

March 6, 2009



Mr. Neil M. Barofsky
Special Inspector General
Office of the Special Inspector General
Troubled Asset Relief Program
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Washington, D.C. 20220

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Dear Mr. Barofsky,

This letter is in response to the request for information contained in your letter dated February 6, 2009, in connection with Banner Corporation's participation in the Troubled Asset Relief Program (TARP) Capital Purchase Program (CPP). We believe that this letter addresses all of the questions raised in your letter; however, if there is additional information that you believe might be helpful, please do not hesitate to contact us.

Company Description

Banner Corporation became a participant in the TARP CPP as a result of the sale of \$124 million of Senior Preferred Stock, with a related warrant to purchase up to \$18.6 million in common stock, to the U.S. Treasury on November 21, 2008. Banner Corporation is a bank holding company incorporated in the State of Washington and is the parent company of two wholly owned subsidiaries, Banner Bank and Islanders Bank. Banner Bank is a Washington-chartered commercial bank that conducts business from its main office in Walla Walla, Washington, and its 83 branch offices and nine loan production offices located in Washington, Oregon, and Idaho. Islanders Bank is also a Washington-chartered commercial bank that conducts business from three locations in San Juan County, Washington.

Banner Bank is a regional bank which offers a wide variety of commercial banking services and financial products to individuals, businesses and public sector entities in its primary market areas. Islanders Bank is a community bank which offers similar banking services to individuals, businesses and public entities located in the San Juan Islands. The Banks' primary business is that of traditional banking institutions, accepting deposits and originating loans in locations surrounding their offices in portions of Washington, Oregon and Idaho. Banner Bank is also an active participant in the secondary market, engaging in mortgage banking operations largely through the origination and sale of one- to four-family residential loans. Lending activities include commercial business and commercial real estate loans, agricultural business loans, construction and land development loans, one- to four-family residential loans and consumer loans.

As of December 31, 2008, Banner Corporation had total consolidated assets of \$4.6 billion, total loans of \$3.9 billion, total deposits of \$3.8 billion and total stockholders' equity, including the Senior Preferred Stock, of \$433 million.

Use of TARP Funds

As noted above, Banner Corporation received \$124 million of TARP funds on November 21, 2008. The funds were credited to stockholders' equity and deposited into Banner Bank, with \$30 million subsequently deposited into Islanders Bank. The Banks initially used the funds to repay advances from the Federal Home Loan Bank of Seattle and fund operations. The funds were not specifically segregated from other institutional funds on the asset side of the Banks' balance sheets. Effective December 31, 2008, \$74 million of the funds were designated as additional paid-in capital for common stock at the subsidiary banks; \$72 million at Banner Bank and \$2 million at Islanders Bank. The balance of the funds remain as deposits of Banner Corporation in Banner Bank and Islanders Bank and are available, as necessary, to further strengthen the capital position of the subsidiary Banks. Alternatively, the remaining funds could be employed to support the acquisition of one or more troubled banks in our market area, should the FDIC request such action by Banner Corporation. Whether as capital or deposits, all of the TARP funds have been available to augment the ongoing lending and investment activities of the Banks and to support the economic development of the communities we serve. This, of course, was our intention when we agreed to participate in the TARP CPP.

While it is impossible to determine exactly what course our lending and investment activities might have taken had the TARP funds not been available to us, it is clear that our desire and ability to fund credit-worthy borrowers and investments has been enhanced by the improved capital position of Banner Corporation and its subsidiary Banks. Specifically, in an effort to stimulate lending activity following receipt of the TARP funds, we significantly increased our media advertising directed toward lending programs, particularly for small business and consumer loans. Also, we have made special low-rate financing available to purchasers of new homes for which we have provided the construction financing and we initiated an aggressive campaign to assist our builders in marketing their inventory. Copies of the print advertising are attached to this letter. We have also increased our investment in loans and securities issued by municipalities located in our service area, further helping to support the local economies.

As noted above, we have not specifically segregated the \$124 million of TARP funds; however, we have tracked all of our lending originations and securities purchases subsequent to receipt of those funds as represented in the tables below. While overall demand for new loans has clearly diminished as a result of the significant weakness in the national and local economy, from the time that we received the TARP funds through the end of February 2009, we have issued \$376 million in new or renewal loan commitments with balances outstanding on those loans remaining on the books of Banner Corporation totaling \$193 million as of February 28, 2009. These outstanding balances do not include loans extended to customers that were subsequently sold to third parties.

Banner Corporation Consolidated Loan Originations November 21, 2008 through February 28, 2009 (\$ in Millions)

LOAN TYPE	COMMITMENT AMOUNT	CURRENT BALANCE
1-4 Family Residential Mortgage	\$ 164	\$ 72
Consumer	20	14
Construction and Land Development	38	13
Commercial Real Estate	46	41
Commercial Business	42	25
Agricultural Business	66	28
Totals	\$ 376	\$ 193

Banner Corporation Consolidated Securities Purchases November 21, 2008 through February 28, 2009 (\$ in Millions)

SECURITY TYPE	PURCHASED AMOUNT	CURRENT BALANCE
Mortgage Backed Securities	\$ 51	\$ 49
Government Sponsored Entities	44	34
Municipal Notes and Bonds	11	11
Totals	\$ 106	\$ 93

Executive Compensation

Banner Corporation's plans and actions for addressing the executive compensation requirements associated with the TARP CPP funding are designed to ensure substantive compliance with those requirements. The Board of Directors has assigned the oversight of these requirements to its Compensation Committee whose members are independent directors. The Compensation Committee's oversight duties are described in the resolution it adopted on November 18, 2008 in connection with Banner Corporation's participation in the TARP CPP.

The Compensation Committee is assisted in the fulfillment of its duties by the management of Banner Corporation and/or its primary subsidiary, Banner Bank (Management). Both the Compensation Committee and Management are responsible for review of the initial and subsequent requirements imposed by contract, law or U.S. Treasury regulations. They have access to competent legal counsel and other resources necessary to fulfill their obligations.

The principal action steps we have completed and those that are currently scheduled are described in the table below:

Principal Action Plan Steps ¹	Current Status
Banner Corporation obtained and reviewed the UST's terms for participation in TARP CPP funds, inclusive of the UST's interim final rule published on October 20, 2008 (the Compensation Guidelines).	Completed.
Compensation Modification Agreements obtained from Senior Executive Officers (SEOs) for the purpose of ensuring compliance with the Compensation Guidelines, including "golden parachute" restrictions and "clawback" provisions.	Completed. Contract modifications signed and dated November 18, 2008.
Board of Directors authorized the Compensation Committee to take all actions required to ensure compliance with Section 111(b) of the EESA and the Compensation Guidelines.	Completed. Documented in Board minutes of November 18, 2008.
Compensation Committee passed a resolution acknowledging its responsibility for ensuring Banner Corporation's compliance with the Compensation Guidelines.	Completed. Resolution passed on November 18, 2008.
Compensation Committee met with the CFO, acting in the capacity of the senior risk officer, and the CEO to review company risks and compensation agreements.	Completed. Meeting held November 18, 2008.
Banner Corporation obtained and reviewed the UST's revised interim final rule, amending the Compensation Guidelines, published in mid-January 2009.	Completed.
Compensation Committee met with the Senior Risk Management Officer of Banner Bank, acting in the capacity of the senior risk officer, within 90 days of the purchase under the TARP CPP to review the incentive compensation arrangements for SEOs and to certify that the arrangements "do not encourage unnecessary and excessive risk that would threaten the value of the institution."	Completed. Meeting held January 27, 2009.
Banner Corporation identified its SEOs for the purposes of the TARP CPP during 2009, namely the CEO, CFO, and the three "named executive officers" for the fiscal year ended 12/31/2008.	Completed.
Banner Corporation Principal Executive Officer to provide the "120 Day Certification" of the review of SEO incentive compensation arrangements by the Compensation Committee to the UST's Chief Compliance Officer of TARP and to the transfer agent under the CPP.	Scheduled on or before March 21, 2009.

