



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

May 31, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Pioneer National Bank of Duluth
Charter Number 13078

331 North Central Avenue
Duluth, MN 55807

Office of the Comptroller of the Currency

Minneapolis Field Office
222 South Ninth Street, Suite 800
Minneapolis, MN 55402-3393

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

INSTITUTION'S CRA RATING: This institution is rated Satisfactory. The major factors supporting this rating include the following:

- The bank's net loan-to-deposit (LTD) ratio is more than reasonable given the bank's size, financial condition, and the credit needs of the assessment area.
- The bank originates a majority of its loans, by number and dollar volume, within its assessment area.
- Borrower distribution reflects reasonable penetration among businesses of different sizes and borrowers of different incomes.
- Geographic distribution of loans reflects excellent dispersion throughout the bank's assessment area.

SCOPE OF EXAMINATION

We evaluated Pioneer National Bank's (PNB) Community Reinvestment Act (CRA) performance under the lending test. We focused our assessment on the bank's primary loan products in their assessment area (AA) based on loan originations by number and dollar volume from January 1, 2009 through March 31, 2011. Business loans and residential real estate loans were determined to be primary loan products based on highest level of originations by dollar volume. Approximately 50% of the loans extended during the time period were to businesses and 39% were for residential real estate. Given the high dollar volume of business loans originated, most weight was given to this product in our analysis.

Prior to conducting this evaluation, we tested the accuracy of the bank's Home Mortgage Disclosure Act Loan Application Register (HMDA-LAR) data. We determined the loan data to be accurate and it is used without exception in this evaluation. In addition, we selected a random sample of 20 business loans to evaluate the bank's lending activity within the assessment area.

DESCRIPTION OF INSTITUTION

PNB is an \$81 million bank located in Duluth, Minnesota. The bank has three full-service branches located within the city limits of Duluth. All locations offer traditional banking products and services, and maintain standard banking hours. Each branch offers drive-up services and ATM access. Commercial lending is the bank's primary business focus.

The bank's primary products consist of business and residential real estate loans. As of March 31, 2011, business loans comprised 67% of outstanding loans, residential real estate 25%, and consumer and other loans 8%. PNB's loan portfolio totaled \$64 million, or 79% of total assets as of March 31, 2011.

PNB is owned by Pioneer Bank Shares, Inc., a closely held one bank holding company.

PNB does not have any bank or non-bank affiliates engaged in lending activities that impact its CRA performance.

There are no legal, financial, or other factors outstanding that limit the bank’s ability to meet credit needs of its assessment area. PNB’s last CRA rating was “Satisfactory” on March 15, 2006.

DESCRIPTION OF ASSESSMENT AREA

PNB’s assessment area consists primarily of the Duluth portion of the Duluth-Superior Metropolitan Statistical Area (MSA). PNB has defined its assessment area as the City of Duluth and surrounding communities in Minnesota. The AA includes one census tract in Carlton County and 43 census tracts in St. Louis County. The bank’s AA complies with regulatory requirements and does not arbitrarily exclude any low- or moderate-income geographies. See the following tables for AA census tract and family income details.

Assessment Area by Income Level	Number of Census Tracts	Percent of Census Tracts
Low-Income	5	11.37%
Moderate-Income	11	25.00%
Middle-Income	16	36.36%
Upper-Income	12	27.27%

Source: 2000 US Census Data

Family Income Level	Percent of Families
Low-Income	16.44%
Moderate-Income	17.48%
Middle-Income	22.99%
Upper-Income	43.09%

Source: 2000 US Census Data

The following AA statistics are based on 2000 census data. The median housing value is \$89,112, 68% of total housing units are owner occupied, and 6.73% of families are below the poverty level. The AA population totals 123,088 and includes 30,364 families. Based upon 2011 data from the Department of Housing and Urban Development, the estimated family income in the Duluth-Superior MSA is \$61,500.

According to the Minnesota Workforce Center, unemployment in Minnesota, as of May 2011, was 6.6% compared to 7.3% for St. Louis County and 7.8% for Carlton County. Major employers in Duluth include St. Mary’s Medical Center, Duluth Public Schools, St. Louis County, University of Minnesota-Duluth, St. Luke’s Medical Center, and the City of Duluth.

Bank competition in PNB’s assessment area is moderate. There are eight community banks in the assessment area, including Pioneer, along with several branches of four large national banking companies. Pioneer has 6.52% of the deposit market in the AA

according to June 30, 2010 deposit market share information from the Federal Deposit Insurance Corporation. Our community contact stated all local financial institutions have done a good job of meeting local credit needs and providing services to low- and moderate-income individuals.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

PNB's net loan-to-deposit (LTD) ratio is more than reasonable given the bank's size, financial condition, and the credit needs of the AA. The bank's LTD ratio averaged 97% over the 21 quarters since the last CRA examination. This ratio ranged from a quarterly low of 87% in March 2006 to a quarterly high of 103% in June 2009. PNB's average quarterly LTD ratio ranks highest among other similarly situated banks (defined as banks located in the AA with total assets between \$80M and \$120M as of March 31, 2011).

