

BANNER CORP  
Form FWP  
June 17, 2010

\$150 Million Offering  
of Common Stock  
June 2010  
Better ideas. Better banking.  
Filed Pursuant to Rule 433

Edgar Filing: BANNER CORP - Form FWP

Issuer Free Writing Prospectus dated June 17, 2010  
Relating to Preliminary Prospectus Supplement  
dated June 17, 2010  
Registration No. 333-164259  
Registration No. 333-167597

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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 Securities and Exchange Commission on Form S-3. The offering may be made only by means of a prospectus and related prospectus supplement. Investors should read the prospectus in that registration statement, the preliminary prospectus supplement and the other documents the Company has filed with the SEC for more complete information about the Company and the offering. Investors may obtain the prospectus on the SEC website at [www.sec.gov](http://www.sec.gov). Alternatively, copies of the preliminary prospectus supplement and the prospectus relating to the offering may be obtained from Third Street North, Great Falls, MT 59401, 1-800-332-5915, Sandler O'Neill + Partners, L.P., 919 Third Avenue, 6th Floor, New York, NY 10022, Wright Ragen Incorporated, 925 Fourth Avenue, Suite 3900, Seattle, WA 98104, 1-888-567-6297.

The Private Securities Litigation Report Act of 1995 provides a "safe harbor" for certain forward-looking statements. This prospectus supplement 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 with forward-looking statements. We caution readers not to place undue reliance on these forward-looking statements, which is based only on information known 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 affect our historical results or those anticipated, including, but not limited to: the credit risks of lending activities, including changes in the credit quality of our loan portfolio; changes in our allowance for loan losses and provision for loan losses that may be impacted by deterioration in the housing and economic conditions, either nationally or in our market areas; changes in the levels of general interest rates, and the relative difference between deposit interest rates, our net interest margin and funding sources; fluctuations in the demand for loans, the number of unsold home loans, real estate values in our market areas; secondary market conditions for loans and our ability to sell loans in the secondary market; regulatory actions of the Federal Reserve System (the Federal Reserve Board) and of our bank subsidiaries by the Federal Deposit Insurance Corporation, the Department of Financial Institutions, Division of Banks (the Washington DFI) or other regulatory authorities, including the possibility that they may do other things, institute a formal or informal enforcement action against us or our bank subsidiaries which could require us to increase our regulatory capital position or affect our ability to borrow funds or maintain or increase deposits, which could adversely affect our business and restrictions that have been imposed upon Banner Corporation and Banner Bank under the memoranda of understanding with the FDIC (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 may not comply with the memoranda of understanding, which could result in the imposition of additional requirements or restrictions; changes in our business including changes in regulatory policies and principles, or the interpretation of regulatory capital or other rules; our ability to pay premiums for deposit insurance; our ability to control operating costs and expenses; the use of estimates in determining fair value, which may be incorrect and result in significant declines in valuation; staffing fluctuations in response to product demand or the implementation of new products and potential associated charges; the failure or security breach of computer systems on which we depend; our ability to retain key personnel; and effects of litigation, including settlements and judgments; our ability to implement our business strategies; our ability to successfully integrate new systems, and management personnel we may acquire and our ability to realize related revenue synergies and cost savings with respect to such systems 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 our junior subordinated debentures; adverse changes in the securities markets; inability of key third-party providers to perform their obligations; and accounting issues and details of the implementation of new accounting methods; changes to the regulatory capital treatment of assets; and other competitive, governmental, regulatory, and technological factors affecting our operations, pricing, products and services; future actions of the Department of Treasury Troubled Asset Relief Program (TARP) Capital Purchase Program and the other risks described elsewhere in our accompanying prospectus and the documents incorporated therein by reference.

The Corporation does not undertake any obligation to update any forward-looking statement to reflect circumstances or events that occur after the 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 and exclude net change in valuation of financial instruments carried at fair value, other-than-temporary impairment losses and goodwill write-off. 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 in Appendix D and in the Summary of Selected Consolidated Financial Information section of the preliminary prospectus supplement.

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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:

\$150 million

Over-Allotment Option:

15%

Use of Proceeds:

Provide capital to Banner Bank to strengthen the bank's regulatory capital ratios, to support managed growth and for general working capital purposes

Book-Running Manager:

D.A. Davidson & Co.

Co-Managers:

Sandler O'Neill + Partners, L.P.

McAdams Wright Ragen Incorporated



5  
Key Management Personnel  
D.  
Michael  
Jones,  
Chief  
Executive  
Officer  
Mark  
J.  
Grescovich,  
President

Lloyd  
W.  
Baker,  
Executive  
Vice  
President  
&  
Chief  
Financial  
Officer  
Richard  
B.  
Barton,  
Executive  
Vice  
President  
&  
Chief  
Lending/Credit  
Officer

6	
	Presentation Contents
	Demographic Information
C.	
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5.

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3.

Appendix

Final Considerations

6.

Credit Quality

2.

Strategy and Opportunities

1.

7  
1.  
Strategy and Opportunities

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Strategy and Opportunities

Banner Corporation ( Banner  
or BANR ) is raising capital to allow it  
to focus on three key areas

Core Strengths

continue to invest in those areas that have established  
Banner as a strong franchise in its market areas

Areas for Attention

credit quality and improved deposit pricing

Growth Strategy

implement organic growth strategies to capitalize on the current market disruption

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Market Overview

While regional factors influence the market as a whole, BANR operates in distinct markets with unique drivers

Stable base of rural markets

Strong platform in metropolitan areas will provide growth when recovery occurs

Boise/SW Idaho

Deposits: \$182 million

Loans: \$285 million

NPAs: \$31 million

% of Total NPAs: 10.5%

# of Branches: 7



Eastern WA

Deposits: \$628 million

Loans: \$506 million

NPAs: \$11 million

% of Total NPAs: 3.8%

# of Branches: 19

Puget Sound

Deposits: \$1.2 billion

Loans: \$1.4 billion

NPAs: \$128 million

% of Total NPAs: 43.6%

# of Branches: 29

Portland

Deposits: \$303 million

Loans: \$602 million

NPAs: \$90 million

% of Total NPAs: 30.6%

# of Branches: 9

Columbia Basin

Deposits: \$1.5 billion

Loans: \$914 million

NPAs: \$29 million

% of Total NPAs: 9.9%

# of Branches: 25

Notes: All information is as of March 31, 2010

\$19 million of loans were outside of our core market, of which \$5 million was non-performing (1.6% of total NPAs)

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Banner Strategy and Opportunity

Internal Focus

Transitioning to

External Opportunities

1)

Improve capitalization to continue to  
weather the storm

2)

Continue to focus on aggressive  
problem asset resolution

3)

