FRB Order No. 2015-23
September 3, 2015

FEDERAL RESERVE SYSTEM

Banner Corporation
Walla Walla, Washington

Elements Merger Sub, LLC
Walla Walla, Washington

Order Approving the Acquisition of a Bank Holding Company

Banner Corporation ("Banner") and Elements Merger Sub, LLC ("Merger Sub"), a wholly owned subsidiary of Banner, both of Walla Walla, Washington (together, "Applicants"), have requested the Board's approval under section 3 of the Bank Holding Company Act ("BHC Act")[1] to acquire Starbuck Bancshares, Inc. ("Starbuck"), Seattle, and thereby indirectly acquire its subsidiary, AmericanWest Bank, Spokane, both of Washington. Under the proposal, Starbuck would be merged into Merger Sub and AmericanWest Bank would be merged into Banner's wholly owned subsidiary, Banner Bank, also of Walla Walla; Merger Sub and Banner Bank would be the surviving entities.[2]

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published in the Federal Register (80 Federal Register 6517 (2015)).[3] The time for submitting comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in section 3 of the BHC Act.

Banner, with consolidated assets of approximately $5.2 billion, is the 201st largest insured depository organization in the United States, controlling

[1] 12 U.S.C. § 1842.

[2] The merger of AmericanWest Bank into Banner Bank is subject to the approval of the Federal Deposit Insurance Corporation ("FDIC") under the Bank Merger Act. 12 U.S.C. § 1828(c).

[3] 12 CFR 262.3(b).

approximately $4.3 billion in consolidated deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. Banner controls Banner Bank, which operates in Washington, Idaho, and Oregon.[4] Banner is the 11th largest depository organization in Washington, controlling approximately $2.9 billion in deposits, the 18th largest insured depository institution in Idaho, controlling approximately $234.5 million in deposits, and the 12th largest insured depository institution in Oregon, controlling approximately $849.0 million in deposits, which represent 2.3, 1.1, and 1.4 percent, respectively, of the total deposits of insured depository institutions in those states.[5]

Starbuck, with consolidated assets of approximately $4.6 billion, is the 213th largest insured depository organization in the United States, controlling approximately $3.6 billion in consolidated deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. Starbuck controls AmericanWest Bank, which operates in Washington, California, Idaho, Oregon, and Utah. Starbuck is the 16th largest depository organization in Washington, controlling approximately $1.2 billion in deposits, the 21st largest insured depository institution in Idaho, controlling approximately $173.1 million in deposits, and the 15th largest insured depository institution in Oregon, controlling approximately $388.2 million in deposits, which represent 0.9, 0.8, and 0.6 percent, respectively, of the total deposits of insured depository institutions in those states.

On consummation of the proposal, Banner would become the 124th largest depository organization in the United States, with consolidated assets of approximately $9.8 billion, which represent less than 1 percent of the total amount of assets of insured depository institutions in the United States. Banner would become the eighth largest depository organization in Washington, controlling approximately $4.0 billion in

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[4] Banner also controls Islanders Bank, Friday Harbor, Washington, which operates three branches in Washington.

[5] Nationwide data and rankings are as of June 30, 2015. State data and rankings are as of June 30, 2014, unless otherwise noted. In this context, insured depository institutions include commercial banks, savings banks, and savings and loan associations.

deposits, the 15th largest insured depository institution in Idaho, controlling approximately $407.6 million in deposits, and the 10th largest insured depository institution in Oregon, controlling approximately $1.2 billion in deposits, which represent 3.3, 2.0, and 2.0 percent, respectively, of the total amount of deposits of insured depository institutions in those states.

Interstate and Deposit Cap Analysis

Section 3(d) of the BHC Act generally provides that, if certain conditions are met, the Board may approve an application by a bank holding company to acquire control of a bank located in a state other than the home state of the bank holding company without regard to whether the transaction is prohibited under state law.[6] Under this section, the Board may not approve an application that would permit an out-of-state bank holding company to acquire a bank in a host state if the bank has not been in existence for the lesser of the state statutory minimum period of time or five years.[7] In addition, the Board may not approve an interstate acquisition if the bank holding company controls or would control more than 10 percent of the total deposits of insured depository institutions in the United States, or 30 percent or more of the total deposits of insured depository institutions in the target bank's home state or in any state in which the acquirer and target have overlapping banking operations.[8]

For purposes of the BHC Act, the home state of Banner is Washington and AmericanWest Bank's home state is Washington.[9] AmericanWest Bank is also located

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[6] 12 U.S.C. § 1842(d)(1)(A).

[7] 12 U.S.C. § 1842(d)(1)(B). For purposes of section 3(d) of the BHC Act, the Board considers a bank to be located in the states in which the bank is chartered or headquartered or operates a branch. See 12 U.S.C. § 1841(o)(4)-(7). Section 3(d) of the BHC Act applies to the acquisition by a bank holding company of a bank with the same home state as the bank holding company to the extent that the bank operates branches outside its home state.

[8] 12 U.S.C. § 1842(d)(2)(A), (B). The acquiring and target institutions have overlapping banking operations in any state in which any bank to be acquired is located and the acquiring bank holding company controls any insured depository institution or a branch.

