

PUBLIC DISCLOSURE

January 27, 1997

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

**PINNACLE BANK
913856**

10-31-2940

1200 Golden Gate Drive

Papillion, Nebraska 68046

NOTE: 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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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution=s record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of Pinnacle Bank, Papillion, Nebraska, prepared by the Federal Reserve Bank of Kansas City, the institution=s supervisory agency, as of January 27, 1997. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution=s branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION

INSTITUTION=S RATING: *This institution is rated **Satisfactory Record of Meeting Community Credit Needs.***

Pinnacle Bank satisfactorily serves the assessment area in which it operates, based upon a review of the bank=s lending record, qualified investments, and services. The bank primarily serves its assessment area through its direct lending of real estate and small business loans. The majority of these loans were originated within this area. Furthermore, the geographic distribution of loans and the distribution of loans among borrowers of different income levels, including farms and businesses of varying sizes, are reasonable.

While the bank=s participation in qualified community development investments and grants is limited, it provides a variety of products and services that effectively meet the needs of those residing within its assessment area.

The following table indicates the performance level of Pinnacle Bank with respect to the lending, investment, and service tests.

PERFORMANCE LEVELS	The Farmers State Bank & Trust Company		
	PERFORMANCE TESTS		
	<i>Lending Test*</i>	<i>Investment Test</i>	<i>Service Test</i>
Outstanding			
High Satisfactory			X
Low Satisfactory	X		
Needs Improvement		X	
Substantial Noncompliance			

* Note: The lending test is weighted more heavily than the investment and service test when arriving at an overall rating.

DESCRIPTION OF INSTITUTION:

Pinnacle Bank is a medium-sized financial institution located in the southwestern portion of the Omaha Metropolitan Statistical Area (MSA). The bank is comprised of five, full-service offices, one drive-through location and seven automatic teller machines (ATMs) throughout Douglas and Sarpy Counties. It is a subsidiary of Pinnacle Bancorp, Inc., a bank holding company with consolidated assets of \$1.6 billion as of September 30, 1996. As of this same date, Pinnacle Bank's assets totaled \$153 million, with 73 percent consisting of loans. The bank primarily focuses upon real estate and commercial lending.

The bank has the ability to meet the credit needs of its defined assessment area based upon its size and financial condition. The following table reflects the distribution of the bank's loan portfolio according to the September 30, 1996 Consolidated Reports of Condition and Income (Call Report).

THE BANK'S LOAN PORTFOLIO		
<i>Loan Type</i>	<i>Amount (\$000)</i>	<i>Percent of Total</i>
Commercial	36,710	33
Nonfarm nonresidential	29,414	26

THE BANK=S LOAN PORTFOLIO		
Multiple and 1- 4-Family real estate	20,489	18
Consumer	19,603	17
Farmland or agricultural	5,142	5
Other loans and leases	1,006	1
TOTAL	112,364	100

As illustrated in the table above, the bank=s loan portfolio is fairly diversified. While the bank=s portfolio is largely concentrated in commercial and nonfarm, nonresidential loans, the bank does provide a large amount of residential and consumer loans.

The bank=s performance under the CRA was last evaluated at the May 8, 1995 examination, at which time it was rated Satisfactory.

DESCRIPTION OF ASSESSMENT AREA

Thirty-five census tracts in the five county Omaha MSA comprise Pinnacle Bank=s assessment area. The assessment area includes 23 census tracts in the south central portion of Douglas County, Nebraska, and 12 census tracts in the northeast portion of Sarpy County, Nebraska. All of the assessment area tracts are upper- or middle- income, except for one moderate-income tract. According to bank management and community contacts, the moderate-income tract encompasses base housing for Offutt Air Force Base located in Bellevue, Nebraska.

A well-diversified economy and low unemployment has made the MSA prosperous. Unemployment has declined from 3.4 percent in 1992 to a low of 2.6 percent as of the fourth quarter of 1995. During this same time, the labor force grew by 7.9 percent. While the MSA job base has grown overall, farm employment has decreased by 7.1 percent, and government sector jobs have declined by 4.4 percent. Stimulated by a healthy economy, individual and per capita incomes also rose significantly during the period by 25.9 percent and 21.8 percent, respectively.