¹ All currently scheduled compliance certification activities are subject to change upon review of The American Recovery and Reinvestment Act of 2009 (the Stimulus Bill) and/or new or revised U.S. Treasury Department rules that address compliance certification requirements.

Compensation Committee to provide statements concerning its review of incentive plans for SEOs and related actions taken, if any, in the annual proxy statement to comply with TARP CPP.	Scheduled on or before March 24, 2009
Banner Corporation to provide certification of compliance with TARP executive compensation limits under Section 111 of EESA in its Annual Report on Form 10-K for year ended 12/31/08.	Scheduled on or before March 16, 2009.
Banner Corporation Principal Executive Officer to provide the "First Fiscal Year Certification" of the review of relationship between the risk management policies and practices of Banner Corporation and the incentive compensation arrangements of the SEOs, and compliance with the Compensation Guidelines, to the UST's Chief Compliance Officer of TARP and to the transfer agent under the CPP.	Within 135 days following the end of the first fiscal year to which TARP applies (2008). Scheduled on or before May 15, 2009.
Compensation Committee to meet with the Senior Risk Management Officer of Banner Bank, acting in the capacity of the senior risk officer, at least annually to discuss and review risk-management policies and SEO incentive compensation arrangements.	Scheduled for August 25, 2009.
Banner Corporation Principal Executive Officer to provide subsequent annual certifications of the review of relationship between the risk management policies and practices of Banner Corporation and the incentive compensation arrangements of the SEOs, and compliance with the Compensation Guidelines, to the UST's Chief Compliance Officer of TARP and to the transfer agent under the CPP.	Within 135 days following the end of each fiscal year.
Banner Corporation to obtain and review the new executive compensation requirements and restrictions contained in "The American Recovery and Reinvestment Act of 2009" (Stimulus Bill), and the related UST, SEC, or other federal agency regulations or standards.	Ongoing.
Banner Corporation to ensure that appropriate records are retained of compliance activities for the required time periods.	Ongoing.

On January 27, 2009, the Compensation Committee and senior risk officer completed their review of SEO incentive compensation arrangements as required by Section 111(b) of EESA. Risks to the value of the corporation as described in Banner Corporation's SEC filings (10-K; 10-Q) including loan-related risks were considered. The Compensation Committee and the senior risk officer concluded that the short-term incentive compensation program and long-term incentive compensation plans do not contain any feature that encourages SEOs to take unnecessary and excessive risks that threaten the value of Banner Corporation.

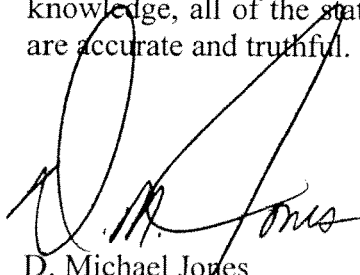
Banner Corporation has not taken, and its current position is not to take, any actions to offset SEO incentive compensation limitations with other, longer-term or deferred forms of SEO compensation as long as the UST holds securities of Banner Corporation that were acquired under the TARP CPP. Since receiving the TARP funds, neither Banner Corporation nor its subsidiary Banks has paid any short- or long-term incentive compensation to its SEOs, increased

salaries of those officers or awarded any equity-based compensation grants to those officers. Further, we do not anticipate that any salary increases, incentive payments or equity awards will be made during 2009. This position is subject to change based upon subsequent events, including but not limited to legal or regulatory events that might change the terms of UST's agreement with Banner Corporation or that otherwise address the limitations regarding SEO compensation.

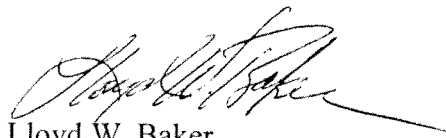
List of attachments in support of our response:

	Attachment Page
November 21, 2009 Press Release	1
Message from the CEO campaign	2
Copies of print media advertising promoting small business lending and media buying schedule documenting the placement of these ads	6
Internal employee communications and media pieces announcing "The Great Northwest Home Rush" special marketing and financing program	12
Newspaper article from The Oregonian regarding "The Great Home Rush"	17
Banner Bank and Islanders Bank FDIC Call Reports, Schedules RI-A – Changes in Equity Capital, as of 9/30/08 and 12/31/08	20
Excerpt of Board of Director's Minutes of November 18, 2008	28
Compensation Committee Resolution of November 18, 2008	32
Compensation Committee certification of the Review of Senior Executive Officer Incentive Compensation Arrangements of January 27, 2009	35

I certify that I am a duly authorized officer of Banner Corporation and that, to the best of my knowledge, all of the statements, representations and supporting information provided herewith are accurate and truthful.



D. Michael Jones
President and Chief Executive Officer



Lloyd W. Baker
Executive Vice President / CFO

Enclosures

WHEREAS, the Directors have received and reviewed UST's standard documentation for CPP transactions and other documents prepared by management and outside counsel required to effect the closing; and

WHEREAS, the Corporation's senior management has presented information on the CPP transaction to the Board, including the ability of the Corporation and Banner Bank to deploy and leverage the proceeds of the preferred stock issuance; and

WHEREAS, outside counsel has advised the Board on the provisions of the Agreement with the UST, as defined below, and on the material elements of the CPP transaction; and

WHEREAS, the Directors have discussed the material provisions of the CPP, including the impact of the issuance of preferred shares and the warrant on our shareholders and on the financial condition, operations and earnings of the Corporation; and

WHEREAS, in order for the Corporation to participate in the CPP, it must comply with Section 111(b) of the Emergency Economic Stabilization Act of 2008 regarding executive compensation and corporate governance and the related UST interim final regulations published in the Federal Register on October 20, 2008 (the "Compensation Guidelines"); and

WHEREAS, the Board believes that the Corporation should participate in the CPP and close the CPP transaction on November 21, 2008.

Approval and Execution of CPP Agreement and Related Documents

NOW, THEREFORE, BE IT RESOLVED, that the Corporation's participation in the CPP is hereby approved and the Letter Agreement between the Corporation and the UST, including all the Exhibits, Schedules and Annexes thereto (the "Agreement"), is hereby approved and adopted in the form attached hereto; and

FURTHER RESOLVED, that the proper officers are hereby authorized and directed to execute and deliver to UST the Agreement; and

Authorization of Preferred Stock

FURTHER RESOLVED, that the Board approves the creation of Fixed Rate Cumulative Perpetual Preferred Stock, Series A, according to the terms and conditions in the Articles of Amendment attached hereto; and

FURTHER RESOLVED, that the Board hereby designates 124,000 shares of the Corporation's authorized preferred shares as the Fixed Rate Cumulative Perpetual Preferred Stock, Series A; and

FURTHER RESOLVED, that the Articles of Amendment for the Fixed Rate Cumulative Perpetual Preferred Stock, Series A are hereby approved and adopted in the form attached hereto and all the resolutions contained therein are hereby adopted and approved by the Board; and

FURTHER RESOLVED, that the proper officers are hereby authorized and directed to execute and file the Articles of Amendment setting forth the final terms of the Fixed Rate Cumulative Perpetual Preferred Stock, Series A, with the Secretary of State or other governmental offices of

the State of Washington and that the Articles of Amendment shall be effective immediately as of the date and time of filing; and

FURTHER RESOLVED, that the form of the certificate evidencing the Fixed Rate Cumulative Perpetual Preferred Stock, Series A is hereby approved and adopted in the form attached hereto; and

Issuance of Preferred Stock

FURTHER RESOLVED, that the Corporation be, and it hereby is, authorized to issue and sell to UST pursuant to the Agreement 124,000 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A, with a liquidation value of \$1,000 per share; and

FURTHER RESOLVED, that the proper officers are hereby authorized and directed to execute and deliver a certificate to UST evidencing the 124,000 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A; and

Issuance of Warrant

FURTHER RESOLVED, that the “Warrant to Purchase Common Stock” is hereby approved and adopted in the form attached hereto; and

