

PUBLIC DISCLOSURE

March 4, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

American Bank
1632 West Main Street
Bozeman, Montana 59715
RSSD 630555

**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 American Bank, Bozeman, Montana, is responsive to the credit needs of its assessment areas and demonstrates excellent responsiveness to the community development needs of its assessment areas.

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

- The bank's lending to borrowers of different income levels and to businesses of different sizes is reasonable.
- The geographic distribution of loans reflects excellent dispersion throughout the assessment areas.
- The bank originated a substantial majority of its loans within its assessment areas.
- The bank's net loan-to-deposit ratio is reasonable given the bank's size, its financial condition, and its assessment areas' credit needs.

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

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

Examiners evaluated the bank using the Intermediate Small Bank Examination Procedures, as at the previous evaluation dated February 7, 2011. The bank received a satisfactory rating at the previous evaluation.

SCOPE OF EVALUATION

The evaluation of the bank's CRA performance is based in part on information provided by bank management and community contacts. Examiners analyzed information from these sources as well as economic and demographic characteristics of the assessment areas, competitive factors, and the size and financial condition of the bank to understand the bank's performance. The evaluation period is February 7, 2011, through March 3, 2013.

The bank designated two assessment areas for CRA purposes. The Bozeman assessment area includes Gallatin, Park, and Sweet Grass counties. The Whitefish assessment area consists of Flathead County. Based on the June 30, 2012, Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report and lending data provided by the bank, the majority of the bank's activities take place in the Bozeman assessment area, which includes the main office and most branches. The Whitefish assessment area represents only 10.2% of the bank's deposits and a small portion of the bank's loan originations. Therefore, examiners performed a full-scope review of the Bozeman assessment area and a limited-scope review of the Whitefish 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 2010 U.S. Census and 2011 Dun & Bradstreet data, which used 2000 U.S. Census boundaries. Demographics of a particular assessment area are useful in analyzing the bank's lending because they provide a means of

estimating lending opportunities. For small business lending, self-reported data collected and published by Dun & Bradstreet regarding the revenue size and location of businesses is used to 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.

The release of 2010 census data led to adjustments to the boundaries and income classifications of some census tracts in the bank's assessment areas in 2012. These changes are discussed in the individual assessment area sections. Examiners factored these changes into the evaluation of the bank's community development activities.

As part of this evaluation, examiners also contacted individuals familiar with economic and demographic characteristics and community development activities in the assessment areas. Examiners used information obtained during these contacts to establish a performance context for the CRA evaluation. Specific information obtained from community contacts is discussed in the applicable sections of the evaluation of each assessment area. Community contacts did not identify any unmet credit needs in the bank's assessment areas.

Examiners weighted the bank's performance by loan type and test criteria as follows to derive the overall rating:

- The bank's Community Development Test received more weight than the Lending Test because of the community development needs relative to credit needs throughout the bank's assessment areas.
- For the Lending Test, the bank's small business lending received the greatest weight because small business lending represents the largest percentage of the bank's loan portfolio.
- For the Lending Test performance criteria, the bank's 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.

Lending Test Scope

The scope of the Lending Test covers the bank's major product lines, which include small business and consumer loans. Table 1 shows the bank's lending activities by loan type for 2012.

<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	58	28.9	\$ 558,928	1.3
Home Equity Lines of Credit	10	5.0	834,000	1.9
Land Development	4	2.0	1,475,000	3.4
Letters of Credit	1	0.5	14,000	0.03
Personal Lines of Credit	10	5.0	356,240	1.6
Residential Real Estate	23	11.4	9,682,641	22.2
Small Business (\leq \$1 million)	80	39.8	11,803,366	27.1
Commercial ($>$ \$1 million)	7	3.5	14,094,555	32.4
Small Farm (\leq \$500,000)	5	2.5	\$700,305	1.6
Agriculture ($>$ \$500,000)	3	1.5	4,030,000	9.3
Total	201	100.0	\$43,549,036	100.0

The Lending Test analysis is based on statistical samples of the bank's loans. Examiners chose the sample based on the volume and dollar amount of lending. It consists of 57 small business and 45 consumer loans originated between January 1, 2012, and December 31, 2012. Please refer to the glossary in Appendix A for the definition of small business loans.