[9] See 12 U.S.C. § 1841(o)(4). A bank holding company's home state is the state in which the total deposits of all banking subsidiaries of such company were the largest on

in California, Idaho, Oregon, and Utah. Banner is well capitalized and well managed under applicable law and has a satisfactory Community Reinvestment Act rating.[10] California and Utah do not have minimum age requirements that would apply to this transaction,[11] and Idaho and Oregon do not have minimum age requirements.[12]

On consummation of the proposed transactions, Banner would control less than 1 percent of the total amount of deposits in insured depository institutions in the United States. In addition, the combined organization would control approximately 3.3 percent of the total amount of deposits of insured depository institutions in AmericanWest Bank's home state, Washington. Banner and AmericanWest Bank also have overlapping banking operations in Idaho and Oregon, and the combined organization would control approximately 2.0 percent of the total amount of deposits of insured depository institutions in each of those states.[13] Accordingly, in light of all the facts of record, the Board is not prohibited from approving the proposal under section 3(d) of the BHC Act.

Competitive Considerations

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly or would be in furtherance of any attempt to monopolize the business of banking in any relevant market. The BHC Act also prohibits the Board from approving a proposal that would substantially lessen competition in any relevant banking market, unless the anticompetitive effects of the proposal are clearly outweighed

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July 1, 1966, or the date on which the company became a bank holding company, whichever is later. A state bank's home state is the state in which the bank is chartered.

[10] 12 U.S.C. §§ 2901-2908.

[11] California imposes minimum age requirements only on the acquisition of a bank that is organized under the laws of California or that maintains its main office in California. Cal. Fin. Code §§ 147(a), 1685. The Board consulted with the Utah Department of Financial Institutions, which advised that the Utah minimum age requirements would not apply to the acquisition of a depository institution whose home state is not Utah but that has branches in Utah. Utah Code §§ 7-1-103(14), -703(7).

[12] Idaho Code § 26-1605; and Or. Rev. Stat. § 713.270.

[13] Neither Idaho nor Oregon impose a deposit cap or concentration limit.

in the public interest by the probable effect of the proposal in meeting the convenience and needs of the community to be served.[14]

Banner Bank and AmericanWest Bank compete directly in the Idaho-Washington banking market of Lewiston, the Oregon banking market of Roseburg, the Washington-Idaho banking market of Spokane, the Washington-Oregon banking market of Walla Walla, and the Washington banking markets of Richland-Kennewick-Pasco, Seattle, Sunnyside, and Yakima.

A. Competitive Effects in the Banking Markets

The Board has reviewed the competitive effects of the proposal in the banking markets in which Banner Bank and AmericanWest Bank compete. In particular, the Board has considered the number of competitors that would remain in the banking markets; the relative shares of the total deposits in insured depository institutions in the markets ("market deposits") that would be controlled by Banner Bank and AmericanWest Bank;[15] the concentration levels of market deposits and the increase in these levels, as measured by the Herfindahl-Hirschman Index ("HHI") under the Department of Justice Bank Merger Competitive Review guidelines ("DOJ Bank Merger Guidelines");[16] other

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[14] 12 U.S.C. § 1842(c)(1).

[15] Deposit and market share data are based on data reported by insured depository institutions in the summary of deposits data as of June 30, 2014, updated to reflect changes in ownership due to subsequent mergers and based on calculations in which the deposits of thrift institutions are included at 50 percent. The Board previously has indicated that thrift institutions have become, or have the potential to become, significant competitors of commercial banks. See, e.g., Midwest Financial Group, 75 Federal Reserve Bulletin 386 (1989); National City Corporation, 70 Federal Reserve Bulletin 743 (1984). Thus, the Board regularly has included thrift deposits in the market share calculation on a 50 percent weighted basis. See, e.g., First Hawaiian, Inc., 77 Federal Reserve Bulletin 52 (1991).

[16] Under the DOJ Bank Merger Guidelines, a market is considered unconcentrated if the post-merger HHI is under 1000, moderately concentrated if the post-merger HHI is between 1000 and 1800, and highly concentrated if the post-merger HHI exceeds 1800. The Department of Justice ("DOJ") has informed the Board that a bank merger or acquisition generally would not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by more than 200 points. Although the DOJ and the Federal Trade

characteristics of the markets; and, as discussed below, commitments made by Banner to divest one AmericanWest Bank branch in the Walla Walla banking market.

Banking Markets Within Established Guidelines

Consummation of the proposal would be consistent with Board precedent and within the thresholds in the DOJ Bank Merger Guidelines in the Lewiston, Spokane, Roseburg, Richland-Kennewick-Pasco, Seattle, and Yakima banking markets.[17] On consummation of the proposal, the Lewiston, Spokane, Richland-Kennewick-Pasco, Seattle, and Yakima banking markets would remain moderately concentrated, and the changes in market concentrations would be well within the DOJ Bank Merger Guidelines and Board precedent. The Roseburg banking market would remain highly concentrated, as measured by the HHI, and the change in the HHI in the market would be small. In each of these banking markets, numerous competitors would remain.

Banking Markets Warranting Special Scrutiny

The structural effects that consummation of the proposal would have in the Sunnyside and Walla Walla banking markets[18] warrant a detailed review because the concentration levels on consummation would exceed the threshold levels in the DOJ Bank Merger Guidelines when using initial competitive screening data.

<u>Sunnyside Banking Market</u>. Using the initial competitive screening data, Banner is the fourth largest depository organization in the Sunnyside banking market,

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Commission have issued revised Horizontal Merger Guidelines, the DOJ has confirmed that its Bank Merger Guidelines, which were issued in 1995, were not modified. Press Release, Department of Justice (August 19, 2010), available at www.justice.gov/opa/pr/2010/August/10-at-938.html.

[17] These six banking markets and the competitive effects of the proposal in these markets are described in the Appendix.

