

BANNER CORP
Form 8-K
May 01, 2008

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 30, 2008

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 (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))

Item 2.02 Results of Operations and Financial Condition

On April 30, 2008, Banner Corporation issued its earnings release for the quarter ended March 31, 2008. 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 30, 2008.

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 30, 2008

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 Earns \$3.8 Million, or \$0.24 per diluted share, in First Quarter;
Includes Provision for Loan Losses of \$6.5 Million**

Walla Walla, WA – April 30, 2008 – Banner Corporation (NASDAQ GMS: BANR), the parent company of Banner Bank and Islanders Bank, today reported that net income for the first quarter of 2008 was \$3.8 million, or \$0.24 per diluted share, compared to \$7.8 million, or \$0.62 per diluted share, in the first quarter of 2007. Banner’s net income for the quarter was significantly reduced by a \$6.5 million (\$4.2 million after tax) provision for loan losses as a result of increasing concerns relating to construction and land development lending.

“Similar to the second half of 2007, the first quarter of 2008 presented a difficult operating environment for Banner Corporation, as stressed housing markets and unprecedented interest rate changes by the Federal Reserve resulted in higher credit costs and compression of our net interest margin,” stated D. Michael Jones, President and Chief Executive Officer. “While our net charge-offs have been reasonable and our impairment analysis on non-performing loans to date has not been alarming, delinquencies have increased and we are concerned that the increasing number of distressed sellers and lender foreclosures may further disrupt certain markets and adversely affect home prices and the demand for building lots over the near term. We are particularly concerned that the higher levels of delinquencies and loan loss provisioning announced by a number of lenders in our markets could lead to significant discounting of property values in efforts to expedite problem loan resolutions. As a result, we significantly increased our loan loss provision over what we initially believed would be appropriate in order to build our unallocated reserves. Further, although we remain optimistic about the Northwest economy, we expect the level of nonperforming assets to remain above historical levels for the balance of this year.

“While the operating environment has been challenging, we are pleased with the efforts of our staff which have allowed us to complete three acquisitions and two data processing conversions, as well as to open ten new branches, over the past fifteen months, Jones continued. “These efforts have resulted in an additional 26 locations to serve our customers and contributed significantly to our loan and deposit growth. In addition to growth resulting from these new locations, we have been particularly encouraged by increases in our commercial business loan balances in recent quarters. We are also pleased by the continuing growth in deposit fees and service charges as our customer base has expanded, as well as by stronger results from our mortgage banking operations.”

Banner’s net income included net gains of \$823,000 (\$527,000 after tax) in the first quarter of 2008, versus a gain of \$1.2 million (\$755,000 after tax) in the first quarter of 2007 for fair value adjustments* as a result of changes in the valuation of financial instruments carried at fair value in accordance with the adoption of Statement of Financial Accounting Standards (SFAS) No. 159 and SFAS No. 157. Excluding fair value adjustments, net income from recurring operations was \$3.3 million, or \$0.21 per diluted share, in the first quarter of 2008, compared to \$7.1

million, or \$0.56 per diluted share, in the first quarter a year ago.

1Q08 Summary (compared to 1Q07 except as noted)

- Net income, excluding fair value adjustments, was \$3.3 million, or \$0.21 per diluted share.
 - Net interest income before provision for loan losses grew 16% to \$37.4 million.
- The net interest margin declined to 3.63%, compared to 3.82% in the preceding quarter and 3.94% for the first quarter of 2007.
- Nonperforming assets increased to 1.36% of total assets, while net charge-offs remained modest at 0.05% of average loans.
 - The provision for loan losses was \$6.5 million compared to \$1.0 million a year ago.
- Revenues (net interest income before the provision for loan losses plus other operating income) excluding fair value adjustments increased 20% to \$44.7 million.
 - Operating expenses declined 4.4% from the fourth quarter of 2007.
 - Staffing levels were reduced 2.3% in the first quarter versus the preceding quarter.
 - Total deposits increased 26% to \$3.69 billion.
 - Loans increased 27% to \$3.79 billion.

*Earnings information excluding the fair value adjustments (net income from recurring operations) represent non-GAAP (Generally Accepted Accounting Principles) financial measures. Management has presented these non-GAAP financial measures in this earnings release because it believes that they provide more useful and comparative information to assess trends in the Company's core operations reflected in the current quarter and year-to-date results. Where applicable, the Company has also presented comparable earnings information using GAAP financial measures.