The following criteria were analyzed to determine the Lending Test rating:

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

Community Development Test Scope

Examiners reviewed the bank's community development lending, qualified investments, and community development services in its assessment areas. For CRA purposes, community development activities promote affordable housing, economic development, and services to low- and moderate-income individuals and revitalize or stabilize underserved or distressed census tracts and designated disaster areas. The evaluation period for community development activities is February 7, 2011, through March 3, 2013.

DESCRIPTION OF INSTITUTION

Structure. American Bank is a full-service financial institution with its main office in Bozeman. It is wholly owned by Guaranty Development Company, Livingston, Montana.

Offices and retail delivery systems. The bank operates six full-service offices in Montana. They include one office each in Livingston, Big Timber, Big Sky, and Whitefish, and two offices in Bozeman. The

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

bank has not opened or closed any offices since the previous evaluation. The bank offers drive-up services at all locations, with Saturday hours at the Livingston and Whitefish offices and the main office in Bozeman. The bank operates a cash-dispensing-only automated teller machine (ATM) in the lobby or drive-up facility at each office. Two additional ATMs are located at the Wal-Mart in Bozeman and Mountain Mall in Whitefish. Bank customers also have free access to nine nonproprietary ATMs located throughout the assessment area. No ATMs accept deposits.

The bank also offers 24-hour telephone banking and online banking. The telephone banking service allows customers to check account balances, transfer funds, and verify other account activity. Online banking customers can view account information, make loan payments, transfer funds, and use bill payment services.

Loan portfolio. According to the December 31, 2012, Report of Condition (ROC), the bank's assets total \$323.5 million, with a loan portfolio of \$204.7 million. Commercial loans constitute the majority of the bank's loan portfolio by dollar amount. The loan portfolio consists of 74.2% commercial, 20.8% residential real estate, 4.4% agricultural, and 0.6% consumer loans. Since the previous evaluation, the bank's total assets decreased by 14.4 %, and total loans decreased by 21.6%. The composition of the loan portfolio has not changed significantly since the previous evaluation.

Credit products. The bank offers a variety of loan products that fulfill the credit needs of the residents and small businesses in its assessment areas. Commercial loan products include operating lines of credit, construction loans, and term loans such as real estate loans. The bank also offers loans through the U.S. Small Business Administration (SBA). Consumer loan products include open- and closed-end loans and portfolio residential real estate loans.

DESCRIPTION OF ASSESSMENT AREAS

The bank has not changed its assessment areas since the previous evaluation. The Bozeman assessment area includes all of Gallatin, Park, and Sweet Grass counties. According to 2010 census data, this assessment area contains 29 census tracts: one low income, four moderate income, 13 middle income, ten upper income, and one unknown income. The middle-income census tract in Sweet Grass County was classified as underserved for 2011 and 2012. The five middle-income census tracts in Park County were designated as distressed for 2011. Refer to the glossary in Appendix A for additional information on the definitions of underserved or distressed middle-income census tracts. The Whitefish assessment area includes all of Flathead County. This assessment area contains 19 census tracts: three moderate income, 13 middle income, and three upper income. Detailed descriptions of the bank's assessment areas can be found in the individual assessment area evaluations.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's CRA rating is outstanding. The 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 Lending Test performance is rated satisfactory. The major factors supporting the Lending Test rating are as follows:

- The bank's performance among businesses with gross annual revenues of \$1 million or less and low- and moderate-income borrowers is reasonable.

- The geographic distribution of loans reflects an excellent dispersion throughout the assessment areas.
- The bank originated a substantial majority of its loans within its assessment areas.
- The bank's net loan-to-deposit ratio reflects a reasonable level of lending.

