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## Section 1: 8-K (8-K)

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): January 23, 2019

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 99362  
(Address of principal executive offices and zip code)

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

Not Applicable

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions.

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

## **Item 2.02 Results of Operations and Financial Condition**

On January 23, 2019, Banner Corporation issued its earnings release for the quarter ended December 31, 2018. A copy of the earnings release is furnished herewith as Exhibit 99.1, which is incorporated herein by reference.

## **Item 9.01 Financial Statements and Exhibits**

(d) Exhibits

The following exhibit is being furnished herewith and this list shall constitute the exhibit index:

[99.1 Press Release of Banner Corporation dated January 23 2019.](#)

## 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: January 23, 2019

By: /s/ Peter J. Conner

Peter J. Conner

Executive Vice President, Treasurer and  
Chief Financial Officer

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## Section 2: EX-99.1 (EXHIBIT 99.1)

Exhibit 99.1



CONTACT: MARK J. GRESCOVICH,  
PRESIDENT & CEO  
PETER J. CONNER, CFO  
(509) 527-3636

## NEWS RELEASE

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### **Banner Corporation Reports Fourth Quarter Results and Record Full Year Net Income. Fourth Quarter Net Income of \$37.5 Million, or \$1.09 Per Diluted Share; Results Highlighted by Strong Organic Loan Growth and Completion of Skagit Bancorp, Inc. Acquisition**

Walla Walla, WA - January 23, 2019 - Banner Corporation (NASDAQ GSM: BANR) ("Banner"), the parent company of Banner Bank and Islanders Bank, today reported strong organic loan growth exclusive of the Skagit Bancorp, Inc. ("Skagit") acquisition on November 1, 2018, combined with a stable net interest margin, contributed to solid fourth quarter financial results. Net income in the fourth quarter of 2018 was \$37.5 million, or \$1.09 per diluted share, compared to \$37.8 million, or \$1.17 per diluted share, in the preceding quarter. Fourth quarter results include \$4.6 million of acquisition-related expense, compared to \$1.0 million of acquisition-related expense in the preceding quarter. In the fourth quarter of 2017, following a revaluation of deferred tax assets due to tax reforms enacted in 2017, Banner recorded additional tax expense of \$42.6 million, or \$1.30 per diluted share. Consequently, the fourth quarter 2017 net loss was \$13.5 million, or \$0.41 per diluted share. There was no acquisition-related expense in the fourth quarter of 2017. For the year ended December 31, 2018, net income increased to \$136.5 million, or \$4.15 per diluted share, compared to \$60.8 million, or \$1.84 per diluted share, in 2017.

"Banner's fourth quarter and full year 2018 performance reflects continued execution of our super community bank strategy, which is generating new client relationships, adding to our core funding position by growing core deposits, and promoting client loyalty through our responsive service model, while augmenting our growth with opportunistic acquisitions," stated Mark J. Grescovich, President and Chief Executive Officer. "During the fourth quarter, we announced the completion of the merger with Skagit. This transaction expanded Banner's presence and density in the attractive North Sound region in Northwest Washington State and represents a complementary fit, both strategically and culturally, with Banner's business model. The combination of our two organizations provides the opportunity to enhance operational efficiency while offering Skagit Bank customers a broader product offering, increased lending limits and an expanded branch delivery system that stretches throughout the four states of Washington, Oregon, Idaho and California."

At December 31, 2018, Banner Corporation had \$11.86 billion in assets, \$8.59 billion in net loans and \$9.48 billion in deposits. Banner operates 182 branch offices located in eight of the top 20 largest western Metropolitan Statistical Areas by population.

## Fourth Quarter 2018 Highlights

- Revenues were \$138.5 million during the quarter ended December 31, 2018, \$129.5 million during the preceding quarter and \$125.9 million during the fourth quarter a year ago.
- Net interest income, before the provision for loan losses, increased 8% to \$117.5 million, compared to \$109.1 million in the preceding quarter and increased 20% from \$98.3 million in the fourth quarter a year ago.
- Net interest margin was 4.47% for the current quarter, compared to 4.48% in the preceding quarter and 4.18% in the fourth quarter a year ago.
- Loans receivable increased \$862.1 million, or 11%, to \$8.68 billion at December 31, 2018, including \$631.7 million of portfolio loans from the acquisition of Skagit, compared to \$7.82 billion at September 30, 2018.
- Provision for loan losses increased to \$2.5 million from \$2.0 million in the preceding quarter, increasing the allowance for loan losses to \$96.5 million, or 1.11% of total loans, compared to an allowance for loan losses of \$89.0 million, or 1.17% of total loans, as of December 31, 2017.
- Core deposits increased \$651.6 million, or 9%, to \$8.16 billion, including \$696.3 million of core deposits acquired from the Skagit acquisition, compared to September 30, 2018 and represented 86% of total deposits at December 31, 2018.
- Quarterly dividends to shareholders for the current quarter were \$0.38 per share, an increase of 52% from the quarterly dividend for the fourth quarter a year ago.
- Common shareholders' equity per share increased to \$41.79 at December 31, 2018, compared to \$39.26 at the preceding quarter end and \$38.89 a year ago.
- Tangible common shareholders' equity per share\* increased to \$31.45 at December 31, 2018, compared to \$31.20 at the preceding quarter end and \$30.78 a year ago.
- Non-performing assets improved to \$18.9 million, or 0.16% of total assets, at December 31, 2018, compared to \$27.5 million, or 0.28% of total assets, at December 31, 2017.

*\*Tangible common shareholders' equity per share and the ratio of tangible common equity to tangible assets (both of which exclude goodwill and other intangible assets, net), and references to revenues from core operations (which excludes fair value adjustments, net loss on the sale of securities and in the fourth quarter of 2017 gain on the sale of branches) and the adjusted efficiency ratio (which excludes fair value adjustments, net loss on the sale of securities and, in the fourth quarter of 2017, gain on the sale of branches from the total of net interest income before provision for loan losses and non-*

*interest income and excludes acquisition-related costs, amortization of core deposit intangibles, real estate owned gain (loss) and state/municipal business and use taxes from adjusted non-interest expense) represent non-GAAP (Generally Accepted Accounting Principles) financial measures. Management has presented these non-GAAP financial measures in this earnings release because it believes that they provide useful and comparative information to assess trends in Banner's core operations reflected in the current quarter's results and facilitate the comparison of our performance with the performance of our peers. Where applicable, comparable earnings information using GAAP financial measures is also presented. See also Non-GAAP Financial Measures reconciliation tables on the last two pages of this press release.*

*Certain reclassifications have been made to the 2017 Consolidated Financial Statements and/or schedules to conform to the 2018 presentation. These reclassifications have affected certain line items and ratios for the prior periods but have not changed net income or shareholders' equity for those periods. The effect of these reclassifications is considered immaterial.*

## Recent Events

On November 1, 2018, Banner completed its acquisition of Skagit and its wholly-owned subsidiary, Skagit Bank, of Burlington, Washington. As of the closing of the transaction, Skagit Bank had 11 retail branches along the I-5 corridor from Seattle to the Canadian border. Pursuant to the previously announced terms of the acquisition, Skagit shareholders received 5.6664 shares of Banner common stock in exchange for each share of Skagit common stock, plus cash in lieu of any fractional shares and cash to buyout Skagit stock options for a total consideration paid of \$171.8 million.

The Skagit merger was accounted for using the acquisition method of accounting. Accordingly, the assets (including identifiable intangible assets) and the liabilities of Skagit were measured at their respective estimated fair values as of the merger date. The excess of the purchase price over the fair value of the net assets acquired was attributed to goodwill. The fair value on the merger date represents management's best estimates based on available information and facts and circumstances in existence on the merger date. The acquisition accounting is subject to adjustment within a measurement period of one year from the acquisition date. The acquisition provided \$915.8 million of assets, \$632.4 million of loans, and \$810.2 million of deposits to Banner.

## Income Statement Review

"Our net interest margin remained strong despite an increase in deposit costs," said Grescovich. Banner's net interest margin was 4.47% for the fourth quarter of 2018, a one basis-point decrease compared to 4.48% in the preceding quarter and a 29 basis-point improvement compared to 4.18% in the fourth quarter a year ago. Acquisition accounting adjustments added 12 basis points to the net interest margin in both the current quarter and preceding quarters compared to six basis points in the fourth quarter a year ago. The total purchase discount for acquired loans was \$25.7 million at December 31, 2018, an increase from \$15.4 million at September 30, 2018 and \$21.1 million at December 31, 2017. For the year ended December 31, 2018, Banner's net interest margin expanded 19 basis points to 4.43% compared to 4.24% in 2017. Acquisition accounting adjustments added ten basis points to the net interest margin for both years.

Average interest-earning asset yields increased seven basis points to 4.90% compared to 4.83% for the preceding quarter and increased 50 basis points compared to 4.40% in the fourth quarter a year ago. Average loan yields increased six basis points to 5.37% compared to 5.31% in the preceding quarter and increased 55 basis points compared to 4.82% in the fourth quarter a year ago. Loan discount accretion added 16 basis points to loan yields in the fourth quarter of 2018, compared to 15 basis points in the preceding quarter and five basis points in the fourth quarter a year ago. Deposit costs were 0.32% in the fourth quarter of 2018, a seven basis-point increase compared to the preceding quarter and a 17 basis-point increase compared to the fourth quarter a year ago. The total cost of funds was 0.46% during the fourth quarter of 2018, a nine basis-point increase compared to the preceding quarter and a 23 basis-point increase compared to the fourth quarter a year ago, largely reflecting increased use of brokered deposits and the impact of the rising interest rate environment.

Primarily as a result of the origination of new loans, the renewal of acquired loans out of the discounted acquired loan portfolio and net charge-offs, Banner recorded a \$2.5 million provision for loan losses in the current quarter, compared to \$2.0 million recorded in both the prior quarter and in the same quarter a year ago.

Deposit fees and other service charges were \$12.5 million in the fourth quarter of 2018, compared to \$12.3 million in the preceding quarter and \$10.8 million in the fourth quarter a year ago. Mortgage banking revenues, including gains on one- to four-family and multifamily loan sales and loan servicing fees, increased to \$6.0 million in the fourth quarter, compared to \$5.8 million in the preceding quarter and \$5.0 million in the fourth quarter of 2017. Home purchase activity accounted for 78% of one- to four-family mortgage loan originations in the fourth quarter of 2018, compared to 78% in the prior quarter and 71% in the fourth quarter of 2017.

