BANNER CORP
Form 8-K
January 27, 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): January 27, 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 January 27, 2004.

Item 12. Results of Operations and Financial Condition

On January 27, 2004, Banner Corporation issued its earnings release for the third quarter ended December 31, 2003. A copy of the earnings release is attached hereto as Exhibit 99.1, which is incorporated herein by reference.

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: January 27, 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 FOURTH QUARTER NET INCOME INCREASES TO $4.4 MILLION;

2003 PROFITS INCREASE 74%TO $16.1 MILLION AS LOAN AND DEPOSIT PORTFOLIOS GROW

Walla Walla, WA January 27, 2004 Banner Corporation (Nasdaq: BANR), the parent of Banner Bank, today reported improved net interest income and growth in assets and deposits contributed to the increase in net income for the quarter and year ended December 31, 2003, compared to the quarter and year ended December 31, 2002. For all of 2003, net income increased 74% to $16.1 million, or $1.44 per diluted share, compared to $9.3 million, or $0.82 per diluted share, for 2002. For the fourth quarter of 2002, the Company reported a loss of $1.6 million, or $0.14 per diluted share, compared to net income of $4.4 million, or $0.39 per diluted share, for the fourth quarter of 2003.

"It is particularly encouraging to end 2003 with an improving net interest margin for the fourth quarter, compared to the third quarter. We also continued to grow our balance sheet, which allowed net interest income to increase compared to a year ago despite the margin pressure caused by an extended period of exceptionally low market interest rates," said D. Michael Jones, President and Chief Executive Officer. "And despite a disappointment in the most recent quarter, we have made important strides over the past year addressing asset quality."

Credit Quality

Non-performing assets were $31.6 million, or 1.20% of total assets, at December 31, 2003, a 25% reduction from $42.2 million, or 1.86% of total assets, at December 31, 2002. The loan loss provision for the fourth quarter was $1.4 million, level with the provision in the third quarter, and a substantial reduction from the $10.0 million provision for the fourth quarter a year ago. At December 31, 2003, the allowance for loan losses totaled $26.1 million, representing 1.51% of total loans outstanding, compared to $26.2 million, or 1.55% of total loans, at September 30, 2003, and $26.5 million, r 1.69% of total loans, at December 31, 2002. "Unfortunately, during the fourth quarter, we placed one large agricultural borrowing relationship on non-accrual status, which offset a significant amount of improvement with respect to other non-performing assets. Nonetheless, for the year, we made meaningful progress improving asset quality," said Jones. "We are committed to achieving and maintaining a high quality loan portfolio."

Income Statement Review

Net interest margin increased 22 basis points to 3.57% for the quarter ended December 31, 2003, compared to 3.35% for the prior quarter. In the fourth quarter of 2002 the net interest margin was 3.86%. For the full year, the net interest margin was 3.53%, compared to 3.91% for the prior year. "After declining to a low point in the third quarter as a result of accelerated prepayments on mortgage-related assets, the yield on the securities portfolio rebounded to over 4%, while the cost of deposits and borrowing continued to decline. The combined effect contributed to the expansion in our fourth quarter net interest margin," said Jones. "While we expect continued pressure on the margin in the current low rate environment, this improvement is notable."

Revenues (net interest income before the provision for loan losses plus other operating income) for 2003 increased 6% to $100.2 million, compared to $94.2 million for 2002. For the fourth quarter, revenues increased to $25.3 million, compared to $25.1 million for the same quarter of 2002.

"As refinancing activity slows, mortgage banking operations are returning to more normal levels. While this decreases our other operating income, it also decreases related expenses," said Jones. For the quarter, income from mortgage banking operations, including loan servicing fees, was $1.6 million, compared to $3.1 million for the fourth quarter of 2002. Deposit fees and other service charges increased 24% for the quarter and year ended December 31, 2003, to $1.8 million and $7.2 million, respectively, compared to $1.5 million and $5.8 million for the same periods of 2002. Total other operating income for the quarter was $3.8 million, compared to $5.2 million for the same quarter last year. For 2003, other operating income grew 23% to $19.6 million, compared to $15.9 million for 2002.