(more)

BANR - First Quarter 2008 Results

April 30, 2008

Page 2

Credit Quality

“The strains on housing and financial markets resulted in increasing delinquencies and non-performing assets, primarily construction and land development loans,” said Jones. “While our net charge-offs remain reasonable and in line with our expectations, we have chosen to increase our reserves through a higher level of provisioning, as the level of uncertainty with respect to property values has clearly increased. As well as covering known issues, the first quarter’s provision increased the unallocated portion of our allowance for loan losses to approximately \$10 million at quarter end to address this uncertainty.” Banner added \$6.5 million to its provision for loan losses in the first quarter of 2008, compared to \$2.0 million in the fourth quarter of 2007 and \$1.0 million in the first quarter of 2007. The allowance for loan losses at quarter-end totaled \$50.4 million, representing 1.31% of total loans outstanding. Non-performing assets were \$62.0 million, or 1.36% of total assets, at March 31, 2008, compared to \$44.3 million, or 0.99%, in the previous quarter, and \$14.1 million or 0.39% at March 31, 2007. Banner’s net charge-offs in the current quarter totaled \$1.9 million, or 0.05% of average loans.

“We shared others’ concerns about the downturn in the national housing market and initially backed away from construction lending in the Boise, Idaho market in early 2007. We also became more cautious in our approach to construction and land development lending in other markets as the year progressed,” continued Jones. “As a result, our total construction and land development loan originations in 2007 were approximately 35% lower than in the previous year and this trend continued as construction and land development loan originations in the first quarter of 2008 were approximately 60% lower than in the first quarter of 2007.

“While construction and land development loans represent 31% of our portfolio and approximately 82% of our nonperforming assets, they are significantly diversified with respect to geography and sub-markets, price ranges and borrowers,” added Jones. “Of course, the vast majority of these construction and development loans are performing as agreed and we are experiencing continuing loan payoffs and portfolio turnover. Still, we are investing significant efforts in proactively monitoring and managing this portion of our portfolio and, although we anticipate sales activity will improve through the spring and summer, we are increasingly concerned about the possibility of further deterioration in property values in some locations.” The geographic distribution of construction and land developments loans is approximately 80% in the greater Puget Sound and greater Portland, Oregon markets, and 9% in the greater Boise, Idaho market, with the remaining 11% distributed in various eastern Washington, eastern Oregon and northern Idaho markets served by Banner Bank. While nonperforming assets are similarly geographically disbursed, they are concentrated largely in land and land development loans. The geographic distribution of nonperforming construction and land developments loans and real estate owned included approximately \$22 million, or 42%, in the western Oregon (Salem and Portland)/southwestern Washington (Vancouver) market area, \$16 million, or 30%, in the Puget Sound region and \$12 million, or 24%, in the greater Boise market area.

Income Statement Review

Banner’s net interest margin was 3.63% for the first quarter of 2008, compared to 3.82% in the preceding quarter and 3.94% for the first quarter of 2007. Funding costs decreased 38 basis points compared to the previous quarter and decreased 77 basis points from the first quarter a year earlier, while asset yields decreased 55 basis points from the prior linked quarter and 104 basis points from the first quarter a year ago.

“During the first quarter we realized sharply lower asset yields which significantly reduced our net interest margin. We expect further compression to our margin in the next quarter as a result of rate adjustments that did not fully impact the current quarter’s margin because of the timing of the Federal Reserve’s rate cuts,” said Jones. “While deposit costs

also moved significantly lower in the first quarter of 2008, the more immediate impact of lower prime rates on a substantial portion of our loan portfolio resulted in compression of our net interest margin. In addition, the higher level of delinquencies is also reflected in our lower net interest margin, as non-accruing loans reduced the margin by approximately twelve basis points in the first quarter of 2008.”

In the first quarter of 2008, net interest income before the provision for loan losses increased 16% to \$37.4 million, compared to \$32.2 million in the same quarter a year ago, reflecting Banner’s much larger earning asset base. However, net interest income declined compared to the fourth quarter of 2007 as the net interest margin contracted 19 basis points compared to that period. Revenues excluding fair value adjustments increased 20% to \$44.7 million in the first quarter of 2008, from \$37.3 million in the first quarter a year ago.

Total other operating income, excluding fair value adjustments, for the first quarter increased 43% to \$7.4 million, compared to \$5.2 million for the same quarter a year ago. Income from deposit fees and other service charges increased 69% to \$5.0 million in the first quarter of 2008, compared to \$3.0 million in the first quarter a year ago. Income from mortgage banking operations increased 19% in the first quarter compared to the same period a year ago.

