

BANNER CORP  
Form 8-K  
February 10, 2003

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

**FORM 8-K**

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15 (d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): February 5, 2003

Banner Corporation

(Exact name of registrant as specified in its charter)

Washington  
State or other jurisdiction  
of incorporation

0-26584  
Commission  
File Number

91-1691604  
(I.R.S. Employer  
Identification No.)

10 S. First Avenue, Walla Walla, Washington  
(Address of principal executive offices)

99362  
(Zip Code)

Registrant's telephone number (including area code) (509) 527-3636

Not Applicable

(Former name or former address, if changed since last report)

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**Item 5. Other Events**

On February 5, 2003 the Registrant announced its results for the fourth quarter and year ended December 31, 2002. The Registrant also announced that as a result of further deterioration in the quality of the loan portfolio, that its fourth quarter loan loss provision was \$10.0 million. For further information, reference is made to the Registrant's press release dated February 5, 2003, which is attached hereto as Exhibit 99 and incorporated herein by reference.

**Item 7. Financial Statements, Pro Forma Financial Information and Exhibits**

Exhibit

99 Press Release dated February 5, 2003.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

BANNER CORPORATION

DATE: February 10, 2003

By: /s/D. Michael Jones  
D. Michael Jones  
President and Chief Executive Officer

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**Exhibit 99**

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## The Cereghino Group

CORPORATE INVESTOR RELATIONS

1403 SE 44

th Avenue **BANNER**

Lloyd Baker, CFO Portland, OR 97215 CORPORATION

(509)

527-3636503.421.4168www.stockvalues.com

## News Release

Contact: D. Michael Jones

President and CEO

### **BANNER CORPORATION REPORTS FOURTH QUARTER AND FULL YEAR RESULTS**

Walla Walla, WA February 5, 2003 Banner Corporation (Nasdaq: BANR), the parent company of Banner Bank, today reported a net loss of \$1.6 million, or \$(0.14) per diluted share for the fourth quarter, compared to net income of \$3.7 million, or \$0.32 per diluted share, in the fourth quarter of 2001. For the year ended December 31, 2002, net income was \$9.3 million, or \$0.82 per diluted share, compared to \$7.5 million, or \$0.64 per diluted share, for the year ended 2001.

#### **Asset Quality**

"We announced on December 20, 2002, that a portion of our loan portfolio was experiencing signs of deterioration, which would require us to substantially increase the quarterly loan loss provision to bolster reserves," said D. Michael Jones, President and Chief Executive Officer. "Subsequent to that announcement, additional deterioration has become evident and the Puget Sound economy has continued to weaken. In light of these events, we have increased the provision for loan losses to \$10.0 million for the quarter ended December 31, 2002. We are hopeful that this additional provision will allow us to return to a more normal level of provision in 2003."

Non-performing assets increased to \$42.2 million, or 1.86% of total assets, at December 31, 2002. The allowance for loan losses was \$26.5 million, or 1.69% of total loans outstanding, at December 31, 2002, compared to \$17.6 million, or 1.10% of loans, a year earlier. Net charge-offs to average loans outstanding improved to 0.16% for the quarter ended December 31, 2002, from 0.32% in the fourth quarter of 2001. For the year ended December 31, 2002, net charge-offs were 0.78%, compared to 0.75% for the prior year. "The problem loans are primarily due from borrowers located in the Puget Sound region, and are the result of poor risk assessment at the time they were originated coupled with weakened economic conditions in that area," said Jones. "We continue to direct significant efforts toward overall asset quality and managing non-performing loans, and we have substantially upgraded our risk-assessment procedures.

"2002 was a very difficult year for Banner Corporation. While we have been successful in building a new management team, adding a number of seasoned commercial lending officers, growing our Bank's deposit portfolio, improving the Company's balance sheet liquidity and augmenting our capital structure, the continuing deterioration of the quality of our loan portfolio and the resulting impact on our earnings performance is very disappointing," said Jones.