FURTHER RESOLVED, that the Corporation be, and it hereby is, authorized to issue to UST, pursuant to the Agreement, a Warrant to purchase 1,707,989 shares of the Corporation’s common stock with an exercise price of \$10.89 per share; and

FURTHER RESOLVED, that the proper officers of the Corporation be, and they hereby are, authorized and directed to execute and deliver the Warrant; and

Reservation of Common Shares

FURTHER RESOLVED, that the Board hereby reserves 1,707,989 shares of the Corporation’s common stock to be issued upon conversion of the Warrant; and

FURTHER RESOLVED, that 1,707,989 reserved shares shall be subject to adjustment as provided for in the “Warrant to Purchase Common Stock;” and

Executive Compensation Matters

FURTHER RESOLVED, that the Compensation Committee is authorized and directed to take all the actions required under the Compensation Guidelines; and

Other

FURTHER RESOLVED, that the Board of Directors approval of the Fixed Rate Cumulative Perpetual Preferred Stock, Series A, the Warrant and the common stock to be issued upon the exercise of the Warrant, hereby shall also constitute approval of such transactions by the “Continuing Directors” for purposes of Article XV(B) of the Articles of Incorporation.

FURTHER RESOLVED, that the proper officers of the Corporation be, and each of them hereby is, authorized and directed, in the name and on behalf of the Corporation, to pay the expenses incurred by or on behalf of the Corporation in connection with the CPP transaction and the sale and issuance of the Fixed Rate Cumulative Perpetual Preferred Stock, Series A, and the issuance of the Warrant; and

FURTHER RESOLVED, that all prior actions taken by the officers of the Corporation in connection with the transactions contemplated hereby are hereby approved and ratified; and

FURTHER RESOLVED, that the proper officers be, and each of them hereby is, authorized and directed to make, or cause to be made, any additional revisions to the documents approved by the foregoing resolutions that are required by the UST to consummate the CPP transaction, and that such revisions are hereby ratified and approved; and

FURTHER RESOLVED, that the proper officers be, and each of them hereby is, authorized and directed to make, execute and deliver, or cause to be made, executed and delivered, any and all such agreements, instruments and documents, and to do or cause to be done, any and all further acts or things in the name of and on behalf of the Corporation or otherwise as they may deem necessary or appropriate to carry out the purposes of the foregoing resolutions, including the consummation of the CPP transaction; and

FURTHER RESOLVED, that the proper officers be, and each of them hereby is, authorized and directed to make, execute and deliver, or cause to be made, executed and delivered, any and all such agreements, instruments and documents, and to do or cause to be done, any and all further acts or things in the name of and on behalf of the Corporation or otherwise as they may deem necessary or appropriate to carry out the post-closing obligations of the Corporation under the Agreement and related documents.

Motions Carried
(MEB)

**Banner Corporation
Compensation Committee
Excerpt of Meeting Minutes of November 18, 2008**

Capital Purchase Program Participation

Mr. Jones advised that Banner Corporation has received preliminary approval to participate in the U.S. Treasury Troubled Asset Relief Program (“TARP”) Capital Purchase Program and that management, in coordination with attorney John Breyer, is preparing the documentation for an expected close and settlement on November 21, 2008. He reviewed management’s plans for the use of the expected \$124 million in proceeds, namely to retain the funds at the holding company level in order to take greatest advantage of market opportunities as they arise and to provide capital funding to the subsidiary banks on an as needed basis. He indicated that the most immediate use of the funds would be to pay down borrowings and replace high-cost deposits. He noted the likely opportunity for increased lending activity and business combinations, as some institutions will not be approved to participate in the TARP. Mr. Baker reviewed the details of the program which allows the Treasury to invest between one percent and three percent of the applicant’s risk-weighted assets in the form of senior preferred stock carrying a dividend of five percent for five years, adjusting to nine percent thereafter. The stock is accompanied by warrants equal to 15% of the preferred stock investment with an exercise price equal to the average common stock closing price over the previous 20 trading days. Certain constraints with regard to cash dividends, stock repurchases, executive compensation and repayment of the proceeds apply. Mr. Baker distributed a proposed Compensation Committee resolution which has the effect of imposing restrictions limiting golden parachute payments, imposing clawback provisions, acknowledging limitations on the tax deductibility of executive compensation and requiring a meeting with senior risk officers in compliance with Section 111(b) of the Emergency Economic Stabilization Act of 2008 regarding executive compensation and corporate governance. Discussion followed.

ON A MOTION DULY MADE AND SECONDED, IT WAS

RESOLVED, that

WHEREAS, the Board of Directors of Banner Corporation (“Corporation”) has determined that it is in the best interests of the Corporation and its shareholders to participate in the Treasury TARP CPP program (“CPP”), under which the Corporation will issue preferred stock and a warrant to purchase Corporation common stock to the United States Treasury (“UST”) in return for cash; and

WHEREAS, the UST has accepted the Corporation’s CPP application and has informed the Corporation that the closing is scheduled for November 21, 2008; and

WHEREAS, in order for the Corporation to participate in the CPP, it must comply with Section 111(b) of the Emergency Economic Stabilization Act of 2008 regarding executive compensation and corporate governance and the related UST interim final regulations published in the Federal Register on October 20, 2008 (the “Compensation Guidelines”); and

WHEREAS, the Corporation is required to deliver a certificate to the UST at the closing of the CPP transaction that it has complied with all the Compensation Guidelines; and

WHEREAS, the Corporation is required to deliver to the UST at the closing of the CPP transaction waivers of its senior executive officers subject to the Compensation Guidelines (“SEOs”) with respect to the changes in the Corporation’s compensation plans, polices and practices required by the Compensation Guidelines; and

WHEREAS, the Board of Directors of the Corporation has authorized and directed the Committee to take all the actions required under the Compensation Guidelines.

NOW, THEREFORE, BE IT RESOLVED that, as long as UST holds securities of the Corporation acquired in the CPP, the Compensation Committee will be responsible for:

- Reviewing the Corporation’s compensation plans and policies with our senior risk officers in order to identify and eliminate any bonus plans or other incentive compensation for SEOs that encourage them to take unnecessary and excessive risks that threaten the value of the financial institution; and
- Meeting annually with our senior risk officers to discuss and review the relationship between the Corporation’s risk management policies and practices and the SEOs’ bonus and incentive compensation arrangements; and
- Certifying that the Committee has completed the annual review of the SEOs’ bonus and incentive compensation arrangements in the Compensation Discussion and Analysis section included in the Corporation’s annual meeting proxy statement; and
- Adopting appropriate provisions for the recovery by the Corporation or its subsidiaries of any bonus or incentive compensation paid to a SEO based on financial statements or performance metric criteria later determined to be materially inaccurate, including requiring SEOs to sign an agreement in this regard; and
- Prohibiting the Corporation or any subsidiary from making any golden parachute payment (as defined under the Compensation Guidelines) to any SEO, including requiring SEOs to sign an agreement to amend all applicable employment, severance, benefit or related agreements or plans in this regard; and
- Directing that all compensation to SEOs be subject to the special limits on deductibility for tax purposes under the Compensation Guidelines; and

FURTHER RESOLVED, that based on its review with the senior risk officers of the Corporation of the bonus plans or other incentive compensation for SEOs of the Corporation and its subsidiaries, the Compensation Committee believes these bonus plans and other incentive compensation arrangements do not contain incentives that encourage SEOs to take unnecessary and excessive risks that threaten the value of the Corporation or its subsidiary financial institution; and

FURTHER RESOLVED, that the Compensation Committee, acting on behalf of the Corporation, caused an agreement between the Corporation and each of its SEOs to be executed, in the form attached to these resolutions, providing for the recovery by the Corporation or its subsidiaries of any bonus or incentive compensation paid to a SEO based on financial statements or performance metric criteria later determined to be materially inaccurate and amending any compensation agreements or plans in order to prohibit any golden parachute payments (as defined

under the Compensation Guidelines) to SEOs not permitted by the Compensation Guidelines as long as UST holds securities of the Corporation acquired in the CPP; and

FURTHER RESOLVED, that the Compensation Committee, acting on behalf of the Corporation, has requested that each SEO execute the required form of waiver respecting his or her waiver of rights in connection with changes in his or her executive compensation that are required by the Compensation Guidelines, for delivery to the UST at the closing of the CPP; and

FURTHER RESOLVED, that the Compensation Committee, acting on behalf of the Corporation, directs the officers and tax consultants of the Corporation and its subsidiaries to comply with the special tax rules for the deduction of the SEOs compensation, as long as UST holds an equity or debt position in the Corporation.

