



PUBLIC DISCLOSURE

January 6, 2014

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

First Citizens Bank of Polson, National Association
Charter Number: 24670

213 First Street West
Polson, Montana 59860

Office of the Comptroller of the Currency

Salt Lake City Field Office
2795 Cottonwood Parkway, Suite 390
Salt Lake City, Utah 84121

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

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

The major factors supporting the rating for First Citizens Bank of Polson (Bank) are:

- The Bank's loan-to-deposit (LTD) ratio is more than reasonable given its size, financial condition, and credit needs of the assessment area (AA).
- The Bank originates a majority of its loans in the assessment area.
- The Bank's distribution of consumer and commercial loans reflects reasonable penetration to borrowers of different incomes and revenues.
- The Bank demonstrates excellent dispersion in lending to geographies of different income-level Census Tracts (CT) within its AA.

SCOPE OF EXAMINATION

We evaluated the Bank's Community Reinvestment Act (CRA) performance under the CRA small bank criteria, which focuses on the lending test. The lending test determines conclusions for the five performance criteria. The evaluation period for this examination covers lending performance from the date of the previous CRA examination, July 7, 2008, through the start date of this examination, January 6, 2014. To focus on current lending practices, we analyzed loan originations in the testing period of January 1, 2012, through December 31, 2013, which is representative of the Bank's lending strategy since the previous CRA examination.

The Bank's primary loan products are consumer loans and commercial loans. We selected all 18 commercial loans originated in the testing period and a sample of 22 consumer loans originated in that same period.

DESCRIPTION OF INSTITUTION

The Bank is a \$20 million national bank headquartered in Polson, Montana. It is wholly-owned by Flathead Lake Bancorporation, a single bank holding company. The Bank has one location in Polson, Montana. It has a proprietary ATM located onsite. Currently, the Bank is meeting the credit needs of the AA. There are no legal or other factors impeding the Bank's ability to help meet the credit needs in its AA.

The Bank offers traditional loan and deposit products. According to the September 30, 2013 Call Report, the loan portfolio represented 70 percent of total assets. The Bank's primary loan products are consumer loans and commercial loans. These products are representative of the Bank's business strategy. Please refer to the Bank's CRA Public File for more information.

The Bank's CRA performance was rated "Satisfactory" during the last evaluation period dated July 7, 2008.

DESCRIPTION OF ASSESSMENT AREA(S)

The Bank designated one AA for CRA purposes. The Bank's AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

The Bank's AA includes all of Lake County, MT. Polson, MT, where the Bank's only branch is located, is in Lake County, MT. Lake County is a non-metropolitan county located in the northwestern section of Montana. The AA consists of seven middle-income and two moderate-income CTs. According to the 2010 U. S. Census, the population of Lake County is 28,746. Approximately 27 percent of AA families are low-income, 18 percent are moderate-income, 22 percent are middle-income, and 32 percent are upper-income. In Lake County, 19 percent of households are below the poverty level. The weighted average updated median family income in Montana non-MSAs is \$55,400. The Bank has 6.08 percent deposit market share of the FDIC insured deposits in the AA. This ranks the Bank seventh out of the seven financial institutions in the AA. The local economy remains poor with only minor signs of improvement.

In order to gain a better understanding of the economic conditions and credit needs within the Bank's AA, we contacted an individual working for an economic development agency in Lake County, MT. This individual stated that financial institutions in the AA are meeting the credit needs of the community. The individual stated that Lake County is located in a large tribal area with a great deal of diversity and a high poverty level. The contact stated that many potential borrowers in the community might not qualify for Bank loans. The contact stated that the financial institutions in Lake County will try to work with other organizations to assist the potential borrowers to obtain the financing they need.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The Bank's lending level is more than reasonable given its size, financial condition, and the AA's credit needs. The Bank's average quarterly loan-to-deposit ratio for all quarters since the prior CRA public evaluation dated July 7, 2008 is 76.53 percent. The Bank's loan-to-deposit ratio compares favorably with three similarly situated banks operating in Lake County, MT. These banks had loan-to-deposit ratios during the same period averaging 63.00 percent. The similarly situated banks' average loan-to-deposit ratios were between 47.70 percent and 76.11 percent.

Lending in Assessment Area

The Bank makes a majority of its loans within its AA.

We reviewed 22 Consumer Loans. Based on the number of consumer loans in our sample, the Bank had 95 percent (21 loans) inside the assessment area and 5 percent (1 loan) outside of the assessment area. Based on the dollar amount of loans for

consumer loans, the Bank had 99 percent (\$272,224) inside the assessment areas and 1 percent (\$3,860) outside the assessment area.