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Other operating expense was $17.7 million for the quarter ended December 31, 2003, compared to $17.9 million for the third quarter of 2003 and $18.0 million for the fourth quarter of 2002, in part reflecting the decline in mortgage banking activity. For 2003, other operating expense totaled $69.9

million, compared to $60.4 million for the prior year. The ratio of other operating expense to average assets was 2.75% for the fourth quarter, compared to 2.84% for the third quarter of 2003 and 3.23% for the fourth quarter of 2002. For the year, the expense ratio was 2.86%, compared to 2.81% for 2002. Factors contributing to the higher annual operating expenses include the increase in branches and lending centers, substantially augmented lending staff, increases in compensation to real estate lenders due to their exceptional volumes, higher problem loan collection costs, and increased marketing expenditures.

Balance Sheet Review

"While loan payoffs and sales reduced the balance of one- to four-family loans, our loan portfolio continued its overall growth," said Jones. "Commercial and multifamily real estate, construction and land development loans have grown 19% from a year ago and now account for 55% of the portfolio, compared to 50% of the portfolio at December 31, 2002. Commercial business and agricultural lending has increased 14% over the past twelve months and now represents 26% of the total portfolio." Net loans grew 10%, to $1.7 billion at December 31, 2003, from $1.6 billion a year ago, despite a $49 million, or 14%, decline in one- to four-family loans. Excluding the one- to four-family loan portfolio, net loans increased 17% for the year.

Assets increased 16%, to $2.6 billion at December 31, 2003, compared to $2.3 billion a year earlier. Deposits grew 12%, to $1.7 billion, compared to $1.5 billion at December 31, 2002. "The growth of deposits, and the declining cost of these deposits, is a welcome sign of our success in attracting and retaining good quality customers," Jones added. Book value per share increased to $18.37 at December 31, 2003, from $17.64 per share a year earlier. Tangible book value totaled $15.06 per share at December 31, 2003, compared to $14.24 a year earlier.

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

Conference Call

The company will host a conference call today, Tuesday, January 27, 2004, at 8:00 a.m. PST, to discuss the fourth quarter and full year 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 567992 until Tuesday, February 3, 2004 or via the Internet at www.fulldisclosure.com through February 10, 2004.

About the Company

Banner Corporation is the parent of Banner Bank, a commercial bank which operates a total of 42 branch offices and nine loan offices in 20 counties in Washington, Oregon and Idaho. Banner 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, 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			Year Ended	
	Dec 31, 2003	Sep 30, 2003	Dec 31, 2002	Dec 31, 2003	Dec
INTEREST INCOME:					
Loans receivable	$ 28,711	$ 29,260	$ 30,492	$ 116,211	$
Mortgage-backed securities	3,857	2,227	2,526	12,319	
Securities and cash equivalents	3,221	3,035	2,615	11,911	
	35,789	34,522	35,633	140,441	
INTEREST EXPENSE:					
Deposits	8,373	8,889	9,455	34,984	
Federal Home Loan Bank advances	5,056	5,339	5,604	21,842	
Trust preferred securities	674	446	467	2,233	
Other borrowings	226	188	226	789	
	14,329	14,862	15,752	59,848	
Net interest income before provision for loan losses	21,460	19,660	19,881	80,593	
PROVISION FOR LOAN LOSSES	1,400	1,400	10,000	7,300	
Net interest income after provision for loan losses	20,060	18,260	9,881	73,293	
OTHER OPERATING INCOME:					
Loan servicing fees	368	241	475	1,056	

