

Edgar Filing: BANNER CORP - Form FWP

BANNER CORP
Form FWP
December 07, 2009
Filed Pursuant to Rule 433

Issuer Free Writing Prospectus dated December 7, 2009

Relating to Preliminary Prospectus Supplement dated December 7, 2009

Registration No. 333-139520

Common Equity Offering
December 2009
Better ideas. Better banking.

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Disclosure Statement

The Company proposes to issue the common shares pursuant to a prospectus supplement that will be filed as part of an existing registration statement with the Securities and Exchange Commission on Form S-3. The offering may be made only by means of a prospectus and related documents. To read the prospectus in that registration statement, the preliminary prospectus supplement and the other documents incorporated by reference, please visit the SEC website at www.sec.gov for more complete information about the Company and the offering. Investors may obtain these documents without charge from the SEC at www.sec.gov. Alternatively, copies of the preliminary prospectus supplement and the prospectus relating to the offering may be obtained from the Company at 919 Third Avenue, 6th Floor, New York, NY 10022, 1-866-805-4128 and D.A. Davidson & Co., 8 Third Street North, Great Falls, NY 12526. Copies can also be obtained for free from the website at www.sandleroneill.com/prospectus/BANR-Prospectus.pdf.

The Private Securities Litigation Report Act of 1995 provides a "safe harbor" for certain forward-looking statements. This prospectus contains such statements with respect to the Corporation's financial condition, results of operations, plans, objectives, future performance or business. These statements are subject to risks and uncertainties, including those identified below, which could cause future results to differ materially from historical results. The words "believe," "expect," "anticipate," "intend," "estimate," "goals," "would," "could," "should" and other expressions w

forward-looking statements. We caution readers not to place undue reliance on these forward-looking statements, which is based on information available as of the date of the statements. These statements speak only as of their dates, and if no date is provided, then such statements speak only as of today. There are a number of important factors that could cause actual results to differ materially from historical results or those anticipated, including, but not limited to: the credit risks of lending activities, including nonperforming assets, delinquencies and write-offs and changes in our allowance for loan losses and provision for loan losses that may be impacted by changes in real estate markets; changes in general economic conditions, either nationally or in our market areas; changes in the levels of general interest rates, short and long term interest rates, deposit interest rates, our net interest margin and funding sources; fluctuations in the demand for our services; other properties and fluctuations in real estate values in our market areas; secondary market conditions for loans and our ability to originate loans; examinations of us by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") and of our bank holding company, Banner Bank Corporation (the "FDIC"), the Washington State Department of Financial Institutions, Division of Banks (the "Washington DFI"); the possibility that any such regulatory authority may, among other things, institute a formal or informal enforcement action against us; increases in our reserve for loan losses, write-down assets, change our regulatory capital position or affect our ability to borrow funds; changes that may adversely affect our liquidity and earnings; legislative or regulatory changes that adversely affect our business including changes in the interpretation of regulatory capital or other rules; our ability to attract and retain deposits; further increases in premiums for deposits and expenses; the use of estimates in determining fair value of certain of our assets, which estimates may prove to be incorrect; staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our workforce and operations; a breach of computer systems on which we depend; our ability to retain key members of our senior management team; costs and expenses; judgments; our ability to implement our growth strategy; our ability to successfully integrate into our operations any assets, liabilities or personnel we have acquired or may in the future acquire and our ability to realize related revenue synergies and cost savings with respect to those related thereto; increased competitive pressures among financial services companies; changes in consumer spending, borrowing and saving patterns; address changes in laws, rules, or regulations or to respond to regulatory actions; our ability to pay dividends on our common stock and to make payments on our junior subordinated debentures; adverse changes in the securities markets; inability of key third-party providers to perform; accounting policies and practices, as may be adopted by the financial institution regulatory agencies or the Financial Accounting Standards Board and interpretation on accounting issues and details of the implementation of new accounting methods; other economic, competitive and market factors affecting our operations, pricing, products and services and the other risks described elsewhere in the preliminary prospectus supplement and the documents incorporated therein by reference; and future legislative changes in the United States Department of Treasury ("Treasury") ("TARP") Capital Purchase Program.

