

# **PUBLIC DISCLOSURE**

November 27, 2017

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Banner Bank  
Certificate Number: 28489

10 South First Avenue  
Walla Walla, Washington 99362

Federal Deposit Insurance Corporation  
Division of Depositor and Consumer Protection  
San Francisco Regional Office

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San Francisco, California 94105

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 Rating	
Overall Rating.....	1
Institution	
Scope of Evaluation .....	3
Description of Institution .....	6
Description of Assessment Area.....	7
Conclusions on Performance Criteria .....	10
Discriminatory or Other Illegal Credit Practices Review .....	20
State of Washington	
Summary	
State Rating.....	20
Scope of Examination .....	20
Description of Institution's Operations.....	20
Conclusions on Performance Criteria .....	23
Puget Sound Assessment Area – Full Scope Evaluation Procedures	
Description of Institution's Operations.....	26
Conclusions on Performance Criteria .....	30
Spokane Assessment Area – Full Scope Evaluation Procedures	
Description of Institution's Operations.....	39
Conclusions on Performance Criteria .....	41
Bellingham Assessment Area – Limited Scope Evaluation Procedures	
Description of Institution's Operations.....	50
Conclusions on Performance Criteria .....	51
Central Washington Assessment Area – Limited Scope Evaluation Procedures	
Description of Institution's Operations.....	54
Conclusions on Performance Criteria .....	55
Tri-Cities Assessment Area – Limited Scope Evaluation Procedures	
Description of Institution's Operations.....	58
Conclusions on Performance Criteria .....	59
Walla Walla Assessment Area – Limited Scope Evaluation Procedures	
Description of Institution's Operations.....	63
Conclusions on Performance Criteria .....	64
Washington Non-MSA Assessment Area – Limited Scope Evaluation Procedures	
Description of Institution's Operations.....	67
Conclusions on Performance Criteria .....	68

Yakima Assessment Area – Limited Scope Evaluation Procedures	
Description of Institution’s Operations.....	71
Conclusions on Performance Criteria .....	72
State of California	
Summary	
State Rating.....	76
Scope of Examination.....	76
Description of Institution’s Operations.....	76
Conclusions on Performance Criteria .....	79
San Diego Assessment Area – Full Scope Evaluation Procedures	
Description of Institution’s Operations.....	82
Conclusions on Performance Criteria .....	85
California Non-MSA Assessment Area – Limited Scope Evaluation Procedures	
Description of Institution’s Operations.....	94
Conclusions on Performance Criteria .....	94
Chico Assessment Area – Limited Scope Evaluation Procedures	
Description of Institution’s Operations.....	98
Conclusions on Performance Criteria .....	99
Los Angeles Assessment Area – Limited Scope Evaluation Procedures	
Description of Institution’s Operations.....	102
Conclusions on Performance Criteria .....	103
Redding Assessment Area – Limited Scope Evaluation Procedures	
Description of Institution’s Operations.....	106
Conclusions on Performance Criteria .....	107
Sacramento Assessment Area – Limited Scope Evaluation Procedures	
Description of Institution’s Operations.....	111
Conclusions on Performance Criteria .....	112
State of Oregon	
Summary	
State Rating.....	115
Scope of Examination.....	115
Description of Institution’s Operations.....	115
Conclusions on Performance Criteria .....	117
North East Oregon Non-MSA Assessment Area – Full Scope Evaluation Procedures	
Description of Institution’s Operations.....	121
Conclusions on Performance Criteria .....	123

Eugene Assessment Area – Limited Scope Evaluation Procedures	
Description of Institution’s Operations.....	133
Conclusions on Performance Criteria .....	134
Medford Assessment Area – Limited Scope Evaluation Procedures	
Description of Institution’s Operations.....	137
Conclusions on Performance Criteria .....	138
Oregon Coast Non-MSA Assessment Area – Limited Scope Evaluation Procedures	
Description of Institution’s Operations.....	141
Conclusions on Performance Criteria .....	142
State of Idaho	
Summary	
State Rating.....	146
Scope of Examination .....	146
Description of Institution’s Operations.....	146
Conclusions on Performance Criteria .....	148
Boise Assessment Area – Full Scope Evaluation Procedures	
Description of Institution’s Operations.....	152
Conclusions on Performance Criteria .....	154
Coeur d’Alene Assessment Area – Limited Scope Evaluation Procedures	
Description of Institution’s Operations.....	161
Conclusions on Performance Criteria .....	162
Idaho Non-MSA Assessment Area – Limited Scope Evaluation Procedures	
Description of Institution’s Operations.....	166
Conclusions on Performance Criteria .....	167
State of Utah	
Summary	
State Rating.....	170
Scope of Examination .....	170
Description of Institution’s Operations.....	170
Conclusions on Performance Criteria .....	173
Portland-Vancouver-Hillsboro Multistate Assessment Area	
Summary	
Multistate Rating.....	181
Scope of Evaluation .....	181
Description of Institution’s Operations.....	181
Conclusions on Performance Criteria .....	183



Lewiston Multistate Assessment Area

Summary

Multistate Rating.....	191
Scope of Evaluation .....	191
Description of Institution's Operations.....	192
Conclusions on Performance Criteria .....	194

Appendix.....	204
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Glossary.....	206
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## INSTITUTION RATING

**INSTITUTION'S COMMUNITY REINVESTMENT ACT (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 area (AA), including low- and moderate-income (LMI) neighborhoods, in a manner consistent with its resources and capabilities.

The following table indicates the performance level of the institution with respect to the lending, investment, and service tests.

PERFORMANCE LEVELS	PERFORMANCE TESTS		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory		X	X
Low Satisfactory	X		
Needs to Improve			
Substantial Noncompliance			
* The Lending Test is weighted more heavily than the Investment and Service Tests when arriving at an overall rating.			

Banner Bank's (BB) CRA performance under the Lending, Investment, and Service Tests supports the overall rating. Under these tests, the bank's lending performance carried the most weight when determining the overall rating. Examiners did not identify any evidence of discriminatory or other illegal credit practices. The following points summarize the bank's Lending, Investment, and Service Test performance:

**The Lending Test is rated Low Satisfactory.**

- The institution's lending levels reflect good responsiveness to AA credit needs.
- The institution originates a substantial majority of its loans within its AAs.
- The institution's geographic distribution of loans reflects adequate penetration throughout the AAs.
- The distribution of borrowers reflects, given the product lines offered by the institution, adequate penetration among business and farm customers of different revenue sizes and retail customers of different income levels.

- BB exhibits an adequate record of serving the credit needs of the most economically disadvantaged areas of its AAs, including low-income individuals and/or very small businesses and farms, consistent with safe and sound banking practices.
- The institution has made a relatively high level of community development (CD) loans.
- The institution makes use of innovative and flexible lending practices in order to serve AA credit needs.

**The Investment Test is rated: High Satisfactory.**

- The institution has a significant level of qualified CD investments and grants, occasionally in a leadership position, particularly those that are not routinely provided by private investors.
- The institution exhibits good responsiveness to credit and community economic development needs.
- The institution occasionally uses innovative and/or complex investments to support CD initiatives.

**The Service Test is rated: High Satisfactory.**

- Delivery systems are accessible to essentially all portions of the institution's AAs.
- To the extent changes have been made, the institution's record of opening and closing of branches did not adversely affect the accessibility of its delivery systems, particularly in LMI geographies and/or to LMI individuals.
- Services do not vary in a way that inconveniences certain portions of the CAA, particularly LMI geographies and/or LMI individuals.
- The institution provides a relatively high level of CD services.

Refer to the Conclusions of Performance Criteria section for details regarding the factors underlying each performance rating.

## SCOPE OF EVALUATION

### General Information

This evaluation reflects the bank's performance since the prior evaluation dated January 11, 2016, to the current evaluation dated November 27, 2017. The evaluation period for residential mortgage loans, small business loans, and small farms loans is January 1, 2016 through December 31, 2016. The evaluation period for CD loans, investments, and services is from January 11, 2016 to November 26, 2017 and includes the current book value of qualified CD investments made prior to the evaluation period that are still outstanding.

Examiners used the Interagency Large Institution Examination Procedures to evaluate BB's CRA performance. These procedures include three tests: the Lending, Investment, and Service Tests.

The Lending Test considered the institution's performance according to the following criteria:

- Lending activity
- AA concentration
- Geographic distribution of loans
- Borrower's profile
- Responsiveness to credit needs of low-income individuals and geographies and very small businesses and farms
- CD lending activities
- Use of innovative or flexible lending practices

The Investment Test considered the following factors:

- Investment and grant activity
- CD initiatives
- Responsiveness to credit and community development needs

The Service Test considered the following factors:

- Accessibility of delivery systems
- Changes in branch locations
- Reasonableness of business hours and services in meeting AA needs
- CD services

During the review period, BB generated the greatest lending activity by number of loans in the State of Washington at 54.2 percent. The State of Washington AAs also contains the highest percentage of branches at 44.3 percent and deposits at 51.4 percent. The following table provides loan, deposit, and branch information by state and AA:

Assessment Area Breakdown of Loans, Deposits, and Branches						
Assessment Area	Loans		Deposits		Branches	
	\$(000s)	%	\$(000s)	%	#	%
Puget Sound	518,092	26.4	1,464,242	17.5	27	14.8
Spokane	146,001	7.4	712,744	8.5	17	9.3
Bellingham	61,318	3.1	241,329	2.9	7	3.8
Central Washington	67,663	3.4	120,014	1.4	2	1.1
Tri-Cities	74,358	3.8	274,632	3.3	6	3.3
Walla Walla	58,234	3.0	770,071	9.2	6	3.3
Washington Non-MSA	34,220	1.7	184,906	2.2	6	3.3
Yakima	104,907	5.3	534,115	6.4	8	4.4
<b>Washington Subtotal</b>	<b>1,064,793</b>	<b>54.2</b>	<b>4,302,053</b>	<b>51.4</b>	<b>79</b>	<b>43.4</b>
San Diego	91,243	4.6	479,071	5.7	10	5.5
California Non-MSA	2,987	0.2	95,102	1.1	3	1.6
Chico	4,533	0.2	12,033	0.1	1	0.5
Los Angeles	113,909	5.8	281,261	3.4	9	4.9
Redding	12,611	0.6	124,649	1.5	3	1.6
Sacramento	77,814	4.0	453,476	5.4	9	4.9
<b>California Subtotal</b>	<b>303,097</b>	<b>15.4</b>	<b>1,445,592</b>	<b>17.3</b>	<b>35</b>	<b>19.2</b>
NE Oregon Non-MSA	69,109	3.5	505,523	6.1	9	4.9
Eugene	47,940	2.4	341,359	4.1	10	5.5
Medford	60,578	3.1	337,083	4.0	9	4.9
Oregon Coast Non-MSA	47,785	2.4	325,426	3.9	10	5.5
<b>Oregon Subtotal</b>	<b>225,412</b>	<b>11.5</b>	<b>1,559,391</b>	<b>18.7</b>	<b>38</b>	<b>20.9</b>
Boise	77,964	4.0	138,985	1.7	5	2.7
Coeur d'Alene	10,643	0.5	25,779	0.3	1	0.5
Idaho Non-MSA	25,379	1.3	169,570	2.0	5	2.7
<b>Idaho Subtotal</b>	<b>113,986</b>	<b>5.8</b>	<b>334,334</b>	<b>4.0</b>	<b>11</b>	<b>6.0</b>
<b>Utah</b>	<b>61,723</b>	<b>3.1</b>	<b>199,242</b>	<b>2.4</b>	<b>7</b>	<b>3.8</b>
<b>Portland-Vancouver-Hillsboro Multi-State</b>	<b>170,790</b>	<b>8.7</b>	<b>363,834</b>	<b>4.5</b>	<b>9</b>	<b>4.9</b>
<b>Lewiston Multi-State</b>	<b>23,188</b>	<b>1.2</b>	<b>139,982</b>	<b>1.7</b>	<b>3</b>	<b>1.6</b>
<b>Total</b>	<b>1,962,989</b>	<b>100.0</b>	<b>8,344,428</b>	<b>100.0</b>	<b>182</b>	<b>100.0</b>

Source: Bank Records; FDIC Summary of Deposits (06/30/2017); Due to rounding, percentages may not equal 100.0 percent.

BB delineated its combined AA (CAA) to include 22 AAs in 5 states (Washington, Oregon, Idaho, California, and Utah) and 2 Multi-State (MS) AAs in the States of Washington, Oregon, and Idaho. In Washington, full-scope examination procedures were used for the Puget Sound and Spokane AAs and limited-scope procedures for the Bellingham, Central Washington, Tri-Cities, Walla Walla, Washington Non-MSA and Yakima AAs. In California, full-scope examination procedures were used for the San Diego AA and limited-scope procedures for the Chico, Los Angeles, Redding, Sacramento, and California Non-MSA AAs. In Oregon, full-scope examination procedures were used for the NE Oregon Non-MSA AA and limited-scope procedures for the Oregon Coast Non-MSA, Eugene, and Medford AAs. In Idaho, full-scope procedures were used for the Boise AA and limited-scope procedures used for the Coeur d'Alene

and Idaho-Non MSA AAs. Lastly, full-scope procedures were used in the State of Utah and MS AAs of Portland-Vancouver-Hillsboro (PVH) and Lewiston. Full-scope evaluation procedures were used in each AA in which the bank had the largest presence, with the exception of the Spokane AA, which was selected for full-scope procedures because it was evaluated using limited-scope procedures at the prior CRA Evaluation.

Examiners gave the greatest weight to the bank's performance in the State of Washington for the overall ratings for each applicable test, followed by the bank's performance in the States of California and Oregon. The States of Idaho and Utah and MS AAs of PVH and Lewiston carry the least weight in determining the overall ratings.

### **Loan Products Reviewed**

Examiners determined that the bank's major product lines are small business, home mortgage, and to a lesser degree, small farm loans. This conclusion is based upon the bank's business strategy and the number and dollar volume of loans originated during the evaluation period. Small business lending performance received more weight in the lending test analysis based on loan volume.

No other loan types, such as consumer loans, represent a major product line. Therefore, they provided no material support for conclusions or ratings and are not presented. The following table details the universe of small business, home mortgage, and small farm loans originated within each state and MS AA during the review period:

<b>State and Multi-State Metropolitan Statistical Area Breakdown of Loans by Type</b>						
<b>State / Multi-State</b>	<b>Small Business</b>		<b>Home Mortgage</b>		<b>Small Farm</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
Washington	2,013	46.0	2,007	53.3	154	46.1
California	734	16.8	224	5.9	19	5.7
Oregon	850	19.4	556	15.0	105	31.4
Idaho	289	6.6	425	11.3	34	10.2
Utah	199	4.5	22	0.6	1	0.3
Lewiston MS	86	2.0	38	1.0	20	6.0
PVH MS	209	4.7	484	12.9	1	0.3
<b>Total</b>	<b>4,380</b>	<b>100.0</b>	<b>3,766</b>	<b>100.0</b>	<b>334</b>	<b>100.0</b>
<i>Source: Bank Records; Due to rounding, percentages may not equal 100.0 percent.</i>						

This evaluation considered all small business and small farm loans reported on the bank's 2016 CRA loan registers (LRs). In 2016, the bank reported 4,380 small business loans and 334 small farm loans totaling \$702.1 million and \$63.9 million, respectively. Examiners compared the bank's 2016 small business and small farm lending performance to the respective 2016 aggregate lending data. In addition, examiners compared the bank's small business and small farm lending performance to the applicable 2016 D&B data.

In addition, this evaluation considered all home mortgage loans reported on the bank's 2016 Home Mortgage Disclosure (HMDA) loan application registers (LAR). In 2016, the bank

reported 3,766 originated home mortgage loans totaling \$1.2 billion. The bank's 2016 home mortgage lending performance is compared to the 2016 aggregate lending data. Additionally, the bank's 2016 home mortgage lending performance is also compared to the 2010 U.S. Census percentage of owner-occupied housing units for the geographic distribution analysis, and for the borrower profile analysis, the performance is compared to the 2010 U.S. Census percentage of families.

Changes in demographics between the 2010 U.S. Census data and the 2015 American Community Survey (ACS) data were considered in this evaluation and are addressed where additional context is needed to support conclusions. The 2015 ACS demographic data is presented in the AA's Description of Assessment Area sections, as well as in the distribution of the bank's branch and automated teller machine (ATM) network. Comparisons to the 2010 U.S. Census income designations for census tracts (CT) were used for branch openings and closings that occurred in 2016. Comparisons to the 2015 ACS income designations for CTs were used for branch openings and closings that occurred in 2017.

Lastly, for the Lending Test, examiners reviewed the number and dollar volume of CRA lending. Examiners emphasized the performance by number of loans because it is a better indicator of the number of businesses, individuals, and farms served.

## **DESCRIPTION OF INSTITUTION**

### **Background**

BB is a state-chartered bank headquartered in Walla Walla, Washington. The bank began operations in 1890 and is a wholly-owned subsidiary of Banner Corporation, a two-bank holding company also located in Walla Walla. The bank has two subsidiaries; however, the lending activities of the bank's subsidiaries were not included in this evaluation. Thus, all lending activity in this evaluation was provided directly by BB.

The institution received a "Satisfactory" rating at its previous FDIC Performance Evaluation (PE) dated January 11, 2016, based on Interagency Large Institution Examination Procedures.

### **Operations**

BB offers a variety of loan products, including home mortgage, commercial, and agricultural loans. BB also provides a variety of deposit services including checking, savings, money market, certificates of deposit, and individual retirement accounts. Alternative banking services include online and mobile banking, electronic bill pay, and access to 168 proprietary ATMs.

BB operates 182 branches throughout the bank's AAs in the States of Washington, Oregon, Idaho, California, and Utah. Of those 182 branches, 7 in the State of Utah were recently sold to the Bank of American Fork on October 9, 2017. BB no longer operates any branches in the State of Utah. However, given that the divestiture did not occur until late in the evaluation period, the bank's performance will still be evaluated in Utah for this evaluation.

Since the last examination, BB relocated 2 branches and closed 17 branches. In addition to the branch locations, BB currently operates 87 loan production offices located in Washington, Oregon, California, Idaho, and Utah.

### **Ability and Capacity**

The September 30, 2017 Consolidated Report of Condition and Income (Call Report) reflects approximately \$10.2 billion in total assets, \$8.4 billion in total deposits, and \$1.3 billion in total equity capital. Total loans are approximately \$7.7 billion, or 75.5 percent, of total assets. The following table details the composition of the bank's loan portfolio:

<b>Loan Portfolio Distribution as of 9/30/17</b>		
<b>Loan Category</b>	<b>\$(000s)</b>	<b>%</b>
Construction, Land Development, and Other Land Loans	907,709	11.9
Secured by Farmland	161,548	2.0
Secured by 1-4 Family Residential Properties	1,400,608	18.3
Secured by Multi-family (5 or more) Residential Properties	356,613	4.7
Secured by Non-farm Non-Residential Properties	3,278,381	42.8
<b>Total Real Estate Loans</b>	<b>6,104,859</b>	<b>79.7</b>
Commercial and Industrial Loans	1,155,913	15.1
Agricultural Production and Other Loans to Farmers	175,970	2.3
Consumer	122,315	1.6
Obligations of States and Political Subdivisions in the United States	91,119	1.2
Other Loans	8,700	0.1
<b>Total Loans</b>	<b>7,658,876</b>	<b>100.0</b>
<i>Source: Reports of Condition and Income</i>		

Examiners did not identify any financial, legal, or other impediments that affect the bank's ability to meet AA credit needs.

## **DESCRIPTION OF ASSESSMENT AREAS**

CRA requires each financial institution to define one or more AAs within which its CRA performance will be evaluated. For each AA, BB took entire metropolitan areas or counties in accordance with the technical requirements of the CRA regulation. BB's footprint consists of 22 AAs across 5 states, including 2 MS areas. The following table details each rated area, along with the number of CTs and the number of branches:



Description of Assessment Areas			
Assessment Area	Counties in Assessment Area	# of Census Tracts	# of Branches
<b>Washington</b>			
Puget Sound	Kitsap, Skagit, Island, King, Snohomish, Pierce	828	27
Spokane	Spokane, Stevens	117	17
Bellingham	Whatcom	34	7
Central Washington	Chelan, Douglas	22	2
Tri-Cities	Benton, Franklin	50	6
Walla Walla	Columbia, Walla Walla	13	6
Washington Non-MSA	Grant, Lincoln, Whitman	30	6
Yakima	Yakima	45	8
<b>California</b>			
San Diego	San Diego	628	10
California Non-MSA	California Non-MSA	14	3
Chico	Butte	51	1
Los Angeles	Los Angeles, Riverside, San Bernardino	3,168	9
Redding	Shasta, Tehama	59	3
Sacramento	Placer, Sacramento, Yolo, Nevada	463	9
<b>Oregon</b>			
NE Oregon Non-MSA	Baker, Morrow, Umatilla, Union	31	9
Eugene	Lane	87	10
Medford	Jackson, Josephine	57	9
Oregon Coast Non-MSA	Coos, Douglas	37	10
<b>Idaho</b>			
Boise	Ada, Canyon	88	5
Coeur d'Alene	Kootenai	25	1
Idaho Non-MSA	Benwah, Bonner, Clearwater, Latah, Twin Falls	34	5
<b>Utah</b>	Davis, Utah, Salt Lake	394	7
<b>PVH MS</b>	Clackamas, Clark, Multnomah, Washington	459	9
<b>Lewiston MS</b>	Asotin, Nez Perce	16	3

Source: Bank Records

### **Economic and Demographic Data**

The bank's CAA contains 6,750 CTs of which 459 are low-; 1,715 moderate-; 2,410 middle-; 2,079 upper-income; and 88 have no income designation. The following table includes demographics, housing, and business information for the CAA:

Demographic Information of the Assessment Area						
Assessment Area: Combined Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	6,750	6.8	25.4	35.7	30.8	1.3
Population by Geography	32,008,071	6.3	25.2	36.9	31.2	0.4
Housing Units by Geography	11,929,023	5.6	23.8	37.6	32.7	0.3
Owner-Occupied Units by Geography	6,192,544	2.2	17.3	40.4	40.0	0.1
Occupied Rental Units by Geography	4,780,008	10.2	32.2	33.4	23.7	0.5
Vacant Units by Geography	956,471	5.7	23.9	39.5	30.5	0.5
Businesses by Geography	2,202,423	4.8	19.8	34.0	40.1	1.3
Farms by Geography	52,607	2.4	16.0	47.5	33.8	0.3
Family Distribution by Income Level	7,374,361	22.6	17.0	19.0	41.4	0.0
Household Distribution by Income Level	10,972,552	24.6	15.9	17.3	42.3	0.0
			Median Housing Value			\$352,109
			Median Gross Rent			\$1,181
			Families Below Poverty Level			11.8%
Source: 2010 U.S. Census & 2015 ACS Census and 2017 D&B Data Due to rounding, totals may not equal 100.0 (*) The NA category consists of geographies that have not been assigned an income classification.						

Refer to the individual full-scope and limited-scope AAs of this evaluation for specific economic and demographic information.

### **Competition**

Examiners reviewed deposit market share figures for residential mortgage, small business, and small farm loan market share, as applicable. Refer to each state, MS AA, or full-scope review for a complete discussion of the institution's market share and ranking information for the respective area.

### **Community Contacts**

As part of the evaluation process, examiners contact third parties active in the AA to assist in identifying the credit and CD needs. This information helps determine whether local financial institutions are responsive to these needs. It also shows what credit and CD opportunities are available. Refer to each full-scope and MS AA evaluation for details regarding information obtained from community contacts on specific credit and CD needs and opportunities.

### **Credit and Community Development Needs and Opportunities**

Refer to each full-scope and MS AA evaluation for a discussion of the credit and CD needs and opportunities identified for each specific AA.

## CONCLUSIONS ON PERFORMANCE CRITERIA

### LENDING TEST

BB is rated “Low Satisfactory” in the Lending Test. The Lending Test evaluates an institution’s record of helping to meet the credit needs of its AA(s) by considering an institution’s home mortgage, small business, small farm, and CD lending. BB’s lending performance was evaluated pursuant to the following criteria: 1) the lending activity in the AAs; 2) the geographic distribution of lending within the AA(s); 3) the distribution of loans among borrowers of different income levels and businesses (including farms) of different revenue sizes; 4) the level of CD lending; and 5) the use of innovative or flexible lending practices.

### Lending Activity

Overall, BB’s lending levels reflect good responsiveness to AA credit needs when considering performance context and weighting used for each AA and state. Both the number and dollar volume of loans originated over the review period, as well as market share and market ranking figures for the primary loan products were analyzed to determine the bank’s level of lending relative to CAA credit needs. The following table details BB’s small business loans, HMDA loans, and small farm loan market ranking during 2016 for each state and MS MSA. In addition, to gain perspective regarding the bank’s presence in its communities, examiners also reviewed deposit market share data.

Small Business Loans, Home Mortgage Disclosure Act Loans, Small Farm Loans and Deposit Market Share							
Assessment Area	2016 – Small Business		2016 – Home Mortgage Disclosure Act		2016 – Small Farm		Deposit Market Share %
	Rank (#)	Market Share %	Rank (#)	Market Share %	Rank (#)	Market Share %	
Washington	11 of 155	1.2	28 of 757	0.8	5 of 35	6.9	3.2
California	40 of 258	0.1	260 of 1,186	0.1	15 of 34	1.1	0.2
Oregon	8 of 90	3.2	13 of 435	1.8	2 of 19	16.6	10.3
Idaho	13 of 104	1.0	26 of 410	0.9	7 of 21	5.3	2.0
Utah	17 of 118	0.4	152 of 431	0.1	9 of 12	0.7	0.1
PVH MS	20 of 139	0.3	46 of 632	0.5	12 of 14	0.2	0.7
Lewiston MS	4 of 32	5.1	12 of 176	1.9	3 of 12	17.2	18.6
<i>Source: 2016 Small Business, HMDA, and Small Farm Market Share Data and June 30, 2017 Summary of Deposits</i>							

BB’s lending activity levels reflect good responsiveness to the credit needs of the CAA. In 2016, the bank reported 4,380 small business loans totaling \$702.1 million, 766 home mortgage loans totaling \$1.2 billion, and 334 small farm loans totaling \$63.9 million. Since the last examination, competition has increased in each AA and BB has been able to maintain its market share rank and percentage. Overall, the institution’s market share rankings reflect good responsiveness to the credit needs of its AAs. Refer to each respective state and full-scope analysis for further details.

### AA Concentration

The bank originated a substantial majority of home mortgage, small business, and small farm loans, by number and dollar volume, within its AAs. Product totals within and outside the CAA are presented in the following table:

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans					Dollar Amount of Loans \$(000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%	#	\$	%	\$	%	\$(000s)
Home Mortgage										
2016	3,766	92.7	297	7.3	4,063	1,197,017	86.0	194,107	14.0	1,391,124
<b>Subtotal</b>	<b>3,766</b>	<b>92.7</b>	<b>297</b>	<b>7.3</b>	<b>4,063</b>	<b>1,197,017</b>	<b>86.0</b>	<b>194,107</b>	<b>14.0</b>	<b>1,391,124</b>
Small Business										
2016	4,380	93.1	327	6.9	4,707	702,083	85.5	119,257	14.5	821,340
<b>Subtotal</b>	<b>4,380</b>	<b>93.1</b>	<b>327</b>	<b>6.9</b>	<b>4,707</b>	<b>702,083</b>	<b>85.5</b>	<b>119,257</b>	<b>14.5</b>	<b>821,340</b>
Small Farm										
2016	334	79.0	89	21.0	423	63,889	76.1	20,026	23.9	83,915
<b>Subtotal</b>	<b>334</b>	<b>79.0</b>	<b>89</b>	<b>21.0</b>	<b>423</b>	<b>63,889</b>	<b>76.1</b>	<b>20,026</b>	<b>23.9</b>	<b>83,915</b>
<b>Total</b>	<b>8,480</b>	<b>92.2</b>	<b>713</b>	<b>7.8</b>	<b>9,193</b>	<b>1,962,989</b>	<b>85.5</b>	<b>333,390</b>	<b>14.5</b>	<b>2,296,379</b>
Source: Evaluation Period: 1/1/2016 - 12/31/2016										
Due to rounding, totals may not equal 100.0										

At 92.7 percent by number of loans and 86.0 percent by dollar, BB originated a substantial majority of home mortgage loans within its AAs over the review period. At 93.1 percent by number and 85.5 percent by volume, the bank also originated a substantial majority of small business loans with its AAs. Lastly, for small farms loans, the bank originated a majority of loans within its AAs at 79.0 percent by volume and 76.1 percent by dollar. The AA concentration performance is only discussed in this section of the evaluation, as the various states and AAs are combined to determine the overall AA concentration.

### Geographic Distribution

The geographic distribution of loans reflects adequate penetration throughout the AAs. The bank's performance varied across the AAs; however, the bank's percentage of lending in LMI CTs was generally comparable to the applicable aggregate and demographic data. Refer to each respective full-scope analysis for further details.

### Borrower Profile

The distribution of borrowers reflects adequate penetration among retail customers of different income levels and businesses and farms of different revenue sizes. The bank's performance varied across the AAs and by loan type; however, the bank's performance was generally comparable to the applicable aggregate and demographic data. Refer to each respective full-scope analysis for further details.

## **Community Development Lending**

BB made a relatively high level of CD loans. The bank funded 84 CD loans totaling \$257.4 million since the last evaluation. The dollar volume of CD loans increased from the previous evaluation when the bank originated 79 loans totaling \$145.7 million. CD loans account for 3.4 percent of average total net loans and 2.7 percent of average total assets, as of September 30, 2017. These percentages compare favorably when compared to other institutions that are rated as having a high level of CD loans. The bank's CD lending by state and MS AA is detailed in the following table:

<b>Community Development Lending</b>										
<b>Rated Area</b>	<b>Affordable Housing</b>		<b>Community Services</b>		<b>Economic Development</b>		<b>Revitalize or Stabilize</b>		<b>Totals</b>	
	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>
Washington	52	175,155	4	10,440	2	3,598	0	0	58	189,193
California	5	13,470	2	2,395	1	1,142	0	0	8	17,007
Oregon	5	5,504	1	25	0	0	0	0	6	5,529
Idaho	2	900	0	0	0	0	0	0	2	900
Utah	1	5,000	0	0	0	0	0	0	1	5,000
PVH MS	5	20,940	0	0	0	0	0	0	5	20,940
Lewiston MS	0	0	0	0	0	0	0	0	0	0
Regional	4	18,835	0	0	0	0	0	0	4	18,835
<b>Total</b>	<b>74</b>	<b>239,804</b>	<b>7</b>	<b>12,860</b>	<b>3</b>	<b>4,740</b>	<b>0</b>	<b>0</b>	<b>84</b>	<b>257,404</b>
<i>Source: Bank Records</i>										

With the exception of the Lewiston MS AA, the bank was able to penetrate every rated area. The majority of the CD loans were directed toward affordable housing, demonstrating the bank's responsiveness to meeting a credit need identified by community contacts. By number of originations, 88.1 percent were allocated to affordable housing, 8.3 percent to community services, and approximately 3.6 percent for economic development. By dollar volume, 93.2 percent were allocated to affordable housing, 5.0 percent to community services, and 1.8 percent to economic development. Refer to each respective full-scope section for specific examples on BB's CD loans.

## **Innovative or Flexible Lending Practices**

BB makes use of innovative or flexible lending programs to help meet the credit needs of LMI people and small businesses and farms. The innovative and flexible lending products and programs are available at all of the bank's offices; therefore, this criterion is not repeated within the various states and AAs.

The bank continues to offer an array of flexible loan products and programs that serve the needs of LMI borrowers, small businesses, and small farms. The bank has also developed two new loan products geared toward providing affordable housing to LMI borrowers. The table below presents the bank's innovative and/or flexible loan products and programs:

Innovative or Flexible Lending Programs				
Type of Program	2016		2017	
	#	\$(000s)	#	\$(000s)
Banner Bank Affordable Mortgage Program	0	0	30	4,887
Banner Bank Affordable Mortgage Down Payment Assistance	0	0	18	63
LIFT Down Payment Assistance	0	0	1	280
Washington State Housing Finance Commission	49	512	33	1,046
Oregon State Housing and Community Services Bond Program	96	18,396	111	23,490
Federal Home Loan Bank of Seattle - HomeStart Program	20	117	33	293
Farm Services Agency Government Guaranteed	13	5,013	7	2,965
SBA Loans	363	43,301	390	46,666
Network for Affordable Housing	16	581	7	377
Washington Community Reinvestment Association	3	614	4	230
Rocky Mountain Community Reinvestment Corporation	5	70	11	201
Idaho Community Reinvestment Corporation	1	31	2	1,466
Federal Home Loan Bank of Des Moines Affordable Housing Program	3	1,300	0	0
California Housing Finance Agency	0	0	3	167
Source: Bank Records, *Terms are defined following the table.				

### Banner Bank Affordable Mortgage Program

The program provides a 97.0 percent fixed rate portfolio loan program with flexible credit guidelines, flexible cash-to-close, and no cash reserve requirements. The program can be paired with the bank's Affordable Mortgage Down Payment Assistance (DPA) and/or other DPAs to provide up to 105.0 percent Combined Loan-to-Value (CLTV) ratio. In 2017, BB originated 30 loans totaling to \$4.8 million during the evaluation period.

### Banner Bank Affordable Mortgage Down Payment Assistance

The 2nd mortgage DPA program is a 30 year note with no interest. Requirement of repayment upon sale is only made from net sales proceeds. This program was introduced on June 6, 2017, and can be paired with BB's Affordable Mortgage Program. These two programs combined offer more flexible lending options towards LMI families. In 2017, BB originated 18 loans totaling to \$62,000.

### LIFT Down Payment Assistance

The LIFT DPA program is a three-year forgivable loan program for owner-occupied properties. As long as the borrower resides in the home, the loan will be forgiven at a prorated amount each year on the anniversary date of settlement. If the house is no longer a principal residence or the

property is transferred, repayment of the balance of funds will be immediately due. Under the LIFT DPA program, BB originated only 1 loan, totaling \$279,600, in 2017.

#### Washington State Housing Finance Commission

The Washington State Housing Finance Commission (WSHFC) administers and supports the House Key State Bond Loan Program through the use of bonds as authorized by the State of Washington. In addition to other requirements, the House Key program requires that a buyer must earn 80.0 percent or less of the area's median income adjusted for family size. The House Key Plus program is offered to qualified LMI families to provide down payment assistance. This program is subject to the same income restrictions as noted above. BB originated 82 loans, totaling \$1.6 million, under the House Key and House Key Plus programs during the evaluation period.

#### Oregon State Housing and Community Services Bond Program

The Oregon State Housing and Community Services Bond Program (OHCS) helps LMI borrowers purchase first homes by providing below market rate financing and cash assistance through the Residential Loan Program, also known as the Oregon Bond Loan. This program helps qualified families increase their home purchasing capability and lower their monthly payments. Under this program, BB originated 96 loans totaling to \$18.4 million in 2016 and 111 loans amounting to \$23.4 million in 2017. Collectively, BB extended 207 loans for a grand total of \$41.8 million during the evaluation period.

#### Federal Home Loan Bank of Seattle – HomeStart Program

HomeStart has several programs that assist LMI individuals with securing and retaining housing. The programs include down payment assistance to LMI families in Washington, California, Oregon, Idaho, and Utah. BB extended 20 loans totaling \$117,000 in 2016, and 33 loans amounting to \$293,000 for 2017.

#### Farm Services Agency Government Guaranteed

Farm Services Agency (FSA)-guaranteed loans provide lenders with a guarantee of up to 95.0 percent of the loss of principal and interest. The FSA guarantee permits lenders to make agricultural credit available to borrowers that do not meet the lenders normal underwriting criteria. A percentage of guaranteed funds are targeted to beginning farmers and ranchers and minority applicants. BB extended 14 FSA loans totaling \$5.0 million in 2016, and 7 FSA loans amounting to \$2.9 million for 2017.

#### SBA Loans

The Small Business Administration (SBA) offers programs that include financial and federal contract procurement and management assistance, as well as specialized outreach to women, minorities, and armed forces. BB offers SBA-guaranteed commercial loans to small companies that would not otherwise qualify for bank loans. During the evaluation period, the bank

extended 753 SBA loans amounting to \$90.0 million. This total is comprised of 363 SBA loans totaling \$43.3 million in 2016, and 390 SBA loans totaling \$46.7 million in 2017.

#### Network for Affordable Housing

Network for Affordable Housing is a statewide non-profit corporation providing financing and technical assistance for affordable housing development in the State of Oregon. The program strengthens LMI communities through flexible financing solutions to expand and preserve affordable housing in Oregon. BB originated 23 loans amounting to \$958,300 under this program during the evaluation period.

#### Washington Community Reinvestment Association

The Washington Community Reinvestment Association loan consortium supports affordable housing within the State of Washington. Lending programs provide long-term financing to support the creation and preservation of low-income and special-needs housing, as well as real estate based economic development projects in all parts of Washington. Under this loan consortium, BB originated 3 loans totaling \$613,500 in 2016, and 4 loans totaling \$229,500 in 2017.

#### Rocky Mountain Community Reinvestment Corporation

Rocky Mountain Community Reinvestment Corporation is a non-profit, multi-financial lending consortium that is comprised of member banks. The organization offers flexible financing for affordable housing for LMI households primarily residing in Utah. During the review period, BB extended 16 loans amounting to \$270,200.

#### Idaho Community Reinvestment Corporation

Idaho Community Reinvestment Corporation is a non-profit lending consortium providing permanent loan financing for affordable housing projects located throughout the State of Idaho. Funding for these loans is provided by borrowings from member banks. During the review period, BB extended 3 loans totaling \$1.5 million under this consortium.

#### Federal Home Loan Bank of Des Moines Affordable Housing Program

The Competitive Affordable Housing Program is one of the nation's largest sources of grants for affordable housing projects. This program encourages partnerships between member banks of the Federal Home Loan Bank (FHLB) of Des Moines and local housing providers to secure funds for the purchase, construction, or rehabilitation of affordable homeownership or rental housing units. In 2016, BB originated 3 loans under this program amounting to \$1.3 million.

#### California Housing Finance Agency

The California Housing Finance Agency supports the needs of renters and homebuyers by providing financing and programs so more LMI Californians have a place to call home. The



bank became an approved lender in the third-quarter of 2017. Grants are available to sponsors including non-profits, governments, housing authorities, and other qualifying organizations. In 2017, BB originated 3 loans totaling \$166,700 under this program.

## **INVESTMENT TEST**

BB is rated “High Satisfactory” in the investment test. Performance differs by state and MS AA and is discussed in detail in the respective analyses. When arriving at the overall Investment Test rating, BB’s level of CD investments and donations received the most weight.

For an institution of this size and capacity, BB made a significant level of qualified CD investments and grants, occasionally in a leadership position, particularly those not routinely provided by private investors. BB exhibits good responsiveness to credit and CD needs. The institution occasionally uses innovative and/or complex investments to support CD initiatives.

### **Investment Activity**

The bank provides a significant level of investments and donations. The combined CD investments (new and prior-period) and grants and donations total approximately \$137.3 million. BB invested approximately \$76.1 million in new qualified investments, as well as \$1.3 million in qualified grants and donations during the review period. The bank also maintains approximately \$59.8 million in prior-period qualified CD investments.

Total qualified investments represent 1.4 percent of total average assets and 10.1 percent of total average securities as of the September 30, 2017 Call Report. This level of investments compares favorably to other lenders rated as having a significant level of investments. The volume of CD investments increased commensurate with the institution’s growth during the review period. Total qualified investments and donations increased 65.9 percent by dollar volume since the prior PE, going from approximately \$82.6 million to \$137.3 million. The following table shows a breakdown of qualified investments and donations activity by state and MS AA and CD type:

Qualified Investments										
Rated Area	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
<b>Prior Period</b>	<b>47</b>	<b>26,271</b>	<b>52</b>	<b>31,005</b>	<b>4</b>	<b>1,895</b>	<b>1</b>	<b>666</b>	<b>104</b>	<b>59,837</b>
Washington	27	19,209	21	13,785	0	0	0	0	48	32,994
California	12	11,024	8	4,190	0	0	0	0	20	15,214
Oregon	31	10,923	0	0	0	0	0	0	31	10,923
Idaho	5	5,739	1	500	0	0	0	0	6	6,239
Utah	4	5,579	1	400	0	0	0	0	5	5,979
PVH MS	3	4,477	0	0	0	0	0	0	3	4,477
Lewiston MS	2	261	0	0	0	0	0	0	2	261
<b>Subtotal</b>	<b>84</b>	<b>57,212</b>	<b>31</b>	<b>18,875</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>115</b>	<b>76,087</b>
Qualified Grants & Donations	105	475	177	672	42	193	1	1	325	1,341
<b>Total</b>	<b>236</b>	<b>83,958</b>	<b>260</b>	<b>50,552</b>	<b>46</b>	<b>2,088</b>	<b>2</b>	<b>667</b>	<b>544</b>	<b>137,265</b>

*Source: Bank Records*

The bank's qualified investments and donations address affordable housing, community services, economic development, and revitalization and stabilization aspects of CD. Refer to each respective full-scope section for specific examples on BB's investments and donations.

### **Responsiveness to Credit and Community Development Needs**

BB exhibits good responsiveness to credit and CD needs. The bank's emphasis on affordable housing investments is reflective of a need for more affordable housing in the CAA, a primary need identified by community contacts.

### **Innovativeness or Complexity of Qualified Investments**

BB occasionally uses innovative and/or complex investments to support CD initiatives. The bank's qualified investments are useful and help promote CD; however, most are not innovative as a majority of the bank's investments are bonds or mortgage-backed securities (MBS).

## **SERVICE TEST**

The Service Test is rated "High Satisfactory," considering the weighting factors and performance context information relative to each State and MS AA.

BB's delivery and accessibility of retail banking services is good. During the review period, the bank provided a relatively high level of CD services.

The Service Test evaluates an institution's record of helping to meet the credit needs of its AAs by analyzing both the availability and effectiveness of the institution's systems for delivering retail banking services, and the extent and innovativeness of its CD services. When arriving at an overall Service Test rating, BB's CD services received the most weight, followed by the accessibility of delivery systems, changes in branch locations, and reasonableness of branch hours and services.

## **Retail Banking Services**

The following are specific comments relating to the bank's performance under the retail banking services component of the Service Test.

### *Accessibility of Delivery Systems*

Delivery systems are accessible to essentially all portions of the institution's AAs. The bank operates 182 branches in 5 states and in 2 MS MSAs. The table below details the bank's branch structure and ATM network within the CAA by CT income category:

<b>Branch Structure – Combined Assessment Area</b>						
<b>Branch and Automated Teller Machine Distribution</b>	<b>Census Tract Income Level</b>					
	<b>Low</b>	<b>Moderate</b>	<b>Middle</b>	<b>Upper</b>	<b>NA</b>	<b>Total</b>
Number of Branches	10	39	96	34	3	182
Percentage of Branches	5.5	21.4	52.7	18.7	1.7	100.0
Number of ATMs	8	40	89	28	3	168
Percentage of ATMs	4.8	23.8	53.0	16.7	1.8	100.0
<b>Comparisons</b>						
Percentage of Branches - All Institutions	6.8	23.3	38.0	31.5	0.4	100.0
Percentage of Households	5.7	23.8	37.4	32.9	0.2	100.0
Percentage of Families	5.4	23.6	37.5	33.5	0.0	100.0
Percentage of Businesses	4.8	19.8	34.0	40.1	1.3	100.0
<i>Source: 2015 ACS U.S. Census and 2016 D&amp;B Data, and 2016 Peer Branch Data</i> <i>Due to rounding, totals may not equal 100.0</i> <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

As shown in the table, BB operates 10 branches in low-income CTs, representing 5.5 percent of the total branch offices. This percentage is slightly below that of other financial institutions, but is similar to the demographics in the CAA. The peer branch distribution is based on the 2010 U.S. Census CT income classifications, while BB branch distribution is based on the 2015 ACS Survey CT classifications. Therefore, the most relevant comparison to make against BB's branch distribution is the 2015 ACS demographics. BB also operates 39 branches in moderate-income CTs representing 21.4 percent of the total branch offices. This is below the percentage of households, families, and businesses but not to an unreasonable degree. Overall, the bank's branches are accessible across all geographies, including LMI. Refer to each AA analysis for further details regarding accessibility of delivery systems.

In addition to brick-and-mortar locations, BB offers a variety of alternative methods for customers to access banking products and services. The bank operates 168 ATMs throughout the CAA. Most ATMs dispense cash and accept deposits, with the exception of 43 ATMs that only allow withdrawals. Drive-up services are available at 129 branch offices. The bank also offers various other means for customers to access account information. The bank offers all customers free access to online and mobile banking, allowing customers to check balances, transfer funds, and pay bills. Lastly, the bank operates 87 loan production offices within the CAA, offering a variety of loan products.

### *Changes in Branch Locations*

To the extent changes were made, the bank's opening and closing of branches has not adversely affected the accessibility of its delivery systems, particularly in LMI geographies and/or to LMI individuals. BB closed 19 branches during the review period. Of the 19 branches closed, 17 permanently closed due to consolidation and 2 relocated to a different part of the same city. Additionally, the updated 2015 ACS Survey data affected the CT income classification for 52 of the bank's branches. Refer to comments in the individual AA sections for specific details on changes in branch locations.

### *Reasonableness of Business Hours and Services*

Services and business hours do not vary in a way that inconveniences certain portions of the CAA, particularly LMI geographies and/or LMI individuals. Branch hours are convenient and generally reflect the needs of the local communities that they serve. Many branches operate from 9:00 a.m. to 5:00 p.m. Monday through Friday and over half the bank's branches offer extended hours to 6:00 p.m. With a few exceptions, the bank generally does not offer Saturday hours. However, the six branches that offer Saturday hours include branches in rural areas or moderate-income CTs. Additionally, 129 of the bank's branches, or 70.8 percent, offer drive-up window services with hours similar to the branch lobby hours.

