

PUBLIC DISCLOSURE

June 2, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Community Bank, Inc.
63239 U.S. Highway 93
Ronan, Montana 59864
RSSD 685555

**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 Community Reinvestment Act (CRA) performance of Community Bank Inc., Ronan, Montana (CBI), is rated Outstanding. Several factors support the bank's Outstanding rating.

- The distribution of loans to borrowers of different income levels and to businesses of different sizes is reasonable in both assessment areas.
- The geographic distribution of loans in both assessment areas is reasonable.
- The net loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, the assessment areas' credit needs, and the bank's qualified community development lending.
- The bank originated a substantial majority of its loans within its assessment areas.
- The bank's qualified investments in the form of donations and community development services further demonstrate its commitment to meeting community development needs in its assessment areas.

The bank was evaluated under the Small Bank CRA Evaluation Procedures at the previous evaluation dated March 30, 2009, and received an Outstanding rating.

SCOPE OF EVALUATION

The bank was evaluated using the Small Bank CRA Evaluation Procedures. Under these procedures, the following criteria were analyzed to determine the bank's rating:

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

At the option of the bank, and in accordance with the Small Bank CRA Evaluation Procedures, examiners reviewed the bank's community development loans, investments, and services. The evaluation period for community development activities is March 30, 2009 (the date of the previous Community Bank, Inc., Ronan evaluation) through May 30, 2014, for the Valley assessment area and March 29, 2010 (the date of the previous Community Bank – Missoula, Inc. evaluation) through May 30, 2014, for the Missoula assessment area.

CBI operates in two assessment areas for CRA purposes: the Valley assessment area and the Missoula assessment area. The bank originates the majority of its home mortgage, small business, and consumer loans by number in the Valley assessment area. For this evaluation, full-scope reviews were conducted for both assessment areas.

As illustrated in Table 1, residential real estate, consumer, and commercial loans represent the bank's major product lines by total number and dollar amount.

<i>Loan Type</i>	<i>Number of Loans</i>	<i>Percentage of Total Number</i>	<i>Total Loan Dollars</i>	<i>Percentage of Total Dollar</i>
Residential Real Estate	166	13.0	\$30,517,405	48.0
Consumer	850	66.8	3,110,149	4.9
HELOCs	27	2.1	1,893,700	3.0
Letters of Credit	5	0.4	265,106	0.4
Small Business (≤ \$1 Million)	117	9.2	11,070,814	17.4
Small Business (bare land)	26	2.0	5,926,802	9.3
Commercial (> \$1 Million)	2	0.2	4,550,000	7.2
Small farm (≤ \$500,000)	79	6.2	4,927,997	7.8
Agricultural (>500,000)	1	0.1	1,302,001	2.1
Total	1,273	100.0	\$63,563,973	100.0

To understand the residential real estate mortgage market in the assessment areas and the bank's performance in those markets, examiners analyzed Home Mortgage Disclosure Act (HMDA) data. The bank is required to report data about residential real estate loan applications under HMDA because it operates a branch in a metropolitan statistical area (MSA). The bank's data as well as the aggregate data reported by all lenders reporting HMDA data for 2011 and 2012 in the assessment areas were analyzed as part of the evaluation. The bank's performance is based on a review of its 2011, 2012, and 2013 HMDA data, which includes 475 home purchase, refinance, home improvement, and multifamily dwelling loans. For the Valley assessment area, HMDA lending was reviewed for only 2013.

The evaluation is also based on a statistical sample of the bank's small business and consumer loans originated between January 1, 2013, and December 31, 2013. Specifically, the evaluation is based on 46 small business loans and 143 consumer loans. Consumer lending was not analyzed for the Missoula assessment area because the sample was not large enough to produce a meaningful analysis.

The bank's CRA performance is weighted as follows:

- The bank's residential real estate lending activity received the greatest weight. It represents the largest percentage of the bank's loans by dollar amount during the evaluation period. It also represents the second largest percentage of the bank's loan portfolio by volume.
- For the individual evaluation criteria, lending to borrowers of different income levels and to businesses of different sizes received the greatest weight, followed by the geographic distribution of the bank's loans. The remaining criteria were weighted equally.
- The bank's lending activity in the Valley assessment area received the greatest weight. The majority of the bank's lending is conducted in this assessment area.

Throughout this evaluation, demographic characteristics are used in evaluating the bank's record of lending in the individual assessment areas. Sources for demographic information are primarily the 2000 U.S. Census data (census data), 2010 census data, and 2013 Dun & Bradstreet data. Demographics of a particular assessment area are useful in analyzing the bank's record of lending because they provide a means of estimating lending opportunities. For small businesses, self-reported data collected and published by Dun & Bradstreet regarding the revenue size and location of businesses is used to

¹Note: Because the percentages presented in the tables are rounded to the nearest tenth, some columns or rows may not total 100.0%.

understand loan demand and lending patterns. The demographic data should not be construed as defining an expected level of lending in a particular area or to a particular group of borrowers.

This evaluation of the bank's CRA performance is also based on information provided by bank management and by members of the community who are familiar with economic and demographic characteristics and community development activities in the assessment areas. Examiners used information from these sources, in addition to the size and financial condition of the bank, to establish a performance context for the CRA evaluation. Specific information obtained from community contacts is discussed in the applicable sections of the evaluation for each assessment area.

DESCRIPTION OF INSTITUTION

Structure. CBI is a full-service financial institution with its main office in Ronan, Montana, and is wholly owned by Montana Community Banks, Ronan, Montana. CBI is the surviving entity of a June 30, 2012, affiliate merger between Community Bank Inc., Ronan, and Community Bank – Missoula, Inc.

Offices and Retail Delivery Systems. The bank operates eight offices and one loan production office (LPO) in Montana, as follows.

- Ronan: full-service main office with drive-up facility
- Polson: full-service branch with drive-up facility
- Missoula: full-service branch with drive-up facility
- Southside Missoula: full-service branch with drive-up facility
- Downtown Missoula: limited-service branch with drive-up facility
- Pablo: limited-service stand-alone drive-up branch
- Ronan: limited-service grocery store branch
- Polson: limited-service grocery store branch
- Missoula: LPO (adjacent to Missoula branch)

The bank offers extended weekday hours at the grocery store branches and at the drive-up facilities. In addition, the bank offers Saturday hours at the grocery store branches and at the Missoula branch drive-up facility. The bank maintains eight automated teller machines (ATM) at or near each location. CBI also offers telephone banking and online banking. Telephone services include balance inquiry and funds transfers. Online banking customers can make loan payments, transfer funds, and pay bills.