The fastest growing industry sector in the MSA has been the services industry, which exhibited a 27.7 percent increase in employment between 1989 and 1995. According to the Nebraska Department of Labor, the service industry is the largest employment sector in the MSA, accounting for 31 out of every 100 jobs. Half of all new jobs created between 1989 and 1995 originated from the services sector. Business services such as computer and data processing comprised the largest service category, followed by health services. Similar to the MSA, Douglas and Sarpy Counties were both heavily reliant on the service industry for the creation of new jobs; however, Sarpy County=s service

industry showed exceptional growth. From 1990 to 1994, Sarpy County's service industry increased by 27.4 percent compared to 6.2 percent for Douglas County and 7.5 percent for the MSA. A local economic development official indicated there has been rapid growth of both large and small businesses within the bank's assessment area.

The Omaha MSA has experienced slow steady growth over the past few decades. Between 1940 and 1990, the population rose 80.8 percent from 353,723 to 639,580. Regional Economic and Information Series (REIS) data indicates that Sarpy County is experiencing the fastest growing population of any county within the MSA. From 1990 to 1995, Sarpy County's population increased 9.0 percent compared to a 4.3 percent rise for Douglas County and a 5.0 percent rise in the MSA. According to the Bureau of Business Research and Iowa State Data Center, the Omaha MSA and Sarpy County, will continue to experience steady growth. Population projections between 1990 and 2010 indicate increases of 27, 11, and 13 percent, respectively, for Sarpy County, Douglas County, and the MSA.

Generally, the bank's assessment area is affluent. As of 1990, the median family income for the area was \$42,678, which was 18.5 percent higher than the MSA and 35 percent higher than the state medium-family income. The median-family income annualized for the MSA in 1996 is \$45,900. Only 3 percent of families in the assessment area lived below the poverty level compared to 7.2 percent for the MSA. The following table depicts the assessment area distribution of households and families by income level based upon 1990 U.S. Census data.

DISTRIBUTION OF HOUSEHOLD AND FAMILIES BY INCOME				
	Household Income Summary		Family Income Summary	
<i>Income Category</i>	<i>Number</i>	<i>Percent of Households</i>	<i>Number</i>	<i>Percent of Families</i>
Low-Income	8,370	11.9	4,722	9.2
Moderate-Income	10,926	15.5	7,921	15.5
Middle-Income	14,824	21.0	13,428	26.2
Upper-Income	36,447	51.6	25,162	49.1
Total	70,597	100.0	51,233	100.0

The assessment area contains a high level of middle- and upper-income households and families compared to the MSA and other parts of the state. Middle- and upper-income households comprise 72.6 percent of the area's total households compared to 60.8 percent for the MSA and 61 percent for the state. Low- and moderate-income

households represent only 27.4 percent of the area=s households compared to 39.2 percent for the MSA.

Housing in the assessment area is more costly when compared to the rest of the MSA. Median monthly owner costs and median monthly rental payments are higher in Sarpy County in comparison to Douglas County due to a larger percentage of new housing stock and relatively higher median household incomes. Of assessment area specified housing units, 71.8 percent were valued over \$61 thousand compared to 47.6 percent for the MSA. While rental housing in the area was higher than the MSA, only 28.2 percent of the renters paid over 30 percent of their gross incomes. Community contacts indicated that a shortage of affordable 1- to 4-family and rental housing exists within the assessment area. The cost of housing, especially rental housing, continues to increase as new businesses locate in the area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS:

The conclusions regarding the lending, investment, and service tests are summarized at the beginning of each section. Supporting information includes performance characteristics that are described in Appendix A of the regulation. A peer group of similarly situated financial institutions was developed as a contextual reference by which to evaluate Pinnacle Bank=s performance in the lending, investment, and services tests under the CRA. The peer group was identified on the basis of similarities in asset size and service area.

