

PUBLIC DISCLOSURE

July 19, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Big Sky Western Bank
4150 Valley Commons Drive
P.O. Box 818
Bozeman, Montana 59718
RSSD 1441600

**Federal Reserve Bank of Minneapolis
90 Hennepin Avenue, P.O. Box 291
Minneapolis, MN 55480-0291**

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 the 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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Definitions for many of the terms used in this performance evaluation can be found in section 228.12 of Regulation BB. For additional convenience, a Glossary of Common CRA Terms is attached as Appendix A at the end of this performance evaluation.

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

The Lending Test is rated: Satisfactory

The Community Development Test is rated: Outstanding

The Community Reinvestment Act (CRA) performance of Big Sky Western Bank, Bozeman, Montana, demonstrates excellent responsiveness to the credit and community development needs of its assessment area.

The bank's performance under the Lending Test is satisfactory based on the following criteria:

- The distribution of loans to borrowers of different income levels and businesses of different sizes in the assessment area is good.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area and distribution among census tracts of different income levels.
- The bank originated a substantial majority of its loans within its assessment area.
- The net loan-to-deposit ratio is more than reasonable given the bank's size, its financial condition, and the credit needs of the assessment area.

The bank's performance under the Community Development Test is outstanding based on the following criteria:

- The community development activities demonstrate excellent responsiveness to community development needs.
- The bank's level of community development lending, community development services, and qualified investments is excellent.

EVALUATION METHODOLOGY

On July 19, 2005, the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (Agencies) approved final changes to their CRA regulations. The new rules became effective September 1, 2005. The Agencies did the following in the final rules:

- Adopted an Intermediate Small Bank (ISB) evaluation process for banks with assets of at least \$250 million as of December 31 for both of the prior two calendar years and less than \$1 billion as of December 31 for either of the prior two calendar years,
- Eliminated the CRA data reporting requirements for institutions with less than \$1 billion as of December 31 for either of the prior two calendar years,
- Modified the definition of community development to more effectively encourage bank activities in some rural and designated disaster areas, and
- Clarified when illegal lending practices by a bank or its affiliate might reduce the bank's CRA rating.

At the previous evaluation, Big Sky Western Bank was evaluated under the Small Bank Evaluation Procedures. These procedures outlined the following criteria to be used in determining the bank's CRA performance:

- Net loan-to-deposit ratio,
- Lending inside the assessment area,
- Lending to borrowers of different income levels and to businesses of different sizes,
- Lending to geographies of different income levels, and
- Record of responding to complaints about the bank's CRA performance.

For this evaluation, the bank is an ISB because its assets as of December 31 for the prior two calendar years exceeded the asset threshold of \$265 million in 2008 and \$277 million in 2009. The bank's performance under the criteria mentioned above determined the bank's Lending Test rating under the ISB Evaluation Procedures.

Under the ISB procedures, the bank's community development loans, qualified investments, and community development services were reviewed to determine a Community Development Test rating. The Lending Test and Community Development Test were combined to determine the overall CRA rating for the bank's performance.

SCOPE OF EXAMINATION

This evaluation of the bank's CRA performance is based in part on information provided by bank management and community contacts. Information from these sources as well as economic and demographic characteristics of the assessment area, competitive factors, and the size and financial condition of the bank were analyzed to understand the bank's performance. The evaluation covers the period from the previous CRA evaluation, dated June 26, 2006, through July 19, 2010.

The bank's CRA performance is weighted as follows to derive the Lending Test and Community Development Test ratings:

- The Community Development Test received greater weight than the Lending Test because of the bank's excellent level of community development activities, which were responsive to community development needs in the assessment area. The bank's community development activity level is outstanding given the bank's asset size, the competitiveness of the financial institutions serving the assessment area, and the availability of community development opportunities.
- For the Lending Test, the bank's small business lending activity received the greatest weight, followed by residential real estate lending. This weighting reflects the composition of the bank's loan portfolio during the entire evaluation period (although small business loan originations declined during the loan sample period).
- For the Lending Test performance criteria, lending to borrowers of different income levels and to businesses of different sizes received the greatest weight. The remaining criteria were weighted equally.

Lending Test Scope

The scope of the Lending Test covers the bank's major product lines, which are defined as small business, residential real estate, and consumer loans. Table 1 shows the bank's lending activity by loan type for 2009.