#### **Income Statement Review**

Revenues (net interest income before the provision for loan losses plus other operating income) for the quarter ended December 31, 2002, increased 12%, to \$25.1 million compared to \$22.4 million for the same quarter a year earlier. For the year ended December 31, 2002, revenues increased 11% to \$94.2 million compared to \$85.2 million for 2001.

Net interest margin was 3.86% in the fourth quarter of 2002, a six basis point improvement from the 3.80% margin generated in the fourth quarter of 2001. Net interest margin for the year ended December 31, 2002 was 3.91%, an 18 basis point improvement from a year ago. "Funding costs have declined as interest rates remain extraordinarily low, and we continue to grow our deposit base. This decline in costs has contributed to an improvement in our interest margin. However, the Federal Reserve's most recent rate cut, combined with the Bank's increase in non-performing assets, has placed pressure on asset yields and compressed our net interest margin during the last half of the quarter," said Jones.

Mortgage banking activities for both purchases and refinancing continue to contribute to other operating income as housing markets remain strong. Real estate loan production for the year, including construction loans, surpassed \$1 billion for the first time in the Company's history. Other operating income increased 42% to \$5.2 million in the fourth quarter of 2002, from \$3.7 million in the same quarter a year ago. Income from mortgage banking operations grew to \$2.7 million while deposit fees totaled \$1.5 million during the quarter compared to \$1.2 million and \$1.5 million, respectively, in the same quarter a year ago. For the year ended December 31, 2002, other operating income reached \$15.9 million, an 18% improvement over the \$13.5 million generated in the previous year.

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"We have expanded our franchise through the acquisition of Oregon Business Bank in January 2002 and de novo branches in Spokane and Pasco, Washington," Jones said. "We also have added commercial lending centers in Portland, Seattle, Spokane and the Tri-Cities, and staffed them with a number of experienced commercial bankers; and we have embarked on a regional advertising and marketing campaign. We anticipate increased contributions from each of these efforts in the coming year."

Other operating expenses were \$18.0 million for the fourth quarter of 2002, compared to \$13.1 million in the fourth quarter of 2001. Other operating expenses were \$60.4 million for all of 2002, compared to \$59.6 million for 2001. Fourth quarter 2002 expenses increased because of a number of seasoned commercial lending officers that have been added to staff but have not yet had time to convert their long-term customers to Banner Bank. Additionally, expenses were increased when compared to the fourth quarter of 2001 due to significant increases in incentive compensation caused by excellent fourth quarter mortgage banking results along with elevated compensation and collection expenses related to management of the Bank's problem loan portfolio.

Following the adoption of Financial Accounting Standards No. 142, Banner Bank no longer amortizes goodwill associated with intangible assets from acquisitions. Consequently, goodwill amortization expenses have been significantly lower this year compared to comparable periods a year earlier. Goodwill amortization expense was \$795,000 in the fourth quarter of 2001 and \$3.2 million for the year ended December 31, 2001.

### **Balance Sheet Review**

Total assets increased 8% to \$2.26 billion at December 31, 2002, from \$2.09 billion at December 31, 2001, while stockholders' equity declined to \$190.4 million from \$192.3 million over the same period. Book value per share at

December 31, 2002, increased to \$17.64 per share from \$17.40 per share a year earlier. Tangible book value per share at December 31, 2002, was \$14.24 per share compared to \$14.55 per share at December 31, 2001. During the fourth quarter 58,000 shares were repurchased by the Company, bringing the total shares repurchased during 2002 to 423,000.

Banner's loan portfolio declined slightly to \$1.55 billion at December 31, 2002. "Commercial and agricultural loans continue to represent a larger portion of the total loan portfolio as production of these types of loans increases and term real estate loans decline through sales to the secondary market and refinancing activity," said Jones. Commercial and agricultural loans increased 12% and now represent 25% of the loan portfolio. Residential construction and development lending remained strong, contributing significantly to revenue growth throughout the year as average balances exceeded prior year levels, although the December 31, 2002 balance of these types of loans was nearly unchanged from a year earlier.

