



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

May 22, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Baker Boyer National Bank
Charter Number 3956**

**7 West Main Street
Walla Walla, WA 99362**

Office of the Comptroller of the Currency

**San Francisco Field Office
One Front Street, Suite 1000
San Francisco, CA 94111**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

INSTITUTION'S COMMUNITY REINVESTMENT ACT (CRA) RATING: Baker Boyer National Bank is rated Satisfactory.

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

- The average quarterly loan-to-deposit ratio for the last 12 quarters was 74.1% and reflects a satisfactory level.
- The concentration of lending within the assessment area is outstanding with more than 93% of the bank's sampled and reviewed home mortgage, business and farm loans extended in the bank's assessment areas.
- The distribution of home mortgage, commercial and agricultural loans by borrower income and geography throughout the bank's assessment areas is reasonable and considered satisfactory.
- The bank has an adequate level of community development loans, services and investments.

SCOPE OF EXAMINATION

This Performance Evaluation assesses the bank's performance from March 17, 2003 through May 22, 2006. We evaluated the bank's reported Home Mortgage Disclosure Act (HMDA) data from January 1, 2003 through December 31, 2005, and evaluated a sample of the bank's commercial loan data from January 1, 2003 through April 30, 2006. Community development loans, services, and investments were evaluated during the time period from March 17, 2003 through May 22, 2006. We performed a data integrity review of reported HMDA data and determined the level of errors for CRA data was not significant.

The bank's CRA performance was evaluated at this examination using Intermediate Small Bank CRA procedures. The bank's CRA performance was rated "Satisfactory" using Large Bank CRA procedures at the CRA examination in March 2003. The bank operates primarily in four assessment areas in Washington and Oregon. Two assessment areas are the two counties in the Richland-Kennewick-Pasco (Tri-Cities) metropolitan statistical area (MSA); therefore, they will be reviewed as one assessment area for evaluation purposes. The remaining two assessment areas represent the counties of Walla Walla, Washington and Umatilla, Oregon directly south of Walla Walla County. We selected the assessment areas of Walla Walla County and Umatilla County for full scope review. The Tri-Cities assessment area was selected for a limited scope review, because of its minimal contribution to the total loans and deposits of the bank and the large number of other full service lenders serving the needs of the assessment area. Also, although the Tri-Cities assessment area is a MSA, the total population is less than 250,000 and by statute does not require a conclusion. Separate state ratings for Washington and Oregon were

not assessed, because the bank's operations do not extend significantly into the state of Oregon and the assessment area is contiguous and not an MSA or part of a multi-state MSA. Also, the assessment area only represents a small percentage of the population and area of Oregon. More weight is given to the bank's performance in the Walla Walla and Umatilla assessment areas because they comprise a significant majority of the deposits and assets of the bank.

DESCRIPTION OF INSTITUTION

Baker Boyer National Bank (BBNB) is a wholly owned subsidiary of Baker Boyer Bancorp. The bank was chartered on January 8, 1889, and is headquartered in downtown Walla Walla, Washington. The bank is an interstate bank and operates eight branch offices in two states. BBNB offers a full range of products through its four full service branch offices located in Walla Walla, Washington and one each in College Place and Kennewick, Washington and Milton-Freewater and Weston, Oregon. The bank has two stand alone automated teller machines (ATM) in Walla Walla. The College Place, Milton-Freewater and Walla Walla branches have ATMs at the facilities.

As of March 31, 2006, BBNB had total assets of \$370 million and equity capital of \$32 million. Total loans represented 70% of total assets. BBNB's commercial loans totaled \$116 million or 45% of total loans. Loans secured by one to four and multi-family residential properties totaled \$90 million or 35% of total loans. Agricultural loans totaled \$34 million or 13% of total loans, and consumer loans totaled \$14 million or 6% of total loans.