<i>Loan Type</i>	<i>Number of Loans</i>	<i>Percentage of Total Number</i>	<i>Total Loan Dollars</i>	<i>Percentage of Total Dollars</i>
Consumer	208	28.2	\$ 2,249,178	2.1
Home Equity Lines of Credit	46	6.2	2,657,190	2.5
Residential Real Estate	314	42.5	70,398,475	64.9
Small Business (\leq \$1 million)	123	16.7	12,849,346	11.8
Commercial ($>$ \$1 million)	5	0.7	6,880,431	6.3
Small Farm (\leq \$500,000)	4	0.5	299,310	0.3
Construction/Land Development	28	3.8	9,976,222	9.2
Commercial Real Estate	10	1.4	3,168,843	2.9
Total	738	100.0	\$108,478,995	100.0

The Lending Test is based on a statistical sample of the bank's residential real estate and consumer loans originated between October 1, 2009, and March 31, 2010, and small business loans originated between April 1, 2009, and March 31, 2010. The sample includes 65 small business loans, 56 residential real estate loans, and 65 consumer loans.

Community Development Test Scope

The bank's community development lending, qualified investments, and community development services were reviewed in the bank's assessment area. The Community Development Test rating is based on the bank's performance throughout the review period. The review period for community development activity was June 26, 2006, to July 19, 2010.

DESCRIPTION OF INSTITUTION

Structure. Big Sky Western Bank is wholly owned by Glacier Bancorp, Inc., Kalispell, Montana (GBCI), a multibank holding company. GBCI provides commercial banking services through 94 bank offices in Montana, Idaho, Utah, Wyoming, Colorado, and Washington. In addition to Big Sky Western Bank, GBCI owns the ten banks listed below.

- Glacier Bank, Kalispell, Montana
- First Security Bank of Missoula, Missoula, Montana
- Valley Bank of Helena, Helena, Montana
- Western Security Bank, Billings, Montana
- Mountain West Bank, Coeur d'Alene, Idaho
- First Bank of Montana, Lewistown, Montana
- Citizens Community Bank, Pocatello, Idaho
- 1st Bank, Evanston, Wyoming
- Bank of the San Juans, Durango, Colorado
- First National Bank & Trust, Powell, Wyoming

Offices. Big Sky Western Bank operates five full-service offices in Bozeman (three), Big Sky, and Belgrade, Montana. The Belgrade branch is new since the last evaluation. The bank's main office is located at 4150 Valley Commons Drive in Bozeman. The bank has eight cash-dispensing automated

teller machines (ATM) in the assessment area, located at the five bank offices, a grocery store in Bozeman, and a mall and a hotel in Big Sky. Bozeman offices have lobby hours from 9:00 a.m. to 4:00 p.m. Monday through Thursday and 9:00 a.m. to 5:00 p.m. on Friday. The Big Sky office has lobby hours from 9:00 a.m. to 5:00 p.m. Monday through Thursday and 9:00 a.m. to 6:00 p.m. on Friday. The Belgrade office has lobby hours from 9:00 a.m. to 4:00 p.m. Monday through Thursday and 8:00 a.m. to 5:00 p.m. on Friday. All office drive-up facilities are open 8:00 a.m. to 6:00 p.m. Monday through Friday. All offices except the Bozeman Four Corners branch offer business hours on Saturday through drive-up facilities.

Big Sky Western Bank offers online banking, allowing customers to transfer funds between accounts, make loan payments, and review account information. In addition, customers can apply for residential real estate loans and open deposit accounts electronically. Customers may also enroll in the bank's online bill payment and electronic statement services. In addition, the bank offers 24-hour telephone banking that allows customers to check account balances, transfer funds, and verify other account activity.

Loan portfolio. According to the June 30, 2010, Report of Condition, the bank has total assets of \$366.8 million and total loans of \$266.5 million. The majority of the bank's lending portfolio is commercial lending. The loan portfolio consists of 73.7% commercial, 21.5% residential real estate, 1.2% consumer, 0.7% agricultural, and 2.9% all other loans. The loan portfolio composition has not changed significantly since the previous evaluation, although the bank has experienced a 26.7% increase in total loans. The majority of this growth occurred during the early part of the evaluation period. The overall loan portfolio has actually declined during 2009 and 2010.

