

BANNER CORP
Form 10-Q
August 09, 2007

**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 JUNE 30, 2007.

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (check one)

Large accelerated filer

Accelerated filer

Non-accelerated filer

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 July 31, 2007

Common Stock, \$.01 par value per share

15,723,880 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.

BANNER CORPORATION AND SUBSIDIARIES

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BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Unaudited) (In thousands, except shares)
June 30, 2007 and December 31, 2006

	June 30 2007	December 31 2006
ASSETS		
Cash and due from banks	\$ 106,803	\$ 73,385
Securities at fair value, cost \$186,625 and \$0, respectively; encumbered \$0 and \$0, respectively	182,969	
Securities available for sale, cost \$0 and \$230,189, respectively; encumbered \$0 and \$27,107, respectively		226,153
Securities held to maturity, fair value \$48,928 and \$49,008, respectively	48,196	47,872
Federal Home Loan Bank stock	37,291	35,844
Loans receivable:		
Held for sale, fair value \$8,269 and \$5,136	8,178	5,080
Held for portfolio	3,610,174	2,960,910
Allowance for loan losses	(43,248)	(35,535)
	3,575,104	2,930,455
Accrued interest receivable	24,885	23,272
Real estate owned, held for sale, net	1,700	918
Property and equipment, net	87,327	58,003
Goodwill and other intangibles, net	129,126	36,287
Deferred income tax asset, net	4,764	7,533
Bank-owned life insurance	50,441	38,527
Other assets	20,443	17,317
	\$ 4,269,049	\$ 3,495,566
LIABILITIES		
Deposits:		
Non-interest-bearing	\$ 455,628	\$ 332,372
Interest-bearing transactions and savings accounts	1,307,680	905,746
Interest-bearing certificates	1,829,473	1,556,474
	3,592,781	2,794,592
Advances from Federal Home Loan Bank		177,430
Advances from Federal Home Loan Bank at fair value	33,826	
Other borrowings	71,926	103,184
Junior subordinated debentures (issued in connection with Trust Preferred Securities)		123,716
Junior subordinated debentures at fair value (issued in connection with Trust Preferred Securities)	98,419	
Accrued expenses and other liabilities	51,792	36,888
Deferred compensation	10,497	7,025
Income taxes payable	7,501	2,504
	3,866,742	3,245,339
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY		
Preferred stock - \$0.01 par value, 500,000 shares authorized, none issued		
Common stock - \$0.01 par value per share, 25,000,000 shares authorized, 13,201,418 shares issued:		
15,440,105 shares and 12,073,889 shares outstanding at June 30, 2007 and December 31, 2006, respectively	278,447	135,149
Retained earnings	126,249	120,206
Accumulated other comprehensive income (loss):		
Unrealized loss on securities available for sale and/or transferred to held to maturity	(202)	(2,852)

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Unearned shares of common stock issued to Employee Stock Ownership Plan (ESOP) trust at cost:

240,381 and 240,381 restricted shares outstanding at June 30, 2007 and December 31, 2006, respectively	(1,987)	(1,987)
Carrying value of shares held in trust for stock related compensation plans	(7,699)	(7,262)
Liability for common stock issued to deferred, stock related, compensation plans	7,499	6,973
	<u>(200)</u>	<u>(289)</u>
	<u>402,307</u>	<u>250,227</u>
	<u>\$ 4,269,049</u>	<u>\$ 3,495,566</u>

See selected notes to consolidated financial statements

BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited) (In thousands except for per share amounts)
For the Quarters and Six Months Ended June 30, 2007 and 2006

	Quarters Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
INTEREST INCOME:				
Loans receivable	\$ 71,047	\$ 55,088	\$ 132,875	\$ 104,214
Mortgage-backed securities	1,535	2,011	3,310	4,094
Securities and cash equivalents	1,829	1,834	3,672	3,612
	<u>74,411</u>	<u>58,933</u>	<u>139,857</u>	<u>111,920</u>
INTEREST EXPENSE:				
Deposits	32,378	20,828	59,988	38,259
Federal Home Loan Bank advances	1,164	4,141	3,441	7,267
Other borrowings	790	766	1,718	1,464
Junior subordinated debentures	1,969	1,973	4,423	3,801
	<u>36,301</u>	<u>27,708</u>	<u>69,570</u>	<u>50,791</u>
Net interest income before provision for loan losses	38,110	31,225	70,287	61,129
PROVISION FOR LOAN LOSSES	1,400	2,300	2,400	3,500
Net interest income	36,710	28,925	67,887	57,629
OTHER OPERATING INCOME:				
Deposit fees and other service charges	4,090	2,891	7,053	5,383
Mortgage banking operations	1,808	1,454	3,163	2,606
Loan servicing fees	373	334	748	724
Miscellaneous	592	321	1,053	789