Banner's fourth quarter 2018 results included a \$198,000 net gain for fair value adjustments as a result of changes in the valuation of financial instruments carried at fair value, principally comprised of certain investment securities held for trading and an \$885,000 net loss on the sale of securities. In the preceding quarter, results included a \$45,000 net gain for fair value adjustments. In the fourth quarter a year ago, results included a \$1.0 million net loss for fair value adjustments and a \$2.3 million net loss on the sale of securities. Following the adoption of new accounting guidance, beginning in the first quarter of 2018, Banner no longer reflects changes in the fair value of its junior subordinated debentures related to instrument-specific credit risk in the Consolidated Statements of Operations, but rather reports those changes in the Consolidated Statements of Comprehensive Income and includes them in total shareholders' equity in the Consolidated Statements of Financial Condition.

Total revenues increased 7% to \$138.5 million for the fourth quarter of 2018, compared to \$129.5 million in the preceding quarter and increased 10% compared to \$125.9 million in the fourth quarter a year ago. For the year, total revenues increased 8% to \$515.0 million, compared to \$478.2 million in 2017. Revenues from core operations\* (revenues excluding gains and losses on the sale of securities, the net change in valuation of financial instruments and, in the fourth quarter of 2017, the gain on sale of the Utah branches) increased to \$139.2 million in the fourth quarter of 2018, compared to \$129.4 million in the preceding quarter and \$117.1 million in the fourth quarter of 2017. For 2018, revenues from core operations\* increased 9% to \$512.0 million from \$471.0 million in 2017.

Total non-interest income was \$21.0 million in the fourth quarter of 2018, compared to \$20.4 million in the third quarter of 2018 and \$27.7 million in the fourth quarter a year ago. For 2018, total non-interest income was \$84.0 million, compared to \$85.2 million in 2017.

Banner's total non-interest expense was \$95.4 million in the fourth quarter of 2018, compared to \$81.6 million in the preceding quarter and \$82.5 million in the fourth quarter of 2017. Acquisition-related expenses were \$4.6 million for the fourth quarter of 2018, compared to \$1.0 million for the preceding quarter and no acquisition expenses for the year ago quarter. The increase in non-interest expense during the quarter also reflects the expenses associated with operating the branches acquired in the Skagit acquisition. Other non-interest expense items of significance for the fourth quarter of 2018 included a \$4.0 million accrual for pending litigation. Banner's efficiency ratio was 68.89% for the current quarter, compared to 63.04% in the preceding quarter and 65.51% in the year ago quarter. Banner's adjusted efficiency ratio\*, which is calculated by dividing core non-interest expense by core revenue, was 63.06% for the current quarter, compared to 60.21% in the preceding quarter and 69.40% in the year ago quarter.

For the fourth quarter of 2018, Banner recorded \$3.1 million in state and federal income tax expense for an effective tax rate of 7.5%, reflecting the new lower federal corporate income tax rate beginning in 2018, as well as the benefits from tax exempt income sources. In addition, Banner recorded \$5.5 million of tax benefit adjustments, which included the release of a \$4.2 million valuation reserve previously recorded in the fourth quarter of 2017 as a provisional amount related to the enactment of the Tax Cuts and Jobs Act. Our normal, expected statutory income tax rate is 23.7%, representing a blend of the statutory federal income tax rate of 21.0% and apportioned effects of the state income tax rates. For the year ago quarter, Banner recorded \$55.0 million in state and federal income tax expense primarily due to a \$42.6 million charge for the revaluation of its deferred tax assets as a result of the passage of the Tax Cuts and Jobs Act.

### Balance Sheet Review

Largely as a result of the Skagit acquisition, but also as a result of organic growth, Banner's total assets increased to \$11.86 billion at December 31, 2018, compared to \$10.51 billion at September 30, 2018 and \$9.76 billion at December 31, 2017. The total of securities and interest-bearing deposits held at other banks was \$1.94 billion at December 31, 2018, compared to \$1.76 billion at September 30, 2018 and \$1.26 billion at December 31, 2017. The increase in the securities portfolio during both the current quarter and preceding quarter compared to December 31, 2017 reflects Banner's renewed leveraging strategy as it crossed the \$10 billion in total assets threshold. During the fourth quarter of 2017, Banner reduced its holdings of securities and use of wholesale funding to ensure that it remained below \$10 billion in total assets at December 31, 2017 in order to postpone the adverse impact of the Durbin Amendment. The average effective duration of Banner's securities portfolio was approximately 3.5 years at December 31, 2018, compared to 4.1 years at December 31, 2017.

Net loans receivable increased 11% to \$8.59 billion at December 31, 2018, compared to \$7.73 billion at September 30, 2018 and increased 14% when compared to \$7.51 billion at December 31, 2017. The \$860.9 million increase in net loans during the current quarter included \$631.7 million of portfolio loans acquired in the Skagit acquisition as well as \$230.4 million of organic loan growth. Organic loan growth was 12% on an annualized basis during the quarter. Commercial real estate and multifamily real estate loans increased 11% to \$3.93 billion at December 31, 2018, compared to \$3.52 billion at September 30, 2018, and \$3.54 billion a year ago. Commercial business loans increased 9% to \$1.48 billion at December 31, 2018, compared to \$1.36 billion three months earlier and increased 16% compared to \$1.28 billion a year ago. Reflecting normal seasonal trends, agricultural business loans increased by 12% to \$404.9 million at December 31, 2018, compared to \$360.0 million three months earlier and increased by 20% compared to \$338.4 million a year ago. Total construction, land and land development loans increased 9% to \$1.11 billion at December 31, 2018, compared to \$1.02 billion at September 30, 2018 and increased 22% compared to \$907.5 million a year earlier. Consumer loans increased 10% to \$785.0 million at December 31, 2018, compared to \$710.5 million at September 30, 2018 and increased 14% compared to \$688.8 million a year ago. One- to four-family loans increased 15% to \$973.6 million, compared to both \$849.9 million at September 30, 2018 and \$848.3 million a year ago.

Loans held for sale increased substantially to \$171.0 million at December 31, 2018, compared to \$72.9 million at September 30, 2018 and \$40.7 million at December 31, 2017. The volume of one- to four- family residential mortgage loans sold was \$130.1 million in the current quarter, compared to \$134.1 million in the preceding quarter and was \$141.1 million in the fourth quarter a year ago. During the fourth quarter of 2018, Banner sold \$26.8 million in multifamily loans, compared to \$94.0 million in the preceding quarter. Loans held for sale at December 31, 2018 included \$130.7 million of multifamily loans and \$40.3 million of one- to four-family loans.

Total deposits increased 9% to \$9.48 billion at December 31, 2018, compared to \$8.69 billion at September 30, 2018 and increased 16% when compared to \$8.18 billion a year ago, as core deposit growth over the last year, coupled with the addition of both deposits from the Skagit acquisition and brokered certificates of deposit, was partially offset by continuing declines in retail, or non-brokered, certificates of deposit. Total deposits at December 31, 2018 were negatively impacted by the sale of \$20.4 million of Poulsbo Branch deposits during the second quarter of 2018. Non-interest-bearing account balances increased 5% to \$3.66 billion at December 31, 2018, compared to \$3.47 billion at September 30, 2018 and increased 12% compared to \$3.27 billion a year ago. Core deposits (non-interest-bearing and interest-bearing transaction and savings accounts) increased \$651.6 million, or 9%, from the prior quarter and increased 13% compared to a year ago. The core deposit balance at December 31, 2018 was positively impacted by \$696.3 million of core deposits acquired in the Skagit acquisition. Core deposits represented 86% of total deposits at December 31, 2018, the same as three months earlier, and were 88% of total deposits a year earlier. Certificates of deposit increased 12% to \$1.32 billion at December 31, 2018, compared to \$1.18 billion at September 30, 2018 and increased 37% compared to \$966.9 million a year earlier. Brokered deposits increased to \$377.3 million at December 31, 2018, compared to \$325.2 million at September 30, 2018 and \$40.7 million a year earlier.

At December 31, 2018, total common shareholders' equity was \$1.47 billion, or 12.39% of assets, compared to \$1.27 billion or 12.10% of assets at September 30, 2018 and \$1.27 billion or 13.03% of assets a year ago. At December 31, 2018, tangible common shareholders' equity\*, which excludes goodwill and other intangible assets, was \$1.11 billion, or 9.62% of tangible assets\*, compared to \$1.01 billion, or 9.86% of tangible assets, at September 30, 2018 and \$1.01 billion, or 10.61% of tangible assets, a year ago. Banner's tangible book value per share\* increased to \$31.45 at December 31, 2018, compared to \$30.78 per share a year ago.

During the first quarter of 2018, Banner repurchased 269,711 shares of its common stock and during the fourth quarter of 2018, Banner repurchased 325,000 shares of its common stock. There were no repurchases of common stock during the second or third quarters of 2018. Banner and its subsidiary

banks continue to maintain capital levels in excess of the requirements to be categorized as “well-capitalized” under the Basel III and Dodd Frank regulatory standards. At December 31, 2018, Banner's common equity Tier 1 capital ratio was 10.75%, its Tier 1 leverage capital to average assets ratio was 10.98%, and its total capital to risk-weighted assets ratio was 13.12%.

### Credit Quality

The allowance for loan losses was \$96.5 million at December 31, 2018, or 1.11% of total loans outstanding and 616% of non-performing loans compared to \$95.3 million at September 30, 2018, or 1.22% of total loans outstanding and 603% of non-performing loans, and \$89.0 million at December 31, 2017, or 1.17% of total loans outstanding and 329% of non-performing loans. Net loan charge-offs totaled \$1.3 million in the fourth quarter, compared to \$612,000 in the preceding quarter and \$2.1 million in the fourth quarter a year ago. Primarily as a result of the origination of new loans, the renewal of acquired loans out of the discounted acquired loan portfolio and net charge-offs, Banner recorded a \$2.5 million provision for loan losses in the current quarter, compared to \$2.0 million recorded in both the prior quarter and in the year ago quarter. Non-performing loans decreased to \$15.7 million at December 31, 2018, compared to \$15.8 million at September 30, 2018 and \$27.0 million a year ago. Real estate owned and other repossessed assets were \$3.2 million at December 31, 2018, compared to \$937,000 at September 30, 2018 and \$467,000 a year ago. The increase in the current quarter primarily reflects \$2.6 million of real estate owned acquired in the Skagit acquisition.