The bank's primary focus is on commercial and agriculture lending and home and consumer loans for individuals. When comparing the bank to its peers, we are referring to all banks doing business in the assessment areas. However, the size of the bank is taken into consideration when making comparisons to peer banks. The bank has the second, the sixth, and the fifteenth largest share of its Walla Walla, Umatilla and Tri-Cities assessment area deposits, respectively. The bank is one of only two banks headquartered in Walla Walla. Competition for business and home loans is mainly from full service bank branches located in the assessment areas.

DESCRIPTION OF WALLA WALLA FULL SCOPE ASSESSMENT AREA

The Walla Walla assessment area is comprised of the entire county of Walla Walla located in southeast Washington. Walla Walla County has a total area of 1,271 square miles and ranks 26th in size among Washington's 39 counties. Walla Walla County is bounded to the north by Franklin County (along the Snake River), to the west by Benton County (along the Columbia River), and to the east by Columbia County. The county's southern boundary forms part of the Washington-Oregon border across which is the Umatilla County assessment area. Walla Walla County is a regional center of trade and services (especially health care) for residents across southeast Washington. Agriculture is a dominant force behind the local economy. The two largest employers are Broetje Orchards and Tyson Foods. It is also the location of the

Washington State Penitentiary, the third largest employer in the county. Higher education, with three colleges, is also a significant contributor to the Walla Walla community.

82% of the bank's deposits come from this assessment area. The headquarters as well as four other branches and six ATMs are located in this assessment area. Major competitors of the bank are Banner Bank, which is headquartered in Walla Walla, and branches of Washington Mutual Bank, Bank of America, Sterling Savings, and U.S. Bank. 190 lenders made home loans in the assessment area in 2004. BBNB was the fifth largest lender with 5.35% of the total loans. None of the top ten lenders had more than 10% of the market. In 2004, 31 lenders made small business or farm loans in the assessment area. BBNB had the largest market share with over 17%. Competitive factors have the greatest impact on the ability of the bank to originate loans to various segments of the assessment area population or within certain geographic areas within the assessment area.

DESCRIPTION OF UMATILLA FULL SCOPE ASSESSMENT AREA

The Umatilla assessment area comprises the entire county of Umatilla in Oregon. The county covers 3,231 square miles and is located on the Washington border in northeast Oregon, at the confluence of the Umatilla and Columbia Rivers. The county is bordered to the north by Walla Walla County in Washington and to the south by Grant County in Oregon. Umatilla County's top industries are agriculture, food processing, and wood products. The largest employer is Two Rivers Correctional Institution with 500 employees.

15.5% of the bank's deposits come from this assessment area. Two branches and one ATM are located in this assessment area. Major competitors of the bank are Banner Bank, Columbia River Bank, Klamath Bank and branches of Bank of America, U.S. Bank, and Wells Fargo Bank. 173 lenders made home loans in the assessment area in 2004. BBNB ranked 18th with 1.49% of the market share of home loans. None of the top ten lenders had more than 11% of the market. In 2004, 32 lenders made small business or farm loans in the assessment area. BBNB had the sixth largest market share with 4.36% of the loans. The top lender was Capital One with 18%. Four of the top ten lenders had branches in the assessment area. Competitive factors have the greatest impact on the ability of the bank to originate loans to various segments of the assessment area population or within certain geographic areas within the assessment area.

DESCRIPTION OF TRI-CITIES LIMITED SCOPE ASSESSMENT AREA

The Tri-Cities assessment area is a designated MSA and comprises the counties of Benton and Franklin in Washington. Benton and Franklin counties are located in the south central part of the state. The Columbia River makes up the north, south, and east boundaries of Benton County. The largest city in Benton County is Kennewick. Benton County has a total area of 1,760 square

miles. Franklin County is northeast of Benton and north of Walla Walla County. It has a total area of 1,242 square miles. The largest city in Franklin County is Pasco.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Lending Test - Satisfactory

Loan-to-Deposit Ratio - Satisfactory

The loan-to-deposit ratio is reasonable (considering seasonal variations and taking into account lending-related activities) given the bank's size, financial condition, and assessment area credit needs. The last CRA examination was conducted in May 2003. The average quarterly loan-to-deposit ratio of the 12 quarters from January 2003 to December 2005 was 74.15%.