The Corporation does not undertake any obligation to update any forward-looking statement to reflect circumstances or events that occur after the forward-looking statement is made.

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Use of Non-GAAP Financial Measures

Tangible equity, tangible common equity and tangible common equity to tangible assets are non-GAAP financial measures. We calculate tangible equity by excluding the balance of goodwill and other intangible

assets

from

shareholders

equity.

We

calculate

tangible

common

equity

by

excluding

preferred equity from tangible equity. We calculate tangible assets by excluding the balance of goodwill and other intangible assets from total assets. We believe that this is consistent with the treatment by our bank regulatory agencies, which exclude goodwill and other intangible assets from the calculation of risk-based capital ratios. Accordingly, management believes that these non-GAAP financial measures provide information to investors that is useful in understanding the basis of our risk-based

capital

ratios.

In

addition,

by

excluding

preferred

equity

(the

level

of

which

may

vary

from

company to company), it allows investors to more easily compare our capital adequacy to other companies in the industry who also use this measure. We calculate normalized pre-tax, pre-provision earnings by adding provision for loan losses to income before income taxes. Management believes normalized pre-tax, pre-provision earnings is useful in assessing the Company's core performance and trends, particularly during times of economic stress.

These non-GAAP financial measures are supplemental and are not a substitute for any analysis based on GAAP financial measures. Because not all companies use the same calculations of tangible common equity, tangible assets and normalized pre-tax, pre-provision earnings, these presentations may not be comparable to other similarly titled measures as calculated by other companies.

Reconciliations of the non-GAAP financial measures are provided on page 22 and in Appendix A of this presentation.

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Transaction Overview

Issuer:

Banner Corporation

Ticker / Exchange:

BANR / NASDAQ GSM

Type of Offering:

Follow-on Public Offering

Type of Security:

Common Stock

Transaction Size:

\$75 million

Over-Allotment Option:

15%

Use of Proceeds:

Provide capital to Banner Bank to support growth and for general working capital purposes

Book-Running Manager:

Sandler O'Neill + Partners, L.P.

Co-Manager:

D.A. Davidson & Co.

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Presenting Today
D. Michael
Jones,
President
and
Chief
Executive
Officer

Mr. Jones joined Banner Corporation in 2002 as President and Chief Executive Officer. Mr. Jones is a Certified Public Accountant (Inactive) and served as President and Chief Executive Officer from 1996 to 2001 for Source Capital Corporation, a lending company in Spokane, Washington. From 1987 to 1995, Mr. Jones served as President of West One Bancorp, a large regional banking franchise based in Boise, Idaho.

He is also a director of Banner Corporation and Banner Bank.

Lloyd
W.
Baker,
Executive
Vice
President
&
Chief
Financial
Officer

Mr.
Baker
joined
Banner
Bank
as
Asset
Liability
Manager
in
1995.

He
was
promoted
to
Senior
Vice
President and made a member of the Executive Committee in 1998 and was named to his current position
in
August
of
2000.

Prior
to
joining
Banner,
he
served
in
several
asset
liability
and
portfolio
management
positions with Far West Federal Bank in Portland, Oregon, and Fidelity Mutual Savings Bank in Spokane,
Washington.

He
also

served
as
Chief
Financial
Officer
of
Western
Heritage
Federal
Savings
&
Loan
in
Pendleton, Oregon, and Community Savings & Loan Association in Wenatchee, Washington.

Richard
B.
Barton,
Executive
Vice
President
&
Chief
Lending/Credit
Officer

Mr. Barton joined Banner Bank in 2002 as Chief Credit Officer and was named to his current position in 2008. Previously, Mr. Barton worked in a variety of commercial lending and credit risk management capacities

for
Seafirst
Bank/Bank
of
America

for
30
years,
beginning
in
1972.