In accordance with acquisition accounting, loans acquired from acquisitions were recorded at their estimated fair value, which resulted in a net discount to the loans' contractual amounts, a portion of which reflects a discount for possible credit losses. Credit discounts are included in the determination of fair value, and as a result, no allowance for loan and lease losses is recorded for acquired loans at the acquisition date. At December 31, 2018, the total purchase discount for acquired loans was \$25.7 million.

Banner's non-performing assets were \$18.9 million, or 0.16% of total assets, at December 31, 2018, compared to \$16.7 million, or 0.16% of total assets, at September 30, 2018 and \$27.5 million, or 0.28% of total assets, a year ago. In addition to non-performing assets, purchased credit-impaired loans increased due to the Skagit acquisition to \$14.4 million at December 31, 2018, compared to \$12.9 million at September 30, 2018 and decreased when compared to \$21.3 million at December 31, 2017.

### Conference Call

Banner will host a conference call on Thursday, January 24, 2019, at 8:00 a.m. PST, to discuss its fourth quarter and year end results. To listen to the call on-line, go to [www.bannerbank.com](http://www.bannerbank.com). Investment professionals are invited to dial (866) 235-9915 to participate in the call. A replay will be available for one week at (877) 344-7529 using access code 10127071, or at [www.bannerbank.com](http://www.bannerbank.com).

### About the Company

Banner Corporation is a \$11.86 billion bank holding company operating two commercial banks in four Western states through a network of branches offering 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](http://www.bannerbank.com).

### Forward-Looking Statements

*When used in this press release and in other documents filed with or furnished to the Securities and Exchange Commission (the “SEC”), in press releases or other public stockholder communications, or in oral statements made with the approval of an authorized executive officer, the words or phrases “may,” “believe,” “will,” “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” “plans,” “potential,” or similar expressions are intended to identify “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. You are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date such statements are made and based only on information then actually known to Banner. Banner does not undertake and specifically disclaims any obligation to revise any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements. These statements may relate to future financial performance, strategic plans or objectives, revenues or earnings projections, or other financial information. By their nature, these statements are subject to numerous uncertainties that could cause actual results to differ materially from those anticipated in the statements and could negatively affect Banner's operating and stock price performance.*

*Important factors that could cause actual results to differ materially from the results anticipated or projected include, but are not limited to, the following: (1) expected revenues, cost savings, synergies and other benefits from the Skagit acquisition might not be realized within the expected time frames or at all and costs or difficulties relating to integration matters, including but not limited to customer and employee retention, might be greater than expected; (2) the credit risks of lending activities, including changes in the level and direction of loan delinquencies and write-offs and changes in estimates of the adequacy of the allowance for loan losses, which could necessitate additional provisions for loan losses, resulting both from loans originated and loans acquired from other financial institutions; (3) results of examinations by regulatory authorities, including the possibility that any such regulatory authority may, among other things, require increases in the allowance for loan losses or writing down of assets or impose restrictions or penalties with respect to Banner's activities; (4) competitive pressures among depository institutions; (5) interest rate movements and their impact on customer behavior and net interest margin; (6) the impact of repricing and competitors' pricing initiatives on loan and deposit products; (7) fluctuations in real estate values; (8) the ability to adapt successfully to technological changes to meet customers' needs and developments in the market place; (9) the ability to access cost-effective funding; (10) changes in financial markets; (11) changes in economic conditions in general and in Washington, Idaho, Oregon and California in particular; (12) the costs, effects and outcomes of litigation; (13) new legislation or regulatory changes, including but not limited to the Dodd-Frank Act and regulations adopted thereunder, changes in capital requirements pursuant to the Dodd-Frank Act and the implementation of the Basel III capital standards, other governmental initiatives affecting the financial services industry and changes in federal and/or state tax laws or interpretations thereof by taxing authorities; (14) changes in accounting principles, policies or guidelines; (15) future acquisitions by Banner of other depository institutions or lines of business; (16) future goodwill impairment due to changes in Banner's business, changes in market conditions, or other factors and (17) other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing,*



*products and services; and other risks detailed from time to time in our filings with the Securities and Exchange Commission including our Quarterly Reports on Form 10-Q and our Annual Reports on Form 10-K.*

**RESULTS OF OPERATIONS**

(in thousands except shares and per share data)

|  | Quarters Ended   |                  |                    | Twelve months ended |                  |
|--|------------------|------------------|--------------------|---------------------|------------------|
|  | Dec 31, 2018     | Sep 30, 2018     | Dec 31, 2017       | Dec 31, 2018        | Dec 31, 2017     |
| <b>INTEREST INCOME:</b>  |                  |                  |                    |                     |                  |
| Loans receivable   | \$ 114,627       | \$ 104,868       | \$ 93,145          | \$ 413,370          | \$ 374,449       |
| Mortgage-backed securities   | 9,931            | 8,915            | 7,006              | 35,076              | 24,535           |
| Securities and cash equivalents  | 4,183            | 3,865            | 3,324              | 15,186              | 13,300           |
|  | <u>128,741</u>   | <u>117,648</u>   | <u>103,475</u>     | <u>463,632</u>      | <u>412,284</u>   |
| <b>INTEREST EXPENSE:</b>   |                  |                  |                    |                     |                  |
| Deposits   | 7,503            | 5,517            | 3,111              | 20,642              | 12,273           |
| Federal Home Loan Bank advances  | 2,072            | 1,388            | 766                | 5,636               | 1,908            |
| Other borrowings   | 66               | 60               | 77                 | 245                 | 317              |
| Junior subordinated debentures   | 1,641            | 1,605            | 1,257              | 6,136               | 4,752            |
|  | <u>11,282</u>    | <u>8,570</u>     | <u>5,211</u>       | <u>32,659</u>       | <u>19,250</u>    |
| Net interest income before provision for loan losses                   | 117,459          | 109,078          | 98,264             | 430,973             | 393,034          |
| <b>PROVISION FOR LOAN LOSSES</b>                                       | <u>2,500</u>     | <u>2,000</u>     | <u>2,000</u>       | <u>8,500</u>        | <u>8,000</u>     |
| Net interest income  | 114,959          | 107,078          | 96,264             | 422,473             | 385,034          |
| <b>NON-INTEREST INCOME:</b>  |                  |                  |                    |                     |                  |
| Deposit fees and other service charges                                 | 12,539           | 12,255           | 10,840             | 48,074              | 43,452           |
| Mortgage banking operations  | 6,019            | 5,816            | 5,025              | 21,343              | 20,880           |
| Bank owned life insurance  | 994              | 1,726            | 1,020              | 4,505               | 4,618            |
| Miscellaneous  | 2,153            | 569              | 1,923              | 7,148               | 8,985            |
|  | <u>21,705</u>    | <u>20,366</u>    | <u>18,808</u>      | <u>81,070</u>       | <u>77,935</u>    |
| Net loss on sale of securities   | (885)            | —                | (2,310)            | (837)               | (2,080)          |
| Net change in valuation of financial instruments carried at fair value | 198              | 45               | (1,013)            | 3,775               | (2,844)          |
| Gain on sale of branches, including related loans and deposits         | —                | —                | 12,189             | —                   | 12,189           |
| Total non-interest income  | 21,018           | 20,411           | 27,674             | 84,008              | 85,200           |
| <b>NON-INTEREST EXPENSE:</b>   |                  |                  |                    |                     |                  |
| Salary and employee benefits   | 52,122           | 48,930           | 48,082             | 202,613             | 192,096          |
| Less capitalized loan origination costs                                | (4,863)          | (4,318)          | (4,134)            | (17,925)            | (17,379)         |
| Occupancy and equipment  | 13,490           | 12,385           | 12,088             | 49,215              | 47,866           |
| Information / computer data services                                   | 5,112            | 4,766            | 4,731              | 18,823              | 17,245           |
| Payment and card processing services                                   | 4,233            | 3,748            | 3,807              | 15,412              | 14,330           |
| Professional and legal expenses  | 6,669            | 3,010            | 5,301              | 17,945              | 17,534           |
| Advertising and marketing  | 2,588            | 1,786            | 3,412              | 8,346               | 8,637            |
| Deposit insurance  | 1,093            | 991              | 1,251              | 4,446               | 4,689            |
| State/municipal business and use taxes                                 | 854              | 902              | 737                | 3,284               | 2,594            |
| Real estate operations   | 251              | 433              | (941)              | 804                 | (2,030)          |
| Amortization of core deposit intangibles                               | 1,935            | 1,348            | 1,457              | 6,047               | 6,246            |
| Miscellaneous  | 7,310            | 6,646            | 6,710              | 26,754              | 27,142           |
|  | <u>90,794</u>    | <u>80,627</u>    | <u>82,501</u>      | <u>335,764</u>      | <u>318,970</u>   |
| Acquisition related expenses   | 4,602            | 1,005            | —                  | 5,607               | —                |
| Total non-interest expense   | <u>95,396</u>    | <u>81,632</u>    | <u>82,501</u>      | <u>341,371</u>      | <u>318,970</u>   |
| Income before provision for income taxes                               | 40,581           | 45,857           | 41,437             | 165,110             | 151,264          |
| <b>PROVISION FOR INCOME TAXES</b>                                      | <u>3,053</u>     | <u>8,084</u>     | <u>54,985</u>      | <u>28,595</u>       | <u>90,488</u>    |
| <b>NET INCOME</b>  | <u>\$ 37,528</u> | <u>\$ 37,773</u> | <u>\$ (13,548)</u> | <u>\$ 136,515</u>   | <u>\$ 60,776</u> |
| Earnings (loss) per share available to common shareholders:            |                  |                  |                    |                     |                  |
| Basic  | \$ 1.10          | \$ 1.17          | \$ (0.41)          | \$ 4.16             | \$ 1.85          |
| Diluted  | \$ 1.09          | \$ 1.17          | \$ (0.41)          | \$ 4.15             | \$ 1.84          |
| Cumulative dividends declared per common share                         | \$ 0.38          | \$ 0.38          | \$ 0.25            | \$ 1.96             | \$ 2.00          |
| Weighted average common shares outstanding:                            |                  |                  |                    |                     |                  |

|  |            |            |            |            |            |
|--|------------|------------|------------|------------|------------|
| Basic  | 34,221,048 | 32,256,789 | 32,655,973 | 32,784,724 | 32,888,007 |
| Diluted  | 34,342,641 | 32,376,623 | 32,766,335 | 32,894,425 | 32,986,707 |
| Increase (decrease) in common shares outstanding | 2,780,015  | (2,939)    | (528,299)  | 2,456,287  | (466,902)  |

