

Banner Corporation 2023 Annual Report



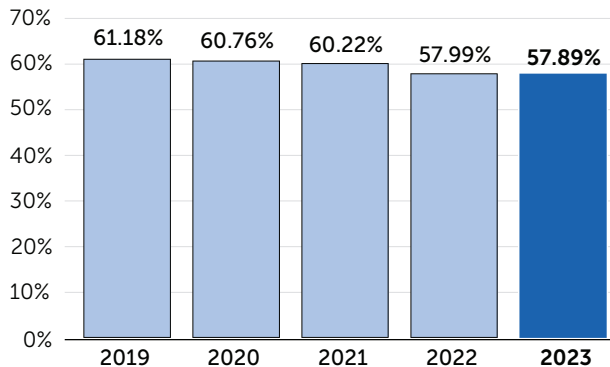
Let's create tomorrow, together.



2023 Highlights

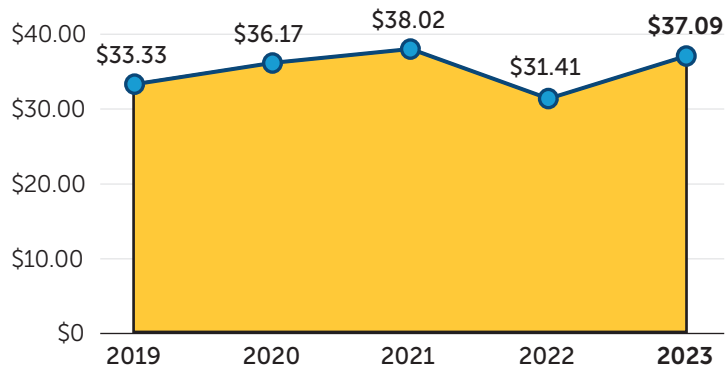
- \$15.67 billion in assets
- Serving eight of the top 11 largest western Metropolitan Statistical Areas (by population)
- Working for our clients, communities and colleagues for 133 years

Core Efficiency Ratio



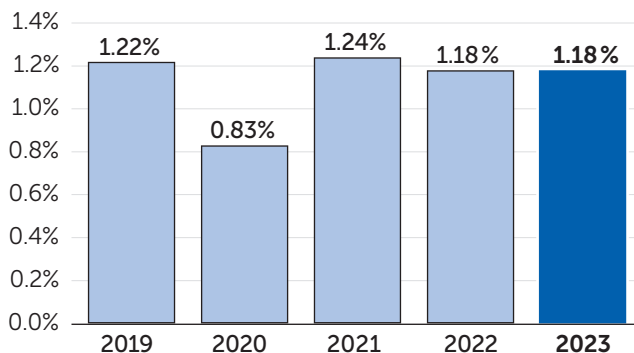
Core efficiency ratio defined as adjusted non-interest expense divided by adjusted revenue. Adjusted revenue excludes net gain (loss) on sale of securities, fair value adjustments and the gain on sale of branches. Adjusted non-interest expense excludes merger and acquisition related expenses, COVID-19 expenses, Banner Forward expenses, amortization of core deposit intangibles, REO operations, loss on extinguishment of debt and state/municipal business and use taxes, and FHLB prepayment penalties.

Tangible Equity Per Share

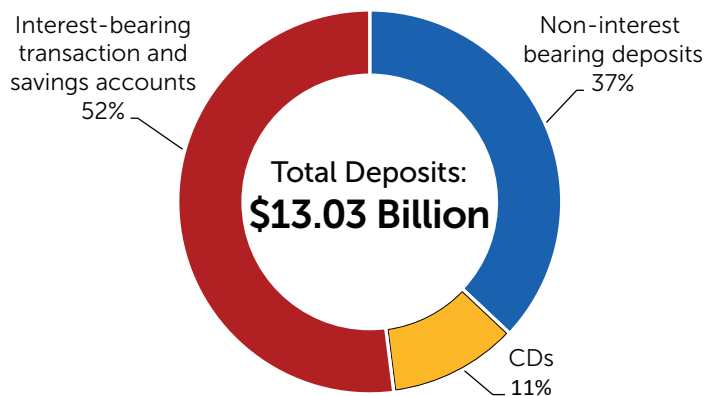


Common Shareholders' Equity Per Share
+13% to \$48.12

Return on Average Assets



Deposit Portfolio



Independent Recognition for Banner Bank

Record number of accolades in 2023



Dear Stakeholders:

Once again, we delivered for you solid core operating results and profitability by successfully executing our super community bank model and strategic initiatives. Notably, we generated record core revenue of \$644 million and achieved a record-low efficiency ratio.

Throughout our 133 years in business, we have been driven by our guiding principle to always do the right thing for all stakeholders. Today, we live and work in a world influenced by rapidly-evolving technology that our founders could only imagine. The challenges our clients and communities face have evolved considerably, but the expertise and guidance they expect from us remain the same. They count on us to help them achieve their financial goals by offering competitive products and services paired with truly personal service while remaining deeply connected to the communities we serve.

I'm pleased to share that we continued delivering on our stakeholders' expectations, despite 2023 being the most challenging economic environment since the Great Recession, testing the entire financial services sector. Our commitment to maintaining a fortress balance sheet and moderate risk profile once again helped demonstrate our company is built to withstand all economic cycles and change events. This enabled our team to focus on proactively reaching out to clients, asking how our financial strength and stability could further assist them, while also making time to earn considerable new deposit and loan clients.

Deposit Strength

We certainly were not immune to the rapidly rising interest rates last year. They affected funding costs, resulting in a moderate compression in our net interest margin. However, we continued to benefit from our strong deposit base, which is well-diversified across consumer and business segments. At year end, core deposits represented 89 percent of total deposits—among the top quartile of our peer group. This allowed us to maintain high levels of on-balance-sheet liquidity, an important element of our moderate risk profile. Last year served as a reminder that our core deposit-focused franchise is even more valuable during challenging economic times because we have less rate sensitivity than many of our peers.

Lending Growth

Our credit culture, and the resulting strong credit quality, continued serving us well. Although the rate environment significantly reduced loan demand preventing us from making our loan goals, we never stopped lending. Last year, we remixed our balance sheet by redeploying cashflow from our securities portfolio to fuel loan growth, achieving seven percent loan growth year-over-year. Our unwavering commitment to a diversified loan portfolio—by business type, industry, loan type and geographic market—is a key advantage. Our approach remains to focus on growing market share through disciplined client selection, vigilant portfolio management, deepening client relationships and increasing top line revenue growth. It's worth noting that our commercial portfolio remains well diversified, without any notable segment concentrations. In a challenging year for lending, our affordable housing group again stood out. They achieved record loan production for the fourth straight year. These loans are especially rewarding because they resulted in thousands of affordable housing units for low- and moderate-income residents across our footprint.

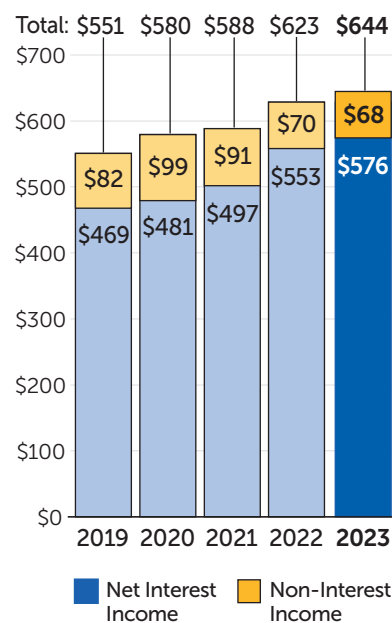
Forward Momentum

We continued successfully executing Banner Forward, helping deliver solid core operating results and meaningful contributions to our profitability. Launched in 2021, Banner Forward is our reimagined strategic planning process that focuses



President and CEO
Mark Grescovich

Core Revenue (Millions)



+\$20.8 million
or **+3.3%**

over the previous year

Core revenue excludes gain on sale of securities, fair value adjustments and the gain on sale of branches.

on continually improving the client experience, originating high-quality assets and client acquisition, generating new and expanded revenue opportunities, and innovating to improve back-end processes while reducing operating expenses—all within the framework of our moderate risk profile. These strategic investments are also creating long-lasting benefits, including available scalability for future growth opportunities.

Select Financial Highlights

We were well served again last year by our long-standing commitment to maintaining a fortress balance sheet and moderate risk profile while focusing on long-term client relationships. Our 2023 financial highlights included:

- Core revenue grew more than \$20 million to \$643.9 million.
- Net interest margin, on a tax equivalent basis, was 4.01% compared to 3.68% the prior year.
- Efficiency ratio was 61.66% compared to 64.06% just two years ago.
- Core deposits remained strong at 89% of our total \$13.03 billion in deposits.
- Non-performing assets remained low at 0.19% of total assets.
- Loans receivable increased 7% to \$10.81 billion, a year-over-year record again.

We understand you count on us to deliver consistent, sustainable profitability that generates reliable returns on your investment. In addition to increasing our common shareholders' equity per share 13 percent to \$48.12, we again provided an increase in dividends. The cumulative cash dividends declared to common shareholders were \$1.92 per share, compared to \$1.76 per share the prior year.

Additional Accomplishments

While we never go in search of recognition, last year we were humbled to receive a record amount, once again affirming that our value proposition continues to resonate, reflecting the caring, expert service our employees provide every day. For example, Newsweek named us one of the Most Trustworthy Companies in America followed by one of the World's Most Trustworthy Companies. Trust is the cornerstone of financial services so it was a tremendous compliment to be recognized among some of the world's most well-known brands. In addition, Forbes ranked us one of America's 100 Best Banks for the seventh consecutive year and one of the World's Best Banks for the fourth year. A graphic on the inside front cover details all the accolades we received last year.

Economic stressors, as well as international and geopolitical issues combined to create uncertainty in 2023, but I am proud of how our team responded, staying focused and delivering strong results and shareholder value. We know who we are and remain confident in our strategy. While there will always be factors outside of our control, we will continue utilizing our expertise to help clients and the communities we serve achieve their financial goals, while being good stewards of your investment.

Sincerely,



Mark Grescovich
President and Chief Executive Officer
Banner Corporation and Banner Bank



UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2023

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____ to _____

Commission File Number 0-26584

BANNER CORPORATION

(Exact name of registrant as specified in its charter)

Washington

(State or other jurisdiction of incorporation or organization)

91-1691604

(I.R.S. Employer Identification Number)

10 South First Avenue, Walla Walla, Washington 99362

(Address of principal executive offices and zip code)

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

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value \$.01 per share
(Title of Each Class)

BANR
(Trading Symbol)

The NASDAQ Stock Market LLC
(Name of Each Exchange on Which Registered)

Securities registered pursuant to section 12(g) of the Act:

None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files) Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company" and emerging growth company in Rule 12b-2 of the Exchange Act:

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company 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 pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U. S. C 7262(b)) by the registered public accounting firm that prepared or issued its audit report. Yes No

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act) Yes No

The aggregate market value of the voting common equity held by non-affiliates of the registrant based on the closing sales price of the registrant's common stock quoted on The NASDAQ Stock Market on June 30, 2023, was:

Common Stock – \$1,478,884,667

(The exclusion from such amount of the market value of the shares owned by any person shall not be deemed an admission by the Registrant that such person is an affiliate of the Registrant.)

The number of shares outstanding of each of the classes of the registrant's classes of common stock as of January 31, 2024:

Common Stock, \$.01 par value – 34,348,455 shares

Documents Incorporated by Reference

Portions of Proxy Statement for Annual Meeting of Shareholders to be held May 22, 2024 are incorporated by reference into Part III.

BANNER CORPORATION AND SUBSIDIARIES

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Forward-Looking Statements

Certain matters in this Form 10-K constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements with respect to our beliefs, plans, objectives, goals, expectations, assumptions and statements about future economic performance and projections of financial items, including statements about our financial condition, liquidity and results of operations. Forward-looking statements are not statements of historical fact, are based on certain assumptions and are generally identified by use of the words “believes,” “expects,” “anticipates,” “estimates,” “forecasts,” “intends,” “plans,” “targets,” “potentially,” “probably,” “projects,” “outlook” or similar expressions or future or conditional verbs such as “may,” “will,” “should,” “would” and “could.” These forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could cause our actual results to differ materially from the results anticipated or implied by our forward-looking statements, including, but not limited to: potential adverse impacts to economic conditions in our local market areas, other markets where the Company has lending relationships, or other aspects of the Company’s business operations or financial markets, including, without limitation, as a result of employment levels, labor shortages and the effects of inflation, a potential recession or slowed economic growth caused by increasing political instability from acts of war, and increasing supply chain disruptions; changes in the interest rate environment, including past increases in the Board of Governors of the Federal Reserve System (the Federal Reserve) benchmark rate and duration at which such increased interest rate levels are maintained, which could adversely affect our revenues and expenses, the value of assets and obligations, and the availability and cost of capital and liquidity; the impact of continuing elevated inflation and the current and future monetary policies of the Federal Reserve in response thereto; the effects of any federal government shutdown; the credit risks of lending activities, including changes in the level and trend of loan delinquencies and write-offs and changes in estimates of the adequacy of the allowance for credit losses and provisions for credit losses; the ability to manage loan delinquency rates; competitive pressures among financial services companies; changes in consumer spending or borrowing and spending habits; interest rate movements generally and the relative differences between short and long-term interest rates, loan and deposit interest rates, net interest margin and funding sources; the impact of bank failures or adverse developments at other banks and related negative press about the banking industry in general on investor and depositor sentiment; the transition to new interest rate benchmarks; the impact of repricing and competitors’ pricing initiatives on loan and deposit products; fluctuations in the demand for loans, the number of unsold homes, land and other properties and fluctuations in real estate values; the ability to adapt successfully to technological changes to meet clients’ needs and developments in the marketplace; the ability to access cost-effective funding; the ability to control operating costs and expenses; the use of estimates in determining fair value of certain assets and liabilities, which estimates may prove to be incorrect and result in significant changes in valuation; staffing fluctuations in response to product demand or the implementation of corporate strategies that affect employees, and potential associated charges; disruptions, security breaches or other adverse events, failures or interruptions in, or attacks on, information technology systems or on the third-party vendors who perform critical processing functions; changes in financial markets; changes in economic conditions in general and in Washington, Idaho, Oregon and California in particular; secondary market conditions for loans and the ability to sell loans in the secondary market; the costs, effects and outcomes of litigation; legislation or regulatory changes, including but not limited to changes in regulatory policies and principles, or the interpretation of regulatory capital or other rules, results of safety and soundness and compliance examinations by the Federal Reserve, the Federal Deposit Insurance Corporation (the FDIC), the Washington State Department of Financial Institutions, Division of Banks (the Washington DFI), or other regulatory authorities, including the possibility that any such regulatory authority may, among other things, require restitution or institute an informal or formal enforcement action which could require an increase in reserves for loan losses, write-downs of assets or changes in regulatory capital position, or affect the ability to borrow funds, or maintain or increase deposits, or impose additional requirements and restrictions, any of which could adversely affect liquidity and earnings; the availability of resources to address changes in laws, rules, or regulations or to respond to regulatory actions; the quality and composition of our securities portfolio and the impact of adverse changes in the securities markets; the inability of key third-party providers to perform their obligations; changes in accounting principles, policies or guidelines, including additional guidance and interpretation on accounting issues and details of the implementation of new accounting methods; the effects of climate change, severe weather events, natural disasters, pandemics, epidemics and other public health crises, acts of war or terrorism, and other external events on our business; other economic, competitive, governmental, regulatory and technological factors affecting operations, pricing, products and services; future acquisitions by Banner of other depository institutions or lines of business; and future goodwill impairment due to changes in Banner’s business, changes in market conditions; and other risks detailed from time to time in our reports filed with and furnished to the U.S. Securities and Exchange Commission (SEC), including this Annual Report on Form 10-K.

Any forward-looking statements are based upon Management’s beliefs and assumptions at the time they are made. We do not undertake and specifically disclaim any obligation to update any forward-looking statements included in this report or the reasons why actual results could differ from those contained in such statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking statements discussed in this report might not occur, and you should not put undue reliance on any forward-looking statements.

As used throughout this report, the terms “we,” “our,” “us,” or the “Company” refer to Banner Corporation and its consolidated subsidiaries, unless the context otherwise requires. All references to “Banner” refer to Banner Corporation and those to the “Bank” refer to its wholly-owned subsidiary, Banner Bank.

PART 1

Item 1 – Business

General

Banner is a bank holding company incorporated in the State of Washington which wholly owns one subsidiary bank, Banner Bank. The Bank is a Washington-chartered commercial bank that conducts business from its main office in Walla Walla, Washington and, as of December 31, 2023, its 135 branch offices and 13 loan production offices located in Washington, Oregon, California, Idaho and Utah. Banner is subject to regulation by the Federal Reserve. The Bank is subject to regulation by the Washington DFI and the FDIC. As of December 31, 2023, we had total consolidated assets of \$15.67 billion, net loans of \$10.66 billion, total deposits of \$13.03 billion and total shareholders' equity of \$1.65 billion. Banner's common stock is traded on the NASDAQ Global Select Market under the ticker symbol "BANR."

The 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. The Bank's primary business is that of traditional banking institutions, accepting deposits and originating loans in locations surrounding our offices in Washington, Oregon, California and Idaho. In addition, the bank originates loans in the area surrounding its loan production office located in Utah. The Bank is also an active participant in secondary loan markets, 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 and multifamily residential loans, U.S. Small Business Administration (SBA) loans and consumer loans.

We continue to invest in our delivery platform across the franchise with a primary emphasis on strengthening our presence in the higher growth regions of our markets. In addition, we continue to improve the efficiency of our branch delivery channel with on-going branch consolidations and investments in streamlining the origination of new loan and deposit accounts while simultaneously enhancing our digital service and account origination capabilities. During the past few years, client adoption of mobile and digital banking has accelerated while physical branch transaction volume has declined. Banner anticipates this shift in client service delivery channel preference will continue.

We also focus on expanding our product offerings and investing heavily in marketing campaigns designed to significantly increase the brand awareness for the Bank. These marketing investments are a significant element in our strategy to grow client relationships and increase our market presence, while allowing us to better serve existing and future clients. We believe our branch network, broad product line and heightened brand awareness have created a franchise that is well positioned for growth and successful execution of our super community bank model. Our overall strategy is focused on delivering clients—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.

Our successful execution of a super community bank model and strategic initiatives have delivered solid core operating results and profitability over the last several years. Banner's longer term strategic initiatives continue to focus on originating high quality assets and client acquisition, which we believe will continue to generate strong revenue while maintaining the Company's moderate risk profile. In addition, our strategic initiatives relate to efficiency, talent retention and technology improvements.

Our operating results depend primarily on our net interest income, which is the difference between interest income on interest-earning assets, consisting primarily of loans and investment securities, and interest expense on interest-bearing liabilities, composed primarily of client deposits, Federal Home Loan Bank of Des Moines (FHLB) advances, other borrowings, subordinated notes, and junior subordinated debentures. Net interest income is a function of our interest rate spread, which is the difference between the yield earned on interest-earning assets and the average rate paid on interest-bearing liabilities, as well as a function of the average balances of interest-earning assets, interest-bearing liabilities and non-interest-bearing funding sources including non-interest-bearing deposits.

Our net income is also affected by the level of our non-interest income, including deposit fees and other service charges, results of mortgage banking operations—which includes gains and losses on the sale of loans and servicing fees—gains and losses on the sale of securities, as well as our non-interest expenses and provisions for credit losses and income taxes.

Lending Activities

General: All of our lending activities are conducted through the Bank and its subsidiary, Community Financial Corporation, a residential construction lender located in Portland, Oregon. We offer a wide range of loan products to meet the demands of our clients and our loan portfolio is very diversified by product type, borrower and geographic location within our market area. We originate loans for our portfolio and for sale in the secondary market. Management's strategy has been to maintain a well-diversified portfolio with a significant percentage of assets in the loan portfolio having more frequent interest rate repricing terms or shorter maturities than traditional long-term fixed-rate mortgage loans. As part of this effort, we offer a variety of floating or adjustable interest rate products that correlate more closely with our cost of interest-bearing funds, particularly loans for commercial business and real estate, agricultural business, and construction and development purposes. In response to client demand, we also originate fixed-rate loans, including fixed interest rate mortgage loans with terms of up to 30 years. The relative amount of fixed-rate loans and adjustable-rate loans that can be originated at any time is largely determined by the demand for each in a competitive environment.

Our lending activities are primarily directed toward the origination of commercial real estate and business loans. Commercial real estate loans include owner-occupied, investment properties and multifamily residential real estate. The level of activity in commercial real estate loans declined in 2023 with the rising interest rate environment. We also originate residential one- to four-family loans and construction, and land and land development loans, of which a significant component are residential one- to four-family construction loans. Throughout the year sales of completed homes continued to outpace new originations due to constrained housing inventories. Our commercial business lending is directed toward meeting the credit and related deposit and treasury management needs of various small- to medium-sized business and agribusiness borrowers operating in our primary market areas. To a lesser extent, our commercial business lending has also included participation in certain national syndicated loans. Typically, most of the one- to four-family loans that we originate are sold in the secondary markets with net gains on sales and loan servicing fees reflected in our revenues from mortgage banking. Demand for residential one- to four-family loans slowed during 2023 with the rising interest rate environment reducing refinance originations. Additionally, refinancing of custom construction loans into the secondary market at completion of construction has been impacted by the higher rate environment, leading to a large increase in retention of one- to four-family production held in the portfolio. Our consumer loan activity is primarily directed at meeting demand from our existing deposit clients. At December 31, 2023 our net loan portfolio totaled \$10.81 billion compared to \$10.15 billion at December 31, 2022.

One- to Four-Family Residential Real Estate Lending: We originate loans secured by first mortgages on one- to four-family residences in the markets we serve. Through our mortgage banking activities, we sell residential loans on either a servicing-retained or servicing-released basis. We have generally sold a significant portion of our conventional residential mortgage originations and nearly all of our government insured loans in the secondary market. As of December 31, 2023 14% of the loan portfolio, \$1.52 billion, consisted of permanent one- to four-family residences.

We offer fixed- and adjustable-rate mortgages (ARMs) at rates and terms competitive with market conditions, primarily with the intent of selling these loans into the secondary market. Fixed-rate loans generally are offered on a fully amortizing basis for terms ranging from 10 to 30 years at interest rates and fees that reflect current secondary market pricing. Most ARM products offered by us adjust annually after an initial period ranging from one to five years, subject to a limitation on the annual adjustment and a lifetime rate cap. For a small portion of the portfolio, where the initial period exceeds one year, the first interest rate change may exceed the annual limitation on subsequent adjustments. Our ARM products most frequently adjust based upon the average yield on Treasury securities adjusted to a constant maturity of one year or other indices plus a margin or spread above the index. ARM loans held in our portfolio may allow for interest-only payments for an initial period, up to five years, but do not provide for negative amortization of principal and carry no prepayment restrictions. The retention of ARM loans in our loan portfolio can help reduce our exposure to changes in interest rates.

Our residential loans are generally underwritten and documented in accordance with the guidelines established by the Federal Home Loan Mortgage Corporation (Freddie Mac or FHLMC) and the Federal National Mortgage Association (Fannie Mae or FNMA). Government insured loans are underwritten and documented in accordance with the guidelines established by the Department of Housing and Urban Development and the Department of Veterans Affairs. In the loan approval process, we assess the borrower's ability to repay the loan, the adequacy of the proposed security, the employment stability of the borrower and the creditworthiness of the borrower. For ARM loans, our standard practice provides for underwriting based upon fully indexed interest rates and payments. Generally, we will lend up to 95% of the lesser of the appraised value or purchase price of the property on conventional loans, although higher loan-to-value ratios are available on secondary market programs. We require private mortgage insurance on conventional residential loans with a loan-to-value ratio at origination exceeding 80%.

Construction and Land Lending: Historically, we have invested a significant portion of our loan portfolio in residential construction and land loans to professional home builders and developers. Our land loans are typically on improved or entitled land, versus raw land. On a more limited basis, we also make land and land development loans to developers, builders and individuals to finance the acquisition and/or development of improved lots or unimproved land. In making land loans, we follow more conservative underwriting policies than those for construction loans but maintain similar disbursement and monitoring procedures. The initial term on land loans is typically one to three years with interest-only payments, payable monthly, with provisions for principal reduction as lots are sold and released.

We also make construction loans to qualified owner occupants, which upon completion of the construction phase convert to long-term amortizing one- to four-family residential loans that are eligible for sale in the secondary market. We regularly monitor our construction and land loan portfolios and the economic conditions and housing inventory in each of our markets and increase or decrease this type of lending as we observe market conditions change. Our residential construction and land and land development lending has been increasing recently in select markets and has made a meaningful contribution to our net interest income and profitability. We also originate construction loans for commercial and multifamily real estate.

Construction and land lending affords us the opportunity to achieve higher interest rates and fees with shorter terms to maturity than are generally available on other types of lending. Construction and land lending, however, involves a higher degree of risk than other lending opportunities. We attempt to address these risks by adhering to strict underwriting policies, disbursement procedures and monitoring practices, and the portfolio remains well diversified with respect to sub-markets, price ranges and borrowers.

Commercial and Multifamily Real Estate Lending: We originate loans secured by multifamily and commercial real estate, including loans for construction of multifamily and commercial real estate projects. Commercial real estate loans are made for both owner-occupied and investor-owned properties. Multifamily and commercial real estate lending affords us an opportunity to receive interest at rates higher than those generally available from one- to four-family residential lending. In originating multifamily and commercial real estate loans, we consider the location, marketability and overall attractiveness of the properties. Our underwriting guidelines for multifamily and commercial real estate loans require an appraisal from a qualified independent appraiser, as well as an environmental risk assessment and an economic analysis of each property with regard to annual revenue and expenses, debt service coverage and fair value to determine the maximum loan amount. In the approval process we assess the borrower's willingness and ability to manage the property and repay the loan and the adequacy of the collateral in relation to the loan amount. Our multifamily real estate portfolio, \$811.2 million as of December 31, 2023, is granular in size and split between affordable housing projects and middle-income housing. Within our Commercial Real Estate portfolio, we have limited exposure to the office sector at 6% of total loans. The portfolio is granular in nature, geographically diversified and nearly 55% of the loans secured by office properties are owner occupied.

Multifamily and commercial real estate loans originated by us are both fixed- and adjustable-rate loans with intermediate terms of generally five to 10 years. A significant portion of our multifamily and commercial real estate loans are linked to various FHLB advance rates, certain prime rates, US Treasury rates, or other market rate indices. Rates on these adjustable-rate loans generally adjust with a frequency of one to five years after an initial fixed-rate period ranging from one to 10 years. Our commercial real estate portfolio consists of loans on a variety of property types with no large concentrations by property type, location or borrower. At December 31, 2023, the average size of our commercial real estate loans was \$1.1 million and the largest commercial real estate loan, in terms of an outstanding balance, in our portfolio was \$22.9 million.

Commercial Business Lending: We are active in small- to medium-sized business lending. Our commercial bankers are focused on local markets and devote a great deal of effort to developing client relationships and providing these types of borrowers with a full array of products and services delivered in a thorough and responsive manner. Our experienced commercial bankers and senior credit staff help us meet our commitment to small business lending while also focusing on corporate lending opportunities for borrowers with credit needs generally in a \$3 million to \$25 million range. In addition to providing earning assets, commercial business lending has helped us increase our deposit base. In recent years, our commercial business lending has included modest participation in certain national syndicated loans, including shared national credits. We also originate smaller balance business loans principally through our retail branch network, using our QuickStep business loan program, which is closely aligned with our consumer lending operations and relies on centralized underwriting procedures. QuickStep business loans are available up to \$1.0 million, business lines of credit are available up to \$500,000 and real estate loans are available up to \$1.0 million.

Commercial business loans may entail greater risk than other types of loans. Conventional commercial business loans generally provide higher yields or related revenue opportunities than many other types of loans but also require more administrative and management attention. Loan terms, including the fixed or adjustable interest rate, the loan maturity and the collateral considerations, vary significantly and are negotiated on an individual loan basis.

We underwrite our conventional commercial business loans on the basis of the borrower's cash flow and ability to service the debt from earnings rather than on the basis of the underlying collateral value. We seek to structure these loans so that they have more than one source of repayment. The borrower is required to provide us with sufficient information to allow us to make a prudent lending determination. In most instances, this information consists of at least three years of financial statements and tax returns, a statement of projected cash flows, current financial information on any guarantor and information about the collateral. Loans to closely held businesses typically require personal guarantees by the principals. Our commercial business loan portfolio is geographically dispersed across the market areas serviced by our branch network and there are no significant concentrations by industry or product.

Our commercial business loans may be structured as term loans or as lines of credit. Commercial business term loans are generally made to finance the purchase of fixed assets and have maturities of five years or less. Commercial business lines of credit are typically made for the purpose of providing working capital and are usually approved with a term of one year. Adjustable- or floating-rate loans are primarily tied to prime and Secured Overnight Financing Rate (SOFR) indices.

Agricultural Lending: Agriculture is a major industry in several of our markets. We make agricultural loans to borrowers with a strong capital base, sufficient management depth, proven ability to operate through agricultural cycles, reliable cash flows and adequate financial reporting. Payments on agricultural loans depend, to a large degree, on the results of operations of the related farm entity. The repayment is also subject to other economic and weather conditions and market prices for agricultural products, which can be highly volatile.

Agricultural operating loans generally are made as a percentage of the borrower's anticipated income to support budgeted operating expenses. These loans are secured by a blanket lien on all crops, livestock, equipment, accounts and products and proceeds thereof. In the case of crops, consideration is given to projected yields and prices from each commodity. The interest rate is normally floating, based on the prime rate or another index, plus a negotiated margin. Because these loans are made to finance a farm's or ranch's annual operations, they are usually written on a one-year review and renewable basis. The renewal is dependent upon the prior year's performance and the forthcoming year's projections as well as the overall financial strength of the borrower. We carefully monitor these loans and related variance reports on income and expenses compared to budget estimates. To meet the seasonal operating needs of a farm, borrowers may qualify for single payment notes, revolving lines of credit and/or non-revolving lines of credit.

In underwriting agricultural operating loans, we consider the cash flow of the borrower based upon the expected operating results and the value of collateral used to secure the loans. Collateral generally consists of cash crops produced by the farm, such as milk, grains, fruit, grass seed, peas, sugar beets, mint, onions, potatoes, corn and alfalfa, or livestock. In addition to considering cash flow and obtaining a blanket security interest in the farm's cash crop, we may also collateralize an operating loan with the farm's operating equipment, breeding stock, real estate and federal agricultural program payments to the borrower.

We also originate loans to finance the purchase of farm equipment. Loans to purchase farm equipment are made for terms of up to seven years. On occasion, we also originate agricultural real estate loans secured primarily by first liens on farmland and improvements thereon located in our market areas, although generally only to service the needs of our existing clients. Loans are generally written in amounts ranging from 50% to 75% of the tax assessed or appraised value of the property for terms of five to 20 years. These loans typically have interest rates that adjust at least every five years based upon a Treasury index or FHLB advance rate plus a negotiated margin. Fixed-rate loans are granted on terms usually not to exceed five years. In originating agricultural real estate loans, we consider the debt service coverage of the borrower's cash flow, the appraised value of the underlying property, the experience and knowledge of the borrower, the borrower's past performance with us and the market area. These loans normally are not made to start-up businesses and are reserved for existing clients with substantial equity and a proven history.

Among the more common risks to agricultural lending can be weather conditions and disease. These risks may be mitigated through multi-peril crop insurance. Commodity prices also present a risk, which may be mitigated through by the use of set price contracts. Normally, required beginning and projected operating margins provide for reasonable reserves to offset unexpected yield and price deficiencies. In addition to these risks, we also consider management succession, life insurance and business continuation plans when evaluating agricultural loans.

Consumer and Other Lending: We originate a variety of consumer loans, including home equity lines of credit; automobile, boat and recreational vehicle loans; and loans secured by deposit accounts. While consumer lending has traditionally been a small part of our business, with loans made primarily to accommodate our existing client base, it has received consistent emphasis in recent years. Part of this emphasis includes a Banner Bank-owned credit card program. Similar to other consumer loan programs, we focus this credit card program on our existing client base to add to the depth of our client relationships. In addition to earning balances, credit card accounts produce non-interest revenues through interchange fees and other activity-based revenues. Our underwriting of consumer loans is focused on the borrower's credit history and ability to repay the debt as evidenced by documented sources of income.

Loan Solicitation and Processing: We originate real estate loans in our market areas by direct solicitation of builders, developers, depositors, walk-in clients, real estate brokers and visitors to our website. One- to four-family residential loan applications are taken by our mortgage loan officers or through our website and are processed in branch or regional locations. In addition, we have specialized loan origination units focused on construction and land development, commercial real estate and multifamily loans. Most underwriting and loan administration functions for our real estate loans are performed by loan personnel at central locations.

In addition to commercial real estate loans, our commercial bankers solicit commercial and agricultural business loans through call programs focused on local businesses and farmers. While commercial bankers are delegated reasonable lending authority based upon their qualifications, credit decisions on significant commercial and agricultural loans are made by senior credit officers based on their lending authority or, if required, by the Credit Risk Committee of the Board of Directors of the Bank.

We originate consumer loans and small business (including QuickStep) commercial business loans through various marketing efforts directed primarily toward our existing deposit and loan clients. Consumer and small business commercial business loan applications are primarily underwritten and documented by centralized administrative personnel.

Loan Originations, Sales and Purchases

While we originate a variety of loans, our ability to originate each type of loan is dependent upon the relative client demand and competition in each market we serve. For the years ended December 31, 2023 and 2022, we originated loans, net of repayments, including our participation in syndicated loans and loans held for sale of \$886.8 million and \$1.3 billion, respectively.

We sell many of our newly originated residential one- to four-family loans to secondary market purchasers as part of our interest rate risk management strategy. We previously originated multifamily loans for sale in the secondary market, but discontinued this line of business during the fourth quarter of 2023. Sales of loans generally are beneficial to us because these sales may generate income at the time of sale, provide funds for additional lending and other investments, increase liquidity or reduce interest rate risk. We sell one- to four-family mortgage loans on both a servicing-retained and a servicing-released basis. All loans are sold without recourse but subject to the standard representations and warranties contained in the loan sale agreement. The decision to hold or sell loans is based on asset liability management goals, strategies and policies and on market conditions. In addition, we generally sell the guaranteed portion of SBA loans.

We periodically purchase whole loans, loan participation interests, and participate in syndications, including shared national credits. These purchases are made during periods of reduced loan demand in our primary market area and to support our Community Reinvestment Act lending activities. Any such purchases or loan participations are generally made on terms consistent with our underwriting standards; however, the loans may be located outside of our normal lending area.

Loan Servicing

We receive fees from a variety of institutional owners in return for performing the traditional services of collecting individual payments and managing portfolios of sold loans. At December 31, 2023, we were servicing \$3.05 billion of loans for others. Loan servicing includes processing payments, accounting for loan funds and collecting and paying real estate taxes, hazard insurance and other loan-related items such as private mortgage insurance. In addition to earning fee income, we retain certain amounts in escrow for the benefit of the lender for which we incur no interest expense but are able to invest the funds into earning assets.

Mortgage and SBA Servicing Rights: We record mortgage servicing rights (MSRs) with respect to loans we originate and sell in the secondary market on a servicing-retained basis and SBA servicing rights with respect to the guaranteed portion of SBA loans we sell. The value of MSRs is capitalized and amortized in proportion to, and over the period of, the estimated future net servicing income. Management periodically evaluates the estimates and assumptions used to determine the carrying values of MSRs and the amortization of MSRs. MSRs generally are adversely affected by higher levels of current or anticipated prepayments resulting from decreasing interest rates. MSRs are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is recognized through a valuation allowance, to the extent that fair value is less than the capitalized carrying amount. SBA servicing rights are initially recorded and carried at fair value. Any change in the fair value of SBA servicing rights is recorded in non-interest income.

Asset Quality

Classified Assets: State and federal regulations require that the Bank review and classify its problem assets on a regular basis. In addition, in connection with examinations of insured institutions, state and federal examiners have authority to identify problem assets and, if appropriate, require them to be classified. Historically, we have not had any meaningful differences of opinion with the examiners with respect to asset classification. The Bank's Credit Policy Division reviews detailed information with respect to the composition and performance of the loan portfolios, including information on risk concentrations, delinquencies and classified assets for the Bank. The Credit Policy Division approves all recommendations for new classified loans or, in the case of smaller-balance homogeneous loans including residential real estate and consumer loans, it has approved policies governing such classifications, or changes in classifications, and develops and monitors action plans to resolve the problems associated with the assets. The Credit Policy Division also approves recommendations for establishing the appropriate level of the allowance for credit losses. Significant problem loans are transferred to the Bank's Special Assets Department for resolution or collection activities. We review asset quality at least quarterly.

Allowance for Credit Losses: In originating loans, we recognize that losses will be experienced and that the risk of loss will vary with, among other things, the type of loan being made, the creditworthiness of the borrower over the term of the loan, general economic conditions and, in the case of a secured loan, the quality of the security for the loan. The allowance for credit losses is maintained at a level sufficient to provide for expected credit losses over the life of the loan based on evaluating specific risk characteristics in the current loan portfolio and forecasted economic conditions, as well as historical credit loss experience. We increase our allowance for credit losses by charging a provision for credit losses against income.

Real Estate Owned: Real estate owned (REO) is property acquired by foreclosure or receiving a deed in-lieu-of foreclosure and is recorded at the estimated fair value of the property, less expected selling costs. Development and improvement costs relating to the property are capitalized to the extent they add value to the property. The carrying value of the property is periodically evaluated by Management and, if necessary, allowances are established to reduce the carrying value to net realizable value. Gains or losses at the time the property is sold are credited or charged to operations in the period in which they are realized. The amounts we will ultimately recover from REO may differ substantially from the carrying value of the assets because of market factors beyond our control or because of changes in our strategies for recovering the investment.

Investment Activities

Investment Securities: Under Washington state law and FDIC regulation, banks are permitted to invest in various types of marketable securities. Authorized securities include but are not limited to Treasury obligations, securities of various federal agencies (including government-sponsored enterprises), mortgage-backed and asset-backed securities, certain certificates of deposit of insured banks and savings institutions, bankers' acceptances, repurchase agreements, federal funds, commercial paper, corporate debt and equity securities and obligations of states and their political subdivisions. Our investment policies are designed to provide and maintain adequate liquidity and to generate favorable rates of return without incurring undue interest rate risk or credit risk. Our policies generally limit investments to U.S. Government and agency (including government-sponsored entities) securities, municipal bonds, certificates of deposit, corporate debt obligations and mortgage-backed securities. Investment in mortgage-backed securities may include those issued or guaranteed by Freddie Mac, Fannie Mae, Government National Mortgage Association (Ginnie Mae or GNMA) and investment grade privately issued mortgage-backed securities, and collateralized mortgage obligations (CMOs). All of our investment securities, including those with a credit rating, are subject to market risk in so far as a change in market rates of interest or other conditions may cause a change in an investment's earnings performance and/or market value.

Derivatives: We are party to various derivative instruments that are used for asset and liability management and client financing needs. Derivative instruments are contracts between two or more parties that have a notional amount and an underlying variable, require no net investment and allow for the net settlement of positions. The notional amount serves as the basis for the payment provision of the contract and takes the form of units, such as shares or dollars. The underlying variable represents a specified interest rate, index, or other component. The interaction between the notional amount and the underlying variable determines the number of units to be exchanged between the parties and influences the market value of the derivative contract.

Our predominant derivative and hedging activities involve interest rate swaps related to certain term loans, interest rate lock commitments to borrowers, and forward sales contracts associated with mortgage banking activities. Generally, these instruments help us manage exposure to market risk and meet client financing needs. Market risk represents the possibility that economic value or net interest income will be adversely affected by fluctuations in external factors such as market-driven interest rates and prices or other economic factors.

Deposit Activities and Other Sources of Funds

General: Deposits, FHLB advances (or other borrowings) and loan repayments are our major sources of funds for lending and other investment purposes. Scheduled loan repayments are a relatively stable source of funds, while deposit inflows and outflows and loan prepayments are influenced by general economic, interest rate and money market conditions and may vary significantly. Borrowings may be used on a short-term basis to compensate for reductions in the availability of funds from other sources. Borrowings may also be used on a longer-term basis to fund loans and investments, and to manage interest rate risk.

We face competition from various financial institutions and intermediaries for deposits. Intense competition exists for transaction balances and savings deposits, with commercial banks, credit unions and non-bank entities, including securities brokerage firms, mutual funds and diversified corporations with nationwide office networks, actively participating. Our efforts, including acquisitions, branch relocations, renovations, and marketing campaigns, are primarily focused on expanding deposit client relationships and balances. In addition, our electronic and digital banking activities, encompassing debit card and ATM programs, internet banking services, and remote deposit and mobile banking capabilities, aim to offer products and services that not only enhance client relationships but also contribute to the growth of deposit balances and generate fee income. Core deposits, consisting of non-interest-bearing checking accounts and interest-bearing transaction and savings accounts, constitute a fundamental element of our business strategy. As of December 31, 2023, core deposits represented 89% of total deposits, down from 95% a year earlier.

Deposit Accounts: We generally attract deposits from within our primary market areas by offering a broad selection of deposit instruments, including non-interest-bearing checking accounts, interest-bearing checking accounts, money market deposit accounts, regular savings accounts, certificates of deposit, treasury management services and retirement savings plans. Deposit account terms vary according to the minimum balance required, the time periods the funds must remain on deposit and the interest rate, among other factors. In determining the terms of deposit accounts, we consider current market interest rates, profitability to us, matching deposit and loan products and client preferences and concerns.

Borrowings: While deposits are the primary source of funds for our lending and investment activities and for general business purposes, we also use borrowings to supplement our supply of lendable funds, to meet deposit withdrawal requirements and to more efficiently leverage our capital position. The FHLB serves as our primary borrowing source. The FHLB provides credit for member financial institutions such as the Bank. As a member, the Bank is required to own capital stock in the FHLB and is authorized to apply for advances on the security of that stock and certain of its mortgage loans and securities, provided that certain credit worthiness standards have been met. Limitations on the amount of advances are based on the financial condition of the member institution, the adequacy of collateral pledged to secure the credit, and FHLB stock ownership requirements. The Federal Reserve Bank serves as an additional source of borrowing capacity. The Federal Reserve Bank provides credit based upon acceptable loan collateral, which includes certain loan types not eligible for pledging to the FHLB.

In addition, the Bank has federal funds line of credit agreements with other financial institutions. Availability of lines is subject to federal funds balances available for loan and continued borrower eligibility. These lines are intended to support short-term liquidity needs and the agreements may restrict consecutive day usage.

We issue retail repurchase agreements, generally due within 90 days, as an additional source of funds, primarily in connection with treasury management services provided to our larger deposit clients. We also may borrow funds through the use of secured wholesale repurchase agreements with securities brokers.

Between 2002 and 2007, we issued junior subordinated debentures in conjunction with the sale of trust preferred securities (TPS). These securities were sold through special purpose business trusts established by Banner and were privately offered to pooled investment vehicles. The proceeds from the TPS issuances were predominantly invested as additional paid-in capital at the Bank. In addition, through acquisitions, Banner acquired additional junior subordinated debentures. During 2020, we issued and sold 5.0% fixed-to-floating subordinated notes, which are due in 2030.

Personnel

Human Capital

At Banner, our employees are a critical component of our success. Because our business depends on our ability to retain, develop and attract top talent, we seek to provide a work environment that allows for career growth and opportunities for meaningful community involvement. Our employees contribute to our commitment to corporate responsibility through personal volunteerism and active engagement in the communities in which they live and work.

As our business grows and evolves, the demand for qualified candidates continues to grow. Meanwhile, the pool of experienced candidates in the financial services industry is shrinking, presenting a growing challenge to securing top talent. To address this challenge, we have developed and continue to enhance a robust and comprehensive company-wide talent management program. This program encompasses talent acquisition and selection, performance coaching, career development, retention of top talent and succession planning, all with a commitment to promoting diversity, equity and inclusion.

Diversity, Equity and Inclusion (DEI). We believe that diversity of thought and experiences results in better outcomes for all of our stakeholders and empowers our employees to make more meaningful contributions within our Company and communities.

Our Board of Directors, through its Compensation and Human Capital Committee and in partnership with the Bank’s executive team, including its Chief Human Resources and Diversity Officer, oversees our human capital management strategies, programs and practices, including our diversity and inclusion initiatives; governs our establishment, maintenance and administration of appropriately designed compensation programs and plans; and reviews our employee engagement and exit survey trends.

Our cross-functional, employee-led DEI council provides leadership and serves as a catalyst for inclusion and diversity initiatives across our organization. The DEI council is intended to help develop effective strategies to encourage diversity, equity and inclusion in our workplace and to attract, develop and retain diverse talent. Our CEO, Mark Grescovich, signed the CEO Action for Diversity & Inclusion Pledge in 2022 to demonstrate our commitment to fostering a diverse and inclusive workplace. With this commitment, among other things, we require all of our employees, including new hires, to complete unconscious bias training to help them recognize their blind spots. In addition to unconscious bias training, in 2023, we provided quarterly DEI learning opportunities on topics such as LGBTQ+ Inclusion, DEI at Work, and Cultural Competence.

In 2023, we conducted a pulse survey to assess our inclusion and diversity efforts. Over 1,000 employees participated and the results indicated we are strong at integrating differences, providing psychological safety, and creating a sense of belonging. Additionally, our employees provided feedback on which Employee Resource Groups (ERGs) to add in 2023. In response, we launched two new ERGs in 2023-- Black, Indigenous, People of Color (BIPOC) and Veterans, in addition to the two ERGs that were established in 2022-- Women in Leadership and Working Parents and Caregivers. Our ERGs give employees the opportunity to discuss issues important to the group and are designed to support our business goals, diversify our leadership, and promote an inclusive and supportive culture.

We aim to maintain a work environment where every employee is treated with dignity and respect, is free from discrimination and harassment and is allowed to devote their full attention and best efforts to performing their job to the best of their ability; we maintain a Respectful Workplace Policy in alignment with this commitment. We strive to operate with an “open door policy” where employee concerns can be discussed anytime directly with leadership or human resources.

Employing the best talent—including individuals who possess a broad range of experiences, backgrounds and skills—enables us to anticipate and meet the needs of our business and our clients. We have a strong team of colleagues who are collectively capable of professionally operating the business and fulfilling our vision. The following tables illustrate our employees’ gender and racial diversity by level as of December 31, 2023:

Employee Position Level	Female	Male
Individual Contributor	69 %	31 %
Manager	65 %	35 %
Director*	44 %	56 %
Executive	40 %	60 %
Total workforce	67 %	33 %

* Refers to director-level employees, not Board of Directors

Employee Position Level	Persons of Color	White
Individual Contributor	30 %	70 %
Manager	22 %	78 %
Director*	15 %	85 %
Executive	— %	100 %
Total workforce	28 %	72 %

* Refers to director-level employees, not Board of Directors

Talent Acquisition and Attrition. To cultivate and recruit hard-to-fill positions, we partner closely with several colleges and universities with well-known programs relevant to our business. In 2023, we continued our Flexible Workplace Program which provides hybrid and remote career opportunities. The program was formally launched in 2022 to support hiring talent from a more diverse group of candidates, improve the work experience for our employees, enhance retention and strengthen our leadership pipeline. Additionally, we remain highly focused on retention of female and diverse talent where competitive pressures continue to escalate. Our voluntary employee turnover rate in 2023 decreased to 15% as compared to 21% in 2022.

Our employment application and hiring processes do not solicit prior compensation information from candidates. This approach helps ensure that our new hire compensation is based on individual qualifications and roles, rather than being influenced by a candidate's previous compensation history. In 2023, Banner initiated a partnership with BankWork\$, an organization dedicated to assisting young adults from under-resourced communities in building meaningful careers in banking. This collaboration involves a free, eight-week career training program, placement assistance, and ongoing coaching. As a result of this partnership, we successfully hired seven participants from the BankWork\$ program. In total, we hired 355 new employees into our workforce in 2023. As of December 31, 2023, approximately 38% of our workforce was working remotely. Among remote employees, women comprised 65% and people of color represented 21%. Our flexibility to accommodate remote work arrangements underscores our commitment to fostering a diverse and inclusive workplace and creating a more equitable work environment, by addressing some of the challenges that tend to disproportionately impact women and people of color.

Employee Engagement. We utilize anonymous employee surveys to gather valuable feedback on key initiatives, utilizing the results to enhance existing programs and develop new ones. In our commitment to fostering employee engagement and transparency, we share the survey results with our workforce. Additionally, senior leadership analyzes areas of progress or opportunities for improvement, prioritizing responsive actions and activities. In 2023, we conducted an engagement survey, achieving an overall engagement score of 86%, with 76% of our employees participating in the survey. The survey results, among other things, indicated that our employees demonstrate ethical conduct in business dealings, possess knowledge about our clients' needs, and understand their own contributions to the Bank's goals. Beyond a formal engagement survey, we provide regular opportunities for managers and employees to ask questions, raise concerns and provide suggestions for ways to build a better and stronger company. Throughout 2023, this initiative included quarterly virtual meetings where we communicated our results and progress on strategic initiatives. Additionally, more than 1,300 employees attended more than a dozen in-person employee townhalls providing direct access for employees to engage with Company leaders. This multifaceted approach supports open communication channels and strengthens our commitment to continuous improvement and employee satisfaction.

Total Rewards (Compensation and Benefits). We provide robust compensation and benefits programs to help meet the needs of our employees. These programs include, subject to eligibility policies, variable pay tied to performance for all employees, a 401(k) plan (including an employer match up to 4% of eligible earnings), healthcare and insurance benefits, health savings and flexible spending accounts, paid time off, family care resources, flexible work schedules, employee assistance programs and tuition assistance, among many others. New employees are eligible for group benefits on the first day of the month following their hire date. For some employees, this means they become eligible for coverage in their first week of employment. We also grant long-term, stock-based incentive awards to a select group of senior leaders who we believe play critical roles in the Company's future. We believe our compensation program is competitive within the financial industry, and we periodically review our plans and programs, as well as market surveys, to help ensure that our compensation program is consistent with our level of performance and that we have a current understanding of peer practices.

We offer comprehensive health insurance coverage, including telehealth services, to employees working an average of 20 hours or more per week. Coverage is also available to eligible employees' family members including domestic partners. Beyond traditional health insurance, we offer a range of mental health-related programs and benefits, including text-based and telehealth services, a 24-hour nurse line and an employee assistance program. Additionally, we offer virtual physical therapy benefits, virtual support for hypertension and diabetes, and subsidized child, adult or senior care planning services. To further support employees and their caregivers dealing with cancer, we offer cancer support services. Dedicated cancer care coaches are available 24/7 to provide personalized guidance on navigating the complexities of cancer care.

In addition to our core benefits program, we recognize the importance of supporting employees during significant life events. Therefore, we offer parental leave, providing eight weeks of leave for both birth and non-birth parents, including adoption or surrogacy. Our benefits package also includes traditional sick leave of up to 10 days per year and 12 weeks of short-term disability coverage. Furthermore, employees have the flexibility to take up to 16 paid personal hours throughout the year to observe individual days of significance, such as religious holidays or culturally significant days, or for other personal reasons. This comprehensive benefits package reflects our commitment to the well-being and work-life balance of our valued employees.

Pay Equity. Pay equity and pay transparency are core tenets of our compensation philosophy and central to our values. We began conducting thorough pay equity studies in 2017, collaborating with external experts to ensure a methodical examination of employee groups with similar roles. These studies take into account various factors that appropriately explain differences in pay, including job location and experience. We intend to continue conducting comprehensive pay equity studies on a periodic basis to support our commitment to fostering fair and equitable compensation practices.

In January 2023, as part of our ongoing commitment to fair pay, we took a significant step by raising our company minimum hourly wage to \$18 per hour and carefully reviewed and made appropriate compensation adjustments for other positions directly and indirectly affected by this change. This proactive measure demonstrates our dedication to maintaining fair compensation structures and ensuring that our employees are fairly rewarded for their contributions. We remain committed to upholding pay equity and transparency as essential components of our organizational values.

Incentive Compensation Risk Management. We strive to align incentives with the risk and performance frameworks of the Company. The Company's "pay for performance" philosophy connects individual, operating unit and Company results to compensation, providing employees with opportunities to share in the Company's overall growth and success. We develop, execute and govern all incentive compensation plans to discourage imprudent or excessive risk-taking and balance financial reward in a manner that supports our clients, employees and Company.

Health, Safety and Well-being. The success of our business is fundamentally connected to the well-being of our employees. We provide employees and their families with access to a variety of programs to support their physical and mental health. We offer a wellness coach benefit (which can also be shared with up to five non-family members) that provides unlimited free one-on-one personal coaching in several different categories such as fitness, nutrition, life coaching, and financial coaching, as well as a range of tools to improve sleep quality.

Volunteerism. We strive to be a good corporate citizen by encouraging employees to be engaged in the communities where they live and work. To help remove roadblocks to volunteering, we offer Community Connections, a program that offers employees up to 16 hours of paid time off to volunteer at non-profit organizations of their choice. We also encourage employees to serve in leadership roles in these organizations as part of their professional development. We are proud to support many local community organizations through financial contributions and employee-driven volunteerism, including Junior Achievement, United Way and hundreds of other organizations.

Talent Development. We invest significant resources developing the talent needed to be an employer of choice by providing a variety of professional development opportunities, including participation in industry conferences, instructor-led continuing education and training sessions, as well as online training sessions that focus on industry, regulatory, business, and leadership topics to help our employees achieve their career goals, build management skills and lead their teams. To encourage advancement and growth within our organization, we provide information and guides to help individuals design their own career paths. With this strong focus on internal talent development, we filled 22% of all open positions with internal candidates in 2023. Internal mobility is a particular focus for our DEI council as part of our strategy to increase diverse representation at more senior levels of the organization.

As part of our commitment to continuous learning, we require that all employees complete a diverse range of online training courses annually. These include both job-specific courses and general courses covering regulatory compliance, cybersecurity, fraud prevention, workplace standards, and ethics. We also encourage employees to enroll in outside education programs to broaden their knowledge and enhance job performance, and facilitate career growth by providing tuition assistance to help employees obtain bachelor's and master's degrees. This comprehensive approach underscores our dedication to nurturing a skilled, diverse, and empowered workforce.

Succession Planning. Recognizing the critical significance of succession planning for our CEO and other key executives, our Board of Directors takes an active role in overseeing and monitoring these efforts. Annually, the Board conducts a thorough review of our succession plans for senior leadership roles. The primary objective is to ensure that we consistently have the appropriate leadership talent in place, aligning with the organization's long-term strategic plans. To facilitate this oversight, the Board engages through its Compensation and Human Capital Committee, which provides dedicated governance of talent development and succession planning for senior leadership roles. This committee is responsible for reviewing various metrics, including those related to the gender and ethnic diversity of high-potential employees. By doing so, the Board gains a comprehensive understanding of the talent pipeline, fostering a commitment to diversity and inclusion at the highest levels of our organization.

Human Capital Metrics. We capture critical metrics regarding human capital management and report them to the Compensation and Human Capital Committee of the Board of Directors on a quarterly basis. The Human Capital Management Dashboard includes a mixture of trending and point-in-time metrics designed to provide information and analysis of workforce demographics; talent acquisition; workforce stability (retention, turnover, etc.); employee engagement; learning and development; and total rewards. As of December 31, 2023, we employed 1,928 full- and part-time employees across our four-state footprint, which equates to 1,966 full-time equivalent employees (based on scheduled hours). Our employees are not represented by a collective bargaining agreement. As of December 31, 2023, 58% of our employees work in Washington State. We also have employees working in Oregon (19%), California (15%) and other states (8%). As of December 31, 2023, four generations of employees were represented in our workplace with Millennials being our largest generation (37%), followed by Gen-Xers (36%), Boomers (17%) and Gen-Zers (10%).

Taxation

Tax-Sharing Agreement

The Company files its federal and state income tax returns on a consolidated basis under a tax-sharing agreement between Banner and the Bank, including the Bank's subsidiaries. Each company of the consolidated group has calculated a minimum income tax which would be required if the individual subsidiary were to file federal and state income tax returns as a separate entity. Each subsidiary pays to Banner an amount equal to the estimated income tax due if it were to file as a separate entity. The payment is made on or about the time the subsidiary would be required to make such tax payments to the United States Treasury or the applicable State Departments of Revenue. In the event the computation of the subsidiary's federal or state income tax liability, after taking into account any estimated tax payments made, would result in a refund if the subsidiary were filing income tax returns as a separate entity, then Banner pays to the subsidiary an amount equal to the hypothetical refund. Banner is an agent for each subsidiary with respect to all matters related to the consolidated tax returns and refunds claims. If Banner's consolidated federal or state income tax liability is adjusted for any period, the liability of each party under the tax-sharing agreement is recomputed to give effect to such adjustments and any additional payments required as a result of the adjustments are made within a reasonable time after the corresponding additional tax payments are made or refunds are received.

Federal Taxation

For tax reporting purposes, we report our income on a calendar year basis using the accrual method of accounting on a consolidated basis. We are subject to federal income taxation in the same manner as other corporations with some exceptions, including particularly the reserve for bad debts.

State Taxation

Washington Taxation: We are subject to a Business and Occupation (B&O) tax which is imposed by the State of Washington on gross receipts. Interest received on loans secured by mortgages or deeds of trust on residential properties, residential mortgage-backed securities, and certain U.S. Government and agency securities is not subject to this tax.

California, Oregon, Idaho, Montana and Utah Taxation: Corporations with nexus in the states of California, Oregon, Idaho, Montana and Utah are subject to a corporate level income tax. In addition, the state of Oregon has a tax on Oregon corporate revenue. If a large percentage of our income were to come from these states, our state income tax provision would have an increased effect on our effective tax rate and results of operations.

Competition

We encounter significant competition both in attracting deposits and in originating loans. Our most direct competition for deposits comes from other commercial and savings banks, savings associations and credit unions with offices in our market areas. We also experience competition from securities firms, insurance companies, money market and mutual funds, and other investment vehicles. We expect continued strong competition from such financial institutions and investment vehicles in the foreseeable future, including competition from online banking competitors and "FinTech" companies that rely on technology to provide financial services. Our ability to attract and retain deposits depends on our ability to provide transaction services and investment opportunities that satisfy the requirements of depositors. We compete for deposits by offering a variety of accounts and financial services, including electronic banking capabilities, with competitive rates and terms, at convenient locations and business hours, and delivered with a high level of personal service and expertise.

Competition for loans comes principally from other commercial banks, loan brokers, mortgage banking companies, savings banks and credit unions and for agricultural loans from the Farm Credit Administration. The competition for loans is intense as a result of the large number of institutions competing in our market areas. We compete for loans primarily by offering competitive rates and fees and providing timely decisions and excellent service to borrowers.

Regulation

General: As a state-chartered, federally insured commercial bank, the Bank is subject to extensive regulation and must comply with various statutory and regulatory requirements, including prescribed minimum capital standards. The Bank is regularly examined by the FDIC and the Washington DFI and files periodic reports about its activities and financial condition with these banking regulators. The Bank's relationship with depositors and borrowers is also regulated to a great extent by both federal and state law, especially in such matters as the ownership of deposit accounts and the form and content of mortgage and other loan documents.

Federal and state banking laws and regulations govern all areas of the operation of the Bank, including reserves, loans, investments, deposits, capital, issuance of securities, payment of dividends and establishment of branches. Federal and state bank regulatory agencies also have the general authority to limit the dividends paid by insured banks and bank holding companies if such payments should be deemed to constitute an unsafe and unsound practice and in other circumstances. The Federal Reserve and FDIC, as the respective primary federal regulators of Banner and of the Bank, have authority to impose penalties, initiate civil and administrative actions and take other steps intended to prevent banks from engaging in unsafe or unsound practices. The Consumer Financial Protection Bureau (CFPB) is an independent bureau within the Federal Reserve System. The CFPB is responsible for the implementation of the federal financial consumer protection and fair lending laws and regulations and has authority to impose new requirements.

Any change in applicable laws, regulations, or regulatory policies may have a material effect on our business, operations, and prospects. We cannot predict the nature or the extent of the effects on our business and earnings that any fiscal or monetary policies or new federal or state legislation may have in the future.

The following is a summary discussion of certain laws and regulations applicable to Banner and the Bank, which is qualified in its entirety by reference to the actual laws and regulations.

Banner Bank

State Regulation and Supervision: As a Washington state-chartered commercial bank with branches in Washington, Oregon, Idaho and California, the Bank is subject not only to the applicable provisions of Washington law and regulations, but is also subject to Oregon, Idaho and California law and regulations. These state laws and regulations govern the Bank's ability to take deposits and pay interest thereon, to make loans on or invest in residential and other real estate, to make consumer loans, to invest in securities, to offer various banking services to its clients and to establish branch offices.

Deposit Insurance: The Deposit Insurance Fund of the FDIC insures deposit accounts of the Bank up to \$250,000 per separately insured deposit relationship category. As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of, and to require reporting by, FDIC-insured institutions. Under the FDIC's rules, the assessment base for a bank is equal to its total average consolidated assets less average tangible capital.

Under the current rules, when the reserve ratio for the prior assessment period reaches, or is greater than 2.0% and less than 2.5%, assessment rates will range from two basis points to 28 basis points and when the reserve ratio for the prior assessment period is greater than 2.5%, assessment rates will range from one basis-point to 25 basis points (in each case subject to adjustments as described above for current rates). No institution may pay a dividend if it is in default on its federal deposit insurance assessment. As of December 31, 2023, assessment rates ranged from five basis points to 32 basis points for all institutions, subject to adjustments for unsecured debt issued by the institution, unsecured debt issued by other FDIC-insured institutions, and brokered deposits held by the institution.

Extraordinary growth in insured deposits during the first and second quarters of 2020 caused the Deposit Insurance Fund (DIF) reserve ratio to decline below the statutory minimum of 1.35 percent as of June 30, 2020. In September 2020, the FDIC Board of Directors adopted a Restoration Plan to restore the reserve ratio to at least 1.35 percent within eight years, absent extraordinary circumstances, as required by the Federal Deposit Insurance Act. The Restoration Plan maintained the assessment rate schedules in place at the time and required the FDIC to update its analysis and projections for the DIF balance and reserve ratio at least semiannually.

In the semiannual update for the Restoration Plan in June 2022, the FDIC projected that the reserve ratio was at risk of not reaching the statutory minimum of 1.35 percent by September 30, 2028, the statutory deadline to restore the reserve ratio. Based on this update, the FDIC Board approved an Amended Restoration Plan, and concurrently proposed an increase in initial base deposit insurance assessment rate schedules uniformly by 2 basis points, applicable to all insured depository institutions.

In October 2022, the FDIC Board finalized the increase with an effective date of January 1, 2023, applicable to the first quarterly assessment period of 2023. The revised assessment rate schedules are intended to increase the likelihood that the reserve ratio of the DIF reaches the statutory minimum level of 1.35 percent by September 30, 2028.

In November 2023, the FDIC Board approved a final rule to implement a special assessment to recover the loss to the DIF associated with protecting uninsured depositors following the closures of Silicon Valley Bank and Signature Bank. The special assessment will be collected at an annual rate of approximately 13.4 basis points for an anticipated total of eight quarterly assessment periods beginning with the first quarterly assessment period of 2024. The assessment base is equal to an insured depository institution's estimated uninsured deposits as of December 31, 2022, adjusted to exclude the first \$5 billion. As of December 31, 2022, the Bank's estimated uninsured deposits were \$4.84 billion.

The FDIC conducts examinations of and requires reporting by state non-member banks, such as the Bank. The FDIC also may prohibit any insured institution from engaging in any activity determined by regulation or order to pose a serious risk to the deposit insurance fund.

The FDIC may terminate the deposit insurance of any insured depository institution if it determines after a hearing that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed by an agreement with the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance if the institution has no tangible capital. If insurance of accounts is terminated, the accounts at the institution at the time of the termination, less subsequent withdrawals, shall continue to be insured for a period of six months to two years, as determined by the FDIC. Management is not aware of any existing circumstances which would result in termination of deposit insurance of the Bank.

Standards for Safety and Soundness: The federal banking regulatory agencies have prescribed, by regulation, guidelines for all insured depository institutions relating to internal controls, information systems and internal audit systems; loan documentation; credit underwriting; interest rate risk exposure; asset growth; asset quality; earnings; and compensation, fees and benefits. The guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions. Each insured depository institution must implement a comprehensive written information security program that includes administrative, technical, and physical safeguards appropriate to the institution's size and complexity and the nature and scope of its activities. The information security program must be designed to ensure the security and confidentiality of client information, protect against any unanticipated threats or hazards to the security or integrity of such information, protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any client, and ensure the proper disposal of client and consumer information. Each insured depository institution must also develop and implement a risk-based response program to address incidents of unauthorized access to client information in client information systems. If the FDIC determines that an institution fails to meet any of these guidelines, it may require an institution to submit to the FDIC an acceptable plan to achieve compliance.

In October 2023, considering recent and historical bank failures, the FDIC proposed guidelines aimed at establishing corporate governance and risk management expectations for all insured state-chartered banks, excluding those who are member of the Federal Reserve, with total assets exceeding \$10 billion. This initiative, conducted through rulemaking under Section 39 of the Federal Deposit Insurance Act, empowers the FDIC to set forth enforceable standards, incorporated as an appendix to Part 364 of its regulations. The guidelines focus on defining obligations of the board of directors, specifying board composition and committee structures, and outlining expectations for an independent risk management function. The FDIC aims to enhance a bank's safety and soundness, minimizing the likelihood of failure and mitigating potential losses.

Capital Requirements: Bank holding companies, such as Banner, and federally insured financial institutions, such as the Bank, are required to maintain a minimum level of regulatory capital.

Banner and the Bank are subject to minimum required ratios for Common Equity Tier 1 (CET1) capital, Tier 1 capital, total capital and the leverage ratio and a required capital conservation buffer over the required capital ratios.

Under the capital regulations, the minimum capital ratios are: (1) a CET1 capital ratio of 4.5% of risk-weighted assets; (2) a Tier 1 capital ratio of 6.0% of risk-weighted assets; (3) a total risk-based capital ratio of 8.0% of risk-weighted assets; and (4) a leverage ratio (the ratio of Tier 1 capital to average total consolidated assets) of 4.0%. CET1 generally consists of common stock; retained earnings; accumulated other comprehensive income (AOCI) unless an institution elects to exclude AOCI from regulatory capital; and certain minority interests; all subject to applicable regulatory adjustments and deductions. Tier 1 capital generally consists of CET1 and noncumulative perpetual preferred stock. Tier 2 capital generally consists of other preferred stock and subordinated debt meeting certain conditions plus an amount of the allowance for credit losses up to 1.25% of assets. Total capital is the sum of Tier 1 and Tier 2 capital.

Trust preferred securities issued by a bank holding company, such as the Company, with total consolidated assets of less than \$15 billion before May 19, 2010, and treated as regulatory capital are grandfathered, but any such securities issued later are not eligible to be treated as regulatory capital. If an institution grows above \$15 billion as a result of an acquisition, the trust preferred securities are excluded from Tier 1 capital and instead included in Tier 2 capital. Mortgage servicing assets and deferred tax assets over designated percentages of CET1 are deducted from capital. In addition, Tier 1 capital includes AOCI, which includes all unrealized gains and losses on available-for-sale debt and equity securities. However, because of our asset size, we were eligible to elect, and did elect, to permanently opt out of the inclusion of unrealized gains and losses on available-for-sale debt and equity securities in our capital calculations.

For purposes of determining risk-based capital, assets and certain off-balance sheet items are risk-weighted from 0% to 1250%, depending on the risk characteristics of the asset or item. The regulations include a 150% risk weight (up from 100%) for certain high volatility commercial real estate acquisition, development and construction loans and for non-residential mortgage loans that are 90 days past due or otherwise in nonaccrual status; a 20% (up from 0%) credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable (up from 0%); and a 250% risk weight (up from 100%) for mortgage servicing and deferred tax assets that are not deducted from capital.

In addition to the minimum CET1, Tier 1, leverage ratio and total capital ratios, Banner and the Bank must maintain a capital conservation buffer consisting of additional CET1 capital greater than 2.5% of risk-weighted assets above the required minimum risk-based capital levels in order to avoid limitations on paying dividends, repurchasing shares, and paying discretionary bonuses.

To be considered "well capitalized," a bank holding company must have, on a consolidated basis, a total risk-based capital ratio of 10.0% or greater and a Tier 1 risk-based capital ratio of 6.0% or greater and must not be subject to an individual order, directive or agreement under which the FRB requires it to maintain a specific capital level. To be considered "well capitalized," a depository institution must have a Tier 1 risk-based capital ratio of at least 8.0%, a total risk-based capital ratio of at least 10.0%, a CET1 capital ratio of at least 6.5% and a leverage ratio of at least 5.0% and not be subject to an individualized order, directive or agreement under which its primary federal banking regulator requires it to maintain a specific capital level.

Upon adoption of CECL, a banking organization must record a one-time adjustment to its credit loss allowances as of the beginning of the fiscal year of adoption equal to the difference, if any, between the amount of credit loss allowances under the prior methodology and the amount required under CECL. Concurrent with enactment of the CARES Act, federal banking agencies issued an interim final rule that delayed the estimated impact on regulatory capital resulting from the adoption of CECL. The interim final rule provides banking organizations that implemented CECL before the end of 2020 the option to delay for two years the estimated impact of CECL on regulatory capital relative to regulatory capital determined under the prior incurred loss methodology, followed by a three-year transition period to phase out the aggregate amount of capital benefit provided during the initial two-year delay. The changes in the final rule apply only to those banking organizations that elect the CECL transition relief provided under the rule. Banner and the Bank elected this option.

Prompt Corrective Action: Federal statutes establish a supervisory framework for FDIC-insured institutions based on five capital categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. An institution's category depends upon where its capital levels are in relation to relevant capital measures. The well-capitalized category is described above. An institution that is not well capitalized is subject to certain restrictions on brokered deposits, including restrictions on the rates it can offer on its deposits generally. To be considered adequately capitalized, an institution must have the minimum capital ratios described above. Any institution which is neither well capitalized nor adequately capitalized is considered undercapitalized.

Undercapitalized institutions are subject to certain prompt corrective action requirements, regulatory controls and restrictions which become more extensive as an institution becomes more severely undercapitalized. Failure by the Bank to comply with applicable capital requirements would, if unremedied, result in progressively more severe restrictions on its activities and lead to enforcement actions, including, but not limited to, the issuance of a capital directive to ensure the maintenance of required capital levels and, ultimately, the appointment of the FDIC as receiver or conservator. Banking regulators will take prompt corrective action with respect to depository institutions that do not meet minimum capital requirements. Additionally, approval of any regulatory application filed for their review may be dependent on compliance with capital requirements. As of December 31, 2023, Banner and the Bank met the requirements to be "well capitalized" and the capital conservation buffer requirements.

Commercial Real Estate Lending Concentrations: The federal banking agencies have issued guidance on sound risk management practices for concentrations in commercial real estate lending. The particular focus is on exposure to commercial real estate loans that are dependent on the cash flow from the real estate held as collateral and that are likely to be sensitive to conditions in the commercial real estate market (as opposed to real estate collateral held as a secondary source of repayment or as an abundance of caution). The purpose of the guidance is not to limit a bank's commercial real estate lending but to guide banks in developing risk management practices and capital levels commensurate with the level and nature of real estate concentrations. The guidance directs the FDIC and other bank regulatory agencies to focus their supervisory resources on institutions that may have significant commercial real estate loan concentration risk. A bank that has experienced rapid growth in commercial real estate lending, has notable exposure to a specific type of commercial real estate loan, or is approaching or exceeding the following supervisory criteria may be identified for further supervisory analysis with respect to real estate concentration risk:

- Total reported loans for construction, land development and other land represent 100% or more of the bank's total regulatory capital; or
- Total commercial real estate loans (as defined in the guidance) represent 300% or more of the bank's total regulatory capital and the outstanding balance of the bank's commercial real estate loan portfolio has increased 50% or more during the prior 36 months.