Credit products. The bank offers a wide variety of loan products to serve the credit needs of residents and businesses in its area. Consumer loan products include closed-end vehicle loans, personal loans, and other general purpose consumer loans. Open-end credit products include overdraft, personal, and home equity lines of credit. The bank offers residential real estate purchase and refinance loans, mobile home loans, home improvement loans, and temporary construction loans. In addition to conventional loan programs for consumers and small businesses, the bank offers loans through the Montana Board of Housing, Federal Housing Administration, U.S. Department of Agriculture Rural Development, and Small Business Administration.

There are no financial constraints, legal impediments, or other factors that obstruct the bank's ability to meet the credit or community development needs in its assessment area. The evaluation did not reveal any unmet credit needs in the assessment area.

DESCRIPTION OF ASSESSMENT AREA

For CRA purposes, Big Sky Western Bank has designated one assessment area, which includes all of Gallatin County and one census tract in Madison County. The assessment area includes one moderate-income, seven middle-income, and seven upper-income census tracts. The census tract in Madison County is classified as an underserved middle-income census tract. Refer to Appendix A for additional information regarding the definition of underserved census tracts.

According to the June 30, 2009, Federal Deposit Insurance Corporation Deposit Market Share Report, the bank had deposits of \$180.5 million in Gallatin County, representing 10.3% of total deposits in the county. The bank ranks third in deposits out of 18 banks in the county, behind larger regional and community banks. Table 2 provides detailed data about the demographic characteristics of this assessment area.

TABLE 2
Assessment Area Demographics

<i>Income Categories</i>	<i>Tract Distribution</i>		<i>Families by Tract Income</i>		<i>Families < Poverty Level as % of Families by Tract</i>		<i>Families by Family Income</i>	
	#	%	#	%	#	%	#	%
Low Income	0	0.0	0	0.0	0	0.0	2,086	12.3
Moderate Income	1	6.6	852	5.0	188	22.1	2,526	14.8
Middle Income	7	46.7	6,278	36.9	427	6.8	3,978	23.4
Upper Income	7	46.7	9,878	58.1	444	4.5	8,418	49.5
Total Assessment Area	15	100.0	17,008	100.0	1,059	6.2	17,008	100.0
<i>Income Categories</i>	<i>Housing Units by Tract</i>	<i>Housing Types by Tract</i>						
		<i>Owner-Occupied</i>		<i>Rental</i>		<i>Vacant</i>		
		#	%	%	#	%	#	%
Low Income	0	0	0.0	0.0	0	0.0	0	0.0
Moderate Income	1,719	369	2.1	21.5	1,226	71.3	124	7.2
Middle Income	12,827	6,712	39.1	52.3	4,510	35.2	1,605	12.5
Upper Income	17,058	10,091	58.8	59.2	4,516	26.5	2,451	14.4
Total Assessment Area	31,604	17,172	100.0	54.3	10,252	32.4	4,180	13.2
<i>Income Categories</i>	<i>Total Businesses by Tract</i>		<i>Businesses by Tract and Revenue Size</i>					
			<i>≤ \$1 Million</i>		<i>> \$1 Million</i>		<i>Revenue Not Reported</i>	
			#	%	#	%	#	%
Low Income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate Income	256	3.7	230	3.7	19	4.8	7	2.9
Middle Income	2,497	36.7	2,236	36.3	167	41.8	94	39.0
Upper Income	4,055	59.6	3,702	60.0	213	53.4	140	58.1
Total Assessment Area	6,808	100.0	6,168	100.0	399	100.0	241	100.0
Percentage of Total Businesses:				90.6		5.9		3.5
<i>Income Categories</i>	<i>Total Farms by Tract</i>		<i>Farms by Tract and Revenue Size</i>					
			<i>≤ \$1 Million</i>		<i>> \$1 Million</i>		<i>Revenue Not Reported</i>	
			#	%	#	%	#	%
Low Income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate Income	3	0.8	3	0.9	0	0.0	0	0.0
Middle Income	165	46.2	163	46.3	2	66.7	0	0.0
Upper Income	189	53.0	186	52.8	1	33.3	2	100.0
Total Assessment Area	357	100.0	352	100.0	3	100.0	2	100.0
Percentage of Total Farms:				98.6		0.8		0.6

Income. For purposes of classifying borrower incomes, this evaluation uses the Department of Housing and Urban Development's (HUD) estimated median family income for the nonmetropolitan areas of Montana. This figure is \$53,500 for 2009 and \$54,200 for 2010. For purposes of classifying census tract income levels, this evaluation uses the relevant area's median family income from the 2000 census data. This figure was \$39,050.