Motions Carried



The Cereghino Group
Corporate Investor Relations
206.388.5785 www.stockvalues.com



CONTACT: D. MICHAEL JONES,
PRESIDENT AND CEO
LLOYD W. BAKER, CFO
(509) 527-3636

NEWS RELEASE

Banner Corporation Receives \$124 Million Investment from the U.S. Treasury's Capital Purchase Program

Walla Walla, WA – November 21, 2008 – Banner Corporation (NASDAQ GSM: BANR), the parent company of Banner Bank and Islanders Bank, today announced that it has received \$124 million from the U.S. Treasury Department as a part of the Treasury's Capital Purchase Program. This funding marks Banner's successful completion of the sale of \$124 million in senior preferred stock, with a related warrant to purchase up to \$18.6 million in common stock to the U.S. Treasury. The transaction is part of the Treasury's program to encourage qualified financial institutions to build capital to increase the flow of financing to businesses and consumers and to support the U.S. economy.

"We appreciate and support the efforts of the U.S. Treasury Department to stabilize financial markets and increase the flow of credit to deserving borrowers," said D. Michael Jones, President and CEO. "We are pleased that we have been selected to participate in this voluntary program, which will allow us to be a party to those actions and is an important recognition of the strength and financial health of Banner. The additional capital will enhance our capacity to support the communities we serve through expanded lending activities and economic development. This capital will also add flexibility in considering strategic opportunities that likely will be available to us as the financial services industry continues to consolidate. We believe that participation in this program should be beneficial for the employees, customers and shareholders of Banner Corporation."

At September 30, 2008, Banner Corporation, Banner Bank and Islanders Bank were each "well-capitalized" under all regulatory guidelines. At that date, Banner Corporation's Tier 1 Leverage Capital Ratio was 8.86% and its Total Risk Based Capital Ratio was 11.00%. The addition of new capital through the Treasury program will increase Banner Corporation's Tier 1 Leverage Capital Ratio to approximately 11.25% and Total Risk Based Capital Ratio to approximately 13.90%.

The preferred stock will pay a 5% dividend for the first five years, after which the rate will increase to 9% if the preferred shares are not redeemed by the Company. The terms and conditions of the transaction and the preferred stock conform to those provided by the U.S. Treasury. A summary of the Capital Purchase Program can be found on the Treasury's web site at www.ustreas.gov/initiatives/eesa. In addition to the preferred shares, the Treasury received a warrant to purchase 1,707,989 shares of Banner Corporation common stock at a price of \$10.89 per share at any time during the next ten years. The details of this transaction, the agreements and other documents will be filed with the Securities and Exchange Commission (SEC) on Form 8-K.

About Banner Corporation

Banner Corporation is a \$4.7 billion bank holding company operating two commercial banks 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.bannerbank.com.

This press release contains statements that the Company believes are "forward-looking statements." These statements relate to the Company's financial condition, results of operations, plans, objectives, future performance or business. You should not place undue reliance on these statements, as they are subject to risks and uncertainties. When considering these forward-looking statements, you should keep in mind these risks and uncertainties, as well as any cautionary statements the Company may make. Moreover, you should treat these statements as speaking only as of the date they are made and based only on information then actually known to the Company. There are a number of important factors that could cause future results to differ materially from historical performance and these forward-looking statements. Factors which could cause actual results to differ materially include, but are not limited, (1) adverse developments in the capital markets in general or in the markets for financial institutions stock in particular; (2) changes in legislation or regulatory requirements affecting financial institutions, including the current debate in Congress as to restructuring the financial services industry; (3) changes in the interest rate environment; and (4) adverse changes in general economic conditions and other risks detailed in Banner's reports filed with the Securities and Exchange Commission, including its Annual Report on Form 10-K for the fiscal year ended December 31, 2007 and Form 10-Q for quarter ended June 30, 2008. Accordingly, these factors should be considered in evaluating the forward-looking statements, and undue reliance should not be placed on such statements.

Transmitted on GlobeNewswire on November 21, 2008 at 9:17 a.m. PST.

What The U.S. Treasury's Trust In Banner Bank Means To You.

A Message From The President & CEO

If there's one thing you can conclude from all the ups, downs and economic storms we all have weathered in the last few months, it's this.

Your money is safe at Banner Bank.

Many of you may have heard that Banner Bank has been selected to receive funding from the Department of the Treasury. What this actually means is that regulators and government officials have recognized how we've maintained a steady, well-capitalized course and expect us to remain on that course for the long term.

In essence, the stated purpose of the Treasury program is to stimulate lending by the stronger banks, thereby providing funding to businesses and consumers to accelerate the climb out of this recession. We pledge to do our part to use these funds to provide sound loans in the communities we serve.

Another way we protect your money is with FDIC insurance. Through Banner Bank and our sister bank, Islanders Bank, we are able to substantially increase your FDIC coverage. For example a couple could be insured up to \$1,500,000 through proper account structuring. And business-wise, Banner participates in the FDIC program that guarantees all deposits in non-interest bearing accounts, and offers collateralized repurchase agreements for your peace of mind.*

So if you haven't considered Banner Bank or would like to expand your current relationship with us, we invite you to visit bannerbank.com or drop by any one of our 86 branches or loan offices. We have the deposit and lending products in place to put your mind at ease.

D. Michael Jones
President & CEO



Better ideas. Better banking.

1-800-272-9933

Serving the Northwest with over 80 locations.

www.bannerbank.com



*FDIC insurance of non-interest bearing deposits guaranteed through December 31, 2009.

Member FDIC

What The U.S. Treasury's Economic Plan Means To You.

If there's one thing you can conclude from all the ups, downs and economic storms we all have weathered in the last few months, it's this.

Your money is safe at Islanders Bank.

Many of you may have heard that our parent company, Banner Corporation has been selected to receive funding from the Department of the Treasury. What this actually means is that regulators and government officials have recognized how we've maintained a steady, well-capitalized course and expect us to remain on that course for the long term.

In essence, the stated purpose of the Treasury program is to stimulate lending by the stronger banks, thereby providing funding to businesses and consumers to accelerate the climb out of this recession. We pledge to do our part to use these funds to provide sound loans in the communities we serve.

Another way we protect your money is with FDIC insurance. Through Islanders Bank and our sister bank, Banner Bank, we are able to substantially increase your FDIC coverage. For example a couple could be insured up to \$1,500,000 through proper account structuring. And business-wise, Islanders participates in the FDIC program that guarantees all deposits in non-interest bearing accounts, and offers collateralized repurchase agreements for your peace of mind.*

So if you haven't considered Islanders Bank or would like to expand your current relationship with us, we invite you to visit islandersbank.com or drop by any of our branches. We have the deposit and lending products in place to put your mind at ease.



Lopez Island Branch
45 Weeks Rd.
Lopez Island, WA 98261
(360) 468-2295

Friday Harbor Branch
225 Blair Ave.
Friday Harbor, WA 98250
(360) 378-2265 or 1-800-842-5441

Orcas Island Branch
475 Fern St.
Eastsound, WA 98245
(360) 376-2265

www.islandersbank.com





What The U.S. Treasury's
Trust In Banner Bank
Means To You.



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A Message From The President & CEO

If there's one thing you can conclude from all the ups, downs and economic storms we all have weathered in the last few months, it's this.

