



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

August 3, 2009

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 CRA RATING: This institution is rated Satisfactory.

Baker Boyer National Bank (BBNB) has an overall satisfactory record of meeting community credit needs. This is based on the following:

- The bank has a reasonable loan-to-deposit (LTD) ratio which averaged 82.61% during the evaluation period.
- The bank's record of lending in the assessment area (AA) exceeds the standard for satisfactory performance. A substantial majority of the bank's loans originated within its defined assessment area (AA).
- The distribution of loans reflects a reasonable penetration among businesses of different sizes and individuals of different income levels given the bank's product offerings and local economic conditions.
- The bank's geographic distribution of loans reflects reasonable dispersion throughout the AAs.
- The bank's community development performance demonstrates adequate responsiveness to the community development needs of its AA.
- There were no public complaints about the bank's CRA performance.

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

Scope of Examination

This Performance Evaluation covered the period from May 23, 2006 through August 3, 2009, and was evaluated using 2000 U.S. Census demographic information. There had been no data integrity review conducted prior to this evaluation. We analyzed the bank's small business loans and residential real estate loans for the lending test. We reviewed all of the bank's community development investments, loans, and services to ensure they met the definition for community development.

Description of Institution

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 nine 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, Kennewick, and Yakima, Washington and Milton-Freewater and Weston, Oregon. The bank has three stand-alone automated teller machines (ATM) in Walla Walla. The College Place, Milton-Freewater, and Walla Walla branches have ATMs at their facilities.

As of June 30, 2009, BBNB had total assets of \$434 million and equity capital of \$36 million. Total loans represented 68% of total assets. BBNB's commercial loans totaled \$153 million, or 51% of total loans. Loans secured by one-to-four and multi-family residential properties totaled \$107 million, or 36% of total loans. Agricultural loans totaled \$18 million, or 6% of total loans, and consumer loans totaled \$13 million, or 4% of total loans.

The bank's primary focus is on commercial lending and residential real estate loans for individuals. When comparing the bank to its peers, we are referring to all banks doing business in the AAs. However, the size of the bank is taken into consideration when making comparisons to peer banks. The bank has the second, the seventh, and the sixteenth largest share of its Walla Walla, Umatilla, and Kennewick-Richland-Pasco Metropolitan Standard Area (MSA) AA deposits, respectively. The bank recently expanded their Yakima branch to a full service branch in the first quarter 2009; therefore, this information is not available for the Yakima AA. Overall market share is low due to the short time period. The bank is one of only two banks headquartered in Walla Walla. Competition for commercial and residential real estate loans is mainly from full service bank lenders located in the AAs.

There are no legal or financial circumstances impeding the bank's ability to help meet the credit needs of its community. The bank's CRA performance was previously evaluated on May 22, 2006, and found to be satisfactory.

Table 1

BAKER BOYER NATIONAL BANK LOAN PORTFOLIO COMPOSITION		
Loan Type	\$ Volume (000)	% of Portfolio
Commercial	152,963	51.24
Residential Real Estate	109,618	36.72
Agricultural	18,061	6.05
Consumer	12,777	4.28
Others	5,105	1.71
Total Loans	298,524	100.00

Source: Call Report as of 6/30/09

Please refer to the bank's CRA public file for more information about the institution.

DESCRIPTION OF BBNB'S ASSESSMENT AREA

The bank operates primarily in four AAs in Washington and Oregon. One AA includes the two counties (Benton and Franklin) in the Richland-Kennewick-Pasco (Tri-Cities) MSA. One AA includes the county of Yakima in the Yakima MSA. And, the remaining two AAs represent the counties of Walla Walla, Washington, and Umatilla, Oregon, directly south of Walla Walla County. We selected the AAs of Walla Walla County and Umatilla County for full scope review. The Richland-Kennewick-Pasco MSA and

Yakima MSA AAs were selected for a limited scope review because of their 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 AA. Also, although the Kennewick-Richland-Pasco and Yakima AAs are MSAs, the total population for each is less than 250,000 (235,800 and 234,500, respectively), 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 AA is contiguous and not an MSA or part of a multi-state MSA. Also, the AA 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 AAs because they comprise a significant majority of the deposits and assets of the bank.