“Our expense ratios are improving as we are beginning to experience some of the anticipated efficiencies following last year’s acquisitions. And, while we are opening two new offices, one in Bellevue, Washington, and one in the Pearl District of Portland, Oregon, during the second quarter, we expect further improvement this year as these two branches are the only two de novo branches scheduled to open in 2008,” said Jones. “Although higher than the same period a year ago as a result of the acquisitions and new

(more)

BANR - First Quarter 2008 Results

April 30, 2008

Page 3

branches opened last year, total non-interest operating expenses for the first quarter were lower than each of the last two quarters.” Other operating expenses were \$33.7 million in the first quarter of 2008, compared to \$26.1 million in the first quarter a year ago, reflecting both new branches and acquisition activity. Other operating expenses declined by 4.4% compared to the \$35.3 million recorded in the preceding quarter ended December 31, 2007. Operating expenses as a percentage of average assets declined to 3.01% in the first quarter of 2008, compared to 3.20% in the fourth quarter of 2007.

Balance Sheet Review

“Loan growth was strongest in the commercial business and consumer sectors, reflecting the still active Northwest economy and diligent efforts on the part of our lenders,” said Jones. “However, we have significantly slowed our production of construction and land development loans as we remain very cautious in our underwriting. As a result, our construction and development loan balances declined by \$33 million during the most recent quarter compared to December 31, 2007 balances, including a decrease of \$42 million for one-to-four family construction loans.” Net loans increased 27% (20% from acquisitions) to \$3.79 billion at March 31, 2008, compared to \$2.98 billion a year earlier. Assets increased 28% to \$4.58 billion at March 31, 2008, compared to \$3.57 billion a year earlier.

Total deposits increased 26% (19% from acquisitions) to \$3.69 billion at March 31, 2008, compared to \$2.92 billion at March 31, 2007. Non-interest-bearing accounts increased 39% and total transaction and savings accounts increased 36% during the twelve months ending March 31, 2008, while certificates of deposit increased 18%. “Although we have seen a decline in average deposit balances for certain real estate-related customers as their business activity has slowed, our retail growth has been encouraging,” said Jones. “We are optimistic that our expanded branch network will deliver continued deposit growth and related fee income as we have experienced excellent growth in the number of transaction deposit accounts throughout the system and further believe that this branch network is now well-positioned to produce core deposit growth at levels sufficient to fund loan growth.”

Shareholders’ equity for the quarter ended March 31, 2008, increased 52% year over year. At March 31, 2008, shareholders’ equity was \$429.5 million compared to \$281.9 million at March 31, 2007. The \$147.7 million increase in equity primarily reflects the issuance of stock associated with three acquisitions in 2007. During the fourth quarter of 2007, the Company issued 340,000 shares of common stock in connection with the acquisition of NCW Community Bank, resulting in \$11.8 million of additional equity. During the quarter ended June 30, 2007, the Company issued 2.6 million shares of common stock in connection with the acquisitions of F&M Bank and San Juan Financial Holding Company (Islanders Bank), resulting in \$113.1 million of additional equity. The three acquisitions also resulted in a combined increase of \$103.3 million of goodwill and other intangibles. The Company has also issued shares through its Dividend Reinvestment and Stock Purchase Plan and in connection with the exercise of vested stock options. Further, during the quarter ended March 31, 2008 the Company repurchased 613,000 shares in open market transactions. At March 31, 2007, Banner had 13.0 million shares outstanding, while it had 15.9 million shares outstanding at March 31, 2008.

Book value per share increased 24% to \$27.42 at quarter-end, from \$22.12 a year earlier, while tangible book value per share was \$18.68 at quarter-end, compared to \$19.28 a year earlier and \$18.73 at December 31, 2007.

Accounting Treatments

Banner Corporation elected early adoption of SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, and SFAS No. 157, Fair Value Measurements, effective January 1, 2007. SFAS No. 159, which

was issued in February 2007, generally permits the measurement of selected eligible financial instruments at fair value at specified election dates. SFAS No. 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles (GAAP), and expands disclosures about fair value measurement. The Company made this election to allow it more flexibility with respect to the management of its investment securities, wholesale borrowings and interest rate risk position.

Restatement and Reclassification

The Statement of Financial Condition for the quarter ended March 31, 2007 has been restated to reflect non-material cumulative adjustments to the common stock and retained earnings components of stockholders' equity related to the tax treatment of certain elements of stock-based compensation for periods prior to January 1, 2007. The effects of these adjustments are reductions of \$380,000 in income taxes payable and \$2.4 million in retained earnings and increases of \$2.8 million and \$380,000, respectively, in common stock (paid-in capital) and total stockholders' equity as of December 31, 2006. These adjustments have immaterially affected certain previously reported ratios for the quarter ended March 31, 2007.

In addition, certain reclassifications have been made to the prior periods' consolidated financial statements and/or schedules to conform to the current period's presentation. These reclassifications may have slightly affected certain ratios for the prior periods. These reclassifications had no effect on retained earnings or net income as previously presented and the effect of these reclassifications is considered immaterial.

