

PUBLIC DISCLOSURE

May 5, 1997

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

**HAVELOCK BANK
10-31-2140**

**6145 HAVELOCK AVENUE
LINCOLN, NEBRASKA 68507**

FEDERAL RESERVE BANK OF KANSAS CITY

**925 GRAND BLVD.
KANSAS CITY, MO 64198**

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 Havelock Bank prepared by the Federal Reserve Bank of Kansas City, the institution's supervisory agency, as of May 5, 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.*

Havelock Bank's overall performance with respect to the Community Reinvestment Act (CRA) is satisfactory based upon a review of the bank's provision of credit, qualified investments, and services to its assessment area. While Havelock Bank primarily serves its assessment area through direct lending, it is actively involved in a secondary market for real estate lending. In addition, the bank is involved in qualified investments and services. A high percentage of the bank's loans are within the assessment area, and the geographic distribution of loans reflects, given the product lines offered, a satisfactory penetration among customers of all different income levels, including low- and moderate-income individuals, and to businesses and farms of varying sizes. Although the bank's level of community development lending is low, it adequately offers flexible lending products and retail banking services. In addition, the bank adequately provides qualified investments and services to its assessment area in relation to its resources and capabilities.

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

PERFORMANCE LEVELS	Havelock Bank		
	PERFORMANCE TESTS		
	Lending Test	Investment Test	Service Test
Outstanding			
High Satisfactory	X		
Low Satisfactory		X	X
Needs Improvement			
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

Havelock Bank has five full-service offices within its assessment area which are located in the northeastern, central, and southern parts of the Lincoln Metropolitan Statistical Area (MSA). The bank is a wholly owned subsidiary of Pinnacle Bancorp, Inc., a bank holding company with assets of \$1.6 billion as of December 31, 1996. As of the same date, Havelock Bank’s assets totaled \$160,599M, of which 71 percent were loans. The bank’s primary lending focus is small business and commercial real estate-secured loans.

Bank offices are in diverse economic communities. None are located in integrated census tracts, but one is located in a moderate-income tract, two are in middle-income tracts, and two are in upper-income tracts.

The bank’s performance under the Community Reinvestment Act was last evaluated at the August 14, 1995 examination, at which time it was rated satisfactory.

DESCRIPTION OF ASSESSMENT AREA

The bank’s assessment area includes all 52 census tracts in the Lincoln MSA. The Lincoln MSA consists of Lancaster County in south central Nebraska with the city of Lincoln, Nebraska being the largest incorporated area within the MSA. However, there are several towns in the MSA. Besides the city of Lincoln, all or parts of the towns of Waverly, Davey, Denton, Eagle, Greenwood, Malcom, and Raymond are in the bank’s assessment area. Seven of the 52 census tracts are low-income, 12 are moderate- income, 24 are middle-income, and 9 are

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upper-income. Low- to moderate-income census tracts are located in the central part of the city of Lincoln. The bank's assessment area was expanded during the examination from 46 census tracts to all 52 census tracts within the MSA to encompass a newly opened branch.

As stated earlier, the city of Lincoln, the state capital of Nebraska, is the largest incorporated area within the MSA. According to the 1990 U.S. Census, Lincoln's population was 191,972, while the Lancaster County assessment area population was 213,641. Lincoln planning officials have published estimates indicating that Lincoln grew 1.5 percent in 1996, bringing the population to 203,076.

Household income for the assessment area is \$28,909 which is higher than that for the entire state which is \$26,016. Likewise, the median family income for the assessment area is \$36,467 which is higher than that for the entire state which is \$31,634. The difference between household and family income can be attributed to the large student population that would traditionally decrease the income level of the household more than the family. In the Lincoln metropolitan statistical area, fewer families and households live below the poverty level than in the rest of the state and per capita income is higher. Considering these factors, the assessment area appears to be more affluent than other communities in the state. The following table depicts the assessment area distribution of household and family income levels based on the 1990 U.S. Census data.

