



Banner Corporation

2007 Annual Report



Fellow Shareholders,

2007 was a busy year for Banner, as we completed three acquisitions, built and opened ten new branches and dealt with a slumping housing market. Net income for the year totaled \$36.9 million, or \$2.49 per diluted share, compared with \$31.5 million or \$2.58 per diluted share in 2006.

During the year we added 26 branches to our network as we completed three smaller commercial bank acquisitions, opened ten new bank branches and relocated five existing branches into new facilities. These growth initiatives expanded our customer base, allowing us to increase loans outstanding at year end by 28% and deposits by 30% compared to a year earlier. All of this contributed to asset growth of 29% during the year to \$4.5 billion. We are pleased to report that our bank acquisitions were anti-dilutive to our earnings per share performance in 2007 and we expect even more positive performance from the acquired banks in 2008 and beyond.

Banner has expanded very rapidly over the last three years as we have added 18 new branch locations through acquisitions, opened 21 new branches on a de-novo basis and relocated eight older branches. We believe we have now reached a branch distribution network size required to generate deposit growth internally sufficient to fund our expected loan growth in future years. As a result, we plan to scale back our de-novo branch expansion of the prior three years to three new branches in 2008, a normal pace of growth for a bank of our size. We will remain focused on filling in our distribution network with branches in four key metropolitan markets: Puget Sound (greater Seattle north); greater Portland, Oregon; Boise, Idaho market area and Spokane market area. The new branches are scheduled for downtown Bellevue and Everett, Washington and in the Pearl District of Portland, Oregon.

Nationally, 2007 was a year of dramatic slow down in the home building industry, an industry Banner has a large commitment to in the form of all phases of residential construction lending and permanent financing of home purchases. Certain areas

of the country have been hard hit by this housing slow down and frankly some of our competitors exhibited poor lending practices in approving loans to unqualified new home buyers. Additionally, the overheated residential real estate market brought a large number of people into the house purchase sector as "investors" with a plan of buying a house, doing a bit of cosmetic upgrading and selling the house fairly quickly at a hoped-for profit. Unfortunately, some of these "investors" and other new home buyers were not financially strong enough to weather the housing market slowdown, putting additional home pricing pressure in the market as they attempt to exit their home ownership status.

Fortunately, our two primary market areas (approximately 80% of our builder customers are in Puget Sound and greater Portland) did not have the same level of sub-prime home buying or "investor" house purchases as other parts of our nation and economic growth in these two markets exceeded the national average by a considerable margin. Further, Banner did not engage in any sub-prime lending or knowingly finance "investor" house purchases. Additionally, our lending team identified excessive inventory build up in several of our markets very early in 2007 and became very cautious in approving new projects during the year. All of this helped to preserve our loan collectibility and has kept our loss levels lower than some of our competitors.

Nevertheless, the housing market slowdown did impact Banner in 2007 in the form of fewer new loans being approved, which reduced our interest revenue stream. The slower market also lengthened the time to sell completed homes, which impacts our builder customers' liquidity as they pay us interest for a longer period than planned, in some instances resulting in loans becoming delinquent.

This trend was the primary cause of our earnings level on a per share basis not reaching our internal goals. However, we remain confident about our ability to collect our residential construction loans as we have inspected all of our borrowers' properties

and measured them against current market values. Further, we did not take on a large group of builders new to us but have continued to do business with builders we generally have financed for a number of years and continue to have confidence in the quality of their construction and their ability to perform. This is not to say we will not incur some loan losses, but we expect these losses to be in the normal range of a well run commercial bank.

Over the last few years, Banner has been committed to building a strong commercial banking franchise that provides good customer service, grows core deposits from the neighborhoods we serve and supports our service area with loan products that help our area businesses to grow, small business entrepreneurs to succeed and our retail customers to acquire assets useful to their families.

This franchise-building process of growing de-novo branches and fixing up or relocating our existing branches, while investing in technology that helps our customers and employees succeed, has been expensive and has reduced our earnings. The franchise-building process is now completed and our regional economy is very strong. We expect the future of Banner to be very bright!

Included in this report are financial statements, related footnotes and a narrative discussing our performance in 2007. We encourage you to read them.

In 2007 we were pleased to add three new Directors to your board; Dave Klaue and John Layman from Spokane and Bob Lane from southwest Idaho. All of these individuals are well known and respected and have a deep understanding of the banking industry.

Your Senior Management team is very optimistic about the long range prospects for Banner and our market area and is truly appreciative of your support!

D. Michael Jones
President & Chief Executive Officer
Banner Corporation & Banner Bank

Subsidiaries

Banner Bank

Islanders Bank

Community Financial Corporation

Transfer Agent and Registrar

Computershare Investor Services

P.O. Box 43036

Providence, RI 02940

Independent Public Accountants & Auditors

Moss Adams LLP

601 West Riverside, Suite 1800

Spokane, WA 99201-0063

Special Counsel

Breyer & Associates PC

8180 Greensboro Drive, Suite 785

McLean, VA 22102

Annual Meeting of Shareholders

10 a.m., Tuesday, April 22, 2008

Marcus Whitman Hotel

6 West Rose Street

Walla Walla, WA 99362

Dividend Payments Sent Quarterly

Dividends on common stock are expected to be paid quarterly on or about the tenth day 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 & 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. Shareholders may also purchase additional shares of common stock through an optional cash payment feature. 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 web site at www.bannerbank.com. There is a direct link from the web site 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, P.O. 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

Dean W. Mitchell

Gordon E. Budke

Robert J. Lane

David B. Casper

John R. Layman

Edward L. Epstein

Brent A. Orrico

Jesse G. Foster

Wilber E. Pribilsky

D. Michael Jones

Gary Sirmon

David A. Klaue

Michael M. Smith

Connie Kravas

Executive Officers

D. Michael Jones, *President and Chief Executive Officer*

Michael K. Larsen, *President, Mortgage Division*

Lloyd W. Baker, *EVP and Chief Financial Officer*

Richard B. Barton, *EVP, Chief Credit Officer*

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

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

Paul E. Folz, *EVP, Community Banking*

Cynthia D. Purcell, *EVP, Bank Operations*

Steven W. Rust, *EVP and Chief Information Officer*

Gary W. Wagers, *EVP, Consumer Lending Operations*



Corporate Profile

Banner Corporation is a dynamic banking organization that has developed a significant and expanding regional franchise throughout the Pacific Northwest. Formed originally 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, D. Michael Jones.

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 84 branch offices and 12 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 customers.

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 Stock 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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