Lower funding costs and grow core earnings base

4)

Prepare for impact from failed institutions

5)

Look for small, strategic opportunities

-

Customers

-

People/teams

-

Assets

1)

Market environment presents opportunities

-

Improved pricing on assets and liabilities

-

Reduced competition opportunity for market share gains

2)

Find fill-in opportunities

-

Branches

-

Small assisted deals

9 to 18 month Strategy

18 to 36 month Strategy

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Large, diversified financial institution with a mix of markets, each driven by diverse economic factors

Over 55% of deposit customer base in stable, rural markets

Columbia Basin

Eastern WA (Spokane)

(2)

Platform in higher-growth, metropolitan markets

Puget Sound

Portland

Boise

Core Strengths

(1)

Includes \$124 million issued to the U.S. Treasury under the Capital Purchase Program (TARP)

(2)

Eastern WA includes two branches in Lewiston, ID

Financial

Highlights

(3/31/2010):

Total Assets:

\$4.6 billion

Total Loans:

\$3.7 billion

Total Deposits:

\$3.8 billion

Total Shareholders

Equity

(1)

: \$407 million

Portland

7.9%

Boise/SW ID

4.7%

Columbia Basin

39.2%

Eastern WA (2)

16.3%

Puget Sound

31.9%

Deposits by Region

3/31/2010

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Core Strengths

Diversified loan portfolio

(1)

Excludes goodwill impairment, OTTI losses, and net change in valuation of financial instruments carried at fair value (See Appendix A)

Stable pre-tax, pre-provision earnings

(1)

Stable trends in last three quarters

C&D

18.1%

Farm & Ag.

5.1%

Consumer

3.0%

C&I

16.7%

Non-Owner

Occ. CRE

15.1%

Owner Occ.

CRE

14.0%

Multi-Family

4.0%

1-4 Family

24.0%

\$0

\$2

\$4

\$6

\$8

\$10

\$12

\$14

Q1 2008

Q2 2008

Q3 2008

Q4 2008

Q1 2009

Q2 2009

Q3 2009

Q4 2009

Q1 2010

0.00%

0.20%

0.40%

0.60%

0.80%

1.00%

1.20%

PTPP Earnings

PTPP as % of Avg. Assets

Loan

Composition

Q1

2010

13

Areas for Attention

Continue to aggressively manage the  
loan portfolio and resolve problem  
assets

Stable trends over the last four quarters

Cost of Funds

Improve funding costs

Focus on core deposits

Improvement as branch network

matures

NPAs/Assets



0.00%

0.50%

1.00%

1.50%

2.00%

2.50%

3.00%

3.50%

Q1 2008

Q2 2008

Q3 2008

Q4 2008

Q1 2009

Q2 2009

Q3 2009

Q4 2009

Q1 2010

Most recent safety & soundness

FDIC exam completed

0%

1%

2%

3%

4%

5%

6%

7%

Q1 2008

Q2 2008

Q3 2008

Q4 2008

Q1 2009

Q2 2009

Q3 2009

Q4 2009

Q1 2010

14  
2.  
Credit Quality

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Loan Review and Monitoring

Internal

Key staffing additions/changes have been made:

Hired new President with significant credit experience

Restructured Mortgage Lending Division and hired senior level workout officers

Added to Real Estate and Commercial Special Assets groups

Added to/strengthened commercial credit administration and credit examination

Policy guideline reviews and detailed individual loan stress testing

External

PCBB

has

been  
engaged  
since  
2008  
to  
complete  
quarterly  
portfolio  
stress  
tests

FDIC exam concluded in September, 2009

Moss Adams audit concluded in March, 2010

Third party loan review (national accounting firm) concluded in April, 2010

957 loans that represent 56% of commercial loan balances

Recommended potential alternative rating of nonperforming for \$28 million in commitments, or 0.9% of outstanding commercial loan portfolio, all but \$600 thousand were already rated substandard

Additional recommended potential alternative rating for new substandard (but accruing) commitments of \$44 million

There were no charge-off recommendations

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Loan Composition is Improving

Problem assets are principally in C&D portfolio (75% of NPAs)

Reduced C&D portfolio by approximately \$557 million since 12/31/2007

Aggressive management includes

Early identification

Proactive management

Creative internal programs to facilitate problem resolution (Great Northwest Home Rush and Peace of Mind Home Loan programs)

Charge-offs and foreclosures

Q4 2007 (\$3.8 billion)

Q1 2010 (\$3.7 billion)

1-4 Family

14.8%  
Multi-Family  
4.4%  
Owner Occ.  
CRE  
9.5%  
Non-Owner  
Occ. CRE  
13.7%  
C&I  
18.3%  
Consumer  
2.5%  
Farm & Ag.  
4.9%  
C&D  
32.1%  
C&D  
18.1%  
Farm & Ag.  
5.1%  
Consumer  
3.0%  
C&I  
16.7%  
Non-Owner  
Occ. CRE  
15.1%  
Owner Occ.  
CRE  
14.0%  
Multi-Family  
4.0%  
1-4 Family  
24.0%

17  
0%  
1%  
2%  
3%  
4%  
5%  
6%  
7%  
Q1 2008  
Q2 2008  
Q3 2008

Q4 2008

Q1 2009

Q2 2009

Q3 2009

Q4 2009

Q1 2010

Early Problem Asset Recognition

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

Nonaccrual loans as a % of total delinquent loans is approximately 87%

Credit issues remain concentrated in 1-4 family residential construction and land portfolios

LLR/NPLs

NCOs/Avg. Loans

NPAs/Assets

0.00%

0.50%

1.00%

1.50%

2.00%

2.50%

3.00%

3.50%

4.00%

Q1 2008

Q2 2008

Q3 2008

Q4 2008

Q1 2009

Q2 2009

Q3 2009

Q4 2009

Q1 2010

0%

10%

20%

30%

40%

50%

60%

70%

80%

90%

100%

Q1 2008

Q2 2008



Q3 2008

Q4 2008

Q1 2009

Q2 2009

Q3 2009

Q4 2009

Q1 2010

Most recent safety &  
soundness FDIC exam  
completed

Most recent  
safety &  
soundness FDIC  
exam completed

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Positive Recent Credit Quality Trends

Credit quality began to stabilize late in 2009

Nonperforming loans decreased in the most recent quarter

OREO has increased as Banner has taken control of properties in order to move them  
Surfacing of new problem loans has slowed over the last 6 months

Nonaccrual Loan Composition History  
(000s)