DISTRIBUTION OF HOUSEHOLDS AND FAMILIES BY INCOME				
	<i>Household Income Summary</i>		<i>Family Income Summary</i>	
<i>Income Category</i>	<i>Number of Households</i>	<i>Percent of Households</i>	<i>Number of Families</i>	<i>Percent of Families</i>
Low-Income (<50 percent of median)	18,681	22.6	9,045	17.0
Moderate-Income ($50 < 80$ percent median)	14,155	17.1	9,851	18.5
Middle-Income ($80 < 120$ percent of median)	16,966	20.5	14,922	28.0
Upper-Income ($120 \geq$ of median)	33,034	39.8	19,542	36.5
Total	83,836	100.0	53,360	100.0

The 1990 Census lists the Lincoln MSA's unemployment rate at 3.4 percent. According to Chamber of Commerce publications, the unemployment rate has continuously decreased to a reported 2.4 percent in 1996. The major employers in the area are the Lincoln Public Schools, the state of Nebraska, and the University of Nebraska, each with more than 2,500 employees. The following businesses have between 1,000 and 2,500 employees: Bryan Memorial Hospital,

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Goodyear Tire & Rubber Co., city of Lincoln, Lincoln Telephone Co., the United States Government, the Gallup Organization, and the Burlington Northern Railroad.

According to the 1990 Census data, multifamily dwellings and rental units make up a larger portion of the assessment area compared to other metropolitan areas in the state. Of the housing units in the assessment area, 75.6 percent are 1- to 4-family units compared to 80.8 percent for the state. In contrast, the percentage of multifamily units, 21.0 percent, is higher than that of the state, which was 12.9 percent. In addition, rental units made up 39.9 percent of the assessment area's total housing units, compared to 30.6 for the state. The high incidence of multi-family, rental units can again be attributed to the large student population.

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 disclosure. In addition, the bank was compared to other financial institutions in the assessment area. The banks which compete in the market vary widely in asset size, structure, and service areas. However, the comparison serves as a contextual reference by which to evaluate the bank's performance in the lending, investment, and service tests under the CRA.

LENDING TEST

Havelock Bank has the ability to meet the credit needs of its assessment area based on its size, financial condition, and resources. The bank offers an adequate number of credit products. The assessment area concentration also revealed a high percentage of loans made in the bank's assessment area. In addition, the distribution of borrowers reflects, given the products offered, good penetration among retail customers of different income levels and agricultural enterprises and businesses of different sizes. Furthermore, the bank exhibits a satisfactory record of serving the credit needs of low- and moderate-income individuals, and small businesses and small farms in a manner consistent with safe and sound banking practices. Although the bank has a low level of community development lending, the bank utilizes flexible lending practices in order to help meet assessment area credit needs.

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Lending Activity

The bank has the ability to meet the credit needs of its assessment area based on its size, financial condition, and resources. The bank offers an adequate number of credit products; however, its primary focus is on small business and commercial real estate-secured lending. The bank's average loan-to-deposit ratio for the five previous quarters (12/95 through 12/96) was 83.8 percent compared to the national peer at 69.4 percent. The national peer consists of banks having assets between \$100 million and \$300 million with three or more banking offices, and located in a metropolitan area. The bank's average loan-to-deposit ratio of 83.8 percent is very competitive compared to lenders in the assessment area, which have loan-to-deposit ratios ranging from 71.0 to 84.9 percent.

The following table depicts the bank's loan portfolio according to the December 31, 1997 Consolidated Reports of Condition and Income (Call Report).

THE BANK'S LOAN PORTFOLIO		
Loan Type	Amount (\$000)	Percent of Total
Multiple and 1- to 4-Family real estate	24,340	21
Farmland or agricultural	3,009	3
Commercial	28,302	24
Consumer	9,002	8
Nonfarm nonresidential	39,235	34
Construction and land development	11,738	10
Other	100	<1
TOTAL	115,726	100

As shown in the above table, the bank's loan portfolio is concentrated in commercial and nonfarm nonresidential loans. However, as previously noted, the bank does offer a variety of loan products to meet the credit needs of its assessment area.

In addition to conventional loan products, the bank participates in governmentally insured, guaranteed or subsidized loan products for housing. Loans extended under the auspices of the federal government include Federal Housing Administration (FHA) loans, Farmers Home Administration loans, and Veterans Administration (VA) loans. In addition, the bank has extended loans under the Nebraska Investment Finance Authority (NIFA) first-time home buyer program. The NIFA was established by the Nebraska Legislature in 1983 to provide decent, safe, and sanitary housing for low- and moderate-income persons in the state of Nebraska. Mortgages are funded through the sale of tax-exempt bonds which are obligations of NIFA and are repaid from the mortgage payments. The bank is also an approved lender under the Nebraska Energy loan program. Nebraska Energy loans are used to fund a number of home,

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building and system improvements and offer borrowers low cost financing with repayment terms which extend to ten years. The table below illustrates the bank's involvement since January 1996 to April 1997 in these various programs.