In conjunction with this CRA examination, we conducted a community contact interview. Community contacts are interviewed to learn about credit opportunities within the community and how well financial institutions address the credit and service needs of the community. The contact was a representative of a local housing authority that provides affordable housing opportunities and essential housing programs that assist families to achieve their personal and economical goals. Due to the number of foreclosures in the area, the contact feels there is a need for local banks to provide more financial counseling including pre- and post-home owner's education.

WALLA WALLA FULL SCOPE AA

The Walla Walla AA 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 AA.

Farming, manufacturing (especially food-related), higher education, and government employment are important industries in the county. Agriculture is a dominant force behind the local economy. Wheat is the county's largest crop. In 2009, Broetje Orchards, with 2,852 employees, and Tyson Fresh Meats, Inc., with 1,210 employees, ranked top first and third employers, respectively. Walla Walla County is also the location of the Washington State Penitentiary, the second largest employer in the county, with 1,245 employees in 2009. The county is also a regional center of trade and services (especially health care) for residents across southeast Washington. Providence St. Mary Medical Center is the top fourth employer, with 999 employees in 2009. Higher education, with three colleges, is also a significant contributor to the Walla Walla community.

Approximately 83% of the bank's deposits come from this AA. The bank's headquarters, as well as four other branches and seven ATMs are located in this AA. Major competitors of the bank are Banner Bank, which is headquartered in Walla Walla, and branches of AmericanWest Bank, Sterling Savings Bank, JP Morgan Chase (through the acquisition of Washington Mutual Bank), Bank of America, N.A., Bank of

Whitman, and US Bank, N.A. Competitive factors have the greatest impact on the ability of the bank to originate loans to various segments of the AA population or within certain geographic areas within the AA.

The following table highlights the demographic composition of the bank's Walla Walla AA:

Table 2

WALLA WALLA ASSESSMENT AREA						
INCOME CHARACTERISTICS OF CENSUS TRACTS, BUSINESSES AND FAMILIES						
Income of Census Tract	# and % of Census Tracts		# and % of Businesses		# and % of Families	
Low Income	0	0.00	0	0.00	0	0.00
Moderate Income	2	18.18	768	20.66	1,935	14.49
Middle Income	6	54.55	2,246	60.42	8,552	64.04
Upper Income	3	27.27	704	18.93	2,867	21.47
N/A	0	0.00	0	0.00	0	0.00
Total:	11	100.00	3,718	100.00	13,354	100.00

Source: 2008 Dun & Bradstreet

The total population of the AA is 55,180. The weighted average HUD updated MSA median family income is \$52,600, and the median housing value is \$105,669. Competition in the area is strong with ten banks operating within the Walla Walla AA. BBNB ranks second in deposit market share with 24.85%.

UMATILLA FULL SCOPE AA

The Umatilla AA comprises the entire county of Umatilla in Oregon. Umatilla is one of 36 counties in Oregon. Its 2007 population of 73,237, ranked 14th in the state. 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 major employers are Two Rivers Correctional Institution, JM Manufacturing, Gilroy Food, and Boise Cascade.

Approximately 15% of the bank's deposits come from this AA. Two branches and one ATM are located in this AA. Major competitors of the bank are Banner Bank, Columbia River Bank, Community Bank, and branches of Bank of America, N.A., US Bank, N.A., Bank of the West, and Wells Fargo Bank, N.A. Competitive factors have the greatest impact on the ability of the bank to originate loans to various segments of the AA population or within certain geographic areas within the AA.