(more)

BANR - First Quarter 2008 Results
April 30, 2008
Page 4

Conference Call

Banner will host a conference call on Thursday, May 1, 2008, at 8:00 a.m. PDT, to discuss fourth quarter and year end results. The conference call can be accessed live by telephone at 303-205-0044. To listen to the call online, go to the Company's website at www.bannerbank.com. An archived recording of the call can be accessed by dialing 303-590-3000, passcode 11111719# until Thursday, May 8, 2008, or via the Internet at www.bannerbank.com.

About the Company

Banner Corporation is a \$4.6 billion bank holding company operating two commercial banks 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 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 improvement in asset quality and profitability, changes in interest rates, deposit flows, demand for housing, mortgages and other loans, real estate values, competition, loan delinquency rates, the successful operation of the newly-opened branches and loan offices, the ability to successfully complete consolidation and conversion activities, incorporate acquisitions into operations, retain key employees and achieve cost savings, 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, Banner's ability to successfully resolve outstanding credit issues and other risks detailed in Banner's reports filed with the Securities and Exchange Commission, including its Annual Report on Form 10-K for the fiscal year ended December 31, 2007. 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.

(more)

BANR - First Quarter 2008 Results

April 30, 2008

Page 5

| RESULTS OF OPERATIONS (In thousands except share and per share data) | Quarters Ended | | |
|---|----------------|--------------|--------------|
| | Mar 31, 2008 | Dec 31, 2007 | Mar 31, 2007 |
| INTEREST INCOME: | | | |
| Loans receivable | \$ 68,073 | \$ 72,592 | \$ 61,828 |
| Mortgage-backed securities | 1,153 | 1,179 | 1,775 |
| Securities and cash equivalents | 2,727 | 2,471 | 1,843 |
| | 71,953 | 76,242 | 65,446 |
| INTEREST EXPENSE: | | | |
| Deposits | 30,063 | 34,091 | 27,610 |
| Federal Home Loan Bank advances | 1,849 | 435 | 2,277 |
| Other borrowings | 610 | 766 | 928 |
| Junior subordinated debentures | 2,064 | 2,288 | 2,454 |
| | 34,586 | 37,580 | 33,269 |
| Net interest income before provision for loan losses | 37,367 | 38,662 | 32,177 |
| PROVISION FOR LOAN LOSSES | 6,500 | 2,000 | 1,000 |
| Net interest income | 30,867 | 36,662 | 31,177 |
| OTHER OPERATING INCOME: | | | |
| Deposit fees and other service charges | 5,013 | 4,770 | 2,963 |
| Mortgage banking operations | 1,615 | 1,325 | 1,355 |
| Loan servicing fees | 402 | 625 | 375 |
| Miscellaneous | 331 | 800 | 461 |
| | 7,361 | 7,520 | 5,154 |
| Increase in valuation of financial instruments carried at fair value | 823 | 9,209 | 1,180 |
| Total other operating income | 8,184 | 16,729 | 6,334 |

OTHER OPERATING
EXPENSE:

| | | | |
|--|------------|------------|------------|
| Salary and employee benefits | 19,638 | 19,441 | 16,468 |
| Less capitalized loan origination costs | (2,241) | (2,459) | (2,594) |
| Occupancy and equipment | 5,868 | 6,011 | 4,352 |
| Information / computer data services | 1,989 | 2,130 | 1,369 |
| Payment and card processing services | 1,531 | 1,663 | 988 |
| Professional services | 755 | 932 | 559 |
| Advertising and marketing | 1,418 | 2,163 | 1,857 |
| State/municipal business and use taxes | 564 | 566 | 408 |
| Amortization of core deposit intangibles | 736 | 736 | -- |
| Miscellaneous | 3,450 | 4,090 | 2,664 |
| Total other operating expense | 33,708 | 35,273 | 26,071 |
| Income before provision for income taxes | 5,343 | 18,118 | 11,440 |
| PROVISION FOR INCOME TAXES | 1,509 | 6,106 | 3,627 |
| NET INCOME | \$ 3,834 | \$ 12,012 | \$ 7,813 |
| Earnings per share | | | |
| Basic | \$ 0.24 | \$ 0.75 | 0.63 |
| Diluted | \$ 0.24 | \$ 0.74 | 0.62 |
| Cumulative dividends declared per common share | \$ 0.20 | \$ 0.20 | 0.19 |
| Weighted average shares outstanding | | | |
| Basic | 15,847,921 | 15,936,430 | 12,322,067 |
| Diluted | 15,965,032 | 16,141,941 | 12,652,459 |
| Shares repurchased during the period | 613,903 | 58,157 | 7,986 |
| Shares issued in connection with acquisitions | -- | 339,860 | -- |
| Shares issued in connection with exercise of stock options or DRIP | 251,391 | 163,379 | 673,395 |