Deposits increased 16% to \$1.5 billion at December 31, 2002, from \$1.3 billion a year earlier, which substantially improved balance sheet liquidity. Largely as a result of the strong customer deposit growth, the Company increased its investment in interest bearing deposits, federal funds sold, and securities, while also repaying a portion of its borrowings. As a result, cash and securities increased 48% to \$567.4 million at December 31, 2002, compared to \$384.4 million at December 31, 2001, and borrowings declined by \$31.8 million, or 5%, to \$547.0 million at December 31, 2002, compared to \$578.7 million at December 31, 2001. In addition, during the year the Company significantly strengthened its capital position by issuing \$40 million of Trust Preferred Securities.

#### **Conference Call**

The Company will host a conference call today, February 5, 2003 at 1:30 p.m. PST, to discuss fourth quarter and year end results. The conference call can be accessed live by telephone at 303-205-0033 or from the Company's website at [www.banrbank.com](http://www.banrbank.com), or [www.companyboardroom.com](http://www.companyboardroom.com). Institutional investors may access the call via [www.streetevents.com](http://www.streetevents.com). An archived recording of the call can be accessed by dialing 303-590-3000, access code 522830 until February 19, 2003, or via the Internet at [www.companyboardroom.com](http://www.companyboardroom.com) through February 26, 2003.

Banner Corporation is the parent of Banner Bank, a commercial bank which operates a total of 41 branch offices and seven loan offices in 19 counties in Washington, Oregon and Idaho. Banner serves the Pacific Northwest region with a full range of deposit services and business, commercial real estate, construction, residential, agricultural and consumer loans. Visit Banner Bank on the Web at [www.banrbank.com](http://www.banrbank.com).

*Statements concerning future performance, developments or events, expectations for earnings, growth and market forecasts, and any other guidance on future periods, constitute forward-looking statements, which are subject to a number of risks and uncertainties that are beyond the Company's control and might cause actual results to differ materially from the expectations and stated objectives. Factors which could cause actual results to differ materially include, but are not limited to, regional and general economic conditions, changes in interest rates, deposit flows, demand for mortgages and other loans, real estate values, competition, loan delinquency rates, changes in accounting principles, practices, policies or guidelines, changes in legislation or regulation, other economic, competitive, governmental, regulatory and technological factors affecting operations, pricing, products and services, Banner's ability to successfully resolve outstanding credit issues and recover check kiting losses, and the Company's stock repurchase activity. Accordingly, these factors should be considered in evaluating the forward-looking statements, and undue reliance should not be placed on such statements. Banner undertakes no responsibility to update or revise any forward-looking statements.*

(tables follow)

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**RESULTS OF OPERATIONS**

|   | Quarters Ended |              |              | Year Ended   |              |
|---|----------------|--------------|--------------|--------------|--------------|
|   | Dec 31, 2002   | Sep 30, 2002 | Dec 31, 2001 | Dec 31, 2002 | Dec 31, 2001 |
| (In thousands except share and per share data)          |                |              |              |              |              |
| <b>INTEREST INCOME:</b>                                 |                |              |              |              |              |
| Loans receivable  | \$ 30,492      | \$ 30,907    | \$ 32,378    | \$ 123,352   | \$ 135,765   |
| Mortgage-backed securities                              | 2,526          | 2,770        | 2,979        | 10,738       | 12,196       |
| Securities and deposits                                 | 2,615          | 2,672        | 2,134        | 10,186       | 9,705        |
|   | 35,633         | 36,349       | 37,491       | 144,276      | 157,666      |
| <b>INTEREST EXPENSE:</b>                                |                |              |              |              |              |
| Deposits  | 9,455          | 9,733        | 11,149       | 39,206       | 52,702       |
| Federal Home Loan Bank advances                         | 5,604          | 5,791        | 7,021        | 24,094       | 29,990       |
| Trust preferred securities                              | 467            | 380          | --           | 1,185        | --           |
| Other borrowings  | 226            | 366          | 578          | 1,484        | 3,252        |
|   | 15,752         | 16,270       | 18,748       | 65,969       | 85,944       |
| Net Interest Income Before Provision<br>For Loan Losses | 19,881         | 20,079       | 18,743       | 78,307       | 71,722       |
| <b>PROVISION FOR LOAN LOSSES</b>                        | 10,000         | 4,000        | 4,100        | 21,000       | 13,959       |
| Net Interest Income After Provision<br>For Loan Losses  | 9,881          | 16,079       | 14,643       | 57,307       | 57,763       |
| <b>OTHER OPERATING INCOME:</b>                          |                |              |              |              |              |
| Loan servicing fees                                     | 475            | 239          | 255          | 1,471        | 1,158        |
| Other fees and service charges                          | 1,473          | 1,525        | 1,545        | 5,804        | 5,704        |
| Mortgage banking operations                             | 2,674          | 1,602        | 1,165        | 6,695        | 4,575        |
| Gain (loss) on sale of securities                       | --             | 10           | 327          | 27           | 687          |
| Miscellaneous   | 557            | 555          | 359          | 1,880        | 1,341        |
|   | 5,179          | 3,931        | 3,651        | 15,877       | 13,465       |
| <b>OTHER OPERATING EXPENSE:</b>                         |                |              |              |              |              |
| Salary and employee benefits                            | 10,505         | 9,973        | 7,044        |              |              |
| Less capitalized loan origination costs                 | (1,737)        | (1,438)      | (1,315)      | (5,780)      | (4,897)      |