Since American Bank has two assessment areas, examiners conducted a separate analysis for the bank's performance in each assessment area. The detailed discussion of the bank's lending to borrowers of different incomes and businesses of different sizes and the geographic distribution of the bank's loans can be found in the individual assessment area sections. However, examiners analyze the net loan-to-deposit ratio and the comparison of lending inside and outside the assessment areas at the bank level. These two criteria are discussed below.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's net loan-to-deposit ratio is reasonable given the bank's size and financial condition as well as the credit needs and competition in the bank's assessment areas. Since the previous evaluation, the bank's quarterly net loan-to-deposit ratio has ranged from 72.2% to 84.8%. The bank's average net loan-to-deposit ratio for the past eight quarters is 79.0%, which is very similar to the national peer group's average net loan-to-deposit ratio of 75.0%. The bank's national peer group includes all insured commercial banks having assets between \$300 million and \$1 billion. The bank's 8-quarter average net loan-to-deposit ratio is also reasonable compared to competitor banks operating in the assessment areas, as shown in Table 2.

<i>Bank Name and Location</i>	<i>Assets as of December 31, 2012 (in millions)</i>	<i>Average Net Loan-to-Deposit Ratio</i>
American Bank, Bozeman, Montana	\$ 323.5	79.0%
Stockman Bank of Montana, Miles City, Montana	2,382.4	81.8%
First Security Bank, Bozeman, Montana	627.3	66.5%
Citizens Bank & Trust, Big Timber, Montana	114.1	59.7%
Rocky Mountain Bank, Billings, Montana	465.6	73.3%
Glacier Bank, Kalispell, Montana	7,681.2	85.8%

The bank's average net loan-to-deposit ratio at the previous evaluation was 102.5%, which is higher than the average net loan-to-deposit ratio of 79.0% at this evaluation. The national peer group's average net loan-to-deposit ratio also decreased from 83.3% to 75.0% during the same period. Bank management noted a general decline in demand for credit during the evaluation period. Competition for loans remains strong. Numerous large regional and national financial institutions operate in the bank's assessment areas, reducing the bank's opportunities for lending. The bank's total loan portfolio has decreased relative to total deposits since the previous evaluation, which lowered the net loan-to-deposit ratio.

The net loan-to-deposit ratio demonstrates the bank's willingness to fulfill the credit needs in its assessment areas. In addition, community contacts and bank management did not identify any unmet credit needs in the assessment areas. For these reasons, the bank's net loan-to-deposit ratio is reasonable.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

The bank originated a substantial majority of its loans within the assessment areas, specifically, 86.3% of loans by number and 84.1% by total dollar amount. Table 3 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>
Small Business	48	84.2	7,125	83.8	9	15.8	1,373	16.2
Consumer	40	88.9	310	90.0	5	11.1	34	10.0
Total	88	86.3	7,436	84.1	14	13.7	1,408	15.9

Several of the loans originated outside the assessment areas were in adjacent counties. Bank management commented that it builds relationships with consumers and entities inside and outside its assessment area. In addition, the bank maintains consumer and business relationships with customers who no longer reside or operate in the bank's assessment areas. The bank's lending shows its commitment to meeting credit needs within its assessment areas.

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

Overall, the bank's lending to borrowers of different income levels and to businesses of different sizes is reasonable. The bank actively lends to low- and moderate-income individuals and to businesses with gross annual revenues of \$1 million or less. The bank's record of originating consumer loans to low- and moderate-income borrowers is excellent, and its lending to small businesses is reasonable.

GEOGRAPHIC DISTRIBUTION OF LOANS

Overall, the geographic distribution of the bank's consumer and small business loans is excellent. The bank lends throughout its assessment areas, and there are no unexplained gaps in lending.

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 bank's Community Development Test is rated outstanding. The bank engaged in a high level of community development lending, investments, and services. In addition, the bank's community development activities reflect excellent responsiveness to community development needs. The Bozeman assessment area offers a greater number of community development opportunities for the bank, and most of the bank's community development activities took place there. The bank's Whitefish assessment area also offers some community development opportunities. Overall, the level and mix of the bank's community development activities are excellent given the bank's financial condition and performance context.

Community development lending. The bank's community development lending is excellent. The bank originated five community development loans totaling approximately \$6.6 million since the previous evaluation. These loans benefited the Bozeman assessment area and primarily served to promote economic development by supporting job creation or retention. The bank's community development lending in the assessment areas shows an excellent responsiveness to community development needs.

