

PUBLIC DISCLOSURE

October 7, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Western Bank of Cody
887751**

**1702 17th Street
Cody, Wyoming 82414**

**Federal Reserve Bank of Kansas City
925 Grand Boulevard
Kansas City, Missouri 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 Western Bank of Cody, Cody, Wyoming, prepared by the Federal Reserve Bank of Kansas City, the institution's supervisory agency, as of October 7, 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 CRA RATING: *This institution is rated **Satisfactory**.*

Based on a review of its lending performance, qualified investments, and services within its assessment area, Western Bank of Cody demonstrates overall satisfactory performance under the CRA. Bank management is actively involved in meeting the credit needs throughout the bank's assessment area, including low- and moderate-income neighborhoods and individuals, small farms and small businesses, in a manner consistent with its resources and capabilities. The bank's ratings for the three tests were as follows: Lending Test-High Satisfactory; Investment Test-Low Satisfactory; and Service Test-High Satisfactory.

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

PERFORMANCE LEVELS	WESTERN BANK OF CODY		
	PERFORMANCE TESTS		
	Lending Test *	Investment Test	Service Test
Outstanding			
High Satisfactory	x		x
Low Satisfactory		x	
Needs to Improve			
Substantial Noncompliance			

*Note: The Lending Test is weighted more heavily than the Investment and Service Tests when arriving at an overall rating.

DESCRIPTION OF INSTITUTION:

Western Bank of Cody is one of 19 bank subsidiaries of Pinnacle Bancorp, Inc., a multibank holding company with assets of more than \$1 billion. Western Bank of Cody reported \$51 million in assets in its June 30, 1997 Report of Condition and Income (Call Report).

Western Bank of Cody is located in Cody, Wyoming. The bank also owns a branch in western Cody. Additionally, the bank owns and operates three automated teller machines (ATMs). The ATMs are located at the main facility, the branch, and at Buttrey's grocery store. Buttrey's is located along the main street in Cody in a moderate-income Block Numbering Area (BNA), but it borders a middle-income BNA.

The main bank and the branch each operate as full-service facilities. The ATMs located at these facilities dispense currency as well as accept deposits. The ATM at Buttrey's dispenses currency only. There are no financial or legal impediments that impact the bank's ability to lend. However, community contacts noted that seven other financial institutions within the town of Cody present considerable competition to the bank.

Western Bank of Cody offers a variety of loan products; however, the majority of the bank's loan portfolio is comprised of commercial and industrial loans. The following table reflects the distribution of the bank's loan portfolio as of the June 30, 1997 Call Report.

DISTRIBUTION OF LOANS IN THE LOAN PORTFOLIO AS OF JUNE 30, 1997		
Type of Loan	Amount (In Thousands)	Percent of Total Loans
Loans Secured by Real Estate:		
Loans secured by 1- to 4-family residential properties	6,092	17
Other Consumer Loans	3,473	10
Commercial Loans:		
Commercial and industrial loans	9,975	28
Construction and land development	1,953	6
Secured by nonfarm, nonresidential real estate	11,102	31
Secured by multifamily (5 or more) residential properties	110	< 1
Agricultural Loans:		
Agricultural purpose	1,648	5
Secured by farm land	813	2
Other Loans	55	< 1
Lease Financing Receivables	246	< 1
Less: Unearned Income	(24)	
Total	35,443	100.0

The bank's performance under the CRA was last evaluated at the June 17, 1996 examination under the 12-assessment factor evaluation procedures, at which time it was considered Outstanding.

DESCRIPTION OF THE ASSESSMENT AREA

The bank's assessment area, which is the geographic area the bank has designated as its service area, includes all of Park County. Park County is located in the northwest part of the state and is bounded by Montana to the north and Idaho to the west. Yellowstone

National Park and Shoshone National Forest are located in Park County. Federal land therefore, comprises approximately 80 percent of the bank's assessment area.

The town of Cody is centrally located in Park County. The bank competes with seven other financial institutions within the town of Cody. The other major cities in Park County are Powell and Meeteetse. Powell is located 25 miles northeast of Cody, while Meeteetse is 31 miles south of Cody. Since both cities are within close proximity, Western Bank of Cody must compete with financial institutions in these cities as well. A map of the assessment area is attached.

Based on 1990 census bureau information, the population in the bank's assessment area is 23,178. Within the bank's assessment area there are seven BNAs, including one low-income, one moderate-income and five middle-income BNAs. There are no upper-income BNAs in the assessment area. The town of Cody contains one moderate-income and one middle-income BNA, each occupying about half of the town. The area surrounding Cody is categorized as a middle-income BNA. The bank's assessment area appears reasonable and does not exclude low- or moderate-income areas.

