



Office of the
Comptroller of the Currency
Washington, DC 20219

INTERMEDIATE SMALL BANK

PUBLIC DISCLOSURE

September 26, 2016

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

101 Stewart Street, Suite 1010, Seattle, WA 98101

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.

TABLE OF CONTENTS

INSTITUTION'S COMMUNITY REINVESTMENT ACT (CRA) RATING	2
SCOPE OF EXAMINATION.....	2
DESCRIPTION OF INSTITUTION	3
SELECTION OF AREAS FOR FULL-SCOPE REVIEW.....	4
RATINGS	5
LOAN-TO-DEPOSIT RATIO	5
FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW.....	6
STATE RATING	7
STATE OF WASHINGTON	7
STATE RATING	19
STATE OF OREGON	19
APPENDIX A: SCOPE OF EXAMINATION.....	A-1
APPENDIX B: SUMMARY OF MULTISTATE METROPOLITAN AREA AND STATE RATINGS	B-1

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment areas (AA), including low- and moderate-income (LMI) neighborhoods, in a manner consistent with safe and sound banking operations and the institution's condition, capacity, and resources.

The Lending Test is rated: Satisfactory

The Community Development Test is rated: Satisfactory

- Baker Boyer National Bank's (BBNB's) level of lending, measured through its loan-to-deposit (LTD) ratio, is reasonable given the Bank's size, financial condition, and the credit needs of the Bank's assessment areas (AAs).
- A substantial majority of the Bank's loans were originated within its designated AAs.
- The distribution of loans represents reasonable penetration among borrowers of different incomes and businesses of different sizes.
- The geographic distribution of loans reflects overall excellent dispersion throughout census tracts in the Bank's AAs.
- BBNB demonstrated adequate responsiveness to community development (CD) needs.
- The Bank did not receive any CRA-related complaints during the evaluation period.

Scope of Examination

Our objective was to evaluate the performance of BBNB in helping meet community credit needs, consistent with safe and sound banking operations and the Bank's condition, capacity, and resources. We evaluated the Bank under the Intermediate Small Bank (ISB) Procedures. An ISB is a bank that had total assets of at least \$304 million as of December 31st of both the prior two calendar years, and less than \$1.216 billion as of December 31st of either prior two calendar years. These asset-size thresholds are adjusted annually based on the Consumer Price Index. An ISB's performance is evaluated under both a lending test and a CD test. Banks must obtain at least a Satisfactory rating under both the lending test and the CD test to achieve an overall rating of Satisfactory. The examination was conducted at BBNB's headquarters in Walla Walla, WA.

The lending test evaluates BBNB's record of meeting the credit needs of its AAs through its lending activities. We performed the lending test on the Bank's primary products, which are residential mortgages and commercial loans. Residential mortgages include loans for home purchase, home improvement, and refinancing.

Commercial loans include both commercial real estate and commercial and industrial loans. The lending test includes the following performance criteria:

- The Bank's LTD ratio;
- The percentage of loans located in the Bank's AAs;
- The Bank's record of lending to borrowers of different income levels and businesses of different sizes;
- The geographic distribution of the Bank's loans; and
- The Bank's record of taking action, if warranted, in response to written complaints about its performance in helping to meet credit needs in its AAs.

The CD test evaluates performance according to the following criteria:

- The number and amount of CD loans;
- The number and amount of qualified investments;
- The extent to which the Bank provides community development services; and
- The Bank's responsiveness through such activities to CD lending, investment, and service needs.

The evaluation period for the examination is November 14, 2012, which is the day after the date of the prior CRA evaluation, to September 26, 2016. We evaluated the Bank's lending performance using data from 2014, 2015, and the first half of 2016 (loan review period). For the lending test, we sampled commercial loans originated in the loan review period and analyzed the Bank's Home Mortgage Disclosure Act (HMDA) data for residential mortgages. For the CD test, we considered all qualified CD loans, investments, and services during the entire evaluation period, and confirmed that they met the regulatory definition of CD.

We conducted a data integrity review of the Bank's HMDA loan application register (LAR) in August of 2016 and found it to be reliable. The level of errors in the data does not prevent an accurate evaluation of the Bank's lending performance for residential mortgages.

Description of Institution

BBNB first opened in 1869, and was chartered in 1889. BBNB is the oldest bank in the state of Washington. The Bank is a wholly-owned subsidiary of Baker Boyer Bancorp. BBNB is headquartered in Walla Walla, WA and operates seven branch offices in two states. The Bank's primary lending focus is on commercial loans and residential real estate loans for individuals. The Bank also has a significant level of trust and asset management operations, with income from these activities representing 27.7 percent of adjusted operating income as of December 31, 2015. BBNB had \$941 million in fiduciary assets as of June 30, 2016.

BBNB has four branch offices located in Walla Walla, Washington, and one each in Kennewick, and Yakima, Washington and Milton-Freewater, Oregon. The Bank has

ATMs located in three of the Walla Walla branches, and one in the Milton-Freewater and Kennewick branches. The Yakima and Kennewick branches primarily focus on trust, private banking, and commercial services. The Yakima and Kennewick branches were originally established as trust offices. Three of the Walla Walla branches and the Milton-Freewater Branch rely on the downtown Walla Walla branch for trust and loan services. During the evaluation period, the Bank closed one branch in College Place, WA. Branch operations were consolidated into an existing branch in Walla Walla.

As of June 30, 2016, BBNB had total assets of \$570 million and equity capital of \$51 million. Total loans represented 51.5 percent of total assets. During the loan review period, total loan originations were \$288 million. Originations for commercial loans and residential mortgages, the Bank's primary products, represented 46.1 percent and 34.1 percent of the total dollar amount of loans originated, respectively. As of June 30, 2016, commercial loans and residential mortgages comprised 54.0 percent and 24.5 percent of the loan portfolio balance, respectively. Agricultural loans and consumer loans represented 13.4 percent and 1.8 percent of the loan portfolio, respectively. The following table shows the loan portfolio composition as of June 30, 2016.