The guidance provides that the strength of an institution's lending and risk management practices with respect to such concentrations will be taken into account in supervisory guidance on evaluation of capital adequacy. As of December 31, 2023, the Bank's aggregate recorded loan balances for construction, land development and land loans were 90% of total regulatory capital. In addition, at December 31, 2023, the Bank's loans secured by commercial real estate represent 180% of total regulatory capital.

Activities and Investments of Insured State-Chartered Financial Institutions: Federal law generally limits the activities and equity investments of FDIC insured, state-chartered banks to those that are permissible for national banks. An insured state bank is not prohibited from, among other things, (1) acquiring or retaining a majority interest in a subsidiary, (2) investing as a limited partner in a partnership the sole purpose of which is direct or indirect investment in the acquisition, rehabilitation or new construction of a qualified housing project, provided that such limited partnership investments may not exceed 2% of the bank's total assets, (3) acquiring up to 10% of the voting stock of a company that solely provides or re-insures directors', trustees' and officers' liability insurance coverage or bankers' blanket bond group insurance coverage for insured depository institutions, and (4) acquiring or retaining the voting shares of a depository institution if certain requirements are met.

Washington State has enacted laws regarding financial institution parity. These laws afford Washington-chartered commercial banks the same powers as Washington-chartered savings banks and provide that Washington-chartered commercial banks may exercise any of the powers that the Federal Reserve has determined to be closely related to the business of banking and the powers of national banks, subject to the approval of the Director in certain situations. Finally, the law provides additional flexibility for Washington-chartered banks with respect to interest rates on loans and other extensions of credit. Specifically, they may charge the maximum interest rate allowable for loans and other extensions of credit by federally chartered financial institutions.

Environmental Issues Associated With Real Estate Lending: The Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) is a federal statute that generally imposes strict liability on all prior and present “owners and operators” of sites containing hazardous waste. However, Congress acted to protect secured creditors by providing that the term “owner and operator” excludes a person whose ownership is limited to protecting its security interest in the site. Since the enactment of the CERCLA, this “secured creditor exemption” has been the subject of judicial interpretations which have left open the possibility that lenders could be liable for cleanup costs on contaminated property that they hold as collateral for a loan. To the extent that legal uncertainty exists in this area, all creditors, including the Bank, that have made loans secured by properties with potentially hazardous waste contamination (such as petroleum contamination) could be subject to liability for cleanup costs, which costs often substantially exceed the value of the collateral property.

Federal Reserve System: The Federal Reserve has the authority to establish reserve requirements on transaction accounts or non-personal time deposits. These reserves may be in the form of cash or non-interest-bearing deposits with the regional Federal Reserve Bank. Interest-bearing checking accounts and other types of accounts that permit payments or transfers to third parties fall within the definition of transaction accounts and are subject to Regulation D reserve requirements, as are any non-personal time deposits at a bank. In March 2020, the Federal Reserve reduced requirements to zero percent to support lending to households and businesses. Currently, the Federal Reserve has stated it has no plans to re-impose reserve requirements. However, the Federal Reserve may adjust reserve requirement ratios in the future if conditions warrant.

Affiliate Transactions: Banner and the Bank are separate and distinct legal entities. Banner (and any non-bank subsidiary of Banner) is an affiliate of the Bank. Federal laws strictly limit the ability of banks to engage in certain transactions with their affiliates. Transactions deemed to be a “covered transaction” under Section 23A of the Federal Reserve Act between a bank and an affiliate are limited to 10% of the bank’s capital and surplus and, with respect to all affiliates, to an aggregate of 20% of the bank’s capital and surplus. Further, covered transactions that are loans and extensions of credit generally are required to be secured by eligible collateral in specified amounts. Federal law also requires that covered transactions and certain other transactions listed in Section 23B of the Federal Reserve Act between a bank and its affiliates be on terms as favorable to the bank as transactions with non-affiliates.

Community Reinvestment Act: The Bank is subject to the provisions of the Community Reinvestment Act of 1977 (CRA), which requires the appropriate federal banking regulatory agency to assess a bank’s performance under the CRA in meeting the credit needs of the community serviced by the bank, including low- and moderate-income neighborhoods. The regulatory agency’s assessment of the bank’s record is made available to the public. Further, a bank’s CRA performance rating must be considered in connection with a bank’s application to, among other things, establish a new branch office that will accept deposits, relocate an existing office or merge or consolidate with, or acquire the assets or assume the liabilities of, a federally regulated financial institution. The Bank received an “outstanding” rating during its most recently completed CRA examination.

On October 24, 2023, the federal banking agencies, including the FDIC issued a final rule designed to strengthen and modernize regulations implementing the CRA. The changes are designed to encourage banks to expand access to credit, investment and banking services in low- and moderate-income communities, adapt to changes in the banking industry including mobile and internet banking, provide greater clarity and consistency in the application of the CRA regulations and tailor CRA evaluations and data collection to bank size and type.

Dividends: The amount of dividends payable by the Bank to the Company depends upon its earnings and capital position, and is limited by federal and state laws, regulations and policies, including the capital conservation buffer requirement. Federal law further provides that no insured depository institution may make any capital distribution (which includes a cash dividend) if, after making the distribution, the institution would be “undercapitalized,” as defined in the prompt corrective action regulations. Moreover, the federal bank regulatory agencies also have the general authority to limit the dividends paid by insured banks if such payments should be deemed to constitute an unsafe and unsound practice. In addition, under Washington law, no bank may declare or pay any dividend in an amount greater than its retained earnings without the prior approval of the Washington DFI. The Washington DFI also has the power to require any bank to suspend the payment of any and all dividends.

Privacy Standards and Cybersecurity: The Gramm-Leach-Bliley Financial Services Modernization Act of 1999 (GLBA) modernized the financial services industry by establishing a comprehensive framework to permit affiliations among commercial banks, insurance companies, securities firms and other financial service providers. Federal banking agencies, including the FDIC, have adopted guidelines for establishing information security standards and cybersecurity programs for implementing safeguards under the supervision of the board of directors. These guidelines, along with related regulatory materials, increasingly focus on risk management and processes related to information technology and the use of third parties in the provision of financial services. These regulations require the Bank to disclose its privacy policy, including informing consumers of its information sharing practices and informing consumers of their rights to opt out of certain practices. In addition, other state cybersecurity and data privacy laws and regulations may expose the Bank to risk and result in certain risk management costs.

The California Consumer Privacy Act of 2018 (the CCPA), which became effective on January 1, 2020, gives California residents the right to request disclosure of information collected about them, and whether that information has been sold or shared with others, the right to request deletion of personal information (subject to certain exceptions), the right to opt out of the sale of personal information, and the right not to be discriminated against for exercising these rights. The CCPA also created a private right of action with statutory damages for data security breaches, thereby increasing potential liability associated with a data breach, which has triggered a number of class action lawsuits against other companies since January 1, 2020. Although the Bank is covered by several fairly broad exemptions from the CCPA's privacy requirements, those exemptions do not extend to the private right of action for a data security breach. In November 2020, voters in the State of California approved the California Privacy Rights Act (CPRA), a ballot measure that amends and supplements the substantive requirements of the CCPA, and provides certain mechanisms for administration and enforcement of the statute by creating the California Privacy Protection Agency, a watchdog privacy agency. The CCPA, the CPRA and other similar state data privacy laws and regulations, may require the establishment by the Bank of certain regulatory compliance and risk management controls. Non-compliance with the CCPA, the CPRA or similar state privacy laws and regulations could lead to substantial regulator-imposed fines and penalties, damages from private causes of action and/or reputational harm.

In addition, Congress and federal regulatory agencies are considering similar laws or regulations that could create new individual privacy rights and impose increased obligations on companies handling personal data. On April 1, 2022, the federal banking agencies' new rule, became effective, providing for new notification requirements for banking organizations and their service providers for significant cybersecurity incidents. Specifically, the new rule requires banking organizations to notify their primary federal regulator as soon as possible, and no later than 36 hours after, the discovery of a computer-security incident that rises to the level of a notification incident as defined by the rule. Notification is required for incidents that have materially affected or are reasonably likely to materially affect the viability of a banking organization's operations, its ability to deliver banking products and services, or the stability of the financial sector. Service providers are required under the rule to notify any affected bank to which it provides services as soon as possible when it determines it has experienced a computer-security incident that has materially disrupted or degraded, or is reasonably likely to materially disrupt or degrade, covered services provided by that entity to the bank for four or more hours.

Anti-Money Laundering and Client Identification: The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act) was signed into law on October 26, 2001. The USA PATRIOT and Bank Secrecy Acts require financial institutions to develop programs to prevent financial institutions from being used for money laundering and terrorist activities. If such activities are detected, financial institutions are obligated to file suspicious activity reports with the U.S. Treasury's Office of Financial Crimes Enforcement Network. Financial institutions must establish procedures to identify and verify the identity of clients seeking to open new financial accounts, and the beneficial owners of accounts. Bank regulators are directed to consider an institution's effectiveness in combating money laundering when ruling on Bank Holding Company Act and Bank Merger Act applications. The Bank's policies and procedures are designed to comply with the requirements of the USA PATRIOT Act.

Other Consumer Protection Laws and Regulations: The CFPB is empowered to exercise broad regulatory, supervisory and enforcement authority with respect to both new and existing consumer financial protection laws. The Bank and its affiliates and subsidiaries are subject to CFPB supervisory and enforcement authority.

The Bank is subject to a broad array of federal and state consumer protection laws and regulations that govern almost every aspect of its business relationships with consumers. While the list set forth below is not exhaustive, these include the Truth-in-Lending Act, the Truth in Savings Act, the Electronic Fund Transfers Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Real Estate Settlement Procedures Act, the Home Mortgage Disclosure Act, the Fair Credit Reporting Act, the Right to Financial Privacy Act, the Home Ownership and Equity Protection Act, the Fair Credit Billing Act, the Homeowners Protection Act, the Check Clearing for the 21st Century Act, flood insurance laws, consumer protection laws connected with the sale of insurance, federal and state laws prohibiting unfair and deceptive business practices, and various regulations that implement some or all of these areas. These laws and regulations mandate certain disclosure requirements and regulate how financial institutions must deal with clients when taking deposits, making loans, collecting loans, and providing other services. Failure to comply with these laws and regulations can subject the Bank to various penalties, including but not limited to, enforcement actions, injunctions, fines, civil liability, criminal penalties, punitive damages, and the loss of certain contractual rights.

Banner Corporation

General: Banner, as sole shareholder of the Bank, is a bank holding company registered with the Federal Reserve. Bank holding companies are subject to comprehensive regulation by the Federal Reserve under the Bank Holding Company Act of 1956, as amended, or the BHCA, and the regulations of the Federal Reserve. We are required to file quarterly reports with the Federal Reserve and provide additional information as the Federal Reserve may require. The Federal Reserve may examine us, and any of our subsidiaries. The Federal Reserve also has extensive enforcement authority over bank holding companies, including, among other things, the ability to assess civil money penalties, to issue cease and desist or removal orders and to require that a holding company divest subsidiaries (including its bank subsidiaries). In general, enforcement actions may be initiated for violations of law and regulations and unsafe or unsound practices. Banner is also required to file certain reports with, and comply with the rules and regulations of the SEC.

The Bank Holding Company Act: Under the BHCA, Banner is supervised by the Federal Reserve. The Federal Reserve has a policy that a bank holding company is required to serve as a source of financial and managerial strength to its subsidiary banks and may not conduct its operations in an unsafe or unsound manner. In addition, the Dodd-Frank Act provides that a bank holding company must serve as a source of financial strength to its subsidiary banks. A bank holding company's failure to meet its obligation to serve as a source of strength to its subsidiary banks will generally be considered by the Federal Reserve to be an unsafe and unsound banking practice or a violation of the Federal Reserve's regulations or both. No regulations have yet been proposed by the Federal Reserve to implement the source of strength provisions of the Dodd-Frank Act. Banner and any subsidiaries that it may control are considered "affiliates" of the Bank within the meaning of the Federal Reserve Act, and transactions between the Bank and affiliates are subject to numerous restrictions. With some exceptions, Banner and its subsidiaries are prohibited from tying the provision of various services, such as extensions of credit, to other services offered by Banner or by its affiliates.

Acquisitions: The BHCA prohibits a bank holding company, with certain exceptions, from acquiring ownership or control of more than 5% of the voting shares of any company that is not a bank or bank holding company and from engaging in activities other than those of banking, managing or controlling banks, or providing services for its subsidiaries. Under the BHCA, the Federal Reserve may approve the ownership of shares by a bank holding company in any company, the activities of which the Federal Reserve has determined to be so closely related to the business of banking or managing or controlling banks as to be a proper incident thereto. These activities include: operating a savings institution, mortgage company, finance company, credit card company or factoring company; performing certain data processing operations; providing certain investment and financial advice; underwriting and acting as an insurance agent for certain types of credit-related insurance; leasing property on a full-payout, non-operating basis; selling money orders, travelers' checks and U.S. Savings Bonds; real estate and personal property appraising; providing tax planning and preparation services; and, subject to certain limitations, providing securities brokerage services for clients.

Federal Securities Laws: Banner's common stock is registered with the SEC under Section 12(b) of the Securities Exchange Act of 1934, as amended. We are subject to information, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act of 1934 (the Exchange Act).

The Dodd-Frank Act: The Dodd-Frank Act imposes various restrictions and an expanded framework of regulatory oversight for financial institutions, including depository institutions, and implements certain capital regulations applicable to Banner and the Bank that are discussed above under the section entitled "Capital Requirements."

Among other things, the Dodd-Frank Act requires public companies, like Banner, to (i) provide their shareholders with a non-binding vote (a) at least once every three years on the compensation paid to executive officers and (b) at least once every six years on whether they should have a "say on pay" vote every one, two or three years; (ii) have a separate, non-binding shareholder vote regarding golden parachutes for named executive officers when a shareholder vote takes place on mergers, acquisitions, dispositions or other transactions that would trigger the parachute payments; (iii) provide disclosure in annual proxy materials about the relationship between executive compensation paid and the financial performance of the issuer; and (iv) disclose the ratio of the Chief Executive Officer's annual total compensation to the median annual total compensation of all other employees.

The regulations to implement the provisions of Section 619 of the Dodd-Frank Act, commonly referred to as the Volcker Rule, contain prohibitions and restrictions on the ability of financial institutions holding companies and their affiliates to engage in proprietary trading and hold certain interests in, or have certain relationships with, various types of investment funds, including hedge funds and private equity funds. Banner is continuously reviewing its investment portfolio to determine if changes in its investment strategies are in compliance with Volcker Rule regulations.

Interstate Banking and Branching: The Federal Reserve must approve a bank holding company's application to acquire control, or acquire all or substantially all the assets, of a bank located in a state other than the holding company's home state, without regard to whether the transaction is prohibited by the laws of any state. The Federal Reserve may not approve the acquisition of a bank that has not been in existence for the minimum time period (not exceeding five years) specified by statutory law of the host state. Nor may the Federal Reserve approve an application if the applicant (and its depository institution affiliates) controls or would control more than 10% of the insured deposits in the United States or 30% or more of the deposits in the target bank's home state or in any state in which the target bank maintains a branch. Federal law does not affect states' authority to limit the percentage of total insured deposits in the state which may be held or controlled by a bank holding company to the extent such limitation does not discriminate against out-of-state banks or bank holding companies. Individual states may also waive the 30% state-wide concentration limit contained in the federal law.

Federal banking agencies are generally authorized to approve interstate merger transactions without regard to whether the transaction is prohibited by the law of any state. Interstate branch acquisitions are permitted only if the law of the state in which the branch is located permits such acquisitions. Interstate mergers and branch acquisitions are subject to the nationwide and statewide insured deposit concentration amounts described above. Under the Dodd-Frank Act, the federal banking agencies may generally approve interstate de novo branching.

Dividends: The Federal Reserve has issued a policy statement on cash dividend payments by bank holding companies, which expresses its view that, although there are no specific regulations restricting dividend payments by bank holding companies other than state corporate laws, a bank holding company must maintain an adequate capital position and generally should not pay cash dividends unless the company’s net income for the past year is sufficient to fully fund the cash dividends and that the prospective rate of earnings appears consistent with the company’s capital needs, asset quality, and overall financial condition. The Federal Reserve policy statement also indicates that it would be inappropriate for a company experiencing serious financial problems to borrow funds to pay dividends. The capital conversion buffer requirement can also restrict Banner’s and the Bank’s ability to pay dividends. Further, under Washington law, Banner is prohibited from paying a dividend if, after making such dividend payment, it would be unable to pay its debts as they become due in the usual course of business. Banner is also prohibited from paying a dividend if its total liabilities, plus the amount that would be needed in the event Banner were to be dissolved at the time of the dividend payment exceed our total assets.

Stock Repurchases: A bank holding company, except for certain “well capitalized” and highly rated bank holding companies, is required to give the Federal Reserve prior written notice of any purchase or redemption of its outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, is equal to 10% or more of its consolidated net worth. The Federal Reserve may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe or unsound practice or would violate any law, regulation, Federal Reserve order or any condition imposed by, or written agreement with, the Federal Reserve.

Information about our Executive Officers

The following table provides information about the executive officers of Banner and the Bank as of December 31, 2023:

<u>Name</u>	<u>Age</u>	<u>Position with Banner Corporation</u>	<u>Position with Banner Bank</u>
Mark J. Grescovich	59	President, Chief Executive Officer, Director	President, Chief Executive Officer, Director
Janet M. Brown	56		Executive Vice President, Chief Information Officer
Robert G. Butterfield	55	Executive Vice President, Chief Financial Officer, Treasurer	Executive Vice President, Chief Financial Officer
James M. Costa	55		Executive Vice President, Chief Risk Officer
James P. Garcia	64		Executive Vice President, Chief Audit Executive
Karen Harrison	65		Executive Vice President, Community Banking Executive
Kayleen R. Kohler	51		Executive Vice President, Human Resources, Chief Diversity Officer
Kenneth A. Larsen	54		Executive Vice President, Mortgage Banking
Sherrey Luetjen	52	Executive Vice President, General Counsel, Ethics Officer, Secretary	Executive Vice President, General Counsel, Secretary
James P. G. McLean	59		Executive Vice President, Commercial Real Estate Lending Division
Cynthia D. Purcell	66		Executive Vice President, Chief Strategy and Administration Officer
M. Kirk Quillin	61		Executive Vice President, Chief Commercial Executive
James T. Reed, Jr.	61		Executive Vice President, Commercial Banking
Jill M. Rice	58		Executive Vice President, Chief Credit Officer

Biographical Information

The following section provides information about the executive officers of Banner Corporation and Banner Bank. There are no family relationships among or between the directors or executive officers.

Mark J. Grescovich is President and Chief Executive Officer, and a director, of Banner Corporation and Banner Bank. Mr. Grescovich became President and a director of Banner Corporation and Banner Bank in April 2010 and became Chief Executive Officer in August 2010, building on an extensive banking career specializing in finance, credit administration and risk management. Under his leadership, Banner has grown from \$4.7 billion in assets in 2010 to more than \$15 billion in 2023 through organic growth and selective acquisitions. During that time, Mr. Grescovich has guided the expansion of the Company’s footprint to over 135 locations in four states. Prior to joining the Bank, Mr. Grescovich was the Executive Vice President and Chief Corporate Banking Officer for FirstMerit Corporation and FirstMerit Bank N.A., a commercial bank with \$14.5 billion in assets and over 200 branch offices in three states. He assumed responsibility for FirstMerit’s commercial and regional line of business in 2007, having served since 1994 in various commercial and corporate banking positions, including Chief Credit Officer. Prior to joining FirstMerit, Mr. Grescovich was a Managing Partner in corporate finance with Sequoia Financial Group, Inc. and a commercial and corporate lending officer and credit analyst with Society National Bank. He earned a bachelor’s degree in finance from Miami University and a master’s degree, also with a finance emphasis, from The University of Akron.

Janet M. Brown joined Banner Bank in 2020 as Chief Information Officer. She directs and oversees information technology and security across Banner Bank, including existing and emerging initiatives. Prior to joining the Company, Ms. Brown's career included more than 25 years of information technology experience. She has specific expertise leading large, complex projects and technology environments. Ms. Brown served as Vice President of Governance & Infrastructure Shared Services at Epiq Global, a worldwide provider of legal services, from November 2018 through October 2020. In June 2018, Epiq Global purchased Garden City Group, where Ms. Brown had served as Senior Vice President and Chief Information Officer since September 2016. From March 2014 to September 2016, Ms. Brown was Vice President, Information Technology Applications for Premera, where she previously served as Information Technology Director, Strategic Services. Ms. Brown attended Washington State University and served eight years in the U.S. Marine Corps. She is a Desert Storm Veteran. Ms. Brown actively volunteers for several children's welfare and development causes in the Puget Sound area and abroad.

Robert G. Butterfield was promoted to Executive Vice President and Chief Financial Officer of Banner Bank in April 2023 and to Executive Vice President and Chief Financial Officer of Banner Corporation in October 2023. Prior to those promotions, he was Senior Vice President and Chief Accounting Officer of Banner Bank, which he joined in 2015. A Certified Public Accountant, Mr. Butterfield has more than 25 years of highly specialized financial expertise, including more than 20 years in the financial services industry. He began his career as an auditor with a national accounting and professional services firm and held financial leadership positions at two community banks, including controller and principal accounting officer. Mr. Butterfield holds a bachelor's degree in accounting from Eastern Washington University and is a graduate of Pacific Coast Banking School. As an active member of his community, he currently serves on the board of directors for Spokane Habitat for Humanity.

James M. Costa joined Banner Bank in October 2021 as Executive Vice President and Chief Risk Officer. He brings nearly 30 years of banking experience to his position. Prior to joining Banner, Mr. Costa served at Mann Lake Group in Minneapolis as the Chief Executive Officer and Founder from October 2020 where he provided advice to banks, trade associations and fintech firms on credit strategy, capital allocation, risk program design, regulatory relations, and compliance risk management. From 2013 to October 2020, he served as an executive officer of TCF Financial Corporation (TCF), including as Executive Vice President and Chief Risk Officer and Chief Credit Officer. TCF was a \$49 billion regional bank holding company with operations in the United States, Canada and Asia. Prior to that, Mr. Costa was Executive Vice President and Head of Credit Strategy for Wachovia in Charlotte, NC, and PNC Financial Corp. A U.S. Air Force Veteran, Mr. Costa earned his bachelor's degree from The Ohio State University and conducted his doctorate studies in economics at the University of Minnesota. He is an active community volunteer for a local Habitat for Humanity and Humane Society, and with the University of Minnesota Center for Children's Cancer Research. Mr. Costa is also an advisory board member for the Midsize Bank Coalition of America and Moody's Analytics.

James P. Garcia is the Chief Audit Executive responsible for proactively identifying and mitigating risks as well as providing internal audit services in the areas of financial compliance, IT governance, and operations. He has more than 40 years of experience in the financial services industry. Prior to joining the Company in 2017, Mr. Garcia served 16 years at the Bank of Hawaii, most recently as Executive Vice President and Chief Audit Executive, with prior positions as Vice President and Senior Audit Manager. Mr. Garcia also has 24 years of experience at Bank of America where he held several positions in consumer and commercial operations management and audit, including Audit Director. Mr. Garcia earned his bachelor's degree in management from St. Mary's College of California and is a graduate of the School of Mortgage Banking. He is a Certified Bank Auditor, holds a Certification in Risk Management Assurance and is a Certified Information Systems Auditor. Mr. Garcia is an active member in the Institute of Internal Audit, the Information Systems Audit and Control Association, and Mid-Sized Bank Coalition of America.

Karen Harrison was promoted to Executive Vice President of Community Banking at Banner Bank in June 2023 after joining Banner Bank in March 2022 as Senior Vice President, Community Banking Director. Ms. Harrison oversees the Bank's branch network, business client management services, merchant services and Banner Investment Services. Ms. Harrison has more than 25 years of experience in financial services, including national leadership positions at large multi-national banks as well as serving nine years on the executive team of a regional credit union as Executive Vice President, Chief Retail Banking and Marketing Officer. From 2011 through March 2022, Ms. Harrison held several regional and national senior leadership roles at Bank of America, in San Diego, CA. Prior to joining Banner Bank in March 2022, Ms. Harrison served as Bank of America's National SBA Executive, leading the bank's nationwide SBA program from 2019 to 2022. Prior roles at Bank of America included National Credit Performance Executive and Small Business Banking Manager. Ms. Harrison earned her bachelor's degree from California State University and an MBA from the University of Phoenix. Additionally, she has completed the Women's Leadership Program at Columbia University Graduate School of Business. An active member of her community, Ms. Harrison has served on the board of directors for Junior Achievement, YMCA, LEAD San Diego, and the National Association of Women Business Owners.

Kayleen R. Kohler joined Banner Bank in 2016 as Executive Vice President of Human Resources and, in January 2021, was also appointed as the Bank's Chief Diversity Officer. Ms. Kohler's focus is on driving organizational design priorities at Banner Bank including leadership development, talent acquisition, workforce planning, employee relations, compensation, benefits, diversity initiatives, payroll, and safety. Prior to joining Banner, Ms. Kohler served 20 years in progressive human resource leadership roles for Plum Creek Timber Company, now Weyerhaeuser. She holds bachelor's degrees in marketing as well as business management from Northwest Missouri State University and a master's degree in organizational management from the University of Phoenix. Through continuing education, she maintains her certifications as a Senior Professional in Human Resources and a Society of Human Resources Management Senior Certified Professional.

Kenneth A. Larsen was promoted to Executive Vice President, Mortgage Banking Director in 2015. He joined Banner Bank in 2005 as Real Estate Administration Manager and was promoted to Mortgage Banking Director in 2010. Mr. Larsen is responsible for Banner Bank's mortgage banking activities from origination, administration, secondary marketing, through loan servicing. Mr. Larsen has a 30-plus year career in mortgage banking, including holding positions in all facets of operations and management. A graduate of Eastern Washington University, he earned a bachelor's degree in education with a degree in Social Science and earned certificates from the Pacific Coast Banking School and the School of Mortgage Banking. Mr. Larsen is also a Certified Mortgage Banker, the highest designation recognized by the Mortgage Bankers Association. Mr. Larsen began his career at Action Mortgage/Sterling Savings, later moving to Peoples Bank of Lynden where he managed mortgage banking operations. Mr. Larsen served as the 90th President of the Seattle Mortgage Bankers Association and Chairman of the Washington Mortgage Bankers Association. He currently serves as a commissioner on the Washington State Housing Finance Commission.

Sherry Luetjen is Executive Vice President, General Counsel and Secretary for Banner Corporation and Banner Bank, as well as Ethics Officer for Banner Corporation. She joined Banner as Senior Vice President and Assistant General Counsel in 2019 and was promoted to her current position in 2021. Ms. Luetjen directs and oversees the company's legal functions. Ms. Luetjen has more than 20 years of legal experience including more than 15 years as in-house counsel in the financial services industry. From 2010 through 2018, Ms. Luetjen was a Managing Director of Legal and Compliance at BlackRock, Inc., where she previously served as a Director of Legal and Compliance from 2007 through 2010. Prior to BlackRock, Ms. Luetjen served as Associate General Counsel at a privately held investment advisory firm. Ms. Luetjen earned concurrent JD and MBA degrees from the University of Washington and earned her bachelor's degree from Seattle University. Ms. Luetjen's community involvement includes nine years of service on the board of directors of The Arboretum Foundation, including two years as board chair.

James P.G. McLean joined Banner Bank in 2010 and is Executive Vice President, Commercial Real Estate Lending. He leads the Affordable Housing Division and LIHTC Investments, Community Financial Corporation, Homebuilder Finance and Income Property Divisions, as well as related loan administration functions. Mr. McLean has more than 30 years of real estate finance experience. His experience includes roles at large national commercial banks and at regional and community banks, as well as 15 years in executive leadership roles and as a principal of a mid-sized regional commercial real estate development firm. Mr. McLean earned his bachelor's degree from the University of Washington. His community volunteering is focused on organizations that serve local youth, including the Boy Scouts of America, Lake Washington School District and numerous coaching positions.

Cynthia D. Purcell is Banner Bank's Executive Vice President and Chief Strategy and Administration Officer, having previously served as Banner Bank's Executive Vice President of Retail Banking and Administration. Ms. Purcell is responsible for leading the execution of the Bank's long-term corporate strategic objectives in addition to leading the community banking, residential lending, digital strategy and delivery channels as well as a number of operational and administrative functions for Banner Bank. She was formerly the Chief Financial Officer of Inland Empire Bank (now Banner Bank), which she joined in 1981. Over her banking career, Ms. Purcell has been deeply involved in advocating for the industry through leadership roles on various boards and committees including state banking associations and the American Bankers Association (ABA). She has also taught banking courses throughout her career, including the ABA Graduate School of Bank Investments and Financial Management, the Northwest Intermediate Banking School, and the Oregon Bankers Association Directors College.

M. Kirk Quillin joined Banner Bank's commercial banking group in 2002 and now serves as Chief Commercial Banking Executive. Mr. Quillin began his career in the banking industry in 1984 with Idaho First National Bank, which is now U.S. Bank. His career also included management positions in commercial lending with Washington Mutual. He earned his bachelor's degree in finance and economics from Boise State University and is certified by the Pacific Coast Banking School and Northwest Intermediate Commercial Lending School. As a dedicated, civic-minded community member, Mr. Quillin was active in Rotary for over 20 years, and served eight years as a Fire Commissioner.

James T. Reed, Jr. began his banking career in 1985 and joined Banner Bank in 1998. Since then he has held several leadership positions with progressive responsibilities within the Commercial Banking division. Today, he is Executive Vice President of Commercial Banking, and leads the teams that focus on commercial banking relationship management, portfolio management, and business development. Mr. Reed earned his bachelor's degree from the University of Washington and is a graduate of Pacific Coast Banking School. Mr. Reed's community involvement includes serving on the Association of Washington Businesses Executive Board as well as having served on the University of Washington Bothell Advisory Board.

Jill M. Rice joined Banner Bank in 2002 as a Regional Credit Risk Manager, was promoted to Senior Credit Officer overseeing the commercial banking credit function in 2008, and to Chief Credit Officer in 2020. Ms. Rice has more than 35 years of credit-related experience, including time as a Senior Bank Examiner with the FDIC. Ms. Rice earned her bachelor's degree from Western Washington University, is a graduate of the Pacific Coast Banking School, and has held the RMA Credit Risk Certification since 2009. Ms. Rice's community involvement includes having served on the board of directors for the Alzheimer's Association Washington State Chapter, and LifeWire, a domestic violence prevention organization, including serving seven years on the board of directors, two of which she was the board president. In addition, she continues to volunteer with the local school districts.

Corporate Information

Our principal executive offices are located at 10 South First Avenue, Walla Walla, Washington 99362. Our company website is www.bannerbank.com. The information contained on our website is not included as a part of, or incorporated by reference into, this Annual Report on Form 10-K. Our Annual Report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to these reports, are available free of charge through our website, as soon as reasonably practicable after we have electronically filed such material with, or furnished such material to, the SEC.

Item 1A – Risk Factors

An investment in our common stock is subject to risks inherent in our business. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all the other information included in this report. The risks described below are not the only ones we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may materially and adversely affect our business, financial condition, capital levels, cash flows, liquidity, results of operations and prospects. The market price of our common stock could decline significantly due to any of these identified or other risks, and you could lose some or all of your investment. The risks discussed below also include forward-looking statements, and our actual results may differ substantially from those discussed in these forward-looking statements. This report is qualified in its entirety by these risk factors.

Risks Related to Macroeconomic Conditions

Our business may be adversely affected by downturns in the national economy and the regional economies on which we depend.

Our operations are significantly affected by national and regional economic conditions. Weakness in the national economy or the economies of the markets in which we operate could have a material adverse effect on our financial condition, results of operations and prospects. We provide banking and financial services primarily to businesses and individuals in the states of Washington, Oregon, California and Idaho. All of our branches and most of our deposit clients are also located in these four states. Further, as a result of a high concentration of our client base in the Puget Sound area and eastern Washington state regions, the deterioration of businesses in these areas, or one or more businesses with a large employee base in these areas, could have a material adverse effect on our business, financial condition, liquidity, results of operations and prospects. As we expand our presence in areas such as San Diego and Sacramento, and throughout California, we will be exposed to concentration risks in those areas as well. In addition, weakness in the global economy and prevalent global supply chain issues have adversely affected numerous businesses within our market areas, particularly those reliant on international trade. Changes in agreements or relationships between the United States and other countries may further impact these businesses and, by extension, our operations.

A downturn in economic conditions, be it due to inflation, recessive trends, geopolitical conflicts, adverse weather, the impact of COVID-19 variants, or other factors, could have a material adverse effect on our business, financial condition, liquidity and results of operations, including but not limited to:

- Reduced demand for our products and services, potentially leading to a decline in our overall loans or assets;
- Elevated instances of loan delinquencies, problematic assets, and foreclosures;
- An increase in our allowance for credit losses on loans;
- Declines in collateral values linked to our loans, thereby diminishing borrowing capacities and asset values tied to existing loans;
- Reduced net worth and liquidity of loan guarantors, possibly impairing their ability to meet commitments to us; and
- Reduction in our low-cost or non-interest-bearing deposits.

A decline in local economic conditions may have a greater effect on our earnings and capital than on the earnings and capital of larger financial institutions whose real estate loans are more geographically diverse. Our loan portfolio is predominantly secured by real estate. Deterioration in the real estate markets where collateral for a loan is real property could negatively affect the borrower's ability to repay the loan and the value of the collateral securing the loan. Real estate values are affected by various factors, including economic conditions, regulatory changes, and natural disasters such as earthquakes, flooding and tornadoes. If we are required to liquidate a significant amount of collateral during a period of reduced real estate values, our financial condition and profitability could be adversely affected.

Adverse changes in the regional and general economy could reduce our growth rate, impair our ability to collect loans and generally have a negative effect on our financial condition and results of operations.

External economic factors, such as changes in monetary policy and inflation and deflation, may have an adverse effect on our business, financial condition and results of operations.

Our financial condition and results of operations are affected by credit policies of monetary authorities, particularly the Federal Reserve. Actions by monetary and fiscal authorities, including the Federal Reserve, could lead to inflation, deflation, or other economic phenomena that could adversely affect our financial performance. Inflation has risen sharply since the end of 2021 at levels not seen for over 40 years. Inflationary pressures, while easing recently, remained elevated throughout most of 2023. Small- to medium-sized businesses may be impacted more during periods of high inflation as they are not able to leverage economics of scale to mitigate cost pressures compared to larger businesses. Consequently, the ability of our business clients to repay their loans may deteriorate quickly, which would adversely impact our results of operations and financial condition. Furthermore, a prolonged period of inflation could cause wages and other costs to the Company to increase, which could adversely affect our results of operations and financial condition. Virtually all our assets and liabilities are monetary in nature. As a result, interest rates tend to have a more significant impact on our performance than general levels of inflation or deflation. Interest rates do not necessarily move in the same direction or by the same magnitude as the prices of goods and services.

Risks related to recent events impacting the banking industry could adversely affect our stock price, results of operations and financial condition.

The banking industry has been negatively impacted by the failures of Silicon Valley Bank and Signature Bank in March 2023, and First Republic Bank in May 2023. These failures highlighted deposit-related risks to the banking industry, in particular the speed at which deposits can be moved. These events led to decreased investor and depositor confidence in regional banks as well as increased volatility in the stock trading prices of regional banks, to varying degrees. Despite differences in business models across the banking industry, further concerns related to these events could adversely impact our deposits, liquidity, results of operations and the trading price of our stock.

Risks Related to Credit and Lending

Our loan portfolio includes loans with a higher risk of loss.

In addition to our first-lien one- to four-family residential real estate lending, we originate construction and land loans, commercial and multifamily mortgage loans, commercial business loans, agricultural mortgage loans and agricultural business loans, and consumer loans, primarily within our market areas, which generally involve a higher risk of loss than first-lien one- to four-family residential real estate lending. We had \$9.29 billion outstanding in these types of higher risk loans at December 31, 2023, compared to \$8.97 billion at December 31, 2022, which typically present different risks to us than our first-lien one- to four-family residential real estate for a number of reasons, including the following:

- *Construction and Land Loans.* At December 31, 2023, construction and land loans were \$1.54 billion, or 14% of our total loan portfolio. This type of lending carries inherent uncertainties in estimating a property's future value upon project completion and the overall cost (including interest) of the project. These uncertainties arise from challenges in estimating construction costs, assessing the market value upon project completion and considering the impact of government regulations on real property. Consequently, accurately evaluating the total funds required to complete a project and determining the loan-to-value ratio for the completed project is often challenging. If the estimate of construction costs proves inaccurate, we may be required to advance funds beyond the amount originally committed to ensure project completion. If our appraisal of a completed project's value proves to be overstated, we may have inadequate security for loan repayment upon project completion and subsequent losses. Challenges such as disputes between borrowers and builders and the failure of builders to pay subcontractors, and the concentration of higher loan amounts among a limited number of builders further increases risk exposure. A downturn in housing or the real estate market could increase delinquencies, defaults and foreclosures, and significantly impair the value of our collateral and our ability to sell the collateral upon foreclosure. Multiple loans to a single builder amplify our risk exposure, wherein adverse developments in one loan or credit relationship pose significant loss potential. In addition, during the term of some of our construction loans, no payment from the borrower is required since the accumulated interest is added to the principal of the loan through an interest reserve. Increases in market rates of interest may have a more pronounced effect on construction loans by rapidly depleting the interest reserves prior to completion and/or increasing the end-purchaser's borrowing costs, thereby possibly reducing the homeowner's ability to finance the home upon completion or the overall demand for the project. Properties under construction are often difficult to sell and typically must be completed in order to be successfully sold, which also complicates the process of managing problem construction loans. This may require us to advance additional funds and/or contract with another builder to complete construction and assume the market risk of selling the project at a future market price, which may or may not enable us to fully recover unpaid loan funds and associated construction and liquidation costs. Loans on land under development or held for future construction also pose additional risk due to the lack of income generation from the property and potential liquidity of collateral, significantly affected by supply and demand. As a result, this type of lending often involves disbursing substantial funds, with repayment dependent on project success and the borrower's ability to sell or lease the property or obtain permanent financing, rather than independent repayment capability.

Construction loans made by us include those with a sales contract or permanent loan in place for the finished homes and those for which purchasers for the finished homes may not be identified either during or following the construction period, known as speculative construction loans. Speculative construction loans pose additional risks, especially regarding finding end-purchasers for finished projects. We attempt to mitigate this risk by actively monitoring the number of unsold homes in our construction loan portfolio and local housing markets in an attempt to maintain an appropriate balance between home sales and new loan originations. In addition, the maximum number of speculative construction loans (loans that are not pre-sold) approved for each builder is based on a combination of factors, including their financial capacity, market demand for the finished product and the ratio of sold to unsold inventory the builder maintains. We have also attempted to diversify the risk associated with speculative construction lending by doing business with a large number of small and mid-sized builders spread over a relatively large geographic region representing numerous sub-markets within our service area.

At December 31, 2023, non-performing construction and land loans totaled \$4.2 million, or 14% of total non-performing loans.

- *Commercial and Multifamily Real Estate Loans.* At December 31, 2023, commercial and multifamily real estate loans were \$4.45 billion, or 41% of our total loan portfolio. Many of these loans involve higher principal amounts than other types of loans and some commercial borrowers maintain multiple loans with us. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to a significantly greater risk of loss compared to an adverse development with respect to a one- to four-family residential mortgage loan. Repayment of these loans typically is dependent upon income being generated from the property securing the loan in amounts sufficient to cover operating expenses and debt service, which may be adversely affected by changes in the economy or local market conditions. In addition, many of our commercial and multifamily real estate loans are not fully amortizing and contain large balloon payments upon maturity. These balloon payments may require the borrower to either sell or refinance the underlying property, potentially heightening the risk of default or non-payment. If we foreclose on a commercial or multifamily real estate loan, our holding period for the collateral typically longer than for one- to four-family residential loans because there are fewer potential purchasers of the collateral. At December 31, 2023, non-performing commercial and multifamily real estate loans totaled \$2.7 million, or 9% of total non-performing loans.
- *Commercial Business Loans.* At December 31, 2023, commercial business loans were \$2.28 billion, or 21% of our total loan portfolio. Our commercial business loans are primarily made based on the cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. A borrower's cash flow may prove to be unpredictable, and collateral securing these loans may fluctuate in value. Most often, this collateral includes accounts receivable, inventory, equipment or real estate. In the case of loans secured by accounts receivable, the availability of funds for repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its clients. Other collateral securing commercial business loans may depreciate over time, may be difficult to appraise, may be illiquid and may fluctuate in value based on the success of the business. At December 31, 2023, non-performing commercial business loans totaled \$9.0 million, or 30% of total non-performing loans.
- *Agricultural Loans.* At December 31, 2023, agricultural loans were \$331.1 million, or 3% of our total loan portfolio. Repayment of agricultural loans is dependent upon the successful operation of the business and is subject to many factors outside the control of either us or the borrowers. These factors include adverse weather conditions that prevent the planting of crops or limit crop yields (such as hail, drought and floods), loss of crops or livestock due to disease or other factors, declines in market prices for agricultural products (both domestically and internationally) and the impact of government regulations (including changes in price supports, subsidies, tariffs and environmental regulations). In addition, many farms are dependent on a limited number of key individuals whose injury or death may significantly affect successful operation of the farm. If the cash flow from a farming operation is diminished, the borrower's ability to repay the loan may be impaired. Consequently, agricultural loans may involve a greater degree of risk than other types of loans, particularly in the case of loans that are unsecured or secured by rapidly depreciating assets such as farm equipment (some of which is highly specialized with a limited or no market for resale), or assets such as livestock or crops. In such cases, any repossessed collateral for a defaulted agricultural operating loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation or because the assessed value of the collateral exceeds the eventual realization value. At December 31, 2023, non-performing agricultural loans totaled \$3.2 million, or 11% of total non-performing loans.
- *Consumer Loans.* At December 31, 2023, consumer loans were \$699.4 million, or 6% of our total loan portfolio. Home equity lines of credit, which represented 84% of our total consumer loan portfolio at December 31, 2023, generally entail greater risk than one- to four-family residential mortgage loans where we are in the first lien position. For home equity lines secured by a second mortgage, it is less likely that we will be successful in recovering all of our loan proceeds in the event of default as the value of the property must be sufficient to cover the repayment of the first mortgage loan, and the costs associated with foreclosure, before the balance on the second mortgage loan is repaid. In the case of consumer loans that are unsecured or secured by rapidly depreciating assets such as automobiles, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. The remaining deficiency often does not warrant further substantial collection efforts against the borrower. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount which can be recovered on these consumer loans. Loans that we purchased, or indirectly originated, may also give rise to claims and defenses by a consumer loan borrower against an assignee of such loans such as us, and a borrower may be able to assert against the assignee claims and defenses that it has against the seller of the underlying collateral. At December 31, 2023, non-performing consumer loans totaled \$3.6 million, or 12% of total non-performing loans.

Our business may be adversely affected by credit risk associated with residential property and declining property values.

At December 31, 2023, first-lien one- to four-family residential loans were \$1.52 billion or 14% of our total loan portfolio. Our first-lien one- to four-family residential loans are primarily made based on the repayment ability of the borrower and the collateral securing these loans. Foreclosure on the loans requires the value of the property to be sufficient to cover the repayment of the loan, and the costs associated with foreclosure.

This type of lending is generally sensitive to regional and local economic conditions that significantly impact the ability of borrowers to meet their loan payment obligations, making loss levels difficult to predict. A downturn in the economy or the housing market in our market areas or a rapid increase in interest rates may reduce the value of the real estate collateral securing these types of loans and increase the risk that we would incur losses if borrowers default on their loans. Residential loans with high combined loan-to-value generally will be more sensitive to declining property values than those with lower combined loan-to-value ratios and therefore may experience a higher incidence of default and severity of losses. In addition, if the borrowers sell their homes, the borrowers may be unable to repay their loans in full from the sale proceeds. As a result, these loans may experience higher rates of delinquencies, defaults and losses, which will in turn adversely affect our financial condition and results of operations.

Our allowance for credit losses on loans may not be sufficient to absorb losses in our loan portfolio, which would cause our results of operations, liquidity and financial condition to be adversely affected.

Lending money is a substantial part of our business and each loan carries a certain risk that it will not be repaid in accordance with its terms or that any underlying collateral will not be sufficient to assure repayment. This risk is affected by, among other things:

- cash flow of the borrower and/or the project being financed;
- in the case of a collateralized loan, the changes and uncertainties as to the future value of the collateral;
- the duration of the loan;
- the character and creditworthiness of a particular borrower; and
- changes in economic and industry conditions.

We maintain an allowance for credit losses—a reserve established through a provision for expected losses—we believe is appropriate to provide for lifetime expected credit losses in our loan portfolio. The appropriate level of the allowance for credit losses is determined by management through periodic reviews and consideration of several factors, including, but not limited to:

- our collective loss reserve, for loans evaluated on a pool basis with similar risk characteristics based on our life of loan historical default and loss experience, certain macroeconomic factors, reasonable and supportable forecasts, regulatory requirements, management's expectations of future events and certain qualitative factors; and
- our individual loss reserve, based on our evaluation of individual loans that do not share similar risk characteristics and the present value of the expected future cash flows or the fair value of the underlying collateral.

Determination of the appropriate level of the allowance for credit losses inherently involves a high degree of subjectivity and requires us to make significant estimates of current credit risks and future trends, all of which may undergo material changes. If our estimates are incorrect, the allowance for credit losses may not be sufficient to cover the expected losses in our loan portfolio, resulting in the need for increases in our allowance for credit losses through the provision for credit losses which is recorded as a charge against income. Management also recognizes that significant new growth in loan portfolios, new loan products and the refinancing of existing loans can result in portfolios comprised of unseasoned loans that may not perform in a historical or projected manner and will increase the risk that our allowance may be insufficient to absorb losses without significant additional provision.

Deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors—both within and outside of our control—may require an increase in the allowance for credit losses. If current conditions in the housing and real estate markets weaken, we expect we will experience increased delinquencies and credit losses.

Bank regulatory agencies also periodically review our allowance for credit losses and may require an increase in the provision for credit losses or the recognition of further loan charge-offs, based on judgments different than those of management. If charge-offs in future periods exceed the allowance for credit losses, we may need additional provision to increase the allowance for credit losses. Any increases in the allowance for credit losses will result in a decrease in net income and, most likely, capital, and may have a material negative effect on our financial condition and results of operations.

Risks Related to Merger and Acquisition Strategy

We pursue a strategy of supplementing internal growth by acquiring other financial companies or their assets and liabilities that we believe will help us fulfill our strategic objectives and enhance our earnings. We may be adversely affected by risks associated with potential acquisitions.

As part of our general growth strategy, we periodically expand our business through acquisitions. Although our business strategy emphasizes organic expansion, from time to time in the ordinary course of business, we engage in discussions with potential acquisition targets. There can be no assurance that we will successfully identify suitable acquisition candidates, complete acquisitions and successfully integrate acquired operations into our existing operations, or expand into new markets. The consummation of any future acquisitions may dilute shareholder value or may have an adverse effect upon our operating results while the operations of the acquired business are being integrated into our operations. In addition, once integrated, acquired operations may not achieve levels of profitability comparable to those achieved by Banner's existing operations, or otherwise perform as expected. Further, transaction-related expenses may adversely affect our earnings. These adverse effects on our earnings and results of operations may have a negative impact on the value of Banner's stock. Acquiring banks, bank branches or businesses involves risks commonly associated with acquisitions, including:

- we may be exposed to potential asset quality issues or unknown or contingent liabilities of the banks, businesses, assets, and liabilities we acquire. If these issues or liabilities exceed our estimates, our results of operations and financial condition may be materially negatively affected;
- higher than expected deposit attrition;
- potential diversion of our management’s time and attention;
- prices at which acquisitions can be made fluctuate with market conditions. We have experienced times during which acquisitions could not be made in specific markets at prices we considered acceptable and expect that we will experience this situation in the future;
- the acquisition of other entities generally requires integration of systems, procedures and personnel of the acquired entity into our company to make the transaction economically successful. This integration process is complicated and time-consuming and can also be disruptive to the clients of the acquired business. If the integration process is not conducted successfully and with minimal adverse effect on the acquired business and its clients, we may not realize the anticipated economic benefits of particular acquisitions within the expected time frame, and we may lose clients or employees of the acquired business. We may also experience greater than anticipated client losses even if the integration process is successful;
- to finance an acquisition, we may borrow funds, thereby increasing our leverage and diminishing our liquidity, or raise additional capital, which could dilute the interests of our existing shareholders;
- we have completed various acquisitions over the years that enhanced our rate of growth. We may not be able to sustain our past rate of growth or to grow at all in the future; and
- to the extent our costs of an acquisition exceed the fair value of the net assets acquired, the acquisition will generate goodwill that must be analyzed for impairment at least annually.

We may incur impairment to goodwill.

In accordance with GAAP, we record assets acquired and liabilities assumed in a business combination at their fair value with the excess of the purchase consideration over the net assets acquired resulting in the recognition of goodwill. As a result, acquisitions typically result in recording goodwill. We perform a goodwill evaluation at least annually to test for goodwill impairment. Our test of goodwill for potential impairment is based on a qualitative assessment by Management that takes into consideration macroeconomic conditions, industry and market conditions, cost or margin factors, financial performance and share price. Our evaluation of the fair value of goodwill involves a substantial amount of judgment. If our judgment was incorrect, or if events or circumstances change, and an impairment of goodwill was deemed to exist, we would be required to record a non-cash charge to earnings in our financial statements during the period in which such impairment is determined to exist. Any such charge could have a material adverse effect on our results of operations.

Risks Related to Market and Interest Rate Changes

Our results of operations, liquidity and cash flows are subject to interest rate risk.

Our earnings and cash flows are largely dependent upon our net interest income. Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies, and in particular the Federal Reserve. Since March 2022, in response to inflation, the Federal Open Market Committee (FOMC) of the Federal Reserve has increased the target range for the federal funds rate by 525 basis points, including 225 basis points during 2023, to a range of 5.25% to 5.50% as of December 31, 2023. As inflation eases, the FOMC has indicated rate decreases may be expected during 2024. However, if the FOMC further increases the targeted federal funds rate, overall interest rates will likely continue to rise, which may negatively impact our net interest margin and loan demand by reducing refinancing activity and new home purchases.

We principally manage interest rate risk by managing our volume and mix of our earning assets and funding liabilities. If we are unable to manage interest rate risk effectively, our business, financial condition and results of operations could be materially affected.

Changes in interest rates could also have a negative impact on our results of operations by reducing the ability of borrowers to repay their current loan obligations or by reducing our margins and profitability. Our net interest margin is the difference between the yield we earn on our assets and the interest rate we pay for deposits and our other sources of funding. Changes in interest rates, up or down, could adversely affect our net interest margin and, as a result, our net interest income. Although the yield we earn on our assets and our funding costs tend to move in the same direction in response to changes in interest rates, one can rise or fall faster than the other, causing our net interest margin to expand or contract. Our liabilities tend to be shorter in duration than our assets, so they may adjust faster in response to changes in interest rates. As a result, when interest rates rise, our funding costs may rise faster than the yield we earn on our assets, causing our net interest margin to contract until the yields on interest-earning assets catch up. Changes in the slope of the “yield curve”—or the spread between short-term and long-term interest rates—could also reduce our net interest margin. Normally, the yield curve is upward sloping, meaning short-term rates are lower than long-term rates. Because our liabilities tend to be shorter in duration than our assets, when the yield curve flattens or even inverts, we could experience pressure on our net interest margin as our cost of funds increases relative to the yield we can earn on our assets. Also, interest rate decreases can lead to increased prepayments of loans and mortgage-backed securities as borrowers refinance their loans to reduce borrowing costs. Under these circumstances, we are subject to reinvestment risk as we may have to redeploy such repayment proceeds into lower yielding investments, which would likely decrease our income.

A sustained increase in market interest rates could adversely affect our earnings. As is the case with many banks, we attempt to maintain or increase our proportion of non-interest-bearing deposits comprising either, which has been challenging over the last year. At December 31, 2023, we had \$1.40 billion in certificates of deposit that mature within one year and \$11.55 billion in non-interest-bearing, negotiable order of withdrawal (NOW) checking, savings and money market accounts. We would incur a higher cost of funds to retain these deposits in a rising interest rate environment. Our net interest income could be adversely affected if the rates we pay on deposits and borrowings increase more rapidly than the rates we earn on loans and other investments.

In addition, a substantial amount of our loans have adjustable interest rates. As a result, these loans may experience a higher rate of default in a rising interest rate environment. Further, a significant portion of our adjustable-rate loans have interest rate floors below which the loan's contractual interest rate may not adjust. Approximately 64% of our loan portfolio was comprised of adjustable or floating-rate loans at December 31, 2023, and approximately \$4.79 billion, or 69%, of those loans contained interest rate floors, below which the loans' contractual interest rate may not adjust. At December 31, 2023, the weighted average floor interest rate of these loans was 4.40%. At that date, approximately \$1.36 billion, or 29%, of these loans were at their floor interest rate. The inability of our loans to adjust downward can contribute to increased income in periods of declining interest rates, although this result is subject to the risks that borrowers may refinance these loans during periods of declining interest rates. Also, when loans are at their floors, there is a further risk that our interest income may not increase as rapidly as our cost of funds during periods of increasing interest rates, which could have a material adverse effect on our results of operations.

Although Management believes it has implemented effective asset and liability management strategies to reduce the potential effects of changes in interest rates on our results of operations, any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on our financial condition, liquidity and results of operations. Also, our interest rate risk modeling techniques and assumptions may not fully predict or capture the impact of actual interest rate changes on our balance sheet or projected operating results.

Our securities portfolio may be negatively impacted by fluctuations in market value and interest rates.

Our securities portfolio may be impacted by fluctuations in market value, potentially reducing accumulated other comprehensive income and/or earnings. Fluctuations in market value may be caused by changes in market interest rates, rating agency actions in respect to the securities, defaults by the issuer or with respect to the underlying securities, lower market prices for securities and limited investor demand. Our available-for-sale debt securities in an unrealized loss position are evaluated to determine whether the decline in fair value has resulted from credit losses or other factors. If a credit loss exists, an allowance for credit losses is recorded for the credit loss, resulting in a charge against earnings. Changes in interest rates can also have an adverse effect on our financial condition, as our available-for-sale securities are reported at their estimated fair value, and therefore are impacted by fluctuations in interest rates. Generally, the fair value of fixed-rate securities fluctuates inversely with changes in interest rates. Unrealized gains and losses on securities available-for-sale are reported as a separate component of AOCI, net of tax. Decreases in the fair value of securities available-for-sale resulting from increases in interest rates could have an adverse effect on shareholders' equity. There can be no assurance that the declines in market value will not result in credit losses, which would lead to additional provision for credit losses that could have a material adverse effect on our net income and capital levels.

An increase in interest rates, change in the programs offered by secondary market purchasers or our ability to qualify for their programs may reduce our mortgage banking revenues, which would negatively impact our non-interest income.

Our mortgage banking operations provide a significant portion of our non-interest income. We generate mortgage banking revenues primarily from gains on the sale of one- to four-family mortgage loans. The one- to four-family mortgage loans are sold pursuant to programs currently offered by Fannie Mae, Freddie Mac, Ginnie Mae and non-Government Sponsored Enterprise (GSE) investors. These entities account for a substantial portion of the secondary market in residential one- to four-family mortgage loans. Future changes in the one- to four-family programs, including our eligibility to participate in these programs, the criteria for loans to be accepted, or laws that significantly affect the activity of such entities could materially adversely affect our results of operations.

Mortgage banking is generally considered a volatile source of income because it depends largely on the level of loan volume which, in turn, depends largely on prevailing market interest rates. In a rising or higher interest rate environment, our originations of mortgage loans may decrease, resulting in fewer loans that are available to be sold to investors. This would result in a decrease in mortgage banking revenues and a corresponding decrease in non-interest income. In addition, our results of operations are affected by the amount of non-interest expense associated with mortgage banking activities, such as salaries and employee benefits, occupancy, equipment and data processing expense and other operating costs. During periods of reduced loan demand, our results of operations may be adversely affected to the extent that we are unable to reduce expenses commensurate with the decline in loan originations. In addition, although we sell loans into the secondary market without recourse, we are required to give customary representations and warranties about the loans to the buyers. If we breach those representations and warranties, the buyers may require us to repurchase the loans and we may incur a loss on the repurchase.

Certain hedging strategies that we use to manage investment in mortgage loans held for sale and interest rate lock commitments may be ineffective to offset any adverse changes in the fair value of these assets due to changes in interest rates and market liquidity.

We use derivative instruments to economically hedge mortgage loans held for sale and interest rate lock commitments to offset changes in fair value resulting from changing interest rate environments. Our hedging strategies are susceptible to prepayment risk, basis risk, market volatility and changes in the shape of the yield curve, among other factors. In addition, hedging strategies rely on assumptions and projections regarding assets and general market factors. If these assumptions and projections prove to be incorrect or our hedging strategies do not adequately mitigate the impact of changes in interest rates, we may incur losses that would adversely impact earnings.

Risks Related to Regulatory, Legal and Compliance

Proposed FDIC guidelines on corporate governance and risk management standards may affect our profitability, capital adequacy, and reputation.

In October 2023, considering recent and historical bank failures, the FDIC proposed guidelines aimed at establishing corporate governance and risk management expectations for all insured state-chartered banks, excluding those who are member of the Federal Reserve, with total assets exceeding \$10 billion. This initiative, conducted through rulemaking under Section 39 of the Federal Deposit Insurance Act, empowers the FDIC to set forth enforceable standards that banks must comply with. The guidelines focus on defining obligations of the board of directors, specifying board composition and committee structures, and outlining expectations for an independent risk management function.

The impetus behind these guidelines stems from the FDIC's observation that financial institutions with deficient corporate governance and risk management practices face a higher risk of failure. The FDIC aims to enhance a bank's safety and soundness, minimizing the likelihood of failure and mitigating potential losses. The introduction of multiple safeguards within a bank's risk management function seeks to avoid a "single point of failure." As currently proposed, the guidelines could have various effects on us, and other banks subject to the guidelines, including:

- elevating compliance costs and operational complexity for the Bank, potentially diminishing net income and return on equity;
- mandating the Bank to maintain increased capital or liquidity to meet the proposed risk management standards, which may limit our ability to leverage assets and generate higher returns;
- subjecting the Bank to heightened regulatory scrutiny and enforcement actions, posing risks to our reputation and the Company's market value;
- creating competitive disparities for covered institutions, such as the Bank, compared to other financial entities not subject to similar standards; and
- making attracting and maintaining qualified directors willing to serve on the Bank's board more difficult.

The precise impact of the proposed guidelines on the Company's profitability, capital adequacy, and reputation remains uncertain at this time.

New or changing tax, accounting, and regulatory rules and interpretations could significantly impact strategic initiatives, results of operations, cash flows, and financial condition.

The financial services industry is extensively regulated. Federal and state banking regulations are designed primarily to protect the deposit insurance funds and consumers, not to benefit our shareholders. Regulations may sometimes impose significant limitations on operations. Regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the imposition of restrictions on the operation of an institution, the classification of assets by the institution and the adequacy of an institution's allowance for credit losses. Bank regulators also have the ability to impose conditions in the approval of merger and acquisition transactions.

Additionally, actions by regulatory agencies or significant litigation against us may lead to penalties that materially affect us. These regulations, along with the current tax, accounting, securities, insurance, and monetary laws, regulations, rules, standards, policies, and interpretations control the methods by which financial institutions conduct business, implement strategic initiatives and tax compliance, and govern financial reporting and disclosures. These laws, regulations, rules, standards, policies, and interpretations are constantly evolving and may change significantly over time. Any new regulations or legislation or change in existing regulations or oversight, whether a change in regulatory policy or a change in a regulator's interpretation of a law or regulation, could have a material impact on our operations, increase our costs of regulatory compliance and of doing business and/or otherwise adversely affect us and our profitability. Further, changes in accounting standards can be both difficult to predict and involve judgment and discretion in their interpretation by us and our independent registered public accounting firm. Changes could materially impact, potentially even retroactively, how we report our financial condition and results of our operations as could our interpretation of those changes. We cannot predict what restrictions may be imposed upon us with future legislation.

Climate change and related legislative and regulatory initiatives may materially affect the Company's business and results of operations.

The effects of climate change continue to create concern for the state of the environment. As a result, the global business community has increased its political and social awareness surrounding the issue, and the United States has entered into international agreements in an attempt to reduce global temperatures. Further, the U.S. Congress, state legislatures and federal and state regulatory agencies continue to propose initiatives to supplement the global effort to combat climate change. Similar and even more expansive initiatives are expected under the current administration, including potentially increasing supervisory expectations with respect to banks' risk management practices, accounting for the effects of climate change in stress testing scenarios and systemic risk assessments, revising expectations for credit portfolio concentrations based on climate-related factors and encouraging investment by banks in climate-related initiatives and lending to communities disproportionately impacted by the effects of climate change. The lack of empirical data surrounding the credit and other financial risks posed by climate change render it difficult, or even impossible, to specifically predict how climate change may impact our financial condition and results of operations; however, the physical effects of climate change may also directly impact us. Unpredictable and more frequent weather disasters may adversely impact the real property, and/or the value of the real property, securing the loans in our portfolios. Additionally, if insurance obtained by our borrowers is insufficient to cover losses sustained to the collateral, or if insurance coverage is otherwise unavailable to our borrowers, the collateral securing our loans may be negatively impacted by climate change, natural disasters and related events, which could impact our financial condition and results of operations. Further, the effects of climate change may negatively impact regional and local economic activity, which could lead to an adverse effect on our customers and the communities in which we operate. Overall, climate change, its effects and the resulting, unknown impact could have a material adverse effect on our financial condition and results of operations.

Non-compliance with the USA PATRIOT Act, Bank Secrecy Act, or other laws and regulations could result in fines or sanctions and limit our ability to obtain regulatory approval of acquisitions.

The USA PATRIOT and Bank Secrecy Acts require financial institutions to develop programs to prevent financial institutions from being used for money laundering and terrorist activities. If such activities are detected, financial institutions are obligated to file suspicious activity reports with the U.S. Treasury's Office of Financial Crimes Enforcement Network. These rules require financial institutions to establish procedures for identifying and verifying the identity of clients seeking to open new financial accounts. Failure to comply with these regulations could result in fines or sanctions and limit our ability to obtain regulatory approval of acquisitions. While we have developed policies and procedures designed to assist in compliance with these laws and regulations, no assurance can be given that these policies and procedures will be effective in preventing violations of these laws and regulations. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us. Any of these results could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

If our enterprise risk management framework is not effective at mitigating risk and loss to us, we could suffer unexpected losses and our results of operations could be materially adversely affected.

Our enterprise risk management framework seeks to achieve an appropriate balance between risk and return, which is critical to optimizing shareholder value. We have established processes and procedures intended to identify, measure, monitor, report, analyze and control the types of risk to which we are subject. These risks include liquidity risk, credit risk, market risk, interest rate risk, operational risk, legal and compliance risk, and reputational risk, among others. We also maintain a compliance program designed to identify, measure, assess, and report on our adherence to applicable laws, regulations, policies and procedures. While we assess and improve these programs on an ongoing basis, there can be no assurance that our risk management or compliance programs, along with other related controls, will effectively mitigate all risk and limit losses in our business. However, as with any risk management framework, there are inherent limitations to our risk management strategies as there may exist, or develop in the future, risks that we have not appropriately anticipated or identified. If our risk management framework proves ineffective, we could suffer unexpected losses and our business financial condition and results of operations could be materially adversely affected.

Our business and financial results could be impacted materially by adverse results in legal proceedings.

Legal proceedings could result in judgments, significant time and attention from our management, or other adverse effects on our business and financial results. We establish estimated liabilities for legal claims when payments associated with claims become probable and the amount of loss can be reasonably estimated. We may still incur losses for a matter even if we have not established an estimated liability. In addition, the actual cost of resolving a legal claim may be substantially higher than any amounts accrued for that matter. The ultimate resolution of any legal proceeding, depending on the remedy sought and granted, could materially adversely affect our results of operations and financial condition.

Risks Related to Cybersecurity, Data and Fraud

We are subject to certain risks in connection with our use of technology.

Our security measures may not be sufficient to mitigate the risk of a cyberattack. Communications and information systems are essential to the conduct of our business, as we use such systems to manage our client relationships, our general ledger and virtually all other aspects of our business. Our operations rely on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. Although we take protective measures and endeavor to modify them as circumstances warrant, the security of our computer systems, software and networks may be vulnerable to breaches, fraudulent or unauthorized access, denial or degradation of service attacks, misuse, computer viruses, malware or other malicious code and cyberattacks that could have a meaningful security impact. If one or more of these events occur, this could jeopardize our or our clients' confidential and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause significant interruptions or malfunctions in our operations or the operations of our clients or counterparties. We may be required to expend substantial additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by us. We could also suffer significant reputational damage and loss of business.

Security breaches in our internet banking activities could further expose us to possible liability and damage our reputation. Increases in criminal activity levels and sophistication, advances in computer capabilities, new discoveries, vulnerabilities in third-party technologies (including browsers and operating systems) or other developments could result in a compromise or breach of the technology, processes and controls that we use to prevent fraudulent transactions and to protect data about us, our clients and underlying transactions. Any compromise of our security could deter clients from using our internet banking services that involve the transmission of confidential information. Although we have developed and continue to invest in systems and processes that are designed to detect and prevent security breaches and cyberattacks and periodically test our security, these precautions may not protect our systems from compromises or breaches of our security measures, and any failure of these precautions could result in losses to us or our clients, our loss of business and/or clients, damage to our reputation, the incurrence of additional expenses, disruption to our business, our inability to grow our online services or other businesses, additional regulatory scrutiny or penalties, or our exposure to civil litigation and possible financial liability, any of which could have a material adverse effect on our business, financial condition and results of operations.

Our security measures may not protect us from system failures or interruptions. While we have established policies and procedures to prevent or limit the impact of systems failures and interruptions, there can be no assurance that such events will not occur or that they will be adequately addressed if they do. In addition, we outsource certain aspects of our data processing and other operational functions to certain third-party providers. While we select third-party vendors carefully, we do not control their actions. If our third-party providers encounter difficulties including those resulting from breakdowns or other disruptions in communication services provided by a vendor, failure of a vendor to handle current or higher transaction volumes, cyberattacks and security breaches or if we otherwise have difficulty in communicating with them, our ability to adequately process and account for transactions could be affected, and our ability to deliver products and services to our clients and otherwise conduct business operations could be adversely impacted. Replacing these third-party vendors could also entail significant delay and expense. Threats to information security also exist in the processing of client information through various other vendors and their personnel.

We cannot provide assurance that such breaches, failures or interruptions will not occur or, if they do occur, that they will be adequately addressed by us or the third parties on which we rely. We may not be insured against all types of losses, including losses resulting from third party failures, and insurance coverage may be inadequate to cover all losses resulting from breaches, system failures or other disruptions. If any of our third-party service providers experience financial, operational or technological difficulties, or if there is any other disruption in our relationships with them, we may be required to identify alternative sources of such services, and we cannot provide assurance that we could negotiate terms that are as favorable to us, or could obtain services with similar functionality as found in our existing systems without the need to expend substantial resources, if at all. Further, the occurrence of any systems failure or interruption could damage our reputation and result in a loss of clients and business, could subject us to additional regulatory scrutiny, or could expose us to legal liability. Any of these occurrences could have a material adverse effect on our financial condition and results of operations.

We are subject to certain risks in connection with our data management or aggregation.

We are reliant on our ability to manage data and our ability to aggregate data in an accurate and timely manner to ensure effective risk reporting and management. Our ability to manage data and aggregate data may be limited by the effectiveness of our policies, programs, processes and practices that govern how data is acquired, validated, stored, protected and processed. While we regularly update our policies, programs, processes and practices, many of our data management and aggregation processes are manual and subject to human error or system failure. Failure to manage data effectively and to aggregate data in an accurate and timely manner may limit our ability to manage current and emerging risks, and to manage changing business needs.

Our business may be adversely affected by an increasing prevalence of fraud and other financial crimes.

The Bank is susceptible to fraudulent activity that may be committed against us or our clients which may result in financial losses or increased costs to us or our clients, disclosure or misuse of our information or our client's information, misappropriation of assets, privacy breaches against our clients, litigation or damage to our reputation. Such fraudulent activity may take many forms, including check fraud, electronic fraud, wire fraud, phishing, social engineering and other dishonest acts. Nationally, reported incidents of fraud and other financial crimes have increased. We have also experienced losses due to apparent fraud and other financial crimes. While we have policies and procedures designed to prevent such losses, there can be no assurance that such losses will not occur.

Risks Related to Our Business and Industry Generally

Ineffective liquidity management could adversely affect our financial results and condition.

Effective liquidity management is essential to our business. We require sufficient liquidity to meet client loan requests, client deposit maturities and withdrawals, payments on our debt obligations as they come due and other cash commitments under both normal operating conditions and other unpredictable circumstances, including events causing industry or general financial market stress. An inability to raise funds through deposits, borrowings, the sale of loans or investment securities and other sources could have a substantial negative effect on our liquidity. We rely on client deposits and at times, borrowings from the FHLB of Des Moines and certain other wholesale funding sources to fund our operations. Deposit flows and the prepayment of loans and mortgage-related securities are strongly influenced by such external factors as the direction of interest rates, whether actual or perceived, and the competition for deposits and loans in the markets we serve. Further, changes to the FHLB of Des Moines's underwriting guidelines for wholesale borrowings or lending policies may limit or restrict our ability to borrow, and could therefore have a significant adverse impact on our liquidity. Historically, we have been able to replace maturing deposits and borrowings if desired; however, we may not be able to replace such funds in the future if, among other things, our financial condition, the financial condition of the FHLB of Des Moines, or market conditions change. Our access to funding sources in amounts adequate to finance our activities or on terms which are acceptable could be impaired by factors that affect us specifically or the financial services industry or economy in general, such as a disruption in the financial markets or negative views and expectations about the prospects for the financial services industry or deterioration in credit markets. Additional factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity as a result of a downturn in the markets in which our deposits and loans are concentrated, negative operating results, or adverse regulatory action against us. Any decline in available funding in amounts adequate to finance our activities or on terms which are acceptable could adversely impact our ability to originate loans, invest in securities, meet our expenses, or fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could, in turn, have a material adverse effect on our business, financial condition and results of operations.

Additionally, collateralized public funds are bank deposits of state and local municipalities. These deposits are required to be secured by certain investment grade securities to ensure repayment, which on the one hand tends to reduce our contingent liquidity risk by making these funds somewhat less credit sensitive, but on the other hand reduces standby liquidity by restricting the potential liquidity of the pledged collateral. Although these deposits historically have been a relatively stable source of funds for us, availability depends on the individual municipality's fiscal policies and cash flow needs.

Benefits of strategic initiatives may not be realized.

