

BANNER CORP
Form 10-Q
November 09, 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 September 30, 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 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

Edgar Filing: BANNER CORP - Form 10-Q

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 (§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.

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
---	--	---	---

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 October 31, 2009
Common Stock, \$.01 par value per share	20,511,033 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

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1 - Financial Statements. The Consolidated Financial Statements of Banner Corporation and Subsidiaries filed as a part of the report are as follows:

Consolidated Statements of Financial Condition as of September 30, 2009 and December 31, 2008 3

Consolidated Statements of Operations for the Quarters and Nine Months Ended September 30, 2009 and 2008 4

Consolidated Statements of Comprehensive Income (Loss) for the Quarters and Nine Months Ended September 30, 2009 and 2008 5

Consolidated Statements of Changes in Stockholders' Equity for the Nine Months Ended September 30, 2009 and 2008 6

Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2009 and 2008 9

Selected Notes to Consolidated Financial Statements 11

Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations

Special Note Regarding Forward-Looking Statements 31

Executive Overview 31

Comparison of Financial Condition at September 30, 2009 and December 31, 2008 35

Comparison of Results of Operations for the Quarters and Nine Months Ended September 30, 2009 and 2008 36

Asset Quality 41

Liquidity and Capital Resources 44

Capital Requirements 44

Item 3 - Quantitative and Qualitative Disclosures About Market Risk

Market Risk and Asset/Liability Management 46

Sensitivity Analysis 46

<u>Item 4 - Controls and Procedures</u>	<u>50</u>
<u>PART II - OTHER INFORMATION</u>	
<u>Item 1 - Legal Proceedings</u>	<u>51</u>
<u>Item 1A - Risk Factors</u>	<u>51</u>
<u>Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>54</u>
<u>Item 3 - Defaults upon Senior Securities</u>	<u>54</u>
<u>Item 4 - Submission of Matters to a Vote of Security Holders</u>	<u>54</u>
<u>Item 5 - Other Information</u>	<u>54</u>
<u>Item 6 - Exhibits</u>	<u>55</u>
<u>SIGNATURES</u>	<u>57</u>

BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Unaudited) (In thousands, except shares)
September 30, 2009 and December 31, 2008

	September 30	December 31
	2009	2008
ASSETS		
Cash and due from banks	\$ 331,154	\$ 102,750
Securities—trading, cost \$211,548 and \$245,274, respectively	167,944	203,902
Securities—available-for-sale, cost \$73,305 and \$52,190, respectively	74,527	53,272
Securities—held-to-maturity, fair value \$79,266 and \$60,530, respectively	76,630	59,794
Federal Home Loan Bank (FHLB) stock	37,371	37,371
Loans receivable:		
Held for sale, fair value \$4,835 and \$7,540, respectively	4,781	7,413
Held for portfolio	3,891,413	3,953,995
Allowance for loan losses	(95,183)	(75,197)
	3,801,011	3,886,211
Accrued interest receivable	20,912	21,219
Real estate owned, held for sale, net	53,576	21,782
Property and equipment, net	104,469	97,647
Goodwill and other intangibles, net	11,718	13,716
Deferred income tax asset, net	8,516	5,528
Income taxes receivable, net	20,913	9,675
Bank-owned life insurance (BOLI)	54,037	52,680
Other assets	25,230	18,821
	\$ 4,788,008	\$ 4,584,368
LIABILITIES		
Deposits:		
Non-interest-bearing	\$ 546,956	\$ 509,105
Interest-bearing transaction and savings accounts	1,305,546	1,137,878
Interest-bearing certificates	2,008,673	2,131,867
	3,861,175	3,778,850
Advances from FHLB at fair value	255,806	111,415
Other borrowings	174,770	145,230
Junior subordinated debentures at fair value (issued in connection with Trust Preferred Securities)	47,859	61,776
Accrued expenses and other liabilities	28,715	40,600
Deferred compensation	12,960	13,149
	4,381,285	4,151,020
COMMITMENTS AND CONTINGENCIES (Note 15)		
STOCKHOLDERS' EQUITY		

Edgar Filing: BANNER CORP - Form 10-Q

Preferred stock - \$0.01 par value, 500,000 shares authorized; Series A – liquidation preference		
\$1,000 per share, 124,000 shares issued and outstanding	117,034	115,915
Common stock - \$0.01 par value per share, 75,000,000 shares authorized, 19,933,943 shares issued:		
19,693,562 shares and 16,911,657 shares outstanding at September 30, 2009 and December 31, 2008, respectively	327,385	316,740
Retained earnings (accumulated deficit)	(36,402)	2,150
Accumulated other comprehensive income:		
Unrealized gain on securities available for sale and/or transferred to held to maturity	703	572
Unearned shares of common stock issued to Employee Stock Ownership Plan (ESOP) trust at cost:		
240,381 restricted shares outstanding at September 30, 2009 and December 31, 2008	(1,987)	(1,987)
Carrying value of shares held in trust for stock related compensation plans	(9,076)	(8,850)
Liability for common stock issued to deferred, stock related, compensation plans	9,066	8,808
	(10)	(42)
	406,723	433,348
	\$ 4,788,008	\$ 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 and Nine Months Ended September 30, 2009 and 2008