The following table shows the distribution of the families in the bank's assessment area by income category. Low-income is defined as less than 50 percent, moderate-income is at least 50 percent and less than 80 percent, middle-income is at least 80 percent and less than 120 percent, and upper-income is 120 percent or more of the median family income of the nonmetropolitan areas in the state of Wyoming. According to census bureau information updated for 1997, the median family income for the nonmetropolitan areas in the state of Wyoming is \$41,900.

DISTRIBUTION OF FAMILIES IN THE BANK'S ASSESSMENT AREA BY INCOME LEVEL					
	Low	Moderate	Middle	Upper	Total
Number of Families	1,314	1,270	1,592	2,172	6,348
Percentage of Total Families	21%	20%	25%	34%	100%

Two members of the community, including one member of a local trade association and one private individual, were contacted during the examination. According to these community contacts, the local economy is stable. The stable economy is based on oil, mining, livestock, ranching, and logging industries. The local economy is also dependent on seasonal industries. This is due to the town's close proximity to Yellowstone National

Park, one of the nation's most popular national parks. Cody is only 52 miles from the east entrance of Yellowstone, which makes it the second largest tourist destination city in Wyoming.

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 is then divided into performance characteristics. A detailed description of the performance characteristics can be found in Appendix A of Regulation BB.

LENDING TEST - High Satisfactory

Seven performance criteria were evaluated in determining the bank's performance under the Lending Test. The Lending Test evaluation resulted in an overall High Satisfactory rating. The findings with regard to each performance criteria are set forth below.

Assessment Area Concentration - Outstanding

This performance criteria evaluates the concentration of loans originated by the bank in its assessment area. The bank has exceeded Satisfactory standards for this performance criteria. Since January 1, 1996, management collected data on 523 small business loans and 75 small farm loans in response to the new CRA reporting requirements. The bank is not required to collect consumer real estate loan data under these requirements; however, examiners are required to statistically sample these loans to evaluate the bank's consumer real estate lending. Therefore, the information used for the bank's consumer real estate loans is based on a statistical sample of 24 loans. The information used for the small business and small farm loans is based on all the information the bank collected since January 1, 1996.

As demonstrated in the table on the following page, the bank's lending activity demonstrates that a substantial majority of the bank's loans are in its assessment area.

DISTRIBUTION OF LOANS IN AND OUT OF THE ASSESSMENT AREA								
	Inside the Assessment Area				Outside the Assessment Area			
	Number of Loans	Percent of Total	\$ Amount of Loans (\$000s)	Percent of Total	Number of Loans	Percent of Total	\$ Amount of Loans (\$000s)	Percent of Total
Small Business	517	99	26,305	98	6	1	632	2
Small Farm	69	92	2,856	97	6	8	77	3
Consumer Real Estate	24	100	1,618	100	0	N/A	0	N/A
Overall Total	610	98%	\$30,779	98%	12	2%	\$709	2%

Geographic Distribution of Loans – High Satisfactory

This performance criteria focuses on the bank's lending penetration among low-, moderate-, and middle-income BNAs in the assessment area. Given the characteristics of the bank's assessment area, the location of bank facilities within the assessment area, and the level of competition, the geographic distribution of the bank's loans indicate good penetration among the various BNAs. As noted earlier, there are no upper-income BNAs in the bank's assessment area. The analysis, therefore, focused on the bank's penetration in the other income geographies.

The table on the following page demonstrates that the concentration of the bank's small farm loans was originated in middle-income areas. This is reasonable given that the one moderate-income BNA is primarily a commercial and industrial area, and encompasses the local airport. The majority of the small business loans were to businesses located in the two BNAs within Cody. These small business loans correlate directly with the location of the small businesses in the bank's assessment area. Also, particularly noteworthy is the number and dollar amount of consumer real estate loans originated by the bank. Both the number and the dollar amount of consumer real estate loans originated within the moderate-income BNA directly correlates with the demographic composition of the area.