Your money is safe at Banner Bank.

Many of you may have heard that Banner Bank has been selected to receive funding from the Department of the Treasury. What this actually means is that regulators and government officials have recognized how we've maintained a steady, well-capitalized course and expect us to remain on that course for the long term.

In essence, the stated purpose of the Treasury program is to stimulate lending by the stronger banks, thereby providing funding to businesses and consumers to accelerate the climb out of this recession. We pledge to do our part to use these funds to provide sound loans in the communities we serve.

Another way we protect your money is with FDIC insurance. Through Banner Bank and our sister bank, Islanders Bank, we are able to substantially increase your FDIC coverage. For example a couple could be insured up to \$1,500,000 through proper account structuring. And business-wise, Banner participates in the FDIC program that guarantees all deposits in non-interest bearing accounts, and offers collateralized repurchase agreements for your peace of mind.*

So if you haven't considered Banner Bank or would like to expand your current relationship with us, we invite you to visit bannerbank.com or drop by any one of our 86 branches or loan offices. We have the deposit and lending products in place to put your mind at ease.

D. Michael Jones
President & CEO

*FDIC insurance of non-interest bearing deposits guaranteed through December 31, 2009.



Small Business Loans. Signed, Sealed, Delivered.

One thing about owning a small business, it helps to have a bank with big resources to back you up. Like Banner Bank. Whether you need to shore up inventory, expand your current business, need to make some improvements or have a business idea that will change the course of your world, Banner will find the loan that addresses all of your needs. Then augment it with the expertise and services necessary to help you grow. To see what we can do for your business, drop by your nearest Banner branch or visit bannerbank.com



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www.bannerbank.com





Small Business Loans. Signed, Sealed, Delivered.

One thing about owning a small business, it helps to have a bank with big resources to back you up. Like Banner Bank. Whether you need to shore up inventory, expand your current business, need to make some improvements or have a business idea that will change the course of your world, Banner will find the loan that addresses all of your needs. Then augment it with the expertise and services necessary to help you grow. To see what we can do for your business, drop by your nearest Banner branch or visit bannerbank.com



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Banner Bank

January - Small Business Lending		January							18	19	20	21	22	23	24	25								
		5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25		
BELLINGHAM:																								
	Print																							
	BELLINGHAM HERALD																							
	FERNDALE RECORD JOURNAL/LYNDEN TRIBUNE																							
	Radio																							
	:30/:60 Radio Spots																							
SEATTLE:																								
	Print																							
	BELLEVUE REPORTER																							
	BOTHELL/KENMORE REPORTER																							
	EDMONDS ENTERPRISE																							
	EVERETT HERALD																							
	KENT REPORTER																							
	KIRKLAND COURIER REPORTER																							
	LYNNWOOD/MONTLAKE TERRACE ENTERPRISE																							
	MERCER ISLAND REPORTER																							
	REDMOND REPORTER																							
	RENTON REPORTER																							
	SKAGIT VALLEY HERALD																							
	TACOMA NEWS TRIBUNE																							
	WHIDBEY NEWS TIMES																							
	WOODINVILLE WEEKLY																							
	PUGET SOUND BUSINESS JOURNAL																							
	Radio																							
	:10 Traffic Reports																							
SPOKANE:																								

Print	SPOKESMAN REVIEW
SPOKESMAN JOURNAL OF BUSINESS	
Radio	:30/:60 Radio Spots
TRI-CITIES:	
Print	DAYTON CHRONICLE
TRI-CITIES HERALD	
TRI-CITIES AREA JOURNAL OF BUSINESS	
Radio	:30/:60 Radio Spots
WALLA WALLA:	
Print	WALLA WALLA UNION BULLETIN
WENATCHEE:	
Print	WENATCHEE WORLD
Radio	:30/:60 Radio Spots
YAKIMA:	
Print	DAILY SUN NEWS
SELAH INDEPENDENT	
YAKIMA HERALD-REPUBLIC	
Radio	

	:30/:60 Radio Spots	
BAKER CITY/LA GRANDE		
Print		
BAKER CITY HERALD		
BAKER CITY RECORD-COURIER		
LA GRANDE OBSERVER		
MORROW COUNTY		
NORTH MORROW COUNTY TIMES		
PORTLAND:		
Print		
COMMUNITY NEWSPAPERS		
VANCOUVER COLUMBIAN		
PORTLAND BUSINESS JOURNAL		
OREGONIAN		
VANCOUVER BUSINESS MONTHLY		
Radio		
:10 Traffic Reports		
UMATILLA		
Print		
EAST OREGONIAN		
HERMISTON HERALD		
BOISE		
Print		
IDAHO STATESMAN		
IDAHO BUSINESS REVIEW		
Radio		
:30/:60 Radio Spots		

Oregon

Market	Media Type	Program	Spots
LEWISTON	Print	LEWISTON MORNING TRIBUNE	
	Radio		
		:30/:60 Radio Spots	
TWIN FALLS	Print	THE TIMES NEWS	
	Radio		
		:30/:60 Radio Spots	



Dave Syferd and Partners has authorization to place the above media campaign on behalf of Banner Bank.

Client: _____

March 2009



Banner Connections



THE GREAT NORTHWEST HOME RUSH A ONCE-IN-A-LIFETIME HOME BUYING OPPORTUNITY

The Great Northwest Home Rush
The greatest way to find homes sale to special home rates.

During March, Banner Bank is partnering with Community Financial Corporation (CFC) to kick off the Great Northwest Home Rush. With our quality builders ready to assist, we are providing a once-in-a-lifetime opportunity for home buyers to purchase beautiful homes at astonishing home loan rates as low as 3.875%/3.973 APR; for a 30 year fixed rate loan! This event kicks off Saturday, March 7th, and runs through Sunday, March 22nd.



Satterberg, President/Community Financial Corporation, and Ken Larsen, Banner Bank SVP/RE Administration Manager. We will have live interviews, virtual tours, and highlights of the event coordinated by KOIN TV in Portland. From local news broadcasts to prime time shows, the Great Northwest Home Rush will be featured. You can also find the Home Rush online, at www.koinlocal6.com and www.Oregonlive.com. We want potential home buyers to become satisfied home owners!



Ken Larsen

The Real Estate teams in Western Oregon worked with 75 home builders to identify over 240 quality homes for this sale. During the Great Northwest Home Rush, we will have loan officers and representatives, as well as builders and real estate agents, standing by, on-site, to assist potential buyers. A buyer will have the rare opportunity to tour the property, talk to the builder, apply for the loan with our real estate professional, and walk away from the event owning a new home!

We will then move the Great Northwest Home Rush to the Seattle region in April, and include Spokane and Boise at that time.

A media blitz including localized TV support and print media accompanies each Home Rush. Plus, a complete listing of the homes being offered during the Great Northwest Home Rush is available on our own Web site — and potential buyers can prequalify online. In fact, some of our own local “real estate talent” will be seen and heard on the air throughout the event! For the kickoff event in Western Oregon, the lead spokespersons will be John



John Satterberg

And, there is even something in the Home Rush for you! Yes, the \$2,000 Employee Referral Incentive is available for each closed loan you refer! Check out the details of the referral program on the Bannernet homepage. You just might be able to earn some extra cash while helping a home buyer get their once-in-a-lifetime deal. Call your friends, call your family, call your long-lost school mates and help them get into their dream house.



The Real Estate team is excited to help support our communities, our builders and our home buyers. Ken Larsen says, “By offering low rates on numerous homes in the area, we are doing our part to help the home buyers and builders in our communities and supporting our local economies.”

So, be watching for the Great Northwest Home Rush coming to your area and visit www.bannerbank.com or www.communityfc.com to learn to more about this great (and once-in-a-lifetime) event!

Memorandum

DATE: February 18, 2009
TO: All Portland Branch Employees
FROM: Ken Larsen
RE: The Great Northwest Home Rush!



It's True.

The biggest home sale of the century, if not the millennium is taking place in our Portland markets **March 7th through the 22nd** and we need your help to spread the word.

