

PUBLIC DISCLOSURE

February 23, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Frontier Bank
RSSD #150071**

**332 S.W. Everett Mall Way
Everett, Washington 98204**

**Federal Reserve Bank of San Francisco
101 Market Street
San Francisco, California 94105**

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

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INSTITUTION'S RATING

INSTITUTION'S CRA RATING:
Frontier Bank is rated "SATISFACTORY"

The following table shows the performance level of Frontier Bank with respect to the lending, investment, and service tests.

PERFORMANCE LEVELS	FRONTIER BANK		
	PERFORMANCE TESTS		
	LENDING TEST*	INVESTMENT TEST	SERVICE TEST
OUTSTANDING			X
HIGH SATISFACTORY	X		
LOW SATISFACTORY		X	
NEEDS TO IMPROVE			
SUBSTANTIAL NONCOMPLIANCE			

*The lending test is weighted more heavily than the investment and service tests in determining the overall rating.

The major factors supporting the institution's rating include:

- Good distribution of loans in geographies of different income levels.
- Excellent distribution of loans to businesses of different sizes.
- A relatively high level of community development lending that supported initiatives to promote affordable housing and services targeted to low- and moderate-income individuals.
- An adequate level of community development investments and donations.
- Demonstrated leadership in providing community development services.

INSTITUTION

DESCRIPTION OF INSTITUTION

Frontier Bank (Frontier), with \$2.1 billion in total assets as of December 31, 2003, is a wholly-owned subsidiary of Frontier Financial Corporation, a publicly held, one-bank holding company. Frontier was founded in 1978 and is headquartered in Everett, Washington. It has a network of 39 branches in the nine-county, greater Puget Sound area of northwest Washington. During the review period, Frontier closed its Burlington office and opened offices in Edgewood/Milton and Seattle.

Frontier offers a full range of loan and deposit products for both its commercial and consumer clients. However, consistent with the bank's historic business focus, commercial loans represent a majority of the loan portfolio, as data from the December 31, 2003, Call Report indicate in the table below. Loans to small- to mid-size businesses of all types as well as to developers for acquisition and construction of single family residences predominate the loan portfolio.

LOAN TYPE	DOLLAR AMOUNT (‘000s)	PERCENT OF VALUE
Commercial/Industrial & Non-Farm Non-Residential Real Estate	\$1,000,805	55.8%
Construction & Land Development	\$522,955	29.2%
Secured by 1-4 Family Residential Real Estate	\$150,051	8.4%
Multifamily Housing	\$39,887	2.2%
Farm land and Agricultural	\$38,304	2.1%
Consumer Loans & Credit Cards	\$25,681	1.4%
All Other	\$16,379	0.9%
Total (Gross)	\$1,794,062	100.0%

Frontier serves four assessment areas:

- Seattle-Tacoma-Bremerton consisting of Island, King, Kitsap, Pierce and Snohomish Counties
- Jefferson-Clallam consisting of Jefferson and Clallam Counties
- Skagit consisting of Skagit County
- Bellingham consisting of Whatcom County

There has been no change in assessment area delineations since the previous examination.

Frontier received an outstanding performance rating at its March 4, 2002, CRA examination conducted by the Federal Deposit Insurance Corporation. There are no legal or financial impediments that would inhibit Frontier's ability to meet the credit needs of its communities, consistent with business strategy, size and resources, and local economic conditions.

SCOPE OF EXAMINATION

The lending test portion of this examination included a review of small business loans and small farm loans originated between January 1, 2002, and December 31, 2003. Community development lending, investment, and service activities were reviewed for the period of January 1, 2002, through February 23, 2004.

The Seattle-Tacoma-Bremerton and the Jefferson-Clallam assessment areas received full-scope reviews, with Seattle-Tacoma-Bremerton carrying the greater weight due to its high concentration of loans, deposits, and branches. The bank's limited presence and transaction volumes in Skagit and Bellingham restricted any meaningful analysis; thus limited scope reviews of these assessment areas were conducted.

Consistent with Frontier's commercial focus, as evidenced in the higher volumes of small business loans, these loans carried greater weight in the evaluation. Small farm lending was insufficient in Seattle-Tacoma-Bremerton to draw any meaningful conclusions; thus lending performance in this area is limited to small business lending. Conversely, the bank's high market share of farm loans in the Jefferson-Clallam assessment area resulted in the inclusion of small farm loans in the analysis of that area. The volume of individual home loan mortgage loan products also was too small to draw any meaningful conclusions. Thus, these loans were excluded from the entire analysis.

Because 2000 U.S. Census data is now available, split reviews of geographic distributions were performed as part of this examination. Lending by income geography for the period January 1, 2002, through December 31, 2002, was evaluated using 1990 census data. Loans originated during the period January 1, 2003, through December 31, 2003, were analyzed using data from the 2000 census. Use of a split review for lending by income geography resulted in two sets of core tables for this criterion. Other tests and performance criteria, not dependent on particular geographic census tracts, were reviewed using combined data for the entire evaluation period, resulting in a single core table for these metrics.

Unless otherwise noted, the scope of the evaluations is consistent throughout the evaluation.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

Frontier Bank's performance under the lending test is high satisfactory. The level of lending to small businesses was excellent in all assessment areas. The geographic distribution of loans was good for both full-scope areas, and a relatively high level of community development loans was made throughout the assessment areas. Lending results in other categories were good also.

Lending Activity

Overall lending levels are good, particularly considering the weak economy of the Seattle-Tacoma-Bremerton area. As evidenced in Exhibit 1 below and Table 1 in Appendix B,¹ Frontier's lending activity was high. The bank faced strong competition from large national banks in all its business lines, but commendably increased its small business lending levels during the period of the review.

EXHIBIT 1				
SUMMARY OF LENDING ACTIVITY				
January 1, 2002 to December 31, 2003				
Loan Type	#	%	\$ ('000s)	%
HMDA Refinance	160	3.2%	\$19,892	2.7%
HMDA Home Purchase	138	2.7%	\$19,146	2.6%
HMDA Home Improvement	95	1.9%	\$3,626	0.5%
HMDA Multi-Family	52	1.0%	\$29,926	4.0%
Total HMDA-Related	445	8.8%	\$72,590	9.8%
Total Small Business	4,332	85.7%	\$631,796	84.9%
Total Small Farm	278	5.5%	\$39,629	5.3%
TOTAL LOANS	5,055	100.0%	\$744,015	100.0%

Assessment Area Concentration

A substantial majority of loans was made within the assessment areas, both by number of transactions and dollar volume. The following table shows the number and dollar volume of loans extended within the assessment areas during the review period. As previously noted home mortgage lending activity was not considered in this analysis. The tables in Appendix B contain additional information regarding assessment area lending.