Population and geographic characteristics. According to U.S. Census data in 2000, the population of the assessment area was 70,246. The data also indicate that 6.2% of the families in the assessment area have incomes below the poverty level. The statewide percentage of families with incomes below the poverty level is 10.5%. Bozeman is the largest city in the assessment area, with a 2009 census population estimate of 39,282, an increase of 42.8% since 2000. Much of this growth is due to the housing boom during the middle part of the decade and the resulting growth in development and construction-related jobs.

Economy. According to community contacts and bank management, Bozeman experienced a severe economic downturn in late 2007 and is only now beginning to recover. Community contacts stated that the area had an unsustainable level of real estate development and construction in the early and middle part of the decade, which led to nearly 25% of all jobs in Gallatin County being construction related. When residential and commercial construction began to slow considerably in late 2007, the construction industry faced significant job losses. In addition, companies tied to the construction sector, such as architecture and engineering firms, began to reduce their work forces in response to the slowdown. Community contacts believe the concentration in the construction sector led to a homogeneous economic base that was not sufficiently diverse to weather the sharp decline in construction and development.

Community contacts stated that job losses associated with real estate development and construction had an adverse impact on many other local businesses. Reduced demand for goods and services caused many retail and service establishments to cut their work forces to remain financially viable. Bank management mentioned that a local hardware store and a furniture manufacturing company recently discontinued operations and eliminated approximately 130 jobs. Community contacts also commented that area businesses continue to reduce a small number of positions while reevaluating resource needs. The community contacts said that other key local industries include higher education, health care, tourism, and federal and state government. The stability of these industries has helped the economy improve modestly during the past several months, but the community contacts do not expect that the construction industry will ever return to the level experienced in 2006. Bank management noted that the local hospital and two technology companies are expanding and have created new employment opportunities during the past several years.

The assessment area's unemployment rate is consistent with Montana's statewide statistics. The annual 2009 nonseasonally adjusted unemployment rate for Gallatin County was 6.3% based on U.S. Department of Labor's Bureau of Labor Statistics data, while the statewide rate for Montana was 6.2%. The average national unemployment rate for 2009 was 9.3%. The assessment area's economic decline is clearly evidenced by the 2008 and 2009 unemployment data. Gallatin County's 2009 unemployment rate of 6.3% was significantly higher than the 2008 rate of 3.8%. In addition, community contacts believe current statistics do not capture the significant percentage of underemployed individuals in the area.

Housing. Affordable housing continues to be a serious issue in the assessment area. A 2009 Bozeman economic development report concluded that Bozeman has the highest cost of living in Montana. The greatest contributor to the elevated cost of living is local housing costs. The economic development report further stated that the median 2008 home sale price in Bozeman was \$308,850, a decline of 9.3% from a peak of \$340,851 in 2006. Community contacts noted that housing still remains too expensive for many residents and high prices create a serious lack of affordable housing in the community. High housing costs force some low-income individuals and families to relocate to less expensive areas outside of Bozeman. In most cases, families need two incomes to meet financial obligations.

Numerous financial institutions operate in the Bozeman assessment area, including large regional banks, branches of large national banks, and credit unions. Many of these institutions have a long-term presence

in the market and well-established relationships with the community. Competition for all loan types is very strong. Community contacts did not identify any unmet credit needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The CRA rating for Big Sky Western Bank is outstanding. This rating is based on a satisfactory rating for the Lending Test and an outstanding rating for the Community Development Test.

LENDING TEST

The bank's performance under the Lending Test is satisfactory based on the following criteria:

- Lending to borrowers of different income levels and businesses of different sizes in the assessment area is good.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area and distribution among census tracts of different income levels.
- The bank originated a substantial majority of its loans within its assessment area.
- The bank's net loan-to-deposit ratio is more than reasonable given the bank's size, its financial condition, and credit needs of the assessment area.