Deposit fees and other service charges	1,832	1,895	1,473	7,224	
Mortgage banking revenues	1,217	2,924	2,674	9,447	
Gain (loss) on sale of securities	45	15	- -	63	
Miscellaneous	379	464	557	1,791	
Total other operating income	3,841	5,539	5,179	19,581	
OTHER OPERATING EXPENSE:					
Salary and employee benefits	11,737	12,495	10,505	47,032	
Less capitalized loan origination costs	(1,618)	(2,028)	(1,737)	(7,196)	
Occupancy and equipment	2,407	2,447	2,259	9,575	
Information / computer data services	896	930	1,069	3,532	
Miscellaneous	4,254	4,024	5,883	16,933	
Total other operating expense	17,676	17,868	17,979	69,876	
Income before provision for income taxes	6,225	5,931	(2,919)	22,998	
PROVISION FOR INCOME TAXES	1,821	1,778	(1,362)	6,891	
NET INCOME	$ 4,404	$ 4,153	$ (1,557)	$ 16,107	$
Earnings per share					
Basic	$ 0.40	$ 0.38	$ (0.14)	$ 1.49	$
Diluted	$ 0.39	$ 0.37	$ (0.14)	$ 1.44	$
Cumulative dividends declared per common share	$ 0.16	$ 0.15	$ 0.15	$ 0.61	$
Weighted average shares outstanding					
Basic	10,885,611	10,842,791	10,738,460	10,830,365	10,
Diluted	11,423,747	11,268,718	11,094,056	11,216,784	11,
Shares repurchased during the period	14,931	5,701	58,490	23,657	

(more)

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FINANCIAL CONDITION

(In thousands except share and per share data)

	Dec 31, 2003	Sep 30, 2003	Dec 31, 2002
ASSETS			

Cash and due from banks	$ 77,298	$ 72,320	$ 132,910
Securities available for sale	674,942	592,830	421,222
Securities held to maturity	27,232	12,528	13,253
Federal Home Loan Bank stock	34,693	34,262	32,831
Loans receivable:			
Held for sale	15,912	23,593	39,366
Held for portfolio	1,711,013	1,668,392	1,534,100
Allowance for loan losses	(26,060)	(26,161)	(26,539)
	1,700,865	1,665,824	1,546,927
Accrued interest receivable	13,410	13,944	13,689
Real estate held for sale, net	2,967	6,849	6,062
Property and equipment, net	22,818	22,074	20,745
Goodwill and other intangibles	36,513	36,563	36,714
Deferred income tax asset, net	1,941	1,391	2,786
Bank owned life insurance	33,669	33,218	31,809
Other assets	8,965	10,563	4,224
	$ 2,635,313	$ 2,502,366	$ 2,263,172
LIABILITIES			
Deposits:			
Non-interest-bearing	$ 205,656	$ 203,396	$ 200,500
Interest-bearing	1,465,284	1,502,324	1,297,278
	1,670,940	1,705,720	1,497,778
Borrowings:			
Advances from Federal Home Loan Bank	612,552	461,552	465,743
Trust preferred securities	56,703	55,000	40,000
Other borrowings	69,444	58,764	41,202
	738,699	575,316	546,945
Accrued expenses and other liabilities	18,444	19,139	24,700
Deferred compensation	4,252	4,006	3,372
Income taxes payable	178	- -	- -
	2,432,513	2,304,181	2,072,795
STOCKHOLDERS' EQUITY			
Common stock and additional paid in capital	123,375	121,383	120,554
Retained earnings	80,286	77,411	70,813
Accumulated other comprehensive income	3,191	4,166	3,488
Unearned shares of common stock issued to Employee Stock Ownership Plan (ESOP) trust: at cost	(3,589)	(4,264)	(4,262)
Net carrying value of stock			

related deferred compensation plans	(463)	(511)	(216)
	202,800	198,185	190,377
	$ 2,635,313	$ 2,502,366	$ 2,263,172
Shares Issued:			
Shares outstanding at end of period	11,473,331	11,415,636	11,306,977
Less unearned ESOP shares at end of period	434,299	515,960	515,707
Shares outstanding at end of period excluding unearned ESOP shares	11,039,032	10,899,676	10,791,270
Book value per share (1)	$ 18.37	$ 18.18	$ 17.64
Tangible book value per share (1)	$ 15.06	$ 14.83	$ 14.24
Consolidated Tier 1 leverage capital ratio	8.67%	8.64%	8.77%

(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).