Qualified investments. The bank's level of qualified investments and donations is excellent and is responsive to needs in the assessment areas. Qualified investments for the evaluation period total \$466,004, which includes prior-period bonds with book values totaling \$423,956 and new donations totaling \$42,048. During the evaluation period, new investment opportunities for the bank were limited, and the bank did not purchase any new qualified securities. However, the bank retained a school bond from the previous evaluation period that revitalizes and stabilizes a distressed geography. The bank also retained an affordable housing bond from a prior period. The bank made a majority of its donations in the Bozeman assessment area to organizations that provide community services to low- and moderate-income families and individuals. The level of qualified donations increased 72.1% since the previous evaluation.

Community development services. The bank's level of community development services is excellent. Six bank employees provided community development services in the bank's assessment areas during the evaluation period. Officers and bank staff provided services to four organizations that help revitalize or stabilize distressed middle-income census tracts and four organizations that provide community services to low- and moderate-income individuals. Bank employees hold various positions with these organizations, including board member, treasurer, and finance committee member. Further, the bank's two Bozeman offices are located in moderate-income census tracts, its Big Timber office is located in an underserved middle-income census tract, and its Livingston office is located in a middle-income census tract which was classified as distressed for 2011. The focus of the bank's community development services reflects the needs of the assessment areas.

Overall, the bank engaged in an excellent level of community development activities that were responsive to the needs of the assessment areas.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

The evaluation revealed no evidence of violations of antidiscrimination laws or regulations (including Regulation B--Equal Credit Opportunity Act 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 BOZEMAN ASSESSMENT AREA

Bank information. The bank operates five full-service offices and six cash-dispensing-only ATMs in the Bozeman assessment area. The bank has not opened or closed any offices in the assessment area since the previous evaluation. The bank's hours of operation at all offices are reasonable.

According to the June 30, 2012, FDIC Deposit Market Share Report, the bank had \$234.9 million in deposits in the assessment area. The bank ranks third of 20 financial institutions with offices in the assessment area, with 10.1% of the market share. The deposits in this assessment area represent 89.8% of the bank's total deposits.

Assessment area. The Bozeman assessment area includes all of Gallatin, Park, and Sweet Grass counties. The number of census tracts in this assessment area increased from 21 to 29 since the previous evaluation because of changes in census tract boundaries based on 2010 U.S. Census data. There were also changes in income classifications of census tracts based on the same data. The assessment area now includes one low-income, four moderate-income, 13 middle-income, 10 upper-income, and one unknown-income census tracts. The bank has full-service offices in all three counties in this assessment area.

The total number of census tracts in Gallatin County increased by eight, from 14 to 22. The number of low-income census tracts increased from zero to one, moderate-income census tracts increased from one to three, middle-income census tracts increased from six to eight, and upper-income census tracts increased from seven to ten. The low-income census tract is located in the city of Bozeman. Both of the bank's Bozeman offices are located in moderate-income census tracts. The bank's Big Sky branch is also located in Gallatin County.

The total number of census tracts in Park County did not change. However, the number of moderate-income census tracts increased from zero to one, middle-income census tracts decreased from five to four, upper-income census tracts decreased from one to zero, and unknown-income census tracts increased from zero to one. The unknown-income census tract is located at the southern edge of Park County, bordering Wyoming, and is part of Yellowstone National Park. Three of the middle-income census tracts were considered distressed for 2011. The bank's Livingston branch is located in Park County.

The number and income classification of Sweet Grass County's sole census tract did not change. The county is considered underserved for 2012. The bank's Big Timber branch is located here.

Table 4 provides detailed data about the demographic characteristics of this assessment area. Assessment area demographics are based on 2010 U.S. Census data and 2011 Dun & Bradstreet data, which used 2000 U.S. Census boundaries.