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS AND TO BUSINESSES OF DIFFERENT SIZES

The bank's performance in lending to borrowers of different income levels and businesses of different sizes is good. The bank's level of originating residential real estate and small business loans is consistent with the assessment area's demographic data and characteristics. The level of originating consumer loans to low- and moderate-income borrowers is excellent given the assessment area's demographic data and characteristics.

Small business lending. The bank's small business lending in the assessment area is good and consistent with the area's demographic data. Table 3 provides additional information regarding lending activity in the assessment area. Big Sky Western Bank originated 90.0% of its small business loans to entities with gross annual revenues of \$1 million or less. According to 2009 data published by Dun & Bradstreet, 90.6% of businesses in the assessment area are small business entities. The table also shows that the bank originated 75.9% of the small business loans for amounts of \$100,000 or less to small businesses, which indicates a willingness to serve credit needs of small entities. Overall, the bank's lending to businesses of different sizes is good.

<i>Small Business Loan Originations (by Loan Amount)</i>	$\leq \$100,000$	$> \$100,000$ to $\leq \$250,000$	$> \$250,000$ to $\leq \$1,000,000$	<i>Total Originations</i>
Percentage of Small Business Loans	76.6%	11.7%	11.7%	100.0%
Percentage of Loans to Businesses with Revenues Less Than or Equal to \$1 Million	75.9%	13.0%	11.1%	90.0%

Residential real estate lending. Given the economic characteristics of the assessment area, the bank's residential real estate lending to low- and moderate-income borrowers is good and generally compares favorably to the demographic data. According to 2000 census data, 12.3% of families in the assessment

area are low income, while 14.8% are moderate income. As stated in Table 4 below, the bank extended 9.4% of its residential real estate loans to low-income borrowers and 15.1% to moderate-income borrowers. While the bank's lending to low-income borrowers is lower than assessment area demographic data, bank management and community contacts explained that the assessment area faces a serious affordable housing issue, and many low-income borrowers are unable to purchase homes. Using the assumption that an individual can obtain a loan for approximately three times his or her annual income, an individual with the highest income in the low-income bracket (\$27,100), based on the 2010 HUD estimated median family income of \$54,200 for the nonmetropolitan areas of Montana, can afford an \$81,300 home. Using the same assumption for an individual with the highest income in the moderate-income bracket (\$43,359), an individual can afford a \$130,080 home. The median home price in Bozeman was \$308,850 for 2008, according to a local economic report. At this median price, it is unlikely many low- or moderate-income borrowers can afford to purchase a home. Nonetheless, the bank's residential real estate lending to moderate-income borrowers is consistent with the demographic data. Given the assessment area characteristics, including bank management and community contact comments about the lack of affordable housing in the assessment area, the bank's level of residential real estate lending to borrowers of different income levels is good. Table 4 provides additional information regarding lending activity in the assessment area.

TABLE 4
Residential Real Estate and Consumer Lending by Income Level of Borrower*

<i>Loan Type Sample</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>		<i>Unknown</i>	
	<i>#</i>	<i>\$</i>	<i>#</i>	<i>\$</i>	<i>#</i>	<i>\$</i>	<i>#</i>	<i>\$</i>	<i>#</i>	<i>\$</i>
Residential Real Estate	9.4%	4.0%	15.1%	9.8%	17.0%	16.4%	58.5%	69.8%	0.0%	0.0%
Consumer	21.0%	6.2%	35.5%	27.4%	14.5%	17.5%	19.4%	41.1%	0.0%	0.0%
<i>Demographic Data</i>										
Percentage of Families**	12.3%		14.8%		23.4%		49.5%		0.0%	
Percentage of Households**	16.2%		14.6%		20.1%		49.1%		0.0%	
*Income classifications based on 2009 and 2010 HUD adjusted median family incomes of \$53,500 and \$54,200, respectively, for the nonmetropolitan areas of Montana.										
**Based on 2000 census data.										

Consumer lending. The bank's consumer lending to low- and moderate-income borrowers is excellent when compared to the percentages of low- and moderate-income families and households in the assessment area. Overall, Big Sky Western Bank extended 56.5% of the sampled loans to low- and moderate-income borrowers, which greatly exceeds the total percentages of families (27.1%) and households (30.8%) that are classified as low and moderate income. Table 4 above shows the percentage of lending for each income category. With respect to both low- and moderate-income borrowers, the bank's lending is high compared with the demographic data. The bank's performance with moderate-income borrowers is especially notable given the percentage of moderate-income households in the assessment area.