Lending in Assessment Area - Outstanding

A substantial majority of loans and other lending related activities are in the bank's assessment areas. More than 93% of the bank's sampled and reviewed HMDA, business and farm loans were made in the bank's assessment areas.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes - Satisfactory

The distribution of borrowers reflects, given the demographics of the assessment areas, reasonable penetration among individuals of different income levels and businesses of different sizes.

Home mortgage lending to low-income borrowers in the Walla Walla and Umatilla assessment areas was less than the percentage of low-income borrowers living in the assessment area. However, taking into consideration the number of borrowers living at or below the poverty level and the supply of affordable housing, the percentage is reasonable. Lending to moderate-income borrowers in the Walla Walla assessment area was just below the percentage of moderate-income borrowers and considered reasonable. Lending to moderate-income borrowers in the Umatilla assessment area exceeded the number of moderate-income borrowers in the assessment area and is considered excellent.

The number of loans originated to businesses is reasonable given the demographics of the assessment areas. For the Walla Walla and Umatilla assessment areas, businesses with less than \$1 million in revenues made up 67-70% of all businesses in the assessment areas. BBNB's loan originations in the same assessment areas indicate a similar penetration; on average, 75% and 70% based on the number and dollar amount of loans had revenues of under \$1 million. In addition, over 70% of loans to small businesses had revenues of less than \$250,000, indicating the bank's support of micro-business lending needs.

Borrower distribution in the limited scope Tri-Cities assessment areas was not inconsistent with lending in the full scope assessment areas.

Geographic Distribution of Loans - Satisfactory

The geographic distribution of loans reflects reasonable dispersion throughout the Walla Walla assessment area. There are no low-income geographies in the Walla Walla assessment area. The bank's home mortgage lending in Walla Walla moderate-income geographies was slightly less than the percentage of owner occupied units in these geographies. The bank's business and farm lending in Walla Walla moderate-income geographies exceeded the percentage of businesses located in moderate-income tracts.

There are no low- or moderate-income geographies in the Umatilla assessment area. However, the bank's HMDA, business and farm lending was reasonably dispersed throughout the assessment area.

Geographic distribution in the Tri-Cities assessment area was not inconsistent with geographic distribution in the full scope assessment areas.

Responses to Complaints – Not Rated

This assessment factor is not applicable. There were no CRA related complaints received by the bank or the OCC during the evaluation period.

Community Development Test - Satisfactory

The bank's community development performance demonstrates adequate responsiveness to the community development needs of its assessment areas through community development loans, qualified investments, and community development services, as appropriate, considering the bank's capacity and the need and availability of such opportunities for community development in the bank's assessment areas.

The bank made no loans meeting the regulatory definition of community development loans during the evaluation period. However, they have financed, through term and construction loans totaling over \$181,000, projects and expenses of a private, nonprofit, multipurpose agency helping to meet the basic needs of low-income individuals and families in southeastern Washington.

During the evaluation period the bank made about \$2,000 in community development qualified grants and donations. The bank did not make any community development qualified investments.

The bank's community development services consist of volunteer and bank subsidized service efforts on the part of employees and senior bank management. Bank employees have provided community development services to over 14 community development qualified organizations responsive to the identified community development needs of affordable housing, special needs

housing, education and neighborhood revitalization. The bank does not offer community development services targeted specifically to low- or moderate-income individuals or geographies.

Community contacts indicated that flexibility in underwriting was one of the identified needs for affordable housing financing and that the bank had been flexible in its underwriting of its loans to community development organizations. The bank did not participate in any of the low-income housing tax credit projects during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.