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|  |                   |                 |                 |                 |                 |
|--|-------------------|-----------------|-----------------|-----------------|-----------------|
| Occupancy and equipment                              | 2,259             | 2,141           | 2,177           | 8,522           | 7,947           |
| Information / computer data services                 | 1,069             | 925             | 971             | 3,331           | 4,191           |
| Advertising  | 900               | 723             | 484             | 2,220           | 1,171           |
| Check kiting loss                                    | --                | --              | --              | --              | 8,100           |
| Amortization of intangibles                          | 63                | 64              | 795             | 255             | 3,180           |
| Miscellaneous  | 4,920             | 2,912           | 2,967           | 13,635          | 10,079          |
|  | <u>17,979</u>     | <u>15,300</u>   | <u>13,123</u>   | <u>60,445</u>   | <u>59,636</u>   |
| Income (Loss) Before Provision<br>For Income Taxes   | (2,919)           | 4,710           | 5,171           | 12,739          | 11,592          |
| <b>PROVISION FOR (BENEFIT FROM)<br/>INCOME TAXES</b> | <u>(1,362)</u>    | <u>1,329</u>    | <u>1,505</u>    | <u>3,479</u>    | <u>4,142</u>    |
| <b>NET INCOME (LOSS)</b>                             | <u>\$ (1,557)</u> | <u>\$ 3,381</u> | <u>\$ 3,666</u> | <u>\$ 9,260</u> | <u>\$ 7,450</u> |
| Earnings (Loss) Per Share                            |                   |                 |                 |                 |                 |
| Basic  | \$ (0.14)         | \$ 0.31         | \$ 0.33         | \$ 0.85         | \$ 0.67         |
| Diluted  | \$ (0.14)         | \$ 0.30         | \$ 0.32         | \$ 0.82         | \$ 0.64         |
| Cumulative Dividend Per Share                        | \$ 0.15           | \$ 0.15         | \$ 0.14         | \$ 0.60         | \$ 0.56         |
| Weighted Average Shares Outstanding                  |                   |                 |                 |                 |                 |
| Basic  | 10,738,460        | 10,892,122      | 11,103,946      | 10,932,573      | 11,179,166      |
| Diluted  | 11,094,056        | 11,286,894      | 11,432,686      | 11,351,647      | 11,599,811      |
| Shares repurchased during the period                 | 58,490            | 324,354         | 276,091         | 422,844         | 569,166         |

NOTE: Certain reclassifications have been made to the prior periods' financial numbers to conform to the current period's presentation. These reclassifications have affected certain ratios for the prior periods. The effect of such reclassifications is immaterial.