Furthermore, the bank extended 29.0% of its consumer loans in amounts of \$3,000 or less within the assessment area. Of these loans, 66.7% were extended to low- and moderate-income borrowers. The low loan amounts indicate a willingness to meet the credit needs of low- and moderate-income borrowers. Bank management mentioned that consumer loans have no minimum loan amount and few fees, which helps make credit accessible to low- and moderate-income individuals. In addition, management indicated that the economic downturn and associated job losses have increased the demand for small-

dollar loans. The bank does an excellent job of originating consumer loans to borrowers of different income levels.

Overall, the bank's lending reflects a good distribution of loans among individuals of different income levels and businesses of different sizes. The bank's performance in extending small business loans and residential real estate loans, which received the most weight in this analysis, is good. For consumer loans, the bank's performance is excellent.

GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution of the bank's loans demonstrates reasonable distribution and dispersion throughout the assessment area and does not reveal any unexplained lending gaps. The assessment area has one moderate-income census tract and no low-income census tracts. The bank originated the majority of its loans in the upper-income census tracts, which represent 46.7% of the tracts in the assessment area. This is reasonable because 58.1% of the families in the assessment area reside in upper-income tracts. According to 2000 census data, few families and businesses are located in the moderate-income tract.

Small business lending. The distribution and dispersion of small business loans in the moderate-income census tract are reasonable. The bank engages in limited small business lending in the moderate-income census tract. Nonetheless, the bank's small business lending is reasonable because very few assessment area businesses are located in the moderate-income census tract, which results in limited lending opportunities. According to 2009 Dun & Bradstreet data, 3.8% of businesses in the assessment area are located in the moderate-income census tract. In addition, branch offices of several competitor financial institutions are located closer to the census tract. Over two-thirds of the bank's small business loans were extended in the upper-income census tracts. According to Dun & Bradstreet data, the majority of businesses are located in the upper-income tracts. The bank did not make small business loans in census tract 8.00 or 14.00 of Gallatin County. Discussion with bank management clarified that a local university is located near census tracts 8.00 and very few small businesses are present. Further, other financial institutions are closer to these census tracts. Census data indicate that no businesses are located in census tract 14.00. Overall, the geographic distribution and dispersion of small business loans are reasonable.

<i>Loan Type Sample</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
	#	\$	#	\$	#	\$	#	\$
Small Business	0.0%	0.0%	1.7%	0.3%	31.7%	25.2%	66.7%	74.4%
Residential Real Estate	0.0%	0.0%	3.8%	3.7%	39.6%	36.6%	56.6%	59.7%
Consumer	0.0%	0.0%	6.5%	10.1%	22.6%	13.1%	71.0%	76.8%
<i>Demographic Data</i>								
Number of Census Tracts	0		1		7		7	
Percentage of Census Tracts	0.0%		6.7%		46.7%		46.7%	
Percentage of Families	0.0%		5.0%		36.9%		58.1%	
Percentage of Households	0.0%		5.8%		40.8%		53.4%	
Percentage of Small Businesses	0.0%		3.8%		36.7%		59.6%	
*Income classification of census tracts based on 2000 median family income.								

Residential real estate lending. The bank’s residential real estate lending in the moderate-income census tract is reasonable. Table 5 shows the distribution of loans in the assessment area by census tract income level. The bank originated 3.8% of its residential real estate loans in the moderate-income census tract. According to census data, 5.0% of the families and 5.8% of the households in the assessment area reside in this tract. Only 2.1% of the assessment area’s owner-occupied housing is in the moderate-income tract, which has a high level of rental units, 71.3%. A local university is located within the moderate-income census tract, which explains the very high percentage of rental units and the limited opportunity for the bank to extend residential real estate loans. The bank did not extend loans in census tract 14.00. This tract is rural with only 11 families residing in the tract. As such, loan demand is limited. Further, there are only three owner-occupied units in this tract. Given these characteristics, the geographic distribution and dispersion of residential real estate loans are reasonable.

