



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

March 15, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Pioneer National Bank of Duluth
Charter Number 13078**

**331 North Central Avenue
Duluth, MN 55807**

**Comptroller of the Currency
Minneapolis North
920 Second Avenue South Suite 800
Minneapolis, MN 55402**

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 bank's average loan-to-deposit ratio is reasonable.
- The bank originates a majority of its loans by number and dollar within its assessment area.
- The bank has a good distribution of credit among business borrowers of different sizes and a satisfactory distribution of credit among residential real estate borrowers of different income levels.
- The geographic distributions of business loans reflect a good dispersion throughout the assessment area. Geographic distributions of residential real estate loans reflect a satisfactory dispersion throughout the assessment area.

DESCRIPTION OF INSTITUTION

The Pioneer National Bank (Pioneer) is a \$73 million bank located in Duluth, Minnesota. Pioneer has three branches located within the city limits of Duluth. Pioneer's three branches offer traditional banking products and services and maintain standard banking hours. Each branch offers drive up services and ATM access.

The bank's primary products consist of business and residential real estate lending. As of December 31, 2005, business loans (commercial and commercial real estate) comprised 66% of outstanding loans, 1-4 family residential 26%, and consumer and other loans 8%. Pioneer's loan portfolio totaled \$55 million, or 75% of total assets as of December 31, 2005.

Pioneer is owned by Pioneer Bank Shares, Inc., a closely held one bank holding company. Pioneer does not have any bank or non-bank affiliates engaged in lending activities that impact its CRA performance.

There are no legal impediments or other factors outstanding, including the bank's financial condition, that limit Pioneer's ability to meet credit needs of its assessment area. Pioneer's last CRA rating was satisfactory on April 9, 2001.

DESCRIPTION OF ASSESSMENT AREA

Pioneer's assessment area consists primarily of the Duluth portion of the Duluth-Superior Metropolitan Statistical Area (MSA). Pioneer has defined its assessment area as the City of Duluth and surrounding communities in Minnesota. The MSA includes portions of St. Louis and Carlton Counties. Pioneer's assessment area complies with regulatory requirements and does not arbitrarily exclude any low- or moderate-income geographies. See tables on next page for census tract and family income details.

Assessment Area by Income Level	Number of Census Tracts	Percent of Census Tracts
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Low-Income	5	11.63%
Moderate-Income	11	25.58%
Middle-Income	15	34.88%
Upper-Income	12	27.91%

Family Income Level	Percent of Families
Low-Income	16.42%
Moderate-Income	17.49%
Middle-Income	22.97%
Upper-Income	43.11%

The median value of owner occupied housing units per 2000 census data for the State of Minnesota was \$118,100. The median housing value for the Duluth-Superior MSA for the same time was \$76,620. The median housing value for the bank's assessment area was \$89,083. The 2000 census data indicates that 68% of total housing units in the assessment area are owner occupied.

The 2000 census data indicates that 12% of households in the assessment area are below the poverty level. The population of the bank's assessment area, according to 2000 census information, is 120,146 people. There are a total of 30,305 families located within the assessment area. The 2005 Updated HUD Estimated Median Family Income for the Duluth-Superior MSA was \$54,850.

According to the Minnesota Workforce Center, unemployment levels in the State of Minnesota as of February 2006 were at 4.9%, compared to 6.4% for the Duluth-Superior MSA and 5.9% for the city of Duluth. The nation wide unemployment rate as of February 2006 was 5.1%. Major employers in the City of Duluth include St. Mary's Medical Center, Duluth Public Schools, County of St. Louis, University of Minnesota-Duluth, St. Luke's Medical Center, and the City of Duluth itself.

