

BANNER CORPORATION EXCESSIVE OR LUXURY EXPENDITURES POLICY

Purpose

The Board of Directors and Executive Management of Banner Corporation have long recognized and carefully exercised their responsibility to ensure prudent and sound decision-making regarding all corporate expenditures.

In November 2008 Banner Corporation became a participant in the U.S. Treasury Department's Capital Purchase Program. Therefore, in compliance with Section 111(d) of the Emergency Economic Stabilization Act of 2008, as amended, the Board of Directors of Banner Corporation (the "Company") has adopted this policy which is intended to prohibit excessive or luxury expenditures.

Application

This policy applies to the Company and its subsidiaries, including Banner Bank and Islanders Bank, and covers all employees and directors.

Prohibition on Excessive or Luxury Expenditures

The term "excessive or luxury expenditures" means excessive expenditures on any of the following to the extent such expenditures are not reasonable expenditures for staff development, reasonable performance incentives, business development, or other similar reasonable measures conducted in the course of the Company's business operations:

1. Entertainment or events;
2. Office and facility renovations;
3. Aviation or other transportation services; and
4. Other similar items, activities or events for which the Company may reasonably anticipate incurring expenses, or reimbursing an employee or director for incurring expenses.

This Company policy prohibits excessive or luxury expenditures in each of these categories as further explained below.

Reasonable expenditures for staff development, performance incentives, business development or any other similar measure conducted in the normal course of business operations are permitted.

Expenditures for Entertainment or Events

All proposed entertainment, meetings, events and incentive/recognition travel (“events”) organized by the Company or its employees must serve one or more legitimate business purposes. Participating Senior Executive Officers and/or Board Members shall be responsible for any expenses incurred for non-business related activities. Appendix A contains representative examples of legitimate business purposes.

Approval Process

Events expenditures shall be approved through the Company’s annual budgeting processes and managed through its normal expense approval and control processes.

Events not approved within the Company’s budget with an estimated total cost of **\$10,000** or more, or any event, such as a dinner meeting or sporting event at which more than twenty people are expected to attend with an estimated total cost of **\$5,000** or more, must be supported by a written request identifying one or more legitimate business purposes. The written request must be approved in writing by the CEO. If such events expenditures include the participation of the CEO, the written request must be approved by the Chairman of the Board.

Prohibitions

- Events that do not serve a legitimate business purpose shall not be approved.
- Sponsorship of extravagant or ostentatious entertainment, meetings, events and incentive/recognition travel is prohibited.
- No events shall promote excessive risk-taking.

Expenditures for Office and Facility Renovations

Office and facility renovations should be designed to: enhance operational efficiency; comply with applicable law; maintain a safe and sanitary working environment; enhance the public image of the Company; improve employee morale; or such other worthwhile purpose identified by the Company.

Approval Process

Office and facility renovations shall be approved through the Company’s annual budgeting processes and managed through its Purchasing Policy and expense approval and control processes. An exception to this is allowed if Management must deal with an emergency or hazardous situation and the expenditure is necessary to make the facility safe, compliant, or operational.

Office and facility renovations not approved within the Company’s budget with an estimated total cost of **\$50,000** or more must be supported by a written request identifying one or more legitimate business purposes. The written request must be approved in writing by the CEO.

If such renovations relate to the CEO’s office the written request must be approved by the Chairman of the Board.

Prohibitions

- Opulent office or facility renovations are prohibited.
- Office or facility renovations shall not include improvements to real property, leasehold improvements, fixtures, furniture or other décor, equipment, or appliances that would have the appearance of being extraordinary relative to those found in commercial properties of a similar type, purpose and usage in the surrounding community or region.

Expenditures for Aviation and Other Transportation Services

Transportation for Company employees and directors to all locations should be conducted in a cost effective way, taking into account the cost, efficiency, timeliness, and relative safety of travel alternatives. Modes of transportation may consist of vehicles and commercial air, rail, or bus services. Chartered air services are also allowed. Participating Senior Executive Officers and/or Board Members shall be responsible for any expenses incurred for non-business related activities.