	Quarters Ended		Nine Months Ended	
	September 30		September 30	
	2009	2008	2009	2008
INTEREST INCOME:				
Loans receivable	\$ 56,175	\$ 64,237	\$ 168,022	\$ 196,537
Mortgage-backed securities	1,422	1,040	4,792	3,280
Other securities and cash equivalents	1,976	2,786	6,248	8,374
	59,573	68,063	179,062	208,191
INTEREST EXPENSE:				
Deposits	20,818	26,818	65,548	84,446
FHLB advances	630	1,160	2,025	4,310
Other borrowings	655	734	1,553	1,874
Junior subordinated debentures	1,118	1,669	3,700	5,399
	23,221	30,381	72,826	96,029
Net interest income before provision for loan losses	36,352	37,682	106,236	112,162
PROVISION FOR LOAN LOSSES	25,000	8,000	92,000	29,500
Net interest income	11,352	29,682	14,236	82,662
OTHER OPERATING INCOME:				
Deposit fees and other service charges	5,705	5,770	16,049	16,277
Mortgage banking operations	2,065	1,500	7,640	4,694
Loan servicing fees	282	480	260	1,296
Miscellaneous	768	286	1,700	980
	8,820	8,036	25,649	23,247
Net change in valuation of financial instruments carried at fair value	4,633	(6,056)	12,429	(4,584)
Total other operating income	13,453	1,980	38,078	18,663
OTHER OPERATING EXPENSES:				
Salary and employee benefits	17,379	18,241	52,508	57,623
Less capitalized loan origination costs	(2,060)	(2,040)	(7,010)	(7,009)
Occupancy and equipment	5,715	5,956	17,697	17,813
Information/computer data services	1,551	1,560	4,684	5,389
Payment and card processing expenses	1,778	1,913	4,786	5,212
Professional services	1,456	1,117	3,833	3,203
Advertising and marketing	1,899	1,572	5,938	4,667
Deposit insurance	2,219	701	7,818	1,661
State/municipal business and use taxes	558	572	1,630	1,712
Real estate owned expenses	2,799	758	5,227	1,592
Miscellaneous	3,335	3,650	10,202	11,067
	36,629	34,000	107,313	102,930
Goodwill write-off	--	--	--	50,000

Edgar Filing: BANNER CORP - Form 10-Q

Total other operating expenses	36,629	34,000	107,313	152,930
Income (loss) before provision for (benefit from) income taxes	(11,824)	(2,338)	(54,999)	(51,605)
PROVISION FOR (BENEFIT FROM) INCOME TAXES	(5,376)	(1,347)	(22,777)	(2,143)
NET INCOME (LOSS)	\$ (6,448)	\$ (991)	\$ (32,222)	\$ (49,462)
PREFERRED STOCK DIVIDEND AND DISCOUNT ACCRETION				
Preferred stock dividend	\$ 1,550	\$ --	\$ 4,650	\$ --
Preferred stock discount accretion	373	--	1,119	--
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS	\$ (8,371)	\$ (991)	\$ (37,991)	\$ (49,462)
Earnings (loss) per common share (see Note 13):				
Basic	\$ (0.44)	\$ (0.06)	\$ (2.11)	\$ (3.09)
Diluted	\$ (0.44)	\$ (0.06)	\$ (2.11)	\$ (3.09)
Cumulative dividends declared per common share:	\$ 0.01	\$ 0.05	\$ 0.03	\$ 0.45

See selected notes to consolidated financial statements

BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited) (In thousands)
For the Quarters and Nine Months Ended September 30, 2009 and 2008

	Quarters Ended		Nine Months Ended	
	September 30		September 30	
	2009	2008	2009	2008
NET INCOME (LOSS)	\$ (6,448)	\$ (991)	\$ (32,222)	\$ (49,462)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF INCOME TAXES:				
Unrealized holding gain (loss) during the period, net of deferred income tax (benefit) of (\$121), \$0, (\$51) and \$0, respectively	627	--	89	--
Amortization of unrealized loss on tax exempt securities transferred from available-for-sale to held-to-maturity	14	13	42	41
Other comprehensive income (loss)	641	13	131	41
COMPREHENSIVE INCOME (LOSS)	\$ (5,807)	\$ (978)	\$ (32,091)	\$ (49,421)

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 Nine Months Ended September 30, 2009 and 2008