The following table highlights the demographic composition of the bank’s Umatilla AA:

Table 3

UMATILLA ASSESSMENT AREA						
INCOME CHARACTERISTICS OF CENSUS TRACTS, BUSINESSES AND FAMILIES						
Income of Census Tract	# and % of Census Tracts		# and % of Businesses		# and % of Families	
Low Income	0	0.00	0	0.00	0	0.00
Moderate Income	0	0.00	0	0.00	0	0.00
Middle Income	13	86.67	4,628	89.99	15,371	85.53
Upper Income	2	13.33	515	10.01	2,601	14.47
N/A	0	0.00	0	0.00	0	0.00
Total:	15	100.00	5,143	100.00	17,972	100.00

Source: 2008 Dun & Bradstreet

The total population of the AA is 70,548. The weighted average HUD updated MSA median family income is \$48,100, and the median housing value is \$95,441. Competition in the area is strong with nine banks operating within the Umatilla AA. BBNB ranks seventh in deposit market share with 6.53%. The five largest banks hold 81.20% of the deposit market share.

KENNEWICK-RICHLAND-PASCO MSA LIMITED SCOPE AA

The Kennewick-Richland-Pasco AA 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. As of the census of 2000, the population of the county was 142,475, with 52,866 households and 38,063 families residing in the area. 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. As of the census of 2000, the population of the county was 49,347, with 14,840 households and 11,604 families residing in the area. The top industries include state and local government, farming, and scientific research and development services. The top three employers are Battelle/PNNL with 4,220 employees, Bechtel National, Inc. with 2,800 employees, and ConAgra/Lamb-Weston with 2,128 employees.

YAKIMA LIMITED SCOPE AA

The Yakima AA is a designated MSA and comprises the county of Yakima in the state of Washington. Yakima is also the largest city in the county. The county has a total area of 4,312 square miles. As of the census of 2000, the population of the county was 222,581, with 73,993 households and 54,606 families residing in the county. The top industries include state and local government, farms, fishing and hunting, and general medical and surgical hospitals. The top two employers are Yakima Valley Memorial Hospital with 1,830 employees, and Wal-Mart Stores, Inc. with 1,050 employees.

Please refer to the public file for additional information about the AAs.

Conclusions with Respect to Performance Tests

LENDING TEST

Based on a full scope review, the bank's residential real estate and small business performance in the AA is overall satisfactory. Conclusions to support this rating are based on the following:

Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs. The last CRA examination was conducted in May 2006. The average quarterly loan-to-deposit ratio of the 14 quarters from January 2006 to June 2009 was 82.61%.

Lending in the AA

The bank's record of lending in the AA exceeds the standard for satisfactory performance.

Table 4

BAKER BOYER NATIONAL LENDING IN THE AA								
Loan Type	Number of Loans				Dollars of Loans			
	Inside		Outside		Inside		Outside	
	#	%	#	%	\$	%	\$	%
Business Loans (Sample)	24	96	1	4	2,999,103	95	152,840	5
Residential Real Estate (Sample)	25	100	0	0	3,769,115	100	0	0
Totals	49	98	1	2	6,768,218	98	152,840	2

Source: HMDA and CRA reported loans originated from January 1, 2007 to June 30, 2009

A substantial majority of the bank's loans and other lending-related activities are made within the bank's designated AA. We sampled 25 business loans and 25 residential real estate loans since the last CRA examination. Of the 25 sampled business loans, the bank originated 24 loans, or 96% of the number of loans, and 95% of the dollar volume of the loans to borrowers within their AA. We also sampled the bank's residential real estate loans and found that all loans, or 100% of the number of loans and dollar volume of the loans were to borrowers within their AA. Based on both the number of loans and the dollar volume of the loans, the inside ratio was 98%.

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

The distribution of loans reflects a reasonable penetration among businesses of different sizes and individuals of different income levels given the bank's product offerings and local economic conditions.

Business Loans

The bank’s distribution of loans to businesses of different sizes, given the demographics of the AAs, reflects excellent penetration among businesses of different sizes.