Institution	Assets (as of 3/31/11)	Average Loan-to-Deposit Ratio; (1Q05 – 1Q11)
Pioneer National Bank of Duluth	\$81 million	97.37%
Cornerstone State Bank	\$118 million	88.17%
Western National Bank	\$121 million	85.65%

Source: Call Report Data

Lending in Assessment Area

PNB originates a majority of its loans to borrowers located within its defined AA. Loans originated to businesses and residential real estate borrowers within the bank's AA total 74% by number and 56% by dollar volume. The following table shows lending in the AA by product type:

Lending in the Duluth AA										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Business	16	80%	4	20%	20	1,527	81%	366	19%	1,893
Home Refinance	31	74%	11	26%	42	3,207	55%	2,643	45%	5,850
Home Purchase	18	60%	12	40%	30	1,205	36%	2,184	64%	3,389
Home Improvement	22	85%	4	15%	26	817	79%	213	21%	1,030
Total Residential Real Estate	71	72%	27	28%	98	5,229	51%	5,040	49%	10,269
Totals	87	74%	31	26%	118	6,756	56%	5,406	44%	12,162

Source: OCC loan sample & HMDA Data from January 1, 2009 – March 31, 2011

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

PNB’s overall distribution of loans to businesses of different sizes and borrowers of different incomes is reasonable.

Lending to Businesses of Different Sizes

PNB’s distribution of loans to businesses reflects reasonable penetration among businesses of different sizes. The bank originated 60% by number and 66% by dollar volume of loans during the evaluation period to businesses with gross annual revenues of \$1 million or less. This is considered reasonable compared to demographic data that shows 77% of the AA businesses have gross annual revenues of \$1 million or less. The following table shows the distribution of commercial loans among businesses of different sizes in the AA.

Borrower Distribution of Loans to Businesses in the Duluth AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	77%	5%	18%	100%
% of Bank Loans in AA by #	60%	35%	5%	100%
% of Bank Loans in AA by \$	66%	32%	2%	100%

Source: OCC Loan Sample & 2010 Business Geodemographic Data

Lending to Borrowers of Different Incomes

PNB’s distribution of residential real estate loans reflects reasonable penetration among borrowers of different income levels. The bank exceeds the demographic for home purchase and home improvement loans and reasonably meets the demographic for home refinance loans. The bank also has reasonable penetration among moderate-income borrowers for all three home loan product types. Although the bank falls below the demographic for all three home loan product types to moderate-income borrowers, we consider the bank’s lending reasonable given 6.73% of families in the AA are below the poverty level. The following table shows the distribution of home loan product types among borrowers of different income levels:

Borrower Distribution of Residential Real Estate Loans in the Duluth AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans						
Home Refinance	16.44	12.90	17.48	12.90	22.99	32.26	43.08	25.81
Home Purchase	16.44	16.67	17.48	16.67	22.99	16.67	43.08	33.33
Home Improvement	16.44	22.73	17.48	9.09	22.99	31.82	43.08	36.36

Source: 2000 Census Data & HMDA Data from January 1, 2009 – March 31, 2011

Geographic Distribution of Loans

PNB’s overall geographic distribution of loans in its AA is excellent. Both business and residential real estate lending indicate excellent dispersion of loans among low- and moderate-income geographies.

Geographic Distribution of Business Loans

PNB’s geographic distribution of business loans reflects an excellent dispersion throughout census tracts of different income levels. The distribution of business lending to low- and moderate-income geographies far exceeds the AA demographics. The following table shows the bank’s performance as compared to the percentage of businesses in each census tract income level:

Geographic Distribution of Loans to Businesses in the Duluth AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans
Business	19.56%	25%	12.30%	30%	36.00%	30%	32.14%	15%

Source: OCC Loan Sample & 2010 Business Geodemographic Data

Geographic Distribution of Residential Real Estate Loans

PNB’s geographic distribution of residential real estate loans indicates excellent dispersion of loans throughout different income geographies. PNB’s residential real estate lending to low-income census tracts far exceeds the AA demographics for all three home loan products. Real estate lending to moderate-income census tracts exceeded the demographics for home refinance and home purchase and reasonably meets the demographic for home improvement loans. The following table shows the distribution of home loan products throughout census tracts of different income levels:

Geographic Distribution of Residential Real Estate Loans in the Duluth AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Refinance	1.77%	6.45%	10.96%	16.13%	45.40%	48.39%	41.87%	29.03%
Home Purchase	1.77%	5.56%	10.96%	16.67%	45.40%	50.00%	41.87%	27.78%
Home Improvement	1.77%	4.55%	10.96%	9.09%	45.40%	45.45%	41.87%	40.91%

Source: 2000 U.S. Census Data & HMDA Data from January 1, 2009 – March 31, 2011

Responses to Complaints

PNB has not received any CRA related complaints.

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.