Loan Portfolio Composition as of June 30, 2016 (\$000s)			
Loan Type	\$ Amount	% of Total Assets	% of Portfolio
Commercial Real Estate	99,484	17.46	33.90
1-4 Family Residential/HELOCs	77,424	13.59	26.39
Commercial and Industrial	55,713	9.78	18.99
Farmland	21,172	3.72	7.22
Agricultural Production	20,372	3.58	6.94
Multi-family	10,106	1.77	3.44
Individual	5,141	0.90	1.75
Construction and Development	3,328	0.58	1.13
Other Loans	693	0.12	0.24
Total Gross Loans	293,433	51.51	100.00

BBNB has the financial capacity to assist in meeting the credit needs of its AAs. There are no legal, financial, or other factors that impede the Bank's CRA efforts. The Bank's CRA performance was previously evaluated on November 13, 2012, and found to be satisfactory.

Selection of Areas for Full-Scope Review

BBNB operates primarily in four AAs in Washington and Oregon. The majority of the Bank's activities occur in the Walla Walla AA, which is comprised of the County of Walla Walla, WA. Another AA exists directly south of Walla Walla in Umatilla County, Oregon. The other two AAs are the counties of Benton and Franklin, WA in the Richland-Kennewick-Pasco (Tri-cities) MSA, as well as the County of Yakima in the Yakima MSA. The AAs meet regulatory requirements and do not arbitrarily exclude low- or moderate-income (LMI) geographies. We selected the Walla Walla, Benton-Franklin, and Umatilla AAs for a full-scope review. The Yakima AA was selected for a limited-scope review

because of the minimal contribution to total loans and deposits. The following table shows the Bank's mix of deposits:

Deposit Mix as of June 30, 2015 (\$000s)		
AA	\$ Deposits	% of Total Deposits
Walla Walla	374,056	78.02
Benton-Franklin	50,331	10.50
Umatilla	44,628	9.31
Yakima	10,440	2.18
Total	479,455	100.00

Source: FDIC Institution Branch Report as of June 30, 2015

Ratings

BBNB's overall rating is a blend of the state ratings. However, Washington was given considerably more weight than Oregon, since the majority of the Bank's deposits and operations are in Washington. As of June 30, 2016, 90.5 percent of the Bank's total deposits were from branches in Washington.

Conclusions with Respect to Performance Criteria

Loan-to-Deposit Ratio

BBNB's average LTD ratio is reasonable given its size, financial condition, and AA credit needs. We calculated the average LTD ratio over the prior 15 quarters since the 2012 CRA Examination. The Bank's average LTD ratio was 57.5 percent over this period. In addition, the Bank engaged in secondary market sales of residential loans to Freddie Mac. Over the loan review period, the Bank sold \$54 million of residential loans to Freddie Mac. This represented 18.9 percent of total loans originated.

We compared BBNB's performance with five peer banks operating in the same general regions of the states of Washington and Oregon. Each comparable bank operates in at least one of BBNB's AAs. The comparable banks range from \$273 million to \$1.8 billion in total assets, with an average size of \$626 million. Four of the banks were smaller than BBNB, the largest of which had \$368 million in total assets. The average LTD ratio of the comparable banks was 64.3 percent. Based on these averages and the level of secondary market sales, BBNB's average quarterly LTD ratio is reasonably close to that of similarly situated financial institutions and meets the standard for satisfactory performance. The table below illustrates BBNB's average LTD ratio compared to similarly situated institutions.

Baker Boyer National Bank		Similar Institutions	
Average LTD Ratio	57.50	Average LTD Ratio	64.29
High LTD Ratio	60.46	High LTD Ratio	90.98
Low LTD Ratio	52.81	Low LTD Ratio	44.72

Lending in Assessment Area

BBNB originated a substantial majority of its loans within the designated AAs. Based on our loan sample and the HMDA LARs, the Bank originated 93.3 percent of residential mortgages and commercial loans within its AAs by number, and 91.5 percent by dollar volume. The table below shows the Bank’s lending volume inside and outside its AAs for its primary products:

Table 1 - Lending in the Combined Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Mortgage	356	93.19	26	6.81	382	71,119	90.76	7,241	9.24	78,360
Business	19	95.00	1	5.00	20	6,383	99.89	7	0.11	6,390
Total	375	93.28	27	6.72	402	77,502	91.45	7,248	8.55	84,750

Source: Business loan sample and bank-reported HMDA data for 2014, 2015, and 2016 through 6/30.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c), or 12 CFR 195.28(c), in determining a national bank’s (bank) or Federal savings association’s (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank’s or FSA’s lending performance.

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

State Rating

State of Washington

CRA Rating for Washington: Satisfactory

The Lending Test is rated: Satisfactory

The Community Development Test is rated: Satisfactory

- Lending activities represent reasonable penetration among businesses of different sizes and borrowers of different income levels.
- The geographic distribution of commercial and residential mortgage loans reflects excellent dispersion overall.
- The Bank's CD performance demonstrates adequate responsiveness to the CD needs of the AAs through qualified CD loans, investments, and services.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN WASHINGTON

Three of the Bank's 4 AAs are located in the state of Washington. The Bank's headquarters and majority of its operations are in the Walla Walla AA, which consists of Walla Walla County. Walla Walla County is one of 2 counties that comprise the Walla Walla, WA MSA. In addition to its headquarters, the Bank maintains four branches in Walla Walla. The other AAs in Washington are Yakima County and the counties of Benton-Franklin. These counties comprise the entirety of their respective MSAs: Yakima, WA and Kennewick-Pasco-Richland, WA. The Bank operates one branch each in the cities of Yakima and Kennewick, WA.