**TABLE 4
Bozeman 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>	
	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>
Low Income	1	3.4	381	1.4	145	38.1	4,094	15.5
Moderate Income	4	13.8	2,458	9.3	518	21.1	4,208	15.9
Middle Income	13	44.8	13,032	49.2	855	6.6	5,544	20.9
Upper Income	10	34.5	10,597	40.0	478	4.5	12,622	47.7
Unknown Income	1	3.4	0	0.0	0	0.0	0	0.0
Total Assessment Area	29	100.0	26,468	100.0	1,996	7.5	26,468	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	1,119	15	0.1	1.3	949	84.8	155	13.9
Moderate Income	7,061	2,675	9.4	37.9	3,752	53.1	634	9.0
Middle Income	26,460	13,754	48.4	52.0	7,002	26.5	5,704	21.6
Upper Income	17,267	11,983	42.2	69.4	4,116	23.8	1,168	6.8
Unknown Income	15	0	0.0	0.0	0	0.0	15	100.0
Total Assessment Area	51,922	28,427	100.0	54.7	15,819	30.5	7,676	14.8
<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	297	3.0	265	2.9	24	4.8	8	3.0
Middle Income	4,427	45.0	4,085	45.0	223	44.8	119	45.2
Upper Income	5,123	52.0	4,736	52.1	251	50.4	136	51.7
Unknown Income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	9,847	100.0	9,086	100.0	498	100.0	263	100.0
Percentage of Total Businesses:				92.3		5.1		2.7
<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>	
			<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	6	1.0	6	1.0	0	0.0	0	0.0
Middle Income	387	64.4	382	64.4	3	50.0	2	100.0
Upper Income	208	34.6	205	34.6	3	50.0	0	0.0
Unknown Income	0	0.0	0	0.0	0	0	0	0.0
Total Assessment Area	601	100.0	593	100.0	6	100.0	2	100.0
Percentage of Total Farms:				98.7		1.0		0.3

Income. For purposes of classifying borrower income, this evaluation uses the FFIEC (Federal Financial Institute Examination Council) estimated median family income for the nonmetropolitan areas of Montana. This figure was \$56,600 for 2012. For purposes of classifying census tract income levels, this evaluation uses the nonmetropolitan area median family income of \$54,140 from the 2010 census.

Population and geographic characteristics. The population in the Bozeman assessment area has grown over the past decade. According to 2000 census data, the population of the assessment area was 87,134. By 2010, the population increased by 24.9%, to 108,800.

Of the 44,246 households in the assessment area, 19.0% are low income and 15.3% are moderate income. The percentages of low- and moderate-income households in the assessment area are slightly lower than the percentages for the state of Montana. The 2010 census data indicates that 12.3% of the households in the assessment area have incomes below the poverty level, which is lower than the statewide percentage of 13.7%.

Economy. Although the assessment area experienced a significant economic downturn in 2008 when the national real estate market collapse began to affect the area, community contacts and bank management indicated that the local economy is showing some signs of improvement. For example, several small businesses in Park County that had decreased their business hours because of the recession are starting to return to their previous hours. In addition, technology companies in Gallatin County have been growing, and the health care industry remains stable. Both community contacts and bank management also noted a recent rebound in the Gallatin County housing market.

Overall, the economy in Gallatin and Park counties is diverse, with construction, government, manufacturing, health care, technology, and agriculture all playing significant roles. Tourism is also very important to the area, since Bozeman Yellowstone International Airport is a gateway to Yellowstone National Park. Major employers in Gallatin County include the Bozeman Deaconess Hospital, Montana State University, and Oracle Corporation. In Park County, major employers include PrintingForLess.com, the lumber mill, and the local hospital, school district, and government. In Sweet Grass County, natural resources are important, with significant mining and agricultural activity. The Stillwater Mining Company is the largest private employer in the county.

According to the Bureau of Labor Statistics, the January 2013 nonseasonally adjusted unemployment rates for Gallatin, Park, and Sweet Grass counties were 5.2%, 7.7%, and 3.2%, respectively. These numbers are lower than the national rate, which was 8.5% for January 2013; however, some residents in the area, particularly in Park County, still struggle to make ends meet because wages tend to be lower in the tourism-related industries.

Housing. According to community contacts and bank management, affordable housing continues to be an issue in the assessment area. The cost of housing is one of the largest contributors to the high cost of living in Bozeman. According to the 2010 census, the median housing value is \$277,300 in Gallatin County and \$207,300 in Park County; these values are significantly higher than the statewide median of \$173,300. Although current housing prices are lower than at the peak of the real estate boom, housing remains too expensive for many residents. Bank management and community contacts stated that single-family homes typically are not affordable for low-income families in the area. A community contact also indicated that homes in lower price ranges sell quickly. There is significant demand for more affordable housing options in the area.