Nonaccrual Composition

Q1 2008

Q2 2008

Q3 2008

Q4 2008

Q1 2009

Q2 2009

Q3 2009

Q4 2009

Q1 2010

Commercial RE

3,273

\$

5,907

\$

6,368

\$

12,879

\$

15,180

\$

7,244

\$

8,073

\$

7,300

\$

6,801

\$

Multifamily RE

-

-

-

-

968

-

-

383

373

Construction & Land

44,192

70,340

98,108

154,823

175,794

180,989

193,281

159,264

138,245

1-4 Family RE

2,869

5,526

6,583

8,649

21,900

15,167

18,107

14,614

19,777

Commercial business

3,114

6,875

6,905

8,617

7,500

10,508

15,070

21,640

19,353

Agricultural business

386

265

265

1,880

2,176

7,478

5,868

6,277

8,013

Consumer

40

-

427

130

275

2,058

-

3,923

3,387

Total Nonaccrual Loans

53,874

\$

88,913

\$

118,656

\$

186,978

\$  
 223,793  
 \$  
 223,444  
 \$  
 240,399  
 \$  
 213,401  
 \$  
 195,949  
 \$  
 % of Gross Loans  
 1.40%  
 2.24%  
 2.97%  
 4.72%  
 5.72%  
 5.71%  
 6.17%  
 5.63%  
 5.31%  
 Credit Quality History  
 (000s)  
 Q1 2008  
 Q2 2008  
 Q3 2008  
 Q4 2008  
 Q1 2009  
 Q2 2009  
 Q3 2009  
 Q4 2009  
 Q1 2010  
 Nonaccrual Loans  
 \$53,874  
 \$88,913  
 \$118,656  
 \$186,978  
 \$223,793  
 \$223,444  
 \$240,399  
 \$213,401  
 \$195,949  
 Nonaccrual Securities  
 0  
 0  
 0  
 0  
 160  
 0  
 1,236

4,232  
 3,000  
 Restructured Loans  
 2,026  
 7,771  
 15,514  
 23,635  
 27,550  
 55,031  
 55,161  
 43,683  
 45,471  
 OREO & Repo'd Assets  
 7,579  
 11,397  
 10,153  
 21,886  
 39,109  
 57,197  
 53,765  
 77,802  
 95,167  
 30+ PD Loans  
 32,889  
 23,197  
 18,587  
 61,124  
 111,677  
 31,453  
 21,242  
 34,156  
 51,328  
 Noncurrent & Restructured Assets  
 \$96,368  
 \$131,278  
 \$162,910  
 \$293,623  
 \$402,289  
 \$367,125  
 \$371,803  
 \$373,274  
 \$390,915  
 % Change  
 31.5%  
 36.2%  
 24.1%  
 80.2%  
 37.0%  
 -8.7%  
 1.3%

0.4%

4.7%

(1)

OREO includes real estate owned and repossessed assets held for sale

Note: All \$ s in 000s

Nonperforming Asset Composition 3/31/2010

Commercial RE

2.3%

1-4 Family RE

6.7%

Agricultural business

2.7%

Securities on

nonaccrual

1.0%

Consumer

1.2%

Commercial

business

6.6%

Multifamily RE

0.1%

OREO

(1)

32.4%

Construction & Land

47.0%



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Asset Resolution is Critical

Over the last 4 quarters

Approximately \$50 million of OREO has been sold

OREO was sold at approximately 97% of carrying value

(000s)

Q1 2008

Q2 2008

Q3 2008

Q4 2008

Q1 2009

Q2 2009

Q3 2009

Q4 2009

Q1 2010

Balance, beginning of period

1,867

\$

7,572

\$

11,390

\$

10,147

\$

21,782

\$

38,951

\$

56,967

\$

53,576

\$

77,743

\$

New Foreclosures - Transfer in from loans

6,106

4,223

3,277

13,630

19,175

32,863

10,013

39,802

28,161

Additional investment in property values

55

137

229

227

1,039

1,624

1,689

1,712

752

Valuation adjustments (Provisions)

-

(368)

-

(455)

(50)

(63)

(1,466)

(64)

(1,067)

Proceeds from the Sale of OREO

(444)

(174)

(4,230)

(1,976)

(3,094)

(16,112)

(13,439)

(10,064)

(9,814)

Disposition - Transfer to PP&E

-

-

-

-

-

-

-

(7,030)

-

Gain (Loss) on Sale of OREO

(12)

-

(519)

209

99

(296)

(188)

(189)

(701)

Balance, end of period

7,572

\$

11,390

\$

10,147

\$

21,782

\$

38,951

\$

56,967

\$

53,576

\$  
77,743  
\$  
95,074  
\$  
OREO Summary

20  
3.  
Capital Position

21

Capital is Critical to the Strategy

Provides cushion to sustain the Company through prolonged downturn

Strengthens balance sheet position when external opportunities present themselves

(1)

Pro forma

capital

ratios

do

not

assume

exercise

of  
the  
overallotment  
option.

Assumes

6.0%

total  
offering

costs

and

20%

blended

risk

weighting

on

new

capital

(2)

See Appendix D and prospectus supplement for reconciliation of non-GAAP financial measures

Risk Based Capital Ratios (Holding Company)

Before and

After

\$150

million

Capital

Raise

(000s)

Actual

Pro Forma

Tang. Common Equity / Tang. Assets

(2)

6.1%

8.9%

Leverage Ratio

9.8%

12.5%

Tier 1 Ratio

11.7%

15.3%

Total Risk-Based Capital Ratio

12.9%

16.5%

Excess over 10% leverage

-

\$

116,003

\$

Excess over 12% Total Risk Based Capital

35,198

\$



173,125

\$

At 3/31/2010

(1)

22

Stress Tests

SCAP

Loss scenario based on loss  
rates used in the SCAP more  
adverse stress test determined

over life of portfolio, computed  
as of Q4 2008 on possible loss  
estimates to certain loan  
categories

Note: Loss % based on loss rates (midpoint of range) from the Board of Governors of the Federal Reserve System study: Super

Note: Loss rates for 2009 are Banner Bank & Community Financial Corporation (CFC), a wholly owned subsidiary of Banner

Historical

Historical loss rate stress test  
using 2009 Banner loss rates,  
computed as of Q1 2010, and  
then doubled to account for a  
two-year period

(000s)

Balance

%

\$ Amt.