DISTRIBUTION OF LOANS ACROSS THE ASSESSMENT BY INCOME LEVEL OF BNAs								
Loan Type	Low -Income		Moderate -Income		Middle -Income		Upper -Income	
	Number of Loans	Amount of Loans \$000s	Number of Loans	Amount of Loans \$000s	Number of Loans	Amount of Loans \$000s	Number of Loans	Amount of Loans \$000s
Small Business	4	47	143	5,817	369	20,441	N/A	N/A
Percent of Total	< 1%	< 1%	28%	22%	72%	78%	N/A	N/A
Small Farm	N/A	N/A	4	107	65	2,749	N/A	N/A
Percent of Total	N/A	N/A	6%	4%	9.4%	9.6%	N/A	N/A
Consumer Real Estate	N/A	N/A	8	404	16	1,228	N/A	N/A
Percent of Total	N/A	N/A	33%	25%	67%	75%	N/A	N/A
Population Percentage	88 < 1%		4,502 19%		18,588 80%		N/A N/A	
# of Families Percentage	28 < 1%		1,319 21%		5,001 79%		N/A N/A	
# of Owner-occupied Units Percentage	23 < 1%		1,318 2.2%		4,586 77%		N/A N/A	

Lending Activity - High Satisfactory

This performance criteria evaluates the bank's lending levels compared to other similarly situated financial institutions. The loan-to-deposit ratio is a measure for gauging whether or not the bank is reinvesting deposits it receives from customers back into the community in the form of loans. The bank's loan-to-deposit ratio reflects good responsiveness to assessment area credit needs, given the bank's size, financial condition, location, and area competition. Based on Call Report information for the four quarters ending June 30, 1996, through March 31, 1997, the bank's average net loan-to-deposit ratio was 72 percent. Although there were no similarly-situated financial institutions in the bank's assessment area, this ratio reflects a good lending performance. The bank's average ratio is better or in line with similarly sized banks in the state of

Wyoming whose averages ranged from 37 to 79 percent. The total average for these banks is 60 percent.

In addition, the bank offers credit in the form of secondary market loans, which are not reflected in the loan-to-deposit ratio. Bank management is actively involved in generating federally-insured residential mortgage and business loans through the Federal Housing Administration (FHA), Veterans Administration (VA), Community Home Buyer Program (CHBP), Farmers Housing Administration (FHFA) and Small Business Administration (SBA). Through these programs, the bank has generated \$1,650,129 in loans, including \$469,686 in FHA loans, \$270,690 in VA loans, \$65,000 in a CHBP loan, \$74,000 in a FHFA loan and \$770,763 in SBA loans since the last examination.

Considering the bank's loan-to-deposit ratio and its additional secondary market lending, Western Bank of Cody has met the standards for a High Satisfactory rating for this performance criteria.

Borrowers' Profile – High Satisfactory

This performance criteria evaluates the bank's loan originations among borrowers of different income levels, particularly low- and moderate-income individuals, and businesses and farms of different sizes. The bank has more than satisfactorily met the standards for this performance criteria. Overall, the distribution of loans showed a good penetration to individuals of different income levels and to businesses and farms of different sizes.

Consumer Real Estate Loans

The bank's origination of home loans to low- and moderate-income individuals is considered satisfactory. Overall, 29 percent of the number and 22 percent of the dollar volume of the sample of consumer real estate loans in the assessment area were to low- and moderate-income borrowers. These results are slightly lower than the number of low- and moderate-income families in the bank's assessment area, which is estimated to be 41 percent. The following table reflects the distribution of loans by income level of the borrower.

DISTRIBUTION OF LOANS ACROSS THE ASSESSMENT AREA BY INCOME LEVEL OF BORROWER								
Loan Type	Low-Income		Moderate-Income		Middle-Income		Upper-Income	
	Number of Loans	Amount of Loans (\$000s)	Number of Loans	Amount of Loans (\$000s)	Number of Loans	Amount of Loans (\$000s)	Number of Loans	Amount of Loans (\$000s)
Consumer Real Estate	4	216	3	154	12	679	5	584
Percent of Total	17	13	12	9	50	42	21	36
Number of Families by income level in the bank's assessment area	1,314		1,720		1,592		2,172	
Percentage	21%		20%		25%		34%	

Small Business and Small Farm Loans

The revenue categories for small business and small farm loans are defined, according to Call Report instructions, by loan amount. The following table demonstrates that the majority of the bank's small business and small farm loans are extended in amounts less than \$100,000, 58 percent and 88 percent, respectively. Community contacts stated that Western Bank of Cody will generate small business and small farm loans when other financial institutions may not due to the small dollar amount of the loan or low revenues of the business. This perception reflects management's willingness to meet the needs of very small businesses and farms.