BANK'S INVOLVEMENT IN GOVERNMENTALLY INSURED, GUARANTEED OR SUBSIDIZED LOAN PRODUCTS FOR HOUSING		
Program	Number	Amount (\$000)
Federal Housing Administration	8	656
Veterans Administration	2	204
Nebraska Investment Finance Authority	26	1,567
Total	36	2,427

During the same period of time, the bank sold 156 real estate loans on the secondary market in the amount of \$13,869M which included loans of the types described in the above table.

Assessment Area Concentration

A substantial majority of the bank's lending occurs inside its assessment area. The analysis included 100 percent of real estate loans reported under Home Mortgage Disclosures Act (HMDA) for the year 1996 and 100 percent of business and agriculture loans originated in 1996. The sample of real estate, business, and agricultural loans totaled 169, 35, and 438 respectively. The table below demonstrates, by general product type and by dollar amount, the percentage of loans reviewed that were located within the bank's assessment area.

LOANS WITHIN THE BANK'S ASSESSMENT AREA		
<i>Expressed by Percentage</i>		
LOAN TYPE	BY NUMBER	BY \$
Residential	88	81
Small Farm	86	48
Small Business	92	87
Total Loans	91	80

Geographic Distribution of Loans

The bank's assessment area contained 7 low-, 12 moderate-, 24 middle-, and 9 upper-income census tracts. The geographic distribution of loans reflects reasonable penetration throughout the assessment area. The table below demonstrates the penetration of different income level census tracts, by general product type, in the assessment area.

DISTRIBUTION BY DIFFERENT INCOME LEVEL OF CENSUS TRACTS							
Census Category	Percentage of Small Business Loans Reviewed		Percentage of Small Farm Loans reviewed		Percentage of Real Estate Loans Reviewed		Percentage of Census Tract in AA
	Count	\$	Count	\$	Count	\$	
Low	2	1	0	0	1	2	13
Moderate	24	14	0	0	17	10	23
Middle	52	58	83	74	52	43	46
Upper	22	27	17	26	30	45	18
Total	100	100	100	100	100	100	100

The above distribution shows relatively low levels of commercial and real estate lending in low-income census tracts and no agricultural loans extended in low- and moderate-income census tracts. This is attributed to several factors. First, three of the seven low-income census tracts housed non-residential properties: an industrial park, a penitentiary, and the Lincoln Municipal Airport. Virtually no households were found in those areas. Second, all of the low- and moderate-income census tracts are within the city limits of Lincoln and presented no opportunity for agricultural lending. Finally, the bank participates in government guaranteed programs which offer low- and moderate-income borrowers better rates and more flexible terms than conventional real estate loans. As stated earlier, 156 real estate loans that the bank originated and sold on the secondary market are not represented in the above analysis. Had these loans been reflected in the analysis, the distribution of lending within low- and moderate-income communities would have been stronger.

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

The distribution of borrowers reflects, given the demographics and economic status of the assessment area, a reasonable level of lending among borrowers of different income levels (including low- and moderate-income) and businesses and farms of different sizes. The following table illustrates the bank's lending to borrowers of different income levels for real estate loans reported under HMDA for the year 1996.

DISTRIBUTION OF REAL ESTATE LOANS BY BORROWER INCOME			
Area Median Family Income			\$35,949
Income Level of Borrower	Percentage of Real Estate Loans Reviewed		Percentage of Families in the Bank's assessment Area
	Count	\$	
<i>Low</i>	10	3	17
<i>Moderate</i>	9	3	19
<i>Middle</i>	12	5	28
<i>Upper</i>	69	89	36
Total	100	100	100

As the table shows, the bank's level of real estate lending to low-, moderate-, and middle-income families is somewhat low. This is the direct result of the bank's extensive involvement in secondary market and government guaranteed programs designed for low- and moderate-income borrowers. The favorable rates and payment structures of these loans offer a majority of low- and moderate-income borrowers more affordable choices than offered by conventional lending. The dollar amount of the loans to low- and moderate-income borrowers is proportionately lower, apparently as a result of the higher loan amounts generated by higher purchase prices paid by middle- and upper-income borrowers. The examination revealed that the bank reported 169 loans on the 1996 HMDA Loan Register which included refinance and home improvement loans. During the same period of time, the bank originated 118 secondary market loans for home purchase and refinance.