### **Community Development Services**

BB provides a relatively high level of CD services. Examiners noted that the bank provided approximately 5,081 hours of CD services during the evaluation period. This is a slight decline from the 5,204 hours provided during the prior evaluation period. However, the current review period is 10 months shorter than the last evaluation and the number and qualitative aspects of qualified services provided compares favorably to similarly-situated institutions in BB's market. Hours by state and MS AA and CD category are detailed in the following table:

Community Development Services										
Rated Area	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	Hours	#	Hours	#	Hours	#	Hours	#	\$(000s)
Washington	191	463	503	1203	40	233	0	0	734	1,899
California	36	80	131	591	36	157	0	0	203	828
Oregon	61	210	280	828	79	440	0	0	420	1,478
Idaho	41	126	113	203	1	3	0	0	155	332
Utah	13	68	82	190	10	33	0	0	105	291
PVH MS	8	15	34	89	0	0	0	0	42	104
Lewiston MS	1	3	20	115	10	31	0	0	31	149
<b>Total</b>	<b>351</b>	<b>965</b>	<b>1163</b>	<b>3219</b>	<b>176</b>	<b>897</b>	<b>0</b>	<b>0</b>	<b>1,690</b>	<b>5,081</b>
Source: Bank Records										

The bank's CD services address affordable housing, community services, and economic development. Refer to each respective full-scope section for specific examples on BB's CD services.

## **DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

The bank's compliance with the laws relating to discrimination and other illegal credit practices was reviewed. No evidence of discriminatory or other illegal credit practices was identified.

### **WASHINGTON**

**CRA RATING FOR WASHINGTON: Satisfactory**

**The Lending Test is rated: High Satisfactory**

**The Investment Test is rated: Outstanding**

**The Service Test is rated: High Satisfactory**

### **SCOPE OF EVALUATION**

Examiners conducted a full-scope evaluation of the bank's performance in the Puget Sound AA and Spokane AA and limited-scope evaluations for the Bellingham, Central Washington, Tri-Cities, Walla Walla, Washington Non-MSA, and Yakima AAs.

The evaluation focused on small business and HMDA lending. Small farm lending was not included for this rated area as it was too nominal to generate any meaningful conclusions. CD lending, investments, and retail and CD services were also reviewed. Loans originated and reported pursuant to CRA data collection requirements for 2016 were included in the review. Aggregate lending data used in the analysis is for 2016. Information from recently completed community contacts in these AAs was also reviewed and considered.

### **DESCRIPTION OF INSTITUTION'S OPERATIONS IN WASHINGTON**

A majority of the bank's operations are in Washington. BB operates 79 branches in 8 AAs within 19 counties in the State of Washington. Refer to the service test discussion for details regarding bank operations. Details regarding the MSAs and counties comprising the eight AAs are contained in the bankwide tables.

#### **Economic and Demographic Data**

The following table details the number and percentage of CTs, households, owner-occupied housing units, and businesses by CT income level according to the 2010 U.S. Census, 2015 ACS Census, and 2017 data from D&B.

Demographic Information of the Assessment Area						
Assessment Area: State of Washington						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	1,139	4.4	22.1	45.6	26.7	1.2
Population by Geography	5,645,486	4.4	22.4	45.8	27.1	0.3
Housing Units by Geography	2,339,695	4.2	21.7	46.1	27.7	0.2
Owner-Occupied Units by Geography	1,323,281	1.9	16.8	48.7	32.6	0.0
Occupied Rental Units by Geography	827,244	8.0	29.5	41.2	20.8	0.5
Vacant Units by Geography	189,170	4.2	22.0	49.5	24.0	0.4
Businesses by Geography	372,416	4.7	20.0	42.5	32.2	0.6
Farms by Geography	14,166	1.8	13.8	57.3	27.0	0.1
Family Distribution by Income Level	1,379,012	20.9	17.6	21.0	40.5	0.0
Household Distribution by Income Level	2,150,525	23.7	16.3	18.2	41.8	0.0
Median Family Income MSA - #13380 Bellingham, WA MSA	\$68,376		Median Housing Value			\$299,797
Median Family Income MSA - #14740 Bremerton-Silverdale, WA MSA	\$75,652		Median Gross Rent			\$1,081
Median Family Income MSA - #28420 Kennewick-Richland, WA MSA	\$66,500		Families Below Poverty Level			8.7%
Median Family Income MSA - #34580 Mount Vernon-Anacortes, WA MSA	\$65,272					
Median Family Income MSA - #42644 Seattle-Bellevue-Everett, WA MD	\$92,317					
Median Family Income MSA - #44060 Spokane-Spokane Valley, WA MSA	\$61,864					
Median Family Income MSA - #45104 Tacoma-Lakewood, WA MD	\$71,304					
Median Family Income MSA - #47460 Walla Walla, WA MSA	\$61,619					
Median Family Income MSA - #48300 Wenatchee, WA MSA	\$60,276					
Median Family Income MSA - #49420 Yakima, WA MSA	\$49,907					
Median Family Income Non-MSAs – WA	\$58,513					
Source: 2010 U.S. Census & 2015 ACS Census and 2017 D&B Data Due to rounding, totals may not equal 100.0 (*) The NA category consists of geographies that have not been assigned an income classification.						

The labor market in the State of Washington is rapidly approaching full employment as job additions in informatics, computer design, and software publishing thin the pool of available labor. Housing remains a problem for certain portions of the state, which has caused house

prices to rise at double-digit rates in some areas. Top employers in the AA include Boeing, Joint Base Lewis McChord, and Navy Region Northwest.

The following table contains unemployment statistics for the State of Washington and each individual AA:

Unemployment Rates: Washington		
Assessment Area	2016	November 2017
	%	%
Puget Sound	5.5	4.5
Spokane	6.3	4.6
Bellingham	5.8	4.3
Central Washington	6.9	4.8
Tri-Cities	7.7	5.2
Walla Walla	6.2	4.2
Washington Non-MSA	6.1	4.6
Yakima	9.8	5.8
State	5.1	4.4
National Average	4.7	4.1
Source: Bureau of Labor Statistics		

The above table generally indicates improved unemployment rates in the Washington AAs in relation to the rest of the state and compared to the national average. Factors impacting the economic conditions in each AA are discussed in detail in each full-scope analysis.

### **Competition**

The Washington AAs provide a highly competitive market for financial services. According to the FDIC Deposit Market Share data as of June 30, 2017, there were 70 financial institutions operating 1,413 full-service branches within the bank's Washington AAs. Of these institutions, BB ranked 7<sup>th</sup> with a 3.2 percent deposit market share.

There is also significant competition for small business loans. A review of aggregate data for 2016 shows that 155 institutions reported 178,274 small business loans in the bank's Washington AAs. BB ranked 11<sup>th</sup> out of this group of lenders, with a market share of 1.2 percent. The 3 most prominent lenders accounted for 63.1 percent of the total market share.

The Washington AAs are saturated with residential mortgage lenders. BB ranked 28<sup>th</sup> of 757 total lenders and had 0.8 percent of the market share. In 2016, these lenders combined reported 375,431 residential mortgage loans originated or purchased. Three of the most prominent lenders accounted for a total of 17.3 percent of the total market share.

## **Community Contacts**

Examiners reviewed recent community contacts in conjunction with this evaluation that are specific to the bank's Washington AAs. Refer to community contacts under each full-scope AA for details.

## **CONCLUSIONS ON PERFORMANCE CRITERIA IN WASHINGTON**

### **LENDING TEST**

BB is rated "High Satisfactory" in the Lending Test. The performance in the Puget Sound AA and Spokane AA drove the overall state-wide rating, although the performance within each AA was considered.

### **Lending Activity**

Overall, BB's lending levels reflect good responsiveness to the credit needs of the Washington AAs. Both the number and dollar volume of loans originated during the review period, as well as market share and market ranking figures for the primary loan products were analyzed to determine the bank's level of lending relative to the credit needs of the AA. In 2016, BB originated 2,013 small business loans totaling \$331.3 million and 2,007 HMDA loans totaling \$702.8 million. The following table details BB's small business and HMDA loan market ranking for 2016. The institution's deposit market share data is also included for reference.

<b>Small Business Loans, Home Mortgage Disclosure Act Loans, and Deposit Market Share</b>					
<b>Assessment Area</b>	<b>2016 – Small Business</b>		<b>2016 – Home Mortgage Disclosure Act</b>		<b>Deposit Market Share %</b>
	<b>Rank (#)</b>	<b>Market Share %</b>	<b>Rank (#)</b>	<b>Market Share %</b>	
Puget Sound	16 of 138	0.7	65 of 698	0.3	1.3
Spokane	9 of 67	2.4	15 of 400	1.7	9.4
Bellingham	10 of 51	1.2	11 of 277	2.3	6.4
Central Washington	14 of 47	1.6	4 of 235	5.1	4.8
Tri-Cities	7 of 52	3.1	15 of 288	1.8	9.1
Walla Walla	4 of 41	10.0	3 of 170	7.1	51.7
Washington Non-MSA	8 of 51	2.2	12 of 216	2.8	9.0
Yakima	6 of 48	3.6	6 of 229	4.1	16.1
<i>Source: 2016 Small Business and HMDA Market Share Data and June 30, 2017 Summary of Deposits</i>					

The table illustrates a high level of competition in the AA's where BB operates. Overall, BB's market share ranking and percentage is similar to its performance at the last examination, reflecting BB's responsiveness to the small business and residential mortgage credit needs of the Washington AAs.



### **Geographic Distribution**

The geographic distribution of loans reflects good penetration throughout the AAs in the state. The bank's performance varied between the AAs. Refer to the Geographic Distribution section of each AA for specific details.

### **Borrower Profile**

The distribution of borrowers in Washington reflects, given the product lines offered by the bank, good penetration to business customers of different revenue sizes and retail customers of different income levels. The bank's performance varied between the AAs. Refer to the Borrower Profile section of each AA for specific details.

BB exhibits an adequate record of serving the credit needs of the most economically disadvantaged areas of its AAs, including low-income individuals and/or very small businesses. BB provided 111 small business and 37 HMDA loans in low-income CTs during the review period. Additionally, the bank provided 1,047 small business loans to businesses with Gross Annual Revenues (GARs) of \$1.0 million or less and 79 HMDA loans to low-income borrowers.

### **Community Development Lending**

BB made a relatively high level of CD loans in the State of Washington. During this evaluation period, the bank originated 58 CD loans totaling \$189.2 million. This represents 69.0 percent by number and 73.5 percent by dollar volume of the total bank-wide CD loans. The bank's CD performance was greater than the 54 loans totaling approximately \$120.0 million noted at the previous evaluation. The loans addressed affordable housing, community services, and economic development. Refer to the full-scope AAs for further details and notables examples.

### **Innovative and Flexible Lending Practice**

The bank makes use of innovative or flexible lending practices in order to serve the credit needs in its AAs. Refer to the Innovative or Flexible Lending Practices section of this evaluation for additional details regarding these programs.

## **INVESTMENT TEST**

BB is rated "Outstanding" in the Investment Test for the State of Washington. The performance in the Puget Sound and Spokane AAs drove the overall state-wide rating, although the performance within each AA was also considered.

### **Investment Activity**

BB has an excellent level of qualified CD investments and donations, occasionally in a leadership position, particularly those that are not routinely provided by private investors. BB reported 251 qualified investments and donations totaling approximately \$70.2 million during the evaluation period. This is an increase from the \$65.6 million made at the previous

examination. The total amount of new CRA-qualified investments reported was approximately \$32.9 million. The bank also held approximately \$36.7 million in prior period investments and reported approximately \$621,000 in grants and donations in the state. The institution was able to penetrate most of the AAs in the state, and the bank's total investments and donations by dollar amount increased by 6.9 percent since the last examination. Lastly, affordable housing received the majority of the qualified investments with approximately \$36.7 million (figure includes prior period investments still active, as well as donations). Refer to the full-scope AAs for further details and notable examples.

### **Responsiveness to Credit and Community Development Needs**

BB exhibits good responsiveness to credit and CD needs. The bank's emphasis on affordable housing investments is reflective of a need identified by community contacts.

### **Community Development Initiatives**

BB occasionally uses innovative and/or complex investments to support CD initiatives. The bank's qualified investments are useful and help promote CD; however, most are not innovative as a majority of the bank's investments are bonds or MBS.

## **SERVICE TEST**

BB is rated "High Satisfactory" in the Service Test for the State of Washington. The performance in the Puget Sound AA and Spokane AAs drove the overall state-wide rating, although the performance within each AA was considered.

The bank operates 79 full-service branches in the state. Delivery systems are essentially accessible to all portions of the state's AAs. To the extent changes have been made, BB's opening and closing of branches in the state has not adversely affected the accessibility of its delivery systems, particularly in LMI geographies and to LMI individuals. Business hours and services do not vary in a way that inconveniences certain portions of the state's AAs, particularly LMI geographies or individuals. BB has provided a relatively high level CD services in its Washington State AAs.

### **Retail Banking Services**

The following are specific comments relating to the bank's performance under the retail banking services component of the Service Test.

#### *Accessibility of Delivery Systems*

BB's delivery systems are essentially accessible to all portions of the AA. The institution's branches include 2 branches in low- and 20 branches in moderate-income CTs. Refer to the Service Test section of each Washington AA for specific details.

Alternative delivery systems mirror those described under the bankwide conclusions section of this evaluation. Refer to the comments in the overall bankwide Service Test section regarding the discussion of the institution's alternative delivery systems for details.

#### *Changes in Branch Location*

The institution's record of opening and closing branches has not adversely affected the accessibility of its delivery systems, particularly to LMI geographies and/or LMI individuals. Since the last examination, the bank closed 13 branches: 1 in a low-income CT, 5 in moderate-income CTs, 6 in middle-income CTs, and 1 branch in an upper-income CT. Refer to the Service Test section of each Washington AA for specific details.

#### *Reasonableness of Business Hours and Services*

Services do not vary in a way that inconveniences certain portions of the AAs, particularly LMI geographies or individuals. Specific information regarding business hours and services is included in the bankwide performance.

#### **Community Development Services**

BB has provided a relatively high level of CD services in its AAs within the state. Bank records show that employees provided their financial or job-specific expertise and/or technical assistance for 734 CD service activities since the last evaluation, logging a total of 1,899 qualified hours within this state. The bank's activity represents a decrease since the prior evaluation, but still represents a high level. A majority of the bank's assistance was to organizations that provide community services to LMI individuals and families. Other activities targeted affordable housing and economic development. Refer to the full-scope AAs for further details and notable examples.

## **METROPOLITAN AREAS EVALUATED USING FULL-SCOPE EXAMINATION PROCEDURES**

### **DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE PUGET SOUND ASSESSMENT AREA**

BB operates 27 full-service branches in the Puget Sound AA. The Puget Sound AA consists of the contiguous counties of Island, King, Skagit, Pierce, Kitsap, and Snohomish, which are part of the Seattle-Tacoma, WA Combined Statistical Area (CSA). The following sections provide details regarding economic and demographic conditions for the AA and information obtained from community contacts.

## **Economic and Demographic Data**

The following table details the number and percentage of CTs, households, owner-occupied housing units, and businesses by CT income level according to the 2010 U.S. Census, 2015 ACS Census, and 2017 data from D&B.

Demographic Information of the Assessment Area						
Assessment Area: Puget Sound Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	828	5.2	22.0	43.4	28.4	1.1
Population by Geography	4,068,474	5.2	22.3	43.8	28.5	0.2
Housing Units by Geography	1,698,509	5.2	21.8	43.6	29.3	0.1
Owner-Occupied Units by Geography	955,776	2.4	17.0	46.8	33.8	0.0
Occupied Rental Units by Geography	618,932	9.3	29.0	38.9	22.6	0.3
Vacant Units by Geography	123,801	5.8	23.3	42.2	28.5	0.1
Businesses by Geography	282,463	5.5	19.1	39.7	35.3	0.4
Farms by Geography	6,707	3.1	15.7	46.4	34.6	0.1
Family Distribution by Income Level	996,836	20.9	17.6	20.9	40.6	0.0
Household Distribution by Income Level	1,574,708	23.5	16.2	18.3	41.9	0.0
Median Family Income MSA - #14740 Bremerton-Silverdale, WA MSA	\$75,652		Median Housing Value			\$338,442
Median Family Income MSA - #34580 Mount Vernon-Anacortes, WA MSA	\$65,272		Median Gross Rent			\$1,175
Median Family Income MSA - #42644 Seattle-Bellevue-Everett, WA MD	\$92,317		Families Below Poverty Level			7.5%
Median Family Income MSA - #45104 Tacoma-Lakewood, WA MD	\$71,304					
Median Family Income Non-MSAs – WA	\$58,513					
Source: 2010 U.S. Census & 2015 ACS Census and 2017 D&B Data Due to rounding, totals may not equal 100.0 (*) The NA category consists of geographies that have not been assigned an income classification.						

Unemployment rates for the Puget Sound AA of 4.5 percent are generally comparable to the rates for the State of Washington of 4.4 percent and the national average of 4.1 percent. The following sections provide additional economic information specific to each county located in the Puget Sound AA.

### King County

The city of Seattle is the county seat and largest city in the State of Washington. According to Moody's Analytics, Seattle's booming information technology industry has helped offset layoffs in the aerospace industry at Boeing, an aircraft manufacturer and one of the area's largest employers. Microsoft and Amazon are also located in King County and boast a highly trained and educated workforce, and although the area has a relatively high per capita income, housing prices are outpacing income growth. Seattle's tech boom has caused housing prices to rise at a double-digit rate.

### Snohomish County

Snohomish County is located on King County's northern border, with an economy that is closely linked to that of King County. Everett is the largest city and county seat. Aside from the aerospace and high technology industries, the area's economy is also supported with jobs from the state and local government, healthcare, and the military. Boeing and Providence Regional Medical Center are the two largest private employers in the area while the Naval Station Everett and State of Washington are the two largest public employers.

### Skagit County

Skagit County is located to the north of Snohomish County. According to information obtained from the Washington State Employment Security Department, the private sector provides the largest source of nonfarm employment. Retail trade and health and social services contribute the largest employment bases. The county has some heavy industry including oil refineries in Anacortes and a number of manufacturers that support the marine and aerospace industries. Food manufacturing also contributes to the local economy. The resident labor force in Skagit County is seasonal in nature, primarily due to the large and agricultural sector. Shell Puget Sound Refinery, Skagit Valley Hospital, and local government agencies are among the areas largest employers.

### Island County

Island County is located in the Salish Sea in Northwest Washington and is made up of several islands. The two largest are Whidbey and Camano. Island County is the second smallest county in Washington by landmass. According to the Washington State Employment Security Department, the largest employer is the U.S. Naval Air Station in Oak Harbor, the largest city in the county. The naval air station remains a strong economic stabilizing force in Whidbey Island. There is not a strong economic base to provide sufficient employment for the spouses and dependents of those workers; consequently, commuting to nearby counties provides additional jobs for residents. Given that Island County's largest employer is the military; the success of other industries is highly dependent on the employment situation at the air station. Typically, the largest volume of local jobs is related to K-12 education.

## Pierce County

Pierce County has historically been reliant upon jobs provided in association with Joint Base Lewis-McChord, which is located in Tacoma, the county's largest city. The area's largest employers include Joint Base Lewis-McChord, local school districts, MultiCare Health Systems, and Washington State Employees. According to Moody's Analytics, Pierce County is thriving. The jobless rate is at its lowest point since the late 1990s, the height of the Puget Sound's prior tech boom. Wages are rising, and house prices and new residential construction are advancing. Although Pierce County has been unable to replicate neighboring Seattle's tech boom, it has latched onto its momentum as more Seattleites migrate to the area to avoid surging rent and living costs.

## Kitsap County

Kitsap County is the northern end of the Kitsap peninsula positioned between the Olympic Peninsula to the west and King County to the east. It is located between Hood Canal and Admiralty Strait. Because of Kitsap County's geographic configuration, the Washington State Ferry System is an important infrastructure link for Kitsap residents. Kitsap's economy is dependent on public sector Department of Defense jobs. The largest employers include Naval Base Kitsap, Naval Hospital Bremerton, and Puget Sound Naval Shipyard/Intermediate Maintenance Facility.

## **Competition**

The Puget Sound AA is a highly competitive market for financial services. According to the FDIC Deposit Market Share data as of June 30, 2017, there were 57 financial institutions operating 1,013 full-service branches within the Puget Sound AA. Of these institutions, BB ranked 12<sup>th</sup> with 1.3 percent of the deposit market share.

Aggregate data for 2016 revealed that BB's small business market share was 0.7 percent in the Puget Sound AA. The institution ranked 16<sup>th</sup> out of 138 small business lenders that originated a total of 133,553 loans. The top 3 lenders claim 63.7 percent of the total market share, indicating a highly competitive market for small business lending.

In the Puget Sound AA, BB ranked 65<sup>th</sup> of 698 residential mortgage lenders. BB's market share of 0.3 percent is minimal in comparison to the combined market share of 17.7 percent for the top 3 lenders. Aggregate data for 2016 revealed that lenders originated or purchased a total of 291,002 loans. This information indicates a high level of competition for residential mortgage lenders.

## **Community Contacts**

As part of this evaluation, examiners conducted community contacts that focused on products analyzed under the lending test, including small business and residential lending.

One existing community contact was reviewed that works in partnership with the non-profit housing community and housing developers to provide affordable housing options in the AA. In addition, the organization also provides housing repair services free of charge to low-income homeowners. The contact stated that lending for multi-family housing development has come to a halt due to high tax credits and this is hurting developers as well as the community and that there is a need for multi-family housing development for residential mortgages lending for LMI families.

Examiners conducted a community contact with a state agency with a mission to increase employment opportunities for small business contractors and individuals seeking to gain skills through training and apprenticeship on community projects. The contact stated that credit needs include small business loans for small business contractors, particularly for working capital, equipment purchase, and lines of credit. There is a need for financial educational seminars for new small business owners and apprentices.

Examiners reviewed an existing community contact of a small business development organization. The contact identified a significant level of opportunity for small business lending in King County. The contact noted significant competition among lenders, as regional and national banks are heavily invested in lending to small businesses. Overall, the contact stated that financial institutions have been responsive to the credit needs of the community.

### **Credit and Community Development Needs and Opportunities**

Considering information from community contacts, bank management, and demographic and economic data, examiners determined that small business loans are a need in the community. There are also CD opportunities for activities that support affordable housing and economic development.

## **CONCLUSIONS ON PERFORMANCE CRITERIA IN THE PUGET SOUND ASSESSMENT AREA**

### **LENDING TEST**

Loan products analyzed include HMDA loans and small business loans. Small business loans received more weight in arriving at overall conclusions given the loan volume. Small farm lending was not included in the review as it was too nominal to generate any meaningful conclusions.

### **Lending Activity**

BB's lending levels reflect good responsiveness to the Puget Sound AA credit needs. In 2016, the bank originated 944 small business loans totaling \$168.0 million. This ranks the institution 16<sup>th</sup> of 138 lenders reporting CRA small business loan data, with a 0.7 percent market share by number of loans. In regards to HMDA loans, the bank originated 581 loans totaling \$348.8 million in 2016. This ranks the bank 65<sup>th</sup> of 698 lenders reporting HMDA loans, with 0.3 percent market share by number of loans. BB's market share ranking and percentage is similar

to its performance at the last examination, reflecting the bank's responsiveness to the small business and residential mortgage credit needs of the Puget Sound AA.

### **Geographic Distribution**

The bank's geographic distribution of loans reflects good penetration throughout the Puget Sound AA. No conspicuous lending gaps were noted in the geographic distribution of loans. The following sections describe the bank's performance by loan type.

#### *Small Business Lending*

The following table illustrates BB's small business lending record by CT income level compared to the market. The second column presents the distribution of small businesses by CT income level as estimated by D&B.

<b>Geographic Distribution of Small Business Loans</b>				
<b>Assessment Area: Puget Sound Assessment Area</b>				
<b>Tract Income Level</b>	<b>% of Businesses</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>
Low				
2016	4.5	3.6	41	4.3
Moderate				
2016	17.4	15.3	196	20.8
Middle				
2016	45.4	46.4	404	42.8
Upper				
2016	32.6	34.7	303	32.1
Not Available				
2016	0.1	0.0	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>944</b>	<b>100.0</b>
<i>Source: 2016 D&amp;B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0</i>				

BB's distribution of small business loans reflects good penetration throughout the Puget Sound AA, primarily based on the performance in moderate-income geographies. BB's rate of lending in low-income geographies is above the market data and slightly below the D&B data. In moderate-income CTs, the bank's performance was above both the aggregate and the D&B data.

Although the bank's performance is lower than the overall percentage of small businesses in low-income CTs, the bank's performance in LMI CTs exceeds that of the aggregate lending data. The aggregate lending data provides a better comparison of the institution's lending performance because not all businesses may have the financial capability to qualify for bank loans or have a need for credit. Further, the aggregate lending data is a better indicator of the market demand for credit. The bank's performance, relative to the aggregate lending data, reflects that the bank actively provides credit to small businesses.



## Residential Mortgage Loans

The following table details BB's residential mortgage lending distribution by CT income level for the Puget Sound AA compared to the market. The second column provides the distribution of owner-occupied housing units according to the 2010 U.S. Census for demographic reference.

Geographic Distribution of Home Mortgage Loans				
Assessment Area: Puget Sound Assessment Area				
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%
Low				
2016	1.4	1.5	13	2.2
Moderate				
2016	14.8	14.1	78	13.4
Middle				
2016	50.9	51.6	284	48.9
Upper				
2016	32.8	32.9	206	35.5
Not Available				
2016	0.0	0.0	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>581</b>	<b>100.0</b>
Source: 2010 U.S. Census; 1/1/2016 - 12/31/2016 Bank Data, 2016 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0				

BB's distribution of mortgage loans reflects adequate penetration in the Puget Sound AA based on the rates of lending in LMI geographies. At 2.2 percent, the bank's rate of lending in low-income geographies in 2016 was above the aggregate and demographic data. In moderate-income geographies, the bank's performance was below the percentage achieved by the market and demographic data but not to an unreasonable degree. Overall, the bank's performance of penetrating LMI CTs was consistent with both the number of occupied housing units and the aggregate data in LMI CTs. Therefore, the bank's performance is considered reasonable.

## Borrower Profile

The distribution of borrowers reflects, given the product lines offered by the institution, good penetration among businesses of different sizes and retail customers of different income levels. The following sections describe the bank's performance by loan type.

### *Small Business Loans*

The following table details BB's rate of lending to businesses with GARs of \$1 million or less compared to the market. The second column illustrates the distribution of small businesses by revenue level estimated by D&B surveys.

Distribution of Small Business Loans by Gross Annual Revenue Category				
Assessment Area: Puget Sound Assessment Area				
Gross Revenue Level	% of Businesses	Aggregate Performance % of #	#	%
<=\$1,000,000				
2016	86.3	38.8	425	45.0
>1,000,000				
2016	5.1	--	471	49.9
Revenue Not Available				
2016	8.6	--	48	5.1
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>944</b>	<b>100.0</b>
Source: 2016 D&B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data; "--" data not available. Due to rounding, totals may not equal 100.0				

The distribution of borrowers reflects good penetration among business customers of different sizes. The bank originated 45.0 percent of small business loans to businesses with GARs of \$1.0 million or less in 2016. This performance was above the aggregate lending levels of 38.8 percent and below the percent of small businesses of 86.3 percent.

More emphasis is placed on the comparison to aggregate lending data, as it better represents credit demand and lending opportunities within the Puget Sound AA. Overall, lending performance shows that the bank is effectively meeting the credit needs of small businesses.

#### *Residential Mortgage Loans*

The following table details BB's distribution of loans by borrower income level over the review period compared to the market. The percentage of families by income level from the 2010 U.S. Census is included in the second column for demographic reference.

Distribution of Home Mortgage Loans by Borrower Income Level				
Assessment Area: Puget Sound Assessment Area				
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%
Low				
2016	19.8	3.7	12	2.1
Moderate				
2016	17.9	14.3	78	13.4
Middle				
2016	22.3	22.9	122	21.0
Upper				
2016	40.0	44.9	307	52.8
Not Available				
2016	0.0	14.2	62	10.7
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>581</b>	<b>100.0</b>
<i>Source: 2010 U.S. Census; 1/1/2016 - 12/31/2016 Bank Data, 2016 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0</i>				

In the Puget Sound AA, BB's distribution of mortgage loans is adequate based on the percentage of loans to LMI borrowers. In 2016, BB's 2.1 percent rate of lending to low-income borrowers was lower than both the market rate of 3.7 percent and the percentage of families of 19.8 percent. The bank's performance to moderate-income borrowers, at 13.4 percent, was also below the percentage of families of 17.9 percent and slightly below the aggregate performance of 14.3 percent.

Nearly 7.5 percent of AA's families live below the poverty level, which can adversely impact home mortgage lending opportunities for those borrowers. The aggregate lending data provides a better comparison of the bank's lending performance, as not all LMI families have the financial capability to qualify for home mortgage loans. As such, the overall performance reflects adequate penetration throughout the AA.

BB exhibits an adequate record of serving the credit needs of the most economically disadvantaged areas of its AAs, including low-income individuals and very small businesses. BB provided 41 small business and 13 HMDA loans in low-income CTs during the review period. Additionally, the bank provided 425 small business loans to businesses with GARs of \$1.0 million or less and 12 HMDA loans to low-income borrowers.

### **Community Development Lending**

BB originated a relatively high level of CD loans in the AA. The bank originated 25 CD loans totaling approximately \$121.6 million during the evaluation period. This marks a significant increase from the 17 CD loan originations totaling \$45.6 million originated at the prior evaluation. Most of the CD lending during the evaluation period supported affordable housing activities: an identified community need.

Community Development Lending – Puget Sound Assessment Area										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2016	17	54,304	1	3,000	0	0	0	0	18	57,304
YTD 2017	6	61,884	0	0	1	2,418	0	0	7	64,302
<b>Total</b>	<b>23</b>	<b>116,188</b>	<b>1</b>	<b>3,000</b>	<b>1</b>	<b>2,418</b>	<b>0</b>	<b>0</b>	<b>25</b>	<b>121,606</b>

*Source: Bank Records*

The following are notable examples of CD loans extended in the AA during the review period:

- BB originated a \$12.7 million loan to fund renovations on an 80-unit apartment complex. The occupancy will be limited to households whose incomes do not exceed 60 percent of the area median income.
- The bank provided financing for a 50-unit affordable apartment community in Renton, WA. This project will provide housing for formerly homeless and disabled families.
- BB refinanced a \$2.5 million loan for a 57-unit senior housing project in Kenmore, WA. This housing complex will house LMI seniors.

### **Innovative and Flexible Lending**

BB makes use of innovative and flexible lending practices in order to serve the AA credit needs. Refer to the comments in the bankwide section for details.

### **INVESTMENT TEST**

BB has an excellent level of qualified investments and donations in the Puget Sound AA, exhibits good responsiveness to credit and CD needs, and occasionally uses innovative and/or complex investments to support CD initiatives.

### **Investment Activity**

BB has an excellent level of qualified investments and donations in the Puget Sound AA. The combined CD investments, both new and remaining from the prior period, including grants and donations, total approximately \$30.2 million. This total includes new investments of approximately \$12.2 million, donations of \$294,000, and prior period investments of approximately \$17.7 million. This represents approximately 42.2 percent by number and 42.9 percent by dollar of the total volume of investments and donations made within the State of Washington.

The investments and donations helped to support affordable housing, community services, and economic development efforts within the AA. The following table illustrates qualified investments and donations made or held during the review period in the Puget Sound AA.

Qualified Investments – Puget Sound Assessment Area										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior Period	12	11,373	7	5,101	1	1,200	0	0	20	17,674
2016	2	2,920	3	2,505	0	0	0	0	5	5,425
YTD 2017	7	6,740	0	0	0	0	0	0	7	6,740
Subtotal	9	9,660	3	2,505	0	0	0	0	12	12,165
Qualified Grants & Donations	25	119	44	137	8	37	1	1	78	294
Total	46	21,152	54	7,743	9	1,237	1	1	110	30,133
Source: Bank Records										

The following are notable examples of CD investments extended in the AA during the review period:

- BB purchased a \$505,000 general purpose bond for a school district in King County where 55 percent of the students in the school district qualify for free or reduced lunch.
- The bank purchased a \$2.6 million bond to provide funding for an apartment complex for low-income individuals in King County.
- BB purchased a \$243,894 MBS in Snohomish County that will provide affordable housing for LMI individuals.

### **Responsiveness to Credit and Community Development Needs**

BB exhibits good responsiveness to credit and CD needs. The bank's emphasis on affordable housing investments is reflective of a need for more affordable housing in the Puget Sound AA, a community development need identified by community contacts.

### **Community Development Initiatives**

BB occasionally uses innovative and/or complex investments to support CD initiatives. The bank's qualified investments are useful and help promote CD; however, most are not innovative as a majority of the bank's investments are school bonds or MBS.

### **SERVICE TEST**

BB operates 27 branches in the Puget Sound AA. Delivery systems are essentially accessible to all portions of the AA. To the extent changes have been made, BB's opening and closing of branches in the AA has not adversely affected the accessibility of its delivery systems, particularly in LMI geographies and to LMI individuals. Business hours and services do not vary in a way that inconveniences certain portions of the AA, particularly LMI geographies or individuals. BB has provided a relatively high level CD services in the Puget Sound AA.

## **Retail Banking Services**

The following are specific comments relating to the bank's performance under the retail banking services component of the Service Test.

### *Accessibility of Delivery Systems*

BB's delivery systems are accessible to essentially all portions of the Puget Sound AA. The bank operates a network of 27 branch offices and 21 ATMs, including 16 deposit-taking ATMs, within this AA. Overall, the branches are reasonably distributed throughout the AA with 2 branches in low-, 8 in moderate-, 11 in middle-, and 6 in upper-income CTs. The below table illustrates BB's branch structure within the Puget Sound AA as compared to the 2015 ACS Survey data, 2016 peer branch data, and 2017 D&B data:

<b>Branch Structure – Puget Sound Assessment Area</b>						
<b>Branch and Automated Teller Machine Distribution</b>	<b>Census Tract Income Level</b>					
	<b>Low</b>	<b>Moderate</b>	<b>Middle</b>	<b>Upper</b>	<b>NA</b>	<b>Total</b>
Number of Branches	2	8	11	6	0	27
Percentage of Branches	7.4	29.6	40.7	22.3	0.0	100.0
Number of ATMs	1	7	7	6	0	21
Percentage of ATMs	4.8	33.3	33.3	28.6	0.0	100.0
<b>Comparisons</b>						
Percentage of Branches - All Institutions	7.2	24.1	45.4	23.3	0.0	100.0
Percentage of Households	5.1	21.7	43.7	29.4	0.1	100.0
Percentage of Families	4.3	20.6	44.7	30.4	0.0	100.0
Percentage of Businesses	5.5	19.1	39.7	35.3	0.4	100.0
<i>Source: 2015 ACS Survey Data and 2017 D&amp;B Data, and 2016 Peer Branch Data</i>						
<i>Due to rounding, totals may not equal 100.0</i>						
<i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

The peer branch distribution is based on the 2010 U.S. Census CT income classifications, while BB's branch distribution is based on the 2015 ACS Survey CT classifications. Therefore, the most relevant comparison to make against BB's branch distribution is the 2015 ACS demographics. BB operates 2 branches within low-income CTs, representing 7.4 percent of its total branches within the AA. This percentage is comparable to the demographics in the AA. The percentage of branches in moderate-income CTs compares favorably to the percentage of households, families, and businesses in this area. Overall, the bank's branch structure is accessible to essentially all portions of the AA.

Alternative delivery systems mirror those described under the bankwide conclusions section of this evaluation. Refer to the comments in the bankwide Service Test section regarding the discussion of the institution's alternative delivery systems for details.

### *Changes in Branch Location*

To the extent that changes have been made, BB's opening or closing of branch offices has not adversely affected the accessibility of its delivery systems, particularly in LMI geographies and/or to LMI individuals. The bank's branch distribution by CT delineations was affected by

the updated 2015 ACS Survey Data. The net 2015 ACS Survey changes includes the following: one branch moved to a low-income CT, one branch moved to a moderate-income CT, one branch removed from a middle-income CT, and one branch removed from an upper-income CT. There were no net branch differences in the CTs where income was not available.

Since the previous PE, the bank closed three branches within the Puget Sound AA for consolidation purposes. Of the three closed branches, one was located in a moderate-income CT. The bank still serves the area through a nearby branch, which is also located in a moderate-income CT.

### *Reasonableness of Business Hours and Services*

Services and business hours do not vary in a way that inconveniences certain portions of the AA, particularly in LMI CTs. Reasonableness of business hours and services in meeting AA needs mirror those described under the bankwide conclusions of this report. Refer to the comments in the bankwide Service Test section regarding the reasonableness of hours for details.

### **Community Development Services**

BB has provided a relatively high level of CD services in the Puget Sound AA. Bank records show that employees provided their financial or job-specific expertise for 259 CD service activities, logging a total of 868 qualified hours within this AA. The bank's activity is a decrease since the prior evaluation but still represents a high level. A majority of the bank's assistance was to organizations that provide community services to LMI individuals and families. Other activities targeted affordable housing and economic development. Hours by category in the Puget Sound AA are detailed in the following table:

<b>Community Development Services – Puget Sound Assessment Area</b>										
<b>Activity Year</b>	<b>Affordable Housing</b>		<b>Community Services</b>		<b>Economic Development</b>		<b>Revitalize or Stabilize</b>		<b>Totals</b>	
	<b>#</b>	<b>Hours</b>	<b>#</b>	<b>Hours</b>	<b>#</b>	<b>Hours</b>	<b>#</b>	<b>Hours</b>	<b>#</b>	<b>Hours</b>
2016	38	80	124	398	15	144	0	0	177	622
YTD 2017	10	22	64	181	8	43	0	0	82	246
<b>Total</b>	48	102	188	579	23	187	0	0	259	868
<i>Source: Bank Records</i>										

The following are notable examples of CD services provided in the AA during the review period:

- Several bank employees provide job-specific expertise to an organization that offers professional counseling, education, and support services to LMI individuals.
- An employee taught first-time homebuyer classes at an organization whose mission is dedicated to increasing housing access and affordability in King County.

- An employee is a Board member for a non-profit organization in Whatcom County that provides funding for new home construction for LMI families.

## METROPOLITAN AREAS EVALUATED USING FULL-SCOPE EXAMINATION PROCEDURES

### DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE SPOKANE ASSESSMENT AREA

BB operates 17 full-service branches in the Spokane AA. The Spokane AA consists of the contiguous counties of Spokane and Stevens, which are part of the Spokane-Spokane Valley, WA MSA. The following sections provide details regarding economic and demographic conditions for the AA and information obtained from community contacts.

#### Economic and Demographic Data

The following table details the number and percentage of CTs, households, owner-occupied housing units, and businesses by CT income level according to the 2010 U.S. Census, 2015 ACS Census, and 2017 data from D&B.

Demographic Information of the Assessment Area						
Assessment Area: Spokane Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	117	0.9	29.1	47.0	22.2	0.9
Population by Geography	524,380	0.6	27.0	43.6	27.9	0.8
Housing Units by Geography	226,646	0.5	28.4	43.5	26.4	1.2
Owner-Occupied Units by Geography	132,361	0.1	20.7	45.9	33.0	0.3
Occupied Rental Units by Geography	74,789	1.3	39.8	39.7	16.5	2.6
Vacant Units by Geography	19,496	0.5	37.1	41.5	18.7	2.1
Businesses by Geography	31,855	3.1	32.5	39.0	24.6	0.8
Farms by Geography	1,402	0.6	17.8	49.7	31.9	0.0
Family Distribution by Income Level	132,039	20.7	17.1	22.1	40.1	0.0
Household Distribution by Income Level	207,150	24.4	16.5	17.3	41.8	0.0
Median Family Income MSA - 44060 Spokane-Spokane Valley, WA MSA	\$61,864		Median Housing Value			\$189,335
		Median Gross Rent				\$779
		Families Below Poverty Level				10.5%
Source: 2010 U.S. Census & 2015 ACS Census and 2017 D&B Data Due to rounding, totals may not equal 100.0 (* ) The NA category consists of geographies that have not been assigned an income classification.						

The unemployment rate for Spokane in November 2017 was 4.6 percent, an improvement from the 6.3 percent rate reported in 2016. Specific data for unemployment rates for the region is provided in the State of Washington analysis. Four major economic drivers within the Spokane



AA include the following: education and health services, government, retail, and professional and business services. The four biggest employers are Fairchild AFB, Providence Health Care, Kalispell Tribal Economic Authority, and Wal-Mart Stores Inc.

According to Moody's Analytics, the Spokane AA's inability to retain college graduates limits its growth potential. In this home of Eastern Washington and Gonzaga Universities, firms have a deep pool of homegrown talent to draw from. However, skilled youth routinely seek opportunities in other cities like Portland and Seattle. Per capita income in the Spokane AA is almost 25 percent lower than statewide.

### **Competition**

The Spokane AA is a moderately competitive market for financial services. According to the FDIC Deposit Market Share data as of June 30, 2017, there were 18 financial institutions operating 118 full-service branches within the bank's Spokane AA. Of these institutions, BB ranked 4<sup>th</sup> with a 9.4 percent deposit market share.

Aggregate data for 2016 revealed that BB's small business market share was 2.4 percent in the Spokane AA. The institution ranked 9<sup>th</sup> out of 67 small business lenders that originated a total of 14,837 loans. The top 3 lenders claim 63.2 percent of the total market share, indicating a moderately competitive market for small business lending.

In the Spokane AA, BB ranked 15<sup>th</sup> of 400 residential mortgage lenders. BB's market share of 1.7 percent is minimal in comparison to the combined market share of 17.1 percent for the top 3 lenders. Aggregate data for 2016 revealed that lenders originated or purchased a total of 31,258 loans. This information indicates a high level of competition for residential mortgage lenders.

### **Community Contacts**

As part of this evaluation, examiners conducted community contacts that focused on each product analyzed under the lending test, including small business and residential lending.

Examiners conducted a community contact with a small business economic development organization. The contact stated business expansion is slowly progressing, with many baby boomers selling their businesses; therefore, there is an increasing need for small business loans and education, particularly for new business owners.

Examiners reviewed an existing community contact with a community-based affordable housing organization that assists very low-income individuals with building affordable housing and obtaining mortgages. The contact stated there is a need for additional affordable housing programs for LMI individuals and partnering with non-profits.

### **Credit and Community Development Needs and Opportunities**

Considering information from community contacts, bank management, and demographic and economic data, examiners determined that small business loans are a credit need in the Spokane

AA. In addition, there is a need for CD activities that support affordable housing and small business education initiatives.

## **CONCLUSIONS ON PERFORMANCE CRITERIA IN THE SPOKANE ASSESSMENT AREA**

### **LENDING TEST**

Loan products analyzed include HMDA loans and small business loans. Equal weight was placed on the bank's small business and HMDA lending performance in the AA based on loan volume. Small farm lending was not included in the review as it was too nominal to generate any meaningful conclusions.

#### **Lending Activity**

BB's lending levels reflect good responsiveness to the Spokane AA credit needs. In 2016, the bank originated 337 small business loans totaling \$57.4 million. This ranks the institution 9<sup>th</sup> of 67 lenders reporting CRA small business loan data, with a 2.4 percent market share by number of loans. In regards to HMDA loans, the bank originated 366 loans totaling \$84.9 million in 2016. This ranks the bank 15<sup>th</sup> of 400 lenders reporting HMDA loans, with a 1.7 percent market share by number of loans. Although competition in the AA has increased since the last examination, BB's market share ranking and percentage is similar to its ranking and percentage at the last examination.

#### **Geographic Distribution**

The bank's geographic distribution of loans reflects good penetration throughout the Spokane AA. No conspicuous lending gaps were noted in the geographic distribution of loans. The following sections describe the bank's performance by loan type.

##### *Small Business Lending*

The following table illustrates BB's small business lending record by CT income level compared to the market. The second column presents the distribution of small businesses by CT income level as estimated by D&B.

<b>Geographic Distribution of Small Business Loans</b>				
<b>Assessment Area: Spokane Assessment Area</b>				
<b>Tract Income Level</b>	<b>% of Businesses</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>
Low				
2016	9.3	7.5	40	11.9
Moderate				
2016	27.5	20.6	88	26.1
Middle				
2016	33.9	32.4	128	38.0
Upper				
2016	29.3	39.6	81	24.0
Not Available				
2016	0.0	0.0	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>337</b>	<b>100.0</b>
<i>Source: 2016 D&amp;B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0</i>				

BB's distribution of small business loans reflects good penetration throughout the Spokane AA. BB's rate of lending in low-income geographies at 11.9 percent is above the market data of 7.5 percent and the D&B data of 9.3 percent. In moderate-income CTs, the bank's performance, at 26.1 percent, was above the aggregate data of 20.6 percent and slightly below the D&B data of 27.5 percent. Overall, the bank's performance within LMI CTs is good, considering competition, lending opportunities, and the bank's capacity.

### *Residential Mortgage Loans*

The following table details BB's residential mortgage lending distribution by CT income level for the Spokane AA compared to the market. The second column provides the distribution of owner-occupied housing units according to the 2010 U.S. Census for demographic reference.

Geographic Distribution of Home Mortgage Loans				
Assessment Area: Spokane Assessment Area				
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%
Low				
2016	1.7	1.5	7	1.9
Moderate				
2016	19.0	17.5	56	15.3
Middle				
2016	41.8	39.2	138	37.7
Upper				
2016	37.5	41.8	165	45.1
Not Available				
2016	0.0	0.0	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>366</b>	<b>100.0</b>
Source: 2010 U.S. Census; 1/1/2016 - 12/31/2016 Bank Data, 2016 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0				

BB's distribution of mortgage loans reflects adequate penetration in the Spokane AA. At 1.9 percent, the bank's rate of lending in low-income geographies in 2016 was slightly above the aggregate and demographic data. In moderate-income geographies, the bank's penetration at 15.3 percent was below the percentage achieved by the market and the demographic data but not to an unreasonable degree. Overall, the bank's performance of penetrating LMI CTs was consistent with both the number of occupied housing units and the aggregate data in LMI CTs. Therefore, the bank's performance is considered reasonable.

### **Borrower Profile**

The distribution of borrowers reflects, given the product lines offered by the institution, good penetration among businesses of different revenue sizes and retail customers of different income levels. The following sections describe the bank's performance by loan type.

#### *Small Business Loans*

The following table details BB's rate of lending to businesses with GARs of \$1 million or less compared to the market. The second column illustrates the distribution of small businesses by revenue level estimated by the D&B.

Distribution of Small Business Loans by Gross Annual Revenue Category				
Assessment Area: Spokane Assessment Area				
Gross Revenue Level	% of Businesses	Aggregate Performance % of #	#	%
<=\$1,000,000				
2016	83.8	35.8	171	50.7
>1,000,000				
2016	5.6	--	146	43.3
Revenue Not Available				
2016	10.7	--	20	5.9
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>337</b>	<b>100.0</b>
Source: 2016 D&B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data; "--" data not available. Due to rounding, totals may not equal 100.0				

The distribution of borrowers reflects good penetration among business customers of different sizes. The bank originated 50.7 percent of small business loans to businesses with GARs of \$1.0 million or less in 2016. This performance was above the aggregate lending levels of 35.8 percent and below the percent of small businesses of 83.8 percent.