EXHIBIT 2								
LENDING INSIDE AND OUTSIDE THE ASSESSMENT AREAS								
January 1, 2002 to December 31, 2003								
LOAN TYPE	Inside				Outside			
	#	%	\$ ('000s)	%	#	%	\$ ('000s)	%
Small Farm	247	88.9%	\$33,408	84.3%	31	11.1%	\$6,221	15.7%
Small Business	4,233	97.7%	\$609,445	96.5%	99	2.3%	\$22,351	3.5%
TOTAL LOANS	4,480	97.2%	\$642,853	95.7%	130	2.8%	\$28,572	4.3%

¹ All CRA tables referred to in this evaluation are located in Appendix B.

Geographic and Borrower Distribution

Frontier extended a good amount of credit in different geographic areas and in excellent quantities to businesses of different sizes. Loans were generally distributed throughout the assessment areas with notable concentrations around branch locations. There were no conspicuous gaps unrelated to the branch distribution. This overall conclusion is based on performance in the various assessment areas and relevant performance context issues. Therefore, the facts and data supporting this overall conclusion are presented within the separate assessment area analyses.

In addition to the direct business lending activities evaluated within the various assessment areas, Frontier also initiated a reverse mortgage program in late 2002. A reverse mortgage allows seniors with large equity positions in their homes but limited income to draw on that equity while retaining ownership of the home. Frontier began to offer this program at the end of 2002 and in 2003 made 70 such mortgages totaling \$14.8 million.

Community Development Lending

During the evaluation period, Frontier engaged in a relatively high level of community development lending by extending 68 community development loans totaling over \$17 million. These loans addressed pressing needs within the assessment areas including affordable housing, health care services to low- and moderate-income individuals, and social services to low- and moderate-income indigenous peoples. The loans assisted in the creation of over 720 affordable housing units, with the greatest impact in the Seattle-Tacoma-Bremerton assessment area where Frontier has its largest presence.

INVESTMENT TEST

Frontier's performance under the investment test is low satisfactory. New investment activity during the review period consisted solely of \$365,000 in grants and donations that primarily supported affordable housing and services to low- and moderate-income individuals. In addition, approximately \$15 million in investments made in the prior review periods remain on the bank's books. Of this amount, \$12.2 million is composed of a single investment funded in 1998. This investment provided funds to build an assisted living facility for low- and moderate-income seniors in the Everett area, and the facility had a positive impact within the community. However, Frontier has not used community development investments to make any further impact within the community since that time.

Of particular note, however, is the bank's involvement in the Homestart Savings Program to assist low- and moderate-income individuals attain home ownership. The Homestart Savings Program is open to first-time homebuyers earning up to 80 percent of the area's median income. The bank matches every dollar of savings with a grant of three dollars up to a total grant of \$5,000. The bank works with potential homebuyers to qualify the homebuyer for the program and then submits the required documentation to the Federal Home Loan Bank of Seattle for approval. In 2002, Frontier enrolled 26 families and disbursed nine grants totaling \$45,000. In 2003, the bank enrolled 27 families and disbursed 35 grants for \$175,000.

SERVICE TEST

Overall performance under the service test is outstanding.

Retail Banking Services

Frontier branch locations are accessible to essentially all portions of the assessment areas, with adequate accessibility to low- and moderate-income communities. The one branch closing, in a limited scope assessment area, did not adversely impact accessibility to the bank's services. Conversely, branch openings have further improved the accessibility of Frontier's delivery systems. Branch hours and services do not vary in a way that inconveniences certain portions of the assessment areas and adequate alternative delivery systems exist to further enhance availability.

Community Development Services

Frontier is a leader in providing community development services particularly in the Seattle-Tacoma-Bremerton and Bellingham assessment areas. Performance in the other two assessment areas was not as strong. Frontier employees participated in 54 activities totaling 2,903 hours (approximately 120 hours per month). Of particular note is the relatively large number of hours devoted to each of the services. These hours indicate a solid commitment to the services represented and significantly aid the organizations.

In addition to the excellent level of services, many of these activities addressed significant needs in the assessment areas. Services promoted affordable housing and offered financial services to non-profit organizations, particularly those providing social services to low- to moderate-income seniors and at-risk youth.

Although individual services are discussed in the assessment area they benefited, Frontier demonstrated leadership by loaning executives to local chapters of a charitable umbrella organization. These local chapters focus primarily on providing social services to low- and moderate-income individuals within their service areas. Leadership was also demonstrated by board and leadership positions held in various organizations that promoted affordable housing. This involvement meets a need that is not addressed by the bank's primary business focus.

COMPLIANCE WITH FAIR LENDING LAWS AND REGULATIONS

The bank is in compliance with the substantive provisions of the anti-discrimination laws and regulations. The fair lending review performed concurrently with this examination did not reveal any type of discriminatory lending practices.

FULL-SCOPE ASSESSMENT AREA CONCLUSIONS

For each assessment area where a full-scope review was performed using the examination procedures.

Seattle-Tacoma-Bremerton

DESCRIPTION OF OPERATIONS IN SEATTLE-TACOMA-BREMERTON

The Seattle-Tacoma-Bremerton (STB) Consolidated Metropolitan Statistical Area (CMSA) consists of Island, King and Snohomish Counties (Seattle-Bellevue-Everett MSA), Pierce County (Tacoma MSA), and Kitsap County (Bremerton MSA).

The estimated 2003 population in this CMSA was nearly 3.5 million, constituting over 55 percent of the state's population.² As a result, this assessment area is a very competitive marketplace for financial services. There are 109 FDIC-insured depository institutions, with deposits concentrated in four large national banks and one regional bank that collectively hold 70 percent of the market share. Frontier operates 33 branch offices in this assessment area and ranks sixth in deposit balances, with a 2.8 percent market share.³ STB accounts for 91.3 percent of the bank's deposits and 84.4 percent of the bank's loans.

As previously stated, due to the availability of 2000 census data, split reviews of geographic distributions were performed as part of this examination. Lending by income geography for the period January 1, 2002, through December 31, 2002, was evaluated using 1990 census data. Loans originated during the period January 1, 2003, through December 31, 2003 were analyzed using data from the 2000 census. Other tests and performance criteria, not dependent on particular geographic tracts, were reviewed using combined data for the entire evaluation period.

² 2003 Population Trends for Washington State, Office of Financial Management – State of Washington, April 2003 (accessed February 12, 2004) ; available from http://ofm.wa.gov/pop/poptrends/poptrends_03.pdf.

³ Summary of Deposits, Federal Deposit Insurance Corporation, June 30, 2003 (accessed February 12, 2004); available from <http://www3.fdic.gov/sod/sodMarketBank.asp>.

1990 Census Analysis

Data from the 1990 census indicate that the population of the assessment area was 2.8 million. Additional 2002 Dun & Bradstreet business demographic information regarding business demographics used to develop the performance context is highlighted in Exhibit 3.