In addition, we reviewed 18 business loans. The Bank has 78 percent (14 loans) of business loans inside the assessment area and 22 percent (4 loans) outside the assessment area. This equates to a dollar amount percent of 21 percent (\$354,565) inside the assessment area and 79 percent (\$1,359,663) outside of the assessment area.

With the consumer and commercial loan reviews, the Bank has an overall in/out ratio of 88 percent by number of loans and 32 percent by dollar amount of loans. The number of loans is a more accurate representation of the Bank’s lending as the dollar amount is skewed by a few loans outside of the AA that happen to be large dollar amounts.

Table 1 - Lending in Lake County, MT										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Consumer	21	95	1	5	22	274,224	99	3,860	1	278,084
Commercial	14	78	4	22	18	354,565	21	1,359,663	79	1,714,228
Total	35	87.5	5	12.5	40	628,789	32	1,363,523	68	1,992,312

Source: 2012 and 2013 Loan Sample

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

The Bank’s lending penetration to consumers in different income categories and businesses of different sizes is reasonable. Its lending penetration to consumers in the AA is near the demographic comparator. In addition, The Bank’s lending penetration to commercial borrowers exceeds the demographic comparator. Please refer to the narratives under “Consumer” and “Commercial” below.

Consumer

The Bank’s overall borrower penetration of consumer loans is reasonable. Of consumer loans the Bank originated, 24 percent were to borrowers in the low income level, 14 percent were to borrowers in the moderate income level, 38 percent were to borrowers in the middle income level, and 24 percent were to borrowers in the upper income level. This compares reasonably to AA demographic comparators. While the Bank’s lending is slightly below the demographic comparators, it is within a reasonable amount, and overall the Bank is lending to borrowers of all income levels.

Table 2 - Borrower Distribution of Consumer Loans in Lake County, MT								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer	28.94	24	18.30	14	17.55	38	35.21	24

Source: 2010 U.S. Census data; 2012 and 2013 Loan Sample

Commercial

The Bank’s overall borrower penetration of commercial loans is excellent. It originated 86 percent by number and 76 percent by dollar of commercial loans to borrowers with revenues of \$1 million or less. This compares favorably to AA demographics of 76.41 percent. The percentage of AA businesses that do not report is material at 20.40 percent, and this decreases the reliability of comparing the Bank’s lending to the demographic comparator. However, it is noteworthy that 83 percent of the Bank’s business loan originations are for \$100,000 or less. If loan amount is a proxy for revenue size, the Bank’s performance in making loans to small businesses in the AA exceeds the demographic comparator.

Table 2A - Borrower Distribution of Loans to Businesses in Lake County, MT				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Business	76.41	3.19	20.40	100
% of Bank Loans in AA by #	86	7	7	100
% of Bank Loans in AA by \$	76	17	7	100

Source: 2013 Business Geodemographic Data; 2012 and 2013 Loan Sample

Geographic Distribution of Loans

The Bank demonstrates excellent dispersion in lending to geographies of different income-level CTs within its AA. The Bank’s dispersion for both the consumer and commercial samples reviewed exceeded the demographic comparator for the moderate-income level CT. Please refer to the narratives under “Consumer” and “Commercial” below.

Consumer

The Bank’s borrower dispersion of consumer loans is excellent. Of the consumer loans sampled in the AA, the Bank lent 35 percent to moderate-income level CT borrowers and 65 percent to middle-income level CT borrowers. This exceeds the percent of AA households in the moderate-income level CT. There are no low-income level CTs within the AA.

Table 3 - Geographic Distribution of Consumer Loans in Lake County, MT								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer	0	0	32.26	35	67.74	65	0	0

Source: 2010 U.S. Census data; 2012 and 2013 Loan Sample

Commercial

The Bank’s borrower dispersion of commercial loans is excellent. Of the commercial loans sampled in the AA, the Bank lent 36 percent to moderate-income level CT borrowers and 64 percent to middle-income level CT borrowers. This exceeds the percent of AA businesses in the moderate-income level CT. There are no low-income level CTs within the AA.

Table 3A - Geographic Distribution of Loans to Businesses in Lake County, MT								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business Loans	0	0	29.70	36	70.30	64	0	0

Source: 2013 Business Geodemographic Data; 2012 and 2013 Loan Sample

Responses to Complaints

No complaints have been received by the Bank or the OCC relating to the Bank’s CRA performance during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank’s (bank) or Federal savings association’s (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any AA by an affiliate whose loans have been considered as part of the bank’s or FSA’s lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.