First Lien 1-4 Family

612,692

\$

3.50%

(21,444)

\$

Closed-End Jr Lien 1-4 Family

50,669

\$

23.50%

(11,907)

\$

Revolving 1-4 Family (HE lines)

153,327

\$

9.50%

(14,566)

\$

Commercial & Industrial

623,455

\$

6.50%

(40,525)

\$

Ag Production

148,290

\$

6.50%

(9,639)

\$

Commercial Real Estate

1,015,717

\$

8.00%

(81,257)  
 \$  
 Farm Real Estate  
 55,764  
 \$  
 10.50%  
 (5,855)  
 \$  
 Multifamily Real Estate  
 151,815  
 \$  
 10.50%  
 (15,941)  
 \$  
 Construction & Development  
 1,047,055  
 \$  
 16.50%  
 (172,764)  
 \$  
 Credit Cards & Consumer LOC  
 22,605  
 \$  
 19.00%  
 (4,295)  
 \$  
 Other Consumer (excl rev)  
 68,752  
 \$  
 10.00%  
 (6,875)  
 \$  
 Other  
 18,372  
 \$  
 7.00%  
 (1,286)  
 \$  
 Total  
 3,968,513  
 \$  
 9.74%  
 (386,354)  
 \$  
 Asset Category (Q4 2008)  
 More Adverse Loss Scenario  
 (000s)  
 Balance  
 %  
 \$ Amt.

First Lien 1-4 Family

717,310

\$

2.08%

(14,920)

\$

Closed-End Jr Lien 1-4 Family

44,341

\$

2.30%

(1,020)

\$

Revolving 1-4 Family (HE lines)

171,471

\$

2.08%

(3,567)

\$

Commercial & Industrial

570,676

\$

3.70%

(21,115)

\$

Ag Production

124,799

\$

3.88%

(4,842)

\$

Commercial Real Estate

1,074,526

\$

0.00%

-

\$

Farm Real Estate

62,272

\$

3.22%

(2,005)

\$

Multifamily Real Estate

148,152

\$

0.00%

-

\$

Construction & Development

685,616

\$  
14.96%  
(102,568)  
\$  
Credit Cards & Consumer LOC  
21,435  
\$  
6.24%  
(1,338)  
\$  
Other Consumer (excl rev)  
59,272  
\$  
3.82%  
(2,264)  
\$  
Other  
20,535  
\$  
1.18%  
(242)  
\$  
Total  
3,700,405  
\$  
4.16%  
(153,881)  
\$  
Asset Category (Q1 2010)  
Historical Loss Scenario

23

Capital Cushion Provides Room for Additional Loan Stress

SCAP Loss Estimates

(000s)

More Adverse

(1)

Possible Loss

(386,000)

\$

Excess Provision above 1.5%  
40,000

Capital Impact  
(346,000)

Future core earnings  
(2)

68,000

DRIP / DPP proceeds  
(3)

30,000

Net Charge-off Recapture  
102,000

(4)

Pro Forma Capital Impact  
(146,000)

\$

Risk Based Capital Ratio @ 3/31/2010  
12.9%

Adjusted RBC Ratio  
9.4%

Capital needed to remain above "well capitalized" (10%)  
20,000

\$

Capital needed for 12% RBC ratio  
93,000

\$

Leverage Ratio @ 3/31/2010  
9.8%

Adjusted Leverage Ratio  
6.8%

Capital needed to remain above "well capitalized" (5%)  
-

\$

Capital needed for 10% leverage ratio  
142,000

\$

(1)

Treasury's SCAP loss estimates were computed as of December 31, 2008 for a two year period ending December 31, 2010.

This analysis extends that termination point to December 31, 2011 (one year beyond the original termination point) given

(2)

Credit for future core earnings calculated through December 2011 using Q1 2010 pre-tax pre-provision earnings, excluding gain

(3)

Credit for DRIP/DPP proceeds calculated through December 2011 using Q1 2010 DRIP/DPP proceeds.

(4)

Includes impact of \$102 million in NCOs over the past 5 quarters ended 3/31/2010.



24  
4.  
Funding

25

Deposit Snapshot

Third largest WA-based commercial bank  
ranked by deposits

Strong market share in stable, rural markets  
Significant opportunities in higher growth,  
metropolitan markets

Cost of Funds

0.00%

0.50%

1.00%

1.50%

2.00%  
2.50%  
3.00%  
3.50%  
Q1 2008  
Q2 2008  
Q3 2008  
Q4 2008  
Q1 2009  
Q2 2009  
Q3 2009  
Q4 2009  
Q1 2010  
Deposit  
Composition

Q1  
2010  
(1)  
Deposit data as of 6/30/2009  
Region  
Total  
Branches  
in Region  
Number of  
BANR  
Branches  
in Region  
Total  
Deposits in  
Region (\$000)  
Total BANR  
Deposits  
in Region  
(\$000)  
BANR  
Regional  
Market  
Share  
Columbia Basin  
230  
25  
\$9,102,925  
\$1,590,208  
17.5%  
Puget Sound  
891  
29  
69,021,046  
1,176,928

1.7%

Eastern Washington

176

19

9,126,924

597,084

6.5%

Portland

523

9

30,554,342

263,281

0.9%

Boise/SW Idaho

226

7

8,661,742

158,131

1.8%

Region Totals

2,046

89

\$126,466,979

\$3,785,632

3.0%

Regional Deposit Market Share

(1)

Jumbo CDs

26.9%

Transaction

23.8%

MMDA &

Savings

26.9%

Retail CDs

22.4%

26

Core Deposit Summary

Opportunities with immature branch network

27 branches less than five years old

3 acquisitions since 2006

Significant  
improvement

in

non-CD

deposit

accounts

21.5%  
growth  
year-over-year  
Low reliance on wholesale funding  
(000s)  
Q1 2009  
Q1 2010  
\$ Change  
% Change  
Non-interest bearing  
508,593  
\$  
549,291  
\$  
40,698  
\$  
8.0%  
Interest bearing checking  
307,741  
  
366,786  
  
59,045  
  
19.2%  
Regular savings accounts  
490,239  
  
577,704  
  
87,465  
  
17.8%  
Money market accounts  
301,857  
  
459,811  
  
157,954  
  
52.3%  
Total CDs  
2,019,074  
  
1,896,186  
  
(122,888)  
  
-6.1%  
Total deposits

3,627,504

\$

3,849,778

\$

222,274

\$

6.1%

Total Non CD Deposits

1,608,430

\$

1,953,592

\$

345,162

\$

21.5%

Deposit Balances

Q1 2009 to Q1 2010

27

Area of Opportunity

Rate by Category

(1)

Interest bearing checking

0.56%

Savings

1.04%

Money market

1.27%

Retail CDs

2.52%



Jumbo CDs

2.51%

(1)