DISTRIBUTION OF SMALL FARM AND SMALL BUSINESS LOANS SAMPLED WITH IN THE ASSESSMENT AREA		
Loan Amount	Business Loans	Farm Loans
Less than \$100,000	58%	88%
Greater than or equal to \$100,000 but less than \$250,000	41%	10%
Greater than or equal to \$250,000 but less than \$1,000,000	1%	2%
Total	100%	100%

Responsiveness to Credit Needs of Highly Economically Disadvantaged Geographies and Low-Income Persons, Small Business and Small Farms – High Satisfactory

The bank has an adequate record of serving the credit needs of the most economically disadvantaged customers in its assessment area. Consistent with safe and sound banking practices, the bank extends loans to low-income individuals, very small businesses, and very small farms. As mentioned earlier, community contacts noted that bank management works well with the small business and small farm borrowers. The bank also offers a variety of credit products, among those are the government-insured, guaranteed, and subsidized loan programs. These include FHA, VA, CHBP, FmHA, and SBA loans. The bank has generated 17 loans through these programs totaling \$1,650,129 since the last examination. The number and dollar of the guaranteed loan programs for affordable housing and small businesses demonstrate the bank's willingness to meet these credit needs.

Product Innovation - High Satisfactory

This performance criteria evaluates the financial institution's use of innovative and flexible lending practices in order to serve assessment area credit needs. The bank offers a wide variety of credit products and counseling to applicants for FHA, VA, CHBP, FmHA, and SBA loans. The bank also prepares documents for the Wyoming Community Development Association (WCDA) loan program. These loans are originated at another financial institution; however, the lending officers counsel the loan applicant, prepare the documents, and often accompany the individual to the loan closing. The bank also offers small dollar loans and lines of credit to very small businesses and very small farms. The analysis revealed commercial and farm loans in amounts as low as \$1,000.

Community Development Lending Activities – Needs to Improve

This performance criteria evaluates the bank's level of community development loans. Regulation BB defines a community development loan as a loan that has as its primary purpose community development and has not been reported by the bank for consideration in the bank's assessment area as a consumer real estate, small business, small farm, or consumer loan (unless it is a multi-family dwelling loan) and benefits the bank's assessment area or a broader statewide or regional area that includes the bank's assessment area. The regulation defines community development as (1) affordable housing (including multi-family rental housing) for low- and moderate-income individuals; (2) community services targeted to low- or moderate-income individuals; (3) activities that promote economic development by financing businesses or farms that meet the size

eligibility requirements or have gross annual revenues of \$1 million or less; or (4) activities that revitalize or stabilize low- or moderate-income geographies.

The bank has made an effort to make community development loans. Unfortunately, community contacts noted that there are limited opportunities within the community in which both bank management and the bank can participate. The bank did make one community development loan that was mistakenly reported in the lending test data. Notwithstanding this fact, the bank originated this \$195,000 loan to develop land and place two modular homes on the developed land. These homes were targeted for the first-time, low- and moderate-income home buyer. Both homes sold for an average price of \$70,000.

Compliance With Antidiscrimination Laws And Regulations

There were no substantive violations of the antidiscrimination laws and regulations identified during the fair lending component of the compliance examination. Overall, adequate policies, procedures, and training programs have been developed to support nondiscrimination in lending activities.

INVESTMENT TEST - Low Satisfactory

The three characteristics evaluated under the Investment Test include: Investment and Grant Activity, Responsiveness to Credit and Community Development Needs, and Community Development Initiatives. Overall, the Investment Test evaluation resulted in a Low Satisfactory rating. The findings with respect to the three characteristics are set forth below.

Investment and Grant Activity – Needs to Improve

Western Bank of Cody has a low level of qualified community development investments and grants. Regulation BB defines a qualified investment as a lawful investment, deposit, membership or grant that has as its primary purpose community development. Community development encompasses affordable housing for low- and moderate-income individuals; community services targeted to low- and moderate-income individuals; activities that promote economic development; or activities that revitalize or stabilize low- and moderate-income geographies. The bank made a qualified grant of \$584 to the Crisis Prevention Intervention Services. This nonprofit organization serves low- and moderate-income individuals.

Responsiveness to Credit and Community Development Needs - Low Satisfactory

The bank exhibits good responsiveness to credit and community economic developments. The low frequency of participation in such developments is not representative of the bank's willingness to invest in the community. Unfortunately, few opportunities are available. Community contacts stated that the bank is responsive to area concerns with contributions to or involvement in the community.

Community Development Initiatives - Low Satisfactory

This performance criteria evaluates the level in which the institution uses innovative and/or complex investments to support community development initiatives. The institution occasionally uses innovative and/or complex investments to support community development initiatives, thus meeting the standards for a Low Satisfactory rating for this performance criteria.