Key
jobs
included

commercial lending, commercial credit administration, special credits collection work, including six years involving the Seafirst Penn Square/Energy loan portfolio, commercial/residential real estate credit administration for the Pacific Northwest, and homebuilder real estate credit administration for the West Coast.

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Offering Objectives

Strengthens our capital position

Pro forma TCE/TA of 7.2%¹

Pro forma Tier 1 leverage ratio of 11.0%¹

Pro forma Total risk based capital ratio of 14.3%¹

Allows for continued execution of our problem loan resolution process

Better positions us to capture business opportunities resulting from market dislocation

¹

Based on September 30, 2009 ratios; assumes gross proceeds of \$75mm, 5.75% underwriting discount and \$300,000 in other e

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Investment Summary

Strategically-located Pacific Northwest branch network

Solid and growing deposit base

Loan portfolio with diversification in geographic and loan type

Diversified economic drivers across markets

Thorough and conservative approach to credit risk management has led to flattening credit quality trends

Management team with extensive operating and credit cycle experience in Pacific Northwest markets

Solid core operating results

Attractive current valuation

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Company Overview

Founded in 1890

89 branches and 8 loan production
offices focused on complementary
mix of urban and middle markets:

Seattle

Spokane

Portland

Boise

Columbia Basin

Focused on serving small-to-
midsize businesses and individuals

Financial Highlights:

Total Assets:

\$4.8 billion

Total Loans:

\$3.9 billion

Total Deposits:

\$3.9 billion

Total

Shareholders

Equity¹:

\$407

million

Note: Financial data as of September 30, 2009

1

Includes

\$124

million

of

preferred

stock

and

warrants

issued

to

the

U.S.

Treasury

under

the

Capital

Purchase

Program

(TARP)

Branch

Loan Center

Islanders Bank

Seattle

Portland

Boise

Spokane

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Loan Portfolio Composition

Geographic Breakdown

Loan Category Breakdown

Diversified lending by both collateral type and geography

Minimal out-of-market lending

Banner's strategic plan is aimed at changing the loan category mix by increasing commercial and consumer lending activity

\$677

\$226

\$303

\$153

\$369

\$678

\$482

\$585

\$424

\$0

\$100

\$200

\$300

\$400

\$500

\$600

\$700

\$800

Portland

\$651

17%

Columbia Basin

\$1,018

26%

Other

\$43

1%

Puget Sound

\$1,421

37%

Spokane

\$513

13%

Boise

\$251

6%

Note: Data as of September 30, 2009; dollars in millions

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Loan and Credit Quality Comparison
Proactive credit management and problem recognition
Commercial real estate portfolios are being proactively managed including loan by loan stress testing to identify potential problem assets
90% of past due loans are on nonaccrual
Credit issues remain concentrated in 1-4 family residential construction and land portfolios
68% (\$4.2 million) of losses in the 1-4 family real estate category were mark-to-market charges for loans made in conjunction with

the
Great
Northwest
Home
Rush
program
that
focused
on
facilitating the sale of completed homes financed for builders
Credit losses in agriculture were related to a particular issue with a single borrower

(Dollars in Thousands)

Balances

Classified

NPL

YTD NCOs

Past Due

Loan Category

(\$)

(%)

(\$)

(%)

(\$)

(%)

(\$)

(%)

(\$)

(%)