LENDING TEST

Pinnacle Bank is adequately meeting the needs of its assessment area based on its size, financial condition, and resources. The bank offers a number of credit products that help meet area credit needs. The assessment area concentration revealed that the majority of the bank=s lending was within the assessment area. The geographic distribution of loans was considered reasonable. The distribution of borrowers reflects, given the demographics of the assessment area, an adequate penetration among retail customers of differing income levels and farms and businesses of different sizes. While the bank has been active in certain community development projects, the majority were located outside of the bank=s assessment area.

Lending Activity

Pinnacle Bank offers a variety of loan products to meet the credit needs of its assessment area such as federally-insured residential mortgage and business loans through the Federal Housing Administration (FHA), Veterans Administration (VA) and the Small Business Administration (SBA). The bank also offers long-term, fixed-rate, residential mortgages, home improvement and equity lines of credit, small business, small farm, and consumer loans.

The bank's average loan-to-deposit ratio (LTD) for the previous six quarters was 75.12 percent; calculated using the five most recent quarters since the last CRA examination.

Overall, the bank compares favorably against its eight selected area peers. The eight area peer groups had average LTDs ranging from a low of 63.4 percent to a high of 84.7 percent. Only four percentage points separated Pinnacle Bank from the second highest LTD of 79.8 percent.

Assessment Area Concentration

A large majority of the bank's lending occurs within its assessment area. The analysis was based upon a sample of 100 percent of the residential, business, and small farm loans originated from January 1, 1996, through December 31, 1996. The three loan types reviewed consisted of 101 real estate, 891 business, and 88 small farm loans. The table below demonstrates, by product type, the percentage of loans reviewed that were located within the bank's assessment area. Management indicated that the majority of the small farm loans were originated to approximately 12 different farmers located just outside the assessment area.

<i>LOANS WITHIN THE BANK'S ASSESSMENT AREA</i>	
<i>LOAN TYPE</i>	<i>PERCENTAGE</i>
Residential	60
Small Farm	35
Business	74
<i>Total Loans</i>	<i>69</i>

Geographic Distribution of Loans

The geographic distribution of loans by income level of census tracts reflects adequate penetration throughout the assessment area. A review of the entire loan sample originated within the assessment area reveals that 86 and 14 percent of the loans were in upper- and middle-income census tracts respectively. Except for one moderate-

income census tract, the assessment area is comprised entirely of upper- and middle-income census tracts. As noted earlier, the moderate-income tract consists primarily of base housing for Offutt Air Force Base. Consequently, an analysis of distribution of loans by income level of census tracts is not meaningful.

Borrowers= Profile

Given the demographics of Pinnacle Bank=s assessment area, the distribution of loans to borrowers of different income levels, including small business and small farms is reasonable. As demonstrated in the following table, the percentage of real estate loans made to borrowers of different income levels approximates the percentage of families in the bank=s assessment area.

PERCENTAGE OF LOANS REVIEWED MADE TO INDIVIDUALS OF DIFFERENT INCOME LEVELS IN THE BANK=S AA		
<i>Income Level of Borrower</i>	<i>Percentage of Consumer Real Estate Loans Reviewed</i>	<i>Percentage of Families in the Bank=s Assessment Area</i>
Low (<50 percent of median)	3	9.2
Moderate (50 to 80 percent of median)	13	15.5
Middle (80 to 120 percent of median)	25	26.2
Upper (>120 percent of median)	59	49.1
Total	100	100

The assessment area is characterized by businesses that are both large and small. A sample of over 600 business loans located within the bank=s assessment area revealed that 49 percent were made to small businesses. For reporting purposes, small businesses and small farms are defined as having gross annual revenues of \$1MM or less. Because of the number of large businesses located within the bank=s assessment area, the distribution of loans made to small businesses is considered adequate. Furthermore, 85 percent of the bank=s small business loans were for amounts less than \$100M which indicates the bank is meeting the credit needs of small firms.

The bank=s record of lending to small farms appears much stronger, reflected by a 100 percent origination rate to small farms. The origination rate was based upon a smaller sample of 27 agricultural loans located within the assessment area.