Although the bank's performance is significantly below the D&B data, more emphasis is placed on the comparison to aggregate lending data, as it better represents credit demand and lending opportunities within the AA. Overall, the lending performance shows that the bank is effectively meeting the small business credit needs of the Spokane AA.

#### *Residential Mortgage Loans*

The following table details BB's distribution of loans by borrower income level over the review period compared to the market. The percentage of families by income level from the 2010 U.S. Census is included in the second column for demographic reference.

Distribution of Home Mortgage Loans by Borrower Income Level				
Assessment Area: Spokane Assessment Area				
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%
Low				
2016	19.6	5.1	18	4.9
Moderate				
2016	18.2	16.4	49	13.4
Middle				
2016	21.9	21.4	70	19.1
Upper				
2016	40.3	37.1	203	55.5
Not Available				
2016	0.0	20.1	26	7.1
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>366</b>	<b>100.0</b>
<i>Source: 2010 U.S. Census; 1/1/2016 - 12/31/2016 Bank Data, 2016 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0</i>				

In the Spokane AA, BB's distribution of mortgage loans is adequate based on the percentage of loans to LMI borrowers. In 2016, BB's rate of lending to low-income borrowers, at 4.9 percent, was slightly lower than the aggregate of 5.1 percent and the percentage of families of 19.6 percent. The bank's performance to moderate-income borrowers, at 13.4 percent, was also below the aggregate performance of 16.4 percent and the percentage of families of 18.2 percent.

Nearly 10.5 percent of AA's families live below the poverty level, which can adversely impact home mortgage lending opportunities for those borrowers. The aggregate lending data provides a better comparison of the bank's lending performance as not all LMI families have the financial capability to qualify for home mortgage loans. As such, the overall performance reflects adequate penetration throughout the AA.

BB exhibits an adequate record of serving the credit needs of the most economically disadvantaged areas of its AAs, including low-income individuals and very small businesses. BB provided 40 small business and 7 HMDA loans in low-income CTs during the review period. Additionally, the bank provided 171 small business loans to businesses with GARs of \$1million or less and 18 HMDA loans to low-income borrowers.

### **Community Development Lending**

BB originated a relatively high level of CD loans in the AA. The bank originated 7 CD loans totaling approximately \$23.1 million during the evaluation period. This performance is less than the 7 CD loans for \$35.1 million made during the previous evaluation, but is still considered relatively high. Most of the CD lending originated during the evaluation period supported affordable housing activities, an identified CD need.

Community Development Lending – Spokane Assessment Area										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2016	1	5,900	1	600	1	1,180	0	0	3	7,680
YTD 2017	4	15,395	0	0	0	0	0	0	4	15,395
<b>Total</b>	<b>5</b>	<b>21,295</b>	<b>1</b>	<b>600</b>	<b>1</b>	<b>1,180</b>	<b>0</b>	<b>0</b>	<b>7</b>	<b>23,075</b>

*Source: Bank Records*

The following are notable examples of CD loans extended in the AA during the review period:

- The bank provided a \$20,000 line of credit to an organization that provides essential services to homeless individuals in the Spokane AA.
- BB provided a \$600,000 line of credit to a non-profit organization that assists people with a wide variety of disabilities to become more self-reliant and economically self-sufficient.
- The bank originated a \$5.9 million loan for a 36-unit apartment complex that will provide much needed affordable housing for LMI individuals in City of Spokane.

### **Innovative and Flexible Lending**

BB makes use of innovative and flexible lending practices in order to serve the AA credit needs. Refer to the comments in the bankwide section for details.

### **INVESTMENT TEST**

BB has an excellent level of qualified investments and donations in the Spokane AA, exhibits good responsiveness to credit and CD needs, and occasionally uses innovative and/or complex investments to support CD initiatives.

### **Investment Activity**

BB has an excellent level of qualified investments and donations in the Spokane AA. The combined CD investments, both new and remaining from the prior-period, including grants and donations, total approximately \$14.3 million. This total includes new investments of approximately \$7.0 million, donations of \$128,000, and prior period investments of approximately \$7.2 million.

The investments and donations helped to support affordable housing, community services, economic development, and revitalization/stabilization efforts within the Spokane AA. The following table illustrates qualified investments and donations made or held during the review period in the AA:

Qualified Investments – Spokane Assessment Area										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior Period	3	1,355	9	5,130	0	0	1	666	13	7,151
2016	0	0	3	1,050	0	0	0	0	3	1,050
YTD 2017	9	5,989	0	0	0	0	0	0	9	5,989
Subtotal	9	5,989	3	1,050	0	0	0	0	12	7,039
Qualified Grants & Donations	7	34	21	93	1	1	0	0	29	128
Total	19	7,378	33	6,273	1	1	1	666	54	14,318
Source: Bank Records										

The following are notable examples of CD investments extended in the AA during the review period:

- BB purchased a \$555,000 general purpose bond for a school district in Spokane County where more than 53 percent of the students in the school district qualify for free or reduced lunch.
- The bank provided a \$7,500 donation to a non-profit that helps low-income individuals achieve self-sufficiency.
- BB purchased a \$1.1 million MBS that will provide affordable housing for LMI individuals in Spokane County.

### **Responsiveness to Credit and Community Development Needs**

BB exhibits good responsiveness to credit and CD needs. The bank's emphasis on affordable housing investments is reflective of a need for more affordable housing in the Spokane AA.

### **Community Development Initiatives**

BB occasionally uses innovative and/or complex investments to support CD initiatives. The bank's qualified investments are useful and help promote CD; however, most are not innovative as a majority of the bank's investments are school bonds or MBSs.

### **SERVICE TEST**

BB operates 17 branches in the Spokane AA. Delivery systems are essentially accessible to all portions. To the extent changes have been made, BB's opening and closing of branches in the AA has generally not adversely affected the accessibility of its delivery systems, particularly in LMI geographies and to LMI individuals. Business hours and services do not vary in a way that inconveniences certain portions of the AA, particularly LMI geographies or LMI individuals. BB provided a relatively high level of CD services in the Spokane AA.



## **Retail Banking Services**

The following are specific comments relating to the bank's performance under the retail banking services component of the Service Test.

### *Accessibility of Delivery Systems*

BB's delivery systems are accessible to essentially all portions of the Spokane AA. The bank operates a network of 17 branch offices and 19 ATMs, including 17 deposit-taking ATMs, within this AA. Overall, the branches are reasonably distributed throughout the AA with no branches in low-, six in moderate-, nine in middle-, and two in upper-income CTs. The table below illustrates BB's branch structure within the Spokane AA as compared to 2015 ACS Survey data, 2016 peer branch data, and 2017 D&B data:

<b>Branch Structure – Spokane Assessment Area</b>						
<b>Branch and Automated Teller Machine Distribution</b>	<b>Census Tract Income Level</b>					
	<b>Low</b>	<b>Moderate</b>	<b>Middle</b>	<b>Upper</b>	<b>NA</b>	<b>Total</b>
Number of Branches	0	6	9	2	0	17
Percentage of Branches	0.0	35.3	52.9	11.8	0.0	100.0
Number of ATMs	0	8	9	2	0	19
Percentage of ATMs	0.0	42.1	47.4	10.5	0.0	100.0
<b>Comparisons</b>						
Percentage of Branches - All Institutions	8.2	40.4	31.2	20.2	0.0	100.0
Percentage of Households	0.5	27.6	43.7	27.1	1.1	100.0
Percentage of Families	0.3	23.9	43.9	31.5	0.4	100.0
Percentage of Businesses	3.1	32.5	39.0	24.6	0.8	100.0
<i>Source: 2015 ACS Survey Data and 2017 D&amp;B Data, and 2016 Peer Branch Data</i>						
<i>Due to rounding, totals may not equal 100.0</i>						
<i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

BB operates no branches within low-income CTs in the Spokane AA. However, as a result of the 2015 ACS Survey changes, the Spokane AA now only includes a single low-income CT compared to five low-income CTs prior to the changes. In addition, the Spokane AA added two moderate-income CTs as a net effect of the Survey changes. Refer to the Changes in Branch Locations below for changes in CT designations that include BB branches. Although the percentage of branches in moderate-income CTs trails the penetration of other financial institutions, the bank compares favorably to the percentage of households, families, and businesses in this area. This is the most relevant comparison to make against BB's branch distribution due to the 2015 ACS Survey changes.

Alternative delivery systems mirror those described under the bankwide conclusions section of this evaluation. Refer to the comments in the bankwide Service Test section regarding the discussion of the institution's alternative delivery systems for details.

### *Changes in Branch Location*

To the extent that changes have been made, BB's opening or closing of branch offices has generally not adversely affected the accessibility of its delivery systems, particularly in LMI

geographies and/or to LMI individuals. The bank's branch distribution by CT delineations was affected by the updated 2015 ACS Survey Data. The net 2015 ACS changes include the following: one branch removed from a low-income CT, one branch removed from a moderate-income CT, two branches moved to middle-income CTs. There were no net branch differences in the upper-income CTs or the CTs where income was not available. Since the previous PE, the bank closed three branches for consolidation purposes within the Spokane AA, including two branches in moderate-income CTs. The bank still serves the areas with other branches located nearby.

### *Reasonableness of Business Hours and Services*

Services and business hours do not vary in a way that inconveniences certain portions of the AA, particularly in LMI CTs. Reasonableness of business hours and services in meeting AA needs mirror those described under the bankwide conclusions of this report. Refer to the comments in the bankwide Service Test section regarding the reasonableness of hours for details.

### **Community Development Services**

BB provided a relatively high level of CD services in the Spokane AA. Bank records show that employees provided their financial or job-specific expertise for 129 CD service activities, logging a total of 296 qualified hours within this AA. The bank's activity in this AA represents a decrease since the prior evaluation. However, given the shorter timeframe for this evaluation, the bank's level of CD service activities still represents a high level. A majority of the bank's assistance was to organizations that provide community services to LMI individuals and families. Other activities targeted affordable housing and economic development. Hours by category in the Spokane AA are detailed in the following table:

<b>Community Development Services – Spokane Assessment Area</b>										
<b>Activity Year</b>	<b>Affordable Housing</b>		<b>Community Services</b>		<b>Economic Development</b>		<b>Revitalize or Stabilize</b>		<b>Totals</b>	
	<b>#</b>	<b>Hours</b>	<b>#</b>	<b>Hours</b>	<b>#</b>	<b>Hours</b>	<b>#</b>	<b>Hours</b>	<b>#</b>	<b>Hours</b>
2016	13	38	67	138	4	32	0	0	84	208
YTD 2017	15	32	30	56	0	0	0	0	45	88
<b>Total</b>	<b>28</b>	<b>70</b>	<b>97</b>	<b>194</b>	<b>4</b>	<b>32</b>	<b>0</b>	<b>0</b>	<b>129</b>	<b>296</b>
<i>Source: Bank Records</i>										

The following are notable examples of CD services provided in the AA during the review period:

- Several bank employees provided money smart training to LMI individuals in the Spokane AA.
- An employee used their financial expertise at a non-profit that provides housing for LMI individuals in the AA.

- An employee is on the finance committee for an organization that helps to end poverty and homelessness for women and children in Spokane.

## METROPOLITAN AREAS EVALUATED USING LIMITED-SCOPE EXAMINATION PROCEDURES

### DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE BELLINGHAM ASSESSMENT AREA

BB operates seven full-service branches in the Bellingham AA. The AA consists of Whatcom County, which makes up the Bellingham, WA MSA. This assessment area accounted for 3.1 percent of total loans, 2.9 percent of total deposits, and 3.8 percent of the bank's branches.

#### **Demographic Data**

The following table details the number and percentage of CTs, households, owner-occupied housing units, and businesses by CT income level according to the 2010 U.S. Census, 2015 ACS Census, and 2017 data from D&B.

Demographic Information of the Assessment Area						
Assessment Area: Bellingham Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	34	2.9	5.9	73.5	14.7	2.9
Population by Geography	207,100	3.4	7.5	74.3	14.0	0.8
Housing Units by Geography	91,911	3.5	6.7	74.8	14.0	1.0
Owner-Occupied Units by Geography	50,359	1.0	4.1	77.8	17.0	0.1
Occupied Rental Units by Geography	29,408	8.5	13.1	65.0	10.7	2.6
Vacant Units by Geography	12,144	1.8	1.8	85.8	9.7	0.9
Businesses by Geography	17,362	1.6	5.5	72.7	14.9	5.3
Farms by Geography	942	1.1	2.9	82.6	13.3	0.2
Family Distribution by Income Level	49,259	20.8	17.1	22.5	39.6	0.0
Household Distribution by Income Level	79,767	25.4	15.8	17.0	41.9	0.0
Median Family Income MSA - #13380 Bellingham, WA MSA	\$68,376		Median Housing Value			\$276,439
			Median Gross Rent			\$938
			Families Below Poverty Level			10.1%
Source: 2010 U.S. Census & 2015 ACS Census and 2017 D&B Data						
Due to rounding, totals may not equal 100.0						
(*) The NA category consists of geographies that have not been assigned an income classification.						

The assessment area's median housing value is \$276,439 and the median family income is \$68,376. The unemployment rate for the Bellingham AA for November of 2017 is 4.3 percent, which is below the state average of 4.4 percent. The AAs top employers include St. Joseph Hospital, Lummi Nation, and Western Washington University.

## CONCLUSIONS ON PERFORMANCE CRITERIA IN THE BELLINGHAM ASSESSMENT AREA

### LENDING TEST

The institution's lending performance in the AA is consistent with the institution's lending performance in the state.

#### Geographic Distribution

##### *Small Business Lending*

The following table illustrates BB's small business lending record by CT income level compared to the market. The second column presents the distribution of small businesses by CT income level as estimated by D&B.

Geographic Distribution of Small Business Loans				
Assessment Area: Bellingham Assessment Area				
Tract Income Level	% of Businesses	Aggregate Performance % of #	#	%
Low				
2016	5.7	3.0	3	2.9
Moderate				
2016	21.2	18.5	24	23.3
Middle				
2016	55.1	59.5	66	64.1
Upper				
2016	18.1	19.1	10	9.7
Not Available				
2016	0.0	0.0	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>103</b>	<b>100.0</b>
Source: 2016 D&B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0				

##### *Residential Mortgage Loans*

The following table details BB's residential mortgage lending distribution by CT income level for the AA compared to the market. The second column provides the distribution of owner-occupied housing units according to the 2010 U.S. Census for demographic reference.

Geographic Distribution of Home Mortgage Loans				
Assessment Area: Bellingham Assessment Area				
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%
Low				
2016	0.1	0.3	3	1.6
Moderate				
2016	16.8	17.4	21	10.9
Middle				
2016	60.3	60.9	134	69.4
Upper				
2016	22.8	21.4	35	18.1
Not Available				
2016	0.0	0.0	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>193</b>	<b>100.0</b>
Source: 2010 U.S. Census; 1/1/2016 - 12/31/2016 Bank Data, 2016 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0				

## **Borrower Profile**

### *Small Business Loans*

The following table details BB's rate of lending to businesses with GARs of \$1 million or less compared to the market. The second column illustrates the distribution of small businesses by revenue level estimated by the D&B.

Distribution of Small Business Loans by Gross Annual Revenue Category				
Assessment Area: Bellingham Assessment Area				
Gross Revenue Level	% of Businesses	Aggregate Performance % of #	#	%
<=\$1,000,000				
2016	87.1	35.3	67	65.0
>1,000,000				
2016	5.1	--	30	29.1
Revenue Not Available				
2016	7.8	--	6	5.8
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>103</b>	<b>100.0</b>
Source: 2016 D&B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data; "--" data not available. Due to rounding, totals may not equal 100.0				

## Residential Mortgage Loans

The following table details BB's distribution of loans by borrower income level over the review period compared to the market. The percentage of families by income level from the 2010 U.S. Census is included in the second column for demographic reference.

Distribution of Home Mortgage Loans by Borrower Income Level				
Assessment Area: Bellingham Assessment Area				
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%
Low				
2016	20.2	4.1	21	10.9
Moderate				
2016	17.7	15.3	35	18.1
Middle				
2016	23.8	23.7	45	23.3
Upper				
2016	38.3	44.1	80	41.5
Not Available				
2016	0.0	12.8	12	6.2
Totals				
2016	100.0	100.0	193	100.0
Source: 2010 U.S. Census; 1/1/2016 - 12/31/2016 Bank Data, 2016 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0				

## Community Development Lending

During the review period, the institution originated 2 CD loans totaling \$8.7 million within the Bellingham AA.

## INVESTMENT TEST

BB's Investment Test performance in the Bellingham AA is consistent with the bank's performance in the state. During the review period, the bank held 2 prior period investments totaling \$1.4 million, purchased 5 new investments totaling \$2.2 million, and made \$39,000 in qualified donations in the AA.

## SERVICE TEST

BB service performance in the AA is consistent with the bank's service performance in the state. The bank operates 7 branches comprising 3.8 percent of the bank's total branch network. One branch is located in a moderate-income CT, four branches are located in middle-income CTs, one is located in an upper-income CT, and one is located in an CT in which income information is not available. Products, services, and business hours are similar to those offered in the CAA.

The bank's branch distribution by census tract delineations was affected by the updated 2015 ACS Survey Data. The net 2015 ACS changes include the following: 1 branch removed from a low-income CT and 1 branch added to the NA CTs. There were no net branch differences in moderate-, middle-, and upper-income CTs. Since the previous examination, the bank has not opened or closed any branch locations. During the review period, employees provided 171 CD service hours in the Bellingham AA.

## METROPOLITAN AREAS EVALUATED USING LIMITED-SCOPE EXAMINATION PROCEDURES

### DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE CENTRAL WASHINGTON ASSESSMENT AREA

BB operates two full-service branches in the Central Washington AA. The AA consists of the counties of Chelan and Douglas, which make up the Wenatchee, WA MSA. This AA accounted for 3.4 percent of total loans, 1.4 percent of total deposits, and 1.1 percent of the bank's branches.

#### Demographic Data

The following table details the number and percentage of CTs, households, owner-occupied housing units, and businesses by CT income level according to the 2010 U.S. Census, 2015 ACS Census, and 2017 data from D&B.

Demographic Information of the Assessment Area						
Assessment Area: Central Washington Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	22	0.0	13.6	72.7	13.6	0.0
Population by Geography	113,866	0.0	15.2	78.0	6.9	0.0
Housing Units by Geography	52,098	0.0	12.8	81.2	6.0	0.0
Owner-Occupied Units by Geography	27,968	0.0	12.3	78.4	9.3	0.0
Occupied Rental Units by Geography	13,296	0.0	20.4	76.7	2.9	0.0
Vacant Units by Geography	10,834	0.0	4.9	93.8	1.4	0.0
Businesses by Geography	6,583	0.0	19.4	72.3	8.3	0.0
Farms by Geography	815	0.0	14.1	77.7	8.2	0.0
Family Distribution by Income Level	29,146	19.1	19.1	22.3	39.6	0.0
Household Distribution by Income Level	41,264	22.6	16.8	20.0	40.6	0.0
Median Family Income MSA - #48300 Wenatchee, WA MSA	\$60,276		Median Housing Value			\$238,515
			Median Gross Rent			\$807
			Families Below Poverty Level			9.9%
Source: 2010 U.S. Census & 2015 ACS Census and 2017 D&B Data						
Due to rounding, totals may not equal 100.0						
(*) The NA category consists of geographies that have not been assigned an income classification.						

The assessment area's median housing value is \$238,515, and the median family income is \$60,276. The unemployment rate for the Central Washington AA for November of 2017 is 4.8 percent, which is above the state average of 4.4 percent. The AAs top employers include Confluence Health, Stemilt Growers Inc., and Crunch Pak.

## CONCLUSIONS ON PERFORMANCE CRITERIA IN THE CENTRAL WASHINGTON ASSESSMENT AREA

### LENDING TEST

BB's Lending Test performance in the Central Washington AA is below the bank's performance in the State of Washington. While the performance was considered, it does not change the conclusions for the state.

### Geographic Distribution

#### *Small Business Lending*

The following table illustrates BB's small business lending record by CT income level compared to the market. The second column presents the distribution of small businesses by CT income level as estimated by D&B.

Geographic Distribution of Small Business Loans				
Assessment Area: Central Washington Assessment Area				
Tract Income Level	% of Businesses	Aggregate Performance % of #	#	%
Low				
2016	0.0	0.0	0	0.0
Moderate				
2016	4.7	5.3	6	9.0
Middle				
2016	80.8	74.7	50	74.6
Upper				
2016	14.5	20.0	11	16.4
Not Available				
2016	0.0	0.0	0	0.0
Totals				
2016	100.0	100.0	67	100.0
Source: 2016 D&B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0				



## Residential Mortgage Loans

The following table details BB's residential mortgage lending distribution by CT income level for the AA compared to the market. The second column provides the distribution of owner-occupied housing units according to the 2010 U.S. Census for demographic reference.

Geographic Distribution of Home Mortgage Loans				
Assessment Area: Central Washington Assessment Area				
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%
Low				
2016	0.0	0.0	0	0.0
Moderate				
2016	8.0	5.4	4	1.9
Middle				
2016	71.0	71.1	141	67.8
Upper				
2016	21.0	23.6	63	30.3
Not Available				
2016	0.0	0.0	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>208</b>	<b>100.0</b>
Source: 2010 U.S. Census; 1/1/2016 - 12/31/2016 Bank Data, 2016 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0				

## Borrower Profile

### Small Business Loans

The following table details BB's rate of lending to businesses with GARs of \$1 million or less compared to the market. The second column illustrates the distribution of small businesses by revenue level estimated by the D&B.

Distribution of Small Business Loans by Gross Annual Revenue Category				
Assessment Area: Central Washington Assessment Area				
Gross Revenue Level	% of Businesses	Aggregate Performance % of #	#	%
<=\$1,000,000				
2016	83.4	38.1	42	62.7
>1,000,000				
2016	5.1	--	23	34.3
Revenue Not Available				
2016	11.6	--	2	3.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>67</b>	<b>100.0</b>
Source: 2016 D&B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data; "--" data not available. Due to rounding, totals may not equal 100.0				

### *Residential Mortgage Loans*

The following table details BB's distribution of loans by borrower income level over the review period compared to the market. The percentage of families by income level from the 2010 U.S. Census is included in the second column for demographic reference.

Distribution of Home Mortgage Loans by Borrower Income Level				
Assessment Area: Central Washington Assessment Area				
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%
Low				
2016	18.7	3.7	4	1.9
Moderate				
2016	19.1	13.6	20	9.6
Middle				
2016	22.0	20.6	36	17.3
Upper				
2016	40.3	48.5	145	69.7
Not Available				
2016	0.0	13.5	3	1.4
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>208</b>	<b>100.0</b>
Source: 2010 U.S. Census; 1/1/2016 - 12/31/2016 Bank Data; 2016 HMDA Aggregate Data; "--" data not available. Due to rounding, totals may not equal 100.0				

### **Community Development Lending**

During the review period, BB did not originate any CD loans in the Central Washington AA.

## **INVESTMENT TEST**

BB's Investment Test performance in the Central Washington AA is consistent with the bank's performance in the state. During the review period, the bank held 4 prior period investments totaling \$1.4 million, purchased 2 new investments totaling 423,000, and made \$12,000 in donations in the AA.

## **SERVICE TEST**

BB service performance in the AA is consistent with the service performance in the state. The bank operates 2 branches comprising 1.1 percent of the bank's total branch network. Both branches are located in middle-income CTs. Products, services, and business hours are similar to those offered in the CAA.

The CT income classifications of the bank's branches were affected by the updated 2015 ACS Survey Data; however, the net effect did not change the branch distribution by geography. Since the previous examination, the bank did not open or close any branch locations. During the review period, employees provided 32 CD service hours in the Central Washington AA.

## **METROPOLITAN AREAS EVALUATED USING LIMITED-SCOPE EXAMINATION PROCEDURES**

### **DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE TRI-CITIES ASSESSMENT AREA**

BB operates six full-service branches in the Tri-Cities AA. The AA consists of Benton and Franklins Counties, which make up the Kennewick-Richland, WA MSA. This assessment area accounted for 3.8 percent of total loans, 3.3 percent of total deposits, and 3.3 percent of the bank's branches.

#### **Demographic Data**

The following table details the number and percentage of CTs, households, owner-occupied housing units, and businesses by CT income level according to the 2010 U.S. Census, 2015 ACS Census, and 2017 data from D&B.

Demographic Information of the Assessment Area						
Assessment Area: Tri-Cities Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	50	2.0	30.0	32.0	32.0	4.0
Population by Geography	271,373	3.1	32.2	34.8	29.9	0.0
Housing Units by Geography	97,502	3.0	29.9	35.0	32.0	0.0
Owner-Occupied Units by Geography	62,103	1.2	25.1	35.0	38.7	0.0
Occupied Rental Units by Geography	30,052	7.0	39.6	34.5	18.9	0.0
Vacant Units by Geography	5,347	0.7	32.3	39.0	28.0	0.0
Businesses by Geography	12,963	1.4	30.1	37.4	30.6	0.5
Farms by Geography	997	0.9	26.2	55.6	17.2	0.2
Family Distribution by Income Level	65,837	21.6	17.6	19.5	41.3	0.0
Household Distribution by Income Level	92,155	23.9	16.1	19.0	41.0	0.0
Median Family Income MSA - #28420 Kennewick-Richland, WA MSA	\$66,500		Median Housing Value			\$179,030
			Median Gross Rent			\$843
			Families Below Poverty Level			12.0%
Source: 2010 U.S. Census & 2015 ACS Census and 2017 D&B Data Due to rounding, totals may not equal 100.0 (*) The NA category consists of geographies that have not been assigned an income classification.						

The assessment area's median housing value is \$179,030 and the median family income is \$66,500. The unemployment rate for the Tri-Cities AA for November of 2017 is 5.2 percent, which is above the state average of 4.4 percent. The AAs top employers include Battelle, Kadlec Regional Medical Center, and ConAgra.

## CONCLUSIONS ON PERFORMANCE CRITERIA IN THE TRI-CITIES ASSESSMENT AREA

### LENDING TEST

BB's Lending Test performance in the Tri-Cities AA is consistent with the performance in the State of Washington.

### Geographic Distribution

#### *Small Business Lending*

The following table illustrates BB's small business lending record by CT income level compared to the market. The second column presents the distribution of small businesses by CT income level as estimated by D&B.

Geographic Distribution of Small Business Loans				
Assessment Area: Tri-Cities Assessment Area				
Tract Income Level	% of Businesses	Aggregate Performance % of #	#	%
Low				
2016	6.5	4.3	7	4.0
Moderate				
2016	25.9	23.9	52	29.5
Middle				
2016	32.5	32.0	45	25.6
Upper				
2016	34.5	39.6	71	40.3
Not Available				
2016	0.6	0.3	1	0.6
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>176</b>	<b>100.0</b>
Source: 2016 D&B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0				

### Residential Mortgage Loans

The following table details BB's residential mortgage lending distribution by CT income level for the AA compared to the market. The second column provides the distribution of owner-occupied housing units according to the 2010 U.S. Census for demographic reference.

Geographic Distribution of Home Mortgage Loans				
Assessment Area: Tri-Cities Assessment Area				
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%
Low				
2016	4.3	2.8	7	3.7
Moderate				
2016	20.1	15.1	44	23.3
Middle				
2016	36.2	37.0	64	33.9
Upper				
2016	39.3	45.1	74	39.2
Not Available				
2016	0.0	0.0	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>189</b>	<b>100.0</b>
Source: 2010 U.S. Census; 1/1/2016 - 12/31/2016 Bank Data, 2016 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0				

## **Borrower Profile**

### *Small Business Loans*

The following table details BB's rate of lending to businesses with GARs of \$1 million or less compared to the market. The second column illustrates the distribution of small businesses by revenue level estimated by the D&B.

<b>Distribution of Small Business Loans by Gross Annual Revenue Category</b>				
<b>Assessment Area: Tri-Cities Assessment Area</b>				
<b>Gross Revenue Level</b>	<b>% of Businesses</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>
<b>&lt;=\$1,000,000</b>				
2016	82.7	38.4	92	52.3
<b>&gt;1,000,000</b>				
2016	5.0	--	78	44.3
<b>Revenue Not Available</b>				
2016	12.4	--	6	3.4
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>176</b>	<b>100.0</b>
<i>Source: 2016 D&amp;B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data; "--" data not available. Due to rounding, totals may not equal 100.0</i>				

### *Residential Mortgage Loans*

The following table details BB's distribution of loans by borrower income level over the review period compared to the market. The percentage of families by income level from the 2010 U.S. Census is included in the second column for demographic reference.

Distribution of Home Mortgage Loans by Borrower Income Level				
Assessment Area: Tri-Cities Assessment Area				
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%
Low				
2016	21.9	5.2	11	5.8
Moderate				
2016	17.5	16.6	34	18.0
Middle				
2016	20.0	22.1	52	27.5
Upper				
2016	40.7	41.6	90	47.6
Not Available				
2016	0.0	14.6	2	1.1
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>189</b>	<b>100.0</b>
<i>Source: 2010 U.S. Census; 1/1/2016 - 12/31/2016 Bank Data, 2016 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0</i>				

### **Community Development Lending**

During the review period, BB originated 1 CD loan for \$750,000 in the Tri-Cities AA.

### **INVESTMENT TEST**

BB's Investment Test performance in the Tri-Cities AA is consistent with the bank's performance in the state. During the review period, the bank held 11 prior period investments totaling \$4.7 million, purchased 2 new investments totaling \$2.9 million, and made \$35,000 in donations in the AA.

### **SERVICE TEST**

BB service performance in the AA is consistent with the bank's service performance in the state. The bank operates 6 branches comprising 3.3 percent of the bank's total branch network. One branch is located in a moderate-income CT, and five branches are located in middle-income CTs. Products, services, and business hours are similar to those offered in the CAA.

The bank's branch distribution by census tract delineations was affected by the updated 2015 ACS Survey Data. The net 2015 ACS changes include the following: one branch removed from a moderate-income CT, two branches moved to middle-income CTs, and one branch removed from an upper-income CT. There were no net branch differences in the low-income CTs and the CTs where income was not available. Since the previous examination, the bank permanently closed one branch, located in a middle-income CT. During the review period, employees provided 104 CD service hours within the Tri-Cities AA.

# METROPOLITAN AREAS EVALUATED USING LIMITED-SCOPE EXAMINATION PROCEDURES

## DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE WALLA WALLA ASSESSMENT AREA

BB operates six full-service branches in the Walla Walla AA. The AA consists of Columbia and Walla Walla Counties, which make up the Walla Walla, WA MSA. This AA accounted for 3.0 percent of total loans, 9.2 percent of total deposits, and 3.3 percent of the bank's branches.

### Demographic Data

The following table details the number and percentage of CTs, households, owner-occupied housing units, and businesses by CT income level according to the 2010 U.S. Census, 2015 ACS Census, and 2017 data from D&B.

Demographic Information of the Assessment Area						
Assessment Area: Walla Walla Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	13	7.7	7.7	69.2	7.7	7.7
Population by Geography	63,715	4.6	8.6	68.7	13.7	4.5
Housing Units by Geography	25,894	4.0	10.1	72.2	13.7	0.0
Owner-Occupied Units by Geography	15,187	3.4	8.3	69.0	19.3	0.0
Occupied Rental Units by Geography	8,195	5.3	13.4	76.4	4.9	0.0
Vacant Units by Geography	2,512	3.7	10.4	77.6	8.2	0.0
Businesses by Geography	3,688	5.6	15.2	66.2	12.9	0.1
Farms by Geography	494	2.0	4.5	80.0	13.6	0.0
Family Distribution by Income Level	14,770	22.4	15.7	22.0	40.0	0.0
Household Distribution by Income Level	23,382	24.3	15.3	17.8	42.5	0.0
Median Family Income MSA - 47460 Walla Walla, WA MSA	\$61,619		Median Housing Value			\$189,238
			Median Gross Rent			\$733
			Families Below Poverty Level			12.2%
Source: 2010 U.S. Census & 2015 ACS Census and 2017 D&B Data						
Due to rounding, totals may not equal 100.0						
(*) The NA category consists of geographies that have not been assigned an income classification						

The assessment area's median housing value is \$189,328 and the median family income is \$61,619. The unemployment rate for the Walla Walla AA for November of 2017 is 4.2 percent, which is below the state average of 4.4 percent. The AAs top employers include Broetje Orchards, Tyson Fresh Meats Inc., and the Washington State Penitentiary.



## CONCLUSIONS ON PERFORMANCE CRITERIA IN THE WALLA WALLA ASSESSMENT AREA

### LENDING TEST

BB's Lending Test performance in the Walla Walla AA is consistent with the performance in the State of Washington.

### Geographic Distribution

#### *Small Business Lending*

The following table illustrates BB's small business lending record by CT income level compared to the market. The second column presents the distribution of small businesses by CT income level as estimated by D&B.

Geographic Distribution of Small Business Loans				
Assessment Area: Walla Walla Assessment Area				
Tract Income Level	% of Businesses	Aggregate Performance % of #	#	%
Low				
2016	0.0	0.0	0	0.0
Moderate				
2016	21.1	16.6	35	28.2
Middle				
2016	57.9	55.4	54	43.5
Upper				
2016	20.9	28.1	35	28.2
Not Available				
2016	0.1	0.0	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>124</b>	<b>100.0</b>
Source: 2016 D&B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0				

#### *Residential Mortgage Loans*

The following table details BB's residential mortgage lending distribution by CT income level for the AA compared to the market. The second column provides the distribution of owner-occupied housing units according to the 2010 U.S. Census for demographic reference.

Geographic Distribution of Home Mortgage Loans				
Assessment Area: Walla Walla Assessment Area				
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%
Low				
2016	0.0	0.0	0	0.0
Moderate				
2016	11.1	10.7	13	9.0
Middle				
2016	61.5	60.9	83	57.6
Upper				
2016	27.4	28.4	48	33.3
Not Available				
2016	0.0	0.0	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>144</b>	<b>100.0</b>
Source: 2010 U.S. Census; 1/1/2016 - 12/31/2016 Bank Data, 2016 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0				

## **Borrower Profile**

### *Small Business Loans*

The following table details BB's rate of lending to businesses with GARs of \$1 million or less compared to the market. The second column illustrates the distribution of small businesses by revenue level estimated by the D&B.

Distribution of Small Business Loans by Gross Annual Revenue Category				
Assessment Area: Walla Walla Assessment Area				
Gross Revenue Level	% of Businesses	Aggregate Performance % of #	#	%
<=\$1,000,000				
2016	84.0	41.6	77	62.1
>1,000,000				
2016	4.3	--	44	35.5
Revenue Not Available				
2016	11.7	--	3	2.4
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>124</b>	<b>100.0</b>
Source: 2016 D&B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data; "--" data not available. Due to rounding, totals may not equal 100.0				

### *Residential Mortgage Loans*

The following table details BB's distribution of loans by borrower income level over the review period compared to the market. The percentage of families by income level from the 2010 U.S. Census is included in the second column for demographic reference.

<b>Distribution of Home Mortgage Loans by Borrower Income Level</b>				
<b>Assessment Area: Walla Walla Assessment Area</b>				
<b>Borrower Income Level</b>	<b>% of Families</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>
Low				
2016	21.7	3.2	3	2.1
Moderate				
2016	17.8	11.6	10	6.9
Middle				
2016	18.5	21.5	25	17.4
Upper				
2016	41.9	44.2	89	61.8
Not Available				
2016	0.0	19.5	17	11.8
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>144</b>	<b>100.0</b>
<i>Source: 2010 U.S. Census; 1/1/2016 - 12/31/2016 Bank Data, 2016 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0</i>				

### **Community Development Lending**

During the review period, BB originated 14 CD loans for \$17.0 million in the Walla Walla AA.

### **INVESTMENT TEST**

BB's Investment Test performance in the AA is consistent with the institution's Investment Test performance in the state. During the review period, the bank held 1 prior period investment totaling \$252,000, purchased 3 new investments totaling \$1.0 million, and made \$25,000 in donations.

### **SERVICE TEST**

BB's Service Test performance in the AA is consistent with the bank's performance in the State of Washington. The bank operates 6 branches comprising 3.3 percent of the bank's total branch network. One branch is located in a moderate-income CT, and five branches are located in middle-income CTs. Products, services, and business hours are similar to those offered in the CAA.

The bank's branch distribution by census tract delineations was affected by the updated 2015 ACS Survey Data. The net 2015 ACS changes include the following: one branch moved to a middle-income CT and one branch removed from an upper-income CT. There were no net branch differences in low-income CTs, moderate-income CTs, and the CTs where income was not available. Since the previous evaluation, the bank permanently closed one branch located a moderate-income CT. During the review period, employees provided 285 CD service hours in the Walla Walla AA.

## METROPOLITAN AREAS EVALUATED USING LIMITED-SCOPE EXAMINATION PROCEDURES

### DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE WASHINGTON NON-METROPOLITAN STATISTICAL AREA ASSESSMENT AREA

BB operates six full-service branches in the Washington Non-MSA AA. The AA consists of Grant, Lincoln, and Whitman Counties. This AA accounted for 1.7 percent of total loans, 2.2 percent of total deposits, and 3.3 percent of the bank's branches.

#### Demographic Data

The following table details the number and percentage of CTs, households, owner-occupied housing units, and businesses by CT income level according to the 2010 U.S. Census, 2015 ACS Census, and 2017 data from D&B.

Demographic Information of the Assessment Area						
Assessment Area: Washington Non-Metropolitan Statistical Area Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	30	10.0	6.7	66.7	16.7	0.0
Population by Geography	149,170	10.3	13.3	60.3	16.1	0.0
Housing Units by Geography	60,927	5.6	12.3	65.0	17.1	0.0
Owner-Occupied Units by Geography	29,558	1.5	4.6	74.0	19.9	0.0
Occupied Rental Units by Geography	22,569	11.8	20.2	51.2	16.8	0.0
Vacant Units by Geography	8,800	3.3	17.6	70.4	8.7	0.0
Businesses by Geography	6,706	3.6	7.3	71.5	17.5	0.0
Farms by Geography	1,663	0.5	8.3	77.6	13.6	0.0
Family Distribution by Income Level	33,584	21.7	18.1	20.8	39.4	0.0
Household Distribution by Income Level	52,127	26.6	16.5	17.0	39.9	0.0
Median Family Income Non-MSAs - WA	\$58,513		Median Housing Value			\$166,707
			Median Gross Rent			\$703
			Families Below Poverty Level			12.3%
Source: 2010 U.S. Census & 2015 ACS Census and 2017 D&B Data						
Due to rounding, totals may not equal 100.0						
(*) The NA category consists of geographies that have not been assigned an income classification.						

The assessment area's median housing value is \$166,707 and the median family income is \$58,513. The unemployment rate for the Washington Non-MSA AA for November of 2017 is 4.6 percent, which is above the state average of 4.4 percent. The AAs top employers include Confederated Tribes of Siletz Indians, Samaritan Health Services, and Lincoln County School District.

## CONCLUSIONS ON PERFORMANCE CRITERIA IN THE WASHINGTON NON-METROPOLITAN STATISTICAL AREA ASSESSMENT AREA

### LENDING TEST

BB's Lending Test performance in the Washington Non-MSA AA is below the bank's performance in the State of Washington; however, it does not change the rating for the state.

### Geographic Distribution

#### *Small Business Lending*

The following table illustrates BB's small business lending record by CT income level compared to the market. The second column presents the distribution of small businesses by CT income level as estimated by D&B.

Geographic Distribution of Small Business Loans				
Assessment Area: Washington Non-Metropolitan Statistical Area Assessment Area				
Tract Income Level	% of Businesses	Aggregate Performance % of #	#	%
Low				
2016	3.7	1.6	1	1.3
Moderate				
2016	12.0	12.5	8	10.5
Middle				
2016	55.5	54.9	40	52.6
Upper				
2016	28.8	30.9	27	35.5
Not Available				
2016	0.0	0.0	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>76</b>	<b>100.0</b>
Source: 2016 D&B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0				

### *Residential Mortgage Loans*

The following table details BB's residential mortgage lending distribution by CT income level for the AA compared to the market. The second column provides the distribution of owner-occupied housing units according to the 2010 U.S. Census for demographic reference.

<b>Geographic Distribution of Home Mortgage Loans</b>				
<b>Assessment Area: Washington Non-Metropolitan Statistical Area Assessment Area</b>				
<b>Tract Income Level</b>	<b>% of Owner-Occupied Housing Units</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>
Low				
2016	0.5	0.7	1	1.1
Moderate				
2016	10.3	11.3	9	9.5
Middle				
2016	61.1	50.3	51	53.7
Upper				
2016	28.1	37.7	34	35.8
Not Available				
2016	0.0	0.0	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>95</b>	<b>100.0</b>
<i>Source: 2010 U.S. Census; 1/1/2016 - 12/31/2016 Bank Data, 2016 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0</i>				

### **Borrower Profile**

#### *Small Business Loans*

The following table details BB's rate of lending to businesses with GARs of \$1 million or less compared to the market. The second column illustrates the distribution of small businesses by revenue level estimated by the D&B.

Distribution of Small Business Loans by Gross Annual Revenue Category				
Assessment Area: Washington Non-Metropolitan Statistical Area Assessment Area				
Gross Revenue Level	% of Businesses	Aggregate Performance % of #	#	%
<=\$1,000,000				
2016	79.0	43.1	58	76.3
>1,000,000				
2016	4.8	--	15	19.7
Revenue Not Available				
2016	16.2	--	3	3.9
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>76</b>	<b>100.0</b>
Source: 2016 D&B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data; "--" data not available. Due to rounding, totals may not equal 100.0				

### *Residential Mortgage Loans*

The following table details BB's distribution of loans by borrower income level over the review period compared to the market. The percentage of families by income level from the 2010 U.S. Census is included in the second column for demographic reference.

Distribution of Home Mortgage Loans by Borrower Income Level				
Assessment Area: Washington Non-Metropolitan Statistical Area Assessment Area				
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%
Low				
2016	23.1	3.6	3	3.2
Moderate				
2016	17.5	13.3	8	8.4
Middle				
2016	20.5	20.6	21	22.1
Upper				
2016	38.9	44.8	60	63.2
Not Available				
2016	0.0	17.7	3	3.2
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>95</b>	<b>100.0</b>
Source: 2010 U.S. Census; 1/1/2016 - 12/31/2016 Bank Data, 2016 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0				

### **Community Development Lending**

During the review period, BB did not originate any CD loans in the Washington Non-MSA AA.

## **INVESTMENT TEST**

BB's Investment Test performance in the AA is consistent with the institution's Investment Test performance in the state. During the review period, the bank purchased 6 new investments totaling \$3.7 million and made \$25,000 in donations in the AA.

## **SERVICE TEST**

BB's Service Test performance in the AA is below the bank's performance in the state; however, it does not change the rating for the state. The bank operates 6 branches comprising 3.3 percent of the bank's total branch network. Four branches are located in a middle-income CT, and two branches are located in upper-income CTs. Products, services, and business hours are similar to those offered in the CAA.

The bank's branch distribution by census tract delineations was not affected by the updated 2015 ACS Survey Data. Since the previous PE, the bank permanently closed three branches in the Washington Non-MSA AA, all located in middle-income CTs. During the review period, employees provided eight CD service hours in the Washington Non-MSA AA.

## **METROPOLITAN AREAS EVALUATED USING LIMITED-SCOPE EXAMINATION PROCEDURES**

### **DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE YAKIMA ASSESSMENT AREA**

BB operates eight full-service branches in the Yakima AA. The AA consists of Yakima County. This AA accounted for 5.3 percent of total loans, 6.4 percent of total deposits, and 4.4 percent of the bank's branches.

#### **Demographic Data**

The following table details the number and percentage of CTs, households, owner-occupied housing units, and businesses by CT income level according to the 2010 U.S. Census, 2015 ACS Census, and 2017 data from D&B.



Demographic Information of the Assessment Area						
Assessment Area: Yakima Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	45	0.0	28.9	42.2	28.9	0.0
Population by Geography	247,408	0.0	28.5	42.6	28.9	0.0
Housing Units by Geography	86,208	0.0	23.9	42.3	33.8	0.0
Owner-Occupied Units by Geography	49,969	0.0	17.6	41.2	41.3	0.0
Occupied Rental Units by Geography	30,003	0.0	35.1	45.0	19.9	0.0
Vacant Units by Geography	6,236	0.0	20.0	38.7	41.3	0.0
Businesses by Geography	10,796	0.0	29.2	39.4	31.4	0.0
Farms by Geography	1,146	0.0	7.6	57.1	35.3	0.0
Family Distribution by Income Level	57,541	20.2	18.1	20.6	41.1	0.0
Household Distribution by Income Level	79,972	22.0	17.4	19.5	41.1	0.0
Median Family Income MSA - #49420 Yakima, WA MSA	\$49,907		Median Housing Value			\$154,614
			Median Gross Rent			\$787
			Families Below Poverty Level			16.5%
Source: 2010 U.S. Census & 2015 ACS Census and 2017 D&B Data Due to rounding, totals may not equal 100.0 (* ) The NA category consists of geographies that have not been assigned an income classification.						

The assessment area's median housing value is \$154,614 and the median family income is \$49,907. The unemployment rate for the Yakima AA for November of 2017 is 5.8 percent, which is above the state average of 4.4 percent but the lowest it has been since 1990. The AAs top employers include Confederated Tribes of Siletz Indians, Samaritan Health Services, and Lincoln County School District.

## CONCLUSIONS ON PERFORMANCE CRITERIA IN THE YAKIMA ASSESSMENT AREA

### LENDING TEST

BB's Lending Test performance in the Yakima AA is consistent with the bank's performance in the State of Washington.

### Geographic Distribution

#### *Small Business Lending*

The following table illustrates BB's small business lending record by CT income level compared to the market. The second column presents the distribution of small businesses by CT income level as estimated by D&B.

Geographic Distribution of Small Business Loans				
Assessment Area: Yakima Assessment Area				
Tract Income Level	% of Businesses	Aggregate Performance % of #	#	%
Low				
2016	8.3	4.9	19	10.2
Moderate				
2016	29.0	20.4	42	22.6
Middle				
2016	33.1	36.5	78	41.9
Upper				
2016	29.6	38.2	47	25.3
Not Available				
2016	0.0	0.0	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>186</b>	<b>100.0</b>
Source: 2016 D&B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0				

### Residential Mortgage Loans

The following table details BB's residential mortgage lending distribution by CT income level for the AA compared to the market. The second column provides the distribution of owner-occupied housing units according to the 2010 U.S. Census for demographic reference.

