



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON, DC 20551

February 4, 2016

Jeffrey A. Watiker, Esq.  
Wachtell, Lipton, Rosen & Katz  
51 West 52nd Street  
New York, New York 10019

Dear Mr. Watiker:

This is in response to your request on behalf of Banner Corporation (“Banner”), Walla Walla, Washington, for an exemption from the prohibitions of the Depository Institution Management Interlocks Act (“Interlocks Act”)<sup>1</sup> and Regulation L<sup>2</sup> to permit Mr. Michael Harmon to serve as a director on the board of directors of Banner while at the same time serving as a director of First BanCorp, Inc. (“First BanCorp”) and its subsidiary bank, FirstBank Puerto Rico (“FirstBank”), both of San Juan, Puerto Rico.

The Interlocks Act and Regulation L prohibit a management official of a depository institution or a depository holding company with total assets exceeding \$2.5 billion (or of any affiliate of such an organization) from serving at the same time as a management official of an unaffiliated depository organization with total assets exceeding \$1.5 billion (or of any affiliate of such an organization), regardless of the location of the two depository organizations (“major assets prohibition”).<sup>3</sup> Banner, First BanCorp, and FirstBank each have assets that exceed the applicable thresholds of the major assets prohibition.

Under the general exemption provision of Regulation L, the Board may permit an interlock that otherwise would be prohibited by the Interlocks Act if the Board determines that the interlock would not result in a monopoly or in a substantial lessening of competition and would not present safety and soundness

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<sup>1</sup> 12 U.S.C. § 3201 *et seq.*

<sup>2</sup> 12 CFR part 212.

<sup>3</sup> 12 U.S.C. § 3203; 12 CFR 212.3(c).

concerns.<sup>4</sup> The Board has delegated to its General Counsel, in consultation with the Director of the Division of Banking Supervision and Regulation (“Director”), authority to grant exemptions under this provision of Regulation L.

The proposed interlocks between Banner and each of First BanCorp and FirstBank would not result in a monopoly or in a substantial lessening of competition. Banner does not compete in the same local banking markets as First BanCorp and FirstBank. The interlocks also would not have any substantial effect on competition with respect to the nonbanking activities of Banner and each of First BanCorp and FirstBank.

In addition, the interlocks do not present safety and soundness concerns. Mr. Harmon appears to have the requisite background and experience to serve on the board of directors of Banner, and Banner represents that he would be especially valuable as the organization grows and develops an enhanced risk management framework appropriate for Banner’s expanded footprint.

On September 3, 2015, the Board approved the application under section 3 of the Bank Holding Company Act<sup>5</sup> by Banner and Elements Merger Sub, LLC, Walla Walla, to acquire Starbuck Bancshares, Inc. (“Starbuck”), Seattle, and thereby indirectly acquire its subsidiary, AmericanWest Bank, Spokane, all of Washington. Mr. Harmon joined the boards of directors of Starbuck and AmericanWest Bank in 2011. Mr. Harmon was identified as one of three directors Starbuck contracted to be placed on the boards of directors of Banner and Banner Bank subsequent to the merger of Starbuck and Banner. In addition, Mr. Harmon is a managing director of Oaktree Capital Management, L.P. (“Oaktree”), a private equity firm, which was an investor in Starbuck and became an investor in Banner and has a contractual right to appoint a director to each of the boards of directors of Banner and Banner Bank. Oaktree has selected Mr. Harmon as its director representative for Banner. Mr. Harmon’s service on Banner’s board was specifically contemplated as part of the Starbuck transaction and was an integral part of the merger consideration. Mr. Harmon’s service as a director of Starbuck and AmericanWest Bank will assist with the integration of Starbuck and AmericanWest Bank’s business operations into Banner’s.

Based on all the facts of this case and for the reasons discussed above, the General Counsel, acting pursuant to authority delegated by the Board and after consultation with the Director, has granted an exemption to allow Mr. Harmon to serve as a management official of Banner while also serving as a management official of First BanCorp and FirstBank.

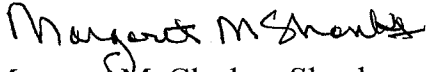
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<sup>4</sup> 12 CFR 212.6(a).

<sup>5</sup> 12 U.S.C. § 1842.

The Board reserves the right to revoke the exemption should any of the interlocks result in a monopoly or a substantial lessening of competition or present safety and soundness concerns.

Sincerely yours,

  
Margaret McCloskey Shanks  
Deputy Secretary of the Board