Walla Walla AA

The Walla Walla AA, comprised of the entire county of Walla Walla, is 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 AA.

Data compiled by Moody's Analytics indicates that the Walla Walla AA has lagged state and national performance. Job growth and average hourly earnings compare unfavorably to state and national averages. The housing market has experienced a relatively slow rise in prices. Personal bankruptcies have declined, and are currently at the lowest level since 2007. The unemployment rate was 5.8 percent in 2015, down from 7.4 percent in 2012. The unemployment rate peaked at 8.0 percent in 2010. Manufacturing and other goods producers have driven performance in recent times. The long-term economic prospects are projected to be modest and below the U.S. national average. A key driver of this forecast is the relatively high poverty rate and low level of educational attainment.

According to information from the Washington State Economic Security Department, the largest sectors of the economy are agriculture, health care, manufacturing, retail trade, and government services. Over 72 percent of the workforce is employed in these sectors. Government, healthcare, and agriculture, employed 20.0 percent, 16.3 percent, and 13.0 percent of total employment, respectively. Tourism and wine production are also important to the local economy. Over 100 wineries exist in the Walla Walla Valley. The top employers in Walla Walla are Broetje Orchards, Tyson Fresh Meats, Inc., Washington State Penitentiary, Providence St. Mary Medical Center, and Walla Walla Community College. Total covered employment for 2015 was 26,790 in Walla Walla County with an average annual wage of \$40,225. Average wages were up 2.6 percent from 2014. The local average annual wage is significantly below the state average of \$56,650. The state expects manufacturing, retail trade, warehousing, healthcare and education to drive growth over the next five years. The 2015 population in Walla Walla was 60,338. The population grew at a relatively slow rate of 2.6 percent from 2010 to 2015, compared to the statewide growth rate of 6.6 percent.

The Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report as of June 30, 2015 shows that nine commercial banks operate in Walla Walla County. Two of these banks capture the majority of the local deposit market. BBNB has the highest market share of deposits at 38.8 percent, followed by Banner Bank, which has a market share of 30.4 percent. Banner Bank, like BBNB, is headquartered in Walla Walla. However, this institution has much broader operations with a total of 101 offices and total assets of \$4.9 billion.

We completed a community contact interview with a representative of a local community action organization. The contact feels that the local economy had struggled in recent years, with job losses in the food processing sector. While the unemployment rate is fairly low, many of the new jobs do not support a “living wage.” This individual cited affordable housing as the primary credit and community development need. There is a significant disparity in the level of affordable housing, relative to the number of lower income residents. The contact feels that while overall, local financial institutions are adequately serving the community, significant opportunities exist related to affordable housing. The contact also noted an opportunity for financial institutions to serve the unbanked population, which is high in Walla Walla County. The contact noted a high level of community involvement from local trust funds and foundations, which have been key to recent development projects.

The following table provides key demographic information for the Walla Walla AA.

Demographic Information for Full-Scope Area: Walla Walla AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	12	0.00	16.67	58.33	16.67	8.33
Population by Geography	58,781	0.00	14.82	58.46	22.78	3.94
Owner-Occupied Housing by Geography	13,197	0.00	12.14	57.86	30.00	0.00
Business by Geography	3,437	0.00	23.25	53.65	23.01	0.09
Farms by Geography	412	0.00	8.25	41.99	49.76	0.00
Family Distribution by Income Level	14,007	21.54	17.79	18.58	42.09	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	5,509	0.00	23.42	62.59	14.00	0.00
Median Family Income FFIEC Adjusted Median Family Income for 2016 Households Below Poverty Level		55,944 57,900 15%	Median Housing Value Unemployment Rate (2010 US Census)	195,219 3.16%		

(*) The NA category consists of geographies that have not been assigned an income classification.
Source: 2010 US Census and 2016 FFIEC updated MFI

Benton-Franklin AA

Information from Moody's Analytics and the Washington State Economic Security Department shows that economic performance in the Kennewick-Richland area has been strong. High in-migration is a key factor, which has exceeded all other Washington metropolitan areas since 2010. This strong population growth, along with significant clean-up work at the Hanford Nuclear Site, should allow the Kennewick-Richland area to exceed national performance in the long term. The population in Benton County grew 8.6 percent to 190,309 from 2010 to 2015. The Franklin County population grew 13.6 percent to 88,807 over this period. The top industries in Franklin County are agriculture, government, and manufacturing. The top industries in Benton County are government, health services, and professional/technical services. The top employers in the area are Battelle/PNNL, Kadlec Regional Medical Center, Bechtel National, Inc., ConAgra/Lamb Weston, and Washington River Protection Solutions. The unemployment rate has dropped from 9.3 percent in 2012 to 6.9 percent in 2015. Total employment grew at rates of 2.2 percent in 2014 and 3.3 percent in 2015. Nonfarm employment is expected to grow at annual rate of 1.9 percent through 2019 in Benton and Franklin Counties. The average annual wage in Benton and Franklin Counties was \$51,700 and \$36,903 in 2015, respectively. These were up 3.8 percent and 2.9 percent from 2014, respectively.

The FDIC Deposit Market Share Report as of June 30, 2015 shows that 17 commercial banks operate in the Benton-Franklin AA. Baker Boyer ranks 13 out of 17, with 1.8 percent of the market share. The top four banks by market share are Yakima Federal Savings and Loan Association, U.S. Bank, Bank of America, and Community First Bank.

