

**Report of Organizational Actions
Affecting Basis of Securities**

OMB No. 1545-0123

► See separate instructions.

Part I Reporting Issuer

1 Issuer's name

Banner Corporation

3 Name of contact for additional information

4 Telephone No. of contact

509-527-3636

Albert Marshall

6 Number and street (or P.O. box if mail is not delivered to street address) of contact

P.O. Box 907

8 Date of action

9 Classification and description

November 1, 2018

see attachment

10 CUSIP number

11 Serial number(s)

12 Ticker symbol

13 Account number(s)

06652 V 208

N/A

BANR

N/A

Part II Organizational Action Attach additional statements if needed. See back of form for additional questions.

14 Describe the organizational action and, if applicable, the date of the action or the date against which shareholders' ownership is measured for the action ► see attachment

15 Describe the quantitative effect of the organizational action on the basis of the security in the hands of a U.S. taxpayer as an adjustment per share or as a percentage of old basis ► see attachment

16 Describe the calculation of the change in basis and the data that supports the calculation, such as the market values of securities and the valuation dates ► see attachment

Part I, Box 9: Classification and description:

The securities subject to reporting include all shares of Banner Corporation common stock issued in exchange for the outstanding common stock of Skagit Bancorp, Inc. as a result of the merger of Skagit Bancorp, Inc. with and into Banner Corporation on November 1, 2018 (the "Merger").

Part II, Line 14: Describe the organizational action and, if applicable, the date of the action or the date against which shareholders' ownership is measured for the action:

On November 1, 2018, Banner Corporation (NASDAQ:BANR) ("Banner") and Skagit Bancorp, Inc. ("Skagit") announced the successful completion as of November 1, 2018, of the previously announced merger. Under the merger agreement Skagit merged with and into Banner with Banner as the surviving corporation. Under the terms of the merger agreement the equity holders of Skagit received 3.11 million shares of Banner common stock. The share closing price of Banner common stock on the merger date was \$59.10 per share or a total value of \$183,801,000. The merger, including the consideration paid, is more fully described in the proxy/prospectus, which is included in the Registration Statement on Form S-4 that has been filed with the Securities and Exchange Commission.

Part II, Line 15 & 16: Describe the quantitative effect of the organizational action on the basis of the security in the hands of a U.S. taxpayer as an adjustment per share or as a percentage of old basis and describe the calculation of the change in basis and the data that supports the calculation, such as the market values of securities and the valuation dates:

Banner believes that the Merger qualifies as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended ("IRC"). Because the quantitative effect of the Skagit merger on tax basis can vary from U.S. shareholder to U.S. shareholder, it cannot be expressed as a specific adjustment amount per share or as a percentage of old basis. In general, upon the receipt of Banner common stock in exchange for a U.S. holder's Skagit common stock, the holder's basis will either stay the same or be reduced, but it should not increase.

Generally, a U.S. holder's aggregate tax basis of the Banner common stock received by a U.S. holder of Skagit common stock in the merger will be the same as the aggregate basis of the Skagit common stock for which it is exchanged, increased by the amount of gain recognized on the exchange, other than with respect to cash received instead of a fractional share in Banner common stock. The parties intend that 3.11 million Banner common stock shares will be received in exchange for 548,578 shares of Skagit common stock.

A Skagit shareholder who receives cash instead of a fractional share will be treated as having received the fractional share pursuant to the merger and then as having exchanged the fractional share of Banner common stock for cash in a redemption by Banner. In general, this deemed redemption will be treated as a sale or exchange and the shareholder will recognize gain or loss equal to the difference between (i) the amount of cash received and (ii) the portion of the basis of the shares of Skagit stock allocable to such fractional interest.

Banner Corporation
Attachment to Form 8937
Report of Organizational Actions Affecting Basis of Securities
Skagit Bancorp, Inc. merger

The holding period of Banner common stock received by a U.S. holder of Skagit common stock in the merger in exchange for such U.S. holder's shares of Skagit common stock will include such U.S. holder's holding period of the Skagit common stock for which it is exchanged.