Table 5a

WALLA WALLA ASSESSMENT AREA INCOME DISTRIBUTION OF LOANS TO BUSINESSES				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	66.00%	4.00%	30%	100%
% of Bank Loans in AA	99.71%	0.29%	0%	100%

Demographic Data Source: 2008 Business Geodemographic Data.

Table 5b

UMATILLA ASSESSMENT AREA INCOME DISTRIBUTION OF LOANS TO BUSINESSES				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	62%	4%	34%	100%
% of Bank Loans in AA	100%	0%	0%	100%

Demographic Data Source: 2008 Business Geodemographic Data.

The percentage of businesses with revenues of less than or equal to \$1,000,000 within the Walla Walla AA is 66%. Based on the bank’s small business reporting, the bank originated 99.71% of their loans to these businesses, exceeding the area demographics.

The percentage of businesses with revenues of less than or equal to \$1,000,000 within the Umatilla AA is 62%. Based on the bank’s small business reporting, the bank originated 100% of their loans to these businesses, exceeding the area demographics.

The bank’s distribution of loans to businesses of different sizes in the limited scope Kennewick-Richland-Pasco MSA and the Yakima MSA AAs is consistent with lending in the full scope AAs.

Residential Real Estate Loans

The bank’s distribution of residential real estate loans to low- and moderate-income borrowers in the Walla Walla AA reflects reasonable penetration. The tables show that home purchase and home refinance loans made to low- and moderate-income borrowers in the Walla Walla AA were lower than the ratio of low- and moderate-income borrowers living in the AA. However, the tables show that home improvement loans made to low- and moderate income families were near to the ratio of low- and moderate-income borrowers in the AA.

The bank’s distribution of home loans to low- and moderate-income borrowers in the Umatilla AA reflects reasonable penetration. The tables show that home purchase loans made to low-income borrowers in the Umatilla AA were near to the ratio of low-

income borrowers living in the AA. However, the bank made no home purchase loans to moderate-income families in the AA. Home improvement loans made to low- and moderate-income borrowers were near to the ratio of low- and moderate-income families living in the AA. And, home refinance loans made to low- and moderate-income borrowers were lower than the low- and moderate-income families living in the AA.

Taking into consideration the number of borrowers living at or below the poverty level in the Walla Walla AA and the Umatilla AA (13.72% and 11.57%, respectively), and the supply of affordable housing, the percentages are reasonable.

Table 6a

WALLA WALLA ASSESSMENT AREA BORROWER DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS								
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 Purchase	19.41	3.95	16.74	10.53	20.52	15.79	43.33	69.74
Home Improvement	19.41	13.16	16.74	15.79	20.52	5.26	43.33	65.79
Home Refinance	19.41	4.47	16.74	7.82	20.52	22.91	43.33	64.80

Demographic Data Source: 2000 US Census

Table 6b

UMATILLA ASSESSMENT AREA BORROWER DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS								
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 Purchase	17.11	14.29	17.65	0.00	22.71	35.71	42.53	50.00
Home Improvement	17.11	14.29	17.65	21.43	22.71	14.29	42.53	50.00
Home Refinance	17.11	3.03	17.65	18.18	22.71	18.18	42.53	60.61

Demographic Data Source: 2000 US Census

Borrower distribution in the limited scope Kennewick-Richland-Pasco MSA and the Yakima MSA AAs is consistent with lending in the full scope AAs.

Geographic Distribution of Loans

The bank's geographic distribution of loans reflects reasonable dispersion throughout the AAs. There are no low-income geographies in the Walla Walla AA. And, there are no low- or moderate-income geographies in the Umatilla AA. However, the bank's HMDA and business lending was reasonably dispersed throughout the Umatilla AA.

The bank was not able to penetrate all census tracts within their AAs. However, there were no conspicuous gaps in the bank's distribution of loans.

Business Loans

As shown in the table below, the geographic distribution of loans reflects reasonable dispersion throughout the Walla Walla and Umatilla AAs. There are no low-income geographies in the Walla Walla AA and no low- or moderate-income geographies in the Umatilla AAs. The bank’s business lending in Walla Walla moderate-income geographies was near to the ratio of businesses located in moderate-income tracts.