Loan Portfolio. According to the March 31, 2014, Report of Condition (ROC), the bank's assets totaled \$177.0 million. The ROC data indicates that the bank's loan portfolio consists of 61.5% commercial loans, 19.9% residential real estate loans, 11.7% agricultural loans, 3.7% consumer loans, and 3.2% other loan types. Since the previous evaluation, the bank's total assets increased by 85.5%. This growth is attributed to the 2012 affiliate merger. Since the merger, the composition of the loan portfolio remained relatively stable and total assets have slightly increased.

Credit Products. The bank continues to offer a variety of loan products to serve the credit needs of residents, businesses, and farms in its assessment areas. Consumer loan products include closed-end vehicle loans, personal loans, and other general purpose consumer loans as well as open-end overdraft, personal, and home equity lines of credit. The bank also offers consumer loans to help people with disabilities in Missoula afford the assistive technology they need. The bank offers purchase and refinance loans for residential real estate, mobile home loans, home improvement loans, temporary construction loans, and combined temporary construction/permanent loans. The bank also participates in the Department of Housing and Urban Development (HUD) Section 184 and USDA Rural Development

residential real estate loan programs for low- and moderate-income borrowers. In addition to conventional loan programs for consumers and small businesses, the bank offers loans through the Federal Housing Administration, Department of Veterans Affairs, and Small Business Administration.

DESCRIPTION OF ASSESSMENT AREAS

Assessment Areas. The bank’s assessment area has changed since the previous evaluation. At the time of the previous evaluation, the bank defined one assessment area, which included five offices. The assessment area followed the boundaries of the Flathead Indian Reservation and included all census tracts in Lake County and single census tracts in Flathead, Missoula, and Sanders counties. Due to the 2012 affiliate merger, the bank acquired three branches in the city of Missoula. The bank now has two assessment areas. The Missoula assessment area includes the Missoula MSA. The Valley assessment area includes all census tracts in Lake County, one census tract in Flathead County, and one census tract in Sanders County. Table 2 lists the census tracts in the Missoula assessment area and identifies their income classifications according to 2010 census data.

<i>Moderate Income</i>	<i>Middle Income</i>	<i>Upper Income</i>
2.01	2.02	1.00
3.00	4.00	9.02
8.00	5.00	13.02
11.00	7.00	13.04
	9.01	16.00
	10.00	
	12.00	
	13.03	
	14.00	
	15.00	
	18.00	

Table 3 identifies the census tracts in the Valley assessment area by their income classifications and identifies the single tracts in Sanders and Flathead counties according to 2010 census data. The six middle-income census tracts in Lake County are classified as distressed. Refer to Appendix A under community development for additional information regarding the definition of distressed.

<i>Low Income</i>	<i>Moderate Income</i>	<i>Middle Income</i>
9403.00 (Sanders)	9403.01	17.00 (Flathead)
	9406.00	1.00
		2.00
		9403.03
		9404.00
		9405.00
		9407.00

More detailed descriptions can be found in the individual assessment area sections of the evaluation.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance in meeting the credit needs of its assessment areas is rated Outstanding based on the following factors:

- The bank's overall lending to borrowers of different income levels and businesses of different sizes is reasonable. Specifically, the bank's HMDA lending in both assessment areas is reasonable, and its consumer lending in the Valley assessment area is excellent. The bank's lending to small businesses is reasonable in both assessment areas.
- The geographic distribution of loans is reasonable and does not reveal any unexplained gaps in lending.
- The bank's net loan-to-deposit ratio reflects a more than reasonable level of lending; it is enhanced by the bank's community development lending.
- The bank originated a substantial majority of its loans within its assessment areas.
- The bank's qualified investments and services also contributed to the overall rating.

Since the bank has more than one assessment area, including an assessment area in an MSA, the regulation requires a separate analysis for the bank's performance in the MSA. A detailed discussion of the bank's lending to borrowers of different income and revenue levels and the geographic distribution of the bank's loans can be found in the individual assessment area sections of this evaluation. However, the net loan-to-deposit ratio, the comparison of lending inside and outside the assessment area, and community development activities are analyzed at the bank level. These criteria are discussed below.

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 competition in the bank's assessment areas. This component is enhanced by the bank's community development lending. Since the previous evaluation, the bank's quarterly net loan-to-deposit ratio ranged from 54.9% to 89.8%. The average net loan-to-deposit ratio for the past 21 quarters is 67.7%. The bank's average net loan-to-deposit ratio is consistent with the national peer group's average net loan-to-deposit ratio, which is 68.8%. The bank's national peer group includes all insured commercial banks having assets between \$100 million and \$300 million, with three or more offices. As shown in Table 4, the bank's net loan-to-deposit ratio is also consistent with its competitor bank operating in the assessment area.

<i>Bank Name and Location</i>	<i>Assets as of March 31, 2014 (in millions)</i>	<i>Average Net Loan-to-Deposit Ratio</i>
Community Bank Inc., Ronan, Montana	\$177.0	67.7%
Valley Bank Ronan, Ronan, Montana	\$ 65.7	72.9%

According to the June 30, 2013, Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report, CBI ranks first out of seven financial institutions located in Lake County, with 27.7% of the deposits. The bank ranks seventh out of 14 financial institutions located in the Missoula MSA, with 3.4% of the deposits. In this market, the bank's deposit market share is significantly less than the market leader, which has 31.3% of the deposits. The financial services market in the assessment areas,

particularly in Missoula, is highly competitive because numerous financial institutions operate in these markets. There are also branches of significantly larger banks operating in the Missoula MSA.

Community Development Lending. The bank's community development lending activity supplements the bank's loan-to-deposit ratio and illustrates the bank's commitment to meeting the credit needs of the assessment areas.