We reviewed community contact information from 2015. The contact was a representative of an accounting firm that serves the Tri-Cities area. The contact noted that the local economy was performing well, driven by the Hanford Nuclear Site and the food processing industry. The primary credit needs in the area are loans for owner-occupied commercial real estate and 1-4 family residential mortgages. The contact feels that small banks are receptive to local credit needs.

The table below provides key demographic information for the Benton-Franklin AA.

Demographic Information for Full-Scope Area: Benton-Franklin AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	50	6.00	26.00	32.00	32.00	4.00
Population by Geography	253,340	9.46	25.13	34.94	30.47	0.00
Owner-Occupied Housing by Geography	57,531	4.28	20.13	36.24	39.31	0.04
Business by Geography	13,002	6.51	25.94	32.46	34.49	0.60
Farms by Geography	975	2.36	26.97	54.26	16.00	0.41
Family Distribution by Income Level	60,076	21.88	17.46	19.97	40.69	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	23,635	15.03	33.52	34.66	16.79	0.00
Median Family Income FFIEC Adjusted Median Family Income for 2016 Households Below Poverty Level		63,929 65,800 13%	Median Housing Value Unemployment Rate (2010 US Census)	161,247 3.10%		

(*) The NA category consists of geographies that have not been assigned an income classification.
Source: 2010 US Census and 2016 FFIEC updated MFI

SCOPE OF EVALUATION IN WASHINGTON

We completed a full-scope review of the Walla Walla AA, as this is the Bank’s primary market and the source of most of its loans and deposits, as well as the Benton-Franklin AA. We used limited-scope procedures for the Yakima AA due to the low level of traditional banking activity at the Yakima branch, with only 2.18 percent of total deposits.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN WASHINGTON

In Washington, BBNB’s performance under the Lending Test is rated “Satisfactory”, and performance under the CD test is rated “Satisfactory”.

The Walla Walla AA was given the most weight in the analysis for Washington, as the majority of the Bank’s deposits and loans come from this AA.

LENDING TEST

Conclusions for Areas Receiving Full-Scope Reviews

The Bank’s performance under the lending test in Washington is rated “Satisfactory.” Based on full-scope reviews, the Bank’s performance in both the Walla Walla AA and the Benton-Franklin AA is reasonable.

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

The tables in this section reflect BBNB’s performance against demographic data. For commercial loans, the tables lead with the demographic comparator ratios, followed by BBNB’s lending performance by both number and dollar volume. We derived Bank data from representative commercial loan samples, with each category shown as a percentage of total reviewed loans. For residential mortgages, the tables compare the Bank’s reported HMDA data to income demographics in the AA.

BBNB’s lending to borrowers of different incomes and businesses of different sizes reflects reasonable penetration. Greater weight was given to commercial lending performance, since the Bank’s primary lending focus is on commercial lending. The Bank’s lending penetration meets the standard for satisfactory performance in both the Walla Walla and Benton-Franklin AAs.

Walla Walla AA – Commercial Loans

The Bank’s level of lending to businesses of different sizes is reasonable. The following table shows BBNB’s lending to businesses of different sizes within the AA.

Table 2A - Borrower Distribution of Commercial Loans in the Walla Walla AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Business	84.14	4.51	11.35	100%
% of Bank Loans in AA by #	75.00	20.00	5.00	100%
% of Bank Loans in AA by \$	45.99	53.39	0.62	100%

Source: D&B data as of June 2016; sample of BBNB commercial loans originated January 1, 2014 to June 30, 2016.

The number of commercial loans originated to businesses with gross annual revenues of \$1 million or less is within a reasonable range in comparison to the demographic comparator. The dollar amount of these loans compares less favorably, but is still considered reasonable. We placed greater weight on the number of loans originated/purchased, as our analysis focuses predominantly on determining credit availability in the AA. Larger businesses tend to have greater financing needs, which can have a significant impact on loan sizes.

Walla Walla AA – Residential Mortgage Loans

The penetration of residential mortgages among borrowers of different incomes is reasonable overall, and meets the standards for satisfactory performance when considering performance context factors. The following table shows the borrower distribution of home mortgage loans based on the income level of the borrower.

Table 2B - Borrower Distribution of Residential Mortgage Loans in the Walla Walla AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Mortgage	21.54	2.12	17.79	13.07	18.58	18.37	42.09	53.71

Source: 2010 U.S. Census data; HMDA data for 2014, 2015, and 2016 through June 30

HMDA data indicates that the Bank’s lending volume to low-income borrowers is very poor in comparison to area demographics for low-income borrowers. However, this unfavorable comparison is somewhat mitigated by the inherent difficulties low-income individuals face in qualifying for residential mortgage loans. The median housing value in the Walla Walla AA is approximately 3.5 times the median family income, making home affordability more difficult for low-income families, particularly those in poverty. Based on 2010 Census data, 58 percent of low-income families are below the poverty level. In contrast, the level of lending to moderate-income borrowers is within a reasonable range of the demographic comparator. More weight was given to performance relative to moderate-income borrowers given performance context factors.

Benton-Franklin AA – Commercial Loans

The Bank’s level of lending to businesses of different sizes is reasonable. The following table shows BBNB’s lending to businesses of different sizes within the AA:

Table 3A - Borrower Distribution of Commercial Loans in the Benton-Franklin AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Business	82.68	4.95	12.37	100%
% of Bank Loans in AA by #	65.00	35.00	0.00	100%
% of Bank Loans in AA by \$	70.89	29.11	0.00	100%

Source: D&B data as of June 2016; sample of BBNB commercial loans originated January 1, 2014 to June 30, 2016.

BBNB’s level of lending to businesses with gross annual revenues of \$1 million or less is within a reasonable range below the demographic comparator, by both number and dollar volume.