A review of commercial and agricultural loans demonstrated, based on the amount of business revenue, that 81 percent of the 404 business loans and 97 percent of 30 agricultural loans were made to small businesses and small farms. Small business and small farms are defined as having gross annual revenues of \$1MM or less. Furthermore, as shown in the table below, the distribution of loans of varying amounts to businesses and farms reflects excellent dispersion.

DISTRIBUTION OF SMALL BUSINESS AND SMALL FARMS LOANS BY LOAN AMOUNT AND REVENUE				
Loan Amount	Small Business		Small Farm	
	Count	Amount (\$000)	Count	Amount (\$000)
<= \$100,000	292	8,459	28	780
> \$100,000 and <=\$250,000	72	11,946	2	247
> \$250,000	40	18,239	0	0
Total	404	36,644	30	1,027
Revenues <= 1,000,000	327	23,771	29	1002
Percentage	81	65	97	98

Community Development Lending Activity

The bank has participated in a minimal level of community development lending and has made one community development loan. The bank participated with two other area lenders, the city of Lincoln and NIFA, in a construction loan to YWCA Housing Partnership, a United Way affiliate. In this \$1.5 million downtown, low-income housing project, YWCA Courtyard Apartments, the bank participated for \$169M. The apartment building is located in a moderate-income census tract within the bank’s assessment area and targeted to low- and moderate-income families who earn up to 60 percent of family median income. The bank has also committed to participate in permanent financing once the construction phase is over.

Innovative/Flexible Lending Practices

Havelock Bank offers a variety of loan programs with flexible underwriting criteria such as VA and FHA loans. As previously mentioned, the NIFA loan program is a community development program targeted to low- or moderate-income individuals. The bank also participates in the Self Employment Loan Fund (SELF) of Lincoln. The program targets small businesses with less than four employees. Low-moderate income individuals may use the program to obtain capital for a start-up existing business. The bank makes many small dollar consumer loans for amounts ranging from \$300 to \$1,000 for low-income borrowers. Although the bank does not originate student loans, brochures with a toll-free telephone number are provided in the bank’s lobby for origination through an affiliate bank. In addition, the numerous small business and small farm loan originations promote economic development within the bank’s assessment area.

INVESTMENT TEST

The bank's participation in qualified community development investments consists primarily of donations made to local organizations. The bank has made contributions to the Neighborhood Housing Services (NHS), the Folsom Children's Zoo and Botanical Garden, and Havelock Business Association. NHS is a not-for-profit organization engaged in stabilizing and revitalizing housing for low- to-moderate-income individuals and neighborhoods. The Folsom Children's Zoo and Botanical Garden is located in a moderate-income census tract and the zoo has stabilized the geography. The zoo also provides employment to low- and moderate-income area residents and helps stabilize and revitalize the area economy. Similarly, Havelock Business Association is a trade association located in a moderate-income census tract which caters to the needs of area small businesses and entrepreneurs.

SERVICE TEST

Based upon the bank's size and resources, the bank adequately delivers retail banking services that are reasonably accessible to the community. Services do not vary in a way that inconveniences certain portions of the community, particularly low- and moderate-income individuals. Also, the institution provides an adequate level of community development services.

Retail Banking Services

Havelock Bank has five locations that are accessible to all portions of the bank's assessment area. An automated teller machine (ATM) is located at four locations. The main office offers a cash dispensing ATM in the lobby. In addition, the bank offers free and unlimited use of its cash dispensing machines, HaveBank Money Machines, at all Lincoln area Gas N Shop convenience stores. There is also a night depository at each branch location. The bank's locations are listed below:

Main Office and 4 Branches:

- 1) 6145 Havelock Avenue, Lincoln, NE
- 2) 70TH & Adams, Lincoln, NE
- 3) 14th & N Street (Downtown), Lincoln, NE
- 4) 70th & Lincolnshire, Lincoln, NE
- 5) Old Cheney & Highway 2, Lincoln, NE

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The bank is open for business Monday through Saturday. While the downtown lobby is closed on Saturday, all other locations maintain lobby hours Monday - Saturday. In addition, drive-in facilities offer extended hours to bank customers.

The bank opened a new facility at the crossroads of Old Cheney & Highway 2 since the previous examination. The bank's assessment area was expanded during this examination to incorporate this new location within the bank's assessment area. No offices have been closed since the previous examination.