Geographic Distribution of Home Mortgage Loans				
Assessment Area: Yakima Assessment Area				
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%
Low				
2016	1.3	1.3	6	2.6
Moderate				
2016	25.2	16.4	28	12.1
Middle				
2016	35.1	32.4	81	35.1
Upper				
2016	38.5	49.9	116	50.2
Not Available				
2016	0.0	0.0	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>231</b>	<b>100.0</b>
Source: 2010 U.S. Census; 1/1/2016 - 12/31/2016 Bank Data, 2016 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0				

## **Borrower Profile**

### *Small Business Loans*

The following table details BB's rate of lending to businesses with GARs of \$1 million or less compared to the market. The second column illustrates the distribution of small businesses by revenue level estimated by the D&B.

<b>Distribution of Small Business Loans by Gross Annual Revenue Category</b>				
<b>Assessment Area: Yakima Assessment Area</b>				
<b>Gross Revenue Level</b>	<b>% of Businesses</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>
<b>&lt;=\$1,000,000</b>				
2016	80.8	38.4	115	61.8
<b>&gt;1,000,000</b>				
2016	6.1	--	68	36.6
<b>Revenue Not Available</b>				
2016	13.1	--	3	1.6
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>186</b>	<b>100.0</b>
<i>Source: 2016 D&amp;B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data; "--" data not available. Due to rounding, totals may not equal 100.0</i>				

### *Residential Mortgage Loans*

The following table details BB's distribution of loans by borrower income level over the review period compared to the market. The percentage of families by income level from the 2010 U.S. Census is included in the second column for demographic reference.

Distribution of Home Mortgage Loans by Borrower Income Level				
Assessment Area: Yakima Assessment Area				
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%
Low				
2016	22.4	2.9	7	3.0
Moderate				
2016	16.9	11.3	16	6.9
Middle				
2016	19.9	19.7	48	20.8
Upper				
2016	40.9	50.0	152	65.8
Not Available				
2016	0.0	16.1	8	3.5
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>231</b>	<b>100.0</b>
Source: 2010 U.S. Census; 1/1/2016 - 12/31/2016 Bank Data, 2016 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0				

### **Community Development Lending**

During the review period, BB originated 9 CD loans totaling \$18.0 million in the Yakima AA.

### **INVESTMENT TEST**

BB's Investment Test performance in the AA is consistent with the institution's Investment Test performance in the state. During the review period, the bank held 8 prior period investments totaling \$4.1 million, purchased 5 new investments totaling \$3.5 million and made \$63,000 in donations in the AA.

### **SERVICE TEST**

BB's Service Test performance in the AA is consistent with the bank's performance in the state. The bank operates 8 branches comprising 4.4 percent of the bank's total branch network. Two branches are located in moderate-income CTs, three are located in middle-income CTs, and three are located in upper-income CTs. Products, services, and business hours are similar to those offered in the CAA.

The bank's branch distribution by CT delineations was affected by the updated 2015 ACS Survey Data. The net 2015 ACS changes include the following: one branch removed from a low-income CT and one branch moved to a moderate-income CT. There were no net branch differences in the middle-income CTs, upper-income CTs, and the CTs where income was not available. Since the previous examination, the bank permanently closed two branches for consolidation purposes in the Yakima AA. Although the closed branches are in LMI CTs, the

bank still operates branches near those closed locations. During the review period, employees provided 135 CD service hours in the Yakima AA.

## **CALIFORNIA**

### **CRA RATING FOR CALIFORNIA: Satisfactory**

**The Lending Test is rated: Low Satisfactory**

**The Investment Test is rated: Low Satisfactory**

**The Service Test is rated: Low Satisfactory**

### **SCOPE OF EVALUATION**

Examiners conducted a full-scope evaluation of the bank's performance in the San Diego AA and limited-scope evaluations of the bank's performance in the Chico, Los Angeles, Redding, Sacramento, and California Non-MSA AAs.

The evaluation focused on small business and HMDA lending. Small farm lending was not included in the review as it was too nominal to generate any meaningful conclusions. CD lending, investments, and retail and CD services were also reviewed. Loans originated and reported pursuant to CRA data collection requirements for 2016 were included in the review. Aggregate lending data used in the analysis is for 2016. Information from recently completed community contacts in these AAs were also reviewed and considered.

### **DESCRIPTION OF INSTITUTION'S OPERATIONS IN CALIFORNIA**

BB operates 35 branches in 6 AAs within 12 counties in the State of California. Refer to the service test discussion for details regarding bank operations. Details regarding the MSAs and counties comprising the 6 AAs are contained in the bankwide tables.

#### **Economic and Demographic Data**

The following table details the number and percentage of CTs, households, owner-occupied housing units, and businesses by CT income level according to the 2010 U.S. Census, 2015 ACS Census, and 2017 data from D&B.

Demographic Information of the Assessment Area						
Assessment Area: State of California						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	4,383	8.5	27.6	29.7	32.7	1.5
Population by Geography	20,300,840	7.9	27.4	30.6	33.6	0.5
Housing Units by Geography	7,250,732	7.1	25.4	30.7	36.5	0.3
Owner-Occupied Units by Geography	3,471,939	2.8	18.1	32.6	46.5	0.1
Occupied Rental Units by Geography	3,167,416	11.9	33.4	28.3	25.8	0.5
Vacant Units by Geography	611,377	6.9	25.2	32.7	34.5	0.6
Businesses by Geography	1,365,988	5.2	19.9	28.0	45.3	1.5
Farms by Geography	22,939	3.3	19.5	35.0	41.8	0.4
Family Distribution by Income Level	4,529,897	23.9	16.6	17.6	41.9	0.0
Household Distribution by Income Level	6,639,355	25.4	15.6	16.5	42.6	0.0
Median Family Income MSA - #17020 Chico, CA MSA	\$56,914		Median Housing Value			\$404,665
Median Family Income MSA - #31084 Los Angeles-Long Beach- Glendale, CA MD	\$62,703		Median Gross Rent			\$1,266
Median Family Income MSA - #39820 Redding, CA MSA	\$55,749		Families Below Poverty Level			13.4%
Median Family Income MSA - #40140 Riverside-San Bernardino-Ontario, CA MSA	\$61,507					
Median Family Income MSA - #40900 Sacramento--Roseville-- Arden-Arcade, CA MSA	\$71,829					
Median Family Income MSA - #41740 San Diego-Carlsbad, CA MSA	\$75,179					
Median Family Income Non- MSAs - CA	\$56,948					
Source: 2010 U.S. Census & 2015 ACS Census and 2017 D&B Data						
Due to rounding, totals may not equal 100.0						
(*) The NA category consists of geographies that have not been assigned an income classification.						

Professional and business services, education and health services, government, and leisure and hospitality services provide a wide range of jobs statewide. The four biggest employers are the University of California, Kaiser Permanente, The Walt Disney Co., and Disney Resorts.

According to Moody's Analytics, the state's world-class workforce have made it the premier destination for technology firms and one of the healthiest economies in the nation over the past six years. The technology sector's expansion has generated strong demand for labor and real estate, fueling robust income growth and a construction boom. Nonetheless, the high living and business costs that are a byproduct of the state's success are pushing households and firms to less expensive western states or out of the West altogether.

The following table contains unemployment statistics for the State of California and each individual AA.

Unemployment Rates: California		
Assessment Area	2016	November 2017
	%	%
San Diego	4.1	3.3
Chico	6.1	4.8
Los Angeles	4.4	3.8
Redding	6.5	4.8
Sacramento	4.8	3.7
California Non-MSA	9.2	6.7
State	5.2	4.6
National Average	4.7	4.1
<i>Source: Bureau of Labor Statistics</i>		

The above table indicates that the unemployment rates have improved in the State of California and in each individual AA from 2016 to November 2017. However, the unemployment rate for the State of California overall, and more specifically, the Chico, Redding, and California Non-MSA AAs remain above the national average throughout the review period.

### **Competition**

The California AAs provide a highly competitive market for financial services. According to the FDIC Deposit Market Share data as of June 30, 2017, there were 154 financial institutions operating 3,996 full-service branches within the bank's California AAs. Of these institutions, BB ranked 34<sup>th</sup> with 0.2 percent deposit market share.

There is also significant competition for small business loans. A review of aggregate data for 2016 shows that 258 institutions reported 708,821 small business loans in the bank's California AAs. BB ranked 40<sup>th</sup> out of this group of lenders, with a market share of 0.1 percent. The 3 most prominent lenders accounted for 57.1 percent of the total market share.

The California AAs are saturated with residential mortgage lenders. BB ranked 260<sup>th</sup> of 1,186 total lenders and had 0.1 percent of the market share. In 2016, these lenders combined reported 1.2 million residential mortgage loans originated or purchased. Three of the most prominent lenders accounted for a total of 17.9 percent of the total market share.

### **Community Contacts**

Examiners reviewed recent community contacts in conjunction with this evaluation that are specific to the bank's California AAs. Refer to community contacts under each full-scope AA for details.

## CONCLUSIONS ON PERFORMANCE CRITERIA IN CALIFORNIA

### LENDING TEST

BB is rated “Low Satisfactory” in the Lending Test. The performance in the San Diego AA drove the overall state-wide rating, although the performance within each AA was considered.

#### Lending Activity

Overall, BB’s lending levels reflect adequate responsiveness to the credit needs of the California AAs. Both the number and dollar volume of loans originated during the review period, as well as market share and market ranking figures for the primary loan products was analyzed to determine the bank’s level of lending relative to the credit needs of the AA. In 2016, BB originated 734 small business loans totaling \$137.3 million and 224 HMDA loans totaling \$162.0 million. The following table details BB’s small business and HMDA loan market ranking for 2016. The institution’s deposit market share data is also included for reference.

Small Business Loans, Home Mortgage Disclosure Act Loans, and Deposit Market Share					
Assessment Area	2016 – Small Business		2016 – Home Mortgage Disclosure Act		Deposit Market Share %
	Rank (#)	Market Share %	Rank (#)	Market Share %	
San Diego	32 of 164	0.2	180 of 798	0.1	0.6
Chico	17 of 69	0.2	147 of 299	0.1	0.1
Los Angeles	56 of 224	0.1	376 of 984	0.1	3.2
Redding	12 of 62	0.7	39 of 295	0.5	0.9
Sacramento	20 of 129	0.3	219 of 671	0.3	0.1
California Non-MSA	10 of 40	1.3	22 of 155	1.2	13.0
<i>Source: 2016 Small Business and HMDA Market Share Data and June 30, 2017 Summary of Deposits</i>					

The table illustrates a high level of competition in BB’s California markets. Overall, the bank’s market share ranking and percentage reflects adequate responsiveness to the small business and residential mortgage credit needs of the California AAs.

#### Geographic Distribution

The geographic distribution of loans reflects adequate penetration throughout the AAs in the state. The bank’s performance varied between the AAs. Refer to the Geographic Distribution section of each AA for specific details.

#### Borrower Profile

The distribution of borrowers in California reflects, given the product lines offered by the bank, adequate penetration to business customers of different revenue sizes and retail customers of different income levels. The bank’s performance varied between the AAs. Refer to the Borrower Profile section of each AA for specific details.



BB exhibits an adequate record of serving the credit needs of the most economically disadvantaged areas of its AAs, including low-income individuals and/or very small businesses. BB provided 37 small business and 7 HMDA loans in low-income CTs during the review period. Additionally, the bank provided 350 small business loans to businesses with GARs of \$1.0 million or less and 4 HMDA loans to low-income borrowers.

### **Community Development Lending**

BB made a relatively high level of CD loans in the State of California. During this evaluation period, the bank originated 8 CD loans totaling \$17.0 million. This represents 9.5 percent by number and 6.6 percent by dollar volume of the total bank-wide CD loans. The loans addressed affordable housing, community services, and economic development. Refer to the full-scope AA for further details and notable examples.

### **Innovative and Flexible Lending Practice**

The bank makes use of innovative or flexible lending practices in order to serve the credit needs of its AAs. Refer to the Innovative or Flexible Lending Practices section of the bankwide section of this evaluation for additional details regarding these programs.

## **INVESTMENT TEST**

BB is rated “Low Satisfactory” in the Investment Test for the State of California. The performance in the San Diego AA drove the overall statewide rating, although the performance within each AA was considered.

### **Investment Activity**

BB has an adequate level of qualified CD investments and donations, although rarely in a leadership position, particularly those that are not routinely provided by private investors. BB reported 99 qualified investments and donations totaling approximately \$17.1 million in the state. The total amount of new CRA-qualified investments reported in California was approximately \$15.4 million. The bank also held approximately \$1.3 million in prior period investments and reported approximately \$327,000 in grants and donations in the state. The institution penetrated all AAs in the state. Affordable housing received the majority of the qualified investments with approximately \$12.4 million (figure includes prior period investments still active and donations). Refer to the full-scope AA for further details and notable examples.

### **Responsiveness to Credit and Community Development Needs**

BB exhibits adequate responsiveness to credit and CD needs. The bank’s emphasis on affordable housing investments is reflective of a primary need identified by community contacts.

## **Community Development Initiatives**

BB occasionally uses innovative and/or complex investments to support CD initiatives. The bank's qualified investments are useful and help promote CD; however, most are not innovative.

## **SERVICE TEST**

BB is rated "Low Satisfactory" in the Service Test for the State of California. Although the performance within each AA was considered, the performance in the San Diego AA drove the overall statewide rating.

The bank operates 35 full-service branches in the state. Delivery systems are essentially accessible to all portions of the state's AAs. To the extent changes have been made, BB's opening and closing of branches in the state has not adversely affected the accessibility of its delivery systems, particularly in LMI geographies and to LMI individuals. Business hours and services do not vary in a way that inconveniences certain portions of the state's AAs, particularly LMI geographies or LMI individuals. BB has provided an adequate level of CD services in its California AAs.

## **Retail Banking Services**

The following are specific comments relating to the bank's performance under the retail banking services component of the Service Test.

### *Accessibility of Delivery Systems*

BB's delivery systems are essentially accessible to all portions of the AA. The institution's branches include four branches in low- and seven branches in moderate-income CTs. Refer to the Service Test section of each California AA for specific details.

Alternative delivery systems mirror those described under the bankwide conclusions section of this evaluation. Refer to the comments in the overall bankwide Service Test section regarding the discussion of the institution's alternative delivery systems for details.

### *Changes in Branch Location*

The institution's record of opening and closing branches has not adversely affected the accessibility of its delivery systems, particularly to LMI geographies and/or LMI individuals. Since the last examination, the bank closed two branches. Both branches were located in middle-income CTs. Refer to the Service Test section of each California AA for specific details.

### *Reasonableness of Business Hours and Services*

Services do not vary in a way that inconveniences certain portions of the AAs, particularly LMI geographies or individuals. Specific information regarding business hours and services is included in the evaluation of the bankwide performance.

## **Community Development Services**

BB provided an adequate level of CD services in its AAs within the state. Bank records show that employees provided financial or job-specific expertise and/or technical assistance for 203 CD service activities since the last evaluation, logging a total of 828 qualified hours within this state. A majority of the bank's assistance was to organizations that provide community services to LMI individuals and families. Other activities targeted affordable housing and economic development. Refer to the full-scope AA for further details and notable examples.

## **METROPOLITAN AREAS EVALUATED USING FULL-SCOPE EXAMINATION PROCEDURES**

### **DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE SAN DIEGO ASSESSMENT AREA**

BB operates 10 full-service branches in the San Diego AA. The AA consists of San Diego County, which makes up the San Diego-Carlsbad, CA MSA. The following sections provide details regarding economic and demographic conditions for the AA and information obtained from community contacts.

### **Economic and Demographic Data**

The following table details the number and percentage of CTs, households, owner-occupied housing units, and businesses by CT income level according to the 2010 U.S. Census, 2015 ACS Census, and 2017 data from D&B.

Demographic Information of the Assessment Area						
Assessment Area: San Diego Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	628	9.7	22.6	32.5	34.1	1.1
Population by Geography	3,223,096	8.9	23.6	32.5	34.7	0.3
Housing Units by Geography	1,180,806	7.7	21.7	34.2	36.5	0.0
Owner-Occupied Units by Geography	579,079	2.8	15.1	35.5	46.6	0.0
Occupied Rental Units by Geography	515,078	13.1	28.8	32.8	25.2	0.0
Vacant Units by Geography	86,649	7.6	22.8	33.8	35.8	0.0
Businesses by Geography	253,037	5.4	15.1	35.1	44.2	0.2
Farms by Geography	5,009	3.5	17.6	38.6	40.2	0.0
Family Distribution by Income Level	731,328	23.6	16.9	17.8	41.7	0.0
Household Distribution by Income Level	1,094,157	24.8	15.7	17.1	42.4	0.0
Median Family Income MSA - #41740 San Diego-Carlsbad, CA MSA	\$75,179		Median Housing Value			\$458,248
			Median Gross Rent			\$1,404
			Families Below Poverty Level			10.6%
Source: 2010 U.S. Census & 2015 ACS Census and 2017 D&B Data Due to rounding, totals may not equal 100.0 (*) The NA category consists of geographies that have not been assigned an income classification.						

The unemployment rate for San Diego in November 2017 was 3.3 percent, an improvement from the 4.1 percent in 2016. Major economic drivers within the San Diego AA include the following: government, professional and business services, education and health services, and leisure and hospitality services. The four biggest employers are Marine Corps Base Camp Pendleton, the University of California (San Diego), Naval Base San Diego, and Naval Base Coronado.

According to Moody's Analytics, job growth in San Diego expansion has slowed. Healthcare and local government lift the economy despite fading support from manufacturing and San Diego's most important industry: professional services. A weaker composition and pace of job creation are holding back bigger gains in wage income. Average hourly earnings lag the state average by the most in at least a decade because of the shifting mix and fewer new high-wage jobs. The housing market is on solid footing. Single-family residential permits are climbing, and house prices are above their early-2006 prerecession peak.

### **Competition**

The San Diego AA is a highly competitive market for financial services. According to the FDIC Deposit Market Share data as of June 30, 2017, there were 53 financial institutions operating 590 full-service branches within the bank's San Diego AA. Of these institutions, BB ranked 19<sup>th</sup> with a 0.6 percent deposit market share.

Aggregate data for 2016 revealed that BB's small business market share was 0.2 percent in the San Diego AA. The institution ranked 32<sup>nd</sup> out of 164 small business lenders that originated a total of 126,902 loans. The top three lenders claim 57.7 percent of the total market share, indicating a highly competitive market for small business lending.

In the San Diego AA, BB ranked 180<sup>th</sup> of 798 residential mortgage lenders. BB's market share of 0.1 percent is minimal in comparison to the combined market share of 18.2 percent for the top 3 lenders. Aggregate data for 2016 reveals that lenders originated or purchased a total of 211,101 loans, indicating a high level of competition for residential mortgage lenders.

### **Community Contacts**

As part of this evaluation, examiners reviewed community contacts that focused on the products analyzed under the lending test: small business and residential lending.

An existing community contact was reviewed with an individual from an economic development organization dedicated to improve the quality of life for lower income individuals and communities through innovative and affordable financing that is unavailable in the conventional market. The contact stated an increasing need for affordable housing programs and first time home buyer programs as rents and home prices have grown rapidly, far outpacing gains in wages.

Examiners also reviewed an existing community contact with a small business economic development organization. The contact stated some banks have largely ignored certain small business owners, and instead focused their efforts on more profitable borrowers. There are opportunities for financial institutions to serve the small business lending needs of these bankable borrowers who have traditionally been overlooked. In addition to increased lending, the contact indicated the need for continued financial education for small business owners. The contact observed a number of small business owners turn down guidance from development organizations once they have obtained financing.

Another existing community contact was reviewed with a small business economic development organization. The contact stated that small business lending, particularly to start-up businesses, is a primary credit need.

### **Credit and Community Development Needs and Opportunities**

Considering information from the community contacts, bank management, and demographic and economic data, examiners determined that small business loans, including loans for start-up businesses, represent a primary community need. In addition, affordable housing and financial education are community development needs in the AA.

## **CONCLUSIONS ON PERFORMANCE CRITERIA IN THE SAN DIEGO ASSESSMENT AREA**

### **LENDING TEST**

Loan products analyzed include small business loans and HMDA loans. More weight was placed on the bank's small business lending performance in the AA based on loan volume. Small farm lending was not included in the review as it was too nominal to generate any meaningful conclusions.

#### **Lending Activity**

BB's lending levels reflect adequate responsiveness to the San Diego AA credit needs. In 2016, the bank originated 210 small business loans totaling \$50.8 million. This ranks the institution 32<sup>nd</sup> of 164 lenders reporting CRA small business loan data, with a 0.2 percent market share by number of loans. In regards to HMDA loans, the bank originated 74 loans totaling \$40.4 million in 2016. This ranks the bank 180<sup>th</sup> of 798 lenders reporting HMDA loans, with 0.1 percent market share by number of loans. BB's market share ranking and percentage reflect adequate responsiveness to the small business and residential mortgage credit needs of the San Diego AA.

#### **Geographic Distribution**

The bank's geographic distribution of loans reflects adequate penetration throughout the San Diego AA. No conspicuous lending gaps were noted in the geographic distribution of loans. The following sections describe the bank's performance by loan type.

##### *Small Business Lending*

The following table illustrates BB's small business lending record by CT income level compared to the market. The second column presents the distribution of small businesses by CT income level as estimated by D&B.

Geographic Distribution of Small Business Loans				
Assessment Area: San Diego Assessment Area				
Tract Income Level	% of Businesses	Aggregate Performance % of #	#	%
Low				
2016	5.7	4.4	11	5.2
Moderate				
2016	15.5	14.1	27	12.9
Middle				
2016	35.2	34.4	89	42.4
Upper				
2016	43.3	47.1	83	39.5
Not Available				
2016	0.2	0.1	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>210</b>	<b>100.0</b>
Source: 2016 D&B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0				

BB's distribution of small business loans reflects adequate penetration throughout the AA. The bank's rate of lending in low-income geographies is above the market data and slightly below the D&B data. In moderate-income CTs the bank's performance, was below both the aggregate and D&B data but not to an unreasonable degree. More emphasis is placed on the comparison to aggregate data, as it better represents credit demand and lending opportunities within the San Diego AA. Therefore, the bank's performance within LMI CTs is reasonable.

#### *Residential Mortgage Loans*

The following table details BB's residential mortgage lending distribution by CT income level for the AA compared to the market. The second column provides the distribution of owner-occupied housing units according to the 2010 U.S. Census for demographic reference.

Geographic Distribution of Home Mortgage Loans				
Assessment Area: San Diego Assessment Area				
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%
Low				
2016	3.3	3.2	5	6.8
Moderate				
2016	14.3	13.2	12	16.2
Middle				
2016	38.8	38.1	30	40.5
Upper				
2016	43.6	45.5	27	36.5
Not Available				
2016	0.0	0.0	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>74</b>	<b>100.0</b>
Source: 2010 U.S. Census; 1/1/2016 - 12/31/2016 Bank Data, 2016 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0				

BB's distribution of mortgage loans reflects good penetration in San Diego AA based on the rates of lending in LMI geographies. At 6.8 percent, the bank's rate of lending in low-income geographies in 2016 was more than double the aggregate and demographic data. In moderate-income geographies, the bank's performance, at 16.2 percent, was above the percentage achieved by the market and demographic data. Overall, the bank's performance of penetrating LMI CTs is good.

### **Borrower Profile**

The distribution of borrowers reflects, given the product lines offered by the institution, adequate penetration among businesses of different sizes and retail customers of different income levels. The following sections describe the bank's performance by loan type.

#### *Small Business Loans*

The following table details BB's rate of lending to businesses with GARs of \$1 million or less compared to the market. The second column illustrates the distribution of small businesses by revenue level estimated by D&B surveys.



Distribution of Small Business Loans by Gross Annual Revenue Category				
Assessment Area: San Diego Assessment Area				
Gross Revenue Level	% of Businesses	Aggregate Performance % of #	#	%
<=\$1,000,000				
2016	87.6	42.1	89	42.4
>1,000,000				
2016	5.1	--	117	55.7
Revenue Not Available				
2016	7.2	--	4	1.9
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>210</b>	<b>100.0</b>
Source: 2016 D&B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data; "--" data not available. Due to rounding, totals may not equal 100.0				

The distribution of borrowers reflects adequate penetration among business customers of different sizes. The bank originated 42.4 percent of small business loans to businesses with GARs of \$1.0 million or less in 2016. This performance was above the aggregate lending levels of 42.1 percent and below the percent of small businesses of 87.6 percent.

As mentioned previously, more emphasis is placed on the comparison to aggregate data, as it better represents credit demand and lending opportunities within the San Diego AA. In addition, the D&B survey is voluntary and includes very small businesses, which may not be credit worthy or have credit needs. Overall, lending performance shows that the bank is reasonably meeting the credit needs of small businesses in the AA.

#### *Residential Mortgage Loans*

The following table details BB's distribution of loans by borrower income level over the review period compared to the market. The percentage of families by income level from the 2010 U.S. Census is included in the second column for demographic reference.

Distribution of Home Mortgage Loans by Borrower Income Level				
Assessment Area: San Diego Assessment Area				
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%
Low				
2016	22.4	1.5	1	1.4
Moderate				
2016	17.6	6.3	6	8.1
Middle				
2016	18.7	17.5	10	13.5
Upper				
2016	41.3	55.9	49	66.2
Not Available				
2016	0.0	18.8	8	10.8
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>74</b>	<b>100.0</b>
<i>Source: 2010 U.S. Census; 1/1/2016 - 12/31/2016 Bank Data, 2016 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0</i>				

In the San Diego AA, BB's distribution of mortgage loans is adequate based on the percentage of loans to LMI borrowers. In 2016, BB's rate of lending to low-income borrowers, at 1.4 percent, is similar to the market rate of 1.5 percent and is below the percentage of families. The bank's performance to moderate-income borrowers, at 8.1 percent, is above the aggregate but below the demographic data.

Nearly 10.6 percent of AA's families live below the poverty level, which can adversely impact home mortgage lending opportunities for those borrowers. As mentioned previously, the aggregate lending data is a better indicator of the market demand for credit. As such, when compared to the aggregate, the bank's performance reflects adequate penetration throughout the AA.

BB exhibits an adequate record of serving the credit needs of the most economically disadvantaged areas of its AAs, including low-income individuals and very small businesses. BB provided 11 small business and 5 HMDA loans in low-income CTs during the review period. Additionally, the bank provided 89 small business loans to businesses with GARs of \$1.0 million or less and 1 HMDA loan to low-income borrowers.

### **Community Development Lending**

BB originated an adequate level of CD loans in the AA. The bank originated 3 CD loans totaling approximately \$11.3 million during the evaluation period. All of these loans were originated in 2017 and supported affordable housing activities. The following table provides a breakdown of the CD lending by year and CD category:

Community Development Lending – San Diego Assessment Area										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2016	0	0	0	0	0	0	0	0	0	0
YTD 2017	3	11,302	0	0	0	0	0	0	3	11,302
<b>Total</b>	<b>3</b>	<b>11,302</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3</b>	<b>11,302</b>
<i>Source: Bank Records</i>										

The following are notable examples of CD loans extended in the AA during the review period:

- BB originated a \$10.0 million loan to provide funding to construct a 79-unit apartment complex, of which 77 of the units will be restricted to LMI individuals.
- The bank refinanced an 8-unit affordable apartment complex in San Diego. The apartment complex provides housing for LMI families.

### **Innovative and Flexible Lending**

BB makes use of innovative and flexible lending practices in order to serve the AA credit needs. Refer to the comments in the bankwide section for details.

### **INVESTMENT TEST**

BB has an adequate level of qualified investments and donations in the San Diego AA, exhibits adequate responsiveness to credit and CD needs, and occasionally uses innovative and/or complex investments to support CD initiatives.

### **Investment Activity**

BB has an adequate level of qualified investments and donations in the San Diego AA. The combined CD investments, both new and remaining from the prior period, including grants and donations, total approximately \$5.4 million. This total includes new investments of approximately \$5.3 million and donations of approximately \$96,000.

The investments and donations helped to support affordable housing, community services, and economic development efforts within the AA. The following table illustrates qualified investments and donations made or held during the review period in the San Diego AA:

Qualified Investments – San Diego Assessment Area										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior Period	0	0	0	0	0	0	0	0	0	0
2016	0	0	3	2,815	0	0	0	0	3	2,815
YTD 2017	2	2,499	0	0	0	0	0	0	2	2,499
<b>Subtotal</b>	<b>2</b>	<b>2,499</b>	<b>3</b>	<b>2,815</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>5</b>	<b>5,314</b>
Qualified Grants & Donations	5	37	8	33	6	26	0	0	19	96
<b>Total</b>	<b>7</b>	<b>2,536</b>	<b>11</b>	<b>2,848</b>	<b>6</b>	<b>26</b>	<b>0</b>	<b>0</b>	<b>24</b>	<b>5,410</b>
<i>Source: Bank Records</i>										

The following are notable examples of CD investments extended in the AA during the review period:

- BB purchased a \$700,000 general purpose bond for a school district in San Diego County where 59 percent of the students qualify for free or reduced lunch program.
- The bank purchased a \$1.5 million investment secured by an apartment complex occupied entirely by LMI individuals.

### **Responsiveness to Credit and Community Development Needs**

BB exhibits adequate responsiveness to credit and CD needs. The bank's emphasis on affordable housing investments is reflective of a need identified by community contacts.

### **Community Development Initiatives**

BB occasionally uses innovative and/or complex investments to support CD initiatives. The bank's qualified investments are useful and help promote CD; however, most are not innovative as a majority of the bank's investments are school bonds or MBSs.

### **SERVICE TEST**

BB operates 10 branches in the San Diego AA. Delivery systems are essentially accessible to all portions. To the extent changes have been made, BB's opening and closing of branches in the AA has not adversely affected the accessibility of its delivery systems, particularly in LMI geographies and to LMI individuals. Business hours and services do not vary in a way that inconveniences certain portions of the AA, particularly LMI geographies or LMI individuals. BB has provided an adequate level CD services in the San Diego AA.

## Retail Banking Services

### *Accessibility of Delivery Systems*

BB's delivery systems are accessible to essentially all portions of the San Diego AA. The bank operates a network of 10 branch offices and 7 ATMs, including 5 deposit-taking ATMs, within this AA. Overall, the branches are accessible throughout the AA with two branches in low-, three in moderate-, and two in middle-income CTs. The table illustrates BB's branch structure within the San Diego AA as compared to 2015 ACS Survey data, 2016 peer branch data, and 2017 D&B data:

Branch Structure – San Diego Assessment Area						
Branch and Automated Teller Machine Distribution	Census Tract Income Level					
	Low	Moderate	Middle	Upper	NA	Total
Number of Branches	2	2	3	3	0	10
Percentage of Branches	20.0	20.0	30.0	30.0	0.0	100.0
Number of ATMs	2	3	2	0	0	7
Percentage of ATMs	28.6	42.9	28.6	0.0	0.0	100.0
Comparisons						
Percentage of Branches - All Institutions	7.7	19.0	33.4	39.6	0.3	100.0
Percentage of Households	7.7	21.6	34.2	36.5	0.0	100.0
Percentage of Families	7.9	21.7	32.3	38.1	0.0	100.0
Percentage of Businesses	5.4	15.1	35.1	44.2	0.2	100.0
Source: 2015 ACS Survey Data and 2017 D&B Data, and 2016 Peer Branch Data						
Due to rounding, totals may not equal 100.0						
(*) The NA category consists of geographies that have not been assigned an income classification.						

BB operates 2 branches representing 20.0 percent of its total branches, within low-income CTs. This percentage is significantly higher than the demographics. The percentage of branches in moderate-income CTs is comparable to the percentage of households, families, and businesses in this area.

Alternative delivery systems mirror those described under the bankwide conclusions section of this evaluation. Refer to the comments in the overall bankwide Service Test section regarding the discussion of the institution's alternative delivery systems for details.

### *Changes in Branch Locations*

To the extent that changes have been made, BB's opening or closing of branch offices has not adversely affected the accessibility of its delivery systems, particularly in LMI geographies and/or to LMI individuals. The bank's branch distribution by CT delineations was affected by the updated 2015 ACS Survey Data. The net 2015 ACS changes include the following: one branch moved to a low-income CT, one branch removed from a moderate-income CT, one branch moved to a middle-income CT, and one branch removed from an upper-income CT. There were no net branch differences in the CTs where income was not available. Since the previous evaluation, the bank did not open or close any branch locations.

### *Reasonableness of Business Hours and Services*

Services and business hours do not vary in a way that inconveniences certain portions of the AA, particularly in LMI CTs. Reasonableness of business hours and services in meeting AA needs mirror those described under the bankwide conclusions section of this report. Refer to the comments in the overall bankwide Service Test section regarding the reasonableness of hours for details.

### **Community Development Services**

BB has provided an adequate level of CD services in the San Diego AA. Bank records show that employees provided their financial or job-specific expertise for 72 CD service activities, logging a total of 402 qualified hours within this AA. A majority of the bank's assistance was to organizations that provide community services to LMI individuals and families. Other activities targeted affordable housing and economic development. Hours by category in the San Diego AA are detailed in the following table:

<b>Community Development Services – San Diego Assessment Area</b>										
<b>Activity Year</b>	<b>Affordable Housing</b>		<b>Community Services</b>		<b>Economic Development</b>		<b>Revitalize or Stabilize</b>		<b>Totals</b>	
	<b>#</b>	<b>Hours</b>	<b>#</b>	<b>Hours</b>	<b>#</b>	<b>Hours</b>	<b>#</b>	<b>Hours</b>	<b>#</b>	<b>\$(000s)</b>
2016	0	0	41	285	0	0	0	0	41	285
YTD 2017	4	8	11	59	16	50	0	0	31	117
<b>Total</b>	<b>4</b>	<b>8</b>	<b>52</b>	<b>344</b>	<b>16</b>	<b>50</b>	<b>0</b>	<b>0</b>	<b>72</b>	<b>402</b>
<i>Source: Bank Records</i>										

The following are notable examples of CD services provided in the AA during the review period:

- An employee serves on the finance committee of an organization that helps transitioning foster children achieve self-sufficiency.
- An employee is a Board member for an organization that helps Hispanic women develop business and professional skills and meet their career goals through educational programs, financial workshops, business referrals, and networking.
- An employee serves as a Board member for a non-profit organization that provides access for low-income people, especially those living with HIV/AIDS, to affordable housing.

## METROPOLITAN AREAS EVALUATED USING LIMITED-SCOPE EXAMINATION PROCEDURES

### DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE CALIFORNIA NON-METROPOLITAN STATISTICAL AREA ASSESSMENT AREA

BB operates three full-service branches in the California Non-MSA AA. The AA consists of Siskiyou County. This AA accounted for 0.2 percent of total loans, 1.1 percent of total deposits, and 1.6 percent of the bank's branches.

#### Demographic Data

The following table details the number and percentage of CTs, households, owner-occupied housing units, and businesses by CT income level according to the 2010 U.S. Census, 2015 ACS Census, and 2017 data from D&B.

Demographic Information of the Assessment Area						
Assessment Area: California Non-Metropolitan Statistical Area Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	14	7.1	42.9	50.0	0.0	0.0
Population by Geography	43,895	9.2	25.3	65.5	0.0	0.0
Housing Units by Geography	24,002	9.0	27.1	64.0	0.0	0.0
Owner-Occupied Units by Geography	12,199	7.2	25.2	67.6	0.0	0.0
Occupied Rental Units by Geography	6,934	14.8	24.2	61.0	0.0	0.0
Vacant Units by Geography	4,869	5.1	35.9	59.0	0.0	0.0
Businesses by Geography	3,367	14.2	21.1	64.7	0.0	0.0
Farms by Geography	307	4.6	40.1	55.4	0.0	0.0
Family Distribution by Income Level	11,910	29.9	19.8	19.3	31.0	0.0
Household Distribution by Income Level	19,133	31.1	17.7	17.5	33.7	0.0
Median Family Income Non-MSAs - CA	\$56,948		Median Housing Value			\$181,802
			Median Gross Rent			\$817
			Families Below Poverty Level			17.3%
Source: 2010 U.S. Census & 2015 ACS Census and 2017 D&B Data						
Due to rounding, totals may not equal 100.0						
(*) The NA category consists of geographies that have not been assigned an income classification.						

The assessment area's median housing value is \$181,802, and the median family income is \$56,948. The unemployment rate for the Non-MSA AA for November of 2017 is 6.7 percent, which is below the state average of 4.6. The AAs top employers include College of the Siskiyous, Electro-Guard Inc., and Walmart.

### CONCLUSIONS ON PERFORMANCE CRITERIA IN THE CALIFORNIA NON-METROPOLITAN STATISTICAL AREA ASSESSMENT AREA

#### LENDING TEST

The BB's Lending Test performance in the Non-MSA AA is consistent with the performance in the state.

## Geographic Distribution

### *Small Business Lending*

The following table illustrates BB's small business lending record by CT income level compared to the market. The second column presents the distribution of small businesses by CT income level as estimated by D&B.

<b>Geographic Distribution of Small Business Loans</b>				
<b>Assessment Area: Non-Metropolitan Statistical Area Assessment Area</b>				
<b>Tract Income Level</b>	<b>% of Businesses</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>
Low				
2016	0.0	0.0	0	0.0
Moderate				
2016	33.5	31.4	10	47.6
Middle				
2016	66.5	68.6	11	52.4
Upper				
2016	0.0	0.0	0	0.0
Not Available				
2016	0.0	0.0	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>21</b>	<b>100.0</b>
<i>Source: 2016 D&amp;B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0</i>				

### *Residential Mortgage Loans*

The following table details BB's residential mortgage lending distribution by CT income level for the AA compared to the market. The second column provides the distribution of owner-occupied housing units according to the 2010 U.S. Census for demographic reference.



Geographic Distribution of Home Mortgage Loans				
Assessment Area: Non-Metropolitan Statistical Area Assessment Area				
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%
Low				
2016	0.0	0.0	0	0.0
Moderate				
2016	38.9	26.0	1	9.1
Middle				
2016	61.1	74.0	10	90.9
Upper				
2016	0.0	0.0	0	0.0
Not Available				
2016	0.0	0.0	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>11</b>	<b>100.0</b>
Source: 2010 U.S. Census; 1/1/2016 - 12/31/2016 Bank Data, 2016 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0				

## **Borrower Profile**

### *Small Business Loans*

The following table details BB's rate of lending to businesses with GARs of \$1 million or less compared to the market. The second column illustrates the distribution of small businesses by revenue level estimated by the D&B.

Distribution of Small Business Loans by Gross Annual Revenue Category				
Assessment Area: Non-Metropolitan Statistical Area Assessment Area				
Gross Revenue Level	% of Businesses	Aggregate Performance % of #	#	%
<=\$1,000,000				
2016	83.0	37.0	15	71.4
>1,000,000				
2016	3.7	--	6	28.6
Revenue Not Available				
2016	13.4	--	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>21</b>	<b>100.0</b>
Source: 2016 D&B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data; "--" data not available. Due to rounding, totals may not equal 100.0				

### *Residential Mortgage Loans*

The following table details BB's distribution of loans by borrower income level over the review period compared to the market. The percentage of families by income level from the 2010 U.S. Census is included in the second column for demographic reference.

<b>Distribution of Home Mortgage Loans by Borrower Income Level</b>				
<b>Assessment Area: Non-Metropolitan Statistical Area Assessment Area</b>				
<b>Borrower Income Level</b>	<b>% of Families</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>
Low				
2016	27.2	4.7	2	18.2
Moderate				
2016	20.4	16.5	2	18.2
Middle				
2016	20.7	20.7	3	27.3
Upper				
2016	31.7	41.3	2	18.2
Not Available				
2016	0.0	16.9	2	18.2
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>11</b>	<b>100.0</b>
<i>Source: 2010 U.S. Census; 1/1/2016 - 12/31/2016 Bank Data, 2016 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0</i>				

### **Community Development Lending**

During the review period, BB did not originate any CD loans in the Non-MSA AA.

### **INVESTMENT TEST**

BB's Investment Test performance in the Non-MSA AA is consistent with the investment performance in the state. During the review period, the bank purchased 2 new investments totaling \$830,000 and made \$8,000 in donations.

### **SERVICE TEST**

BB's service performance in the AA is below the bank's service performance in the state; however, it does not change the conclusion for the state rating. The bank operates 3 branches in the AA comprising 1.6 percent of the bank's total branch network. One branch is located in a moderate-income CT, and two branches are located in middle-income CTs. Products, services, and business hours are similar to those offered in the CAA.

The bank's branch distribution by census tract delineations was affected by the updated 2015 ACS Survey Data. The net 2015 ACS changes include the following: one branch moved to a

moderate-income CT and one branch removed from a middle-income CT. There were no net branch differences in the low-income CTs, upper-income CTs, and the CTs where income was not available. Since the previous evaluation, the bank did not open or close any branch locations. During the review period, the bank did not provide any CD service hours within the AA.

## METROPOLITAN AREAS EVALUATED USING LIMITED-SCOPE EXAMINATION PROCEDURES

### DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE CHICO ASSESSMENT AREA

BB operates one full-service branch in the Chico AA. The AA consists of Butte County, which is a part of the Chico, California (CA) MSA. This AA accounts for 0.2 percent of total loans, 0.1 percent of total deposits, and 0.5 percent of the bank's branches.

#### Demographic Data

The following table details the number and percentage of CTs, households, owner-occupied housing units, and businesses by CT income level according to the 2010 U.S. Census, 2015 ACS Census, and 2017 data from D&B.

Demographic Information of the Assessment Area						
Assessment Area: Chico Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	51	3.9	27.5	47.1	21.6	0.0
Population by Geography	222,564	3.9	26.2	46.6	23.3	0.0
Housing Units by Geography	97,133	3.9	25.0	48.1	23.0	0.0
Owner-Occupied Units by Geography	50,031	0.9	20.3	51.6	27.2	0.0
Occupied Rental Units by Geography	35,287	7.5	29.4	44.2	18.8	0.0
Vacant Units by Geography	11,815	5.6	32.1	44.5	17.8	0.0
Businesses by Geography	13,696	1.3	26.4	47.0	25.3	0.0
Farms by Geography	974	0.7	16.7	41.4	41.2	0.0
Family Distribution by Income Level	50,963	22.9	16.7	19.0	41.4	0.0
Household Distribution by Income Level	85,318	25.8	15.4	16.0	42.8	0.0
Median Family Income MSA - 17020 Chico, CA MSA	\$56,914		Median Housing Value			\$225,491
			Median Gross Rent			\$921
			Families Below Poverty Level			13.1%
Source: 2010 U.S. Census & 2015 ACS Census and 2017 D&B Data Due to rounding, totals may not equal 100.0 (* ) The NA category consists of geographies that have not been assigned an income classification.						

The assessment area's median housing value is \$225,491 and the median family income is \$56,914. The unemployment rate for the Chico AA for November of 2017 is 4.8 percent, which

is above the state average of 4.6. The AAs top employers include Enloe Medical Center, Chico State University, and Oroville Hospital.

## CONCLUSIONS ON PERFORMANCE CRITERIA IN THE CHICO ASSESSMENT AREA

### LENDING TEST

The BB's Lending Test performance in the Chico AA is stronger than the lending performance in the state; however, it does not change the rating for the State of California.

### Geographic Distribution

#### *Small Business Lending*

The following table illustrates BB's small business lending record by CT income level compared to the market. The second column presents the distribution of small businesses by CT income level as estimated by D&B.

Geographic Distribution of Small Business Loans				
Assessment Area: Chico Assessment Area				
Tract Income Level	% of Businesses	Aggregate Performance % of #	#	%
Low				
2016	0.4	0.3	0	0.0
Moderate				
2016	28.7	14.7	10	40.0
Middle				
2016	43.2	43.6	9	36.0
Upper				
2016	27.8	41.4	6	24.0
Not Available				
2016	0.0	0.0	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>25</b>	<b>100.0</b>
Source: 2016 D&B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0				

#### *Residential Mortgage Loans*

The following table details BB's residential mortgage lending distribution by CT income level for the AA compared to the market. The second column provides the distribution of owner-occupied housing units according to the 2010 U.S. Census for demographic reference.

Geographic Distribution of Home Mortgage Loans				
Assessment Area: Chico Assessment Area				
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%
Low				
2016	0.3	0.6	0	0.0
Moderate				
2016	14.5	14.1	0	0.0
Middle				
2016	56.0	50.9	1	33.3
Upper				
2016	29.2	34.4	2	66.7
Not Available				
2016	0.0	0.0	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>3</b>	<b>100.0</b>
Source: 2010 U.S. Census; 1/1/2016 - 12/31/2016 Bank Data, 2016 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0				

## **Borrower Profile**

### *Small Business Loans*

The following table details BB's rate of lending to businesses with GARs of \$1 million or less compared to the market. The second column illustrates the distribution of small businesses by revenue level estimated by the D&B.

Distribution of Small Business Loans by Gross Annual Revenue Category				
Assessment Area: Chico Assessment Area				
Gross Revenue Level	% of Businesses	Aggregate Performance % of #	#	%
<=\$1,000,000				
2016	85.3	27.7	12	48.0
>1,000,000				
2016	4.5	--	13	52.0
Revenue Not Available				
2016	10.2	--	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>25</b>	<b>100.0</b>
Source: 2016 D&B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data; "--" data not available. Due to rounding, totals may not equal 100.0				

### *Residential Mortgage Loans*

The following table details BB's distribution of loans by borrower income level over the review period compared to the market. The percentage of families by income level from the 2010 U.S. Census is included in the second column for demographic reference.

<b>Distribution of Home Mortgage Loans by Borrower Income Level</b>				
<b>Assessment Area: Chico Assessment Area</b>				
<b>Borrower Income Level</b>	<b>% of Families</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>
Low				
2016	22.1	3.3	0	0.0
Moderate				
2016	17.2	12.0	0	0.0
Middle				
2016	19.4	19.8	1	33.3
Upper				
2016	41.4	50.3	2	66.7
Not Available				
2016	0.0	14.5	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>3</b>	<b>100.0</b>
<i>Source: 2010 U.S. Census; 1/1/2016 - 12/31/2016 Bank Data, 2016 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0</i>				

### **Community Development Lending**

BB did not originate any CD loans in the Chico AA during the review period.

### **INVESTMENT TEST**

BB's Investment Test performance in the Chico AA is consistent with the investment performance in the state. During the review period, the bank held 1 prior period investments totaling \$126,000, purchased 2 new investments totaling \$320,000, and made \$16,000 in donations in the AA.