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**FINANCIAL CONDITION**

(In thousands except share and per share data)

**Dec 31, 2002 Sep 30, 2002 Dec 31, 2001**

**ASSETS**

|                               |            |            |           |
|-------------------------------|------------|------------|-----------|
| Cash and due from banks       | \$ 132,910 | \$ 125,018 | \$ 67,728 |
| Securities available for sale | 421,222    | 373,749    | 301,847   |
| Securities held to maturity   | 13,253     | 14,082     | 14,828    |
| Federal Home Loan Bank stock  | 32,831     | 32,282     | 30,840    |



|   |              |              |              |
|---|--------------|--------------|--------------|
| Loans receivable:   |              |              |              |
| Held for sale   | 39,366       | 29,044       | 43,235       |
| Held for portfolio  | 1,534,100    | 1,563,789    | 1,549,742    |
| Allowance for loan losses                                 | (26,539)     | (19,150)     | (17,552)     |
|   | <hr/>        | <hr/>        | <hr/>        |
|   | 1,546,927    | 1,573,683    | 1,575,425    |
| Accrued interest receivable                               | 13,689       | 14,263       | 12,929       |
| Real estate held for sale, net                            | 6,062        | 5,362        | 3,011        |
| Property and equipment, net                               | 20,745       | 19,025       | 18,151       |
| Costs in excess of net assets acquired<br>(goodwill), net | 36,714       | 36,752       | 31,437       |
| Deferred income tax asset, net                            | 2,786        | 1,364        | 1,443        |
| Bank owned life insurance                                 | 31,809       | 31,356       | 20,304       |
| Other assets  | 4,224        | 4,306        | 9,151        |
|   | <hr/>        | <hr/>        | <hr/>        |
|   | \$ 2,263,172 | \$ 2,231,242 | \$ 2,087,094 |

**LIABILITIES**

|  |            |            |            |
|--|------------|------------|------------|
| Deposits:                              |            |            |            |
| Non-interest-bearing                   | \$ 200,500 | \$ 222,062 | \$ 180,813 |
| Interest-bearing                       | 1,297,278  | 1,263,620  | 1,114,998  |
|  | <hr/>      | <hr/>      | <hr/>      |
|  | 1,497,778  | 1,485,682  | 1,295,811  |
| Borrowings:                            |            |            |            |
| Advances from Federal Home Loan Bank   | 465,743    | 444,243    | 501,982    |
| Trust preferred securities             | 40,000     | 25,000     | --         |
| Other borrowings                       | 41,202     | 65,014     | 76,715     |
|  | <hr/>      | <hr/>      | <hr/>      |
|  | 546,945    | 534,257    | 578,697    |
| Accrued expenses and other liabilities | 24,700     | 15,036     | 17,591     |
| Deferred compensation                  | 3,372      | 3,083      | 2,655      |
| Income taxes payable                   | 2,072,795  | 2,038,058  | 1,894,754  |

**STOCKHOLDERS' EQUITY**

|  |         |         |         |
|--|---------|---------|---------|
| Common stock and additional paid in capital  | 120,554 | 120,836 | 126,844 |
| Retained earnings  | 70,813  | 73,733  | 68,104  |
| Accumulated other comprehensive income   | 3,488   | 3,595   | 2,264   |
| Unearned shares of common stock issued to<br>Employee Stock Ownership Plan (ESOP)<br>trust:<br>at cost | (4,262) | (4,769) | (4,769) |
| Net carrying value of stock related deferred<br>compensation plans                                     | (216)   | (211)   | (103)   |

|  |              |              |              |
|--|--------------|--------------|--------------|
|  | 190,377      | 193,184      | 192,340      |
|  | \$ 2,263,172 | \$ 2,231,242 | \$ 2,087,094 |

**Shares Issued:**

|  |            |            |            |
|--|------------|------------|------------|
| Shares outstanding at end of period        | 11,306,977 | 11,358,505 | 11,634,159 |
| Less unearned ESOP shares at end of period | 515,707    | 577,039    | 577,039    |

|  |            |            |            |
|--|------------|------------|------------|
| Shares outstanding at end of period excluding unearned ESOP shares | 10,791,270 | 10,781,466 | 11,057,120 |
| Book Value Per Share(1)  | \$ 17.64   | \$ 17.92   | \$ 17.40   |
| Tangible Book Value Per Share(1)                                   | \$ 14.24   | \$ 14.51   | \$ 14.55   |
| Consolidated Tier 1 Leverage Capital Ratio                         | 8.77%      | 8.39%      | 7.71%      |

(1) Calculation is based on number of shares outstanding at the end of the period rather than weighted average shares outstanding and excludes unallocated shares in the employee stock ownership plan (ESOP).