**FINANCIAL CONDITION**

(in thousands except shares and per share data)

|  |               |               |              | Percentage Change |              |
|--|---------------|---------------|--------------|-------------------|--------------|
|  | Dec 31, 2018  | Sep 30, 2018  | Dec 31, 2017 | Prior Qtr         | Prior Yr Qtr |
| <b>ASSETS</b>  |               |               |              |                   |              |
| Cash and due from banks  | \$ 231,029    | \$ 184,417    | \$ 199,624   | 25.3 %            | 15.7 %       |
| Interest-bearing deposits  | 41,167        | 64,244        | 61,576       | (35.9)%           | (33.1)%      |
| Total cash and cash equivalents  | 272,196       | 248,661       | 261,200      | 9.5 %             | 4.2 %        |
| Securities - trading   | 25,896        | 25,764        | 22,318       | 0.5 %             | 16.0 %       |
| Securities - available for sale  | 1,636,223     | 1,412,273     | 919,485      | 15.9 %            | 77.9 %       |
| Securities - held to maturity  | 234,220       | 258,699       | 260,271      | (9.5)%            | (10.0)%      |
| Total securities   | 1,896,339     | 1,696,736     | 1,202,074    | 11.8 %            | 57.8 %       |
| Federal Home Loan Bank stock   | 31,955        | 19,196        | 10,334       | 66.5 %            | 209.2 %      |
| Loans held for sale  | 171,031       | 72,850        | 40,725       | 134.8 %           | 320.0 %      |
| Loans receivable   | 8,684,595     | 7,822,519     | 7,598,884    | 11.0 %            | 14.3 %       |
| Allowance for loan losses  | (96,485)      | (95,263)      | (89,028)     | 1.3 %             | 8.4 %        |
| Net loans receivable   | 8,588,110     | 7,727,256     | 7,509,856    | 11.1 %            | 14.4 %       |
| Accrued interest receivable  | 38,593        | 37,676        | 31,259       | 2.4 %             | 23.5 %       |
| Real estate owned held for sale, net                                   | 2,611         | 364           | 360          | 617.3 %           | 625.3 %      |
| Property and equipment, net  | 171,809       | 151,212       | 154,815      | 13.6 %            | 11.0 %       |
| Goodwill   | 330,874       | 242,659       | 242,659      | 36.4 %            | 36.4 %       |
| Other intangibles, net   | 32,924        | 18,499        | 22,655       | 78.0 %            | 45.3 %       |
| Bank-owned life insurance  | 177,467       | 163,265       | 162,668      | 8.7 %             | 9.1 %        |
| Other assets   | 149,128       | 135,929       | 124,604      | 9.7 %             | 19.7 %       |
| Total assets   | \$ 11,863,037 | \$ 10,514,303 | \$ 9,763,209 | 12.8 %            | 21.5 %       |
| <b>LIABILITIES</b>   |               |               |              |                   |              |
| Deposits:  |               |               |              |                   |              |
| Non-interest-bearing   | \$ 3,657,817  | \$ 3,469,294  | \$ 3,265,544 | 5.4 %             | 12.0 %       |
| Interest-bearing transaction and savings accounts                      | 4,498,966     | 4,035,856     | 3,950,950    | 11.5 %            | 13.9 %       |
| Interest-bearing certificates  | 1,320,265     | 1,180,674     | 966,937      | 11.8 %            | 36.5 %       |
| Total deposits   | 9,477,048     | 8,685,824     | 8,183,431    | 9.1 %             | 15.8 %       |
| Advances from Federal Home Loan Bank at fair value                     | 540,189       | 221,184       | 202          | 144.2 %           | nm           |
| Customer repurchase agreements and other borrowings                    | 118,995       | 98,979        | 95,860       | 20.2 %            | 24.1 %       |
| Junior subordinated debentures at fair value                           | 114,091       | 113,110       | 98,707       | 0.9 %             | 15.6 %       |
| Accrued expenses and other liabilities                                 | 102,061       | 82,530        | 71,344       | 23.7 %            | 43.1 %       |
| Deferred compensation  | 40,338        | 40,478        | 41,039       | (0.3)%            | (1.7)%       |
| Total liabilities  | 10,392,722    | 9,242,105     | 8,490,583    | 12.4 %            | 22.4 %       |
| <b>SHAREHOLDERS' EQUITY</b>  |               |               |              |                   |              |
| Common stock   | 1,329,156     | 1,175,250     | 1,187,127    | 13.1 %            | 12.0 %       |
| Retained earnings  | 134,055       | 109,942       | 90,535       | 21.9 %            | 48.1 %       |
| Other components of shareholders' equity                               | 7,104         | (12,994)      | (5,036)      | nm                | nm           |
| Total shareholders' equity   | 1,470,315     | 1,272,198     | 1,272,626    | 15.6 %            | 15.5 %       |
| Total liabilities and shareholders' equity                             | \$ 11,863,037 | \$ 10,514,303 | \$ 9,763,209 | 12.8 %            | 21.5 %       |
| <b>Common Shares Issued:</b>   |               |               |              |                   |              |
| Shares outstanding at end of period                                    | 35,182,772    | 32,402,757    | 32,726,485   |                   |              |
| Common shareholders' equity per share <sup>(1)</sup>                   | \$ 41.79      | \$ 39.26      | \$ 38.89     |                   |              |
| Common shareholders' tangible equity per share <sup>(1) (2)</sup>      | \$ 31.45      | \$ 31.20      | \$ 30.78     |                   |              |
| Common shareholders' tangible equity to tangible assets <sup>(2)</sup> | 9.62%         | 9.86%         | 10.61%       |                   |              |
| Consolidated Tier 1 leverage capital ratio                             | 10.98%        | 11.04%        | 11.33%       |                   |              |

(1) Calculation is based on number of common shares outstanding at the end of the period rather than weighted average shares outstanding.

(2) Common shareholders' tangible equity excludes goodwill and other intangible assets. Tangible assets exclude goodwill and other intangible assets. These ratios represent

non-GAAP financial measures. See also Non-GAAP Financial Measures reconciliation tables on the last two pages of the press release tables.

**ADDITIONAL FINANCIAL INFORMATION**

(dollars in thousands)

| <b>LOANS</b>  | <b>Percentage Change</b> |                     |                     |                  |                     |
|---|--------------------------|---------------------|---------------------|------------------|---------------------|
|   | <b>Dec 31, 2018</b>      | <b>Sep 30, 2018</b> | <b>Dec 31, 2017</b> | <b>Prior Qtr</b> | <b>Prior Yr Qtr</b> |
| Commercial real estate:   |                          |                     |                     |                  |                     |
| Owner occupied  | \$ 1,430,097             | \$ 1,271,363        | \$ 1,284,363        | 12.5%            | 11.3%               |
| Investment properties   | 2,131,059                | 1,943,793           | 1,937,423           | 9.6%             | 10.0%               |
| Multifamily real estate   | 368,836                  | 309,809             | 314,188             | 19.1%            | 17.4%               |
| Commercial construction   | 172,410                  | 154,071             | 148,435             | 11.9%            | 16.2%               |
| Multifamily construction  | 184,630                  | 172,433             | 154,662             | 7.1%             | 19.4%               |
| One- to four-family construction  | 534,678                  | 498,549             | 415,327             | 7.2%             | 28.7%               |
| Land and land development:  |                          |                     |                     |                  |                     |
| Residential   | 188,508                  | 171,610             | 164,516             | 9.8%             | 14.6%               |
| Commercial  | 27,278                   | 22,382              | 24,583              | 21.9%            | 11.0%               |
| Commercial business   | 1,483,614                | 1,358,149           | 1,279,894           | 9.2%             | 15.9%               |
| Agricultural business including secured by farmland                         | 404,873                  | 359,966             | 338,388             | 12.5%            | 19.6%               |
| One- to four-family real estate   | 973,616                  | 849,928             | 848,289             | 14.6%            | 14.8%               |
| Consumer:   |                          |                     |                     |                  |                     |
| Consumer secured by one- to four-family real estate                         | 568,979                  | 539,143             | 522,931             | 5.5%             | 8.8%                |
| Consumer-other  | 216,017                  | 171,323             | 165,885             | 26.1%            | 30.2%               |
| Total loans receivable  | <u>\$ 8,684,595</u>      | <u>\$ 7,822,519</u> | <u>\$ 7,598,884</u> | <u>11.0%</u>     | <u>14.3%</u>        |
| Restructured loans performing under their restructured terms                | <u>\$ 13,422</u>         | <u>\$ 13,328</u>    | <u>\$ 16,115</u>    |                  |                     |
| Loans 30 - 89 days past due and on accrual <sup>(1)</sup>                   | <u>\$ 25,108</u>         | <u>\$ 8,688</u>     | <u>\$ 29,278</u>    |                  |                     |
| Total delinquent loans (including loans on non-accrual), net <sup>(2)</sup> | <u>\$ 38,721</u>         | <u>\$ 21,191</u>    | <u>\$ 50,503</u>    |                  |                     |
| Total delinquent loans / Total loans receivable                             | 0.45%                    | 0.27%               | 0.66%               |                  |                     |

<sup>(1)</sup> Includes \$3,000 of purchased credit-impaired loans at December 31, 2018 compared to \$5,000 at September 30, 2018 and \$943,000 at December 31, 2017.

<sup>(2)</sup> Delinquent loans include \$519,000 of delinquent purchased credit-impaired loans at December 31, 2018 compared to \$568,000 at September 30, 2018 and \$2.2 million at December 31, 2017.

