



## BANNER CORPORATION 2013 ANNUAL REPORT



Fellow Shareholders,

Slowly but surely, the economic landscape has improved over the past several years. Even with this incremental progress, banks are still faced with the challenges of a persistently slow growth economy, exceptionally low interest rates, fierce competition and a complex and shifting regulatory framework. In spite of these conditions, it's gratifying to report that Banner has maintained its strong earnings momentum and has achieved one of its long-held objectives, a moderate risk profile.

For the year ended December 31, 2013, Banner Corporation reported a net profit available to common shareholders of \$46.6 million or \$2.40 per share, compared to \$59.1 million or \$3.16 per share in 2012. Banner's results for 2012 were significantly augmented by a \$24.8 million net tax benefit as a result of the reversal of our deferred tax asset valuation allowance, which was partially offset by a \$16.5 million net loss for fair value adjustments. Looking at earnings before tax, preferred stock dividends and discount accretion, Banner's net income in 2013 improved to \$69.1 million or \$3.56 per share compared to \$40.1 million or \$2.14 per share in the prior year.

Though impacted by a significant slowdown in mortgage banking refinance activity, revenues from core operations were strong at \$208.0 million in 2013 compared to \$211.4 million in 2012. We have improved our ability to consistently generate revenue through:

- Exceptional client acquisition and new account growth;
- Outstanding loan growth, especially in the latter part of the year;
- A strong net interest margin aided by growth in non-interest-bearing deposits and further reductions in non-performing assets;
- Strong mortgage banking revenue, in spite of the slowdown cited above;
- Increases in deposit fees and other services based revenues; and
- Ongoing improvements in asset quality.

Bear in mind that these results come almost entirely through organic growth, from the same 88 or so branches Banner has operated for the past several years. It underscores the benefits of our super community banking strategy implemented in 2010: Delivering to all our clients — individuals, middle market and small businesses, business owners, their families and employees — a compelling value proposition by providing the financial sophistication and breadth of products of a regional bank while retaining the appeal, responsiveness and superior service level of a community bank.

It's not just our own opinion that we're delivering on our strategy. J.D. Power and Associates ranked Banner Bank "Highest in Retail Banking Customer Satisfaction in the Northwest Region" for two years in a row. In addition, in May 2013 the SBA Seattle District Office awarded Banner Bank "Community Lender of the Year" for the Seattle and Spokane district. And also in 2013, Banner Bank became a partner bank in the U.S. Global Business Solutions Program, a new interagency initiative designed to expand the reach of federal export assistance and add 50,000 small businesses to the nation's exporter base by 2017.

We're especially pleased with these 2013 results:

- 1.09% return on average assets;
- \$185 million increase in loans (6% growth);
- 14% growth in non-interest-bearing deposits;
- 9% growth in core deposits, raising core deposits to 76% of total deposits, up from 71% the year before and 64% two years ago; and
- Our 11th consecutive quarter of profitability.

As mentioned above, Banner has attained a moderate risk profile, a critical component of protecting shareholder value. Though primarily focused on credit risk for the past several years, we assess the full gambit of risks a modern bank faces through a robust risk management process that also encompasses liquidity risk, operational risk, interest rate risk and many other categories.

On the credit front, our dedicated workout specialists saw non-performing assets reduced to just 0.66% of total assets at year-end 2013, less than one-fourth of the level of just two years ago. With an already strong loan loss reserve and low charge-offs during 2013, Banner did not take a provision for loan losses in 2013 and still ended the year with a very strong 2.19% reserve to total loans. Combined with a tangible common equity ratio of 12.23%, Banner has one of the strongest balance sheets in the industry, providing considerable flexibility for strategic initiatives and capital management.

As shareholders, we've benefited directly from all the results listed above. Our quarterly dividend has increased from \$0.01 per share in 2012 to \$0.12 per share for the first two quarters of 2013 and to \$0.15 per share since the third quarter. And, most importantly, Banner's stock price has continued to appreciate substantially since 2009.

In closing, I would like to congratulate my colleagues throughout the Company and thank them for their hard work in achieving the success of our performance in 2013.

Thank you for your continuing interest in and commitment to Banner. While we are understandably pleased with our results for 2013, we remain committed to operating the Company as a high performance Bank while optimizing the franchise value of Banner Corporation. We look forward to reporting further improvements in 2014.