### **SERVICE TEST**

BB's service performance in the AA is consistent with the bank's service performance in the state. The bank operates 1 branch comprising less than one percent of the bank's total branch network. The branch is located in a middle-income CT. Products, services, and business hours are similar to those offered in the CAA.

The bank's branch distribution by census tract delineations was not affected by the updated 2015 ACS Survey Data. Since the previous evaluation, the bank did not open or close any branch

locations. During the review period, employees provided 149 CD service hours in the Chico AA.

## METROPOLITAN AREAS EVALUATED USING LIMITED-SCOPE EXAMINATION PROCEDURES

### DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE LOS ANGELES ASSESSMENT AREA

BB operates nine full-service branches in the Los Angeles AA. The AA consists of Los Angeles, Riverside, and San Bernardino Counties, which are all part of the Los Angeles-Long Beach-Riverside, CA CSA. This AA accounted for 5.8 percent of total loans, 3.4 percent of total deposits, and 4.8 percent of the bank's branches.

#### Demographic Data

The following table details the number and percentage of CTs, households, owner-occupied housing units, and businesses by CT income level according to the 2010 U.S. Census, 2015 ACS Census, and 2017 data from D&B.

Demographic Information of the Assessment Area						
Assessment Area: Los Angeles Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	3,168	8.3	29.0	27.9	32.9	1.8
Population by Geography	14,431,189	7.6	28.8	29.1	33.9	0.6
Housing Units by Geography	4,998,002	6.9	26.6	28.4	37.7	0.4
Owner-Occupied Units by Geography	2,319,532	2.5	18.5	30.3	48.6	0.1
Occupied Rental Units by Geography	2,257,094	11.5	35.0	25.8	27.0	0.7
Vacant Units by Geography	421,376	6.6	26.4	31.3	35.0	0.7
Businesses by Geography	939,914	4.7	20.7	24.8	47.9	1.9
Farms by Geography	12,029	3.1	19.7	30.7	45.8	0.7
Family Distribution by Income Level	3,165,674	24.1	16.5	17.4	42.1	0.0
Household Distribution by Income Level	4,576,626	25.5	15.5	16.2	42.8	0.0
Median Family Income MSA - #31084 Los Angeles-Long Beach- Glendale, CA MD	\$62,703		Median Housing Value			\$419,874
Median Family Income MSA - #40140 Riverside-San Bernardino- Ontario, CA MSA	\$61,507		Median Gross Rent			\$1,270
			Families Below Poverty Level			14.3%
Source: 2010 U.S. Census & 2015 ACS Census and 2017 D&B Data Due to rounding, totals may not equal 100.0 (* ) The NA category consists of geographies that have not been assigned an income classification.						

The AA's median housing value is \$419,874 and the median family income is \$62,703 for the Los Angeles-Long Beach-Glendale MSA and \$61,507 for the Riverside-San Bernardino-Ontario MSA. The unemployment rate for the Los Angeles AA for November of 2017 is 3.8 percent, which is below the state average of 4.6. The AAs top employers include the University of California Los Angeles, Kaiser Permanente, and the University of Southern California.

## CONCLUSIONS ON PERFORMANCE CRITERIA IN THE LOS ANGELES ASSESSMENT AREA

### LENDING TEST

The BB's Lending Test performance in the Los Angeles AA is consistent with the lending performance in the state.

### Geographic Distribution

#### *Small Business Lending*

The following table illustrates BB's small business lending record by CT income level compared to the market. The second column presents the distribution of small businesses by CT income level as estimated by D&B.

Geographic Distribution of Small Business Loans				
Assessment Area: Los Angeles Assessment Area				
Tract Income Level	% of Businesses	Aggregate Performance % of #	#	%
Low				
2016	5.9	4.8	8	3.7
Moderate				
2016	19.5	18.1	59	27.3
Middle				
2016	27.4	26.9	83	38.4
Upper				
2016	46.2	49.6	64	29.6
Not Available				
2016	1.0	0.6	2	0.9
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>216</b>	<b>100.0</b>
Source: 2016 D&B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0				



### *Residential Mortgage Loans*

The following table details BB's residential mortgage lending distribution by CT income level for the AA compared to the market. The second column provides the distribution of owner-occupied housing units according to the 2010 U.S. Census for demographic reference.

<b>Geographic Distribution of Home Mortgage Loans</b>				
<b>Assessment Area: Los Angeles Assessment Area</b>				
<b>Tract Income Level</b>	<b>% of Owner-Occupied Housing Units</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>
Low				
2016	2.4	2.3	2	3.2
Moderate				
2016	18.4	16.2	17	27.0
Middle				
2016	31.4	31.4	16	25.4
Upper				
2016	47.9	50.1	28	44.4
Not Available				
2016	0.0	0.0	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>63</b>	<b>100.0</b>
<i>Source: 2010 U.S. Census; 1/1/2016 - 12/31/2016 Bank Data, 2016 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0</i>				

### **Borrower Profile**

#### *Small Business Loans*

The following table details BB's rate of lending to businesses with GARs of \$1 million or less compared to the market. The second column illustrates the distribution of small businesses by revenue level estimated by the D&B.

Distribution of Small Business Loans by Gross Annual Revenue Category				
Assessment Area: Los Angeles Assessment Area				
Gross Revenue Level	% of Businesses	Aggregate Performance % of #	#	%
<=\$1,000,000				
2016	86.8	45.2	103	47.7
>1,000,000				
2016	5.7	--	103	47.7
Revenue Not Available				
2016	7.5	--	10	4.6
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>216</b>	<b>100.0</b>
Source: 2016 D&B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data; "--" data not available. Due to rounding, totals may not equal 100.0				

### *Residential Mortgage Loans*

The following table details BB's distribution of loans by borrower income level over the review period compared to the market. The percentage of families by income level from the 2010 U.S. Census is included in the second column for demographic reference.

Distribution of Home Mortgage Loans by Borrower Income Level				
Assessment Area: Los Angeles Assessment Area				
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%
Low				
2016	23.4	1.7	0	0.0
Moderate				
2016	16.8	6.8	4	6.3
Middle				
2016	18.3	15.5	10	15.9
Upper				
2016	41.6	57.7	29	46.0
Not Available				
2016	0.0	18.3	20	31.7
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>63</b>	<b>100.0</b>
Source: 2010 U.S. Census; 1/1/2016 - 12/31/2016 Bank Data, 2016 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0				

### **Community Development Lending**

During the review period, BB originated 4 CD loans totaling \$5.4 million in the Los Angeles AA.

## **INVESTMENT TEST**

BB's Investment Test performance in the Los Angeles AA is consistent with the investment performance in the state. During the review period, the bank purchased 1 new investment totaling \$2.8 million and made \$108,000 in donations in the AA.

## **SERVICE TEST**

BB's service performance in the AA is consistent with the bank's service performance in the state. The bank operates 9 branches comprising 4.9 percent of the bank's total branch network. One branch is located in a low-income CT, one branch is located in a moderate-income CT, five are located in middle-income CTs, and two are located in upper-income CTs. Products, services, and business hours are similar to those offered in the CAA.

The bank's branch distribution by census tract delineations was affected by the updated 2015 ACS Survey Data. The net 2015 ACS changes include the following: one branch was removed from a moderate-income CT and one branch was moved to a middle-income CT. There were no net branch differences in the low-income CTs, upper-income CTs, and the CTs where income was not available. Since the previous evaluation, the bank has not opened or closed any branch locations. During the review period, employees provided 188 CD service hours within the Los Angeles AA.

## **METROPOLITAN AREAS EVALUATED USING LIMITED-SCOPE EXAMINATION PROCEDURES**

### **DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE REDDING ASSESSMENT AREA**

BB operates three full-service branches in the Redding AA. The AA consists of Shasta and Tehama Counties, which are part of the Redding-Red Bluff, CA CSA. This AA accounted for 0.6 percent of total loans, 1.5 percent of total deposits, and 1.6 percent of the bank's branches.

#### **Demographic Data**

The following table details the number and percentage of CTs, households, owner-occupied housing units, and businesses by CT income level according to the 2010 U.S. Census, 2015 ACS Census, and 2017 data from D&B.

Demographic Information of the Assessment Area						
Assessment Area: Redding Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	59	0.0	23.7	54.2	22.0	0.0
Population by Geography	242,094	0.0	26.4	56.1	17.5	0.0
Housing Units by Geography	105,010	0.0	26.2	57.4	16.4	0.0
Owner-Occupied Units by Geography	59,339	0.0	20.9	58.4	20.7	0.0
Occupied Rental Units by Geography	33,740	0.0	35.2	53.8	11.0	0.0
Vacant Units by Geography	11,931	0.0	26.9	63.0	10.1	0.0
Businesses by Geography	15,946	0.0	26.5	57.0	16.5	0.0
Farms by Geography	923	0.0	26.5	62.1	11.4	0.0
Family Distribution by Income Level	61,300	22.5	18.8	19.6	39.2	0.0
Household Distribution by Income Level	93,079	24.6	16.9	17.4	41.2	0.0
Median Family Income MSA - #39820 Redding, CA MSA	\$55,749		Median Housing Value			\$203,158
Median Family Income Non-MSAs - CA	\$56,948		Median Gross Rent			\$912
			Families Below Poverty Level			11.8%
Source: 2010 U.S. Census & 2015 ACS Census and 2017 D&B Data Due to rounding, totals may not equal 100.0 (*) The NA category consists of geographies that have not been assigned an income classification.						

The assessment area's median housing value is \$203,158 and the median family income is \$55,749 for the Redding MSA and \$56,948 for Tehama County. The unemployment rate for the Redding AA for November of 2017 is 4.8 percent, which is slightly above the state average of 4.6. The AAs top employers include Mercy Medical Center, J & A Food Services, and Holiday Markets.

## CONCLUSIONS ON PERFORMANCE CRITERIA IN THE REDDING ASSESSMENT AREA

### LENDING TEST

The BB's Lending Test performance in the Redding AA is stronger than the lending performance in the state; however, it does not change the rating for the State of California.

### Geographic Distribution

#### *Small Business Lending*

The following table illustrates BB's small business lending record by CT income level compared to the market. The second column presents the distribution of small businesses by CT income level as estimated by D&B.

Geographic Distribution of Small Business Loans				
Assessment Area: Redding Assessment Area				
Tract Income Level	% of Businesses	Aggregate Performance % of #	#	%
Low				
2016	0.0	0.0	0	0.0
Moderate				
2016	35.0	28.7	32	56.1
Middle				
2016	50.9	53.8	22	38.6
Upper				
2016	14.1	17.4	3	5.3
Not Available				
2016	0.0	0.0	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>57</b>	<b>100.0</b>
Source: 2016 D&B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0				

### Residential Mortgage Loans

The following table details BB's residential mortgage lending distribution by CT income level for the AA compared to the market. The second column provides the distribution of owner-occupied housing units according to the 2010 U.S. Census for demographic reference.

Geographic Distribution of Home Mortgage Loans				
Assessment Area: Redding Assessment Area				
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%
Low				
2016	0.0	0.0	0	0.0
Moderate				
2016	24.1	22.8	17	41.5
Middle				
2016	56.9	55.7	22	53.7
Upper				
2016	19.0	21.5	2	4.9
Not Available				
2016	0.0	0.0	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>41</b>	<b>100.0</b>
Source: 2010 U.S. Census; 1/1/2016 - 12/31/2016 Bank Data, 2016 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0				

## **Borrower Profile**

### *Small Business Loans*

The following table details BB's rate of lending to businesses with GARs of \$1 million or less compared to the market. The second column illustrates the distribution of small businesses by revenue level estimated by the D&B.

<b>Distribution of Small Business Loans by Gross Annual Revenue Category</b>				
<b>Assessment Area: Redding Assessment Area</b>				
<b>Gross Revenue Level</b>	<b>% of Businesses</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>
<b>&lt;=\$1,000,000</b>				
2016	85.2	37.0	33	57.9
<b>&gt;1,000,000</b>				
2016	4.6	--	24	42.1
<b>Revenue Not Available</b>				
2016	10.2	--	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>57</b>	<b>100.0</b>
<i>Source: 2016 D&amp;B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data; "--" data not available. Due to rounding, totals may not equal 100.0</i>				

### *Residential Mortgage Loans*

The following table details BB's distribution of loans by borrower income level over the review period compared to the market. The percentage of families by income level from the 2010 U.S. Census is included in the second column for demographic reference.

Distribution of Home Mortgage Loans by Borrower Income Level				
Assessment Area: Redding Assessment Area				
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%
Low				
2016	23.4	2.6	1	2.4
Moderate				
2016	19.5	10.5	10	24.4
Middle				
2016	19.5	19.7	10	24.4
Upper				
2016	37.6	44.7	20	48.8
Not Available				
2016	0.0	22.6	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>41</b>	<b>100.0</b>
Source: 2010 U.S. Census; 1/1/2016 - 12/31/2016 Bank Data, 2016 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0				

### **Community Development Lending**

During the review period, BB originated did not originate any CD loans in the Redding AA.

### **INVESTMENT TEST**

BB's Investment Test performance in the Redding AA is consistent with the investment performance in the state. During the review period, the bank held 4 prior period investments totaling \$771,000, purchased 5 new investments totaling \$886,000, and made \$6,000 in donations.

### **SERVICE TEST**

BB's service performance in the AA is below the bank's service performance in the state; however, it does not change the conclusion for the state. The bank operates 3 branches comprising 1.6 percent of the bank's total branch network. Two branches are located in moderate-income CTs, and one is located in a middle-income CT. Products, services, and business hours are similar to those offered in the CAA.

The CT income classifications of the bank's branches were affected by the updated 2015 ACS Survey Data; however, the net effect did not change the branch distribution by geography. Since the previous evaluation, the bank did not open or close any branch locations. During the review period, BB did not provide any CD service hours within the Redding AA.

# METROPOLITAN AREAS EVALUATED USING LIMITED-SCOPE EXAMINATION PROCEDURES

## DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE SACRAMENTO ASSESSMENT AREA

BB operates 10 full-service branches in the Sacramento AA. The AA consists of Placer, Sacramento, Yolo, and Nevada Counties, which are part of the Sacramento-Arden-Arcade-Yuba City, CA-NV CSA. This AA accounted for 4.0 percent of total loans, 5.4 percent of total deposits, and 5.3 percent of the bank's branches.

### Demographic Data

The following table details the number and percentage of CTs, households, owner-occupied housing units, and businesses by CT income level according to the 2010 U.S. Census, 2015 ACS Census, and 2017 data from D&B.

Demographic Information of the Assessment Area						
Assessment Area: Sacramento Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	463	9.5	24.2	32.6	33.3	0.4
Population by Geography	2,138,002	9.4	24.2	32.4	33.9	0.1
Housing Units by Geography	845,779	8.7	23.3	33.4	34.4	0.2
Owner-Occupied Units by Geography	451,759	4.6	18.9	33.8	42.6	0.0
Occupied Rental Units by Geography	319,283	14.4	30.4	33.2	21.5	0.4
Vacant Units by Geography	74,737	9.3	19.2	31.5	39.4	0.6
Businesses by Geography	140,028	9.1	22.0	30.3	36.5	2.0
Farms by Geography	3,697	5.0	18.6	33.6	42.3	0.5
Family Distribution by Income Level	508,722	23.8	16.5	18.2	41.5	0.0
Household Distribution by Income Level	771,042	25.3	15.6	17.1	42.0	0.0
Median Family Income MSA - #40900 Sacramento--Roseville-- Arden-Arcade, CA MSA	\$71,829		Median Housing Value			\$291,908
Median Family Income Non-MSAs - CA	\$56,948		Median Gross Rent			\$1,106
			Families Below Poverty Level			11.7%
Source: 2010 U.S. Census & 2015 ACS Census and 2017 D&B Data Due to rounding, totals may not equal 100.0 (* ) The NA category consists of geographies that have not been assigned an income classification.						

The assessment area's median housing value is \$291,908 and the median family income is \$71,829 for the Sacramento-Roseville-Arden-Arcade MSA and \$56,948 for Nevada County. The unemployment rate for the Redding AA for November of 2017 is 3.7 percent, which is below the state average of 4.6. The AAs top employers include Kaiser Permanente, UC Davis Health System, and the University of California.



## CONCLUSIONS ON PERFORMANCE CRITERIA IN THE SACRAMENTO ASSESSMENT AREA

### LENDING TEST

The BB's Lending Test performance in the Sacramento AA is consistent with the performance in the state.

### Geographic Distribution

#### *Small Business Lending*

The following table illustrates BB's small business lending record by CT income level compared to the market. The second column presents the distribution of small businesses by CT income level as estimated by D&B.

<b>Geographic Distribution of Small Business Loans</b>				
<b>Assessment Area: Sacramento Assessment Area</b>				
<b>Tract Income Level</b>	<b>% of Businesses</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>
Low				
2016	7.3	6.2	18	8.8
Moderate				
2016	21.0	17.2	77	37.6
Middle				
2016	39.5	38.4	64	31.2
Upper				
2016	32.2	38.2	46	22.4
Not Available				
2016	0.0	0.0	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>205</b>	<b>100.0</b>
<i>Source: 2016 D&amp;B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0</i>				

#### *Residential Mortgage Loans*

The following table details BB's residential mortgage lending distribution by CT income level for the AA compared to the market. The second column provides the distribution of owner-occupied housing units according to the 2010 U.S. Census for demographic reference.

Geographic Distribution of Home Mortgage Loans				
Assessment Area: Sacramento Assessment Area				
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%
Low				
2016	3.9	3.5	0	0.0
Moderate				
2016	18.2	15.5	9	28.1
Middle				
2016	40.4	39.1	13	40.6
Upper				
2016	37.5	41.9	10	31.3
Not Available				
2016	0.0	0.0	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>32</b>	<b>100.0</b>
Source: 2010 U.S. Census; 1/1/2016 - 12/31/2016 Bank Data, 2016 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0				

## **Borrower Profile**

### *Small Business Loans*

The following table details BB's rate of lending to businesses with GARs of \$1 million or less compared to the market. The second column illustrates the distribution of small businesses by revenue level estimated by the D&B.

Distribution of Small Business Loans by Gross Annual Revenue Category				
Assessment Area: Sacramento Assessment Area				
Gross Revenue Level	% of Businesses	Aggregate Performance % of #	#	%
<=\$1,000,000				
2016	85.6	41.0	98	47.8
>1,000,000				
2016	4.8	--	103	50.2
Revenue Not Available				
2016	9.7	--	4	2.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>205</b>	<b>100.0</b>
Source: 2016 D&B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data; "--" data not available. Due to rounding, totals may not equal 100.0				

### *Residential Mortgage Loans*

The following table details BB's distribution of loans by borrower income level over the review period compared to the market. The percentage of families by income level from the 2010 U.S. Census is included in the second column for demographic reference.

<b>Distribution of Home Mortgage Loans by Borrower Income Level</b>				
<b>Assessment Area: Sacramento Assessment Area</b>				
<b>Borrower Income Level</b>	<b>% of Families</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>
Low				
2016	22.2	2.5	0	0.0
Moderate				
2016	17.0	11.1	1	3.1
Middle				
2016	19.9	20.4	4	12.5
Upper				
2016	40.8	49.1	16	50.0
Not Available				
2016	0.0	16.9	11	34.4
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>32</b>	<b>100.0</b>
<i>Source: 2010 U.S. Census; 1/1/2016 - 12/31/2016 Bank Data, 2016 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0</i>				

### **Community Development Lending**

During the review period, BB originated 1 CD loan totaling \$295,000 in the Sacramento AA.

### **INVESTMENT TEST**

BB's Investment Test performance in the Sacramento AA is consistent with the investment performance in the state. During the review period, the bank held 1 prior period investments totaling \$401,000, purchased 4 new investments totaling \$3.6 million, and made \$93,000 in donations.

### **SERVICE TEST**

BB's service performance in the AA is below the bank's service performance in the state however, it does not change the conclusion for the state. The bank operates 9 branches in the AA comprising 4.9 percent of the bank's total branch network. One branch is located in a low-income CT, one is in a moderate-income CT, three are in middle-income CTs, three are in upper-income CTs, and one is located in an NA CT. Products, services, and business hours are similar to those offered in the CAA.

The bank's branch distribution by CT delineations was affected by the updated 2015 ACS Survey Data. The net 2015 ACS changes include the following: one branch moved to a low-income CT, one branch removed from a moderate-income CT, two branches removed from middle-income CTs, one branch moved to an upper-income CT, and one branch moved to a NA CT. Since the previous evaluation, the bank permanently closed two branches within the Sacramento AA, both located in middle-income CTs. During the review period, employees provided 89 CD service hours in the Sacramento AA.

## **OREGON**

### **CRA RATING FOR OREGON: Satisfactory**

**The Lending Test is rated: Low Satisfactory**

**The Investment Test is rated: High Satisfactory**

**The Service Test is rated: High Satisfactory**

### **SCOPE OF EVALUATION**

Examiners conducted a full-scope evaluation of the bank's performance in the NE Oregon Non-MSA AA and limited-scope evaluations of the bank's performance in Oregon Coast Non-MSA, Eugene, and Medford AAs.

The evaluation focused on small business and HMDA lending. The bank's small farm loan performance was also reviewed; however, limited to the NE Oregon Non-MSA. Therefore, conclusions relative to small farm lending in Oregon are detailed in the NE Oregon Non-MSA full-scope evaluation. CD lending, investments, and retail and CD services were reviewed. Loans originated and reported pursuant to CRA data collection requirements for 2016 were included in the review. Aggregate lending data used in the analysis is for 2016. Information from recently completed community contacts in these AAs was also reviewed and considered.

### **DESCRIPTION OF INSTITUTION'S OPERATIONS IN OREGON**

BB operates 38 branches in 4 AAs within 9 counties in the State of Oregon. Refer to the service test discussion for details regarding bank operations. Details regarding the MSAs and counties comprising the four AAs are contained in the bankwide tables.

### **Economic and Demographic Data**

The following table details the number and percentage of CTs, households, owner-occupied housing units, and businesses by CT income level according to the 2010 U.S. Census, 2015 ACS Census, and 2017 data from D&B.

Demographic Information of the Assessment Area						
Assessment Area: State of Oregon						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	212	1.9	15.1	61.8	19.8	1.4
Population by Geography	948,540	1.9	14.1	64.0	20.0	0.0
Housing Units by Geography	421,345	1.9	14.5	64.7	18.9	0.0
Owner-Occupied Units by Geography	237,427	0.3	11.2	66.3	22.1	0.0
Occupied Rental Units by Geography	144,364	4.5	19.8	61.2	14.5	0.0
Vacant Units by Geography	39,554	2.1	14.6	67.7	15.7	0.0
Businesses by Geography	70,171	3.6	16.0	60.4	20.0	0.0
Farms by Geography	4,276	0.8	7.2	68.9	23.0	0.0
Family Distribution by Income Level	238,813	20.9	18.0	20.3	40.8	0.0
Household Distribution by Income Level	381,791	24.3	15.9	17.6	42.2	0.0
Median Family Income MSA - #21660 Eugene, OR MSA	\$57,766		Median Housing Value			\$205,980
Median Family Income MSA - #24420 Grants Pass, OR MSA	\$46,452		Median Gross Rent			\$828
Median Family Income MSA - #32780 Medford, OR MSA	\$53,441		Families Below Poverty Level			12.8%
Median Family Income Non- MSAs – OR	\$51,555					
Source: 2010 U.S. Census & 2015 ACS Census and 2017 D&B Data						
Due to rounding, totals may not equal 100.0						
(*) The NA category consists of geographies that have not been assigned an income classification.						

Oregon's economy is steadily expanding. Although the tight labor market is placing a speed limit on employment growth, Oregon still ranks in the top five states nationally in terms of job additions on a year over year basis. Government, education and health services, professional and business services, and retail industry provide a wide range of jobs statewide. The four biggest employers are Intel Corp., Providence Health Systems, Oregon Health & Science University, and Fred Meyer Stores.

According to Moody's Analytics, labor shortages are putting upward pressure on wages, and growth in the average hourly wage has accelerated sharply over the past few months. House prices are rising by more than twice the national rate, and the inventory of unsold homes has become exceedingly tight as builders struggle to keep pace with demand.

The following table contains unemployment statistics for the State of Oregon and each individual AA:

Unemployment Rates: Oregon		
Assessment Area	2016	November 2017
	%	%
NE Oregon Non-MSA	5.6	4.7
Oregon Coast Non-MSA	5.8	5.2
Eugene	4.4	4.1
Medford	4.7	4.2
State	4.5	4.2
National Average	4.7	4.1
<i>Source: Bureau of Labor Statistics</i>		

The above table indicates that the unemployment rates have improved in the Oregon AAs since 2016, but are above state and national levels. Additionally, the state unemployment rate was similar to the national rate for both 2016 and November 2017.

### **Competition**

There is a relatively high level of market competition for financial services in the Oregon AAs. According to the FDIC Deposit Market Share data as of June 30, 2017, 21 financial institutions operate 257 full-service branches within the bank's Oregon AAs. Of these institutions, BB ranked 4<sup>th</sup> with 10.3 percent deposit market share.

According to 2016 aggregate data, BB ranked 8<sup>th</sup> of 90 small business lenders in the State of Oregon. Small business lenders originated 30,339 loans. BB had 3.2 percent of the market share compared to the top 3 lenders with 67.5 percent of the total market share for this product. This indicates a high level of competition for this product type than BB's other AAs.

There is a high level of competition among residential mortgage lenders in the State of Oregon AAs. In 2016, 435 lenders reported 49,250 residential mortgage loans originated or purchased. BB ranked 13<sup>th</sup> out of this group of lenders, with a market share of 1.8 percent. The 3 leading residential mortgage lenders accounted for 21.1 percent of total market share.

### **Community Contacts**

Examiners reviewed recent community contacts in conjunction with this evaluation that are specific to the bank's Oregon AAs. Refer to community contact section under the full-scope AA for details.

## **CONCLUSIONS ON PERFORMANCE CRITERIA IN OREGON**

### **LENDING TEST**

BB is rated "Low Satisfactory" in the Lending Test. The performance in the NE Oregon Non-MSA AA drove the overall state-wide rating, although the performance within each AA was considered.

## **Lending Activity**

Overall, BB's lending levels reflect good responsiveness to the credit needs of the Oregon AAs. Both the number and dollar volume of loans originated during the review period, as well as market share and market ranking figures for the primary loan products were analyzed to determine the bank's level of lending relative to the credit needs of the AA. In 2016, BB originated 850 small business loans totaling \$104.1 million and 566 HMDA loans totaling \$103.0 million. The following table details BB's small business and HMDA loan market ranking for 2016. The institution's deposit market share data is also included for reference.

Small Business Loans, Home Mortgage Disclosure Act Loans, and Deposit Market Share					
Assessment Area	2016 – Small Business		2016 – Home Mortgage Disclosure Act		Deposit Market Share %
	Rank (#)	Market Share %	Rank (#)	Market Share %	
NE Oregon Non-MSA	3 of 61	14.1	7 of 227	4.8	28.8
Oregon Coast Non-MSA	6 of 56	3.5	4 of 222	4.6	11.4
Eugene	10 of 69	1.5	26 of 298	0.8	6.4
Medford	8 of 62	1.8	27 of 296	0.8	7.1
<i>Source: 2016 Small Business and HMDA Market Share Data and June 30, 2017 Summary of Deposits</i>					

The table illustrates a high level of competition in BB's Oregon markets. Overall, the bank's market share ranking and percentage reflects good responsiveness to the small business and residential mortgage credit needs of the Oregon AAs.

## **Geographic Distribution**

The geographic distribution of loans reflects adequate penetration throughout the AAs in the state. The bank's performance varied between the AAs. Refer to the Geographic Distribution section of each AA for specific details.

## **Borrower Profile**

The distribution of borrowers in Oregon reflects, given the product lines offered by the bank, good penetration to business customers of different revenue sizes and retail customers of different income levels. The bank's performance varied between the AAs. Refer to the Borrower Profile section of each AA for specific details.

BB exhibits an adequate record of serving the credit needs of the most economically disadvantaged areas of its AAs, including low-income individuals and/or very small businesses. BB provided 18 small business and 1 HMDA loans in low-income CTs during the review period. Additionally, the bank provided 513 small business loans to businesses with GARs of \$1.0 million or less and 28 HMDA loans to low-income borrowers.

## **Community Development Lending**

BB originated an adequate level of CD loans in the State of Oregon. During this evaluation period, the bank originated 6 CD loans totaling \$5.5 million. This is a decrease by dollar volume

from the prior evaluation when BB's CD loans totaled approximately \$7.8 million. The loans addressed affordable housing and community services. Refer to the full-scope AA for further details and notable examples.

### **Innovative and Flexible Lending Practice**

The bank makes use of innovative or flexible lending practices in order to serve the credit needs of its AAs. Refer to the Innovative or Flexible Lending Practices section of the bankwide section of this evaluation for additional details regarding these programs.

## **INVESTMENT TEST**

BB is rated "High Satisfactory" in the Investment Test for the State of Oregon. The performance in each AA helped drive the overall state rating.

### **Investment Activity**

BB has a significant level of qualified CD investments and donations, occasionally in a leadership position, particularly those that are not routinely provided by private investors. BB reported 89 qualified investments and donations totaling approximately \$19.8 million in the state. This level is a significant increase from the prior evaluation when BB's qualified investments and donations totaled approximately \$2.4 million. The total amount of new CRA-qualified investments reported in Oregon was approximately \$10.9 million. The bank also held approximately \$8.7 million in prior period investments and reported approximately \$157,000 in grants and donations in the state. The institution penetrated all the AAs in the state. Affordable housing received the majority of the qualified investments with approximately \$12.3 million (figure includes prior period investments still active and donations). Refer to the full-scope AA for further details and notable examples.

### **Responsiveness to Credit and Community Development Needs**

BB exhibits good responsiveness to credit and CD needs. The bank's emphasis on affordable housing investments is reflective of a primary need identified by community contacts.

### **Community Development Initiatives**

BB occasionally uses innovative and/or complex investments to support CD initiatives. The bank's qualified investments are useful and help promote CD; however, most are not innovative.

## **SERVICE TEST**

BB is rated "High Satisfactory" in the Service Test for the State of Oregon. The performance in each AA helped drive the overall rating.

The bank operates 38 full-service branches in the state. Delivery systems are essentially accessible to all portions of the state's AAs. To the extent changes have been made, BB's



opening and closing of branches in the state has not adversely affected the accessibility of its delivery systems, particularly in LMI geographies and to LMI individuals. Business hours and services do not vary in a way that inconveniences certain portions of the state's AAs, particularly LMI geographies or LMI individuals. BB has provided a relatively high level of CD services in its Oregon AAs.

### **Retail Banking Services**

The following are specific comments relating to the bank's performance under the retail banking services component of the Service Test.

#### *Accessibility of Delivery Systems*

BB's delivery systems are essentially accessible to all portions of the AA. The institution's branches include one branch in low- and six branches in moderate-income CTs. Refer to the Service Test section of each Oregon AA for specific details.

Alternative delivery systems mirror those described under the bankwide conclusions section of this evaluation. Refer to the comments in the overall bankwide Service Test section regarding the discussion of the institution's alternative delivery systems for details.

#### *Changes in Branch Location*

The institution's record of opening and closing branches has not adversely affected the accessibility of its delivery systems, particularly to LMI geographies and/or LMI individuals. Since the last examination, the bank closed two branches in the state. Refer to the Service Test section of each Oregon AA for specific details.

#### *Reasonableness of Business Hours and Services*

Services do not vary in a way that inconveniences certain portions of the AAs, particularly LMI geographies or LMI individuals. Specific information regarding business hours and services is included in the evaluation of the bankwide performance.

### **Community Development Services**

BB has provided a relatively high level of CD services in its AAs within Oregon. Bank records show that employees provided their financial or job-specific expertise and/or technical assistance for 420 CD service activities since the last evaluation, logging a total of 1,478 qualified hours within the state. The level of CD services provided is a significant increase from the prior evaluation in which a total of 738 CD service hours were provided. A majority of the bank's assistance was to organizations that provide community services to LMI individuals and families. Other activities targeted affordable housing and economic development. Refer to the full-scope AA for further details and notable examples.

## METROPOLITAN AREAS EVALUATED USING FULL-SCOPE EXAMINATION PROCEDURES

### DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE NE OREGON NON-METROPOLITAN STATISTICAL AREA ASSESSMENT AREA

BB operates nine full-service branches in the NE Oregon Non-MSA AA. The AA consists of Baker, Morrow, Umatilla, and Union Counties. The following sections provide details regarding economic and demographic conditions for the AA and information obtained from community contacts.

#### Economic and Demographic Data

The following table details the number and percentage of CTs, households, owner-occupied housing units, and businesses by CT income level according to the 2010 U.S. Census, 2015 ACS Census, and 2017 data from D&B.

Demographic Information of the Assessment Area						
Assessment Area: NE Oregon Non-Metropolitan Statistical Area Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	31	0.0	0.0	77.4	22.6	0.0
Population by Geography	129,739	0.0	0.0	75.7	24.3	0.0
Housing Units by Geography	54,525	0.0	0.0	78.9	21.1	0.0
Owner-Occupied Units by Geography	30,623	0.0	0.0	76.3	23.7	0.0
Occupied Rental Units by Geography	17,233	0.0	0.0	80.6	19.4	0.0
Vacant Units by Geography	6,669	0.0	0.0	86.3	13.7	0.0
Businesses by Geography	7,900	0.0	0.0	79.7	20.3	0.0
Farms by Geography	1,083	0.0	0.0	72.7	27.3	0.0
Family Distribution by Income Level	31,928	19.1	15.5	21.0	44.4	0.0
Household Distribution by Income Level	47,856	22.3	14.8	17.3	45.6	0.0
Median Family Income Non- MSAs – OR	\$51,555		Median Housing Value			\$148,610
			Median Gross Rent			\$686
			Families Below Poverty Level			12.9%
Source: 2010 U.S. Census & 2015 ACS Census and 2017 D&B Data Due to rounding, totals may not equal 100.0 (*) The NA category consists of geographies that have not been assigned an income classification.						

The unemployment rate for the NE Oregon Non-MSA AA in November 2017 was 4.7 percent, an improvement from 5.6 percent in 2016. However, the rate still remained above the state and national averages. Information obtained from the State of Oregon Employment Department reveals that the economies of the four counties comprising BB's NE Oregon Non-MSA AA are closely tied and are typically analyzed as a single region to develop conclusions about the overall

condition of the economy. The following sections provide additional information specific to each county located in the Non-MSA:

#### Baker County

Baker City is the county seat. According to Data USA, the economy of Baker County is specialized in agriculture, forestry, fishing, hunting, utilities, and public administration. The unemployment rate for Baker County was 5.2 percent in November 2017, which is an improvement from 6.4 percent in 2016. The top employers in Baker County consist of local, state, and federal government agencies. The St. Alphonsus Hospital also maintains a presence and provides jobs in the local area.

#### Morrow County

The county's economy is predominantly agricultural. The area's top industries include food processing, agriculture, utilities, and tourism. The unemployment rate for Morrow County was 4.2 percent in November 2017, which is an improvement from 5.0 percent in 2016. The top employers in the area consist of Lamb Weston, the local school district, Oregon Potato, and Boardman Foods.

#### Umatilla County

Hermiston City serves as the retail and services center for much of western Umatilla County and Morrow Counties. The unemployment rate for Umatilla County was 4.5 percent in November 2017, which is an improvement from 5.4 percent in 2016. Lamb Weston, Wal-Mart Distribution Center, River Point Farms, and Good Shepherd Health Care Systems are among the largest employers in the county.

#### Union County

The City of La Grande is the county seat. The top sectors providing employment in the county consist of government, retail, and education and healthcare. The unemployment rate for Union County was 4.8 percent in November 2017, which is an improvement from 5.9 percent in 2016. Boise Cascade, a manufacturer of paper, corrugated containers, and wood products, is a top employer in the area. Grande Ronde Hospital and Eastern Oregon University also have a presence in the area and provide jobs to the local residents.

#### **Competition**

There is little competition in the NE Oregon AA for financial services. According to the FDIC Deposit Market Share data as of June 30, 2017, there were only 10 financial institutions operating 43 full-service branches within the AA. Of these institutions, BB ranked 1<sup>st</sup> with a majority of the deposit market share at 28.8 percent.

According to 2016 aggregate data, BB ranked 3<sup>rd</sup> out of 61 small business lenders in the AA with a market share of 14.1 percent. Small business lenders originated a total of 2,922 loans. The

only other lender with a higher percentage of the small business market share in the NE Oregon AA had a total of 25.2 percent of the market share, indicating a lower level of competition.

The level of competition for residential mortgage loans in the AA is lower than other AAs. In 2016, 227 lenders reported 5,291 residential mortgage loans originated or purchased. BB ranked 7<sup>th</sup> out of this group of lenders, with a market share of 4.8 percent. The largest lender accounted for 18.7 percent of total market share.

According to 2016 aggregate data, BB leads the market in NE Oregon for small farm lending. BB ranked 1<sup>st</sup> out of 17 lenders, with a market share of 32.0 percent. Lenders only originated a total of 300 small farm loans in the NE Oregon AA. Competition for this product type is low.

### **Community Contacts**

As part of this evaluation, examiners conducted community contacts that focused on each product analyzed under the lending test, including small business and small farm development and residential lending.

Examiners reviewed an existing community contact with a community based economic development organization dedicated to help Oregonians achieve housing stability and build financial security. The contact stated that there is a need for housing development, down payment assistance, and small business loans.

Examiners conducted a community contact with a governmental agricultural organization with a mission to equitably serve farmers, ranchers, and agricultural partners through the delivery of effective and efficient agricultural programs. The contact stated that credit needs include working capital to sustain farm and ranch operations, farm loans for capital improvement and equipment loans, and refinance of existing debt.

### **Credit and Community Development Needs and Opportunities**

Considering information from the community contacts, bank management, and demographic and economic data, examiners determined that small business and small farm loans represent primary needs in the community. There is also a need for housing development and down payment assistance.

## **CONCLUSIONS ON PERFORMANCE CRITERIA IN THE NE OREGON NON-METROPOLITAN STATISTICAL AREA ASSESSMENT AREA**

### **LENDING TEST**

Loan products analyzed include small business, HMDA, and small farm loans. Small business loans received more weight in arriving at overall conclusions given the loan volume.

## Lending Activity

BB's lending levels reflect excellent responsiveness to the NE Oregon Non-MSA AA credit needs. In 2016, the bank originated 317 small business loans totaling \$29.7 million. This ranks the institution 3<sup>rd</sup> of 61 lenders reporting CRA small business loan data, with a 14.1 percent market share by number of loans. In regards to HMDA loans, the bank originated 167 loans totaling \$22.1 million in 2016. This ranks the bank 7<sup>th</sup> of 227 lenders reporting HMDA loans, with a 4.8 percent market share by number of loans. Lastly, for small farm loans in 2016, BB originated 96 loans totaling \$17.2 million. This ranks the bank 1<sup>st</sup> of 17 lenders. BB's market share ranking and percentages are similar to the performance at the previous examination and reflect good responsiveness to the small business, residential mortgage, and small farm credit needs of the AA.

## Geographic Distribution

The bank's geographic distribution of loans reflects adequate penetration throughout the AA. There are no low-income tracts in the AA; therefore, the analysis focused on the bank's performance in moderate-income CTs. The following sections describe the bank's performance by loan type.

### *Small Business Lending*

The following table illustrates BB's small business lending record by CT income level compared to the market. The second column presents the distribution of small businesses by CT income level as estimated by D&B.

Geographic Distribution of Small Business Loans				
Assessment Area: NE Oregon Non-Metropolitan Statistical Area Assessment Area				
Tract Income Level	% of Businesses	Aggregate Performance % of #	#	%
Moderate				
2016	5.1	4.7	12	3.8
Middle				
2016	82.1	80.7	257	81.1
Upper				
2016	12.8	14.6	48	15.1
Not Available				
2016	0.0	0.0	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>317</b>	<b>100.0</b>
Source: 2016 D&B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0				

BB's distribution of small business loans reflects adequate penetration throughout the AA. BB's rate of lending in moderate-income geographies at 3.8 percent is below the market data of 4.7 percent and the D&B data of 5.1 percent.

Although the bank's performance is lower than the percentage of businesses in moderate-CTs, the bank's performance is relatively comparable with that of the aggregate lending data. As mentioned previously, more emphasis is placed on the comparison to aggregate data, as it better represents credit demand and lending opportunities within the AA. Overall, lending performance shows that the bank is reasonably meeting the credit needs of small businesses in moderate-income CTs.

### *Residential Mortgage Loans*

The following table details BB's residential mortgage lending distribution by CT income level for the AA compared to the market. The second column provides the distribution of owner-occupied housing units according to the 2010 U.S. Census for demographic reference.

<b>Geographic Distribution of Home Mortgage Loans</b>				
<b>Assessment Area: NE Oregon Non-Metropolitan Statistical Area Assessment Area</b>				
<b>Tract Income Level</b>	<b>% of Owner-Occupied Housing Units</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>
Moderate				
2016	3.3	3.4	0	0.0
Middle				
2016	83.2	83.2	151	90.4
Upper				
2016	13.6	13.4	16	9.6
Not Available				
2016	0.0	0.0	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>167</b>	<b>100.0</b>
<i>Source: 2010 U.S. Census; 1/1/2016 - 12/31/2016 Bank Data, 2016 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0</i>				

BB's distribution of mortgage loans reflects poor penetration in the NE Oregon Non-MSA AA. The bank did not originate any mortgage loans in moderate-income CTs. Demographic data shows that opportunities for lending in moderate-income geographies are somewhat limited due to the low percentage of housing units located in moderate-income geographies. Nevertheless, the aggregate data at 3.4 percent shows that some opportunities do exist for lending in moderate-income CTs. Overall, the bank's demonstrates poor performance.

### *Small Farm Lending*

The following table illustrates BB's small farm lending record by CT income level compared to the market. The second column presents the distribution of small farms by CT income level as estimated by D&B.

<b>Geographic Distribution of Small Farm Loans</b>				
<b>Assessment Area: NE Oregon Non-Metropolitan Statistical Area Assessment Area</b>				
<b>Tract Income Level</b>	<b>% of Farms</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>
Moderate				
2016	2.6	1.7	2	2.1
Middle				
2016	79.6	78.9	76	79.2
Upper				
2016	17.8	19.5	18	18.8
Not Available				
2016	0.0	0.0	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>96</b>	<b>100.0</b>
<i>Source: 2016 D&amp;B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data; "--" data not available. Due to rounding, totals may not equal 100.0</i>				

BB's distribution of small farm loans reflects adequate penetration throughout the AA. BB's rate of lending in moderate-income geographies at 2.1 percent is consistent with the aggregate and demographic data.

### **Borrower Profile**

The distribution of borrowers reflects, given the product lines offered by the institution, good penetration among businesses and farms of different sizes and retail customers of different income levels. The following sections describe the bank's performance by loan type.

#### *Small Business Loans*

The following table details BB's rate of lending to businesses with GARs of \$1 million or less compared to the market. The second column illustrates the distribution of small businesses by revenue level estimated by the D&B.

<b>Distribution of Small Business Loans by Gross Annual Revenue Category</b>				
<b>Assessment Area: NE Oregon Non-Metropolitan Statistical Area Assessment Area</b>				
<b>Gross Revenue Level</b>	<b>% of Businesses</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>
<=\$1,000,000				
2016	81.9	45.7	212	66.9
>1,000,000				
2016	4.4	--	86	27.1
Revenue Not Available				
2016	13.8	--	19	6.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>317</b>	<b>100.0</b>
<i>Source: 2016 D&amp;B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data; "--" data not available. Due to rounding, totals may not equal 100.0</i>				

The distribution of borrowers reflects excellent penetration among business customers of different sizes. The bank originated 66.9 percent of small business loans to businesses with GARs of \$1.0 million or less in 2016. This performance was well above the aggregate lending levels of 45.7 percent but below the D&B data of 81.9 percent.

More emphasis is placed on the comparison to aggregate lending data, as it better represents credit demand and lending opportunities within the AA. Therefore, when compared to the aggregate, the bank's performance shows that it is effectively meeting the small business credit needs of the NE Oregon Non-MSA AA.

### *Residential Mortgage Loans*

The following table details BB's distribution of loans by borrower income level over the review period compared to the market. The percentage of families by income level from the 2010 U.S. Census is included in the second column for demographic reference.

<b>Distribution of Home Mortgage Loans by Borrower Income Level</b>				
<b>Assessment Area: NE Oregon Non-Metropolitan Statistical Area Assessment Area</b>				
<b>Borrower Income Level</b>	<b>% of Families</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>
Low				
2016	18.8	2.8	6	3.6
Moderate				
2016	16.7	14.4	22	13.2
Middle				
2016	22.1	21.4	40	24.0
Upper				
2016	42.4	39.9	93	55.7
Not Available				
2016	0.0	21.5	6	3.6
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>167</b>	<b>100.0</b>
<i>Source: 2010 U.S. Census 1/1/2016 - 12/31/2016 Bank Data, 2016 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0</i>				

BB's distribution of mortgage loans is adequate based on the percentage of loans to LMI borrowers. BB's rate of lending to low-income borrowers, at 3.6 percent, was above the aggregate of 2.8 percent but below the percentage of families of 18.8 percent. The bank's performance to moderate-income borrowers, at 13.2 percent, was below the aggregate performance of 14.4 percent and the percentage of families of 16.7 percent. Overall, the bank's performance is generally comparable to the aggregate and is adequate.

### *Small Farm Loans*

The following table details BB's rate of lending to farms with GARs of \$1 million or less compared to the market. The second column illustrates the distribution of small farms by revenue level estimated by the D&B.



Distribution of Small Farm Loans by Gross Annual Revenue Category				
Assessment Area: NE Oregon Non-Metropolitan Statistical Area Assessment Area				
Gross Revenue Level	% of Farms	Aggregate Performance % of #	#	%
<=\$1,000,000				
2016	94.9	68.5	74	77.1
>1,000,000				
2016	3.2	--	22	22.9
Revenue Not Available				
2016	1.8	--	0	0.0
<b>Totals</b>				
2016	100.0	100.0	96	100.0
Source: 2016 D&B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data; "--" data not available. Due to rounding, totals may not equal 100.0				

The distribution of borrowers reflects good penetration among farm customers of different sizes. The bank originated 77.1 percent of its small farm loans to farms with GARs of \$1 million or less in 2016. This performance was above the aggregate lending levels of 68.5 percent and below the D&B data of 94.9 percent.

