

UNITED STATES DEPARTMENT OF THE TREASURY
1500 PENNSYLVANIA AVENUE, NW
WASHINGTON, D.C. 20220

Dear Ladies and Gentlemen:

The company set forth on the signature page hereto (the "*Company*") intends to issue in a private placement the number of shares of a series of its preferred stock set forth on Schedule A hereto (the "*Preferred Shares*") and a warrant to purchase the number of shares of its common stock set forth on Schedule A hereto (the "*Warrant*" and, together with the Preferred Shares, the "*Purchased Securities*") and the United States Department of the Treasury (the "*Investor*") intends to purchase from the Company the Purchased Securities.

The purpose of this letter agreement is to confirm the terms and conditions of the purchase by the Investor of the Purchased Securities. Except to the extent supplemented or superseded by the terms set forth herein or in the Schedules hereto, the provisions contained in the Securities Purchase Agreement – Standard Terms attached hereto as Exhibit A (the "*Securities Purchase Agreement*") are incorporated by reference herein. Terms that are defined in the Securities Purchase Agreement are used in this letter agreement as so defined. In the event of any inconsistency between this letter agreement and the Securities Purchase Agreement, the terms of this letter agreement shall govern.

Each of the Company and the Investor hereby confirms its agreement with the other party with respect to the issuance by the Company of the Purchased Securities and the purchase by the Investor of the Purchased Securities pursuant to this letter agreement and the Securities Purchase Agreement on the terms specified on Schedule A hereto.

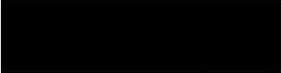
This letter agreement (including the Schedules hereto) and the Securities Purchase Agreement (including the Annexes thereto) and the Warrant constitute the entire agreement, and supersede all other prior agreements, understandings, representations and warranties, both written and oral, between the parties, with respect to the subject matter hereof. This letter agreement constitutes the "Letter Agreement" referred to in the Securities Purchase Agreement.

This letter agreement may be executed in any number of separate counterparts, each such counterpart being deemed to be an original instrument, and all such counterparts will together constitute the same agreement. Executed signature pages to this letter agreement may be delivered by facsimile and such facsimiles will be deemed as sufficient as if actual signature pages had been delivered.

* * *

In witness whereof, this letter agreement has been duly executed and delivered by the duly authorized representatives of the parties hereto as of the date written below.

UNITED STATES DEPARTMENT OF THE
TREASURY

By: 

Name: Neel Kashkari

Title: Interim Assistant Secretary
for Financial Stability

COMPANY: Banner Corporation

By: _____

D. Michael Jones

President and Chief Executive Officer

Date: November 21, 2008

In witness whereof, this letter agreement has been duly executed and delivered by the duly authorized representatives of the parties hereto as of the date written below.

UNITED STATES DEPARTMENT OF THE
TREASURY

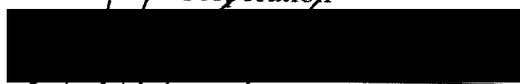
By: _____

Name:

Title:


COMPANY: Banner Corporation

By: _____


D. Michael Jones
President and Chief Executive Officer

Date: November 21, 2008

EXHIBIT A

SECURITIES PURCHASE AGREEMENT

SCHEDULE A

ADDITIONAL TERMS AND CONDITIONS

Company Information:

Name of the Company: Banner Corporation
Corporate or other organizational form: Corporation
Jurisdiction of Organization: Washington
Appropriate Federal Banking Agency: Board of Governors of the Federal Reserve System

Notice Information:

D. Michael Jones
President and CEO
Banner Corporation
10 S. First Avenue
P.O. Box 907
Walla Walla, WA 99362

Lloyd W. Baker
Executive Vice President and CFO
Banner Corporation
10 S. First Avenue
P.O. Box 907
Walla Walla, WA 99362

Terms of the Purchase:

Series of Preferred Stock Purchased: Fixed Rate Cumulative Perpetual Preferred Stock, Series A
Per Share Liquidation Preference of Preferred Stock: \$1,000
Number of Shares of Preferred Stock Purchased: 124,000
Dividend Payment Dates on the Preferred Stock: February 15, May 15, August 15, November 15
Number of Initial Warrant Shares: 1,707,989
Exercise Price of the Warrant: \$10.89
Purchase Price: \$124,000,000

Closing:

Location of Closing: Hughes Hubbard & Reed LLP
One Battery Park Plaza
New York, NY 10004
Time of Closing: 9:00 a.m. New York Time
Date of Closing: November 21, 2008

SCHEDULE A

Wire Information for Closing:



SCHEDULE B

CAPITALIZATION

Capitalization Date: October 31, 2008

Common Stock

Par value:	\$0.01
Total Authorized:	25,000,000 shares
Outstanding:	17,016,402
Subject to warrants, options, convertible securities, etc.:	603,146 shares
Reserved for benefit plans and other issuances:	Ungranted options 27,745 Reserved for Dividend Reinvestment and Stock Purchase Plan ("DRIP") 2,605,417
Remaining authorized but unissued:	4,747,290
Shares issued after Capitalization Date (other than pursuant to warrants, options, convertible securities, etc. as set forth above):	59,457 shares were issued under the DRIP on November 10, 2008.

Preferred Stock

Par value:	\$0.01
Total Authorized:	500,000
Outstanding (by series):	0
Reserved for issuance:	0
Remaining authorized but unissued:	500,000

SCHEDULE C

REQUIRED STOCKHOLDER APPROVALS

Required¹

% Vote Required

Warrants -- Common Stock Issuance

Charter Amendment

Stock Exchange Rules

If no stockholder approvals are required, please so indicate by checking the box:

¹ If stockholder approval is required, indicate applicable class/series of capital stock that are required to vote.

SCHEDULE D

LITIGATION

List any exceptions to the representation and warranty in Section 2.2(l) of the Securities Purchase Agreement – Standard Terms.

If none, please so indicate by checking the box:

SCHEDULE E

COMPLIANCE WITH LAWS

List any exceptions to the representation and warranty in the second sentence of Section 2.2(m) of the Securities Purchase Agreement – Standard Terms.

If none, please so indicate by checking the box:

List any exceptions to the representation and warranty in the last sentence of Section 2.2(m) of the Securities Purchase Agreement – Standard Terms.

If none, please so indicate by checking the box:

SCHEDULE F

REGULATORY AGREEMENTS

List any exceptions to the representation and warranty in Section 2.2(s) of the Securities Purchase Agreement – Standard Terms.

If none, please so indicate by checking the box: