



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

August 15, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Pinnacle National Bank
Charter Number 24083**

**The Commerce Center, 211 Commerce Street, Suite 300
Nashville, TN 37201**

**Comptroller of the Currency
Nashville
5200 Maryland Way Suite 104
Brentwood, TN 37027**

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 Lending Test is rated: **Satisfactory**.

The Community Development Test is rated: **Outstanding**

- PNB's average loan-to-deposit ratio is reasonable and averaged 77.82% during the evaluation period.
- A substantial majority of the bank's home mortgage loans and small loans to businesses are made in the assessment area.
- Lending to borrowers of different income levels (including low- and moderate-income) and to businesses of different sizes is good.
- Geographic distribution of home mortgage loans and small loans to businesses meets the standards for satisfactory performance.
- PNB's community development performance shows excellent responsiveness to the community development of its assessment area.

SCOPE OF EXAMINATION

This Performance Evaluation was based on loan data from January 2, 2004 through December 30, 2005. Loan data reviewed included home mortgage products and small loans to businesses. Community development activities are evaluated from the date of the bank's last Performance Evaluation dated August 3, 2003 to March 31, 2006.

DESCRIPTION OF INSTITUTION

Pinnacle National Bank (PNB) is an intrastate bank and is a wholly owned subsidiary of Pinnacle Financial Partners, Inc., a one-bank holding company, headquartered in Nashville, Tennessee. PNB has been in business since October 27, 2000. PNB provides a full range of banking services in its primary market area of Davidson, Robertson, Sumner, and Williamson Counties. There are no legal or financial impediments to PNB's ability to meet the credit needs of its AA.

PNB's main office is located in downtown Nashville. As of December 31, 2005, the bank had eight full-service branches within its AA. Depository automated teller machines (ATMs) are located at each branch office. Bank customers can withdraw funds at other institutions' ATMs and receive reimbursement for ATM charges imposed by those institutions. There have been no branches closed since the bank commenced business. During first quarter 2006, PNB acquired a \$600 million state bank. However, the lending analysis in this PE did not capture the data from that merger due to the analysis cut-off date.

The bank has experienced very strong growth since inception. As of December 31, 2005, assets totaled \$1 billion, of which net loans comprise 63.5 percent. The following table reflects the composition of PNB’s loan portfolio based on the December 31, 2005 Report of Condition (call report). PNB was evaluated as an Intermediate Small Bank because assets did not exceed \$1 billion for two year-ends.

Product Category	Gross Loans as of December 31, 2005	
	Dollar (000's)	Percent
Commercial and Industrial	243,490	37.27
Commercial Real Estate	201,467	30.83
Residential Real Estate	187,799	28.74
Individuals	19,293	2.96
Farmland	1,330	0.20
Total	653,379	100.00

Source: December 31, 2005 Report of Condition.

The bank is primarily a commercial lender, as is indicated in the table above. The bank is also a Home Mortgage Disclosure Act (HMDA) reporter, although residential mortgage lending is not a primary product. As HMDA data is readily available, we chose to include this information, but the HMDA loans carried minimal weight in the analysis to fully support conclusion ratings.

DESCRIPTION OF NASHVILLE-DAVIDSON-MURFREESBORO, TN MSA

PNB’s assessment area (AA) consists of a portion of the Nashville-Davidson-Murfreesboro, TN MSA. The AA includes all of Davidson and Williamson Counties and a portion of Robertson and Sumner Counties. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies. The AA consists of 179 census tracts of which 15 are low-income, 38 are moderate-income, 83 are middle-income, 42 are upper-income, and 1 CT is not designated. The 2000 U.S. Census shows 805,764 persons residing in the AA.

Nashville is the state capital and located in middle Tennessee. The city is a leader in publishing and printing, finance and insurance, health care management, music and entertainment, automobile and related industry manufacturing, higher education and tourism. Nashville is an important transportation, business, and tourism center. Additionally, the metropolitan Nashville area has attracted a number of significant business relocations resulting in an expansion of its labor force into many different industry sectors. Major employers include State/Federal/Local government, Vanderbilt University and Medical Center, HCA, Inc., Saint Thomas Health Services, Saturn Corporation, Nissan Motor Manufacturing Corporation USA, Gaylord Entertainment, Dell Computer Corporation, and BellSouth. The 2005 unemployment rate for the MSA was 4.4%. The state of Tennessee reported an unemployment rate of 5.6%. The national unemployment rate was 5.1%.

Demographic Information for Full Scope Area: Nashville-Davidson-Murfreesboro TN MSA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	179	8.38	21.23	46.37	23.46	0.56
Population by Geography	805,764	5.93	18.32	48.44	27.30	0.00
Owner-Occupied Housing by Geography	198,962	2.52	13.10	51.12	33.26	0.00
Business by Geography	68,053	4.82	20.18	43.98	30.52	0.51
Farms by Geography	1,239	2.42	12.11	52.54	32.69	0.24
Family Distribution by Income Level	206,746	19.07	17.24	21.96	41.72	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	75,071	11.45	27.20	48.85	12.49	0.00
Median Family Income HUD Adjusted Median Family Income for 2005 Households Below Poverty Level		51,844 59,800 10%	Median Housing Value Unemployment Rate (2000 US Census)		138,242 2.47%	

(*) The NA category consists of geographies that have not been assigned an income classification.
Source: 2000 US Census and 2005 HUD updated MFI

A community contact was made with an organization that acts as an intermediary providing down payment assistance to community development agencies as well as low-interest developer loans to for-profit and non-profit affordable housing entities. The organization provides first-time homebuyer and credit counseling to low- and moderate-income individuals. The organization also provides technical assistance to affordable housing developers. Affordable housing was identified as a need in the AA. PNB is meeting that need through its home mortgage loans and CD activities.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Pinnacle National Bank (PNB) has a good record of meeting community credit needs. Loans to small businesses were given more weight in this evaluation as these loans represent 83% of total loans reported. Conclusions regarding the bank's performance are based on the following:

LENDING TEST

Loan-to-Deposit Ratio Meets the Standard for Satisfactory Performance

PNB's loan-to-deposit ratio was calculated over ten quarters beginning September 30, 2003 through December 31, 2005. PNB's LTD ratio was compared to local competitors in the bank's AA. PNB had the second lowest quarterly average LTD ratio of similarly situated banks.

Loan-To-Deposit Ratios		
Institution	Total Assets \$000's (As of 12/31/05)	Average Loan – to-Deposit Ratio
<i>Pinnacle National Bank</i>	1,016,090	77.82%
The Bank of Nashville	736,259	118.92%
Prime Trust Bank	419,302	86.53%
Cumberland Bank	739,905	74.93%
Capital Bank and Trust Company	473,485	96.83%

Source: Institution Reports of Condition from September 2003 to December 2005.

Lending in Assessment Area Exceeds the Standard for Satisfactory Performance

A substantial majority of the number and dollar volume of loans were originated in the bank's AA. For home mortgage loans, 81.25% of the number and 70% of the dollar volume originated in the AA. PNB originated 85.54% of the number and 83.29% of the dollar volume of small loans to businesses in the AA.

Lending in Nashville-Davidson-Murfreesboro TN MSA										
Loan Sample	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
2004-2005 Residential Loans	156	81.25	36	18.75	192	33,648	70.00	14,422	30.00	48,070
2004-2005 Business Loans	775	85.54	131	14.46	906	162,885	83.29	32,670	16.71	195,555
Total	931	84.79	167	15.21	1,098	196,533	80.67	47,092	19.33	243,625

Source: 2004-2005 HMDA data and CRA Wiz™ Reports.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes Meets the Standard for Satisfactory Performance

Home Purchase

The bank's distribution by borrower income for home purchase loans is poor. The percentage of bank loans to low- and moderate-income borrowers was lower than the percentage of low- and moderate-income families. Based on information from community contacts, affordable housing is a predominate need in the assessment area. The median price of homes in the AA is \$138,242, making it difficult for many low- and moderate-income applicants to find affordable housing to purchase.

Home Improvement

PNB's distribution by borrower income for home improvement loans is excellent. The percentage of bank loans to low- and moderate-income borrowers exceeded the percentage of low- and moderate-income families in the AA. The average age of housing in the AA is 32 years, indicating that home improvement loans are a need in the AA.

Home Refinance

PNB's distribution by borrower income for home refinance loans is poor. The percentage of bank loans to low- and moderate-income borrowers is lower than the percentage of low- and moderate-income families in the AA.

2004 - 2005 Borrower Distribution of Residential Real Estate Loans								
Nashville-Davidson-Murfreesboro TN MSA								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	19.07%		17.24%		21.96%		41.72%	
Loan Type(s)	% of Number	% of Amount						
Home Purchase	5.17	1.27	5.17	1.00	12.07	5.09	77.59	92.64
Home Improvement	21.43	4.84	42.86	18.02	7.14	1.25	28.57	75.90
Home Refinance	3.92	1.14	9.80	4.68	11.76	8.91	74.51	85.26

Source: 2004-2005 loan data collected by Pinnacle National Bank.

Small Loans to Businesses

PNB's record of making small loans to small businesses is good. The percentage of bank loans to businesses with revenues of \$1 million or less is near to the percentage of businesses that reported revenues of \$1 million or less. Approximately 45% of small loans to businesses, regardless of revenue size, originated at \$100,000 or less. The bank's business strategy is commercial and commercial real estate lending.

2004-2005 Borrower Distribution of Loans to Businesses in AA				
Nashville-Davidson-Murfreesboro, TN MSA				
Business Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	60.58%	6.04%	33.38%	100%
% of Bank Loans in AA by #	59.48%	39.74%	0.78%	100%
% of Bank Loans in AA by \$	48.82%	50.78%	0.40%	100%

Source: 2004-2005 loan data collected by Pinnacle National Bank.

Geographic Distribution of Loans Meets the Standard for Satisfactory Performance

Home Purchase

The geographic distribution of home purchase loans in low- and moderate-income geographies is excellent. The percentages of bank loans in low- and moderate-income census tracts exceed the percentage of owner-occupied housing units.

Home Improvement

The geographic distribution of home improvement loans is adequate. PNB did not originate any home improvement loans in low-income census tracts during the evaluation period. The percentage of bank loans in moderate-income geographies is near to the percentage of owner-occupied housing units.

Home Refinance

PNB's geographic distribution of home refinance loans is excellent. The percentages of bank loans in low- and moderate-income geographies exceed the percentages of owner-occupied housing units in low- and moderate-income geographies.

Less weight was placed on home mortgage loans as this was not a primary loan type.

2004 - 2005 Geographic Distribution of Residential Real Estate Loans								
Nashville-Davidson-Murfreesboro TN MSA								
Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of Owner Occupied Units	2.52%		13.10%		51.12%		33.26%	
Loan Type(s)	% of Number	% of Amount						
Home Purchase	3.80	3.19	15.19	12.49	29.11	15.47	51.90	68.85
Home Improvement	0.00	0.00	12.50	0.78	50.00	22.67	37.50	76.54
Home Refinance	8.20	2.66	24.59	18.22	29.51	21.11	37.70	58.01

Source: 2004-2005 loan data collected by Pinnacle National Bank.

Small Loans to Businesses

The bank's geographic distribution of small loans to businesses is very good. The percentage of bank loans in low-income census tracts is lower than the percentage of businesses located in low-income tracts. The percentage of businesses in low-income geographies is low at 4.82%, indicating fewer opportunities to originate loans in low-income tracts. The percentage of bank loans in moderate-income census tracts exceeds the percentage of businesses located in moderate-income tracts.

2004 – 2005 Geographic Distribution of Loans to Businesses Nashville-Davidson-Murfreesboro TN MSA								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
Loan Type	% of AA Businesses	% of Number of Loans						
Small Loans to Businesses	4.82	3.94	20.18	28.61	43.98	31.50	30.52	35.96

Source: 2004-2005 loan data collected by Pinnacle National Bank.

RESPONSES TO COMPLAINTS

PNB has not received any complaints concerning the bank's lending performance.

COMMUNITY DEVELOPMENT TEST

PNB has a high level of responsiveness to community development activities in the AA.

Number and amount of community development loans

PNB originated five loans totaling \$10.4 million that qualify as community development loans. All five loans are located in low- to moderate-income census tracts and are to revitalize and stabilize the community. The loans are located in the Metropolitan Nashville Brownfield area in downtown Nashville. The area is designated as a redevelopment district. The developers received tax increment financing (TIF) to use in the rehabilitation of the projects. Three of the loans were for the rehabilitation of historic buildings into residential space; one loan was for the rehabilitation of a building into retail space; and one loan was for the expansion and rehabilitation of a facility that houses a downtown dental clinic which serves low- and moderate-income patients. A portion of the rehabilitation projects will directly benefit low- to moderate-income individuals by providing affordable housing units.

Number and amount of qualified investments

During the evaluation period, PNB made equity investments in two (2) Community Development Financial Institutions (CDFI) totaling \$750,000. One entity provides down payment assistance to low- and moderate-income individuals. The other entity provides funding or capital to small businesses who can not receive financing from other sources.

Extent to which the bank provides community development services

PNB officers and employees are actively involved in various community development services activities in the AA.

During the evaluation period, bank employees used their expertise to help organizations put together packages and applications to secure approximately \$1 million in grant monies. These

organizations provide affordable housing to low- and moderate-income families, individuals with mental disabilities, and Hurricane Katrina evacuees.

PNB is an active participant in the Tennessee Jump\$start program. The bank's CRA Officer serves as a Board member. The Tennessee Jump\$start program focuses on financial literacy for children in high schools through the state. The Tennessee Jump\$start coalition worked with the Department of Education to successfully get legislation passed to allow a financial literacy course to be taught at the high school level. This program serves all students, however the bank's involvement is overwhelmingly with schools in low- to moderate-income areas.

PNB is actively involved with TN Saves an organization that focuses on reaching the unbanked. TN Saves is affiliated with Nashville Wealth Building Alliance, which is a broad-based collaboration dedicated to promoting financial stability for low- and moderate-income individuals and families of Nashville/Davidson County. The coalition engages business, community, government and faith-based organizations to provide direct services and create linkages that will enable struggling families in communities to achieve new levels of self-sustaining financial independence.

The bank assists small businesses through its partnership with Southeast Community Capital (SECC). SECC makes loans to start-up businesses that can not get financing from traditional banking sources. PNB refers clients to SECC that are not initially bankable. In turn, SECC refers clients to the bank that have made the successful transition from "start-up to bankable". PNB also has a partnership with the Nashville Business Incubation Center which allows the bank to assist small business owners. PNB has conducted seminars on managing cash flow for small business owners.

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.