During the evaluation period, the bank originated 11 community development loans in the Valley assessment area, totaling approximately \$3.7 million. Five of the loans, totaling over \$3.4 million, were new loans and six were renewal loans to a local nonprofit organization. The new loans provided financing to construct an athletic building at a tribal college located in a distressed middle-income tract; to refinance an affordable housing apartment building; to fund two organizations that provide community services to youth in the area; and to construct a new firehouse in a distressed middle-income tract, which helps revitalize the area. In each year of the evaluation period, the bank also renewed or provided additional funding to a line of credit for a local nonprofit organization that provides community services to low- and moderate-income families throughout the Valley assessment area. The bank's involvement with these projects demonstrates its commitment to serving the needs of its community and demonstrates responsiveness to community development needs when opportunities exist.

The bank did not originate any community development loans in the Missoula assessment area during the evaluation period due to limited opportunities and competition. According to the bank, when opportunities exist, larger financial institutions with significant resources typically seize the opportunities.

Overall, the bank's loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, the credit needs of the assessment areas, and the bank's level of community development lending. Community contacts did not identify any unmet credit needs throughout the bank's assessment areas.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREAS

The bank originated a substantial majority of its loans within the assessment areas. Specifically, 92.5% of the bank's loans by volume and 90.2% by dollar amount were originated in the assessment areas. Table 5 shows lending activity by loan type within the assessment areas.

<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>
Residential Real Estate	429	90.3	80,921	89.9	46	9.7	9,126	10.1
Consumer	141	98.6	441	98.4	2	1.4	7	1.6
Small Business	44	95.7	4,165	96.9	2	4.3	132	3.1
Total	614	92.5	85,527	90.2	50	7.5	9,265	9.8

Residential Real Estate Lending. The bank originated a majority of its residential real estate loans, 90.3% by volume and 89.9% by dollar amount, inside its assessment areas. During the evaluation period, many borrowers took advantage of the low rates available in both assessment areas to refinance home loans.

Consumer Lending. The bank originated a substantial majority of its consumer loans, 98.6% by volume and 98.4% by dollar amount, to borrowers inside its assessment areas. According to bank management, the majority of the bank's customers are residents of the Valley area who use these funds for personal,

day-to-day expenses. During the economic recession, management indicated that it focused its efforts on lending in its assessment area.

Small Business Lending. The bank originated a substantial majority of its small business loans, 95.7% by volume and 96.9% by dollar amount, to borrowers inside the assessment areas. Most lending occurs in the Valley assessment area. According to bank management and community contacts, there is significant competition for small business loans in the Missoula area.

Overall, the bank extended a substantial majority of residential real estate, consumer, and small business loans to individuals and entities within the assessment areas. By extending credit inside its assessment areas, the bank meets the financial needs of the communities it serves.

BORROWER AND GEOGRAPHIC DISTRIBUTION OF LOANS

Overall, the bank's lending to borrowers of different income levels and to businesses of different sizes is reasonable. The geographic distribution and dispersion of the bank's loans in its assessment areas is reasonable.

The individual assessment area sections include a more detailed discussion of these criteria.

COMMUNITY DEVELOPMENT INVESTMENTS AND SERVICES

Since the previous evaluation, the bank made qualified investments and provided community development services that enhance the availability of credit in its assessment areas. The bank's community development activities are responsive to community needs.

The bank's community development investments in the form of donations for this evaluation period totaled \$126,090. The majority of donations benefited the Valley assessment area. The bank's donations were made primarily to organizations providing community services to low- and moderate-income individuals. These donations are vital since poverty levels in both assessment areas are higher than the state average. Bank management and community contacts stated that the assessment areas are slowly recovering from the economic recession. The bank also donated to organizations that revitalize and stabilize the area, such as local fire departments, health care providers, and schools. In addition, the bank donated to organizations that promote economic development. For example, the bank provided donations to economic development organizations in Ronan and Missoula that promote business development and expansion those areas. Finally, the bank contributed to organizations that focus on affordable housing for low- and moderate-income people in the assessment areas.

One noteworthy donation by the bank is sponsorship of a financial literacy program for public schools in the Valley assessment area. Community contacts indicated a need for more financial education in the assessment area so this donation is particularly responsive to the needs of the community.

Since the previous evaluation, the bank purchased \$1.4 million in qualified investments in the form of securities. These investments helps revitalize and stabilize the area by providing funds to a local school, investing in infrastructure improvement in the city of Polson, granting funds to construct an adult detention and juvenile facility in a moderate-income census tract, and injecting funds into a local hospital.

In addition to making qualified investments, the bank also provides many services that meet community development needs and further enhance its CRA rating, including, but not limited to:

- The bank president serves on the board of an affordable housing organization.
- Loan officers serve as board members for organizations providing community services that target low- and moderate-income individuals.
- Loan officers serve as board members for economic development organizations.
- Loan officers give presentations to several community groups on a variety of banking and financial awareness topics and teach first-time homebuyer education classes.
- The bank participates in the Home\$tart Savings Program sponsored by the Federal Home Loan Bank of Seattle. The program provides matching funds to eligible low- and moderate-income first-time homebuyers for down payment or closing costs.

Overall, the bank's level of qualified investments and community development services enhances its performance and contributes to the Outstanding rating.

RECORD OF RESPONSE TO CRA-RELATED COMPLAINTS

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

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--HMDA, and the Fair Housing Act) or other illegal credit practices inconsistent with the bank helping to meet community credit needs.

NONMETROPOLITAN AREA – FULL REVIEW

DESCRIPTION OF VALLEY ASSESSMENT AREA

The Valley assessment area follows the boundaries of the Flathead Indian Reservation and consists of all of Lake County and one census tract in both Flathead and Sanders counties. The census tract in Sanders County is low income. Two census tracts in Lake County are moderate income. One census tract in Flathead County and six census tracts in Lake County are middle-income census tracts. The six Lake County middle-income census tracts are classified as distressed.

The bank's main office is located in Ronan with branches in Ronan, Pablo, and Polson, all of which are located within the Flathead Lake area of western Montana, approximately 50 miles north of Missoula, Montana. According to the June 30, 2013, FDIC Deposit Market Share Report, the bank is the leader in the county, with deposits of \$85.6 million in Lake County, representing 27.7% of the deposits in the market. The bank operates in a highly competitive market.

Table 6 provides detailed data about the demographic characteristics of the Valley assessment area. Assessment area demographics are based on 2010 census data and 2013 Dun & Bradstreet data.