CRE: Owner occupied

\$481,698

12.4

\$22,334

4.6

\$3,069

0.6

-

0.0

\$4,467

0.9

CRE: Investment properties

585,206

15.0

18,211

3.1

4,248

0.7

-
0.0
7,143

1.2
Multifamily real estate
152,832

3.9
263

0.2
-

0.0
-

0.0
452

0.3
Commercial construction
83,937

2.2
1,840

2.2
-

0.0
113

0.1
1,565

1.9
Multifamily construction
62,614

1.6
-

0.0
-

0.0
-

0.0

-

0.0

1-4 family construction

277,419

7.1

104,692

37.7

68,565

24.7

16,007

5.8

70,501

25.4

Residential land and development

322,030

8.3

166,512

51.7

109,668

34.1

34,165

10.6

95,799

29.7

Commercial land and development

47,182

1.2

20,793

44.1

17,138

36.3

2,212

4.7

17,138

36.3
Commercial business
678,187

17.4
55,205

8.1
15,070

2.2
8,946

1.3
18,404

2.7
Agricultural business, including secured by farmland
225,603

5.8
15,403

6.8
6,624

2.9
3,159

1.4
8,460

3.7
One- to four-family real estate
676,928

17.4
30,257

4.5
18,797

2.8
6,182

0.9
20,370

3.0

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Consumer
302,558

7.8
390

0.1
110

0.0
1,230

0.4
980

0.3
Total
\$3,896,194

100.0
\$435,900

11.2
\$243,289

6.2
\$72,014

1.8
\$245,279

6.3

Note: Data as of September 30, 2009; Percentages in table are expressed as a percentage of the total loan portfolio balances.

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Loan Portfolio: Construction

Commercial

and

Multifamily

Const.

-

\$147mm

Residential

Construction

-

\$277mm

The commercial construction portfolio is less than 4% of the total loan portfolio and has no non-

performing loans

There are no past due, classified or non-performing multifamily construction loans

The residential construction portfolio is largely in the Seattle and Portland markets with significant borrower and submarket diversification

Residential construction balances declined 58% from their peak at June 30, 2007

The residential construction portfolio represents approximately 28% of total non-performing loans as of September 30, 2009

Idaho

\$15

5%

Washington

\$133

48%

Oregon

\$130

47%

Note: Data as of September 30, 2009; dollars in millions

\$31

\$13

\$6

\$7

\$63

\$23

\$4

\$0

\$10

\$20

\$30

\$40

\$50

\$60

\$70

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Loan Portfolio: Land and Land Development

Breakdown by Type

Geographic Breakdown

Idaho

\$46

12%

Washington

\$180

49%

Oregon

\$143

39%

Note: Data as of September 30, 2009; dollars in millions

Total land and land development portfolio of \$369 million at September 30, 2009

Land
and
land
development
balances

have
decreased

over

23%

since

September

30,

2008

Concentration has fallen from 12% to 10% of total loans

As of September 30, 2009, non-performing loans in this segment were \$127 million

(approximately 52% of
total non-performing loans)

\$51

\$21

\$17

\$182

\$89

\$9

\$0

\$20

\$40

\$60

\$80

\$100

\$120

\$140

\$160

\$180

\$200

13
Loan
Portfolio:
CRE

Owner
Occupied
Breakdown by Type
Geographic Breakdown
Idaho
\$42
9%
Washington

\$380

79%

Oregon

\$60

12%

Note: Data as of September 30, 2009; dollars in millions

Total CRE-owner occupied portfolio of \$482 million at September 30, 2009

Average portfolio loan size of \$536 thousand

As of September 30, 2009, non-performing loans in this segment were \$3 million, or approximately 1% of total non-performing loans

Delinquency rate of 0.9% as of September 30, 2009

\$45

\$124

\$38

\$92

\$82

\$84

\$17

\$0

\$20

\$40

\$60

\$80

\$100

\$120

\$140

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Loan
Portfolio:
CRE

Income
Property
and
Multifamily
Loans
Breakdown by Type
Geographic Breakdown

Note: Data as of September 30, 2009; dollars in millions

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Total CRE income property and multifamily portfolio of \$738 million at September 30, 2009

Average portfolio loan size of \$682 thousand

At
September
30,
2009,
non-performing
loans
were
\$4.2
million,
or
approximately
2%
of
total
non-
performing loans