[18] The Sunnyside banking market is defined as the southeastern corner of Yakima County and southwestern Benton County, including Grandview, Granger, Mabton, Outlook, Prosser, and Sunnyside, all of Washington. The Walla Walla banking market is defined as the Walla Walla metropolitan area in Walla Walla County and the southern portion of Columbia County, including College Place, Dayton, Dixie, Garrett, Waitsburg, Walla Walla, and Walla Walla East, all of Washington, and the northeastern corner of Umatilla County, including Milton-Freewater, both of Oregon.

controlling approximately $56.5 million in deposits, which represent 11.4 percent of market deposits. Starbuck is the second largest depository organization in the market, controlling approximately $87.0 million in deposits, which represent 17.5 percent of market deposits. On consummation, the combined entity would be the second largest depository organization in the Sunnyside banking market, controlling approximately $143.5 million in deposits, which would represent approximately 28.9 percent of market deposits. The HHI in this market would increase by 399 points, from 1804 to 2203.

The Board has considered whether other factors either mitigate the competitive effects of the proposal or indicate that the proposal would not have a significantly adverse effect on competition in the Sunnyside banking market.[19] Factors indicate that the increase in concentration in the Sunnyside banking market, as measured by the above HHI and market share, overstates the potential competitive effects of the proposal in the market. One thrift institution in the market has a commercial and industrial loan portfolio similar to those of commercial banks in the Sunnyside banking market,[20] as measured in terms of the ratios of those types of loans to total loans and

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[19] The number and strength of factors necessary to mitigate the competitive effects of a proposal depend on the size of the increase and the resulting level of concentration in a banking market. See NationsBank Corp., 84 Federal Reserve Bulletin 129 (1998).

[20] The standard treatment of thrifts in the competitive analysis is to give their deposits 50-percent weighting to reflect their limited lending to small businesses relative to banks' lending levels. However, the Board previously has indicated that it may consider the competitiveness of a thrift institution at a level greater than 50 percent of its deposits when appropriate if competition from the institution closely approximates competition from a commercial bank. See, e.g., Banknorth Group, Inc., 75 Federal Reserve Bulletin 703 (1989). Where, as here, the facts and circumstances of a banking market indicate that a particular thrift serves as a significant source of commercial loans and provides a broad range of consumer, mortgage, and other banking products, the Board has concluded that competition from such a thrift closely approximates competition from a commercial bank and that deposits controlled by the institution should be weighted at 100 percent in market-share calculations. See, e.g., River Valley Bancorp, FRB Order No. 2012-10 (October 17, 2012); Regions Financial Corporation, 93 Federal Reserve Bulletin C16 (2007); and Banknorth Group, Inc., supra.

assets.[21] The Board has concluded that deposits controlled by this institution should be weighted at 100 percent in the market-share calculations.

In addition, two community credit unions exert a competitive influence in the Sunnyside banking market. Each institution offers a wide range of consumer banking products, operates street-level branches, and has broad membership criteria that include almost all of the residents in the relevant banking market.[22] The Board finds that these circumstances warrant including the deposits of these credit unions at a 50-percent weight in estimating market influence. This weighting takes into account the limited lending done by these credit unions to small businesses relative to commercial banks' lending levels.

With the deposits of the thrift weighted at 100 percent and the two credit unions at 50 percent, the Sunnyside banking market appears to be only moderately concentrated, both before and after the transaction. Upon consummation of the merger, Banner would control approximately 25.2 percent of market deposits, the HHI would increase by 302 points to a level of 1743, a level which would be within the DOJ Bank Merger Guidelines, and 10 depository organizations would continue to operate in the Sunnyside banking market, including one insured depository institution with a market share of more than 25 percent.

Walla Walla Banking Market. Using the initial competitive screening data, Banner is the second largest depository organization in the Walla Walla banking market,

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[21] This thrift institution has a ratio of commercial and industrial loans to assets of more than 5 percent, which is comparable to, or greater than, the ratio for some commercial banks in the market and greater than the ratio for some thrift institutions that the Board has previously found to be full competitors of commercial banks. Id.

[22] The Board previously has considered competition from certain active credit unions with these features as a mitigating factor. See, e.g., Mitsubishi UFJ Financial Group, Inc., FRB Order No. 2012-12 (November 14, 2012); Old National Bancorp, FRB Order No. 2012-9 (August 30, 2012); United Bankshares, Inc. (order dated June 20, 2011), 97 Federal Reserve Bulletin 19 (2nd Quar. 2011); The PNC Financial Services Group, Inc., 94 Federal Reserve Bulletin C38 (2008); The PNC Financial Services Group, Inc., 93 Federal Reserve Bulletin C65 (2007); Regions Financial Corporation, supra; Passumpsic Bancorp, 92 Federal Reserve Bulletin C175 (2006); Wachovia Corporation, 92 Federal Reserve Bulletin C183 (2006).

controlling approximately $382.5 million in deposits, which represent 31.1 percent of market deposits. Starbuck is the third largest depository organization in the market, controlling approximately $111.2 million in deposits, which represent 9.1 percent of market deposits. On consummation, the combined entity would be the largest depository organization in the Walla Walla banking market, controlling approximately $493.7 million in deposits, which would represent approximately 40.2 percent of market deposits. The HHI in this market would increase by 563 points, from 2401 to 2964. To mitigate the potentially adverse competitive effects of the proposal in the Walla Walla banking market, Banner has committed to divest one branch, accounting for a total of approximately $27.4 million in deposits, to a competitively suitable institution.[23]

The Board has also considered whether other factors either mitigate the competitive effects of the proposal or indicate that the proposal would not have a significantly adverse effect on competition in the market. In the Walla Walla banking market, the competitive effects are mitigated by several factors. Two community credit unions exert a competitive influence in the banking market. Each institution offers a wide range of consumer banking products, operates street-level branches, and has broad membership criteria that include almost all of the residents in the relevant banking market. The Board finds that these circumstances warrant including the deposits of these credit unions at a 50-percent weight in estimating market influence.