EXHIBIT 3 ASSESSMENT AREA DEMOGRAPHICS SEATTLE-TACOMA-BREMERTON (1990 CENSUS)								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	22	3.7	13,447	1.8	4,983	37.1	125,080	17.2
Moderate-income	103	17.2	106,386	14.6	12,363	11.6	137,286	18.9
Middle-income	349	58.2	457,925	63.0	22,491	4.9	192,394	26.5
Upper-income	110	18.3	149,580	20.6	3,375	2.3	272,578	37.5
Tract not reported	16	2.7	0	0.0	0	0.0	0	0.0
Total AA	600	100.0	727,338	100.0	43,212	5.9	727,338	100.0
Income Categories	Total Businesses by Tract		Businesses by Tract & Revenue Size					
			Less Than or Equal to \$1 Million		Greater than \$1 Million		Revenue Not Reported	
	#	%	#	%	#	%	#	%
Low-income	3,402	3.1	2,705	2.9	602	5.0	95	2.9
Moderate-income	19,212	17.5	15,649	16.6	3,038	25.5	525	15.8
Middle-income	62,865	57.3	55,065	58.4	5,848	49.0	1,952	58.9
Upper-income	24,134	22.0	20,944	22.2	2,446	20.5	744	22.4
Tract not reported	5	0.0	3	0.0	2	0.0	0	0.0
Total AA	109,618	100.0	94,366	100.0	11,936	100.0	3,316	100.0
Percentage of Total Businesses:			86.1		10.9		3.0	

2000 Census Analysis

The STB assessment area, while maintaining the same geographic boundaries, had an increase in the number of census tracts since the 1990 census. Total census tracts have increased by 136 to 736. Low- and middle-income census tracts decreased as a percentage of total while moderate- and upper income census tracts increased. Population increased 19 percent to 3.3 million. Additional 2003 Dun & Bradstreet information regarding business demographics also used to develop the performance context is highlighted in Exhibit 4.

EXHIBIT 4								
ASSESSMENT AREA DEMOGRAPHICS								
SEATTLE-TACOMA-BREMERTON (2000 CENSUS)								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	20	2.7	14,318	1.7	4,196	29.3	154,619	18.3
Moderate-income	148	20.1	156,567	18.5	16,878	10.8	157,836	18.7
Middle-income	404	54.9	472,712	55.9	23,074	4.9	205,561	24.3
Upper-income	163	22.1	202,111	23.9	4,642	2.3	327,692	38.7
Tract not reported	1	0.1	0	0.0	0	0.0	0	0.0
Total AA	736	100.0	845,708	100.0	48,790	5.8	845,708	100.0
Income Categories	Total Businesses by Tract		Businesses by Tract & Revenue Size					
			Less Than or Equal to \$1 Million		Greater than \$1 Million		Revenue Not Reported	
	#	%	#	%	#	%	#	%
Low-income	2,974	2.6	2,406	2.4	452	3.7	116	2.7
Moderate-income	23,808	20.6	19,578	19.7	3,402	28.1	828	19.2
Middle-income	59,537	51.5	51,958	52.4	5,303	43.8	2,276	52.8
Upper-income	29,260	25.3	25,214	25.4	2,959	24.4	1,087	25.2
Tract not reported	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	115,579	100.0	99,156	100.0	12,116	100.0	4,307	100.0
Percentage of Total Businesses:			85.8		10.5		3.7	

Home to a wide variety of businesses, the STB assessment area is a diversified industrial center. The area's leading industries are aerospace product and parts manufacturing, military personnel and computer systems design and related services.⁴ The aerospace product and parts manufacturing, the largest industry in this region, continued to contract during the review period. Ongoing cutbacks at The Boeing Company contributed to this trend. Since September 2001, The Boeing Company, which accounts for 96 percent of the state's total aerospace employment, has laid off approximately 26,000 or 32 percent of its Washington-based workers.⁵

This area has the third-largest concentration of U.S. naval bases in the nation and is home to McChord Air Force Base and Fort Lewis, the largest army base on the west coast. In 2002, these and other military installations had an estimated economic impact of over \$8 billion that included salaries, purchased goods and services, construction and other spending.⁶ This impact helped mitigate some of the negative economic weaknesses in manufacturing and commercial

⁴ Précis: METRO © 2003 Economy.com, Inc.

⁵ David Bowermaster, *The Seattle Times*, January 17, 2004 (accessed February 12, 2004); available from http://seattletimes.nwsourc.com/html/boeingaerospace/2001838431_boeing17.html.

⁶ Nicholas K. Geranios, *The Associated Press*, *Military Plays Major Role in Washington's Economy*, *The Olympian*, April 6, 2003 (accessed February 12, 2004); available from <http://www.theolympian.com/home/specialsections/Economy/20030406/37719.shtml>.

real estate. The high-tech industry also played a significant role in the area and according to the state's chief economist, job loss in this industry slowed to almost zero in 2003.⁷

Overall, the regional economy showed signs of slow improvement but remained weak during the review period. The unemployment rate in December 2003 was 6.5 percent, relatively unchanged from a year earlier, but still high compared to the nation's 5.7 percent.⁸ As demand for aircraft declined after the events of September 11th, layoffs in manufacturing continued which contributed to the high unemployment rate. Demand for both commercial and industrial properties remained weak, potentially creating challenges for financial institutions whose loan portfolios are made up largely of loans secured by commercial real estate. At the end of third quarter 2003, the office and industrial vacancy rate was 15.3 percent and 10.7 percent, respectively.⁹

Despite the recession, low interest rates coupled with the rising demand from the increased population resulted in higher housing prices and a continued need for affordable housing. The prospects of homeownership for the median-income family, however, remained relatively favorable with relaxed loan to value qualifying ratios. According to the Washington Center for Real Estate Research, the income needed to buy a median-priced single family home of \$276,000 in third quarter 2003, with a five percent down payment, was \$71,000, slightly below the HUD-estimated median family income of \$72,000.

Similar to the need for affordable housing, financing for small businesses is also a need within the community given the large number of small businesses in this assessment area. According to 2003 Dun & Bradstreet information, 86 percent of the assessment area's 116,000 businesses generated gross annual revenues of \$1 million or less.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN SEATTLE-TACOMA-BREMERTON

LENDING TEST

Lending test performance is good. The level of lending to business of different revenues was excellent. The geographic distribution and level of community development loans were both good and responsive to area credit needs.

⁷ Kirsta Glenn, 2003 Washington State Labor Market and Economic Report, (accessed May 10, 2004), available from <http://www.workforceexplorer.com/article.asp?ArticleID=1719>.

⁸ Washington State Employment Security, News Release January 20, 2004 (accessed February 12, 2004); available from http://www.workforceexplorer.com/admin/uploadedPublications/1763_nr01_04F.pdf.

⁹ Washington Profile – Winter 2003 (accessed February 12, 2004); available from <http://www.fdic.gov/bank/analytical/stateprofile/SF/Washington/WA.html>.

Lending Activity

Lending activity is good. As shown in Table 1, the large majority of Frontier's small business loans were originated in this assessment area. Frontier's 2.0 percent of the market share of small business loans compares favorably to its 2.8 percent market share of deposits.

Lending Distribution by Geography

The geographic distribution of small business loans is good. There were no significant lending gaps and loans were dispersed throughout the assessment area commensurate with the branch distribution. As seen in Table 2a, based on the 1990 census, small business lending in low- and moderate-income geographies approximated the percentage of business entities located in those geographies and the aggregate's lending. Lending in middle- and upper-income areas was reasonable. Table 2b, based on the 2000 census, shows increased levels of small business lending in low- and moderate-income geographies and continued consistency with the percentage of businesses.

Lending Distribution by Business Revenue

The distribution of loans to small businesses is excellent. As shown in Table 4, the vast majority of loans within the assessment area were made to businesses with gross annual revenues of \$1 million or less. The bank's market share of loans to small businesses was more than double its market share of all loans, and its percentage of loans to small businesses was also more than double that of the aggregate. Frontier also demonstrated responsiveness to the needs for small dollar loans by extending a large majority of the loans in amounts of \$100,000 or less.

Community Development Lending

Frontier made a relatively high level of community development loans in this assessment area. As indicated in Table 1, the bank made 61 community development loans totaling \$15.2 million. In addition, these loans had a significant impact on area needs. Seventeen of these loans, totaling \$1.9 million, financed the creation of individual affordable housing units. Another 14 loans totaling \$330,000 were participations in larger loans that created 524 units of affordable housing. Seven loans totaling \$2.8 million benefited low- and moderate-income individuals. The other loans were to community development service providers that furnish health and social services to low- and moderate-income individuals.

INVESTMENT TEST

Frontier's investment test performance in this assessment area is adequate. As detailed in Table 6, new investment activity during the review period consisted solely of \$145,000 in grants and donations that primarily benefited organizations providing services to low- and moderate-income individuals with some limited donations to organizations providing affordable housing services. A total of \$13.5 million in prior period investments remain on the banks books. However, one investment, which provided funds for the development of an assisted living facility in 1998, makes up ninety percent of the total prior period investment dollars. Frontier

has not made any new investments during this review period and as a result, the institution's investment practices have had a relatively limited impact on its communities overall.

SERVICE TEST

The provision of retail banking and community development services is excellent.

Retail Banking Services

Frontier's branches are adequately accessible to essentially all portions of the assessment area. Accessibility is enhanced by mail, telephone and Internet banking, ATMs, and 24-hour voice response customer service. There were two branches opened, one in a moderate- and one in a middle-income census tract, thereby improving accessibility, particularly to the moderate-income area. Hours and services offered at branches do not vary.

Community Development Services

The bank is a leader in providing community development services. Employees performed a high level of community development services with a total of 45 activities totaling 2,735 hours. Many of these services were in a leadership position with the organizations. Community development services met various community development needs as detailed:

- Twelve of the services provided affordable housing services through service on housing authority boards and as board members for local housing related non-profits.
- Thirty-six services provided assistance to low- and moderate-income individuals (primarily youth and seniors) and geographies.
- One service provided technical assistance to small businesses.

Leadership in various organizations was shown through:

- An employee serving as the housing commissioner for the city of Everett.
- A bank officer acting as the commissioner of the Everett Housing Board.
- One individual served as a volunteer helping to organize and run a homeownership fair conducted by a local affordable housing organization.
- An individual provided financial and technical expertise through volunteer membership on the advisory board of the Sno-Home Loan Program, which offers purchase assistance to first time low- and moderate-income homebuyers.

Jefferson-Clallam

DESCRIPTION OF OPERATIONS IN JEFFERSON-CLALLAM¹⁰

Jefferson and Clallam Counties are located on the Olympic Peninsula in northwestern Washington. The two counties make up the Jefferson-Clallam assessment area, which is composed of 31 contiguous census tracts.

In 2003, Jefferson County's total population was nearly 26,700 of which nearly one-third resides in Port Townsend, the county's only incorporated city. The remaining two thirds of the population live mostly in small towns along the Strait of Juan de Fuca mainly because the Olympic National Forest covers most of the area inland.

Clallam County's 2003 population was approximately 67,000. There are three incorporated cities in Clallam County, which, like most of the county's populated areas, are near the coast. Port Angeles, the largest city in Clallam is approximately 17 miles south of Victoria, British Columbia, across the Strait of Juan de Fuca. According to 2000 Census data, the assessment area population increased by nearly 14,000 people or 18 percent compared to 1990 Census data. The combined counties currently have a population of nearly 92,000, or two percent of the state's total population.

The Jefferson-Clallam assessment area is a somewhat competitive marketplace for financial services. There are 14 financial institutions with an estimated 41 branch offices. Deposits are concentrated within one regional bank and two national banks that collectively hold 63 percent of market share deposits. Frontier operates four branch offices in this assessment area and ranks sixth in deposits and claims 4.9 percent of the market.¹¹ Jefferson-Clallam accounts for 4.3 percent of the bank's deposits and 7.9 percent of its loans.

The bank is the predominant small farm lender in the assessment area, making over fifty percent of the small farm loans. As a result, small farm lending was considered an important aspect in evaluating Frontier's ability to meet the credit needs in this community, despite the limited number of farms and total small farm loans extended by the bank and the aggregate market.

As previously stated, due to the availability of 2000 census data, split reviews of geographic distributions were performed as part of this examination. Lending by income geography for the period January 1, 2002, through December 31, 2002, was evaluated using 1990 census data. Loans originated during the period January 1, 2003, through December 31, 2003, were analyzed

¹⁰ The performance context for the Jefferson-Clallam assessment area was developed using the most recent information available. Current data was not always available for the specific time period under review.

¹¹ Federal Deposit Insurance Corporation, Market Share and Banking Holding Company, Summary of Deposits Market Share Report, June 30, 2003 (accessed February 17, 2003); available from <http://www3fdic.gov/sod/>.

using data from the 2000 census. Other tests and performance criteria, not dependent on particular geographic tracts, were reviewed using combined data for the entire evaluation period.

1990 Census Analysis

Data from the 1990 census indicate that the population of the assessment area was 76,610. The 2002 Dun & Bradstreet business demographic information also used to develop the performance context is highlighted in Exhibit 5.

EXHIBIT 5 ASSESSMENT AREA DEMOGRAPHICS JEFFERSON-CLALLAM (1990 CENSUS)								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	4,196	19.2
Moderate-income	4	12.9	2,126	9.7	368	17.3	3,970	18.1
Middle-income	24	77.4	18,593	85.0	1,583	8.5	5,162	23.6
Upper-income	1	3.2	1,158	5.3	93	8.0	8,549	39.1
Tract not reported	2	6.5	0	0.0	0	0.0	0	0.0
Total AA	31	100.0	21,877	100.0	2,044	9.3	21,877	100.0
Income Categories	Total Businesses by Tract		Businesses by Tract & Revenue Size					
	#	%	Less Than or Equal to \$1 Million		Greater than \$1 Million		Revenue Not Reported	
Low-income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate-income	379	9.1	351	9.1	19	9.7	9	7.6
Middle-income	3,668	87.7	3,392	87.6	170	86.7	106	89.8
Upper-income	137	3.3	127	3.3	7	3.6	3	2.5
Total AA	4,184	100.0	3,870	100.0	196	100.0	118	100.0
Percentage of Total Businesses:			92.5		4.7		2.8	
Income Categories	Total Farms by Tract		Farms by Tract & Revenue Size					
	#	%	Less Than or Equal to \$1 Million		Greater than \$1 Million		Revenue Not Reported	
Low-income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate-income	18	10.7	17	10.4	0	0.0	1	33.3
Middle-income	147	87.5	144	87.8	1	100.0	2	66.7
Upper-income	3	1.8	3	1.8	0	0.0	0	0.0
Total AA	168	100.0	164	100.0	1	100.0	3	100.0
Percentage of Total Farms:			97.6		0.6		1.8	

2000 Census Analysis

The Jefferson-Clallam assessment area, while maintaining the same geographic boundaries, had a small decrease in the number of census tracts since the 1990 census. The total number of census tracts decreased by two to twenty-nine. As a result, the distribution of census tracts has not changed significantly. The population increased 18 percent since the 1990 census to 90,478. The 2003 Dun & Bradstreet business demographic information also used to develop the performance context is highlighted in Exhibit 6.

EXHIBIT 6 ASSESSMENT AREA DEMOGRAPHICS JEFFERSON-CLALLAM (2000 CENSUS)								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Moderate-income	4	13.8	1,615	6.3	281	17.4	4,595	17.8
Middle-income	23	79.3	21,433	83.1	1,786	8.3	6,079	23.6
Upper-income	2	6.9	2,743	10.6	94	3.4	10,590	41.1
Total AA	29	100.0	25,791	100.0	2,161	8.4	25,791	100.0
Income Categories	Total Businesses by Tract		Businesses by Tract & Revenue Size					
	#	%	Less Than or Equal to \$1 Million		Greater than \$1 Million		Revenue Not Reported	
			#	%	#	%	#	%
Moderate-income	411	9.2	378	9.2	21	10.0	12	7.3
Middle-income	3,729	83.3	3,417	83.4	177	84.3	135	81.8
Upper-income	334	7.5	304	7.4	12	5.7	18	10.9
Total AA	4,474	100.0	4,099	100.0	210	100.0	165	100.0
Percentage of Total Businesses:			91.6		4.7		3.7	
Income Categories	Total Farms by Tract		Farms by Tract & Revenue Size					
	#	%	Less Than or Equal to \$1 Million		Greater than \$1 Million		Revenue Not Reported	
			#	%	#	%	#	%
Moderate-income	8	4.4	8	4.5	0	0.0	0	0.0
Middle-income	162	89.0	160	89.4	1	100.0	1	50.0
Upper-income	12	6.6	11	6.1	0	0.0	1	50.0
Total AA	182	100.0	179	100.0	1	100.0	2	100.0
Percentage of Total Farms:			98.4		0.5		1.1	

The Jefferson-Clallam assessment area has historically had large employment concentrations in the natural resources, manufacturing, forestry, and marine-related industries. However, these economic sectors have diminished in importance relative to some of the emerging sectors of the economy such as tourism, health care, and professional services. The economic transformation is largely due to an increase in retirees who have created small businesses in the area. This shift

to a service-based economy resulted in a decline in average wages as the average manufacturing wage is higher than that of the average service sector wage.¹² According to a report by the Southern Rural Development Center, "Rural service sector industries that have expanded most rapidly are not providing the same level of earnings that the slower growing or declining goods-producing sector has been able to offer."¹³

The U.S. Census reports that from 1990 to 2000, there was a 56.4 percent increase in non-farm private employment, compared to the state's 25.4 percent increase. Entrepreneurial activities make up a good portion of that employment as nearly 17 percent of the workers living in Jefferson County were self-employed in 2000. Statewide, only 8.5 percent of workers were self-employed, and in neighboring Clallam County the percentage was nearly 12 percent. The combined counties have a greater proportion of self-employed workers than other jurisdictions. This increase in self employment may have helped unemployment rates in Jefferson County which stood at 5.8 percent as of March 2003, as compared to 7.4 percent for the state as a whole.

In addition to the relatively large number of proprietorships or self-employed persons, proportionately, Jefferson County had more very small businesses (67 percent of business establishments have less than five employees) than the state (56 percent) or the nation (54 percent).¹⁴ This appears to hold true for the Jefferson-Clallam assessment area overall, as over 90 percent of all businesses had gross annual revenues of less than \$1 million. The 182 farms represent the smallest business sector and account for only 1.8 percent of employment in the assessment area compared to 3.4 percent for the state as a whole.¹⁵ The increase in small businesses and self employment suggests a need for loans for start-up purposes and working capital while the limited number of farms suggests fewer opportunities for lending to this sector.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN JEFFERSON-CLALLAM

LENDING TEST

Lending test performance in the Jefferson-Clallam assessment area is good. The geographic distribution was good while the level of lending to small businesses was excellent. Frontier is

¹² Paul Sommers and Kursten Holabird, Jefferson County Economic Assessment, June 2003, University of Washington, Daniel J. Evans School of Public Affairs.

¹³ Ibid., June 2003 p.32.

¹⁴ Ibid., June 2003 p.2.

¹⁵ Labor Market and Economic Analysis Branch, Clallam County Profile December 2001.

the market leader in small farm lending, and community development loans adequately addressed assessment area credit needs.

Lending Activity

Lending activity in this assessment area is good. Table 1 indicates that the percentage of all loans originated within this assessment area is only slightly larger than the percentage of the deposits garnered from this assessment area. In addition, the percentage of small business loan market share is similar to the percentage of deposit market share (5.2 percent versus 4.9 percent). Both the amount and percentage of small farm loans represent a market leadership position.

Lending Distribution by Geography

The geographic distribution of small business and small farm loans is good. There are no low-income geographies in the assessment area and there are only four moderate-income census tracts. There were no significant lending gaps and loans were dispersed throughout the assessment area commensurate with the branch distribution.

Small Business

Table 2a, based on the 1990 census, shows that small business lending approximated the percentage of business entities located in moderate-income geographies and slightly exceeded the aggregate's lending in those geographies. While Table 2b, based on the 2000 census, shows a decrease in the percentage of lending in moderate-income census tracts, the level of lending in these geographies remained reasonable. Lending in other census tract income categories was also reasonable.

Small Farm

Table 3a, based on the 1990 census data, shows that small farm lending was concentrated in the middle-income census tracts within the assessment area while no lending occurred in the moderate-income census tracts as a result of limited opportunities in those areas. This performance was also consistent with the aggregate market's performance. Just over 89 percent of all farms are located in middle-income census tracts and only four percent or a total of 18 farms were located in moderate-income census tracts.

Table 3b, based on the 2000 census data, shows a reduction in available lending opportunities as the total number of farms in moderate-income census tracts decreased to eight. Again, the bank's lending, concentrated in the middle-income census tracts, was consistent with the performance of the aggregate market and available lending opportunities.

Lending Distribution by Business Revenue

The distribution of loans to small businesses is excellent. Table 4 shows that the vast majority of loans within the assessment area were made to small businesses. The bank's market share of loans to small businesses was more than twice its market share of all loans and its percentage of

loans to small businesses was also more than twice that of the aggregate. A substantial majority of loans were in smaller dollar amounts addressing a need for such loans.

Frontier was the market leader in farm lending making over 50 percent of the farm loans in the assessment area while garnering only 4.9 percent of the area's deposits. Furthermore, as can be seen in Table 5, virtually all of the bank's loans were to farms with gross annual revenues of \$1 million or less and in amounts of \$100,000 or less.

Community Development Lending

Frontier made a comparatively high level of community development loans in the Jefferson-Clallam assessment area. As indicated in Table 1, the bank made four community development loans totaling \$2.3 million or 15 percent of the bank's total community development lending, despite the bank's limited presence in this market. All of the loans were to an organization that provided employment and job training for severely handicapped low- and moderate-income individuals.

INVESTMENT TEST

Investment and grant activity in Jefferson-Clallam was adequate in relation to the opportunities in the market. As shown in Table 6, the bank had two prior investments totaling \$550,000 consisting of school bonds benefiting schools located in moderate-income geographies. A small number and dollar amount of donations were made to support services to low- and moderate-income individuals. The limited community development opportunities and strong competition (41 branches representing 14 financial institutions serving a large geographic region with less than 100,000 in population) makes additional investments difficult.

SERVICE TEST

Frontier's provision of services in Jefferson-Clallam is adequate.

Retail Banking Services

Frontier's branches are reasonably accessible to essentially all portions of the assessment area. Accessibility is enhanced by mail, telephone and Internet banking, ATMs, and 24-hour voice response customer service. There were no changes in branch locations during the review period. Hours and services offered at branches do not vary.

Community Development Services

The bank did not provide any community development services in this assessment area during the review period. Although opportunities are limited and competition among financial institutions is strong, this level of performance is inconsistent with the bank's overall outstanding performance.

LIMITED-SCOPE ASSESSMENT AREA CONCLUSIONS

For each assessment area where a limited-scope review was performed using the examination procedures.

Frontier Bank's performance in the assessment areas receiving a limited review is generally consistent with the overall all performance in the full scope assessment areas. The bank has limited branch presence or market share in these areas. Therefore, the following conclusions regarding performance did not weigh heavily in the overall rating. Facts and data reviewed, including performance and demographic information, can be found in the tables accompanying this report.

ASSESSMENT AREA	LENDING TEST	INVESTMENT TEST	SERVICE TEST
Skagit	Consistent	Consistent	Below
Bellingham	Consistent	Consistent	Consistent

APPENDIX A

GLOSSARY OF TERMS

Aggregate lending: The number of loans originated and purchased by all lenders subject to reporting requirements as a percentage of the aggregate number of loans originated and purchased by all lenders in the MSA/assessment area.

Block numbering area ("BNA"): Statistical subdivisions of a county for grouping and numbering blocks in non-metropolitan counties where local census statistical area committees have not established census tracts. BNAs do not cross county lines.

Census tract: Small subdivisions of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. They usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community development: Affordable housing for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals, activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies,

Consumer loan: A loan 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 of loans: motor vehicle, credit card, home equity, other secured loan, and other unsecured loan.

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, which 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).

Full review: Performance under the lending, investment, and service tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, branch distribution) and qualitative factors (e.g., innovation, complexity).

Geography: A census tract or a block numbering area delineated by the U.S. 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 applications, the amount of loan requested, and the disposition of the application (e.g., approved, denied, and withdrawn).

Home mortgage loans: Include home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of 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.

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.

Limited review: Performance under the lending, investment, and service tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, branch distribution).

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 lenders in the MSA/assessment area.

Metropolitan area: Any primary metropolitan statistical area ("PMSA"), metropolitan statistical area ("MSA"), or consolidated metropolitan area ("CMSA"), as defined by the Office of Management and Budget, with a population of 250 thousand or more, and any other area designated as such by the appropriate federal financial supervisory agency.

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 percent and less than 80 percent in the case of a geography.

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 percent and less than 120 percent in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Optional loans: Includes any unreported category of loans for which the institution collects and maintains data for consideration during a CRA examination. Also includes consumer loans and other loan data an institution may provide concerning its lending performance.

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 qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Small loans to business: 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 loans to farms: 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 thousand 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.

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 qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Upper-income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent in the case of a geography.

APPENDIX B

CORE CRA TABLES

Page B-1	Table 1	Lending Volume of Reported Loans
Page B-2	Tables 2a & 2b	Geographic Distribution of Small Business Loans
Page B-3	Tables 3a & 3b	Geographic Distribution of Small Farm Loans
Page B-4	Table 4	Borrower Distribution of Small Business Loans
Page B-5	Table 5	Borrower Distribution of Small Farm Loans
Page B-6	Table 6	Qualified Investments
Page B-7	Table 7	Distribution of Branch Delivery System and Branch Openings/Closings

FRONTIER BANK

Rated Area: Washington

Evaluation Period: January 1, 2002 - December 31, 2003

Table 1 - Lending Volume of Reported Loans

Assessment Area	% of Rated Area Loans	Small Business Loans		Small Farm Loans		All HMDA Loans		Community Development Loans		Total Reported Loans		% of Rated Area Deposits
		# Loans	\$ (000's)	# Loans	\$ (000's)	# Loans	\$ (000's)	# Loans	\$ (000's)	# Loans	\$ (000's)	
<i>Full-Scope Review</i>												
SEATTLE	84.38	3,669	532,865	111	16,167	0	0	61	15,180	3,780	549,032	91.3%
JEFFERSON & CLALLAM NON-MSA	7.90	314	36,184	40	1,584	0	0	4	2,278	354	37,768	4.3%
<i>Limited Scope Review</i>												
SKAGIT NON-MSA	5.42	158	23,836	85	13,312	0	0	1	23	243	37,148	2.6%
BELLINGHAM MSA	2.30	92	16,560	11	2,345	0	0	2	20	103	18,905	1.8%

FRONTIER BANK

Rated Area: Washington

Table 2a - Geographic Distribution of Small Business Loans - 1990 Census*

Evaluation Period: January 1, 2002 - December 31, 2002

Assessment Areas	Total Loans from Bank		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Aggregate Lending (%)				Market Share (%)				
	# Loans	% Rated Area Total	Business Entities (%)		Business Entities (%)		Business Entities (%)		Business Entities (%)		Low	Mod	Mid	Upp	Overall	Low	Mod	Mid	Upp
			Bank Loans (%)	Business Entities (%)	Bank Loans (%)	Business Entities (%)	Bank Loans (%)	Business Entities (%)	Bank Loans (%)	Business Entities (%)									
<i>Full-Scope Review</i>																			
SEATTLE	1,803	85.90	2.27	2.95	15.53	17.27	66.94	57.68	15.25	22.10	2.99	18.46	56.32	22.23	2.02	1.53	1.70	2.40	1.38
JEFFERSON & CLALLAM NON-MSA	162	7.72	0.00	0.00	7.41	9.39	92.59	87.05	0.00	3.57	0.00	7.29	89.59	3.12	5.21	0.00	5.29	5.38	0.00
<i>Limited Scope Review</i>																			
SKAGIT NON-MSA	81	3.86	0.00	0.00	0.00	0.00	75.31	67.76	24.69	32.24	0.00	0.00	71.21	28.79	2.19	0.00	0.00	2.32	1.88
BELLINGHAM MSA	53	2.53	0.00	0.00	30.19	19.85	62.26	71.40	7.55	8.74	0.00	19.46	72.13	8.41	1.00	0.00	1.55	0.86	0.90

Table 2b - Geographic Distribution of Small Business Loans - 2000 Census**

Evaluation Period: January 1, 2003 - December 31, 2003

Assessment Areas	Total Loans from Bank		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Aggregate Lending (%)				Market Share (%)				
	# Loans	% Rated Area Total	Business Entities (%)		Business Entities (%)		Business Entities (%)		Business Entities (%)		Low	Mod	Mid	Upp	Overall	Low	Mod	Mid	Upp
			Bank Loans (%)	Business Entities (%)	Bank Loans (%)	Business Entities (%)	Bank Loans (%)	Business Entities (%)	Bank Loans (%)	Business Entities (%)									
<i>Full-Scope Review</i>																			
SEATTLE	1,866	87.44	2.52	2.57	18.60	20.60	57.88	51.51	21.01	25.32	NA	NA	NA	NA	NA	NA	NA	NA	NA
JEFFERSON & CLALLAM NON-MSA	152	7.12	0.00	0.00	4.61	9.19	88.16	83.35	7.24	7.47	NA	NA	NA	NA	NA	NA	NA	NA	NA
<i>Limited Scope Review</i>																			
SKAGIT NON-MSA	77	3.61	0.00	0.00	0.00	0.00	72.73	68.15	27.27	31.85	NA	NA	NA	NA	NA	NA	NA	NA	NA
BELLINGHAM MSA	39	1.83	0.00	0.00	17.95	12.25	74.36	75.26	7.69	12.49	NA	NA	NA	NA	NA	NA	NA	NA	NA

Note: *Business entities based on 2002 Dun & Bradstreet data. Aggregate Lending and Market Share data based on 2002 reported small business lending activity.
 **Business entities based on 2003 Dun & Bradstreet data. Aggregate Lending and Market Share data based on 2003 reported small business lending activity.

FRONTIER BANK

Rated Area: Washington

Table 3a - Geographic Distribution of Small Farm Loans - 1990 Census*

Evaluation Period: January 1, 2002 - December 31, 2002

Assessment Areas	Total Loans from Bank		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Aggregate Lending (%)					Market Share (%)				
	# Loans	% Rated Area Total	Bank Loans (%)		Farm Entities (%)		Bank Loans (%)		Farm Entities (%)		Low	Mod	Mid	Upp	Overall	Low	Mod	Mid	Upp	
			Bank Loans (%)	Farm Entities (%)	Bank Loans (%)	Farm Entities (%)	Bank Loans (%)	Farm Entities (%)												
<i>Full-Scope Review</i>																				
SEATTLE	57	43.18	0.00	0.65	0.00	10.41	92.98	71.36	7.02	17.59	0.91	7.88	70.91	20.30	17.27	0.00	0.00	22.65	5.97	
JEFFERSON & CLALLAM NON-MSA	23	17.42	0.00	0.00	0.00	10.92	100.00	86.78	0.00	2.30	0.00	0.00	100.00	0.00	52.27	0.00	0.00	52.27	0.00	
<i>Limited Scope Review</i>																				
SKAGIT NON-MSA	45	34.09	0.00	0.00	0.00	0.00	91.11	67.61	8.89	32.39	0.00	0.00	64.98	35.02	18.99	0.00	0.00	26.62	4.82	
BELLINGHAM MSA	7	5.30	0.00	0.00	0.00	2.62	100.00	94.50	0.00	2.88	0.00	1.08	97.42	1.51	1.51	0.00	0.00	1.55	0.00	

Table 3b - Geographic Distribution of Small Farm Loans - 2000 Census**

Evaluation Period: January 1, 2003 - December 31, 2003

Assessment Areas	Total Loans from Bank		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Aggregate Lending (%)					Market Share (%)				
	# Loans	% Rated Area Total	Bank Loans (%)		Farm Entities (%)		Bank Loans (%)		Farm Entities (%)		Low	Mod	Mid	Upp	Overall	Low	Mod	Mid	Upp	
			Bank Loans (%)	Farm Entities (%)	Bank Loans (%)	Farm Entities (%)	Bank Loans (%)	Farm Entities (%)												
<i>Full-Scope Review</i>																				
SEATTLE	54	46.96	0.00	0.98	5.56	10.20	81.48	67.23	12.96	21.59	NA	NA	NA	NA	NA	NA	NA	NA	NA	
JEFFERSON & CLALLAM NON-MSA	17	14.78	0.00	0.00	0.00	4.40	94.12	89.01	5.88	6.59	NA	NA	NA	NA	NA	NA	NA	NA	NA	
<i>Limited Scope Review</i>																				
SKAGIT NON-MSA	40	34.78	0.00	0.00	0.00	0.00	30.00	61.28	70.00	38.72	NA	NA	NA	NA	NA	NA	NA	NA	NA	
BELLINGHAM MSA	4	3.48	0.00	0.00	0.00	1.75	100.00	94.75	0.00	3.50	NA	NA	NA	NA	NA	NA	NA	NA	NA	

Note: *Business entities based on 2002 Dun & Bradstreet data. Aggregate Lending and Market Share data based on 2002 reported small business lending activity.

**Business entities based on 2003 Dun & Bradstreet data. Aggregate Lending and Market Share data based on 2003 reported small business lending activity.

FRONTIER BANK

Rated Area: Washington

Table 4 - Borrower Distribution of Small Business Loans

Evaluation Period: January 1, 2002 - December 31, 2003

Assessment Areas	Total Small Business Loans		Businesses with Revenue <= \$1 Million		Originations Regardless of Revenue Size			Aggregate Lending (%)		Market Share (%)	
	# Loans	% Rated Area Total	Bank Loans (%)	All Businesses (%)	<= \$100K	> \$100K and <= \$250K	> \$250K and <= \$1MM	All Loans	Loans to Revenue <= \$ Million (%)	All Loans	Loans to Revenue <= \$ Million (%)
<i>Full-Scope Review</i>											
SEATTLE	3,669	86.68	71.16	85.79	63.15	19.79	17.06	89,467	31.13	2.02	4.65
JEFFERSON & CLALLAM NON-MSA	314	7.42	76.43	91.62	72.29	13.06	14.65	3,112	33.07	5.21	11.66
<i>Limited Scope Review</i>											
SKAGIT NON-MSA	158	3.73	67.72	89.04	62.03	21.52	16.46	3,699	41.93	2.19	3.16
BELLINGHAM MSA	92	2.17	59.78	86.92	53.26	23.91	22.83	5,294	35.47	1.00	1.70

Note: Business entities based on 2003 Dun & Bradstreet data.
Aggregate Lending and Market Share data based on 2003 reported small business lending activity.