A community contact noted the recent rebound in the Gallatin County housing market. The contact stated that the number of home sales in Gallatin County has returned to levels not experienced since 2006. In addition, the contact indicated that building permit activity for single-family residences is higher than in the past five years.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's lending performance in the Bozeman assessment area is reasonable. The assessment area accounts for the majority of the bank's lending activity, with 95.5% of the total loans. The bank's community development performance demonstrates excellent responsiveness to the community development needs in this assessment area.

LENDING TEST

The bank's lending to borrowers of different income levels and to businesses of different sizes is reasonable. The geographic distribution of loans reflects excellent dispersion throughout the assessment area and does not reveal any unexplained gaps in lending.

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

Overall, the bank's lending to borrowers of different income levels and to businesses of different sizes in the Bozeman assessment area is reasonable.

Small business lending. The bank's small business lending in the assessment area is reasonable. Table 5 shows the small business lending in the assessment area.

<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	63.8%	21.3%	14.9%	100.0%
Percentage of Loans to Businesses with Revenues of \$1 Million or Less	72.4%	24.1%	3.4%	61.7%

The bank originated 61.7% of its small business loans to entities with gross annual revenues of \$1 million or less. According to 2011 Dun & Bradstreet data, 92.3% of businesses in the assessment area have gross annual revenues of \$1 million or less. The percentage of loans made to businesses with gross annual revenues of \$1 million or less is lower than assessment area demographics; however, it is reasonable given the area's competitive banking environment for small business loans. The assessment area includes larger regional banks and national financial institutions. Bank management also explained that although the economy is showing some improvement, small business loan demand is generally low; some small businesses are still borrowing conservatively and not seeking additional debt. In addition, management indicated that the bank has strong relationships with existing commercial customers and that some of these customers with gross annual revenues over \$1 million are likely to borrow multiple times throughout the year. The sample reflects this fact; it includes multiple loans to certain entities with gross annual revenues over \$1 million.

Table 5 shows that the bank actively extends small-dollar loans; 72.4% of the bank's loans to businesses with revenues of \$1 million or less were for amounts of \$100,000 or less. This indicates a willingness to serve the credit needs of small businesses. Overall, the bank's lending to businesses with gross annual revenues of \$1 million or less is reasonable.

Consumer lending. The bank's lending to low- and moderate-income borrowers is excellent when compared to the percentages of low- and moderate-income households in the assessment area. Table 6 shows the percentage of lending for each income category.

TABLE 6
Distribution of Consumer Loans by Borrower Income Levels*
Bozeman Assessment Area

	<i>Low Income</i>		<i>Moderate Income</i>		<i>Middle Income</i>		<i>Upper Income</i>		<i>Unknown Income</i>	
	#	\$	#	\$	#	\$	#	\$	#	\$
Consumer	27.0%	16.3%	29.7%	21.3%	18.9%	20.9%	24.3%	41.7%	0%	0%
Percentage of Households by Income Levels**	19.0%		15.3%		19.1%		46.6%		N/A	
Percentage of Families in Assessment Area**	15.5%		15.9%		20.9%		47.7%		N/A	
*Income classification based on the FFIEC 2012 median family income of \$56,900 for nonmetropolitan areas of Montana.										
**According to 2010 census data.										

The bank extended 27.0% of its consumer loans to low-income borrowers and 29.7% to moderate-income borrowers, which significantly exceeds the percentage of low- and moderate-income households in the assessment area, at 19.0% and 15.3%, respectively. Combined, the bank extended 56.7% of consumer loans by number and 37.6% by total dollar amount to low- and moderate-income borrowers, which is an excellent level of lending to these borrowers. The bank does not require a minimum loan amount for consumer loans, and it charges few fees. In addition, the bank extended 40.5% of its consumer loans in amounts of \$3,000 or less. Of these loans, 86.7% were to low- and moderate-income borrowers. Originating small-dollar loans indicates a willingness to meet the credit needs of low- and moderate-income borrowers. Overall, the bank does an excellent job of originating consumer loans to borrowers of different income levels.