Banner's ability to compete depends on a number of factors, including, among others, its ability to develop and successfully execute strategic plans and initiatives. We may not be successful in achieving some or all of our strategic initiatives. The expected cost savings and revenue growth from our strategic initiatives may not be realized. The costs to implement our strategic initiatives may be greater than anticipated. Changes in economic conditions beyond our control, including changes in interest rates, may affect our ability to achieve our objectives. Our inability to execute on or achieve the anticipated outcomes of our strategic initiatives may affect how the market perceives us and could impede our growth and profitability.

Development of new products and services may impose additional costs on us and may expose us to increased operational risk.

Our financial performance depends, in part, on our ability to develop and market new and innovative services and to adopt or develop new technologies that differentiate our products or provide cost efficiencies, while avoiding increased related expenses. This dependency is exacerbated in the current "FinTech" environment, where financial institutions are significantly investing in evaluating new technologies, such as blockchain, and developing potentially industry-changing new products, services and industry standards. The introduction of new products and services can entail significant time and resources, including regulatory approvals. Substantial risks and uncertainties are associated with the introduction of new products and services, including technical and control requirements that may need to be developed and implemented, rapid technological change in the industry, our ability to access technical and other information from our clients, the significant and ongoing investments required to bring new products and services to market in a timely manner at competitive prices and the preparation of marketing, sales and other materials that fully and accurately describe the product or service and its underlying risks. Our failure to manage these risks and uncertainties also exposes us to enhanced risk of operational lapses which may result in the recognition of financial statement liabilities. Regulatory and internal control requirements, capital requirements, competitive alternatives, vendor relationships and shifting market preferences may also determine if such initiatives can be brought to market in a manner that is timely and attractive to our clients. Failure to successfully manage these risks in the development and implementation of new products or services could have a material adverse effect on our business and reputation, as well as on our consolidated results of operations and financial condition.

We are dependent on key personnel and the loss of one or more of those key personnel may materially and adversely affect our prospects.

Competition for qualified employees and personnel in the banking industry is intense and there are a limited number of qualified persons with knowledge of, and experience in, the community banking industry where the Bank conducts its business. The process of recruiting personnel with the combination of skills and attributes required to carry out our strategies is often lengthy. Our success depends to a significant degree on our ability to attract and retain qualified management, loan origination, finance, administrative, marketing and technical personnel and upon the continued contributions of our management and personnel. In particular, our success has been, and continues to be, highly dependent upon the abilities of key executives, including our president, and certain other employees. We could undergo a difficult transition period if we were to lose the services of any of these individuals. Our success also depends on the experience of our banking facilities' managers and bankers and on their relationships with the clients and communities they serve. In addition, our success has been and continues to be highly dependent upon the services of our directors, some of whom are at or nearing retirement age, and we may not be able to identify and attract suitable candidates to replace such directors. The loss of these key persons could negatively impact the affected banking operations.

We rely on other companies to provide key components of our business infrastructure.

We rely on numerous external vendors to provide us with products and services necessary to maintain our day-to-day operations. Accordingly, our operations are exposed to risk that these vendors will not perform in accordance with the contracted arrangements under service level agreements. The failure of an external vendor to perform in accordance with the contracted arrangements under service level agreements because of changes in the vendor's organizational structure, financial condition, support for existing products and services or strategic focus or for any other reason, could be disruptive to our operations, which in turn could have a material negative impact on our financial condition and results of operations. We also could be adversely affected to the extent such an agreement is not renewed by the third-party vendor or is renewed on terms less favorable to us. Additionally, the bank regulatory agencies expect financial institutions to be responsible for all aspects of our vendors' performance, including aspects which they delegate to third parties. Disruptions or failures in the physical infrastructure or operating systems that support our business and clients, or cyberattacks or security breaches of the network system or devices that our clients use to access our products and services could result in client attrition, regulatory fines, penalties or intervention, reputational damage, reimbursement or other compensation costs, and/or additional compliance costs, any of which could materially adversely affect our results of operations or financial condition.

Any inaccurate assumptions in our analytical and forecasting models could cause us to miscalculate our projected revenue or losses, which could adversely affect us.

We use analytical and forecasting models to estimate the effects of economic conditions on our financial assets and liabilities as well as our mortgage servicing rights. Those models include assumptions about interest rates and consumer behavior that may be incorrect. If our model assumptions are incorrect, improperly applied or inadequate, we may record higher than expected losses or lower than expected revenues which could have a material adverse effect on our business, financial condition and results of operations.

Managing reputational risk is important to attracting and maintaining clients, investors and employees.

Threats to our reputation can come from many sources, including adverse sentiment about financial institutions generally, unethical practices, employee misconduct, failure to deliver minimum standards of service or quality or operational failures due to integration or conversion challenges as a result of acquisitions we undertake, compliance deficiencies, and questionable or fraudulent activities of our clients. We have policies and procedures in place to protect our reputation and promote ethical conduct, but these policies and procedures may not be fully effective. Negative publicity regarding our business, employees, or clients, with or without merit, may result in the loss of clients, investors and employees, costly litigation, a decline in revenues and increased governmental regulation.

Increasing scrutiny and evolving expectations from customers, regulators, investors, and other stakeholders with respect to our environmental, social and governance practices may impose additional costs on us or expose us to new or additional risks.

Companies are facing increasing scrutiny from clients, regulators, investors, and other stakeholders related to their environmental, social and governance (ESG) practices and disclosure. Investor advocacy groups, investment funds and influential investors are also increasingly focused on these practices, especially as they relate to the environment, health and safety, diversity, labor conditions, human rights, and corporate governance. Increased ESG-related compliance costs could result in increases to our overall operational costs. Failure to adapt to or comply with regulatory requirements or investor or stakeholder expectations and standards could negatively impact our reputation, ability to do business with certain partners, and our stock price. New government regulations could also result in new or more stringent forms of ESG oversight and expanding mandatory and voluntary reporting, diligence, and disclosure.

Risks Related to Holding Our Common Stock

Our growth or future losses may require us to raise additional capital in the future, but that capital may not be available when it is needed or the cost of that capital may be exceedingly high.

We are required by federal regulatory authorities to maintain adequate levels of capital to support our operations. We may at some point, however, need to raise additional capital to support continued growth or be required by our regulators to increase our capital resources. Any capital we obtain may result in the dilution of the interests of existing holders of our common stock. Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside our control, and on our financial condition and performance. Accordingly, we cannot make assurances that we will be able to raise additional capital if needed on terms that are acceptable to us, or at all. If we cannot raise additional capital when needed, our ability to further expand our operations could be materially impaired and our financial condition and liquidity could be materially and adversely affected. In addition, if we are unable to raise additional capital when required by our bank regulators, we may be subject to adverse regulatory action.

We rely on dividends from the Bank for substantially all our revenue at the holding company level.

We are an entity separate and distinct from our principal subsidiary, the Bank, and derive substantially all our revenue at the holding company level in the form of dividends from that subsidiary. Accordingly, we are, and will be, dependent upon dividends from the Bank to pay the principal of and interest on our indebtedness to satisfy our other cash needs and to pay dividends on our common stock. The Bank's ability to pay dividends is subject to its ability to earn net income and to meet certain regulatory requirements. In the event the Bank is unable to pay dividends to us, we may not be able to pay dividends on our common stock at the same rate or at all. Also, our right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors.

Our articles of incorporation contain a provision which could limit the voting rights of a holder of our common stock.

Our charter provides that any person or group who acquires beneficial ownership of our common stock in excess of 10% of the outstanding shares may not vote the excess shares. Accordingly, if a person acquires beneficial ownership of more than 10% of the outstanding shares of our common stock, that person's voting rights with respect to our common stock will not be commensurate with their economic interest in our company.

Anti-takeover provisions could negatively affect our shareholders.

Provisions in our articles of incorporation and bylaws, the corporate laws of the state of Washington and federal laws and regulations could delay or prevent a third party from acquiring us, despite the possible benefit to our shareholders, or otherwise negatively affect the market value of our stock. These provisions, among others, include restrictions on voting shares of our common stock beneficially owned in excess of 10% of total shares outstanding; and advance notice requirements for nominations for election to our Board of Directors and for proposing matters that shareholders may act on at shareholder meetings. In addition, although we are in the process of transitioning from staggered three-year terms for directors to a declassified board structure in which each director will be elected for a one-year term, this transition is not complete. The partially staggered-terms structure will continue to serve as a relevant anti-takeover provision until the transition to a declassified board structure. Our articles of incorporation also authorize our Board of Directors to issue preferred or other stock, and preferred or other stock could be issued as a defensive measure in response to a takeover proposal. In addition, because we are a bank holding company, the ability of a third party to acquire us is limited by applicable banking laws and regulations. The Bank Holding Company Act requires any bank holding company to obtain the approval of the Federal Reserve before acquiring 5% or more of any class of our voting securities. Any entity that is a holder of 25% or more of any class of our voting securities, or in some circumstances a holder of a lesser percentage, is subject to regulation as a bank holding company under the Bank Holding Company Act. Under the Change in Bank Control Act of 1978, as amended, any person (or persons acting in concert), other than a bank holding company, is required to notify the Federal Reserve before acquiring 10% or more of any class of our voting securities.

Item 1B – Unresolved Staff Comments

None.

Item 1C – Cybersecurity

Risk Management and Strategy

Our cybersecurity risk management and strategy are integrated into our enterprise-wide risk management program, which leverages a “three lines of defense” model to manage risk within the organization. Technology risk (including cybersecurity risk) is identified as a key risk area for the Company, and Management measures inherent risk, mitigating controls, and residual risk on a quarterly basis.

The ability to mitigate cybersecurity risks is dependent upon an effective risk assessment process that identifies, measures, controls, and monitors material risks stemming from cybersecurity threats. These threats include any potential unauthorized activities occurring through the Company’s information systems that could adversely affect the confidentiality, integrity, or availability of the Company’s information systems or the data contained therein. The Company’s Information Security Program includes a comprehensive information security risk assessment process that incorporates the following elements:

- Identifying threats, measuring risk, defining information security requirements, and implementing controls to reduce risk.
- Identifying reasonably foreseeable internal and external threats that may lead to unauthorized disclosure, misuse, alteration, or destruction of sensitive information or information systems.
- Assessing the likelihood and potential damage posed by these threats, considering the degree of information sensitivity and the Company’s operations, inclusive of substantive changes to people, processes and technology.
- Aligning the Information Security Program with the Company’s enterprise-wide risk management program, which identifies, measures, mitigates, and monitors risk.
- Evaluating the adequacy of policies, procedures, information systems, and other arrangements designed to control identified risks, considering the Company’s operations, inclusive of substantive changes to people, processes and technology.
- Providing input for internal and external auditors and independent third-party engagements, including in relation to internal and external (i.e., third-party operated) penetration tests.
- Exercising risk oversight to conduct appropriate, risk-based due diligence and monitoring to understand risks associated with our third-party vendors and outsourced services.

The risk assessment process is designed to identify assets requiring risk reduction strategies and includes an evaluation of the key factors applicable to the operation. The Company conducts a variety of information security assessments throughout the year, both internally and through third-party specialists.

In designing our Information Security Program, we refer to established industry frameworks – in particular, the Federal Financial Institutions Examination Council (FFIEC) and guidance from the International Organization for Standardization (ISO). The FFIEC framework offers a set of guidelines to help financial institutions effectively manage and mitigate cybersecurity risks. The framework focuses on ensuring the confidentiality, integrity, and availability of sensitive information and systems. ISO/IEC 27001 is an international standard developed by the ISO specifically for Information Security, Cybersecurity and Privacy Protection (ISCPP). The ISO/IEC 27001 requirements provide a systematic and risk-based approach to managing sensitive information, ensuring its confidentiality, integrity, and availability. The requirements reflect best practices that organizations can use to guide an information security program. The Company considers these frameworks to be aspirational benchmarks to help inform the design of our Information Security Program, including risk mitigation controls and processes. While we believe our information security program is well-designed and appropriate for our organization, the sophistication of cyber threats continues to increase and the Company’s cybersecurity risk management and strategy may be insufficient and may not be successful in protecting against all cyber incidents. Accordingly, no matter how well designed or implemented the Company’s controls are, it may not be able to anticipate all cyber security breaches, and it may not be able to implement effective preventive measures against such security breaches in a timely manner. For more information on how cybersecurity risk may affect the Company’s business strategy, results of operations or financial condition, please refer to Item 1A, Risk Factors — Risks Related to Cybersecurity, Data and Fraud.

The Company uses a cross-functional approach to identify, prevent, and mitigate cybersecurity threats and incidents, and we have adopted controls and procedures that provide for the prompt escalation of certain cybersecurity incidents so that decisions regarding the public disclosure and reporting of such incidents can be made by management in a timely manner. We have developed a formal cybersecurity incident response plan that outlines the steps the Company will take to respond to a cybersecurity incident.

While cybersecurity risks have the potential to materially affect the Company’s business, financial condition, and results of operations, the Company does not believe that risks from cybersecurity threats or attacks, including as a result of any previous cybersecurity incidents, have materially affected the Company, including our business strategy, results of operations or financial condition. With regard to the possible impact of future cybersecurity threats or incidents, see Item 1A, Risk Factors — Risks Related to Cybersecurity, Data and Fraud.

Governance

Our Board of Directors has adopted, and reviews annually, a Risk Appetite Statement that articulates the Company’s attitude towards risk. The Company’s Risk Appetite Statement identifies key risk categories and establishes a risk appetite for each, as well as specific associated risk metrics that are monitored quarterly by Management and reported to the Risk Committee. Management measures and reports inherent risk, mitigating controls, and residual risk for each key risk category and also identifies and regularly discusses emerging risks with the Risk Committee.

The Company's governance and oversight of cybersecurity risks are facilitated through our Information Security Program, which establishes administrative, technical, and physical safeguards designed to protect the confidential information and records of all the Bank's clients in accordance with FDIC regulations. Our Information Security Program, along with its associated policies and guidelines, takes into account FDIC and FFIEC regulations and guidance on sensitive information protection as well as information system and domain name security. It is tailored to align with the Company's size and complexity and the nature and scope of our activities.

We maintain relevant expertise within the Bank's management team to manage cybersecurity risks. In particular, the Bank's Chief Information Officer (CIO) provides direction and oversight for information technology and security across the Company, including existing and emerging initiatives. In this role, she leverages more than 25 years of information technology experience. In addition, the Bank's Chief Information Security Officer (CISO) has been with the Company for more than 12 years and has maintained various applicable cybersecurity and IT audit certifications. Prior to joining the Bank, he worked for a Fortune 500 company and had 15 years of information technology experience working in networking, information security and information technology auditing. The CIO and the CISO are supported by a team of information technology and information security specialists.

Our Information Technology (IT) Management team, among other things, is responsible for conducting risk assessments, designing the Information Security Program to manage identified risks based on information sensitivity and the Company's operational complexity, overseeing service provider arrangements, establishing risk-based response programs for incidents of unauthorized access, providing staff training, conducting testing of key controls, systems, and procedures, and adjusting the program in response to changes in people, processes, technology, sensitive information, threats, and the business environment (e.g., mergers, acquisitions, alliances, joint ventures, or outsourcing arrangements).

Our IT Management team reports annually to the Risk Committee regarding the overall status of the Information Security Program. This reporting encompasses various aspects, such as risk assessment, risk management and control decisions, service provider arrangements, results of independent testing, cybersecurity incidents or violations and Management's responses, and recommendations for changes to the Information Security Program. Quarterly status updates are also provided to the Risk Committee.

The Board of Directors plays a crucial role, annually reviewing and approving our Information Security Program. The Board oversees efforts to develop, implement, and maintain an effective Information Security Program, including reviewing Management's reporting on program effectiveness. Additionally, the Board of Directors' Corporate Governance/Nominating Committee considers information technology and cybersecurity expertise when assessing potential director candidates, to help ensure the Board of Directors has the capability to appropriately oversee Management's activities in these areas.

We maintain a Cybersecurity Incident Response Team (CIRT), which is responsible for addressing the technical aspects of the Company's response to cybersecurity events. Additionally, our cross-functional Executive Cybersecurity Event Evaluation Team (ECEET) is responsible for assessing the potential business impacts and disclosure requirements related to cybersecurity events. Both the CIRT and the ECEET may consult cybersecurity legal counsel and other external experts in connection with their respective activities. An escalation process has been established for engaging other governance groups, which may include the Company's Disclosure Committee and/or the Board of Directors' Audit Committee, each of which also receive a quarterly report from the chair of the ECEET.

Item 2 – Properties

Banner maintains its administrative offices and main branch office, which is owned by us, in Walla Walla, Washington. As of December 31, 2023, we have 135 branch offices located in Washington, Oregon, California, and Idaho. Geographically, we have 65 branches located in Washington, 31 in Oregon, 30 in California and 9 in Idaho. Of these branch locations, approximately 57% are owned and 43% are leased facilities. In addition to the branch network, we also operate 13 loan production offices, seven of which are located in Washington, three in California, and one in each state of Oregon, Idaho and Utah. All loan production offices are leased facilities. The lease terms for our branch and loan production offices are not individually material. Lease expirations range from 3 months to 12 years. Administrative support offices are primarily in Washington, where we have six facilities, of which we own one and lease five. Additionally, we have one leased administrative support office in Idaho and three administrative support offices in Oregon, two owned and one leased. In the opinion of Management, all properties are adequately covered by insurance, are in a good state of repair and are appropriately designed for their present and future use.

Item 3 – Legal Proceedings

In the normal course of our business, we have various legal proceedings and other contingent matters pending. These proceedings and the associated legal claims are often contested and the outcome of individual matters is not always predictable. Furthermore, in some matters, it is difficult to assess potential exposure because the legal proceeding is still in the pretrial stage. These claims and counter claims typically arise during the course of collection efforts on problem loans or with respect to actions to enforce liens on properties in which we hold a security interest, although we also are subject to claims related to employment matters. Claims related to employment matters may include, but are not limited to, claims by our employees of discrimination, harassment, violations of wage and hour requirements, or violations of other federal, state, or local laws and claims of misconduct or negligence on the part of our employees. Some or all of these claims may lead to litigation, including class action litigation, and these matters may cause us to incur negative publicity with respect to alleged claims. Our insurance may not cover all claims that may be asserted against us, and any claims asserted against us, regardless of merit or eventual outcome, may harm our reputation. Should the ultimate judgments or settlements in any litigation exceed our insurance coverage, they could have a material adverse effect on our financial condition and results of operation for any period. At December 31, 2023, we had accrued \$14.8 million related to these legal proceedings. The ultimate outcome of these legal proceedings could be more or less than what we have accrued. We are not a party to any pending legal proceedings that we believe would have a material adverse effect on our financial condition, operations or cash flows, except as set forth below.

A class and collective action lawsuit, *Bolding et al. v. Banner Bank*, US Dist. Ct., WD WA., was filed against Banner Bank on April 17, 2017. The plaintiffs are former and/or current mortgage loan officers of AmericanWest Bank and/or Banner Bank, who allege that the employer bank failed to pay all required regular and overtime wages that were due pursuant to the Fair Labor Standards Act (FLSA) and related laws of the state respective to each individual plaintiff. The plaintiffs seek regular and overtime wages, plus certain penalty amounts and legal fees. On December 15, 2017, the Court granted the plaintiffs' motion for conditional certification of a class with regard to the FLSA claims; following notice given to approximately 160 potential class members, 33 persons elected to "opt-in" as plaintiffs in the class. On October 10, 2018, the Court granted plaintiffs' motion for certification of a different class of approximately 200 members, with regard to state law claims. Significant pre-trial motions were filed by both parties, including various motions by Banner Bank seeking to dismiss and/or limit the class claims. The Court granted in part and denied in part Banner Bank's motions and ultimately allowed the case to proceed. The parties participated in a mediation in December 2022. The parties have executed a written settlement agreement and on October 4, 2023, the Court issued an order granting preliminary approval of the settlement. A fairness hearing was held on February 22, 2024, after which the Court entered a minute entry granting final approval of the settlement, awarding expenses in the amount of \$303,000, and approving an award of \$20,000 for each of the three class representatives. The Court reserved ruling on the amount of class counsel fees to be awarded. The Court-approved settlement agreement resolves the class action litigation and contains no admission of wrongdoing. The settlement structure requires Banner Bank to make available a total settlement fund of up to \$15.0 million (the "Settlement Fund") for the purpose of paying valid claims, class representative service awards, class counsel fees and expenses, and administration costs. The aggregate amount ultimately to be paid may be less than the Settlement Fund depending on the value of the valid claims submitted, as well as the amount of class counsel fees to be awarded by the Court. No additional accruals are currently anticipated for these purposes. Important risk factors could cause actual future results and other future events to differ materially from those currently estimated by management, including, but not limited to the number of valid claims, the amount of attorneys' fees awarded to class counsel, and whether the proposed settlement is appealed.

Item 4 – Mine Safety Disclosures

Not applicable.

PART II

Item 5 – Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information and Holders

Our voting common stock is principally traded on the NASDAQ Global Select Market under the symbol “BANR.” Shareholders of record as of December 31, 2023 totaled 1,800 based upon securities position listings furnished to us by our transfer agent. This total does not reflect the number of persons or entities who hold stock in nominee or “street” name through various brokerage firms.

Dividends

Banner has historically paid cash dividends to its common shareholders. Payments of future cash dividends, if any, will be at the discretion of our Board of Directors after taking into account various factors, including our business, operating results and financial condition, capital requirements, current and anticipated cash needs, plans for expansion, any legal or contractual limitation on our ability to pay dividends and other relevant factors including required payments on our TPS. No assurances can be given that any dividends will be paid or that, if paid, will not be reduced or eliminated in future periods. Dividends on common stock from Banner depend substantially upon receipt of dividends from the Bank, which is the Company’s predominant source of income. Management’s projections show an expectation that cash dividends will continue for the foreseeable future.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table provides information about repurchases of common stock by the Company during the quarter ended December 31, 2023:

Period	Total Number of Common Shares Purchased ⁽¹⁾	Average Price Paid per Common Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Number of Remaining Shares that May be Purchased at Period End under the Board Authorization
October 1, 2023 - October 31, 2023	828	\$ 41.96	—	—
November 1, 2023 - November 30, 2023	117	43.38	—	—
December 1, 2023 - December 31, 2023	—	—	—	—
Total for quarter	<u>945</u>	\$ 42.14	<u>—</u>	—

⁽¹⁾ All shares reported in this column were surrendered by employees to satisfy tax withholding obligations upon the vesting of restricted stock grants in the fourth quarter of 2023, and were not repurchased as part of any publicly announced stock repurchase plan or program. The Company did not have a publicly announced stock repurchase plan or program in place during the three months ended December 31, 2023.

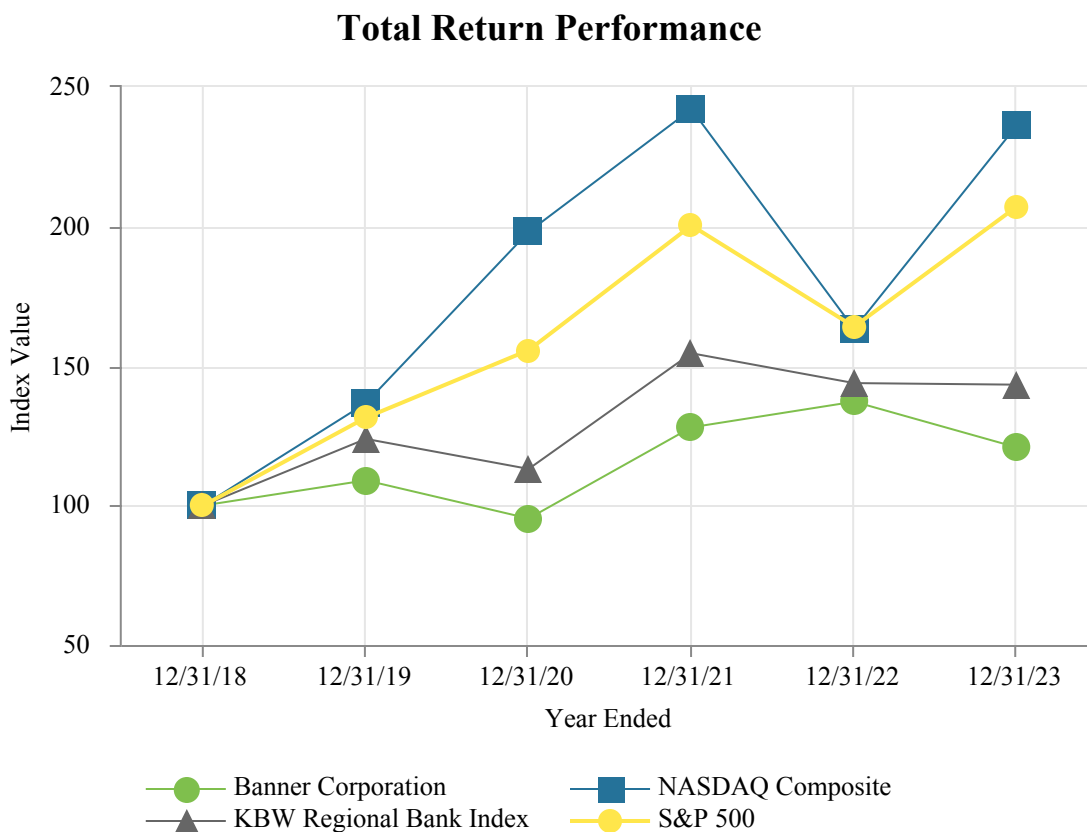
Restricted shares canceled to pay withholding taxes totaled 61,724 and 55,228 during the years ended December 31, 2023 and 2022, respectively.

Equity Compensation Plan Information

The equity compensation plan information presented under subparagraph (d) in Part III, Item 12 of this Form 10-K is incorporated herein by reference.

Performance Graph

The following graph compares the cumulative total shareholder return on Banner common stock with the cumulative total return on the NASDAQ (U.S. Stock) Index, a peer group of the KBW Regional Bank Index and the S&P 500. Total return assumes the reinvestment of all dividends.



<i>Index</i>	Year Ended*					
	12/31/18	12/31/19	12/31/20	12/31/21	12/31/22	12/31/23
Banner Corporation	100.00	109.02	95.35	128.02	137.21	120.81
NASDAQ Composite	100.00	136.69	198.10	242.03	163.28	236.27
KBW Regional Bank Index	100.00	123.87	113.11	154.57	143.87	143.31
S&P 500	100.00	131.49	155.68	200.37	164.08	207.17

*Assumes \$100 invested in Banner Corporation common stock and each index at the close of business on December 31, 2018 and that all dividends were reinvested. Information for the graph was provided by Bloomberg LP, New York City, NY.

Item 6 - Reserved

Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations

Management’s Discussion and Analysis of Financial Condition and Results of Operations is intended to assist in understanding our financial condition and results of operations. The information contained in this section should be read in conjunction with the Consolidated Financial Statements and accompanying Notes to the Consolidated Financial Statements contained in Item IV of this Form 10-K.

Executive Overview

Banner’s successful execution of its super community bank model and strategic initiatives has delivered solid core operating results and profitability over the last several years. The Company’s longer term strategic initiatives continue to focus on originating high quality assets and client acquisition, which we believe will continue to generate strong revenue while maintaining the Company’s moderate risk profile.

2023 Financial Highlights

- Revenues were \$620.4 million for the year ended December 31, 2023, compared to \$628.4 million for the prior year.
- Net income of \$183.6 million, or \$5.33 per diluted share, for the year ended December 31, 2023, compared to net income of \$195.4 million, or \$5.67 per diluted share for the prior year.
- Net interest income was \$576.0 million for the year ended December 31, 2023, compared to \$553.2 million for the prior year.
- Net interest margin, on a tax equivalent basis, was 4.01% compared to 3.68% in the prior year.
- Mortgage banking revenue was \$11.8 million for the year ended December 31, 2023, compared to \$10.8 million in the prior year.
- Income from deposit fees and other service charges was \$41.6 million for the year ended December 31, 2023, compared to \$44.5 million for the prior year.
- Non-interest expense was \$382.5 million for the year ended December 31, 2023, compared to \$377.3 million for the prior year.
- Return on average assets was 1.18% for both 2023 and 2022.
- Efficiency ratio was 61.66%, compared to 60.04% in the prior year.
- Net loans receivable increased 7% to \$10.66 billion at December 31, 2023, compared to \$10.01 billion a year ago.
- Non-performing assets were \$30.1 million, or 0.19% of total assets, at December 31, 2023, compared to \$23.4 million, or 0.15% of total assets, a year ago.
- The allowance for credit losses - loans was \$149.6 million, or 1.38% of total loans receivable, at December 31, 2023, compared to \$141.5 million, or 1.39% of total loans receivable a year ago.
- Total deposits were \$13.03 billion at December 31, 2023, compared to \$13.62 billion a year ago.
- Core deposits represented 89% of total deposits at December 31, 2023.
- Banner Bank’s estimated uninsured deposits were approximately 31% of total deposits at December 31, 2023.
- Banner Bank’s estimated uninsured deposits, excluding collateralized public deposits and affiliate deposits, were approximately 28% of total deposits at December 31, 2023.
- Available borrowing capacity was \$4.65 billion at December 31, 2023.
- On-balance sheet liquidity was \$2.93 billion at December 31, 2023.
- Cash dividends paid to shareholders were \$1.92 per share, compared to \$1.76 for the prior year.
- Common shareholders’ equity per share increased to \$48.12 at December 31, 2023, compared to \$42.59 a year ago.
- Tangible common shareholders’ equity per share* increased 12% to \$37.09 at December 31, 2023, compared to \$31.41 a year ago.

* Represents a non-GAAP financial measure. For a reconciliation of the non-GAAP financial measure to the most directly comparable GAAP financial measure, see “Non-GAAP Financial Measures” below.

Selected Financial Data: The following condensed consolidated statements of financial condition and operations and selected performance ratios as of December 31, 2023, 2022 and 2021, and for the years then ended have been derived from our audited consolidated financial statements.

FINANCIAL CONDITION DATA:

(In thousands, except shares)	December 31		
	2023	2022	2021
Total assets	\$ 15,670,391	\$ 15,833,431	\$ 16,804,872
Cash and securities ⁽¹⁾	3,687,302	4,178,375	6,321,196
Loans receivable, net	10,660,812	10,005,259	8,952,664
Deposits	13,029,497	13,620,059	14,326,933
Borrowings	665,141	456,603	532,869
Total shareholders' equity	1,652,691	1,456,432	1,690,327
Shares outstanding	34,348,369	34,194,018	34,252,632

OPERATING DATA:

(In thousands)	For the Year Ended December 31		
	2023	2022	2021
Interest income	\$ 701,572	\$ 572,569	\$ 520,500
Interest expense	125,567	19,390	23,609
Net interest income	576,005	553,179	496,891
Provision (recapture) for credit losses	10,789	10,364	(33,388)
Net interest income after provision (recapture) for credit losses	565,216	542,815	530,279
Deposit fees and other service charges	41,638	44,459	39,495
Mortgage banking operations revenue	11,817	10,834	33,948
Net (loss) gain on sale of securities	(19,242)	(3,248)	482
Net change in valuation of financial instruments carried at fair value	(4,218)	807	4,616
All other non-interest income	14,414	22,403	17,875
Total non-interest income	44,409	75,255	96,416
Salary and employee benefits	244,563	242,266	244,351
All other non-interest expenses	137,975	135,029	135,750
Total non-interest expense	382,538	377,295	380,101
Income before provision for income tax expense	227,087	240,775	246,594
Provision for income tax expense	43,463	45,397	45,546
Net income	<u>\$ 183,624</u>	<u>\$ 195,378</u>	<u>\$ 201,048</u>

PER COMMON SHARE DATA:

	At or For the Years Ended December 31		
	2023	2022	2021
Net income:			
Basic	\$ 5.35	\$ 5.70	\$ 5.81
Diluted	5.33	5.67	5.76
Diluted adjusted earnings per share ⁽⁸⁾	5.88	5.69	5.97
Common shareholders' equity per share ⁽²⁾	48.12	42.59	49.35
Common shareholders' tangible equity per share ⁽²⁾⁽⁸⁾	37.09	31.41	38.02
Cash dividends	1.92	1.76	1.64
Dividend payout ratio (basic)	35.89 %	30.88 %	28.23 %
Dividend payout ratio (diluted)	36.02 %	31.04 %	28.47 %

OTHER DATA:

	As of December 31		
	2023	2022	2021
Full-time equivalent employees	1,966	1,931	1,891
Number of branches	135	137	150

KEY FINANCIAL RATIOS:

	At or For the Years Ended December 31		
	2023	2022	2021
<i>Performance Ratios:</i>			
Return on average assets ⁽³⁾	1.18 %	1.18 %	1.24 %
Return on average common equity ⁽⁴⁾	11.94	12.79	12.12
Average common equity to average assets	9.88	9.26	10.26
Net interest margin (tax equivalent) ⁽⁵⁾	4.01	3.68	3.39
Non-interest income to average assets	0.29	0.46	0.60
Non-interest expense to average assets	2.46	2.29	2.35
Efficiency ratio ⁽⁶⁾	61.66	60.04	64.06
Adjusted efficiency ratio ⁽⁸⁾	57.89	57.99	60.22
Average interest-earning assets to funding liabilities	106.67	104.16	104.18
Loans to deposits ratio	83.05	74.92	64.08
<i>Selected Financial Ratios:</i>			
Allowance for credit losses - loans as a percent of total loans at end of period	1.38	1.39	1.45
Net (charge-offs)/recoveries as a percent of average outstanding loans during the period	(0.03)	0.01	(0.02)
Non-performing assets as a percent of total assets	0.19	0.15	0.14
Allowance for credit losses - loans as a percent of non-performing loans ⁽⁷⁾	505.52	615.25	578.47
Common shareholders' equity to total assets	10.55	9.20	10.06
Common shareholders' tangible equity to tangible assets ⁽⁸⁾	8.33	6.95	7.93
<i>Consolidated Capital Ratios:</i>			
Total capital to risk-weighted assets	14.58	14.04	14.71
Tier 1 capital to risk-weighted assets	12.64	12.13	12.74
Tier 1 capital to average leverage assets	10.56	9.45	8.76
Common equity tier I capital to risk-weighted assets	11.97	11.44	11.54

(1) Includes securities available-for-sale and held-to-maturity.

(2) Calculated using shares outstanding.

(3) Net income divided by average assets.

(4) Net income divided by average common equity.

(5) Net interest income as a percent of average interest-earning assets on a tax equivalent basis.

(6) Non-interest expenses divided by the total of net interest income and non-interest income.

(7) Non-performing loans consist of nonaccrual and 90 days past due loans still accruing interest.

(8) Represents a non-GAAP financial measure. For a reconciliation of the non-GAAP financial measures to the most directly comparable GAAP financial measure, see, "Non-GAAP Financial Measures" below.

Non-GAAP Financial Measures

Management has presented non-GAAP financial measures in this discussion and analysis because it believes that they provide useful and comparative information to assess trends in our core operations and to 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, we have also presented comparable earnings information using GAAP financial measures. For a reconciliation of these non-GAAP financial measures, see the tables below. Because not all companies use the same calculations, our presentation may not be comparable to other similarly titled measures as calculated by other companies.

Adjusted revenue, diluted adjusted earnings per share and adjusted efficiency ratio are non-GAAP financial measures. To calculate the adjusted revenue, diluted adjusted earnings per share and adjusted efficiency ratio, we make adjustments to our GAAP revenues and expenses as reported on our Consolidated Statements of Operations. Management believes that these non-GAAP financial measures provide information to investors that is useful in evaluating the operating performance and trends of financial services companies, including the Company. The following tables set forth reconciliations of these non-GAAP financial measures (dollars in thousands, except share and per share data):

	For the Years Ended December 31		
	2023	2022	2021
ADJUSTED REVENUE:			
Net interest income (GAAP)	\$ 576,005	\$ 553,179	\$ 496,891
Non-interest income (GAAP)	44,409	75,255	96,416
Total revenue (GAAP)	620,414	628,434	593,307
Exclude: Net loss (gain) on sale of securities	19,242	3,248	(482)
Net change in valuation of financial instruments carried at fair value	4,218	(807)	(4,616)
Gain on sale of branches	—	(7,804)	—
Adjusted revenue (non-GAAP)	\$ 643,874	\$ 623,071	\$ 588,209
ADJUSTED EARNINGS:			
Net income (GAAP)	\$ 183,624	\$ 195,378	\$ 201,048
Exclude: Net loss (gain) on sale of securities	19,242	3,248	(482)
Net change in valuation of financial instruments carried at fair value	4,218	(807)	(4,616)
Merger and acquisition-related costs	—	—	660
COVID-19 expenses	—	—	436
Gain on sale of branches	—	(7,804)	—
Banner Forward expenses ⁽¹⁾	1,334	5,293	11,604
Loss on extinguishment of debt	—	793	2,284
Related tax benefit	(5,951)	(174)	(2,373)
Total adjusted earnings (non-GAAP)	\$ 202,467	\$ 195,927	\$ 208,561
Diluted earnings per share (GAAP)	\$ 5.33	\$ 5.67	\$ 5.76
Diluted adjusted earnings per share (non-GAAP)	\$ 5.88	\$ 5.69	\$ 5.97

	For the Years Ended December 31		
	2023	2022	2021
ADJUSTED EFFICIENCY RATIO:			
Non-interest expense (GAAP)	\$ 382,538	\$ 377,295	\$ 380,101
Exclude: Merger and acquisition-related costs	—	—	(660)
COVID-19 expenses	—	—	(436)
Banner Forward expenses ⁽¹⁾	(1,334)	(5,293)	(11,604)
CDI amortization	(3,756)	(5,279)	(6,571)
State/municipal tax expense	(5,260)	(4,693)	(4,343)
REO operations	538	104	22
Loss on extinguishment of debt	—	(793)	(2,284)
Adjusted non-interest expense (non-GAAP)	\$ 372,726	\$ 361,341	\$ 354,225
Net interest income (GAAP)	\$ 576,005	\$ 553,179	\$ 496,891
Non-interest income (GAAP)	44,409	75,255	96,416
Total revenue (GAAP)	620,414	628,434	593,307
Exclude: Net loss (gain) on sale of securities	19,242	3,248	(482)
Net change in valuation of financial instruments carried at fair value	4,218	(807)	(4,616)
Gain on sale of branches	—	(7,804)	—
Adjusted revenue (non-GAAP)	\$ 643,874	\$ 623,071	\$ 588,209
Efficiency ratio (GAAP)	61.66 %	60.04 %	64.06 %
Adjusted efficiency ratio (non-GAAP)	57.89 %	57.99 %	60.22 %

⁽¹⁾ Included in miscellaneous expenses in the Consolidated Statement of Operations.

The ratio of tangible common shareholders' equity to tangible assets is a non-GAAP financial measure. We calculate tangible common equity by excluding goodwill and other intangible assets from shareholders' equity. We calculate tangible assets by excluding the balance of goodwill and other intangible assets from total assets. We believe this is consistent with the treatment by our bank regulatory agencies, which exclude goodwill and other intangible assets from the calculation of risk-based capital ratios. The following table sets forth the reconciliation of tangible equity and tangible assets (dollars in thousands, except share and per share data).

	December 31		
	<u>2023</u>	<u>2022</u>	<u>2021</u>
Shareholders' equity (GAAP)	\$ 1,652,691	\$ 1,456,432	\$ 1,690,327
Exclude goodwill and other intangible assets, net	<u>378,805</u>	<u>382,561</u>	<u>387,976</u>
Common shareholders' tangible equity (non-GAAP)	<u>\$ 1,273,886</u>	<u>\$ 1,073,871</u>	<u>\$ 1,302,351</u>
Total assets (GAAP)	\$ 15,670,391	\$ 15,833,431	\$ 16,804,872
Exclude goodwill and other intangible assets, net	<u>378,805</u>	<u>382,561</u>	<u>387,976</u>
Total tangible assets (non-GAAP)	<u>\$ 15,291,586</u>	<u>\$ 15,450,870</u>	<u>\$ 16,416,896</u>
Common shareholders' equity to total assets (GAAP)	10.55 %	9.20 %	10.06 %
Common shareholders' tangible equity to tangible assets (non-GAAP)	8.33 %	6.95 %	7.93 %
Common shares outstanding	34,348,369	34,194,018	34,252,632
Common shareholders' equity (book value) per share (GAAP)	\$ 48.12	\$ 42.59	\$ 49.35
Common shareholders' tangible equity (tangible book value) per share (non-GAAP)	\$ 37.09	\$ 31.41	\$ 38.02

Critical Accounting Estimates

The preparation of financial statements in conformity with GAAP requires Management to make estimates, assumptions and judgements that affect amounts reported in the consolidated financial statements. These estimates, assumptions, and judgments are based on information available as of the date of the financial statements; accordingly, as this information changes, actual results could differ from the estimates, assumptions, and judgments reflected in the financial statements. Management believes the following estimates require difficult, subjective or complex judgments and, therefore, Management considers the following to be critical accounting estimates.

Allowance for Credit Losses: The allowance for credit losses reflects Management's evaluation of our loans and their estimated loss potential, as well as the risk inherent in various components of the portfolio. There is significant judgment and assumptions applied in estimating the allowance for credit losses. These judgements, assumptions and estimates are susceptible to significant changes based on the current environment. Among the material estimates required to establish the allowance for credit losses are a reasonable and supportable forecast; a reasonable and supportable forecast period and the reversion period; value of collateral; strength of guarantors; the amount and timing of future cash flows for loans individually evaluated; and determination of the qualitative loss factors.

Management estimates the allowance for credit losses using relevant information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. The allowance for credit losses is maintained at a level sufficient to provide for expected credit losses over the life of the asset based on evaluating historical credit loss experience and making adjustments to historical loss information for differences in the specific risk characteristics in the current portfolio. These factors include, among others, changes in the size and composition of the portfolio, differences in underwriting standards, delinquency rates, actual loss experience and current economic conditions.

Management considers various economic scenarios and forecasts to arrive at the estimate that most reflects Management's expectations of future conditions. The selection of a more optimistic or pessimistic economic forecast would result in a lower or higher allowance for credit losses. The use of a protracted slump economic forecast would have increased the allowance for credit losses - loans by approximately 22% as of December 31, 2023, where the use of a stronger near-term growth economic forecast would have resulted in a negligible decrease in the allowance for credit losses - loans as of December 31, 2023.

Management uses a scale to assign qualitative and environmental (QE) factor adjustments based on the level of estimated impact which requires a significant amount of judgment. Some QE factors impact all loan segments equally while others may impact some loan segments more or less than others. If Management's judgment were different for a QE factor that impacts all loan segments equally, a five basis-point change in this QE factor would increase or decrease the allowance for credit losses by 3.7% as of December 31, 2023.

Fair Value Accounting and Measurement: We use fair value measurements to record fair value adjustments to certain financial assets and liabilities. A hierarchical disclosure framework associated with the level of pricing observability is utilized in measuring financial instruments at fair value. The degree of judgment utilized in measuring the fair value of financial instruments generally correlates to the level of pricing observability. Financial instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of pricing observability and a lesser degree of judgment utilized in measuring fair value. Conversely, financial instruments rarely traded or not quoted will generally have little or no pricing observability and a higher degree of judgment utilized in measuring fair value. Determining the fair value of financial instruments with unobservable inputs requires a significant amount of judgment. This includes the discount rate used to fair value our trust preferred securities and junior subordinated debentures. A 25 basis-point increase or decrease in the discount rate used to calculate the fair value of our trust preferred securities would result in a \$491,000 decrease or increase in the reported fair value as of December 31, 2023, with an offsetting adjustment to our accumulated other comprehensive income. A 25 basis-point increase or decrease in the discount rate used to calculate the fair value of our junior subordinated debentures would result in a \$1.3 million decrease or increase in the reported fair value as of December 31, 2023, with an offsetting adjustment to our accumulated other comprehensive income.

Goodwill: An assessment of qualitative factors is completed to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The qualitative assessment involves judgment by Management on determining whether there have been any triggering events that have occurred which would indicate potential impairment. If the qualitative analysis concludes that further analysis is required, then a quantitative impairment test would be completed. Various valuation methodologies are considered when estimating the reporting unit's fair value. The specific factors used in these various valuation methodologies that require judgment include the selection of comparable market transactions, discount rates, earnings capitalization rates and the future projected earnings of the reporting unit. Changes in these assumptions could result in changes to the estimated fair value of the reporting unit. The Company completed an assessment of qualitative factors as of December 31, 2023, and concluded that no further analysis was required as it is more likely than not that the fair value of the Bank, the reporting unit, exceeds the carrying value.

Income Taxes and Deferred Taxes: The Company determines its deferred tax assets and liabilities based on the enacted tax rates that are expected to be in effect when the differences between the financial statement carrying amounts and tax basis of existing assets and liabilities are expected to be reported in the Company's income tax returns. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. A 1% change in tax rates would result in a \$6.3 million increase or decrease in our net deferred tax asset as of December 31, 2023. Changes in the estimate of accrued taxes occur periodically due to changes in tax rates, interpretations of tax laws, the status of examinations by the tax authorities and newly enacted statutory, judicial and regulatory guidance that could impact the relative merits of tax positions. These changes, when they occur, impact accrued taxes and can materially affect our operating results. The evaluation pertaining to the tax expense and related deferred tax asset and liability balances involves a high degree of judgment and subjectivity around the measurement and resolution of these matters. This includes an evaluation of our ability to use our net operating loss carryforwards. The ultimate realization of the deferred tax assets is dependent upon the existence, or generation, of taxable income in the periods when those temporary differences and net operating loss and credit carryforwards are deductible.

Legal Contingencies: In the normal course of our business, we have various legal proceedings and other contingent matters pending. We determine whether an estimated loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. We assess our potential liability by analyzing our litigation and regulatory matters using available information. We develop our views on estimated losses in consultation with outside counsel handling our defense in these matters, which involves an analysis of potential results, assuming a combination of litigation and settlement strategies. The estimated losses often involve a level of subjectivity and usually are a range of reasonable losses and not an exact number, in those situations we accrue the best estimate within the range or the low end of the range if no estimate within the range is better than another.

Comparison of Financial Condition at December 31, 2023 and 2022

General. Total assets decreased to \$15.67 billion at December 31, 2023, compared to \$15.83 billion at December 31, 2022. The decrease in assets was primarily due to \$300.0 million of reverse repurchase agreements maturing, as well as the sale of securities during 2023, partially offset by loan growth.

Total loans receivable (gross loans less deferred fees and discounts and excluding loans held for sale) increased \$663.7 million, or 7%, to \$10.81 billion at December 31, 2023, from \$10.15 billion at December 31, 2022. The increase in total loans receivable primarily reflects growth in one- to four-family residential, multifamily real estate and multifamily construction loan balances.

Loans held for sale decreased to \$11.2 million at December 31, 2023, compared to \$56.9 million at December 31, 2022, as a result of the transfer of \$43.5 million of multifamily loans held for sale to held for investment during the fourth quarter of 2023. Loans held for sale at December 31, 2023, included no multifamily loans and \$11.2 million of one- to four-family loans, compared to \$49.5 million of multifamily loans and \$7.4 million of one- to four-family loans at December 31, 2022.

The aggregate of securities and interest-bearing deposits decreased \$802.6 million, or 19%, to \$3.48 billion at December 31, 2023, compared to \$4.28 billion a year earlier, primarily due to a decrease in securities. Securities decreased to \$3.43 billion at December 31, 2023, from \$3.94 billion at December 31, 2022, primarily due to \$300.0 million of reverse repurchase agreements maturing during 2023, as well as the sale of securities and normal security portfolio cash flows. Fair value adjustments for securities designated as available-for-sale reflected an increase of \$54.3 million for the year ended December 31, 2023, which was included net of the associated tax expense as a component of other comprehensive income. Securities which are designated as trading decreased by \$27.2 million from the prior year-end balance due to the transfer of TPS from trading to available-for-sale during the fourth quarter of 2023. The average effective duration of our securities portfolio was approximately 6.5 years at both December 31, 2023 and December 31, 2022.

Deposits decreased \$590.6 million, or 4%, to \$13.03 billion at December 31, 2023, from \$13.62 billion at December 31, 2022. The decline in deposits during the year ended 2023 was primarily due to interest rate-sensitive clients moving a portion of their non-operating deposit balances to higher yielding investments. Core deposits were 89% of total deposits at December 31, 2023, compared to 95% of total deposits one year earlier. Non-interest-bearing deposits decreased by \$1.38 billion, or 22%, to \$4.79 billion from \$6.18 billion at December 31, 2022, while interest-bearing transaction and savings accounts increased by \$40.1 million, or 1%, to \$6.76 billion at December 31, 2023, from \$6.72 billion at December 31, 2022. Certificates of deposit increased \$753.9 million, or 104%, to \$1.48 billion at December 31, 2023, from \$723.5 million at December 31, 2022, reflecting higher rates attracting customers to these deposit types and a \$108.1 million increase in brokered deposits. We had \$108.1 million of brokered deposits at December 31, 2023, compared to none at December 31, 2022.

We had \$323.0 million and \$50.0 million of FHLB advances at December 31, 2023 and December 31, 2022, respectively. Other borrowings, consisting of retail repurchase agreements primarily related to client cash management accounts, decreased \$49.9 million to \$182.9 million at December 31, 2023, compared to \$232.8 million at December 31, 2022. Junior subordinated debentures totaled \$66.4 million at December 31, 2023, compared to \$74.9 million at December 31, 2022. Subordinated notes, net of issuance costs, were \$92.9 million at December 31, 2023, compared to \$98.9 million at December 31, 2022.

Total shareholders' equity increased \$196.3 million, to \$1.65 billion at December 31, 2023, compared to \$1.46 billion at December 31, 2022. The increase in shareholders' equity primarily reflects \$183.6 million of year-to-date net income and a \$73.6 million decrease in AOCI, primarily due to an increase in the fair value of the security portfolio. This increase was partially offset by the accrual of \$66.7 million of cash dividends to common shareholders. There were no shares of common stock repurchased during the year ended December 31, 2023. Common shareholder's equity to total assets was 10.55% and 9.20% at December 31, 2023 and 2022, respectively. Tangible common shareholders' equity (a non-GAAP financial measure), which excludes goodwill and other intangible assets was \$1.27 billion, or 8.33% of tangible assets at December 31, 2023, compared to \$1.07 billion, or 6.95% at December 31, 2022. The increase in tangible common shareholders' equity as a percentage of tangible assets was primarily due to the previously mentioned decrease in AOCI and an increase in retained earnings. The Company's book value per share was \$48.12 at December 31, 2023, compared to \$42.59 per share a year ago, and its tangible book value per share (a non-GAAP financial measure) was \$37.09 at December 31, 2023, compared to \$31.41 per share a year ago. See, "Executive Overview - Non-GAAP Financial Measures" above for a reconciliation of these non-GAAP financial measures to the most directly comparable GAAP financial measures.

Investments. At December 31, 2023, our securities portfolio totaled \$3.43 billion and consisted principally of mortgage-backed and mortgage-related securities. Our investment levels may be increased or decreased depending upon Management's projections as to the demand for funds to be used in our loan origination, deposit and other activities, and upon yields available on investment alternatives. During the year ended December 31, 2023, our aggregate investment in securities decreased \$502.5 million, primarily due to \$300.0 million of reverse repurchase agreements maturing as well as the sale of securities and normal security portfolio cash flows. Mortgage-backed securities decreased \$293.9 million and U.S. Government and agency obligations decreased \$20.9 million, while municipal bonds decreased \$165.5 million, corporate debt obligations decreased \$30.1 million and asset-backed securities increased \$9.3 million.

U.S. Government and Agency Obligations: Our portfolio of U.S. Government and agency obligations had a carrying value of \$34.5 million (with an amortized cost of \$35.2 million) at December 31, 2023, a weighted average contractual maturity of 9.3 years and a weighted average coupon rate of 5.25%. Many of the U.S. Government and agency obligations we own include call features which allow the issuing agency the right to call the securities at various dates prior to the final maturity.

Mortgage-Backed Obligations: At December 31, 2023, our mortgage-backed and mortgage-related securities had a carrying value of \$2.46 billion (\$2.77 billion at amortized cost, with a net unrealized loss adjustment of \$313.2 million). The weighted average coupon rate of these securities was 2.60% and the weighted average contractual maturity was 26.2 years, although we receive principal payments on these securities each month resulting in a much shorter expected average life. As of December 31, 2023, 97% of the mortgage-backed and mortgage-related securities pay interest at a fixed rate.

Municipal Bonds: The carrying value of our tax-exempt bonds at December 31, 2023 was \$512.5 million (\$528.4 million at amortized cost), comprised of general obligation bonds (i.e., backed by the general credit of the issuer) and, to a lesser extent, revenue bonds (i.e., backed by revenues from the specific project being financed) issued by cities and counties and various housing authorities, and hospital, school, water and sanitation districts. We also had taxable bonds in our municipal bond portfolio, which at December 31, 2023 had a carrying value of \$86.3 million (\$98.9 million at amortized cost). Many of our qualifying municipal bonds are not rated by a nationally recognized credit rating agency due to the smaller size of the total issuance and a portion of these bonds have been acquired through direct private placement by the issuers. We have not experienced any defaults or payment deferrals on our current portfolio of municipal bonds. Our combined municipal bond portfolio is geographically diverse, with the majority within the states of Washington, Oregon, Texas and California. At December 31, 2023, our municipal bond portfolio, including taxable and tax-exempt, had a weighted average maturity of approximately 21.4 years and a weighted average coupon rate of 3.19%.

Corporate Bonds: Our corporate bond portfolio had a carrying value of \$121.7 million (\$134.1 million at amortized cost) at December 31, 2023. At December 31, 2023, the portfolio had a weighted average maturity of 11.0 years and a weighted average coupon rate of 4.91%.

Asset-Backed Securities: At December 31, 2023, our asset-backed securities portfolio had a carrying value of \$220.9 million (with an amortized cost of \$222.5 million), and was comprised of collateralized loan obligations. The weighted average coupon rate of these securities was 7.36% and the weighted average contractual maturity was 12.9 years. At December 31, 2023, 100% of these securities had adjustable interest rates tied to three-month SOFR.

The following tables set forth certain information regarding carrying values and percentage of total carrying values of our portfolio of securities—trading and securities—available-for-sale, both carried at estimated fair market value, and securities—held-to-maturity, carried at amortized cost, net of the allowance for credit losses - securities as of December 31, 2023, 2022 and 2021 (dollars in thousands):

Table 1: Securities

	December 31					
	2023		2022		2021	
	Carrying Value	Percent of Total	Carrying Value	Percent of Total	Carrying Value	Percent of Total
Trading						
Corporate bonds ⁽¹⁾	\$ —	n/a	\$ 28,694	100 %	\$ 26,981	100 %
Total securities—trading	\$ —	n/a	\$ 28,694	100 %	\$ 26,981	100 %
Available-for-Sale						
U.S. Government and agency obligations	\$ 34,189	1 %	\$ 55,108	2 %	\$ 201,332	6 %
Municipal bonds	132,905	6	261,209	9	308,612	8
Corporate bonds	119,123	5	121,853	4	117,347	3
Mortgage-backed or related securities	1,866,714	79	2,139,336	77	2,805,268	77
Asset-backed securities	220,852	9	211,525	8	206,434	6
Total securities—available-for-sale	\$ 2,373,783	100 %	\$ 2,789,031	100 %	\$ 3,638,993	100 %
Held-to-Maturity						
U.S. Government and agency obligations	\$ 307	— %	\$ 312	— %	\$ 316	— %
Municipal bonds	465,875	44	503,117	45	420,555	80
Corporate bonds	2,606	—	2,961	—	3,092	1
Mortgage-backed or related securities	590,267	56	611,577	55	97,392	19
Total securities—held-to-maturity	\$ 1,059,055	100 %	\$ 1,117,967	100 %	\$ 521,355	100 %
Estimated market value	\$ 907,514		\$ 942,180		\$ 541,853	

⁽¹⁾ In the fourth quarter of 2023, our corporate bonds classified as trading were transferred to available-for-sale.

The following table shows the maturity or period to repricing of our available-for-sale and held-to-maturity securities as of December 31, 2023 (dollars in thousands):

Table 2: Securities Available-for-Sale and Held-to-Maturity —Maturity/Repricing and Rates

	December 31, 2023									
	One Year or Less		After One to Five Years		After Five to Ten Years		After Ten Years		Total	
	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield
U.S. Government and agency obligations	\$ —	— %	\$ 25,483	5.74 %	\$ 5,086	3.95 %	\$ 3,927	2.84 %	\$ 34,496	5.15 %
Municipal bonds:										
Taxable	5,265	2.47	10,227	3.68	8,650	3.42	62,186	2.74	86,328	2.91
Tax exempt ⁽¹⁾	1,168	4.52	6,773	2.88	10,444	3.67	494,067	3.56	512,452	3.55
	<u>6,433</u>	2.84	<u>17,000</u>	3.36	<u>19,094</u>	3.56	<u>556,253</u>	3.47	<u>598,780</u>	3.46
Corporate bonds	75	6.79	20,146	4.63	74,973	3.83	26,535	10.89	121,729	5.49
Mortgage-backed or related securities	—	—	108,557	2.58	199,826	2.41	2,148,598	2.68	2,456,981	2.65
Asset-backed securities	—	—	—	—	50,574	7.87	170,278	7.53	220,852	7.61
Total securities available-for-sale and held-to-maturity—carrying value	<u>\$ 6,508</u>	2.89	<u>\$ 171,186</u>	3.37	<u>\$ 349,553</u>	3.59	<u>\$ 2,905,591</u>	3.19	<u>\$ 3,432,838</u>	3.24
Total securities available-for-sale and held-to-maturity—estimated market value	<u>\$ 6,446</u>		<u>\$ 170,906</u>		<u>\$ 348,595</u>		<u>\$ 2,755,350</u>		<u>\$ 3,281,297</u>	

⁽¹⁾ Tax-exempt weighted average yield is calculated on a tax equivalent basis using a federal tax rate of 21% and a tax disallowance of 10%.

Loans and Lending. Loans are our most significant and generally highest yielding earning assets. We attempt to maintain a portfolio of loans to total deposits ratio at a level designed to enhance our revenues, while adhering to sound underwriting practices and appropriate diversification guidelines in order to maintain a moderate risk profile. Our loan-to-deposit ratio at December 31, 2023, was 83%. We offer a wide range of loan products to meet the demands of our clients. Our lending activities are primarily directed toward the origination of commercial real estate and business loans. While we originate a variety of loans, our ability to originate each type of loan depends upon the relative client demand and competition in each market we serve. We continue to implement strategies designed to capture more market share and achieve increases in targeted loans. New loan originations and portfolio balances will continue to be significantly affected by economic activity and changes in interest rates.

The following table shows loan origination activity (excluding loans held for sale) for the years ended December 31, 2023, 2022 and 2021 (in thousands):

Table 3: Loan Originations

	Years Ended		
	Dec 31, 2023	Dec 31, 2022	Dec 31, 2021
Commercial real estate	\$ 309,022	\$ 418,635	\$ 565,809
Multifamily real estate	57,046	37,612	110,640
Construction and land	1,541,383	1,935,476	1,975,664
Commercial business:			
Commercial business	585,047	1,034,950	731,315
SBA PPP	—	—	485,077
Agricultural business	84,072	89,655	61,997
One- to four-family residential	167,951	358,976	206,662
Consumer	300,913	545,254	465,213
Total loan originations (excluding loans held for sale)	<u>\$ 3,045,434</u>	<u>\$ 4,420,558</u>	<u>\$ 4,602,377</u>

One- to Four-Family Residential Real Estate Lending: At December 31, 2023, \$1.52 billion, or 14% of our loan portfolio, consisted of permanent loans on one- to four-family residences. We are active originators of one- to four-family residential loans in most communities where we have established offices in Washington, Oregon, California and Idaho. Our balance of loans for one- to four-family residences increased by \$344.9 million in 2023, compared to the prior year. The increase in one- to four-family real estate loans during 2023 was primarily the result of a higher percentage of one- to four-family construction loans converting to one- to four-family residential loans and a larger percentage of new production being held in portfolio.

Construction and Land Lending: Our construction loan originations have been relatively strong in recent years as builders have expanded production and experienced strong home sales in many markets where we operate. At December 31, 2023, construction, land and land development loans totaled \$1.54 billion, or 14% of total loans. The largest shifts in our construction, land and land development portfolio occurred in multifamily and one- to four-family construction loans. Multifamily construction loans increased \$178.2 million, or 55%, to \$504.0 million at December 31, 2023. Multifamily construction loans represented approximately 5% of our total loan portfolio at December 31, 2023 and is comprised of affordable housing projects and, to a lesser extent, market rate multifamily projects across our footprint. One- to four-family construction loans decreased \$120.9 million, or 19%, to \$526.4 million at December 31, 2023. One- to four-family construction loans represented approximately 5% of our total loan portfolio at December 31, 2023, and included speculative construction loans, as well as “all-in-one” construction loans made to owner occupants that convert to permanent loans upon completion of the homes that, depending on market conditions, may be subsequently sold into the secondary market.

Commercial and Multifamily Real Estate Lending: We originate loans secured by commercial and multifamily real estate. Commercial and multifamily real estate loans originated by us include both fixed- and adjustable-rate loans with intermediate terms of generally five to 10 years. Our commercial real estate portfolio consists of loans on a variety of property types with no significant concentrations by property type, borrowers or locations. At December 31, 2023, our loan portfolio included \$3.64 billion of commercial real estate loans, or 34% of the total loan portfolio, and \$811.2 million of multifamily real estate loans, or 8% of the total loan portfolio. The increase in multifamily loans was the result of the transfer of \$43.5 million of multifamily loans held for sale to the held for investment loan portfolio in the fourth quarter of 2023 and the conversion of affordable housing construction loans to the multifamily portfolio upon the completion of the construction phase.

Commercial Business Lending: Our commercial business lending is directed toward meeting the credit and related deposit needs of various small-to-medium-sized business and agribusiness borrowers operating in our primary market areas. In addition to providing earning assets, this type of lending has helped increase our deposit base. At December 31, 2023, commercial business loans, including small business scored, totaled \$2.28 billion, or 21% of total loans. Our commercial business lending, to a lesser extent, includes participation in certain syndicated loans, including shared national credits which totaled \$239.0 million, or 2% of our loan portfolio, at December 31, 2023.

Agricultural Lending: Agriculture is a major industry in many Washington, Oregon, California and Idaho locations in our service area. While agricultural loans are not a large part of our portfolio, we routinely make agricultural loans to borrowers with a strong capital base, sufficient management depth, proven ability to operate through agricultural cycles, reliable cash flows and adequate financial reporting. Payments on agricultural loans depend, to a large degree, on the results of operation of the related farm entity. The repayment is also subject to other economic and weather conditions as well as market prices for agricultural products, which can be highly volatile at times. At December 31, 2023, agricultural loans totaled \$331.1 million, or 3% of the loan portfolio.

Consumer and Other Lending: Consumer lending has traditionally been a modest part of our business with loans made primarily to accommodate our existing client base. At December 31, 2023, our consumer loans increased \$18.5 million to \$699.4 million, or 6% of our loan portfolio, compared to December 31, 2022. As of December 31, 2023, 84% of our consumer loans were secured by one- to four-family residences, including home equity lines of credit. Credit card balances totaled \$47.4 million at December 31, 2023.

Loan Servicing Portfolio: At December 31, 2023, we were servicing \$3.05 billion of loans for others and held \$11.8 million in escrow for our portfolio of loans serviced for others. The loan servicing portfolio at December 31, 2023 was comprised of \$1.34 billion of Freddie Mac residential mortgage loans, \$1.05 billion of Fannie Mae residential mortgage loans, \$395.6 million of Oregon Housing residential mortgage loans, \$59.9 million of SBA loans and \$206.0 million of other loans serviced for a variety of investors. The portfolio included loans secured by property located primarily in the states of Washington, Oregon, Idaho and California. For the years ended December 31, 2023 and 2022, we recognized \$7.8 million of loan servicing income in our results of operations.

The following table sets forth the composition of the Company's loan portfolio, net of discounts and deferred fees and costs, by type of loan as of the dates indicated (dollars in thousands):

Table 4: Loan Portfolio Analysis

During the first quarter of 2022, the Company changed the segmentation of its Small Balance CRE loan category based on the common risk characteristics used to measure the allowance for credit losses. The presentation of loans receivable at December 31, 2021, has been revised to match the segmentation used in the current period presentation.

	December 31, 2023		December 31, 2022		December 31, 2021	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Commercial real estate:						
Owner-occupied	\$ 915,897	9 %	\$ 845,320	8 %	\$ 831,623	9 %
Investment properties	1,541,344	14	1,589,975	16	1,674,027	18
Small balance CRE	1,178,500	11	1,200,251	12	1,281,863	14
Total commercial real estate	3,635,741	34	3,635,546	36	3,787,513	41
Multifamily real estate	811,232	8	645,071	6	530,885	6
Construction, land and land development:						
Commercial construction	170,011	1	184,876	2	167,998	2
Multifamily construction	503,993	5	325,816	3	259,116	3
One- to four-family construction	526,432	5	647,329	6	568,753	6
Land and land development	336,639	3	328,475	3	313,454	4
Total construction, land and land development	1,537,075	14	1,486,496	14	1,309,321	15
Commercial business:						
Commercial business	1,252,088	11	1,275,813	13	1,038,206	11
SBA PPP	3,646	—	7,594	—	132,574	2
Small business scored	1,022,154	10	947,092	9	792,310	9
Total commercial business	2,277,888	21	2,230,499	22	1,963,090	22
Agricultural business, including secured by farmland:						
Agricultural business, including secured by farmland	331,089	3	294,743	3	279,224	3
SBA PPP	—	—	334	—	1,354	—
Total agricultural business, including secured by farmland	331,089	3	295,077	3	280,578	3
One- to four-family residential	1,518,046	14	1,173,112	12	657,474	7
Consumer:						
Consumer—home equity revolving lines of credit	588,703	5	566,291	6	458,533	5
Consumer—other	110,681	1	114,632	1	97,369	1
Total consumer	699,384	6	680,923	7	555,902	6
Total loans	10,810,455	100 %	10,146,724	100 %	9,084,763	100 %
Less allowance for credit losses – loans	(149,643)		(141,465)		(132,099)	
Net loans	\$ 10,660,812		\$ 10,005,259		\$ 8,952,664	

The following table sets forth the Company's loans by geographic concentration at December 31, 2023, 2022 and 2021 (dollars in thousands):

Table 5: Loans by Geographic Concentration

	December 31, 2023		December 31, 2022		December 31, 2021	
	Amount	Percent	Amount	Percent	Amount	Percent
Washington	\$ 5,095,602	47 %	\$ 4,777,546	47 %	\$ 4,264,590	47 %
California	2,670,923	25	2,484,980	25	2,138,340	24
Oregon	1,974,001	18	1,826,743	18	1,652,364	18
Idaho	610,064	5	565,586	5	525,141	5
Utah	68,931	1	75,967	1	74,913	1
Other	390,934	4	415,902	4	429,415	5
Total	<u>\$ 10,810,455</u>	<u>100 %</u>	<u>\$ 10,146,724</u>	<u>100 %</u>	<u>\$ 9,084,763</u>	<u>100 %</u>

The following table sets forth certain information at December 31, 2023 regarding the dollar amount of loans maturing in our portfolio based on their contractual terms to maturity, but does not include scheduled payments or potential prepayments. Demand loans, loans having no stated schedule of repayments and no stated maturity, and overdrafts are reported as due in one year or less. Loan balances are net of unamortized premiums and discounts and exclude loans held for sale (in thousands):

Table 6: Loans by Maturity

	Maturing in One Year or Less	Maturing After One to Five Years	Maturing After Five to Fifteen Years	Maturing After Fifteen Years	Total
Commercial real estate:					
Owner-occupied	\$ 78,394	\$ 123,800	\$ 685,610	\$ 28,093	\$ 915,897
Investment properties	51,875	451,397	814,033	224,039	1,541,344
Small balance CRE	46,162	360,312	702,238	69,788	1,178,500
Total commercial real estate	176,431	935,509	2,201,881	321,920	3,635,741
Multifamily real estate	75,712	111,215	365,535	258,770	811,232
Construction, land and land development:					
Commercial construction	48,954	43,638	76,661	758	170,011
Multifamily construction	339,896	160,134	3,963	—	503,993
One- to four-family construction	479,624	46,261	—	547	526,432
Land and land development	122,231	66,256	144,142	4,010	336,639
Total construction, land and land development	990,705	316,289	224,766	5,315	1,537,075
Commercial business:					
Commercial business	383,631	312,189	398,767	157,501	1,252,088
SBA PPP	—	3,646	—	—	3,646
Small business scored	64,376	222,204	317,098	418,476	1,022,154
Total commercial business	448,007	538,039	715,865	575,977	2,277,888
Agricultural business, including secured by farmland	89,401	85,279	154,765	1,644	331,089
One- to four-family residential	3,745	10,891	60,545	1,442,865	1,518,046
Consumer:					
Consumer—home equity revolving lines of credit	3,776	11,736	4,415	568,776	588,703
Consumer—other	35,362	13,604	33,132	28,583	110,681
Total consumer	39,138	25,340	37,547	597,359	699,384
Total loans	<u>\$ 1,823,139</u>	<u>\$ 2,022,562</u>	<u>\$ 3,760,904</u>	<u>\$ 3,203,850</u>	<u>\$ 10,810,455</u>

Contractual maturities of loans do not necessarily reflect the actual life of such assets. The average life of loans typically is substantially less than their contractual maturities because of principal repayments and prepayments. In addition, due-on-sale clauses on certain mortgage loans generally give us the right to declare loans immediately due and payable in the event that the borrower sells the real property subject to the mortgage and the loan is not repaid. The average life of mortgage loans tends to increase, however, when current mortgage loan market rates are substantially higher than rates on existing mortgage loans and, conversely, decreases when rates on existing mortgage loans are substantially higher than current mortgage loan market rates.

The following table sets forth the dollar amount of all loans maturing after December 31, 2024 which have fixed interest rates and floating or adjustable interest rates (in thousands):

Table 7: Loans Maturing after One Year

	Fixed Rates	Floating or Adjustable Rates	Total
Commercial real estate:			
Owner-occupied	\$ 277,055	\$ 560,448	\$ 837,503
Investment properties	440,668	1,048,801	1,489,469
Small balance CRE	236,028	896,310	1,132,338
Total commercial real estate	953,751	2,505,559	3,459,310
Multifamily real estate	461,280	274,240	735,520
Construction, land and land development:			
Commercial construction	14,753	106,304	121,057
Multifamily construction	51,784	112,313	164,097
One- to four-family construction	1,486	45,322	46,808
Land and land development	46,249	168,159	214,408
Total construction, land and land development	114,272	432,098	546,370
Commercial business:			
Commercial business	570,277	298,180	868,457
SBA PPP	3,646	—	3,646
Small business scored	189,404	768,374	957,778
Total commercial business	763,327	1,066,554	1,829,881
Agricultural business, including secured by farmland	71,499	170,189	241,688
One- to four-family residential	1,083,593	430,708	1,514,301
Consumer:			
Consumer—home equity revolving lines of credit	4,435	580,492	584,927
Consumer—other	71,722	3,597	75,319
Total consumer	76,157	584,089	660,246
Total loans maturing after one year	<u>\$ 3,523,879</u>	<u>\$ 5,463,437</u>	<u>\$ 8,987,316</u>

Deposits. We compete with other financial institutions and financial intermediaries in attracting deposits and we generally attract deposits within our primary market areas. Much of the focus of our expansion and current marketing efforts have been directed toward attracting additional deposit client relationships and balances.

