

PUBLIC DISCLOSURE

November 4, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Bank of Ephraim
RSSD #866279**

**2 North Main Street
Ephraim, Utah 84627**

**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

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

Bank of Ephraim's overall performance under the Community Reinvestment Act is satisfactory. The concentration of lending within the assessment areas and lending to small businesses and to low- and moderate-income borrowers is excellent, particularly in the Sanpete assessment area. The loan to deposit ratio is adequate and the geographic distribution of loans within both assessment areas is reasonable.

PERFORMANCE CONTEXT

Description of Institution

Bank of Ephraim (BOE) was established in January 1905 and is headquartered in Ephraim, Utah. BHC Utah Bankshares, a shell holding company, acquired BOE in April 2000. There are three branch offices. Ephraim and Mt. Pleasant (opened in July 2002) service the central portions of Utah while the Hildale branch services portions of Utah and Arizona. Ephraim and Mt. Pleasant are located within 15 miles of one another while Hildale sits on the border between Utah and Arizona, approximately 200 miles south.

As of June 30, 2002, BOE's total asset size was \$51.5 million, with \$37.6 million in gross loans. Although, primarily addressing the credit needs of businesses, the bank offers a full range of commercial, consumer, and agricultural products, striving to address most credit needs of its communities. The majority of the loan portfolio concentration is in commercial loans followed by consumer and small farm loans, although they represent a much smaller portion of the portfolio. The table below presents the composition of the loan portfolio as of June 30, 2002.

Loan Type	Dollar Amount ('000s)	% of Total
Commercial/ Industrial & Non Farm Non Residential Real Estate	\$ 22,167	58.9%
Consumer and Credit Cards	\$ 4,405	11.7%
Agricultural and Farmland	\$ 4,359	11.6%
Construction & Land Development	\$ 3,110	8.3%
Secured by 1-4 Family Residential Real Estate	\$ 2,817	7.5%
Multifamily Housing	\$ 681	1.8%
All Other	\$ 75	0.2%
Total (Gross)	\$ 37,614	100%

There are no legal or financial impediments that would inhibit the bank's ability to meet the credit needs of its communities, consistent with its business strategy, size and resources, as well as the local economic climate. BOE's CRA performance was rated satisfactory at its previous examination conducted as of March 15, 1999.

Description of Assessment Area

Bank of Ephraim has defined two separate assessment areas as described below.

Sanpete County Assessment Area

This assessment area encompasses all of Sanpete County, which is centrally located in Utah. Out of the thirteen small cities and towns within the county, Ephraim is the largest city with approximately 20 percent of the county's total population. The assessment area consists of five moderate and middle-income block-numbering areas (BNA's) and is not part of a metropolitan statistical area (MSA).

BOE competes with five other banks in the market. According to the 2001 FDIC Summary of Deposits report, BOE had the highest market share with 24.7 percent.

Since 1990, the assessment area has experienced significant population growth. According to the 2000 US Census, Sanpete County's population increased 40 percent over the previous ten years, which is 10 percent higher than the state of Utah's growth. The county currently has a population of 22,763. The table below contains income information by BNA on Sanpete County.

Income Level	BNA		Population		Families		Households	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Moderate	3	60%	10,479	64%	2,601	68.9%	3,305	67.2%
Middle	2	40%	5,780	36%	1,173	31.1%	1,611	32.8%
Total	5	100%	16,259	100%	3,774	100%	4,916	100%

Sanpete County ranked eight among other counties in the state of Utah with an annual job growth rate of 3.8 percent during 2000.¹ The building of a new Wal-Mart accounted for much of this success. In 2001, however, job growth dropped to 3 percent.² This decrease is primarily attributed to the downturn of the national economy. Agriculture, though, kept the county's economic base healthy.

Although agriculture plays an important role in the economy, education-related employers such as Snow College and Sanpete School District account for 35.7 percent of employment and contribute their fair share to the county's economic health. The county's major employers are Moroni Feed Processing and the State of Utah.

Data provided by Dun and Bradstreet indicates that 58 percent of the 1,659 businesses within the assessment area are small businesses. With a significant number of businesses located in the assessment area, excellent opportunities for small business lending are available. Additionally,

¹ Source: Utah Department of Workforce Services, Sanpete County Economic Newsletter., p. 9 - www.wi.dws.state.ut.us

² Ibid., 2001, p.3

community representatives revealed that loans to small businesses for small dollar amounts of \$10,000 - \$15,000 are a local area credit need. This information is consistent with the high concentration of small businesses in the assessment area.