Weighted average rates for the last day of the month, ended March 31, 2010

Brokered Deposits

Public Funds

\$1.6 billion in CDs maturing over next four quarters

Cost of funds reduction of 173 bps over last 8 quarters ended 3/31/2010

Maturity

Total CDs

Maturity by Quarter

% of

Total

Weighted Avg Rate

by Quarter

Q2 2010

335,752,636

\$

17.7%

1.93%

Q3 2010

750,932,661

39.6%

2.70%

Q4 2010

263,328,917

13.9%

2.36%

Q1 2011

256,061,974

13.5%

2.47%

Q2 2011

75,661,294

4.0%

2.36%

Q3 2011

58,392,833

3.1%

2.61%

Q4 2011

29,092,568

1.5%  
2.81%  
Q1 2012  
40,895,518

2.2%  
2.42%  
> Q1 2012  
86,067,526

4.5%  
3.74%  
1,896,185,928

\$  
100.0%

\$0  
\$50  
\$100  
\$150  
\$200  
\$250  
\$300  
\$350  
\$400  
\$450

Q1 2008  
Q2 2008  
Q3 2008  
Q4 2008  
Q1 2009  
Q2 2009  
Q3 2009  
Q4 2009  
Q1 2010

\$0  
\$50  
\$100  
\$150  
\$200  
\$250  
\$300

Q1 2008  
Q2 2008  
Q3 2008  
Q4 2008  
Q1 2009  
Q2 2009  
Q3 2009  
Q4 2009  
Q1 2010

28  
5.  
Earnings Power

29

Core Earnings Strength

Net Interest Margin

Pre-tax, Pre-Provision Earnings

(1)

NIM improved consistently, up 36 bps over the last three quarters, despite continued drag from NPAs

Loan yields are stable and cost of funds continues to decline

Disciplined expense control

2.00%

2.50%

3.00%

3.50%

4.00%

Q1 2008

Q2 2008

Q3 2008

Q4 2008

Q1 2009

Q2 2009

Q3 2009

Q4 2009

Q1 2010

(1)

Excludes goodwill impairment, OTTI losses, and net change in valuation of financial instruments carried at fair value (See Appendix A)

\$0

\$2

\$4

\$6

\$8

\$10

\$12

\$14

Q1 2008

Q2 2008

Q3 2008

Q4 2008

Q1 2009

Q2 2009

Q3 2009

Q4 2009

Q1 2010

0.00%

0.20%

0.40%

0.60%

0.80%

1.00%

1.20%

PTPP Earnings

PTPP as % of Avg. Assets

30

Performance Initiatives to Bolster Core Earnings

Comprehensive Portfolio Management

Continue

portfolio

review

process

to

quickly

detect

and

react

to  
any  
deteriorating  
trends  
Aggressively manage criticized and classified relationships  
Aggressively  
manage  
NPAs  
and  
OREO  
for  
maximum  
realization  
of  
asset  
values  
Systemic Revenue Enhancement  
Maximize risk based pricing options for margin expansion  
Enhance relationship profitability tools to improve client and banker revenue  
contribution  
Maximize product penetration and cross sell ratios through client relationship  
strategies  
Continuous product pricing/value review  
Portfolio Mix Improvement and Market Share Expansion  
Expand market share in newer/under penetrated markets with robust prospecting  
and sales process for commercial and retail bankers  
Expand market penetration with more wholesome C&I client relationships  
Continue execution on core deposit growth initiatives

31  
6.  
Final Considerations



32

What has Changed Since December 2009 Roadshow

Two additional quarters of results that confirm:

Stabilization of credit quality

Improvement of core earnings

Further additions to the management team

Better visibility on regional economic conditions

\$150 million capital raise provides significant cushion

33

Relative Valuation

(1)

See prospectus supplement for reconciliation of non-GAAP financial measures

(2)

Pre-tax, pre-provision earnings (PTPP) represent last twelve months results and exclude goodwill impairment, OTTI losses, and

Negative results are displayed as NM

(3)

Peer Group A: Publicly-traded banks in WA, OR, ID & MT with total assets above \$1 billion who have raised over \$40 million

(4)

Peer Group B: Other publicly-traded banks in WA, OR, ID & MT with assets above \$1 billion

(5)

COLB results are adjusted for Q2 2010 offering

Source: SNL Financial

Banner's stock valuation

is well below both peer

groups on a price to

tangible book basis

Significant discount on

pre-tax, pre-provision

earnings multiple

Short interest of 17% of

total shares outstanding

has been an impediment

Mkt. Cap to

Current

Price as of

Mkt. Cap.

Price /

LTM PTPP

Dividend

Company Name

Ticker

State

6/16/2010

(\$M)

Tang. Book

(1)

Earnings

(2)

Yield

Peer Group A

(3)

Umpqua Holdings Corporation

UMPQ

OR

12.48

\$

1,429.1

\$

155.0%

10.7x

1.60%

Glacier Bancorp, Inc.

GBCI

MT

15.71

\$

1,129.7

\$

166.4%

7.1x

3.31%

Columbia Banking System, Inc.

(5)

COLB

WA

20.23

\$

794.5

\$

149.5%

12.9x

0.20%

First Interstate BancSystem, Inc.

FIBK

MT

15.81

\$

676.3

\$

138.3%

5.6x

2.85%

West Coast Bancorp

WCBO

OR

2.95

\$

276.5

\$

113.7%

NM

0.00%

Washington Banking Company

WBCO

WA

13.24

\$

202.6

\$

148.9%

10.4x

0.91%

Pacific Continental Corporation

PCBK

OR

10.59

\$

194.8

\$

134.2%

7.2x  
0.38%  
Heritage Financial Corporation  
HFWA  
WA  
14.95  
\$  
165.7  
\$  
134.9%  
8.3x  
0.00%  
Median  
476.4  
\$  
143.6%  
8.3x  
0.65%  
Peer Group B  
(4)  
PremierWest Bancorp  
PRWT  
OR  
0.51  
\$  
51.2  
\$  
86.4%  
3.8x  
0.00%  
Sterling Financial Corporation  
STSA  
WA  
0.75  
\$  
39.2  
\$  
NM  
0.7x  
0.00%  
Cascade Bancorp  
CACB  
OR  
0.58  
\$  
16.3  
\$  
107.6%  
NM  
0.00%

Cascade Financial Corporation

CASB

WA

1.25

\$

15.3

\$

28.2%

1.0x

0.00%

AmericanWest Bancorporation

AWBC

WA

0.23

\$

4.0

\$

NM

NM

0.00%

Median

16.3

\$

86.4%

1.0x

0.00%

Banner Corporation

BANR

WA

3.64

\$

85.7

\$

29.9%

2.4x

1.10%

34

Key Considerations

Large, diversified platform with strong presence in stable markets and opportunities in growth markets

Diversified loan portfolio with stable/improving credit quality trends

Opportunities to continue to grow core earnings through improving funding mix and cost

Strong additions to management team

Capital provides cushion to weather prolonged downturn and fund future growth at the appropriate time

35

A.