TABLE 6								
Valley 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	1	10.0	572	5.4	205	35.8	2,831	26.6
Moderate Income	2	20.0	2,541	23.9	599	23.6	1,933	18.2
Middle Income	7	70.0	7,522	70.7	830	11.0	2,418	22.7
Upper Income	0	0.0	0	0.0	0	0.0	3,453	32.5
Total Assessment Area	10	100.0	10,635	100.0	1,634	15.4	10,635	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	1,311	686	6.1	52.3	303	23.1	322	24.6
Moderate Income	5,207	2,439	21.8	46.8	1,437	27.6	1,331	25.6
Middle Income	14,680	8,063	72.1	54.9	2,860	19.5	3,757	25.6
Upper Income	0	0	0.0	0.0	0	0.0	0	0.0
Total Assessment Area	21,198	11,188	100.0	52.8	4,600	21.7	5,410	25.5
<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	98	4.2	87	4.1	5	5.0	6	8.3
Moderate Income	543	23.5	499	23.4	26	25.7	18	25.0
Middle Income	1,668	72.2	1,550	72.6	70	69.3	48	66.7
Upper Income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	2,309	100.0	2,136	100.0	101	100.0	72	100.0
Percentage of Total Businesses:				92.5			4.4	3.1

TABLE 6
Valley Assessment Area Demographics

<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	23	7.4	23	7.5	0	0.0	0	0.0
Moderate Income	82	26.5	81	26.5	1	33.3	0	0.0
Middle Income	204	66.0	202	66.0	2	66.7	0	0.0
Upper Income	0	0	0	0	0	0.0	0	0.0
Total Assessment Area	309	100.0	306	100.0	3	100.0	0	0.0
Percentage of Total Farms:			99.0		1.0		0.0	

Income. In order to classify borrowers by income level, this evaluation uses the Federal Financial Institutions Examination Council's (FFIEC) estimated median family income. For borrowers in the nonmetropolitan areas of Montana, the figure is \$55,400 for 2013. For purposes of classifying census tract income levels, this evaluation uses the nonmetropolitan Montana 2010 median family income, which is \$54,140 for 2013.

Population. According to 2000 census data, the population in the Valley assessment area was 28,316. By 2010, the population had increased by 36.8% to 38,742. The majority (74.2%) of the assessment area population resides in Lake County. Although the population significantly increased in the assessment area, the percentage of households below the poverty level remained relatively stable, increasing only slightly from 18.0% in 2000 to 18.8% in 2010.

General Economic Characteristics. According to bank management and community contacts, the economy is improving. The economy is reliant on tourism, agriculture, the tribe, and increasingly, the service industry. The area did not experience a sharp economic downturn during the collapse of the real estate market. Community contacts stated that the area did not experience the effects of the recession as quickly as other areas; it is also still recovering from the recession. However, there has been improvement in Polson and its surrounding area due to new commercial development. Recently, a large retail chain opened in Polson that spurred other businesses to open in the area as well. These businesses include a large medical facility, a hotel, national retail chains, and regional restaurants. The area expects these new businesses to bring additional jobs to the area, particularly in the service industry.

Currently, the area's largest employers include the Confederated Salish and Kootenai Tribe, St. Joseph's Medical Center, St. Luke Community Hospital, Jore Corporation, and S&K Electronics. In addition, Polson has a number of seasonal jobs attributed to area tourism. No major employers have left the area.

According to the Bureau of Labor Statistics, the May 2014 nonseasonally adjusted unemployment rate was 8.6% for Lake County. This rate is higher than both the state rate of 4.1% and the national rate of 6.1% for the same period.

Bank management indicated that the financial services market in the assessment area is competitive. Numerous financial institutions are located in the area, along with branch offices of larger regional banks. The bank also faces competition from car dealerships located in the area.

Housing. According to bank management and community contacts, the need for affordable housing is a significant issue in the area. Area residents also have a difficult time purchasing homes based on their wages. In addition, bank management indicated that for first-time homebuyers who can qualify for loans, the area has a shortage of available housing in their price range. According to community contacts, housing in Polson is more expensive because the city is a tourist destination. Contacts further stated that

despite the fact that home prices differ across the assessment area, the entire area has seen home values decline over the last few years.

Using the assumption that a borrower can obtain a loan for approximately three times the borrower's annual income, based on the 2013 FFIEC estimated median family income of \$55,400 for the nonmetropolitan areas of Montana, an individual with the highest income in the low-income bracket (\$27,699) could afford a \$83,097 home. Using the same assumption for borrowers with the highest income in the moderate-income bracket (\$44,319), a borrower could afford a \$132,957 home. According to HUD, the 2013 estimated median home sale price for Lake County was \$197,000, significantly higher than what low- and moderate-income borrowers can afford.

In addition, there is a shortage of affordable rental housing in the assessment area. The demand for affordable housing will likely increase if individuals move to Polson as expected for jobs related to recent commercial development initiatives.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Overall, the bank's lending activities in the Valley assessment area effectively meet the credit needs of the community.

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

Overall, the bank's performance in providing loans to borrowers of different income levels and to businesses of different sizes is reasonable. For this criterion, emphasis is placed on lending to low- and moderate-income borrowers and to businesses with gross annual revenues of \$1 million or less.

Residential Real Estate Lending. The bank's residential real estate lending to low- and moderate-income borrowers in the Valley assessment area is reasonable.

Table 7 shows the bank's 2013 HMDA lending for different income levels. The 2011 and 2012 HMDA lending is not included in Table 12. Before the affiliate merger in 2012, Community Bank, Ronan, was not a HMDA reporter. Community Bank – Missoula, Inc., originated a few loans in this assessment area, but the bank did not focus on this area because it was outside of its former assessment area. Therefore, an analysis of those few loans originated by Community Bank – Missoula, Inc., in the Valley assessment area in 2011 and 2012 would not be meaningful. After the merger, the first year the bank reported HMDA data for this assessment area was 2013.

<i>Income Level of Borrower</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>		<i>Unknown</i>	
<i>Loan Type</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>
Home Purchase	1	6.3	2	12.5	3	18.8	8	50.0	2	12.5
Refinance	6	9.1	7	10.6	14	21.2	36	54.5	3	4.5
Multifamily	0	0.0	0	0.0	0	0.0	0	0.0	2	100.0
Total HMDA Loans	7	8.3	9	10.7	17	20.2	44	52.4	7	8.3

The bank originated 8.3% and 10.7% of its HMDA loans to low- and moderate-income borrowers, respectively. The bank extended more loans to moderate-income borrowers than to low-income borrowers, which is reasonable given the affordable housing concerns in this assessment area.