After accounting for the branch divestiture and weighting the deposits of the two credit unions at 50 percent, Banner would control approximately 34.6 percent of

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[23] As a condition of consummation of the proposed merger, Banner has committed that it would execute, before consummation of the proposed merger, a sales agreement with a competitively suitable banking organization. Banner also has committed to complete the divestiture within 180 days after consummation of the proposed merger. In addition, Banner has committed that, if the proposed divestiture is not completed within the 180-day period, Banner would transfer the unsold branch to an independent trustee, who would be instructed to sell the branch to an alternate purchaser or purchasers in accordance with the terms of this order and without regard to price. Both the trustee and any alternate purchaser must be deemed acceptable to the Board. See, e.g., BankAmerica Corporation, 78 Federal Reserve Bulletin 338 (1992); and United New Mexico Financial Corporation, 77 Federal Reserve Bulletin 484 (1991).

market deposits and the HHI would increase by 327 points to a level of 2367. In addition, 10 other competitively active insured depository organizations would remain, eight of which have more than one branch in the Walla Walla market.

Moreover, recent entry and expansionary activity suggests that the market is attractive to potential competitors. Two depository organizations have entered the Walla Walla banking market de novo since 2012, one of which is in the process of opening a second branch in the market, and another existing competitor opened a new branch in 2010.

B. Views of Other Agencies and Conclusion on Competitive Considerations

The DOJ conducted a review of the potential competitive effects of the merger and has advised the Board that consummation would not likely have a significantly adverse effect on competition in any relevant banking market, including Sunnyside and Walla Walla. In addition, the appropriate banking agencies have been afforded an opportunity to comment and have not objected to the proposal.

Based on all the facts of record, including the proposed divestiture commitments, the Board concludes that consummation of the proposal would not have a significantly adverse effect on competition or on the concentration of resources in the eight banking markets in which Banner Bank and AmericanWest Bank compete directly, or in any other relevant banking market. Accordingly, the Board determines that competitive considerations are consistent with approval.

Financial, Managerial, and Other Supervisory Considerations

In reviewing a proposal under section 3 of the BHC Act, the Board considers the financial and managerial resources and future prospects of the institutions involved. In its evaluation of the financial factors, the Board reviews the financial condition of the organizations involved on both parent-only and consolidated bases, as well as the financial condition of the subsidiary depository institutions and the organizations' significant nonbanking operations. In this evaluation, the Board considers a variety of information, including capital adequacy, asset quality, and earnings performance. The Board evaluates the financial condition of the combined organization, including its capital position, asset quality, liquidity, and earnings prospects, and the impact of the proposed funding of the transaction. The Board also considers the ability of the combined organization to absorb the costs of the proposal and the proposed integration of the operations of the institutions. In assessing financial factors, the Board considers capital adequacy to be especially important. The Board considers the future prospects of the organizations involved in the proposal in light of their financial and managerial resources and the proposed business plan.

Banner and Banner Bank are both well capitalized and would remain so on consummation of the proposed acquisition. The proposed transaction involves the acquisition and merger of a bank holding company and its subsidiary bank and is structured as a cash and share exchange.[24] The asset quality, earnings, and liquidity of Banner Bank and AmericanWest Bank are consistent with approval, and Banner appears to have adequate resources to absorb the costs of the proposal and to complete the integration of the institutions' operations. In addition, future prospects are considered consistent with approval. Based on its review of the record, the Board finds that Banner has sufficient financial resources to effect the proposal.

The Board also has considered the managerial resources of the organizations involved and of the proposed combined organization. The Board has reviewed the examination records of Banner, Starbuck, and their insured depository institution subsidiaries, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered its supervisory experiences and those of other relevant bank supervisory agencies with the organizations and their records of compliance with applicable consumer protection, banking, and anti-money-laundering laws.

Banner, Starbuck, and their insured depository institution subsidiaries are each considered to be well managed. Banner's existing risk-management program and its

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[24] The aggregate consideration to be paid in connection with the proposal would be a fixed amount of cash and an aggregate number of shares of (i) Banner common stock and (ii) a new class of Banner non-voting common stock that would be authorized prior to the completion of the acquisition. Banner has sufficient resources to fund the proposed transaction.

directorate and senior management are considered to be satisfactory. The senior executive officers of Banner and Starbuck have substantial knowledge of and experience in the banking sector.

The Board also has considered Banner's plans for implementing the proposal. Banner has a demonstrated record of successfully integrating organizations into its operations and risk-management systems following acquisitions. Banner would implement its existing structure of centralized risk-management at the combined organization, which is considered acceptable from a supervisory perspective. In addition, Banner's and Starbuck's management has the experience and resources to ensure that the combined organization operates in a safe and sound manner, and Banner plans to integrate Starbuck's existing management and personnel in a manner that augments Banner's management.[25]

Based on all the facts of record, including Banner's supervisory record, managerial and operational resources, and plans for operating the combined institution after consummation, the Board concludes that considerations relating to the financial and managerial resources and future prospects of the organizations involved in the proposal, as well as the records of effectiveness of Banner and Starbuck in combatting money-laundering activities, are consistent with approval.

Convenience and Needs Considerations

In acting on a proposal under section 3 of the BHC Act, the Board considers the effects of the proposal on the convenience and needs of the communities to be served. In its evaluation of the effect of the proposal on the convenience and needs of the communities to be served, the Board considers whether the relevant institutions are helping to meet the credit needs of the communities they serve and whether the proposal would result in public benefits. In this evaluation, the Board places particular emphasis

[25] On consummation, Banner intends to retain certain members of management and most of the employees of Starbuck, including two current executive officers of Starbuck, who would serve in a consulting capacity at Banner, and the current chief financial officer of Starbuck, who would serve as the chief financial officer of Banner Bank for three years after the acquisition.

on the records of the relevant depository institutions under the Community Reinvestment Act ("CRA").[26] In addition, the Board considers the banks' overall compliance record, the results of recent fair lending examinations, and other supervisory assessments; the supervisory views of examiners; and other supervisory information. The Board also may consider the applicant organization's business model, marketing and outreach plans, plans following consummation, and any other information the Board deems relevant.

The CRA requires the federal financial supervisory agencies to encourage insured depository institutions to help meet the credit needs of the local communities in which they operate, consistent with their safe and sound operation,[27] and requires the appropriate federal financial supervisory agency to assess a depository institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income ("LMI") neighborhoods, in evaluating bank expansionary proposals.[28] In addition, fair lending laws require all lending institutions to provide applicants with equal access to credit, regardless of their race, ethnicity, or certain other characteristics.

The Board has considered all the facts of record, including reports of examination of the CRA performance of Banner Bank and AmericanWest Bank, the fair lending and compliance records of both banks, the supervisory views of other agencies, confidential supervisory information, and information provided by Banner.

A. Records of Performance Under the CRA

The Board evaluates an institution's performance record in light of examinations by the appropriate federal supervisors of the CRA performance records of the relevant institutions.[29] The CRA requires that the appropriate federal financial supervisor for a depository institution prepare a written evaluation of the institution's record of meeting the credit needs of its entire community, including LMI

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[26] 12 U.S.C. § 1842(c)(2); 12 U.S.C. § 2901 et seq.

[27] 12 U.S.C. § 2901(b).

[28] 12 U.S.C. § 2903.

[29] See Interagency Questions and Answers Regarding Community Reinvestment, 75 Federal Register 11642, 11665 (2010).

neighborhoods.[30] An institution's most recent CRA performance evaluation is a particularly important consideration in the applications process because it represents a detailed, on-site evaluation by the institution's primary federal supervisor of the institution's overall record of lending in its communities.

In general, federal financial supervisors apply lending, investment, and service tests to evaluate the performance of a large insured depository institution in helping to meet the credit needs of the communities it serves. The lending test specifically evaluates the institution's home mortgage, small business, small farm, and community development lending to determine whether the institution is helping to meet the credit needs of individuals and geographies of all income levels. As part of the lending test, examiners review and analyze an institution's data reported under the Home Mortgage Disclosure Act of 1975,[31] in addition to small business, small farm, and community development loan data collected and reported under the CRA regulations, to assess an institution's lending activities with respect to borrowers and geographies of different income levels. The institution's lending performance is based on the number and amount of home mortgage, small business, small farm, and consumer loans (as applicable) in the institution's assessment areas; the geographic distribution of such loans, including the proportion and dispersion of the institution's lending in its assessment areas and the number and amount of loans in low-, moderate-, middle-, and upper-income geographies; the distribution of such loans based on borrower characteristics, including the number and amount of home mortgage loans to low-, moderate-, middle-, and upper-income individuals;[32] the institution's community development lending, including the number and amount of community development

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[30] 12 U.S.C. § 2906.

[31] 12 U.S.C. § 2801 et seq.

[32] Examiners also consider the number and amount of small business and small farm loans to businesses and farms with gross annual revenues of $1 million or less; small business and small farm loans by loan amount at origination; and consumer loans, if applicable, to low-, moderate-, middle-, and upper income individuals. See, e.g., 12 CFR 228.22(b)(3).

loans, and their complexity and innovativeness; and the institution's use of innovative or flexible lending practices to address the credit needs of LMI individuals and geographies. Consequently, the Board considers the overall CRA rating and the rating on the lending test to be important indicators, when taken into consideration with other factors, in determining whether a depository institution is helping to meet the credit needs of its communities.

CRA Performance of Banner Bank

Banner Bank was assigned an overall "Satisfactory" rating at its most recent CRA performance evaluation by the FDIC, in March 2013 ("Banner Bank Evaluation"). Banner Bank received "High Satisfactory" ratings for the Lending Test, Investment Test, and Service Test.[33]

Examiners observed that Banner Bank's overall level of lending reflected good responsiveness to assessment area credit needs. Banner Bank's overall distribution of borrowers reflected good penetration among retail customers of different income levels and businesses and farms of different revenue sizes, and its overall geographic distribution of loans reflected adequate penetration throughout the assessment areas. Examiners noted that Banner Bank exhibited a good record of serving the credit needs of the most economically disadvantaged geographies of its assessment areas, low-income individuals, and very small businesses and small farms, consistent with safe and sound banking practices. Examiners also noted that Banner Bank had a relatively high level of community development lending, which was focused on affordable housing, and that it used flexible lending practices in serving assessment area credit needs.