Bank competition in Pioneer's assessment area is moderate. There are nine community banks in the assessment area, including Pioneer, along with several credit unions and branches of four large national banking companies. Pioneer has 4.27% of the market share in its assessment area according to deposit information obtained as of June 30, 2005 from the Federal Deposit Insurance Corporation. Our community contact stated that all local financial institutions have done a good job of meeting local credit needs and providing services to low and moderate income individuals such as home buyer education programs.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

Pioneer's loan-to-deposit ratio performance is reasonable. The bank's loan-to-deposit ratio ranged from 66% to 93% over the past 20 quarters. Pioneer's average quarterly loan-to-deposit ratio was 77% compared to an average of 76% for other similarly situated banks (defined as banks located in Duluth area with total assets between \$20MM and \$182MM as of year-end

2005). Pioneer's performance ranks fifth highest among similarly situated banks.

Institution	Assets (as of 12/31/05)	Average Loan-to- Deposit Ratio; 1Q01 – 4Q05
Cornerstone State Bank	\$90 million	89.65
North Shore Bank of Commerce	\$182 million	79.95
Western National Bank	\$123 million	78.05
Park State Bank	\$28 million	77.60
Pioneer National Bank of Duluth	\$73 million	76.87
First National Bank of Proctor	\$21 million	55.74

Lending in Assessment Area

Pioneer's performance of lending in its assessment area is good. We selected a random sample of 20 business loans and 20 residential real estate loans that were originated between January 1, 2004 and March 31, 2006 in order to assess Pioneer Bank's lending performance within its assessment area. The bank originated 67.5% by number and 78% by dollar volume of its loans within the assessment area. The bank's ratio of lending in the assessment area was calculated from its primary loan types. Business loans and consumer real estate loans were selected as primary loan types based on analysis of loan originations since the last CRA exam.

Table 5. In/Out Lending Analysis	In Assessment Area By Number %	In Assessment Area by Dollar %
Business Loans (Random Sample)	70.0%	79.82%
Residential Real Estate (Random Sample)	65.0%	74.03%
Aggregate Results	67.5%	77.91%

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

Pioneer's distribution of loans to businesses of different sizes is good. Pioneer's distribution of loans to businesses with annual revenues of less than \$1 million exceeds the demographics.

Revenue Size of Business	By Number %	By Dollar %	Demographic for Assessment Area*
Less Than \$1 Million	75%	61.78%	63.35%
Greater Than \$1 Million	25%	38.22%	5.43%
Revenue Not Reported	0%	0%	31.22%

* Per 2004 business demographic data

Pioneer's distribution of loans to individuals of different income levels is satisfactory. The bank's distribution of residential real estate loans is below the demographic but remains adequate as 12% of households are below the poverty level and the bank's branches are all located in middle to upper level income census tracts. Overall, residential real estate lending is considered to be near the demographic.

Table 7.	By Number %	Demographic for
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Income Level of Borrower		Assessment Area*
Low	10%	16.42%
Moderate	5%	17.49%
Middle	35%	22.97%
Upper	50%	43.11%

* Per 2000 census data for RE

Geographic Distribution of Loans

Pioneer's geographic distribution of loans in its assessment area by geographies of different income levels (including low and moderate income neighborhoods) for business loans is good.

Business Loans Income Level of Geography	Business Loans by Number %	Business Loans by Dollar %	Assessment Area Businesses %*
Low-Income	15%	32.46%	23.10%
Moderate-Income	15%	5.84%	12.85%
Middle-Income	45%	56.91%	33.85%
Upper-Income	25%	4.79%	30.20%

* Per 2004 business demographic data

Pioneer's geographic distribution of residential real estate loans by geographies of different income levels (including low and moderate income neighborhoods) is satisfactory. Bank branches are all located in middle to upper income census tracts and less than 2% of all owner occupied units are located in low income census tracts. The bank's geographic distribution of residential real estate loans in low to moderate income census tracts is less than the demographic but still considered satisfactory in light of the above mentioned.

Residential RE Income Level of Geography	Residential RE Loans by Number %	Assessment Area Owner Occupied %*
Low-Income	0%	1.77%
Moderate-Income	5%	10.98%
Middle-Income	50%	45.30%
Upper-Income	45%	41.94%

* Per 2000 census data

Responses to Complaints

Pioneer has not received any CRA related complaints.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.