According to 2010 census data, 26.6% of families in the assessment area are low income and 18.2% are moderate income. The bank's lending is below demographics but is explainable. As noted above, many homes in Lake County are not affordable for low- and moderate-income families; therefore, the bank has less opportunity to originate home purchase loans to these families. High unemployment, property value declines, and other financial struggles have also made it more difficult for lower-income people to qualify for home loans.

Given the assessment area's characteristics, the bank's HMDA lending to low- and moderate-income borrowers is reasonable.

Small Business Lending. The bank's lending to small businesses is reasonable. As shown in Table 8, the bank extended 71.0% of its small business loans in the Valley assessment area to businesses with gross annual revenues of \$1 million or less.

<i>Small Business Originations</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	77.4%	16.1%	6.5%	100.0%
Percentage of Loans to Businesses with Revenues of \$1 Million or Less	77.3%	18.2%	4.5%	71.0%

According to the 2013 Dun & Bradstreet data, 92.5% of the businesses located in the assessment area have gross annual revenues of \$1 million or less. While the bank's performance is below demographics, it is reasonable. According to bank management, there are several financial institutions located in the assessment area, along with branch offices of larger regional banks with which the bank competes for small business loans. In addition, the bank extended a majority of its loans in amounts of \$100,000 or less, which indicates a willingness to meet the credit needs of smaller businesses. Given the competitive banking environment and general economic conditions, the bank's small business lending is reasonable.

Consumer Lending. The bank's lending to low- and moderate-income borrowers is excellent when compared to the percentages of households in the assessment area. Table 9 shows the bank's consumer lending by income level.

TABLE 9
Distribution of Consumer Loans by Borrower Income Levels*
Valley Assessment Area

<i>Loan Type</i>	<i>Low Income</i>		<i>Moderate Income</i>		<i>Middle Income</i>		<i>Upper Income</i>		<i>Unknown Income</i>	
	#	\$	#	\$	#	\$	#	\$	#	\$
Consumer	35.3%	16.7%	28.1%	29.5%	10.1%	13.9%	7.2%	12.8%	19.4%	27.2%
Percentage of Households by Income Level**	28.2%		17.7%		17.6%		36.5%		Not applicable	

*Based on 2010 census data.
**FFIEC estimated median family income for nonmetropolitan Montana is \$55,400 for 2013.

The bank originated 35.3% and 28.1% of its consumer loans to low- and moderate-income borrowers, respectively. The bank's lending greatly exceeds household demographics, which indicate that 28.2% and 17.7% of households in the assessment area are low- and moderate-income, respectively. Bank management noted that many of its consumer loans are for medical bills, taxes, or other living expenses. The bank extended 67.6% of the sampled loans in amounts of \$3,000 or less; the bank made 70.2% of these small-dollar loans to low- and moderate-income borrowers. The smaller dollar amount indicates the bank's willingness to meet the credit needs of low- and moderate-income individuals. Further, bank management indicated competition for consumer loans is high. Community contacts indicated a need for small-dollar consumer loans, so these loans are particularly responsive to the needs of the community.

Overall, the bank's lending reflects a reasonable distribution of loans among individuals of different income levels and businesses of different sizes.

GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution of the bank's loans throughout the Valley assessment area is reasonable. For this criterion, emphasis is placed on the bank's lending in low- and moderate-income census tracts. The Valley assessment area includes one low-income census tract, two moderate-income census tracts, and seven middle-income tracts (six of which are classified as distressed). The bank originated the majority of its loans in the middle-income census tracts, which represent 70.0% of the tracts in the assessment area.

Residential Real Estate Lending. The geographic distribution of the bank's HMDA loans in low- and moderate-income census tracts is reasonable. Table 10 shows the distribution of loans in the assessment area by census tract income level.

TABLE 10						
Geographic Distribution of 2013 HMDA Loans in the Valley Assessment Area by Census Tract Income Level						
<i>Loan Type</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>	
	#	%	#	%	#	%
Home Purchase	0	0.0	4	25.0	12	75.0
Refinance	1	1.5	17	25.8	48	72.7
Multifamily	0	0.0	0	0.0	2	100.0
Total 2013 HMDA Loans	1	1.2	21	25.0	62	73.8

The bank originated HMDA loans in all the low- and moderate-income census tracts in the assessment area, but did not extend HMDA loans in two middle-income census tracts in 2013. These two tracts are

on the edge of the assessment area. The bank’s lending does not reflect any unexplained gaps in lending. The bank’s lending in the low-income census tracts, at 1.2%, is below demographics. According to 2010 census data, 5.4% of families reside in the low-income census tract. Although the bank’s lending is slightly below demographics, it is reasonable. The low-income tract is in the western portion of the assessment area and the bank does not have any branches here. In addition, another local financial institution has a branch in this tract, which is likely more convenient for residents located here. The bank’s lending in the moderate-income tracts, at 25.0%, is comparable to demographics. The 2010 census data shows that 23.9% of families reside in the moderate-income census tract. Overall, the distribution of HMDA loans in the Valley assessment area is reasonable.

Small Business Lending. The distribution of small business loans is reasonable. Table 11 shows the bank’s small business lending by income level of census tracts in the assessment area.

<i>Loan Type</i>	<i>Low Income</i>		<i>Moderate Income</i>		<i>Middle Income</i>	
	<i>#</i>	<i>\$</i>	<i>#</i>	<i>\$</i>	<i>#</i>	<i>\$</i>
Small Business	6.5%	2.2%	25.8%	10.5%	67.7%	87.2%
<i>Demographic Data</i>						
Number of Census Tracts	1		2		7	
Percentage of Census Tract	10.0%		20.0%		70.0%	
Percentage of Businesses**	4.2%		23.5%		72.2%	
*Income classification of census tracts is based on 2010 median family income.						
**Based on 2013 Dun & Bradstreet data.						