Delinquency rate of 1.0% as of September 30, 2009

\$81

\$45

\$127

\$53

\$43

\$153

\$181

\$55

\$0

\$20

\$40

\$60

\$80

\$100

\$120

\$140

\$160

\$180

\$200

Idaho

\$52

7%

Washington

\$566

77%

Oregon

\$105

14%

Other

\$14

2%

15

Credit Philosophy Is Yielding Results

Banner's goal is to identify and resolve problems early instead of waiting for problems to mature before taking action

No single template that fits all problem credits

The
actions
below
are
a
representative
cross
sample

of
Banner's
credit
risk
management
in
action

Actions:
Results:

1)
Great
NW
Home
Rush
program
to
assist
builders in
selling completed homes. Banner provided special
financing, advertising and required builder and realtor
participation

2)
Stress testing of CRE portfolio loan by loan

3)
Asset Disposition Committee formed to consider
alternatives for RE loans and OREO

4)
On site C&I/Agriculture portfolio review by executive
management/senior credit staff

5)
Annual loan by loan risk rating certification

6)
Special issue research to determine portfolio impact
(example: project to determine credits vulnerable to
spiked energy costs)

7)
Rolling four quarter forecast of portfolio metrics

8)
Adequate staffing for credit risk management

1)
Since
March
2009,
375
of
612
homes
sold,
reducing
loan totals by over \$120 million

2)
Identified
credits

to
watch
while
CRE
credit
still
performing

3)
With involvement of RE industry members, higher
recoveries anticipated

4)
Identify emerging credit issues, portfolio management
weaknesses and training needs

5)
Ensure accuracy of portfolio risk ratings

6)
Identification

of
hot
spots
in
the
portfolio
and
changes
needed in new loan underwriting

7)
Assess trends in portfolio quality and ALLL adequacy

8)
In the past 12 months staff adds have been made in
Special Assets, Credit Examination, and Credit
Administration

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Charge-offs and Reserves

Charge offs have been concentrated in the residential construction and land portfolio with the majority of the losses coming from the land portion of the portfolio

90%

of

non-performing

loans

have

had

detailed

individual

SFAS

114

specific
impairment
analysis

at September 30, 2009

Non performing loans have been reduced by \$38 million of charge-offs and have an additional \$17 million of specific reserves

Renegotiated loans were underwritten using current property valuations \$9.0 million (9.4% of total allowance) of unallocated reserves

(Dollars in Thousands)

Gross

NPAs /

Renegotiated

Quarterly

Loan Loss

Reserves /

Quarter

Loans

NPLs

OREO

Other¹

NPAs

Assets

Loans

NCOs

Reserves

Loans

2008Q1

3,839,993

54,435

7,572

7

62,014

1.36%

2,026

1,881

50,446

1.31%

2008Q2

3,973,299

89,918

11,390

7

101,315

2.19%

7,771

6,876

58,570

1.47%

2008Q3

3,999,179
119,366
10,147
6
129,519
2.79%
15,514
7,724
58,846
1.47%
2008Q4
3,961,408
187,345
21,782
104
209,231
4.56%
23,635
16,649
75,197
1.90%
2009Q1
3,915,547
224,097
38,951
318
263,366
5.84%
27,550
17,473
79,724
2.04%
2009Q2
3,913,081
225,069
56,967
230
282,266
6.23%
55,031
34,030
90,694
2.32%
2009Q3
3,896,194
243,288
53,576
1,425
298,289
6.23%

55,161

20,511

95,183

2.44%

1

Represents securities on nonaccrual at fair value and other repossessed assets held for sale, net

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Illustrative SCAP Analysis

1

Loss rates based on midpoints of rate ranges in Table 1 of FRB's May 7, 2009 SCAP results

Balance as of 12/31/08

Loss Severity

1

(%)

Total Loss (\$000s)

Loan Type

(\$000s)

(%)