**LOANS BY GEOGRAPHIC LOCATION**

|                        | <b>Percentage Change</b> |                   |                     |                     |                  |                     |
|------------------------|--------------------------|-------------------|---------------------|---------------------|------------------|---------------------|
|                        | <b>Dec 31, 2018</b>      |                   | <b>Sep 30, 2018</b> | <b>Dec 31, 2017</b> | <b>Prior Qtr</b> | <b>Prior Yr Qtr</b> |
|                        | <b>Amount</b>            | <b>Percentage</b> | <b>Amount</b>       | <b>Amount</b>       |                  |                     |
| Washington             | \$ 4,324,588             | 49.8%             | \$ 3,640,209        | \$ 3,508,542        | 18.8 %           | 23.3 %              |
| Oregon                 | 1,636,152                | 18.8%             | 1,628,703           | 1,590,233           | 0.5 %            | 2.9 %               |
| California             | 1,596,604                | 18.4%             | 1,496,817           | 1,415,076           | 6.7 %            | 12.8 %              |
| Idaho                  | 521,026                  | 6.0%              | 504,297             | 492,603             | 3.3 %            | 5.8 %               |
| Utah                   | 57,318                   | 0.7%              | 63,053              | 73,382              | (9.1)%           | (21.9)%             |
| Other                  | 548,907                  | 6.3%              | 489,440             | 519,048             | 12.2 %           | 5.8 %               |
| Total loans receivable | <u>\$ 8,684,595</u>      | <u>100.0%</u>     | <u>\$ 7,822,519</u> | <u>\$ 7,598,884</u> | <u>11.0 %</u>    | <u>14.3 %</u>       |

**ADDITIONAL FINANCIAL INFORMATION**  
 (dollars in thousands)

The following table shows loan originations (excluding loans held for sale) activity for the three months ending December 31, 2018, September 30, 2018, and December 31, 2017 and for the twelve months ending December 31, 2018 and 2017 (in thousands):

|   | Three Months Ended |              |              | Twelve Months Ended |              |
|---|--------------------|--------------|--------------|---------------------|--------------|
|   | Dec 31, 2018       | Sep 30, 2018 | Dec 31, 2017 | Dec 31, 2018        | Dec 31, 2017 |
| Commercial real estate                                  | \$ 172,885         | \$ 142,393   | \$ 105,313   | \$ 536,784          | \$ 537,825   |
| Multifamily real estate                                 | 16,731             | 2,215        | 6,033        | 25,771              | 77,409       |
| Construction and land                                   | 397,702            | 370,484      | 303,414      | 1,460,536           | 1,216,227    |
| Commercial business                                     | 206,922            | 303,472      | 148,004      | 839,290             | 647,079      |
| Agricultural business                                   | 18,901             | 36,747       | 36,947       | 123,702             | 117,186      |
| One-to four-family residential                          | 81,522             | 51,459       | 69,541       | 177,332             | 249,558      |
| Consumer  | 72,500             | 74,339       | 64,104       | 331,661             | 344,407      |
| Total loan originations (excluding loans held for sale) | \$ 967,163         | \$ 981,109   | \$ 733,356   | \$ 3,495,076        | \$ 3,189,691 |

**ADDITIONAL FINANCIAL INFORMATION**

(dollars in thousands)

| CHANGE IN THE<br><u>ALLOWANCE FOR LOAN LOSSES</u>    | Quarters Ended |              |              | Twelve months ended |              |
|--|----------------|--------------|--------------|---------------------|--------------|
|  | Dec 31, 2018   | Sep 30, 2018 | Dec 31, 2017 | Dec 31, 2018        | Dec 31, 2017 |
| Balance, beginning of period                         | \$ 95,263      | \$ 93,875    | \$ 89,100    | \$ 89,028           | \$ 85,997    |
| Provision for loan losses                            | 2,500          | 2,000        | 2,000        | 8,500               | 8,000        |
| Recoveries of loans previously charged off:          |                |              |              |                     |              |
| Commercial real estate                               | 66             | 12           | 19           | 1,646               | 372          |
| Multifamily real estate                              | —              | —            | —            | —                   | 11           |
| Construction and land                                | 23             | 5            | 57           | 213                 | 1,237        |
| One- to four-family real estate                      | 18             | 86           | 8            | 750                 | 270          |
| Commercial business                                  | 193            | 586          | 305          | 1,049               | 1,226        |
| Agricultural business, including secured by farmland | 23             | —            | 1            | 64                  | 134          |
| Consumer   | 102            | 46           | 188          | 366                 | 481          |
|  | 425            | 735          | 578          | 4,088               | 3,731        |
| Loans charged off:                                   |                |              |              |                     |              |
| Commercial real estate                               | —              | (102)        | (549)        | (401)               | (1,180)      |
| Construction and land                                | —              | (479)        | —            | (479)               | —            |
| One- to four-family real estate                      | —              | (27)         | (38)         | (43)                | (38)         |
| Commercial business                                  | (684)          | (473)        | (517)        | (2,051)             | (3,803)      |
| Agricultural business, including secured by farmland | (415)          | (5)          | (1,110)      | (756)               | (2,374)      |
| Consumer   | (604)          | (261)        | (436)        | (1,401)             | (1,305)      |
|  | (1,703)        | (1,347)      | (2,650)      | (5,131)             | (8,700)      |
| Net charge-offs                                      | (1,278)        | (612)        | (2,072)      | (1,043)             | (4,969)      |
| Balance, end of period                               | \$ 96,485      | \$ 95,263    | \$ 89,028    | \$ 96,485           | \$ 89,028    |
| Net charge-offs / Average loans receivable           | (0.015)%       | (0.008)%     | (0.027)%     | (0.013)%            | (0.065)%     |

**ALLOCATION OF  
ALLOWANCE FOR LOAN LOSSES**

|  | Dec 31, 2018 | Sep 30, 2018 | Dec 31, 2017 |
|--|--------------|--------------|--------------|
| Specific or allocated loss allowance:                |              |              |              |
| Commercial real estate                               | \$ 27,132    | \$ 25,147    | \$ 22,824    |
| Multifamily real estate                              | 3,818        | 3,745        | 1,633        |
| Construction and land                                | 24,442       | 24,564       | 27,568       |
| One- to four-family real estate                      | 4,714        | 4,423        | 2,055        |
| Commercial business                                  | 19,438       | 17,948       | 18,311       |
| Agricultural business, including secured by farmland | 3,778        | 3,505        | 4,053        |
| Consumer   | 7,972        | 8,110        | 3,866        |
| Total allocated                                      | 91,294       | 87,442       | 80,310       |
| Unallocated  | 5,191        | 7,821        | 8,718        |
| Total allowance for loan losses                      | \$ 96,485    | \$ 95,263    | \$ 89,028    |
| Allowance for loan losses / Total loans receivable   | 1.11%        | 1.22%        | 1.17%        |
| Allowance for loan losses / Non-performing loans     | 616%         | 603%         | 329%         |



**ADDITIONAL FINANCIAL INFORMATION**

(dollars in thousands)

|   | <u>Dec 31, 2018</u> | <u>Sep 30, 2018</u> | <u>Dec 31, 2017</u> |
|---|---------------------|---------------------|---------------------|
| <b><u>NON-PERFORMING ASSETS</u></b>                   |                     |                     |                     |
| Loans on non-accrual status:                          |                     |                     |                     |
| Secured by real estate:                               |                     |                     |                     |
| Commercial  | \$ 4,088            | \$ 3,728            | \$ 10,646           |
| Construction and land                                 | 3,188               | 2,095               | 798                 |
| One- to four-family                                   | 1,544               | 1,827               | 3,264               |
| Commercial business                                   | 2,936               | 2,921               | 3,406               |
| Agricultural business, including secured by farmland  | 1,751               | 1,645               | 6,132               |
| Consumer  | 1,241               | 1,703               | 1,297               |
|   | <u>14,748</u>       | <u>13,919</u>       | <u>25,543</u>       |
| Loans more than 90 days delinquent, still on accrual: |                     |                     |                     |
| Secured by real estate:                               |                     |                     |                     |
| Commercial  | —                   | 428                 | —                   |
| Construction and land                                 | —                   | —                   | 298                 |
| One- to four-family                                   | 658                 | 1,076               | 1,085               |
| Commercial business                                   | 1                   | 87                  | 18                  |
| Consumer  | 247                 | 296                 | 85                  |
|   | <u>906</u>          | <u>1,887</u>        | <u>1,486</u>        |
| Total non-performing loans                            | 15,654              | 15,806              | 27,029              |
| Real estate owned (REO)                               | 2,611               | 364                 | 360                 |
| Other repossessed assets                              | 592                 | 573                 | 107                 |
| Total non-performing assets                           | <u>\$ 18,857</u>    | <u>\$ 16,743</u>    | <u>\$ 27,496</u>    |
| Total non-performing assets to total assets           | <u>0.16%</u>        | <u>0.16%</u>        | <u>0.28%</u>        |
| Purchased credit-impaired loans, net                  | <u>\$ 14,413</u>    | <u>\$ 12,944</u>    | <u>\$ 21,310</u>    |

|                                     | <u>Quarters Ended</u> |                     |                     | <u>Twelve months ended</u> |                     |
|-------------------------------------|-----------------------|---------------------|---------------------|----------------------------|---------------------|
|                                     | <u>Dec 31, 2018</u>   | <u>Sep 30, 2018</u> | <u>Dec 31, 2017</u> | <u>Dec 31, 2018</u>        | <u>Dec 31, 2017</u> |
| <b><u>REAL ESTATE OWNED</u></b>     |                       |                     |                     |                            |                     |
| Balance, beginning of period        | \$ 364                | \$ 473              | \$ 1,496            | \$ 360                     | \$ 11,081           |
| Additions from loan foreclosures    | 139                   | —                   | —                   | 641                        | 46                  |
| Additions from acquisitions         | 2,593                 | —                   | —                   | 2,593                      | —                   |
| Additions from capitalized costs    | —                     | —                   | —                   | —                          | 54                  |
| Proceeds from dispositions of REO   | (453)                 | (90)                | (2,092)             | (838)                      | (13,474)            |
| Gain on sale of REO                 | 168                   | 8                   | 956                 | 242                        | 2,909               |
| Valuation adjustments in the period | (200)                 | (27)                | —                   | (387)                      | (256)               |
| Balance, end of period              | <u>\$ 2,611</u>       | <u>\$ 364</u>       | <u>\$ 360</u>       | <u>\$ 2,611</u>            | <u>\$ 360</u>       |

**ADDITIONAL FINANCIAL INFORMATION**

(dollars in thousands)

**DEPOSIT COMPOSITION**

|   | Dec 31, 2018 | Sep 30, 2018 | Dec 31, 2017 | Percentage Change |              |
|---|--------------|--------------|--------------|-------------------|--------------|
|   |              |              |              | Prior Qtr         | Prior Yr Qtr |
| Non-interest-bearing                                    | \$ 3,657,817 | \$ 3,469,294 | \$ 3,265,544 | 5.4%              | 12.0%        |
| Interest-bearing checking                               | 1,191,016    | 1,034,678    | 971,137      | 15.1%             | 22.6%        |
| Regular savings accounts                                | 1,842,581    | 1,627,560    | 1,557,500    | 13.2%             | 18.3%        |
| Money market accounts                                   | 1,465,369    | 1,373,618    | 1,422,313    | 6.7%              | 3.0%         |
| Total interest-bearing transaction and savings accounts | 4,498,966    | 4,035,856    | 3,950,950    | 11.5%             | 13.9%        |
| Total core deposits                                     | 8,156,783    | 7,505,150    | 7,216,494    | 8.7%              | 13.0%        |
| Interest-bearing certificates                           | 1,320,265    | 1,180,674    | 966,937      | 11.8%             | 36.5%        |
| Total deposits  | \$ 9,477,048 | \$ 8,685,824 | \$ 8,183,431 | 9.1%              | 15.8%        |