The bank’s small business lending in the low- and moderate-income census tracts compares well to demographics. The bank originated 6.5% of its small business loans in the low-income census tract, and 25.8% in the moderate-income tracts. According to 2013 Dun & Bradstreet data, 4.2% of the small businesses in the assessment area are located in the low-income census tract and 23.5% are located in the moderate-income census tracts. The majority of the bank’s small business lending occurs in Lake County middle-income census tract 9405.00, where the bank’s main office is located. The bank did not make any small business loans in two middle-income census tracts. These tracts are located on the northern and southern periphery of Lake County and are some distance from the bank’s branches. The geographic distribution of the bank’s small business loans does not reflect any unexplained gaps in lending. Overall, the geographic distribution of the bank’s small business loans is reasonable.

Consumer Lending. The distribution of consumer loans in the low- and moderate-income tracts is reasonable. Table 12 shows the bank’s consumer lending distribution by census tract income level in the assessment area.

TABLE 12
Geographic Distribution of Consumer Loans in the Valley Assessment Area
by Census Tract Income Level*

<i>Loan Type</i>	<i>Low Income</i>		<i>Moderate Income</i>		<i>Middle Income</i>	
	<i>#</i>	<i>\$</i>	<i>#</i>	<i>\$</i>	<i>#</i>	<i>\$</i>
Consumer	4.3%	10.3%	23.0%	23.5%	72.7%	66.2%
<i>Demographic Data</i>						
Number of Census Tracts	1		2		7	
Percentage of Census Tract	10.0%		20.0%		70.0%	
Percentage of Households	6.7%		24.6%		69.2%	
*Income classification of census tracts is based on 2010 median family income.						

The bank made consumer loans in the low-income census tract and both moderate-income census tracts. The majority of the bank's consumer lending occurs in middle-income census tracts 9405.00, where the bank's main office is located, and 9404.00, which is adjacent to that tract and where the bank has a drive-up facility. The bank did not originate any consumer loans in four middle-income census tracts in the assessment area. Three of the tracts are located in the northernmost part of the assessment area, and the fourth is located on the southern edge of the assessment area; these tracts are the farthest removed from the bank branches and services.

According to 2010 census data, 6.7% and 24.6% of households in the assessment area are located in the low-and moderate-income census tracts, respectively. The bank originated 4.3% of consumer loans in the low-income census tract and 23.0% of the loans in moderate-income tracts. Although the bank's lending in the low-income tract is slightly below demographics, it is reasonable because the tract is in the westernmost portion of the assessment area where there are no bank branches. The bank's lending in the moderate-income tracts compares well to demographics.

Overall, the geographic distribution of the bank's HMDA, small business, and consumer loans in the Valley assessment area is reasonable.

METROPOLITAN AREA – FULL REVIEW

DESCRIPTION OF MISSOULA ASSESSMENT AREA

The Missoula assessment area includes the Missoula MSA, which consists of Missoula County. Missoula County is located in the Rocky Mountains of western Montana. The bank added this assessment area because of the 2012 affiliate merger. The assessment area contains four moderate-income, eleven middle-income, and five upper-income census tracts. Of the bank's four facilities located in this assessment area, one of the full-service branches, the limited-service branch, and the LPO are located in downtown Missoula and are in moderate-income census tracts. The other full-service branch is located in a middle-income tract.

The bank's presence in the Missoula assessment area is limited. According to the June 30, 2013, FDIC Deposit Market Share Report, the bank had deposits of \$64.8 million in Missoula County, representing 3.4% of total deposits in the county. The bank ranked seventh out of 14 financial institutions operating in Missoula County. In 2012, the bank ranked 12th out of 124 lenders reporting HMDA data in the assessment area; however, the bank's HMDA loans comprised only 2.7% of the overall volume of HMDA loans in the assessment area. The bank operates in a highly competitive market since many financial institutions operate in the Missoula MSA.

Table 13 provides detailed data about the demographic characteristics of the Missoula assessment area. Assessment area demographics are based on 2010 census data and the 2013 Dun & Bradstreet data.

<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>	
	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>
Low Income	0	0.0	0	0.0	0	0.0	5,186	20.3
Moderate Income	4	20.0	3,344	13.1	513	15.3	4,498	17.6
Middle Income	11	55.0	14,405	56.5	1,366	9.5	5,400	21.2
Upper Income	5	25.0	7,736	30.4	366	4.7	10,401	40.8
Total Assessment Area	20	100.0	25,485	100.0	2,245	8.8	25,485	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>	
		<i>#</i>	<i>%</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>
Low Income	0	0	0.0	0.0	0	0.0	0	0.0
Moderate Income	9,841	3,207	12.0	32.6	5,836	59.3	798	8.1
Middle Income	27,794	15,298	57.0	55.0	9,212	33.1	3,284	11.8
Upper Income	11,296	8,321	31.0	73.7	2,298	20.3	677	6.0
Total Assessment Area	48,931	26,826	100.0	54.8	17,346	35.4	4,759	9.7
<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>		
		<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	
Low Income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate Income	1,994	27.3	1,750	26.4	175	36.8	69	33.7
Middle Income	3,835	52.5	3,493	52.7	239	50.2	103	50.2
Upper Income	1,480	20.2	1,385	20.9	62	13.0	33	16.1
Total Assessment Area	7,309	100.0	6,628	100.0	476	100.0	205	100.0
Percentage of Total Businesses:				90.7		6.5		2.8

TABLE 13
Missoula Assessment Area Demographics

Income Categories	Total Farms by Tract		Farms by Tract and Revenue Size					
	#	%	≤ \$1 Million		> \$1 Million		Revenue Not Reported	
			#	%	#	%	#	%
Low Income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate Income	17	6.9	17	7.1	0	0.0	0	0.0
Middle Income	147	59.8	142	59.4	5	71.4	0	0.0
Upper Income	82	33.3	80	33.5	2	28.6	0	0.0
Total Assessment Area	246	100.0	239	100.0	7	100.0	0	0.0
Percentage of Total Farms:			97.2		2.8		0.0	

Income. In order to classify borrowers by income level, this evaluation uses the FFIEC’s estimated median family income. For borrowers in the Missoula, Montana, MSA, the figure is \$59,100 for 2011, \$59,900 for 2012, and \$64,000 for 2013. For purposes of classifying census tract income levels, this evaluation uses the MSA’s 2000 median family income, which is \$44,872 for 2011, and the MSA’s 2010 median family income, which is \$58,302 for 2012 and 2013.

