



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

July 7, 2008]

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

Billings Field Office]
490 North 31st Street]
Billings], Montana] 59101-1256]

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.

First Citizens Bank of Polson, N.A. (FCB) meets the credit needs of its assessment area (AA).

- FCB's lending level is more than reasonable given the financial institution's size, financial condition, and the AAs' credit needs.
- The bank's lending penetration to consumers in different income categories and businesses of different sizes is excellent.
- FCB makes a majority of its loans within its AAs.
- The bank demonstrates satisfactory record in lending to geographies of different income levels within its AAs.

SCOPE OF EXAMINATION

The evaluation period for this examination is January 21, 2003 to July 7, 2008. We used small bank procedures to evaluate the bank's performance under the Community Reinvestment Act (CRA) in both of its AAs. The bank's primary lending product by number is consumer loans, and its primary lending product by dollar amount is business loans. Consumer loans comprise 63 percent of the banks loan origination by number, while business loans account for 60 percent of the dollar amount of the bank's loan portfolio. To assess the bank's lending performance, we reviewed a sample of 20 consumer loans and 20 business loans in the Polson AA and 20 consumer loans in the Missoula Metropolitan Statistical Area (MSA) AA. We were unable to fill a 20 business loan sample in the Missoula MSA AA and used only the consumer loan sample to assess lending performance in that AA. Our samples represented loan originations between January 1, 2006 and June 30, 2008.

DESCRIPTION OF INSTITUTION

FCB is a \$34 million bank headquartered in Polson, Montana. The bank is wholly-owned by Flathead Lake Bancorporation, a single bank holding company. The bank's main office is in Polson, Montana, and it has one branch location in East Missoula, Montana. FCB has a proprietary ATM at each location. There are no legal, financial, or other factors impeding the bank's ability to help meet the credit needs in its AAs. FCB received a "Satisfactory" rating at its last CRA examination, dated January 21, 2003

FCB offers traditional loan and deposit products. According to the March 31, 2008 Call Report, the loan portfolio represented 87 percent of total assets. The portfolio is comprised of 26 percent one- to four-family residential construction loans, 22 percent one- to four-family residential loans, 20 percent business loans, and 9 percent

consumer loans. These products are representative of the bank's business strategy.

The following table shows the breakdown of loans originated and purchased between January 1, 2006, and June 30, 2008.

Loan Type	% by Number of Loans Originated/Purchased during evaluation period		% by Dollars of Loans Originated/Purchased during evaluation period	
	# Loans	%	\$ Amount (000s)	%
Home Loans	59	9	5,285	19
Consumer Loans	433	63	3,543	12
Business Loans	158	23	17,046	59
Res RE Construction Loans	15	2	2,577	9
Dealer	26	3	320	1
Total	691	100	28,771	100

Source: Bank Reports.

Please refer to the bank's CRA Public File for more information.

DESCRIPTION OF ASSESSMENT AREAS

The bank designated two assessment areas for CRA purposes. The bank's AAs meet the requirements of the regulation and do not arbitrarily exclude low- or moderate-income geographies.

Polson Assessment Area

The Polson AA consists of Lake County and is the location of the bank's main office in Polson. 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 census tracts (CTs). According to the 2000 U. S. Census, the population of Lake County is 26,500. Approximately 25 percent of AA families are low-income, 21 percent are moderate-income, 22 percent are middle-income, and 32 percent are upper-income.

In Lake County, 17 percent of households are below poverty level. The weighted average updated median family income in Montana non-MSAs is \$48,900. The unemployment rate as of March 31, 2008, was 6.8 percent. The local economy is stable. Major employers in the county include the Confederated Salish and Kootenai Tribes, Jore Corporation, and the St. Luke Healthcare Network. Competition from other financial institutions is strong. FCB has 9.5 percent deposit market share of the FDIC insured deposits in the AA. This ranks the bank fifth out of the seven financial institutions in the AA.

Missoula MSA Assessment Area

The Missoula MSA AA consists of Missoula County, which is a MSA. The Missoula

MSA, located in northwestern Montana, consists of four moderate-income CTs, thirteen middle-income CTs, and two upper-income CTs. The 2000 U.S. Census placed the population of the Missoula MSA at 95,800. Approximately 19 percent of AA families are low-income, 19 percent are moderate-income, 23 percent are middle-income, and 39 percent are upper-income. Fifteen percent of the Missoula MSA households are below poverty level. According to the 2000 United States Census, the weighted average updated median family income in the Missoula MSA was \$54,500. The MSA's unemployment rate as of March 31, 2008, is 4.2 percent as reported by the United States Bureau of Labor Statistics. Missoula's economy has slowed since the start of the year in line with the state and nation. Major employers in the MSA are St. Patrick's Hospital, Community Medical Center, Plum Creek Timber Company Inc., and the University of Montana. Competition from other financial institutions is strong in the AA. FCB ranks thirteenth out of thirteen institutions in the AA with a 0.35% deposit market share of the FDIC-insured deposits in the MSA.