**GEOGRAPHIC CONCENTRATION OF DEPOSITS**

|                | Dec 31, 2018 |              | Sep 30, 2018 | Dec 31, 2017 | Percentage Change |              |
|----------------|--------------|--------------|--------------|--------------|-------------------|--------------|
|                | Amount       | Percentage   | Amount       | Amount       | Prior Qtr         | Prior Yr Qtr |
|                | Washington   | \$ 5,674,328 | 59.9%        | \$ 4,849,807 | \$ 4,506,249      | 17.0 %       |
| Oregon         | 1,891,145    | 20.0%        | 1,916,183    | 1,797,147    | (1.3)%            | 5.2%         |
| California     | 1,434,033    | 15.1%        | 1,462,417    | 1,432,819    | (1.9)%            | 0.1%         |
| Idaho          | 477,542      | 5.0%         | 457,417      | 447,216      | 4.4 %             | 6.8%         |
| Total deposits | \$ 9,477,048 | 100.0%       | \$ 8,685,824 | \$ 8,183,431 | 9.1 %             | 15.8%        |

**INCLUDED IN TOTAL DEPOSITS**

|  | Dec 31, 2018 | Sep 30, 2018 | Dec 31, 2017 |
|--|--------------|--------------|--------------|
| Public non-interest-bearing accounts                   | \$ 96,009    | \$ 76,957    | \$ 86,987    |
| Public interest-bearing transaction & savings accounts | 121,392      | 110,802      | 111,732      |
| Public interest-bearing certificates                   | 30,089       | 25,367       | 23,685       |
| Total public deposits                                  | \$ 247,490   | \$ 213,126   | \$ 222,404   |
| Total brokered deposits                                | \$ 377,347   | \$ 325,154   | \$ 40,748    |

**ADDITIONAL FINANCIAL INFORMATION**

(in thousands)

**ACQUISITION OF SKAGIT BANCORP, INC.**

The following table provides the estimated fair value of the assets acquired and liabilities assumed in the Skagit acquisition at November 1, 2018 (in thousands):

|                                    | <u>November 1, 2018</u> |
|------------------------------------|-------------------------|
| Cash paid                          | 329                     |
| Fair value of common shares issued | 171,429                 |
| Total consideration                | <u>171,758</u>          |
| <br>                               |                         |
| Fair value of assets acquired:     |                         |
| Cash and cash equivalents          | 19,167                  |
| Securities                         | 210,326                 |
| Loans receivable                   | 632,374                 |
| Real estate owned held for sale    | 2,594                   |
| Property and equipment             | 15,788                  |
| Core deposit intangible            | 16,368                  |
| Deferred tax asset                 | 95                      |
| Other assets                       | 19,109                  |
| Total assets acquired              | <u>915,821</u>          |
| <br>                               |                         |
| Fair value of liabilities assumed: |                         |
| Deposits                           | 810,209                 |
| Other liabilities                  | 22,070                  |
| Total liabilities assumed          | <u>832,279</u>          |
| <br>                               |                         |
| Net assets acquired                | <u>83,542</u>           |
| <br>                               |                         |
| Goodwill                           | <u>\$ 88,216</u>        |

\* Amounts recorded in this table are preliminary estimates of fair value. Additional adjustments to the acquisition accounting may be required with a measurement period of one-year from the acquisition date.

**ADDITIONAL FINANCIAL INFORMATION**

(dollars in thousands)

| <b>REGULATORY CAPITAL RATIOS AS OF DECEMBER 31, 2018</b> | <b>Actual</b> |              | <b>Minimum to be categorized as<br/>"Adequately Capitalized"</b> |              | <b>Minimum to be<br/>categorized as<br/>"Well Capitalized"</b> |              |
|--|---------------|--------------|--|--------------|--|--------------|
|  | <b>Amount</b> | <b>Ratio</b> | <b>Amount</b>  | <b>Ratio</b> | <b>Amount</b>  | <b>Ratio</b> |
| <b>Banner Corporation-consolidated:</b>                  |               |              |  |              |  |              |
| Total capital to risk-weighted assets                    | \$ 1,302,239  | 13.12%       | \$ 794,072   | 8.00%        | \$ 992,590   | 10.00%       |
| Tier 1 capital to risk-weighted assets                   | 1,203,155     | 12.12%       | 595,554  | 6.00%        | 595,554  | 6.00%        |
| Tier 1 leverage capital to average assets                | 1,203,155     | 10.98%       | 438,379  | 4.00%        | n/a  | n/a          |
| Common equity tier 1 capital to risk-weighted assets     | 1,067,155     | 10.75%       | 446,665  | 4.50%        | n/a  | n/a          |
| <b>Banner Bank:</b>                                      |               |              |  |              |  |              |
| Total capital to risk-weighted assets                    | 1,217,173     | 12.50%       | 778,766  | 8.00%        | 973,457  | 10.00%       |
| Tier 1 capital to risk-weighted assets                   | 1,120,523     | 11.51%       | 584,074  | 6.00%        | 778,766  | 8.00%        |
| Tier 1 leverage capital to average assets                | 1,120,523     | 10.50%       | 426,799  | 4.00%        | 533,498  | 5.00%        |
| Common equity tier 1 capital to risk-weighted assets     | 1,120,523     | 11.51%       | 438,056  | 4.50%        | 632,747  | 6.50%        |
| <b>Islanders Bank:</b>                                   |               |              |  |              |  |              |
| Total capital to risk-weighted assets                    | 34,567        | 18.26%       | 15,142   | 8.00%        | 18,928   | 10.00%       |
| Tier 1 capital to risk-weighted assets                   | 32,200        | 17.01%       | 11,357   | 6.00%        | 15,142   | 8.00%        |
| Tier 1 leverage capital to average assets                | 32,200        | 11.16%       | 11,543   | 4.00%        | 14,428   | 5.00%        |
| Common equity tier 1 capital to risk-weighted assets     | 32,200        | 17.01%       | 8,518  | 4.50%        | 12,303   | 6.50%        |

**ADDITIONAL FINANCIAL INFORMATION**

(dollars in thousands)

(rates / ratios annualized)