One of our key strategies is to strengthen our franchise by emphasizing core deposit activity in non-interest-bearing and other transaction and savings accounts with less reliance on higher cost certificates of deposit, which has been challenging over the last couple of years due to intense competition for deposits. This strategy is intended to help control our cost of funds and increase the opportunity for deposit fee revenues, while stabilizing our funding base. Total deposits decreased \$590.6 million, or 4%, to \$13.03 billion at December 31, 2023 from \$13.62 billion at December 31, 2022. The decline in deposits during the year ended December 31, 2023 was primarily due to interest rate-sensitive clients moving a portion of their non-operating deposit balances to higher yielding investments. Core deposits were 89% of total deposits at December 31, 2023, compared to 95% a year earlier.

The Bank's estimated uninsured deposits were \$4.08 billion or 31% of total deposits at December 31, 2023, compared to \$4.84 billion or 35% of total deposits at December 31, 2022. The estimated uninsured deposit calculation includes \$305.3 million and \$304.2 million of collateralized public deposits at December 31, 2023 and 2022, respectively. Estimated uninsured deposits also include cash held by Banner of \$108.2 million and \$77.2 million at December 31, 2023 and December 31, 2022, respectively. The Bank's estimated uninsured deposits, excluding collateralized public deposits and cash held at the holding company, were 28% of total deposits at December 31, 2023, compared to 33% of total deposits at December 31, 2022.

The following table sets forth the balances of deposits in the various types of accounts offered by the Bank at the dates indicated (dollars in thousands):

Table 8: Deposits

	December 31							
	2023			2022			2021	
	Amount	Percent of Total	Increase (Decrease)	Amount	Percent of Total	Increase (Decrease)	Amount	Percent of Total
Non-interest-bearing checking	\$ 4,792,369	37 %	\$ (1,384,629)	\$ 6,176,998	45 %	\$ (208,179)	\$ 6,385,177	45 %
Interest-bearing checking	2,098,526	16	287,373	1,811,153	14	(136,261)	1,947,414	14
Regular savings	2,980,530	23	270,440	2,710,090	20	(74,626)	2,784,716	19
Money market	1,680,605	13	(517,683)	2,198,288	16	(172,707)	2,370,995	17
Total interest-bearing transaction and savings accounts	<u>6,759,661</u>	<u>52</u>	<u>40,130</u>	<u>6,719,531</u>	<u>50</u>	<u>(383,594)</u>	<u>7,103,125</u>	<u>50</u>
Certificates maturing:								
Within one year	1,399,873	11	868,230	531,643	4	(121,051)	652,694	5
After one year, but within two years	49,579	—	(93,414)	142,993	1	25,980	117,013	1
After two years, but within five years	27,320	—	(20,195)	47,515	—	(19,952)	67,467	—
After five years	695	—	(684)	1,379	—	(78)	1,457	—
Total certificate accounts	<u>1,477,467</u>	<u>11</u>	<u>753,937</u>	<u>723,530</u>	<u>5</u>	<u>(115,101)</u>	<u>838,631</u>	<u>6</u>
Total deposits	<u>\$ 13,029,497</u>	<u>100 %</u>	<u>\$ (590,562)</u>	<u>\$ 13,620,059</u>	<u>100 %</u>	<u>\$ (706,874)</u>	<u>\$ 14,326,933</u>	<u>100 %</u>
Included in Total Deposits:								
Public transaction accounts	\$ 356,615	3 %	\$ (36,244)	\$ 392,859	3 %	\$ 38,985	\$ 353,874	3 %
Public interest-bearing certificates	52,048	—	25,238	26,810	—	(13,151)	39,961	—
Total public deposits	<u>\$ 408,663</u>	<u>3 %</u>	<u>\$ (11,006)</u>	<u>\$ 419,669</u>	<u>3 %</u>	<u>\$ 25,834</u>	<u>\$ 393,835</u>	<u>3 %</u>
Total deposits in excess of the FDIC insurance limit	<u>\$ 4,083,215</u>	<u>31 %</u>	<u>\$ (761,482)</u>	<u>\$ 4,844,697</u>	<u>36 %</u>	<u>\$ (299,689)</u>	<u>\$ 5,144,386</u>	<u>36 %</u>

The following table indicates the amount of the Bank's certificates of deposit with balances in excess of the FDIC insurance limit by time remaining until maturity as of December 31, 2023 (in thousands):

Table 9: Maturity Period— Certificates of Deposit in excess of the FDIC insurance limit

	Certificates of Deposit in Excess of FDIC Insurance Limit
Maturing in three months or less	\$ 243,778
Maturing after three months through six months	86,991
Maturing after six months through 12 months	95,777
Maturing after 12 months	9,329
Total	<u>\$ 435,875</u>

The following table provides additional detail on geographic concentrations of our deposits at December 31, 2023, 2022 and 2021 (in thousands):

Table 10: Geographic Concentration of Deposits

	December 31, 2023		December 31, 2022		December 31, 2021	
	Amount	Percent	Amount	Percent	Amount	Percent
Washington	\$ 7,247,392	56 %	\$ 7,563,056	56 %	\$ 7,952,376	56 %
Oregon	2,852,677	22	2,998,572	22	3,067,054	21
California	2,269,557	17	2,331,524	17	2,524,296	18
Idaho	659,871	5	726,907	5	783,207	5
Total deposits	<u>\$ 13,029,497</u>	<u>100 %</u>	<u>\$ 13,620,059</u>	<u>100 %</u>	<u>\$ 14,326,933</u>	<u>100 %</u>

Borrowings. We had \$323.0 million in FHLB advances at December 31, 2023. At that date, based on pledged collateral, the Bank had \$2.97 billion of available credit capacity with the FHLB. At December 31, 2023, based upon our available unencumbered collateral, the Bank was eligible to borrow \$1.44 billion from the Federal Reserve Bank, however, at that date we had no funds borrowed under this arrangement.

Retail repurchase agreements, which are primarily associated with client sweep account arrangements, decreased \$49.9 million to \$182.9 million at December 31, 2023 from \$232.8 million at December 31, 2022. At December 31, 2023 retail repurchase agreements had a weighted average rate of 2.48% and were secured by pledges of certain mortgage-backed securities and agency securities. We had no borrowings under wholesale repurchase agreements at December 31, 2023.

At December 31, 2023, we had an aggregate of \$86.5 million of TPS. This includes \$75.0 million issued by us and \$11.5 million acquired in our bank acquisitions. The junior subordinated debentures are carried at their estimated fair value of \$66.4 million at December 31, 2023. At December 31, 2023, the TPS had a weighted average rate of 7.19%. Subordinated notes, net of issuance costs were \$92.9 million at December 31, 2023, compared to \$98.9 million at December 31, 2022, and a weighted average interest rate of 5.00%. The decrease in subordinated notes was due to the Bank's purchase of \$6.5 million of Banner's subordinated debt during the second quarter of 2023.

Asset Quality. Maintaining a moderate risk profile by employing appropriate underwriting standards, avoiding excessive asset concentrations and aggressively managing troubled assets has been and will continue to be a primary focus for us.

Non-performing assets increased to \$30.1 million, or 0.19% of total assets, at December 31, 2023, from \$23.4 million, or 0.15% of total assets, at December 31, 2022. At December 31, 2023, our allowance for credit losses - loans was \$149.6 million, or 506% of non-performing loans, compared to \$141.5 million, or 615% of non-performing loans, at December 31, 2022.

The following table sets forth information with respect to our non-performing assets at the dates indicated (dollars in thousands):

Table 11: Non-Performing Assets

	December 31		
	2023	2022	2021
Nonaccrual loans:			
Secured by real estate:			
Commercial	\$ 2,677	\$ 3,683	\$ 14,159
Construction/land	3,105	181	479
One- to four-family	5,702	5,236	2,711
Commercial business	9,002	9,886	2,156
Agricultural business, including secured by farmland	3,167	594	1,022
Consumer	3,204	2,126	1,754
	<u>26,857</u>	<u>21,706</u>	<u>22,281</u>
Loans more than 90 days delinquent, still on accrual:			
Secured by real estate:			
Construction/land	1,138	—	—
One- to four-family	1,205	1,023	436
Commercial business	1	—	2
Consumer	401	264	117
	<u>2,745</u>	<u>1,287</u>	<u>555</u>
Total non-performing loans	29,602	22,993	22,836
REO assets held for sale, net	526	340	852
Other repossessed assets held for sale, net	—	17	17
Total non-performing assets	<u>\$ 30,128</u>	<u>\$ 23,350</u>	<u>\$ 23,705</u>
Total non-performing assets to total assets	0.19 %	0.15 %	0.14 %
Total nonaccrual loans to net loans before allowance for credit losses	0.25 %	0.21 %	0.25 %
Loans 30-89 days past due and on accrual	\$ 19,744	\$ 17,186	\$ 11,558

For the year ended December 31, 2023, interest income was reduced by \$1.6 million as a result of nonaccrual loan activity, which includes the reversal of \$569,000 of accrued interest as of the date the loans were placed on nonaccrual. There was no interest income recognized on nonaccrual loans during the year ended December 31, 2023.

The following table presents the Company's portfolio of risk-rated loans and non-risk-rated loans by grade at the dates indicated (in thousands):

Table 12: Loans by Grade

	For the years ended December 31,		
	2023	2022	2021
Pass	\$ 10,671,281	\$ 10,000,493	\$ 8,874,468
Special Mention	13,732	9,081	11,932
Substandard	125,442	137,150	198,363
Total	<u>\$ 10,810,455</u>	<u>\$ 10,146,724</u>	<u>\$ 9,084,763</u>

The decrease in substandard loans during the year ended December 31, 2023, primarily reflects the payoff of substandard loans as well as risk rating upgrades.

Comparison of Results of Operations for the Years Ended December 31, 2023 and 2022

General. For the year ended December 31, 2023, net income was \$183.6 million, or \$5.33 per diluted share, compared to net income of \$195.4 million, or \$5.67 per diluted share for the year ended December 31, 2022. Current year results included a decrease in non-interest income, primarily due to the loss on the sale of securities, and increases in the provision for credit losses and non-interest expense, partially offset by increased net interest income.

Our operating results depend largely on net interest income which increased \$22.8 million to \$576.0 million for the year ended December 31, 2023, compared to the prior year, primarily reflecting increased yields on loans and investment securities due to rising interest rates during the year, as well as higher average loan balances, partially offset by increased funding costs during the period. Revenues (net interest income and non-interest income) decreased \$8.0 million, or 1%, to \$620.4 million for the year ended December 31, 2023, compared to the year ended December 31, 2022, primarily due to increased funding costs, an increase in the net loss on the sale of securities and a net loss on financial instruments carried at fair value during the year ended December 31, 2023.

We recorded a \$10.8 million provision for credit losses for the year ended December 31, 2023, compared to a \$10.4 million provision for credit losses for the year ended December 31, 2022. The provision for credit losses for the year ended December 31, 2023, reflects growth in loan balances and a deterioration in forecasted economic conditions.

Total non-interest income for the year ended December 31, 2023 decreased to \$44.4 million compared to \$75.3 million for the year ended December 31, 2022, primarily due to an increase in the net loss on the sale of securities and a net loss relating to the fair value adjustments on financial instruments. The decrease was also impacted by the \$7.8 million gain on the sale of branches, including related deposits, during the prior year.

Total non-interest expense increased to \$382.5 million for the year ended December 31, 2023, compared to \$377.3 million for the year ended December 31, 2022, largely as a result of a decrease in capitalized loan origination costs and, to a lesser extent, increases in salary and employee benefits, information and computer data services and deposit insurance expense, partially offset by decreases in occupancy and equipment expense and professional and legal expense.

Net Interest Income. Net interest income increased \$22.8 million, or 4%, to \$576.0 million for the year ended December 31, 2023, compared to \$553.2 million for the year ended December 31, 2022, primarily due to increases in the average yields on and, to a lesser extent, the average balance of interest-earning assets, partially offset by increased funding costs. The higher average yield on interest-earning assets compared to same prior year period reflects rising market interest rates during the year ended December 31, 2023.

The net interest margin on a tax equivalent basis of 4.01% for the year ended December 31, 2023, was 33 basis points higher than the prior year. The increase in net interest margin reflects a 107 basis-point increase in yields on average interest-earning assets, offset by a 78 basis-point increase in the cost of funding liabilities. The increase in average yields on interest-earning assets during the current year reflects the benefit of variable rate interest-earning assets repricing higher due to rising interest rates, as well as new loans being originated at higher interest rates. The increase in the overall cost of funding liabilities was primarily due to the increase in rates across all deposit and borrowing categories due to higher market rates generally, as well as a shift in the average balance of deposits to higher costing certificates of deposit.

Interest Income. Interest income for the year ended December 31, 2023 was \$701.6 million, compared to \$572.6 million for the prior year, an increase of \$129.0 million. The increase in interest income occurred as a result of the yields on interest-earnings assets increasing 107 basis points to 4.87%, partially offset by the average balance of interest-earning assets decreasing \$682.3 million to \$14.65 billion. The increased yield on interest-earning assets primarily reflects increases in the average yields on loans.

Interest income on loans increased from the prior year \$127.0 million to \$577.9 million for the year ended December 31, 2023. The increase was primarily due to the average loan yields increasing 82 basis points to 5.58%, reflecting the impact of rising interest rates. Average loans receivable increased \$887.7 million to \$10.48 billion, primarily reflecting an increase in one- to four-family loans.

Interest and dividend income on investment securities increased \$1.7 million for the year ended December 31, 2023. The average yield on the combined portfolio increased 88 basis points to 3.08%, reflecting a 31 basis-point increase in the average yield on mortgage-backed securities and a 147 basis-point increase in the yield on other securities. The combined average balance of total investment securities decreased \$1.57 billion to \$4.17 billion (excluding the effect of fair value adjustments).

Interest Expense. Interest expense for the year ended December 31, 2023 was \$125.6 million, compared to \$19.4 million for the prior year, an increase of \$106.2 million, or 548%. The increase occurred as a result of a 78 basis-point increase in the average cost of all funding liabilities to 0.91%, partially offset by the average balance of funding liabilities decreasing \$985.6 million to \$13.73 billion. The decrease in the average balance of funding liabilities reflects decreases in non-interest-bearing deposits and interest-bearing transaction and savings accounts, partially offset by higher average balances of certificates of deposit and FHLB advances.

Deposit interest expense increased \$90.0 million to \$100.1 million for the year ended December 31, 2023, compared to the prior year as a result of the average cost of total deposits increasing 69 basis points to 0.76%, partially offset by the average balance of interest-bearing deposits decreasing by \$115.1 million. The increase in the average cost of deposits between the periods was primarily due to the average cost of interest-bearing deposits increasing 117 basis points to 1.30% for the year ended December 31, 2023, compared to 0.13% in the prior year. The increase in the average cost of interest-bearing deposits was primarily the result of a 245 basis-point increase in the cost of certificates of deposit along with a \$445.0 million increase in the average balance of certificates of deposit.

The average rate paid on total borrowings increased 233 basis points to 4.37%, reflecting the 215 basis-point increase in the average cost of FHLB advances, the 154 basis-point increase in the average cost of other borrowings, and the 179 basis-point increase in the average cost of our subordinated debt. The increase in average total borrowings was largely due to a \$181.5 million increase in average balance of FHLB advances, partially offset by a \$50.4 million decrease in the average balance of other borrowings.

Table 13, Analysis of Net Interest Spread, presents, for the periods indicated, our condensed average balance sheet information, together with interest income and yields earned on average interest-earning assets and interest expense and rates paid on average interest-bearing liabilities. Average balances are computed using daily average balances.

The following table provides an analysis of our net interest spread for the last three years (dollars in thousands):

Table 13: Analysis of Net Interest Spread

	Year Ended December 31, 2023			Year Ended December 31, 2022			Year Ended December 31, 2021		
	Average Balance	Interest and Dividends	Yield/ Cost ⁽³⁾	Average Balance	Interest and Dividends	Yield/ Cost ⁽³⁾	Average Balance	Interest and Dividends	Yield/ Cost ⁽³⁾
Interest-earning assets:									
Held for sale loans	\$ 49,106	\$ 2,621	5.34 %	\$ 82,030	\$ 2,973	3.62 %	\$ 94,252	\$ 3,066	3.25 %
Mortgage loans	8,513,487	460,664	5.41	7,731,195	364,499	4.71 %	7,225,860	328,115	4.54 %
Commercial/agricultural loans	1,777,099	113,078	6.36	1,617,191	77,309	4.78 %	1,498,808	62,479	4.17 %
SBA PPP loans	5,042	172	3.41	41,167	4,677	11.36 %	770,041	49,854	6.47 %
Consumer and other loans	138,196	8,715	6.31	123,667	7,332	5.93 %	122,520	7,298	5.96 %
Total loans ⁽¹⁾	10,482,930	585,250	5.58	9,595,250	456,790	4.76 %	9,711,481	450,812	4.64 %
Mortgage-backed securities	2,927,650	72,927	2.49	3,130,124	68,148	2.18 %	2,451,110	46,199	1.88 %
Other securities	1,173,637	52,148	4.44	1,625,250	48,278	2.97 %	1,337,403	30,114	2.25 %
Interest-bearing deposits with banks	46,815	2,200	4.70	969,952	9,633	0.99 %	1,392,619	1,955	0.14 %
FHLB stock	17,903	847	4.73	10,628	357	3.36 %	13,966	592	4.24 %
Total investment securities	4,166,005	128,122	3.08	5,735,954	126,416	2.20 %	5,195,098	78,860	1.52 %
Total interest-earning assets	14,648,935	713,372	4.87	15,331,204	583,206	3.80 %	14,906,579	529,672	3.55 %
Non-interest-earning assets	917,018			1,169,271			1,268,348		
Total assets	<u>\$ 15,565,953</u>			<u>\$ 16,500,475</u>			<u>\$ 16,174,927</u>		
Deposits:									
Interest-bearing checking accounts	\$ 1,921,326	\$ 13,334	0.69	\$ 1,890,917	\$ 1,557	0.08 %	\$ 1,755,293	\$ 1,188	0.07 %
Savings accounts	2,674,936	27,739	1.04	2,810,264	2,053	0.07 %	2,652,018	1,833	0.07 %
Money market accounts	1,908,983	24,089	1.26	2,364,122	3,143	0.13 %	2,305,814	2,670	0.12 %
Certificates of deposit	1,209,261	34,964	2.89	764,255	3,371	0.44 %	876,509	6,079	0.69 %
Total interest-bearing deposits	7,714,506	100,126	1.30	7,829,558	10,124	0.13 %	7,589,634	11,770	0.16 %
Non-interest-bearing deposits	5,436,953	—	—	6,434,670	—	— %	6,132,875	—	— %
Total deposits	13,151,459	100,126	0.76	14,264,228	10,124	0.07 %	13,722,509	11,770	0.09 %
Other interest-bearing liabilities:									
FHLB advances	196,819	10,524	5.35	15,285	489	3.20 %	97,945	2,592	2.65 %
Other borrowings	199,291	3,376	1.69	249,681	377	0.15 %	240,817	467	0.19 %
Subordinated debt	185,883	11,541	6.21	189,870	8,400	4.42 %	247,583	8,780	3.55 %
Total borrowings	581,993	25,441	4.37	454,836	9,266	2.04 %	586,345	11,839	2.02 %
Total funding liabilities	13,733,452	125,567	0.91	14,719,064	19,390	0.13 %	14,308,854	23,609	0.16 %
Other non-interest-bearing liabilities ⁽²⁾	295,098			253,983			206,774		
Total liabilities	14,028,550			14,973,047			14,515,628		
Shareholders' equity	1,537,403			1,527,428			1,659,299		
Total liabilities and shareholders' equity	<u>\$ 15,565,953</u>			<u>\$ 16,500,475</u>			<u>\$ 16,174,927</u>		
Net interest income/rate spread (tax equivalent)		<u>\$ 587,805</u>	3.96 %		<u>\$ 563,816</u>	3.67 %		<u>\$ 506,063</u>	3.39 %
Net interest margin (tax equivalent)			4.01 %			3.68 %			3.39 %
Reconciliation to reported net interest income:									
Adjustments for taxable equivalent basis		(11,800)			(10,637)			(9,172)	
Net interest income and margin, as reported		<u>\$ 576,005</u>	3.93 %		<u>\$ 553,179</u>	3.61 %		<u>\$ 496,891</u>	3.33 %
Average interest-earning assets / average interest-bearing liabilities			176.57 %			185.06 %			182.32 %
Average interest-earning assets / average funding liabilities			106.67 %			104.16 %			104.18 %

(footnotes follow)

- (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 junior subordinated debentures.
- (3) Tax-exempt income is calculated on a tax equivalent basis. The tax equivalent yield adjustment to interest earned on loans was \$7.4 million, \$5.9 million, and \$5.1 million for the years ended December 31, 2023, December 31, 2022, and December 31, 2021, respectively. The tax equivalent yield adjustment to interest earned on tax exempt securities was \$4.4 million, \$4.8 million, and \$4.1 million for the years ended December 31, 2023, December 31, 2022, and December 31, 2021, respectively.

The following table sets forth the effects of changing rates and volumes on our net interest income during the periods shown (in thousands). Information is provided with respect to (i) effects on interest income attributable to changes in volume (changes in volume multiplied by prior rate) and (ii) effects on interest income attributable to changes in rate (changes in rate multiplied by prior volume). Effects on interest income attributable to changes in rate and volume (changes in rate multiplied by changes in volume) have been allocated between changes in rate and changes in volume (in thousands):

Table 14: Rate/Volume Analysis

	Year Ended December 31, 2023			Year Ended December 31, 2022		
	Compared to Year Ended December 31, 2022			Compared to Year Ended December 31, 2021		
	Increase (Decrease) in Income/Expense Due to					
	Rate	Volume	Net	Rate	Volume	Net
Interest-earning assets:						
Held for sale loans	\$ 1,100	\$ (1,452)	\$ (352)	\$ 329	\$ (422)	\$ (93)
Mortgage loans	57,068	39,097	96,165	12,870	23,514	36,384
Commercial/agricultural loans	27,543	8,226	35,769	9,642	5,188	14,830
SBA PPP loans	(1,999)	(2,506)	(4,505)	21,828	(67,005)	(45,177)
Consumer and other loans	486	897	1,383	(34)	68	34
Total loans	84,198	44,262	128,460	44,635	(38,657)	5,978
Mortgage-backed securities	9,384	(4,605)	4,779	7,878	14,071	21,949
Other securities	19,674	(15,804)	3,870	10,836	7,328	18,164
Interest-bearing deposits with banks	8,688	(16,121)	(7,433)	8,443	(765)	7,678
FHLB stock	183	307	490	(109)	(126)	(235)
Total investment securities	37,929	(36,223)	1,706	27,048	20,508	47,556
Total net change in interest income on interest-earning assets	122,127	8,039	130,166	71,683	(18,149)	53,534
Interest-bearing liabilities:						
Interest-bearing checking accounts	11,752	25	11,777	272	97	369
Savings accounts	25,790	(104)	25,686	107	113	220
Money market accounts	21,665	(719)	20,946	404	69	473
Certificates of deposit	28,596	2,997	31,593	(2,003)	(705)	(2,708)
Total interest-bearing deposits	87,803	2,199	90,002	(1,220)	(426)	(1,646)
FHLB advances	537	9,498	10,035	451	(2,554)	(2,103)
Other borrowings	3,090	(91)	2,999	(107)	17	(90)
Subordinated debt	3,321	(180)	3,141	1,912	(2,292)	(380)
Total borrowings	6,948	9,227	16,175	2,256	(4,829)	(2,573)
Total net change in interest expense on interest-bearing liabilities	94,751	11,426	106,177	1,036	(5,255)	(4,219)
Net change in net interest income (tax equivalent)	\$ 27,376	\$ (3,387)	\$ 23,989	\$ 70,647	\$ (12,894)	\$ 57,753

Provision and Allowance for Credit Losses. We recorded an \$11.1 million provision for credit losses - loans in the year ended December 31, 2023, compared to an \$8.2 million provision for credit losses - loans in 2022.

The provision for credit losses - loans reflects the amount required to maintain the allowance for credit losses - loans at an appropriate level based upon Management's evaluation of the adequacy of collective and individual loss reserves. The provision for credit losses - loans for the current year primarily reflects loan growth and a deterioration in forecasted economic conditions and indicators utilized to estimate credit losses, as well as increased charge-offs for the year. The prior year provision for credit losses - loans primarily reflected loan growth and, to a lesser extent, a deterioration in forecasted economic conditions and indicators utilized to estimate credit losses, partially offset by an improvement in the level of adversely classified loans. Future assessments of the expected credit losses will not only be impacted by changes to the reasonable and supportable forecast, but will also include an updated assessment of qualitative factors, as well as consideration of any required changes in the reasonable and supportable forecast reversion period.

The following table sets forth an analysis of our allowance for credit losses - loans for the periods indicated (dollars in thousands):

Table 15: Changes in Allowance for Credit Losses - Loans

	Years Ended December 31		
	2023	2022	2021
Balance, beginning of period	\$ 141,465	\$ 132,099	\$ 167,279
Provision (recapture) for credit losses – loans	11,097	8,158	(33,112)
Recoveries of loans previously charged off:			
Commercial real estate	557	392	1,729
Construction and land	29	384	100
One- to four-family residential	230	181	199
Commercial business	1,283	1,923	1,797
Agricultural business, including secured by farmland	146	475	30
Consumer	543	566	760
Total recoveries	2,788	3,921	4,615
Loans charged off:			
Commercial real estate	—	(2)	(3,767)
Multifamily real estate	—	—	(59)
Construction and land	(1,089)	(30)	—
One- to four-family residential	(42)	—	—
Commercial business	(2,650)	(1,699)	(1,762)
Agricultural business, including secured by farmland	(564)	(42)	(181)
Consumer	(1,362)	(940)	(914)
Total charge-offs	(5,707)	(2,713)	(6,683)
Net (charge-offs) recoveries	(2,919)	1,208	(2,068)
Balance, end of period	\$ 149,643	\$ 141,465	\$ 132,099
Total loans	\$10,810,455	\$10,146,724	\$ 9,084,763
Average outstanding loans	\$10,433,824	\$ 9,513,220	\$ 9,617,229
Total nonaccrual loans	\$ 26,857	\$ 21,706	\$ 22,281
Allowance for credit losses - loans as a percent of total loans	1.38 %	1.39 %	1.45 %
As a percent of average outstanding loans during the period:			
Net loan (charge-offs) recoveries	(0.03)%	0.01 %	(0.02)%
Commercial real estate	0.01 %	— %	(0.02)%
Multifamily real estate	— %	— %	— %
Construction and land	(0.01)%	— %	— %
One- to four-family residential	— %	— %	— %
Commercial business	(0.01)%	— %	— %
Agricultural business, including secured by farmland	— %	— %	— %
Consumer	(0.01)%	— %	— %
Allowance for credit losses - loans as a percent of nonaccrual loans	557 %	652 %	593 %

The following table sets forth the breakdown of the allowance for credit losses - loans by loan category at the dates indicated (dollars in thousands):

Table 16: Allocation of Allowance for Credit Losses - Loans

	December 31								
	2023			2022			2021		
	Amount	Percent of Loans in Each Category to Total Loans	Percent of Allowance to Loans in Each Category	Amount	Percent of Loans in Each Category to Total Loans	Percent of Allowance to Loans in Each Category	Amount	Percent of Loans in Each Category to Total Loans	Percent of Allowance to Loans in Each Category
Allowance for credit losses - loans:									
Commercial real estate	\$ 44,384	34 %	1.22 %	\$ 44,086	36 %	1.21 %	\$ 52,995	41 %	1.40 %
Multifamily real estate	9,326	8	1.15	7,734	6	1.20	7,043	6	1.33
Construction and land	28,095	14	1.83	29,171	14	1.96	27,294	15	2.08
One- to four-family real estate	19,271	14	1.27	14,729	12	1.26	8,205	7	1.25
Commercial business	35,464	21	1.56	33,299	22	1.49	26,421	22	1.35
Agricultural business, including secured by farmland	3,865	3	1.17	3,475	3	1.18	3,190	3	1.14
Consumer	9,238	6	1.32	8,971	7	1.32	6,951	6	1.25
Total allowance for credit losses - loans	<u>\$ 149,643</u>	<u>100 %</u>	<u>1.38 %</u>	<u>\$ 141,465</u>	<u>100 %</u>	<u>1.39 %</u>	<u>\$ 132,099</u>	<u>100 %</u>	<u>1.45 %</u>

The allowance for credit losses - unfunded loan commitments was \$14.5 million at December 31, 2023 compared to \$14.7 million at December 31, 2022. The decrease in the allowance for credit losses - unfunded loan commitments reflects a decrease in unfunded loan commitments.

The following table sets forth an analysis of our allowance for credit losses - unfunded loan commitments for the periods indicated (dollars in thousands):

Table 17: Changes in Allowance for Credit Losses - Unfunded Loan Commitments

	Years Ended, December 31,		
	2023	2022	2021
Balance, beginning of period	\$ 14,721	\$ 12,432	\$ 13,297
(Recapture) provision for credit losses - unfunded loan commitments	(237)	2,289	(865)
Balance, end of period	<u>\$ 14,484</u>	<u>\$ 14,721</u>	<u>\$ 12,432</u>

Non-interest Income. The following table presents the key components of non-interest income for the years ended December 31, 2023, 2022 and 2021 (dollars in thousands):

Table 18: Non-interest Income

	2023 compared to 2022				2022 compared to 2021			
	2023	2022	Change Amount	Change Percent	2022	2021	Change Amount	Change Percent
Deposit fees and other service charges	\$ 41,638	\$ 44,459	\$ (2,821)	(6)%	\$ 44,459	\$ 39,495	\$ 4,964	13 %
Mortgage banking operations	11,817	10,834	983	9 %	10,834	33,948	(23,114)	(68)%
Bank-owned life insurance	9,245	7,794	1,451	19 %	7,794	5,000	2,794	56 %
Miscellaneous	5,169	6,805	(1,636)	(24)%	6,805	12,875	(6,070)	(47)%
	<u>67,869</u>	<u>69,892</u>	<u>(2,023)</u>	<u>(3)%</u>	<u>69,892</u>	<u>91,318</u>	<u>(21,426)</u>	<u>(23)%</u>
Net (loss) gain on sale of securities	(19,242)	(3,248)	(15,994)	492 %	(3,248)	482	(3,730)	(774)%
Net change in valuation of financial instruments carried at fair value	(4,218)	807	(5,025)	(623)%	807	4,616	(3,809)	(83)%
Gain on sale of branches, including related deposits	—	7,804	(7,804)	(100)%	7,804	—	7,804	nm
Total non-interest income	<u>\$ 44,409</u>	<u>\$ 75,255</u>	<u>\$ (30,846)</u>	<u>(41)%</u>	<u>\$ 75,255</u>	<u>\$ 96,416</u>	<u>\$ (21,161)</u>	<u>(22)%</u>

Non-interest income decreased for the year ended December 31, 2023, compared to the year ended December 31, 2022. The decrease was primarily due to the net loss recorded during the current period on the sale of securities, the recognition of a net loss for fair value adjustments on financial instruments carried at fair value, a decrease in deposit fees and other service charges and a gain on sale of branches recognized during the year ended December 31, 2022, with no similar gain recognized in 2023.

Income from deposit fees and other service charges decreased primarily as a result of decreased deposit transaction activity and the discontinuation of certain deposit fees related to overdrafts during the current year.

Revenue from mortgage banking operations, including gains on one- to four-family and multifamily loan sales and loan servicing fees, increased for the year ended December 31, 2023, compared to the prior year. The higher mortgage banking revenue primarily reflected a \$2.5 million lower of cost or market upward adjustment on multifamily loans held for sale, attributed to the transfer of \$43.5 million of multifamily loans from held for sale to portfolio during the fourth quarter of 2023, compared to a \$2.5 million lower of cost or market downward adjustment for the year ended December 31, 2022. Sales of one- to four-family loans held for sale for the year ended December 31, 2023, resulted in gains of \$5.1 million, compared to \$9.9 million for the year ended December 31, 2022. The reduction in one- to four-family loans sold primarily reflects a reduction in refinancing activity, as well as decreased purchase activity as interest rates increased during 2023.

The net loss on sale of securities during the year ended December 31, 2023, reflects strategic sales of securities to minimize the impact of increasing rates on our securities portfolio. The net loss on the valuation of financial instruments carried at fair value were due to declines during 2023 in the market valuation of investment securities carried at fair value.

Non-interest Expense. The following table represents key elements of non-interest expense for the years ended December 31, 2023, 2022 and 2021 (dollars in thousands).

Table 19: Non-interest Expense

	2023 compared to 2022				2022 compared to 2021			
	2023	2022	Change Amount	Change Percent	2022	2021	Change Amount	Change Percent
Salary and employee benefits	\$ 244,563	\$ 242,266	\$ 2,297	1 %	\$ 242,266	\$ 244,351	\$ (2,085)	(1)%
Less capitalized loan origination costs	(16,257)	(24,313)	8,056	(33)%	(24,313)	(34,401)	10,088	(29)%
Occupancy and equipment	47,886	52,018	(4,132)	(8)%	52,018	52,850	(832)	(2)%
Information and computer data services	28,445	25,986	2,459	9 %	25,986	24,356	1,630	7 %
Payment and card processing services	20,547	21,195	(648)	(3)%	21,195	20,544	651	3 %
Professional and legal expenses	9,830	14,005	(4,175)	(30)%	14,005	22,274	(8,269)	(37)%
Advertising and marketing	4,794	3,959	835	21 %	3,959	6,036	(2,077)	(34)%
Deposit insurance	10,529	6,649	3,880	58 %	6,649	5,583	1,066	19 %
State and municipal business and use taxes	5,260	4,693	567	12 %	4,693	4,343	350	8 %
Real estate operations, net	(538)	(104)	(434)	417 %	(104)	(22)	(82)	373 %
Amortization of core deposit intangibles	3,756	5,279	(1,523)	(29)%	5,279	6,571	(1,292)	(20)%
Loss on extinguishment of debt	—	793	(793)	(100)%	793	2,284	(1,491)	(65)%
Miscellaneous	23,723	24,869	(1,146)	(5)%	24,869	24,236	633	3 %
	<u>\$ 382,538</u>	<u>\$ 377,295</u>	<u>\$ 5,243</u>	<u>1 %</u>	<u>\$ 377,295</u>	<u>\$ 379,005</u>	<u>\$ (1,710)</u>	<u>— %</u>
COVID-19 expenses	—	—	—	nm	—	436	(436)	(100)%
Merger and acquisition-related expenses	—	—	—	nm	—	660	(660)	(100)%
Total non-interest expense	<u>\$ 382,538</u>	<u>\$ 377,295</u>	<u>\$ 5,243</u>	<u>1 %</u>	<u>\$ 377,295</u>	<u>\$ 380,101</u>	<u>\$ (2,806)</u>	<u>(1)%</u>

Non-interest expense for the year ended December 31, 2023, increased as compared to the same period in 2022. The increase was primarily due to an increase in salary and employee benefits, a decrease in capitalized loan origination costs, and increases in information and computer data services and deposit insurance, partially offset by decreases in occupancy and equipment, professional and legal expenses, and amortization of core deposit intangibles.

Salary and employee benefits increased for the year ended December 31, 2023, compared to the prior year, primarily reflecting normal annual salary and wage increases, partially offset by decreases in loan production related commission expense. Capitalized loan origination costs decreased primarily due to decreased loan production. Information and computer data services increased primarily due to an increase in computer software expenses. Deposit insurance expense increased due to an increase in the FDIC assessment rate in 2023.

Occupancy and equipment decreased for the year ended December 31, 2023, compared to the prior year, primarily due to a reduction in building rent expense during the current year as a result of the consolidation of back-office space.

Professional and legal expense decreased for the year ended December 31, 2023, from the year ended December 31, 2022, primarily due to a \$3.5 million accrual recorded in the prior year related to a potential settlement of a pending litigation matter.

Income Taxes. For the year ended December 31, 2023, we recognized \$43.5 million in income tax expense for an effective rate of 19.1%, which reflects our statutory tax rate reduced by the effect of tax-exempt income, certain tax credits, and tax benefits related to restricted stock vesting. Our blended federal and state 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 and local jurisdictions where we do business. For the year ended December 31, 2022, we recognized \$45.4 million in income tax expense for an effective tax rate of 18.9%.

Comparison of Results of Operations for the Years Ended December 31, 2022 and 2021

See Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2022, previously filed with the SEC.

Market Risk and Asset/Liability Management

Our financial condition and operations are influenced significantly by general economic conditions, including the absolute level of interest rates as well as changes in interest rates and the slope of the yield curve. Our profitability depends, to a large extent, on our net interest income, which is the difference between the interest received from our interest-earning assets and the interest expense incurred on our interest-bearing liabilities.

Our activities, like those of all financial institutions, inherently involve the assumption of interest rate risk. Interest rate risk is the risk that fluctuations in market interest rates will have an adverse impact on the institution's earnings and underlying economic value. Interest rate risk is determined by the maturity and repricing characteristics of an institution's assets, liabilities and off-balance-sheet contracts. Interest rate risk is measured by the variability of financial performance and economic value resulting from changes in interest rates. Interest rate risk is the primary market risk affecting our financial performance.

The greatest source of interest rate risk to us results from the mismatch of maturities or repricing intervals for rate sensitive assets, liabilities and off-balance-sheet contracts. This mismatch or gap is generally characterized by a substantially shorter maturity structure for interest-bearing liabilities than interest-earning assets, although our floating-rate assets tend to be more immediately responsive to changes in market rates than most deposit liabilities. Additional interest rate risk results from mismatched repricing indices (basis risk and yield curve risk), and product caps and floors and early repayment or withdrawal provisions (option risk), which may be contractual or market driven, that are generally more favorable to clients than to us. An exception to this generalization is the beneficial effect of interest rate floors on a portion of our performing floating-rate loans, which help us maintain higher loan yields in periods when market interest rates decline significantly. However, in a declining interest rate environment, as loans with floors are repaid they generally are replaced with new loans which have lower interest rate floors. As of December 31, 2023, our loans with interest rate floors totaled \$4.79 billion and had a weighted average floor rate of 4.40% compared to a current average note rate of 6.54%. As of December 31, 2023, our loans with interest rates at their floors totaled \$1.36 billion and had a weighted average note rate of 4.15%. The Company actively manages its exposure to interest rate risk through ongoing adjustments to the mix of interest-earning assets and funding sources that affect the repricing speeds of loans, investments, interest-bearing deposits and borrowings.

The principal objectives of asset/liability management are: to evaluate the interest rate risk exposure; to determine the appropriate level of risk given our operating environment, business plan strategies, performance objectives, capital and liquidity constraints, and asset and liability allocation alternatives; and to manage our interest rate risk consistent with regulatory guidelines and policies approved by the Board of Directors. Through such management, we seek to reduce the vulnerability of our earnings and capital position to changes in the level of interest rates. Our actions in this regard are taken under the guidance of the Asset/Liability Management Committee, which is comprised of members of our senior management. The Committee closely monitors our interest sensitivity exposure, asset and liability allocation decisions, liquidity and capital positions, and local and national economic conditions, and attempts to structure the loan and investment portfolios and funding sources to maximize earnings within acceptable risk tolerances.

Sensitivity Analysis

Our primary monitoring tool for assessing interest rate risk is asset/liability simulation modeling, which is designed to capture the dynamics of balance sheet, interest rate and spread movements and to quantify variations in net interest income resulting from those movements under different rate environments. The sensitivity of net interest income to changes in the modeled interest rate environments provides a measurement of interest rate risk. We also utilize economic value analysis, which addresses changes in estimated net economic value of equity arising from changes in the level of interest rates. The net economic value of equity is estimated by separately valuing our assets and liabilities under varying interest rate environments. The extent to which assets gain or lose value in relation to the gains or losses of liability values under the various interest rate assumptions determines the sensitivity of net economic value to changes in interest rates and provides an additional measure of interest rate risk.

The interest rate sensitivity analysis performed by us incorporates beginning-of-the-period rate, balance and maturity data, using various levels of aggregation of that data, as well as certain assumptions concerning the maturity, repricing, amortization and prepayment characteristics of loans and other interest-earning assets and the repricing and withdrawal of deposits and other interest-bearing liabilities into an asset/liability simulation model. We update and prepare simulation modeling at least quarterly for review by senior management and oversight by the directors. We believe the data and assumptions are realistic representations of our portfolio and possible outcomes under the various interest rate scenarios. Nonetheless, the interest rate sensitivity of our net interest income and net economic value of equity could vary substantially if different assumptions were used or if actual experience differs from the assumptions used.

The following tables set forth, as of December 31, 2023, the estimated changes in our net interest income over one-year and two-year time horizons for our rate ramp and rate shock interest rate sensitivity scenarios and the estimated changes in economic value of equity for our rate shock interest rate sensitivity scenario based on the indicated interest rate environments (dollars in thousands):

Table 20: Interest Rate Risk Indicators - Rate Ramp

Change (in Basis Points) in Interest Rates ⁽¹⁾	December 31, 2023			
	Estimated Increase (Decrease) in			
	Net Interest Income Next 12 Months		Net Interest Income Next 24 Months	
+300	\$ (9,183)	(1.6)%	\$ (24,249)	(2.0)%
+200	(2,847)	(0.5)	(437)	—
+100	219	—	7,683	0.6
0	—	—	—	—
-100	(7,791)	(1.4)	(37,550)	(3.1)
-200	(15,662)	(2.8)	(78,302)	(6.6)
-300	(23,933)	(4.2)	(123,593)	(10.3)

⁽¹⁾ Assumes a gradual change in market interest rates at all maturities during the first year; however, no rates are allowed to go below zero. The targeted Federal Funds Rate was between 5.25% and 5.50% at December 31, 2023.

Table 21: Interest Rate Risk Indicators - Rate Shock

Change (in Basis Points) in Interest Rates ⁽¹⁾	December 31, 2023					
	Estimated Increase (Decrease) in					
	Net Interest Income Next 12 Months		Net Interest Income Next 24 Months		Economic Value of Equity	
+300	\$ (34,861)	(6.2)%	\$ (33,761)	(2.8)%	\$ (279,615)	(10.7)%
+200	(12,266)	(2.2)	1,195	0.1	(153,764)	(5.9)
+100	(768)	(0.1)	12,355	1.0	(69,021)	(2.6)
0	—	—	—	—	—	—
-100	(19,866)	(3.5)	(57,064)	(4.8)	21,363	0.8
-200	(41,167)	(7.3)	(119,813)	(10.0)	(35,179)	(1.3)
-300	(65,228)	(11.5)	(192,740)	(16.1)	(184,604)	(7.1)

⁽¹⁾ Assumes an instantaneous and sustained uniform change in market interest rates at all maturities; however, no rates are allowed to go below zero. The targeted Federal Funds Rate was between 5.25% and 5.50% at December 31, 2023.

Another monitoring tool for assessing interest rate risk is gap analysis. The matching of the repricing characteristics of assets and liabilities may be analyzed by examining the extent to which assets and liabilities are interest sensitive and by monitoring an institution's interest sensitivity gap. An asset or liability is said to be interest sensitive within a specific time period if it will mature or reprice within that time period. The interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets anticipated, based upon certain assumptions, to mature or reprice within a specific time period and the amount of interest-bearing liabilities anticipated to mature or reprice, based upon certain assumptions, within that same time period. A gap is considered positive when the amount of interest-sensitive assets exceeds the amount of interest-sensitive liabilities. A gap is considered negative when the amount of interest-sensitive liabilities exceeds the amount of interest-sensitive assets. Generally, during a period of rising rates, a negative gap would tend to adversely affect net interest income while a positive gap would tend to result in an increase in net interest income. During a period of falling interest rates, a negative gap would tend to result in an increase in net interest income while a positive gap would tend to adversely affect net interest income.

Certain shortcomings are inherent in gap analysis. For example, although certain assets and liabilities may have similar maturities or periods of repricing, they may react in different degrees to changes in market rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as ARM loans, have features that restrict changes in interest rates on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, prepayment and early withdrawal levels would likely deviate significantly from those assumed in calculating the table. Finally, the ability of some borrowers to service their debt may decrease in the event of a severe change in market rates.

Table 22, Interest Sensitivity Gap, presents our interest sensitivity gap between interest-earning assets and interest-bearing liabilities at December 31, 2023. The following table sets forth the amounts of interest-earning assets and interest-bearing liabilities which are anticipated by us, based upon certain assumptions, to reprice or mature in each of the future periods shown. At December 31, 2023, total interest-earning assets maturing or repricing within one year exceeded total interest-bearing liabilities maturing or repricing in the same time period by \$2.10 billion, representing a one-year cumulative gap to total assets ratio of 13.40%. The interest rate risk indicators and interest sensitivity gaps as of December 31, 2023, are within our internal policy guidelines and Management considers that our current level of interest rate risk is reasonable.

The following table provides a GAP analysis as of December 31, 2023 (dollars in thousands):

Table 22: Interest Sensitivity Gap

	December 31, 2023						Total
	Within 6 Months	After 6 Months Within 1 Year	After 1 Year Within 3 Years	After 3 Years Within 5 Years	After 5 Years Within 10 Years	Over 10 Years	
Interest-earning assets: ⁽¹⁾							
Construction loans	\$ 1,010,576	\$ 111,758	\$ 129,617	\$ 38,248	\$ 32,494	\$ 147	\$ 1,322,840
Fixed-rate mortgage loans	246,333	210,811	757,251	592,448	725,202	249,263	2,781,308
Adjustable-rate mortgage loans	1,023,230	376,634	1,494,738	851,240	418,435	11,319	4,175,596
Fixed-rate mortgage-backed securities	95,058	99,172	362,051	414,953	860,049	898,931	2,730,214
Adjustable-rate mortgage-backed securities	292,717	46	195	214	4,076	—	297,248
Fixed-rate commercial/agricultural loans	97,680	83,115	265,443	134,524	145,808	26,627	753,197
Adjustable-rate commercial/agricultural loans	889,690	24,184	85,055	69,935	3,113	—	1,071,977
Consumer and other loans	496,893	57,536	45,335	36,908	27,534	44,524	708,730
Investment securities and interest-earning deposits	91,882	7,285	69,517	27,110	202,584	443,328	841,706
Total rate sensitive assets	<u>4,244,059</u>	<u>970,541</u>	<u>3,209,202</u>	<u>2,165,580</u>	<u>2,419,295</u>	<u>1,674,139</u>	<u>14,682,816</u>
Interest-bearing liabilities: ⁽²⁾							
Interest-bearing checking accounts	265,053	174,882	590,468	449,147	712,291	788,690	2,980,531
Regular savings	270,538	121,222	394,617	286,633	440,231	585,285	2,098,526
Money market deposit accounts	189,414	98,917	333,300	252,314	395,293	411,367	1,680,605
Certificates of deposit	1,106,962	292,667	69,403	7,496	695	243	1,477,466
FHLB advances	323,000	—	—	—	—	—	323,000
Subordinated notes	—	—	93,500	—	—	—	93,500
Junior subordinated debentures	89,178	—	—	—	—	—	89,178
Retail repurchase agreements	182,877	—	—	—	—	—	182,877
Total rate sensitive liabilities	<u>2,427,022</u>	<u>687,688</u>	<u>1,481,288</u>	<u>995,590</u>	<u>1,548,510</u>	<u>1,785,585</u>	<u>8,925,683</u>
Excess (deficiency) of interest-sensitive assets over interest-sensitive liabilities	<u>\$ 1,817,037</u>	<u>\$ 282,853</u>	<u>\$ 1,727,914</u>	<u>\$ 1,169,990</u>	<u>\$ 870,785</u>	<u>\$ (111,446)</u>	<u>\$ 5,757,133</u>
Cumulative excess of interest-sensitive assets	<u>\$ 1,817,037</u>	<u>\$ 2,099,890</u>	<u>\$ 3,827,804</u>	<u>\$ 4,997,794</u>	<u>\$ 5,868,579</u>	<u>\$ 5,757,133</u>	<u>\$ 5,757,133</u>
Cumulative ratio of interest-earning assets to interest-bearing liabilities	174.87 %	167.42 %	183.29 %	189.38 %	182.19 %	164.50 %	164.50 %
Interest sensitivity gap to total assets	11.60 %	1.81 %	11.03 %	7.47 %	5.56 %	(0.71)%	36.74 %
Ratio of cumulative gap to total assets	11.60 %	13.40 %	24.43 %	31.89 %	37.45 %	36.74 %	36.74 %

(footnotes follow)

- (1) Adjustable-rate assets are included in the period in which interest rates are next scheduled to adjust rather than in the period in which they are due to mature, and fixed-rate assets are included in the period in which they are scheduled to be repaid based upon scheduled amortization, in each case adjusted to take into account estimated prepayments. Mortgage loans and other loans are not reduced for allowances for credit losses and non-performing loans. Mortgage loans, mortgage-backed securities, other loans and investment securities are not adjusted for deferred fees and unamortized acquisition premiums and discounts.
- (2) Adjustable-rate liabilities are included in the period in which interest rates are next scheduled to adjust rather than in the period they are due to mature. Although regular savings, demand, interest-bearing checking, and money market deposit accounts are subject to immediate withdrawal, based on historical experience, Management considers a substantial amount of such accounts to be core deposits having significantly longer maturities. For the purpose of the gap analysis, these accounts have been assigned decay rates to reflect their longer effective maturities. If these accounts had been assumed to be short-term, the one-year cumulative gap of interest-sensitive assets would have been a negative \$3.54 billion, or a negative 22.59% of total assets at December 31, 2023. Interest-bearing liabilities for this table exclude certain non-interest-bearing deposits that are included in the average balance calculations.

Management is aware of the sources of interest rate risk and actively monitors and manages it to the extent possible. The Bank's objectives in using interest rate derivatives are to reduce volatility in net interest income and to manage its exposure to interest rate movements. To accomplish this objective, the Bank uses interest rate swaps as part of its interest rate risk management strategy. The Bank enters into interest rate swaps with certain qualifying commercial loan clients. The Bank simultaneously enters into interest rate swaps with dealer counterparties, with identical notional amounts and terms. The net result of these interest rate swaps is that the client pays a fixed rate of interest and the Bank receives a floating rate.

The Bank also has interest rate swaps designated as cash flow hedges to hedge the variable cash flows associated with existing floating rate loans. These hedge contracts involve the receipt of fixed-rate amounts from a counterparty in exchange for the Bank making floating-rate payments over the life of the agreements without exchange of the underlying notional amount. The Bank is a party to \$400.0 million in notional value of these types of interest rate swaps at December 31, 2023.

Based on our analysis of the interest rate risk scenarios and our strategies for managing our risk, Management believes our current level of interest rate risk is reasonable.

Liquidity and Capital Resources

Our primary sources of funds are deposits, borrowings, proceeds from loan principal and interest payments and sales of loans, and the maturity of and interest income on mortgage-backed and investment securities. While maturities and scheduled amortization of loans and mortgage-backed securities are a predictable source of funds, deposit flows and mortgage prepayments are greatly influenced by market interest rates, economic conditions, competition and our pricing strategies.

Our primary investing activity is the origination of loans and, in certain periods, the purchase of securities or loans. During the years ended December 31, 2023 and 2022, our loan originations, including originations of loans held for sale, exceeded our loan repayments by \$886.8 million and \$1.30 billion, respectively. There were no loan purchases during the year ended December 31, 2023, and \$126.6 million of loans purchased during the year ended December 31, 2022. During the years ended December 31, 2023 and 2022, we received proceeds of \$280.6 million and \$429.7 million, respectively, from the sale of loans. Securities purchased during the years ended December 31, 2023 and 2022 totaled \$58.2 million and \$850.6 million, respectively, and securities repayments, maturities and sales in those same periods were \$600.4 million and \$639.4 million, respectively.

Our primary funding source is deposits. Total deposits decreased by \$590.6 million during the year ended December 31, 2023, with core deposits decreasing \$1.34 billion and certificates of deposit increasing \$753.9 million. At December 31, 2023, core deposits totaled \$11.55 billion, or 89% of total deposits, compared with \$12.90 billion, or 95% of total deposits at December 31, 2022. Certificates of deposit are generally more vulnerable to competition and more price sensitive than other retail deposits and our pricing of those deposits varies significantly based upon our liquidity management strategies at any point in time. At December 31, 2023, certificates of deposit totaled \$1.48 billion, or 11% of our total deposits, including \$1.40 billion which were scheduled to mature within one year. Certificates of deposit increased from 5% of our total deposits at December 31, 2022 to 11% of our total deposits at December 31, 2023. The increase in certificates of deposit during 2023 was due to clients seeking higher yields moving funds from core deposit accounts to higher yielding certificates of deposit, as well as a \$108.1 million increase in brokered deposits.

We had \$323.0 million of FHLB advances at December 31, 2023, compared to \$50.0 million at December 31, 2022. Other borrowings at December 31, 2023 decreased \$49.9 million to \$182.9 million from \$232.8 million at December 31, 2022. Both the FHLB advances and other borrowings outstanding at December 31, 2023 mature during 2024.

We must maintain an adequate level of liquidity to ensure the availability of sufficient funds to accommodate deposit withdrawals. This is to support loan growth, satisfy financial commitments and take advantage of investment opportunities. We use our sources of funds primarily to fund loan growth and deposit outflows. At December 31, 2023, we had outstanding loan commitments totaling \$4.01 billion, primarily relating to undisbursed loans in process and unused credit lines. While representing potential growth in the loan portfolio and lending activities, this level of commitments is proportionally consistent with our historical experience and does not represent a departure from normal operations. For the year ending December 31, 2024, we have \$17.9 million of purchase obligations under contracts with our key vendors to provide services, mainly information technology related contracts. In addition, at December 31, 2023, we had \$14.6 million of commitments under operating lease agreements.

We generally maintain sufficient cash and readily marketable securities to meet short-term liquidity needs; however, our primary liquidity management practice to supplement deposits is to increase or decrease short-term borrowings, including FHLB advances and Federal Reserve Bank of San Francisco (FRBSF) borrowings. We maintain credit facilities with the FHLB, subject to collateral requirements and a sufficient level of ownership of FHLB stock. At December 31, 2023, under these credit facilities based on pledged collateral, the Bank had \$2.97 billion of available credit capacity. Advances under these credit facilities totaled \$323.0 million at December 31, 2023. In addition, the Bank has been approved for participation in the FRBSF's Borrower-In-Custody program. Under this program, based on pledged collateral, the Bank had available lines of credit of approximately \$1.44 billion as of December 31, 2023, subject to certain collateral requirements, namely the collateral type and risk rating of eligible pledged loans. The Bank also had \$120.4 million of additional borrowing capacity through the FRBSF's bank term funding program. We had no funds borrowed from the FRBSF at December 31, 2023 or 2022. At December 31, 2023, the Bank also had uncommitted federal funds line of credit agreements with other financial institutions totaling \$125.0 million. No balances were outstanding under these agreements as of December 31, 2023 or 2022. Availability of lines is subject to federal funds balances available for loan and continued borrower eligibility. These lines are intended to support short-term liquidity needs and the agreements may restrict consecutive day usage. Management believes it has adequate resources and funding potential to meet our foreseeable liquidity requirements.

Banner is a separate legal entity from the Bank and, on a stand-alone level, must provide for its own liquidity and pay its own operating expenses and cash dividends. Banner's primary sources of funds consist of capital raised through dividends or capital distributions from the Bank, although there are regulatory restrictions on the ability of the Bank to pay dividends. We currently expect to continue our current practice of paying quarterly cash dividends on our common stock subject to our Board of Directors' discretion to modify or terminate this practice at any time and for any reason without prior notice. Our current quarterly common stock dividend rate is \$0.48 per share, as approved by our Board of Directors, which we believe is a dividend rate per share which enables us to balance our multiple objectives of managing and investing in the Bank, and returning a substantial portion of our cash to our shareholders. Assuming continued dividend payments during 2024 at this rate of \$0.48 per share, our average total dividend paid each quarter would be approximately \$16.5 million based on the number of outstanding shares at December 31, 2023. At December 31, 2023, Banner (on an unconsolidated basis) had liquid assets of \$108.5 million.

During the year ended December 31, 2023, total shareholders' equity increased \$196.3 million to \$1.65 billion. At December 31, 2023, tangible common shareholders' equity, a non-GAAP financial measure which excludes goodwill and other intangible assets, was \$1.27 billion, or 8.33% of tangible assets. See "Executive Overview - Non-GAAP Financial Measures" above for a reconciliation of total shareholders' equity to tangible common shareholders' equity.

Capital Requirements

Banner is a bank holding company registered with the Federal Reserve. Bank holding companies are subject to capital adequacy requirements of the Federal Reserve under the Bank Holding Company Act of 1956, as amended, and the regulations of the Federal Reserve. The Bank, as a state-chartered, federally insured commercial bank, is subject to the capital requirements established by the FDIC.

The capital adequacy requirements are quantitative measures established by regulation that require Banner and the Bank to maintain minimum amounts and ratios of capital. The Federal Reserve requires Banner to maintain capital adequacy that generally parallels the FDIC requirements. The FDIC requires the Bank to maintain minimum ratios of Total Capital, Tier 1 Capital, and Common Equity Tier 1 Capital to risk-weighted assets as well as Tier 1 leverage capital to average assets. In addition to the minimum capital ratios, the Bank has to maintain a capital conservation buffer consisting of additional Common Equity Tier 1 Capital greater than 2.5% of risk-weighted assets above the required minimum levels in order to avoid limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses. At December 31, 2023, Banner and the Bank each exceeded all current regulatory capital requirements to be "well capitalized" and the fully phased-in capital conservation buffer requirement.

The following table shows the regulatory capital ratios for Banner and the Bank as of December 31, 2023.

Table 23: Regulatory Capital Ratios

Capital Ratios	Banner Corporation	Banner Bank
Total capital to risk-weighted assets	14.58 %	13.69 %
Tier 1 capital to risk-weighted assets	12.64	12.52
Tier 1 capital to average leverage assets	10.56	10.46
Tier 1 common equity to risk-weighted assets	11.97	12.52

ITEM 7A – Quantitative and Qualitative Disclosures about Market Risk

See pages [64–68](#) of Management's Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 8 – Financial Statements and Supplementary Data

For financial statements, see index on page [75](#).

ITEM 9 – Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

ITEM 9A – Controls and Procedures

The Management of Banner is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Securities Exchange Act of 1934 (Exchange Act). A control procedure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that its objectives are met. Also, because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. Additionally, in designing disclosure controls and procedures, our Management was necessarily required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. As a result of these inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Further, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

(a) *Evaluation of Disclosure Controls and Procedures:* An evaluation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) was carried out under the supervision and with the participation of our Chief Executive Officer, Chief Financial Officer and several other members of our senior management as of the end of the period covered by this report. Based on their evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2023, our disclosure controls and procedures were effective in ensuring that the information required to be disclosed by us in the reports we file or submit under the Exchange Act is (i) accumulated and communicated to our management (including the Chief Executive Officer and Chief Financial Officer) in a timely manner, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms.

(b) *Changes in Internal Controls Over Financial Reporting:* There was no change in our internal control over financial reporting during the fourth quarter of the period covered by this Form 10-K that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management’s Annual Report on Internal Control over Financial Reporting: Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we included a report of Management’s assessment of the effectiveness of its internal controls beginning on page [77](#) of this Annual Report on Form 10-K for the year ended December 31, 2023.

ITEM 9B – Other Information

(a) *None*

(b) During the year ended December 31, 2023, there were no Rule 10b5-1 trading arrangements (as defined in Item 408(a) of Regulation S-K) or non-Rule 10b5-1 trading arrangements (as defined in Item 408(c) of Regulation S-K) adopted or terminated by any director or officer (as defined in Rule 16a-1(f) under the Exchange Act) of the Company.

ITEM 9C-Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable

PART III

ITEM 10 – Directors, Executive Officers and Corporate Governance

The information required by this item is incorporated herein by reference to the sections captioned “Proposal 1– Election of Directors,” “Meetings and Committees of the Board of Directors” and “Shareholder Proposals” in the Company’s 2024 Proxy Statement for the Annual Meeting of Shareholders (the Proxy Statement), which will be filed with the SEC no later than 120 days after the end of our fiscal year.

Information regarding the executive officers of the Registrant is incorporated herein by reference to the section captioned “Information about our Executive Officers” in Part I, Item 1 hereof.

The information regarding our Audit Committee and Financial Expert is incorporated herein by reference to the sections captioned “Meetings and Committees of the Board of Directors” and “Audit Committee Matters” in the Proxy Statement.

There have been no material changes to the procedures by which stockholders may recommend nominees to our board of directors since last disclosed to stockholders.

Code of Ethics

The Board of Directors has adopted a Code of Ethics and Business Conduct for our directors, officers (including its senior financial officers) and employees. The Code of Ethics and Business Conduct was most recently approved by the Board of Directors on July 25, 2023 and the Code of Ethics and Business Conduct is reviewed by the Board on an annual basis. A copy of the Code of Ethics and Business Conduct in substantially its current form was filed as an exhibit with Form 8-K on September 18, 2023 and is available without charge, upon request to Investor Relations, Banner Corporation, P.O. Box 907, Walla Walla, WA 99362. The Code of Ethics is also available on the Company’s website at www.bannerbank.com.

We subscribe to the Ethicspoint reporting system and encourage employees, clients and vendors to call the Ethicspoint hotline at 1-866-ETHICSP (384-4277) or visit its website at www.Ethicspoint.com to report any concerns regarding financial statement disclosures, accounting, internal controls, or auditing matters. We will not retaliate against any of our officers or employees who raise legitimate concerns or questions about an ethics matter or a suspected accounting, internal control, financial reporting, or auditing discrepancy or otherwise assists in investigations regarding conduct that the employee reasonably believes to be a violation of federal securities laws or any rule or regulation of the SEC, federal securities laws relating to fraud against shareholders or violations of applicable banking laws. Non-retaliation against employees is fundamental to our Code of Ethics and there are strong legal protections for those who, in good faith, raise an ethical concern or a complaint about their employer.

ITEM 11 – Executive Compensation

Information required by this item regarding management compensation and employment contracts, director compensation, and compensation committee interlocks and insider participation is incorporated by reference to the sections captioned “Executive Compensation,” “Directors’ Compensation,” and “Compensation Discussion and Analysis - Compensation and Human Capital Committee Interlocks and Insider Participation,” respectively, in the Proxy Statement.

ITEM 12 – Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

(a) Security Ownership of Certain Beneficial Owners and Management

Information required by this item is incorporated herein by reference to the section captioned “Security Ownership of Certain Beneficial Owners and Management” in the Proxy Statement.

(b) Security Ownership of Management

Information required by this item is incorporated herein by reference to the section captioned “Security Ownership of Certain Beneficial Owners and Management” in the Proxy Statement.

(c) Change in Control

Banner is not aware of any arrangements, including any pledge by any person of securities of Banner, the operation of which may at a subsequent date result in a change in control of Banner.

(d) Equity Compensation Plan Information

The following table sets forth information about equity compensation plans that were in effect at December 31, 2023:

Plan category	(A) Number of securities to be issued upon exercise of outstanding options, warrants and rights ⁽¹⁾	(B) Weighted average exercise price of outstanding options, warrants and rights ⁽¹⁾	(C) Number of securities remaining available for future issuance under equity compensation plans ⁽²⁾
Equity compensation plans approved by security holders	357,580	n/a	974,139
Equity compensation plans not approved by security holders	—	—	—
Total	<u>357,580</u>		<u>974,139</u>

⁽¹⁾ Represents shares that are issuable pursuant to awards of restricted stock units for which there is no applicable exercise price.

⁽²⁾ All the securities remaining available for future issuance under the equity compensation plans approved by security holders are available for issuance as stock awards.

ITEM 13 – Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated herein by reference to the sections captioned “Related Party Transactions” and “Director Independence” in the Proxy Statement.

ITEM 14 – Principal Accountant Fees and Services

The information required by this item is incorporated herein by reference to the section captioned “Proposal 4– Ratification of Selection of Independent Registered Public Accounting Firm” in the Proxy Statement.

PART IV

ITEM 15 – Exhibits and Financial Statement Schedules

- (a) (1) Financial Statements
See Index to Consolidated Financial Statements on page [75](#).
 - (2) Financial Statement Schedules
All financial statement schedules are omitted because they are not applicable or not required, or because the required information is included in the Consolidated Financial Statements or the Notes thereto or in Part 1, Item 1.
 - (3) Exhibits
See Index of Exhibits on page [140](#).
- (b) Exhibits
See Index of Exhibits on page [140](#).

Item 16 - Form 10-K Summary.

None.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Banner Corporation

Date: February 22, 2024

/s/ Mark J. Grescovich

Mark J. Grescovich
President and Chief Executive Officer
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Mark J. Grescovich

Mark J. Grescovich
President and Chief Executive Officer; Director
(Principal Executive Officer)

Date: February 22, 2024

/s/ Robert G. Butterfield

Robert G. Butterfield
Executive Vice President, Treasurer and Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: February 22, 2024

/s/ John R. Layman

John R. Layman
Director

Date: February 22, 2024

/s/ Paul J. Walsh

Paul J. Walsh
Director

Date: February 22, 2024

/s/ Connie R. Collingsworth

Connie R. Collingsworth
Director

Date: February 22, 2024

/s/ Ellen R.M. Boyer

Ellen R.M. Boyer
Director

Date: February 22, 2024

/s/ Margot J. Copeland

Margot J. Copeland
Director

Date: February 22, 2024

/s/ David A. Klaue

David A. Klaue
Director

Date: February 22, 2024

/s/ Terry Schwakopf

Terry Schwakopf
Director

Date: February 22, 2024

/s/ Kevin F. Riordan

Kevin F. Riordan
Director

Date: February 22, 2024

/s/ Roberto R. Herencia

Roberto R. Herencia
Chairman of the Board

Date: February 22, 2024

/s/ John Pedersen

John Pedersen
Director

Date: February 22, 2024

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
BANNER CORPORATION AND SUBSIDIARIES
(Item 8 and Item 15(a)(1))

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February 22, 2024

Report of Management

To the Shareholders:

The management of Banner Corporation (the Company) is responsible for the preparation, integrity, and fair presentation of its published financial statements and all other information presented in this annual report. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and, as such, include amounts based on informed judgments and estimates made by Management. In the opinion of Management, the financial statements and other information herein present fairly the financial condition and operations of the Company at the dates indicated in conformity with accounting principles generally accepted in the United States of America.

Management is responsible for establishing and maintaining an effective system of internal control over financial reporting. The internal control system is augmented by written policies and procedures and by audits performed by an internal audit staff (assisted in certain instances by contracted external audit resources other than the independent registered public accounting firm), which reports to the Audit Committee of the Board of Directors. Internal auditors monitor the operation of the internal and external control system and report findings to Management and the Audit Committee. When appropriate, corrective actions are taken to address identified control deficiencies and other opportunities for improving the system. The Audit Committee provides oversight to the financial reporting process. There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of an internal control system may vary over time.

The Audit Committee of the Board of Directors is comprised entirely of outside directors who are independent of the Company's management. The Audit Committee is responsible for the selection of the independent auditors. It meets periodically with Management, the independent auditors and the internal auditors to ensure that they are carrying out their responsibilities. The Committee is also responsible for performing an oversight role by reviewing and monitoring the financial, accounting, and auditing procedures of the Company in addition to reviewing the Company's financial reports. The independent auditors and the internal auditors have full and free access to the Audit Committee, with or without the presence of Management, to discuss the adequacy of the internal control structure for financial reporting and any other matters which they believe should be brought to the attention of the Committee.

Mark J. Grescovich, Chief Executive Officer

Robert G. Butterfield, Chief Financial Officer

Management Report on Internal Control over Financial Reporting

February 22, 2024

The management of Banner Corporation is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. The Company's internal control system is designed to provide reasonable assurance to our Management and Board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that:

Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company's assets;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with the authorizations of Management and directors of the Company; and

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, including the possibility of human error and circumvention or overriding of controls, internal control over financial reporting may not prevent or detect misstatements. Also projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2023. This assessment was based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control - Integrated Framework (2013)*. Based on this assessment and those criteria, Management believes that, as of December 31, 2023, the Company maintained effective internal control over financial reporting.

The Company's independent registered public accounting firm has audited the Company's Consolidated Financial Statements that are included in this annual report and the effectiveness of our internal control over financial reporting as of December 31, 2023 and issued their Report of Independent Registered Public Accounting Firm, appearing under Item 8. The audit report expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2023.

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of
Banner Corporation and Subsidiaries

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated statements of financial condition of Banner Corporation and subsidiaries (the “Company”) as of December 31, 2023 and 2022, the related consolidated statements of operations, comprehensive income (loss), changes in shareholders’ equity and cash flows for each of the three years in the period ended December 31, 2023, and the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2023 and 2022, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2023, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

Basis for Opinions

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s consolidated financial statements and an opinion on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

As described in Notes 1 and 4 to the consolidated financial statements, the balance of the Company's consolidated allowance for credit losses – loans was \$149.6 million at December 31, 2023. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of loans held for investment to present the net carrying value at the amount expected to be collected on such financial assets. The measurement of expected credit losses is based on relevant information about past events, current conditions, and reasonable and supportable forecasts. The allowance for credit losses – loans is maintained at a level sufficient to provide for expected credit losses over the life of the loan based on evaluating historical credit loss experience and making adjustments to historical loss information for differences in the specific risk characteristics in the current loan portfolio. Management considers qualitative and environmental factors for each loan category to adjust for differences between the historical periods used to calculate historical loss rates and expected conditions over the remaining lives of the loans in the portfolio. These factors include, among others, changes in the size and composition of the loan portfolio, differences in underwriting standards, delinquency rates, actual loss experience and current economic conditions.

We identified the estimation of qualitative and environmental factors used in the allowance for credit losses – loans as a critical audit matter. The qualitative and environmental factors are used to estimate credit losses related to matters that are not captured in the historical loss rates, and are based on management's evaluation of available internal and external data. Auditing management's judgments regarding the qualitative and environmental factors applied to the allowance for credit losses - loans involved especially challenging and subjective auditor judgment when performing audit procedures and evaluating the results of those procedures.

The primary procedures we performed to address this critical audit matter included:

- Testing the design, implementation, and operating effectiveness of controls relating to management's calculation of the allowance for credit losses, including controls over the identification and assessment of the qualitative and environmental factors used.
- Obtaining management's analysis and supporting documentation related to the qualitative and environmental factors, and testing whether the environmental and qualitative factors used in the calculation of the allowance for credit losses – loans are supported by the analysis provided by management.
- Testing the appropriateness of the methodology and assumptions used in the calculation of the allowance for credit losses, testing completeness and accuracy of the data used in the calculation, testing estimation and application of the environmental and qualitative factors determined by management and used in the calculation, and recalculating the allowance for credit losses balance.

/s/ Moss Adams LLP

Spokane, Washington
February 22, 2024

We have served as the Company's auditor since 2004.

BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(in thousands, except shares and per share amounts)
December 31, 2023 and 2022

	December 31, 2023	December 31, 2022
ASSETS		
Cash and due from banks	\$ 209,634	\$ 198,154
Interest-bearing deposits	44,830	44,908
Total cash and cash equivalents	254,464	243,062
Securities—trading	—	28,694
Securities—available-for-sale; amortized cost \$2,729,980 and \$3,218,777, respectively	2,373,783	2,789,031
Securities—held-to-maturity, net of allowance for credit losses of \$332 and \$379, respectively	1,059,055	1,117,588
Total securities	3,432,838	3,935,313
Federal Home Loan Bank (FHLB) stock	24,028	12,000
Securities purchased under agreements to resell	—	300,000
Loans held for sale (includes \$9,105 and \$51,779, at fair value, respectively)	11,170	56,857
Loans receivable	10,810,455	10,146,724
Allowance for credit losses – loans	(149,643)	(141,465)
Net loans receivable	10,660,812	10,005,259
Accrued interest receivable	63,100	57,284
Property and equipment, net	132,231	138,754
Goodwill	373,121	373,121
Other intangibles, net	5,684	9,440
Bank-owned life insurance (BOLI)	304,366	297,565
Deferred tax assets, net	153,365	178,131
Operating lease right-of-use assets	43,731	49,283
Other assets	211,481	177,362
Total assets	\$ 15,670,391	\$ 15,833,431
LIABILITIES		
Deposits:		
Non-interest-bearing	\$ 4,792,369	\$ 6,176,998
Interest-bearing transaction and savings accounts	6,759,661	6,719,531
Interest-bearing certificates	1,477,467	723,530
Total deposits	13,029,497	13,620,059
Advances from FHLB	323,000	50,000
Other borrowings	182,877	232,799
Subordinated notes, net	92,851	98,947
Junior subordinated debentures at fair value (issued in connection with Trust Preferred Securities)	66,413	74,857
Operating lease liabilities	48,659	55,205
Accrued expenses and other liabilities	228,428	200,839
Deferred compensation	45,975	44,293
Total liabilities	14,017,700	14,376,999
COMMITMENTS AND CONTINGENCIES (Note 18)		
SHAREHOLDERS' EQUITY		
Preferred stock - \$0.01 par value per share, 500,000 shares authorized; no shares outstanding at December 31, 2023 and December 31, 2022	—	—
Common stock and paid in capital - \$0.01 par value per share, 50,000,000 shares authorized; 34,348,369 shares issued and outstanding at December 31, 2023; 34,194,018 shares issued and outstanding at December 31, 2022	1,299,651	1,293,959
Common stock (non-voting) and paid in capital - \$0.01 par value per share, 5,000,000 shares authorized; no shares issued and outstanding at December 31, 2023 and December 31, 2022	—	—
Retained earnings	642,175	525,242
Carrying value of shares held in trust for stock-based compensation plans	(6,563)	(6,905)
Liability for common stock issued to stock related compensation plans	6,563	6,905
Accumulated other comprehensive loss	(289,135)	(362,769)
Total shareholders' equity	1,652,691	1,456,432
Total liabilities and shareholders' equity	\$ 15,670,391	\$ 15,833,431

See Notes to the Consolidated Financial Statements

BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands except for shares and per share amounts)
For the Years Ended December 31, 2023, 2022 and 2021

	2023	2022	2021
INTEREST INCOME:			
Loans receivable	\$ 577,891	\$ 450,916	\$ 445,731
Mortgage-backed securities	72,352	67,585	45,723
Securities and cash equivalents	51,329	54,068	29,046
Total interest income	<u>701,572</u>	<u>572,569</u>	<u>520,500</u>
INTEREST EXPENSE:			
Deposits	100,126	10,124	11,770
FHLB advances	10,524	489	2,592
Other borrowings	3,376	377	467
Subordinated debt	11,541	8,400	8,780
Total interest expense	<u>125,567</u>	<u>19,390</u>	<u>23,609</u>
Net interest income	<u>576,005</u>	<u>553,179</u>	<u>496,891</u>
PROVISION (RECAPTURE) FOR CREDIT LOSSES	<u>10,789</u>	<u>10,364</u>	<u>(33,388)</u>
Net interest income after provision (recapture) for credit losses	<u>565,216</u>	<u>542,815</u>	<u>530,279</u>
NON-INTEREST INCOME			
Deposit fees and other service charges	41,638	44,459	39,495
Mortgage banking operations	11,817	10,834	33,948
BOLI	9,245	7,794	5,000
Miscellaneous	5,169	6,805	12,875
	<u>67,869</u>	<u>69,892</u>	<u>91,318</u>
Net (loss) gain on sale of securities	(19,242)	(3,248)	482
Net change in valuation of financial instruments carried at fair value	(4,218)	807	4,616
Gain on sale of branches, including related deposits	—	7,804	—
Total non-interest income	<u>44,409</u>	<u>75,255</u>	<u>96,416</u>
NON-INTEREST EXPENSE:			
Salary and employee benefits	244,563	242,266	244,351
Less capitalized loan origination costs	(16,257)	(24,313)	(34,401)
Occupancy and equipment	47,886	52,018	52,850
Information and computer data services	28,445	25,986	24,356
Payment and card processing services	20,547	21,195	20,544
Professional and legal expenses	9,830	14,005	22,274
Advertising and marketing	4,794	3,959	6,036
Deposit insurance	10,529	6,649	5,583
State and municipal business and use taxes	5,260	4,693	4,343
Real estate operations, net	(538)	(104)	(22)
Amortization of core deposit intangibles	3,756	5,279	6,571
Loss on extinguishment of debt	—	793	2,284
Miscellaneous	23,723	24,869	24,236
	<u>382,538</u>	<u>377,295</u>	<u>379,005</u>
COVID-19 expenses	—	—	436
Merger and acquisition - related expenses	—	—	660
Total non-interest expense	<u>382,538</u>	<u>377,295</u>	<u>380,101</u>
Income before provision for income taxes	<u>227,087</u>	<u>240,775</u>	<u>246,594</u>
PROVISION FOR INCOME TAXES	<u>43,463</u>	<u>45,397</u>	<u>45,546</u>
NET INCOME	<u>\$ 183,624</u>	<u>\$ 195,378</u>	<u>\$ 201,048</u>
Earnings per common share:			
Basic	\$ 5.35	\$ 5.70	\$ 5.81
Diluted	\$ 5.33	\$ 5.67	\$ 5.76
Cumulative dividends declared per common share	\$ 1.92	\$ 1.76	\$ 1.64
Weighted average number of common shares outstanding:			
Basic	34,344,142	34,264,322	34,610,056
Diluted	34,450,412	34,459,922	34,919,188

See Notes to the Consolidated Financial Statements

BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands)
For the Years Ended December 31, 2023, 2022 and 2021

	2023	2022	2021
NET INCOME	\$ 183,624	\$ 195,378	\$ 201,048
OTHER COMPREHENSIVE INCOME (LOSS), NET OF INCOME TAXES:			
Unrealized holding gain (loss) on securities—available-for-sale arising during the period	54,307	(418,827)	(80,073)
Income tax (expense) benefit related to securities—available-for-sale unrealized holding losses	(13,034)	100,518	19,217
Reclassification for net loss (gain) on securities—available-for-sale realized in earnings	19,242	3,248	(498)
Income tax (benefit) expense related to securities—available-for-sale realized in earnings	(4,618)	(780)	120
Unrealized loss on securities transferred from available-for-sale to held-to-maturity	—	(34,596)	—
Income tax benefit related to securities transferred from available-for-sale to held-to-maturity	—	8,303	—
Amortization of unrealized loss on securities transferred from available-for-sale to held-to-maturity	2,338	2,625	—
Income tax benefit related to amortization of unrealized loss on securities transferred from available-for-sale to held-to-maturity	(561)	(630)	—
Net unrealized gain (loss) on interest rate swaps used in cash flow hedges	12,557	(25,223)	(1,261)
Income tax (expense) benefit related to interest rate swaps used in cash flow hedges	(3,014)	6,054	302
Changes in fair value of junior subordinated debentures related to instrument specific credit risk	8,444	(5,560)	(10,419)
Income tax (expense) benefit related to junior subordinated debentures	(2,027)	1,334	2,501
Reclassification of fair value of junior subordinated debentures redeemed	—	765	1,613
Income tax expense related to junior subordinated debentures redeemed	—	(184)	(387)
Other comprehensive income (loss)	73,634	(362,953)	(68,885)
COMPREHENSIVE INCOME (LOSS)	<u>\$ 257,258</u>	<u>\$ (167,575)</u>	<u>\$ 132,163</u>

See Notes to the Consolidated Financial Statements

BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands, except shares and per share amounts)
For the Years Ended December 31, 2023, 2022 and 2021

	Common Stock and Paid in Capital		Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
	Shares	Amount			
Balance, January 1, 2021	35,159,200	\$ 1,349,879	\$ 247,316	\$ 69,069	\$ 1,666,264
Net income			201,048		201,048
Other comprehensive income, net of income tax				(68,885)	(68,885)
Accrual of dividends on common stock (\$1.64/share-cumulative)			(57,602)		(57,602)
Repurchase of common stock	(1,050,000)	(56,528)			(56,528)
Amortization of stock-based compensation related to restricted stock grants, net of shares surrendered	143,432	6,030			6,030
Balance, December 31, 2021	<u>34,252,632</u>	<u>\$ 1,299,381</u>	<u>\$ 390,762</u>	<u>\$ 184</u>	<u>\$ 1,690,327</u>
Balance, January 1, 2022	34,252,632	\$ 1,299,381	\$ 390,762	\$ 184	\$ 1,690,327
Net income			195,378		195,378
Other comprehensive loss, net of income tax				(362,953)	(362,953)
Accrual of dividends on common stock (\$1.76/share-cumulative)			(60,898)		(60,898)
Repurchase of common stock	(200,000)	(10,960)			(10,960)
Amortization of stock-based compensation related to restricted stock grants, net of shares surrendered	141,386	5,538			5,538
Balance, December 31, 2022	<u>34,194,018</u>	<u>\$ 1,293,959</u>	<u>\$ 525,242</u>	<u>\$ (362,769)</u>	<u>\$ 1,456,432</u>
Balance, January 1, 2023	34,194,018	\$ 1,293,959	\$ 525,242	\$ (362,769)	\$ 1,456,432
Net income			183,624		183,624
Other comprehensive income, net of income tax				73,634	73,634
Accrual of dividends on common stock (\$1.92/share-cumulative)			(66,691)		(66,691)
Amortization of stock-based compensation related to restricted stock grants, net of shares surrendered	154,351	5,692			5,692
Balance, December 31, 2023	<u>34,348,369</u>	<u>\$ 1,299,651</u>	<u>\$ 642,175</u>	<u>\$ (289,135)</u>	<u>\$ 1,652,691</u>

See Notes to the Consolidated Financial Statements

BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
For the Years Ended December 31, 2023, 2022 and 2021

	<u>2023</u>	<u>2022</u>	<u>2021</u>
OPERATING ACTIVITIES:			
Net income	\$ 183,624	\$ 195,378	\$ 201,048
Adjustments to reconcile net income to net cash provided from operating activities:			
Depreciation	17,873	16,933	17,345
Deferred income and expense, net of amortization	(4,194)	(3,757)	(38,786)
Capitalized loan servicing rights, net of amortization	1,830	1,326	(1,805)
Amortization of core deposit intangibles	3,756	5,279	6,571
Loss (gain) on sale of securities, net	19,242	3,248	(482)
Net change in valuation of financial instruments carried at fair value	4,218	(807)	(4,616)
Gain on sale of branches, including related deposits	—	(7,804)	—
Decrease in deferred taxes	1,514	7,624	16,357
(Decrease) increase in current taxes payable	(3,170)	8,250	(3,643)
Stock-based compensation	9,169	8,870	9,258
Net change in cash surrender value of BOLI	(8,742)	(7,100)	(4,685)
Gain on sale of loans, excluding capitalized servicing rights	(6,151)	(4,556)	(26,140)
(Gain) loss on disposal of real estate held for sale and property and equipment, net	(352)	102	(2,305)
Provision (recapture) for credit losses	10,789	10,364	(33,388)
Loss on extinguishment of debt	—	765	2,284
Origination of loans held for sale	(242,844)	(406,915)	(1,102,663)
Proceeds from sales of loans held for sale	266,540	415,635	1,276,111
Net change in:			
Other assets	(8,968)	(39,028)	2,200
Other liabilities	13,065	34,244	(11,083)
Net cash provided from operating activities	<u>257,199</u>	<u>238,051</u>	<u>301,578</u>
INVESTING ACTIVITIES:			
Purchases of securities—available-for-sale	(58,173)	(659,905)	(2,805,251)
Principal repayments and maturities of securities—available-for-sale	173,055	368,996	1,314,484
Proceeds from sales of securities—available-for-sale	368,945	214,335	83,663
Purchases of securities—held-to-maturity	—	(190,645)	(135,615)
Principal repayments and maturities of securities—held-to-maturity	58,406	56,056	32,487
Purchases of equity securities	—	—	(4,750)
Proceeds from sales of equity securities	—	—	4,796
Loan (originations) repayments, net	(643,959)	(897,505)	795,892
Purchases of loans and participating interest in loans	—	(126,556)	(5,086)
Proceeds from sales of other loans	14,038	14,034	46,028
Net cash paid related to branch divestiture	—	(168,137)	—
Purchases of property and equipment	(14,651)	(14,724)	(10,493)
Proceeds from sale of real estate held for sale and sale of other property	4,669	6,088	11,759
Proceeds from FHLB stock repurchase program	153,397	15,080	4,358
Purchase of FHLB stock	(165,425)	(15,080)	—
Proceeds from maturity of securities purchased under agreements to resell	300,000	—	—
Purchase of securities purchased under agreements to resell	—	—	(300,000)
Investment in bank-owned life insurance	(66)	(50,053)	(50,053)
Other	1,693	3,459	2,355
Net cash provided from (used by) investing activities	<u>191,929</u>	<u>(1,444,557)</u>	<u>(1,015,426)</u>

(Continued on next page)

BANNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(continued) (in thousands)
For the Years Ended December 31, 2023, 2022 and 2021

	<u>2023</u>	<u>2022</u>	<u>2021</u>
FINANCING ACTIVITIES:			
(Decrease) increase in deposits, net	(590,562)	(528,672)	1,759,638
Repayment of long term FHLB borrowing	—	(50,000)	(100,000)
Advances of overnight and short-term FHLB borrowings, net	273,000	50,000	—
(Decrease) increase in other borrowings, net	(49,923)	(31,690)	79,704
Repayment of junior subordinated debentures	—	(50,518)	(8,248)
Proceeds from redemption of trust preferred securities related to junior subordinated debentures	—	1,518	248
Cash dividends paid	(66,765)	(61,078)	(57,621)
Cash paid for repurchase of common stock	—	(10,960)	(56,528)
Taxes paid related to net share settlement of equity awards	(3,476)	(3,332)	(3,228)
Net cash (used by) provided from financing activities	<u>(437,726)</u>	<u>(684,732)</u>	<u>1,613,965</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	11,402	(1,891,238)	900,117
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	243,062	2,134,300	1,234,183
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 254,464</u>	<u>\$ 243,062</u>	<u>\$ 2,134,300</u>
	<u>2023</u>	<u>2022</u>	<u>2021</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Interest paid in cash	\$ 110,845	\$ 18,583	\$ 24,278
Taxes paid	38,671	24,885	29,017
NON-CASH INVESTING AND FINANCING TRANSACTIONS:			
Transfer of loans to real estate owned and other repossessed assets	1,185	—	512
Dividends accrued but not paid until after period end	1,084	1,158	1,338
Loans, held for sale, transferred to portfolio	27,929	35,466	—
Securities, held-for-trading, transferred to available-for-sale	25,298	—	—
Securities, available-for-sale, transferred to held-to-maturity	—	462,159	—
DISPOSITIONS:			
Assets divested	—	(1,539)	—
Liabilities divested	—	(178,209)	—

See Notes to Consolidated Financial Statements

BANNER CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business: Banner Corporation (Banner or the Company) is a bank holding company incorporated in the State of Washington. The Company is primarily engaged in the business of planning, directing and coordinating the business activities of its wholly-owned subsidiary, Banner Bank (the Bank). The Bank is a Washington-chartered commercial bank that conducts business from its headquarters in Walla Walla, Washington and its 135 branch offices located in Washington, Oregon, California and Idaho. The Bank also has 13 loan production offices located in Washington, Oregon, California, Idaho and Utah. Banner is subject to regulation by the Board of Governors of the Federal Reserve System (the Federal Reserve Board). The Bank is subject to regulation by the Washington State Department of Financial Institutions, Division of Banks (the DFI) and the Federal Deposit Insurance Corporation (the FDIC).

Basis of Presentation and Principles of Consolidation: The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All material intercompany transactions, profits and balances have been eliminated. The consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States (GAAP) and under the rules and regulations of the U.S. Securities and Exchange Commission (the SEC). At December 31, 2023, the Company had five wholly-owned subsidiary grantor trusts (the Trusts), each of which issued trust preferred securities (TPS) and common securities. The Trusts are not consolidated in the Company's consolidated financial statements.

Subsequent Events: The Company has evaluated events and transactions subsequent to December 31, 2023 through the date that the consolidated financial statements were issued for potential recognition or disclosure.

Cash and Cash Equivalents: Cash and cash equivalents include cash and due from banks and temporary investments which are federal funds sold and interest bearing balances due from other banks. Cash and cash equivalents generally have maturities of three months or less at the date of purchase.

Business Combinations: Business combinations are accounted for using the acquisition method of accounting and, accordingly, assets acquired and liabilities assumed, both tangible and intangible, and consideration exchanged are recorded at acquisition date fair values. The excess purchase consideration over fair value of net assets acquired is recorded as goodwill. In the event that the fair value of net assets acquired exceeds the purchase price, including fair value of liabilities assumed, a bargain purchase gain is recorded on that acquisition. Expenses incurred in connection with a business combination are expensed as incurred, except for those items permitted to be capitalized. Changes in deferred tax asset valuation allowances related to acquired tax uncertainties are recognized in net income after the measurement period.

Use of Estimates: In the opinion of Management, the accompanying Consolidated Statements of Financial Condition and related Consolidated Statements of Operations, Comprehensive Income (Loss), Changes in Shareholders' Equity and Cash Flows reflect all adjustments (which include reclassification and normal recurring adjustments) that are necessary for a fair presentation in conformity with GAAP. The preparation of financial statements in conformity with GAAP requires Management to make estimates and assumptions that affect amounts reported in the financial statements.

Various elements of the Company's accounting policies, by their nature, are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. In particular, Management has identified several accounting policies that, due to the judgments, estimates and assumptions inherent in those policies, are critical to an understanding of Banner's Consolidated Financial Statements. These policies relate to (i) determination of the provision and allowance for credit losses, (ii) the valuation of financial assets and liabilities recorded at fair value, (iii) the valuation of intangible assets, such as goodwill, (iv) the valuation or recognition of deferred tax assets and liabilities and (v) the determination of estimated losses from legal proceedings and other contingent matters pending. Management believes that the judgments, estimates and assumptions used in the preparation of the consolidated financial statements are appropriate based on the factual circumstances at the time. However, given the sensitivity of the Consolidated Financial Statements to these critical accounting estimates, the use of judgments, estimates and assumptions could result in material differences in the Company's results of operations or financial condition. Further, subsequent changes in economic or market conditions could have a material impact on these estimates and the Company's financial condition and operating results in future periods.

Securities: Debt securities are classified as held-to-maturity when the Company has the ability and positive intent to hold them to maturity. Debt securities classified as available-for-sale are available for future liquidity requirements and may be sold prior to maturity. Debt securities classified as trading are also available for future liquidity requirements and may be sold prior to maturity. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Debt securities classified as held-to-maturity are carried at cost, net of the allowance for credit losses - securities, adjusted for amortization of premiums to the earliest callable date and accretion of discounts to maturity. Debt securities classified as available-for-sale are measured at fair value. Unrealized holding gains and losses on debt securities classified as available-for-sale are excluded from earnings and are reported net of tax as accumulated other comprehensive income (AOCI), a component of shareholders' equity, until realized. Debt securities classified as trading are also measured at fair value. Unrealized holding gains and losses on securities classified as trading are included in earnings. Realized gains and losses on sale are computed on the specific identification method and are included in earnings on the trade date sold. Equity securities are measured at fair value with changes in the fair value recognized through net income.

Allowance for Credit Losses - Securities: Management measures expected credit losses on held-to-maturity debt securities on a collective basis by major security type. The Company's held-to maturity portfolio contains mortgage-backed securities issued by U.S. government entities and agencies. These securities are either explicitly or implicitly guaranteed by the U.S. government and have a long history of no credit losses. The Company's held-to-maturity portfolio also contains municipal bonds that are typically rated by major rating agencies as Aa or better. The Company has never incurred a loss on a municipal bond, therefore the expectation of credit losses on these securities is insignificant. The Company uses industry historical credit loss information adjusted for current conditions to establish the allowance for credit losses on the municipal bond portfolio. The expected credit losses on these bonds is similar to Banner's commercial business loan portfolio. Therefore, the Company uses the commercial business loan portfolio loss rates to establish the allowance for credit losses on the collateralized bonds and its own loss history to establish a loss rate on bonds that are not collateralized.

For available-for-sale debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If the Company intends to sell the security or it is more likely than not that the Company will be required to sell the security before recovering its cost basis, the entire impairment loss would be recognized in earnings. If the Company does not intend to sell the security and it is not more likely than not that the Company will be required to sell the security, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, Management considers the extent to which fair value is less than amortized costs, any changes to the rating of the security by a rating agency and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. Projected cash flows are discounted by the current effective interest rate. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. The remaining impairment related to all other factors, the difference between the present value of the cash flows expected to be collected and fair value, is recognized as a charge to AOCI.

Changes in the allowance for credit losses are recorded as provision (recapture) for credit losses. Losses are charged against the allowance when management believes the non-collectability of an available-for-sale or held-to-maturity security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Investment in FHLB Stock: FHLB stock does not have a readily determinable fair value. The Bank's investment in FHLB stock is carried at cost or par value (\$100 per share) and evaluated for impairment based on the Bank's expectations of the ultimate recoverability of the stock's par value. Ownership of FHLB stock is restricted to the FHLB and member institutions and can only be purchased and redeemed at par, therefore there has been no observable changes in market prices. As a member of the FHLB system, the Bank is required to maintain a minimum level of investment in FHLB stock based on specific percentages of its outstanding FHLB advances.

Management periodically evaluates FHLB stock for impairment. Management's determination of whether these investments are impaired is based on its assessment of the ultimate recoverability of cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of cost is influenced by criteria such as (1) the significance of any decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, (3) the impact of legislative and regulatory changes on institutions and, accordingly, the client base of the FHLB, and (4) the liquidity position of the FHLB. The Company has determined there is no impairment on the FHLB stock investment as of December 31, 2023 and 2022.

Loans Receivable: The Bank originates residential one- to four-family mortgage loans for both portfolio investment and sale in the secondary market. The Bank also originates construction and land development, multifamily mortgage, commercial real estate, commercial business, agricultural and consumer loans for portfolio investment. Loans receivable not designated as held for sale are recorded at amortized cost, net of the allowance for credit losses. Amortized cost is the principal amount outstanding, net of deferred fees, discounts and premiums. Accrued interest on loans is reported in accrued interest receivable on the Consolidated Statements of Financial Condition. Premiums, discounts and deferred loan fees are amortized to maturity using the level-yield methodology.

Loans Held for Sale: Residential one- to four-family loans originated with the intent to be sold in the secondary market are considered held for sale. Residential one- to four-family loans under best effort delivery commitments are carried at the lower of aggregate cost or estimated market value. Residential one- to four-family loans expected to be delivered under mandatory commitments are carried at fair value to match changes in the value of the loans with the value of the related economic hedges on the loans. Fair values for residential mortgage loans held for sale are determined by comparing actual loan rates to current secondary market prices for similar loans. Net unrealized losses on loans held for sale that are carried at lower of cost or market are recognized through the valuation allowance as charges to income. Non-refundable fees and direct loan origination costs related to loans held for sale carried at the lower of cost or market are recognized as part of the cost basis of the loan. Gains and losses on sales of loans held for sale are determined using the aggregate method and are recorded in the mortgage banking operations component of non-interest income.

Loans Acquired in Business Combinations: Loans acquired in business combinations are recorded at their fair value at the acquisition date. Establishing the fair value of acquired loans involves a significant amount of judgment, including determining the credit discount based upon historical data adjusted for current economic conditions and other factors. If any of these assumptions are inaccurate actual credit losses could vary significantly from the credit discount used to calculate the fair value of the acquired loans. Acquired loans are evaluated upon acquisition and classified as either purchased credit-deteriorated or purchased non-credit-deteriorated. Purchased credit-deteriorated (PCD) loans have experienced more than insignificant credit deterioration since origination. For PCD loans, an allowance for credit losses is determined at the acquisition date using the same methodology as other loans held for investment. The initial allowance for credit losses determined on a collective basis is allocated to individual loans. The loan's fair value is grossed up for the allowance for credit losses and becomes its initial amortized cost basis. The difference between the initial amortized cost basis and the par value of the loan is a noncredit discount or premium, which is amortized into interest income over the life of the loan. Subsequent changes to the allowance for credit losses are recorded through a provision (recapture) for credit losses.

For purchased non-credit-deteriorated loans, the difference between the fair value and unpaid principal balance of the loan at the acquisition date is amortized or accreted to interest income over the life of the loan. While credit discounts are included in the determination of the fair value for non-credit-deteriorated loans, since these discounts are expected to be accreted over the life of the loans, they cannot be used to offset the allowance for credit losses that must be recorded at the acquisition date. As a result, an allowance for credit losses is determined at the acquisition date using the same methodology as other loans held for investment and is recognized as a provision for credit losses. Any subsequent deterioration (improvement) in credit quality is recognized by recording a provision (recapture) for credit losses.

Income Recognition on Nonaccrual Loans and Securities: Interest on loans and securities is accrued as earned unless Management doubts the collectability of the asset or the unpaid interest. Interest accruals on loans are generally discontinued when loans become 90 days past due for payment of interest or principal and the loans are then placed on nonaccrual status. All previously accrued but uncollected interest is deducted from interest income upon transfer to nonaccrual status. For any future payments collected, interest income is recognized only upon Management's assessment that there is a strong likelihood that the full amount of a loan will be repaid or recovered. Management's assessment of the likelihood of full repayment involves judgment, including determining the fair value of the underlying collateral which can be impacted by the economic environment. A loan may be put on nonaccrual status sooner than this policy would dictate if, in Management's judgment, the amounts owed, principal or interest may be uncollectable. While less common, similar interest reversal and nonaccrual treatment is applied to investment securities if their ultimate collectability becomes questionable.

Provision and Allowance for Credit Losses - Loans: The methodology for determining the allowance for credit losses - loans is considered a critical accounting estimate by Management because of the high degree of judgment involved, the subjectivity of the assumptions used, and the potential for changes in the economic environment that could result in changes to the amount of the recorded allowance for credit losses - loans. Among the material estimates required to establish the allowance for credit losses - loans are: a reasonable and supportable forecast; a reasonable and supportable forecast period and reversion period; value of collateral; strength of guarantors; the amount and timing of future cash flows for loans individually evaluated; and determination of the qualitative loss factors. All of these estimates are susceptible to significant change. The allowance for credit losses - loans is a valuation account that is deducted from the amortized cost basis of loans to present the net amount expected to be collected on the loans. The Bank has elected to exclude accrued interest receivable from the amortized cost basis in their estimate of the allowance for credit losses - loans. The provision for credit losses reflects the amount required to maintain the allowance for credit losses - loans at an appropriate level based upon Management's evaluation of the adequacy of collective and individual loss reserves. The Company has established systematic methodologies for the determination of the adequacy of the Company's allowance for credit losses - loans. The methodologies are set forth in a formal policy and take into consideration the need for a valuation allowance for loans evaluated on a collective (pool) basis which have similar risk characteristics as well as allowances that are tied to individual loans that do not share risk characteristics.

The Company increases its allowance for credit losses - loans by charging the provision for credit losses. Losses related to specific assets are applied as a reduction of the carrying value of the assets and charged against the allowance for credit loss reserve when Management believes the uncollectibility of a loan balance is confirmed. Recoveries on previously charged off loans are credited to the allowance for credit losses - loans.

Management estimates the allowance for credit losses - loans using relevant information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. The allowance for credit losses - loans is maintained at a level sufficient to provide for expected credit losses over the life of the loan based on evaluating historical credit loss experience and making adjustments to historical loss information for differences in the specific risk characteristics in the current loan portfolio. These factors include, among others, changes in the size and composition of the loan portfolio, differences in underwriting standards, delinquency rates, actual loss experience and current economic conditions.

The allowance for credit losses - loans is measured on a collective (pool) basis when similar risk characteristics exist. In estimating the component of the allowance for credit losses for loans that share common risk characteristics, loans are pooled based on loan type and areas of risk concentration. For loans evaluated collectively, the allowance for credit losses is calculated using life of loan historical losses adjusted for economic forecasts and current conditions.

For commercial real estate, multifamily real estate, construction and land, commercial business and agricultural loans with risk rating segmentation, historical credit loss assumptions are estimated using a model that categorizes loan pools based on loan type and risk rating. For one- to four- family residential loans, consumer loans, home equity lines of credit, small business loans, and small balance commercial real estate loans, historical credit loss assumptions are estimated using a model that categorizes loan pools based on loan type and delinquency status. These models calculate an expected life-of-loan loss percentage for each loan category by calculating the probability of default, based on the migration of loans from performing to loss by risk rating or delinquency categories using historical life-of-loan analysis and the severity of loss, based on the aggregate net lifetime losses incurred for each loan pool. For credit cards, historical credit loss assumptions are estimated using a model that calculates an expected life-of-loan loss percentage for each loan category by considering the historical cumulative losses based on the aggregate net lifetime losses incurred for each loan pool.

For loans evaluated collectively, Management uses economic indicators to adjust the historical loss rates so that they better reflect Management's expectations of future conditions over the remaining lives of the loans in the portfolio based on reasonable and supportable forecasts. These economic indicators are selected based on correlation to the Company's historical credit loss experience and are evaluated for each loan category. The economic indicators evaluated include the unemployment rate, gross domestic product, real estate price indices and growth, industrial employment, corporate profits, the household consumer debt service ratio, the household mortgage debt service ratio, and single family median home price growth. Management considers various economic scenarios and forecasts when evaluating the economic indicators and weighs the probability of various scenarios to arrive at the forecast that most reflects Management's expectations of future conditions. The allowance for credit losses is then adjusted for the period in which those forecasts are considered to be reasonable and supportable. To the extent the lives of the loans in the portfolio extend beyond the period for which a reasonable and supportable forecast can be made, the adjustments discontinue to be applied so that the model reverts back to the historical loss rates using a straight line reversion method. Management selected a reasonable and supportable forecast period of 12 months with a reversion period of 12 months. Both the reasonable and supportable forecast period and the reversion period are periodically reviewed by Management.

Further, for loans evaluated collectively, Management also considers qualitative and environmental factors for each loan category to adjust for differences between the historical periods used to calculate historical loss rates and expected conditions over the remaining lives of the loans in the portfolio. In determining the aggregate adjustment needed, Management considers the financial condition of the borrowers, the nature and volume of the loans, the remaining terms and the extent of prepayments on the loans, the volume and severity of past due and classified loans as well as the value of the underlying collateral on loans in which the collateral dependent practical expedient has not been used. Management also considers the Company's lending policies, the quality of the Company's credit review system, the quality of the Company's management and lending staff, and the regulatory and economic environments in the areas in which the Company's lending activities are concentrated.

Loans that do not share risk characteristics with other loans in the portfolio are individually evaluated for impairment and are not included in the collective evaluation. Factors involved in determining whether a loan should be individually evaluated include, but are not limited to, the financial condition of the borrower and the value of the underlying collateral. Expected credit losses for loans evaluated individually are primarily measured based on the fair market value of the collateral as of the reporting date, less estimated selling costs, as applicable. Under certain circumstances, the Bank may use observable market value of collateral or the present value of the expected future cash flows discounted at the loan's original effective interest rate. As a practical expedient, the Bank measures the expected credit loss for a loan using the fair value of the collateral, if repayment is expected to be provided substantially through the operation or sale of the collateral when the borrower is experiencing financial difficulty based on the Bank's assessment as of the reporting date.

In both cases, if the fair value of the collateral is less than the amortized cost basis of the loan, the Bank will recognize an allowance as the difference between the fair value of the collateral, less costs to sell (if applicable) at the reporting date and the amortized cost basis of the loan. If the fair value of the collateral exceeds the amortized cost basis of the loan, any expected recovery added to the amortized cost basis will be limited to the amount previously charged-off. Subsequent changes in the expected credit losses for loans evaluated individually are included within the provision for credit losses in the same manner in which the expected credit loss initially was recognized or as a reduction in the provision that would otherwise be reported.

Troubled Loan Modifications: Some of the Bank's loans are reported as troubled loan modification. Loans are reported as troubled loan modifications when the Bank grants a concession to a borrower experiencing financial difficulties that it would not otherwise consider. Examples of such concessions include providing principal forgiveness, interest rate reductions, other-than-insignificant payment delays, term extensions or any combination of these.

Loan Origination and Commitment Fees: Loan origination fees, net of certain specifically defined direct loan origination costs, are deferred and recognized as an adjustment of the loans' interest yield using the level-yield method over the contractual term of each loan adjusted for actual loan prepayment experience. Loan commitment fees are deferred until the expiration of the commitment period unless Management believes there is a remote likelihood that the underlying commitment will be exercised, in which case the fees are amortized to fee income using the straight-line method over the commitment period. If a loan commitment is exercised, the deferred commitment fee is accounted for in the same manner as a loan origination fee. Deferred commitment fees associated with expired commitments are recognized as fee income.

Allowance for Credit Losses - Unfunded Loan Commitments: An allowance for credit losses - unfunded loan commitments is maintained at a level that, in the opinion of Management, is adequate to absorb expected credit losses associated with the contractual life of the Bank's commitments to lend funds under existing agreements such as letters or lines of credit. The Bank uses a methodology for determining the allowance for credit losses - unfunded loan commitments that applies the same segmentation and loss rate to each pool as the funded exposure adjusted for probability of funding. Draws on unfunded loan commitments that are considered uncollectible at the time funds are advanced are charged to the allowance for credit losses on off-balance sheet exposures. Changes in the allowance for credit losses - unfunded loan commitments are recognized as provision for (or recapture of) credit loss expense and added to the allowance for credit losses - unfunded loan commitments, which is included in other liabilities in the Consolidated Statements of Financial Condition.

Real Estate Owned: Property acquired by foreclosure or deed in-lieu-of foreclosure is recorded at the estimated fair value of the property, less expected selling costs. Development and improvement costs relating to the property may be capitalized, while other holding costs are expensed. The carrying value of the property is periodically evaluated by Management and, if necessary, allowances are established to reduce the carrying value to net realizable value. Gains or losses at the time the property is sold are charged or credited to operations in the period in which they are realized. The amounts the Bank will ultimately recover from real estate held for sale may differ substantially from the carrying value of the assets because of market factors beyond the Bank's control or because of changes in the Bank's strategies for recovering the investment.

Property and Equipment: Property and equipment is carried at cost less accumulated depreciation. Depreciation is based upon the straight-line method applied to individual assets and groups of assets acquired in the same year over the lesser of their estimated useful lives or the related lease terms of the assets:

Buildings and leased improvements	10–39 years
Furniture and equipment	3–10 years

Routine maintenance, repairs and replacement costs are expensed as incurred. Expenditures which significantly increase values or extend useful lives are capitalized. The Company reviews buildings, leasehold improvements and equipment for impairment whenever events or changes in circumstances indicate that the undiscounted cash flows for the property are less than its carrying value. If identified, an impairment loss is recognized through a charge to earnings based on the fair value of the property.

Property is classified as held for sale when the Company commits to a plan to sell the property and is actively marketing the property for sale. Held for sale property is recorded at the lower of the estimated fair value of the property, less expected selling costs, or the book value at the date the property is transferred to held for sale. Depreciation is not recorded on held for sale property.

Leases: The Company leases retail space, office space, storage space, and equipment under operating leases. Most leases require the Company to pay real estate taxes, maintenance, insurance and other similar costs in addition to the base rent. Certain leases also contain lease incentives, such as tenant improvement allowances and rent abatement. Variable lease payments are recognized as lease expense as they are incurred. We record an operating lease right of use (ROU) asset and an operating lease liability (lease liability) for operating leases with a lease term greater than 12 months.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term. Accordingly, ROU assets are reduced by tenant improvement allowances from landlords plus any prepaid rent. We do not separate lease and non-lease components of contracts. As most of our leases do not provide an implicit rate, we generally use our incremental borrowing rate based on the estimated rate of interest for collateralized borrowing over a similar term of the lease payments at commencement date. Many of our leases contain various provisions for increases in rental rates, based either on changes in the published Consumer Price Index or a predetermined escalation schedule which are factored into our determination of lease payments when appropriate. Substantially, all the leases provide the Company with the option to extend the lease term one or more times following expiration of the initial term. The ROU asset and lease liability terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Goodwill: Goodwill represents the excess of the purchase consideration paid over the fair value of the assets acquired, net of the fair values of liabilities assumed in a business combination and is not amortized but is reviewed annually or more frequently as current circumstances and conditions warrant, for impairment. The Company completes its annual review of goodwill as of December 31. An assessment of qualitative factors is completed to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The qualitative assessment involves judgment by Management on determining whether there have been any triggering events that have occurred which would indicate potential impairment. If the qualitative analysis concludes that further analysis is required, then a quantitative impairment test would be completed. The quantitative goodwill impairment test is used to identify the existence of impairment and the amount of impairment loss and compares the reporting unit's estimated fair values, including goodwill to its carrying amount. If the fair value exceeds the carrying amount, then goodwill is not considered impaired. If the carrying amount exceeds its fair value, an impairment loss would be recognized equal to the amount of excess, limited to the amount of total goodwill allocated to the reporting unit. The impairment loss would be recognized as a charge to earnings. The disposal of a portion of a reporting unit that meets the definition of a business requires goodwill to be allocated for purposes of determining the gain or loss on disposal.

Other Intangible Assets: Other intangible assets consist primarily of core deposit intangibles (CDI) which are amounts recorded in business combinations or deposit purchase transactions related to the value of transaction-related deposits and the value of the client relationships associated with the deposits. CDI is being amortized on an accelerated basis over a weighted average estimated useful life of eight to 10 years. These assets are reviewed at least annually for events or circumstances that could impact their recoverability. These events could include loss of the underlying core deposits, increased competition or adverse changes in the economy. To the extent other identifiable intangible assets are deemed unrecoverable, impairment losses are recorded in other non-interest expense to reduce the carrying amount of the assets.

Mortgage and Small Business Administration (SBA) Servicing Rights: Servicing assets are recognized as separate assets when rights are acquired through purchase or sale of loans. Generally, purchased servicing rights are capitalized at the cost to acquire the rights. For sales of mortgage and SBA loans, the fair value of the servicing right is estimated and capitalized. Fair values are estimated based on an independent dealer analysis of discounted cash flows. Capitalized mortgage servicing rights are reported in other assets and are amortized into mortgage banking operations in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Capitalized SBA servicing rights are reported in other assets and are carried at fair value. Changes in the fair value of SBA servicing rights are recognized into miscellaneous non-interest income.

Mortgage servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights into tranches based on predominant risk characteristics for the underlying loans, such as interest rate, balance outstanding, loan type, age and remaining term, and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the capitalized amount for the tranche. If the Company later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income.

Servicing fee income is recorded for fees earned for servicing loans. Servicing fee income is reflected in mortgage banking operations for mortgage servicing rights and in miscellaneous non-interest income for SBA servicing rights on the Consolidated Statements of Operations. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income.

Bank-Owned Life Insurance: The Bank has purchased, or acquired through mergers, life insurance policies in connection with the implementation of certain executive supplemental income, salary continuation and deferred compensation retirement plans. These policies provide protection against the adverse financial effects that could result from the death of a key employee and provide tax-exempt income to offset expenses associated with the plans. It is the Bank's intent to hold these policies as a long-term investment; however, there may be an income tax impact if the Bank chooses to surrender certain policies. Although the lives of individual, current or former management-level employees are insured, the Bank is the respective owner and sole or partial beneficiary. BOLI is carried at the cash surrender value (CSV) of the underlying insurance contract. Changes in the CSV and any death benefits received in excess of the CSV are recognized as non-interest income.

Derivative Instruments: Derivatives include "off-balance-sheet" financial products, the value of which is dependent on the value of underlying financial assets, such as stock, bonds, foreign currency, or a reference rate or index. Such derivatives include "forwards," "futures," "options" or "swaps." The Bank uses an interest rate swap program which involves the receipt of fixed-rate amounts from a counterparty in exchange for variable-rate payments over the life of the agreements without exchange of the underlying notional amount. Such derivatives are used to hedge the variable cash flows associated with existing variable-rate assets. These interest rate swaps qualify as cash flow hedging instruments so gains and losses are recorded in AOCI to the extent the hedge is effective. Gains and losses on the interest rate swaps are reclassified from AOCI to earnings in the period the hedged transaction affects earnings and are included in interest income. Amounts reported in AOCI related to derivatives will be reclassified to interest income as interest payments are received on the Company's variable-rate assets. The related cash flows are recognized as cash flows from operating activities on the Consolidated Statement of Cash Flows.

In addition, the Bank uses an interest rate swap program for commercial loan clients that provides the client with a variable-rate loan and enters into an interest rate swap allowing them to effectively fix their loan interest rates. These client swaps are matched with third party swaps with qualified broker/dealer or banks to offset the risk. The fair value adjustments for these swaps are reflected in other assets or other liabilities as appropriate.

Further, as a part of its mortgage banking activities, the Company issues "rate lock" commitments to one- to four-family loan borrowers and obtains offsetting "best efforts" delivery commitments from purchasers of loans. The Company uses forward contracts for the sale of mortgage-backed securities and mandatory delivery commitments for the sale of loans to hedge one- to four-family loan "rate lock" commitments and one- to four-family loans held for sale. The commitments to originate mortgage loans held for sale and the related delivery contracts are considered derivatives. The Company recognizes all derivatives as either assets or liabilities in the balance sheet and requires measurement of those instruments at fair value through adjustments to current earnings. None of these residential mortgage loan related derivatives are designated as hedging instruments for accounting purposes. Rather, they are accounted for as free-standing derivatives, or economic hedges, and the Company reports changes in fair values of its derivatives in current period net income. The fair values for these instruments, which generally change as a result of changes in the level of market interest rates, are estimated based on dealer quotes and secondary market sources. Assumptions used include rate assumptions based on historical information, current mortgage interest rates, the stage of completion of the underlying application and underwriting process, the time remaining until the expiration of the derivative loan commitment, and the expected net future cash flows related to the associated servicing of the loan.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee has the right to pledge or exchange the transferred assets beyond a trivial benefit, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Income Taxes: The Company files a consolidated income tax return including all of its wholly-owned subsidiaries on a calendar year basis. Income taxes are accounted for using the asset and liability method. Under this method, a deferred tax asset or liability is determined based on the enacted tax rates which are expected to be in effect when the differences between the financial statement carrying amounts and tax basis of existing assets and liabilities are expected to be reported in the Company's income tax returns. The effect on deferred taxes of a change in tax rates is recognized in income in the period of change. A valuation allowance is recognized as a reduction to deferred tax assets when Management determines it is more likely than not that deferred tax assets will not be available to offset future income tax liabilities.

Accounting standards for income taxes prescribe a recognition threshold and measurement process for financial statement recognition and measurement of uncertain tax positions taken or expected to be taken in a tax return, and also provides guidance on the de-recognition of previously recorded benefits and their classification, as well as the proper recording of interest and penalties, accounting in interim periods, disclosures and transition. The Company periodically reviews its income tax positions based on tax laws and regulations and financial reporting considerations, and records adjustments as appropriate. This review takes into consideration the status of current taxing authorities' examinations of the Company's tax returns, recent positions taken by the taxing authorities on similar transactions, if any, and the overall tax environment.

Stock-Based Compensation: Under the Company's stock-based incentive plans, the Company compensates employees and directors with time-based restricted stock and restricted stock unit grants. Some restricted stock awards include performance-based and market-based goals that impact the number of shares that ultimately vest based on the level of goal achievement. The Company measures the cost of employee or director services received in exchange for an award of equity instruments based on the fair value of the award, which is the intrinsic value on the grant date. This cost is recognized as expense in the Consolidated Statements of Operations ratably over the vesting period of the award with forfeitures of nonvested awards recognized as they occur. Any tax benefit or deficiency is recorded as income tax benefit or expense in the period the shares vest. Excess tax benefits are classified, along with other income tax cash flows, as an operating activity. The Company issues restricted stock and restricted stock unit awards which vest over a one- or three-year period during which time the employee or director accrues or receives dividends and may have full voting rights depending on the terms of the grant.

Earnings Per Share: Earnings per common share is computed under the two-class method. Pursuant to the two-class method, non-vested stock-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents are participating securities and are included in the computation of earnings per share. The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. Application of the two-class method resulted in the equivalent earnings per share to the treasury method.

Basic earnings per common share is computed by dividing net earnings allocated to common shareholders by the weighted average number of common shares outstanding during the applicable period, excluding outstanding participating securities. Diluted earnings per common share is computed using the weighted average number of shares determined for the basic earnings per common share computation plus the dilutive effect of stock compensation, using the treasury stock method.

Comprehensive Income: Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. In addition, certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, unrealized gains and losses on interest rate swaps used in cash flow hedges and changes in fair value of junior subordinated debentures related to instrument specific credit risk, are reported as a separate component of the equity section of the Consolidated Statements of Financial Condition, and such items, along with net income, are components of comprehensive income which is reported in the Consolidated Statements of Comprehensive Income.

Business Segments: The Company is managed by legal entity and not by lines of business. The Bank is a community oriented commercial bank chartered in Washington state. The Bank's primary business is that of a traditional banking institution, gathering deposits and originating loans for portfolio in its respective primary market areas. The Bank offers a wide variety of deposit products to its consumer and commercial clients. Lending activities include the origination of real estate, commercial/agriculture business and consumer loans. The Bank is also an active participant in the secondary market, originating residential loans for sale on both a servicing released and servicing retained basis. In addition to interest income on loans and investment securities, the Bank receives other income from deposit service charges, loan servicing fees and from the sale of loans and investments. The performance of the Bank is reviewed monthly by the Company's executive management and Board of Directors. All the executive officers of the Company are members of the Bank's management team. The Company has determined that its current business and operations consist of a single business segment and a single reporting unit.

Reclassification: Certain reclassifications have been made to the prior years' consolidated financial statements and/or schedules to conform to the current year's presentation. These reclassifications may have an impact on certain reported amounts and ratios for the prior periods. These reclassifications had no effect on retained earnings or net income as previously presented and the effect of these reclassifications is considered immaterial.

Note 2: ACCOUNTING STANDARDS RECENTLY ISSUED OR ADOPTED

Income Taxes (Topic 740)

In December 2023, the Financial Accounting Standards Board (FASB) issued guidance within Accounting Standards Update (ASU) 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*. The amendments in the Update are intended to provide more transparency about income tax information through improvements to income tax disclosures primarily related to the rate reconciliation and income taxes paid information. The ASU requires disclosure in the rate reconciliation of specific categories as well as provide additional information for reconciling items that meet a quantitative threshold.

Those amendments require disclosure of the following information about income taxes paid on an annual basis:

- Income taxes paid (net of refunds received), disaggregated by federal and state taxes and by individual jurisdictions in which income taxes paid (net of refunds received) is equal to or greater than five percent of total income taxes paid (net of refunds received).
- Income tax expense (or benefit) from continuing operations disaggregated by federal and state jurisdictions.

The ASU is effective for annual periods beginning after December 15, 2024. Early adoption is permitted for annual financial statements that have not yet been issued or made available for issuance. The amendments should be applied on a prospective basis. The Company is evaluating the adoption of this ASU, as it will require additional disclosures in the notes to our Consolidated Financial Statements.

Segment Reporting (Topic 280)

In November 2023, the FASB issued guidance within ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*. This ASU requires that a public entity that has a single reportable segment provide all the disclosures required by the amendments in this ASU and all existing disclosures in Topic 280. The Company has determined that its current business and operations consist of a single business segment and a single reporting unit.

The amendments in this Update are intended to improve segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. The key amendments included in this Update:

- Require disclosure on an annual and interim basis, significant segment expenses that are regularly provided to the chief operating decision maker (CODM) and are included within each reported measure of segment profit and loss.
- Require disclosure on an annual and interim basis, an amount for other segment items (defined in the ASU) and a description of its composition.
- Clarify that if the CODM uses more than one measure of the segment's profit or loss in assessing performance, one or more of those additional measures may be reported.
- Require disclosure of the title and position of the CODM and an explanation of how the CODM uses the reported measure(s) of segment profit or loss in assessing performance.

This ASU is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. The amendments should be applied retrospectively to all prior periods presented in the financial statements. The Company is currently evaluating the impact on the Company's Consolidated Financial Statements as the Company has a single reportable segment.

Financial Instruments – Credit Losses (Topic 326)

On January 1, 2023, the Company adopted FASB ASU 2022-02, *Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*. The ASU eliminated the troubled debt restructuring recognition and measurement guidance and, instead, requires that a creditor evaluate (consistent with the accounting for other loan modifications) whether the modification represents a new loan or a continuation of an existing loan. The ASU also introduced new disclosure requirements related to certain modifications of receivables made to borrowers experiencing financial difficulty. In addition, the ASU requires vintage disclosures to include current-period gross write-offs by year of origination for financing receivables. The Company applied the ASU prospectively and new disclosures have been added when applicable.

Reference Rate Reform (Topic 848)

In 2020, 2021 and 2022, the FASB issued guidance in response to the scheduled discontinuation of LIBOR. within ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, ASU 2022-06, *Reference Rate Reform (Topic 848): Deferral of Sunset Date of Topic 848*, ASU 2021-01, *Reference Rate Reform (Topic 848): Scope*. The amendments in these ASUs provided optional guidance designed to provide relief from the accounting analysis and impacts that may otherwise be required for modifications to agreements (e.g., loans, debt securities, derivatives, borrowings) necessitated by reference rate reform. The publication cessation of U.S. dollar LIBOR was on June 30, 2023.

The optional expedients for applying the requirements of certain Topics or Industry Subtopics in the Codification are permitted for contracts that are modified because of reference rate reform and that meet certain scope guidance: 1) modifications of contracts within the scope of Topics 310, Receivables, and 470, Debt, should be accounted for by prospectively adjusting the effective interest rate; 2) modifications of contracts within the scope of Topic 842, Leases, should be accounted for as a continuation of the existing contracts with no reassessments of the lease classification and the discount rate or remeasurements of lease payments that otherwise would be required for modifications not accounted for as separate contracts; 3) modifications of contracts do not require an entity to reassess its original conclusion about whether that contract contains an embedded derivative that is clearly and closely related to the economic characteristics and risks of the host contract; and 4) the amendments in this ASU also include a general principle that permits an entity to consider contract modifications due to reference rate reform to be an event that does not require contract remeasurement at the modification date or reassessment of a previous accounting determination.

The Company used the expedients in the Reference Rate Reform guidance to manage through the transition from LIBOR, specifically as they relate to loans, leases and hedging relationships. The adoption of this accounting guidance did not have a material impact on the Company's Consolidated Financial Statements.

Fair Value Measurement (Topic 820)

In June 2022, the FASB issued guidance within ASU 2022-03, *Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*. The ASU affects all entities that have investments in equity securities measured at fair value that are subject to a contractual sale restriction. These amendments clarify that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value.

The ASU is effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. The adoption of this ASU is not expected to have a material impact on the Company's Consolidated Financial Statements.

Note 3: SECURITIES

The amortized cost, gross unrealized gains and losses, and estimated fair value of securities at December 31, 2023 and December 31, 2022 are summarized as follows (in thousands):

	December 31, 2023				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
Available-for-Sale:					
U.S. Government and agency obligations	\$ 34,929	\$ —	\$ (740)	\$ —	\$ 34,189
Municipal bonds	161,264	832	(29,191)	—	132,905
Corporate bonds	131,291	—	(12,168)	—	119,123
Mortgage-backed or related securities	2,179,947	942	(314,175)	—	1,866,714
Asset-backed securities	222,549	300	(1,997)	—	220,852
	<u>\$ 2,729,980</u>	<u>\$ 2,074</u>	<u>\$ (358,271)</u>	<u>\$ —</u>	<u>\$ 2,373,783</u>

	December 31, 2023				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Allowance for Credit Losses
Held-to-Maturity:					
U.S. Government and agency obligations	\$ 307	\$ —	\$ (5)	\$ 302	\$ —
Municipal bonds	466,032	687	(53,563)	412,999	(157)
Corporate bonds	2,781	—	(20)	2,586	(175)
Mortgage-backed or related securities	590,267	—	(98,640)	491,627	—
	<u>\$ 1,059,387</u>	<u>\$ 687</u>	<u>\$ (152,228)</u>	<u>\$ 907,514</u>	<u>\$ (332)</u>

	December 31, 2022	
	Amortized Cost	Fair Value
Trading:		
Corporate bonds	\$ 27,203	\$ 28,694
	<u>\$ 27,203</u>	<u>\$ 28,694</u>

	December 31, 2022				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
Available-for-Sale:					
U.S. Government and agency obligations	\$ 56,344	\$ 8	\$ (1,244)	\$ —	\$ 55,108
Municipal bonds	301,449	530	(40,770)	—	261,209
Corporate bonds	133,334	—	(11,481)	—	121,853
Mortgage-backed or related securities	2,505,172	885	(366,721)	—	2,139,336
Asset-backed securities	222,478	40	(10,993)	—	211,525
	<u>\$ 3,218,777</u>	<u>\$ 1,463</u>	<u>\$ (431,209)</u>	<u>\$ —</u>	<u>\$ 2,789,031</u>

December 31, 2022

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Allowance for Credit Losses
Held-to-Maturity:					
U.S. Government and agency obligations	\$ 312	\$ —	\$ (7)	\$ 305	\$ —
Municipal bonds	503,117	109	(70,907)	432,319	(183)
Corporate bonds	2,961	—	(16)	2,945	(196)
Mortgage-backed or related securities	611,577	—	(104,966)	506,611	—
	<u>\$ 1,117,967</u>	<u>\$ 109</u>	<u>\$ (175,896)</u>	<u>\$ 942,180</u>	<u>\$ (379)</u>

Accrued interest receivable on held-to-maturity debt securities was \$4.5 million and \$4.8 million as of December 31, 2023 and December 31, 2022, and was \$10.8 million and \$12.4 million on available-for-sale debt securities at December 31, 2023 and December 31, 2022, respectively. Accrued interest receivable on securities is reported in accrued interest receivable on the Consolidated Statements of Financial Condition and is excluded from the calculation of the allowance for credit losses.

At December 31, 2023 and December 31, 2022, the gross unrealized losses and the fair value for securities available-for-sale aggregated by the length of time that individual securities have been in a continuous unrealized loss position were as follows (in thousands):

December 31, 2023

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale:						
U.S. Government and agency obligations	\$ —	\$ —	\$ 34,189	\$ (740)	\$ 34,189	\$ (740)
Municipal bonds	6,049	(7)	103,511	(29,184)	109,560	(29,191)
Corporate bonds	15,720	(46)	106,852	(12,122)	122,572	(12,168)
Mortgage-backed or related securities	71,150	(212)	1,712,125	(313,963)	1,783,275	(314,175)
Asset-backed securities	115,162	(1,212)	85,840	(785)	201,002	(1,997)
	<u>\$ 208,081</u>	<u>\$ (1,477)</u>	<u>\$ 2,042,517</u>	<u>\$ (356,794)</u>	<u>\$ 2,250,598</u>	<u>\$ (358,271)</u>

December 31, 2022

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale:						
U.S. Government and agency obligations	\$ 33,407	\$ (882)	\$ 16,732	\$ (362)	\$ 50,139	\$ (1,244)
Municipal bonds	188,920	(25,592)	33,907	(15,178)	222,827	(40,770)
Corporate bonds	108,187	(9,547)	13,066	(1,934)	121,253	(11,481)
Mortgage-backed or related securities	930,566	(90,537)	1,159,110	(276,184)	2,089,676	(366,721)
Asset-backed securities	201,437	(10,993)	—	—	201,437	(10,993)
	<u>\$ 1,462,517</u>	<u>\$ (137,551)</u>	<u>\$ 1,222,815</u>	<u>\$ (293,658)</u>	<u>\$ 2,685,332</u>	<u>\$ (431,209)</u>

At December 31, 2023, there were 224 securities—available-for-sale with unrealized losses, compared to 298 at December 31, 2022. Management does not believe that any individual unrealized loss as of December 31, 2023 or December 31, 2022 resulted from credit loss. The decline in fair market value of these securities was generally due to changes in interest rates and changes in market-desired spreads subsequent to their purchase.

There were no sales of securities—trading for the years ended December 31, 2023, 2022 or 2021. There were no securities—trading in a nonaccrual status at December 31, 2023 or December 31, 2022. Net unrealized holding losses of \$3.4 million were recognized in 2023 and net unrealized holding gains of \$1.7 million were recognized in 2022. All securities—trading were transferred to securities—available-for-sale during the fourth quarter of 2023.

The following table presents gross gains and losses on sales and partial calls of securities available-for-sale (in thousands):

	For the Year Ended December 31,		
	2023	2022	2021
Available-for-Sale:			
Gross Gains	\$ 383	\$ 522	\$ 993
Gross Losses	(19,625)	(3,770)	(495)
Balance, end of the period	\$ (19,242)	\$ (3,248)	\$ 498

There were no securities—available-for-sale in a nonaccrual status at December 31, 2023 and 2022.

The Company did not sell any held-to-maturity securities and had no partial calls of securities during the years ended December 31, 2023 and December 31, 2022. The Company sold one held-to-maturity security with a resulting net gain of \$3,000 and had partial calls of securities that resulted in a net loss of \$65,000 for the year ended December 31, 2021. There were no securities—held-to-maturity in a nonaccrual status at December 31, 2023 and 2022.

During the years ended December 31, 2023 and December 31, 2022, the Company sold no equity securities. During the year ended December 31, 2021, the Company sold a \$4.8 million equity security with a resulting net gain of \$46,000.

The following table presents the amortized cost and estimated fair value of securities at December 31, 2023, by contractual maturity and does not reflect any required periodic payments (in thousands). Expected maturities will differ from contractual maturities because some securities may be called or prepaid with or without call or prepayment penalties.

	December 31, 2023			
	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Maturing within one year	\$ —	\$ —	\$ 6,685	\$ 6,446
Maturing after one year through five years	162,723	152,661	18,546	18,245
Maturing after five years through 10 years	370,064	327,355	22,220	21,240
Maturing after 10 years	2,197,193	1,893,767	1,011,936	861,583
	<u>\$ 2,729,980</u>	<u>\$ 2,373,783</u>	<u>\$ 1,059,387</u>	<u>\$ 907,514</u>

The following table presents, as of December 31, 2023, investment securities which were pledged to secure borrowings, public deposits or other obligations as permitted or required by law (in thousands):

	December 31, 2023		
	Carrying Value	Amortized Cost	Fair Value
Purpose or beneficiary:			
State and local governments public deposits	\$ 250,855	\$ 263,496	\$ 230,490
Federal Reserve	115,007	115,007	98,259
Interest rate swap counterparties	971	971	813
Repurchase transaction accounts	266,648	266,648	220,926
Other	2,335	2,335	2,156
Total pledged securities	<u>\$ 635,816</u>	<u>\$ 648,457</u>	<u>\$ 552,644</u>

The Company monitors the credit quality of held-to-maturity debt securities through the use of credit ratings which are reviewed and updated quarterly. The Company's non-rated held-to-maturity debt securities are primarily United States government sponsored enterprise debentures carrying minimal to no credit risk. The non-rated corporate bonds primarily consist of Community Reinvestment Act related bonds secured by loan instruments from low to moderate income borrowers. The remaining non-rated held-to-maturity debt securities balance is comprised of local municipal debt from within the Company's geographic footprint and is monitored through quarterly or annual financial review. This municipal debt is predominately essential service or unlimited general obligation backed debt. The following tables summarize the amortized cost of held-to-maturity debt securities by credit rating at December 31, 2023 and December 31, 2022 (in thousands):

December 31, 2023					
	U.S. Government and agency obligations	Municipal bonds	Corporate bonds	Mortgage-backed or related securities	Total
AAA/AA/A	\$ —	\$ 456,999	\$ 500	\$ 16,459	\$ 473,958
Not Rated	307	9,033	2,281	573,808	585,429
	<u>\$ 307</u>	<u>\$ 466,032</u>	<u>\$ 2,781</u>	<u>\$ 590,267</u>	<u>\$ 1,059,387</u>

December 31, 2022					
	U.S. Government and agency obligations	Municipal bonds	Corporate bonds	Mortgage-backed or related securities	Total
AAA/AA/A	\$ —	\$ 492,105	\$ 500	\$ 16,681	\$ 509,286
Not Rated	312	11,012	2,461	594,896	608,681
	<u>\$ 312</u>	<u>\$ 503,117</u>	<u>\$ 2,961</u>	<u>\$ 611,577</u>	<u>\$ 1,117,967</u>

The following tables present the activity in the allowance for credit losses for held-to-maturity debt securities by major type for the year ended December 31, 2023 and December 31, 2022 (in thousands):

For the Year Ended December 31, 2023					
	U.S. Government and agency obligations	Municipal bonds	Corporate bonds	Mortgage- backed or related securities	Total
Allowance for credit losses – securities					
Beginning balance	\$ —	\$ 183	\$ 196	\$ —	\$ 379
Recapture of provision for credit losses	—	(26)	(45)	—	(71)
Recoveries	—	—	24	—	24
Ending balance	<u>\$ —</u>	<u>\$ 157</u>	<u>\$ 175</u>	<u>\$ —</u>	<u>\$ 332</u>

For the Year Ended December 31, 2022					
	U.S. Government and agency obligations	Municipal bonds	Corporate bonds	Mortgage- backed or related securities	Total
Allowance for credit losses – securities					
Beginning balance	\$ —	\$ 203	\$ 230	\$ —	\$ 433
Recapture of provision for credit losses	—	(20)	(63)	—	(83)
Recoveries	—	—	29	—	29
Ending balance	<u>\$ —</u>	<u>\$ 183</u>	<u>\$ 196</u>	<u>\$ —</u>	<u>\$ 379</u>

For the Year Ended December 31, 2021					
	U.S. Government and agency obligations	Municipal bonds	Corporate bonds	Mortgage- backed or related securities	Total
Allowance for credit losses – securities					
Beginning balance	\$ —	\$ 59	\$ 35	\$ —	\$ 94
Provision for credit losses	—	144	445	—	589
Securities charged-off	—	—	(250)	—	(250)
Ending balance	<u>\$ —</u>	<u>\$ 203</u>	<u>\$ 230</u>	<u>\$ —</u>	<u>\$ 433</u>

Note 4: LOANS RECEIVABLE AND THE ALLOWANCE FOR CREDIT LOSSES

The following table presents the loans receivable at December 31, 2023 and 2022 by class (dollars in thousands):

	December 31, 2023		December 31, 2022	
	Amount	Percent of Total	Amount	Percent of Total
Commercial real estate:				
Owner-occupied	\$ 915,897	9 %	\$ 845,320	8 %
Investment properties	1,541,344	14	1,589,975	16
Small balance CRE	1,178,500	11	1,200,251	12
Multifamily real estate	811,232	8	645,071	6
Construction, land and land development:				
Commercial construction	170,011	1	184,876	2
Multifamily construction	503,993	5	325,816	3
One- to four-family construction	526,432	5	647,329	6
Land and land development	336,639	3	328,475	3
Commercial business:				
Commercial business ⁽¹⁾	1,255,734	11	1,283,407	13
Small business scored	1,022,154	10	947,092	9
Agricultural business, including secured by farmland	331,089	3	295,077	3
One- to four-family residential	1,518,046	14	1,173,112	12
Consumer:				
Consumer—home equity revolving lines of credit	588,703	5	566,291	6
Consumer—other	110,681	1	114,632	1
Total loans	10,810,455	100 %	10,146,724	100 %
Less allowance for credit losses - loans	(149,643)		(141,465)	
Net loans	<u>\$ 10,660,812</u>		<u>\$ 10,005,259</u>	

⁽¹⁾ Includes \$3.6 million and \$7.6 million of SBA Paycheck Protection Program (PPP) loans as of December 31, 2023 and December 31, 2022, respectively.

Loan amounts are net of unearned loan fees in excess of unamortized costs of \$12.1 million as of December 31, 2023 and \$8.1 million as of December 31, 2022. Net loans include net discounts on acquired loans of \$4.6 million and \$6.6 million as of December 31, 2023 and 2022, respectively. Net loans does not include accrued interest receivable. Accrued interest receivable on loans was \$47.8 million as of December 31, 2023 and \$39.8 million as of December 31, 2022 and was reported in accrued interest receivable on the Consolidated Statements of Financial Condition.

At December 31, 2023 and 2022, the Company had pledged \$7.6 billion and \$6.5 billion of loans as collateral for FHLB and other borrowings, respectively.

The Company's loans to directors, executive officers and related entities are on substantially the same terms and underwriting as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than normal risk of collectability. Such loans had balances of \$708,000 and \$683,000 at December 31, 2023 and 2022, respectively.

Purchased credit-deteriorated and purchased non-credit-deteriorated loans. Loans acquired in business combinations are recorded at their fair value at the acquisition date. Acquired loans are evaluated upon acquisition and classified as either purchased credit-deteriorated (PCD) or purchased non-credit-deteriorated. There were no PCD loans at December 31, 2023 or 2022.

Troubled Loan Modifications. Occasionally, the Company offers modifications of loans to borrowers experiencing financial difficulty by providing principal forgiveness, interest rate reductions, other-than-insignificant payment delays, term extensions or any combination of these. When principal forgiveness is provided, the amount of the forgiveness is charged-off against the allowance for credit losses - loans. Upon the Company's determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or a portion of the loan) is charged off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the allowance for credit losses - loans is adjusted by the same amount. The allowance for credit losses on modified loans is measured using the same credit loss estimation methods used to determine the allowance for credit losses for all other loans held for investment. These methods incorporate the post-modification loan terms, as well as defaults and charge-offs associated with historical modified loans.

The following table presents the amortized cost basis and financial effect of loans at December 31, 2023, that were both experiencing financial difficulty and modified during the year ended December 31, 2023 (in thousands):

	December 31, 2023		
	<u>Payment Delay</u>	<u>Term Extension</u>	<u>Total</u>
One- to four-family construction	\$ —	\$ 4,911	\$ 4,911
Commercial business	121	—	121
Agricultural business, including secured by farmland	1,580	—	1,580
One- to four-family residential	1,060	—	1,060
Total	<u>\$ 2,761</u>	<u>\$ 4,911</u>	<u>\$ 7,672</u>

The Company has not committed to lend any additional amounts to borrowers included in the previous table. The Company closely monitors the performance of loans that are modified for borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following table presents the performance of such loans that have been modified in the last 12 months at December 31, 2023 (in thousands):

	December 31, 2023			
	<u>30-59 Days Past Due</u>	<u>60-89 Days Past Due</u>	<u>90 Days or More Past Due</u>	<u>Total Past Due</u>
Commercial business	\$ —	\$ —	\$ 121	\$ 121
Agricultural business, including secured by farmland	—	—	1,580	1,580
One- to four-family residential	—	—	1,060	1,060
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,761</u>	<u>\$ 2,761</u>

The following table presents the financial effect of the loan modifications presented above for borrowers experiencing financial difficulty for the year ended December 31, 2023:

	For the Year Ended December 31, 2023	
	<u>Weighted Average Payment Delay Period (in months)</u>	<u>Weighted Average Term Extension (in months)</u>
One- to four-family construction	n/a	14
Commercial business	8	n/a
Agricultural business, including secured by farmland	8	n/a
One- to four-family residential	8	n/a

Credit Quality Indicators: To appropriately and effectively manage the ongoing credit quality of the Company's loan portfolio, Management has implemented a risk-rating or loan grading system for its loans. The system is a tool to evaluate portfolio asset quality throughout each applicable loan's life as an asset of the Company. Generally, loans are risk rated on an aggregate borrower/relationship basis with individual loans sharing similar ratings. There are some instances when specific situations relating to individual loans will provide the basis for different risk ratings within the aggregate relationship. Loans are graded on a scale of 1 to 9. A description of the general characteristics of these categories is shown below.

Overall Risk Rating Definitions: Risk ratings contain both qualitative and quantitative measurements and take into account the financial strength of a borrower and the structure of the loan. Consequently, the definitions are to be applied in the context of each lending transaction and judgment must also be used to determine the appropriate risk rating, as it is not unusual for a loan to exhibit characteristics of more than one risk-rating category. Consideration for the final rating is centered on the borrower's ability to repay, in a timely fashion, both principal and interest. The Company's risk-rating and loan grading policies are reviewed and approved annually. There were no material changes in the risk-rating or loan grading system for the periods presented.

Risk Ratings 1-5: Pass

Credits with risk ratings of 1 to 5 meet the definition of a pass risk rating. The strength of credits vary within the pass risk ratings, ranging from a risk rated 1 being an exceptional credit to a risk rated 5 being an acceptable credit that requires a more than normal level of supervision.

Risk Rating 6: Special Mention

A credit with potential weaknesses that deserves Management's close attention is risk rated a 6. If left uncorrected, these potential weaknesses will result in deterioration in the capacity to repay debt. A key distinction between Special Mention and Substandard is that in a Special Mention credit, there are identified weaknesses that pose potential risk(s) to the repayment sources, versus well defined weaknesses that pose risk(s) to the repayment sources. Assets in this category are expected to be in this category no more than 9-12 months as the potential weaknesses in the credit are resolved.

Risk Rating 7: Substandard

A credit with well-defined weaknesses that jeopardize the ability to repay in full is risk rated a 7. These credits are inadequately protected by either the sound net worth and payment capacity of the borrower or the value of pledged collateral. These are credits with a distinct possibility of loss. Loans headed for foreclosure and/or legal action due to deterioration are rated 7 or worse.

Risk Rating 8: Doubtful

A credit with an extremely high probability of loss is risk rated 8. These credits have all the same critical weaknesses that are found in a substandard loan; however, the weaknesses are elevated to the point that, based upon current information, collection or liquidation in full is improbable. While some loss on doubtful credits is expected, pending events may make the amount and timing of any loss indeterminable. In these situations, taking the loss is inappropriate until the outcome of the pending event is clear.

Risk Rating 9: Loss

A credit that is considered to be currently uncollectible or of such little value that it is no longer a viable bank asset is risk rated 9. Losses should be taken in the accounting period in which the credit is determined to be uncollectible. Taking a loss does not mean that a credit has absolutely no recovery or salvage value but, rather, it is not practical or desirable to defer writing off the credit, even though partial recovery may occur in the future.

The following tables present the Company's portfolio of risk-rated loans by class and by grade as of December 31, 2023 and December 31, 2022 (in thousands). In addition, the tables include the gross charge-offs for the year ended December 31, 2023. Revolving loans that are converted to term loans are treated as new originations in the table below and are presented by year of origination. Term loans that are renewed or extended for periods longer than 90 days are presented as a new origination in the year of the most recent renewal or extension.