We interviewed one community contact in connection with this examination. This individual stated that a primary credit need in this community is lending to small business. This individual indicated that financial institutions in Lake County and Missoula County were adequately meeting the primary credit needs of the counties. Additionally, the individual felt FCB management team members are very open at the community level and are strong community supporters.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FCB's lending level is more than reasonable given the financial institution's size, financial condition, and the AAs' credit needs. FCB's average quarterly loan-to-deposit ratio for all quarters since the prior CRA public evaluation dated January 21, 2003 is 91 percent. The bank's loan-to-deposit ratio compares favorably with four similarly situated banks operating in Lake County, MT, and the Missoula MSA AAs. These banks had loan-to-deposit ratios during the same time period averaging 86 percent. The similarly situated banks' average loan-to-deposit ratios fell within a range of 88 percent on the high side and 83 percent on the low side.

Lending in Assessment Area

FCB makes a majority of its loans within its AAs. Based on our samples of 20 business loans and 20 consumer loans in the Polson AA and 20 consumer loans in the Missoula AA, FCB originates 90 percent of its loans by number and 86 percent by dollar amount within its assessment area.

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 excellent. The bank's performance in each assessment area is discussed in detail in the following sections.

Polson Assessment Area

The bank has excellent lending penetration to borrowers with different incomes in the Polson AA.

FCB's distribution of consumer loans compared to the percentage of assessment area low- or moderate-income households significantly exceeds the demographic comparators and exceeds the standard for satisfactory performance. Based on our sample, the bank originates 35 percent of its consumer loans to low-income households and 20 percent of its consumer loans to moderate-income households, which compares favorably to assessment area demographics of 26 percent low-income and 19 percent moderate-income households. We obtained the demographic information from the 2000 United States Census.

The distribution of loans to businesses of different sizes is difficult to compare because nearly 32 percent of assessment area businesses did not report revenue size. However, the percentage of reporting businesses with revenues of \$1 million or less is 83 percent which exceeds that of the demographic comparator of 65 percent.

Missoula MSA Assessment Area

The bank has excellent lending penetration to borrowers with different incomes in the Missoula MSA AA.

FCB's distribution of consumer loans compared to percentage of assessment area low- or moderate-income households significantly exceeds the demographic comparators and exceeds the standard for satisfactory performance. Based on our sample, the bank originates 45 percent of its consumer loans to low-income households and 25 percent of its consumer loans to moderate-income households, which compares favorably to assessment area demographics of 23 percent low-income and 16 percent moderate-income households. We obtained the demographic information from the 2000 United States Census.

Geographic Distribution of Loans

The bank demonstrates satisfactory record in lending to geographies of different income levels within its AAs. The bank's performance in each assessment area is discussed in detail in the following sections.

Polson Assessment Area

FCB's geographic distribution of loans in the assessment area is satisfactory.

The geographic distribution of consumer loans mirrors AA demographics. We sampled consumer loans originated in the AA in 2006, 2007, and the first six months of 2008. Based on our sample, 10 percent of the bank's total consumer loans by number were made in moderate-income census tracts, which is the same percentage of AA households in moderate-income census tracts.

Overall, the bank's geographic distribution of small loans to businesses is satisfactory. Based on our sample, the bank makes 9 percent of its small business loans to businesses located in moderate-income census tracts, which meets the census data from 2000 showing 8 percent of small loans to businesses is made to AA businesses located in moderate-income census tracts.

Missoula MSA Assessment Area

FCB's geographic distribution of loans in the assessment area is excellent.

The geographic distribution of consumer loans exceeds AA demographics. We sampled consumer loans originated in the AA in 2006, 2007, and the first six months of 2008. Based on our sample, 15 percent of the bank's total consumer loans by number were made in moderate-income census tracts, which compares favorably to AA demographics of 23 percent of AA households that live in moderate-income census tracts.

Responses to Complaints

The Office of the Comptroller of the Currency and the bank did not receive any complaints about its CRA performance during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

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