Approval Process

It is the policy of the Company to reimburse employees and directors for reasonable and necessary expenses incurred on authorized Company business. Requests for expense reimbursements are reviewed, approved and documented in accordance with the Company's expense reimbursement procedures.

Any proposed expenditure for aviation or other transportation services with an estimated total cost of **\$5,000** or more must be supported by a written request identifying one or more legitimate business purposes. The written request must be approved in writing by the CEO.

If such expenditures include the participation of the CEO, the written request must be approved by the Chairman of the Board.

Prohibitions

- Excessive or luxurious aviation or other transportation services are prohibited.
- Purchase or long-term lease of any aircraft; watercraft, recreational vehicle or motor coach is prohibited.

Expenditures for Other Items, Activities or Events

Other items, activities or events for which the Company may reasonably anticipate incurring expenses, or reimbursing an employee for incurring expenses, not covered elsewhere shall be for legitimate business purposes and reasonable in nature and amount.

Prohibitions

- Excessive or ostentatious expenditures for other items, activities or events are prohibited.
- No other items, activities or events shall promote excessive risk-taking.

Reporting Violations & Disciplinary Action

An employee or director who learns of an apparent violation of this policy must promptly report it to the Company's Chief Financial Officer and Chief Executive Officer who will report such violations to the Audit Committee of the Board of Directors in a timely manner.

Violation of this policy or its implementing procedures may result in disciplinary action, up to and including termination of employment.

Administration

The Executive Management Committee shall oversee the development and implementation of this policy. This shall include, but is not limited to:

- Recommending modifications of this policy to ensure it remains compliant with applicable law and regulation.
- Ensuring the policy is published as required.

Publication

A copy of this policy shall be filed with the U.S. Department of the Treasury and the Federal Reserve Board, and posted on the Company's website, www.bannerbank.com, in accordance with applicable government regulations and guidance.

If the Board of Directors of the Company makes any material amendments to this policy, within 90 days of the adoption of the amended policy, the Company must provide the amended policy to the U.S. Department of the Treasury and the Federal Reserve Board, and post the amended policy on the Company's website.

Certification & Records Retention

The Company's Chief Executive Officer and Chief Financial Officer must certify to the Board of Directors, to the U.S. Department of the Treasury, and to the Company's primary federal regulatory agency at least annually, in accordance with applicable government regulations and guidance, that the Company and its employees have complied with this policy during the applicable period, and that all expenses requiring approval pursuant to this policy have been properly approved in accordance with the requirements of this policy.

Appropriate documentation and records to substantiate such certifications shall be preserved for six (6) years after the date of each such certification in accordance with applicable government regulations and guidance.

Appendix A

Examples of Legitimate Business Purposes for Entertainment, Meetings, Events, and Incentive/Recognition Travel

All proposed expenditures for entertainment, meetings, events and incentive/recognition travel should be made to support or strengthen the Company's competitive position or position the Company for the creation of long-term value and growth.

Below is a representative list of legitimate business purposes for entertainment, meetings, events and incentive/recognition travel:

1. Entertainment of current or prospective customers for business development purposes, including participation in sports, such as golf; dining out; or treating the customer to other events he or she would find informative or pleasurable.
2. Product or service launches to educate sales force, channel partners and customers.
3. Sales conferences and employee meetings to align vision, strategy and tactics.
4. Training and staff development meetings including those at learning environments conducive to adult learning and professional development, maintaining or improving participants' skills at their trade or profession and/or their familiarity with the company's products, services, customers, or markets.
5. Professional conferences and seminars that provide networking, education and best practice sharing across companies and industries.
6. Employee recognition programs to motivate and reward employees for achievement and productivity.
7. Performance incentives with rule structures designed to motivate and reward desired performance and high performers for meeting or exceeding established goals that generate incremental revenue growth for the Company and that are beyond the investment in the program.
8. Corporate-sponsored events that further community reinvestment or charitable purposes.
9. Strategic, business and financial planning and review meetings.
10. Investor relations-related travel and meetings.