Loan Breakdown and Credit Metrics



36  
Largest Lending Relationships  
Balance  
3/31/10  
1  
Coml  
RE / Animal Feed Products  
Pass  
\$38,563,481  
\$36,404,817  
2  
Homebuilder

Substandard

20,468,995

20,468,995

3

Investment Banking

Pass

20,000,000

-

4

Individual -

various investments

Pass

20,000,000

20,000,000

5

Operator of Skilled nursing facilities

Substandard

19,650,885

19,606,226

\$96,480,038

6

Homebuilder and Res A&D

Substandard

19,201,635

19,201,635

7

Comml

RE -

multifamily and other

Pass

18,554,250

12,913,648

8

Homebuilder

Substandard

18,081,816

18,081,816

9

Coml

RE multifamily

Pass

17,370,525

17,370,525

10

Homebuilder

Substandard

16,551,095

12,144,760

\$176,192,423

11

Comml

RE and Comml

A&D

Pass

16,138,771

15,932,381

12

Homebuilder

Pass

15,913,000

12,465,873

13

Comml

RE -

Office

Pass

15,898,818

15,898,818

14

Comml

RE retail grocery (owner occupied)

Pass

15,195,406

14,515,562

15

Comml

RE -

mini storage

Pass

15,154,893

13,335,489

\$248,340,546

16

Hospital

Pass

15,119,276

15,119,276

17

Native Am. Casion

& associated hotel

Pass

15,000,000

13,255,813

18

Drilling contractor

Pass

13,507,962

9,695,314

19

Seafood Processing

Pass  
13,437,500  
11,950,165  
20  
Homebuilder and Res A&D  
Substandard  
13,380,918  
12,759,461  
\$311,120,576  
21  
Comml  
RE -  
mixed use  
Pass  
13,357,490  
11,179,279  
22  
Comml  
RE -  
mixed use  
Pass  
13,320,955  
13,222,277  
23  
Comml  
RE -  
health club (owner occupied)  
Pass  
13,136,212  
13,136,212  
24  
Homebuilder and Res A&D  
Pass  
12,788,288  
7,306,931  
25  
Food Processing  
Pass  
12,000,000  
1,298,824  
\$421,792,173  
\$357,264,097  
Total Loan Portfolio  
3,688,856,691  
\$  
Top 20 Relationships  
represent 8.43% of all  
loans  
Top 25 Relationships  
represent 9.68% of all

loans

Top 15 Relationships  
represent 6.73% of all  
loans

Top 25  
Relationships

Top 5 Relationships  
represent 2.62% of all  
loans

Top 10 Relationships  
represent 4.78% of all  
loans

Business

Risk Rating

Commitment

Amount

37

Loan and Credit Quality Comparison

Note: Data as of March 31, 2010; Percentages in table are expressed as a percentage of the total loan portfolio balances.

54% of Q1 2010 NCOs were related to construction & development loans

(000s)

Loan Category

\$

%

\$

%

\$

%

\$  
%  
\$  
%

Commercial real estate owner occupied

515,542

\$  
14.0%

30,609

\$  
5.9%

3,663

\$  
0.7%

-

\$  
0.0%

8,465

1.6%

Commercial real estate investment property

557,134

15.1%

36,842

6.6%

3,138

0.6%

92

0.0%

12,244

2.2%

Multifamily real estate

147,659

4.0%

840  
0.6%  
373  
0.3%  
-  
0.0%  
2,024  
1.4%  
Commercial construction  
83,879  
2.3%  
9,622  
11.5%  
1,552  
1.9%  
-  
0.0%  
1,552  
1.9%  
Multifamily construction  
61,924  
1.7%  
11,282  
18.2%  
11,283  
18.2%



-

0.0%

11,282

18.2%

One- to four-family construction

213,438

5.8%

75,353

35.3%

32,241

15.1%

1,776

0.8%

34,525

16.2%

Residential land and land development

256,607

7.0%

126,991

49.5%

78,972

30.8%

5,361

2.1%

74,075

28.9%

Commercial land and land development

48,194

1.3%

17,347

36.0%

14,197

29.5%

200

0.4%

16,368

34.0%

Commercial business

616,396

16.7%

59,595

9.7%

19,353

3.1%

3,494

0.6%

27,928

4.5%

Agricultural business including secured by farmland

187,207

5.1%

14,505

7.7%

8,013

4.3%

2

0.0%

9,549

5.1%

One- to four-family real estate

697,565

18.9%

33,153

4.8%

19,777

2.8%

1,031

0.1%

19,598

2.8%

Consumer

303,312

8.2%

6,237

2.1%

3,448

1.1%

1,580

0.5%

7,939

2.6%

Total loans outstanding

3,688,857

\$

100.0%

422,376

\$

11.5%

196,010

\$

5.3%

13,536

\$

0.4%

225,549

\$

6.1%

Past Due

Balances

Classified

NPL

Q1 2010 NCOs

38

Breakdown

Construction & Development

Highest priority is continuing to reduce this portfolio

Creative loan programs have aided in reducing this portfolio

Performing vs. Non-Performing

Net Charge-offs

Note: Information as of 3/31/2010; dollars in millions

Puget Sound

Loans: \$217 million

NPLs: \$65 million  
Portland  
Loans: \$238 million  
NPLs: \$47 million  
Columbia Basin  
Loans: \$100 million  
NPLs: \$15 million  
Eastern WA  
Loans: \$65 million  
NPLs: \$7 million  
Boise/SW Idaho  
Loans: \$44 million  
NPLs: \$4 million  
\$0  
\$5  
\$10  
\$15  
\$20  
\$25  
\$30  
Q1  
2008  
Q2  
2008  
Q3  
2008  
Q4  
2008  
Q1  
2009  
Q2  
2009  
Q3  
2009  
Q4  
2009  
Q1  
2010  
C&D Concentrations  
Amount  
% of Total  
Residential A&D  
\$129  
19%  
Residential improved lots  
77  
12%  
Residential unimproved  
51  
8%

Commercial A&D  
9  
1%  
Improved land  
20  
3%  
Unimproved land  
19  
3%  
Commercial construction  
84  
13%  
Multifamily construction  
62  
9%  
1-4 family construction  
213  
32%  
Total  
\$664  
\$0  
\$200  
\$400  
\$600  
\$800  
\$1,000  
\$1,200  
\$1,400  
Q1  
2008  
Q2  
2008  
Q3  
2008  
Q4  
2008  
Q1  
2009  
Q2  
2009  
Q3  
2009  
Q4  
2009  
Q1  
2010  
Performing Loans  
Non-Accrual Loans

39  
Breakdown  
Commercial Real Estate  
Less than 15% of CRE portfolio matures in next  
three years  
Very  
low  
delinquency  
rate  
on  
NOO  
CRE