Benton-Franklin AA – Residential Mortgage Loans

The distribution of residential mortgages among borrowers of different incomes is reasonable overall and meets the standards for satisfactory performance when considering performance context factors. The following table shows the borrower distribution of home mortgage loans based on the income level of the borrower:

Table 3B - Borrower Distribution of Home Purchase Loans in the Benton-Franklin AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Mortgage	21.88	0.00	17.46	10.71	19.97	28.57	40.69	46.43

Source: 2010 U.S. Census data; HMDA data for 2014, 2015, and 2016 through June 30.

The Bank’s level of lending to low-income borrowers is very poor when comparing HMDA data to demographic comparator data. We considered performance context factors impacting the overall poor performance relative to low-income families in this AA. The median housing value is about 2.5 times the median family income, impacting the affordability of housing, particularly for those families in poverty. Data indicates that about 51 percent of low income families are in poverty. In addition, the Kennewick branch primarily focuses on trust and commercial services, and has a lower level of residential lending compared to the Walla Walla AA, with only 28 residential mortgages originated in this AA during the loan review period. Lending to moderate-income borrowers is within a reasonable range of the demographic comparator. More weight was given to lending performance relative to moderate-income families given performance context factors.

Geographic Distribution of Loans

The geographic distribution of lending reflects excellent dispersion throughout the AAs in the state of Washington. Greatest weight was placed on the Walla Walla AA since a significant majority of deposit and loan activity is centered in that AA. In addition, business lending volume during the loan review period was more significant than residential lending, which impacted the conclusion.

The tables in this section reflect BBNB’s performance against demographic data. For each census tract designation based on income, the tables state the percentage of businesses or households in the designated tract categories. Demographic data is compared to the Bank’s commercial loans or residential mortgage loans made in designated tract categories, which is derived from either the business loan sample or from HMDA data for the loan review period.

Walla Walla AA

The Bank’s record of lending to geographies of different income levels exceeds the standard for satisfactory performance, and is excellent. Greater weight was placed on

business lending performance, since business lending is more significant overall than residential mortgage lending. The Walla Walla AA does not contain any low-income tracts, so analysis was limited to lending within moderate-income tracts.

The following tables detail BBNB’s performance within the AA for its primary products.

Table 4A - Geographic Distribution of Loans to Businesses in the Walla Walla AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business Loans	0.00	0.00	23.25	25.00	53.65	50.00	23.01	25.00

Source: 2010 U.S. Census data; sample of BBNB commercial loans originated January 1, 2014 to June 30, 2016.

Business lending within moderate-income tracts was excellent, as the Bank’s lending ratio exceeds the demographic comparator.

Table 4B - Geographic Distribution of Residential Mortgages in the Walla Walla AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Mortgage	0.00	0.00	12.14	9.19	57.86	47.00	30.00	43.82

Source: Source: 2010 U.S. Census data; HMDA data for 2014, 2015, and 2016 through June 30.

Residential lending within moderate-income tracts is within a reasonable range of the demographic comparator.

Benton-Franklin AA

BBNB’s geographic distribution reflects reasonable dispersion throughout census tracts (CTs) of different income levels in the Benton-Franklin AA. Both business and mortgage lending are reasonable overall. The tables below detail BBNB’s performance within the AA for its primary products.

Table 5A - Geographic Distribution of Loans to Businesses in the Benton-Franklin AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business Loans	6.51	15.00	25.94	20.00	32.46	20.00	34.49	45.00

Source: 2010 U.S. Census data; sample of BBNB commercial loans originated January 1, 2014 to June 30, 2016

The Bank’s level of lending to businesses within low-income CTs is excellent, as loans originated significantly exceed the comparator ratio. Lending to businesses within moderate-income CTs is reasonable in comparison to the demographic comparator data. More weight was placed on lending within moderate-income tracts given that the number of moderate-income tracts exceed low-income tracts by a material margin.

Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Mortgage	4.28	0.00	20.13	21.43	36.24	10.71	39.31	67.86

Source: 2010 U.S. Census data; HMDA data for 2014, 2015, and 2016 through June 30

Mortgage lending within the three low-income tracts is poor. Mortgage lending performance within moderate-income tracts is excellent, as the Bank’s lending ratio exceeds the demographic comparator. Performance in moderate-income tracts helps mitigate poor performance in low-income tracts, and lending is considered reasonable overall.

Conclusions for Areas Receiving Limited-Scope Reviews

Based on a limited-scope review, the Bank’s performance under the lending test in the Yakima AA is weaker than the Bank’s overall performance in the state. However, performance differences do not impact the Bank’s overall rating.

The low overall volume of lending in this AA and the nature of the location (DS Baker Advisor location) limits a meaningful analysis of data. The Bank originated only 12 residential mortgage loans totaling \$3.6 million over the loan review period, and loan originations are primarily limited to trust customers. This represents 3.7 percent of total residential mortgage loans originated and exceeds the corresponding amount of deposits in the Yakima AA, which were 2.2 percent as of June 30, 2015. Low volume is due to the trust services focus of the Yakima location, and the Bank’s extremely limited presence in this AA, with only 0.4 percent deposit market share. Commercial loan volume was also limited, but in line with the low volume of deposits.

Responses to Complaints

The Bank did not receive any CRA-related complaints during the evaluation period.

COMMUNITY DEVELOPMENT TEST

The Bank’s performance under the community development test in Washington is rated “Satisfactory.” The rating is based on performance in areas receiving full-scope reviews.