As discussed, more emphasis is placed on the comparison to aggregate lending data, as it better represents credit demand and lending opportunities within the AA. Therefore, when compared to the aggregate, the bank's performance shows that it is meeting the small farm credit needs of the NE Oregon Non-MSA AA.

BB exhibits an adequate record of serving the credit needs of the most economically disadvantaged areas of its AAs, including low-income individuals and very small businesses and farms. Although there are no low-income CTs in the AA, the bank did originate 12 small business and 2 small farm loans in moderate-income CTs. The bank provided 212 small business loans to businesses with GARs of \$1 million or less, 6 HMDA loans to low-income borrowers, 74 small farm loans to farms with GARs of \$1 million or less.

### **Community Development Lending**

BB originated an adequate level of CD loans in the AA. The bank originated 2 CD loans totaling approximately \$2.6 million during the evaluation period. This performance is less than the 2 loans for \$7.7 million made during the previous evaluation but is still considered reasonable. Most of CD lending originated during the evaluation period supported affordable housing activities. The following table illustrates qualified CD loans made during the review period in the NE Oregon Non-MSA AA:

Community Development Lending – NE Oregon Non-Metropolitan Statistical Area Assessment Area										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2016	1	2,527	1	25	0	0	0	0	2	2,552
YTD 2017	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>1</b>	<b>2,527</b>	<b>1</b>	<b>25</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>2,552</b>
<i>Source: Bank Records</i>										

The following are notable examples of CD loans extended in the AA during the review period:

- BB provided a working capital loan to a non-profit that provides basic necessities such as food, heat, and assistance to the homeless.
- The bank originated a \$1.7 million SBA 504 loan that will enable a business to expand and to create jobs for LMI individuals.

### **Innovative and Flexible Lending**

BB makes use of innovative and flexible lending practices in order to serve the AA credit needs. Refer to the comments in the bankwide section for details.

### **INVESTMENT TEST**

BB has a significant level of qualified investments and donations in the NE Oregon Non-MSA AA, exhibits adequate responsiveness to credit and CD needs, and occasionally uses innovative and/or complex investments to support CD initiatives.

### **Investment Activity**

BB has a significant level of qualified investments and donations in the AA. The combined CD investments, including grants and donations, total approximately \$2.9 million. This total includes new investments of approximately \$2.9 million and donations of \$17,000. This level is a significant increase from the prior evaluation, as the bank did not originate any qualified investments in the AA. The investments and donations helped to support affordable housing and community services. The following table illustrates qualified investments and donations made or held during the review period in the NE Oregon Non-MSA AA:

Qualified Investments – NE Oregon Non-Metropolitan Statistical Area Assessment Area										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior Period	0	0	0	0	0	0	0	0	0	0
2016	0	0	12	2,725	0	0	0	0	12	2,725
YTD 2017	1	137	0	0	0	0	0	0	1	137
Subtotal	1	137	12	2,725	0	0	0	0	13	2,862
Qualified Grants & Donations	0	0	4	17	0	0	0	0	4	17
Total	1	137	16	2,742	0	0	0	0	17	2,879
Source: Bank Records										

The following are notable examples of CD investments extended in the AA during the review period:

- BB purchased a bond for a school district that has over 62.0 percent of its students on free and reduced lunch. The bond will be used to finance instructional spaces, to build a new gymnasium, to address student safety recommendations, and to replace and expand career and technical education facilities.
- The bank purchased a MBS that will provide affordable housing for LMI individuals in the AA.

### **Responsiveness to Credit and Community Development Needs**

BB exhibits adequate responsiveness to credit and CD needs.

### **Community Development Initiatives**

BB occasionally uses innovative and/or complex investments to support CD initiatives. The bank's qualified investments are useful and help promote CD; however, they are not innovative as all of the bank's investments are school bonds or MBSs.

### **SERVICE TEST**

BB operates nine branches in the AA. Delivery systems are essentially accessible to all portions. To the extent changes have been made, BB's opening and closing of branches in the AA has not adversely affected the accessibility of its delivery systems, particularly in LMI geographies and to LMI individuals. Business hours and services do not vary in a way that inconveniences certain portions of the AA, particularly LMI geographies or individuals. BB provided a relatively high level of CD services in the AA.

## **Retail Banking Services**

### *Accessibility of Delivery Systems*

BB's delivery systems are accessible to essentially all portions of the NE Oregon Non-MSA AA. The bank operates a network of 9 branch offices and 11 ATMs, including 9 deposit-taking ATMs, within this AA. Overall, the branches are reasonably distributed throughout the AA with eight in middle- and one in upper-income CTs. The table illustrates BB's branch structure within the NE Oregon Non-MSA AA as compared to 2015 ACS Survey data, 2016 peer branch data, and 2017 D&B data:

<b>Branch Structure – NE Oregon Non-Metropolitan Statistical Area Assessment Area</b>						
<b>Branch and Automated Teller Machine Distribution</b>	<b>Census Tract Income Level</b>					
	<b>Low</b>	<b>Moderate</b>	<b>Middle</b>	<b>Upper</b>	<b>NA</b>	<b>Total</b>
Number of Branches	0	0	8	1	0	9
Percentage of Branches	0.0	0.0	88.9	11.1	0.0	100.0
Number of ATMs	0	0	10	1	0	11
Percentage of ATMs	0.0	0.0	90.9	9.1	0.0	100.0
<b>Comparisons</b>						
Percentage of Branches - All Institutions	0.0	10.5	86.9	2.6	0.0	100.0
Percentage of Households	0.0	0.0	77.9	22.1	0.0	100.0
Percentage of Families	0.0	0.0	77.0	23.0	0.0	100.0
Percentage of Businesses	0.0	0.0	79.7	20.3	0.0	100.0
<i>Source: 2015 ACS Survey Data and 2017 D&amp;B Data, and 2016 Peer Branch Data</i>						
<i>Due to rounding, totals may not equal 100.0</i>						
<i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

Due to changes in the 2015 ACS Survey, the NE Oregon Non-MSA AA no longer includes any low- or moderate-income CTs. Therefore, BB operates no branches within low- or moderate-income CTs in this AA. The branches are spread evenly along the lone major interstate in the AA with multiple branches located in the areas of higher populations.

Alternative delivery systems mirror those described under the bankwide conclusions section of this evaluation. Refer to the comments in the overall bankwide Service Test section regarding the discussion of the institution's alternative delivery systems for details.

### *Changes in Branch Locations*

To the extent that changes have been made, BB's opening or closing of branch offices has not adversely affected the accessibility of its delivery systems, particularly in LMI geographies and/or to LMI individuals. The bank's branch distribution by CT delineations was affected by the updated 2015 ACS Survey Data. The net 2015 ACS changes include the following: one branch removed from a middle-income CT, and one branch moved to an upper-income CT. There were no net branch differences in the low-income CTs, moderate-income CTs, or the CTs where income was not available. Since the previous PE, the bank did not open or close any branch locations.

### *Reasonableness of Business Hours and Services*

Services and business hours do not vary in a way that inconveniences certain portions of the AA, particularly in LMI CTs. Reasonableness of business hours and services in meeting AA needs mirror those described under the bankwide conclusions of this report. Refer to the comments in the bankwide Service Test section regarding the reasonableness of hours for details.

### **Community Development Services**

BB provided a relatively high level of CD services in the NE Oregon Non-MSA AA. Bank records show that employees provided financial or job-specific expertise for 49 CD service activities, logging a total of 193 qualified hours within this AA. The bank's activity in this AA is a decrease since the prior evaluation. However, given the shorter timeframe for this evaluation and considering the opportunities for providing CD services in the AA, the bank's level of CD service activities still represents a high level. A majority of the bank's assistance was to organizations that provide community services to LMI individuals and families. Other activities targeted affordable housing and economic development. Hours by category in the AA are detailed in the following table:

Community Development Services – NE Oregon Non-Metropolitan Statistical Area Assessment Area										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	Hours	#	Hours	#	Hours	#	Hours	#	Hours
2016	18	36	0	0	4	9	0	0	22	45
YTD 2017	16	31	7	109	4	8	0	0	27	148
<b>Total</b>	<b>34</b>	<b>67</b>	<b>7</b>	<b>109</b>	<b>8</b>	<b>17</b>	<b>0</b>	<b>0</b>	<b>49</b>	<b>193</b>
<i>Source: Bank Records</i>										

The following are notable examples of CD services provided in the AA during the review period:

- A bank employee serves on the Board of an organization that provides housing for LMI individuals.
- A bank employee serves as a Board member for an economic development corporation whose mission is to create, retain, and expand businesses in the AA. The majority of the organization's programs and services are targeted to LMI individuals.

## METROPOLITAN AREAS EVALUATED USING LIMITED-SCOPE EXAMINATION PROCEDURES

### DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE EUGENE ASSESSMENT AREA

BB operates 10 full-service branches in the Eugene AA. The AA consists of Lane County, which is part of the Eugene, OR MSA. This AA accounted for 2.4 percent of total loans, 4.1 percent of total deposits, and 5.3 percent of the bank's branches.

#### Demographic Data

The following table details the number and percentage of CTs, households, owner-occupied housing units, and businesses by CT income level according to the 2010 U.S. Census, 2015 ACS Census, and 2017 data from D&B.

Demographic Information of the Assessment Area						
Assessment Area: Eugene Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	87	3.4	20.7	51.7	23.0	1.1
Population by Geography	357,060	4.5	20.3	53.5	21.7	0.0
Housing Units by Geography	157,510	4.6	21.1	54.4	19.9	0.0
Owner-Occupied Units by Geography	85,785	0.8	16.9	57.2	25.0	0.0
Occupied Rental Units by Geography	60,450	9.6	26.8	50.2	13.4	0.0
Vacant Units by Geography	11,275	6.6	22.2	55.2	16.0	0.0
Businesses by Geography	25,916	5.5	24.2	47.8	22.6	0.0
Farms by Geography	1,112	1.7	14.1	53.2	30.9	0.0
Family Distribution by Income Level	86,645	21.4	17.8	20.5	40.3	0.0
Household Distribution by Income Level	146,235	25.1	15.3	17.0	42.6	0.0
Median Family Income MSA - #21660 Eugene, OR MSA		\$57,766	Median Housing Value			\$227,588
			Median Gross Rent			\$863
			Families Below Poverty Level			11.8%
Source: 2010 U.S. Census & 2015 ACS Census and 2017 D&B Data						
Due to rounding, totals may not equal 100.0						
(*) The NA category consists of geographies that have not been assigned an income classification.						

The assessment area's median housing value is \$227,588 and the median family income is \$57,766. The unemployment rate for the AA for November of 2017 is 4.1 percent, which is below the state average of 4.2 percent. The AAs top employers include PeaceHealth Corp., the University of Oregon, and Espresso Prn.

## CONCLUSIONS ON PERFORMANCE CRITERIA IN THE EUGENE ASSESSMENT AREA

### LENDING TEST

The BB's Lending Test performance in the Eugene AA is stronger than the lending performance in the state; however, it does not change the rating for the State of Oregon.

### Geographic Distribution

#### *Small Business Lending*

The following table illustrates BB's small business lending record by CT income level compared to the market. The second column presents the distribution of small businesses by CT income level as estimated by D&B.

Geographic Distribution of Small Business Loans				
Assessment Area: Eugene Assessment Area				
Tract Income Level	% of Businesses	Aggregate Performance % of #	#	%
Low				
2016	3.5	3.1	4	2.3
Moderate				
2016	27.0	20.1	49	28.7
Middle				
2016	45.3	47.9	88	51.5
Upper				
2016	24.1	28.9	30	17.5
Not Available				
2016	0.0	0.0	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>171</b>	<b>100.0</b>
Source: 2016 D&B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0				

#### *Residential Mortgage Loans*

The following table details BB's residential mortgage lending distribution by CT income level for the AA compared to the market. The second column provides the distribution of owner-occupied housing units according to the 2010 U.S. Census for demographic reference.

Geographic Distribution of Home Mortgage Loans				
Assessment Area: Eugene Assessment Area				
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%
Low				
2016	1.4	1.3	1	1.0
Moderate				
2016	16.5	15.8	27	26.0
Middle				
2016	57.9	58.3	57	54.8
Upper				
2016	24.2	24.5	19	18.3
Not Available				
2016	0.0	0.0	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>104</b>	<b>100.0</b>
Source: 2010 U.S. Census; 1/1/2016 - 12/31/2016 Bank Data, 2016 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0				

## **Borrower Profile**

### *Small Business Loans*

The following table details BB's rate of lending to businesses with GARs of \$1 million or less compared to the market. The second column illustrates the distribution of small businesses by revenue level estimated by the D&B.

Distribution of Small Business Loans by Gross Annual Revenue Category				
Assessment Area: Eugene Assessment Area				
Gross Revenue Level	% of Businesses	Aggregate Performance % of #	#	%
<=\$1,000,000				
2016	86.3	36.8	96	56.1
>1,000,000				
2016	5.1	--	66	38.6
Revenue Not Available				
2016	8.6	--	9	5.3
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>171</b>	<b>100.0</b>
Source: 2016 D&B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data; "--" data not available. Due to rounding, totals may not equal 100.0				



### *Residential Mortgage Loans*

The following table details BB's distribution of loans by borrower income level over the review period compared to the market. The percentage of families by income level from the 2010 U.S. Census is included in the second column for demographic reference.

Distribution of Home Mortgage Loans by Borrower Income Level				
Assessment Area: Eugene Assessment Area				
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%
Low				
2016	21.3	3.1	10	9.6
Moderate				
2016	18.1	13.3	19	18.3
Middle				
2016	21.0	21.1	15	14.4
Upper				
2016	39.6	42.4	56	53.8
Not Available				
2016	0.0	20.1	4	3.8
Totals				
2016	100.0	100.0	104	100.0
<i>Source: 2010 U.S. Census; 1/1/2016 - 12/31/2016 Bank Data, 2016 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0</i>				

### **Community Development Lending**

During the review period, BB originated 3 CD loan totaling \$2.6 million in the Eugene AA.

### **INVESTMENT TEST**

BB's Investment Test performance in the AA is consistent with the institution's Investment Test performance in the state. During the review period, the bank held 4 prior period investments totaling \$2.5 million, purchased 6 new investments totaling \$3.4 million, and made \$48,000 in donations in the AA.

### **SERVICE TEST**

BB's service performance in the AA is consistent with the bank's service performance in the state. The bank operates 10 branches comprising 5.5 percent of the bank's total branch network. Four branches are located in moderate-income CTs, five branches are located in middle-income CTs, and one branch is located in an upper-income CT. Products, services, and business hours are similar to those offered in the CAA.

The bank's branch distribution by CT delineations was affected by the updated 2015 ACS Survey Data. The net 2015 ACS changes include the following: one branch removed from a middle-income CT and one branch moved to an upper-income CT. There were no net branch differences in the low-income CTs, moderate-income CTs, and the CTs where income was not available. Since the previous evaluation, the bank closed one branch in an upper-income CT and relocated it to a moderate-income CT. During the review period, employees provided 310 CD service hours in the Eugene AA.

## METROPOLITAN AREAS EVALUATED USING LIMITED-SCOPE EXAMINATION PROCEDURES

### DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE MEDFORD ASSESSMENT AREA

BB operates nine full-service branches in the Medford AA. The AA consists of Jackson and Josephine Counties, which make up the Medford-Grants Pass, OR CSA. This AA accounted for 3.1 percent of total loans, 4.0 percent of total deposits, and 4.8 percent of the bank's branches.

#### Demographic Data

The following table details the number and percentage of CTs, households, owner-occupied housing units, and businesses by CT income level according to the 2010 U.S. Census, 2015 ACS Census, and 2017 data from D&B.

Demographic Information of the Assessment Area						
Assessment Area: Medford Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	57	1.8	17.5	57.9	22.8	0.0
Population by Geography	291,772	0.7	15.5	59.5	24.3	0.0
Housing Units by Geography	129,810	0.7	15.4	59.5	24.4	0.0
Owner-Occupied Units by Geography	74,665	0.1	10.6	61.2	28.1	0.0
Occupied Rental Units by Geography	43,349	1.7	23.1	57.0	18.1	0.0
Vacant Units by Geography	11,796	0.6	17.9	57.1	24.4	0.0
Businesses by Geography	24,519	4.5	16.6	56.2	22.7	0.0
Farms by Geography	1,285	1.2	9.3	65.2	24.3	0.0
Family Distribution by Income Level	75,464	20.6	18.5	19.6	41.2	0.0
Household Distribution by Income Level	118,014	23.7	16.4	17.9	42.0	0.0
Median Family Income MSA - #24420 Grants Pass, OR MSA	\$46,452		Median Housing Value			\$221,933
Median Family Income MSA - #32780 Medford, OR MSA	\$53,441		Median Gross Rent			\$886
			Families Below Poverty Level			13.7%
Source: 2010 U.S. Census & 2015 ACS Census and 2017 D&B Data Due to rounding, totals may not equal 100.0 (* The NA category consists of geographies that have not been assigned an income classification.						

The assessment area's median housing value is \$221,933 and the median family income for Grants Pass is \$53,441 and for Medford is \$46,452. The unemployment rate for the AA for November of 2017 is 4.2 percent, which mirrors the state average of 4.2 percent. The AAs top employers include Asante Health System, Lithia Motors, and Harry & David Operations Corp.

## CONCLUSIONS ON PERFORMANCE CRITERIA IN THE MEDFORD ASSESSMENT AREA

### LENDING TEST

The BB's Lending Test performance in the Medford AA is consistent with the lending performance in the state.

### Geographic Distribution

#### *Small Business Lending*

The following table illustrates BB's small business lending record by CT income level compared to the market. The second column presents the distribution of small businesses by CT income level as estimated by D&B.

Geographic Distribution of Small Business Loans				
Assessment Area: Medford Assessment Area				
Tract Income Level	% of Businesses	Aggregate Performance % of #	#	%
Low				
2016	4.2	2.6	14	7.1
Moderate				
2016	10.4	7.2	19	9.7
Middle				
2016	71.0	70.5	144	73.5
Upper				
2016	14.5	19.7	19	9.7
Not Available				
2016	0.0	0.0	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>196</b>	<b>100.0</b>
Source: 2016 D&B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0				

### *Residential Mortgage Loans*

The following table details BB's residential mortgage lending distribution by CT income level for the AA compared to the market. The second column provides the distribution of owner-occupied housing units according to the 2010 U.S. Census for demographic reference.

Geographic Distribution of Home Mortgage Loans				
Assessment Area: Medford Assessment Area				
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%
Low				
2016	0.2	0.1	0	0.0
Moderate				
2016	8.4	7.5	10	11.1
Middle				
2016	74.0	72.4	66	73.3
Upper				
2016	17.5	19.9	14	15.6
Not Available				
2016	0.0	0.0	0	0.0
Totals				
2016	100.0	100.0	90	100.0
Source: 2010 U.S. Census; 1/1/2016 - 12/31/2016 Bank Data, 2016 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0				

### **Borrower Profile**

#### *Small Business Loans*

The following table details BB's rate of lending to businesses with GARs of \$1 million or less compared to the market. The second column illustrates the distribution of small businesses by revenue level estimated by the D&B.

Distribution of Small Business Loans by Gross Annual Revenue Category				
Assessment Area: Medford Assessment Area				
Gross Revenue Level	% of Businesses	Aggregate Performance % of #	#	%
<=\$1,000,000				
2016	88.5	37.0	93	47.4
>1,000,000				
2016	4.0	--	100	51.0
Revenue Not Available				
2016	7.6	--	3	1.5
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>196</b>	<b>100.0</b>
Source: 2016 D&B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data; "--" data not available. Due to rounding, totals may not equal 100.0				

### *Residential Mortgage Loans*

The following table details BB's distribution of loans by borrower income level over the review period compared to the market. The percentage of families by income level from the 2010 U.S. Census is included in the second column for demographic reference.

Distribution of Home Mortgage Loans by Borrower Income Level				
Assessment Area: Medford Assessment Area				
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%
Low				
2016	20.2	2.0	1	1.1
Moderate				
2016	18.6	10.9	8	8.9
Middle				
2016	20.7	19.3	20	22.2
Upper				
2016	40.5	48.5	43	47.8
Not Available				
2016	0.0	19.4	18	20.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>90</b>	<b>100.0</b>
Source: 2010 U.S. Census; 1/1/2016 - 12/31/2016 Bank Data, 2016 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0				

### **Community Development Lending**

During the review period, BB did not originate any CD loans in the Medford AA.

## **INVESTMENT TEST**

BB's Investment Test performance in the AA is consistent with the institution's Investment Test performance in the state. During the review period, the bank purchased 7 new investments totaling \$2.4 million and made \$39,000 in donations in the AA.

## **SERVICE TEST**

BB service performance in the AA exceeds the bank's service performance in the state; however, it does not change the overall conclusion for the State of Oregon. The bank operates 9 branches in the AA, comprising 4.9 percent of the bank's total branch network. One branch is located in a low-income CT, six branches are located in middle-income CTs, and two are located in upper-income CTs. Products, services, and business hours are similar to those offered in the CAA.

The bank's branch distribution by census tract delineations was affected by the updated 2015 ACS Survey Data. The net 2015 ACS changes include the following: two branches removed from middle-income CTs and two branches moved to upper-income CTs. There were no net branch differences in the low-income CTs, moderate-income CTs, and the CTs where income was not available. Since the previous evaluation, the bank permanently closed one branch, located in a middle-income CT, in the AA. During the review period, employees provided 742 CD service hours in the Medford AA.

## **METROPOLITAN AREAS EVALUATED USING LIMITED-SCOPE EXAMINATION PROCEDURES**

### **DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE OREGON COAST NON-METROPOLITAN STATISTICAL AREA ASSESSMENT AREA**

BB operates 10 full-service branches in the Oregon Coast Non-MSA AA. The AA consists of Coos and Douglas Counties. This AA accounted for 2.4 percent of total loans, 3.9 percent of total deposits, and 5.3 percent of the bank's branches.

#### **Demographic Data**

The following table details the number and percentage of CTs, households, owner-occupied housing units, and businesses by CT income level according to the 2010 U.S. Census, 2015 ACS Census, and 2017 data from D&B.

Demographic Information of the Assessment Area						
Assessment Area: Oregon Coast Non-Metropolitan Statistical Area Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	37	0.0	10.8	78.4	5.4	5.4
Population by Geography	169,969	0.0	9.3	84.9	5.8	0.0
Housing Units by Geography	79,500	0.0	9.7	84.0	6.3	0.0
Owner-Occupied Units by Geography	46,354	0.0	9.2	84.8	6.0	0.0
Occupied Rental Units by Geography	23,332	0.0	9.9	83.3	6.8	0.0
Vacant Units by Geography	9,814	0.0	11.7	82.0	6.3	0.0
Businesses by Geography	11,836	0.0	7.8	83.9	8.3	0.0
Farms by Geography	796	0.0	4.3	91.7	4.0	0.0
Family Distribution by Income Level	44,776	21.4	19.4	20.9	38.3	0.0
Household Distribution by Income Level	69,686	25.1	16.8	18.9	39.2	0.0
Median Family Income Non-MSAs - OR	\$51,555		Median Housing Value			\$176,464
			Median Gross Rent			\$737
			Families Below Poverty Level			13.1%
Source: 2010 U.S. Census & 2015 ACS Census and 2017 D&B Data Due to rounding, totals may not equal 100.0 (*): The NA category consists of geographies that have not been assigned an income classification.						

The assessment area's median housing value is \$176,464 and the median family income is \$51,555. The unemployment rate for the AA for November of 2017 is 5.2 percent, which is above the state average of 4.2 percent. The AAs top employers include Roseburg Forest Products and Umpqua Community College.

## CONCLUSIONS ON PERFORMANCE CRITERIA IN THE OREGON COAST NON-METROPOLITAN STATISTICAL AREA ASSESSMENT AREA

### LENDING TEST

BB's Lending Test performance in the AA is consistent with the performance in the State of Oregon.

### Geographic Distribution

#### *Small Business Lending*

The following table illustrates BB's small business lending record by CT income level compared to the market. The second column presents the distribution of small businesses by CT income level as estimated by D&B.

Geographic Distribution of Small Business Loans				
Assessment Area: Oregon Coast Non-Metropolitan Statistical Area Assessment Area				
Tract Income Level	% of Businesses	Aggregate Performance % of #	#	%
Low				
2016	0.0	0.0	0	0.0
Moderate				
2016	10.4	9.7	17	10.2
Middle				
2016	76.6	72.5	145	87.3
Upper				
2016	13.0	17.8	4	2.4
Not Available				
2016	0.0	0.0	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>166</b>	<b>100.0</b>
Source: 2016 D&B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0				

### *Residential Mortgage Loans*

The following table details BB's residential mortgage lending distribution by CT income level for the AA compared to the market. The second column provides the distribution of owner-occupied housing units according to the 2010 U.S. Census for demographic reference.



Geographic Distribution of Home Mortgage Loans				
Assessment Area: Oregon Coast Non-Metropolitan Statistical Area Assessment Area				
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%
Low				
2016	0.0	0.0	0	0.0
Moderate				
2016	5.9	5.8	3	1.5
Middle				
2016	83.0	82.8	194	94.6
Upper				
2016	11.1	11.4	8	3.9
Not Available				
2016	0.0	0.0	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>205</b>	<b>100.0</b>
Source: 2010 U.S. Census; 1/1/2016 - 12/31/2016 Bank Data, 2016 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0				

## **Borrower Profile**

### *Small Business Loans*

The following table details BB's rate of lending to businesses with GARs of \$1 million or less compared to the market. The second column illustrates the distribution of small businesses by revenue level estimated by the D&B.

Distribution of Small Business Loans by Gross Annual Revenue Category				
Assessment Area: Oregon Coast Non-Metropolitan Statistical Area Assessment Area				
Gross Revenue Level	% of Businesses	Aggregate Performance % of #	#	%
<=\$1,000,000				
2016	85.7	40.1	112	67.5
>1,000,000				
2016	4.3	--	45	27.1
Revenue Not Available				
2016	10.0	--	9	5.4
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>166</b>	<b>100.0</b>
Source: 2016 D&B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data; "--" data not available. Due to rounding, totals may not equal 100.0				

### *Residential Mortgage Loans*

The following table details BB's distribution of loans by borrower income level over the review period compared to the market. The percentage of families by income level from the 2010 U.S. Census is included in the second column for demographic reference.

<b>Distribution of Home Mortgage Loans by Borrower Income Level</b>				
<b>Assessment Area: Oregon Coast Non-Metropolitan Statistical Area Assessment Area</b>				
<b>Borrower Income Level</b>	<b>% of Families</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>
Low				
2016	20.4	3.9	11	5.4
Moderate				
2016	20.8	13.6	28	13.7
Middle				
2016	22.8	23.5	75	36.6
Upper				
2016	36.0	39.5	90	43.9
Not Available				
2016	0.0	19.5	1	0.5
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>205</b>	<b>100.0</b>
<i>Source: 2010 U.S. Census; 1/1/2016 - 12/31/2016 Bank Data, 2016 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0</i>				

### **Community Development Lending**

During the review period, BB originated 1 CD loan totaling \$400,000 in the Oregon Coast Non-MSA AA.

### **INVESTMENT TEST**

BB's Investment Test performance in the AA is consistent with the institution's Investment Test performance in the state. During the review period, the bank held 8 prior period investments totaling \$2.7 million, purchased 5 new investments totaling \$2.2 million, and made \$53,000 in donations in the AA.

### **SERVICE TEST**

BB service performance in the AA is consistent with the bank's service performance in the state. The bank operates 10 branches comprising 5.5 percent of the bank's total branch network. Two branches are located in moderate-income CTs and eight branches are located in middle-income CTs. Products, services, and business hours are similar to those offered in the CAA.

The bank's branch distribution by census tract delineations was affected by the updated 2015 ACS Survey Data. The net 2015 ACS changes include the following: one branch moved to a moderate-income CT and one branch was removed from a middle-income CT. There were no net branch differences in the low-income CTs, upper-income CTs, and the CTs where income was not available. Since the previous evaluation, the bank did not open or close any branch locations in the AA. During the review period, employees provided 233 CD service hours in the Oregon Coast Non-MSA AA.

## **IDAHO**

### **CRA RATING FOR OREGON: Satisfactory**

**The Lending Test is rated: Low Satisfactory**

**The Investment Test is rated: High Satisfactory**

**The Service Test is rated: Low Satisfactory**

### **SCOPE OF EVALUATION**

Examiners conducted a full-scope evaluation of the bank's performance in the Boise AA and limited-scope evaluations of the Coeur d'Alene and Idaho Non-MSA AAs. A limited portion of the bank's overall lending, investments, and services were conducted in the State of Idaho; therefore, performance within the state received less weight in determining the bank's overall CRA Rating compared to previously rated areas.

The evaluation focused on small business and HMDA lending. Small farm lending was not included in the review, as it was too nominal to generate any meaningful conclusions. CD lending, investments and retail and CD services were also reviewed. Loans originated and reported pursuant to CRA data collection requirements for 2016 were included in the review. Aggregate lending data used in the analysis is for 2016. Information from recently completed community contacts in these AAs was also reviewed and considered.

### **DESCRIPTION OF INSTITUTION'S OPERATIONS IN IDAHO**

BB operates 11 branches in 3 AAs within 9 counties in the State of Idaho. Refer to the service test discussion for details regarding bank operations. Details regarding the MSAs and counties comprising the three AAs are contained in the bankwide tables.

### **Economic and Demographic Data**

The following table details the number and percentage of CTs, households, owner-occupied housing units, and businesses by CT income level according to the 2010 U.S. Census, 2015 ACS Census, and 2017 data from D&B.

Demographic Information of the Assessment Area						
Assessment Area: State of Idaho						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	147	4.1	21.8	51.7	22.4	0.0
Population by Geography	938,525	2.3	20.9	55.9	20.8	0.0
Housing Units by Geography	382,502	2.6	20.2	56.9	20.3	0.0
Owner-Occupied Units by Geography	236,009	1.0	17.0	57.7	24.4	0.0
Occupied Rental Units by Geography	112,111	5.7	28.5	52.5	13.4	0.0
Vacant Units by Geography	34,382	3.5	15.4	65.6	15.5	0.0
Businesses by Geography	64,989	7.2	20.7	49.4	22.8	0.0
Farms by Geography	3,119	2.7	16.1	59.1	22.1	0.0
Family Distribution by Income Level	235,788	18.7	18.8	22.0	40.6	0.0
Household Distribution by Income Level	348,120	22.6	17.0	18.9	41.5	0.0
Median Family Income MSA - #14260 Boise City, ID MSA	\$61,722		Median Housing Value			\$180,318
Median Family Income MSA - #17660 Coeur d'Alene, ID MSA	\$58,966		Median Gross Rent			\$819
Median Family Income Non- MSAs - ID	\$52,473		Families Below Poverty Level			10.1%
Source: 2010 U.S. Census & 2015 ACS Census and 2017 D&B Data Due to rounding, totals may not equal 100.0 (* The NA category consists of geographies that have not been assigned an income classification.						

Government, education and health services, professional and business services, and retail industry provide a wide range of jobs statewide. The four biggest employers are St. Luke's Health System, Micron Technology Inc., Mountain Home Air Force Base, and Kootenai Health.

According to Moody's Analytics, the state's low costs attract firms in high-value-added industries from nearby states. Also, rapid house price gains have created more wealth and have spurred more construction. However, there continues to be an abundance of low-wage service jobs and subdued wage growth.

The following table contains unemployment statistics for the State of Idaho and each individual AA:

<b>Unemployment Rates: Idaho</b>		
<b>Assessment Area</b>	<b>2016</b>	<b>November 2017</b>
	<b>%</b>	<b>%</b>
Boise	3.3	3.0
Coeur d'Alene	4.7	2.9
Idaho Non-MSA	5.0	3.0
State	3.6	2.9
National Average	4.7	4.1
Source: Bureau of Labor Statistics		

The above table indicates that the unemployment rates improved from November 2016 to November 2017 in the State of Idaho and for each individual AA. By November 2017, the unemployment rate was well below the national average in all AAs.

### **Competition**

The AA's financial services market is moderately competitive. According to the FDIC Deposit Market Share data as of June 30, 2017, there were 27 financial institutions operating 273 full-service branches within the bank's Idaho AAs. Of these institutions, BB ranked 14<sup>th</sup> with a 2.0 percent deposit market share.

According to 2016 aggregate data, BB ranked 13<sup>th</sup> of 104 small business lenders in the State of Idaho. Small business lenders originated 32,024 loans. BB had 1.0 percent of the market share compared to the top one lender with 40.3 percent of the total market share for this product; an indicator of the level of competition for this product type is competitive.

In the State of Idaho AAs, there is a somewhat high level of competition among residential mortgage lenders. In 2016, 410 lenders reported 68,533 residential mortgage loans originated or purchased. BB ranked 26<sup>th</sup> out of this group of lenders, with a market share of 0.9 percent. The 3 leading residential mortgage lenders accounted for 20.6 percent of total market share.

### **Community Contacts**

Examiners reviewed recent community contacts in conjunction with this evaluation that are specific to the bank's Idaho AAs. Refer to community contact section under the full-scope AA for details.

## **CONCLUSIONS ON PERFORMANCE CRITERIA IN IDAHO**

### **LENDING TEST**

BB is rated "Low Satisfactory" in the Lending Test. The performance in the Boise AA drove the overall state-wide rating.

## **Lending Activity**

Overall, BB's lending levels reflect adequate responsiveness to the credit needs of the Idaho AAs. Both the number and dollar volume of loans originated during the review period, as well as market share and market ranking figures for the primary loan products was analyzed to determine the bank's level of lending relative to the credit needs of the AA. In 2016, BB originated 289 small business loans totaling \$41.0 million and 425 HMDA loans totaling \$66.5 million. The following table details BB's small business and HMDA loan market ranking for 2016. The institution's deposit market share data is also included for reference.

<b>Small Business Loans, Home Mortgage Disclosure Act Loans, and Deposit Market Share</b>					
<b>Assessment Area</b>	<b>2016 – Small Business</b>		<b>2016 – Home Mortgage Disclosure Act</b>		<b>Deposit Market Share %</b>
	<b>Rank (#)</b>	<b>Market Share %</b>	<b>Rank (#)</b>	<b>Market Share %</b>	
Boise AA	14 of 60	0.9	26 of 350	0.1	1.3
Coeur d'Alene AA	18 of 62	0.4	42 of 235	0.4	0.8
Idaho Non-MSA AA	10 of 60	1.6	19 of 228	1.3	6.2

*Source: 2016 Small Business and HMDA Market Share Data and June 30, 2017 Summary of Deposits*

The table illustrates a moderate level of competition in BB's Idaho markets for small business loans and a high level of competition for HMDA loans. Given the level of competition, the bank's market share ranking and percentage reflects adequate responsiveness to the small business and residential mortgage credit needs of the Idaho AAs.

## **Geographic Distribution**

The geographic distribution of loans reflects adequate penetration throughout the AAs in the state. The bank's performance varied between the AAs. Refer to the Geographic Distribution section of each AA for specific details.

## **Borrower Profile**

The distribution of borrowers in Idaho reflects, given the product lines offered by the bank, adequate penetration to business customers of different revenue sizes and retail customers of different income levels. The bank's performance varied between the AAs. Refer to the Borrower Profile section of each AA for specific details.

BB exhibits an adequate record of serving the credit needs of the most economically disadvantaged areas of its AAs, including low-income individuals and/or very small businesses. BB provided 1 small business loan in low-income CTs during the review period. Additionally, the bank provided 173 small business loans to businesses with GARs of \$1.0 million or less and 28 HMDA loans to low-income borrowers.

## **Community Development Lending**

BB originated a low level of CD loans in the State of Idaho. During this evaluation period, the bank originated 4 CD loans totaling \$900,000. This level of activity is a decrease from the prior

evaluation when the institution originated 4 CD loans totaling approximately \$1.9 million. The loans addressed affordable housing. Refer to the full-scope AA for further details.

### **Innovative and Flexible Lending Practice**

The bank makes use of innovative or flexible lending practices in order to serve the credit needs of its AAs. Refer to the Innovative or Flexible Lending Practices section of the bankwide section of this evaluation for additional details regarding these programs.

## **INVESTMENT TEST**

BB is rated “High Satisfactory” in the Investment Test for the State of Idaho. The performance in the Boise AA drove the overall state rating.

### **Investment Activity**

BB has a significant level of qualified CD investments and donations, occasionally in a leadership position, particularly those that are not routinely provided by private investors. BB reported 38 qualified investments and donations totaling approximately \$11.7 million. This level represents an increase from the prior evaluation when BB’s qualified investments and donations totaled approximately \$6.1 million. The total amount of new CRA-qualified investments reported in Idaho was approximately \$6.2 million. The bank also held approximately \$5.4 million in prior period investments and reported approximately \$63,000 in grants and donations in the state. The institution penetrated all the AAs in the state. Affordable housing received the majority of the qualified investments with approximately \$7.8 million (figure includes prior period investments still active and donations). Refer to the full-scope AA for further details and notable examples.

### **Responsiveness to Credit and Community Development Needs**

BB exhibits good responsiveness to credit and CD needs. The bank’s emphasis on affordable housing investments is reflective of a primary need identified by community contacts.

### **Community Development Initiatives**

BB occasionally uses innovative and/or complex investments to support CD initiatives. The bank’s qualified investments are useful and help promote CD; however, most are not innovative.

## **SERVICE TEST**

BB is rated “Low Satisfactory” in the Service Test for the State of Idaho. The performance in each AA helped drive the overall rating.

The bank operates 11 full-service branches in the state. Delivery systems are essentially accessible to all portions of the state’s AAs. To the extent changes have been made, BB’s opening and closing of branches in the state has not adversely affected the accessibility of its

delivery systems, particularly in LMI geographies and to LMI individuals. Business hours and services do not vary in a way that inconveniences certain portions of the state's AAs, particularly LMI geographies or LMI individuals. BB has provided an adequate level of CD services in its Idaho State AAs.

### **Retail Banking Services**

The following are specific comments relating to the bank's performance under the retail banking services component of the Service Test.

#### *Accessibility of Delivery Systems*

BB's delivery systems are essentially accessible to all portions of the AA. The institution's branches include one branch in low- and three branches in moderate-income CTs. Refer to the Service Test section of each Idaho AA for specific details.

Alternative delivery systems mirror those described under the bankwide conclusions section of this evaluation. Refer to the comments in the bankwide Service Test section regarding the discussion of the institution's alternative delivery systems for details.

#### *Changes in Branch Location*

The institution's record of opening and closing branches has not adversely affected the accessibility of its delivery systems, particularly to LMI geographies and/or LMI individuals. Since the last examination, the bank has not closed or opened any branches in the Idaho State AAs. Refer to the Service Test section of each Idaho AA for specific details.

#### *Reasonableness of Business Hours and Services*

Services do not vary in a way that inconveniences certain portions of the AAs, particularly LMI geographies or individuals. Specific information regarding business hours and services is included in the evaluation of the bankwide performance.

### **Community Development Services**

BB has provided an adequate level of CD services in its AAs within Idaho. Bank records show that employees provided financial or job-specific expertise and/or technical assistance for 155 CD service activities since the last evaluation, logging a total of 332 qualified hours within this state. The level of CD services provided is an increase from the prior evaluation in which a total of 197 CD service hours were provided. A majority of the bank's assistance was to organizations that provide community services to LMI individuals and families. Other activities targeted affordable housing and economic development. Refer to the full-scope AA for further details and notable examples.



## METROPOLITAN AREAS EVALUATED USING FULL-SCOPE EXAMINATION PROCEDURES

### DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE BOISE ASSESSMENT AREA

BB operates five full-service branches in the Boise AA. The AA consists of Ada and Canyon Counties, which are part of the Boise City, Idaho (ID) MSA. The following sections provide details regarding economic and demographic conditions for the AA and information obtained from community contacts.

#### Economic and Demographic Data

The following table details the number and percentage of CTs, households, owner-occupied housing units, and businesses by CT income level according to the 2010 U.S. Census, 2015 ACS Census, and 2017 data from D&B.

Demographic Information of the Assessment Area						
Assessment Area: Boise Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	88	6.8	28.4	37.5	27.3	0.0
Population by Geography	616,422	3.6	26.4	44.8	25.2	0.0
Housing Units by Geography	235,712	4.2	26.7	43.8	25.3	0.0
Owner-Occupied Units by Geography	151,060	1.5	22.2	46.4	29.9	0.0
Occupied Rental Units by Geography	72,033	8.9	35.5	39.4	16.1	0.0
Vacant Units by Geography	12,619	9.5	29.8	37.6	23.2	0.0
Businesses by Geography	42,715	10.9	24.3	36.5	28.3	0.0
Farms by Geography	1,774	4.8	23.8	46.2	25.1	0.0
Family Distribution by Income Level	152,134	18.9	18.6	21.8	40.7	0.0
Household Distribution by Income Level	223,093	22.5	16.6	18.9	42.0	0.0
Median Family Income MSA - #14260 Boise City, ID MSA	\$61,722		Median Housing Value			\$174,922
			Median Gross Rent			\$843
			Families Below Poverty Level			10.0%
Source: 2010 U.S. Census & 2015 ACS Census and 2017 D&B Data Due to rounding, totals may not equal 100.0 (* ) The NA category consists of geographies that have not been assigned an income classification.						

The unemployment rate for Boise in November 2017 was 3.0 percent, an improvement from 3.3 percent in 2016. Education and health services, government, professional and business services, and retail industries provide a wide range of jobs statewide. The four biggest employers are St. Luke's Health System, Micron Technology Inc., Boise State University, and St. Alphonsus Regional Medical Center.

According to Moody's Analytics, Boise's stronger-than-expected rebound in the technology industry has led to production and factory hiring. However, the global economy and foreign demand is volatile, resulting in an overall decline in tech exports. Housing-related employment and residential construction are on the rise.

### **Competition**

The market for financial service in the Boise AA is moderately competitive. According to FDIC Deposit Market Share data as of June 30, 2017, 20 financial institutions operate 168 full-service branches within the bank's Boise AA. Of these institutions, BB ranked 14<sup>th</sup> with 1.3 percent deposit market share.

The small business loan market in the Boise AA is competitive. According to 2016 aggregate data, BB ranked 14<sup>th</sup> of 60 small business lenders in the Boise AA. Small business lenders originated 12,530 loans. BB's market share was 0.9 percent. The top one lender accounted for 37.9 percent of the total market share.

There is a high level of competition for residential mortgage loans in the Boise AA. In 2016, 350 lenders reported a total of 47,505 residential mortgage loans originated or purchased. BB ranked 26<sup>th</sup> out of this group of lenders, with a market share of 0.1 percent. The top 3 lenders claim 22.3 percent of total market share.

### **Community Contacts**

Examiners reviewed an existing community contact with a community based affordable housing organization with a mission to lead in creating innovative housing solutions for underserved populations through strategic partnerships in the Boise metropolitan area. The contact stated that the demand for new housing still outweighs supply, and the overall housing market is in short supply and overpriced. According to the contact, in order to support the growth in agriculture and manufacturing industries, credit needs include small business loans to finance the purchase of property. The contact believes opportunities are present to partner with community organizations for special purpose lending services offering full financing of down payments, multiple home rehabilitation projects, and financial coaching and counseling services.

### **Credit and Community Development Needs and Opportunities**

Considering information from the community contacts, bank management, and demographic and economic data, examiners determined that affordable housing is a CD need in the community. There is also a need for small business loans in the AA.

## **CONCLUSIONS ON PERFORMANCE CRITERIA IN THE BOISE ASSESSMENT AREA**

### **LENDING TEST**

Loan products analyzed include HMDA loans and small business loans. More weight was placed on the bank's HMDA lending performance in the AA based on loan volume. Small farm lending was not included in the review as it was too nominal to generate any meaningful conclusions.

#### **Lending Activity**

BB's lending levels reflect adequate responsiveness to the Boise AA credit needs. In 2016, the bank originated 166 small business loans totaling \$27.4 million. This ranks the institution 14<sup>th</sup> of 60 lenders reporting CRA small business loan data, with a 0.9 percent market share by number of loans. In regards to HMDA loans, the bank originated 322 loans totaling \$48.2 million in 2016. This ranks the bank 26<sup>th</sup> of 350 lenders reporting HMDA loans, with a 0.1 percent market share by number of loans. BB's market share ranking and percentage reflect adequate responsiveness to the small business and residential mortgage credit needs of the Boise AA.

#### **Geographic Distribution**

The bank's geographic distribution of loans reflects adequate penetration throughout the Boise AA. No conspicuous lending gaps were noted in the geographic distribution of loans. The following sections describe the bank's performance by loan type.

##### *Small Business Lending*

The following table illustrates BB's small business lending record by CT income level compared to the market. The second column presents the distribution of small businesses by CT income level as estimated by D&B.

Geographic Distribution of Small Business Loans				
Assessment Area: Boise Assessment Area				
Tract Income Level	% of Businesses	Aggregate Performance % of #	#	%
Low				
2016	1.0	0.7	0	0.0
Moderate				
2016	30.4	24.2	47	28.3
Middle				
2016	37.6	39.9	56	33.7
Upper				
2016	31.0	35.2	63	38.0
Not Available				
2016	0.0	0.0	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>166</b>	<b>100.0</b>
Source: 2016 D&B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0				

BB's distribution of small business loans reflects adequate penetration throughout the AA. BB did not originate any small business loans in low-income geographies during the evaluation period in the Boise. However, D&B data and market performance both indicate very limited opportunities for lending. In moderate-income geographies, the bank's performance was 28.3 percent, which was above the 24.2 percent rate achieved by other lenders.

### *Residential Mortgage Loans*

The following table details BB's residential mortgage lending distribution by CT income level for the AA compared to the market. The second column provides the distribution of owner-occupied housing units according to the 2010 U.S. Census for demographic reference.

Geographic Distribution of Home Mortgage Loans				
Assessment Area: Boise Assessment Area				
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%
Low				
2016	0.6	0.3	0	0.0
Moderate				
2016	22.7	17.6	43	13.4
Middle				
2016	44.5	44.7	147	45.7
Upper				
2016	32.2	37.4	132	41.0
Not Available				
2016	0.0	0.0	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>322</b>	<b>100.0</b>
Source: 2010 U.S. Census; 1/1/2016 - 12/31/2016 Bank Data; 2016 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0				

BB's distribution of mortgage loans reflects adequate penetration in the Boise AA. BB did not originate any residential mortgage loans in low-income geographies; however, demographic data and market performance indicate very limited opportunities for mortgage lending. At 13.4 percent, the bank's rate of lending in moderate-income geographies was below the market rate of 17.6 percent and the demographic data but not to an unreasonable degree. Overall, the bank's performance demonstrates reasonable performance, especially when compared to the aggregate.