Consumer lending. The distribution of consumer loans in the moderate-income census tract is very good, as shown in Table 5. According to census data, 5.0% of families and 5.8% of households reside in the assessment area’s moderate-income census tract. The bank originated 6.5% of its consumer loans in the moderate-income census tract, exceeding demographics. Most of the bank’s consumer loans were extended in the upper-income census tracts, at 71.0%. The bank did not extend consumer loans in census tract 14.00. As mentioned, 11 families reside in tract 14.00. Again, loan demand is very low. For these reasons, the geographic distribution and dispersion of consumer loans in the assessment area are very good.

Overall, the geographic distribution and dispersion of lending in census tracts of different income levels is reasonable and does not reveal any unexplained lending gaps.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

The bank originated a substantial majority of its loans in the assessment area. Specifically, it extended 94.1% of the loans by volume and 94.5% of the loans by dollar amount within the assessment area. Table 6 shows lending activity by loan type within the assessment area. Almost half of the loans originated outside the assessment area are in counties directly adjacent to Gallatin County.

<i>Loan Category</i>	<i>Inside</i>				<i>Outside</i>			
	<i>#</i>	<i>%</i>	<i>\$(000s)</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>\$(000s)</i>	<i>%</i>
Small Business	60	92.3	\$ 6,860	97.0	5	7.7	\$ 212	3.0
Residential Real Estate	53	94.6	\$10,656	92.9	3	5.4	\$ 819	7.1
Consumer	62	95.4	\$ 811	95.6	3	4.6	\$ 38	4.4
Total	175	94.1	\$18,327	94.5	11	5.9	\$1,069	5.5

The bank’s level of lending in the assessment area is excellent.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank’s net loan-to-deposit ratio is more than reasonable given the bank’s size and financial condition as well as the credit needs and strong competition in the bank’s assessment area. Since the previous evaluation, the bank’s quarterly net loan-to-deposit ratio has ranged from 97.9% to 187.8%. As shown in Table 7 below, the average 17-quarter net loan-to-deposit ratio since the previous evaluation was 129.8%.

The bank's average net loan-to-deposit ratio exceeds the national peer group average net loan-to deposit ratio of 84.4%. Further, the bank's net loan-to-deposit ratio of 116.6% as of June 30, 2010, is also higher than the peer group's net loan-to-deposit ratio of 79.9%. The bank's national peer group includes all insured commercial banks having assets between \$300 million and \$1 billion.

<i>Bank Name and Location</i>	<i>Assets as of June 30, 2010 (in millions)</i>	<i>17-Quarter Average Net Loan-to-Deposit Ratio</i>
Big Sky Western Bank, Bozeman, Montana	\$366.8	129.8%
First Security Bank, Bozeman, Montana	\$572.0	81.5%

Overall, the bank's net loan-to-deposit ratio represents a very active level of lending given the bank's size and financial condition as well as the credit needs and strong competition in the bank's assessment area. The net loan-to-deposit ratio demonstrates the bank's willingness to fulfill credit needs. In addition, community contacts and bank management did not identify any unmet credit needs in the assessment area, stating that credit demand has decreased, especially for commercial loans, in the latter part of the evaluation period. For these reasons, the bank's net loan-to-deposit ratio is more than reasonable.

RECORD OF RESPONSE TO CRA-RELATED COMPLAINTS

Neither the bank nor the Federal Reserve Bank of Minneapolis has received any CRA-related complaints concerning the bank since the previous evaluation.

COMMUNITY DEVELOPMENT TEST

The community development activity in the assessment area reflects an excellent responsiveness to community development needs. The bank has actively engaged in providing community development loans and services and qualified investments since the previous evaluation. The bank's community development activities help to provide affordable housing and community services to low- and moderate-income people, revitalize and stabilize underserved middle-income census tracts, and promote economic development.

Community Development Loans

The bank's level of community development lending in the assessment area is excellent. The bank originated a total of \$8.2 million in community development loans since the previous evaluation. Table 8 shows the type, number, and dollar amount of qualified community development loans originated in the assessment area.