Baseline

More Adverse

Baseline

More Adverse

First Lien Mortgages

\$612,692

15.5%

2.00%

3.50%

\$12,254

\$21,444

Closed-end Junior Lien Mortgages

50,669

1.3%

19.00%

23.50%

9,627

11,907

HELOCs

153,327

3.9%

7.00%

9.50%

10,733

14,566

C&I

623,455

15.7%

3.50%

6.50%

21,821

40,525

Agriculture Product

148,290

3.7%

3.50%

6.50%

5,190

9,639

Farm Real Estate

55,764

1.4%

6.25%

10.50%

3,485

5,855

Construction & Development

1,047,055

26.4%

10.00%

16.50%

104,706
172,764
Multi-Family
151,815
3.8%
5.00%
10.50%
7,591
15,941
CRE (Non-Farm, Non-Resi)
1,015,717
25.6%
4.50%
8.00%
45,707
81,257
Credit Cards
22,605
0.6%
14.50%
19.00%
3,278
4,295
Consumer
68,752
1.7%
5.00%
10.00%
3,438
6,875
Other Loans
18,372
0.5%
3.00%
7.00%
551
1,286
Loan
Portfolio
-
12/31/08
\$3,961,408
5.59%
9.57%
\$221,275
\$379,249
Roll Forward to 9/30/09
Net Charge-offs Q1 2009
17,473
17,473

Net Charge-offs Q2 2009

34,030

34,030

Net Charge-offs Q3 2009

20,511

20,511

September 30, 2009 Exposure

\$149,261

\$307,235

18

Pro Forma Capital Position

1

Assumes gross proceeds of \$75mm with underwriters' discount of 5.75% and expenses of \$300,000

2

Assumes proceeds risk-weighted at 20%

3

Assumes quarterly intangible amortization of \$647 thousand, quarterly pre-tax, pre-provision earnings of \$10 million and \$4.5 million issued quarterly as part of the DRIP program; earnings will be applied to assets, and capital raised will be applied to liabilities

As of September 30, 2009

Projected September 30, 2011³

Actual

Pro Forma¹

Baseline¹
 More Adverse¹
 SCAP Projected Loan Losses (Less YTD 2009 NCO's)
 --
 --
 \$149,261
 \$307,235
 Common Equity / Assets
 6.05%
 7.41%
 7.75%
 4.65%
 Equity / Assets
 8.49%
 9.82%
 10.19%
 7.17%
 Tangible Common Equity / Tangible Assets
 5.82%
 7.19%
 7.59%
 4.48%
 Tangible Equity / Tangible Assets
 8.27%
 9.60%
 10.12%
 7.10%
 Well-
 Capitalized
 Tier 1 Leverage Ratio
 5.00%
 9.66%
 11.02%
 11.58%
 8.47%
 Tier 1 Risk-Based Ratio²
 6.00%
 11.27%
 13.02%
 13.67%
 10.06%
 Total Risk-Based Ratio²
 10.00%
 12.54%
 14.28%
 14.87%
 11.26%

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Geographic Deposit Composition and Market Share

Note: Data as of September 30, 2009; dollars in millions

Source: Company filings and SNL Financial

Boise / So Idaho

\$264

7%

Greater Portland

\$297

8%

Puget Sound

\$1,227

32%

Admin

\$250

6%

Columbia Basin

\$1,353

35%

Greater

Spokane

\$470

12%

Deposit growth opportunity in key Northwest metropolitan markets
complemented by our historically strong market position in the Columbia
Basin

June 30, 2009

MSA

Rank

Branches

Deposits

(\$000)

Market

Share

(%)

Seattle-Tacoma-Bellevue, WA

14

17

686,653

1.0

Walla Walla, WA

1

6

567,136

46.7

Spokane, WA

6

16

440,592

6.0

Yakima, WA

3

6

312,297

13.3

Pendleton-Hermiston, OR

1

6

277,258
33.2
Portland-Vancouver-Beaverton, OR-WA
15
9
263,281
0.8
Bellingham, WA
5
7
232,748
7.3
Kennewick-Pasco-Richland, WA
4
4
179,497
8.2
Lewiston, ID-WA
2
3
156,492
20.5
Wenatchee-East Wenatchee, WA
4
2
143,374
7.6
Boise City-Nampa, ID
16
5
120,009
1.6
La Grande, OR
4
1
47,628
14.4
Oak Harbor, WA
8
1
46,451
4.7
Twin Falls, ID
9
1
38,122
2.8
Mount Vernon-Anacortes, WA
14
1