A qualifying CD loan, investment, or service has community development as its primary purpose. The CRA regulation defines community development as follows:

- 1) The provision of affordable housing for low- and moderate-income individuals;
- 2) Community services targeted to low- and moderate-income individuals;
- 3) Activities that promote economic development by financing small businesses or small farms; or
- 4) Activities that revitalize or stabilize low- and moderate-income geographies, designated disaster areas, or distressed or underserved nonmetropolitan middle-income geographies designated by the federal banking regulatory agencies.

During the evaluation period, BBNB demonstrated adequate responsiveness to CD needs in Washington, through qualifying CD lending, investment, and service activities.

Number and Amount of Community Development Loans

BBNB's CD lending reflects overall adequate responsiveness to the needs within Washington full-scope AAs during the evaluation period. The Bank originated four CD loans, totaling approximately \$5.8 million. Two CD loans were renewed at least once during the evaluation period, as described below.

Walla Walla AA

During the evaluation period, the Bank made one qualifying loan, a \$100 thousand line of credit, which was renewed the following year at \$80 thousand. The benefitting organization works with low- and moderate-income individuals to complete energy-efficient home upgrades, and provides financial assistance.

Benton Franklin AA

The Bank made three qualifying CD loans totaling \$5.7 million. The largest loan was a line of credit to a local hospital. The line was originated for \$4.9 million in 2013, and was renewed in both 2014 and 2015. This loan helped finance the construction of a new medical building that will improve accessibility for health care services in a low-income area, and also create jobs in the local community. Another loan was for \$315 thousand and supported housing for low- and moderate-income individuals. The third loan was a Small Business Administration (SBA) 504 loan for \$433.5 thousand to a local Certified Development Company to fund the purchase of a laundromat in a low-income census tract.

Number and Amount of Qualified Investments

BBNB's CD investment activities reflect adequate responsiveness to the needs within its AAs in Washington. Investments include six mutual bonds totaling \$2.1 million, and donations to nine CD organizations in the AAs, totaling \$6.5 thousand.

Walla Walla AA

During the evaluation period, the Bank made \$215 thousand in CD-qualified municipal investments, used to improve public school facilities that primarily benefit low and moderate-income students. In addition, the Bank donated a total of \$6.5 thousand to nine CD organizations. Donations provided needed services to LMI people, such as food assistance, health services, and care for the homeless.

Broader Statewide or Regional Area

We also gave some consideration to CD investments benefitting regions outside of the Bank's immediate AA. During the evaluation period, the Bank purchased and/or held a total of 27 CD-eligible municipal bonds totaling \$7.8 million. Most of these bonds were issued by school districts in Washington to fund construction and improvements. Other purposes include the construction or improvement of local utilities and medical facilities.

Benton-Franklin AA

The Bank purchased four municipal bonds totaling \$1.9 million. The primary purpose of these bonds was to improve or construct local schools, which primarily serve low- and moderate-income populations. The Bank did not make any CD-qualified donations in this AA during the evaluation period.

Extent to Which the Bank Provides Community Development Services

The distribution of BBNB's branches and service delivery systems are accessible to individuals of different income levels within the Bank's AAs. The Bank has four full-service locations in the Walla Walla AA, and one in the Benton-Franklin AA. All but one Walla Walla location includes ATM access. Two branches in the Walla Walla AA, and one branch in the Benton-Franklin AA, are physically located in moderate-income tracts. Branches are centrally located for the convenience of all customers. Branch hours are convenient to individuals, and are similar across branches, though the Wheatland Village location closes a few hours earlier than other locations. The Bank also offers 24-hour internet banking services and mobile banking, including mobile deposit.

The Bank's provision of CD services reflects excellent responsiveness to local needs. BBNB representatives were involved in numerous volunteer services and activities that qualify for CD consideration during the review period. These services provide benefits to low- and moderate-income individuals and the local community. The Bank documented a total of 1,164 hours of service to 10 qualifying CD organizations in Washington. To qualify as a CD service for purposes of the CRA, Bank employees must provide a technical service in their official capacity as a bank employee. Services provided must draw upon the employee's skills and expertise in their capacity as a bank employee, and must be provided to qualifying organizations.

Walla Walla AA

BBNB reported 1,069 service hours to nine CD organizations in this AA. These organizations provide community services such as food and shelter assistance, affordable housing, and human services.

Benton-Franklin AA

Bank employees provided 95 hours of service to a local non-profit dedicated to reducing poverty and homelessness, which includes construction of affordable housing.

Responsiveness to Community Development Needs

The Bank's CD lending, investment, and service activities demonstrates adequate overall responsiveness to the needs within its AAs. We based our conclusions on a review of qualifying CD activities throughout the Bank's full-scope AAs in Washington, and considering demographic and community data gathered during the examination. CD activities in Walla Walla generally focused on needed home improvements and services for low- and moderate-income individuals. Activities in the Benton-Franklin AA generally focused on the provision of affordable housing and commercial-focused lending.

We also noted that BBNB occasionally partners with the SBA within its designated AAs. The SBA supports and enables small businesses by providing avenues for capital, contracts, and counseling.

Conclusions for Areas Receiving Limited-Scope Reviews

Based on a limited-scope review, the Bank's performance under the CD test in the Yakima AA is not inconsistent with the Bank's overall performance in the state. Data regarding CD activities within the Yakima AA are summarized below:

- During the evaluation period, BBNB made a \$1.5 million line of credit to a local college that primarily serves low- and moderate-income students.
- The bank purchased two municipal bonds totaling \$600 thousand. The primary purpose of these bonds was to improve or construct schools, which primarily serve low- and moderate-income populations. In addition, the Bank donated a total of \$40 thousand to 5 CD organizations. The donations supported education and vocational training for low- and moderate- income individuals, a local food bank, and economic development initiatives.
- The Bank reported 90 hours of CD services in the Yakima AA. All of these hours went towards a local fundraiser to raise money and food to meet the nutritional needs of low-income families.