Banner Bank, our subsidiary, Community Financial Corporation, and our Portland builder partners have worked together to bring our customers not only hard to believe prices on beautiful new homes, but equally unbelievable home loan rates.

The message that we are delivering is that now is the time to buy. Rates are at historical lows and home prices are extremely attractive.

Potential buyers/inquiries should be encouraged to visit www.bannerbank.com or www.communityfc.com. At each Web site we will have available an exclusive list of 243 homes that we will be featuring in this campaign as well as appropriate builder/realtor contact info.

If you know anyone who is interested in buying a home, let them know about this event. The \$2,000 referral incentive still applies.

Branch collateral materials to arrive include the attached flyers/handouts as well branch appropriate external and lobby signage to be displayed Friday, February 20th.

The details:

- Interest Rates as low as: 3.875% (3.973% APR) for a 30 year fixed. 20 % down or Private Mortgage Insurance up to 95% loan to value
- 100% financing available. 4.875% (4.976%APR) 30 year fixed.
- Special to run March 7-22nd.
- Online Pre Approvals available through Banner Bank's Web site.
- Advertising of the event will take place on KOIN TV as well as their Web site featuring video tours of some of our premier builders and also in print in the Oregonian as well as their Web site Oregonlive.com.
- Builders/Realtors as well as Banner and CFC personnel will be on hand to assist potential buyers with the home buying process.
- \$2,000 Employee referral incentive for each closed loan referred by you.

This is the first Banner Bank home sale event of this magnitude and we appreciate your help in its success. We plan to offer similar opportunities in our other markets in the near future.

Questions? Please contact CFC or the **Banner Bank Home Loan Central Office** at 866-722-5110.

Let's sell these homes!





The Great
Northwest Home Rush

The once-in-a-lifetime home sale to end all home sales.

Fixed Rates As Low As 3.875%

3.973%
APR*

It's true. The biggest home sale of the century, if not the millennium is taking place March 7–22. Banner Bank, Community Financial Corporation and their builder partners are not only offering hard-to-believe prices on beautiful new homes, but equally unbelievable home loan rates as low as 3.875%. So if you're in the market for a house, or even if you're not in the market, this is one event you can't pass up. For a list of properties and details on this and other financing options, go to bannerbank.com or communityfc.com and get pre-approved today.



1-800-272-9933
www.bannerbank.com



1-877-936-4800
www.communityfc.com



*APR = Annual Percentage Rate. Available 3/7/09 - 3/22/09 only. Loan programs, rates, and fees subject to change without notice. Financing subject to meeting qualification standards of the loan program. Rates current as of 2/13/09.

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The Great
Northwest Home Rush

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1-800-272-9933

www.bannerbank.com



1-877-936-4800

www.communityfc.com



*APR = Annual Percentage Rate. Available 3/7/09 - 3/22/09 only. Loan programs, rates, and fees subject to change without notice. Financing subject to meeting qualification standards of the loan program. Rates current as of 2/13/09. Member FDIC

OPEN 


 **The Great Northwest Home Rush**
The once-in-a-lifetime home sale for real estate sales

503-636-4800

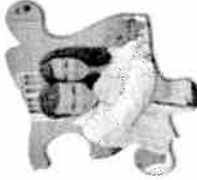


18"x24" Panel

HomeRush_A-FrameSL_OR.jpg

 **The Great Northwest Home Rush**
The Once-In-A-Lifetime Home Sale To End All Home Sales
March 7 - 22

Fixed Rate Mortgages As Low As 3.875%

3.973% APR*

Brought To You By Banner Bank And Community Financial Corporation

Member FDIC

HomeRush_VerlBanner_OR.jpg

The Great Northwest Home Rush

The Once-In-A-Lifetime Home Sale To End All Home Sales.

March 7 - 22

Fixed Rate Mortgages As Low As 3.875%

3.973% APR*

Brought To You By Banner Bank And Community Financial Corporation.

APR - Fixed Mortgage Rate Includes 1.00% - 1.00% Origination Charge, Annual Percentage Rate (APR) Includes 1.00% - 1.00% Origination Charge, Annual Percentage Rate (APR) Includes 1.00% - 1.00% Origination Charge. *APR is subject to change. Offer good through 3/31/20. Member FDIC.

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The Great Northwest Home Rush

The Once-In-A-Lifetime Home Sale To End All Home Sales.

March 7 - 22

Fixed Rate Mortgages As Low As 3.875%

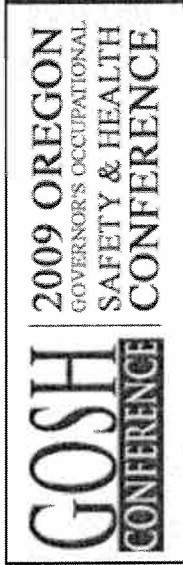
3.973% APR*

Brought To You By Banner Bank And Community Financial Corporation.

APR - Fixed Mortgage Rate Includes 1.00% - 1.00% Origination Charge, Annual Percentage Rate (APR) Includes 1.00% - 1.00% Origination Charge, Annual Percentage Rate (APR) Includes 1.00% - 1.00% Origination Charge. *APR is subject to change. Offer good through 3/31/20. Member FDIC.

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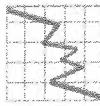
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Browse by week:

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SPECIAL COVERAGE

A home loan below 4%? It's coming to Oregon

by Jeff Manning, The Oregonian

Saturday February 28, 2009, 12:26 PM

Since its creation in September, the federal government's bank bailout program has been plagued by claims that financial institutions are simply pocketing billions of taxpayer dollars instead of loaning the money.

Banner Bank begs to differ.

The Walla Walla, Wash.-based institution, which got \$124 million from the Troubled Asset Relief Program (TARP) in November, is launching a home sales deal next month in Oregon, offering interest rates as low as 3.875 percent. Bank officials say they will make even jumbo, \$417,000-plus mortgage loans for less than 4 percent interest, about 40 percent less than the going rate.

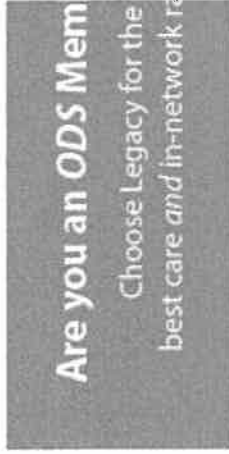
"We're loaning out our TARP money," said John Satterberg, president of Lake Oswego-based Community Financial, a Banner affiliate. "This is an opportunity to do something good for the economy, to jump-start the local real estate market."

The campaign, which will run from March 7 to March 22, is not completely altruistic. All of the 243 homes offered in the program were built by companies that borrowed money from Banner or Community Financial. Selling the homes presumably will help those builders repay their loans.

Oregon Business headlines

- **Bookshelf: Wall Street and Mr. p.m. PT**
- **Bookshelf: "The Great Depress 1:00 p.m. PT**
- **Rebate redemption models can 7:00 a.m. PT**
- **A home loan below 4%? It's cc Oregon 12:26 p.m. PT**

More: Oregon Business N



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Distant Neighbors, Common Interests

A special series examining the impact of China's rapid growth on Oregon.

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14-DAY ARCHIVE »

MY ECONOMY

Personal finance news, advice, ideas, tips & more

- [Home equity loans could block a lower-rate re-fi](#) 10:36 a.m. PT
- [Boom times for 'trash-outs,' in Oregon and elsewhere](#) 10:36 p.m. PT
- [Bookshelf: "The Great Depression Ahead"](#) 7:14 p.m. PT
- [Wall Street plunges after Citigroup-government deal](#) 1:51 p.m. PT
- [Budget crunch prompts Oregon courthouses to close on Fridays](#) 1:02

As attractive as the interest rates are, it remains to be seen how receptive people will be to Banner's pitch. The residential market has stalled in part because home prices are declining. The possibility of lower prices six months from now is a powerful incentive for would-be buyers to hold off.

