

BANNER CORP
Form 10-Q
May 09, 2011

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, 2011.

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

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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 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 No 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, 2011
Common Stock, \$.01 par value per share	115,720,332 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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Special Note Regarding Forward-Looking Statements

Certain matters in this report on Form 10-Q contain certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 concerning our future operations. These statements relate to our financial condition, results of operations, plans, objectives, future performance or business. Forward-looking statements are not statements of historical fact, are based on certain assumptions and are generally identified by use of the words “believes,” “expects,” “anticipates,” “estimates,” “forecasts,” “intends,” “plans,” “targets,” “potentially,” “probable,” “outlook” or similar expressions or future or conditional verbs such as “may,” “will,” “should,” “would” and “could.” Forward-looking statements include statements with respect to our beliefs, plans, objectives, goals, expectations, assumptions and statements about future economic performance and projections of financial items. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from the results anticipated or implied by our forward-looking statements, including, but not limited to: the credit risks of lending activities, including changes in the level and trend of loan delinquencies and write-offs and changes in our allowance for loan losses and provision for loan losses that may be impacted by deterioration in the housing and commercial real estate markets and may lead to increased losses and nonperforming assets in our loan portfolio, and may result in our allowance for loan losses not being adequate to cover actual losses and require us to materially increase our reserves; changes in general economic conditions, either nationally or in our market areas; changes in the levels of general interest rates and the relative differences between short and long-term interest rates, deposit interest rates, our net interest margin and funding sources; fluctuations in the demand for loans, the number of unsold homes, land and other properties and fluctuations in real estate values in our market areas; secondary market conditions for loans and our ability to sell loans in the secondary market; results of examinations of us by the Board of Governors of the Federal Reserve System (the Federal Reserve Board) and of our bank subsidiaries by the Federal Deposit Insurance Corporation (the FDIC), the Washington State Department of Financial Institutions, Division of Banks (the Washington DFI) or other regulatory authorities, including our compliance with the Memorandum of Understanding and the possibility that any such regulatory authority may, among other things, institute a formal or informal enforcement action against us or any of our bank subsidiaries which could require us to increase our reserve for loan losses, write-down assets, change our regulatory capital position or affect our ability to borrow funds, or maintain or increase deposits, or impose additional requirements and restrictions on us, any of which could adversely affect our liquidity and earnings; our compliance with regulatory enforcement actions; the requirements and restrictions that have been imposed upon Banner Corporation and Banner Bank under the memoranda of understanding with the Federal Reserve Bank of San Francisco (in the case of Banner Corporation) and the FDIC and the Washington DFI (in the case of Banner Bank) and the possibility that Banner Corporation and Banner Bank will be unable to fully comply with their respective memoranda of understanding, which could result in the imposition of additional requirements or restrictions; legislative or regulatory changes that adversely affect our business including changes in regulatory policies and principles, or the interpretation of regulatory capital or other rules; the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act and the implementing regulations; our ability to attract and retain deposits; further increases in premiums for deposit insurance; our ability to control operating costs and expenses; the use of estimates in determining fair value of certain of our assets, which estimates may prove to be incorrect and result in significant declines in valuation; difficulties in reducing risk associated with the loans on our balance sheet; staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our work force and potential associated charges; the failure or security breach of computer systems on which we depend; our ability to retain key members of our senior management team; costs and effects of litigation, including settlements and judgments; our ability to implement our business strategies; our ability to successfully integrate any assets, liabilities, customers, systems, and management personnel we may acquire into our operations and our ability to realize related revenue synergies and cost savings within expected time frames and any goodwill charges related thereto; our ability to manage loan delinquency rates; increased competitive pressures among financial services companies; changes in consumer spending, borrowing and savings habits; the availability of resources to address changes in laws, rules, or regulations or to respond to regulatory actions; our ability to pay dividends on our common and preferred stock and interest or principal payments on our

junior subordinated debentures; adverse changes in the securities markets; inability of key third-party providers to perform their obligations to us; changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies or the Financial Accounting Standards Board including additional guidance and interpretation on accounting issues and details of the implementation of new accounting methods; the economic impact of war or any terrorist activities; other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, products and services; future legislative changes in the United States Department of Treasury (Treasury) Troubled Asset Relief Program (TARP) Capital Purchase Program; and other risks detailed from time to time in our filings with the Securities and Exchange Commission. Congress recently enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act). Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it more difficult to anticipate the overall financial impact on the Company and the financial services industry. Provisions in the legislation could also increase the capital requirements applicable to the Company and our bank subsidiaries and could require the Company to seek additional sources of capital in the future. Any forward-looking statements are based upon management's beliefs and assumptions at the time they are made. We do not undertake and specifically disclaim any obligation to update any forward-looking statements included in this report or to update the reasons why actual results could differ from those contained in such statements whether as a result of new information, future events or otherwise. These risks could cause our actual results to differ materially from those expressed in any forward-looking statements by, or on behalf of, us. In light of these risks, uncertainties and assumptions, the forward-looking statements discussed in this report might not occur, and you should not put undue reliance on any forward-looking statements.

As used throughout this report, the terms "we," "our," "us," or the "Company" refer to Banner Corporation and its consolidated subsidiaries, unless the context otherwise requires.

BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Unaudited) (In thousands, except shares)
March 31, 2011 and December 31, 2010

ASSETS	March 31 2011	December 31 2010
Cash and due from banks	\$316,305	\$361,652
Securities—trading, amortized cost \$123,501 and \$128,070, respectively	90,881	95,379
Securities—available-for-sale, amortized cost \$240,481 and \$199,058, respectively	240,968	200,227
Securities—held-to-maturity, fair value \$77,989 and \$73,916, respectively	75,114	72,087
Federal Home Loan Bank stock	37,371	37,371
Loans receivable:		
Held for sale	1,493	3,492
Held for portfolio	3,324,587	3,399,625
Allowance for loan losses	(97,632)	(97,401)
	3,228,448	3,305,716
Accrued interest receivable	16,503	15,927
Real estate owned, held for sale, net	94,945	100,872
Property and equipment, net	94,743	96,502
Other intangibles, net	8,011	8,609
Income taxes receivable, net	--	12,981
Bank-owned life insurance	57,123	56,653
Other assets	39,291	42,106
	\$4,299,703	\$4,406,082
LIABILITIES		
Deposits:		
Non-interest-bearing	\$622,759	\$600,457
Interest-bearing transaction and savings accounts	1,459,895	1,433,248
Interest-bearing certificates	1,457,994	1,557,493
	3,540,648	3,591,198
Advances from FHLB at fair value	10,567	43,523
Other borrowings	159,902	175,813
Junior subordinated debentures at fair value (issued in connection with Trust Preferred Securities)	48,395	48,425
Accrued expenses and other liabilities	20,958	21,048
Deferred compensation	14,489	14,603
	3,794,959	3,894,610
COMMITMENTS AND CONTINGENCIES (Note 15)		
STOCKHOLDERS' EQUITY		

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Preferred stock - \$0.01 par value, 500,000 shares authorized; Series A – liquidation preference		
\$1,000 per share, 124,000 shares issued and outstanding	119,426	119,000
Common stock and paid in capital - \$0.01 par value per share, 200,000,000 shares authorized, 115,106,042 shares issued: 114,865,661 shares and 112,913,084 shares outstanding at March 31, 2011 and December 31, 2010, respectively	513,950	509,457
Unearned shares of common stock issued to Employee Stock Ownership Plan (ESOP) trust at cost:		
240,381 restricted shares outstanding at March 31, 2011 and December 31, 2010	(1,987)	(1,987)
Retained earnings (accumulated deficit)	(126,318)	(115,348)
Accumulated other comprehensive income:		
Unrealized gain (loss) on securities available-for-sale and/or transferred to held-to-maturity	(327)	350
	504,744	511,472
	\$4,299,703	\$4,406,082

See Selected Notes to the Consolidated Financial Statements

BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited) (In thousands except for per share amounts)
For the Three Months Ended March 31, 2011 and 2010

	Three Months Ended March 31	
	2011	2010
INTEREST INCOME:		
Loans receivable	\$ 46,755	\$ 52,759
Mortgage-backed securities	875	1,126
Securities and cash equivalents	2,033	2,085
	49,663	55,970
INTEREST EXPENSE:		
Deposits	7,812	15,798
FHLB advances	178	361
Other borrowings	579	634
Junior subordinated debentures	1,038	1,027
	9,607	17,820
Net interest income before provision for loan losses	40,056	38,150
PROVISION FOR LOAN LOSSES	17,000	14,000
Net interest income	23,056	24,150
OTHER OPERATING INCOME:		
Deposit fees and other service charges	5,279	5,169
Mortgage banking operations	962	948
Loan servicing fees, net of amortization and impairment	256	313
Miscellaneous	493	617
	6,990	7,047
Other-than-temporary impairment losses	--	(1,231)
Net change in valuation of financial instruments carried at fair value	256	1,908
Total other operating income	7,246	7,724
OTHER OPERATING EXPENSES:		
Salary and employee benefits	17,255	16,559
Less capitalized loan origination costs	(1,720)	(1,605)
Occupancy and equipment	5,394	5,604
Information/computer data services	1,567	1,506
Payment and card processing expenses	1,647	1,424
Professional services	1,672	1,287
Advertising and marketing	1,740	1,950
Deposit insurance	1,969	2,132
State/municipal business and use taxes	494	480
REO operations	4,631	3,058
Amortization of core deposit intangibles	597	644
Miscellaneous	2,898	2,376

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Total other operating expenses	38,144	35,415
Income (loss) before provision for (benefit from) income taxes	(7,842)	(3,541)
PROVISION FOR (BENEFIT FROM) INCOME TAXES	--	(2,024)
NET INCOME (LOSS)	(7,842)	(1,517)
PREFERRED STOCK DIVIDEND AND DISCOUNT ACCRETION		
Preferred stock dividend	1,550	1,550
Preferred stock discount accretion	426	398
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS	\$ (9,818)	\$ (3,465)
Earnings (loss) per common share:		
Basic	\$ (0.09)	\$ (0.16)
Diluted	\$ (0.09)	\$ (0.16)
Cumulative dividends declared per common share:	\$ 0.01	\$ 0.01

See Selected Notes to the Consolidated Financial Statements

BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited) (In thousands)
For the Three Months Ended March 31, 2011 and 2010

	Three Months Ended March 31	
	2011	2010
NET INCOME (LOSS)	\$(7,842)	\$(1,517)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF INCOME TAXES:		
Unrealized holding gain (loss) during the period, net of deferred income tax provision (benefit) of \$0 and \$306, respectively	(682)	543
Amortization of unrealized loss on tax exempt securities transferred from available-for-sale to held-to-maturity	5	12
Other comprehensive income (loss)	(677)	555
COMPREHENSIVE INCOME (LOSS)	\$(8,519)	\$(962)

See Selected Notes to the Consolidated Financial Statements

BANNER CORPORATION AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
 (Unaudited) (In thousands)
 For the Three Months Ended March 31, 2011

	Preferred Stock		Common Stock and Paid in Capital (1)		Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Stockholders' Equity
	Shares	Amount	Shares	Amount			
Balance, January 1, 2011	124,000	\$ 119,000	112,913,084	\$ 507,470	\$ (115,348)	\$ 350	\$ 511,472
Net income (loss)					(7,842)		(7,842)