GEOGRAPHIC DISTRIBUTION OF LOANS

Overall, the geographic distribution of the bank's loans is excellent and does not reveal any unexplained gaps in lending. The assessment area contains one low-income census tract and four moderate-income census tracts. Both of the bank's Bozeman offices are located in moderate-income census tracts. The bank originated the majority of its loans in the middle- and upper-income tracts, which is reasonable because a substantial majority of businesses, families, and households in the assessment area are in these tracts. Table 7 shows the bank's distribution of loans by census tract income level.

TABLE 7
Geographic Distribution of Consumer and Small Business Loans by Census Tract Income Level*
Bozeman Assessment Area

<i>Loan Type Sample</i>	<i>Low Income</i>		<i>Moderate Income</i>		<i>Middle Income</i>		<i>Upper Income</i>		<i>Unknown Income</i>	
	#	\$	#	\$	#	\$				
Consumer	0.0%	0.0%	5.4%	2.7%	67.6%	67.3%	27.0%	30.0%	0.0%	0.0%
Small Business	0.0%	0.0%	14.9%	8.2%	51.1%	43.3%	34.0%	48.5%	0.0%	0.0%
Demographic Data										
Number of Census Tracts	1		4		13		10		1	
Percentage of Census Tracts	3.4%		13.8%		44.8%		34.5%		3.4%	
Percentage of Businesses	0.0%		3.0%		45.0%		52.0%		0.0%	
Percentage of Households	2.2%		14.5%		46.9%		36.4%		0.0%	
Percentage of Families	1.4%		9.3%		49.2%		40.0%		0.0%	
*The income classification of census tracts is based on 2010 median family income.										

Small business lending. The bank's distribution of small business loans throughout the assessment area is excellent. Table 7 shows the percentage of small business loans originated in census tracts of different income levels. The bank did not originate any small business loans in the low-income census tract; however, this is reasonable because Montana State University occupies almost all of the tract and lending opportunities are limited. Both of the bank's Bozeman offices are located in moderate-income census tracts and bank management stated that the bank has been building relationships with small businesses located in Bozeman. Despite strong competition in the area, the bank originated 14.9% of the small business loans in moderate-income census tracts, far exceeding demographics, which indicate only 3.0% of businesses are located in moderate-income census tracts. The bank's lending in the moderate-income census tracts compares favorably to demographics.

The bank's small business lending in middle- and upper-income census tracts is comparable to demographics. The bank did not originate small business loans in two middle-income census tracts and four upper-income census tracts. Nonetheless, the bank's dispersion of small business loans is reasonable given the location of the bank's branches, the competition, and the location of commercial entities in the assessment area.

Consumer lending. The geographic distribution of the bank's consumer loans is reasonable. As shown in Table 7, the bank did not originate any consumer loans in the low-income census tract; however, this is reasonable because Montana State University occupies almost all of the tract and lending opportunities are limited. The bank originated 5.4% of the consumer loans to borrowers in the moderate-income census tracts. The 2010 census data indicates that 14.5% of the households in the assessment area are in the moderate-income census tracts. Although the bank's lending is below demographics, it is still reasonable based on competition and the opportunities in the moderate-income census tracts. Three of the moderate-income census tracts are located in downtown Bozeman near the university. Bank management indicated that many students reside in these tracts and that demand from students for consumer loans is generally low. Further, college students may find it difficult to qualify for a loan because they tend to have minimal incomes.

The bank also did not originate consumer loans in three middle- and one upper-income census tract, which is reasonable because of the presence of other financial institutions and a lower population in these areas.

Overall, the bank's distribution of loans in the assessment area is excellent and does not reflect any unexplained gaps in lending.

COMMUNITY DEVELOPMENT TEST

The level of community development activities in the Bozeman assessment area is excellent. The bank's community development activities primarily focus on economic development, revitalizing and stabilizing distressed middle-income geographies by helping to attract new business or residents or retain existing ones and providing support to organizations that serve low- and moderate-income individuals. The bank's activities demonstrate excellent responsiveness to the needs of the assessment area.