DISTRIBUTION BY LOAN AMOUNT OF ORIGINATED SMALL BUSINESS AND SMALL FARMS LOANS		
	<i>Small Business</i>	<i>Small Farm</i>

<i>Loan Value Category</i>	<i>Count</i>	<i>Amount (\$000)</i>	<i>Count</i>	<i>Amount (\$000)</i>
+= \$100,000	271	6,929	25	692
, \$100,000 and +=\$250,000	31	4,884	2	335
, \$250,000	18	7,834	0	0
Total	320	19,647	27	1,027

Responsiveness to Credit Needs and Product Innovation

As the tables above demonstrate, Pinnacle Bank originates a reasonable amount of loans to low- and moderate-income borrowers and to small farms and businesses. As mentioned earlier, the bank participates in a number of government loan programs that benefit low- and moderate-income individuals and small businesses. The programs include: FHA, VA, SBA, Nebraska Investment Finance Authority (NIFA), and Perkins Guaranteed Student Loans. From January 1, 1996, to December 31, 1996, the bank originated 1,257 student loans totaling over \$1.8MM. Through the bank's participation in the secondary market, the bank offers loans with the help of private mortgage insurance, providing for down payments as low as 5 percent. In addition, the bank attempts to meet the credit needs of those needing small dollar loans through its origination of credit card loans. In the last year, the bank has approved 138 credit card applications with available credit balances of \$500.

Community Development Loans

Pinnacle Bank has originated five community development loans since the previous examination, four of which were located outside of the bank's assessment area. The bank originated a loan totaling over \$1MM for an affordable multifamily housing unit in a middle-income census tract. Bank management indicated virtually all of the residents have incomes less than 80 percent of the assessment area's median family income of \$45,900 and pay less than 30 percent of their gross incomes for rent. The bank also originated four loans totaling \$696M for multifamily housing units which are located in moderate-income tracts just outside the bank's assessment area. While the community development loans originated outside of the bank's assessment area benefit several moderate-income tracts, the bank should also pursue projects that benefit low- and moderate-income individuals and small businesses and farms within its assessment area.

INVESTMENT TEST

The bank needs to improve its record of making qualified community investments. Pinnacle Bank=s participation in qualified community development investments is limited to one donation and one multifamily development investment. The bank=s investment portfolio does contain various municipal securities; however, none meet the definition of qualified community development investments.

Investment and Grant Activity

The bank=s single community development investment consists of a loan for a multifamily rental housing unit totaling over \$1 million. Qualified grant activity consisted of a \$125 donation to the Sarpy Business Center, a small business incubator located within the assessment area. Because the bank=s assessment area contains only one moderate-income tract, few organizations within the assessment area target primarily low- and moderate-income individuals.

Responsiveness to Community Development Needs

Community contacts, officials from the housing and economic development sectors, indicated a need for affordable rental housing throughout the assessment area. In addition, more small business support and venture capital were also cited as developmental needs. The community development investment and the donation mentioned above support those needs.

Community Development Initiatives

Pinnacle Bank has not initiated or participated in any qualified community development programs since the previous examination.

SERVICES TEST

Pinnacle Bank=s delivery systems are accessible to essentially all portions of the bank=s assessment area. Services do not vary in a way that inconveniences certain portions of the bank=s assessment area. In addition, the bank=s community development services satisfactorily serve its assessment area.

Accessibility of Delivery Systems

Branch locations and credit services are tailored to the convenience and needs of the assessment area. Pinnacle Bank operates five full service branches and one drive-through facility, which are accessible to all segments of the assessment area. Since the previous examination, three branches have opened. Hours of operation are considered convenient, when compared to other institutions in the area. Generally, lobby hours are

from 9 a.m. to 5 p.m. with drive-through windows operating from 7 a.m. to 7 p.m. Furthermore, all but one of the branches offer Saturday banking hours. The bank provides five full service and two cash dispensing ATMs, four of which were installed since the last examination. On July 1, 1995, the bank closed a drive-through location at 146 West 2nd Street because of its close proximity to a newly opened branch location. The bank properly followed its branch closing policy as required by the Federal Deposit Insurance Corporation Improvement Act of 1991.

The bank offers other flexible delivery systems for its customers. The bank offers a debit check card, which may be used in conjunction with an overdraft line of credit. The bank's credit card product provides an additional credit delivery system. Additionally, the bank now offers its APinnacle Bank Telebank,® which provides customers with 24-hour computer banking accessibility.