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[33] The Banner Bank Evaluation was prepared using the interagency evaluation procedures for Large Institutions. The evaluation period for the Lending Test, Investment Test, and Service Test was from January 1, 2010, through December 31, 2012. The Banner Bank Evaluation included a full-scope review of the Seattle Metropolitan Division ("MD"), Washington, Boise Metropolitan Statistical Area ("MSA"), Idaho, and Lewiston-Clarkston Multi-State MSA, Portland-Vancouver-Beaverton Multi-State MSA, and Oregon non-MSA, all of Oregon, assessment areas and a limited-scope review of the Spokane MSA, Bellingham MSA, Tri-Cities MSA, Wenatchee Non-MSA, Yakima Non-MSA, and Washington Non-MSA, all of Washington, and Idaho Non-MSA, Idaho.

Examiners found that Banner Bank had a significant level of qualified community development investments and grants, particularly those that are not routinely provided by private investors. Examiners noted that total investments doubled in amount since the previous evaluation. Examiners also noted that the bank exhibited good responsiveness to assessment area community development needs and used innovative and complex investments to support community development initiatives.

Examiners concluded that Banner Bank provided a relatively high level of community development services. Examiners noted that Banner Bank's delivery systems were accessible to all portions of its assessment areas and that its record of opening and closing branches had not adversely affected the accessibility of its delivery systems, particularly with respect to low- and moderate-income geographies and individuals.

CRA Performance of AmericanWest Bank

AmericanWest Bank was assigned an overall "Satisfactory" rating at its most recent CRA performance evaluation by the FDIC, in September 2012 ("AmericanWest Bank Evaluation"). AmericanWest Bank received "High Satisfactory" ratings for the Lending Test and Investment Test and a "Low Satisfactory" rating for the Service Test.[34]

Examiners observed that AmericanWest Bank's overall level of lending reflected good responsiveness to assessment area credit needs. AmericanWest Bank originated a substantial majority of loans in its assessment areas during the evaluation period. AmericanWest Bank's overall distribution of borrowers reflected good

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[34] The AmericanWest Bank Evaluation was prepared using the interagency evaluation procedures for Large Institutions. The evaluation period for the Lending Test was from January 1, 2009, through December 31, 2011, except for community development loans. The Service Test and the review of community development loans covered the period from January 1, 2009, through June 30, 2012. The evaluation period for the Investment Test was from December 22, 2008, through June 30, 2012. The AmericanWest Bank Evaluation included a full-scope review of the Washington Non-MSA, Washington, Idaho Non-MSA, Idaho, and Utah Non-MSA, Utah, assessment areas and a limited-scope review of the Spokane MSA, Yakima MSA, and Kennewick MSA, all of Washington, Coeur d'Alene MSA and Lewiston MSA, both of Idaho, and Salt Lake MSA, Provo MSA, and St. George MSA, all of Utah.

penetration among retail customers of different income levels and businesses and farms of different revenue sizes, and its overall geographic distribution of loans reflected good penetration throughout the assessment areas. Examiners noted that AmericanWest Bank exhibited a good record of serving the credit needs of the most economically disadvantaged geographies of its assessment areas, low-income individuals, and very small businesses and farms, consistent with safe and sound banking practices. Examiners also noted that AmericanWest Bank had an adequate level of community development lending.

Examiners found that AmericanWest Bank had made a significant level of qualified community development investments and grants. Examiners noted that AmericanWest Bank's volume of community development investments and donations showed a marked increase from the previous evaluation. Examiners also noted that the bank exhibited good responsiveness to assessment area community development needs.

Examiners concluded that AmericanWest Bank provided an adequate level of community development services. Examiners noted that AmericanWest Bank's delivery systems were accessible to all portions of its assessment areas and that AmericanWest Bank's opening and closing of branches had not adversely affected the accessibility of its delivery systems.

B. Additional Information on Convenience and Needs of Communities to Be Served by the Combined Organization

In assessing the effects of a proposal on the convenience and needs of the communities to be served, the Board also considers the extent to which the proposal would result in public benefits. Applicants state that current customers of Banner Bank and AmericanWest Bank would be able to take advantage of the combined organization's expanded branch network and broader range of financial products. In particular, AmericanWest Bank customers would benefit from access to a wider range of home mortgage products and Banner's small business loan platform. AmericanWest Bank customers would also be able to use Banner's online banking platform and mobile and text banking services. Applicants also state that large commercial customers would benefit from an expanded capital base and funding capabilities following the merger.

Applicants represent that they do not expect the proposal to result in any significant reduction to the services or products offered or increases in fees charged to the communities currently served by Banner Bank and AmericanWest Bank.

C. Conclusion on Convenience and Needs Considerations

The Board has considered all the facts of record, including reports of examination of the CRA records of the institutions involved, the institutions' records of compliance with fair lending and other consumer protection laws, consultations with other agencies, information provided by Applicants, and confidential supervisory information. Based on that review, the Board concludes that the proposal would result in public benefits and that the convenience and needs factor is consistent with approval.

Financial Stability

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") amended section 3 of the BHC Act to require the Board to consider "the extent to which a proposed acquisition, merger, or consolidation would result in greater or more concentrated risk to the stability of the United States banking or financial system."[35]

To assess the likely effect of a proposed transaction on the stability of the U.S. banking or financial system, the Board considers a variety of metrics that capture the systemic "footprint" of the resulting firm and the incremental effect of the transaction on the systemic footprint of the acquiring firm. These metrics include measures of the size of the resulting firm, the availability of substitute providers for any critical products and services offered by the resulting firm, the interconnectedness of the resulting firm with the banking or financial system, the extent to which the resulting firm contributes to the complexity of the financial system, and the extent of the cross-border activities of the resulting firm.[36] These categories are not exhaustive, and additional categories could

[35] Section 604(d) of the Dodd-Frank Act, Pub. L. No. 111-203, 124 Stat. 1376, codified at 12 U.S.C. § 1842(c)(7).