	Preferred Stock	Common 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 Plans	Stockholders' Equity
Balance, January 1, 2009	\$ 115,915	\$ 316,740	\$ 2,150	\$ 572	\$ (1,987)	\$ (42)	\$ 433,348
Net income (loss)			(32,222)				(32,222)
Change in valuation of securities—available-for-sale, net of income tax				89			89
Amortization of unrealized loss on tax exempt securities transferred from available-for-sale to held-to-maturity, net of income taxes				42			42
Additional registration costs for issuance of preferred stock		(46)					(46)
Accretion of preferred stock discount	1,119		(1,119)				--
Accrual of dividends on preferred stock			(4,650)				(4,650)
Accrual of dividends on common stock (\$.03/share cumulative)			(561)				(561)
Proceeds from issuance of common stock for stockholder reinvestment program, net of registration expenses		10,592					10,592
						32	32

Amortization of
compensation related to MRP

Amortization of compensation
related to stock
options

99

99

BALANCE, September 30, 2009	\$ 117,034	\$ 327,385	\$ (36,402)	\$ 703	\$ (1,987)	\$ (10)	\$ 406,723
--------------------------------	------------	------------	-------------	--------	------------	---------	------------

See selected notes to consolidated financial statements

BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (Continued)
(Unaudited) (In thousands, except per share amounts)
For the Nine Months Ended September 30, 2009 and 2008

	Preferred Stock	Common Stock and Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Unearned Restricted ESOP Shares	Carrying Value, Net of Liability, Of Shares Held in Trust for Stock-Related Compensation Plans	Stockholders' Equity
Balance, January 1, 2008	\$ --	\$ 300,486	\$ 139,636	\$ (176)	\$ (1,987)	\$ (113)	\$ 437,846
Net income (loss)			(49,462)				(49,462)
Cumulative effect of adoption of EITF 06-4 relating to liabilities under split dollar life insurance arrangements			(617)				(617)
Amortization of unrealized loss on tax exempt securities transferred from available-for-sale to held-to-maturity, net of income taxes				41			41
Accrual of dividends on common stock (\$.45/share cumulative)			(7,180)				(7,180)
Purchase and retirement of common stock		(14,265)					(14,265)
Proceeds from issuance of common stock for exercise of stock options		594					594
Proceeds from issuance of common stock for stockholder reinvestment program, net of registration expenses		19,303					19,303
		404					404

Net issuance of stock through
 employer's stock
 plans, including tax benefits

Amortization of compensation related to MRP							47	47
--	--	--	--	--	--	--	----	----

Amortization of compensation related to stock options							219	219
---	--	--	--	--	--	--	-----	-----

BALANCE, September 30, 2008	\$	--	\$ 306,741	\$ 82,377	\$	(135)	(1,987)	(66)	\$ 386,930
--------------------------------	----	----	------------	-----------	----	-------	---------	------	------------

See selected notes to consolidated financial statements

7

BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (continued)
(Unaudited) (In thousands)
For the Nine Months Ended September 30, 2009 and 2008

	Nine Months Ended September 30	
	2009	2008
COMMON STOCK—SHARES ISSUED AND OUTSTANDING:		
Common stock, shares issued, beginning of period	17,152	16,266
Purchase and retirement of common stock	--	(614)
Issuance of common stock for exercised stock options and/or employee stock plans	--	31
Issuance of common stock for stockholder reinvestment program	2,782	1,297
Net number of shares issued during the period	2,782	714
COMMON SHARES ISSUED AND OUTSTANDING, END OF PERIOD	19,934	16,980
UNEARNED, RESTRICTED ESOP SHARES:		
Number of shares, beginning of period	(240)	(240)
Issuance/adjustment of earned shares	--	--
Number of shares, end of period	(240)	(240)
NET COMMON STOCK—SHARES OUTSTANDING	19,694	16,740

See selected notes to consolidated financial statements

BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited) (In thousands)

For the Nine Months Ended September 30, 2009 and 2008

	Nine Months Ended September 30	
	2009	2008
OPERATING ACTIVITIES:		
Net income (loss)	\$ (32,222)	\$ (49,462)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	7,433	7,857
Deferred income and expense, net of amortization	374	1,421
Amortization of core deposit intangibles	1,998	2,153
Net change in valuation of financial instruments carried at fair value	(12,429)	4,584
Purchases of securities—trading	(69,760)	(94,487)
Principal repayments and maturities of securities—trading	103,383	34,814
Proceeds from sales of securities—trading	--	7,223
Deferred taxes	(3,038)	(9,653)
Equity-based compensation	131	266
Tax benefits realized from equity-based compensation	--	(404)
Increase in cash surrender value of bank-owned life insurance	(1,357)	(1,017)
Gain on sale of loans, excluding capitalized servicing rights	(3,210)	(3,705)
Loss (gain) on disposal of real estate held for sale and property and equipment	631	658
Provision for losses on loans and real estate held for sale	93,579	29,868
Origination of loans held for sale	(481,246)	(285,590)
Proceeds from sales of loans held for sale	483,878	284,101
Goodwill write-off	--	50,000
Net change in:		
Other assets	(14,865)	2,644
Other liabilities	(11,038)	(108)
Net cash provided (used) by operating activities	62,242	(18,837)
INVESTING ACTIVITIES:		
Purchases of securities available for sale		