Community development lending. The bank's community development lending in the assessment area is excellent. The bank originated five community development loans totaling approximately \$6.6 million since the previous evaluation. For comparison, the bank had originated two loans totaling \$70,000 at the previous evaluation. One of the community development loans helped a nonprofit business improvement district to revitalize and stabilize distressed middle-income geographies in Livingston. The remaining four loans funded small business development and were made pursuant the SBA's Certified Development Company/504 Loan Program. This program is a financing tool for small businesses that promotes

economic development. During the evaluation period, the bank provided approximately \$2.9 million in interim financing and \$3.7 million in permanent financing to three businesses in the Bozeman assessment area as part of this program. These loans are responsive to community development needs because they focus on economic development, which is especially important during economic recovery. The bank's community development lending in the assessment area is excellent and is responsive to community development lending needs.

Qualified investments. The bank's qualified investments for the Bozeman assessment area include two prior-period bonds with book values totaling \$423,956. The bank retained one affordable housing bond and one bond that revitalizes and stabilizes a distressed middle-income geography. The bank did not purchase any new qualified securities during the evaluation period. According to bank management, new investment opportunities are limited, and the competition for such investments is high.

The bank also made community development investments in the form of donations totaling \$40,948 since the previous evaluation. A majority of the bank's donations in the Bozeman assessment area were to organizations that provide community services to low- and moderate-income families and individuals. These services include health care, a food pantry, and education for low- and moderate-income people. The bank also donated to organizations that work to revitalize and stabilize a distressed middle-income area in Livingston. The level of qualified donations in the assessment area increased 71.1% since the previous evaluation. The level of qualified investments and donations is excellent and is responsive to needs in the assessment areas.

Community development services. During the evaluation period, six bank employees provided community development services to eight organizations in the Bozeman assessment area. These organizations help revitalize or stabilize distressed middle-income census tracts and provide community services to low- and moderate-income individuals. Bank employees serve as board members, treasurers, and finance committee members. The focus of the bank's community development services reflects the needs of the assessment areas.

Given the bank's size and financial condition, and the competition for community development opportunities in the assessment area, the composition and level of the bank's community development activities in this assessment area are excellent.

NONMETROPOLITAN AREA – LIMITED REVIEW

DESCRIPTION OF WHITEFISH ASSESSMENT AREA

Examiners conducted a limited-scope review of the bank's CRA performance in the Whitefish assessment area and determined the bank's performance in this assessment area is consistent with the performance in the Bozeman assessment area.

The Whitefish assessment area includes all of Flathead County. The number of census tracts in this assessment area increased from 15 to 19 since the previous evaluation because of changes in census tract boundaries based on 2010 U.S. Census data. There were also changes in the income classifications of census tracts, based on the same data. The assessment area now includes zero low-income, three moderate-income, 13 middle-income, and three upper-income census tracts. The bank has one full-service office in the assessment area, located in a middle-income census tract. There are no distressed or underserved middle-income census tracts in this assessment area. The bank has not opened or closed any offices in this assessment area since the previous evaluation. Table 8 provides additional information about the assessment area.

<i>Income Type</i>	<i>Tract</i>		<i>Percentage of Population by Tract</i>	<i>Percentage of Families by Income Level</i>
	<i>#</i>	<i>%</i>		
Low Income	0	0.0	0.0	0.0
Moderate Income	3	15.8	16.3	15.2
Middle Income	13	68.4	71.8	70.7
Upper Income	3	15.8	11.9	14.1
Total	19	100.0	100.0	100.0

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank extends a reasonable number and dollar amount of loans in the Whitefish assessment area given the total deposits at the Whitefish branch. The bank's activity in this assessment area accounts for only 4.5% of total loans and 10.2% of total deposits. According to the June 30, 2012, FDIC Deposit Market Share Report, the bank ranks 11th of 13 financial institutions with deposits in Flathead County, behind several large regional and national banks. The sample used in the evaluation for this assessment area included only one small business loan and three consumer loans originated during the sample period. This lending activity is not sufficient for a meaningful analysis. Given the bank's net loan-to-deposit ratio, lending in the assessment areas, size of the Whitefish branch, and local competition, the bank's lending performance in the Whitefish assessment area is consistent with its lending performance in the Bozeman assessment area.

The bank's community development performance in the Whitefish assessment area is appropriate given the limited opportunities in this assessment area. The bank made \$1,100 in qualified investments in the form of donations to organizations that provide community services to low- and moderate-income people. The community development activities are responsive to the needs of the community.

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.)