[36] Many of the metrics considered by the Board measure an institution's activities relative to the U.S. financial system.

inform the Board's decision. In addition to these quantitative measures, the Board considers qualitative factors, such as the opaqueness and complexity of an institution's internal organization, that are indicative of the relative degree of difficulty of resolving the resulting firm. A financial institution that can be resolved in an orderly manner is less likely to inflict material damage to the broader economy.[37]

The Board has considered information relevant to risks to the stability of the U.S. banking or financial system. After consummation of the proposed transaction, Banner would have approximately $9.8 billion in consolidated assets and would not be likely to pose systemic risks. The Board generally presumes that a merger resulting in a firm with less than $25 billion in total consolidated assets would not pose significant risks to the financial stability of the United States absent evidence that the transaction would result in a significant increase in interconnectedness, complexity, cross-border activities, or other risk factors. Such additional risk factors are not present in this transaction.

In light of all the facts and circumstances, this transaction would not appear to result in meaningfully greater or more concentrated risks to the stability of the U.S. banking or financial system. Based on these and all other facts of record, the Board determines that considerations relating to financial stability are consistent with approval.

Conclusion

Based on the foregoing and all the facts of record, the Board determines that the application should be, and hereby is, approved. In reaching its conclusion, the Board has considered all the facts of record in light of the factors that it is required to consider under the BHC Act and other applicable statutes. The Board's approval is specifically conditioned on compliance by Applicants with all the conditions imposed in this Order, including receipt of all required regulatory approvals, and on the commitments made to the Board in connection with the application. For purposes of this action, the conditions and commitments are deemed to be conditions imposed in writing

[37] For further discussion of the financial stability standard, see Capital One Financial Corporation, FRB Order No. 2012-2 (Feb. 14, 2012).

by the Board in connection with its findings and decision herein and, as such, may be enforced in proceedings under applicable law.

The proposal may not be consummated before the 15th calendar day after the effective date of this Order or later than three months thereafter unless such period is extended for good cause by the Board or the Federal Reserve Bank of San Francisco, acting under delegated authority.

By order of the Board of Governors,[38] effective September 3, 2015.

Margaret McCloskey Shanks (signed)

Margaret McCloskey Shanks
Deputy Secretary of the Board

[38] Voting for this action: Chair Yellen, Vice Chairman Fischer, and Governors Tarullo, Powell, and Brainard.

Appendix

Banner Bank/AmericanWest Bank Banking Markets
Consistent with Board Precedent and DOJ Bank Merger Guidelines

Data and rankings are as of June 30, 2014. All rankings, market deposit shares, and HHIs are based on thrift deposits weighted at 50 percent.

Idaho-Washington Banking Market of Lewiston
Defined as the Lewiston metropolitan area in Nez Perce County, including Lewiston, both of Idaho, and Asotin County, including Asotin, Clarkston, Clarkston Heights-Vineland, and West Clarkson-Highland, all of Washington

<table>
<tr><th></th><th>Rank</th><th>Amount of Deposits</th><th>Market Deposit Shares (%)</th><th>Resulting HHI</th><th>Change in HHI</th><th>Remaining Number of Competitors</th></tr>
<tr><td>Banner Bank Pre-Consummation</td><td>2</td><td>$141.2M</td><td>17.2</td><td rowspan="3">1603</td><td rowspan="3">52</td><td rowspan="3">10</td></tr>
<tr><td>AmericanWest Bank</td><td>10</td><td>$12.4M</td><td>1.5</td></tr>
<tr><td>Banner Bank Post-Consummation</td><td>2</td><td>$153.6M</td><td>18.7</td></tr>
</table>

Oregon Banking Market of Roseburg
Defined as Central Douglas County, including Canyonville, Dillard, Fair Oaks, Glide, Green, Myrtle Creek, Oakland, Riddle, Roseburg, Roseburg North, Sutherlin, Tri-City, and Winston, all of Oregon

<table>
<tr><th></th><th>Rank</th><th>Amount of Deposits</th><th>Market Deposit Shares (%)</th><th>Resulting HHI</th><th>Change in HHI</th><th>Remaining Number of Competitors</th></tr>
<tr><td>Banner Bank Pre-Consummation</td><td>7</td><td>$22.5M</td><td>1.5</td><td rowspan="3">4557</td><td rowspan="3">25</td><td rowspan="3">6</td></tr>
<tr><td>AmericanWest Bank</td><td>3</td><td>$133.3M</td><td>8.6</td></tr>
<tr><td>Banner Bank Post-Consummation</td><td>2</td><td>$155.8M</td><td>10.0</td></tr>
</table>

Washington-Idaho Banking Market of Spokane Defined as the Spokane metropolitan area in Spokane County, including Airway Heights, Cheney, Dishman, Fairchild Air Force Base, Liberty Lake, Mead, Medical Lake, Opportunity, Spokane, Spokane Valley, and Veradale, all of Washington, and the central western portion of Kootenai County, including Coeur D'Alene, Hayden, Hayden Lake, Post Falls, and Rathdrum, all of Idaho						
	Rank	**Amount of Deposits**	**Market Deposit Shares (%)**	**Resulting HHI**	**Change in HHI**	**Remaining Number of Competitors**
Banner Bank Pre-Consummation	7	$442.2M	5.2	1246	16	20
AmericanWest Bank	10	$140.5M	1.6			
Banner Bank Post-Consummation	6	$582.7M	6.8			

