Banner'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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Transmitted on Business Wire on Thursday, April 28, 2005, at 3:30 a.m. PDT.

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