Hildale-Colorado City Assessment Area

The assessment area is a combination of one BNA and one census tract for two cross-state sister cities. The combined assessment area consists of one moderate-income BNA in Hildale, Utah, and one low-income census tract in Colorado City, Arizona. This tract is part of the Las Vegas MSA and is a designated Enterprise Zone.³ Hildale is located on the southern border of Utah, and Colorado City is on the northern border of Arizona. These two adjacent cities are approximately two miles from each other. BOE's branch in Hildale is the only financial institution in the local community servicing the entire assessment area. The following table illustrates BNA and Census Tract information for Hildale-Colorado City assessment area.

Income Level	BNA - Census Tract		Population		Families		Households	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Low	1	50%	3,171	37%	419	27%	463	25%
Moderate	1	50%	5,427	63%	1,132	73%	1,391	75%
Total	2	100%	8,598	100%	1,551	100%	1,854	100%

Hildale and Colorado City both play an important role in their neighboring economies. Many industrial activities are in Hildale, while most commercial and retail activity is in Colorado City. In both cities, the school district is the largest single employer but manufacturing plants and regional construction provide most jobs.

Data provided by Dun and Bradstreet indicates that 64 percent of the 1,000 businesses within the assessment area are small businesses. With a significant number of businesses located in the assessment area, excellent opportunities for small business lending are available. Community representatives revealed that loans to small businesses are a local area credit need, which is consistent with the high concentration of small businesses in the assessment area.

³ Source: Arizona Department of Commerce – Community Profile, p. 1 – www.azcommerce.com

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Scope of Examination

To evaluate the bank's performance under the Community Reinvestment Act, its small business and consumer lending activity was reviewed based upon four of the five performance criteria. These include the following:

- Lending volume in comparison to deposits (Loan-to-Deposit Ratio)
- Lending inside and outside concentrated assessment area (Lending in Assessment Area)
- Distribution of lending to borrowers and businesses of different sizes (Lending by Borrower Income and Business Revenue)
- Dispersion of lending throughout the census tracts within the assessment area (Geographic Distribution of Loans).

Responsiveness to consumer complaints was not evaluated because there have been no complaints related to CRA performance.

The bank's CRA performance was evaluated using a total of 235 small business loans and 710 consumer loans extended from July 1, 2000, through June 30, 2002. These loans were used to calculate the percentage of lending within the assessment area as well as the geographic distribution of loans. To assess the bank's lending by business revenue and borrower income, revenue and income information was collected for a statistical sample of 80 consumer and 65 small business loans.

Small business lending received the most weight in this examination given the institution's business lending focus. With respect to assessment areas, the Sanpete assessment area was weighted more heavily as the bank has a larger presence and more branch offices here. Also, more of its loans were extended in this assessment area.

Loan-to-Deposit Ratio

BOE's loan-to-deposit ratio meets standards for satisfactory performance. The eight-quarter average ratio from July 2000 to June 2002 is 77 percent. This ratio remains comparable to local peer banks of similar asset size.

Lending in Assessment Area

The level of lending in the combined assessment areas exceeds standards for satisfactory performance. As illustrated below, the substantial majority of small business and consumer loans were extended within the assessment areas.

Loan Product	Inside Assessment Area		Outside Assessment Area	
	Percent in Number	Percent in Dollar Volume	Percent in Number	Percent in Dollar Volume
Small Business	75%	59%	25%	41%
Consumer	84%	84%	16%	16%

Lending by Borrower Income and Business Revenue

Lending to small businesses and to borrowers of different income levels exceeds standards for a satisfactory performance. The high levels of loans extended to small businesses and to low- and moderate-income borrowers in the Sanpete assessment area supported the overall performance. Lending levels to small businesses in the Hildale-Colorado assessment area exceeded the market's performance while consumer loan distributions demonstrated a reasonable level of lending to low- and moderate-income individuals.

Sanpete County Assessment Area

The level of lending to businesses with gross annual revenues of \$1 million dollars or less is excellent. The bank's performance significantly exceeded the percentage of small businesses in the assessment area, as well as the aggregate market's performance.