		December 31, 2023							
By class:		Term Loans by Year of Origination					Revolving	Total	
		2023	2022	2021	2020	2019	Prior	Loans	Loans
Commercial real estate - owner occupied									
Risk Rating									
Pass		\$ 170,577	\$ 149,489	\$ 161,647	\$ 139,934	\$ 65,424	\$ 154,036	\$ 36,209	\$ 877,316
Special Mention		—	—	—	—	—	—	1	1
Substandard		—	14,450	217	4,731	18,999	183	—	38,580
Doubtful		—	—	—	—	—	—	—	—
Loss		—	—	—	—	—	—	—	—
Total Commercial real estate - owner occupied		<u>\$ 170,577</u>	<u>\$ 163,939</u>	<u>\$ 161,864</u>	<u>\$ 144,665</u>	<u>\$ 84,423</u>	<u>\$ 154,219</u>	<u>\$ 36,210</u>	<u>\$ 915,897</u>
Current period gross charge-offs		<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Commercial real estate - investment properties									
Risk Rating									
Pass		\$ 154,128	\$ 168,286	\$ 281,324	\$ 123,315	\$ 156,174	\$ 597,977	\$ 47,936	\$1,529,140
Special Mention		—	—	—	—	—	2,714	1,198	3,912
Substandard		—	—	—	—	—	8,292	—	8,292
Doubtful		—	—	—	—	—	—	—	—
Loss		—	—	—	—	—	—	—	—
Total Commercial real estate - investment properties		<u>\$ 154,128</u>	<u>\$ 168,286</u>	<u>\$ 281,324</u>	<u>\$ 123,315</u>	<u>\$ 156,174</u>	<u>\$ 608,983</u>	<u>\$ 49,134</u>	<u>\$1,541,344</u>
Current period gross charge-offs		<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Multifamily real estate									
Risk Rating									
Pass		\$ 96,865	\$ 177,907	\$ 215,220	\$ 101,336	\$ 46,886	\$ 167,305	\$ 3,285	\$ 808,804
Special Mention		—	—	—	—	—	—	—	—
Substandard		—	—	—	—	—	2,428	—	2,428
Doubtful		—	—	—	—	—	—	—	—
Loss		—	—	—	—	—	—	—	—
Total Multifamily real estate		<u>\$ 96,865</u>	<u>\$ 177,907</u>	<u>\$ 215,220</u>	<u>\$ 101,336</u>	<u>\$ 46,886</u>	<u>\$ 169,733</u>	<u>\$ 3,285</u>	<u>\$ 811,232</u>
Current period gross charge-offs		<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

December 31, 2023

By class:	Term Loans by Year of Origination					Revolving Loans	Total Loans
	2023	2022	2021	2020	2019		
Commercial construction							
Risk Rating							
Pass	\$ 86,165	\$ 62,302	\$ 4,056	\$ 12,705	\$ —	\$ 1,015	\$ 166,243
Special Mention	3,010	—	—	—	—	—	3,010
Substandard	—	—	758	—	—	—	758
Doubtful	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—
Total Commercial construction	<u>\$ 89,175</u>	<u>\$ 62,302</u>	<u>\$ 4,814</u>	<u>\$ 12,705</u>	<u>\$ —</u>	<u>\$ 1,015</u>	<u>\$ 170,011</u>
Current period gross charge-offs	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Multifamily construction							
Risk Rating							
Pass	\$ 176,729	\$ 256,661	\$ 70,189	\$ 414	\$ —	\$ —	\$ 503,993
Special Mention	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—
Total Multifamily construction	<u>\$ 176,729</u>	<u>\$ 256,661</u>	<u>\$ 70,189</u>	<u>\$ 414</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 503,993</u>
Current period gross charge-offs	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
One- to four- family construction							
Risk Rating							
Pass	\$ 447,818	\$ 43,563	\$ 25,229	\$ —	\$ 329	\$ —	\$ 517,320
Special Mention	—	—	—	—	—	—	—
Substandard	6,715	253	2,144	—	—	—	9,112
Doubtful	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—
Total One- to four- family construction	<u>\$ 454,533</u>	<u>\$ 43,816</u>	<u>\$ 27,373</u>	<u>\$ —</u>	<u>\$ 329</u>	<u>\$ —</u>	<u>\$ 526,432</u>
Current period gross charge-offs	<u>\$ 136</u>	<u>\$ —</u>	<u>\$ 933</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,069</u>

December 31, 2023

By class:	Term Loans by Year of Origination					Revolving Loans	Total Loans	
	2023	2022	2021	2020	2019			Prior
Land and land development								
Risk Rating								
Pass	\$ 188,134	\$ 80,472	\$ 34,146	\$ 12,338	\$ 8,409	\$ 10,152	\$ 2,136	\$ 335,787
Special Mention	—	852	—	—	—	—	—	852
Substandard	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—
Total Land and land development	<u>\$ 188,134</u>	<u>\$ 81,324</u>	<u>\$ 34,146</u>	<u>\$ 12,338</u>	<u>\$ 8,409</u>	<u>\$ 10,152</u>	<u>\$ 2,136</u>	<u>\$ 336,639</u>
Current period gross charge-offs	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 20</u>	<u>\$ —</u>	<u>\$ 20</u>
Commercial business								
Risk Rating								
Pass	\$ 157,830	\$ 223,582	\$ 121,031	\$ 134,066	\$ 102,545	\$ 126,175	\$ 363,652	\$1,228,881
Special Mention	199	—	—	—	43	—	2,548	2,790
Substandard	1,919	5,207	3,398	5,207	1,509	2,010	4,813	24,063
Doubtful	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—
Total Commercial business	<u>\$ 159,948</u>	<u>\$ 228,789</u>	<u>\$ 124,429</u>	<u>\$ 139,273</u>	<u>\$ 104,097</u>	<u>\$ 128,185</u>	<u>\$ 371,013</u>	<u>\$1,255,734</u>
Current period gross charge-offs	<u>\$ 22</u>	<u>\$ 108</u>	<u>\$ 681</u>	<u>\$ 5</u>	<u>\$ —</u>	<u>\$ 27</u>	<u>\$ 318</u>	<u>\$ 1,161</u>
Agricultural business, including secured by farmland								
Risk Rating								
Pass	\$ 48,620	\$ 35,520	\$ 24,659	\$ 17,658	\$ 23,885	\$ 38,273	\$ 123,158	\$ 311,773
Special Mention	550	—	652	—	—	301	308	1,811
Substandard	4,057	—	626	—	7,819	2,280	2,723	17,505
Doubtful	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—
Total Agricultural business, including secured by farmland	<u>\$ 53,227</u>	<u>\$ 35,520</u>	<u>\$ 25,937</u>	<u>\$ 17,658</u>	<u>\$ 31,704</u>	<u>\$ 40,854</u>	<u>\$ 126,189</u>	<u>\$ 331,089</u>
Current period gross charge-offs	<u>\$ —</u>	<u>\$ 430</u>	<u>\$ 134</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 564</u>

December 31, 2022

By class:	Term Loans by Year of Origination					Revolving Loans	Total Loans	
	2022	2021	2020	2019	2018			Prior
Commercial real estate - owner occupied								
Risk Rating								
Pass	\$ 167,150	\$ 198,787	\$ 150,272	\$ 74,171	\$ 57,095	\$ 148,902	\$ 10,833	\$ 807,210
Special Mention	—	—	—	2,829	—	42	201	3,072
Substandard	13,756	—	7,211	13,564	—	307	200	35,038
Doubtful	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—
Total Commercial real estate - owner occupied	<u>\$ 180,906</u>	<u>\$ 198,787</u>	<u>\$ 157,483</u>	<u>\$ 90,564</u>	<u>\$ 57,095</u>	<u>\$ 149,251</u>	<u>\$ 11,234</u>	<u>\$ 845,320</u>
Commercial real estate - investment properties								
Risk Rating								
Pass	\$ 190,627	\$ 323,160	\$ 142,476	\$ 182,853	\$ 169,667	\$ 547,899	\$ 25,691	\$1,582,373
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	3,283	—	3,007	1,312	7,602
Doubtful	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—
Total Commercial real estate - investment properties	<u>\$ 190,627</u>	<u>\$ 323,160</u>	<u>\$ 142,476</u>	<u>\$ 186,136</u>	<u>\$ 169,667</u>	<u>\$ 550,906</u>	<u>\$ 27,003</u>	<u>\$1,589,975</u>
Multifamily real estate								
Risk Rating								
Pass	\$ 139,383	\$ 177,784	\$ 93,961	\$ 46,460	\$ 29,665	\$ 156,140	\$ 1,678	\$ 645,071
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—
Total Multifamily real estate	<u>\$ 139,383</u>	<u>\$ 177,784</u>	<u>\$ 93,961</u>	<u>\$ 46,460</u>	<u>\$ 29,665</u>	<u>\$ 156,140</u>	<u>\$ 1,678</u>	<u>\$ 645,071</u>

December 31, 2022

By class:	Term Loans by Year of Origination					Revolving Loans	Total Loans
	2022	2021	2020	2019	2018		
Commercial construction							
Risk Rating							
Pass	\$ 112,229	\$ 46,679	\$ 12,952	\$ 4,260	\$ 1,107	\$ —	\$ 177,227
Special Mention	—	—	—	—	—	—	—
Substandard	2,931	1	—	—	4,717	—	7,649
Doubtful	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—
Total Commercial construction	<u>\$ 115,160</u>	<u>\$ 46,680</u>	<u>\$ 12,952</u>	<u>\$ 4,260</u>	<u>\$ 5,824</u>	<u>\$ —</u>	<u>\$ 184,876</u>
Multifamily construction							
Risk Rating							
Pass	\$ 142,680	\$ 161,066	\$ 20,622	\$ 1,448	\$ —	\$ —	\$ 325,816
Special Mention	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—
Total Multifamily construction	<u>\$ 142,680</u>	<u>\$ 161,066</u>	<u>\$ 20,622</u>	<u>\$ 1,448</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 325,816</u>
One- to four- family construction							
Risk Rating							
Pass	\$ 572,701	\$ 56,530	\$ 677	\$ 331	\$ —	\$ —	\$ 630,950
Special Mention	—	—	—	—	—	—	—
Substandard	13,473	2,906	—	—	—	—	16,379
Doubtful	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—
Total One- to four- family construction	<u>\$ 586,174</u>	<u>\$ 59,436</u>	<u>\$ 677</u>	<u>\$ 331</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 647,329</u>

December 31, 2022

By class:	Term Loans by Year of Origination					Revolving Loans	Total Loans
	2022	2021	2020	2019	2018		
Land and land development							
Risk Rating							
Pass	\$ 199,339	\$ 88,066	\$ 16,278	\$ 11,866	\$ 6,242	\$ 6,164	\$ 328,294
Special Mention	—	—	—	—	—	—	—
Substandard	—	—	—	—	97	84	181
Doubtful	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—
Total Land and land development	<u>\$ 199,339</u>	<u>\$ 88,066</u>	<u>\$ 16,278</u>	<u>\$ 11,866</u>	<u>\$ 6,339</u>	<u>\$ 6,248</u>	<u>\$ 328,475</u>
Commercial business							
Risk Rating							
Pass	\$ 249,609	\$ 149,140	\$ 161,494	\$ 126,416	\$ 86,712	\$ 85,386	\$1,250,609
Special Mention	74	26	3,467	—	—	—	3,767
Substandard	464	12,599	1,956	1,161	5,954	796	29,031
Doubtful	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—
Total Commercial business	<u>\$ 250,147</u>	<u>\$ 161,765</u>	<u>\$ 166,917</u>	<u>\$ 127,577</u>	<u>\$ 92,666</u>	<u>\$ 86,182</u>	<u>\$1,283,407</u>
Agricultural business, including secured by farmland							
Risk Rating							
Pass	\$ 36,848	\$ 35,440	\$ 18,946	\$ 28,354	\$ 24,710	\$ 27,063	\$ 280,967
Special Mention	—	336	271	—	—	—	964
Substandard	2,015	970	—	6,565	—	2,599	13,146
Doubtful	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—
Total Agricultural business, including secured by farmland	<u>\$ 38,863</u>	<u>\$ 36,746</u>	<u>\$ 19,217</u>	<u>\$ 34,919</u>	<u>\$ 24,710</u>	<u>\$ 29,662</u>	<u>\$ 295,077</u>

The following tables present the Company's portfolio of non-risk-rated loans by class and delinquency status as of December 31, 2023 and December 31, 2022 (in thousands). In addition, the tables include the gross charge-offs for the year ended December 31, 2023. Revolving loans that are converted to term loans are treated as new originations in the table below and are presented by year of origination. Term loans that are renewed or extended for periods longer than 90 days are presented as a new origination in the year of the most recent renewal or extension.

By class:	December 31, 2023							Total Loans
	Term Loans by Year of Origination						Revolving Loans	
	2023	2022	2021	2020	2019	Prior		
Small balance CRE								
Past Due Category								
Current	\$ 83,077	\$ 194,213	\$ 215,550	\$ 163,689	\$ 121,596	\$ 399,025	\$ 378	\$1,177,528
30-59 Days Past Due	—	—	—	—	159	400	—	559
60-89 Days Past Due	—	—	—	—	—	—	—	—
90 Days + Past Due	—	—	—	413	—	—	—	413
Total Small balance CRE	<u>\$ 83,077</u>	<u>\$ 194,213</u>	<u>\$ 215,550</u>	<u>\$ 164,102</u>	<u>\$ 121,755</u>	<u>\$ 399,425</u>	<u>\$ 378</u>	<u>\$1,178,500</u>
Current period gross charge-offs	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Small business scored								
Past Due Category								
Current	\$ 197,138	\$ 276,888	\$ 172,286	\$ 84,320	\$ 61,613	\$ 96,269	\$ 129,998	\$1,018,512
30-59 Days Past Due	16	171	1,048	52	169	287	307	2,050
60-89 Days Past Due	18	—	—	60	79	393	83	633
90 Days + Past Due	24	69	148	—	460	257	1	959
Total Small business scored	<u>\$ 197,196</u>	<u>\$ 277,128</u>	<u>\$ 173,482</u>	<u>\$ 84,432</u>	<u>\$ 62,321</u>	<u>\$ 97,206</u>	<u>\$ 130,389</u>	<u>\$1,022,154</u>
Current period gross charge-offs	<u>\$ 193</u>	<u>\$ 421</u>	<u>\$ 221</u>	<u>\$ 185</u>	<u>\$ 286</u>	<u>\$ 183</u>	<u>\$ —</u>	<u>\$ 1,489</u>
One- to four- family residential								
Past Due Category								
Current	\$ 360,797	\$ 586,167	\$ 262,414	\$ 56,436	\$ 31,275	\$ 206,247	\$ 209	\$1,503,545
30-59 Days Past Due	846	3,087	979	511	—	1,441	—	6,864
60-89 Days Past Due	—	540	510	388	151	790	—	2,379
90 Days + Past Due	1,060	700	1,582	192	633	1,091	—	5,258
Total One- to four- family residential	<u>\$ 362,703</u>	<u>\$ 590,494</u>	<u>\$ 265,485</u>	<u>\$ 57,527</u>	<u>\$ 32,059</u>	<u>\$ 209,569</u>	<u>\$ 209</u>	<u>\$1,518,046</u>
Current period gross charge-offs	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 10</u>	<u>\$ —</u>	<u>\$ 32</u>	<u>\$ —</u>	<u>\$ 42</u>

December 31, 2023

By class:	Term Loans by Year of Origination					Revolving Loans	Total Loans
	2023	2022	2021	2020	2019		
Consumer—home equity revolving lines of credit							
Past Due Category							
Current	\$ 5,003	\$ 2,594	\$ 1,564	\$ 1,200	\$ 1,177	\$ 4,678	\$ 566,249
30-59 Days Past Due	—	51	93	66	175	324	2,063
60-89 Days Past Due	—	—	98	—	50	246	445
90 Days + Past Due	—	365	178	1,043	19	966	56
Total Consumer—home equity revolving lines of credit	<u>\$ 5,003</u>	<u>\$ 3,010</u>	<u>\$ 1,933</u>	<u>\$ 2,309</u>	<u>\$ 1,421</u>	<u>\$ 6,214</u>	<u>\$ 568,813</u>
Current period gross charge-offs	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 13</u>	<u>\$ 73</u>	<u>\$ —</u>	<u>\$ 21</u>	<u>\$ (3)</u>
Consumer-other							
Past Due Category							
Current	\$ 10,756	\$ 31,836	\$ 9,961	\$ 6,906	\$ 4,441	\$ 17,920	\$ 28,207
30-59 Days Past Due	5	—	62	—	—	81	269
60-89 Days Past Due	12	—	4	2	20	6	97
90 Days + Past Due	—	58	—	28	10	—	—
Total Consumer-other	<u>\$ 10,773</u>	<u>\$ 31,894</u>	<u>\$ 10,027</u>	<u>\$ 6,936</u>	<u>\$ 4,471</u>	<u>\$ 18,007</u>	<u>\$ 28,573</u>
Current period gross charge-offs	<u>\$ —</u>	<u>\$ 55</u>	<u>\$ 79</u>	<u>\$ 37</u>	<u>\$ 39</u>	<u>\$ 159</u>	<u>\$ 889</u>

December 31, 2022

By class:	Term Loans by Year of Origination					Revolving Loans	Total Loans
	2022	2021	2020	2019	2018		
Small balance CRE							
Past Due Category							
Current	\$ 177,605	\$ 215,801	\$ 172,286	\$ 134,552	\$ 142,592	\$ 354,924	\$ 630
30-59 Days Past Due	—	—	460	—	—	1,399	—
60-89 Days Past Due	—	—	—	—	—	—	—
90 Days + Past Due	—	—	—	—	—	2	—
Total Small balance CRE	<u>\$ 177,605</u>	<u>\$ 215,801</u>	<u>\$ 172,746</u>	<u>\$ 134,552</u>	<u>\$ 142,592</u>	<u>\$ 356,325</u>	<u>\$ 630</u>
Small business scored							
Past Due Category							
Current	\$ 307,109	\$ 201,628	\$ 99,867	\$ 81,603	\$ 56,420	\$ 78,025	\$ 119,281
30-59 Days Past Due	146	518	54	262	46	280	173
60-89 Days Past Due	—	54	—	275	149	7	176
90 Days + Past Due	—	—	26	157	70	305	461
Total Small business scored	<u>\$ 307,255</u>	<u>\$ 202,200</u>	<u>\$ 99,947</u>	<u>\$ 82,297</u>	<u>\$ 56,685</u>	<u>\$ 78,617</u>	<u>\$ 120,091</u>
One- to four- family residential							
Past Due Category							
Current	\$ 555,833	\$ 279,331	\$ 59,672	\$ 34,607	\$ 37,740	\$ 191,890	\$ 1,335
30-59 Days Past Due	2,030	846	755	—	116	1,462	78
60-89 Days Past Due	1,060	—	—	—	115	1,067	—
90 Days + Past Due	—	1,819	973	712	94	1,577	—
Total One- to four- family residential	<u>\$ 558,923</u>	<u>\$ 281,996</u>	<u>\$ 61,400</u>	<u>\$ 35,319</u>	<u>\$ 38,065</u>	<u>\$ 195,996</u>	<u>\$ 1,413</u>

December 31, 2022

By class:	Term Loans by Year of Origination					Revolving Loans	Total Loans	
	2022	2021	2020	2019	2018			Prior
Consumer—home equity revolving lines of credit								
Past Due Category								
Current	\$ 7,442	\$ 1,089	\$ 329	\$ 1,355	\$ 1,611	\$ 3,788	\$ 547,068	\$ 562,682
30-59 Days Past Due	49	40	75	—	74	214	1,372	1,824
60-89 Days Past Due	—	50	—	—	49	45	59	203
90 Days + Past Due	—	14	73	476	64	675	280	1,582
Total Consumer—home equity revolving lines of credit	<u>\$ 7,491</u>	<u>\$ 1,193</u>	<u>\$ 477</u>	<u>\$ 1,831</u>	<u>\$ 1,798</u>	<u>\$ 4,722</u>	<u>\$ 548,779</u>	<u>\$ 566,291</u>
Consumer-other								
Past Due Category								
Current	\$ 39,740	\$ 12,138	\$ 9,334	\$ 5,695	\$ 5,384	\$ 16,675	\$ 25,219	\$ 114,185
30-59 Days Past Due	49	—	16	5	2	67	120	259
60-89 Days Past Due	41	9	29	24	—	13	62	178
90 Days + Past Due	—	10	—	—	—	—	—	10
Total Consumer-other	<u>\$ 39,830</u>	<u>\$ 12,157</u>	<u>\$ 9,379</u>	<u>\$ 5,724</u>	<u>\$ 5,386</u>	<u>\$ 16,755</u>	<u>\$ 25,401</u>	<u>\$ 114,632</u>

The following tables provide the amortized cost basis of collateral-dependent loans as of December 31, 2023 and December 31, 2022 (in thousands). Our collateral dependent loans presented in the tables below have no significant concentrations by property type or location.

	December 31, 2023				
	Real Estate	Accounts Receivable	Equipment	Inventory	Total
Commercial real estate:					
Owner-occupied	\$ 1,391	\$ —	\$ —	\$ —	\$ 1,391
Small balance CRE	755	—	—	—	755
One- to four-family construction	8,859	—	—	—	8,859
Commercial business	—	1,059	5,085	812	6,956
Agricultural business, including secured by farmland	2,576	—	—	—	2,576
One- to four-family residential	1,954	—	—	—	1,954
Consumer—home equity revolving lines of credit	821	—	—	—	821
Total	<u>\$ 16,356</u>	<u>\$ 1,059</u>	<u>\$ 5,085</u>	<u>\$ 812</u>	<u>\$ 23,312</u>

	December 31, 2022		
	Real Estate	Equipment	Total
Commercial real estate:			
Small balance CRE	\$ 2,953	\$ —	\$ 2,953
Commercial business			
Commercial business	—	4,537	4,537
Small business scored	—	307	307
One- to four-family residential	1,622	—	1,622
Total	<u>\$ 4,575</u>	<u>\$ 4,844</u>	<u>\$ 9,419</u>

The following tables provide additional detail on the age analysis of the Company's past due loans as of December 31, 2023 and 2022 (in thousands):

December 31, 2023

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Non-accrual with no Allowance	Total Non- accrual ⁽¹⁾	Loans 90 Days or More Past Due and Accruing
Commercial real estate:									
Owner-occupied	\$ —	\$ —	\$ —	\$ —	\$ 915,897	\$ 915,897	\$ 1,391	\$ 1,450	\$ —
Investment properties	—	—	—	—	1,541,344	1,541,344	—	—	—
Small balance CRE	559	—	413	972	1,177,528	1,178,500	755	1,227	—
Multifamily real estate	—	—	—	—	811,232	811,232	—	—	—
Construction, land and land development:									
Commercial construction	—	—	—	—	170,011	170,011	—	—	—
Multifamily construction	—	—	—	—	503,993	503,993	—	—	—
One- to four-family construction	286	—	4,201	4,487	521,945	526,432	2,852	3,105	1,096
Land and land development	1,822	553	42	2,417	334,222	336,639	—	—	42
Commercial business:									
Commercial business	1,166	5,735	1,181	8,082	1,247,652	1,255,734	789	7,346	—
Small business scored	2,050	633	959	3,642	1,018,512	1,022,154	—	1,656	1
Agricultural business, including secured by farmland	—	—	2,171	2,171	328,918	331,089	3,167	3,167	—
One- to four-family residential	6,864	2,379	5,258	14,501	1,503,545	1,518,046	1,939	5,702	1,205
Consumer:									
Consumer—home equity revolving lines of credit	2,772	839	2,627	6,238	582,465	588,703	821	3,110	391
Consumer—other	417	141	96	654	110,027	110,681	—	94	10
Total	<u>\$ 15,936</u>	<u>\$ 10,280</u>	<u>\$ 16,948</u>	<u>\$ 43,164</u>	<u>\$ 10,767,291</u>	<u>\$ 10,810,455</u>	<u>\$ 11,714</u>	<u>\$ 26,857</u>	<u>\$ 2,745</u>

December 31, 2022

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Non-accrual with no Allowance	Total Non- accrual ⁽¹⁾	Loans 90 Days or More Past Due and Accruing
Commercial real estate:									
Owner-occupied	\$ —	\$ —	\$ —	\$ —	\$ 845,320	\$ 845,320	\$ —	\$ 143	\$ —
Investment properties	—	—	—	—	1,589,975	1,589,975	—	—	—
Small balance CRE	1,859	—	2	1,861	1,198,390	1,200,251	2,927	3,540	—
Multifamily real estate	—	—	—	—	645,071	645,071	—	—	—
Construction, land and land development:									
Commercial construction	—	—	—	—	184,876	184,876	—	—	—
Multifamily construction	—	—	—	—	325,816	325,816	—	—	—
One- to four-family construction	900	—	—	900	646,429	647,329	—	—	—
Land and land development	921	—	97	1,018	327,457	328,475	—	181	—
Commercial business:									
Commercial business	2,100	4,145	649	6,894	1,276,513	1,283,407	6,998	7,356	—
Small business scored	1,479	661	1,019	3,159	943,933	947,092	303	2,530	—
Agricultural business, including secured by farmland	1,185	—	594	1,779	293,298	295,077	594	594	—
One- to four-family residential	5,287	2,242	5,175	12,704	1,160,408	1,173,112	1,569	5,236	1,023
Consumer:									
Consumer—home equity revolving lines of credit	1,824	203	1,582	3,609	562,682	566,291	—	2,124	254
Consumer—other	259	178	10	447	114,185	114,632	—	2	10
Total	<u>\$ 15,814</u>	<u>\$ 7,429</u>	<u>\$ 9,128</u>	<u>\$ 32,371</u>	<u>\$ 10,114,353</u>	<u>\$ 10,146,724</u>	<u>\$ 12,391</u>	<u>\$ 21,706</u>	<u>\$ 1,287</u>

⁽¹⁾ The Company did not recognize any interest income on non-accrual loans during both the years ended December 31, 2023 and 2022.

The following tables provide the activity in the allowance for credit losses - loans by portfolio segment for the years ended December 31, 2023, 2022 and 2021 (in thousands):

For the Year Ended December 31, 2023

	Commercial Real Estate	Multifamily Real Estate	Construction and Land	Commercial Business	Agricultural Business	One- to Four-Family Residential	Consumer	Total
Allowance for credit losses:								
Beginning balance	\$ 44,086	\$ 7,734	\$ 29,171	\$ 33,299	\$ 3,475	\$ 14,729	\$ 8,971	\$ 141,465
(Recapture)/provision for credit losses	(259)	1,592	(16)	3,532	808	4,354	1,086	11,097
Recoveries	557	—	29	1,283	146	230	543	2,788
Charge-offs	—	—	(1,089)	(2,650)	(564)	(42)	(1,362)	(5,707)
Ending balance	<u>\$ 44,384</u>	<u>\$ 9,326</u>	<u>\$ 28,095</u>	<u>\$ 35,464</u>	<u>\$ 3,865</u>	<u>\$ 19,271</u>	<u>\$ 9,238</u>	<u>\$ 149,643</u>
Net loan recoveries (charge-offs) as a percent of average outstanding loans during the period	0.01 %	— %	(0.01)%	(0.01)%	— %	— %	(0.01)%	(0.03)%

For the Year Ended December 31, 2022

	Commercial Real Estate	Multifamily Real Estate	Construction and Land	Commercial Business	Agricultural Business	One- to Four-Family Residential	Consumer	Total
Allowance for credit losses:								
Beginning balance	\$ 52,995	\$ 7,043	\$ 27,294	\$ 26,421	\$ 3,190	\$ 8,205	\$ 6,951	\$ 132,099
(Recapture)/provision for credit losses	(9,299)	691	1,523	6,654	(148)	6,343	2,394	8,158
Recoveries	392	—	384	1,923	475	181	566	3,921
Charge-offs	(2)	—	(30)	(1,699)	(42)	—	(940)	(2,713)
Ending balance	<u>\$ 44,086</u>	<u>\$ 7,734</u>	<u>\$ 29,171</u>	<u>\$ 33,299</u>	<u>\$ 3,475</u>	<u>\$ 14,729</u>	<u>\$ 8,971</u>	<u>\$ 141,465</u>
Net loan recoveries as a percent of average outstanding loans during the period	— %	— %	— %	— %	— %	— %	— %	0.01 %

For the Year Ended December 31, 2021

	Commercial Real Estate	Multifamily Real Estate	Construction and Land	Commercial Business	Agricultural Business	One- to Four-Family Residential	Consumer	Total
Allowance for credit losses:								
Beginning balance	\$ 57,791	\$ 3,893	\$ 41,295	\$ 35,007	\$ 4,914	\$ 9,913	\$ 14,466	\$ 167,279
(Recapture)/provision for loan losses	(2,758)	3,209	(14,101)	(8,621)	(1,573)	(1,907)	(7,361)	(33,112)
Recoveries	1,729	—	100	1,797	30	199	760	4,615
Charge-offs	(3,767)	(59)	—	(1,762)	(181)	—	(914)	(6,683)
Ending balance	<u>\$ 52,995</u>	<u>\$ 7,043</u>	<u>\$ 27,294</u>	<u>\$ 26,421</u>	<u>\$ 3,190</u>	<u>\$ 8,205</u>	<u>\$ 6,951</u>	<u>\$ 132,099</u>
Net loan charge-offs as a percent of average outstanding loans during the period	(0.02)%	— %	— %	— %	— %	— %	— %	(0.02)%

Note 5: PROPERTY AND EQUIPMENT, NET

Land, buildings and equipment owned by the Company and its subsidiaries at December 31, 2023 and 2022 are summarized as follows (in thousands):

	December 31	
	2023	2022
Land ⁽¹⁾	\$ 26,133	\$ 27,064
Buildings and leasehold improvements ⁽¹⁾	145,467	145,128
Furniture and equipment	137,640	129,451
	<u>309,240</u>	<u>301,643</u>
Less accumulated depreciation	(177,009)	(162,889)
Property and equipment, net	<u>\$ 132,231</u>	<u>\$ 138,754</u>

⁽¹⁾ The Company had \$1.9 million and \$4.5 million of properties held for sale that were included in land and buildings at December 31, 2023 and 2022, respectively.

The Company's depreciation expense related to property and equipment was \$17.9 million, \$16.9 million and \$17.3 million for the years ended December 31, 2023, 2022 and 2021, respectively.

Note 6: DEPOSITS

Deposits consist of the following at December 31, 2023 and 2022 (in thousands):

	December 31	
	2023	2022
Non-interest-bearing checking	\$ 4,792,369	\$ 6,176,998
Interest-bearing checking	2,098,526	1,811,153
Regular savings accounts	2,980,530	2,710,090
Money market accounts	1,680,605	2,198,288
Total interest-bearing transaction and savings accounts	<u>6,759,661</u>	<u>6,719,531</u>
Certificates of deposit:		
Certificates of deposit greater than or equal to \$250,000	473,124	178,324
Certificates of deposit less than \$250,000	1,004,343	545,206
Total certificates of deposit	<u>1,477,467</u>	<u>723,530</u>
Total deposits	<u>\$ 13,029,497</u>	<u>\$ 13,620,059</u>
Included in total deposits:		
Public fund transaction accounts	\$ 356,615	\$ 392,859
Public fund interest-bearing certificates	52,048	26,810
Total public deposits	<u>\$ 408,663</u>	<u>\$ 419,669</u>
Total brokered deposits	<u>\$ 108,058</u>	<u>\$ —</u>

Deposits at December 31, 2023 and 2022 included deposits from the Company's directors, executive officers and related entities totaling \$9.2 million and \$9.7 million, respectively.

Scheduled maturities and weighted average interest rates of certificates of deposits at December 31, 2023 are as follows (dollars in thousands):

	December 31, 2023	
	Amount	Weighted Average Rate
Maturing in one year or less	\$ 1,399,873	3.66 %
Maturing after one year through two years	49,579	2.02
Maturing after two years through three years	19,824	0.67
Maturing after three years through four years	3,574	0.35
Maturing after four years through five years	3,922	0.72
Maturing after five years	695	0.72
Total certificates of deposit	<u>\$ 1,477,467</u>	3.55 %

Note 7: ADVANCES FROM FEDERAL HOME LOAN BANK

Utilizing a blanket pledge, qualifying loans receivable at December 31, 2023 and 2022, were pledged as security for FHLB borrowings and there were no securities pledged as collateral as of December 31, 2023 or 2022. At December 31, 2023 and 2022, FHLB advances were scheduled to mature as follows (dollars in thousands):

	December 31,			
	2023		2022	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Maturing in one year or less	\$ 323,000	5.64 %	\$ 50,000	4.60 %
Total FHLB advances	<u>\$ 323,000</u>	5.64 %	<u>\$ 50,000</u>	4.60 %

The maximum amount outstanding from the FHLB advances at any month end for the years ended December 31, 2023 and 2022 was \$645.0 million and \$75.0 million, respectively. The average FHLB advances balance outstanding for the years ended December 31, 2023 and 2022 was \$196.8 million and \$15.3 million, respectively. The average contractual interest rate on the FHLB advances for the years ended December 31, 2023 and 2022 was 5.35% and 3.20%, respectively. As of December 31, 2023, the Bank has established a borrowing line with the FHLB to borrow up to 45% of its total assets, contingent on having sufficient qualifying collateral and ownership of FHLB stock. At December 31, 2023, under these credit facilities based on pledged collateral, the Bank had \$2.97 billion of available credit capacity.

Note 8: OTHER BORROWINGS

Other borrowings consist of retail and wholesale repurchase agreements, other term borrowings and Federal Reserve Bank borrowings.

Repurchase Agreements: At December 31, 2023, retail repurchase agreements carry interest rates ranging from 0.05% to 4.64%. These repurchase agreements are secured by the pledge of certain mortgage-backed and agency securities with a carrying value of \$266.6 million. The Bank has the right to pledge or sell these securities, but it must replace them with substantially the same securities. The Bank had no borrowings under wholesale repurchase agreements at December 31, 2023 or December 31, 2022.

Federal Reserve Bank of San Francisco and fed fund lines: The Bank periodically borrows funds on an overnight basis from the Federal Reserve Bank through the Borrower-In-Custody program. Such borrowings are secured by a pledge of eligible loans. At December 31, 2023, based upon available unencumbered collateral, the Bank was eligible to borrow \$1.44 billion from the Federal Reserve Bank, although, at that date, as well as at December 31, 2022, the Bank had no funds borrowed under this arrangement.

At December 31, 2023, the Bank had uncommitted federal funds lines of credit agreements with other financial institutions totaling \$125.0 million. No balances were outstanding under these agreements as of December 31, 2023 and 2022. Availability of lines is subject to federal funds balances available for loan and continued borrower eligibility. These lines are intended to support short-term liquidity needs and the agreements may restrict consecutive day usage.

A summary of all other borrowings at December 31, 2023 and 2022 by the period remaining to maturity is as follows (dollars in thousands):

	December 31,			
	2023		2022	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Repurchase agreements:				
Maturing in one year or less	\$ 182,877	2.48 %	\$ 232,799	0.35 %
Total year-end outstanding	<u>\$ 182,877</u>	2.48 %	<u>\$ 232,799</u>	0.35 %
Average outstanding	<u>\$ 199,290</u>	1.69 %	<u>\$ 249,681</u>	0.15 %
Maximum outstanding at any month-end	\$ 229,727	n/a	\$ 266,776	n/a

Note 9: SUBORDINATED DEBT AND MANDATORILY REDEEMABLE TRUST PREFERRED SECURITIES

At December 31, 2023, the Company had five wholly-owned subsidiary grantor trusts (the Trusts), which had issued \$86.5 million of Trust Preferred Securities (TPS) to third parties, as well as \$2.7 million of common capital securities, carried as other assets, which were issued to the Company. TPS and common capital securities accrue and pay distributions periodically at specified annual rates, as provided in the indentures, and based on a spread over SOFR (Secured Overnight Financing Rate). The Trusts used the proceeds from the offerings to purchase a like amount of junior subordinated debentures (the Debentures) of the Company. The Debentures are the sole assets of the Trusts. The Company's obligations under the debentures and related documents, taken together, constitute a full and unconditional guarantee by the Company of the obligations of the Trusts. The TPS are mandatorily redeemable upon the maturity of the Debentures, or upon earlier redemption as provided in the indentures. The Company has the right to redeem the Debentures in whole on or after specific dates, at a redemption price specified in the indentures plus any accrued but unpaid interest to the redemption date. During the year ended December 31, 2023, no debentures were redeemed. The Company redeemed \$50.5 million in TPS resulting in a loss of \$793,000 during the year ended December 31, 2022. At December 31, 2023, the remaining Trusts comprised \$86.5 million, or 4.5% of the Company's total risk-based capital.

The following table is a summary of TPS at December 31, 2023 (dollars in thousands):

Name of Trust	Aggregate Liquidation Amount of Trust Preferred Securities	Aggregate Liquidation Amount of Common Capital Securities	Aggregate Principal Amount of Junior Subordinated Debentures	Stated Maturity ⁽¹⁾	Current Interest Rate	Reset Period	Interest Rate Spread ⁽³⁾
Banner Capital Trust V	\$ 25,000	\$ 774	\$ 25,774	2035	7.21	Quarterly	Three-month SOFR + 1.83%
Banner Capital Trust VI	25,000	774	25,774	2037	7.26	Quarterly	Three-month SOFR + 1.88%
Banner Capital Trust VII	25,000	774	25,774	2037	7.04	Quarterly	Three-month SOFR + 1.64%
Greater Sacramento Bancorp Statutory Trust II	4,000	124	4,124	2035	7.33	Quarterly	Three-month SOFR + 1.94%
Mission Oaks Statutory Trust I	7,500	232	7,732	2036	7.30	Quarterly	Three-month SOFR + 1.91%
Total TPS liability at par	<u>\$ 86,500</u>	<u>\$ 2,678</u>	89,178		7.19 %		
Fair value adjustment ⁽²⁾			(22,765)				
Total TPS liability at fair value ⁽²⁾			<u>\$ 66,413</u>				

⁽¹⁾ All of the Company's TPS are eligible for redemption.

⁽²⁾ The Company has elected to use fair value accounting on its TPS.

⁽³⁾ The interest rate spread includes a 0.26% upward adjustment for the transition from LIBOR to SOFR.

On June 30, 2020, Banner issued and sold in an underwritten offering \$100.0 million aggregate principal amount of 5.00% Fixed-to-Floating Rate Subordinated Notes due 2030 (Notes) at a public offering price equal to 100% of the aggregate principal amount of the Notes, resulting in net proceeds, after underwriting discounts and estimated offering expenses, of approximately \$98.1 million. The interest rate on the Notes remains fixed equal to 5.00% for the first 5 years, after 5 years the interest rate changes to a floating interest rate tied to a benchmark rate, which is expected to be Three-Month Term SOFR, plus a spread of 489 basis points. The Notes will mature on June 30, 2030. On or after June 30, 2025, the Company may redeem the Notes, in whole or in part. During 2023, the Bank purchased a portion of these notes as an available-for-sale investment, which are eliminated upon consolidation.

The Notes are unsecured obligations and are subordinated in right of payment to all existing and future indebtedness, deposits and other liabilities of the Company's current and future subsidiaries, including the Bank's deposits as well as the Company's subsidiaries' liabilities to general creditors and liabilities arising during the ordinary course of business. The Notes are included in Tier 2 capital for the Company under current regulatory guidelines and interpretations.

Note 10: INCOME TAXES

The following table presents the components of the provision for income taxes included in the Consolidated Statements of Operations for the years ended December 31, 2023, 2022 and 2021 (in thousands):

	Years Ended December 31		
	2023	2022	2021
Current			
Federal	\$ 28,805	\$ 26,653	\$ 20,461
State	6,296	5,882	4,359
Total Current	<u>35,101</u>	<u>32,535</u>	<u>24,820</u>
Deferred			
Federal	7,698	11,595	18,278
State	664	1,267	2,448
Total Deferred	<u>8,362</u>	<u>12,862</u>	<u>20,726</u>
Provision for income taxes	<u>\$ 43,463</u>	<u>\$ 45,397</u>	<u>\$ 45,546</u>

The following table presents the reconciliation of the federal statutory rate to the actual effective rate for the years ended December 31, 2023, 2022 and 2021:

	Years Ended December 31		
	2023	2022	2021
Federal income tax statutory rate	21.0 %	21.0 %	21.0 %
Increase (decrease) in tax rate due to:			
Tax-exempt interest	(3.6)	(3.6)	(3.0)
Investment in life insurance	(0.9)	(0.7)	(0.4)
State income taxes, net of federal tax offset	2.6	2.3	2.2
Tax credits	(2.7)	(1.9)	(1.5)
Low income housing partnerships, net of amortization	2.0	1.3	1.1
Other	0.7	0.5	(0.9)
Effective income tax rate	<u>19.1 %</u>	<u>18.9 %</u>	<u>18.5 %</u>

The following table reflects the effect of temporary differences that gave rise to the components of the net deferred tax asset as of December 31, 2023 and 2022 (in thousands):

	December 31	
	2023	2022
Deferred tax assets:		
Loan loss and REO	\$ 39,495	\$ 37,615
Deferred compensation	21,470	22,033
Net operating loss carryforward	12,967	15,470
Federal and state tax credits	758	1,545
State net operating losses	3,978	4,558
Loan discount	625	1,104
Lease liability	11,547	12,997
Unrealized loss on securities - available-for-sale, net	91,455	114,708
Other	4,222	4,782
Total deferred tax assets	<u>186,517</u>	<u>214,812</u>
Deferred tax liabilities:		
Depreciation	(5,428)	(6,458)
Deferred loan fees, servicing rights and loan origination costs	(13,008)	(13,331)
Intangibles	(3,313)	(3,929)
Right of use asset	(10,378)	(11,603)
Financial instruments accounted for under fair value accounting	(841)	(1,176)
Total deferred tax liabilities	<u>(32,968)</u>	<u>(36,497)</u>
Deferred income tax asset	153,549	178,315
Valuation allowance	(184)	(184)
Deferred tax asset, net	<u>\$ 153,365</u>	<u>\$ 178,131</u>

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recognized or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income tax expense in the period of enactment.

At December 31, 2023, the Company had federal net operating loss carryforwards of approximately \$61.7 million. The Company also has \$56.8 million of state net operating loss carryforwards, against which the Company has established a \$184,000 valuation reserve. The federal and state net operating losses will expire, if unused, by the end of 2034. The Company has federal general business credit carryforwards at December 31, 2023 of \$219,000, which will expire, if unused, by the end of 2031. The Company also has federal alternative minimum tax credit carryforwards of \$538,000, which are available to reduce future federal regular income taxes, if any, over an indefinite period. At December 31, 2022, the Company had federal and state net operating loss carryforwards of approximately \$73.7 million and \$64.6 million, respectively, and federal general business credits carryforwards of \$219,000. At that same date, the Company also had federal alternative minimum tax credit carryforwards of approximately \$1.2 million. The Company had \$100,000 of state credits at December 31, 2022, which were reversed in 2023.

As a consequence of the Company's 2015 acquisition of Starbuck Bancshares, Inc., the Company experienced a change in control within the meaning of Section 382 of the Code. In addition, the underlying Section 382 limitations at Starbuck Bancshares, Inc.'s level continue to apply to the Company. Section 382 limits the ability of a corporate taxpayer to use net operating loss carryforwards, general business credits, and recognized built-in-losses, on an annual basis, incurred prior to the change in control against income earned after the change in control. As a result of the Section 382 limitations, the Company is limited to utilizing \$21.5 million on an annual basis (after the application of the Section 382 limitations carried over from Starbuck Bancshares, Inc.) of federal net operating loss carryforwards, general business credits, and recognized built-in losses. The applicable state Section 382 limitations range from \$575,000 to \$21.5 million. In 2017, the Company established a \$184,000 valuation reserve against the portion of its various state net operating loss carryforwards and tax credits that it believed it is more likely than not that it would not realize the benefit because the application of the Section 382 limitations at the state level is based on future apportionment rates.

As a consequence of Banner's capital raise in June 2010, the Company experienced a change in control within the meaning of Section 382 of the Code. As a result of the Section 382 limitations, the Company is limited to utilizing \$6.9 million of net operating loss carryforwards which existed prior to the acquisition of Starbuck Bancshares, Inc., on an annual basis. Based on its analysis, the Company believes it is more likely than not that the June 2010 change in control will not impact its ability to utilize all of the related available net operating loss carryforwards, general business credits, and recognized built-in-losses. As of December 31, 2023, the Company had utilized all federal net operating losses and credits limited due to the June 2010 change in control. Certain state net operating losses subject to the change of control limitations are still outstanding.

As a consequence of the Company's 2019 acquisition of AltaPacific and AltaPacific Bank, the Company did not experience a change in control within the meaning of Section 382 of the Code. However, the underlying Section 382 limitations at AltaPacific and AltaPacific Bank continue to apply to the Company. As a result of the Section 382 limitations, the Company is limited to utilizing \$110,000 of the federal net operating loss carryovers and general business credits acquired from AltaPacific and AltaPacific Bank based on underlying limits carried over. Based on its analysis, the Company believes it is more likely than not that the Section 382 limitations will not impact its ability to utilize all of the related available net operating loss carryforwards and general business credits.

Retained earnings at December 31, 2023 and 2022 included approximately \$5.4 million in tax basis bad debt reserves for which no income tax liability has been recorded. In the future, if this tax bad debt reserve is used for purposes other than to absorb bad debts or the Company no longer qualifies as a bank or is completely liquidated, the Company will incur a federal tax liability at the then-prevailing corporate tax rate, established as \$1.1 million at December 31, 2023.

A reconciliation of the beginning and ending amount of total unrecognized state tax benefits for the years ended December 31, 2023 and 2022 is as follows (in thousands):

	Years Ended December 31	
	2023	2022
Balance, beginning of year	\$ 1,600	\$ 1,000
Changes related to prior year tax positions	149	415
Changes related to current year tax positions	251	185
Balance, end of year	<u>\$ 2,000</u>	<u>\$ 1,600</u>

None of the unrecognized tax benefits, if recognized, would materially affect the effective tax rate. The Company does not anticipate that the amount of unrecognized tax benefits will significantly increase or decrease in the next twelve months. The Company's policy is to recognize interest and penalties on unrecognized tax benefits in income tax expense. The amount of interest and penalties accrued for the years ended December 31, 2023, 2022 and 2021 is immaterial. The Company files consolidated income tax returns in Oregon, California, Utah, Montana and Idaho and for federal purposes. The Company is no longer subject to tax examination for tax years before 2019.

Tax credit investments: The Company invests in low income housing tax credit funds that are designed to generate a return primarily through the realization of federal tax credits. The Company accounts for these investments by amortizing the cost of tax credit investments over the life of the investment using a proportional amortization method and tax credit investment amortization expense is a component of the provision for income taxes.

The following table presents the balances of the Company's tax credit investments and related unfunded commitments at December 31, 2023 and 2022 (in thousands):

	December 31, 2023	December 31, 2022
Tax credit investments	\$ 103,453	\$ 71,430
Unfunded commitments—tax credit investments	62,594	44,563

The following table presents other information related to the Company's tax credit investments for the years ended December 31, 2023, 2022 and 2021 (in thousands):

	For the years ended December 31,		
	2023	2022	2021
Tax credits and other tax benefits recognized	\$ 8,018	\$ 5,621	\$ 4,390
Tax credit amortization expense included in provision for income taxes	6,449	4,638	3,816

Note 11: EMPLOYEE BENEFIT PLANS

Employee Retirement Plans: Substantially all Company and Bank employees are eligible to participate in its 401(k)/Profit Sharing Plan, a defined contribution and profit sharing plan sponsored by the Company. Employees may elect to have a portion of their salary contributed to the plan in conformity with Section 401(k) of the Internal Revenue Code. At the discretion of the Company's Board of Directors, the Company may elect to make matching and/or profit-sharing contributions for the employees' benefit. For the years ended December 31, 2023, 2022 and 2021, \$6.7 million, \$6.9 million and \$6.5 million, respectively, was expensed for the Company's 401(k) contributions. During 2023, the Board of Directors elected to make a matching contribution of 4% of eligible compensation.

Supplemental Retirement and Salary Continuation Plans: Through the Bank, the Company is obligated under various non-qualified deferred compensation plans to help supplement the retirement income of certain executives, including certain retired executives, selected by resolution of the Bank's Boards of Directors or in certain cases by the former directors of acquired banks. These plans are unfunded, include both defined benefit and defined contribution plans, and provide for payments after the executive's retirement. In the event of a participant employee's death prior to or during retirement, the Company is obligated to pay to the designated beneficiary the benefits set forth under the plan. For the years ended December 31, 2023, 2022 and 2021, expense recorded for supplemental retirement and salary continuation plan benefits totaled \$2.5 million, \$2.0 million, and \$3.3 million, respectively. At December 31, 2023 and 2022, liabilities recorded for the various supplemental retirement and salary continuation plan benefits totaled \$36.1 million and \$37.1 million, respectively, and are recorded in a deferred compensation liability account.

Deferred Compensation Plans and Rabbi Trusts: The Company and the Bank also offer non-qualified deferred compensation plans to members of their Boards of Directors and certain employees. The plans permit each participant to defer a portion of director fees, non-qualified retirement contributions, salary or bonuses for future receipt. Compensation is charged to expense in the period earned. In connection with its acquisitions, the Company also assumed liability for certain deferred compensation plans for key employees, retired employees and directors.

In order to fund the plans' future obligations, the Company has purchased life insurance policies or other investments, including Banner common stock, which in certain instances are held in irrevocable trusts commonly referred to as "Rabbi Trusts." As the Company is the owner of the investments and the beneficiary of the insurance policies, and in order to reflect the Company's policy to pay benefits equal to the accumulations, the assets and liabilities are reflected in the Consolidated Statements of Financial Condition. Banner common stock held for such plans is reported as a contra-equity account and was recorded at an original cost of \$6.6 million at December 31, 2023 and \$6.9 million at December 31, 2022. At December 31, 2023 and 2022, liabilities recorded in connection with deferred compensation plan benefits totaled \$15.8 million (\$6.6 million in contra-equity) and \$14.5 million (\$6.9 million in contra-equity), respectively, and are recorded in deferred compensation or equity as appropriate.

The Bank has purchased, or acquired through mergers, life insurance policies in connection with the implementation of certain executive supplemental retirement, salary continuation and deferred compensation retirement plans, as well as additional policies not related to any specific plan. These policies provide protection against the adverse financial effects that could result from the death of a key employee and provide tax-exempt income to offset expenses associated with the plans. It is the Bank's intent to hold these policies as a long-term investment. However, there will be an income tax impact if the Bank chooses to surrender certain policies. Although the lives of individual current or former management-level employees are insured, the Bank is the owner and sole or partial beneficiary. At December 31, 2023 and 2022, the cash surrender value of these policies was \$304.4 million and \$297.6 million, respectively. The Bank is exposed to credit risk to the extent an insurance company is unable to fulfill its financial obligations under a policy. In order to mitigate this risk, the Bank uses a variety of insurance companies and regularly monitors their financial condition.

Note 12: STOCK-BASED COMPENSATION PLANS

The Company operates the following stock-based compensation plans as approved by its shareholders:

- 2014 Omnibus Incentive Plan (the 2014 Plan).
- 2018 Omnibus Incentive Plan (the 2018 Plan).
- 2023 Omnibus Incentive Plan (the 2023 Plan).

The purpose of these plans is to promote the success and enhance the value of the Company by providing a means for attracting and retaining highly skilled employees, officers and directors of Banner and its affiliates and linking their personal interests with those of the Company's shareholders. Under these plans, the Company currently has outstanding restricted stock share grants and restricted stock unit grants.

2014 Omnibus Incentive Plan

The 2014 Plan was approved by shareholders on April 22, 2014. The 2014 Plan provides for the grant of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units, other stock-based awards and other cash awards, and provides for vesting requirements which may include time-based or performance-based conditions. The Company reserved 900,000 shares of its common stock for issuance under the 2014 Plan in connection with the exercise of awards. As of December 31, 2023, 277,304 restricted stock shares and 442,886 restricted stock units have been granted under the 2014 Plan of which 4,809 restricted stock shares and 20,858 restricted stock units are unvested.

2018 Omnibus Incentive Plan

The 2018 Plan was approved by shareholders on April 24, 2018. The 2018 Plan provides for the grant of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units, other stock-based awards and other cash awards, and provides for vesting requirements which may include time-based or performance-based conditions. The Company reserved 900,000 shares of common stock for issuance under the 2018 Plan in connection with the exercise of awards. As of December 31, 2023, 730,671 restricted stock units have been granted under the 2018 Plan of which 331,913 restricted stock units are unvested.

2023 Omnibus Incentive Plan

The 2023 Plan was approved by shareholders on May 24, 2023. The 2023 Plan provides for the grant of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units, other stock-based awards and other cash awards, and provides for vesting requirements which may include time-based or performance-based conditions. The Company reserved 625,000 shares of common stock for issuance under the 2023 Plan in connection with the exercise of awards. As of December 31, 2023, no shares had been granted under the 2023 Plan.

The expense associated with all restricted stock and unit grants was \$9.2 million, \$8.9 million and \$9.3 million for the years ended December 31, 2023, 2022 and 2021, respectively. Unrecognized compensation expense for these awards as of December 31, 2023 was \$11.8 million and will be recognized over a weighted average period of 11 months.

A summary of the Company's Restricted Stock/Unit award activity during the years ended December 31, 2023, 2022 and 2021 follows:

	Shares/Units	Weighted Average Grant-Date Fair Value
Unvested at January 1, 2020	578,136	\$ 40.76
Granted (181,309 non-voting)	183,548	55.52
Vested	(232,267)	45.37
Forfeited	(53,195)	45.95
Unvested at December 31, 2021	476,222	43.62
Granted (138,022 non-voting)	139,574	58.87
Vested	(193,082)	45.30
Forfeited	(39,987)	47.63
Unvested at December 31, 2022	382,727	49.98
Granted (203,464 non-voting)	208,273	53.64
Vested	(217,262)	42.87
Forfeited	(16,158)	55.43
Unvested at December 31, 2023	<u>357,580</u>	55.44

Note 13: REGULATORY CAPITAL REQUIREMENTS

Banner is a bank holding company registered with the Federal Reserve. Bank holding companies are subject to capital adequacy requirements of the Federal Reserve under the Bank Holding Company Act of 1956, as amended, and the regulations of the Federal Reserve. Banner Bank, as a state-chartered federally insured commercial bank, is subject to the capital requirements established by the FDIC. The Federal Reserve requires Banner to maintain capital adequacy that generally parallels the FDIC requirements.

The following table shows the regulatory capital ratios of the Company and the Bank and the minimum regulatory requirements (dollars in thousands):

	Actual		Minimum for Capital Adequacy Purposes		Minimum to be Categorized as “Well Capitalized” Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2023:						
Banner Corporation—consolidated:						
Total capital to risk-weighted assets	\$ 1,904,533	14.58 %	\$ 1,045,181	8.00 %	\$ 1,306,476	10.00 %
Tier 1 capital to risk-weighted assets	1,650,872	12.64	783,886	6.00	783,886	6.00
Tier 1 capital to average leverage assets	1,650,872	10.56	625,387	4.00	n/a	n/a
Tier 1 common equity to risk-weighted assets	1,564,372	11.97	587,914	4.50	n/a	n/a
Banner Bank:						
Total capital to risk-weighted assets	1,789,371	13.69	1,045,273	8.00	1,306,592	10.00
Tier 1 capital to risk-weighted assets	1,635,710	12.52	783,955	6.00	1,045,273	8.00
Tier 1 capital to average leverage assets	1,635,710	10.46	625,298	4.00	781,622	5.00
Tier 1 common equity to risk-weighted assets	1,635,710	12.52	587,966	4.50	849,285	6.50
December 31, 2022:						
Banner Corporation—consolidated:						
Total capital to risk-weighted assets	\$ 1,769,064	14.04 %	\$ 1,008,232	8.00 %	\$ 1,260,290	10.00 %
Tier 1 capital to risk-weighted assets	1,528,694	12.13	756,174	6.00	756,174	6.00
Tier 1 capital to average leverage assets	1,528,694	9.45	647,345	4.00	n/a	n/a
Tier 1 common equity to risk-weighted assets	1,442,194	11.44	567,130	4.50	n/a	n/a
Banner Bank:						
Total capital to risk-weighted assets	1,684,766	13.38	1,007,325	8.00	1,259,156	10.00
Tier 1 capital to risk-weighted assets	1,544,396	12.27	755,494	6.00	1,007,325	8.00
Tier 1 capital to average leverage assets	1,544,396	9.55	646,935	4.00	808,668	5.00
Tier 1 common equity to risk-weighted assets	1,544,396	12.27	566,620	4.50	818,452	6.50

At December 31, 2023, Banner and the Bank each exceeded the requirements to be “well capitalized” and the fully phased-in capital conservation buffer requirement. There have been no conditions or events since December 31, 2023 that have materially adversely changed the Tier 1 or Tier 2 capital of the Company or the Bank. However, events beyond the control of the Bank, such as weak or depressed economic conditions in areas where the Bank has most of its loans, could adversely affect future earnings and, consequently, the ability of the Bank to meet its respective capital requirements. The Company may not declare or pay cash dividends on, or repurchase, any of its shares of common stock if the effect thereof would cause equity to be reduced below applicable regulatory capital maintenance requirements or if such declaration and payment would otherwise violate regulatory requirements.

Note 14: GOODWILL, OTHER INTANGIBLE ASSETS AND MORTGAGE SERVICING RIGHTS

Goodwill and Other Intangible Assets: At December 31, 2023, intangible assets are comprised of goodwill and CDI acquired in business combinations. Goodwill is not amortized but is reviewed at least annually for impairment. Banner has identified one reporting unit for purposes of evaluating goodwill for impairment. At December 31, 2023, the Company completed an assessment of qualitative factors and concluded that no further analysis was required as it is more likely than not that the fair value of the Bank, the reporting unit, exceeds the carrying value.

CDI represents the value of transaction-related deposits and the value of the client relationships associated with the deposits. The Company amortizes CDI assets over their estimated useful lives and reviews them at least annually for events or circumstances that could impair their value. The CDI assets shown in the table below represent the value ascribed to the long-term deposit relationships acquired in various bank acquisitions.

The following table summarizes the changes in the Company's goodwill and other intangibles for the years ended December 31, 2023, 2022 and 2021 (in thousands):

	Goodwill	CDI	Total
Balance, January 1, 2021	\$ 373,121	\$ 21,426	\$ 394,547
Amortization	—	(6,571)	(6,571)
Balance, December 31, 2021	373,121	14,855	387,976
Amortization	—	(5,279)	(5,279)
Other Changes ⁽¹⁾	—	(136)	(136)
Balance, December 31, 2022	373,121	9,440	382,561
Amortization	—	(3,756)	(3,756)
Balance, December 31, 2023	\$ 373,121	\$ 5,684	\$ 378,805

⁽¹⁾ Acquired CDI was adjusted for the sale of branches in 2022.

Estimated amortization expense with respect to CDI as of December 31, 2023 for the periods indicated (in thousands):

Year ended:	Estimated Amortization
2024	\$ 2,626
2025	1,567
2026	904
2027	426
2028	126
Thereafter	35
Net carrying amount	<u>\$ 5,684</u>

Mortgage Servicing Rights: Mortgage and SBA servicing rights are reported in other assets. SBA servicing rights are initially recorded and carried at fair value. Mortgage servicing rights are initially recognized at fair value and are amortized in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Mortgage servicing rights are subsequently evaluated for impairment based upon the fair value of the rights compared to the amortized cost (remaining unamortized initial fair value). If the fair value is less than the amortized cost, a valuation allowance is created through an impairment charge to servicing fee income. However, if the fair value is greater than the amortized cost, the amount above the amortized cost is not recognized in the carrying value. In 2023, 2022 and 2021, the Company did not record any impairment charges or recoveries against mortgage servicing rights. Unpaid principal balance of loans for which mortgage and SBA servicing rights have been recognized totaled \$2.78 billion and \$2.77 billion at December 31, 2023 and 2022, respectively. Custodial accounts maintained in connection with this servicing totaled \$11.6 million and \$11.2 million at December 31, 2023 and 2022, respectively.

An analysis of the mortgage and SBA servicing rights for the years ended December 31, 2023, 2022 and 2021 is presented below (in thousands):

	Years Ended December 31		
	2023	2022	2021
Balance, beginning of the year	\$ 16,166	\$ 17,206	\$ 15,223
Additions—amounts capitalized	1,590	3,200	7,260
Additions—through purchase	313	285	159
Amortization ⁽¹⁾	(3,325)	(4,216)	(6,580)
Fair value adjustments ⁽³⁾	(95)	(309)	1,144
Balance, end of the year ⁽²⁾	<u>\$ 14,649</u>	<u>\$ 16,166</u>	<u>\$ 17,206</u>

⁽¹⁾ Amortization of mortgage servicing rights is recorded as a reduction of loan servicing income within mortgage banking operations and any unamortized balance is fully amortized if the loan repays in full.

⁽²⁾ There was no valuation allowance on mortgage servicing rights as of both December 31, 2023 and 2022.

⁽³⁾ Fair value adjustments relate to SBA servicing rights. These adjustments are estimated based on an independent dealer analysis by discounting estimated net future cash flows from servicing SBA loans.

Note 15: FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents estimated fair values of the Company's financial instruments as of December 31, 2023 and 2022, whether or not recognized or recorded in the Consolidated Statements of Financial Condition (in thousands):

	December 31, 2023		December 31, 2022		
	Level	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Assets:					
Cash and cash equivalents	1	\$ 254,464	\$ 254,464	\$ 243,062	\$ 243,062
Securities—trading	3	—	—	28,694	28,694
Securities—available-for-sale	2	2,348,479	2,348,479	2,789,031	2,789,031
Securities—available-for-sale	3	25,304	25,304	—	—
Securities—held-to-maturity	2	1,052,028	900,522	1,109,319	933,513
Securities—held-to-maturity	3	7,027	6,992	8,648	8,667
Securities purchased under agreements to resell	2	—	—	300,000	300,000
Loans held for sale	2	11,170	11,219	56,857	56,948
Loans receivable, net	3	10,660,812	10,250,271	10,005,259	9,810,965
Equity securities	1	449	449	553	553
FHLB stock	3	24,028	24,028	12,000	12,000
Bank-owned life insurance	1	304,366	304,366	297,565	297,565
Mortgage servicing rights	3	13,909	35,794	15,331	35,148
SBA servicing rights	3	740	740	835	835
Investments in limited partnerships	3	13,475	13,475	12,427	12,427
Derivatives:					
Interest rate swaps	2	15,129	15,129	19,339	19,339
Interest rate lock and forward sales commitments	2,3	275	275	142	142
Liabilities:					
Demand, interest checking and money market accounts	2	8,571,500	8,571,500	10,186,439	10,186,439
Regular savings	2	2,980,530	2,980,530	2,710,090	2,710,090
Certificates of deposit	2	1,477,467	1,465,612	723,530	702,581
FHLB advances	2	323,000	323,000	50,000	50,000
Other borrowings	2	182,877	182,877	232,799	232,799
Subordinated notes, net	2	92,851	85,536	98,947	96,718
Junior subordinated debentures	3	66,413	66,413	74,857	74,857
Derivatives:					
Interest rate swaps	2	29,809	29,809	37,150	37,150
Interest rate lock and forward sales commitments	2,3	185	185	118	118
Risk participation agreement	2	42	42	67	67

The Company measures and discloses certain assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (that is, not a forced liquidation or distressed sale). When measuring fair value, Management will maximize the use of observable inputs and minimize the use of unobservable inputs whenever possible. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's estimates for market assumptions.

The estimated fair value amounts of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize at a future date. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. In addition, reasonable comparability between financial institutions may not be likely due to the wide range of permitted valuation techniques and numerous estimates that must be made given the absence of active secondary markets for many of the financial instruments. This lack of uniform valuation methodologies also introduces a greater degree of subjectivity to these estimated fair values.

Items Measured at Fair Value on a Recurring Basis:

The following tables present financial assets and liabilities measured at fair value on a recurring basis and the level within the fair value hierarchy of the fair value measurements for those assets and liabilities as of December 31, 2023 and 2022 (in thousands):

	December 31, 2023			
	Level 1	Level 2	Level 3	Total
Assets:				
Securities—available-for-sale				
U.S. Government and agency obligations	\$ —	\$ 34,189	\$ —	\$ 34,189
Municipal bonds	—	132,905	—	132,905
Corporate bonds	—	93,819	25,304	119,123
Mortgage-backed or related securities	—	1,866,714	—	1,866,714
Asset-backed securities	—	220,852	—	220,852
	<u>—</u>	<u>2,348,479</u>	<u>25,304</u>	<u>2,373,783</u>
Loans held for sale ⁽¹⁾	—	9,105	—	9,105
Equity securities	449	—	—	449
SBA servicing rights	—	—	740	740
Investment in limited partnerships	—	—	13,475	13,475
Derivatives				
Interest rate swaps	—	15,129	—	15,129
Interest rate lock and forward sales commitments	—	—	275	275
	<u>\$ 449</u>	<u>\$ 2,372,713</u>	<u>\$ 39,794</u>	<u>\$ 2,412,956</u>
Liabilities:				
Junior subordinated debentures	\$ —	\$ —	\$ 66,413	\$ 66,413
Derivatives				
Interest rate swaps	—	29,809	—	29,809
Interest rate lock and forward sales commitments	—	161	24	185
Risk participation agreement	—	42	—	42
	<u>\$ —</u>	<u>\$ 30,012</u>	<u>\$ 66,437</u>	<u>\$ 96,449</u>

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
Assets:				
Securities—trading				
Corporate bonds (TPS securities)	\$ —	\$ —	\$ 28,694	\$ 28,694
Securities—available-for-sale				
U.S. Government and agency obligations	—	55,108	—	55,108
Municipal bonds	—	261,209	—	261,209
Corporate bonds	—	121,853	—	121,853
Mortgage-backed or related securities	—	2,139,336	—	2,139,336
Asset-backed securities	—	211,525	—	211,525
	—	2,789,031	—	2,789,031
Loans held for sale ⁽¹⁾	—	2,305	—	2,305
Equity securities	553	—	—	553
SBA servicing rights	—	—	835	835
Investment in limited partnerships	—	—	12,427	12,427
Derivatives				
Interest rate swaps	—	19,339	—	19,339
Interest rate lock and forward sales commitments	—	61	81	142
	<u>\$ 553</u>	<u>\$ 2,810,736</u>	<u>\$ 42,037</u>	<u>\$ 2,853,326</u>
Liabilities				
Junior subordinated debentures	\$ —	\$ —	\$ 74,857	\$ 74,857
Derivatives				
Interest rate swaps	—	37,150	—	37,150
Interest rate lock and forward sales commitments	—	76	42	118
Risk participation agreement	—	67	—	67
	<u>\$ —</u>	<u>\$ 37,293</u>	<u>\$ 74,899</u>	<u>\$ 112,192</u>

⁽¹⁾ The unpaid principal balance of residential mortgage loans held for sale carried at fair value on a recurring basis was \$8.8 million and \$2.2 million at December 31, 2023 and 2022, respectively.

The following methods were used to estimate the fair value of each class of financial instruments above:

Securities: The estimated fair values of investment securities and mortgage-backed securities are priced using current active market quotes, if available, which are considered Level 1 measurements. For most of the portfolio, matrix pricing based on the securities' relationship to other benchmark quoted prices is used to establish the fair value. These measurements are considered Level 2. Due to the continued limited activity in the trust preferred markets that have limited the observability of market spreads for some of the Company's TPS securities, Management has classified these securities as a Level 3 fair value measure. Management periodically reviews the pricing information received from third-party pricing services and tests those prices against other sources to validate the reported fair values.

Loans Held for Sale: Fair values for residential mortgage loans held for sale are determined by comparing actual loan rates to current secondary market prices for similar loans.

Equity Securities: Equity securities are invested in a publicly traded stock. The fair value of these securities is based on daily quoted market prices.

SBA Servicing Rights: Fair values are estimated based on an independent dealer analysis by discounting estimated net future cash flows from servicing. The evaluation utilizes assumptions market participants would use in determining fair value including prepayment speeds, delinquency and foreclosure rates, the discount rate, servicing costs, and the timing of cash flows. The SBA servicing portfolio is stratified by loan type and fair value estimates are adjusted up or down based on the serviced loan interest rates versus current rates on new loan originations since the most recent independent analysis.

Junior Subordinated Debentures: The fair value of junior subordinated debentures is estimated using an income approach technique. The significant inputs included in the estimation of fair value are the credit risk adjusted spread and three month SOFR. The credit risk adjusted spread represents the nonperformance risk of the liability. The Company utilizes an external valuation firm to validate the reasonableness of the credit risk adjusted spread used to determine the fair value. The junior subordinated debentures are carried at fair value which represents the estimated amount that would be paid to transfer these liabilities in an orderly transaction amongst market participants. Due to inactivity in the trust preferred markets that have limited the observability of market spreads, Management has classified this as a Level 3 fair value measurement.

Derivatives: Derivatives include interest rate swap agreements, interest rate lock commitments to originate loans held for sale, forward sales contracts to sell loans and securities related to mortgage banking activities and risk participation agreements. Fair values for these instruments, which generally change as a result of changes in the level of market interest rates, are estimated based on dealer quotes and secondary market sources. As the interest rate lock commitments use a pull-through rate that is considered an unobservable input, these derivatives are classified as a level 3 fair value measurement.

Off-Balance Sheet Items: Off-balance sheet financial instruments include unfunded commitments to extend credit, including standby letters of credit, and commitments to purchase investment securities. The fair value of these instruments is not considered to be material.

Limitations: The fair value estimates presented herein are based on pertinent information available to Management as of December 31, 2023 and 2022. The factors used in the fair value estimates are subject to change subsequent to the dates the fair value estimates are completed; therefore, current estimates of fair value may differ significantly from the amounts presented herein.

Assets and Liabilities Measured at Fair Value Using Significant Unobservable Inputs (Level 3):

The following table provides a description of the valuation technique, unobservable inputs and quantitative and qualitative information about the unobservable inputs for the Company's assets and liabilities classified as Level 3 and measured at fair value on a recurring and non-recurring basis at December 31, 2023 and 2022:

Financial Instruments	Valuation Technique	Unobservable Inputs	December 31	
			2023	2022
			Weighted Average Rate	Weighted Average Rate
Corporate bonds (TPS)	Discounted cash flows	Discount rate	10.84 %	8.27 %
Junior subordinated debentures	Discounted cash flows	Discount rate	10.84 %	8.27 %
Loans individually evaluated	Collateral valuations	Discount to appraised value	8.75% to 25%	n/a
REO	Appraisals	Discount to appraised value	59.71 %	68.35 %
Interest rate lock commitments	Pricing model	Pull-through rate	88.24 %	78.65 %
SBA servicing rights	Discounted cash flows	Constant prepayment rate	16.92 %	14.10 %

TPS: Management believes that the credit risk-adjusted spread used to develop the discount rate utilized in the fair value measurement of TPS is indicative of the risk premium a willing market participant would require under current market conditions for instruments with similar contractual rates and terms and conditions and issuers with similar credit risk profiles and with similar expected probability of default. Management attributes the change in fair value of these instruments, compared to their par value, primarily to perceived general market adjustments to the risk premiums for these types of assets subsequent to their issuance.

Junior subordinated debentures: Similar to the TPS discussed above, Management believes the credit risk-adjusted spread utilized in the fair value measurement of the junior subordinated debentures is indicative of the risk premium a willing market participant would require under current market conditions for an issuer with Banner's credit risk profile. Management attributes the change in fair value of the junior subordinated debentures, compared to their par value, primarily to perceived general market adjustments to the risk premiums for these types of liabilities subsequent to their issuance. Future contractions in the risk-adjusted spread relative to the spread currently utilized to measure the Company's junior subordinated debentures at fair value as of December 31, 2023, or the passage of time, will result in negative fair value adjustments. At December 31, 2023, the discount rate utilized was based on a credit spread of 551 basis points and three month SOFR of 533 basis points.

Interest rate lock commitments: The fair value of the interest rate lock commitments is based on secondary market sources adjusted for an estimated pull-through rate. The pull-through rate is based on historical loan closing rates for similar interest rate lock commitments. An increase or decrease in the pull-through rate would have a corresponding, positive or negative fair value adjustment.