**ANALYSIS OF NET INTEREST SPREAD**

|  | Quarters Ended       |                        |                             |                      |                        |                             |                      |                        |                             |
|--|----------------------|------------------------|-----------------------------|----------------------|------------------------|-----------------------------|----------------------|------------------------|-----------------------------|
|  | December 31, 2018    |                        |                             | September 30, 2018   |                        |                             | December 31, 2017    |                        |                             |
|  | Average Balance      | Interest and Dividends | Yield / Cost <sup>(3)</sup> | Average Balance      | Interest and Dividends | Yield / Cost <sup>(3)</sup> | Average Balance      | Interest and Dividends | Yield / Cost <sup>(3)</sup> |
| <b>Interest-earning assets:</b>                                      |                      |                        |                             |                      |                        |                             |                      |                        |                             |
| Held for sale loans  | \$ 83,741            | \$ 1,056               | 5.00%                       | \$ 72,249            | \$ 895                 | 4.91%                       | \$ 75,359            | \$ 822                 | 4.33 %                      |
| Mortgage loans   | 6,573,278            | 88,560                 | 5.35%                       | 6,117,299            | 81,130                 | 5.26%                       | 5,989,291            | 72,527                 | 4.80 %                      |
| Commercial/agricultural loans  | 1,631,133            | 22,257                 | 5.41%                       | 1,511,077            | 20,545                 | 5.39%                       | 1,454,639            | 17,549                 | 4.79 %                      |
| Consumer and other loans   | 172,934              | 2,754                  | 6.32%                       | 141,503              | 2,298                  | 6.44%                       | 144,412              | 2,247                  | 6.17 %                      |
| Total loans <sup>(1)</sup>   | 8,461,086            | 114,627                | 5.37%                       | 7,842,128            | 104,868                | 5.31%                       | 7,663,701            | 93,145                 | 4.82 %                      |
| Mortgage-backed securities   | 1,400,508            | 9,931                  | 2.81%                       | 1,266,862            | 8,915                  | 2.79%                       | 1,131,692            | 7,006                  | 2.46 %                      |
| Other securities   | 474,659              | 3,633                  | 3.04%                       | 462,048              | 3,279                  | 2.82%                       | 459,065              | 3,028                  | 2.62 %                      |
| Interest-bearing deposits with banks                                 | 54,577               | 305                    | 2.22%                       | 65,191               | 332                    | 2.02%                       | 60,109               | 191                    | 1.26 %                      |
| FHLB stock   | 22,791               | 245                    | 4.26%                       | 20,345               | 254                    | 4.95%                       | 18,496               | 105                    | 2.25 %                      |
| Total investment securities  | 1,952,535            | 14,114                 | 2.87%                       | 1,814,446            | 12,780                 | 2.79%                       | 1,669,362            | 10,330                 | 2.46 %                      |
| Total interest-earning assets  | 10,413,621           | 128,741                | 4.90%                       | 9,656,574            | 117,648                | 4.83%                       | 9,333,063            | 103,475                | 4.40 %                      |
| <b>Non-interest-earning assets</b>                                   | <b>903,165</b>       |                        |                             | <b>799,083</b>       |                        |                             | <b>861,232</b>       |                        |                             |
| Total assets   | <b>\$ 11,316,786</b> |                        |                             | <b>\$ 10,455,657</b> |                        |                             | <b>\$ 10,194,295</b> |                        |                             |
| <b>Deposits:</b>   |                      |                        |                             |                      |                        |                             |                      |                        |                             |
| Interest-bearing checking accounts                                   | \$ 1,131,030         | 403                    | 0.14%                       | \$ 1,006,010         | 270                    | 0.11%                       | \$ 964,306           | 222                    | 0.09 %                      |
| Savings accounts   | 1,779,288            | 1,505                  | 0.34%                       | 1,631,158            | 1,002                  | 0.24%                       | 1,567,845            | 550                    | 0.14 %                      |
| Money market accounts  | 1,440,889            | 1,638                  | 0.45%                       | 1,381,943            | 1,011                  | 0.29%                       | 1,471,875            | 645                    | 0.17 %                      |
| Certificates of deposit  | 1,287,114            | 3,957                  | 1.22%                       | 1,153,403            | 3,234                  | 1.11%                       | 1,024,069            | 1,694                  | 0.66 %                      |
| Total interest-bearing deposits                                      | 5,638,321            | 7,503                  | 0.53%                       | 5,172,514            | 5,517                  | 0.42%                       | 5,028,095            | 3,111                  | 0.25 %                      |
| Non-interest-bearing deposits  | 3,608,930            | —                      | —%                          | 3,424,587            | —                      | —%                          | 3,325,452            | —                      | —%                          |
| Total deposits   | 9,247,251            | 7,503                  | 0.32%                       | 8,597,101            | 5,517                  | 0.25%                       | 8,353,547            | 3,111                  | 0.15 %                      |
| <b>Other interest-bearing liabilities:</b>                           |                      |                        |                             |                      |                        |                             |                      |                        |                             |
| FHLB advances  | 311,046              | 2,072                  | 2.64%                       | 249,896              | 1,388                  | 2.20%                       | 204,502              | 766                    | 1.49 %                      |
| Other borrowings   | 117,724              | 66                     | 0.22%                       | 110,868              | 60                     | 0.21%                       | 106,678              | 77                     | 0.29 %                      |
| Junior subordinated debentures                                       | 140,212              | 1,641                  | 4.64%                       | 140,212              | 1,605                  | 4.54%                       | 140,212              | 1,257                  | 3.56 %                      |
| Total borrowings   | 568,982              | 3,779                  | 2.64%                       | 500,976              | 3,053                  | 2.42%                       | 451,392              | 2,100                  | 1.85 %                      |
| Total funding liabilities  | 9,816,233            | 11,282                 | 0.46%                       | 9,098,077            | 8,570                  | 0.37%                       | 8,804,939            | 5,211                  | 0.23 %                      |
| Other non-interest-bearing liabilities <sup>(2)</sup>                | 92,003               |                        |                             | 85,485               |                        |                             | 63,654               |                        |                             |
| Total liabilities  | 9,908,236            |                        |                             | 9,183,562            |                        |                             | 8,868,593            |                        |                             |
| Shareholders' equity   | 1,408,550            |                        |                             | 1,272,095            |                        |                             | 1,325,702            |                        |                             |
| Total liabilities and shareholders' equity                           | <b>\$ 11,316,786</b> |                        |                             | <b>\$ 10,455,657</b> |                        |                             | <b>\$ 10,194,295</b> |                        |                             |
| Net interest income/rate spread                                      |                      | <u>\$ 117,459</u>      | 4.44%                       |                      | <u>\$ 109,078</u>      | 4.46%                       |                      | <u>\$ 98,264</u>       | 4.17 %                      |
| Net interest margin  |                      |                        | 4.47%                       |                      |                        | 4.48%                       |                      |                        | 4.18 %                      |
| <b>Additional Key Financial Ratios:</b>                              |                      |                        |                             |                      |                        |                             |                      |                        |                             |
| Return on average assets   |                      |                        | 1.32%                       |                      |                        | 1.43%                       |                      |                        | (0.53)%                     |
| Return on average equity   |                      |                        | 10.57%                      |                      |                        | 11.78%                      |                      |                        | (4.05)%                     |
| Average equity/average assets  |                      |                        | 12.45%                      |                      |                        | 12.17%                      |                      |                        | 13.00 %                     |
| Average interest-earning assets/average interest-bearing liabilities |                      |                        | 167.76%                     |                      |                        | 170.21%                     |                      |                        | 170.33 %                    |
| Average interest-earning assets/average funding liabilities          |                      |                        | 106.09%                     |                      |                        | 106.14%                     |                      |                        | 106.00 %                    |
| Non-interest income/average assets                                   |                      |                        | 0.74%                       |                      |                        | 0.77%                       |                      |                        | 1.08 %                      |
| Non-interest expense/average assets                                  |                      |                        | 3.34%                       |                      |                        | 3.10%                       |                      |                        | 3.21 %                      |
| Efficiency ratio <sup>(4)</sup>                                      |                      |                        | 68.89%                      |                      |                        | 63.04%                      |                      |                        | 65.51 %                     |
| Adjusted efficiency ratio <sup>(5)</sup>                             |                      |                        | 63.06%                      |                      |                        | 60.21%                      |                      |                        | 69.40 %                     |

- (1) Average balances include loans accounted for on a nonaccrual basis and loans 90 days or more past due. Amortization of net deferred loan fees/costs is included with interest on loans.
- (2) Average other non-interest-bearing liabilities include fair value adjustments related to FHLB advances and junior subordinated debentures.
- (3) Yields and costs have not been adjusted for the effect of tax-exempt interest.
- (4) Non-interest expense divided by the total of net interest income (before provision for loan losses) and non-interest income.
- (5) Adjusted non-interest expense divided by adjusted revenue. Adjusted revenue excludes net gain (loss) on sale of securities and fair value adjustments. Adjusted non-interest expense excludes amortization of core deposit intangibles (CDI), REO gain (loss), and state/municipal business and use taxes. These represent non-GAAP financial measures. See also Non-GAAP Financial Measures reconciliation tables on the last two pages of this press release.

**ADDITIONAL FINANCIAL INFORMATION**

(dollars in thousands)

(rates / ratios annualized)

**ANALYSIS OF NET INTEREST SPREAD**

|  | <b>Twelve months ended</b> |                        |                           |                          |                        |                           |
|--|----------------------------|------------------------|---------------------------|--------------------------|------------------------|---------------------------|
|  | <b>December 31, 2018</b>   |                        |                           | <b>December 31, 2017</b> |                        |                           |
|  | Average Balance            | Interest and Dividends | Yield/Cost <sup>(3)</sup> | Average Balance          | Interest and Dividends | Yield/Cost <sup>(3)</sup> |
| <b>Interest-earning assets:</b>                                      |                            |                        |                           |                          |                        |                           |
| Held for sale loans  | \$ 81,873                  | \$ 3,926               | 4.80%                     | \$ 128,480               | \$ 5,245               | 4.08%                     |
| Mortgage loans   | 6,188,279                  | 320,264                | 5.18%                     | 5,932,300                | 290,132                | 4.89%                     |
| Commercial/agricultural loans  | 1,519,871                  | 79,605                 | 5.24%                     | 1,485,985                | 70,266                 | 4.73%                     |
| Consumer and other loans   | 149,184                    | 9,575                  | 6.42%                     | 140,500                  | 8,806                  | 6.27%                     |
| Total loans <sup>(1)</sup>   | <u>7,939,207</u>           | <u>413,370</u>         | 5.21%                     | <u>7,687,265</u>         | <u>374,449</u>         | 4.87%                     |
| Mortgage-backed securities   | 1,247,758                  | 35,076                 | 2.81%                     | 1,043,599                | 24,535                 | 2.35%                     |
| Other securities   | 468,416                    | 13,332                 | 2.85%                     | 464,680                  | 12,448                 | 2.68%                     |
| Interest-bearing deposits with banks                                 | 59,031                     | 1,080                  | 1.83%                     | 49,573                   | 583                    | 1.18%                     |
| FHLB stock   | 20,496                     | 774                    | 3.78%                     | 16,379                   | 269                    | 1.64%                     |
| Total investment securities  | <u>1,795,701</u>           | <u>50,262</u>          | 2.80%                     | <u>1,574,231</u>         | <u>37,835</u>          | 2.40%                     |
| Total interest-earning assets  | <u>9,734,908</u>           | <u>463,632</u>         | 4.76%                     | <u>9,261,496</u>         | <u>412,284</u>         | 4.45%                     |
| <b>Non-interest-earning assets</b>                                   |                            |                        |                           |                          |                        |                           |
| Total assets   | <u>\$ 10,563,092</u>       |                        |                           | <u>\$ 10,153,548</u>     |                        |                           |
| <b>Deposits:</b>   |                            |                        |                           |                          |                        |                           |
| Interest-bearing checking accounts                                   | \$ 1,048,327               | 1,200                  | 0.11%                     | \$ 933,978               | 850                    | 0.09%                     |
| Savings accounts   | 1,665,608                  | 3,944                  | 0.24%                     | 1,559,042                | 2,138                  | 0.14%                     |
| Money market accounts  | 1,421,161                  | 4,107                  | 0.29%                     | 1,515,854                | 2,638                  | 0.17%                     |
| Certificates of deposit  | 1,127,612                  | 11,391                 | 1.01%                     | 1,116,304                | 6,647                  | 0.60%                     |
| Total interest-bearing deposits                                      | <u>5,262,708</u>           | <u>20,642</u>          | 0.39%                     | <u>5,125,178</u>         | <u>12,273</u>          | 0.24%                     |
| Non-interest-bearing deposits  | 3,411,010                  | —                      | —%                        | 3,233,889                | —                      | —%                        |
| Total deposits   | <u>8,673,718</u>           | <u>20,642</u>          | 0.24%                     | <u>8,359,067</u>         | <u>12,273</u>          | 0.15%                     |
| <b>Other interest-bearing liabilities:</b>                           |                            |                        |                           |                          |                        |                           |
| FHLB advances  | 253,661                    | 5,636                  | 2.22%                     | 151,295                  | 1,908                  | 1.26%                     |
| Other borrowings   | 108,730                    | 245                    | 0.23%                     | 111,903                  | 317                    | 0.28%                     |
| Junior subordinated debentures                                       | 140,212                    | 6,136                  | 4.38%                     | 140,212                  | 4,752                  | 3.39%                     |
| Total borrowings   | <u>502,603</u>             | <u>12,017</u>          | 2.39%                     | <u>403,410</u>           | <u>6,977</u>           | 1.73%                     |
| Total funding liabilities  | <u>9,176,321</u>           | <u>32,659</u>          | 0.36%                     | <u>8,762,477</u>         | <u>19,250</u>          | 0.22%                     |
| <b>Other non-interest-bearing liabilities<sup>(2)</sup></b>          |                            |                        |                           |                          |                        |                           |
| Total liabilities  | <u>9,256,222</u>           |                        |                           | <u>8,824,069</u>         |                        |                           |
| <b>Shareholders' equity</b>  |                            |                        |                           |                          |                        |                           |
| Total liabilities and shareholders' equity                           | <u>\$ 10,563,092</u>       |                        |                           | <u>\$ 10,153,548</u>     |                        |                           |
| Net interest income/rate spread                                      |                            | <u>\$ 430,973</u>      | 4.40%                     |                          | <u>\$ 393,034</u>      | 4.23%                     |
| Net interest margin  |                            |                        | 4.43%                     |                          |                        | 4.24%                     |
| <b>Additional Key Financial Ratios:</b>                              |                            |                        |                           |                          |                        |                           |
| Return on average assets   |                            |                        | 1.29%                     |                          |                        | 0.60%                     |
| Return on average equity   |                            |                        | 10.45%                    |                          |                        | 4.57%                     |
| Average equity/average assets  |                            |                        | 12.37%                    |                          |                        | 13.09%                    |
| Average interest-earning assets/average interest-bearing liabilities |                            |                        | 168.85%                   |                          |                        | 167.52%                   |
| Average interest-earning assets/average funding liabilities          |                            |                        | 106.09%                   |                          |                        | 105.69%                   |
| Non-interest income/average assets                                   |                            |                        | 0.80%                     |                          |                        | 0.84%                     |
| Non-interest expense/average assets                                  |                            |                        | 3.23%                     |                          |                        | 3.14%                     |
| Efficiency ratio <sup>(4)</sup>                                      |                            |                        | 66.29%                    |                          |                        | 66.70%                    |
| Adjusted efficiency ratio <sup>(5)</sup>                             |                            |                        | 63.59%                    |                          |                        | 66.28%                    |