### **Borrower Profile**

The distribution of borrowers reflects, given the product lines offered by the institution, adequate penetration among businesses of different revenue sizes and retail customers of different income levels. This conclusion is supported by adequate penetration among its mortgage loans. The following sections describe the bank's performance by loan type.

#### *Small Business Loans*

The following table details BB's rate of lending to businesses with GARs of \$1 million or less compared to the market. The second column illustrates the distribution of small businesses by revenue level estimated by the D&B.

<b>Distribution of Small Business Loans by Gross Annual Revenue Category</b>				
<b>Assessment Area: Boise Assessment Area</b>				
<b>Gross Revenue Level</b>	<b>% of Businesses</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>
<=\$1,000,000				
2016	83.9	38.9	91	54.8
>1,000,000				
2016	5.5	--	69	41.6
Revenue Not Available				
2016	10.6	--	6	3.6
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>166</b>	<b>100.0</b>
<i>Source: 2016 D&amp;B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data; "--" data not available. Due to rounding, totals may not equal 100.0</i>				

BB's distribution of loans reflects good penetration to businesses of different revenue sizes based on the percentage of loans to businesses with GARs of \$1 million or less. In 2016, BB's performance of 54.8 percent was above the 38.9 percent rate achieved by the market. Although the bank's performance is lower than the D&B data, it is important to note that the D&B survey is voluntary and includes very small businesses, which may not be credit worthy or have credit needs. D&B data is more of a reflection of credit opportunity, not credit demand. Therefore, when compared to the aggregate, the bank's performance is considered good.

### *Residential Mortgage Loans*

The following table details BB's distribution of loans by borrower income level over the review period compared to the market. The percentage of families by income level from the 2010 U.S. Census is included in the second column for demographic reference.

<b>Distribution of Home Mortgage Loans by Borrower Income Level</b>				
<b>Assessment Area: Boise Assessment Area</b>				
<b>Borrower Income Level</b>	<b>% of Families</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>
Low				
2016	19.0	6.6	23	7.1
Moderate				
2016	18.1	17.7	56	17.4
Middle				
2016	22.5	23.0	75	23.3
Upper				
2016	40.4	39.3	156	48.4
Not Available				
2016	0.0	13.4	12	3.7
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>322</b>	<b>100.0</b>
<i>Source: 2010 U.S. Census; 1/1/2016 - 12/31/2016 Bank Data, 2016 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0</i>				

BB's distribution of mortgage loans in the Boise AA is adequate. BB's 2016 rate of lending to low-income borrowers, at 7.1 percent, was slightly higher than the market rate of 6.6 percent but below the percentage of low-income families. BB's rate of lending to moderate-income borrowers of 17.4 percent was slightly below the market rate of 17.7 percent and the percentage of moderate-income families. The overall performance reflects adequate penetration throughout the AA, especially when compared to the aggregate.

BB exhibits an adequate record of serving the credit needs of the most economically disadvantaged areas of its AAs, including low-income individuals and very small businesses. Although opportunities to lend in low-income CTs are limited, BB did provide 91 small business loans to businesses with GARs of \$1.0 million or less and 23 HMDA loans to low-income borrowers.

### **Community Development Lending**

BB originated a limited level of CD loans in the AA. The bank originated 2 CD loans totaling approximately \$900,000 million during the evaluation period. All of CD lending originated during the evaluation period supported affordable housing activities. The following table illustrates qualified CD loans made during the review period in the Boise AA:

Community Development Lending – Boise Assessment Area										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2016	1	700	0	0	0	0	0	0	1	700
YTD 2017	1	200	0	0	0	0	0	0	1	200
<b>Total</b>	<b>2</b>	<b>900</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>900</b>
<i>Source: Bank Records</i>										

### **Innovative and Flexible Lending**

BB makes use of innovative and flexible lending practices in order to serve the AA credit needs. Refer to the comments in the bankwide section for details.

### **INVESTMENT TEST**

BB has a significant level of qualified investments and donations in the Boise AA, exhibits good responsiveness to credit and CD needs, and occasionally uses innovative and/or complex investments to support CD initiatives.

### **Investment Activity**

BB has a significant level of CD investments and donations in the AA. The combined CD investments, including grants and donations, total approximately \$7.3 million. This total includes prior period investments totaling \$2.8 million, new investments totaling \$4.5 million, and donations totaling \$39,000. This level represents an increase from the prior evaluation. The investments and donations helped to support affordable housing and community services. The following table illustrates qualified investments and donations made or held during the review period in the Boise AA:

Qualified Investments – Boise Assessment Area										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
<b>Prior Period</b>	<b>3</b>	<b>1,698</b>	<b>1</b>	<b>1,129</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4</b>	<b>2,827</b>
2016	1	3,956	1	500	0	0	0	0	2	4,456
YTD 2017	0	0	0	0	0	0	0	0	0	0
<b>Subtotal</b>	<b>1</b>	<b>3,956</b>	<b>1</b>	<b>500</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>4,456</b>
Qualified Grants & Donations	5	26	4	13	0	0	0	0	9	39
<b>Total</b>	<b>9</b>	<b>5,680</b>	<b>6</b>	<b>1,642</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>15</b>	<b>7,322</b>
<i>Source: Bank Records</i>										

The following are notable examples of CD investments extended in the AA during the review period:

- BB purchased a \$4.0 million MBS that will provide affordable housing to LMI individuals in the Boise AA.
- The bank purchased a \$500,000 school bond where 68 percent of the students qualify for free and reduced lunch.
- BB held a prior period investment for a bond used to finance an apartment building where 100 percent of the units are restricted to LMI individuals.

### **Responsiveness to Credit and Community Development Needs**

BB exhibits good responsiveness to credit and CD needs. The bank's emphasis on affordable housing investments in the Boise AA is a primary need identified by community contacts.

### **Community Development Initiatives**

BB occasionally uses innovative and/or complex investments to support CD initiatives. The bank's qualified investments are useful and help promote CD; however, they are not innovative as all of the bank's investments are school bonds or MBS.

## **SERVICE TEST**

BB operates five branches in the AA. Delivery systems are essentially accessible to all portions. To the extent changes have been made, BB's opening and closing of branches in the AA has not adversely affected the accessibility of its delivery systems, particularly in LMI geographies and to LMI individuals. Business hours and services do not vary in a way that inconveniences certain portions of the AA, particularly LMI geographies or LMI individuals. BB provided an adequate level of CD services in the AA.

### **Retail Banking Services**

#### *Accessibility of Delivery Systems*

BB's delivery systems are accessible to essentially all portions of the Boise AA. The bank operates a network of five branch offices and five ATMs, including two deposit-taking ATMs, within this AA. Overall, the branches are reasonably distributed throughout the AA with one branch in low-, two in moderate-, one in middle-, and one in upper-income CTs. The table below illustrates BB's branch structure within the Boise AA as compared to 2015 ACS Survey data, 2016 peer branch data, and 2017 D&B data:



Branch Structure – Boise Assessment Area						
Branch and Automated Teller Machine Distribution	Census Tract Income Level					
	Low	Moderate	Middle	Upper	NA	Total
Number of Branches	1	2	1	1	0	5
Percentage of Branches	20.0	40.0	20.0	20.0	0.0	100.0
Number of ATMs	1	2	1	1	0	5
Percentage of ATMs	20.0	40.0	20.0	20.0	0.0	100.0
Comparisons						
Percentage of Branches - All Institutions	0.0	48.3	29.3	22.4	0.0	100.0
Percentage of Households	3.9	26.5	44.2	25.4	0.0	100.0
Percentage of Families	2.7	24.6	45.2	27.5	0.0	100.0
Percentage of Businesses	10.9	24.3	36.5	28.3	0.0	100.0
Source: 2015 ACS Survey Data and 2017 D&B Data, and 2016 Peer Branch Data						
Due to rounding, totals may not equal 100.0						
(*) The NA category consists of geographies that have not been assigned an income classification.						

BB operates 1 branch representing 20.0 percent of its total branches, within low-income CTs. This percentage is significantly higher than all other financial institutions, which report 0.0 percent of branches in low-income CTs. The percentage of branches in moderate-income CTs trails the percentage of branches for all institutions. As noted earlier, peer branch distribution is based on the 2010 U.S. Census CT income classifications, while BB's branch distribution is based on the 2015 ACS Survey CT classifications. Therefore, the most relevant comparison to make against BB's branch distribution is the 2015 ACS demographic data and, when compared to the demographics, the bank's distribution of branches is accessible to essentially all portions of the AA.

Alternative delivery systems mirror those described under the bankwide conclusions section of this evaluation. Refer to the comments in the overall bankwide Service Test section regarding the discussion of the institution's alternative delivery systems for details.

#### Changes in Branch Locations

To the extent that changes have been made, BB's opening or closing of branch offices has not adversely affected the accessibility of its delivery systems, particularly in LMI geographies and/or to LMI individuals. The bank's branch distribution by census tract delineations was affected by the updated 2015 ACS Survey Data. The net 2015 ACS changes include the following: one branch moved to a low-income CT and one branch removed from a middle-income CT. There were no net branch differences in the moderate-income CTs, upper-income CTs, or the CTs where income was not available. Since the previous PE, the bank has not opened or closed any branch locations.

#### Reasonableness of Business Hours and Services

Services and business hours do not vary in a way that inconveniences certain portions of the AA, particularly in LMI CTs. Reasonableness of business hours and services in meeting AA needs mirror those described under the bankwide conclusions section of this report. Refer to the comments in the overall bankwide Service Test section regarding the reasonableness of hours for details.

### **Community Development Services**

BB has provided an adequate level of CD services in the Boise AA. Bank records show that employees provided financial or job-specific expertise for 44 CD service activities, logging a total of 114 qualified hours within this AA. The bank's activity in this AA is a decrease since the prior evaluation. However, given the shorter timeframe for this evaluation, the bank's level of CD service activities still represents a reasonable level. A majority of the bank's assistance targeted affordable housing organizations. Other activities targeted CD services. Hours by category in the Boise AA are detailed in the following table:

<b>Community Development Services – Boise Assessment Area</b>										
<b>Activity Year</b>	<b>Affordable Housing</b>		<b>Community Services</b>		<b>Economic Development</b>		<b>Revitalize or Stabilize</b>		<b>Totals</b>	
	<b>#</b>	<b>Hours</b>	<b>#</b>	<b>Hours</b>	<b>#</b>	<b>Hours</b>	<b>#</b>	<b>Hours</b>	<b>#</b>	<b>\$(000s)</b>
2016	3	48	13	22	0	0	0	0	16	70
YTD 2017	5	12	23	32	0	0	0	0	28	44
<b>Total</b>	<b>8</b>	<b>60</b>	<b>36</b>	<b>54</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>44</b>	<b>114</b>
<i>Source: Bank Records</i>										

The following are notable examples of CD services provided in the AA during the review period:

- An employee teaches classes on saving money to LMI elementary age students.
- An employee serves on the finance committee of an organization that provides affordable housing to LMI individuals.
- An employee teaches money smart classes to unbanked and underbanked individuals in the Boise AA.

### **METROPOLITAN AREAS EVALUATED USING LIMITED-SCOPE EXAMINATION PROCEDURES**

#### **DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE COEUR D'ALENE ASSESSMENT AREA**

BB operates one full-service branch in the Coeur d'Alene AA. The AA consists of Kootenai County, which is part of the Coeur d'Alene, ID MSA. This AA accounted for 0.5 percent of total loans, 0.3 percent of total deposits, and 0.5 percent of the bank's branches.

## **Demographic Data**

The following table details the number and percentage of CTs, households, owner-occupied housing units, and businesses by CT income level according to the 2010 U.S. Census, 2015 ACS Census, and 2017 data from D&B.

Demographic Information of the Assessment Area						
Assessment Area: Coeur d'Alene Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	25	0.0	20.0	64.0	16.0	0.0
Population by Geography	145,046	0.0	18.1	68.7	13.1	0.0
Housing Units by Geography	65,272	0.0	17.2	68.9	13.8	0.0
Owner-Occupied Units by Geography	39,582	0.0	12.8	72.0	15.3	0.0
Occupied Rental Units by Geography	16,839	0.0	30.3	61.6	8.1	0.0
Vacant Units by Geography	8,851	0.0	12.4	69.5	18.1	0.0
Businesses by Geography	10,488	0.0	22.3	65.0	12.7	0.0
Farms by Geography	365	0.0	14.5	72.1	13.4	0.0
Family Distribution by Income Level	38,705	18.0	20.3	22.7	39.0	0.0
Household Distribution by Income Level	56,421	21.8	17.7	19.8	40.7	0.0
Median Family Income MSA - #17660 Coeur d'Alene, ID MSA	\$58,966		Median Housing Value			\$203,695
			Median Gross Rent			\$868
			Families Below Poverty Level			9.4%
Source: 2010 U.S. Census & 2015 ACS Census and 2017 D&B Data Due to rounding, totals may not equal 100.0 (* ) The NA category consists of geographies that have not been assigned an income classification.						

The assessment area's median housing value is \$203,695, and the median family income is \$58,966. The unemployment rate for the AA in November of 2017 of 2.9 percent mirrors the state average of 2.9 percent. The AAs top employers include Kootenai Health, Hagadone Hospitality Co., and Qualfon Inc.

## **CONCLUSIONS ON PERFORMANCE CRITERIA IN THE COEUR D'ALENE ASSESSMENT AREA**

### **LENDING TEST**

The BB's Lending Test performance in the Coeur d'Alene AA is below the bank's lending performance in the state. However, it does not change the rating for the state.

## Geographic Distribution

### *Small Business Lending*

The following table illustrates BB's small business lending record by CT income level compared to the market. The second column presents the distribution of small businesses by CT income level as estimated by D&B.

<b>Geographic Distribution of Small Business Loans</b>				
<b>Assessment Area: Coeur d'Alene Assessment Area</b>				
<b>Tract Income Level</b>	<b>% of Businesses</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>
Low				
2016	10.8	7.2	1	3.8
Moderate				
2016	17.3	13.2	2	7.7
Middle				
2016	55.6	58.8	19	73.1
Upper				
2016	16.2	20.9	4	15.4
Not Available				
2016	0.0	0.0	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>26</b>	<b>100.0</b>
<i>Source: 2016 D&amp;B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0</i>				

### *Residential Mortgage Loans*

The following table details BB's residential mortgage lending distribution by CT income level for the AA compared to the market. The second column provides the distribution of owner-occupied housing units according to the 2010 U.S. Census for demographic reference.

Geographic Distribution of Home Mortgage Loans				
Assessment Area: Coeur d'Alene Assessment Area				
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%
Low				
2016	2.1	1.3	0	0.0
Moderate				
2016	10.5	9.4	0	0.0
Middle				
2016	68.7	73.7	29	87.9
Upper				
2016	18.6	15.7	4	12.1
Not Available				
2016	0.0	0.0	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>33</b>	<b>100.0</b>
Source: 2010 U.S. Census; 1/1/2016 - 12/31/2016 Bank Data, 2016 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0				

## **Borrower Profile**

### *Small Business Loans*

The following table details BB's rate of lending to businesses with GARs of \$1 million or less compared to the market. The second column illustrates the distribution of small businesses by revenue level estimated by the D&B.

Distribution of Small Business Loans by Gross Annual Revenue Category				
Assessment Area: Coeur d'Alene Assessment Area				
Gross Revenue Level	% of Businesses	Aggregate Performance % of #	#	%
<=\$1,000,000				
2016	85.6	39.3	14	53.8
>1,000,000				
2016	5.5	--	8	30.8
Revenue Not Available				
2016	8.9	--	4	15.4
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>26</b>	<b>100.0</b>
Source: 2016 D&B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data; "--" data not available. Due to rounding, totals may not equal 100.0				

## Residential Mortgage Loans

The following table details BB's distribution of loans by borrower income level over the review period compared to the market. The percentage of families by income level from the 2010 U.S. Census is included in the second column for demographic reference.

Distribution of Home Mortgage Loans by Borrower Income Level				
Assessment Area: Coeur d'Alene Assessment Area				
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%
Low				
2016	18.9	4.7	2	6.1
Moderate				
2016	19.6	17.0	4	12.1
Middle				
2016	21.3	23.0	9	27.3
Upper				
2016	40.1	37.0	17	51.5
Not Available				
2016	0.0	18.3	1	3.0
Totals				
2016	100.0	100.0	33	100.0
Source: 2010 U.S. Census; 1/1/2016 - 12/31/2016 Bank Data, 2016 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0				

## Community Development Lending

During the review period, BB did not originate any CD loans in the AA.

## INVESTMENT TEST

BB's Investment Test performance in the AA is consistent with the institution's Investment Test performance in the state. During the review period, the bank held one prior period investment for \$349,000 and purchased 1 new investment for \$662,000.

## SERVICE TEST

BB's service performance in the AA is consistent with the bank's service performance in the state. The bank operates 1 branch comprising less than 1 percent of the bank's total branch network. The branch is located in a middle-income CT. Products, services, and business hours are similar to those offered in the CAA.

The bank's branch distribution by CT delineations was not affected by the updated 2015 ACS Survey Data. Additionally, the bank did not open or close any branch locations since the

previous evaluation. During the review period, employees provided six CD service hours in the Coeur d'Alene AA.

## METROPOLITAN AREAS EVALUATED USING LIMITED-SCOPE EXAMINATION PROCEDURES

### DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE IDAHO NON-METROPOLITAN STATISTICAL AREA ASSESSMENT AREA

BB operates five full-service branches in the Idaho Non-MSA AA. The AA consists of Benwah, Bonner, Clearwater, Latah, and Twin Falls Counties. This AA accounted for 1.3 percent of total loans, 2.0 percent of total deposits, and 2.7 percent of the bank's branches.

#### Demographic Data

The following table details the number and percentage of CTs, households, owner-occupied housing units, and businesses by CT income level according to the 2010 U.S. Census, 2015 ACS Census, and 2017 data from D&B.

Demographic Information of the Assessment Area						
Assessment Area: Idaho Non-MSA Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	34	0.0	5.9	79.4	14.7	0.0
Population by Geography	177,057	0.0	4.1	83.9	12.0	0.0
Housing Units by Geography	81,518	0.0	3.9	85.0	11.1	0.0
Owner-Occupied Units by Geography	45,367	0.0	3.4	82.7	13.9	0.0
Occupied Rental Units by Geography	23,239	0.0	5.2	86.2	8.5	0.0
Vacant Units by Geography	12,912	0.0	3.4	90.4	6.2	0.0
Businesses by Geography	11,786	0.0	6.5	82.0	11.5	0.0
Farms by Geography	980	0.0	2.7	77.7	19.7	0.0
Family Distribution by Income Level	44,949	18.5	18.2	22.0	41.3	0.0
Household Distribution by Income Level	68,606	23.5	17.7	18.0	40.8	0.0
Median Family Income Non-MSAs - ID	\$52,473		Median Housing Value			\$177,204
			Median Gross Rent			\$708
			Families Below Poverty Level			11.1%
Source: 2010 U.S. Census & 2015 ACS Census and 2017 D&B Data						
Due to rounding, totals may not equal 100.0						
(*) The NA category consists of geographies that have not been assigned an income classification.						

The assessment area's median housing value is \$177,204, and the median family income is \$52,473. The unemployment rate for the AA for November of 2017 is 3.0 percent, which is slightly above the state average of 2.9 percent. The AAs top employers include Chobani, St. Luke's, and Glanbia.

## CONCLUSIONS ON PERFORMANCE CRITERIA IN THE IDAHO NON-METROPOLITAN STATISTICAL AREA ASSESSMENT AREA

### LENDING TEST

The BB's Lending Test performance in the AA is below the bank's lending performance in the state. However, it does not change the rating for the state.

### Geographic Distribution

#### *Small Business Lending*

The following table illustrates BB's small business lending record by CT income level compared to the market. The second column presents the distribution of small businesses by CT income level as estimated by D&B.

Geographic Distribution of Small Business Loans				
Assessment Area: Idaho Non-MSA Assessment Area				
Tract Income Level	% of Businesses	Aggregate Performance % of #	#	%
Low				
2016	0.0	0.0	0	0.0
Moderate				
2016	6.9	5.4	0	0.0
Middle				
2016	83.0	84.4	93	95.9
Upper				
2016	10.2	10.2	4	4.1
Not Available				
2016	0.0	0.0	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>97</b>	<b>100.0</b>
Source: 2016 D&B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0				

#### *Residential Mortgage Loans*

The following table details BB's residential mortgage lending distribution by CT income level for the AA compared to the market. The second column provides the distribution of owner-occupied housing units according to the 2010 U.S. Census for demographic reference.



Geographic Distribution of Home Mortgage Loans				
Assessment Area: Idaho Non-MSA Assessment Area				
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%
Low				
2016	0.0	0.0	0	0.0
Moderate				
2016	4.8	7.2	1	1.4
Middle				
2016	84.5	82.5	61	87.1
Upper				
2016	10.7	10.3	8	11.4
Not Available				
2016	0.0	0.0	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>70</b>	<b>100.0</b>
Source: 2010 U.S. Census; 1/1/2016 - 12/31/2016 Bank Data, 2016 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0				

## **Borrower Profile**

### *Small Business Loans*

The following table details BB's rate of lending to businesses with GARs of \$1 million or less compared to the market. The second column illustrates the distribution of small businesses by revenue level estimated by the D&B.

Distribution of Small Business Loans by Gross Annual Revenue Category				
Assessment Area: Idaho Non-MSA Assessment Area				
Gross Revenue Level	% of Businesses	Aggregate Performance % of #	#	%
<=\$1,000,000				
2016	82.2	41.6	68	70.1
>1,000,000				
2016	5.1	--	27	27.8
Revenue Not Available				
2016	12.7	--	2	2.1
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>97</b>	<b>100.0</b>
Source: 2016 D&B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data; "--" data not available. Due to rounding, totals may not equal 100.0				

## Residential Mortgage Loans

The following table details BB's distribution of loans by borrower income level over the review period compared to the market. The percentage of families by income level from the 2010 U.S. Census is included in the second column for demographic reference.

Distribution of Home Mortgage Loans by Borrower Income Level				
Assessment Area: Idaho Non-MSA Assessment Area				
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%
Low				
2016	18.5	3.6	3	4.3
Moderate				
2016	19.2	14.4	10	14.3
Middle				
2016	22.3	21.4	16	22.9
Upper				
2016	40.0	43.7	40	57.1
Not Available				
2016	0.0	16.9	1	1.4
Totals				
2016	100.0	100.0	70	100.0
Source: 2010 U.S. Census; 1/1/2016 - 12/31/2016 Bank Data, 2016 HMDA Aggregate Data, "---" data not available. Due to rounding, totals may not equal 100.0				

## Community Development Lending

During the review period, BB did not originate any CD loans in the AA.

## INVESTMENT TEST

BB's Investment Test performance in the AA is consistent with the institution's Investment Test performance in the state. During the review period, the bank held 3 prior period investments totaling \$2.3 million, purchased 3 new investments totaling \$1.1 million, and made \$24,000 in donations.

## SERVICE TEST

BB's Service Test performance in the AA is consistent with bank's Service Test performance in the state. The bank operates 5 branches comprising 2.7 percent of the bank's total branch network. One branch is located in a moderate-income CT, three branches are located in middle-income CTs, and one is located in an upper-income CT. Products, services, and business hours are similar to those offered in the CAA.

The bank's branch distribution by CT delineations was affected by the updated 2015 ACS Survey Data. The net 2015 ACS changes include the following: one branch moved to a moderate-income CT and one branch removed from a middle-income CT. There were no net branch differences in the low-income CTs, upper-income CTs, and the CTs where income was not available. Since the previous evaluation, the bank did not open or close any branch locations in the AA. During the review period, employees provided 212 CD service hours in the Idaho Non-MSA AA.

## **UTAH**

**CRA RATING FOR UTAH: Satisfactory**

**The Lending Test is rated: Low Satisfactory**

**The Investment Test is rated: Low Satisfactory**

**The Service Test is rated: Low Satisfactory**

### **SCOPE OF EVALUATION**

The rating for the State of Utah is based on a full-scope evaluation on the bank's performance of Davis, Utah, and Salt Lake Counties, which are all part of the Salt Lake City–Provo–Orem, Utah CSA. A limited portion of the bank's overall lending, investments, and services were conducted in the State of Utah; therefore, performance within the state received less weight in determining the bank's overall CRA Rating compared to previously rated areas.

The evaluation focused on small business and HMDA lending. Small farm lending was not included in the review as it was too nominal to generate meaningful conclusions. CD lending, investments and retail and CD services were also reviewed. Loans originated and reported pursuant to CRA data collection requirements for 2016 were included in the review. Aggregate lending data used in the analysis is for 2016. Information from recently completed community contacts in these AAs were also reviewed and considered.

### **DESCRIPTION OF INSTITUTION'S OPERATIONS IN UTAH**

BB operates seven branches within three counties in the State of Utah AA. Refer to the bankwide Service Test discussion for details regarding bank operations.

#### **Economic and Demographic Data**

The following table details the number and percentage of CTs, households, owner-occupied housing units, and businesses by CT income level according to the 2010 U.S. Census, 2015 ACS Census, and 2017 data from D&B.

Demographic Information of the Assessment Area						
Assessment Area: Utah Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	394	4.3	19.8	42.4	32.5	1.0
Population by Geography	1,954,289	3.8	18.7	45.1	31.9	0.5
Housing Units by Geography	630,171	3.7	20.9	44.5	30.4	0.4
Owner-Occupied Units by Geography	408,144	1.2	14.3	47.2	37.1	0.3
Occupied Rental Units by Geography	190,122	9.2	34.1	40.2	15.8	0.8
Vacant Units by Geography	31,905	3.0	27.3	36.4	33.1	0.2
Businesses by Geography	139,647	3.2	18.5	41.6	36.1	0.5
Farms by Geography	2,564	1.4	14.7	46.7	37.0	0.2
Family Distribution by Income Level	449,453	18.8	17.6	22.5	41.1	0.0
Household Distribution by Income Level	598,266	21.3	16.5	20.8	41.4	0.0
Median Family Income MSA - #36260 Ogden-Clearfield, UT MSA	\$71,742		Median Housing Value			\$239,456
Median Family Income MSA - #39340 Provo-Orem, UT MSA	\$67,248		Median Gross Rent			\$957
Median Family Income MSA - #41620 Salt Lake City, UT MSA	\$71,849		Families Below Poverty Level			8.9%
Source: 2010 U.S. Census & 2015 ACS Census and 2017 D&B Data						
Due to rounding, totals may not equal 100.0						
(*) The NA category consists of geographies that have not been assigned an income classification.						

Utah's low costs and highly educated workforce support fast growth in knowledge-based industries. Government, professional and business services, education and health services, and retail industries provide a wide range of jobs statewide. The four biggest employers are Intermountain Health Care Inc., Comenity Capital Bank, University Hospital, and Smith's Food & Drug.

According to Moody's Analytics, Utah's expansion is on solid ground. Job growth outpaces the regional and U.S. rates. Job creation is largely concentrated in private services, particularly healthcare, retail, and leisure and hospitality. In the goods-producing arena, manufacturers are no longer cutting back, and construction job growth would be stronger if not for labor shortages.

The following table contains unemployment statistics for the Utah AA compared to the national average:

Unemployment Rates: Utah		
AA	2016	November 2017
	%	%
Utah	3.1	2.6
National Average	4.7	4.1
<i>Source: Bureau of Labor Statistics</i>		

The above table indicates that the unemployment rates have improved in the Utah AA. Additionally, the unemployment rate was well below the national average for both 2016 and November 2017.

### **Competition**

There is a high level of market competition for financial services in the Utah AA. According to the FDIC Deposit Market Share data as of June 30, 2017, 46 financial institutions operate 351 full-service branches within the bank's Utah AA. Of these institutions, BB ranked 34<sup>th</sup> with 0.1 percent deposit market share.

According to 2016 aggregate data, BB ranked 17<sup>th</sup> of 118 small business lenders in the Utah AA. Small business lenders originated 56,311 loans. BB had 0.4 percent of the market share compared to the top 2 lenders with 48.7 percent of the total market share for this product. This is indicator of the high level of competition for this product type than BB's other AAs.

In the Utah AA, there is a high level of competition among residential mortgage lenders. In 2016, 431 lenders reported 154,974 residential mortgage loans originated or purchased. BB ranked 152<sup>nd</sup> out of this group of lenders, with a market share of 0.1 percent. The 3 leading residential mortgage lenders accounted for 16.6 percent of total market share.

### **Community Contacts**

As part of this evaluation, examiners conducted community contacts that focused on the products analyzed under the lending test: small business and residential.

Examiners reviewed an existing community contact with a community based affordable housing organization dedicated to revitalizing neighborhoods and creating affordable housing by providing leadership through partnerships with residents, businesses, and government entities. The contact stated a great demand for affordable rental units and homes and a need for homeownership education and assistance.

Examiners conducted a community contact with a small business economic development organization that helps small businesses across Utah grow by providing start up or working capital with low interest loans. The contact stated an increasing need for small business loans and education, particularly for new small business owners. Also, investment and donation opportunities exist with nonprofits for loan pools and operating expenses.

## **Credit and Community Development Needs and Opportunities**

Considering information from community contacts, bank management, and demographic and economic data, examiners determined that small business lending, particularly for new small business owners, represent credit needs for the Utah AA. Furthermore, the AA has CD needs, including CD investments and homeownership education.

## **CONCLUSIONS ON PERFORMANCE CRITERIA IN THE UTAH ASSESSMENT AREA**

### **LENDING TEST**

BB is rated “Low Satisfactory” in the Lending Test.

More weight was placed on the bank’s small business lending performance in the AA based on loan volume.

### **Lending Activity**

BB’s lending levels reflect adequate responsiveness to the Utah AA credit needs. In 2016, the bank originated 199 small business loans totaling \$35.8 million. This ranks the institution 17<sup>th</sup> of 118 lenders reporting CRA small business loan data, with a 0.4 percent market share by number of loans. In regards to HMDA loans, the bank originated 22 loans totaling \$25.8 million in 2016. This ranks the bank 152<sup>nd</sup> of 431 lenders reporting HMDA loans, with a 0.1 percent market share by number of loans. BB’s market share ranking and percentage reflect adequate responsiveness to the small business and residential mortgage credit needs of the Utah AA.

### **Geographic Distribution**

The bank’s geographic distribution of loans reflects good penetration throughout the Utah AA. No conspicuous lending gaps were noted in the geographic distribution of loans. The following sections describe the bank’s performance by loan type.

#### *Small Business Lending*

The following table illustrates BB’s small business lending record by CT income level compared to the market. The second column presents the distribution of small businesses by CT income level as estimated by D&B.

Geographic Distribution of Small Business Loans				
Assessment Area: Utah Assessment Area				
Tract Income Level	% of Businesses	Aggregate Performance % of #	#	%
Low				
2016	3.9	3.2	9	4.5
Moderate				
2016	17.9	16.0	45	22.6
Middle				
2016	44.9	44.0	112	56.3
Upper				
2016	33.0	36.6	32	16.1
Not Available				
2016	0.3	0.2	1	0.5
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>199</b>	<b>100.0</b>
Source: 2016 D&B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0				

BB's distribution of small business loans reflects good penetration throughout the AA. The bank's penetration of lending in low-income CTs at 4.5 percent exceeds aggregate lending data at 3.2 percent and the percentage of businesses in low-income CTs at 3.9 percent. In moderate-income CTs, the bank's performance also exceeds the aggregate and percentage of businesses. Overall, this performance reflects that the bank actively provides credit to businesses in areas of greatest need.

### *Residential Mortgage Loans*

The following table details BB's residential mortgage lending distribution by CT income level for the AA compared to the market. The second column provides the distribution of owner-occupied housing units according to the 2010 U.S. Census for demographic reference.

Geographic Distribution of Home Mortgage Loans				
Assessment Area: Utah Assessment Area				
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%
Low				
2016	1.5	1.5	4	18.2
Moderate				
2016	13.1	10.9	5	22.7
Middle				
2016	53.0	56.0	6	27.3
Upper				
2016	32.4	31.7	7	31.8
Not Available				
2016	0.0	0.0	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>22</b>	<b>100.0</b>
Source: 2010 U.S. Census; 1/1/2016 - 12/31/2016 Bank Data, 2016 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0				

The geographic distribution of HMDA loans reflects excellent penetration throughout the AA. The bank's 2016 lending performance in low-income CTs, at 18.2 percent, significantly exceeds the aggregate data and the percentage of owner-occupied housing units of 1.5 percent. In moderate-income CTs, the bank's performance also significantly exceeded the aggregate data and the percentage of owner-occupied housing.

### **Borrower Profile**

The distribution of borrowers reflects, given the product lines offered by the institution, adequate penetration among businesses of different sizes and retail customers of different income levels. The following sections describe the bank's performance by loan type.

#### *Small Business Loans*

The following table details BB's rate of lending to businesses with GARs of \$1 million or less compared to the market. The second column illustrates the distribution of small businesses by revenue level estimated by D&B surveys.



Distribution of Small Business Loans by Gross Annual Revenue Category				
Assessment Area: Utah Assessment Area				
Gross Revenue Level	% of Businesses	Aggregate Performance % of #	#	%
<=\$1,000,000				
2016	85.5	38.7	87	43.7
>1,000,000				
2016	5.7	--	109	54.8
Revenue Not Available				
2016	8.9	--	3	1.5
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>199</b>	<b>100.0</b>
Source: 2016 D&B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data; "--" data not available. Due to rounding, totals may not equal 100.0				

The distribution of borrowers reflects adequate penetration among business customers of different sizes. In 2016, the 43.7 percent of loans to small businesses exceeds the aggregate lending data of 38.7 percent but is below the percentage of small businesses in the AA of 85.5 percent. As previously discussed, more emphasis is placed on the comparison to aggregate lending data, as it better represents credit demand and lending opportunities within the AA. Therefore, when compared to the aggregate, the bank's performance shows that it is reasonably meeting the small business credit needs of the Utah AA.

#### *Residential Mortgage Loans*

The following table details BB's distribution of loans by borrower income level over the review period compared to the market. The percentage of families by income level from the 2010 U.S. Census is included in the second column for demographic reference.

Distribution of Home Mortgage Loans by Borrower Income Level				
Assessment Area: Utah Assessment Area				
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%
Low				
2016	17.3	4.9	0	0.0
Moderate				
2016	18.6	19.2	2	9.1
Middle				
2016	23.4	24.9	2	9.1
Upper				
2016	40.7	33.0	4	18.2
Not Available				
2016	0.0	18.1	14	63.6
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>22</b>	<b>100.0</b>
Source: 2010 U.S. Census; 1/1/2016 - 12/31/2016 Bank Data, 2016 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0				

The distribution of HMDA loans reflects poor penetration among borrowers of different income levels within the Utah AA. The bank did not originate any loans to low-income borrowers in 2016. Lending to moderate-income borrowers, at 9.1 percent, was significantly below the aggregate lending data at and the percentage of moderate-income families. Overall, the performance is poor.

### **Community Development Lending**

BB originated an adequate level of CD loans in the AA. The bank originated 1 CD loan for \$5.0 million during the evaluation period. The CD loan supported affordable housing.

### **Innovative and Flexible Lending Practice**

The bank makes use of innovative or flexible lending practices in order to serve the credit needs of its AAs. Refer to the Innovative or Flexible Lending Practices section of the bankwide section of this evaluation for additional details regarding these programs.

## **INVESTMENT TEST**

BB is rated “Low Satisfactory” in the Investment Test.

BB has an adequate level of qualified investments and donations in the Utah AA, exhibits adequate responsiveness to credit and CD needs, and occasionally uses innovative and/or complex investments to support CD initiatives.

### **Investment Activity**

BB has an adequate level of qualified investments and donations in the Utah AA. The combined CD investments, both new and remaining from the prior period, including grants and donations, total approximately \$8.2 million. This total includes prior period investments totaling \$2.2 million, new investments of approximately \$6.0 million, and donations of approximately \$41,000.

The investments and donations helped to support affordable housing, community services, and economic development efforts within the AA. The following table illustrates qualified investments and donations made or held during the review period in the Utah AA:

Qualified Investments – Utah Assessment Area										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior Period	2	2,163	0	0	0	0	0	0	2	2,163
2016	4	5,579	1	400	0	0	0	0	5	5,979
YTD 2017	0	0	0	0	0	0	0	0	0	0
Subtotal	4	5,579	1	400	0	0	0	0	5	5,979
Qualified Grants & Donations	5	18	6	18	2	5	0	0	13	41
Total	11	7,760	7	418	2	5	0	0	20	8,183
Source: Bank Records										

The following are notable examples of CD investments extended in the AA during the review period:

- The bank purchased an investment for a multifamily apartment complex where 100 percent of the units are for LMI individuals.
- BB purchased several MBSs that will help provide much needed affordable housing for LMI individuals in the AA.

### **Responsiveness to Credit and Community Development Needs**

BB exhibits adequate responsiveness to credit and CD needs. The bank's emphasis on affordable housing investments in the Utah AA is a primary need identified by community contacts.

### **Community Development Initiatives**

BB occasionally uses innovative and/or complex investments to support CD initiatives. The bank's qualified investments are useful and help promote CD; however, they are not innovative.

### **SERVICE TEST**

BB is rated "Low Satisfactory" in the Service Test.

BB operates seven branches in the AA. Delivery systems are essentially accessible to all portions. To the extent changes have been made, BB's opening and closing of branches in the AA has not adversely affected the accessibility of its delivery systems, particularly in LMI geographies and to LMI individuals. Business hours and services do not vary in a way that inconveniences certain portions of the AA, particularly LMI geographies or individuals. BB provided an adequate level of CD services in the AA.

## Retail Banking Services

### *Accessibility of Delivery Systems*

BB's delivery systems are accessible to essentially all portions of the Utah AA. The bank operates a network of seven branch offices and four ATMs, only one of which is a deposit-taking ATM. Overall, the branches are reasonably distributed throughout the AA with one branch in low-, two in moderate-, three in middle-, and one in upper-income CTs. The table illustrates BB's branch structure within the Utah AA as compared to the 2015 ACS Survey data, 2016 peer branch data, and 2017 D&B data:

Branch Structure – Utah Assessment Area						
Branch and Automated Teller Machine Distribution	Census Tract Income Level					
	Low	Moderate	Middle	Upper	NA	Total
Number of Branches	1	2	3	1	0	7
Percentage of Branches	14.3	28.6	42.9	14.2	0.0	100.0
Number of ATMs	1	1	2	0	0	4
Percentage of ATMs	25.0	25.0	50.0	0.0	0.0	100.0
Comparisons						
Percentage of Branches - All Institutions	4.6	28.7	43.7	22.7	0.3	100.0
Percentage of Households	3.7	20.6	45.0	30.3	0.4	100.0
Percentage of Families	3.1	17.9	45.4	33.3	0.3	100.0
Percentage of Businesses	3.2	18.5	41.6	36.1	0.6	100.0
<i>Source: 2015 ACS Survey Data and 2017 D&amp;B Data, and 2016 Peer Branch Data</i>						
<i>Due to rounding, totals may not equal 100.0</i>						
<i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

BB operates 1 branch representing 14.3 percent of its total branches in the AA, within low-income CTs. This percentage is higher than all other financial institutions and the demographics. The percentage of branches in moderate-income CTs is in-line with the percentage of branches for all institutions and compares favorably to the percentage of households, families, and businesses in this area.

Alternative delivery systems mirror those described under the bankwide section of this evaluation. Refer to the comments in the overall bankwide Service Test section regarding the discussion of the institution's alternative delivery systems for details.

### Changes in Branch Locations

To the extent that changes have been made, BB's opening or closing of branch offices has not adversely affected the accessibility of its delivery systems, particularly in LMI geographies and/or to LMI individuals. The bank's branch distribution by census tract delineations was affected by the updated 2015 ACS Survey Data. The net 2015 ACS changes include the following: one branch was removed from a moderate-income CT and moved to a middle-income CT. There were no net branch differences in the low-income CTs, upper-income CTs, and the CTs where income was not available. As of October 2017, the bank closed and sold all 7 branches within the Utah AA and exited this market.

### Reasonableness of Hours

Services and business hours do not vary in a way that inconveniences certain portions of the AA, particularly in LMI CTs. Reasonableness of business hours and services in meeting AA needs mirror those described under the bankwide conclusions section of this report. Refer to the comments in the bankwide Service Test section regarding the reasonableness of hours for details.

### Community Development Services

BB provided an adequate level of CD services in the Utah AA. Bank records show that employees provided financial or job-specific expertise for 105 CD service activities, logging a total of 291 qualified hours within this AA. A majority of the bank's assistance was to organizations that provide community services to LMI individuals and families. Other activities targeted affordable housing and economic development. Hours by category in the AA are detailed in the following table:

Community Development Services – Utah Assessment Area										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	Hours	#	Hours	#	Hours	#	Hours	#	Hours
2016	13	68	45	111	2	10	0	0	60	189
YTD 2017	0	0	37	79	8	23	0	0	45	102
<b>Total</b>	<b>13</b>	<b>68</b>	<b>82</b>	<b>190</b>	<b>10</b>	<b>33</b>	<b>0</b>	<b>0</b>	<b>105</b>	<b>291</b>
<i>Source: Bank Records</i>										

The following are notable examples of CD services provided in the AA during the review period:

- A bank employee serves on the Board of an organization that provides food to individuals in need.
- A bank employee serves as a treasurer for an organization that provides affordable housing to LMI individuals

## **PORTLAND-VANCOUVER-HILLSBORO MULTI-STATE FULL-SCOPE EVALUATION**

**CRA RATING FOR PVH MS AA: Satisfactory**

**The Lending Test is rated: Low Satisfactory**

**The Investment Test is rated: High Satisfactory**

**The Service Test is rated: Needs to Improve**

### **SCOPE OF EVALUATION**

The rating for the PVH MS AA is based on full-scope evaluation of the bank's performance in Clackamas, Clark, Multnomah, and Washington Counties, which are all part of the Portland-Vancouver-Hillsboro, OR-WA MSA. A limited portion of the bank's overall lending, investments, and services were conducted in the PVH MS AA; therefore, performance within this MS AA received less weight in determining the bank's overall CRA Rating compared to previously rated areas.

The evaluation focused on small business and HMDA lending. Small farm lending was not included in the review as it was too nominal to generate any meaningful conclusions. CD lending, investments and retail and CD services were also reviewed. Loans originated and reported pursuant to CRA data collection requirements for 2016 were included in the review. Aggregate lending data used in the analysis is for 2016. Information from recently completed community contacts in these AAs was also reviewed and considered.

### **DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE PORTLAND-VANCOUVER-HILLSBORO MULTI-STATE ASSESSMENT AREA**

BB operates nine branches in four counties in the PVH MS AA. Refer to the bankwide Service Test discussion for details regarding bank operations.

#### **Economic and Demographic Data**

The following table details the number and percentage of CTs, households, owner-occupied housing units, and businesses by CT income level according to the 2010 U.S. Census, 2015 ACS Census, and 2017 data from D&B.

Demographic Information of the Assessment Area						
Assessment Area: Portland-Vancouver-Hillsboro Multi-State Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	459	2.4	24.0	44.0	29.0	0.7
Population by Geography	2,158,572	2.1	25.2	44.2	28.4	0.1
Housing Units by Geography	877,280	2.0	24.8	44.0	29.1	0.2
Owner-Occupied Units by Geography	498,223	0.8	18.9	46.5	33.7	0.0
Occupied Rental Units by Geography	330,835	3.6	33.4	40.0	22.4	0.5
Vacant Units by Geography	48,222	2.1	26.2	45.3	26.1	0.3
Businesses by Geography	185,707	2.7	21.1	39.0	34.5	2.7
Farms by Geography	5,261	1.5	14.9	51.1	31.7	0.7
Family Distribution by Income Level	525,045	21.1	17.3	20.3	41.3	0.0
Household Distribution by Income Level	829,058	23.8	16.2	18.0	42.0	0.0
Median Family Income MSA - #38900 Portland-Vancouver- Hillsboro, OR-WA MSA	\$73,089		Median Housing Value			\$288,914
			Median Gross Rent			\$1,027
			Families Below Poverty Level			9.1%
Source: 2010 U.S. Census & 2015 ACS Census and 2017 D&B Data Due to rounding, totals may not equal 100.0 (*) The NA category consists of geographies that have not been assigned an income classification.						

Professional and business services, education and health services, government, and manufacturing are the major industries of the PVH AA. The four biggest employers are Intel Corp., Providence Health Systems, Oregon Health & Science University, and Kaiser Foundation Health Plan of the NW.

According to Moody's Analytics, job creation is particularly strong in professional services, finance, and healthcare. Labor shortages are putting upward pressure on wages, and growth in average hourly earnings has accelerated sharply. House prices are rising at about twice the U.S. rate, and the inventory of unsold homes has become exceedingly tight as builders struggle to keep pace with demand.

The following table details unemployment statistics for the PVH MS AA compared to the national average:

<b>Unemployment Rates: PVH MS AA</b>		
<b>Assessment Area</b>	<b>2016</b>	<b>November 2017</b>
	<b>%</b>	<b>%</b>
<b>Portland-Vancouver MS</b>	4.0	3.6
<b>National Average</b>	4.7	4.1
<i>Source: Bureau of Labor Statistics</i>		

The table indicates that the unemployment rates for the PVH MS AA improved and were consistently below the nation over the review period.

## **Competition**

Competition for financial services in the PVH MS AA is relatively high. FDIC Deposit Market Share data as of June 30, 2017, shows 37 financial institutions operating 536 full-service branches within the bank's PVH MS AA. Of these institutions, BB ranked 12<sup>th</sup> with a 0.7 percent deposit market share.

According to 2016 aggregate data, BB ranked 20<sup>th</sup> of 139 small business lenders in the PVH MS AA. Small business lenders originated a total of 73,552 loans. BB claimed a small 0.3 percent share of the market compared to the top 3 lenders, which account for 58.8 percent of the total market share. This indicates a very competitive market for small business loans.

There is a high level of competition for residential mortgage loans. In 2016, 632 lenders reported a total of 158,314 residential mortgage loans originated or purchased. BB ranked 46<sup>th</sup> out of this group of lenders, with a market share of only 0.5 percent. The top 3 leading residential mortgage lenders account for 17.4 percent of total market share.

## **Community Contact**

Examiners reviewed an existing community contact with a community based economic development organization dedicated to help Oregonians achieve housing stability and build financial security. The contact stated that there is a need for housing development, down payment assistance, and small business loans.

## **Credit and Community Development Needs and Opportunities**

Considering information from the community contact, bank management, and demographic and economic data, examiners determined that small business lending, represents a credit need for the AA. There is also a need for housing development and down payment assistance.

