

PART I

Item 1 – Business

General

Banner Corporation (the Company) is a bank holding company incorporated in the State of Washington. We are primarily engaged in the business of planning, directing and coordinating the business activities of our wholly-owned subsidiaries, Banner Bank and Islanders Bank. Banner Bank is a Washington-chartered commercial bank that conducts business from its main office in Walla Walla, Washington and, as of December 31, 2014, its 90 branch offices and ten loan production offices located in Washington, Oregon and Idaho. Islanders Bank is also a Washington-chartered commercial bank that conducts business from three locations in San Juan County, Washington. Banner Corporation is subject to regulation by the Board of Governors of the Federal Reserve System (the Federal Reserve Board). Banner Bank and Islanders Bank (the Banks) are subject to regulation by the Washington State Department of Financial Institutions, Division of Banks (the DFI) and the Federal Deposit Insurance Corporation (the FDIC). As of December 31, 2014, we had total consolidated assets of \$4.7 billion, net loans of \$3.8 billion, total deposits of \$3.9 billion and total stockholders' equity of \$584 million. Our common stock is traded on the NASDAQ Global Select Market under the ticker symbol "BANR."

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

Since becoming a public company in 1995, we have invested significantly in expanding our branch and distribution systems with a primary emphasis on strengthening our market presence in our five primary markets in the Northwest. Those markets include the four largest metropolitan areas in the Northwest: the Puget Sound region of Washington and the greater Portland, Oregon, Boise, Idaho, and Spokane, Washington markets, as well as our historical base in the vibrant agricultural communities in the Columbia Basin region of Washington and Oregon. Our aggressive franchise expansion during this period included the acquisition and consolidation of eight commercial banks, as well as the opening of 28 new branches, the acquisition of seven branches and relocating 12 others. Since changing our name in 2001, we also have invested heavily in advertising campaigns designed to significantly increase the brand awareness for Banner Bank as well as expanded product offerings. These investments, which have been significant elements in our strategies to grow loans, deposits and customer relationships, have increased our presence within desirable marketplaces and allow us to better serve existing and future customers. This emphasis on growth and development resulted in an elevated level of operating expenses during much of this period; however, we believe the expanded branch network, broader product line and heightened brand awareness have created a franchise that is well positioned and is allowing us to successfully execute on our super community bank model. That strategy is focused on delivering customers, including 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.

At year end 2014, we had two previously announced and pending acquisitions that will significantly increase the size and geographic reach of the Company and Banner Bank. On August 7, 2014, we announced the execution of a definitive agreement to purchase Siuslaw Financial Group (Siuslaw), the holding company of Siuslaw Bank, an Oregon state chartered commercial bank headquartered in Florence, Oregon, with ten branches serving multiple locations in Lane County including Eugene, Oregon. This acquisition closed on March 6, 2015 at which time Siuslaw merged into Banner and Siuslaw Bank merged into Banner Bank. On November 5, 2014, we announced the execution of a definitive agreement to purchase Starbuck Bancshares, Inc. (Starbuck), the bank holding company of AmericanWest Bank (AmericanWest), a Washington state chartered commercial bank headquartered in Spokane, Washington, with 94 branches serving markets in Washington, Oregon, Idaho, California and Utah. The merger agreement provides that Starbuck will merge with and into a wholly-owned subsidiary of the Company. Immediately following the merger, Starbuck's wholly owned bank subsidiary, AmericanWest will merge with Banner Bank. At September 30, 2014, AmericanWest had \$4.1 billion in assets, \$2.5 billion in net loans, \$3.3 billion in deposits and members' equity of \$561.3 million excluding AmericanWest's recent acquisition of Greater Sacramento Bancorp. At September 30, 2014, Greater Sacramento Bancorp had \$481 million in assets, \$410 million in deposits and stockholders' equity of \$39 million. The merged banks will operate under the Banner Bank brand. Under the terms of the agreement, the aggregate consideration to be received by AmericanWest equity holders will consist of a fixed amount of 13.23 million shares of Banner common stock and \$130.0 million in cash. Upon completion of the transaction, such shares will represent an approximately 38.8% pro forma ownership interest in Banner. The merger is subject to approval by Banner's shareholders and regulatory agencies as well as other customary closing conditions and is expected to close late in the second quarter or early in the third quarter of 2015. In addition, in June of 2014, Banner Bank acquired six branches in southwestern Oregon (the "Branch Acquisition") which have been fully integrated into Banner Bank. In the aggregate, Banner Bank acquired \$212 million in deposit accounts, \$88 million in loans, and \$3 million in branch properties. Banner Bank also received \$128 million in cash from the transaction. Upon completion of the AmericanWest merger, Banner Bank will have more than 190 locations in five western states, a significantly expanded customer base and meaningfully increased business opportunities. See Notes 2 and 4 of the Notes to our Audited Consolidated Financial Statements contained in Item 8 of this report for additional information.

Banner Corporation's successful execution of its strategic turnaround plan and operating initiatives, which resulted in our return to profitability in 2011, continued and strengthened in 2012, 2013 and 2014 and delivered noteworthy results as evidenced by our solid profitability for each of these years. Over this period we achieved substantial success on our goals to achieve and maintain the Company's moderate risk profile as well as to develop and continue strong earnings momentum going forward. Highlights of this success have included continued substantial