Population. According to 2000 census data, the population in the Missoula assessment area was 95,802. By 2010, the population had increased by 14.1% to 109,299. The majority (61.1%) of the population in the assessment area lives in the city of Missoula. Both Missoula County and the city of Missoula have higher poverty levels than the state average. Notably, the poverty level in the city of Missoula is 20.9%, compared to the state level of 14.8%.

General Economic Characteristics. The economy of Missoula is primarily dependent on nonagricultural industries. The major employers in the area include the University of Montana, St. Patrick Hospital, Community Medical Center, and the U.S. government. Overall, the industries in Missoula have been stable, which attributed to Missoula’s ability to withstand the recent economic recession. According to the Bureau of Labor Statistics, the May 2014 nonseasonally adjusted unemployment rate was 3.9% in the Missoula MSA. This rate is below the state rate of 4.1% and the national rate of 6.1% for the same month.

While the unemployment rate may be improving, community contacts noted that there are a number of underemployed people in Missoula. The contact mentioned that many jobs only have part-time hours; those jobs tend to pay lower wages as well.

Housing. Based on 2010 census data, the median housing value in the assessment area is \$233,748. The assessment area experienced some slowdown in the real estate market during the economic recession; however, based on data published by the Missoula Organization of REALTORS®, housing sales increased each year between 2011 and 2013 in the city of Missoula and Missoula County. A community contact noted that single-family homes typically are not affordable for low- or moderate-income families in the area. Further, the contact noted that lower-priced housing is often in poor condition and needs improvement.

For example, using the assumption that a borrower can obtain a loan for approximately three times the borrower’s annual income, based on the 2013 HUD estimated median family income of \$64,000 for the Missoula MSA, an individual with the highest income in the low-income bracket (\$31,999) could afford a \$95,997 home. Using the same assumption for borrowers with the highest income in the moderate-income bracket (\$51,199), a borrower could afford a \$153,597 home. According to HUD, the 2013 estimated median sale price of homes in the Missoula MSA was \$234,000. This price is significantly higher than what a low- or moderate-income individual could afford.

There are also a large number of rental properties in Missoula because of the student population at the university. A community contact stated that affordable rental housing in the area is also a concern. Vacancy rates are low, and competition for available apartments is high. In addition, new construction has recently focused on more luxury, high-end apartments with amenities, not affordable housing.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Overall, the bank demonstrates reasonable lending performance in the Missoula assessment area.

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

The bank's lending to borrowers of different income levels and to businesses of different sizes is reasonable overall. For this criterion, emphasis is placed on lending to low- and moderate-income borrowers and to businesses with gross annual revenues of \$1 million or less.

Residential Real Estate Lending. The bank's residential real estate lending to low- and moderate-income borrowers in the Missoula assessment area is reasonable. The bank's performance is reasonable because there are a number of financial institutions in Missoula County that compete for residential real estate loans. The bank is not among the top ten HMDA reporters in this assessment area. During this evaluation period, bank management said that the demand for refinance loans significantly increased because of the low interest rate environment. Therefore, 74.3% of the bank's 2011, 2012, and 2013 HMDA loans are refinances; 81.5% of the borrowers who took advantage of the lower rates were middle- or upper-income. Table 14 shows the bank's 2011, 2012, and 2013 HMDA lending for different income levels.

TABLE 14										
Missoula Assessment Area										
2011 HMDA Loans by Income Level of Borrower										
<i>Income Level of Borrower</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>		<i>Unknown</i>	
<i>Loan Type</i>	#	%	#	%	#	%	#	%	#	%
Home Purchase	0	0.0	4	19.0	5	23.3	12	57.1	0	0.0
Refinance	1	1.4	10	13.9	16	22.2	44	61.1	1	1.4
Total 2011 HMDA Loans	1	1.1	14	15.1	21	22.6	56	60.2	1	1.1
2012 HMDA Loans by Income Level of Borrower										
<i>Income Level of Borrower</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>		<i>Unknown</i>	
<i>Loan Type</i>	#	%	#	%	#	%	#	%	#	%
Home Purchase	2	6.1	4	12.1	3	9.1	23	69.7	1	3.0
Refinance	4	3.3	17	14.0	31	25.6	67	55.4	2	1.7
Total 2012 HMDA Loans	6	3.9	21	13.6	34	22.1	90	58.4	3	1.9
2013 HMDA Loans by Income of Borrower										
<i>Income Level of Borrower</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>		<i>Unknown</i>	
<i>Loan Type</i>	#	%	#	%	#	%	#	%	#	%
Home Purchase	3	9.4	5	15.6	8	25.0	16	50.0	0	0.0
Refinance	2	3.6	8	14.5	16	29.1	28	50.9	1	1.8
Total 2013 HMDA Loans	5	5.7	13	14.9	24	27.6	44	50.6	1	1.1
Total HMDA Loans	12	3.6	48	14.4	79	23.6	190	56.9	5	1.5

According to 2000 census data, 19.2% of families in the assessment area are low income and 19.0% are moderate-income. During 2011, the bank originated 1.1% of its HMDA loans to low-income borrowers and 15.1% to moderate-income borrowers. The bank's level of lending to low- and moderate-income families is below the demographics. The bank's performance is also slightly below aggregate levels. In 2011, aggregate lenders reported 4.4% of loans to low-income borrowers and 15.6% of loans to moderate-income borrowers.

According to 2010 census data, 20.3% of the families in the assessment area are low income and 17.6% are moderate income. During 2012 and 2013, the bank originated 3.9% and 5.7% of its HMDA loans to low-income borrowers, respectively, and 13.6% and 14.9% to moderate-income borrowers, respectively. The bank's level of lending to low- and moderate-income families is below the demographics during these evaluation years. In 2012, the bank's performance is comparable to aggregate lenders' lending to low- and moderate-income borrowers. Aggregate lenders reported 4.8% of loans to low-income borrowers and 14.8% to moderate-income borrowers in 2012.

Although the bank's lending to low- and moderate-income individuals is lower than demographics, it is reasonable given the performance context. As previously mentioned, there is strong competition to provide financial services in the city of Missoula; there are many financial institutions in the area, including large national and regional banks with multiple branches in the city. In addition, homes in the assessment area continue to be unaffordable for many low- and moderate-income residents, reducing the bank's opportunities to lend to these residents.