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**ADDITIONAL FINANCIAL INFORMATION**

(Dollars in thousands)

| <b><u>LOANS (including loans held for sale):</u></b> | <b><u>Dec 31, 2002</u></b> | <b><u>Sep 30, 2002</u></b> | <b><u>Dec 31, 2001</u></b> |
|--|----------------------------|----------------------------|----------------------------|
| Secured by real estate:                              |                            |                            |                            |
| One- to four-family                                  | \$ 355,509                 | \$ 376,557                 | \$ 422,456                 |
| Commercial   | 379,099                    | 379,416                    | 363,560                    |
| Multifamily  | 72,333                     | 81,919                     | 79,035                     |
| Construction and land                                | 339,516                    | 335,411                    | 335,798                    |
| Commercial business                                  | 285,231                    | 278,713                    | 270,022                    |
| Agricultural business                                | 102,626                    | 99,899                     | 76,501                     |
| Consumer   | 39,152                     | 40,918                     | 45,605                     |
|  | <hr/>                      | <hr/>                      | <hr/>                      |
| Total loans outstanding                              | \$1,573,466                | \$1,592,833                | \$1,592,977                |

| <b><u>NON-PERFORMING ASSETS:</u></b>           | <b><u>Dec 31, 2002</u></b> | <b><u>Sep 30, 2002</u></b> | <b><u>Dec 31, 2001</u></b> |
|--|----------------------------|----------------------------|----------------------------|
| Loans on nonaccrual status                     | \$ 34,249                  | \$ 22,282                  | \$ 17,509                  |
| Accruing loans greater than 90 days delinquent | 1,859                      | 431                        | 534                        |
|  | <hr/>                      | <hr/>                      | <hr/>                      |

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|  |           |           |           |
|--|-----------|-----------|-----------|
| Total nonperforming loans                    | 36,108    | 22,713    | 18,043    |
| Real estate owned (REO) / Repossessed assets | 6,062     | 5,362     | 3,011     |
| Total nonperforming assets                   | \$ 42,170 | \$ 28,075 | \$ 21,054 |
| Total nonperforming assets / Total assets    | 1.86%     | 1.26%     | 1.01%     |

| CHANGE IN THE                                       | Quarters Ended |              |              | Year Ended   |              |
|---|----------------|--------------|--------------|--------------|--------------|
|   | Dec 31, 2002   | Sep 30, 2002 | Dec 31, 2001 | Dec 31, 2002 | Dec 31, 2001 |
| <b><u>ALLOWANCE FOR LOAN LOSSES:</u></b>            |                |              |              |              |              |
| Balance at beginning of period                      | \$ 19,150      | \$ 16,646    | \$ 18,593    | \$ 17,552    | \$ 15,314    |
| Acquisitions / (divestitures)                       | --             | --           | --           | 460          | --           |
| Provision for loan losses                           | 10,000         | 4,000        | 4,100        | 21,000       | 13,959       |
| Recoveries  | 208            | 46           | 48           | 325          | 142          |
| Chargeoffs  | (2,819)        | (1,542)      | (5,189)      | (12,798)     | (11,863)     |
| Net (chargeoffs) recoveries                         | (2,611)        | (1,496)      | (5,141)      | (12,473)     | (11,721)     |
| Balance at end of period                            | \$ 26,539      | \$ 19,150    | \$ 17,552    | \$ 26,539    | \$ 17,552    |
| Net chargeoffs / Average loans outstanding          | 0.16%          | 0.10%        | 0.32%        | 0.78%        | 0.75%        |
| Allowance for loan losses / Total loans outstanding | 1.69%          | 1.20%        | 1.10%        | 1.69%        | 1.10%        |

**NOTE:** Certain reclassifications have been made to the prior periods' financial numbers to conform to the current period's presentation. These reclassifications have affected certain ratios for the prior periods. The effect of such reclassifications is immaterial.