SBA servicing asset: The constant prepayment rate (CPR) is set based on industry data. An increase in the CPR would result in a negative fair value adjustment, where a decrease in CPR would result in a positive fair value adjustment.

The following table provides a reconciliation of the assets and liabilities measured at fair value using significant unobservable inputs (Level 3) on a recurring basis during the years ended December 31, 2023 and 2022 (in thousands):

	Level 3 Fair Value Inputs				
	TPS Securities	Borrowings— Junior Subordinated Debentures	Interest Rate Lock and Forward Sales Commitments	Investments in Limited Partnerships	SBA Servicing Asset
Balance, January 1, 2022	\$ 26,981	\$ 119,815	\$ 1,467	\$ 10,257	\$ 1,161
Net change recognized in earnings	1,713	—	(1,428)	(460)	(326)
Net change recognized in AOCI	—	5,560	—	—	—
Purchases, issuances and settlements	—	—	—	2,630	—
Redemptions	—	(50,518)	—	—	—
Balance, December 31, 2022	28,694	74,857	39	12,427	835
Net change recognized in earnings	(3,375)	—	212	(719)	(95)
Net change recognized in AOCI	(15)	(8,444)	—	—	—
Purchases, issuances and settlements	—	—	—	1,767	—
Balance, December 31, 2023	\$ 25,304	\$ 66,413	\$ 251	\$ 13,475	\$ 740

Interest income and dividends from TPS are recorded as a component of interest income. Interest expense related to the junior subordinated debentures is measured based on contractual interest rates and reported in interest expense. The change in fair value of the junior subordinated debentures, which represents changes in instrument specific credit risk, is recorded in other comprehensive income. The change in fair value of the investment in limited partnerships and the SBA servicing asset are recorded as a component of non-interest income. The change in fair value of the interest rate lock and forward sales commitments are included in mortgage banking operations in non-interest income. The change in fair value of the TPS was recorded as a component of non-interest income when it was held for trading. After the transfer of the TPS to available-for-sale in late 2023, the change in fair value is recorded in other comprehensive income.

Items Measured at Fair Value on a Non-recurring Basis

The following tables present financial assets and liabilities measured at fair value on a non-recurring basis and the level within the fair value hierarchy of the fair value measurements for those assets at December 31, 2023 and 2022 (in thousands):

	December 31, 2023			
	Level 1	Level 2	Level 3	Total
Loans individually evaluated	\$ —	\$ —	\$ 8,308	\$ 8,308
REO	—	—	526	526
	December 31, 2022			
	Level 1	Level 2	Level 3	Total
Loans individually evaluated	\$ —	\$ —	\$ 1,883	\$ 1,883
REO	—	—	340	340
Loans held for sale	—	49,474	—	49,474

The following table presents the gains and losses resulting from non-recurring fair value adjustments for the years ended December 31, 2023, 2022 and 2021 (in thousands):

	For the years ended December 31,		
	2023	2022	2021
Loans individually evaluated	\$ (933)	\$ (626)	\$ (303)
REO	—	—	—
Loans held for sale	2,538	(2,538)	—
Total loss from non-recurring measurements	\$ 1,605	\$ (3,164)	\$ (303)

Loans individually evaluated: Expected credit losses for loans evaluated individually are measured based on the present value of expected future cash flows discounted at the loan's original effective interest rate or when the Bank determines that foreclosure is probable, the expected credit loss is measured based on the fair value of the collateral as of the reporting date, less estimated selling costs, as applicable. As a practical expedient, the Bank measures the expected credit loss for a loan using the fair value of the collateral, if repayment is expected to be provided substantially through the operation or sale of the collateral when the borrower is experiencing financial difficulty based on the Bank's assessment as of the reporting date. In both cases, if the fair value of the collateral is less than the amortized cost basis of the loan, the Bank will recognize an allowance as the difference between the fair value of the collateral, less costs to sell (if applicable) and the amortized cost basis of the loan. If the fair value of the collateral exceeds the amortized cost basis of the loan, any expected recovery added to the amortized cost basis will be limited to the amount previously charged-off. Subsequent changes in the expected credit losses for loans evaluated individually are included within the provision for credit losses in the same manner in which the expected credit loss initially was recognized or as a reduction in the provision that would otherwise be reported.

REO: The Company records REO (acquired through a lending relationship) at fair value on a non-recurring basis. Fair value adjustments on REO are based on updated real estate appraisals which are based on current market conditions. All REO properties are recorded at the lower of the estimated fair value of the real estate, less expected selling costs, or the carrying amount of the defaulted loans. From time to time, non-recurring fair value adjustments to REO are recorded to reflect partial write-downs based on an observable market price or current appraised value of property. Banner considers any valuation inputs related to REO to be Level 3 inputs. The individual carrying values of these assets are reviewed for impairment at least annually and any additional impairment charges are expensed.

Loans held for sale: Multifamily loans held for sale were carried at the lower of cost or market value prior to their transfer to loans held in portfolio in the fourth quarter of 2023. Lower of cost or market adjustments for multifamily loans held for sale were calculated based on discounted cash flows using a discount rate that was a combination of market spreads for similar loan types added to selected index rates. If the fair value of the multifamily loans held for sale was lower than the amortized cost basis of the loans, a net unrealized loss was recognized through the valuation allowance as a charge against income. At December 31, 2023, we had no multifamily loans held for sale.

Note 16: BANNER CORPORATION (PARENT COMPANY ONLY)

Summary financial information is as follows (in thousands):

Statements of Financial Condition	December 31	
	2023	2022
ASSETS		
Cash	\$ 108,513	\$ 77,457
Investment in trust equities	2,678	2,678
Investment in subsidiaries	1,709,153	1,549,918
Other assets	10,467	11,651
Total assets	<u>\$ 1,830,811</u>	<u>\$ 1,641,704</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Miscellaneous liabilities	\$ 7,838	\$ 8,925
Deferred tax liability, net	4,518	2,543
Subordinated notes, net	99,351	98,947
Junior subordinated debentures at fair value	66,413	74,857
Shareholders' equity	1,652,691	1,456,432
Total liabilities and shareholders' equity	<u>\$ 1,830,811</u>	<u>\$ 1,641,704</u>

Statements of Operations	Years Ended December 31		
	2023	2022	2021
INTEREST INCOME:			
Interest-bearing deposits	\$ 844	\$ 80	\$ 97
OTHER INCOME (EXPENSE):			
Dividend income from subsidiaries	104,004	101,931	99,788
Equity in undistributed income of subsidiaries	92,018	104,391	112,814
Other income	1	96	146
Interest on other borrowings	(11,568)	(8,400)	(8,780)
Other expenses	(5,491)	(6,092)	(7,391)
Net income before taxes	<u>179,808</u>	<u>192,006</u>	<u>196,674</u>
BENEFIT FROM INCOME TAXES	<u>(3,816)</u>	<u>(3,372)</u>	<u>(4,374)</u>
NET INCOME	<u>\$ 183,624</u>	<u>\$ 195,378</u>	<u>\$ 201,048</u>

Statements of Cash Flows

	Years Ended December 31		
	2023	2022	2021
OPERATING ACTIVITIES:			
Net income	\$ 183,624	\$ 195,378	\$ 201,048
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed income of subsidiaries	(92,018)	(104,391)	(112,814)
Decrease in deferred taxes	(52)	(43)	(571)
Net change in valuation of financial instruments carried at fair value	253	(56)	55
Share-based compensation	9,169	8,870	9,258
Loss on extinguishment of debt	—	765	2,284
Net change in other assets	442	(4,169)	(2,970)
Net change in other liabilities	(609)	3,765	4,050
Net cash provided from operating activities	100,809	100,119	100,340
INVESTING ACTIVITIES:			
Other investing activities	488	(1,549)	(228)
Reduction in investment in subsidiaries	—	(3,072)	—
Net cash provided (used) by investing activities	488	(4,621)	(228)
FINANCING ACTIVITIES:			
Repayment of junior subordinated debentures	—	(50,518)	(8,248)
Proceeds from redemption of trust securities related to junior subordinated debentures	—	1,518	248
Taxes paid related to net share settlement for equity awards	(3,476)	(3,332)	(3,228)
Repurchase of common stock	—	(10,960)	(56,528)
Cash dividends paid	(66,765)	(61,078)	(57,621)
Net cash used by financing activities	(70,241)	(124,370)	(125,377)
NET CHANGE IN CASH	31,056	(28,872)	(25,265)
CASH, BEGINNING OF PERIOD	77,457	106,329	131,594
CASH, END OF PERIOD	\$ 108,513	\$ 77,457	\$ 106,329

Note 17: CALCULATION OF EARNINGS PER COMMON SHARE

The following table reconciles basic to diluted weighted average shares outstanding used to calculate earnings per share data (dollars in thousands, except per share data):

	Years Ended December 31		
	2023	2022	2021
Net income	\$ 183,624	\$ 195,378	\$ 201,048
Basic weighted average shares outstanding	34,344,142	34,264,322	34,610,056
Dilutive effect of unvested restricted stock	106,270	195,600	309,132
Diluted weighted shares outstanding	34,450,412	34,459,922	34,919,188
Earnings per common share			
Basic	\$ 5.35	\$ 5.70	\$ 5.81
Diluted	\$ 5.33	\$ 5.67	\$ 5.76

There were 21,865 anti-dilutive weighted shares outstanding as of December 31, 2023 and none as of December 31, 2022.

Note 18: COMMITMENTS AND CONTINGENCIES

Financial Instruments with Off-Balance Sheet Risk - The Company has financial instruments with off-balance-sheet risk generated in the normal course of business to meet the financing needs of its clients. These financial instruments include commitments to extend credit, commitments related to standby letters of credit, commitments to originate loans, commitments to sell loans, and commitments to buy or sell securities. These instruments involve, to varying degrees, elements of credit and interest rate risk similar to the risk involved in on-balance sheet items recognized in our Consolidated Statements of Financial Condition.

Our exposure to credit loss in the event of nonperformance by the other party to the financial instrument from commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. We use the same credit policies in making commitments and conditional obligations as on-balance sheet instruments.

Outstanding commitments for which no asset or liability for the notional amount has been recorded consisted of the following at the dates indicated (in thousands):

	Contract or Notional Amount	
	December 31, 2023	December 31, 2022
Commitments to extend credit	\$ 3,887,423	\$ 4,031,954
Standby letters of credit and financial guarantees	29,312	26,119
Commitments to originate loans	27,487	53,266
Risk participation agreements	46,348	48,566
<i>Derivatives also included in Note 19:</i>		
Commitments to originate loans held for sale	19,572	10,525
Commitments to sell loans secured by one- to four-family residential properties	8,437	12,568
Commitments to sell securities related to mortgage banking activities	17,000	7,000

In addition to the commitments disclosed in the table above, the Company is committed to funding its unfunded tax credit investments, as discussed previously in Note 10, Income Taxes. The Company has also entered into agreements to invest in several limited partnerships. As of December 31, 2023 and December 31, 2022, the funded balances and remaining outstanding commitments of these limited partnership investments were as follows (in thousands):

	December 31, 2023		December 31, 2022	
	Funded Balance	Unfunded Balance	Funded Balance	Unfunded Balance
Limited partnerships investments	\$ 12,038	\$ 10,462	\$ 10,272	\$ 12,228

Commitments to extend credit are agreements to lend to a client, as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Many of the commitments may expire without being drawn upon; therefore, the total commitment amounts do not necessarily represent future cash requirements. Each client's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on Management's credit evaluation of the client. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, and income producing commercial properties. The Company's allowance for credit losses - unfunded loan commitments was \$14.5 million and \$14.7 million, at December 31, 2023 and 2022, respectively.

Standby letters of credit are conditional commitments issued to guarantee a client's performance or payment to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to clients. Under a risk participation agreement, the Bank guarantees the financial performance of a borrower on the participated portion of an interest rate swap on a loan.

Interest rates on residential one- to four-family mortgage loan applications are typically rate locked (committed) to clients during the application stage for periods ranging from 30 to 60 days, the most typical period being 45 days. Traditionally, these loan applications with rate lock commitments had the pricing for the sale of these loans locked with various qualified investors under a best-efforts delivery program at or near the time the interest rate is locked with the client. The Bank then attempts to deliver these loans before their rate locks expire. This arrangement generally required delivery of the loans prior to the expiration of the rate lock. Delays in funding the loans would require a lock extension. The cost of a lock extension at times was borne by the client and at times by the Bank. These lock extension costs have not had a material impact to the Company's operations. For mandatory delivery commitments the Company enters into forward commitments at specific prices and settlement dates to deliver either: (1) residential mortgage loans for purchase by secondary market investors (i.e., Freddie Mac or Fannie Mae), or (2) mortgage-backed securities to broker/dealers. The purpose of these forward commitments is to offset the movement in interest rates between the execution of its residential mortgage rate lock commitments with borrowers and the sale of those loans to the secondary market investor. There were no counterparty default losses on forward contracts during 2023 or 2022. Market risk with respect to forward contracts arises principally from changes in the value of contractual positions due to changes in interest rates. The Company limits its exposure to market risk by monitoring differences between commitments to clients and forward contracts with market investors and securities broker/dealers. In the event the Company has forward delivery contract commitments in excess of available mortgage loans, the transaction is completed by either paying or receiving a fee to or from the investor or broker/dealer equal to the increase or decrease in the market value of the forward contract. Changes in the value of rate lock commitments are recorded as assets and liabilities.

In the normal course of business, the Company and/or its subsidiaries have various legal proceedings and other contingent matters outstanding. These proceedings and the associated legal claims are often contested and the outcome of individual matters is not always predictable. These claims and counterclaims typically arise during the course of collection efforts on problem loans or with respect to action to enforce liens on properties in which the Bank holds a security interest. Based upon the information known to Management at this time, the Company has accrued \$14.8 million related to outstanding legal proceedings. There are no other legal proceedings that Management believes would have a material adverse effect on the results of operations or consolidated financial position at December 31, 2023.

In connection with certain asset sales, the Bank typically makes representations and warranties about the underlying assets conforming to specified guidelines. If the underlying assets do not conform to the specifications, the Bank may have an obligation to repurchase the assets or indemnify the purchaser against any loss. The Bank believes that the potential for material loss under these arrangements is remote. Accordingly, the fair value of such obligations is not material.

Note 19: DERIVATIVES AND HEDGING

Banner is party to various derivative instruments that are used for asset and liability management and client financing needs. Derivative instruments are contracts between two or more parties that have a notional amount and an underlying variable, require no net investment and allow for the net settlement of positions. The notional amount serves as the basis for the payment provision of the contract and takes the form of units, such as shares or dollars. The underlying variable represents a specified interest rate, index, or other component. The interaction between the notional amount and the underlying variable determines the number of units to be exchanged between the parties and influences the market value of the derivative contract.

The Company's predominant derivative and hedging activities involve interest rate swaps related to certain term loans and forward sales contracts associated with mortgage banking activities. Generally, these instruments help the Company manage exposure to market risk and meet client financing needs. Market risk represents the possibility that economic value or net interest income will be adversely affected by fluctuations in external factors such as market-driven interest rates and prices or other economic factors.

As of December 31, 2023 and December 31, 2022, the notional values or contractual amounts and fair values of the Company's derivatives were as follows (in thousands):

	Asset Derivatives				Liability Derivatives			
	December 31, 2023		December 31, 2022		December 31, 2023		December 31, 2022	
	Notional/ Contract Amount	Fair Value	Notional/ Contract Amount	Fair Value	Notional/ Contract Amount	Fair Value	Notional/ Contract Amount	Fair Value
Hedged interest rate swaps	\$ —	\$ —	\$ —	\$ —	\$ 400,000	\$ 15,141	\$ 400,000	\$ 26,485
Interest rate swaps not designated in hedge relationships	\$ 416,711	\$ 29,058	\$ 440,731	\$ 37,119	\$ 416,711	\$ 29,126	\$ 440,731	\$ 37,150
Master netting agreements		(13,929)		(17,780)		(13,929)		(17,780)
Cash offset/(settlement)		—		—		(529)		(8,705)
Net interest rate swaps		15,129		19,339		29,809		37,150
Risk participation agreements	1,050	—	1,283	—	45,298	42	47,283	67
Mortgage loan commitments	19,572	275	15,920	81	—	—	12,367	42
Forward sales contracts	5,406	—	16,568	61	17,966	185	3,000	76
Total	\$ 442,739	\$ 15,404	\$ 474,502	\$ 19,481	\$ 479,975	\$ 30,036	\$ 503,381	\$ 37,335

The Company's asset derivatives are included in other assets, while the liability derivatives are included in accrued expenses and other liabilities on the Consolidated Statements of Financial Condition.

Interest Rate Swaps used in Cash Flow Hedges: The Company's floating rate loans result in exposure to losses in value or net interest income as interest rates change. The risk management objectives in using interest rate derivatives are to reduce volatility in net interest income and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. During the fourth quarter of 2021, the Company entered into interest rate swaps designated as cash flow hedges to hedge the variable cash flows associated with existing floating rate loans. These hedge contracts involve the receipt of fixed-rate amounts from a counterparty in exchange for the Company making floating-rate payments over the life of the agreements without exchange of the underlying notional amount.

For derivatives designated and that qualify as cash flow hedges of interest rate risk, the unrealized gain or loss on the derivative is recorded in AOCI and subsequently reclassified into interest income in the same period during which the hedged transaction affects earnings. Amounts reported in AOCI related to derivatives will be reclassified to interest income as interest payments are made on the Company's variable-rate assets. During the next 12 months, the Company estimates that an additional \$13.9 million will be reclassified as a decrease to interest income.

The following table presents the effect of cash flow hedge accounting on AOCI for the years ended December 31, 2023 and 2022 (in thousands):

For the Year Ended December 31, 2023							
	Amount of Gain or (Loss) Recognized in AOCI on Derivative	Amount of Gain or (Loss) Recognized in AOCI Included Component	Amount of Gain or (Loss) Recognized in AOCI Excluded Component	Location of Gain or (Loss) Recognized from AOCI into Income	Amount of Gain or (Loss) Reclassified from AOCI into Income	Amount of Gain or (Loss) Reclassified from AOCI into Income Included Component	Amount of Gain or (Loss) Reclassified from AOCI into Income Excluded Component
Interest rate swaps	\$ (4,398)	\$ (4,398)	\$ —	Interest Income	\$ (16,955)	\$ (16,955)	\$ —

For the Year Ended December 31, 2022							
	Amount of Gain or (Loss) Recognized in AOCI on Derivative	Amount of Gain or (Loss) Recognized in AOCI Included Component	Amount of Gain or (Loss) Recognized in AOCI Excluded Component	Location of Gain or (Loss) Recognized from AOCI into Income	Amount of Gain or (Loss) Reclassified from AOCI into Income	Amount of Gain or (Loss) Reclassified from AOCI into Income Included Component	Amount of Gain or (Loss) Reclassified from AOCI into Income Excluded Component
Interest rate swaps	\$ (28,418)	\$ (28,418)	\$ —	Interest Income	\$ (3,195)	\$ (3,195)	\$ —

At December 31, 2023 and December 31, 2022, we recorded total net unrealized losses on cash flow hedges in AOCI of \$10.6 million and \$20.1 million, respectively.

Interest Rate Swaps: The Bank uses an interest rate swap program for commercial loan clients that provides the client with a variable-rate loan and enters into an interest rate swap in which the client receives a variable-rate payment in exchange for a fixed-rate payment. The Bank offsets its risk exposure by entering into an offsetting interest rate swap with a dealer counterparty for the same notional amount and length of term as the client interest rate swap providing the dealer counterparty with a fixed-rate payment in exchange for a variable-rate payment. These swaps do not qualify as designated hedges; therefore, each swap is accounted for as a freestanding derivative.

Risk Participation Agreements: In conjunction with the purchase or sale of participating interests in loans, the Company also participates in related swaps through risk participation agreements. The existing credit derivatives resulting from these participations are not designated as hedges as they are not used to manage interest rate risk in the Company's assets or liabilities and are not speculative.

Mortgage Loan Commitments: The Company sells originated one- to four-family mortgage loans into the secondary mortgage loan markets. During the period of loan origination and prior to the sale of the loans in the secondary market, the Company has exposure to movements in interest rates associated with written interest rate lock commitments with potential borrowers to originate one- to four-family loans that are intended to be sold and for closed one- to four-family mortgage loans held for sale for which fair value accounting has been elected, that are awaiting sale and delivery into the secondary market. The Company economically hedges the risk of changing interest rates associated with these mortgage loan commitments by entering into forward sales contracts to sell one- to four-family mortgage loans or mortgage-backed securities to broker/dealers at specific prices and dates.

Gains (losses) recognized in income within mortgage banking operations on non-designated hedging instruments for the years ended December 31, 2023, 2022 and 2021 were as follows (in thousands):

	For the Years Ended December 31		
	2023	2022	2021
Mortgage loan commitments	\$ 263	\$ (1,427)	\$ (3,754)
Forward sales contracts	313	84	1,243
	<u>\$ 576</u>	<u>\$ (1,343)</u>	<u>\$ (2,511)</u>

The Company is exposed to credit-related losses in the event of nonperformance by the counterparty to these agreements. Credit risk of the financial contract is controlled through the credit approval, limits, and monitoring procedures and Management does not expect the counterparties to fail their obligations.

In connection with the interest rate swaps between the Bank and the dealer counterparties, the agreements contain a provision where if the Bank fails to maintain its status as a well or adequately capitalized institution, then the counterparty could terminate the derivative positions and the Bank would be required to settle its obligations. Similarly, the Bank could be required to settle its obligations under certain of its agreements if specific regulatory events occur, such as a publicly issued prompt corrective action directive, cease and desist order, or a capital maintenance agreement that required the Bank to maintain a specific capital level. If the Bank had breached any of these provisions at December 31, 2023 or December 31, 2022, it could have been required to settle its obligations under the agreements at the termination value. As of December 31, 2023 and December 31, 2022, the Company had no obligations to dealer counterparties related to these agreements. The Company generally posts collateral against derivative liabilities in the form of cash, government agency-issued bonds, mortgage-backed securities, or commercial mortgage-backed securities. Collateral posted against derivative liabilities was \$15.0 million and \$22.2 million as of December 31, 2023 and 2022, respectively. The collateral posted included restricted cash of \$14.0 million and \$15.9 million as of December 31, 2023 and 2022, respectively.

Derivative assets and liabilities are recorded at fair value on the balance sheet. Master netting agreements allow the Company to settle all derivative contracts held with a single counterparty on a net basis and to offset net derivative positions with related collateral where applicable. In addition, some interest rate swap derivatives between the Company and the dealer counterparties are cleared through central clearing houses. These clearing houses characterize the variation margin payments as settlements of the derivative's market exposure and not as collateral. The variation margin is treated as an adjustment to our cash collateral, as well as a corresponding adjustment to our derivative liability. As of December 31, 2023 and December 31, 2022, the variation margin adjustment was a negative adjustment of \$529,000 and \$8.7 million, respectively.

The following presents additional information related to the Company's interest rate swaps, both designated and non-designated as hedged, as of December 31, 2023 and December 31, 2022 (in thousands):

December 31, 2023					
			Gross Amounts of Financial Instruments Not Offset in the Consolidated Statement of Financial Condition		
Gross Amounts Recognized	Amounts offset in the Statement of Financial Condition	Net Amounts in the Statement of Financial Condition	Netting Adjustment Per Applicable Master Netting Agreements	Fair Value of Financial Collateral in the Statement of Financial Condition	Net Amount
Derivative assets					
Interest rate swaps	\$ 29,058	\$ (13,929)	\$ 15,129	\$ —	\$ 15,129
	<u>\$ 29,058</u>	<u>\$ (13,929)</u>	<u>\$ 15,129</u>	<u>\$ —</u>	<u>\$ 15,129</u>
Derivative liabilities					
Interest rate swaps	\$ 44,267	\$ (14,458)	\$ 29,809	\$ (13,124)	\$ 16,685
	<u>\$ 44,267</u>	<u>\$ (14,458)</u>	<u>\$ 29,809</u>	<u>\$ (13,124)</u>	<u>\$ 16,685</u>
December 31, 2022					
			Gross Amounts of Financial Instruments Not Offset in the Consolidated Statement of Financial Condition		
Gross Amounts Recognized	Amounts offset in the Statement of Financial Condition	Net Amounts in the Statement of Financial Condition	Netting Adjustment Per Applicable Master Netting Agreements	Fair Value of Financial Collateral in the Statement of Financial Condition	Net Amount
Derivative assets					
Interest rate swaps	\$ 37,119	\$ (17,780)	\$ 19,339	\$ —	\$ 19,339
	<u>\$ 37,119</u>	<u>\$ (17,780)</u>	<u>\$ 19,339</u>	<u>\$ —</u>	<u>\$ 19,339</u>
Derivative liabilities					
Interest rate swaps	\$ 63,634	\$ (26,484)	\$ 37,150	\$ (14,972)	\$ 22,178
	<u>\$ 63,634</u>	<u>\$ (26,484)</u>	<u>\$ 37,150</u>	<u>\$ (14,972)</u>	<u>\$ 22,178</u>

Note 20: REVENUE FROM CONTRACTS WITH CLIENTS***Disaggregation of Revenue:***

Deposit fees and other service charges for the years ended December 31, 2023, 2022 and 2021 are summarized as follows (in thousands):

	Years Ended December 31		
	2023	2022	2021
Deposit service charges	22,497	23,710	19,162
Debit and credit card interchange fees	24,021	23,766	23,271
Debit and credit card expense	(12,386)	(11,487)	(10,636)
Merchant services income	14,466	15,551	14,973
Merchant services expense	(11,687)	(12,754)	(12,084)
Other service charges	4,727	5,673	4,809
Total deposit fees and other service charges	41,638	44,459	39,495

Deposit fees and other service charges

Deposit fees and other service charges include transaction and non-transaction based deposit fees. Transaction based fees on deposit accounts are charged to deposit clients for specific services provided to the client. These fees include such items as wire fees, official check fees, and overdraft fees. These are contract specific to each individual transaction and do not extend beyond the individual transaction. The performance obligation is completed and the fees are recognized at the time the specific transactional service is provided to the client. Non-transactional deposit fees are typically monthly account maintenance fees charged on deposit accounts. These are day-to-day contracts that can be canceled by either party without notice. The performance obligation is satisfied and the fees are recognized on a monthly basis after the service period is completed.

Debit and credit card interchange income and expenses

Debit and credit card interchange income represent fees earned when a credit or debit card issued by the Bank is used to purchase goods or services at a merchant. The merchant's bank pays the Bank a default interchange rate set by Mastercard on a transaction by transaction basis. The merchant acquiring bank can stop accepting the Bank's cards at any time and the Bank can stop further use of cards issued by them at any time. The performance obligation is satisfied and the fees are earned when the cost of the transaction is charged to the Bank's cardholders' card. Direct expenses associated with the credit and debit card are recorded as a net reduction against the interchange income.

Merchant services income

Merchant services income represents fees earned by the Bank for card payment services provided to its merchant clients. The Bank has a contract with a third party to provide card payment services to the Bank's merchants that contract for those services. The third party provider has contracts with the Bank's merchants to provide the card payment services. The Bank does not have a direct contractual relationship with its merchants for these services. The Bank sets the rates for the services provided by the third party. The third party provider passes the payments made by the Bank's merchants through to the Bank. The Bank, in turn, pays the third party provider for the services it provides to the Bank's merchants. These payments to the third party provider are recorded as expenses as a net reduction against fee income. In addition, a portion of the payment received by the Bank represents interchange fees passed through to the card issuing bank. Income is primarily earned based on the dollar volume and number of transactions processed. The performance obligation is satisfied and the related fee is earned when each payment is accepted by the processing network.

Note 21: LEASES

The Company leases 91 buildings and offices under non-cancelable operating leases. The leases contain various provisions for increases in rental rates, based either on changes in the published Consumer Price Index or a predetermined escalation schedule. Substantially all of the leases provide the Company with the option to extend the lease term one or more times following expiration of the initial term. The table below presents the lease ROU assets and lease liabilities recorded on the balance sheet at December 31, 2023 and December 31, 2022 (dollars in thousands):

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Assets		
Operating lease ROU assets	\$ 43,731	\$ 49,283
Liabilities		
Operating lease liabilities	\$ 48,659	\$ 55,205
Weighted average remaining lease term		
Operating leases	4.5 years	5.1 years
Weighted average discount rate		
Operating leases	3.3 %	3.0 %

The table below presents certain information related to the lease costs for operating leases for the years ended December 31, 2023, 2022 and 2021 (in thousands):

	<u>Year Ended December 31,</u>		
	<u>2023</u>	<u>2022</u>	<u>2021</u>
Operating lease cost	\$ 13,848	\$ 16,647	\$ 17,541
Short-term lease cost	132	125	100
Variable lease cost	2,231	2,189	2,584
Less sublease income	(1,447)	(1,126)	(904)
Total lease cost ⁽¹⁾	<u>\$ 14,764</u>	<u>\$ 17,835</u>	<u>\$ 19,321</u>

⁽¹⁾ Lease expenses and sublease income are classified within occupancy and equipment expense on the Consolidated Statements of Operations.

Operating cash flows paid for operating lease amounts included in the measurement of lease liabilities were \$14.8 million for the year ended December 31, 2023 and \$15.4 million for the year ended December 31, 2022. The Company recorded \$6.8 million of lease ROU assets in exchange for operating lease liabilities for the year ended December 31, 2023 and \$9.3 million for the year ended December 31, 2022.

The table below reconciles the undiscounted cash flows for each of the first five years beginning with 2023 and the total of the remaining years to the operating lease liabilities recorded on the Consolidated Statements of Financial Position (in thousands):

	<u>Operating Leases</u>
2023	\$ 14,566
2024	12,782
2025	10,849
2026	7,341
2027	2,852
Thereafter	<u>4,012</u>
Total minimum lease payments	52,402
Less: amount of lease payments representing interest	<u>(3,743)</u>
Lease obligations	<u>\$ 48,659</u>

As of December 31, 2023 and 2022, the Company had no undiscounted lease payments under an operating lease that had not yet commenced.

BANNER CORPORATION

<u>Exhibit</u>	<u>Index of Exhibits</u>
3{a}	<u>Restated Articles of Incorporation of Banner Corporation [incorporated by reference to Exhibit 3.1 (b) to the Registrant’s Current Report on Form 8-K filed on May 24, 2022 (File No. 000-26584)].</u>
3{b}	<u>Amended and Restated Bylaws of Banner Corporation [incorporated by reference to Exhibit 3.2 to the Registrant’s Current Report on Form 8-K filed with the SEC on May 24, 2022 (File No. 000-26584)].</u>
4.2	<u>Description of Capital Stock.</u>
4.3	<u>Issuance of base indenture, first supplemental indenture and subordinated note [incorporated by reference to the exhibits filed with Form 8-K on June 30, 2020 (File No. 000-26584)].</u>
10{a}*	<u>Amended and Restated Employment Agreement, with Mark J. Grescovich [incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on June 4, 2013 (File No. 000-26584)].</u>
10{b}*	<u>Form of Supplemental Executive Retirement Program Agreement with Gary Sirmon, Michael K. Larsen, Lloyd W. Baker, Cynthia D. Purcell and Richard B. Barton [incorporated by reference to exhibits filed with the Annual Report on Form 10-K for the year ended December 31, 2001 and the exhibits filed with the Form 8-K on May 6, 2008 (File No. 000-26584)].</u>
10{c}*	<u>Form of Employment Contract entered into with Peter J. Conner, Cynthia D. Purcell and Judith A. Steiner [incorporated by reference to exhibits filed with the Form 8-K on June 25, 2014 (File No. 000-26584)].</u>
10{d}*	<u>2005 Executive Officer and Director Stock Account Deferred Compensation Plan [incorporated by reference to exhibits filed with the Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 000-26584)].</u>
10{e}*	<u>Entry into an Indemnification Agreement with each of the Registrant’s Directors [incorporated by reference to exhibits filed with the Form 8-K on January 29, 2010 (File No. 000-26584)].</u>
10{f}*	<u>2014 Omnibus Incentive Plan [incorporated by reference as Appendix C to the Registrant’s Definitive Proxy Statement on Schedule 14A filed on March 24, 2014 (File No. 000-26584)] and amendments [incorporated by reference to the Form 8-K filed on March 25, 2015 (File No. 000-26534)].</u>
10{g}*	<u>Forms of Equity-Based Award Agreements: Incentive Stock Option Award Agreement, Non-Qualified Stock Option Award Agreement, Restricted Stock Award Agreement, Restricted Stock Unit Award Agreement, Stock Appreciation Right Award Agreement, and Performance Unit Award Agreement [incorporated by reference to Exhibits 10.2 - 10.7 included in the Registration Statement on Form S-8 dated May 9, 2014 (File No. 333-195835)].</u>
10{h}*	<u>2018 Omnibus Incentive Plan [incorporated by reference to Exhibit 10.1 included in the Registration Statement on Form S-8 dated May 4, 2018 (File No. 333-224693)].</u>
10{i}*	<u>Amended and Restated Executive Severance and Change in Control Plan and Summary Plan Description (Amended and Restated effective as of July 1, 2023) [incorporated by reference to exhibit 10{j} included in the Form 10-Q dated June 30, 2023 (File No. 000-26584)].</u>
10{j}*	<u>2023 Omnibus Incentive Plan [incorporated by reference to Exhibit 10.1 included in the Registration Statement on Form S-8 dated August 30, 2023 (File No. 333-274273)].</u>
10{k}*	<u>Form of Director Restricted Stock Award Agreement under the Banner Corporation 2023 Omnibus Incentive Plan [incorporated by reference to Exhibit 10.2 included in the Registration Statement on Form S-8 dated August 30, 2023 (File No. 333-274273)].</u>
10{l}*	<u>Form of Director Restricted Stock Unit Award Agreement under the Banner Corporation 2023 Omnibus Incentive Plan [incorporated by reference to Exhibit 10.3 included in the Registration Statement on Form S-8 dated August 30, 2023 (File No. 333-274273)].</u>
10{m}*	<u>Form of Employee Restricted Stock Unit Award Agreement under the Banner Corporation 2023 Omnibus Incentive Plan [incorporated by reference to Exhibit 10.4 included in the Registration Statement on Form S-8 dated August 30, 2023 (File No. 333-274273)].</u>
10{n}*	<u>Form of Executive Restricted Stock Unit Performance Award Agreement under the Banner Corporation 2023 Omnibus Incentive Plan [incorporated by reference to Exhibit 10.5 included in the Registration Statement on Form S-8 dated August 30, 2023 (File No. 333-274273)].</u>
10{o}*	<u>2020 Banner Corporation Amended and Restated Deferred Compensation Plan.</u>
14	Code of Ethics [Registrant elects to satisfy Regulation S-K §229.406(c) by posting its Code of Ethics on its website at https://investor.bannerbank.com/ in the section titled Corporate Overview: Governance Documents].
21	<u>Subsidiaries of the Registrant.</u>
23.1	<u>Consent of Registered Independent Public Accounting Firm – Moss Adams LLP.</u>
31.1	<u>Certification of Chief Executive Officer pursuant to the Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>

- 31.2 [Certification of Chief Financial Officer pursuant to the Securities Exchange Act Rules 13a-14\(a\) and 15d-14\(a\) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 32 [Certificate of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 97 [Policy Relating to Recovery of Erroneously Awarded Compensation.](#)
- 101.INS Inline XBRL Instance Document - The instance document does not appear in the interactive data file because XBRL tags are embedded within the XBRL document.
- 101.SCH Inline XBRL Taxonomy Extension Schema Document.
- 101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.DEF Inline XBRL Taxonomy Extension Definition Linkbase Document.
- 101.LAB Inline XBRL Taxonomy Extension Label Linkbase Document.
- 101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document.
- 104 The cover page from the Company's Annual Report on Form 10-K for the year ended December 31, 2023, formatted in Inline XBRL (included in Exhibit 101).

* Compensatory plan or arrangement.

EXHIBIT 4.2

DESCRIPTION OF CAPITAL STOCK

The following information summarizes certain features and rights of our capital stock. The summary does not purport to be exhaustive and is qualified in its entirety by reference to our articles of incorporation, bylaws, and to applicable Washington law.

General

Banner's authorized capital stock consists of:

- 50,000,000 shares of common stock, \$0.01 par value per share;
- 5,000,000 shares of non-voting common stock, \$0.01 par value per share; and
- 500,000 shares of preferred stock, \$0.01 par value per share.

As of January 31, 2024, there were 34,348,455 shares of Banner common stock issued and outstanding. No shares of Banner non-voting common stock and no shares of Banner preferred stock are currently outstanding. Banner's common stock is traded on NASDAQ under the symbol "BANR."

Common Stock

Each share of Banner common stock has the same relative rights and is identical in all respects with each other share of Banner common stock. Banner common stock represents non-withdrawable capital, is not of an insurable type and is not insured by the FDIC or any other government agency.

Subject to any prior rights of the holders of any preferred or other stock of Banner then outstanding, holders of Banner common stock are entitled to receive such dividends as are declared by the board of directors of Banner out of funds legally available for dividends.

Except with respect to greater than 10% stockholders, full voting rights are vested in the holders of Banner common stock and each share is entitled to one vote. See "—Anti-Takeover Effects—Restrictions on Voting Rights." Subject to any prior rights of the holders of any Banner preferred stock then outstanding, in the event of a liquidation, dissolution or winding up of Banner, holders of shares of Banner common stock will be entitled to receive, pro rata, any assets distributable to stockholders in respect of shares held by them. Holders of shares of Banner common stock will not have any preemptive rights to subscribe for any additional securities which may be issued by Banner, nor do they have cumulative voting rights.

Nonvoting Common Stock

The holders of Banner nonvoting common stock have no voting rights except as required by the Washington Business Corporations Act, which we refer to as the "WBCA," and as described in the next sentence. In addition to any other vote required by law, the affirmative vote of the holders of a majority of the outstanding shares of Banner nonvoting common stock, voting separately as a class, is required to amend Banner's articles of incorporation to alter or change the designation, preferences, limitations or relative rights of all or part of the shares of Banner nonvoting common stock.

Except with respect to voting, Banner nonvoting common stock and Banner common stock have the same rights, preferences and privileges, share ratably in all assets of the corporation upon its liquidation, dissolution or winding-up, are entitled to receive dividends (other than certain stock dividends described in the next sentence) in the same amount per share and at the same time, as and if declared by Banner's board of directors, and are equal and identical in all other respects as to all other matters. In the event of any stock dividend having the effect of a stock split, stock combination or other reclassification of shares of either the Banner common stock or the Banner nonvoting common stock, the outstanding shares of the other class will be proportionately split, combined or reclassified in a similar manner, except that holders of Banner common stock will receive only shares of Banner common stock in respect of their shares of Banner common stock and holders of Banner nonvoting common stock will receive only shares of Banner nonvoting common stock in respect of their shares of Banner nonvoting common stock.

No transfer of shares of Banner nonvoting common stock by the initial holders of those shares (or such holders' affiliates) is permitted, except for specified permitted transfers or transfers to affiliates of the initial holders of the nonvoting common stock. Each share of nonvoting common stock will be converted automatically into one share of common stock upon a permitted transfer.

In the event of any merger, consolidation, reclassification or other transaction in which the shares of Banner common stock are exchanged for or changed into other stock or securities, cash and/or any other property, each share of Banner nonvoting common stock will simultaneously be similarly exchanged or changed into an amount per whole share equal to the aggregate amount of stock, securities, cash and/or any other property that such Banner nonvoting common stock would be entitled to receive if it were converted into a share of Banner common stock immediately prior to such transaction. In case of any offer to repurchase shares, pro rata subscription offer, rights offer or similar offer to holders of Banner common stock, Banner is required to provide the holders of Banner nonvoting common stock the right to participate.

Preferred Stock

Our Articles of Incorporation permit our board of directors to authorize the issuance of up to 500,000 shares of preferred stock, par value \$0.01, in one or more series, at such time or times and for such consideration as the board of directors of Banner may determine, without stockholder action. The board of directors of Banner is expressly authorized at any time, and from time to time, to issue Banner preferred stock, with such voting and other powers, liquidation preferences and participating, optional or other special rights, and qualifications, limitations or restrictions, as are stated and expressed in the board resolution providing for the issuance. The board of directors of Banner is authorized to designate the series and the number of shares comprising such series, the dividend rate on the shares of such series, the redemption rights, if any, any purchase, retirement or sinking fund provisions, any conversion rights and any voting rights. The ability of Banner's board of directors to approve the issuance of preferred or other stock without stockholder approval could dilute the voting power or other rights or adversely affect the market value of our common stock and may make an acquisition by an unwanted suitor of a controlling interest in Banner more difficult, time-consuming or costly, or otherwise discourage an attempt to acquire control of Banner.

Shares of preferred stock redeemed or acquired by Banner may return to the status of authorized but unissued shares, without designation as to series, and may be reissued by Banner upon approval of its board of directors.

Anti-Takeover Effects

The provisions of our Articles of Incorporation, our Bylaws, and Washington law summarized in the following paragraphs may have anti-takeover effects and could delay, defer, or prevent a tender offer or takeover attempt that a stockholder might consider to be in such stockholder's best interest, including those attempts that might result in a premium over the market price for the shares held by stockholders, and may make removal of the incumbent management and directors more difficult.

Authorized Shares. Our Articles of Incorporation authorize the issuance of 50,000,000 shares of common stock, 5,000,000 shares of non-voting common stock and 500,000 shares of preferred stock. These shares of common stock and preferred stock provide our board of directors with as much flexibility as possible to effect, among other transactions, financings, acquisitions, stock dividends, stock splits and the exercise of employee stock options. However, these additional authorized shares may also be used by the board of directors consistent with its fiduciary duty to deter future attempts to gain control of us. The board of directors also has sole authority to determine the terms of any one or more series of preferred stock, including voting rights, conversion rates and liquidation preferences. As a result of the ability to fix voting rights for a series of preferred stock, the board of directors has the power to the extent consistent with its fiduciary duty to issue a series of preferred stock to persons friendly to management in order to attempt to block a tender offer, merger or other transaction by which a third party seeks control of us, and thereby assist members of management to retain their positions.

Restrictions on Voting Rights. Our Articles of Incorporation provide for restrictions on voting rights of shares owned in excess of 10% of any class of our equity securities. Specifically, our Articles of Incorporation provide that if any person or group acting in concert acquires the beneficial ownership of more than 10% of any class of our equity securities without the prior approval by a two-thirds vote of our "Continuing Directors," (as defined therein) then, with respect to each vote in excess of 10% of the voting power of our outstanding shares of voting stock which such person would otherwise have been entitled to cast, such person is entitled to cast only one-hundredth of one vote per share. Exceptions from this limitation are provided for, among other things, any proxy granted to one or more of our "Continuing Directors" and for our employee benefit plans. Under our Articles of Incorporation, the restriction on voting shares beneficially owned in violation of the foregoing limitations is imposed automatically, and the Articles of Incorporation provide that a majority of our Continuing Directors have the power to construe the forgoing restrictions and to make all determinations necessary or desirable to implement these restrictions. These restrictions would, among other things, restrict voting power of a beneficial owner of more than 10% of our outstanding shares of common stock in a proxy contest or on other matters on which such person is entitled to vote.

Board of Directors. Our board of directors historically has been divided into three classes, each of which contains approximately one-third of the members of the board of directors. The members of each class historically have been elected for a term of three years, with the terms of office of all members of one class expiring each year so that approximately one-third of the total number of directors is elected each year. The classification of directors, together with the provisions in our Articles of Incorporation described below that limit the ability of stockholders to remove directors and that permit only the remaining directors to fill any vacancies on the board of directors, have the effect of making it more difficult for stockholders to change the composition of the board of directors. As a result, at least two annual meetings of stockholders would be required for the stockholders to change a majority of the directors, whether or not a change in the board of directors would be beneficial and whether or not a majority of stockholders believe that such a change would be desirable. However, following approval by our board of directors and/or our stockholders, as applicable, our Articles of Incorporation and our Bylaws were amended in May 2022 to eliminate staggered terms for directors and provide for the annual election of all directors. The transition to a declassified board structure is being effected over time such that each director will be elected annually upon expiration of the director's term. This process began with directors whose terms expired at the 2023 annual meeting of stockholders, and all directors will be subject to annual elections beginning with the 2025 annual meeting of stockholders.

Our Articles of Incorporation provide that the size of the board of directors is not less than five or more than 25 as set in accordance with the Bylaws. The Articles of Incorporation provide that any vacancy occurring in the board of directors, including a vacancy created by an increase in the number of directors, will be filled by a vote of two-thirds of the directors then in office. Any director so chosen will hold office for a term expiring at the next annual meeting of stockholders. The classified board of directors is intended to provide for continuity of the board of directors and to make it more difficult and time consuming for a stockholder group to fully use its voting power to gain control of the board of directors without the consent of incumbent members of the board of directors. The Articles of Incorporation further provide that a director may be removed from the board of directors prior to the expiration of their term only for cause and only upon the vote of the holders of 80% of the total votes eligible to be cast thereon. In the absence of this provision, the vote of the holders of a majority of the shares could remove the entire board of directors, but only with cause, and replace it with persons of such holders' choice.

Cumulative Voting, Special Meetings and Action by Written Consent. Our Articles of Incorporation do not provide for cumulative voting for any purpose. Moreover, the Articles of Incorporation provide that special meetings of stockholders may be called only by our board of directors or by a committee of the board of directors. In addition, our Bylaws require that any action taken by written consent must receive the consent of all of the outstanding voting stock entitled to vote on the action taken.

Stockholder Vote Required to Approve Business Combinations with Principal Stockholders. The Articles of Incorporation require the approval of the holders of (i) at least 80% of the outstanding shares entitled to vote thereon (and, if any class or series of shares is entitled to vote thereon separately, the approval of the holders of at least 80% of the outstanding shares of each such class or series) and (ii) at least a majority of the outstanding shares entitled to vote thereon, not including shares deemed beneficially owned by a "Related Person," for certain "Business Combinations" involving a Related Person, except in cases where the proposed transaction has been approved in advance by two-thirds of those members of Banner's board of directors who are unaffiliated with the Related Person and were directors prior to the time when the Related Person became a Related Person. The term "Related Person" is defined to include any individual, corporation, partnership or other entity (other than tax-qualified benefit plans of Banner) which owns beneficially or controls, directly or indirectly, 10% or more of the outstanding shares of common stock of Banner or an affiliate of such person or entity. The term "Business Combination" is defined to include: (i) any merger or consolidation of Banner with or into any Related Person; (ii) any sale, lease, exchange, mortgage, transfer, or other disposition of 25% or more of the assets of Banner to a Related Person; (iii) any merger or consolidation of a Related Person with or into Banner or a subsidiary of Banner; (iv) any sale, lease, exchange, transfer or other disposition of certain assets of a Related Person to Banner or a subsidiary of Banner; (v) the issuance of any securities of Banner or a subsidiary of Banner to a Related Person; (vi) the acquisition by Banner or a subsidiary of Banner of any securities of a Related Person; (vii) any reclassification of common stock of Banner or any recapitalization involving the common stock of Banner; or (viii) any agreement or other arrangement providing for any of the foregoing.

Washington law imposes restrictions on certain transactions between a corporation and certain significant stockholders. Chapter 23B.19 of the WBCA prohibits a "target corporation," with certain exceptions, from engaging in certain "significant business transactions" with an "Acquiring Person" who acquires 10% or more of the voting securities of a target corporation for a period of five years after such acquisition, unless (a) the transaction or acquisition of shares is approved by a majority of the members of the target corporation's board of directors prior to the date of the acquisition or, (b) at or subsequent to the date of the acquisition, the transaction is approved by a majority of the members of the target corporation's board of directors and authorized at a stockholders' meeting by the affirmative vote of at least two-thirds of the votes entitled to be cast by the outstanding voting shares of the target corporation, excluding shares owned or controlled by the Acquiring Person. The prohibited transactions include, among others, a merger or consolidation with, or issuance or redemption of stock to or from, the Acquiring Person; the sale, lease, exchange, mortgage, pledge, transfer or other disposition or encumbrance of assets, to or with an Acquiring Person, with an aggregate market value equal to five percent or more of the aggregate market value of the target corporation's consolidated assets, outstanding shares or consolidated net income; termination of 5% or more of the target corporation's employees employed in Washington state, as a result of the Acquiring Person's acquisition of 10% or more of the target corporation's shares; or allowing the Acquiring Person to receive any disproportionate benefit as a stockholder. After the five-year period during which significant business transactions are prohibited, certain significant business transactions may occur if certain "fair price" criteria or stockholder approval requirements are met. Target corporations include all publicly-traded corporations incorporated under Washington law, as well as publicly traded foreign corporations that meet certain requirements. This summary of certain WBCA provisions does not purport to be complete.

Amendment of Articles of Incorporation and Bylaws. Amendments to our Articles of Incorporation must be approved by our board of directors by a majority vote of the board of directors and by our stockholders by a majority of the voting group comprising all the votes entitled to be cast on the proposed amendment, and a majority of each other voting group entitled to vote separately on the proposed amendment; provided, however, that the affirmative vote of the holders of at least 80% of votes entitled to be cast by each separate voting group entitled to vote thereon (after giving effect to the provision limiting voting rights, if applicable) is required to amend or repeal certain provisions of the Articles of Incorporation, including the provision limiting voting rights, the provisions relating to the removal of directors, stockholder nominations and proposals, the approval of certain business combinations, calling special meetings, director and officer indemnification by us and amendment of our Bylaws and Articles of Incorporation. Our Bylaws may be amended by a majority vote of our board of directors, or by a vote of 80% of the total votes entitled to vote generally in the election of directors at a duly constituted meeting of stockholders.

Stockholder Nominations and Proposals. Our Articles of Incorporation generally require a stockholder who intends to nominate a candidate for election to the board of directors, or to raise new business at a stockholder meeting to give not less than 30 nor more than 60 days' advance notice to the Secretary of Banner. The notice provision requires a stockholder who desires to raise new business to provide certain information to us concerning the nature of the new business, the stockholder and the stockholder's interest in the business matter. Similarly, a stockholder wishing to nominate any person for election as a director must provide us with certain information concerning the nominee and the proposing stockholder.

The cumulative effect of the restrictions on a potential acquisition of us that are contained in our Articles of Incorporation and Bylaws, and federal and Washington law, may be to discourage potential takeover attempts and perpetuate incumbent management, even though certain stockholders may deem a potential acquisition to be in their best interests, or deem existing management not to be acting in their best interests.

2020 Banner Corporation
Amended and Restated Deferred Compensation Plan

January 1, 2021

IMPORTANT NOTE

This document has not been approved by the Department of Labor, Internal Revenue Service or any other governmental entity. An adopting Employer must determine whether the Plan is subject to the Federal securities laws and the securities laws of the various states. An adopting Employer may not rely on this document to ensure any particular tax consequences or to ensure that the Plan is “unfunded and maintained primarily for the purpose of providing deferred compensation to a select group of management or highly compensated employees” under Title I of the Employee Retirement Income Security Act of 1974, as amended, with respect to the Employer’s particular situation. Fidelity Employer Services Company, its affiliates and employees cannot provide you with legal advice in connection with the execution of this document. This document should be reviewed by the Employer’s attorney prior to execution.

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Preamble

The Plan is intended to be a “plan which is unfunded and is maintained by an employer primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees” within the meaning of Sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974, as amended, or an “excess benefit plan” within the meaning of Section 3(36) of the Employee Retirement Income Security Act of 1974, as amended, or a combination of both. The Plan is further intended to conform with the requirements of Internal Revenue Code Section 409A and the final regulations issued thereunder and shall be interpreted, implemented and administered in a manner consistent therewith.

Article 1 - General

1.1 Plan

The Plan will be referred to by the name specified in the Adoption Agreement.

1.2 Effective Dates

- (a) Original Effective Date. The Original Effective Date is the date as of which the Plan was initially adopted.
- (b) Amendment Effective Date. The Amendment Effective Date is the date specified in the Adoption Agreement as of which the Plan is amended and restated. Except to the extent otherwise provided herein or in the Adoption Agreement, the Plan shall apply to amounts deferred and benefit payments made on or after the Amendment Effective Date.
- (c) Special Effective Date. A Special Effective Date may apply to any given provision if so specified in Appendix A of the Adoption Agreement. A Special Effective Date will control over the Original Effective Date or Amendment Effective Date, whichever is applicable, with respect to such provision of the Plan.

1.3 Amounts Not Subject to Code Section 409A

Except as otherwise indicated by the Plan Sponsor in Section 1.01 of the Adoption Agreement, amounts deferred before January 1, 2005 that are earned and vested on December 31, 2004 will be separately accounted for and administered in accordance with the terms of the Plan as in effect on December 31, 2004.

Article 2 - Definitions

Pronouns used in the Plan are in the masculine gender but include the feminine gender unless the context clearly indicates otherwise. Wherever used herein, the following terms have the meanings set forth below, unless a different meaning is clearly required by the context:

2.1. Account

“Account” means an account established for the purpose of recording amounts credited on behalf of a Participant and any income, expenses, gains, losses or distributions included thereon. The Account shall be a bookkeeping entry only and shall be utilized solely as a device for the measurement and determination of the amounts to be paid to a Participant or to the Participant’s Beneficiary pursuant to the Plan.

2.2. Administrator

“Administrator” means the person or persons designated by the Plan Sponsor in Section 1.05 of the Adoption Agreement to be responsible for the administration of the Plan. If no Administrator is designated in the Adoption Agreement, the Administrator is the Plan Sponsor.

2.3. Adoption Agreement

“Adoption Agreement” means the agreement adopted by the Plan Sponsor that establishes the Plan.

2.4. Beneficiary

“Beneficiary” means the persons, trusts, estates or other entities entitled under Section 8.2 to receive benefits under the Plan upon the death of a Participant.

2.5. Board or Board of Directors

“Board” or “Board of Directors” means the Board of Directors of the Plan Sponsor.

2.6. Bonus

“Bonus” means an amount of incentive remuneration payable by the Employer to a Participant.

2.7. Change in Control

“Change in Control” means the occurrence of an event involving the Plan Sponsor that is described in Section 9.7.

2.8. Code

“Code” means the Internal Revenue Code of 1986, as amended.

2.9 Compensation

“Compensation” has the meaning specified in Section 3.01 of the Adoption Agreement.

2.10 Director

“Director” means a non-employee member of the Board who has been designated by the Employer as eligible to participate in the Plan.

2.11 Disability

“Disability” means a determination by the Administrator that the Participant is either (a) unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or (b) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or last for a continuous period of not less than twelve months, receiving income replacement benefits for a period of not less than three months under an accident and health plan covering employees of the Employer in accordance with the definition in Section 6.01(i) of the Adoption Agreement. A Participant will be considered to have incurred a Disability if he is determined to be totally disabled by the Social Security Administration or the Railroad Retirement Board.

2.12. Eligible Employee

“Eligible Employee” means an employee of the Employer who satisfies the requirements in Section 2.01 of the Adoption Agreement.

2.13. Employer

“Employer” means the Plan Sponsor and any other entity which is authorized by the Plan Sponsor to participate in and, in fact, does adopt the Plan.

2.14. ERISA

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended.

2.15. Identification Date

“Identification Date” means the date as of which Key Employees are determined which is specified in Section 1.06 of the Adoption Agreement.

2.16. Key Employee

“Key Employee” means an employee who satisfies the conditions set forth in Section 9.6.

2.17. Participant

“Participant” means an Eligible Employee or Director who commences participation in the Plan in accordance with Article 3.

2.18. Plan

“Plan” means the unfunded plan of deferred compensation set forth herein, including the Adoption Agreement and any trust agreement, as adopted by the Plan Sponsor and as amended from time to time.

2.19. Plan Sponsor

“Plan Sponsor” means the entity identified in Section 1.03 of the Adoption Agreement or any successor by merger, consolidation or otherwise.

2.20. Plan Year

“Plan Year” means the period identified in Section 1.02 of the Adoption Agreement.

2.21. Related Employer

“Related Employer” means the Employer and (a) any corporation that is a member of a controlled group of corporations as defined in Code Section 414(b) that includes the Employer and (b) any trade or business that is under common control as defined in Code Section 414(c) that includes the Employer.

2.22. Retirement

“Retirement” has the meaning specified in 6.01(f) of the Adoption Agreement.

2.23. Separation from Service

“Separation from Service” means the date that the Participant dies, retires or otherwise has a termination of employment with respect to all entities comprising the Related Employer. A Separation from Service does not occur if the Participant is on military leave, sick leave or other bona fide leave of absence if the period of leave does not exceed six months or such longer period during which the Participant’s right to re-employment is provided by statute or contract. If the period of leave exceeds six months and the Participant’s right to re-employment is not provided either by statute or contract, a Separation from Service will be deemed to have occurred on the first day following the six-month period. If the period of leave is due to any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than six months, where the impairment causes the Participant to be unable to perform the duties of his position of employment or any substantially similar position of employment, a 29 month period of absence may be substituted for the six month period.

Whether a termination of employment has occurred is based on whether the facts and circumstances indicate that the Related Employer and the Participant reasonably anticipated that no further services would be performed after a certain date or that the level of bona fide services the Participant would perform after such date (whether as an employee or as an independent contractor) would permanently decrease to no more than 20 percent of the average level of bona fide services performed (whether as an employee or an independent contractor) over the immediately preceding 36 month period (or the full period of services to the Related Employer if the employee has been providing services to the Related Employer for less than 36 months).

An independent contractor is considered to have experienced a Separation from Service with the Related Employer upon the expiration of the contract (or, in the case of more than one contract, all contracts) under which services are performed for the Related Employer if the expiration constitutes a good-faith and complete termination of the contractual relationship.

If a Participant provides services as both an employee and an independent contractor of the Related Employer, the Participant must separate from service both as an employee and as an independent contractor to be treated as having incurred a Separation from Service. If a Participant ceases providing services as an independent contractor and begins providing services as an employee, or ceases providing services as an employee and begins providing services as an independent contractor, the Participant will not be considered to have experienced a Separation from Service until the Participant has ceased providing services in both capacities.

If a Participant provides services both as an employee and as a member of the Board of Directors of a corporate Related Employer (or an analogous position with respect to a noncorporate Related Employer), the services provided as a Director are not taken into account in determining whether the Participant has incurred a Separation from Service as an employee for purposes of a nonqualified deferred compensation plan in which the Participant participates as an employee that is not aggregated under Code Section 409A with any plan in which the Participant participates as a Director.

If a Participant provides services both as an employee and as a member of the Board of Directors of a corporate related Employer (or an analogous position with respect to a noncorporate Related Employer), the services provided as an employee are not taken into account in determining whether the Participant has experienced a Separation from Service as a Director for purposes of a nonqualified deferred compensation plan in which the Participant participates as a Director that is not aggregated under Code Section 409A with any plan in which the Participant participates as an employee.

All determinations of whether a Separation from Service has occurred will be made in a manner consistent with Code Section 409A and the final regulations thereunder.

2.24. *Unforeseeable Emergency*

“Unforeseeable Emergency” means a severe financial hardship of the Participant resulting from an illness or accident of the Participant, the Participant’s spouse, the Participant’s Beneficiary, or the Participant’s dependent (as defined in Code Section 152, without regard to Code section 152(b)(1), (b)(2) and (d)(1)(B); loss of the Participant’s property due to casualty; or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant.

2.25. *Valuation Date*

“Valuation Date” means each business day of the Plan Year that the New York Stock Exchange is open.

2.26. *Years of Service*

“Years of Service” means each one year period for which the Participant receives service credit in accordance with the provisions of Section 7.01(d) of the Adoption Agreement.

Article 3 - Participation

3.1. *Participation*

The Participants in the Plan shall be those Directors and employees of the Employer who satisfy the requirements of Section 2.01 of the Adoption Agreement.

3.2. *Termination of Participation*

The Administrator may terminate a Participant's participation in the Plan in a manner consistent with Code Section 409A. If the Employer terminates a Participant's participation before the Participant experiences a Separation from Service, the Participant's vested Accounts shall be paid in accordance with the provisions of Article 9.

Article 4 - Participant Elections

4.1. *Deferral Agreement*

If permitted by the Plan Sponsor in accordance with Section 4.01 of the Adoption Agreement, each Eligible Employee and Director may elect to defer his Compensation within the meaning of Section 3.01 of the Adoption Agreement by executing in writing or electronically, a deferral agreement in accordance with rules and procedures established by the Administrator and the provisions of this Article 4.

A new deferral agreement must be timely executed for each Plan Year during which the Eligible Employee or Director desires to defer Compensation. An Eligible Employee or Director who does not timely execute a deferral agreement shall be deemed to have elected zero deferrals of Compensation for such Plan Year.

A deferral agreement may be changed or revoked during the period specified by the Administrator. Except as provided in Section 9.3, a deferral agreement becomes irrevocable at the close of the specified period.

4.2. *Amount of Deferral*

An Eligible Employee or Director may elect to defer Compensation in any amount permitted by Section 4.01(a) of the Adoption Agreement.

4.3 *Timing of Election to Defer*

Each Eligible Employee or Director who desires to defer Compensation otherwise payable during a Plan Year must execute a deferral agreement within the period preceding the Plan Year specified by the Administrator. Each Eligible Employee who desires to defer Compensation that is a Bonus must execute a deferral agreement within the period preceding the Plan Year during which the Bonus is earned that is specified by the Administrator, except that if the Bonus can be treated as performance based compensation as described in Code Section 409A(a)(4)(B)(iii), the deferral agreement may be executed within the period specified by the Administrator, which period, in no event, shall end after the date which is six months prior to the end of the period during which the Bonus is earned, provided the Participant has performed services continuously from the later of the beginning of the performance period or the date the performance criteria are established through the date the Participant executed the deferral agreement and provided further that the compensation has not yet become 'readily ascertainable' within the meaning of Treas. Reg. § 1.409A-2(a)(8). In addition, if the Compensation qualifies as 'fiscal year compensation' within the meaning of Treas. Reg. § 1.409A-2(a)(6), the deferral agreement may be made not later than the end of the Employer's taxable year immediately preceding the first taxable year of the Employer in which any services are performed for which such Compensation is payable.

Except as otherwise provided below, an employee who is classified or designated as an Eligible Employee during a Plan Year or a Director who is designated as eligible to participate during a Plan Year may elect to defer Compensation otherwise payable during the remainder of such Plan Year in accordance with the rules of this Section 4.3 by executing a deferral agreement within the thirty (30) day period beginning on the date the employee is classified or designated as an Eligible Employee or the date the Director is designated as eligible, whichever is applicable, if permitted by Section 4.01(b)(ii) of the Adoption Agreement. If Compensation is based on a specified performance period that begins before the Eligible Employee or Director executes his deferral agreement, the election will be deemed to apply to the portion of such Compensation equal to the total amount of Compensation for the performance period multiplied by the ratio of the number of days remaining in the performance period after the election becomes irrevocable and effective over the total number of days in the performance period. The rules of this paragraph shall not apply unless the Eligible Employee or Director can be treated as initially eligible in accordance with Treas. Reg. § 1.409A-2(a)(7).

4.4. Election of Payment Schedule and Form of Payment

All elections of a payment schedule and a form of payment will be made in accordance with rules and procedures established by the Administrator and the provisions of this Section 4.4.

- (a) If the Plan Sponsor has elected to permit annual distribution elections in accordance with Section 6.01(h) of the Adoption Agreement the following rules apply. At the time an Eligible Employee or Director completes a deferral agreement, the Eligible Employee or Director must elect a distribution event (which includes a specified time) and a form of payment for the Compensation subject to the deferral agreement from among the options the Plan Sponsor has made available for this purpose and which are specified in 6.01(b) of the Adoption Agreement. Prior to the time required by Treas. Reg. § 1.409A-2, the Eligible Employee or Director shall elect a distribution event (which includes a specified time) and a form of payment for any Employer contributions that may be credited to the Participant's Account during the Plan Year. If an Eligible Employee or Director fails to elect a distribution event, he shall be deemed to have elected Separation from Service as the distribution event. If he fails to elect a form of payment, he shall be deemed to have elected a lump sum form of payment.
- (b) If the Plan Sponsor has elected not to permit annual distribution elections in accordance with Section 6.01(h) of the Adoption Agreement the following rules apply. At the time an Eligible Employee or Director first completes a deferral agreement but in no event later than the time required by Treas. Reg. § 1.409A-2, the Eligible Employee or Director must elect a distribution event (which includes a specified time) and a form of payment for amounts credited to his Account from among the options the Plan Sponsor has made available for this purpose and which are specified in Section 6.01(b) of the Adoption Agreement. If an Eligible Employee or Director fails to elect a distribution event, he shall be deemed to have elected Separation from Service in the distribution event. If he fails to elect a form of payment, he shall be deemed to have elected a lump sum form of payment.

Article 5 - Employer Contributions

5.1. *Matching Contributions*

If elected by the Plan Sponsor in Section 5.01(a) of the Adoption Agreement, the Employer will credit the Participant's Account with a matching contribution determined in accordance with the formula specified in Section 5.01(a) of the Adoption Agreement. The matching contribution will be treated as allocated to the Participant's Account at the time specified in Section 5.01(a)(iii) of the Adoption Agreement.

5.2. *Other Contributions*

If elected by the Plan Sponsor in Section 5.01(b) of the Adoption Agreement, the Employer will credit the Participant's Account with a contribution determined in accordance with the formula or method specified in Section 5.01(b) of the Adoption Agreement. The contribution will be treated as allocated to the Participant's Account at the time specified in Section 5.01(b)(iii) of the Adoption Agreement.

Article 6 - Accounts and Credits

6.1. *Establishment of Account*

For accounting and computational purposes only, the Administrator will establish and maintain an Account on behalf of each Participant which will reflect the credits made pursuant to Section 6.2, distributions or withdrawals, along with the earnings, expenses, gains and losses allocated thereto, attributable to the hypothetical investments made with the amounts in the Account as provided in Article 7. The Administrator may establish and maintain such other records and accounts, as it decides in its discretion to be reasonably required or appropriate to discharge its duties under the Plan.

6.2. *Credits to Account*

A Participant's Account will be credited for each Plan Year with the amount of his elective deferrals under Section 4.1 at the time the amount subject to the deferral election would otherwise have been payable to the Participant and the amount of Employer contributions, if any, treated as allocated on his behalf under Article 5.

Article 7 - Investment of Contributions

7.1. *Investment Options*

The amount credited to each Account shall be treated as invested in the investment options designated for this purpose by the Administrator.

7.2. *Adjustment of Accounts*

The amount credited to each Account shall be adjusted for hypothetical investment earnings, expenses, gains or losses in an amount equal to the earnings, expenses, gains or losses attributable to the investment options selected by the party designated in Section 9.01 of the Adoption Agreement from among the investment options provided in Section 7.1. If permitted by Section 9.01 of the Adoption Agreement, a Participant (or the Participant's Beneficiary after the death of the Participant) may, in accordance with rules and procedures established by the Administrator, select the investments from among the options provided in Section 7.1 to be used for the purpose of calculating future hypothetical investment adjustments to the Account or to future credits to the Account under Section 6.2 effective as of the Valuation Date coincident with or next following notice to the Administrator. Each Account shall be adjusted as of each Valuation Date to reflect: (a) the hypothetical earnings, expenses, gains and losses described above; (b) amounts credited pursuant to Section 6.2; and (c) distributions or withdrawals. In addition, each Account may be adjusted for its allocable share of the hypothetical costs and expenses associated with the maintenance of the hypothetical investments provided in Section 7.1.

Article 8 - Right to Benefits

8.1. Vesting

A Participant, at all times, has a 100% nonforfeitable interest in the amounts credited to his Account attributable to his elective deferrals made in accordance with Section 4.1.

A Participant's right to the amounts credited to his Account attributable to Employer contributions made in accordance with Article 5 shall be determined in accordance with the relevant schedule and provisions in Section 7.01 of the Adoption Agreement. Upon a Separation from Service and after application of the provisions of Section 7.01 of the Adoption Agreement, the Participant shall forfeit the nonvested portion of his Account.

8.2. Death

The Plan Sponsor may elect to accelerate vesting upon the death of the Participant in accordance with Section 7.01(c) of the Adoption Agreement and/or to accelerate distributions upon death in accordance with Section 6.01(b) or Section 6.01(d) of the Adoption Agreement. If the Plan Sponsor does not elect to accelerate distributions upon death in accordance with Section 6.01(b) or Section 6.01(d) of the Adoption Agreement, the vested amount credited to the Participant's Account will be paid in accordance with the provisions of Article 9.

A Participant may designate a Beneficiary or Beneficiaries, or change any prior designation of Beneficiary or Beneficiaries in accordance with rules and procedures established by the Administrator. Whenever a Participant designates a new Beneficiary, all former Beneficiary designations by such Participant shall be revoked automatically. If a Participant and the Participant's spouse divorce, any designations of the spouse as Beneficiary shall become null and void. The former spouse shall be treated as the Beneficiary under the Plan only if after the divorce is final, the Participant expressly re-designates the former spouse as the Participant's Beneficiary.

A copy of the death notice or other sufficient documentation must be filed with and approved by the Administrator. If upon the death of the Participant there is, in the opinion of the Administrator, no designated Beneficiary for part or all of the Participant's vested Account, such amount will be paid to his estate (such estate shall be deemed to be the Beneficiary for purposes of the Plan) in accordance with the provisions of Article 9.

8.3. Disability

If the Plan Sponsor has elected to accelerate vesting upon the occurrence of a Disability in accordance with Section 7.01(c) of the Adoption Agreement and/or to permit distributions upon Disability in accordance with Section 6.01(b) or Section 6.01(d) of the Adoption Agreement, the determination of whether a Participant has incurred a Disability shall be made by the Administrator in its sole discretion in a manner consistent with the requirements of Code Section 409A.

Article 9 - Distribution of Benefits

9.1. *Amount of Benefits*

The vested amount credited to a Participant's Account as determined under Articles 6, 7 and 8 shall determine and constitute the basis for the value of benefits payable to the Participant under the Plan.

9.2. *Method and Timing of Distributions*

Except as otherwise provided in this Article 9, distributions under the Plan shall be made in accordance with the elections made or deemed made by the Participant under Article 4. Subject to the provisions of Section 9.6 requiring a six month delay for certain distributions to Key Employees, distributions following a payment event shall commence at the time specified in Section 6.01(a) of the Adoption Agreement. If permitted by Section 6.01(g) of the Adoption Agreement, a Participant may elect, at least twelve months before a scheduled distribution event, to delay the payment date for a minimum period of sixty months from the originally scheduled date of payment, provided the election does not take effect for at least twelve months from the date on which the election is made. The distribution election change must be made in accordance with procedures and rules established by the Administrator. The Participant may, at the same time the date of payment is deferred, change the form of payment but such change in the form of payment may not effect an acceleration of payment in violation of Code Section 409A or the provisions of Treas. Reg. § 1.409A-2(b). For purposes of this Section 9.2, a series of installment payments is always treated as a single payment and not as a series of separate payments.