Given the characteristics in the assessment area, the high level of competition for residential real estate loans, and the affordability issues in the assessment area, the bank's lending to low- and moderate-income borrowers in the Missoula assessment area is reasonable.

Small Business Lending. The bank's lending to small businesses is reasonable. As shown in Table 15, the bank extended 84.6% of its small business loans to businesses with gross annual revenues of \$1 million or less.

<i>Small Business Originations</i>	<i>≤ \$100,000</i>	<i>> \$100,000 to ≤ \$250,000</i>	<i>> \$250,000 to ≤ \$1,000,000</i>	<i>Total Originations</i>
Percentage of Small Business Loans	61.5%	15.4%	23.1%	100.0%
Percentage of Loans to Businesses with Revenues \$1 Million or Less	72.7%	18.2%	9.1%	84.6%

According to the 2013 Dun & Bradstreet data, 90.7% of the businesses located in the assessment area have gross annual revenues of \$1 million or less. The bank's level of lending to small businesses is slightly below demographics; however, it is reasonable. Bank management and community contacts stated that competition for small business loans in the assessment area is strong. The bank extended the majority of its small business loans in amounts of \$100,000 or less, which indicates the bank is willing to meet the credit needs of smaller businesses. Given the competitive market in Missoula, the bank's small business lending is reasonable.

Overall, the bank's lending reflects a reasonable distribution of loans among individuals of different income levels and businesses of different sizes.

GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution of loans throughout the Missoula assessment area is reasonable. For this criterion, emphasis is placed on the bank's lending in low- and moderate-income census tracts. The Missoula assessment area does not include any low-income census tracts.

Residential Real Estate Lending. The bank's HMDA lending in moderate-income census tracts is reasonable. Table 16 shows the distribution of loans in the assessment area by census tract income level.

TABLE 16						
Geographic Distribution of HMDA Loans in the Missoula Assessment Area by Census Tract Income Level						
2011 HMDA Loans						
<i>Loan Type</i>	<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
	#	%	#	%	#	%
Home Purchase	4	19.0	16	76.2	1	4.8
Refinance	9	12.5	56	77.8	7	9.7
Total 2011 HMDA Loans	13	14.0	72	77.4	8	8.6
2012 HMDA Loans						
<i>Loan Type</i>	<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
	#	%	#	%	#	%
Home Purchase	8	24.2	17	51.5	8	24.2
Refinance	17	14.0	67	55.4	37	30.6
Total 2012 HMDA Loans	25	16.2	84	54.5	45	29.2
2013 HMDA Loans						
<i>Loan Type</i>	<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
	#	%	#	%	#	%
Home Purchase	4	12.5	18	56.3	10	31.3
Refinance	4	7.3	34	61.8	17	30.9
Total 2013 HMDA Loans	8	9.2	52	59.8	27	31.0
Total HMDA Loans	46	13.8	208	62.3	80	23.9

Over the three-year evaluation period, the bank originated loans in all census tracts in its assessment area. In both 2012 and 2013, the bank did not lend in one moderate-income tract. However, a majority (81.2%) of the housing in this tract is rental property. The moderate-income tracts are all located in downtown Missoula, which is generally commercial. Further, the bank is not the HMDA market leader based on 2011 or 2012 aggregate lending data. There is competition from many other financial institutions for HMDA loans. The bank does not have any unexplained gaps in lending given the competitive factors, the limited availability of housing in the moderate-income census tracts, and the fact that the bank originated loans in all of its census tracts during the evaluation period.

According to 2000 census data, 15.4% of families in the assessment area reside in moderate-income census tracts. The bank extended 14.0% of its HMDA loans in moderate-income tracts in 2011. Aggregate lenders originated 13.9% of HMDA loans in moderate-income tracts in 2011. The bank's level of lending is consistent with demographics and aggregate lenders and is reasonable.

According to 2010 census data, 13.1% of the families in the assessment area reside in moderate-income census tracts. The bank extended 16.2% and 9.2% of its HMDA loans in these tracts in 2012 and 2013, respectively. In 2012, aggregate lenders originated 12.3% of HMDA loans in moderate-income tracts. The bank's level of lending is generally consistent with demographics and aggregate lenders and is reasonable.

Small Business Lending. The bank's distribution of small business loans in moderate-income tracts is reasonable. Table 17 shows the distribution of small business loans in the assessment area by census tract income level.

The 2013 Dun & Bradstreet data indicates that 27.3% of businesses in the assessment area are located in moderate-income census tracts. The bank originated 7.7% of loans by number and 19.8% by dollar amount in moderate-income census tracts. The bank's lending by both number of loans and dollar amount is below the demographic data, but it is reasonable. There is strong competition in the assessment area for small business loans. Because of the competition, the bank only originated 13 small business loans in 2013 inside the assessment area. Therefore, this analysis is based on a relatively small number of small business loans.

<i>Loan Type</i>	<i>Moderate Income</i>		<i>Middle Income</i>		<i>Upper Income</i>	
	<i>#</i>	<i>\$</i>	<i>#</i>	<i>\$</i>	<i>#</i>	<i>\$</i>
Small Business	7.7%	19.8%	46.2%	46.0%	46.2%	34.3%
<i>Demographic Data</i>						
Number of Census Tracts	4		11		5	
Percentage of Census Tract	20.0%		55.0%		25.0%	
Percentage of Businesses**	27.3%		52.5%		20.2%	
*Income classification of census tracts is based on 2010 median family income.						
**Based on 2013 Dun & Bradstreet data.						

In 2013, the bank did not originate small business loans in all census tracts in the assessment area. Specifically, the bank did not originate loans in three moderate-income census tracts and several middle- and upper-income census tracts. The moderate-income tract and three of the middle-income tracts are near downtown Missoula. Two of these tracts include branches of the bank. The other three middle-income and the upper income tracts are relatively far from the bank's branches. The bank's lending throughout the assessment area is reasonable given the competition, the number of other financial institutions in downtown Missoula, and the distance of some of the tracts to the bank's branches. There are no unexplained gaps in lending.

Overall, the geographic distribution of the bank's HMDA and small business loans in the assessment area is reasonable.

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.)