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**ADDITIONAL FINANCIAL INFORMATION**

(Dollars in thousands)

(Rates / Ratios Annualized)

|   | Quarters Ended |              |              | Year Ended   |              |
|---|----------------|--------------|--------------|--------------|--------------|
|   | Dec 31, 2002   | Sep 30, 2002 | Dec 31, 2001 | Dec 31, 2002 | Dec 31, 2001 |
| <b><u>OPERATING PERFORMANCE:</u></b>                  |                |              |              |              |              |
| Average loans   | \$ 1,589,608   | \$ 1,572,856 | \$ 1,605,068 | \$ 1,589,035 | \$ 1,569,905 |
| Average securities and deposits                       | 454,671        | 427,667      | 352,207      | 413,419      | 350,973      |
| Average noninterestearning assets                     | 162,595        | 157,773      | 132,102      | 148,706      | 122,712      |
| Total Average Assets                                  | \$ 2,206,874   | \$ 2,158,296 | \$ 2,089,377 | \$ 2,151,160 | \$ 2,043,590 |
| Average deposits                                      | \$ 1,481,623   | \$ 1,411,767 | \$ 1,301,132 | \$ 1,404,426 | \$ 1,251,970 |
| Average borrowings                                    | 515,612        | 534,541      | 577,456      | 537,079      | 579,326      |
| Average non-interest-earning liabilities              | 14,582         | 14,687       | 15,649       | 13,177       | 15,277       |
| Total Average Liabilities                             | 2,011,817      | 1,960,995    | 1,894,237    | 1,954,682    | 1,846,573    |
| Total average equity                                  | 195,057        | 197,301      | 195,140      | 196,478      | 197,017      |
| Total Average Liabilities And Equity                  | \$ 2,206,874   | \$ 2,158,296 | \$ 2,089,377 | \$ 2,151,160 | \$ 2,043,590 |
| Interest rate yield on loans                          | 7.61%          | 7.80%        | 8.00%        | 7.76%        | 8.65%        |
| Interest rate yield on securities and deposits        | 4.49%          | 5.05%        | 5.76%        | 5.06%        | 6.24%        |
| Interest Rate Yield On Interest-Earning Assets        | 6.92%          | 7.21%        | 7.60%        | 7.20%        | 8.21%        |
| Interest rate expense on deposits                     | 2.53%          | 2.74%        | 3.40%        | 2.79%        | 4.21%        |
| Interest rate expense on borrowings                   | 4.85%          | 4.85%        | 5.22%        | 4.98%        | 5.74%        |
| Interest Rate Expense On Interest-Bearing Liabilities | 3.13%          | 3.32%        | 3.96%        | 3.40%        | 4.69%        |
| Interest rate spread                                  | 3.79%          | 3.89%        | 3.64%        | 3.80%        | 3.52%        |
| Net interest margin                                   | 3.86%          | 3.98%        | 3.80%        | 3.91%        | 3.73%        |
| Other operating income / Average assets               | 0.93%          | 0.72%        | 0.69%        | 0.74%        | 0.66%        |
|   | 3.23%          | 2.81%        | 2.49%        | 2.81%        | 2.92%        |

|  |         |        |        |        |        |
|--|---------|--------|--------|--------|--------|
| Other operating expense /<br>Average assets                |         |        |        |        |        |
| Efficiency ratio (other operating<br>expense /<br>revenue) | 71.74%  | 63.72% | 58.60% | 64.18% | 70.01% |
| Return on average assets                                   | (0.28%) | 0.62%  | 0.70%  | 0.43%  | 0.36%  |
| Return on average equity                                   | (3.17%) | 6.80%  | 7.45%  | 4.71%  | 3.78%  |
| Average equity / Average assets                            | 8.84%   | 9.14%  | 9.34%  | 9.13%  | 9.64%  |

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NOTE: Transmitted on Business Wire at 1:05 p.m. PST on February 5, 2003.

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