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ADDITIONAL FINANCIAL INFORMATION
(Dollars in thousands)

LOANS (including loans held for sale):	Dec 31, 2003	Sep 30, 2003	Dec 31, 2002
Secured by real estate:			
One- to four-family	$ 275,197	$ 274,723	$ 329,314
Consumer secured by one to four-family	31,277	28,243	26,195
Total one to four-family	306,474	302,966	355,509
Commercial	455,964	433,800	379,099
Multifamily	89,072	76,397	72,333
Construction and land	398,954	392,819	339,516
Commercial business	321,671	326,368	285,231
Agricultural business including secured by farmland	118,903	122,890	102,626
Consumer	35,887	36,745	39,152
Total loans outstanding	$1,726,925	$1,691,985	$1,573,466

NON-PERFORMING ASSETS:	Dec 31, 2003	Sep 30, 2003	Dec 31, 2002
Loans on non-accrual status	$ 28,010	$ 23,209	$ 34,249
Accruing loans greater than 90 days delinquent	421	1,227	1,859
Total non-performing loans	28,431	24,436	36,108
Real estate owned (REO) /Repossessed assets	3,132	7,164	6,062
Total non-performing assets	$ 31,563	$ 31,600	$ 42,170
Total non-performing assets / Total assets	1.20%	1.26%	1.86%

	Quarters Ended			Year Ended	
CHANGE IN THE ALLOWANCE FOR LOAN LOSSES:	Dec 31, 2003	Sep 30, 2003	Dec 31, 2002	Dec 31, 2003	Dec
Balance at beginning of period	$ 26,161	$ 26,075	$ 19,150	$ 26,539	$
Acquisitions / (divestitures)	- -	- -	- -	- -	
Provision for loan losses	1,400	1,400	10,000	7,300	
Recoveries	155	566	208	1,075	
Charge-offs	(1,656)	(1,880)	(2,819)	(8,854)	(
Net (charge-offs) recoveries	(1,501)	(1,314)	(2,611)	(7,779)	(
Balance at end of period	$ 26,060	$ 26,161	$ 26,539	$ 26,060	$
Net charge-offs / Average loans outstanding	0.09%	0.08%	0.16%	0.47%	
Allowance for loan losses / Total loans outstanding	1.51%	1.55%	1.69%	1.51%	

(more)

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

	Quarters Ended			Year Ende	
OPERATING PERFORMANCE:	Dec 31, 2003	Sep 30, 2003	Dec 31, 2002	Dec 31, 2003	De
Average loans	$ 1,701,335	$ 1,698,796	$ 1,589,608	$ 1,654,344	$
Average securities and deposits	685,836	628,485	454,671	625,804	
Average non-interest-earning assets	167,042	170,972	162,595	163,481	
Total average assets	$ 2,554,213	$ 2,498,253	$ 2,206,874	$ 2,443,629	$
Average deposits	$ 1,678,097	$ 1,691,159	$ 1,481,623	$ 1,619,297	$
Average borrowings	654,057	586,894	515,612	609,356	
Average non-interest-earning liabilities	22,407	23,470	14,582	18,735	
Total average liabilities	2,354,561	2,301,523	2,011,817	2,247,388	
Total average equity	199,652	196,730	195,057	196,241	
Total average liabilities and equity	$ 2,554,213	$ 2,498,253	$ 2,206,874	$ 2,443,629	$
Interest rate yield on loans	6.70%	6.83%	7.61%	7.02%	
Interest rate yield on securities and deposits	4.09%	3.32%	4.49%	3.87%	
Interest rate yield on interest-earning assets	5.95%	5.89%	6.92%	6.16%	
Interest rate expense on deposits	1.98%	2.09%	2.53%	2.16%	
Interest rate expense on borrowings	3.61%	4.04%	4.85%	4.08%	
Interest rate expense on interest-bearing liabilities	2.44%	2.59%	3.13%	2.69%	
Interest rate spread	3.51%	3.30%	3.79%	3.47%	
Net interest margin	3.57%	3.35%	3.86%	3.53%	
Other operating income / Average assets	0.60%	0.88%	0.93%	0.80%	
Other operating expense / Average assets	2.75%	2.84%	3.23%	2.86%	
Efficiency ratio (other operating expense / revenue)	69.86%	70.91%	71.74%	69.75%	
Return on average assets	0.68%	0.66%	(0.28%)	0.66%	
Return on average equity	8.75%	8.38%	(3.17%)	8.21%	
Average equity / Average assets	7.82%	7.87%	8.84%	8.03%	

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