Mark J. Grescovich  
*President & Chief Executive Officer*  
Banner Corporation & Banner Bank

## **CORPORATE HEADQUARTERS**

10 South First Avenue  
PO Box 907  
Walla Walla, WA 99362-0265  
509-527-3636  
800-272-9933  
Website: bannerbank.com  
Email: bannerbank@bannerbank.com

## **SUBSIDIARIES**

Banner Bank – bannerbank.com  
Islanders Bank – islandersbank.com  
Community Financial Corporation

## **TRANSFER AGENT and REGISTRAR**

Computershare Trust Company, N.A.  
PO Box 30170  
College Station, TX 77842-3170

## **INDEPENDENT PUBLIC**

### **ACCOUNTANTS and AUDITORS**

Moss Adams LLP  
805 SW Broadway, Suite 1200  
Portland, OR 97205

## **SPECIAL COUNSEL**

Breyer & Associates PC  
8180 Greensboro Drive, Suite 785  
McLean, VA 22102

## **ANNUAL MEETING of SHAREHOLDERS**

10 a.m., Tuesday, April 22, 2014  
Marcus Whitman Hotel  
6 West Rose Street  
Walla Walla, WA 99362

## **DIVIDEND PAYMENTS SENT QUARTERLY**

Dividend payments are reviewed quarterly by the Board of Directors and, if appropriate and authorized, have historically been paid during the months of January, April, July and October. To avoid delay or lost mail, and to reduce costs, we encourage you to request direct deposit of dividend payments to your bank account. To enroll in the Direct Deposit Plan, telephone the Company's Investor Services Department at 800-272-9933.

## **DIVIDEND REINVESTMENT and STOCK PURCHASE PLAN**

Banner Corporation offers a dividend reinvestment program whereby shareholders may reinvest all or a portion of their dividends in additional shares of the Company's common stock. Information concerning this optional program is available from the Investor Services Department or from Computershare Investor Services at 800-697-8924.

## **INVESTOR INFORMATION**

Shareholders and others will find the Company's financial information, press releases and other information on the Company's website at [www.bannerbank.com](http://www.bannerbank.com). There is a direct link from the website to the Securities and Exchange Commission (SEC) filings via the EDGAR database, including Forms 10-K, 10-Q and 8-K.

## **SHAREHOLDERS MAY CONTACT:**

Investor Relations, Banner Corporation  
PO Box 907  
Walla Walla, WA 99362  
Or call 800-272-9933 to obtain a hard copy of these reports without charge.

## **DIRECTORS**

Robert D. Adams	David A. Klaue
Gordon E. Budke	Constance H. Kravas
Connie R. Collingsworth	John R. Layman
Jesse G. Foster	Brent A. Orrico
Mark J. Grescovich	Gary Sirmon
D. Michael Jones	Michael M. Smith

## **EXECUTIVE OFFICERS**

Mark J. Grescovich  
*President and Chief Executive Officers*

Lloyd W. Baker  
*EVP and Chief Financial Officer*

Richard B. Barton  
*EVP, Chief Lending Officer*

Douglas M. Bennett  
*EVP, Real Estate Lending Operations*

Tyrone J. Bliss  
*EVP, Risk Management and Compliance Officer*

Cynthia D. Purcell  
*EVP, Retail Banking and Administration*

James T. Reed, Jr.  
*SVP, West Region Commercial Banking*

M. Kirk Quillin  
*SVP, East Region Commercial Banking*

Steven W. Rust  
*EVP and Chief Information Officer*

Gary W. Wagers  
*EVP, Retail Products and Services*

Anne L. Wuesthoff  
*SVP, Human Resources*

## CORPORATE PROFILE

Banner Corporation is a dynamic banking organization that has developed a significant and expanding regional franchise throughout the Pacific Northwest. Formed in 1995, Banner Corporation is the holding company for Banner Bank, a Washington-chartered commercial bank headquartered in Walla Walla, Washington, with roots that date back to 1890. In 2007, the Company acquired Islanders Bank, which operates in Washington's San Juan Islands.

Banner Bank and Islanders Bank strive to deliver a high level of individualized service as community banks while offering advantages available from being part of a larger financial institution. The Company's leadership consists of an experienced executive management team headed by President and CEO, Mark J. Grescovich.

Banner Corporation aims to be the premier Pacific Northwest banking franchise. Serving a growing and prosperous region with a full range of deposit services and business, commercial real estate, construction, residential, agricultural and consumer loans, the Company provides community banking services through a combined total of 88 branch offices and eight loan offices located in 29 counties of Washington, Oregon and Idaho. The Company's employees take pride in extending the highest levels of service, convenience, and banking knowledge to their clients.

Banner Bank and Islanders Bank are members of the Federal Home Loan Bank of Seattle and their deposits are insured by the Federal Deposit Insurance Corporation. Banner Bank and Islanders Bank are wholly-owned subsidiaries of Banner Corporation. Banner Corporation common stock is traded over the counter on the NASDAQ Global Select Market® under the symbol "BANR." This document, together with the Company's Form 10-K, represents the annual report to shareholders of Banner Corporation.



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