PRO FORMA DISCLOSURES EXCLUDING THE EFFECTS OF THE
CHANGE IN THE VALUATION OF

| | | | | |
|--|----|----------|----------|---------|
| FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE | | | | |
| NET INCOME from above | \$ | 3,834 \$ | 12,012\$ | 7,813 |
| ADJUSTMENTS FOR CHANGE IN VALUATION OF FINANCIAL INSTRUMENTS | | | | |
| Change in valuation of financial instruments carried at fair value | | (823) | (9,209) | (1,180) |
| Income tax provision related to above item | | 296 | 3,315 | 425 |
| Above item, net of income tax provision | | (527) | (5,894) | (755) |
| NET INCOME FROM RECURRING OPERATIONS | \$ | 3,307 \$ | 6,118\$ | 7,058 |
| Earnings per share EXCLUDING the effects of change in valuation of financial instruments carried at fair value | | | | |
| Basic | \$ | 0.21 \$ | 0.38\$ | 0.57 |
| Diluted | \$ | 0.21 \$ | 0.38\$ | 0.56 |

(more)

BANR - First Quarter 2008 Results
 April 30, 2008
 Page 6

FINANCIAL CONDITION

(In thousands except share and per share data)

| | Mar 31, 2008 | Dec 31, 2007 | Mar 31, 2007 |
|--|--------------|--------------|--------------|
| | | | Restated(1) |
| ASSETS | | | |
| Cash and due from banks | \$ 93,634 | \$ 98,120 | \$ 59,521 |
| Federal funds and interest-bearing deposits | 28,760 | 310 | 46,122 |
| Securities -at fair value | 226,910 | 202,863 | 218,477 |
| Securities -held to maturity | 55,647 | 53,516 | 47,831 |
| Federal Home Loan Bank stock | 37,371 | 37,371 | 35,844 |
| Loans receivable: | | | |
| Held for sale | 6,118 | 4,596 | 5,340 |
| Held for portfolio | 3,833,875 | 3,805,021 | 3,006,481 |
| Allowance for loan losses | (50,446) | (45,827) | (36,299) |
| | 3,789,547 | 3,763,790 | 2,975,522 |
| Accrued interest receivable | 23,795 | 24,980 | 22,064 |
| Real estate owned held for sale, net | 7,572 | 1,867 | 918 |
| Property and equipment, net | 98,808 | 98,098 | 63,091 |
| Goodwill and other intangibles, net | 136,918 | 137,654 | 36,248 |
| Bank-owned life insurance | 51,725 | 51,483 | 38,935 |
| Other assets | 21,538 | 22,606 | 25,202 |
| | \$ 4,572,225 | \$ 4,492,658 | \$ 3,569,775 |
| LIABILITIES | | | |
| Deposits: | | | |
| Non-interest-bearing | \$ 486,201 | \$ 484,251 | \$ 348,890 |
| Interest-bearing transaction and savings accounts | 1,297,215 | 1,288,112 | 959,593 |
| Interest-bearing certificates | 1,909,894 | 1,848,230 | 1,612,665 |
| | 3,693,310 | 3,620,593 | 2,921,148 |
| Advances from Federal Home Loan Bank at fair value | 155,405 | 167,045 | 93,431 |
| | 135,032 | 91,724 | 94,369 |

Customer repurchase agreements
and other borrowings

| | | | |
|--|-----------|-----------|-----------|
| Junior subordinated debentures at fair value | 105,516 | 113,270 | 124,119 |
| Accrued expenses and other liabilities | 39,263 | 47,989 | 42,105 |
| Deferred compensation | 12,224 | 11,596 | 7,588 |
| Deferred income tax liability, net | 38 | 2,595 | -- |
| Income taxes payable (1) | 1,899 | -- | 5,165 |
| | 4,142,687 | 4,054,812 | 3,287,925 |

STOCKHOLDERS'
EQUITY

| | | | |
|--|--------------|--------------|--------------|
| Common stock (1) | 292,061 | 300,486 | 164,677 |
| Retained earnings (1) | 139,722 | 139,636 | 119,618 |
| Other components of stockholders' equity | (2,245) | (2,276) | (2,445) |
| | 429,538 | 437,846 | 281,850 |
| | \$ 4,572,225 | \$ 4,492,658 | \$ 3,569,775 |