2.0%

Note: Information as of 3/31/2010; dollars in millions

Columbia Basin

Loans: \$293 million

NPLs: \$4 million

Eastern WA

Loans: \$242 million

NPLs: \$400 thousand

Boise/SW Idaho

Loans: \$81 million

NPLs: \$0

Portland

Loans: \$99 million

NPLs: \$300 thousand

Puget Sound

Loans: \$506 million

NPLs: \$2 million

Net Charge-offs

Performing vs. Non-Performing

CRE Concentrations

Amount

% of Total

Amount

% of Total

Office

\$86

17%

\$151

21%

Retail

85

16%

120

17%

Warehouse/Industrial

131

26%

45

6%

Multifamily

0

0%

147

21%

Healthcare

52

10%

40

5%

Hotel/motel  
0  
0%  
48  
7%  
C-Store/Service Station  
42  
8%  
4  
1%  
Other  
89  
17%  
82  
12%  
Islander's CRE  
31  
6%  
68  
10%  
Total  
\$516  
\$705  
Owner Occupied  
Non-Owner Occupied  
\$0  
\$200  
\$400  
\$600  
\$800  
\$1,000  
\$1,200  
Q1  
2008  
Q2  
2008  
Q3  
2008  
Q4  
2008  
Q1  
2009  
Q2  
2009  
Q3  
2009  
Q4  
2009  
Q1  
2010

Performing Loans  
Non-Accrual Loans  
(\$5)  
\$0  
\$5  
\$10  
\$15  
\$20  
\$25  
\$30  
Q1  
2008  
Q2  
2008  
Q3  
2008  
Q4  
2008  
Q1  
2009  
Q2  
2009  
Q3  
2009  
Q4  
2009  
Q1  
2010

40

Breakdown

Commercial

&

Industrial

Note: Information as of 3/31/2010; dollars in millions

\$18 million of loans were outside of our core market, including \$5 million of NPLs

Well diversified C&I portfolio, both by  
geography and borrower type/size

Normal charge-off experience over the past  
few years

Eastern WA

Loans: \$122 million

NPLs: \$2 million

Boise/SW Idaho

Loans: \$64 million

NPLs: \$700 thousand

Columbia Basin

Loans: \$141 million

NPLs: \$700 thousand

Portland

Loans: \$36 million

NPLs: \$400 thousand

Puget Sound

Loans: \$235 million

NPLs: \$12 million

Net Charge-offs

Performing vs. Non-Performing

\$0

\$5

\$10

\$15

\$20

\$25

\$30

Q1

2008

Q2

2008

Q3

2008

Q4

2008

Q1

2009

Q2

2009

Q3

2009

Q4

2009

Q1

2010

C&I Concentrations

Amount

% of Total

Manufacturing

\$102

17%

RE, rental & leasing

94

15%  
Construction  
76  
13%  
Finance & Insurance  
67  
11%  
Health care  
49  
8%  
Wholesale Trade  
50  
8%  
Retail Trade  
42  
7%  
Transportation/Warehousin  
24  
3%  
Other  
112  
18%  
Total  
\$616  
\$0  
\$100  
\$200  
\$300  
\$400  
\$500  
\$600  
\$700  
\$800  
Q1  
2008  
Q2  
2008  
Q3  
2008  
Q4  
2008  
Q1  
2009  
Q2  
2009  
Q3  
2009  
Q4  
2009  
Q1

2010  
Performing  
Loans  
Non-Accrual  
Loans

41

Breakdown

Residential Real Estate

Large portfolio provides some stability in  
tough operating markets

Most of the NCOs are mark to market  
charges associated with the Great N.W.

Home Rush

Note: Information as of 3/31/2010; dollars in millions

\$1 million of loans were outside of our core market, including no NPLs

Eastern WA

Loans: \$63 million



NPLs: \$2 million  
Boise/SW Idaho  
Loans: \$37 million  
NPLs: \$1 million  
Columbia Basin  
Loans: \$220 million  
NPLs: \$4 million  
Portland  
Loans: \$221 million  
NPLs: \$9 million  
Puget Sound  
Loans: \$350 million  
NPLs: \$6 million  
\$0  
\$5  
\$10  
\$15  
\$20  
\$25  
\$30  
Q1  
2008  
Q2  
2008  
Q3  
2008  
Q4  
2008  
Q1  
2009  
Q2  
2009  
Q3  
2009  
Q4  
2009  
Q1  
2010  
1-4 Family Concentrations  
Amount  
% of Total  
1-4 Family 1st liens  
\$698  
78%  
1-4 Family Jr. Liens  
171  
19%  
1-4 Family Home Equity LOCs  
23  
3%

Total  
\$892  
Net Charge-offs  
Performing vs. Non-Performing  
\$0  
\$200  
\$400  
\$600  
\$800  
\$1,000  
Q1  
2008  
Q2  
2008  
Q3  
2008  
Q4  
2008  
Q1  
2009  
Q2  
2009  
Q3  
2009  
Q4  
2009  
Q1  
2010  
Performing Loans  
Non-Accrual Loans

42

Breakdown

Farm & Agriculture

Diversified production agriculture portfolio

geographically diversified in the Columbia

Basin and Southern Idaho

Overall good credit quality as industry

fundamentals have been strong

substandard loans total \$14.5 million

Note: Information as of 3/31/2010; dollars in millions

Ag Concentrations

Amount

% of Total  
Field Crops

\$57

30%

Grains

28

15%

Livestock

39

21%

Dairies

27

15%

Potato

14

7%

Wineries

5

3%

Other

17

9%

Total

\$187

Eastern WA

Loans: \$3 million

NPLs: \$0

Boise/SW Idaho

Loans: \$53 million

NPLs: \$6 million

Columbia Basin

Loans: \$121 million

NPLs: \$2 million

Portland

Loans: \$2 million

NPLs: \$0

Puget Sound

Loans: \$8 million

NPLs: \$0

Performing vs. Non-Performing

Net Charge-offs

\$0

\$50

\$100

\$150

\$200

\$250

Q1

2008

Q2

2008  
Q3  
2008  
Q4  
2008  
Q1  
2009  
Q2  
2009  
Q3  
2009  
Q4  
2009  
Q1  
2010  
Performing Loans  
Non-Accrual Loans  
(\$5)  
\$0  
\$5  
\$10  
\$15  
\$20  
\$25  
\$30  
Q1  
2008  
Q2  
2008  
Q3  
2008  
Q4  
2008  
Q1  
2009  
Q2  
2009  
Q3  
2009  
Q4  
2009  
Q1  
2010