## **CONCLUSIONS ON PERFORMANCE CRITERIA IN THE PORTLAND-VANCOUVER-HILLSBORO MULTI-STATE ASSESSMENT AREA**

### **LENDING TEST**

BB is rated "Low Satisfactory" in the Lending Test.

More weight was placed on the bank's HMDA lending performance in the AA based on loan volume.

### **Lending Activity**

BB's lending levels reflect adequate responsiveness to the PVH MS AA credit needs. In 2016, the bank originated 209 small business loans totaling \$38.0 million. This ranks the institution 20<sup>th</sup> out of 139 lenders reporting CRA small business loan data, and represents a 0.5 percent market share by number of loans. In regards to HMDA loans, the bank originated 484 loans



totaling \$132.7 million in 2016. This ranks the bank 46<sup>th</sup> of 632 lenders reporting HMDA loans, representing a 0.5 percent market share by number of loans. BB's market share ranking and percentage reflect adequate responsiveness to the small business and residential mortgage credit needs of the AA.

### **Geographic Distribution**

The bank's geographic distribution of loans reflects adequate penetration throughout the AA. No conspicuous lending gaps were noted in the geographic distribution of loans. The following sections describe the bank's performance by loan type.

#### *Small Business Lending*

The following table illustrates BB's small business lending record by CT income level compared to the market. The second column presents the distribution of small businesses by CT income level as estimated by D&B.

<b>Geographic Distribution of Small Business Loans</b>				
<b>Assessment Area: Portland-Vancouver-Hillsboro Multi-State Assessment Area</b>				
<b>Tract Income Level</b>	<b>% of Businesses</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>
Low				
2016	4.6	3.2	11	5.3
Moderate				
2016	22.3	19.8	32	15.3
Middle				
2016	42.5	43.4	79	37.8
Upper				
2016	30.5	33.5	87	41.6
Not Available				
2016	0.2	0.1	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>209</b>	<b>100.0</b>
<i>Source: 2016 D&amp;B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0</i>				

BB's distribution of small business loans reflects adequate penetration throughout the AA. The bank's penetration of lending in low-income CTs, at 5.3 percent, exceeds aggregate lending data of 3.2 percent and the percentage of businesses in low-income CTs of 4.6 percent. In moderate-income CTs, the bank's performance, at 15.3 percent, is below the aggregate and percentage of businesses but not to unreasonable degree. Overall, this performance reflects that the bank is reasonably meeting the credit to businesses in areas of greatest need, especially when compared to the aggregate.

### *Residential Mortgage Loans*

The following table details BB's residential mortgage lending distribution by CT income level for the AA compared to the market. The second column provides the distribution of owner-occupied housing units according to the 2010 U.S. Census for demographic reference.

<b>Geographic Distribution of Home Mortgage Loans</b>				
<b>Assessment Area: Portland-Vancouver-Hillsboro Multi-State Assessment Area</b>				
<b>Tract Income Level</b>	<b>% of Owner-Occupied Housing Units</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>
Low				
2016	1.4	1.5	6	1.2
Moderate				
2016	18.1	18.2	83	17.1
Middle				
2016	48.2	49.2	233	48.1
Upper				
2016	32.3	31.2	162	33.5
Not Available				
2016	0.0	0.0	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>484</b>	<b>100.0</b>
<i>Source: 2010 U.S. Census; 1/1/2016 - 12/31/2016 Bank Data, 2016 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0</i>				

The geographic distribution of HMDA loans reflects adequate penetration throughout the AA. The bank's 2016 lending performance in low-income CTs at 1.2 percent is slightly below the aggregate data and the percentage of owner-occupied housing units at 1.5 percent and 1.4 percent, respectively. In moderate-income CTs, the bank's performance was also slightly below the aggregate data and the percentage of owner-occupied housing. Overall, the bank is reasonably meeting the credit needs of its retail customers in LMI CTs.

### **Borrower Profile**

The distribution of borrowers reflects, given the product lines offered by the institution, adequate penetration among businesses of different sizes and retail customers of different income levels. The following sections describe the bank's performance by loan type.

### *Small Business Loans*

The following table details BB's rate of lending to businesses with GARs of \$1 million or less compared to the market. The second column illustrates the distribution of small businesses by revenue level estimated by D&B surveys.

Distribution of Small Business Loans by Gross Annual Revenue Category				
Assessment Area: Portland-Vancouver-Hillsboro Multi-State Assessment Area				
Gross Revenue Level	% of Businesses	Aggregate Performance % of #	#	%
<=\$1,000,000				
2016	87.4	40.4	101	48.3
>1,000,000				
2016	4.9	--	93	44.5
Revenue Not Available				
2016	7.8	--	15	7.2
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>209</b>	<b>100.0</b>
Source: 2016 D&B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data; "--" data not available. Due to rounding, totals may not equal 100.0				

The distribution of borrowers reflects good penetration among business customers of different sizes. In 2016, the percentage of loans to small businesses of 48.3 percent exceeds the aggregate lending data of 40.4 percent but is below the percentage of small businesses of 87.4 percent. More emphasis is placed on the comparison to aggregate lending data, as it better represents credit demand and lending opportunities within the AA. Therefore, when compared to the aggregate, the bank's performance shows that it is effectively meeting the small business credit needs of the PVH MS AA.

### *Residential Mortgage Loans*

The following table details BB's distribution of loans by borrower income level over the review period compared to the market. The percentage of families by income level from the 2010 U.S. Census is included in the second column for demographic reference.

Distribution of Home Mortgage Loans by Borrower Income Level				
Assessment Area: Portland-Vancouver-Hillsboro Multi-State Assessment Area				
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%
Low				
2016	20.3	2.8	17	3.5
Moderate				
2016	17.6	13.6	52	10.7
Middle				
2016	21.2	23.4	121	25.0
Upper				
2016	40.9	44.8	287	59.3
Not Available				
2016	0.0	15.3	7	1.4
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>484</b>	<b>100.0</b>
Source: 2010 U.S. Census; 1/1/2016 - 12/31/2016 Bank Data; 2016 HMDA Aggregate Data; "--" data not available. Due to rounding, totals may not equal 100.0				

The distribution of HMDA loans reflects adequate penetration among borrowers of different income levels within the PVH MS AA. The analysis reflects that the bank's lending to low-income borrowers, at 3.5 percent, was above the aggregate lending data and significantly below the percentage of low-income families. Lending to moderate-income borrowers, at 10.7 percent, was below the aggregate lending data and the percentage of moderate-income families of 13.6 percent and 17.6 percent, respectively.

Although the bank's performance is lower than the overall percentages of LMI families within the AA, the bank's performance is relatively comparable with that of the aggregate lending data in 2016. The aggregate lending data provides a better comparison of the institution's lending performance because not all LMI families have the financial capacity to qualify for home mortgage loans. The aggregate lending data is a better indicator of the market demand for credit. Overall, the performance reflects adequate penetration throughout the AA.

### **Community Development Lending**

BB originated a relatively high level of CD loans in the AA. The bank originated 5 CD loans totaling approximately \$20.9 million in the PVH MS AA during the evaluation period. This is an increase by dollar volume from the \$11.8 million originated during the previous evaluation. All of the bank's CD loans targeted affordable housing. The following table provides a breakdown of the CD lending by both year and CD category:

<b>Community Development Lending– Portland-Vancouver-Hillsboro Multi-State Assessment Area</b>										
<b>Activity Year</b>	<b>Affordable Housing</b>		<b>Community Services</b>		<b>Economic Development</b>		<b>Revitalize or Stabilize</b>		<b>Totals</b>	
	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>
2016	4	15,695	0	0	0	0	0	0	4	15,695
YTD 2017	1	5,245	0	0	0	0	0	0	1	5,245
<b>Total</b>	<b>5</b>	<b>20,940</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>5</b>	<b>20,940</b>

*Source: Bank Records*

The following are notable examples of CD loans extended in the AA during the review period:

- BB originated a \$5.2 million loan for an apartment complex that will provide housing for LMI individuals in the AA.
- The bank provided two loans to a non-profit organization that helps provide affordable housing for LMI individuals.

### **Innovative and Flexible Lending Practice**

The bank makes use of innovative or flexible lending practices in order to serve the credit needs of its AAs. Refer to the Innovative or Flexible Lending Practices section of the bankwide section of this evaluation for additional details regarding these programs.

## INVESTMENT TEST

BB is rated “High Satisfactory” in the Investment Test.

BB has a significant level of qualified investments and donations in the PVH MS AA, exhibits good responsiveness to credit and CD needs, and occasionally uses innovative and/or complex investments to support CD initiatives.

### Investment Activity

BB has a significant level of qualified investments and donations in the PVH MS AA. The combined CD investments, both new and remaining from the prior-period, including grants and donations, total approximately \$8.8 million. This level represents an increase from the prior evaluation when BB’s qualified investments and donations totaled approximately \$7.4 million. The total includes prior period investments of approximately \$4.2 million, new investments of approximately \$4.5 million, and donations of approximately \$108,000.

The investments and donations helped to support affordable housing, community services, and economic development efforts within the AA. The following table illustrates qualified investments and donations made or held during the review period in the AA:

Qualified Investments – Portland-Vancouver-Hillsboro Multi-State Assessment Area										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior Period	3	1,933	2	2,083	1	225	0	0	6	4,241
2016	3	4,477	0	0	0	0	0	0	3	4,477
YTD 2017	0	0	0	0	0	0	0	0	0	0
Subtotal	3	4,477	0	0	0	0	0	0	3	4,477
Qualified Grants & Donations	11	53	10	54	1	1	0	0	22	108
Total	17	6,463	12	2,137	2	226	0	0	31	8,826
Source: Bank Records										

The following are notable examples of CD investments extended in the AA during the review period:

- BB purchased 3 housing bonds totaling \$4.5 million that provides much needed housing for LMI individuals in the AA.
- The bank has a prior period investment that provides funding for a school district to replace six elementary schools, build a new middle school, improve safety and security, and upgrade technology. The school district has 51 percent of its student's receiving free or reduced lunches.

- BB donated \$10,000 donation to an organization that helps provide home buyer education classes, financial services, and a variety of other resources to LMI individuals in the City of Portland.

### **Responsiveness to Credit and Community Development Needs**

BB exhibits good responsiveness to credit and CD needs. The bank's emphasis on affordable housing investments in the PVH MS AA is a primary need identified by community contacts.

### **Community Development Initiatives**

BB occasionally uses innovative and/or complex investments to support CD initiatives. The bank's qualified investments are useful and help promote CD; however, they are not innovative as all of the bank's investments are school bonds or MBSs.

### **SERVICE TEST**

BB is rated "Needs to Improve" in the Service Test.

BB operates nine branches in the AA. Delivery systems are reasonably accessible to essentially all portions of the AA. To the extent changes have been made, BB's opening and closing of branches in the AA has not adversely affected the accessibility of its delivery systems, particularly in LMI geographies and to LMI individuals. Business hours and services do not vary in a way that inconveniences certain portions of the AA, particularly LMI geographies or LMI individuals. BB provided a limited level of CD services.

### **Retail Banking Services**

#### *Accessibility of Delivery Systems*

BB's delivery systems are reasonably accessible to essentially all portions of the PVH MS AA. The bank operates a network of nine branch offices and nine ATMs, including eight deposit-taking ATMs, within this AA. Overall, the branches are reasonably distributed throughout the AA with one branch in low-, one in moderate-, two in middle-, four in upper-income, and one in NA CTs. The table below illustrates BB's branch structure within the PVH MS AA as compared to 2015 ACS Survey data, 2016 peer branch data, and 2017 D&B data:

Branch Structure – Portland-Vancouver-Hillsboro Multi-State Assessment Area						
Branch and Automated Teller Machine Distribution	Census Tract Income Level					
	Low	Moderate	Middle	Upper	NA	Total
Number of Branches	1	1	2	4	1	9
Percentage of Branches	11.1	11.1	22.2	44.4	11.2	100.0
Number of ATMs	1	1	2	4	1	9
Percentage of ATMs	11.1	11.1	22.2	44.4	11.1	100.0
Comparisons						
Percentage of Branches - All Institutions	8.0	31.6	39.0	21.4	0.0	100.0
Percentage of Households	2.0	24.7	43.9	29.2	0.2	100.0
Percentage of Families	1.8	23.5	44.7	29.9	0.1	100.0
Percentage of Businesses	2.7	21.1	39.0	34.5	2.7	100.0
Source: 2015 ACS Survey Data and 2017 D&B Data, and 2016 Peer Branch Data						
Due to rounding, totals may not equal 100.0						
(*) The NA category consists of geographies that have not been assigned an income classification.						

BB operates 1 branch representing 11.1 percent of its total branches, within low-income CTs. This percentage is higher than all other financial institutions, which report 8.0 percent of branches in low-income CTs. The percentage of branches in moderate-income CTs at 11.1 percent is lower than the percentage of branches for all institutions and the percentage of households, families, and businesses in the area.

Alternative delivery systems mirror those described under the bankwide conclusions section of this evaluation. Refer to the comments in the overall bankwide Service Test section regarding the discussion of the institution's alternative delivery systems for details.

#### *Changes in Branch Locations*

To the extent that changes have been made, BB's opening or closing of branch offices has not adversely affected the accessibility of its delivery systems, particularly in LMI geographies and/or to LMI individuals. The bank's branch distribution by CT delineations was affected by the updated 2015 ACS Survey Data. The net 2015 ACS changes include the following: one branch removed from a moderate-income CT, one branch removed from a middle-income CT, one branch moved to an upper-income CT, and one branch moved to a NA CT. There were no net branch differences in low-income CTs. Since the previous evaluation, the bank has not opened or closed any branch locations in the AA.

#### *Reasonableness of Hours*

Services and business hours do not vary in a way that inconveniences certain portions of the AA, particularly in LMI CTs. Reasonableness of business hours and services in meeting AA needs mirror those described under the bankwide conclusions section of this report. Refer to the comments in the overall bankwide Service Test section regarding the reasonableness of hours for details.

## **Community Development Services**

BB provided a limited level of CD services in the AA. Bank records show that employees provided financial or job-specific expertise for 42 CD service activities, logging a total of 104 qualified hours within this AA. Despite the shorter timeframe for this evaluation, the level of CD services provided is a significant decrease from the prior evaluation in which a total of 699 CD service hours were provided. A majority of the bank's assistance was to organizations that provide community services to LMI individuals and families. Other activities targeted affordable housing. Hours by category in the AA are detailed in the following table:

<b>Community Development Services – Portland-Vancouver-Hillsboro Multi-State Assessment Area</b>										
<b>Activity Year</b>	<b>Affordable Housing</b>		<b>Community Services</b>		<b>Economic Development</b>		<b>Revitalize or Stabilize</b>		<b>Totals</b>	
	<b>#</b>	<b>Hours</b>	<b>#</b>	<b>Hours</b>	<b>#</b>	<b>Hours</b>	<b>#</b>	<b>Hours</b>	<b>#</b>	<b>Hours</b>
2016	2	4	14	36	0	0	0	0	16	40
YTD 2017	6	11	20	53	0	0	0	0	26	64
<b>Total</b>	<b>8</b>	<b>15</b>	<b>34</b>	<b>89</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>42</b>	<b>104</b>
<i>Source: Bank Records</i>										

The following are notable examples of CD services provided in the AA during the review period:

- A bank employee serves on the Board of a non-profit homeless shelter in the City of Hillsboro.
- A bank employee serves on the Board for an organization that builds affordable housing for LMI individuals.

## **LEWISTON MULTI-STATE FULL-SCOPE EVALUATION**

**CRA RATING FOR LEWISTON MS AA: Satisfactory**

**The Lending Test is rated: Low Satisfactory**

**The Investment Test is rated: Low Satisfactory**

**The Service Test is rated: Low Satisfactory**

### **SCOPE OF EVALUATION**

The rating for the Lewiston MS AA is based on full-scope evaluation on the bank's performance in Asotin and Nez Perce Counties, which make up the Lewiston, Idaho-Washington MSA. A limited portion of the bank's overall lending, investments, and services were conducted in the AA; therefore, performance within this MS AA received less weight in determining the bank's overall CRA Rating compared to previously rated areas.

The evaluation focused on small business, HMDA, and small farm lending. CD lending, investments, and retail and CD services were also reviewed. Loans originated and reported



pursuant to CRA data collection requirements for 2016 were included in the review. Aggregate lending data used in the analysis is for 2016. Information from recently completed community contacts in these AAs was also reviewed and considered.

## DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE LEWISTON MULTI-STATE ASSESSMENT AREA

BB operates three branches in two counties in the AA. Refer to the bankwide Service Test discussion for details regarding bank operations.

### Economic and Demographic Data

The following table details the number and percentage of CTs, households, owner-occupied housing units, and businesses by CT income level according to the 2010 U.S. Census, 2015 ACS Census, and 2017 data from D&B.

Demographic Information of the Assessment Area						
Assessment Area: Lewiston Multi-State Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	16	0.0	12.5	68.8	18.8	0.0
Population by Geography	61,819	0.0	9.0	69.4	21.6	0.0
Housing Units by Geography	27,298	0.0	9.7	68.2	22.1	0.0
Owner-Occupied Units by Geography	17,521	0.0	7.6	67.8	24.6	0.0
Occupied Rental Units by Geography	7,916	0.0	14.5	71.0	14.5	0.0
Vacant Units by Geography	1,861	0.0	8.9	59.9	31.2	0.0
Businesses by Geography	3,505	0.0	11.8	71.6	16.6	0.0
Farms by Geography	282	0.0	3.5	69.9	26.6	0.0
Family Distribution by Income Level	16,353	18.9	20.0	22.2	38.9	0.0
Household Distribution by Income Level	25,437	22.5	17.9	18.2	41.4	0.0
Median Family Income MSA - 30300 Lewiston, ID-WA MSA	\$58,484		Median Housing Value			\$170,186
			Median Gross Rent			\$683
			Families Below Poverty Level			8.4%
Source: 2010 U.S. Census & 2015 ACS Census and 2017 D&B Data Due to rounding, totals may not equal 100.0 (*) The NA category consists of geographies that have not been assigned an income classification.						

Government, education and health services, manufacturing, and retail trade are the major industries in the Lewiston MS AA. The four biggest employers are ATK, Clearwater Paper, Vista Outdoor, and the Nez Perce Tribe.

According to Moody's Analytics, Lewiston's low living cost and proximity to major northwest metro areas is a strength. Additionally, Lewiston being the farthest inland west coast port with

below-average business costs provides a competitive advantage. However, Lewiston is heavily reliant on manufacturing and is dependent on the U.S. economy to drive demand for locally produced goods.

The following table contains unemployment statistics for the Lewiston MS AA compared to the national average:

Unemployment Rates: Lewiston MS AA		
Assessment Area	2016	November 2017
	%	%
Lewiston MS	3.6	3.1
National Average	4.7	4.1
Source: Bureau of Labor Statistics		

The above table indicates that the unemployment rates in Lewiston improved and were consistently below the national average throughout the review period.

### **Competition**

There is a moderate level of competition for financial services in the Lewiston MS AA. FDIC Deposit Market Share data as of June 30, 2017, shows there were 10 financial institutions operating 20 full-service branches within the bank's Lewiston MS AA. Of these institutions, BB ranked 2<sup>nd</sup> with 18.6 percent deposit market share.

According to 2016 aggregate data, BB ranked 4<sup>th</sup> of 32 small business lenders in the Lewiston MS AA. Small business lenders originated 2,077 loans. BB's market share was 5.1 percent, with the top 3 lenders accounting for 67.6 percent of the total market share. The level of competition for small business lending is lower in the Lewiston MS AA than in BB's other AAs.

Competition for residential mortgage loans is moderate. In 2016, 176 lenders reported 3,159 residential mortgage loans originated or purchased. BB ranked 12<sup>th</sup> out of this group of lenders, with a market share of 1.9 percent. The 3 foremost residential mortgage lenders accounted for 36.7 of total market share.

According to 2016 aggregate data, BB ranked 3<sup>rd</sup> out of 12 small farm lenders in the Lewiston MS AA, with a total market share of 17.2 percent. Lenders originated 116 small farm loans in the Lewiston MS AA, indicating the competition for this product type is low in the AA.

### **Community Contact**

As part of this evaluation, examiners conducted community contacts that focused on each product analyzed under the lending test, including small business and small farm development and residential lending.

An existing community contact was reviewed with a governmental agricultural organization with a mission to equitably serve all farmers, ranchers, and agricultural partners through the delivery

of effective and efficient agricultural programs. The contact stated that the farming industry has tightened due to the lowering of crop prices and competition.

Examiners reviewed an existing community contact with a small business economic development organization that provides assistance to small businesses and entrepreneurs. The contact indicated that the credit needs for the rural and urban areas include small business loans, including startup loans. Specifically, the contact identified a need for outreach to small business owners, particularly in the rural areas.

Examiners also reviewed an existing community contact with a community based affordable housing organization that provides LMI families with a variety of services, including programs that support affordable housing to ensure stable housing is secured. The contacted stated that the local area unemployment rates remain low and that entry level employment opportunities are available in the service sector. According to the contact, there is an opportunity for providing financial education and outreach to LMI families and individuals regarding basic banking and credit services that involve more than just standard checking and savings products. Specifically, the contact identified a need for entry level loan products with low interest rates that may assist consumers who rely on payday lenders and are subject to high interest rates. Overall, the contact stated that efforts to fulfill the credit needs of the community are sufficient; however, LMI individuals have been hesitant to take advantages of the financial services offered in their local community.

### **Credit and Community Development Needs and Opportunities**

Considering information from the community contact, bank management, and demographic and economic data, examiners determined that small business lending, including startup loans, represents a credit need for the AA. There is also a need for financial education and outreach to LMI families and individuals.

## **CONCLUSIONS ON PERFORMANCE CRITERIA IN THE LEWISTON MULTI-STATE ASSESSMENT AREA**

### **LENDING TEST**

BB is rated “Low Satisfactory” in the Lending Test.

More weight was placed on the bank’s small business lending performance in the AA based on loan volume.

### **Lending Activity**

BB’s lending levels reflect adequate responsiveness to the Lewiston MS AA credit needs. In 2016, the bank originated 86 small business loans totaling \$14.5 million. This ranks the institution 4<sup>th</sup> of 32 lenders reporting CRA small business loan data, with a 5.1 percent market share by number of loans. In regards to HMDA loans, the bank originated 38 loans totaling \$4.9 million in 2016. This ranks the bank 12<sup>th</sup> of 176 lenders reporting HMDA loans, with a 1.9

percent market share by number of loans. Lastly, for small farm loans, the bank originated 20 loans totaling \$3.9 million. This ranks the bank 3<sup>rd</sup> out of 12 lenders reporting small farm loans, with a 17.2 percent market share. Overall, BB's market share ranking and percentage reflect adequate responsiveness to the small business, residential mortgage, and small farm credit needs of the AA.

### **Geographic Distribution**

The bank's geographic distribution of loans reflects adequate penetration throughout the AA. No conspicuous lending gaps were noted in the geographic distribution of loans. There are no low-income tracts in the AA; therefore, the analysis focused on the bank's performance in moderate-income CTs. The following sections describe the bank's performance by loan type.

#### *Small Business Lending*

The following table illustrates BB's small business lending record by CT income level compared to the market. The second column presents the distribution of small businesses by CT income level as estimated by D&B.

<b>Geographic Distribution of Small Business Loans</b>				
<b>Assessment Area: Lewiston Multi-State Assessment Area</b>				
<b>Tract Income Level</b>	<b>% of Businesses</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>
Moderate				
2016	38.8	34.5	33	38.4
Middle				
2016	56.5	59.8	51	59.3
Upper				
2016	4.7	5.7	2	2.3
Not Available				
2016	0.0	0.0	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>86</b>	<b>100.0</b>
<i>Source: 2016 D&amp;B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0</i>				

BB's distribution of small business loans reflects adequate penetration throughout the AA. The bank's lending in moderate-income CTs at 38.4 percent is above the aggregate and similar to the percentage of businesses.

#### *Residential Mortgage Loans*

The following table details BB's residential mortgage lending distribution by CT income level for the AA compared to the market. The second column provides the distribution of owner-occupied housing units according to the 2010 U.S. Census for demographic reference.

Geographic Distribution of Home Mortgage Loans				
Assessment Area: Lewiston Multi-State Assessment Area				
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%
Moderate				
2016	19.1	18.9	9	23.7
Middle				
2016	70.0	68.4	26	68.4
Upper				
2016	10.8	12.6	3	7.9
Not Available				
2016	0.0	0.0	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>38</b>	<b>100.0</b>
Source: 2010 U.S. Census; 1/1/2016 - 12/31/2016 Bank Data, 2016 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0				

BB's distribution of small business loans reflects adequate penetration throughout the AA. The bank's penetration of lending in moderate-income CTs at 23.7 percent is above the aggregate and the percentage of owner-occupied housing units.

#### *Small Farm Lending*

The following table illustrates BB's small farm lending record by CT income level compared to the market. The second column presents the distribution of small farms by CT income level as estimated by D&B.

Geographic Distribution of Small Farm Loans				
Assessment Area: Lewiston Multi-State Assessment Area				
Tract Income Level	% of Farms	Aggregate Performance % of #	#	%
Moderate				
2016	18.4	11.3	5	25.0
Middle				
2016	77.7	84.3	15	75.0
Upper				
2016	3.9	4.3	0	0.0
Not Available				
2016	0.0	0.0	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>20</b>	<b>100.0</b>
Source: 2016 D&B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0				

BB's distribution of small farm loans reflects excellent penetration throughout the AA. The bank's penetration of lending in moderate-income CTs at 25.0 percent is more than double the aggregate performance and is above the percentage of businesses.

## **Borrower Profile**

The distribution of borrowers reflects, given the product lines offered by the institution, excellent penetration among businesses and farms of different sizes and retail customers of different income levels. The following sections describe the bank's performance by loan type.

### *Small Business Loans*

The following table details BB's rate of lending to businesses with GARs of \$1 million or less compared to the market. The second column illustrates the distribution of small businesses by revenue level estimated by D&B surveys.

<b>Distribution of Small Business Loans by Gross Annual Revenue Category</b>				
<b>Assessment Area: Lewiston Multi-State Assessment Area</b>				
<b>Gross Revenue Level</b>	<b>% of Businesses</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>
<b>&lt;=\$1,000,000</b>				
2016	78.9	41.2	50	58.1
<b>&gt;1,000,000</b>				
2016	5.8	--	32	37.2
<b>Revenue Not Available</b>				
2016	15.3	--	4	4.7
<b>Totals</b>				
2016	100.0	100.0	86	100.0
<i>Source: 2016 D&amp;B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data; "--" data not available. Due to rounding, totals may not equal 100.0</i>				

The distribution of borrowers reflects excellent penetration among business customers of different revenue sizes. In 2016, the percentage of loans to small businesses of 58.1 percent exceeds the aggregate lending data of 41.2 percent but is below the percentage of small businesses of 78.9 percent. More emphasis is placed on the comparison to aggregate lending data, as it better represents credit demand and lending opportunities within the AA. Therefore, when compared to the aggregate, the bank's performance shows that it is effectively meeting the small business credit needs of the AA.

### *Residential Mortgage Loans*

The following table details BB's distribution of loans by borrower income level over the review period compared to the market. The percentage of families by income level from the 2010 U.S. Census is included in the second column for demographic reference.

Distribution of Home Mortgage Loans by Borrower Income Level				
Assessment Area: Lewiston Multi-State Assessment Area				
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%
Low				
2016	20.0	4.9	1	2.6
Moderate				
2016	18.2	17.3	8	21.1
Middle				
2016	22.2	23.0	13	34.2
Upper				
2016	39.6	36.0	14	36.8
Not Available				
2016	0.0	18.9	2	5.3
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>38</b>	<b>100.0</b>
Source: 2010 U.S. Census; 1/1/2016 - 12/31/2016 Bank Data, 2016 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0				

The distribution of HMDA loans reflects adequate penetration among borrowers of different income levels within the AA. The analysis reflects that the bank's lending to low-income borrowers, at 2.6 percent, was below the aggregate lending data and significantly below the percentage of low-income families. Lending to moderate-income borrowers, at 21.1 percent, was above the aggregate lending data and the percentage of moderate-income families at 17.3 percent and 18.2 percent, respectively.

Although the bank's performance is lower than the overall percentages of LMI families within the AA, the bank's performance is relatively comparable with that of the aggregate lending data in 2016. The aggregate lending data provides a better comparison of the bank's lending performance because not all LMI families have the financial capacity to qualify for home mortgage loans. Therefore, the aggregate lending data is a better indicator of the market demand for credit. Overall, the performance reflects adequate penetration throughout the AA.

#### *Small Farm Loans*

The following table details BB's rate of lending to farms with GARs of \$1 million or less compared to the market. The second column illustrates the distribution of small farms by revenue level estimated by the D&B.

Distribution of Small Farm Loans by Gross Annual Revenue Category				
Assessment Area: Lewiston Multi-State Assessment Area				
Gross Revenue Level	% of Farms	Aggregate Performance % of #	#	%
<=\$1,000,000				
2016	96.5	73.9	18	90.0
>1,000,000				
2016	2.1	--	2	10.0
Revenue Not Available				
2016	1.4	--	0	0.0
<b>Totals</b>				
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>20</b>	<b>100.0</b>
Source: 2016 D&B Data; 1/1/2016 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data; "--" data not available. Due to rounding, totals may not equal 100.0				

The distribution of borrowers reflects excellent penetration among farm customers of different sizes. The bank originated 90.0 percent of its small farm loans to farms with GARs of \$1.0 million or less in 2016. This performance was above the aggregate lending levels of 73.9 percent but below the D&B data of 96.5 percent. More emphasis is placed on the comparison to aggregate lending data, as it better represents credit demand and lending opportunities within the AA. Therefore, when compared to the aggregate, the bank's performance shows that it is meeting the small farm credit needs of the Lewiston MS AA.

BB exhibits an adequate record of serving the credit needs of the most economically disadvantaged areas of its AAs, including low-income individuals and very small businesses and farms. Although there are no low-income CTs in the AA, the bank originated 33 small business, 9 HMDA loans, and 5 small farm loans in moderate-income CTs. The bank provided 50 small business loans to businesses with GARs of \$1.0 million or less, 1 HMDA loans to low-income borrowers, 18 small farm loans to farms with GARs of \$1.0 million or less.

### **Community Development Lending**

BB originated no CD loans. This lack of CD loan activity was noted in the institution's prior CRA Evaluations. Management has made efforts to seek out CD loan opportunities that align with the bank's funding priorities in the AA. However, the bank was not able to fund any CD loans due to the limited opportunities. For example, the local government prefers not to utilize debt instruments when seeking funding for housing development opportunities.

### **Innovative and Flexible Lending Practice**

The bank makes use of innovative or flexible lending practices in order to serve the credit needs of its AAs. Refer to the Innovative or Flexible Lending Practices section of the bankwide section of this evaluation for additional details regarding these programs.



## INVESTMENT TEST

BB is rated “Low Satisfactory” in the Investment Test.

BB has an adequate level of qualified investments and donations in the Lewiston MS AA, exhibits adequate responsiveness to credit and CD needs, and occasionally uses innovative and/or complex investments to support CD initiatives.

### Investment Activity

BB has an adequate level of qualified investments and donations in the AA. The combined CD investments, both new and remaining from the prior period, including grants and donations, total approximately \$1.6 million. This level is an increase from the prior evaluation when BB’s qualified investments and donations totaled approximately \$730,000. The total includes prior period investments of approximately \$1.3 million, new investments of approximately \$261,000 and donations of approximately \$24,000.

Qualified Investments by Assessment Area – Lewiston Multi-State Assessment Area										
Assessment Area	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior Period	5	596	3	750	0	0	0	0	8	1,346
2016	1	125	0	0	0	0	0	0	1	125
YTD 2017	1	136	0	0	0	0	0	0	1	136
Subtotal	2	261	0	0	0	0	0	0	2	261
Qualified Grants & Donations	0	0	6	24	0	0	0	0	6	24
Total	7	857	9	774	0	0	0	0	16	1,631
Source: Bank Records										

The following are notable examples of CD investments extended in the AA during the review period:

- BB purchased a MBS that will provide housing for LMI individuals in the AA.
- The bank donated \$6,000 to an organization that provides financial services to LMI individuals.

### Responsiveness to Credit and Community Development Needs

BB exhibits adequate responsiveness to credit and CD needs. The bank’s emphasis on affordable housing investments in the AA is a primary need identified by community contacts.

## **Community Development Initiatives**

BB occasionally uses innovative and/or complex investments to support CD initiatives.

### **SERVICE TEST**

BB is rated “Low Satisfactory” in the Service Test.

BB operates three branches in the AA. Delivery systems are accessible to essentially all portions of the AA. To the extent changes have been made, BB’s opening and closing of branches in the AA has not adversely affected the accessibility of its delivery systems, particularly in LMI geographies and to LMI individuals. Business hours and services do not vary in a way that inconveniences certain portions of the AA, particularly LMI geographies or LMI individuals. BB provided an adequate level of CD services.

### **Retail Banking Services**

#### *Accessibility of Delivery Systems*

BB’s delivery systems are accessible to essentially all portions of the Lewiston MS AA. The bank operates a network of three branch offices and three ATMs, all of which are deposit-taking, within this AA. Overall, the branches are reasonably distributed throughout the AA with one branch in a moderate-, one in a middle-, and one in an upper-income CT. The table illustrates BB’s branch structure within the Lewiston MS AA as compared to the 2015 ACS Survey data, 2016 peer branch data, and 2017 D&B data:

<b>Branch Structure – Lewiston Multi-State Assessment Area</b>						
<b>Branch and Automated Teller Machine Distribution</b>	<b>Census Tract Income Level</b>					
	<b>Low</b>	<b>Moderate</b>	<b>Middle</b>	<b>Upper</b>	<b>NA</b>	<b>Total</b>
Number of Branches	0	1	1	1	0	3
Percentage of Branches	0.0	33.3	33.3	33.4	0.0	100.0
Number of ATMs	0	1	1	1	0	3
Percentage of ATMs	0.0	33.3	33.3	33.4	0.0	100.0
<b>Comparisons</b>						
Percentage of Branches - All Institutions	0.0	50.0	45.0	5.0	0.0	100.0
Percentage of Households	0.0	9.8	68.8	21.4	0.0	100.0
Percentage of Families	0.0	8.2	67.9	23.9	0.0	100.0
Percentage of Businesses	0.0	11.8	71.6	16.6	0.0	100.0
<i>Source: 2015 ACS Survey Data and 2017 D&amp;B Data, and 2016 Peer Branch Data</i>						
<i>Due to rounding, totals may not equal 100.0</i>						
<i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

The AA does not have any low-income CTs; therefore, the bank does not have any branches in low-income CTs. BB operates 1 branch representing 33.3 percent of its total branches, within moderate-income CTs. The peer branch distribution is based on the 2010 U.S. Census CT income classifications, while BB branch distribution is based on the 2015 ACS Survey CT classifications. Therefore, the most relevant comparison to make against BB’s branch

distribution is the 2015 ACS demographics. The percentage of branches in moderate-income CTs compares favorably to the percentage of households, families, and businesses in this area.

Alternative delivery systems mirror those described under the bankwide conclusions section of this evaluation. Refer to the comments in the overall bankwide Service Test section regarding the discussion of the institution's alternative delivery systems for details.

#### *Changes in Branch Locations*

To the extent that changes have been made, BB's opening or closing of branch offices has not adversely affected the accessibility of its delivery systems, particularly in LMI geographies and/or to LMI individuals. The bank's branch distribution by CT delineations was affected by the updated 2015 ACS Survey Data. The net 2015 ACS changes include the following: one branch removed from a middle-income CT and one branch moved to an upper-income CT. There were no net branch differences in low-income CTs, moderate-income CTs, or the CTs where income was not available. Since the previous PE, the bank closed two branches within the Lewiston MS AA. Of the two branches closed during the review period, one was relocated and the other was closed permanently due to consolidation purposes. The closed branch and the relocated branch are both located in middle-income CTs.

#### *Reasonableness of Hours*

Services and business hours do not vary in a way that inconveniences certain portions of the AA, particularly in LMI CTs. Reasonableness of business hours and services in meeting AA needs mirror those described under the bankwide conclusions section of this report. Refer to the comments in the overall bankwide Service Test section regarding the reasonableness of hours for details.

#### **Community Development Services**

BB provided an adequate level of CD services in the AA. Bank records show that employees provided their financial or job-specific expertise for 31 CD service activities, logging a total of 149 qualified hours within this AA. This level of CD services provided represents a decrease from the prior evaluation in which a total of 149 CD service hours were provided. However, when considering the shorter timeframe for this evaluation, the bank's level of CD services is still reasonable. A majority of the bank's assistance was to organizations that provide community services to LMI individuals and families. Other activities targeted affordable housing. Hours by category in the AA are detailed in the following table:

Community Development Services – Lewiston Multi-State Assessment Area										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	Hours	#	Hours	#	Hours	#	Hours	#	Hours
2016	0	0	12	54	5	15	0	0	17	69
YTD 2017	1	3	8	61	5	16	0	0	14	77
<b>Total</b>	<b>1</b>	<b>3</b>	<b>20</b>	<b>115</b>	<b>10</b>	<b>31</b>	<b>0</b>	<b>0</b>	<b>31</b>	<b>149</b>
<i>Source: Bank Records</i>										

The following are notable examples of CD services provided in the AA during the review period:

- An employee serves as a board member of a non-profit organization dedicated to providing early childhood and family support services to LMI families.
- A bank employee serves on a loan review committee for an economic development organization.

## APPENDIX

SCOPE OF EVALUATION		
TIME PERIOD REVIEWED	January 1, 2016 – November 27, 2017	
FINANCIAL INSTITUTION	PRODUCTS REVIEWED	
Banner Bank	Small Business, Residential Mortgage, and Small Farm (Only for NE Oregon Non-MSA AA and Lewiston MS AA for 2016. Community Development Loans, Investments, and Services, as applicable from January 2016 to November 27, 2017.	
AFFILIATE(S)	AFFILIATE RELATIONSHIP	PRODUCTS REVIEWED
Islanders Bank	Bank subsidiary	None
Community Financial Corporation	Non-bank subsidiary	None

LIST OF ASSESSMENT AREAS AND TYPE OF EVALUATION			
ASSESSMENT AREA	TYPE OF EXAMINATION	BRANCHES VISITED	OTHER INFORMATION
Puget Sound	Full-Scope	None	N/A
Spokane	Full-Scope	One	N/A
Bellingham	Limited-Scope	None	N/A
Central Washington	Limited-Scope	None	N/A
Tri-Cities	Limited-Scope	None	N/A
Walla Walla	Limited-Scope	None	N/A
Washington Non-MSA	Limited-Scope	None	N/A
Yakima	Limited-Scope	None	N/A
San Diego	Full-Scope	None	N/A
Chico	Limited-Scope	None	N/A
Los Angeles	Limited-Scope	None	N/A
Redding	Limited-Scope	None	N/A
Sacramento	Limited-Scope	None	N/A
California Non-MSA	Limited-Scope	None	N/A
NE Oregon Non-MSA	Full-Scope	None	N/A
Oregon Coast Non-MSA	Limited-Scope	None	N/A
Eugene	Limited-Scope	None	N/A
Medford	Limited-Scope	None	N/A
Boise	Full-Scope	None	N/A
Coeur d'Alene	Limited-Scope	None	N/A
Idaho Non-MSA	Limited-Scope	None	N/A
Utah	Full-Scope	None	N/A
PVH MS	Full-Scope	None	N/A
Lewiston MS	Full-Scope	None	N/A

## SUMMARY OF STATE AND MULTISTATE METROPOLITAN AREA RATINGS

State	Lending Test Rating	Investment Test Rating	Service Test Rating	Overall State Rating
Washington	High Satisfactory	Outstanding	High Satisfactory	Satisfactory
California	Low Satisfactory	Low Satisfactory	Low Satisfactory	Satisfactory
Oregon	Low Satisfactory	High Satisfactory	High Satisfactory	Satisfactory
Idaho	Low Satisfactory	High Satisfactory	Low Satisfactory	Satisfactory
Utah	Low Satisfactory	Low Satisfactory	Low Satisfactory	Satisfactory
PVH-MS AA	Low Satisfactory	High Satisfactory	Needs to Improve	Satisfactory
Lewiston MS AA	Low Satisfactory	Low Satisfactory	Low Satisfactory	Satisfactory

## GLOSSARY

**Aggregate Lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

**Area Median Income:** The median family income for the MSA, if a person or geography is located in an MSA; or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

**Assessment Area:** A geographic area delineated by the bank under the requirements of the Community Reinvestment Act.

**Census Tract:** A small, relatively permanent statistical subdivision of a county. Census tract boundaries normally follow visible features, but they may follow governmental unit boundaries and other non-visible features in some instances. They always nest within counties. Census tracts average about 4,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogenous for population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Combined Statistical Area (CSA):** A combination of several adjacent metropolitan statistical areas or micropolitan statistical areas or a mix of the two, which are linked by economic ties.

**Community Development:** For loans, investments, and services to qualify as community development activities, their primary purpose must:

- (1) Support affordable housing for low- and moderate-income individuals;
- (2) Target community services toward low- and moderate-income individuals;
- (3) Promote economic development by financing small businesses or farms;
- (4) Provide activities that revitalize or stabilize low- and moderate-income geographies, designated disaster areas, or distressed or underserved nonmetropolitan middle-income geographies; or
- (5) Enable or facilitate projects or activities that address needs regarding foreclosed or abandoned residential properties in designated target areas.

**Community Development Corporation (CDC):** A CDC allows banks and holding companies to make equity type of investments in community development projects. Bank CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community. Bank CDCs are also tailored to their financial and marketing needs. A CDC may purchase, own, rehabilitate, construct, manage, and sell real property. Also, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit low- and moderate-income groups, and the investment dollars should not represent an undue risk on the banking organization.

**Community Development Financial Institutions (CDFIs):** CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, micro enterprise funds, and community development venture capital funds.

A certified CDFI must meet eligibility requirements. These requirements include the following:

- Having a primary mission of promoting community development;
- Serving an investment area or target population;
- Providing development services;
- Maintaining accountability to residents of its investment area or targeted population through representation on its governing board of directors, or by other means;
- Not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

**Community Development Loan:** A loan that

- (1) Has as its primary purpose community development; and
- (2) Except in the case of a wholesale or limited purpose bank:
  - (i) Has not been reported or collected by the bank or an affiliate for consideration in the bank's assessment area as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan (as described in Appendix A to Part 203 of this title); and
  - (ii) Benefits the bank's assessment area(s) or a broader statewide or regional area including the bank's assessment area(s).

**Community Development Service:** A service that

- (1) Has as its primary purpose community development;
- (2) Is related to the provision of financial services; and
- (3) Has not been considered in the evaluation of the bank's retail banking services under § 345.24(d).

**Consumer Loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

**Core Based Statistical Area (CBSA):** The county or counties or equivalent entities associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties with the counties associated with the core. Metropolitan and Micropolitan Statistical Areas are the two categories of CBSAs.



**Distressed Middle-Income Nonmetropolitan Geographies:** A nonmetropolitan middle-income geography will be designated as distressed if it is in a county that meets one or more of the following triggers:

- (1) An unemployment rate of at least 1.5 times the national average;
- (2) A poverty rate of 20 percent or more; or
- (3) A population loss of 10 percent or more between the previous and most recent decennial census or a net migration loss of 5 percent or more over the 5-year period preceding the most recent census.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family. Other family is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

**Family Income:** Includes the income of all members of a family that are age 15 and older.

**FFIEC-Estimated Income Data:** The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

**Full-Scope Review:** A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (for example, innovativeness, complexity, and responsiveness).

**Geography:** A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

**Home Mortgage Disclosure Loan Application Register (HMDA LAR):** The HMDA LARs record all applications received for residential purchase, refinance, home improvement, and temporary-to-permanent construction loans.

**Home Mortgage Loans:** Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multi-family (five or more families) dwelling loans, loans to purchase manufactured homes, and refinancings of home improvement and home purchase loans.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Household Income:** Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households are only one person, median household income is usually less than median family income.

**Housing Unit:** Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

**Limited-Scope Review:** A limited scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is often analyzed using only quantitative factors (for example, geographic distribution, borrower profile, total number and dollar amount of investments, and branch distribution).

**Low-Income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

**Low Income Housing Tax Credit:** The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended. It is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department distributes low-income housing tax credits to housing credit agencies through the Internal Revenue Service. The housing agencies allocate tax credits on a competitive basis.

Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits. Or, they may sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains throughout the compliance period, usually 30 years.

**Market Share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

**Median Income:** The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

**Metropolitan Division (MD):** A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

**Metropolitan Statistical Area (MSA):** CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

**Micropolitan Statistical Area:** CBSA associated with at least one urbanized area having a population of at least 10,000, but less than 50,000.

**Middle-Income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

**Moderate-Income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

**Multi-family:** Refers to a residential structure that contains five or more units.

**Nonmetropolitan Area:** All areas outside of metropolitan areas. The definition of nonmetropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan areas.

**Owner-Occupied Units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified Investment:** A lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Rated Area:** A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

**Rural Area:** Territories, populations, and housing units that are not classified as urban.

**Small Business Investment Company (SBIC):** SBICs are privately-owned investment companies which are licensed and regulated by the Small Business Administration (SBA). SBICs provide long-term loans and/or venture capital to small firms. Because money for venture or risk investments is difficult for small firms to obtain, SBA provides assistance to SBICs to stimulate and supplement the flow of private equity and long-term loan funds to small companies. Venture capitalists participate in the SBIC program to supplement their own private capital with funds borrowed at favorable rates through SBA's guarantee of SBIC debentures. These SBIC debentures are then sold to private investors. An SBIC's success is linked to the growth and profitability of the companies that it finances. Therefore, some SBICs primarily assist businesses with significant growth potential, such as new firms in innovative industries. SBICs finance small firms by providing straight loans and/or equity-type investments. This kind of financing gives them partial ownership of those businesses and the possibility of sharing in the companies' profits as they grow and prosper.

**Small Business Loan:** A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

**Small Farm Loan:** A loan included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

**Underserved Middle-Income Nonmetropolitan Geographies:** A nonmetropolitan middle-income geography will be designated as underserved if it meets criteria for population size, density, and dispersion indicating the area's population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

**Upper-Income:** Individual income that is 120 percent or more of the area median income, or a median family income that is 120 percent or more in the case of a geography.

**Urban Area:** All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, "urban" consists of territory, persons, and housing units in places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin).

"Urban" excludes the rural portions of "extended cities"; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.