Part II, Line 17: List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based:

Banner believes that its acquisition of Skagit pursuant to the merger effected on November 1, 2018, qualifies as a reorganization within the meaning of Section 368(a) of the IRC. Consequently, the federal income tax consequences to the Skagit shareholders are determined under IRC Sections 354, 356, 358, 361, 1221 and 1223.

Part II, Line 18: Can any resulting loss be recognized:

In general, each Skagit shareholder who receives Banner common stock for all of his or her Skagit common stock cannot recognize any loss. A Skagit shareholder who receives cash in lieu of a fractional share may recognize loss if the amount of cash received is less than the tax basis in his or her Skagit fractional share.

Part II, Line 19: Provide any other information necessary to implement the adjustment, such as the reportable tax year:

- The merger occurred November 1, 2018. Therefore the tax effects of the merger should be reported by a U.S. shareholder in the tax year that includes the date November 1, 2018 (e.g. a calendar year shareholder would report the transaction on his or her federal income tax return filed for the 2018 calendar year).
- Characterization of recognized gain or loss: Any gain recognized by a U.S. shareholder holding Skagit common stock will generally be ordinary or capital gain, and generally be long-term capital gain if the U.S. shareholder held the Skagit common stock surrendered for more than one year as of November 1, 2018

The information contained herein is not intended to be a complete analysis or description of all potential U.S. federal income tax consequences of the merger. In addition, this information does not address tax consequences which may vary depending on the individual circumstances of Skagit shareholders, or any non-income tax or foreign, state or local tax consequences of the merger. Accordingly, Skagit shareholders are urged to consult their own tax advisors with respect to their individual tax consequences of the merger. The information in this document does not constitute tax advice and is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the IRC, or (ii) promoting, marketing, or recommending any transaction for matter addressed herein.

Banner Corporation
Attachment to Form 8937 (Line 16)
Report of Organizational Actions Affecting Basis of Securities
EXAMPLE of BASIS CALCULATION

Assumptions used in following example calculation:

Banner Corporation stock price per share	\$	59.00
Skagit Bancorp, Inc. stock price per share	\$	312.00
Skagit Bancorp, Inc. stock basis per share	\$	200.00
Number of Skagit Bancorp, Inc. shares		100
Number of shares of Banner Corporation for each share of Skagit Bancorp, Inc. shares		5.6664
Cash consideration per share of Skagit stock (none)	\$	-

Example calculation:

Step 1:	Tax basis of Skagit stock (100 shares * \$200.00 per share)	\$	20,000.00
Step 2:	Total consideration received by Skagit shareholder in merger (100 shares*5.6664 stock exchange rate*\$59.00)	\$	33,431.76
Step 3:	Gain realized in merger Total consideration received Less: tax basis of Skagit stock exchanged Total gain realized	\$ \$ \$	33,431.76 (20,000.00) 13,431.76
Step 4:	Taxable gain recognized in merger Taxable gain recognized in tax free merger (lesser of total gain realized or cash consideration)	\$	-
Step 5:	Total basis in Banner stock Tax basis of Skagit stock Less: cash merger consideration Plus: taxable gain recognized Total basis of Banner stock (100 Skagit shares* 5.6664 = 566.64 Banner shares)	\$ \$ \$ \$	20,000.00 - - 20,000.00
Step 6:	Taxable gain or loss recognized on fractional share Cash paid in lieu of Banner fractional share (0.64 fractional share*\$59.00 per share) Less: basis attributable to fractional share [(0.64/566.64)*\$20,000.00] Taxable gain recognized on fractional share	\$ \$ \$	37.76 (22.59) 15.17
Step 7:	Final basis in Banner stock Basis of all Skagit stock converted to Banner stock (566.64 Banner shares) Less: basis attributable to Banner stock fractional share Basis in Banner stock (566 Banner shares) Final per share basis in Banner stock (\$19,977.41/566 Banner shares)	\$ \$ \$ \$	20,000.00 (22.59) 19,977.41 35.30