Shares Issued:

| | | | |
|--|------------|------------|------------|
| Shares outstanding at end of period | 15,903,637 | 16,266,149 | 12,979,679 |
| Less unearned ESOP shares at end of period | 240,381 | 240,381 | 240,381 |
| Shares outstanding at end of period excluding unearned ESOP shares | 15,663,256 | 16,025,768 | 12,739,298 |

| | | | |
|-----------------------------------|----------|----------|----------|
| Book value per share (1) | \$ 27.42 | \$ 27.32 | \$ 22.12 |
| (2) | | | |
| Tangible book value per share (1) | \$ 18.68 | \$ 18.73 | \$ 19.28 |
| (2) (3) | | | |

| | | | |
|--|-------|--------|-------|
| Consolidated Tier 1 leverage capital ratio | 9.57% | 10.04% | 9.78% |
|--|-------|--------|-------|

- (1) - Income taxes payable, common stock and retained earnings have been restated to reflect adjustments related to the tax treatment of certain elements of stock-based compensation.
- (2) - 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 ESOP.
- (3) - Tangible book value excludes goodwill, core deposit and other

intangibles.

(more)

BANR - First Quarter 2008 Results

April 30, 2008

Page 7

ADDITIONAL FINANCIAL
INFORMATION(Dollars in thousands
)

| | Mar 31, 2008 | Dec 31, 2007 | Mar 31, 2007 |
|--|--------------|--------------|--------------|
| LOANS (including loans held for sale): | | | |
| Commercial real estate | \$ 899,333 | \$ 882,523 | \$ 583,478 |
| Multifamily real estate | 163,110 | 165,886 | 150,488 |
| Commercial construction | 75,849 | 74,123 | 97,007 |
| Multifamily construction | 38,434 | 35,318 | 45,897 |
| One- to four-family construction | 571,720 | 613,779 | 587,290 |
| Land and land development | 502,077 | 497,962 | 421,407 |
| Commercial business | 735,802 | 696,350 | 480,730 |
| Agricultural business including secured by farmland | 181,403 | 186,305 | 159,652 |
| One- to four-family real estate | 456,199 | 445,222 | 364,986 |
| Consumer | 216,066 | 212,149 | 120,886 |
| Total loans outstanding | \$ 3,839,993 | \$ 3,809,617 | \$ 3,011,821 |
| Restructured loans performing under their restructured terms | \$ 2,026 | \$ 2,750 | -- |
| Total delinquent loans | \$ 85,927 | \$ 69,031 | \$ 14,655 |
| Total delinquent loans / Total loans outstanding | 2.24% | 1.81% | 0.49% |
| NON-PERFORMING ASSETS: | Mar 31, 2008 | Dec 31, 2007 | Mar 31, 2007 |
| Loans on non-accrual status | \$ 53,874 | \$ 42,068 | \$ 13,059 |
| Loans more than 90 days delinquent, still on accrual | 561 | 315 | 55 |
| Total non-performing loans | 54,435 | 42,383 | 13,114 |

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| | | | |
|---|-------|-------|-----|
| Real estate owned (REO) / Repossessed assets | 7,579 | 1,885 | 958 |
|---|-------|-------|-----|

| | | | |
|-----------------------------------|--------------|----------|--------|
| Total non-performing assets | \$ 62,014 \$ | 44,268\$ | 14,072 |
|-----------------------------------|--------------|----------|--------|

| | | | |
|---|-------|-------|-------|
| Total non-performing assets / Total assets | 1.36% | 0.99% | 0.39% |
|---|-------|-------|-------|

| CHANGE IN THE ALLOWANCE FOR LOAN LOSSES: | Mar 31, 2008 | Quarters Ended | |
|--|--------------|----------------|--------------|
| | | Dec 31, 2007 | Mar 31, 2007 |

| | | | |
|---------------------------------|--------------|----------|--------|
| Balance, beginning of period | \$ 45,827 \$ | 44,212\$ | 35,535 |
|---------------------------------|--------------|----------|--------|

| | | | |
|------------------------------------|----|-------|----|
| Acquisitions / (divestitures) | -- | 1,319 | -- |
|------------------------------------|----|-------|----|

| | | | |
|-----------|-------|-------|-------|
| Provision | 6,500 | 2,000 | 1,000 |
|-----------|-------|-------|-------|

| | | | |
|---|-----|-----|-----|
| Recoveries of loans previously charged off | 144 | 127 | 664 |
|---|-----|-----|-----|

| | | | |
|-------------------|---------|---------|-------|
| Loans charged-off | (2,025) | (1,831) | (900) |
|-------------------|---------|---------|-------|

| | | | |
|-----------------------------------|---------|---------|-------|
| Net (charge-offs) recoveries | (1,881) | (1,704) | (236) |
|-----------------------------------|---------|---------|-------|

| | | | |
|---------------------------|-------------|----------|--------|
| Balance, end of period | \$ 50,446\$ | 45,827\$ | 36,299 |
|---------------------------|-------------|----------|--------|