34,601

1.6

Counties not in an MSA

Baker, Oregon

3

1

36,428

17.3

San Juan, Washington

1

3

176,475

42.6

Columbia, Washington

1

1

26,590

31.2

20

Deposit Franchise Highlights

Deposit Composition

2.16%

2.36%

2.54%

2.96%

3.88%

3.55%

2.46%

1.50%

2.00%

2.50%

3.00%

3.50%

4.00%

2005

2006

2007

2008

Q1 2009

Q2 2009

Q3 2009

Historical Deposit Cost

Retail deposits have increased \$361 million (over 11%) year-to-date

Significant opportunity exists to further lower our cost of deposits as higher cost deposits re-price in the near term

Regular savings

\$522

14%

CDs <\$100k

\$956

25%

CDs >\$100k

\$1,053

26%

Non-int.-bearing

\$547

14%

Int.-bearing

checking

\$330

9%

Money market

\$454

12%

Note: Data as of September 30, 2009; dollars in millions

Deposit Sources

CD Maturity Schedule

After 3 years

\$39

2%

Within 1 year

\$1,563

78%

Between 1 and 3

years

\$407

20%

\$3,532

\$3,320

\$3,158

\$3,171

\$3,225
\$2,403
\$2,061
\$144
\$183
\$232
\$339
\$338
\$257
\$171
\$186
\$248
\$238
\$269
\$57
\$134
\$92
\$0
\$500
\$1,000
\$1,500
\$2,000
\$2,500
\$3,000
\$3,500
\$4,000
2005
2006
2007
2008
Q1 2009
Q2 2009
Q3 2009
Retail Deposits
Public Funds
Brokered Funds

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Core Operating Results

Actively expanding core deposit account base

Diversified lending platform including commercial, agriculture, consumer and real estate

Potential net interest margin opportunity as higher-cost deposits re-price

Increasing mortgage banking fee activity

Demonstrated expense control

(Dollars in Thousands)

Q4 2008

Q1 2009

Q2 2009

Q3 2009

Income (Loss) Before Provision For Income Taxes
(\$83,473)
(\$16,186)
(\$26,989)
(\$11,824)
ADD: Provision For Loan Losses
33,000
22,000
45,000
25,000
LESS: Net Change In Valuation Of Financial Instruments Carried At Fair Value
13,740
(3,253)
11,049
4,633
ADD: Goodwill Write-Off
71,121
0
0
0
Normalized Pre-Tax, Pre-Provision Earnings
\$6,908
\$9,067
\$6,962
\$8,543

22
Investment Portfolio
As
of
September
30,
2009,
the
securities
portfolio
had
a
carrying

value

of

\$319

million

The portfolio primarily serves as collateral for public funds deposits and retail repo/sweep accounts

The corporate bonds segment (primarily Trust Preferred securities and CDOs) has had significant downward fair value adjustments

The municipal securities consist of local state issuers (WA, OR and ID)

The

mortgage-backed

securities

and

CMO

securities

are

either

seasoned

premium

coupons

or

senior non-complex structures

Note: Data as of September 30, 2009

Equity securities

0%

Corporate bonds

14%

Tax-exempt

municipal bonds

23%

FNMA

13%

U.S. Agency

obligations

26%

Taxable

municipal bonds

1%

GNMA

6%

FHLMC

15%

Private issuer

MBS

2%

23

Attractive Market Demographics

Our markets demonstrate both strong past and projected growth trends

Five-Year

MSA

Market

Rank

Branches

Deposits
in Market
(\$000)
Percent of
Franchise
(%)
Population
Change
2000-2009
(%)
Proj.
Population
Change
(%)
Proj.
HHI Change
(%)
Seattle-Tacoma-Bellevue, WA
14
17
686,653
18.1
12.64
6.04
5.58
Walla Walla, WA
1
6
567,136
15.0
6.98
2.93
6.10
Spokane, WA
6
16
440,592
11.6
11.97
5.52
5.37
Yakima, WA
3
6
312,297
8.3
7.34
3.49
5.84
Pendleton-Hermiston, OR