State Rating

State of Oregon

CRA Rating for Oregon: Satisfactory

The Lending Test is rated: Satisfactory

The Community Development Test is rated: Outstanding

- Lending activities represent reasonable penetration among businesses of different sizes and borrowers of different income levels.
- The Bank's CD performance demonstrates excellent responsiveness to the CD needs of the AAs through qualified CD loans, investments, and services.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN OREGON

The Bank maintains one branch in the city of Milton-Freewater, OR. Management designated the county of Umatilla as its sole AA in the state of Oregon.

Umatilla AA

The Umatilla AA comprises the entire county of Umatilla in Oregon. The county is located in the Northeastern region of Oregon at the Washington border, at the confluence of the Umatilla and Columbia Rivers. Umatilla County comprises the majority of the Pendleton-Hermiston, OR Micropolitan Statistical Area. Umatilla County is 3,231 square miles in size. It borders Walla Walla County, WA and Benton County, WA to the north, both of which are part of the Bank's AAs. Columbia County, WA is to the Northeast of Umatilla County. The remainder of Umatilla County is bordered by the Oregon counties of Wallowa, Union, Grant, and Morrow. The US Census Bureau estimates the County population at 76,531 as of July 1, 2015. The estimated growth rate from April 1, 2010 to July 1, 2015, was 0.8 percent, much lower than the overall Oregon growth rate of 5.2 percent. The largest city in Umatilla County is Hermiston, which had a 2013 population of 17,240 according to the Oregon Blue Book from the State of Oregon. Pendleton, the county seat, is the second largest city with a population of 16,780. Milton-Freewater, the city in which BBNB's branch resides, had a population of 7,060. The median household income from 2011-2015 was \$48,101. Umatilla County's top industries are agriculture, food processing, and wood products. The major employers in the county are the State of Oregon and the Confederated Tribes of the Umatilla Indian Reservation.

Nine commercial banks operate in the AA according to the FDIC Deposit Market Share Report as of June 30, 2015. Banner Bank and U.S. Bank hold largest share of deposits, at 36.7 percent and 19.9 percent, respectively. BBNB ranks seven out of nine, with a market share of 5.3 percent.

We reviewed information from a community contact made in June of 2016. The contact was a representative of a local economic development corporation, which has activities in Umatilla County. The individual feels that the region is struggling overall. The contact stated that the revolving loan funds provided by his organization are an important facilitator in economic development financing in the region. He also stated that local community and economic development organizations are capable of meeting local needs. In the opinion of the contact, local banks are risk-adverse. Economic development agencies have the ability to assist local banks in making commercial loans. Banks that do not partner with economic development agencies often have capacity issues in this sparsely-populated region of Oregon. The contact stated that most banks with capacity to lend are lending in the local economy. He noted that some large national banks have recently closed branches in the area, and do not have many local commercial lenders.

The table below provides key demographic information for the Umatilla AA.

Demographic Information for Full-Scope Area: Umatilla AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	15	0.00	0.00	93.33	6.67	0.00
Population by Geography	75,889	0.00	0.00	91.76	8.24	0.00
Owner-Occupied Housing by Geography	16,991	0.00	0.00	93.16	6.84	0.00
Business by Geography	4,067	0.00	0.00	93.71	6.29	0.00
Farms by Geography	497	0.00	0.00	84.71	15.29	0.00
Family Distribution by Income Level	18,716	18.02	16.73	22.23	43.02	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	6,504	0.00	0.00	95.96	4.04	0.00
Median Family Income FFIEC Adjusted Median Family Income for 2016 Households Below Poverty Level		50,374 51,900 14%	Median Housing Value Unemployment Rate (2010 US Census)	138,698 4.54%		

(*) The NA category consists of geographies that have not been assigned an income classification.
Source: 2010 US Census and 2016 FFIEC updated MFI

SCOPE OF EVALUATION IN OREGON

We conducted a full-scope review of BBNB's performance in its sole AA in Oregon, the Umatilla County AA. Since this AA has no low- or moderate-income census tracts, we did not perform an analysis of the geographic distribution of loans. The lending test will be based on the Bank's performance in lending to borrowers of different incomes and to businesses of different sizes.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN OREGON

In Oregon, BBNB’s performance under the Lending Test is rated “Satisfactory,” and performance under the CD Test is rated “Outstanding.”

LENDING TEST

The Bank’s performance under the lending test in Oregon is rated “Satisfactory.”

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

BBNB’s lending to businesses of different sizes in the Umatilla AA reflects reasonable penetration. The Bank’s level of lending to borrowers of different income levels is excellent. We gave greater weight to commercial lending performance, given that commercial lending is the Bank’s primary focus. BBNB’s record of lending to borrowers of different income levels and businesses of different sizes meets the standard for satisfactory performance.

The tables in this section reflect BBNB’s performance against demographic data. For commercial loans, the tables lead with the demographic comparator ratios, followed by BBNB lending performance by both number and dollar volume. We derived Bank data from representative commercial loan samples, with each category shown as a percentage of total reviewed loans. For residential mortgages, the tables compare the Bank’s reported HMDA data to income demographics in the AA.

Commercial Loans

The borrower distribution of the Bank’s loans to businesses of different sizes is reasonable and meets the standard for satisfactory performance. The following table shows the borrower distribution of small business loans based on business revenues.

Table 6A - Borrower Distribution of Commercial Loans in the Umatilla AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Business	81.14	4.92	13.94	100%
% of Bank Loans in AA by #	75.00	10.00	15.00	100%
% of Bank Loans in AA by \$	84.84	10.35	4.81	100%

Source: D&B data as of June 2016; sample of BBNB commercial loans originated January 1, 2014 to June 30, 2016

The number and dollar volume of small business loans BBNB originated to businesses with revenues less than \$1 million is near the demographic comparator, and is reasonable.