| | | | |
|---|-------|-------|-------|
| Net charge-offs (recoveries) / Average loans outstanding | 0.05% | 0.05% | 0.01% |
|---|-------|-------|-------|

| | | | |
|--|-------|-------|-------|
| Allowance for loan losses / Total loans outstanding | 1.31% | 1.20% | 1.21% |
|--|-------|-------|-------|

| DEPOSITS | Mar 31, 2008 | Dec 31, 2007 | Mar 31, 2007 |
|----------|--------------|--------------|--------------|
|----------|--------------|--------------|--------------|

| | | | |
|----------------------|---------------|-----------|---------|
| Non-interest-bearing | \$ 486,201 \$ | 484,251\$ | 348,890 |
|----------------------|---------------|-----------|---------|

| | | | |
|---------------------------|---------|---------|---------|
| Interest-bearing checking | 452,531 | 430,636 | 345,805 |
|---------------------------|---------|---------|---------|

| | | | |
|-----------------------------|---------|---------|---------|
| Regular savings accounts | 610,085 | 609,073 | 432,823 |
|-----------------------------|---------|---------|---------|

| | | | |
|--------------------------|---------|---------|---------|
| Money market accounts | 234,599 | 248,403 | 180,965 |
|--------------------------|---------|---------|---------|

| | | | |
|--|-----------|-----------|---------|
| Interest-bearing transaction & savings accounts | 1,297,215 | 1,288,112 | 959,593 |
|--|-----------|-----------|---------|

| | | | |
|---|---------|---------|---------|
| Three-month maturity money market certificates | 174,957 | 165,693 | 187,382 |
|---|---------|---------|---------|

| | | | |
|--------------------|-----------|-----------|-----------|
| Other certificates | 1,734,937 | 1,682,537 | 1,425,283 |
|--------------------|-----------|-----------|-----------|

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| | | | |
|---|-----------------|-------------|-----------|
| Interest-bearing certificates | 1,909,894 | 1,848,230 | 1,612,665 |
| Total deposits | \$ 3,693,310 \$ | 3,620,593\$ | 2,921,148 |
| Included in other borrowings | | | |
| Customer repurchase agreements / "Sweep accounts" | \$ 85,032 \$ | 91,724\$ | 69,023 |

(more)

BANR - First Quarter 2008 Results

April 30, 2008

Page 8

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

| OPERATING PERFORMANCE: | Quarters Ended | | |
|--|----------------|--------------|--------------|
| | Mar 31, 2008 | Dec 31, 2007 | Mar 31, 2007 |
| | | | Restated(1) |
| Average loans | \$ 3,830,992 | \$ 3,716,512 | \$ 2,985,248 |
| Average securities and deposits | 312,596 | 301,071 | 324,403 |
| Average non-interest-earning assets | 359,474 | 356,752 | 192,422 |
| Total average assets | \$ 4,503,062 | \$ 4,374,335 | \$ 3,502,073 |
| Average deposits | \$ 3,606,121 | \$ 3,628,581 | \$ 2,795,532 |
| Average borrowings | 411,560 | 258,431 | 393,136 |
| Average non-interest-earning liabilities | 42,997 | 62,415 | 49,020 |
| Total average liabilities | 4,060,678 | 3,949,427 | 3,237,688 |
| Total average stockholders' equity | 442,384 | 424,908 | 264,385 |
| Total average liabilities and equity | \$ 4,503,062 | \$ 4,374,335 | \$ 3,502,073 |
| Interest rate yield on loans | 7.15% | 7.75% | 8.40% |

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| | | | |
|--|--------|--------|--------|
| Interest rate yield on securities and deposits | 4.99% | 4.81% | 4.52% |
| Interest rate yield on interest-earning assets | 6.98% | 7.53% | 8.02% |
| Interest rate expense on deposits | 3.35% | 3.73% | 4.01% |
| Interest rate expense on borrowings | 4.42% | 5.36% | 5.84% |
| Interest rate expense on interest-bearing liabilities | 3.46% | 3.84% | 4.23% |
| Interest rate spread | 3.52% | 3.69% | 3.79% |
| Net interest margin | 3.63% | 3.82% | 3.94% |
| Other operating income / Average assets | 0.73% | 1.52% | 0.73% |
| Other operating expense / Average assets | 3.01% | 3.20% | 3.02% |
| Efficiency ratio (other operating expense / revenue) | 74.00% | 63.68% | 67.70% |
| Return on average assets | 0.34% | 1.09% | 0.90% |
| Return on average equity | 3.49% | 11.22% | 11.98% |
| Return on average tangible equity (2) | 4.80% | 15.28% | 13.89% |
| Average equity / Average assets | 9.82% | 9.71% | 7.55% |

- (1) - Average non-interest-earning liabilities and average stockholders' equity have been restated to reflect adjustments related to the tax treatment of certain elements of stock-based compensation.
- (2) - Average tangible equity excludes goodwill, core deposit

and other intangibles.