As previously mentioned, the bank has a reputation for responding to local investment issues as they arise; however, management and community contacts stated that there are very few innovative and/or complex investments available for the bank's participation.

SERVICE TEST - High Satisfactory

The four characteristics evaluated under the Service Test include: Accessibility of Delivery Systems, Changes in Branch Locations, Reasonableness of Services, and Community Development Services. Based on the findings outlined below, the bank's overall rating for the Service Test is considered High Satisfactory.

Accessibility of Delivery Systems - High Satisfactory

This performance criteria evaluates the accessibility of the bank's delivery systems to the bank's assessment area. The bank's delivery systems are accessible to essentially all portions of the institution's assessment area. Therefore, the bank has met the standards for a High Satisfactory rating for this performance criteria.

The bank's main office is located in eastern Cody. The branch is located in western Cody. Western Bank of Cody owns three 24-hour ATMs, one located at each office and one at a local grocery store. The bank also has drive-through facilities at each location. In addition to these services, the bank offers a 24-hour Telebanking service, free checking, and free government check cashing which benefit low- and moderate-income individuals.

Changes in Branch Locations - High Satisfactory

This performance criteria evaluates, to the extent changes have been made, the bank's record of opening and closing branches which may have affected the delivery of bank's services, particularly in low- and moderate-income geographies or to low- and moderate-income individuals. The bank opened a branch office in June 1997. This office is considered a full-service facility with a 24-hour ATM and a drive-up. The bank's branch is located next to the local Wal-Mart store and is easily accessible to all members of the community.

Reasonableness of Business Hours and Services in Meeting Assessment Area Needs - High Satisfactory

This performance criteria evaluates the reasonableness of the bank's business hours and services in meeting assessment area credit needs. The bank's services and business hours do not vary in a way that inconveniences certain portions of the assessment area, particularly low- and moderate-income individuals. The bank has met the standards for a High Satisfactory rating for this performance criteria.

The main office and branch bank lobby hours are from 9:00 a.m. to 5:00 p.m., Monday through Friday and from 9:00 a.m. to noon on Saturdays. The main office drive-up hours are from 7:45 a.m. to 5:30 p.m., Monday through Friday and from 8:00 a.m. to noon on Saturday. The branch drive-up hours were extended to 7:30 a.m. to 6:00 p.m. Monday through Friday. The branch drive-up is also open from 7:30 a.m. to 12:00 p.m. on Saturday. The bank offers 24 hour banking through its Telebanking and three ATMs.

Community Development Services - High Satisfactory

This performance criteria evaluates the bank's level of community development services. Western Bank of Cody has met the standards for a High Satisfactory rating for this performance criteria.

Bank management provides financial expertise to the Division of Economic and Community Development's program, NX Level. The bank's assistant vice president is actively involved in this program as an instructor. The program enrollment is mainly adults with a business venture in mind. The individuals receive help in understanding the feasibility, marketing, and financial aspects of a business venture. The end-result of the class is a written business plan that the individual can be used in obtaining start-up funding.

Bank management also provides financial expertise to the Rural Economic and Community Development Services. One of the lending officers assists in a home-buying seminar targeted for low- and moderate-income individuals. Additionally, bank management helps

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originate loans through the WCDA. Even though the loans are originated through another financial institution; the bank personnel prepare documents for the loan, provide counseling and guidance to the loan applicant and accompany the loan applicant to the loan closing.

APPENDIX A

SCOPE OF EXAMINATION

SCOPE OF EXAMINATION			
TIME PERIOD REVIEWED		January 1, 1996 through August 31, 1997	
FINANCIAL INSTITUTION		PRODUCTS REVIEWED	
First Security Bank		-Consumer real estate loans -Small Business Loans -Small Farm Loans	
AFFILIATE(S)	AFFILIATE RELATIONSHIP	PRODUCTS REVIEWED	
Pinnacle Bancorp, Inc.	Bank Holding Company	None	
Ardier, Inc.	Bank Holding Company	None	
Osceola Insurance, Inc.	Bank Holding Company	None	
Central Grain, Inc.	Bank Holding Company	None	
Dinsdale Brothers, Inc.	Bank Holding Company	None	
Guaranty Corporation	Bank Holding Company	None	
Pinnacle Bancorp, Iowa	Bank Holding Company	None	
LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION			
ASSESSMENT AREA	TYPE OF EXAMINATION	BRANCHES VISITED	OTHER INFORMATION
Wyoming - Park County	Full Scope Consumer Examination	West branch	

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.