- (1) Average balances include loans accounted for on a nonaccrual basis and loans 90 days or more past due. Amortization of net deferred loan fees/costs is included with interest on loans.
- (2) Average other non-interest-bearing liabilities include fair value adjustments related to FHLB advances and junior subordinated debentures.
- (3) Yields and costs have not been adjusted for the effect of tax-exempt interest.
- (4) Non-interest expense divided by the total of net interest income (before provision for loan losses) and non-interest income.
- (5) Adjusted non-interest expense divided by adjusted revenue. Adjusted revenue excludes net gain (loss) on sale of securities and fair value adjustments. Adjusted non-interest expense excludes acquisition related costs, amortization of CDI, real estate operations expense, and state/municipal business and use taxes. These represent non-GAAP financial measures. See also Non-GAAP Financial Measures reconciliation tables on the last two pages of this press release.



**ADDITIONAL FINANCIAL INFORMATION**

(dollars in thousands)

**\* Non-GAAP Financial Measures**

*In addition to results presented in accordance with generally accepted accounting principles in the United States of America (GAAP), this press release contains certain non-GAAP financial measures. Management has presented these non-GAAP financial measures in this earnings release because it believes that they provide useful and comparative information to assess trends in Banner's core operations reflected in the current quarter's results and facilitate the comparison of our performance with the performance of our peers. However, these non-GAAP financial measures are supplemental and are not a substitute for any analysis based on GAAP. Where applicable, comparable earnings information using GAAP financial measures is also presented. Because not all companies use the same calculations, our presentation may not be comparable to other similarly titled measures as calculated by other companies. For a reconciliation of these non-GAAP financial measures, see the tables below:*

**REVENUE FROM CORE OPERATIONS**

|  | Quarters Ended |              |              | Twelve months ended |              |
|--|----------------|--------------|--------------|---------------------|--------------|
|  | Dec 31, 2018   | Sep 30, 2018 | Dec 31, 2017 | Dec 31, 2018        | Dec 31, 2017 |
| Net interest income before provision for loan losses                       | \$ 117,459     | \$ 109,078   | \$ 98,264    | \$ 430,973          | \$ 393,034   |
| Total non-interest income  | 21,018         | 20,411       | 27,674       | 84,008              | 85,200       |
| Total GAAP revenue   | 138,477        | 129,489      | 125,938      | 514,981             | 478,234      |
| Exclude net loss on sale of securities                                     | 885            | —            | 2,310        | 837                 | 2,080        |
| Exclude change in valuation of financial instruments carried at fair value | (198)          | (45)         | 1,013        | (3,775)             | 2,844        |
| Exclude gain on sale of branches   | —              | —            | (12,189)     | —                   | (12,189)     |
| Revenue from core operations (non-GAAP)                                    | \$ 139,164     | \$ 129,444   | \$ 117,072   | \$ 512,043          | \$ 470,969   |

**EARNINGS FROM CORE OPERATIONS**

|  | Quarters Ended |              |              | Twelve months ended |              |
|--|----------------|--------------|--------------|---------------------|--------------|
|  | Dec 31, 2018   | Sep 30, 2018 | Dec 31, 2017 | Dec 31, 2018        | Dec 31, 2017 |
| Net income (GAAP)  | \$ 37,528      | \$ 37,773    | \$ (13,548)  | \$ 136,515          | \$ 60,776    |
| Exclude net loss on sale of securities                                     | 885            | —            | 2,310        | 837                 | 2,080        |
| Exclude change in valuation of financial instruments carried at fair value | (198)          | (45)         | 1,013        | (3,775)             | 2,844        |
| Exclude acquisition-related costs  | 4,602          | 1,005        | —            | 5,607               | —            |
| Exclude gain on sale of branches   | —              | —            | (12,189)     | —                   | (12,189)     |
| Exclude related tax (benefit) expense                                      | (1,159)        | (126)        | 3,192        | (426)               | 2,615        |
| Exclude tax adjustments related to tax reform and valuation reserves       | (4,207)        | —            | 42,630       | (4,207)             | 42,630       |
| Total earnings from core operations (non-GAAP)                             | \$ 37,451      | \$ 38,607    | \$ 23,408    | \$ 134,551          | \$ 98,756    |
| Diluted earnings (loss) per share (GAAP)                                   | \$ 1.09        | \$ 1.17      | \$ (0.41)    | \$ 4.15             | \$ 1.84      |
| Diluted core earnings per share (non-GAAP)                                 | \$ 1.09        | \$ 1.19      | \$ 0.71      | \$ 4.09             | \$ 2.99      |

**ADDITIONAL FINANCIAL INFORMATION**

(dollars in thousands)

**ADJUSTED EFFICIENCY RATIO**

|  | Quarters Ended    |                   |                   | Twelve months ended |                   |
|--|-------------------|-------------------|-------------------|---------------------|-------------------|
|  | Dec 31, 2018      | Sep 30, 2018      | Dec 31, 2017      | Dec 31, 2018        | Dec 31, 2017      |
| Non-interest expense (GAAP)  | \$ 95,396         | \$ 81,632         | \$ 82,501         | \$ 341,371          | \$ 318,970        |
| Exclude acquisition-related costs  | (4,602)           | (1,005)           | —                 | (5,607)             | —                 |
| Exclude CDI amortization   | (1,935)           | (1,348)           | (1,457)           | (6,047)             | (6,246)           |
| Exclude state/municipal tax expense  | (854)             | (902)             | (737)             | (3,284)             | (2,594)           |
| Exclude REO (loss) gain  | (251)             | (433)             | 941               | (804)               | 2,030             |
| Adjusted non-interest expense (non-GAAP)                                       | <u>\$ 87,754</u>  | <u>\$ 77,944</u>  | <u>\$ 81,248</u>  | <u>\$ 325,629</u>   | <u>\$ 312,160</u> |
| Net interest income before provision for loan losses (GAAP)                    | \$ 117,459        | \$ 109,078        | \$ 98,264         | \$ 430,973          | \$ 393,034        |
| Non-interest income (GAAP)   | 21,018            | 20,411            | 27,674            | 84,008              | 85,200            |
| Total revenue  | 138,477           | 129,489           | 125,938           | 514,981             | 478,234           |
| Exclude net loss on sale of securities   | 885               | —                 | 2,310             | 837                 | 2,080             |
| Exclude net change in valuation of financial instruments carried at fair value | (198)             | (45)              | 1,013             | (3,775)             | 2,844             |
| Exclude gain on sale of branches   | —                 | —                 | (12,189)          | —                   | (12,189)          |
| Adjusted revenue (non-GAAP)  | <u>\$ 139,164</u> | <u>\$ 129,444</u> | <u>\$ 117,072</u> | <u>\$ 512,043</u>   | <u>\$ 470,969</u> |
| Efficiency ratio (GAAP)  | 68.89%            | 63.04%            | 65.51%            | 66.29%              | 66.70%            |
| Adjusted efficiency ratio (non-GAAP)   | 63.06%            | 60.21%            | 69.40%            | 63.59%              | 66.28%            |

**TANGIBLE COMMON SHAREHOLDERS' EQUITY TO TANGIBLE ASSETS**

|  | Dec 31, 2018         | Sep 30, 2018         | Dec 31, 2017        |
|--|----------------------|----------------------|---------------------|
| Shareholders' equity (GAAP)  | \$ 1,470,315         | \$ 1,272,198         | \$ 1,272,626        |
| Exclude goodwill and other intangible assets, net                  | 363,798              | 261,158              | 265,314             |
| Tangible common shareholders' equity (non-GAAP)                    | <u>\$ 1,106,517</u>  | <u>\$ 1,011,040</u>  | <u>\$ 1,007,312</u> |
| Total assets (GAAP)  | \$ 11,863,037        | \$ 10,514,303        | \$ 9,763,209        |
| Exclude goodwill and other intangible assets, net                  | 363,798              | 261,158              | 265,314             |
| Total tangible assets (non-GAAP)                                   | <u>\$ 11,499,239</u> | <u>\$ 10,253,145</u> | <u>\$ 9,497,895</u> |
| Common shareholders' equity to total assets (GAAP)                 | 12.39%               | 12.10%               | 13.03%              |
| Tangible common shareholders' equity to tangible assets (non-GAAP) | 9.62%                | 9.86%                | 10.61%              |

**TANGIBLE COMMON SHAREHOLDERS' EQUITY PER SHARE**

|   |              |              |              |
|---|--------------|--------------|--------------|
| Tangible common shareholders' equity  | \$ 1,106,517 | \$ 1,011,040 | \$ 1,007,312 |
| Common shares outstanding at end of period                                      | 35,182,772   | 32,402,757   | 32,726,485   |
| Common shareholders' equity (book value) per share (GAAP)                       | \$ 41.79     | \$ 39.26     | \$ 38.89     |
| Tangible common shareholders' equity (tangible book value) per share (non-GAAP) | \$ 31.45     | \$ 31.20     | \$ 30.78     |

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