Operating performance for the periods presented
excluding the effects of change in valuation
of financial
instruments carried
at fair value

Other operating income (loss)
EXCLUDING change in
valuation of

| | | | |
|--|-------|-------|-------|
| financial instruments carried at fair value / Average assets | 0.66% | 0.68% | 0.60% |
|--|-------|-------|-------|

Efficiency ratio (other operating expense / revenue)

EXCLUDING change in valuation
of financial
instruments carried
at fair value

| | | | |
|--|--------|--------|--------|
| | 75.36% | 76.38% | 69.84% |
|--|--------|--------|--------|

Return on average assets
EXCLUDING change in valuation
of financial

| | | | |
|--------------------------------------|-------|-------|-------|
| instruments carried at fair value | 0.30% | 0.55% | 0.82% |
|--------------------------------------|-------|-------|-------|

Return on average equity
EXCLUDING change in valuation
of financial

| | | | |
|--------------------------------------|-------|-------|--------|
| instruments carried at fair value | 3.01% | 5.71% | 10.83% |
|--------------------------------------|-------|-------|--------|

Return on average tangible equity
EXCLUDING change in valuation
of

| | | | |
|---|-------|-------|--------|
| financial instruments carried at fair value | 4.14% | 7.78% | 12.55% |
|---|-------|-------|--------|

(more)

BANR - First Quarter 2008 Results

April 30, 2008

Page 9

ADDITIONAL
FINANCIAL
INFORMATION(Dollars in
thousands)

| | Mar 31, 2008 | Dec 31, 2007 | Mar 31, 2007 |
|--|--------------|--------------|--------------|
| NON-PERFORMING ASSETS: | | | |
| Loans on non-accrual status | | | |
| Secured by real estate: | | | |
| One- to four-family | \$ 2,869 | \$ 3,371 | 1,536 |
| Commercial | 3,273 | 1,357 | 3,329 |
| Multifamily | -- | 1,222 | 792 |
| Construction and land | 44,192 | 33,432 | 1,842 |
| Commercial business | 3,114 | 2,250 | 4,529 |
| Agricultural business, including secured by farmland | 386 | 436 | 1,031 |
| Consumer | 40 | -- | -- |
| | 53,874 | 42,068 | 13,059 |
| Loans more than 90 days delinquent, still on accrual | | | |
| Secured by real estate: | | | |
| One- to four-family | 488 | 221 | 55 |
| Commercial | -- | -- | -- |
| Multifamily | -- | -- | -- |
| Construction and land | -- | -- | -- |
| Commercial business | -- | -- | -- |
| | -- | -- | -- |

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| | | | |
|--|-------------|----------|--------|
| Agricultural business, including secured by farmland | | | |
| Consumer | 73 | 94 | -- |
| | 561 | 315 | 55 |
| Total non-performing loans | 54,435 | 42,383 | 13,114 |
| Real estate owned (REO) / Repossessed assets | 7,579 | 1,885 | 958 |
| Total non-performing assets | \$ 62,014\$ | 44,268\$ | 14,072 |

| Loans by geographic concentration at the end of the current period March 31, 2008 | Washington | Oregon | Idaho | Other | Total |
|--|----------------|-----------|-----------|----------|-----------|
| Commercial real estate | \$ 706,235\$ | 116,326\$ | 45,792\$ | 30,980\$ | 899,333 |
| Multifamily real estate | 119,646 | 20,332 | 4,747 | 18,385 | 163,110 |
| Commercial construction | 53,488 | 11,492 | 10,703 | 166 | 75,849 |
| Multifamily construction | 30,306 | 8,128 | -- | -- | 38,434 |
| One- to four-family construction | 270,728 | 261,513 | 39,479 | -- | 571,720 |
| Land and land development | 209,607 | 204,158 | 88,312 | -- | 502,077 |
| Commercial business | 543,628 | 93,676 | 84,811 | 13,687 | 735,802 |
| Agricultural business including secured by farmland | 73,783 | 45,999 | 61,535 | 86 | 181,403 |
| One- to four-family real estate | 398,065 | 31,148 | 20,012 | 6,974 | 456,199 |
| Consumer | 163,274 | 36,141 | 11,308 | 5,343 | 216,066 |
| Total loans outstanding | \$ 2,568,760\$ | 828,913\$ | 366,699\$ | 75,621\$ | 3,839,993 |
| Percent of total loans | 66.89% | 21.59% | 9.55% | 1.97% | 100.00% |

Transmitted on Prime Newswire on Wednesday, April 30, 2008, at 1:00 p.m. PDT.