Residential Mortgage Loans

The distribution of residential mortgage loans among borrowers of different incomes reflects excellent penetration overall. The following table shows the borrower distribution of home purchase loans based on the income level of the borrower.

Table 6B - Borrower Distribution of Home Purchase Loans in the Umatilla AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Mortgage	18.02	8.82	16.73	17.65	22.23	20.59	43.02	50.00

Source: 2010 U.S. Census data; HMDA data for 2014, 2015, and 2016 through June 30

BBNB’s level of residential mortgage lending to low-income borrowers appears poor in comparison to the demographic comparator. However, we considered performance context factors in concluding that performance is reasonable. The median housing value is approximately 2.7 percent times the median family income, making home affordability a challenge for low-income families, particularly those below the poverty level. U.S. Census data reflect that 61 percent of low-income families live in poverty. Residential mortgage lending exceeds the demographic comparator for moderate-income borrowers, and is excellent. We gave more weight to performance relative to moderate-income families given performance context factors impacting low-income families.

Responses to Complaints

The Bank did not receive any CRA-related complaints during the evaluation period.

COMMUNITY DEVELOPMENT TEST

The Bank’s performance under the community development test in Oregon is rated “Outstanding”.

A qualifying CD loan, investment, or service has community development as its primary purpose. The CRA regulation defines CD as follows:

- 5) The provision of affordable housing for low- and moderate-income individuals;
- 6) Community services targeted to low- and moderate-income individuals;
- 7) Activities that promote economic development by financing small businesses or small farms; or
- 8) Activities that revitalize or stabilize low- and moderate-income geographies, designated disaster areas, or distressed or underserved nonmetropolitan middle-income geographies designated by the federal banking regulatory agencies.

During the evaluation period, BBNB demonstrated excellent responsiveness to CD needs in Oregon, through qualifying CD lending, investment, and service activities.

Number and Amount of Community Development Loans

BBNB received consideration for one CD loan, which promoted economic development in the Umatilla AA. The loan was large in size, at \$1.2 million. The borrower purchased assets and continued the operations of a failed farming company, which was one of the largest employers in the county. A large number of jobs for workers, primarily laborers, were saved from elimination or being moved outside of the area. The Bank did not make any CD-qualifying donations in the Umatilla AA during the evaluation period.

Number and Amount of Qualified Investments

During the evaluation period, BBNB purchased \$910 thousand in municipal bonds for the local school district. These bonds refinanced previous bonds, and the funds were used for district-wide improvements and to construct and establish several schools where the majority of the student populations are low- and moderate income.

Broader Statewide or Regional Area

We also gave consideration to activities benefitting regions outside of the Bank's immediate AA. During the evaluation period, the Bank purchased and/or held municipal bonds issued for the purpose of construction of a community facility and for the purpose of construction/improvement of sanitary sewer facilities/services, both located in and serving federally-designated Distressed or Underserved Middle Income Geographies in Oregon. These investments totaled \$1 million and \$150 thousand, respectively.

Extent to Which the Bank Provides Community Development Services

The Bank did not provide any CD services directly to the Umatilla AA during the evaluation period. The lack of any CD services hours for the Umatilla AA is not considered a significant detractor from the Bank's overall CD performance in Oregon. The Bank's branch in Umatilla County, OR is in the city of Milton-Freewater. BBNB has a limited presence in this community, and this branch supplies only a small proportion of the Bank's total business and deposit base. Along with Walla Walla, WA, Milton-Freewater, OR is considered part of the local geographical area referred to as the Walla Walla Valley. Milton-Freewater is a relatively small city with a population of 7,050 at the 2010 Census. Many of the city's residents obtain goods and services from providers in larger cities in the area, especially Walla Walla, WA. Many of the local residents obtain essential community services from community development organizations in Walla Walla. Given Walla Walla's close proximity to Milton-Freewater and the reliance of Milton-Freewater's residents on services provided through Walla Walla, benefits from the substantial number of service hours provided by representatives of the Bank to CD organizations in the Walla Walla AA are considered to have benefitted the residents of the nearby Milton-Freewater community in the Umatilla AA.

Responsiveness to Community Development Needs

BBNB's CD lending, investment, and service activities demonstrate excellent responsiveness to the needs within this AA, and the broader region. The Bank has focused on economic and infrastructure development/improvement, which is in line with community needs.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

Time Period Reviewed	Lending Test: (01/01/2014 to 06/30/2016) Community Development Test: (11/13/2012 to 09/26/2016)	
Financial Institution	Products Reviewed	
Baker Boyer National Bank (BBNB) Walla Walla, WA	Commercial Loans, Residential Mortgage Loans	
Affiliate(s)	Affiliate Relationship	Products Reviewed
None.		No affiliate products reviewed.
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information
<u>Washington</u> Walla Walla AA Benton-Franklin AA Yakima AA	Full-Scope Full-Scope Limited-Scope	Walla Walla County (Walla Walla MSA) Benton and Franklin Counties (Kennewick-Pasco MSA) Yakima County (Yakima MSA)
<u>Oregon</u> Umatilla AA	Full-Scope	Umatilla County

Appendix B: Summary of Multistate Metropolitan Area and State Ratings

Overall Bank:	Lending Test Rating	Community Development Test Rating	Overall Bank/State/Multistate Rating
Baker Boyer National Bank	Satisfactory	Satisfactory	Satisfactory
Washington	Satisfactory	Satisfactory	Satisfactory
Oregon	Satisfactory	Outstanding	Satisfactory