43

Breakdown

Consumer

Small portfolio of credit cards, car loans, and  
boat & RV loans

Charge-offs are at low levels

Eastern WA

Loans: \$11 million

NPLs: \$0

Boise/SW Idaho

Loans: \$6 million

NPLs: \$0

Columbia Basin

Loans: \$39 million

NPLs: \$0

Portland

Loans: \$6 million

NPLs: \$100 thousand

Puget Sound

Loans: \$47 million

NPLs: \$400 thousand

Note: Information as of 3/31/2010; dollars in millions

\$0

\$5

\$10

\$15

\$20

\$25

\$30

Q1

2008

Q2

2008

Q3

2008

Q4

2008

Q1

2009

Q2

2009

Q3

2009

Q4

2009

Q1

2010

Cons. Concentrations

Amount

% of Total

Credit Cards

\$17

16%

Other Cons Revolv

11

10%

Other Cons Loans

81

74%

Total

\$109

Net Charge-offs

Performing vs. Non-Performing

\$0  
\$25  
\$50  
\$75  
\$100  
\$125  
\$150  
Q1  
2008  
Q2  
2008  
Q3  
2008  
Q4  
2008  
Q1  
2009  
Q2  
2009  
Q3  
2009  
Q4  
2009  
Q1  
2010  
Performing Loans  
Non-Accrual Loans



44

B.

Non-Interest Income and Expense

45

Other Revenue Opportunities

Account acquisition and retention yielding consistent service charge income

Core competency in mortgage banking

(000s)

\$

%

Non-Interest Income

Q1 2009

Q1 2010

Change

Change

Deposit fees and other service charges

4,936

\$

5,169

\$

233

\$

4.7%

Net change in valuation of financial instruments  
carried at fair value

(3,253)

677

3,930

NM

Mortgage banking operations

2,715

948

(1,767)

-65.1%

Loan servicing fees

(270)

313

583

NM

Miscellaneous

520

617

97

18.7%

Total non-interest income

4,648

\$

7,724

\$

3,076

\$

66.2%

46

Control Over Non-Interest Expense

Core non-interest  
expense items decreased

5.1% in Q1 2010

Salary and employee  
benefits declined by 3.4%,  
partially due to a  
decrease in headcount

Professional fees, FDIC  
deposit insurance and  
OREO costs increased by

\$3.2 million in Q1 2010

(000s)

\$

%

Non-Interest Expense

Q1 2009

Q1 2010

Change

Change

Core

non-interest

expense

items

Salary & employee benefits

15,485

\$

14,954

\$

(531)

\$

-3.4%

Occupancy & equipment

6,054

5,604

(450)

-7.4%

Information/computer data services

1,534

1,506

(28)

-1.8%

Payment and card processing expenses

1,453

1,424

(29)

-2.0%

Advertising and marketing

1,832

1,950

118

6.4%

State business and use taxes

540

480

(60)

-11.1%

Amortization of core deposit intangibles

690

644

(46)

-6.7%  
Miscellaneous  
2,891  
2,376  
(515)  
-17.8%  
Total core non-interest expense items  
30,479  
28,938  
(1,541)  
-5.1%  
Other  
non-interest  
expense  
items  
Professional services  
1,194  
1,287  
93  
7.8%  
FDIC deposit insurance  
1,497  
2,132  
635  
42.4%  
Real estate operations  
623  
3,058  
2,435  
390.9%  
Total other non-interest expense items  
3,314  
6,477  
3,163  
95.4%  
Total non-interest expense  
33,793  
\$  
35,415  
\$  
1,622  
\$  
4.8%

47  
C.  
Demographic Information

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Demographics by Region

Population

Income

BANR operates in attractive regions; all of the regions BANR serves have higher projected population and income growth rates than the national average

Source: SNL Financial as of May 5, 2010

Region

Avg. Median HH

Income 2009

Avg. HH Inc. Change

2000 - 2009



Avg. Projected  
HH Inc. Change  
2009 - 2014

Columbia Basin  
\$47,146  
28.1%  
5.3%

Puget Sound  
60,253  
29.5%  
5.5%

Eastern WA  
46,611  
30.4%  
6.3%

Portland  
63,290  
30.5%  
5.2%

Boise / SW Idaho  
52,579  
35.1%  
6.4%

US  
\$54,719  
29.8%  
4.1%

Region  
Total Population  
2009 (actual)  
Avg. Population  
Change  
2000 - 2009

Avg. Projected  
Pop. Change  
2009 - 2014

Columbia Basin  
783,768  
11.8%  
4.9%

Puget Sound  
3,034,960  
14.8%  
6.6%

Eastern WA  
528,589  
7.0%  
3.4%

Portland  
2,074,245

17.2%

7.7%

Boise / SW Idaho

654,865

30.2%

13.0%

US

309,731,508

10.1%

4.6%

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D.

Reconciliation of Non-GAAP Financial Measures

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Reconciliation of Non-GAAP Financial Measures  
Tangible Equity, Tangible Common Equity and Tangible Assets  
Normalized Pre-Tax, Pre-Provision Earnings

(000s)

At March 31,

2010

Reconciliation of non-GAAP financial measures:

Stockholders' equity

\$406,724

Goodwill

0

Other intangible assets, net  
 10,426  
 Tangible equity  
 \$396,298  
 Preferred equity  
 117,805  
 Tangible common equity  
 \$278,493  
 Total assets  
 \$4,581,711  
 Goodwill  
 0  
 Other intangible assets, net  
 10,426  
 Tangible assets  
 \$4,571,285  
 (000s)  
 Q1 2008  
 Q2 2008  
 Q3 2008  
 Q4 2008  
 Q1 2009  
 Q2 2009  
 Q3 2009  
 Q4 2009  
 Q1 2010  
 Income (Loss) Before Provision For Income Taxes  
 \$5,343  
 (\$54,610)  
 (\$2,338)  
 (\$83,473)  
 (\$16,186)  
 (\$26,989)  
 (\$11,824)  
 (\$7,818)  
 (\$3,541)  
 ADD: Provision for Loan Losses  
 6,500  
 15,000  
 8,000  
 33,000  
 22,000  
 45,000  
 25,000  
 17,000  
 14,000  
 LESS: Net Change in Valuation Of Financial Instruments Carried At Fair Value  
 823  
 649  
 (6,056)

13,740  
(3,253)  
11,211  
5,982  
(1,411)  
1,908  
ADD: Other-Than-Temporary Impairment Losses  
0  
0  
0  
0  
0  
(162)  
(1,349)  
0  
(1,231)  
ADD: Goodwill Write-Off  
0  
50,000  
0  
71,121  
0  
0  
0  
0  
0  
Normalized Pre-Tax, Pre-Provision Earnings  
\$11,020  
\$9,741  
\$11,718  
\$6,908  
\$9,067  
\$6,962  
\$8,543  
\$10,593  
\$9,782