9.3. *Unforeseeable Emergency*

A Participant may request a distribution due to an Unforeseeable Emergency if the Plan Sponsor has elected to permit Unforeseeable Emergency withdrawals under Section 8.01(a) of the Adoption Agreement. The request must be in writing and must be submitted to the Administrator along with evidence that the circumstances constitute an Unforeseeable Emergency. The Administrator has the discretion to require whatever evidence it deems necessary to determine whether a distribution is warranted, and may require the Participant to certify that the need cannot be met from other sources reasonably available to the Participant. Whether a Participant has incurred an Unforeseeable Emergency will be determined by the Administrator on the basis of the relevant facts and circumstances in its sole discretion, but, in no event, will an Unforeseeable Emergency be deemed to exist if the hardship can be relieved: (a) through reimbursement or compensation by insurance or otherwise, (b) by liquidation of the Participant's assets to the extent such liquidation would not itself cause severe financial hardship, or (c) by cessation of deferrals under the Plan. A distribution due to an Unforeseeable Emergency must be limited to the amount reasonably necessary to satisfy the emergency need and may include any amounts necessary to pay any federal, state, foreign or local income taxes and penalties reasonably anticipated to result from the distribution. The distribution will be made in the form of a single lump sum cash payment. If permitted by Section 8.01(b) of the Adoption Agreement, a Participant's deferral elections for the remainder of the Plan Year will be cancelled upon a withdrawal due to an Unforeseeable Emergency. If the payment of all or any portion of the Participant's vested Account is being delayed in accordance with Section 9.6 at the time he experiences an Unforeseeable Emergency, the amount being delayed shall not be subject to the provisions of this Section 9.3 until the expiration of the six month period of delay required by section 9.6.

9.4. *Payment Election Overrides*

If the Plan Sponsor has elected one or more payment election overrides in accordance with Section 6.01(d) of the Adoption Agreement, the following provisions apply. Upon the occurrence of the first event selected by the Plan Sponsor, the remaining vested amount credited to the Participant's Account shall be paid in the form designated to the Participant or his Beneficiary regardless of whether the Participant had made different elections of time and/or form of payment or whether the Participant was receiving installment payments at the time of the event.

9.5. *Cashouts of Amounts Not Exceeding Stated Limit*

If the vested amount credited to the Participant's Account does not exceed the limit established for this purpose by the Plan Sponsor in Section 6.01(e) of the Adoption Agreement at the time he incurs a Separation from Service for any reason, the Employer shall distribute such amount to the Participant at the time specified in Section 6.01(a) of the Adoption Agreement in a single lump sum cash payment following such Separation from Service regardless of whether the Participant had made different elections of time or form of payment as to the vested amount credited to his Account or whether the Participant was receiving installments at the time of such termination. A Participant's Account, for purposes of this Section 9.5, shall include any amounts described in Section 1.3.

9.6. *Required Delay in Payment to Key Employees*

Except as otherwise provided in this Section 9.6, a distribution made on account of Separation from Service (or Retirement, if applicable) to a Participant who is a Key Employee as of the date of his Separation from Service (or Retirement, if applicable) shall not be made before the date which is six months after the Separation from Service (or Retirement, if applicable).

- (a) A Participant is treated as a Key Employee if: (i) he is employed by a Related Employer any of whose stock is publicly traded on an established securities market, and (ii) he satisfies the requirements of Code Section 416(i)(1)(A)(i), (ii) or (iii), determined without regard to Code Section 416(i)(5), at any time during the twelve month period ending on the Identification Date.
- (b) A Participant who is a Key Employee on an Identification Date shall be treated as a Key Employee for purposes of the six month delay in distributions for the twelve month period beginning on the first day of a month no later than the fourth month following the Identification Date. The Identification Date and the effective date of the delay in distributions shall be determined in accordance with Section 1.06 of the Adoption Agreement.

- (c) The Plan Sponsor may elect to apply an alternative method to identify Participants who will be treated as Key Employees for purposes of the six month delay in distributions if the method satisfies each of the following requirements: (i) is reasonably designed to include all Key Employees, (ii) is an objectively determinable standard providing no direct or indirect election to any Participant regarding its application, and (iii) results in either all Key Employees or no more than 200 Key Employees being identified in the class as of any date. Use of an alternative method that satisfies the requirements of this Section 9.6(c) will not be treated as a change in the time and form of payment for purposes of Treas. Reg. § 1.409A-2(b).
- (d) The six month delay does not apply to payments described in Section 9.9(a), (b) or (d) or to payments that occur after the death of the Participant. If the payment of all or any portion of the Participant's vested Account is being delayed in accordance with this Section 9.6 at the time he incurs a Disability which would otherwise require a distribution under the terms of the Plan, no amount shall be paid until the expiration of the six month period of delay required by this Section 9.6.

9.7. *Change in Control*

If the Plan Sponsor has elected to permit distributions upon a Change in Control, the following provisions shall apply. A distribution made upon a Change in Control will be made at the time specified in Section 6.01(a) of the Adoption Agreement in the form elected by the Participant in accordance with the procedures described in Article 4. Alternatively, if the Plan Sponsor has elected in accordance with Section 11.02 of the Adoption Agreement to require distributions upon a Change in Control, the Participant's remaining vested Account shall be paid to the Participant or the Participant's Beneficiary at the time specified in Section 6.01(a) of the Adoption Agreement as a single lump sum payment. A Change in Control, for purposes of the Plan, will occur upon a change in the ownership of the Plan Sponsor, a change in the effective control of the Plan Sponsor or a change in the ownership of a substantial portion of the assets of the Plan Sponsor, but only if elected by the Plan Sponsor in Section 11.03 of the Adoption Agreement. The Plan Sponsor, for this purpose, includes any corporation identified in this Section 9.7. All distributions made in accordance with this Section 9.7 are subject to the provisions of Section 9.6.

If a Participant continues to make deferrals in accordance with Article 4 after he has received a distribution due to a Change in Control, the residual amount payable to the Participant shall be paid at the time and in the form specified in the elections he makes in accordance with Article 4 or upon his death or Disability as provided in Article 8.

Whether a Change in Control has occurred will be determined by the Administrator in accordance with the rules and definitions set forth in this Section 9.7. A distribution to the Participant will be treated as occurring upon a Change in Control if the Plan Sponsor terminates the Plan in accordance with Section 10.2 and distributes the Participant's benefits within twelve months of a Change in Control as provided in Section 10.3.

- (a) Relevant Corporations. To constitute a Change in Control for purposes of the Plan, the event must relate to: (i) the corporation for whom the Participant is performing services at the time of the Change in Control, (ii) the corporation that is liable for the payment of the Participant's benefits under the Plan (or all corporations liable if more than one corporation is liable) but only if either the deferred compensation is attributable to the performance of services by the Participant for such corporation (or corporations) or there is a bona fide business purpose for such corporation (or corporations) to be liable for such payment and, in either case, no significant purpose of making such corporation (or corporations) liable for such payment is the avoidance of federal income tax, or (iii) a corporation that is a majority shareholder of a corporation identified in (i) or (ii), or any corporation in a chain of corporations in which each corporation is a majority shareholder of another corporation in the chain, ending in a corporation identified in (i) or (ii). A majority shareholder is defined as a shareholder owning more than fifty percent (50%) of the total fair market value and voting power of such corporation.
- (b) Stock Ownership. Code Section 318(a) applies for purposes of determining stock ownership. Stock underlying a vested option is considered owned by the individual who owns the vested option (and the stock underlying an unvested option is not considered owned by the individual who holds the unvested option). If, however, a vested option is exercisable for stock that is not substantially vested (as defined by Treas. Reg. § 1.83-3(b) and (j)) the stock underlying the option is not treated as owned by the individual who holds the option.
- (c) Change in the Ownership of a Corporation. A change in the ownership of a corporation occurs on the date that any one person or more than one person acting as a group, acquires ownership of stock of the corporation that, together with stock held by such person or group, constitutes more than fifty percent (50%) of the total fair market value or total voting power of the stock of such corporation. If any one person or more than one person acting as a group is considered to own more than fifty percent (50%) of the total fair market value or total voting power of the stock of a corporation, the acquisition of additional stock by the same person or persons is not considered to cause a change in the ownership of the corporation (or to cause a change in the effective control of the corporation as discussed below in Section 9.7(d)). An increase in the percentage of stock owned by any one person, or persons acting as a group, as a result of a transaction in which the corporation acquires its stock in exchange for property will be treated as an acquisition of stock. Section 9.7(c) applies only when there is a transfer of stock of a corporation (or issuance of stock of a corporation) and stock in such corporation remains outstanding after the transaction. For purposes of this Section 9.7(c), persons will not be considered to be acting as a group solely because they purchase or own stock of the same corporation at the same time or as a result of a public offering. Persons will, however, be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the corporation. If a person, including an entity, owns stock in both corporations that enter into a merger, consolidation, purchase or acquisition of stock, or similar transaction, such shareholder is considered to be acting as a group with other shareholders in a corporation only with respect to ownership in that corporation prior to the transaction giving rise to the change and not with respect to the ownership interest in the other corporation.

- (d) Change in the Effective Control of a Corporation. A change in the effective control of a corporation occurs on the date that either (i) any one person, or more than one person acting as a group, acquires (or has acquired during the twelve month period ending on the date of the most recent acquisition by such person or persons) ownership of stock of the corporation possessing thirty percent (30%) or more of the total voting power of the stock of such corporation, or (ii) a majority of members of the corporation's Board of Directors is replaced during any twelve month period by Directors whose appointment or election is not endorsed by a majority of the members of the corporation's Board of Directors prior to the date of the appointment or election, provided that for purposes of this paragraph (ii), the term corporation refers solely to the relevant corporation identified in Section 9.7(a) for which no other corporation is a majority shareholder for purposes of Section 9.7(a). In the absence of an event described in Section 9.7(d)(i) or (ii), a change in the effective control of a corporation will not have occurred. A change in effective control may also occur in any transaction in which either of the two corporations involved in the transaction has a change in the ownership of such corporation as described in Section 9.7(c) or a change in the ownership of a substantial portion of the assets of such corporation as described in Section 9.7(e). If any one person, or more than one person acting as a group, is considered to effectively control a corporation within the meaning of this Section 9.7(d), the acquisition of additional control of the corporation by the same person or persons is not considered to cause a change in the effective control of the corporation or to cause a change in the ownership of the corporation within the meaning of Section 9.7(c). For purposes of this Section 9.7(d), persons will or will not be considered to be acting as a group in accordance with rules similar to those set forth in Section 9.7(c) with the following exception. If a person, including an entity, owns stock in both corporations that enter into a merger, consolidation, purchase or acquisition of stock, or similar transaction, such shareholder is considered to be acting as a group with other shareholders in a corporation only with respect to the ownership in that corporation prior to the transaction giving rise to the change and not with respect to the ownership interest in the other corporation.

- (e) Change in the Ownership of a Substantial Portion of a Corporation's Assets. A change in the ownership of a substantial portion of a corporation's assets occurs on the date that any one person, or more than one person acting as a group (as determined in accordance with rules similar to those set forth in Section 9.7(d)), acquires (or has acquired during the twelve month period ending on the date of the most recent acquisition by such person or persons) assets from the corporation that have a total gross fair market value equal to or more than forty percent (40%) of the total gross fair market value of all of the assets of the corporation immediately prior to such acquisition or acquisitions. For this purpose, gross fair market value means the value of the assets of the corporation or the value of the assets being disposed of determined without regard to any liabilities associated with such assets. There is no Change in Control event under this Section 9.7(e) when there is a transfer to an entity that is controlled by the shareholders of the transferring corporation immediately after the transfer. A transfer of assets by a corporation is not treated as a change in ownership of such assets if the assets are transferred to (i) a shareholder of the corporation (immediately before the asset transfer) in exchange for or with respect to its stock, (ii) an entity, fifty percent (50%) or more of the total value or voting power of which is owned, directly or indirectly, by the corporation, (iii) a person, or more than one person acting as a group, that owns, directly or indirectly, fifty percent (50%) or more of the total value or voting power of all the outstanding stock of the corporation, or (iv) an entity, at least fifty (50%) of the total value or voting power of which is owned, directly or indirectly, by a person described in Section 9.7(e)(iii). For purposes of the foregoing, and except as otherwise provided, a person's status is determined immediately after the transfer of assets.

9.8. *Permissible Delays in Payment*

Distributions may be delayed beyond the date payment would otherwise occur in accordance with the provisions of Articles 8 and 9 in any of the following circumstances (as long as the Employer treats all payments to similarly situated Participants on a reasonably consistent basis):

- (a) The Employer may delay payment if it reasonably anticipates that its deduction with respect to such payment would be limited or eliminated by the application of Code Section 162(m). Payment must be made during the Participant's first taxable year in which the Employer reasonably anticipates, or should reasonably anticipate, that if the payment is made during such year the deduction of such payment will not be barred by the application of Code Section 162(m) or during the period beginning with the Participant's Separation from Service and ending on the later of the last day of the Employer's taxable year in which the Participant separates from service or the 15th day of the third month following the Participant's Separation from Service. If a scheduled payment to a Participant is delayed in accordance with this Section 9.8(a), all scheduled payments to the Participant that could be delayed in accordance with this Section 9.8(a) will also be delayed.
- (b) The Employer may also delay payment if it reasonably anticipates that the making of the payment will violate federal securities laws or other applicable laws provided payment is made at the earliest date on which the Employer reasonably anticipates that the making of the payment will not cause such violation.

- (c) The Employer reserves the right to amend the Plan to provide for a delay in payment upon such other events and conditions as the Secretary of the Treasury may prescribe in generally applicable guidance published in the Internal Revenue Bulletin.

9.9. Permitted Acceleration of Payment

The Employer may permit acceleration of the time or schedule of any payment or amount scheduled to be paid pursuant to a payment under the Plan provided such acceleration would be permitted by the provisions of Treas. Reg. § 1.409A-3(j)(4), including the following events:

- (a) Domestic Relations Order. A payment may be accelerated if such payment is made to an alternate payee pursuant to and following the receipt and qualification of a domestic relations order as defined in Code Section 414(p).
- (b) Compliance with Ethics Agreement and Legal Requirements. A payment may be accelerated as may be necessary to comply with ethics agreements with the Federal government or as may be reasonably necessary to avoid the violation of Federal, state, local or foreign ethics law or conflicts of laws, in accordance with the requirements of Code Section 409A.
- (c) De Minimis Amounts. A payment will be accelerated if (i) the amount of the payment is not greater than the applicable dollar amount under Code Section 402(g)(1)(B), (ii) at the time the payment is made the amount constitutes the Participant's entire interest under the Plan and all other plans that are aggregated with the Plan under Treas. Reg. § 1.409A-1(c)(2).
- (d) FICA Tax. A payment may be accelerated to the extent required to pay the Federal Insurance Contributions Act tax imposed under Code Sections 3101, 3121(a) and 3121(v)(2) of the Code with respect to compensation deferred under the Plan (the "FICA Amount"). Additionally, a payment may be accelerated to pay the income tax on wages imposed under Code Section 3401 of the Code on the FICA Amount and to pay the additional income tax at source on wages attributable to the pyramiding Code Section 3401 wages and taxes. The total payment under this subsection (d) may not exceed the aggregate of the FICA Amount and the income tax withholding related to the FICA Amount.
- (e) Section 409A Additional Tax. A payment may be accelerated if the Plan fails to meet the requirements of Code Section 409A; provided that such payment may not exceed the amount required to be included in income as a result of the failure to comply with the requirements of Code Section 409A.
- (f) Offset. A payment may be accelerated in the Employer's discretion as satisfaction of a debt of the Participant to the Employer, where such debt is incurred in the ordinary course of the service relationship between the Participant and the Employer, the entire amount of the reduction in any of the Employer's taxable years does not exceed \$5,000, and the reduction is made at the same time and in the same amount as the debt otherwise would have been due and collected from the Participant.
- (g) Other Events. A payment may be accelerated in the Administrator's discretion in connection with such other events and conditions as permitted by Code Section 409A.

Article 10 - Amendment and Termination

10.1. *Amendment by Plan Sponsor*

The Plan Sponsor reserves the right to amend the Plan (for itself and each Employer) through action of its Board of Directors. No amendment can directly or indirectly deprive any current or former Participant or Beneficiary of all or any portion of his Account which had accrued and vested prior to the amendment.

10.2. *Plan Termination Following Change in Control or Corporate Dissolution*

If so elected by the Plan Sponsor in 11.01 of the Adoption Agreement, the Plan Sponsor reserves the right to terminate the Plan and distribute all amounts credited to all Participant Accounts within the 30 days preceding or the twelve months following a Change in Control as determined in accordance with the rules set forth in Section 9.7. For this purpose, the Plan will be treated as terminated only if all agreements, methods, programs and other arrangements sponsored by the Related Employer immediately after the Change in Control which are treated as a single plan under Treas. Reg. § 1.409A-1(c)(2) are also terminated so that all Participants under the Plan and all similar arrangements are required to receive all amounts deferred under the terminated arrangements within twelve months of the date the Plan Sponsor irrevocably takes all necessary action to terminate the arrangements. In addition, the Plan Sponsor reserves the right to terminate the Plan within twelve months of a corporate dissolution taxed under Code Section 331 or with the approval of a bankruptcy court pursuant to 11 U. S. C. Section 503(b)(1)(A) provided that amounts deferred under the Plan are included in the gross incomes of Participants in the latest of (a) the calendar year in which the termination and liquidation occurs, (b) the first calendar year in which the amount is no longer subject to a substantial risk of forfeiture, or (c) the first calendar year in which payment is administratively practicable.

10.3. *Other Plan Terminations*

The Plan Sponsor retains the discretion to terminate the Plan if (a) all arrangements sponsored by the Plan Sponsor that would be aggregated with any terminated arrangement under Code Section 409A and Treas. Reg. § 1.409A-1(c)(2) are terminated, (b) no payments other than payments that would be payable under the terms of the arrangements if the termination had not occurred are made within twelve months of the termination of the arrangements, (c) all payments are made within twenty-four months of the date the Plan Sponsor takes all necessary action to irrevocably terminate and liquidate the arrangements, (d) the Plan Sponsor does not adopt a new arrangement that would be aggregated with any terminated arrangement under Code Section 409A and the regulations thereunder at any time within the three year period following the date of termination of the arrangement, and (e) the termination does not occur proximate to a downturn in the financial health of the Plan Sponsor. The Plan Sponsor also reserves the right to amend the Plan to provide that termination of the Plan will occur under such conditions and events as may be prescribed by the Secretary of the Treasury in generally applicable guidance published in the Internal Revenue Bulletin.

Article 11 - The Trust

11.1. *Establishment of Trust*

The Plan Sponsor may but is not required to establish a trust to hold amounts which the Plan Sponsor may contribute from time to time to correspond to some or all amounts credited to Participants under Section 6.2. In the event that the Plan Sponsor wishes to establish a trust to provide a source of funds for the payment of Plan benefits, any such trust shall be constructed to constitute an unfunded arrangement that does not affect the status of the Plan as an unfunded plan for purposes of Title I of ERISA and the Code. If the Plan Sponsor elects to establish a trust in accordance with Section 10.01 of the Adoption Agreement, the provisions of Sections 11.2 and 11.3 shall become operative.

11.2. *Rabbi Trust*

Any trust established by the Plan Sponsor shall be between the Plan Sponsor and a trustee pursuant to a separate written agreement under which assets are held, administered and managed, subject to the claims of the Plan Sponsor's creditors in the event of the Plan Sponsor's insolvency. The trust is intended to be treated as a rabbi trust in accordance with existing guidance of the Internal Revenue Service, and the establishment of the trust shall not cause the Participant to realize current income on amounts contributed thereto. The Plan Sponsor must notify the trustee in the event of a bankruptcy or insolvency.

11.3. *Investment of Trust Funds*

Any amounts contributed to the trust by the Plan Sponsor shall be invested by the trustee in accordance with the provisions of the trust and the instructions of the Administrator. Trust investments need not reflect the hypothetical investments selected by Participants under Section 7.1 for the purpose of adjusting Accounts and the earnings or investment results of the trust need not affect the hypothetical investment adjustments to Participant Accounts under the Plan.

Article 12 - Plan Administration

12.1. Powers and Responsibilities of the Administrator

The Administrator has the full power and the full responsibility to administer the Plan in all of its details; subject, however, to the applicable requirements of ERISA. The Administrator's powers and responsibilities include, but are not limited to, the following:

- (a) To make and enforce such rules and procedures as it deems necessary or proper for the efficient administration of the Plan;
- (b) To interpret the Plan, its interpretation thereof to be final, except as provided in Section 12.2, on all persons claiming benefits under the Plan;
- (c) To decide all questions concerning the Plan and the eligibility of any person to participate in the Plan;
- (d) To administer the claims and review procedures specified in Section 12.2;
- (e) To compute the amount of benefits which will be payable to any Participant, former Participant or Beneficiary in accordance with the provisions of the Plan;
- (f) To determine the person or persons to whom such benefits will be paid;
- (g) To authorize the payment of benefits;
- (h) To make corrections and recover the overpayment of any benefits;
- (i) To comply with the reporting and disclosure requirements of Part 1 of Subtitle B of Title I of ERISA;
- (j) To appoint such agents, counsel, accountants, and consultants as may be required to assist in administering the Plan;
- (k) By written instrument, to allocate and delegate its responsibilities, including the formation of an Administrative Committee to administer the Plan.

12.2. **Claims and Review Procedures**

- (a) Claims Procedure. If any person believes he is being denied any rights or benefits under the Plan, such person may file a claim in writing with the Administrator. If any such claim is wholly or partially denied, the Administrator will notify such person of its decision in writing. Such notification will contain (i) specific reasons for the denial, (ii) specific reference to pertinent Plan provisions, (iii) a description of any additional material or information necessary for such person to perfect such claim and an explanation of why such material or information is necessary, and (iv) a description of the Plan's review procedures and the time limits applicable to such procedures, including a statement of the person's right to bring a civil action following an adverse decision on review. If the claim involves a Disability, the denial must also include the standards that governed the decision, including the basis for disagreeing with any health care professionals, vocational professionals or the Social Security Administration as well as an explanation of the scientific or clinical judgement underlying the denial. Such notification will be given within 90 days (45 days in the case of a claim regarding Disability) after the claim is received by the Administrator. The Administrator may extend the period for providing the notification by 90 days (30 days in the case of a claim regarding Disability, which may be extended an additional 30 days) if special circumstances require an extension of time for processing the claim and if written notice of such extension and circumstance is given to such person within the initial 90 day period (45 day period in the case of a claim regarding Disability). If such notification is not given within such period, the claim will be considered denied as of the last day of such period and such person may request a review of his claim.
- (b) Review Procedure. Within 60 days (180 days in the case of a claim regarding Disability) after the date on which a person receives a written notification of denial of claim (or, if written notification is not provided, within 60 days (180 days in the case of a claim regarding Disability) of the date denial is considered to have occurred), such person (or his duly authorized representative) may (i) file a written request with the Administrator for a review of his denied claim and of pertinent documents and (ii) submit written issues and comments to the Administrator. The Administrator will notify such person of its decision in writing. Such notification will be written in a manner calculated to be understood by such person and will contain specific reasons for the decision as well as specific references to pertinent Plan provisions. The notification will explain that the person is entitled to receive, upon request and free of charge, reasonable access to and copies of all pertinent documents and has the right to bring a civil action following an adverse decision on review. The decision on review will be made within 60 days (45 days in the case of a claim regarding Disability). The Administrator may extend the period for making the decision on review by 60 days (45 days in the case of a claim regarding Disability) if special circumstances require an extension of time for processing the request such as an election by the Administrator to hold a hearing, and if written notice of such extension and circumstances is given to such person within the initial 60-day period (45 days in the case of a claim regarding Disability). If the decision on review is not made within such period, the claim will be considered denied.

If the claim is regarding Disability, and the determination of Disability has not been made by the Social Security Administration, the Railroad Retirement Board, or under the Plan Sponsor's long-term disability plan, the person may, upon written request and free of charge, also receive the identification of medical or vocational experts whose advice was obtained in connection with the denial of a claim regarding Disability, even if the advice was not relied upon.

Before issuing any decision with respect to a claim involving Disability, the Administrator will provide to the person, free of charge, the following information as soon as possible and sufficiently in advance of the date on which the response is required to be provided to the person to allow the person a reasonable opportunity to respond prior to the due date of the response:

- (i) Any new or additional evidence considered, relied upon, or generated by the Administrator or other person making the decision; and
- (ii) A new or addition rationale if the decision will be based on that rationale.
- (c) Exhaustion of Claims Procedures and Right to Bring Legal Claim. No action at law or equity shall be brought more than one year after the Administrator's affirmation of a denial of a claim, or, if earlier, more than four years after the facts or events giving rising to the claimant's allegation(s) or claim(s) first occurred.

12.3. Plan Administrative Costs

All reasonable costs and expenses (including legal, accounting, and employee communication fees) incurred by the Administrator in administering the Plan shall be paid by the Plan to the extent not paid by the Employer.

Article 13 - Miscellaneous

13.1. *Unsecured General Creditor of the Employer*

Participants and their Beneficiaries, heirs, successors and assigns shall have no legal or equitable rights, interests or claims in any property or assets of the Employer. For purposes of the payment of benefits under the Plan, any and all of the Employer's assets shall be, and shall remain, the general, unpledged, unrestricted assets of the Employer. Each Employer's obligation under the Plan shall be merely that of an unfunded and unsecured promise to pay money in the future.

13.2. *Employer's Liability*

Each Employer's liability for the payment of benefits under the Plan shall be defined only by the Plan and by the deferral agreements entered into between a Participant and the Employer. An Employer shall have no obligation or liability to a Participant under the Plan except as provided by the Plan and a deferral agreement or agreements. An Employer shall have no liability to Participants employed by other Employers.

13.3. *Limitation of Rights*

Neither the establishment of the Plan, nor any amendment thereof, nor the creation of any fund or account, nor the payment of any benefits, will be construed as giving to the Participant or any other person any legal or equitable right against the Employer, the Plan or the Administrator, except as provided herein; and in no event will the terms of employment or service of the Participant be modified or in any way affected hereby.

13.4. *Anti-Assignment*

Except as may be necessary to fulfill a domestic relations order within the meaning of Code Section 414(p), none of the benefits or rights of a Participant or any Beneficiary of a Participant shall be subject to the claim of any creditor. In particular, to the fullest extent permitted by law, all such benefits and rights shall be free from attachment, garnishment, or any other legal or equitable process available to any creditor of the Participant and his Beneficiary. Neither the Participant nor his Beneficiary shall have the right to alienate, anticipate, commute, pledge, encumber, or assign any of the payments which he may expect to receive, contingently or otherwise, under the Plan, except the right to designate a Beneficiary to receive death benefits provided hereunder. Notwithstanding the preceding, the benefit payable from a Participant's Account may be reduced, at the discretion of the Administrator, to satisfy any debt or liability to the Employer.

13.5. Facility of Payment

If the Administrator determines, on the basis of medical reports or other evidence satisfactory to the Administrator, that the recipient of any benefit payments under the Plan is incapable of handling his affairs by reason of minority, illness, infirmity or other incapacity, the Administrator may direct the Employer to disburse such payments to a person or institution designated by a court which has jurisdiction over such recipient or a person or institution otherwise having the legal authority under State law for the care and control of such recipient. The receipt by such person or institution of any such payments therefore, and any such payment to the extent thereof, shall discharge the liability of the Employer, the Plan and the Administrator for the payment of benefits hereunder to such recipient.

13.6. Notices

Any notice or other communication to the Employer or Administrator in connection with the Plan shall be deemed delivered in writing if addressed to the Plan Sponsor at the address specified in Section 1.03 of the Adoption Agreement and if either actually delivered at said address or, in the case of a letter, five business days shall have elapsed after the same shall have been deposited in the United States mails, first-class postage prepaid and registered or certified.

13.7. Tax Withholding

If the Employer concludes that tax is owing with respect to any deferral or payment hereunder, the Employer shall withhold such amounts from any payments due the Participant or from amounts deferred, as permitted by law, or otherwise make appropriate arrangements with the Participant or his Beneficiary for satisfaction of such obligation. Tax, for purposes of this Section 13.7 means any federal, state, local or any other governmental income tax, employment or payroll tax, excise tax, or any other tax or assessment owing with respect to amounts deferred, any earnings thereon, and any payments made to Participants under the Plan.

13.8. Indemnification

- (a) Each Indemnitee (as defined in Section 13.8(e)) shall be indemnified and held harmless by the Employer for all actions taken by him and for all failures to take action (regardless of the date of any such action or failure to take action), to the fullest extent permitted by the law of the jurisdiction in which the Employer is incorporated, against all expense, liability, and loss (including, without limitation, attorneys' fees, judgments, fines, taxes, penalties, and amounts paid or to be paid in settlement) reasonably incurred or suffered by the Indemnitee in connection with any Proceeding (as defined in subsection (e)). No indemnification pursuant to this Section shall be made, however, in any case where (1) the act or failure to act giving rise to the claim for indemnification is determined by a court to have constituted willful misconduct or recklessness or (2) there is a settlement to which the Employer does not consent.
- (b) The right to indemnification provided in this Section shall include the right to have the expenses incurred by the Indemnitee in defending any Proceeding paid by the Employer in advance of the final disposition of the Proceeding, to the fullest extent permitted by the law of the jurisdiction in which the Employer is incorporated; provided that, if such law requires, the payment of such expenses incurred by the Indemnitee in advance of the final disposition of a Proceeding shall be made only on delivery to the Employer of an undertaking, by or on behalf of the Indemnitee, to repay all amounts so advanced without interest if it shall ultimately be determined that the Indemnitee is not entitled to be indemnified under this Section or otherwise.
- (c) Indemnification pursuant to this Section shall continue as to an Indemnitee who has ceased to be such and shall inure to the benefit of his heirs, executors, and administrators. The Employer agrees that the undertakings made in this Section shall be binding on its successors or assigns and shall survive the termination, amendment or restatement of the Plan.
- (d) The foregoing right to indemnification shall be in addition to such other rights as the Indemnitee may enjoy as a matter of law or by reason of insurance coverage of any kind and is in addition to and not in lieu of any rights to indemnification to which the Indemnitee may be entitled pursuant to the by-laws of the Employer.
- (e) For the purposes of this Section, the following definitions shall apply:
 - (i) "Indemnitee" shall mean each person serving as an Administrator (or any other person who is an employee, Director, or officer of the Employer) who was or is a party to, or is threatened to be made a party to, or is otherwise involved in, any Proceeding, by reason of the fact that he is or was performing administrative functions under the Plan.
 - (ii) "Proceeding" shall mean any threatened, pending, or completed action, suit, or proceeding (including, without limitation, an action, suit, or proceeding by or in the right of the Employer), whether civil, criminal, administrative, investigative, or through arbitration.

13.9. Successors

The provisions of the Plan shall bind and inure to the benefit of the Plan Sponsor, the Employer and their successors and assigns and the Participant and the Participant's designated Beneficiaries.

13.10. Disclaimer

It is the Plan Sponsor's intention that the Plan comply with the requirements of Code Section 409A. Neither the Plan Sponsor nor the Employer shall have any liability to any Participant should any provision of the Plan fail to satisfy the requirements of Code Section 409A.

13.11. Governing Law

The Plan will be construed, administered and enforced according to the laws of the State specified by the Plan Sponsor in Section 12.01 of the Adoption Agreement.

**2020 Banner Corporation Amended
and Restated Deferred Compensation
Plan Adoption Agreement
Restated effective as of February 1, 2021**

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Adoption Agreement

1.01 Preamble

By the execution of this Adoption Agreement the Plan Sponsor hereby [complete (a) or (b)]

- (a) adopts a new plan as of [month, day, year]
- (b) amends and restates its existing plan as of February 1, 2021 which is the Amendment Effective Date. Except as otherwise provided in Appendix A, all amounts deferred under the Plan prior to the Amendment Effective Date shall be governed by the terms of the Plan as in effect on the day before the Amendment Effective Date.

Original Effective Date: January 1, 2004

Pre-409A Grandfathering: Yes No

1.02 Plan

Plan Name: 2020 Banner Corporation Amended and Restated Deferred Compensation Plan

Plan Year: calendar

1.03 Plan Sponsor

Name: Banner Corporation

Address: 10 South First Avenue, Walla Walla, WA 99362

Phone #: (800) 495-1871

EIN #: 91-1691604

Fiscal Year: 12/31

Is stock of the Plan Sponsor, any Employer or any Related Employer publicly traded on an established securities market? Yes No

2.01 Participation

- (a) Employees [complete (i), (ii) or (iii)]
- (i) Eligible Employees are selected by the Employer.
- (ii) Eligible Employees are those employees of the Employer who satisfy the following criteria:

- (iii) Employees are not eligible to participate.
- (b) Directors [complete (i), (ii) or (iii)]
- (i) All Directors are eligible to participate.
- (ii) Only Directors selected by the Employer are eligible to participate.
- (iii) Directors are not eligible to participate.

3.01 Compensation

For purposes of determining Participant contributions under Article 4 and Employer contributions under Article 5, Compensation shall be defined in the following manner [complete (a) or (b) and select (c) and/or (d), if applicable]:

(a) Compensation is defined as:

(b) Compensation as defined in Banner Corporation 401(k)/Profit Sharing Plan without regard to the limitation in Section 401(a)(17) of the Code for such Plan Year.

(c) Director Compensation is defined as:

(d) Compensation shall, for all Plan purposes, be limited to \$_____.

(d) Not Applicable.

3.02 Bonuses

Compensation, as defined in Section 3.01 of the Adoption Agreement, includes the following type of bonuses that will be the subject of a separate deferral election:

<u>Type</u>	<u>[Will be treated as]</u>	
	<u>Performance Based Compensation</u>	
	Yes	No
Bonus _____	<input checked="" type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>

Not Applicable.

4.01 Participant Contributions

If Participant contributions are permitted, complete (a), (b), and (c). Otherwise complete (d).

(a) Amount of Deferrals

A Participant may elect within the period specified in Section 4.01(b) of the Adoption Agreement to defer the following amounts of remuneration. For each type of remuneration listed, complete “dollar amount” and/or “percentage amount”.

(i) Compensation other than Bonuses [do not complete if you complete (iii)]

Type of Remuneration	Dollar Amount		% Amount		Increment
	Min	Max	Min	Max	
Base Salary			5%	75%	1%
Commissions			5%	100%	1%
			%	%	%

Note: The increment is required to determine the permissible deferral amounts. For example, a minimum of 0% and maximum of 20% with a 5% increment would allow an individual to defer 0%, 5%, 10%, 15% or 20%.

(ii) Bonuses [do not complete if you complete (iii)]

Type of Bonus	Dollar Amount		% Amount		Increment
	Min	Max	Min	Max	
Bonus			5%	100%	1%
			%	%	%
			%	%	%

(iii) Compensation [do not complete if you completed (i) and (ii)]

Dollar Amount		% Amount		Increment
Min	Max	Min	Max	
		%	%	%

(iv) Director Compensation

Type of Compensation	Dollar Amount		% Amount		Increment
	Min	Max	Min	Max	
Director Fees			5%	100%	1%
Other:			%	%	%
Other:			%	%	%
Other:			%	%	%

(b) **Election Period**

(i) Performance Based

Compensation

A special election period

Does

Does Not

apply to each eligible type of performance based compensation referenced in Section 3.02 of the Adoption Agreement.

The special election period, if applicable, will be determined by the Employer.

(ii) Newly Eligible Participants

An employee who is classified or designated as an Eligible Employee during a Plan Year

May

May Not

elect to defer Compensation earned during the remainder of the Plan Year by completing a deferral agreement within the 30 day period beginning on the date he is eligible to participate in the Plan.

The special election period, if applicable, will be determined by the Employer.

(c) **No Participant Contributions**

Participant contributions are not permitted under the Plan.

5.01 Employer Contributions

If Employer contributions are permitted, complete (a) and/or (b). Otherwise complete (c).

(a) Matching Contributions

(i) Amount

For each Plan Year, the Employer shall make a matching contribution on behalf of each Participant who defers Compensation for the Plan Year and satisfies the requirements of Section 5.01(a)(ii) of the Adoption Agreement equal to [complete the ones that are applicable]:

(A) [insert percentage]% of the Compensation the Participant has elected to defer for the Plan Year

(B) An amount determined by the Employer in its sole discretion

(C) Matching contributions for each Participant shall be limited to \$_____ and/or [insert percentage]% of Compensation

(D) Other:

(E) Not Applicable [Proceed to Section 5.01(b)]

(ii) Eligibility for matching contribution

A Participant who defers Compensation for the Plan Year shall receive an allocation of matching contributions determined in accordance with Section 5.01(a)(i) provided he satisfies the following requirements [complete the ones that are applicable]:

(A) Describe requirements:

(B) Is selected by the Employer in its sole discretion to receive an allocation of matching contributions

(C) No requirements

(iii) Time of Allocation

Matching contributions, if made, shall be treated as allocated [select one]:

(A) As of the last day of the Plan Year

(B) At such times as the Employer shall determine in its sole discretion

(C) At the time the Compensation on account of which the matching contribution is being made would otherwise have been paid to the Participant

(D) Other:

(b) **Other Contributions**

(i) Amount

The Employer shall make a contribution on behalf of each Participant who satisfies the requirements of Section 5.01(b)(ii) equal to [complete the ones that are applicable]:

(A) An amount equal to [insert percentage]% of the Participant's Compensation

(B) An amount determined by the Employer in its sole discretion

(C) Contributions for each Participant shall be limited to \$_____

(D) Other:

(E) Not Applicable [Proceed to Section 6.01]

(ii) Eligibility for Other Contribution

A Participant shall receive an allocation of other Employer contributions determined in accordance with Section 5.01(b)(i) for the Plan Year if he satisfies the following requirements [complete the one that is applicable]:

(A) Describe requirements:

(B) Is selected by the Employer in its sole discretion to receive an allocation of other Employer contributions

(C) No requirements

(iii) Time of Allocation

Employer contributions, if made, shall be treated as allocated [select one]:

(A) As of the last day of the Plan Year

(B) At such times or times as the Employer shall determine in its sole discretion

(C) Other:

(c) **No Employer Contributions**

Employer contributions are not permitted under the Plan.

6.01 Distributions

The timing and form of payment of distributions made from the Participant's vested Account shall be made in accordance with the elections made in this Section 6.01 of the Adoption Agreement except when Section 9.6 of the Plan requires a six month delay for certain distributions to Key Employees of publicly traded companies.

(a) Timing of Distributions

- (i) All distributions shall commence in accordance with the following [choose one]:
- (A) Within 60 days following the distribution event but in no event later than the time prescribed by Treas. Reg. Sec. 1.409A-3(d).
 - (B) Monthly on specified day [insert day]
 - (C) Annually on specified month and day [insert month and day]
 - (D) Calendar quarter on specified month and day [insert month and day] Q[insert numerical quarter 1, 2, 3, or 4]
- (ii) The timing of distributions as determined in Section 6.01(a)(i) shall be modified by the adoption of:
- (A) Event Delay – Distribution events other than those based on Specified Date or Specified Age will be treated as not having occurred for six months and shall commence semiannually as of January 1 or July 1.
 - (B) Hold Until Next Year – Distribution events other than those based on Specified Date or Specified Age will be treated as not having occurred for twelve months from the date of the event if payment pursuant to Section 6.01(a)(i) will thereby occur in the next calendar year or on the first payment date in the next calendar year in all other cases
 - (C) Immediate Processing – The timing method selected by the Plan Sponsor under Section 6.01(a)(i) shall be overridden for the following distribution events [insert events]:

 - (D) Not applicable

(b) **Distribution Events**

Participants may elect the following payment events and the associated form or forms of payment. If multiple events for each year are selected, the earliest to occur will trigger payment. For installments, insert the range of available periods (e.g., 5-15) or insert the periods available (e.g., 5, 7, 9).

	<u>Lump Sum</u>	<u>Installments</u>
(A) <input checked="" type="checkbox"/> Specified Date	<input checked="" type="checkbox"/>	<u>2-5</u> years
(B) <input type="checkbox"/> Specified Age	<input type="checkbox"/>	____ years
(C) <input checked="" type="checkbox"/> Separation from Service	<input checked="" type="checkbox"/>	<u>2-5</u> years
(D) <input type="checkbox"/> Separation from Service plus 6 months	<input type="checkbox"/>	____ years
(E) <input type="checkbox"/> Separation from Service plus months [not to exceed _____ months]	<input type="checkbox"/>	____ years
(F) <input checked="" type="checkbox"/> Retirement	<input checked="" type="checkbox"/>	<u>2-15</u> years
(G) <input type="checkbox"/> Retirement plus 6 months	<input type="checkbox"/>	____ years
(H) <input checked="" type="checkbox"/> Retirement plus <u>up to 5 years</u>	<input checked="" type="checkbox"/>	<u>2-15</u> years
(I) <input type="checkbox"/> Disability	<input type="checkbox"/>	____ years
(J) <input type="checkbox"/> Death	<input type="checkbox"/>	____ years
(K) <input type="checkbox"/> Change in Control	<input type="checkbox"/>	____ years

The minimum deferral period for Specified Date or Specified Age event shall be 3 years.

Installments may be paid [select each that applies]

- Monthly
- Quarterly
- Annually

(c) Specified Date and Specified Age elections may not extend beyond age [insert age or "Not Applicable" if no maximum age applies].

(d) Payment Election Override

Payment of the remaining vested balance of the Participant's Account will automatically occur at the time specified in Section 6.01(a) of the Adoption Agreement in the form indicated upon the earliest to occur of the following events [check each event that applies and for each event include only a single form of payment]:

<u>Events</u>	<u>Form of Payment</u>	
	<u>Lump Sum</u>	<u>Installments</u>
<input type="checkbox"/> Separation from Service	<input type="checkbox"/>	
<input type="checkbox"/> Separation from Service before Retirement	<input type="checkbox"/>	
<input checked="" type="checkbox"/> Death	<input checked="" type="checkbox"/>	
<input checked="" type="checkbox"/> Disability	<u>Pursuant to Separation from Service election</u>	
<input type="checkbox"/> Not Applicable	<input type="checkbox"/>	

(e) Involuntary Cashouts

- If the Participant's vested Account at the time of his Separation from Service does not exceed \$25,000, distribution of the vested Account shall automatically be made in the form of a single lump sum in accordance with Section 9.5 of the Plan.
- There are no involuntary cashouts.

(f) Retirement

- Retirement shall be defined as a Separation from Service that occurs on or after:
 1. For Employees, as determined under the Banner Corporation 2018 Omnibus Incentive Plan; and
 2. For Directors, separation from service from the Board of Directors.

- No special definition of Retirement applies.

(g) Distribution Election Change

A Participant

- Shall
- Shall Not

be permitted to modify a scheduled distribution date and/or payment option in accordance with Section 9.2 of the Plan.

A Participant shall generally be permitted to elect such modification:

1. For a Retirement Benefit, 2 times;
2. For Separation from Service before Retirement, 2 times; and
3. For a Specified Date election, unlimited.

Administratively, allowable distribution events will be modified to reflect all options necessary to fulfill the distribution change election provision.

(h) Frequency of Elections

The Plan Sponsor

- Has
- Has Not

elected to permit annual elections of a time and form of payment for amounts deferred under the Plan. If a single election of a time and/or form of payment is required, the Participant will make such election at the time he first completes a deferral agreement which, in all cases, will be no later than the time required by Reg. Sec. 1.409A-2.

(i) **Disability**

For Purposes of Section 2.11 of the Plan, Disability shall be defined as

Total disability as determined by the Social Security Administration or the Railroad Retirement Board.

As determined by the Employer's long term disability insurance policy.

As follows [insert description of requirements]:

Not applicable.

7.01 Vesting

(a) Matching Contributions

The Participant's vested interest in the amount credited to his Account attributable to matching contributions shall be based on the following schedule:

<input type="checkbox"/>	<u>Years of Service</u>	<u>Vesting %</u>	
	0	_____ %	[insert "100" if there is immediate vesting]
	1	_____ %	
	2	_____ %	
	3	_____ %	
	4	_____ %	
	5	_____ %	
	6	_____ %	
	7	_____ %	
	8	_____ %	
	9	_____ %	

Other:

As determined under the Banner Corporation 401(k)/Profit Sharing Plan.

Class year vesting applies:

Not applicable

(b) **Other Employer Contributions**

The Participant's vested interest in the amount credited to his Account attributable to Employer contributions other than matching contributions shall be based on the following schedule:

<input type="checkbox"/>	<u>Years of Service</u>	<u>Vesting %</u>	
	0	_____ %	[insert "100" if there is immediate vesting]
	1	_____ %	
	2	_____ %	
	3	_____ %	
	4	_____ %	
	5	_____ %	
	6	_____ %	
	7	_____ %	
	8	_____ %	
	9	_____ %	

Other:

As determined by the Employer and as stated in any grant of deferred compensation by the Employer.

Class year vesting applies:

Not applicable

(c) **Acceleration of Vesting**

The Participant's vested interest in his Account will automatically be 100% upon the occurrence of the following events [select the ones that are applicable]:

- (i) Death.
- (ii) Disability.
- (iii) Change in Control.
- (iv) Eligibility for Retirement.
- (v) Other:

- (vi) Other:

(d) **Years of Service**

- (i) A Participant's Years of Service shall include all service performed for the Employer and

Shall

Shall Not

include service performed for the Related Employer.

(ii) Years of Service shall also include service performed for the following entities:

(iii) Years of Service shall be determined in accordance with [select one]:

- (A) The elapsed time method in Treas. Reg. Sec. 1.410(a)-7
- (B) The general method in DOL Reg. Sec. 2530.200b-1 through b-4
- (C) Participant's Years of Service credited under:

(D) Other:

Years of Service shall be equal to years of participation under this Plan.

(iv) Not applicable.

8.01 Unforeseeable Emergency

(a) A withdrawal due to an Unforeseeable Emergency as defined in Section 2.24:

Will

Will Not [if Unforeseeable Emergency withdrawals are not permitted, proceed to Section 9.01]

be allowed.

(a) Upon a withdrawal due to an Unforeseeable Emergency, a Participant's deferral election for the remainder of the Plan Year:

Will

Will Not

be cancelled. If cancellation occurs, the Participant may resume participation in accordance with Article 4 of the Plan.

9.01 Investment Decisions

Investment decisions regarding the hypothetical amounts credited to a Participant's Account shall be made by [select one]:

- (a) The Participant or his Beneficiary
- (b) The Employer

10.01 Trust

The Employer [select one]:

Does

Does Not

intend to establish or has previously established a rabbi trust as provided in Article 11 of the Plan.

11.01 Termination Upon Change In Control

The Plan Sponsor

- Reserves
- Does Not Reserves

the right to terminate the Plan and distribute all vested amounts credited to Participant Accounts upon a Change in Control as described in Section 9.7.

11.02 Automatic Distribution Upon Change In Control

Distribution of the remaining vested balance of each Participant's Account

- Shall
- Shall Not

automatically be paid as a lump sum payment if the Participant separates from service within 18 months following a Change in Control as provided in Section 9.7.

11.03 Change In Control

A Change in Control for Plan purposes includes the following [select each definition that applies]:

- (a) A change in the ownership of the Employer as described in Section 9.7(c) of the Plan.
- (b) A change in the effective control of the Employer as described in Section 9.7(d) of the Plan.
- (c) A change in the ownership of a substantial portion of the assets of the Employer as described in Section 9.7(e) of the Plan.
- (d) Not Applicable.

12.01 Governing State Law

The laws of Washington shall apply in the administration of the Plan to the extent not preempted by ERISA.

Execution Page

The Plan Sponsor has caused this Adoption Agreement to be executed this 25 day of Jan, 2021.

Plan Sponsor: _____

By: _____

Title: _____

Appendix A
Special Effective Dates
Not Applicable

EXHIBIT 21

**SUBSIDIARIES OF THE REGISTRANT
December 31, 2023**

<u>Parent</u>		
Banner Corporation		
<u>Subsidiaries</u>	<u>Percentage of Ownership</u>	<u>Jurisdiction of State of Incorporation</u>
Banner Bank ⁽¹⁾	100 %	Washington
Banner Capital Trusts V, VI, and VII ⁽¹⁾	100 %	Delaware
Springer Development, LLC ⁽²⁾	100 %	Washington
Community Financial Corporation ⁽²⁾	100 %	Oregon
Greater Sacramento Bancorp Statutory Trust II ⁽¹⁾	100 %	Delaware
Mission Oaks Statutory Trust I ⁽¹⁾	100 %	Delaware

⁽¹⁾ Wholly-owned by Banner Corporation.

⁽²⁾ Wholly-owned by Banner Bank.

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-239159), and Form S-8 (No. 333-195835, No. 333-224693 and No. 333-274273) of Banner Corporation (the "Company"), of our report dated February 22, 2024, relating to the consolidated financial statements of the Company and the effectiveness of internal control over financial reporting of the Company, appearing in this Annual Report on Form 10-K of the Company for the year ended December 31, 2023.

/s/ Moss Adams LLP

Spokane, Washington
February 22, 2024

EXHIBIT 31.1

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER OF BANNER CORPORATION
PURSUANT TO RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES ACT OF 1934**

I, Mark J. Grescovich, certify that:

1. I have reviewed this Annual Report on Form 10-K of Banner Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 22, 2024

/s/Mark J. Grescovich

Mark J. Grescovich
Chief Executive Officer

EXHIBIT 31.2

**CERTIFICATION OF CHIEF FINANCIAL OFFICER OF BANNER CORPORATION
PURSUANT TO RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES ACT OF 1934**

I, Robert G. Butterfield, certify that:

1. I have reviewed this Annual Report on Form 10-K of Banner Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 22, 2024

/s/ Robert G. Butterfield

Robert G. Butterfield
Chief Financial Officer

EXHIBIT 32

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
OF BANNER CORPORATION
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned hereby certify in his capacity as an officer of Banner Corporation, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and in connection with this Annual Report on Form 10-K, that:

- the report fully complies with the requirements of Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, and
- the information contained in the report fairly presents, in all material respects, the Company's financial condition and results of operations as of the dates and for the periods presented in the financial statements included in such report.

February 22, 2024

/s/ Mark J. Grescovich

Mark J. Grescovich
Chief Executive Officer

February 22, 2024

/s/ Robert G. Butterfield

Robert G. Butterfield
Chief Financial Officer

BANNER CORPORATION

Compensation Recovery Policy

Senior Management Committee:

Executive Management Committee

Policy Owner:

Kayleen Kohler, Chief Human Resources and Diversity Officer

Policy Contact:

Kayleen Kohler, Chief Human Resources and Diversity Officer

Senior Management Committee Approval Date:

December 1, 2023

Board Approval Date:

October 23, 2023

Next Board Approval Date:

December 2024

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1. Introduction.

In accordance with the applicable rules of The Nasdaq Stock Market LLC (the “*Nasdaq Rules*”), Section 10D and Rule 10D-1 of the Securities Exchange Act of 1934, as amended (the “*Exchange Act*”) (“*Rule 10D-1*”), the Board of Directors (the “*Board*”) of Banner Corporation (the “*Company*”) has adopted this Compensation Recovery Policy (the “*Policy*”) to provide for the recovery of erroneously awarded Incentive-based Compensation from Executive Officers. All capitalized terms used and not otherwise defined herein shall have the meanings set forth in Section IX, below. Each Executive Officer shall be required to sign and return to the Company the form of attestation and acknowledgment of this Policy in the form attached hereto as Exhibit A pursuant to which such Executive Officer will agree to be bound by the terms and comply with this Policy.

2. Recovery of Erroneously Awarded Compensation.

- A. In the event of an Accounting Restatement, the Company will reasonably promptly recover the Erroneously Awarded Compensation Received in accordance with Nasdaq Rules and Rule 10D-1 as follows:
1. After an Accounting Restatement, the Compensation and Human Capital Committee (if composed entirely of independent directors, or in the absence of such a committee, a majority of independent directors serving on the Board) (the “*Committee*”) shall determine the amount of any Erroneously Awarded Compensation Received by each Executive Officer and shall promptly notify each Executive Officer with a written notice containing the amount of any Erroneously Awarded Compensation and a demand for repayment or return of such compensation, as applicable.
 - a. For Incentive-based Compensation based on (or derived from) the Company’s stock price or total shareholder return, where the amount of Erroneously Awarded Compensation is not subject to mathematical recalculation directly from the information in the applicable Accounting Restatement:
 - i. The amount to be repaid or returned shall be determined by the Committee based on a reasonable estimate of the effect of the Accounting Restatement on the Company’s stock price or total shareholder return upon which the Incentive-based Compensation was Received; and
 - ii. The Company shall maintain documentation of the determination of such reasonable estimate and provide the relevant documentation as required to Nasdaq.

2. The Committee shall determine, in its sole discretion, the method(s) for recovering Erroneously Awarded Compensation from any Executive Officer, which may include one or more of the following:
 - a. Requiring one or more cash payments to the Company from such Executive Officer, including, but not limited to, the repayment of cash Incentive-based Compensation previously paid by the Company to such Executive Officer;
 - b. Seeking recovery of any gain realized on the vesting, exercise, settlement, sale, transfer, or other disposition of any equity-based awards previously made by the Company to such Executive Officer and/or, subject to applicable legal requirements, otherwise requiring the delivery to the Company of shares of the Company's common stock held by such Executive Officer;
 - c. Withholding, reducing, or eliminating future cash compensation (including cash incentive payments), future equity awards and/or other benefits or amounts otherwise to be paid or awarded by the Company to such Executive Officer;
 - d. Offsetting amounts against compensation or other amounts otherwise payable by the Company to such Executive Officer;
 - e. Cancelling, adjusting, or offsetting against some or all outstanding vested or unvested equity awards of the Company held by such Executive Officer; and/or
 - f. Taking any other remedial recovery actions with respect to such Executive Officer permitted by applicable legal requirements and Nasdaq Rules, as determined by the Committee.

Notwithstanding the foregoing, except as set forth in Section II.B below, in no event may the Company accept an amount that is less than the amount of Erroneously Awarded Compensation in satisfaction of an Executive Officer's obligations hereunder.

3. To the extent that the Executive Officer has already reimbursed the Company for any Erroneously Awarded Compensation Received under any duplicative recovery obligations established by the Company or applicable law, regulation, rule, policy, order, opinion, interpretation or similar issuance, it shall be appropriate for any such reimbursed amount to be credited to the amount of Erroneously Awarded Compensation that is subject to recovery under this Policy.
4. To the extent that an Executive Officer fails to repay all Erroneously Awarded Compensation to the Company when due, the Company shall take all actions reasonable and appropriate to recover such Erroneously Awarded Compensation from the applicable Executive Officer. The applicable Executive Officer shall be required to reimburse the Company for any and all expenses reasonably incurred (including legal fees) by the Company in recovering such Erroneously Awarded Compensation in accordance with the immediately preceding sentence.

- B. Notwithstanding anything herein to the contrary, the Company shall not be required to take the actions contemplated by Section II.A above if the Committee determines that recovery would be impracticable and any of the following two conditions are met:
1. The Committee has determined that the direct expenses paid to a third party to assist in enforcing the Policy would exceed the amount to be recovered. Before making this determination, the Company must make a reasonable attempt to recover the Erroneously Awarded Compensation, document such attempt(s) and provide such documentation to Nasdaq; or
 2. Recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the Company, to fail to meet the requirements of Section 401(a)(13) or Section 411(a) of the Internal Revenue Code of 1986, as amended, and regulations thereunder.

3. Disclosure Requirements.

The Company shall file all disclosures with respect to this Policy required by applicable U.S. Securities and Exchange Commission ("**SEC**") filings and rules.

4. Prohibition of Indemnification.

- I. The Company shall not be permitted to insure or indemnify any Executive Officer against (A) the loss of any Erroneously Awarded Compensation that is repaid, returned or recovered pursuant to the terms of this Policy, or (B) any claims relating to the Company's enforcement of its rights under this Policy. Further, the Company shall not enter into any agreement that exempts any Incentive-based Compensation that is granted, paid or awarded to an Executive Officer from the application of this Policy or that waives the Company's right to recovery of any Erroneously Awarded Compensation, and this Policy shall supersede any such agreement (whether entered into before, on or after the Effective Date of this Policy).

5. Administration and Interpretation.

- A. This Policy shall be administered by the Committee, and any determinations made by the Committee shall be final and binding on all affected individuals. Except as otherwise required by applicable legal requirements or Nasdaq Rules, any determinations of the Committee hereunder need not be uniform with respect to one or more Executive Officers.

- B. In determining whether an error in the Company's financial statements is material, the Committee shall be entitled to rely on the determination made by the Company's Audit Committee, in conjunction with the Company's outside auditors, which determination shall be based on the relevant facts and circumstances and consistent with SEC guidance for other materiality judgments, such as the SEC Staff Accounting Bulletin No. 99 (or any successor guidance). Any such materiality analysis shall consider the effects of the error not only on the face of the Company's financial statements, but also on the footnotes to such financial statements, and shall include an evaluation of both quantitative and qualitative factors, including whether the error has the effect of increasing compensation to the Executive Officers.
- C. The Committee is authorized to interpret and construe this Policy and to make all determinations necessary, appropriate, or advisable for the administration of this Policy and for the Company's compliance with Nasdaq Rules, Section 10D, Rule 10D-1 and any other applicable law, regulation, rule or interpretation of the SEC or Nasdaq promulgated or issued in connection therewith.

6. Amendment; Termination.

The Committee may amend this Policy from time to time in its discretion and shall amend this Policy as it deems necessary. Notwithstanding anything in this Section VI to the contrary, no amendment or termination of this Policy shall be effective if such amendment or termination would (after taking into account any actions taken by the Company contemporaneously with such amendment or termination) cause the Company to violate any federal securities laws, SEC rule or the Nasdaq Rules.

7. Other Recovery Rights.

- II. This Policy shall be binding and enforceable against all Executive Officers and, to the extent required by applicable law or guidance from the SEC or Nasdaq, their beneficiaries, heirs, executors, administrators or other legal representatives. The Committee intends that this Policy will be applied to the fullest extent required by applicable law. Any employment agreement, equity award agreement, compensatory plan or any other agreement or arrangement with an Executive Officer shall be deemed to include, as a condition to the grant of any benefit thereunder, an agreement by the Executive Officer to abide by the terms of this Policy. Any right of recovery under this Policy is in addition to, and not in lieu of, any other remedies or rights of recovery that may be available to the Company under any applicable federal or state statute, regulation, rule, policy, order, opinion, interpretation or similar issuance or under any agreement with or policy or plan of the Company or any provision in any employment agreement, equity award agreement, compensatory plan, agreement or other arrangement.

8. Superseding Provision.

This Policy will supersede any provision in any agreement, plan or other arrangements applicable to the Company, that in any such case, (A) exempts any Incentive-based Compensation from the application of this Policy, (B) waives or otherwise prohibits the Company's right to recover any Erroneously Awarded Compensation, including, without limitation, in connection with exercising any right of setoff as provided herein, and/or (C) requires or provides for indemnification to the extent such indemnification is prohibited under Section IV above.

9. Definitions.

For purposes of this Policy, the following capitalized terms shall have the meanings set forth below.

- A. **"Accounting Restatement"** means an accounting restatement due to the material noncompliance of the Company with any financial reporting requirement under the securities laws, including any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements (a "Big R" restatement), or that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period (a "little r" restatement). For the avoidance of doubt, the following types of changes to the Company's financial statements shall not represent error corrections or constitute an accounting restatement: (i) retrospective application of a change in accounting principles; (ii) retrospective revision to reportable segment information due to a change in the structure of the Company's internal organization; (iii) retrospective reclassification due to discontinued operations; (iv) retrospective application of a change in reporting entity, such as from a reorganization or entities under common control; or (v) retrospective revision for stock splits, reverse stock splits, stock dividends or other changes in the Company's capital structure.
- B. **"Clawback Eligible Incentive Compensation"** means all Incentive-based Compensation Received by an Executive Officer: (i) on or after December 1, 2023; (ii) after beginning service as an Executive Officer; (iii) who served as an Executive Officer at any time during the applicable performance period relating to any Incentive-based Compensation (whether or not such Executive Officer is serving at the time the Erroneously Awarded Compensation is required to be repaid to the Company); (iv) while the Company has a class of securities listed on a national securities exchange or a national securities association; and (v) during the applicable Clawback Period (as defined below).
- C. **"Clawback Period"** means, with respect to any Accounting Restatement, the three completed fiscal years of the Company immediately preceding the Restatement Date (as defined below), and if the Company changes its fiscal year, any transition period of less than nine months within or immediately following those three completed fiscal years.
- D. **"Erroneously Awarded Compensation"** means, with respect to each Executive Officer in connection with an Accounting Restatement, the amount of Clawback Eligible Incentive Compensation that exceeds the amount of Incentive-based Compensation that otherwise would have been Received had it been determined based on the restated amounts, computed without regard to any taxes paid.

- E. “Executive Officer”** means each individual who is currently or was previously designated as the Company’s president, principal financial officer, principal accounting officer (or if there is no such accounting officer, the controller), any vice-president of the Company in charge of a principal business unit, division, or function (such as sales, administration, or finance), any other officer who performs a policy-making function, or any other person who performs similar policy-making functions for the Company. For the avoidance of doubt, the identification of an executive officer for purposes of this Policy shall include: (i) each executive officer who is or was identified pursuant to Item 401(b) of Regulation S-K; and (ii) each executive officer who is or was required to file reports under Section 16 of the Exchange Act.
- F. “Financial Reporting Measures”** means measures that are determined and presented in accordance with the accounting principles used in preparing the Company’s financial statements, and any measures that are derived wholly or in part from such measures. Stock price and total shareholder return (and any measures that are derived wholly or in part from stock price or total shareholder return) shall, for purposes of this Policy, be considered Financial Reporting Measures. For the avoidance of doubt, a Financial Reporting Measure need not be presented in the Company’s financial statements or included in a filing with the SEC.
- G. “Incentive-based Compensation”** means any compensation that is granted, earned, or vested based wholly or in part upon the attainment of a Financial Reporting Measure.
- H. “Nasdaq”** means The Nasdaq Stock Market LLC.
- I. “Received”** means, with respect to any Incentive-based Compensation, actual or deemed receipt, and Incentive-based Compensation shall be deemed received in the Company’s fiscal period during which the Financial Reporting Measure specified in the Incentive-based Compensation award is attained, even if the payment or grant of the Incentive-based Compensation to the Executive Officer occurs after the end of that period.
- J. “Restatement Date”** means the earlier to occur of (i) the date the Board, a committee of the Board or the officers of the Company authorized to take such action if Board action is not required, concludes, or reasonably should have concluded, that the Company is required to prepare an Accounting Restatement, or (ii) the date a court, regulator or other legally authorized body directs the Company to prepare an Accounting Restatement.

10. Exhibit A

1.1. ATTESTATION AND ACKNOWLEDGEMENT OF COMPENSATION RECOVERY POLICY

By my signature below, I acknowledge and agree that:

- I have received and read the attached Compensation Recovery Policy (this "**Policy**").
- I hereby agree to abide by all of the terms of this Policy both during and after my employment with the Company, including, without limitation, by promptly repaying or returning any Erroneously Awarded Compensation to the Company as determined in accordance with this Policy.

Signature: _____

Printed Name: _____

Date: _____

Our Value Proposition

Connected. Knowledgeable. Responsive.

It's not only what we do, it's how we do it—with relentless effort.

Our Vision Statement

We strive to be the bank of choice in the markets we serve. We are committed to being the best provider of financial services in the West.

Our Mission Statement

Banner Bank is a dynamic, full-service financial institution operating safely and profitably within a framework of shared integrity.

Working as a team, we will deliver superior products and services to our valued clients. We will emphasize strong client relationships and a high level of community involvement. We will provide a culture which attracts, empowers, rewards and provides growth opportunities for our employees. Our success will build long-term shareholder value.

Values

“Do the Right Thing.”

This means we believe in:

- Honesty and Integrity
- Mutual Respect
- Quality
- Trust
- Teamwork
- Accountability

Markets We Serve



Directors



Roberto R. Herencia
(Chairman)



Connie R. Collingsworth



Mark J. Grescovich



John R. Layman



Kevin F. Riordan



Ellen R.M. Boyer



Margot J. Copeland



David A. Klaue



John Pedersen



Terry S. Schwakopf

Paul J. Walsh
(Photo unavailable)

Executive Officers

Mark J. Grescovich, *President and Chief Executive Officer*

Janet M. Brown, *EVP, Chief Information Officer*

Robert G. Butterfield, *EVP, Chief Financial Officer*

James M. Costa, *EVP and Chief Risk Officer*

James P. Garcia, *EVP, Chief Audit Executive*

Karen Harrison, *EVP, Community Banking Executive*

Kayleen R. Kohler, *EVP, Human Resources, Chief Diversity Officer*

Kenneth A. Larsen, *EVP, Mortgage Banking*

Sherrey Luetjen, *EVP, General Counsel, Secretary*

James P.G. McLean, *EVP, Commercial Real Estate Lending Division*

Cynthia D. Purcell, *EVP, Chief Strategy and Administration Officer*

M. Kirk Quillin, *EVP, Chief Commercial Banking Executive*

James T. Reed, Jr., *EVP, Commercial Banking*

Jill M. Rice, *EVP, Chief Credit Officer*

Thank you to Peter J. Conner, EVP, Chief Financial Officer who retired in 2023.

Director and Officer information is as of December 31, 2023.

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
Community Financial Corporation

Transfer Agent and Registrar

Computershare Trust Company, N.A.
150 Royall St., Suite 101
Canton, MA 02021

Independent Public Accountants and Auditors

Moss Adams LLP
Fox Tower
805 SW Broadway, Suite 1400
Portland, OR 97205

Special Counsel

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

Annual Meeting of Shareholders

10 a.m. Pacific Time, Wednesday, May 22, 2024
The Annual Meeting of Shareholders will be conducted solely online via live webcast.

You can attend by visiting:

<https://meetnow.global/MULJV4V>

No password is required, though to vote or ask a question, shareholders must provide their unique control number.

Dividend Payments

Dividend payments are reviewed quarterly by the board of directors and, if appropriate and authorized, typically would be paid in the months of February, May, August and November. 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, call Computershare Investor Services at 800-697-8924.

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 Relations 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. There is a direct link from the website to the Company's Securities and Exchange Commission (SEC) filings via the EDGAR database, including Forms 10-K, 10-Q and 8-K.

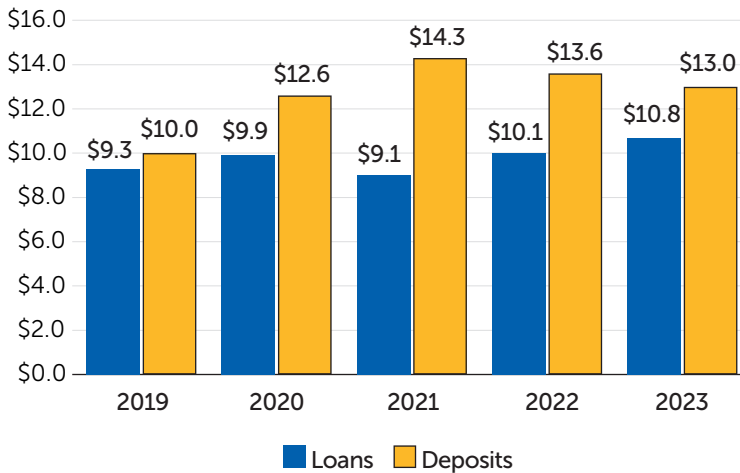
Shareholders May Contact:

Investor Relations, Banner Corporation
PO Box 907
Walla Walla, WA 99362

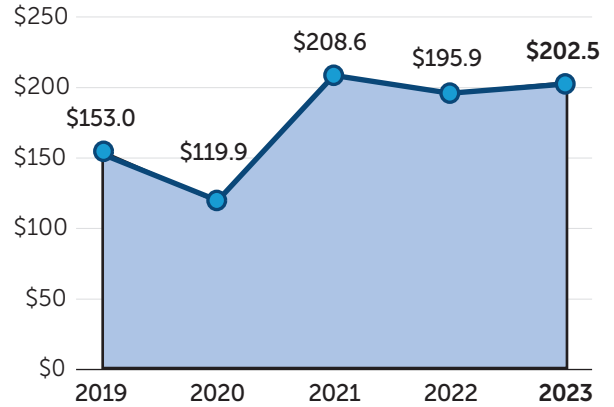
Or call 800-272-9933 to obtain a hard copy of these reports without charge.

2023 Highlights

Loans & Deposits (Billions)

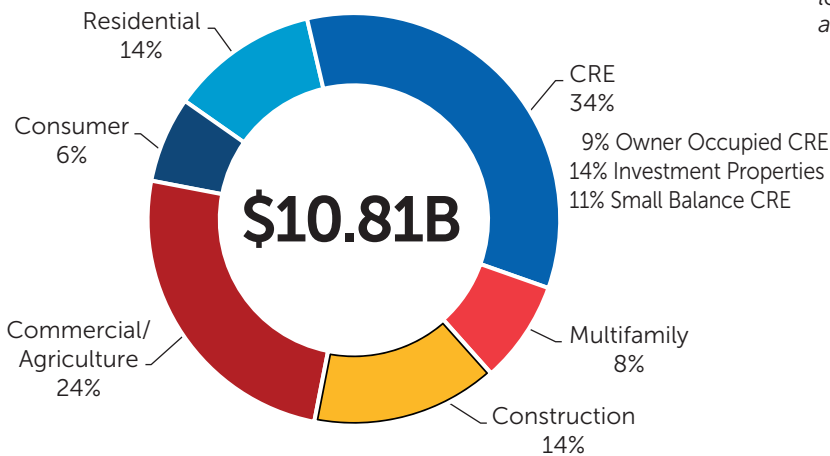


Core Earnings (Millions)



Core earnings is defined as net income adjusted to exclude the following items: net gain (loss) on sale of securities, fair value adjustments, gain on sale of branches, merger and acquisition related expenses, COVID-19 expenses, Banner Forward expenses, amortization of core deposit intangibles, REO operations, loss on extinguishment of debt, state/ municipal business and use taxes, and FHLB prepayment penalties.

Loan Portfolio



Loans are our most significant and generally highest yielding earning assets. We continue to implement strategies designed to capture more market share and achieve targeted loan growth.

Affordable Housing

“There is an affordable housing crisis across the nation, including in every community we serve. Tackling this complex issue requires a commitment from many stakeholders working together across multiple disciplines—including the financial service industry. At Banner, we remain committed to do all we can to be part of the solution.”

Mark Grescovich

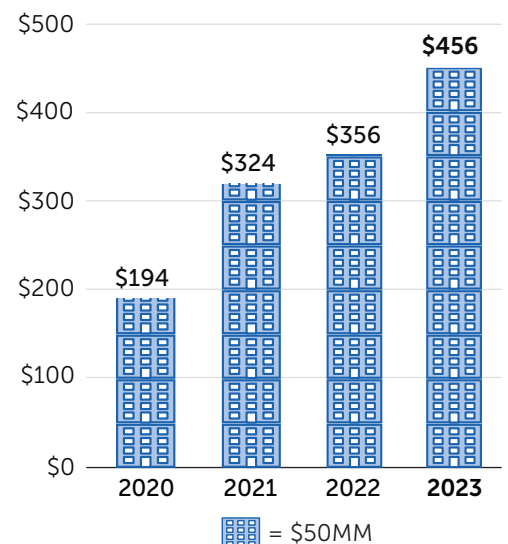
at 2019 Affordable Housing coalition meeting.

Commitment to Financial Wellness

We expanded our efforts to share our knowledge with clients and community members so they can take control of their financial health and achieve their goals. 2023 key initiatives:

- **Introduced moneywise**
Monthly videos, flyers, social posts, digital ads and client emails on topics like *How to Maximize Your Savings* and *Understanding Your Credit Score*.
- 280 employees volunteered **1,595 hours teaching financial education** to adults and children, plus thousands more hours helping our community.
- Hosted **145 homebuyer education workshops** across our footprint. Most popular: *Preparing to Buy Your First Home*.

Annual Commitment (Millions)



Banner Corporation 2023 Annual Report

bannerbank@bannerbank.com

509-527-3636
800-272-9933



Front photo: Fremont Bridge, Seattle

SKU: 004CTN3B40

Member FDIC