Many Northwest banks helped create the housing bubble by loaning heavily to developers and builders. They're now paying a heavy price as the market has stalled, leading to widespread builder defaults.

Regulators have shut down three small banks in Oregon and southwest Washington since January, in large part because of their weak loan portfolios.

Banner Bank is strong and well capitalized. But it, too, has felt the sting of the residential real estate deep freeze. The bank's parent company lost \$78.5 million, \$4.72 per share, in 2008, which it blamed on "ongoing strains in the financial and housing markets."

Banner's nonperforming loans finished the year at \$187.3 million, more than triple from the previous year. Residential construction and development loans accounted for 80 percent of those problem loans.

Nevertheless, the U.S. Treasury in November gave Banner its tacit endorsement as one of the likely survivors of the downturn when it invested \$124 million in the institution.

In all, the Treasury intends to inject \$250 billion into the struggling banking sector.

Pleasing the Treasury

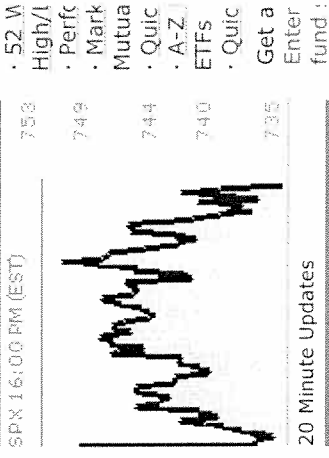
Banner's ultra-low interest rate offer may be music to the ears of the Treasury, which has been the target of withering criticism since launching the bank bailout.

Critics have blasted the program as a giveaway to the financial industry with little accountability.

Last month, a draft report being issued by the five-member congressional oversight panel said there appear to be "significant gaps" in Treasury's ability to track the billions of dollars of taxpayer money.

Among the program's shortcomings, the report said: The government's inability to ensure banks lend the money they have received from the government and the lack of standards for measuring the success of the program.

In response, the Treasury has taken to issuing monthly bank-lending surveys. The first of those reports, issued Feb. 17, concluded that loan activity held relatively steady in the last three months of 2008 despite rising



20 Minute Updates

	Chg	%Chg	Value
S&P 500	-18	-2.4	735
Morningstar	-38	-2.1	1,801
Nasdaq	-14	-1.0	1,378
NYSE	-96	-2.0	4,617
Russell	-4	-1.0	389

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LATEST BUSINESS PHOTOS AND VI

Video

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MORE OREGON BUSINESS V

p.m. PT

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LOCAL GAS PRICES

Interactive Map 

- Lowest gas prices in the Portland-metro area

AP NEWS

BUSINESS

- Dublin cops arrest 7 after historic bank heist 2/28/2009, 11:55 a.m. PST
- Obama's budget: huge ambitions, huge obstacles 2/28/2009, 11:48 a.m. PST
- Jim and Tammy Faye Bakker's old shows up for sale 2/28/2009, 11:45 a.m. PST

MORE AP BUSINESS NEWS »

NOTICIAS DE NEGOCIO

- Bolivia cifra grandes esperanzas en el metal más liviano 2/28/2009, 10:45 a.m. PST
- Ecuador ejecutará garantías por incumplimiento de empresa china 2/28/2009, 10:30 a.m. PST
- Presupuesto de Obama: Grandes ambiciones, obstáculos grandes 2/28/2009, 10:07 a.m. PST

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unemployment and economic deterioration.

"The receipt of the TARP money, it comes with an obligation to do what you can to put it to use in the community," said Doug Bayne, Banner vice president and director of marketing. "This will reduce the inventory of housing stock in western Oregon and also it will assist the bank."

Banner has 16 branches in Oregon. It also owns Community Financial in Lake Oswego, one of the area's most active lenders to Portland-area builders and developers.

It was Community Financial, led by Satterberg, that loaned money to many of the 75 builders participating in Banner's March sales.

Satterberg said the low interest rate loans will be fixed-rate, 30-year loans. The bank will do 80 percent to 90 percent, even 100 percent loan-to-value financing. But anyone seeking more than 80 percent financing will need to buy mortgage insurance, which will bump up the interest rate a half-point or more.

The bank's offer of 100 percent financing will be available without mortgage insurance --but only to people with credit scores in excess of 700. Also, the interest rate will be higher: 4.875 percent, Satterberg said.

Among the builders participating are Arbor Homes, Blazer Development and Gertz Fine Homes of Tualatin.

Praise from builder

Ken Gertz, a 31-year veteran of the residential construction business, said he's never before seen a 3.87 percent interest rate. He credited the Treasury's bank assistance program and Banner.

"In my opinion, that's what all the banks should be doing," Gertz said. "The idea of the stimulus package is to get homes moving and stop the stagnation that we've been seeing for the last year and a half."

Most of the homes are located in Multnomah, Clackamas, and Washington counties in Oregon and Clark County, Wash., though some are as far away as McMinnville, Bend and Pasco, Wash.

They range in price from \$184,000 to \$2.5 million.

Banner is planning similar low-interest offers in the Seattle and Idaho markets in April.

— Jeff Manning; jmanning@news.oregonian.com

TAX Q&A BLOG

IRS Tax Specialist Kathy Howell answers your tax questions.

- Do I file an Oregon and Ohio tax return? 9:01 a.m. PT
- Got a tax question? [Send it in.](#)

MORE TAX Q&A

BUSINESS BLOGS

From The Oregonian



Silicon Forest
By Mike Rogoway

- Looking forward on a sunny afternoon... 4:02 p.m. PT



It's Only Money
By Brent Hunsberger

- Status check 9:25 a.m. PT



Complaint Desk
By Laura Gunderson

- Free gas offers don't pan out 6:04 p.m. PT



Front Porch
By Ryan Frank

- Portland home sales hit new



b(4): pp. 20 - 27

**Banner Corporation
Board of Directors
Excerpt of Meeting Minutes of November 18, 2008**

1. Capital Purchase Program Participation

Mr. Jones advised that Banner Corporation has received preliminary approval to participate in the U.S. Treasury Troubled Asset Relief Program (“TARP”) Capital Purchase Program and that management, in coordination with attorney John Breyer, is preparing the documentation for an expected close and settlement on November 21, 2008. He reviewed management’s plans for the use of the expected \$124 million in proceeds, namely to retain the funds at the holding company level in order to take greatest advantage of market opportunities as they arise and to provide capital funding to the subsidiary banks on an as needed basis. He indicated that the most immediate use of the funds would be to pay down borrowings and replace high-cost deposits. He noted the likely opportunity for increased lending activity and business combinations, as some institutions will not be approved to participate in the TARP. Discussion followed concerning the potential positive or negative implications of participation in the program. Mr. Baker reviewed the details of the program which allows the Treasury to invest between one percent and three percent of the applicant’s risk-weighted assets in the form of senior preferred stock carrying a dividend of five percent for five years, adjusting to nine percent thereafter. The stock is accompanied by warrants equal to 15% of the preferred stock investment with an exercise price equal to the average common stock closing price over the previous 20 trading days. Certain constraints with regard to cash dividends, stock repurchases, executive compensation and repayment of the proceeds apply. Mr. Baker indicated that the Compensation Committee met earlier today and passed a resolution imposing restrictions limiting golden parachute payments, imposing clawback provisions and acknowledging limitations on the tax deductibility of executive compensation. He reviewed the requested Board resolution approving participation in the program, the execution of documents and the authorization and issuance of the preferred stock and warrants, noting that it will also be necessary to file a registration statement amending the Company’s earlier registration of \$100 million of securities. Discussion followed concerning the form of documentation, preferred dividend payment dates and accounting issues, the comparative costs of alternative forms of capital, the leverage necessary to absorb the capital and communications measures.