Washington Banking Market of Richland-Kennewick-Pasco Defined as the Tri-Cities area in south central Washington in Benton, Franklin, and Walla Walla counties, including Benton City, Burbank, Connell, Finley, Kennewick, Mesa, Pasco, Richland, Wallula, West Pasco, and West Richland, all of Washington						
	Rank	**Amount of Deposits**	**Market Deposit Shares (%)**	**Resulting HHI**	**Change in HHI**	**Remaining Number of Competitors**
Banner Bank Pre-Consummation	5	$175.1M	7.8	1034	74	14
AmericanWest Bank	10	$104.4M	4.7			
Banner Bank Post-Consummation	3	$279.5M	12.5			

Washington Banking Market of Seattle

Seattle metropolitan area in King, Pierce, and Snohomish counties, the southeastern portion of Island County, and Bainbridge Island in Kitsap County, including Alder, Alderton, Alderwood Manor, Algona, Ames Lake, Arlington, Arlington Heights, Artondale, Ashford, Auburn, Bainbridge Island, Baring, Bellevue, Black Diamond, Bonney Lake, Bothell, Bothell East, Bothell West, Boulevard Park, Brier, Browns Point, Bryant, Bryn Mawr-Skyway, Buckley, Bunk Foss, Burien, Camano Island, Canterwood, Canyon Creek, Carbonado, Carnation, Cavalero, Chain Lake, Clear Lake, Clinton, Clover Creek, Clyde Hill, Cottage Lake, Covington, Darrington, Dash Point, Des Moines, Dupont, Duvall, Eastgate, East Hill-Meridian, Eastmont, East Renton Highlands, Eatonville, Edgewood, Edmonds, Elbe, Elk Plain, Enumclaw, Esperence, Everett, Fairwood, Fall City, Federal Way, Fife, Fircrest, Fobes Hill, Fort Lewis, Fox Island, Frederickson, Freeland, Gig Harbor, Gold Bar, Graham, Granite Falls, Hobart, Hunts Point, Index, Inglewood-Finn Hill, Issaquah, Kapowsin, Kenmore, Kent, Kingsgate, Kirkland, Klahanie, La Grande, Lake Bosworth, Lake Cassidy, Lake Forest Park, Lake Holm, Lake Ketchum, Lakeland North, Lakeland South, Lake Marcel-Stillwater, Lake Morton-Berrydale, Lake Roesiger, Lake Stevens, Lake Stickney, Lake Tapps, Lakewood, Langley, Larch Way, Lochsloy, Lynnwood, Machias, Maple Heights-Lake Desire, Maple Valley, Maplewood, Martha Lake, Marysville, May Creek, McChord Air Force Base, McMillan, Meadowdale, Medina, Mercer Island, Midland, Midway, Mill Creek, Mill Creek East, Milton, Mirrormont, Monroe, Monroe North, Mountlake Terrace, Mukilteo, Newcastle, Newport Hills, Normandy Park, North Bend, North Fort Lewis, North Lynwood, North Marysville, North Puyallup, North Sultan, Northwest Stanwood, Orting, Oso, Pacific, Parkland, Picnic Point, Prairie Heights, Prairie Ridge, Purdy, Puyallup, Raft Island, Ravensdale, Redmond, Renton, Riverbend, Riverton, Rosedale, Ruston, Sammamish, Seatac, Seattle, Shadow Lake, Shoreline, Silvana, Silver Firs, Sisco Heights, Snohomish, Snoqualmie, South Hill, South Prairie, Spanaway, Stanwood, Startup, Steilacoom Summit, Sultan, Summit View, Sumner, Sunday Lake, Swede Heaven, Tacoma, Tanner, Three Lakes, Tukwila, Tulalip, Union Hill-Novelty Hill, University Place, Vashon, Vashon Island, Verlot, Waller, Warm Beach, Wauna, White Center, Wilderness Rim, Wilkeson, Wollochet, Woodinville, Woods Creek, Woodway, and Yarrow Point, all of Washington

<table>
<tr><th></th><th>Rank</th><th>Amount of Deposits</th><th>Market Deposit Shares (%)</th><th>Resulting HHI</th><th>Change in HHI</th><th>Remaining Number of Competitors</th></tr>
<tr><td>Banner Bank Pre-Consummation</td><td>14</td><td>$846.8M</td><td>1.0</td><td rowspan="3">1274</td><td rowspan="3">1</td><td rowspan="3">53</td></tr>
<tr><td>AmericanWest Bank</td><td>23</td><td>$281.6M</td><td>0.4</td></tr>
<tr><td>Banner Bank Post-Consummation</td><td>11</td><td>$1.1B</td><td>1.4</td></tr>
</table>

<table>
<tr><td colspan="7">Washington Banking Market of Yakima
Defined as the Yakima metropolitan area in Yakima County, including Ahtanum, Cowiche, Eschbach, Gleed, Naches, Selah, Summitview, Terrace Heights, Tieton, Union Gap, and Yakima, all of Washington</td></tr>
<tr><th></th><th>Rank</th><th>Amount of Deposits</th><th>Market Deposit Shares (%)</th><th>Resulting HHI</th><th>Change in HHI</th><th>Remaining Number of Competitors</th></tr>
<tr><td>Banner Bank Pre-Consummation</td><td>3</td><td>$269.7M</td><td>13.7</td><td rowspan="3">1352</td><td rowspan="3">70</td><td rowspan="3">14</td></tr>
<tr><td>AmericanWest Bank</td><td>10</td><td>$50.2M</td><td>2.6</td></tr>
<tr><td>Banner Bank Post-Consummation</td><td>2</td><td>$319.9M</td><td>16.3</td></tr>
</table>