FRONTIER BANK

Rated Area: Washington

Table 5 - Borrower Distribution of Small Farm Loans

Evaluation Period: January 1, 2002 - December 31, 2003

Assessment Areas	Total Small Farm Loans		Farms with Revenue <= \$1 Million		Originations Regardless of Revenue Size			Aggregate Lending (%)		Market Share (%)	
	# Loans	% Rated Area Total	Bank Loans (%)	All Farms (%)	<= \$100K	> \$100K and <= \$250K	> \$250K and <= \$500K	All Loans	Loans to Revenue <= \$ Million (%)	All Loans	Loans to Revenue <= \$ Million (%)
<i>Full-Scope Review</i>											
SEATTLE	111	44.94	89.19	92.45	53.15	25.23	21.62	330	56.67	17.27	28.34
JEFFERSON & CLALLAM NON-MSA	40	16.19	92.50	98.35	97.50	2.50	0.00	44	93.18	52.27	53.66
<i>Limited Scope Review</i>											
SKAGIT NON-MSA	85	34.41	55.29	88.51	42.35	43.53	14.12	237	67.09	18.99	13.21
BELLINGHAM MSA	11	4.45	45.45	91.00	36.36	18.18	45.45	465	63.01	1.51	1.02

Note: Farm entities based on 2003 Dun & Bradstreet data.
Aggregate Lending and Market Share data based on 2003 reported small farm lending activity.

FRONTIER BANK
RATED AREA: WASHINGTON

Table 6 - Qualified Investments

EVALUATION PERIOD: JANUARY 1, 2002 - DECEMBER 31, 2003

Assessment Areas	Prior Period Investments*		Current Period Investments		Total Investments			Unfunded Commitments**	
	#	\$(000's)	#	\$(000's)	#	\$(000's)	% of Total	#	\$(000's)
<i>Full-Scope Review</i>									
SEATTLE	8	13,521	45	145	53	13,666	91.2%	0	0
JEFFERSON & CLALLUM NON-MSA	2	550	2	0.4	4	550.4	3.7%	0	0
BROADER STATEWIDE AREA	0	0	44	220	44	220	1.4%	0	0
<i>Limited Scope Review</i>									
SKAGIT NON-MSA	3	740	0	0	3	740	4.9%	0	0
BELLINGHAM MSA	1	180	2	1.4	3	181.4	1.20%	0	0

Note: *Investments made in a previous evaluation period that are outstanding as of the examination date.

**Legally binding investment commitments that are tracked and recorded by the institution's financial reporting system.

APPENDIX C

LIMITED-SCOPE ASSESSMENT AREA

MARKET PROFILE

All demographic and economic information in this appendix came from the following sources:

- 2003 Dun & Bradstreet data
- County Profiles – Washington State Employment Security, Labor Market and Economic Analysis Branch

MARKET PROFILE								
SKAGIT ASSESSMENT AREA								
Income Categories	Total Businesses by Tract		Businesses by Tract & Revenue Size					
			Less Than or Equal to \$1 Million		Greater than \$1 Million		Revenue Not Reported	
	#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate-income	0	0.0	0	0.0	0	0.0	0	0.0
Middle-income	2,942	68.1	2,616	68.1	240	69.6	86	67.2
Upper-income	1,375	31.9	1,228	31.9	105	30.4	42	32.8
Tract not reported	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	4,317	100.0	3,844	100.0	345	100.0	128	100.0
Percentage of Total Businesses:			89.0		8.0		3.0	
Income Categories	Total Farms by Tract		Farms by Tract & Revenue Size					
			Less Than or Equal to \$1 Million		Greater than \$1 Million		Revenue Not Reported	
	#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate-income	0	0.0	0	0.0	0	0.0	0	0.0
Middle-income	144	61.3	125	60.1	15	68.2	4	80.0
Upper-income	91	38.7	83	39.9	7	31.8	1	20.0
Tract not reported	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	235	100.0	208	100.0	22	100.0	5	100.0
Percentage of Total Farms:			88.5		9.4		2.1	

The Skagit assessment area consists of Skagit County in its entirety and includes the cities of Anacortes, Burlington, Mount Vernon, and Sedro-Woolley. Skagit County is situated in the northwestern portion of Washington State with Whatcom County to its north and Snohomish County to the south. It is bordered on the east by portions of Chelan and Okanogan Counties and on the west by the Strait of Juan de Fuca and the mouth of Puget Sound, as well as San Juan and Island Counties.

Retail trade and services represent the largest employment sectors with almost equal shares of about 21 percent. Government is a slightly smaller sector at 19 percent with manufacturing, agriculture and construction making up a majority of the remainder.

Frontier operates one branch in this assessment area accounting for 2.6 percent of both the bank's branches and deposits. The bank closed a branch in a middle-income census tract in Burlington in 2002 and consolidated operations with another branch located in a middle-income census tract in Mount Vernon. These locations were less than two miles apart and served the same customer base. The closing did not adversely affect the accessibility of the bank's delivery systems.

MARKET PROFILE								
BELLINGHAM ASSESSMENT AREA								
Income Categories	Total Businesses by Tract		Businesses by Tract & Revenue Size					
			Less Than or Equal to \$1 Million		Greater than \$1 Million		Revenue Not Reported	
	#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate-income	869	12.3	755	12.2	94	14.2	20	7.5
Middle-income	5,338	75.3	4,600	74.6	526	79.6	212	79.4
Upper-income	886	12.5	810	13.1	41	6.2	35	13.1
Tract not reported	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	7,093	100.0	6,165	100.0	661	100.0	267	100.0
Percentage of Total Businesses:			86.9		9.3		3.8	
Income Categories	Total Farms by Tract		Farms by Tract & Revenue Size					
			Less Than or Equal to \$1 Million		Greater than \$1 Million		Revenue Not Reported	
	#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate-income	7	1.8	7	1.9	0	0.0	0	0.0
Middle-income	379	94.8	345	94.8	26	96.3	8	88.9
Upper-income	14	3.5	12	3.3	1	3.7	1	11.1
Tract not reported	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	400	100.0	364	100.0	27	100.0	9	100.0
Percentage of Total Farms:			91.0		6.8		2.3	

The Bellingham assessment area consists of Whatcom County in its entirety and includes the cities of Bellingham, Lynden and Ferndale. Whatcom County is situated in the furthest northwestern portion of Washington State with the Canadian province of British Columbia to its north and the Washington counties of Okanogan and Skagit to its East and south respectively. It is bordered on the west by the Strait of Georgia and Rosario Strait.

Wholesale and retail trade represent the largest employment sector at 31 percent. Services, government, finance, insurance, and real estate make up the majority of the remainder.

Frontier operates one branch in this assessment area, located in a middle-income census tract and accounting for 2.6 percent of the bank's branches and 1.8 percent of the bank's deposits.