<i>Type of Loans</i>	<i>Number of Loans</i>	<i>Dollar Amount of Loans</i>
Revitalize and Stabilize	2	\$6,500,000
Affordable Housing	2	1,304,731
Community Services	2	357,012
Economic Development	1	35,000
Total	7	\$8,196,743

The bank originated two loans totaling \$6.5 million that revitalize and stabilize underserved middle-income census tracts. These loans financed the construction of a new health care facility that provides essential community health services to the assessment area's underserved census tract. The bank extended two loans totaling \$1.3 million to an organization that provides affordable housing to low- and moderate-income individuals. The bank originated two loans to a local organization that offers services benefiting low- and moderate-income individuals. Finally, the bank originated one loan through the Small Business Administration's America's Recovery Capital Loan Program, which helps provide short-term relief to viable small businesses facing immediate financial hardship. This is a very high level of community development lending given the bank's size, limited opportunities for community development loans, and strong competition in the assessment area.

Qualified Investments

The level of qualified investments in the assessment area is excellent. Qualified investments total \$8,352,449 and include \$8,300,000 in the form of securities and \$52,449 in donations benefiting the bank's assessment area. The bank's level of investments is particularly noteworthy given the limited opportunities and strong competition in the assessment area. The bank's qualified investments financed the construction of a business in a moderate-income census tract using the federal New Markets Tax Credit program. New Markets Tax Credit investments are very complex and require the bank to devote a significant amount of resources. The bank is commended for engaging in a project that revitalizes and stabilizes a moderate-income area and promotes economic development by supporting permanent job creation and retention in this area.

In addition, the bank's qualified donations reflect excellent responsiveness to community needs. The donations supported organizations that provide affordable housing and community services to low- and moderate-income people and promote economic development. A particularly innovative type of donation is the bank's purchase of radio advertisement time used to promote community development organizations. The bank helps create advertisements that describe services available through the organizations and communicate funding needs.

Community Development Services

The bank provides a high level of community development services in the assessment area. Bank officers and employees donate their time to provide financial expertise and technical assistance to organizations that provide affordable housing and community services to low- and moderate-income individuals and engage in economic development. Since the previous evaluation, 11 officers and employees provided services to one affordable housing organization, six community service organizations, and three economic development organizations. Bank staff serve as board members or finance committee members for these organizations. Of special note is the bank's involvement in the federal New Markets Tax Credit program. Participation in this program required the bank to contribute a significant amount of resources and financial expertise to establish required entities for the investment, which ultimately financed the construction of a much needed business in the moderate-income census tract.

In total, the bank's community development activities are very responsive to the assessment area's opportunities and needs. The bank's level of community development activities in the assessment area is excellent.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

The evaluation did not reveal any evidence of violations of antidiscrimination laws or regulations (including Regulation B--Equal Credit Opportunity Act, Regulation C--Home Mortgage Disclosure Act, and the Fair Housing Act) or other illegal credit practices inconsistent with the bank helping to meet community credit needs.

Appendix A

Glossary of Common CRA Terms

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 statistical area/assessment area.

Census tract: A small subdivision of metropolitan and other densely populated counties. Boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending on 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 (including multifamily rental 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 C.F.R. 121.301) or have gross annual revenues of \$1 million or less; or activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and Federal Deposit Insurance Corporation (the Agencies) have adopted the following additional language as part of the revitalize or stabilize definition of community development.

Activities that revitalize or stabilize:

- (i) Low- or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Agencies based on:
 - a. Rates of poverty, unemployment, and population loss or
 - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help meet essential community needs, including the needs of low- and moderate-income individuals.

Consumer loan: A loan to one or more individuals for household, family, or other personal expenditures. It 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.

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 nonrelatives 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-scope review: Performance under the Lending and Community Development Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., 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 data such as the race, gender, and income of applicants; the amount of loan requested; and the disposition of the application (e.g., approved, denied, and withdrawn).

Home mortgage loans: Includes 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.

Limited-scope review: Performance under the Lending and Community Development Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments).

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.

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.

Metropolitan statistical area (MSA): An area, defined by the Office of Management and Budget, based on the concept of a core area with at least one urbanized area that has a population of at least 50,000. The MSA comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county as measured through commuting.

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.

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.

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

Other products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include 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.

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.

Small loan 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 typically are either secured by nonfarm or nonresidential real estate or classified as commercial and industrial loans.

Small loan to farm: 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 or classified as loans to finance agricultural production and other loans to farmers.

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 geography.

(For additional information, please see the Definitions sections of Regulation BB at 12 C.F.R. 228.12.)