Community Development Services

Bank management has been proactive in providing technical assistance to organizations that support small business development. The executive vice president is a director of the Sarpy County Economic Development Corporation. The corporation's goal is to support new and existing businesses through financial and technical support. The corporation utilizes private and Community Development Block Grant (CDBG) funds to finance new business development.

The bank also provides technical assistance to the Sarpy Business Center, a small business incubator providing support for small start-up companies. In addition, the bank sponsors a savings program at a local elementary school. The program is designed to educate students on the value and methods of savings. Bank employees make occasional visits to the school to open new accounts and receive deposits.

No violations of the antidiscrimination laws and regulations were identified. A review of bank policies and procedures revealed no prohibited practices designed to discourage loan applicants.

SCOPE OF EXAMINATION State Bank		
TIME PERIOD REVIEWED		5/08/95 - 1/27/97
FINANCIAL INSTITUTION		
NAME		PRODUCTS REVIEWED
Pinnacle Bank Papillion, Nebraska		Residential Real Estate Loans Small Business Loans Small Farm Loans
AFFILIATE(S)		
AFFILIATE RELATIONSHIP		PRODUCTS REVIEWED
Pinnacle Bancorp, Inc., Central City, NE		None
Bank of Colorado - Front Range, Windsor, CO		None
Bank of Colorado - Western Slope, Grand Junction, CO		None
State Bank, Palmer, NE		None
Citizens Bank and Trust Company, Torrington, WY		None
Havelock Bank, Lincoln, NE		None
Crete State Bank, Crete, NE		None
The Farmers State bank and Trust Company, Aurora, NE		None
Farmers State Bank and Trust Company, Lexington, NE		None
First National Bank, Abilene, KS		None
First National Bank, Worland, WY		None
The First National Bank, Shelby, NE		None
First Security Bank, Newcastle, WY		None
The First Security Bank of Craig, Craig, CO		None
The First Security Bank, Fort Lupton, CO		None
First United Bank, Neligh, NE		None
Schuyler State Bank and Trust Company, Schuyler, NE		None
Western Bank of Cody, Cody, WY		None
Archer, Inc., Central City, NE		None
Osceola Insurance, Inc., Central City, NE		None
Gretna State Bank, Gretna, NE		None
First National Bank of Osceola, Osceola, NE		None
Central Grain, Inc., Central City, NE		None
Farmers National Bank of Central City, Central City, NE		None
Dinsdale Brothers, Inc., Central City, NE		None

<p>The First National Bank of Wisner, Wisner, NE First Security Bank, Mitchell, NE Guaranty Corporation, Denver, CO Guaranty Bank and Trust Company, Denver, CO Pinnacle Bancorp, Iowa, Sioux City, IA Morningside Bank and Trust, Sioux City, IA</p>	<p>Bank Holding Company Bank Holding Company Bank Holding Company Bank Holding Company</p>	<p>None None None None None</p>
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LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION

ASSESSMENT AREA	TYPE OF EXAMINATION	BRANCHES VISITED	OTHER INFORMATION
<p>Nebraska Omaha MSA, Tracts 103.03, 103.04, 101.01, 105.01, 102.01, 105.03, 106.04, 105.02, 106.08, 106.06, 106.05, 106.07, 74.11, 74.22, 74.21, 74.20, 74.19, 74.25, 74.15, 74.24, 66.01, 66.02, 74.03, 74.05, 67.02, 67.01, 68.02, 74.07, 74.06, 74.09, 74.08, 69.02, 69.01, 68.01</p>	<p>On-Site</p>	<p>Not Applicable</p>	

Identification of Ratings

In connection with the assessment of each insured depository institution's CRA performance, a rating is assigned from the following groups:

Outstanding record of meeting community credit needs.

An institution in this group has an outstanding record of, and is a leader in, ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Satisfactory record of meeting community credit needs.

An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Needs to improve record of meeting community credit needs.

An institution in this group needs to improve its overall record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Substantial noncompliance in meeting community credit needs.

An institution in this group has a substantially deficient record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.