1
6
277,258
7.3
6.38
1.93
6.65
Portland-Vancouver-Beaverton, OR-WA
15
9
263,281
7.0
15.84
7.31
3.70
Bellingham, WA
5
7
232,748
6.2
18.14
8.40
6.57
Kennewick-Pasco-Richland, WA
4
4
179,497
4.7
26.42
11.79
7.00
Lewiston, ID-WA
2
3
156,492
4.1
4.58
2.33
7.15
Wenatchee-East Wenatchee, WA
4
2
143,374
3.8
11.85
5.63
6.21
Boise City-Nampa, ID
16
5

120,009

3.2

32.63

14.05

4.71

La Grande, OR

4

1

47,628

1.3

2.30

1.24

4.67

Oak Harbor, WA

8

1

46,451

1.2

13.77

5.76

5.64

Twin Falls, ID

9

1

38,122

1.0

16.48

8.16

6.70

Mount Vernon-Anacortes, WA

14

1

34,601

0.9

16.74

7.53

6.85

Banner: Weighted Average by MSA

93.7

12.24

5.53

5.82

Nationwide: Weighted Average by MSA

10.06

4.63

4.06

Counties not in an MSA

Baker, Oregon

3

1

36,428

1.0

(2.02)

(2.16)

4.10

San Juan, Washington

1

3

176,475

4.7

13.53

4.94

1.63

Columbia, Washington

1

1

26,590

0.7

0.71

(0.24)

4.45

Banner: Weighted Average Franchise

6.3

12.08

5.39

5.60

Nationwide: Aggregate

10.06

4.63

4.06

Source: SNL Financial

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Investment Summary

Strategically-located Pacific Northwest branch network

Solid and growing deposit base

Loan portfolio with diversification in geographic and loan type

Diversified economic drivers across markets

Thorough and conservative approach to credit risk management has led to flattening credit quality trends

Management team with extensive operating and credit cycle experience in Pacific Northwest markets

Solid core operating results

Attractive current valuation

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Appendix A: Reconciliation of Non-GAAP Measures

1

Assumes gross proceeds of \$75mm with underwriters' discount of 5.75% and expenses of \$300,000

2

Assumes proceeds risk-weighted at 20%

3

Assumes quarterly intangible amortization of \$647 thousand, quarterly pre-tax pre-provision earnings of \$10 million and \$4.5 million issued quarterly as part of the DRIP program; earnings will be applied to assets, and capital raised will be applied to liabilities (Dollars in Thousands)

As of September 30, 2009

Projected September 30, 2011³

Actual

Pro Forma ¹	
Baseline ¹	
More Adverse ¹	
Stockholders' equity	
	\$406,723
	\$477,111
	\$488,961
	\$332,962
Goodwill	
	0
	0
	0
	0
Other intangible assets, net	
	11,718
	11,718
	8,483
	8,483
Tangible equity	
	395,005
	465,393
	480,478
	324,479
Preferred equity	
	117,034
	117,034
	117,034
	117,034
Tangible common equity	
	277,971
	348,359
	363,444
	207,445
Total assets	
	4,788,008
	4,858,396
	4,799,858
	4,643,859
Goodwill	
	0
	0
	0
	0
Other intangible assets, net	
	11,718
	11,718
	8,483
	8,483
Tangible assets	
	\$4,776,290

\$4,846,678

\$4,791,375

\$4,635,376