Small Business Originations	D&B Business Concentration	BOE Small Business Lending		Aggregate Lending	
		#	\$	#	\$
Loans to Businesses with Gross Annual Revenues of \$1MM or Less	58.2%	85.7%	90.4%	51.1%	63.6%

The distribution of consumer loans to individuals of different income levels also is excellent. The bank's level of lending to low- and moderate-income persons significantly exceeded the percentage of such families in the assessment area.

Borrower Income Level	Families	BOE Consumer Lending	
		Number	Dollar Volume
Low	26.2%	36.9%	31.2%
Moderate	24.2%	27.7%	29.5%
Middle	23.1%	18.5%	18.6%
Upper	26.6%	16.9%	20.6%

Hildale-Colorado City Assessment Area

The bank's performance in this assessment area was not as strong as in the Sanpete assessment area; however, performance is still in the satisfactory range. The percentage of BOE's lending to small businesses fell somewhat below the percentage of small businesses in the assessment area, but it substantially exceeded the performance of the aggregate market.

Small Business Loans	D&B Business Concentration	BOE Small Business Lending		Aggregate Small Business Lending	
		#	\$	#	\$
Loans to Businesses with Gross Annual Revenues of \$1MM or Less	63.6%	48.4%	31.0%	33.6%	47.5%

Overall, consumer lending showed a reasonable distribution to borrowers of different income levels. While the percentage of lending to low-income borrowers fell below the percentage of low-income families in the assessment area, moderate-income borrower penetration was strong.

Borrower Income Level	Families	BOE Consumer Lending	
		Number	Dollar Volume
Low	34.5%	18.8%	11.9%
Moderate	28.6%	37.5%	26.3%
Middle	18.0%	37.5%	48.6%
Upper	18.9%	6.3%	13.2%

Geographic Distribution of Loans

BOE's geographic distribution of lending meets standards for a satisfactory performance. Loans area allocated throughout the two assessment areas with concentrations around the branch offices. A significant amount of lending occurred in the moderate-income BNA in which the newest branch is located.

Sanpete County Assessment Area

The majority of small business lending was in moderate-income BNAs, which is consistent with the overall small business concentration reported by Dun and Bradstreet. Although the distribution of loans in moderate-income areas was lower than the aggregate, the lending performance is adequate given that a significant amount of lending occurred in the middle-income BNA in which its main office is located. This BNA also contains the largest city within the assessment area. Although the new branch is located in a moderate-income BNA, the office only opened in July 2002. However, as stated above, there also was a concentration of loans in that BNA.

BNA Income Level	D&B Business Concentration	BOE Small Business Loans		Aggregate Small Business Loans	
		#	\$	#	\$
Moderate	63.0%	56.4%	47.7%	75%	71%
Middle	37.0%	43.6%	52.3%	25%	29%

The majority of consumer loans were extended in middle-income BNAs, with a significant amount also extended in moderate-income BNAs. While the level of lending falls below the percentage of families in moderate-income BNAs, the distribution is reasonable as a significant amount of lending occurred near the bank's main office, which as stated previously in a middle-income BNA. Lending levels decrease as the geographical distance to the main office increases, regardless of BNA income level.

BNA Income Level	Families	BOE Consumer Loans	
		#	\$
Moderate	68.9%	47.2%	50.5%
Middle	31.1%	52.8%	49.5%

Hildale-Colorado City Assessment Area

The Hildale-Colorado City assessment area's small business geographic distribution demonstrates a reasonable distribution between the two areas. A considerable amount of loans was extended in the low-income tract, indicating the bank is meeting the credit needs of the community more effectively than other banks.

BNA - Tract Income Level	D&B Business Concentration	BOE Small Business Loans		Aggregate Small Business Loans	
		#	\$	#	\$
Low	20%	48.3%	40.3%	24%	6%
Moderate	80%	51.7%	59.7%	76%	94%

Similarly, significant levels of consumer loans were extended in the two different cities. As shown in the table below, consumer loans were well dispersed throughout the two tracts - BNAs in the assessment area.

BNA - Tract Income Level	Families	BOE Consumer Loans	
		#	\$
Low	27%	49.1%	52.1%
Moderate	73%	50.9%	47.9%

Compliance with Fair Lending Laws and Regulations

The bank is in compliance with the anti-discrimination provisions of the Fair Housing Act and the Equal Credit Opportunity Act. No violations of a discriminatory nature were noted and no issues exist with regard to the bank's compliance with these laws that would negatively impact its CRA rating.

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.