ON A MOTION DULY MADE AND SECONDED, IT WAS

RESOLVED, that

WHEREAS, Banner Corporation’s (“Corporation”) application to participate in the Troubled Asset Relief Program Capital Purchase Program (“CPP”) of the United States Department of Treasury (“UST”) by selling and issuing to UST \$124,000,000 in preferred shares along with a related warrant has been approved by the UST; and

WHEREAS, the UST has informed the Corporation that the closing date for the CPP transaction is November 21, 2008; and

WHEREAS, the Directors have received and reviewed UST’s term sheet for the preferred stock and warrant, including the future limits on common stock dividends and repurchases; and

Banner Corporation – Compensation Committee

Certification of the Review of Senior Executive Officer Incentive Compensation Arrangements

Purpose

On November 21, 2008, the U.S. Department of the Treasury (UST) and Banner Corporation (Corporation) closed on the purchase of preferred stock and warrants to purchase common stock in the amount of \$124 million. Under the terms of the Troubled Assets Relief Program (TARP) Capital Purchase Program (CPP) the Compensation Committee and the Senior Risk Management Officer (SRMO) must certify, within 90 days of the purchase under the CPP that incentive compensation arrangements for Senior Executive Officers (SEOs) “do not encourage unnecessary and excessive risks that would threaten the value of the institution.” Subsequently, the Compensation Committee and the SRMO must meet at least annually to discuss and review risk-management policies and SEO incentive compensation arrangements. This document constitutes our initial review and certification of compliance.

Background

On November 18, 2008 the Board of Directors determined that it was in the best interests of the Corporation and its shareholders to participate in the TARP CPP. In order to participate in the CPP, the Corporation must comply with Section 111(b) of the Emergency Economic Stabilization Act of 2008 (EESA) regarding executive compensation and corporate governance and the related UST interim final regulations published in the Federal Register on October 20, 2008 (the Compensation Guidelines). Therefore, the Board of Directors authorized and directed the Compensation Committee to take all the actions required under the Compensation Guidelines.

On November 18, 2008 the Compensation Committee resolved that as long as the UST holds securities of the Corporation acquired in the CPP, the Compensation Committee will be responsible for, among other things:

- Reviewing the Corporation’s compensation plans and policies with the senior risk officers in order to identify and eliminate any bonus plans or other incentive compensation for SEOs that encourage them to take unnecessary and excessive risks that threaten the value of the financial institution; and
- Meeting annually with the senior risk officers to discuss and review the relationship between the Corporation’s risk management policies and practices and the SEO’s bonus and incentive compensation arrangements.

Further, in November 2008 the Corporation obtained a Compensation Modification Agreement (Agreement) from six current executive officers () and one retired officer (b) (4) for the purposes of ensuring compliance with the Compensation Guidelines. The Agreement provides that each Executive agrees that the Corporation, through its Compensation Committee, has the sole discretion to: (a) determine whether and to what extent any bonus or incentive compensation with respect to the Executive encourages the Executive to take unnecessary and excessive risks that threaten the value of the Corporation, and (b) to eliminate any such compensation as long as UST holds securities of the Corporation acquired in the CPP. b(4)

Although the final determination of the “named executive officers” other than the CEO and CFO for the year ended December 31, 2008, has not been officially made, the Compensation Committee and the SRMO anticipate that the five SEOs for purposes of the CPP during 2009 will be: b(4)

Senior Executive Officer Incentive Compensation Evaluation

In harmony with the requirements of the CPP and the resolutions of the Compensation Committee, the Compensation Committee and the SRMO have reviewed the material risks to the value of the Corporation and evaluated SEO incentive compensation arrangements to ensure that they "do not encourage SEOs to take unnecessary and excessive risks that threaten the value of the financial institution."

Risks to the Value of the Corporation

The Corporation's unique and material risks, both short term and long term, are described in Item 1A – Risk Factors (pages 18-21) of the Corporation's Form 10-K as of December 31, 2007, and in Note 2: Recent Developments and Significant Events (pages 11-13) and Part II Item 1A – Risk Factors (pages 46-49) of the Corporation's Form 10-Q as of September 30, 2008. These detailed disclosures are incorporated herein by reference.

The Compensation Committee and the SRMO believe that these risk disclosures adequately describe and address all of the material short term and long term risks that have the potential to threaten the value of the Corporation.

Senior Executive Officer Incentive Compensation Arrangements

The objectives of the Corporation's executive compensation program include motivating executives to enhance long-term shareholder value and integrating the compensation program with the Corporation's annual and long-term strategic planning and performance measurement processes.

The Corporation's SEO incentive compensation arrangements are referenced in ITEM 11 – Executive Compensation of the 10-K as of December 31, 2007 and described in the "Executive Compensation" section (pages 12-21) of the Proxy Statement for the Annual Meeting of Stockholders dated March 21, 2008 (Proxy). These disclosures are incorporated herein by reference.

Short-Term Incentive Compensation

During 2008 the Compensation Committee worked with executive management on a revised short-term cash incentive compensation program (STICP) for officers at the vice president level and above, including the SEOs. As of April 21, 2008 the revised STICP includes five targeted corporate goals: Return on Average Assets; Net Interest Margin; Earnings per Share; Total Operating Expense to Average Assets, and Non-performing Assets to Total Assets. Peer results are included where available for information purposes. The STICP is incorporated herein by reference.

The Compensation Committee and the SRMO believe that STICP goals, the weighting of the goals, and the actual performance targets were reasonable when established. The goals and targets were, and continue to be, balanced by established policy parameters in the areas of credit, market, liquidity, operational, legal and reputation risks. Further, policy compliance is subject to extensive and recurring reviews by the Corporation's management, independent auditors, and regulators, and the results are reported to the Board of Directors and/or its various committees. Therefore, the Compensation Committee and the SRMO believe that the STICP does not contain any feature that encourages SEOs to take unnecessary and excessive risks that threaten the value of the Corporation.

Long-Term Incentive Compensation

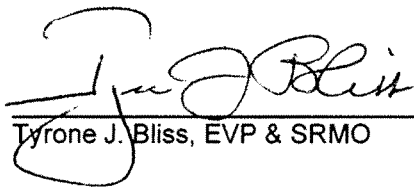
Long-term incentive compensation includes the various Stock Option, Management Recognition and Development, "phantom stock", and other plans as described in the Proxy. Each of these plans requires the participants to remain in the active employment of the Corporation for an extended period of time (typically five years or more of vesting) to obtain the full benefit of the plans.

Stock ownership is also enhanced through participation in the Corporation's ESOP under which the SEOs receive an allocation of Corporation stock based on a percentage of eligible wages.

The Compensation Committee and the SRMO believe that the various long-term incentive compensation programs do not contain any feature that encourages SEOs to take unnecessary and excessive risks that threaten the value of the Corporation.

SRMO CERTIFICATION

I hereby certify that I have completed the review of SEO incentive compensation arrangements with the Compensation Committee as required by Section 111(b)(2)(A) of the EESA for purposes of participation in the CPP within 90 days of the UST's purchase of preferred stock and warrants to purchase the common stock of the Corporation under the CPP on November 21, 2008.



Tyrone J. Bliss, EVP & SRMO

01/27/2009
Date

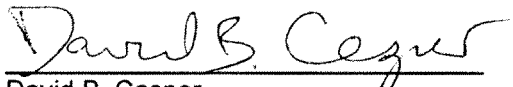
COMPENSATION COMMITTEE CERTIFICATION

The Compensation Committee hereby certifies that it has completed the review of SEO incentive compensation arrangements with the SRMO as required by Section 111(b)(2)(A) of the EESA for purposes of participation in the CPP within 90 days of the UST's purchase of preferred stock and warrants to purchase the common stock of the Corporation under the CPP on November 21, 2008.



Dean W. Mitchell, Chair

1/27/09
Date

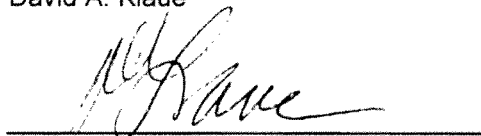


David B. Casper

1/27/09
Date

David A. Klaue

Date



Robert J. Lane

1.27.09
Date