Havelock Bank offers an adequate number of flexible products to serve its community. In addition to telebanking and bank-by-mail, the bank offers overdraft checking which may also be tied to the debit card. The bank also offers personal computer-based banking for businesses and individuals.

Community Development Services

Bank management participates in organizations which assist small business entrepreneurs and address affordable housing concerns. Bank officers participate in the Debt Management Program of the Consumer Credit Counseling Service of Nebraska, Inc. which provides credit counseling services to low- to moderate-income families. In addition, Loan Officer Lisa Smith gave a presentation at the Nebraska Business Development Center FIRST STEP workshop for small business owners and entrepreneurs. Furthermore, Compliance and Loan Officer Dennise Otto serves on a committee of the Blight Study Group. The group is established by the Havelock Business Association in coordination with the city of Lincoln to identify infrastructure needs and requirements present in the Havelock area, a moderate income geography.

COMPLIANCE WITH ANTIDISCRIMINATION LAWS AND REGULATIONS

No substantive violations of the antidiscrimination laws and regulations were identified. Furthermore, review of bank policies, credit applications, loans, and interview procedures revealed no prohibited practices designed to discourage loan applicants.

APPENDIX A

SCOPE OF EXAMINATION		
Havelock Bank		
TIME PERIOD REVIEWED	08/14/95 - 05/05/97	
FINANCIAL INSTITUTION		
NAME	PRODUCTS REVIEWED	
Havelock Bank Lincoln, Nebraska	Residential Real Estate Loans Small Business Loans Small Farm Loans	
AFFILIATE(S)	AFFILIATE RELATIONSHIP	PRODUCTS REVIEWED
Pinnacle Bancorp, Inc., Central City, NE	Bank Holding Company	None
Bank of Colorado - Front Range, Windsor, CO	Bank Holding Company	None
Bank of Colorado - Western Slope, Grand Junction, CO	Bank Holding Company	None
Pinnacle Bank, Papillion, NE	Bank Holding Company	None
Citizens Bank and Trust Company, Torrington, WY	Bank Holding Company	None
First United Bank, Neligh, NE	Bank Holding Company	None
Crete State Bank, Crete, NE	Bank Holding Company	None
The Farmers State bank and Trust Company, Aurora, NE	Bank Holding Company	None
Farmers State Bank and Trust Company, Lexington, NE	Bank Holding Company	None
First National Bank, Abilene, KS	Bank Holding Company	None
First National Bank, Worland, WY	Bank Holding Company	None
The First National Bank, Shelby, NE	Bank Holding Company	None
First Security Bank, Newcastle, WY	Bank Holding Company	None
The First Security Bank of Craig, Craig, CO	Bank Holding Company	None
The First Security Bank, Fort Lupton, CO	Bank Holding Company	None
The State Bank, Palmer, NE	Bank Holding Company	None
Schuyler State Bank and Trust Company, Schuyler, NE	Bank Holding Company	None
Western Bank of Cody, Cody, WY	Bank Holding Company	None
Archer, Inc., Central City, NE	Bank Holding Company	None
Osceola Insurance, Inc., Central City, NE	Bank Holding Company	None
Gretna State Bank, Gretna, NE	Bank Holding Company	None
First National Bank of Osceola, Osceola, NE	Bank Holding Company	None
Central Grain, Inc., Central City, NE	Bank Holding Company	None
Farmers National Bank of Central City, Central City, NE	Bank Holding Company	None
Dinsdale Brothers, Inc., Central City, NE	Bank Holding Company	None
The First National Bank of Wisner, Wisner, NE	Bank Holding Company	None
First Security Bank, Mitchell, NE	Bank Holding Company	None
Guaranty Corporation, Denver, CO	Bank Holding Company	None
Guaranty Bank and Trust Company, Denver, CO	Bank Holding Company	None
Pinnacle Bancorp, Iowa, Sioux City, IA	Bank Holding Company	None

AFFILIATE(S)	AFFILIATE RELATIONSHIP	PRODUCTS REVIEWED
Morningside Bank and Trust, Sioux City, IA	Bank Holding Company	None

LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION			
ASSESSMENT AREA	TYPE OF EXAMINATION	BRANCHES VISITED	OTHER INFORMATION
Nebraska Entire Lincoln Metropolitan Statistical Area (MSA) and Lancaster County which consisted of 52 census tracts.	On-Site	Not Applicable	