Table 7a

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	0	20.66	19.26	60.41	46.18	18.93	34.56

Demographic Data Source: 2008 Business Geodemographic Data

Table 7b

Geographic Distribution of Loans to Businesses in the Umatilla 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	0	0	0	89.99	100	10.01	0

Demographic Data Source: 2008 Business Geodemographic Data

The distribution of loans by percentage of number of loans originated in the low- and moderate- income geographies within Kennewick-Richland-Pasco MSA and the Yakima MSA AAs is consistent with lending in the full scope AAs.

Residential Real Estate Loans

As shown in the tables below, the geographic distribution of the bank’s residential real estate lending in Walla Walla moderate-income geographies reflects reasonable dispersion.

The bank’s home purchase lending throughout the Walla Walla AA was near to the ratio of owner occupied units; their home improvement lending was lower than the ratio of owner occupied units; and their home refinance lending exceeded the ratio of owner occupied units within these geographies.

Table 8a

Geographic Distribution of Residential Real Estate Loans in 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 Purchase	0.00	0.00	12.68	11.38	63.99	59.88	23.44	28.74
Home Improvement	0.00	0.00	12.68	7.69	63.99	64.10	23.44	28.21
Home Refinance	0.00	0.00	12.68	14.22	63.99	59.11	23.44	26.67

Demographic Data Source: 2000 US Census

Table 8b

Geographic Distribution of Residential Real Estate Loans in Umatilla 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 Purchase	0.00	0.00	0.00	0.00	85.41	92.86	14.34	7.14
Home Improvement	0.00	0.00	0.00	0.00	85.41	94.12	14.34	5.88
Home Refinance	0.00	0.00	0.00	0.00	85.41	100.00	14.34	0.00

Demographic Data Source: 2000 US Census

Geographic distribution in the Kennewick-Richland-Pasco MSA and the Yakima MSA AAs is consistent with geographic distribution in the full scope AAs.

Responses to Complaints

There have been no consumer complaints relating to the bank’s Community Reinvestment Act performance during the evaluation period.

COMMUNITY DEVELOPMENT TEST

The bank’s community development performance demonstrates adequate responsiveness to the community development needs of its AAs 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 AAs.

Number and amount of community development loans

Qualifying community development loans are loans that meet the definition of community development, as defined in the CRA regulation. During the evaluation period, BBNB originated 17 community development loans totaling over \$14 million. Examples of loans for qualifying community development organizations are described below.

- **Blue Mountain Action Council (BMAC)**

The bank participated in various loans with BMAC. BMAC is a non-profit organization that's main purpose is to serve the needs of low-income individuals and families in the community. BMAC participates in programs to revitalize declining neighborhoods, provide low income housing, energy assistance and other services to those in needs.

- **Providence Group Limited (PGL)**

This is an SBA 504 loan granted to PGL, a minority owned business. The use of an SBA 504 loan was planned and implemented with the Ameritrust Community Development Corporation (CDC). PGL requested 85% commercial real estate project financing for the construction and permanent financing of a proposed new 35,110 square foot Eden Medical Center (EMC) medical facility. EMC will provide over 75 employment opportunities to the community.

Number and amount of qualified investments

During the evaluation period, BBNB purchased Port of Whitman County, Washington bonds totaling \$335M. The proceeds of the bonds will be used for the acquisition and construction of improvements to existing Port facilities located in a targeted distressed area within the bank's broader statewide region.

Cash donations of over \$64M were made to various organizations during this evaluation period.

Extent to Which the Bank Provides Community Development Services

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 15 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.

Responsiveness to Community Development Needs

The bank's overall responsiveness through CD activities, CD lending, investment, and services needs, is adequate. This is supported by the CD services and investments originated during the period. These services and investments help stabilize and support local economies; and, help provide affordable housing to low- and moderate-income families within BBNB's AA.

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.