



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

July 9, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Powell Valley National Bank
Charter Number: 9924

East Main Street
Jonesville, VA 24263

Office of the Comptroller of the Currency

Virginia Field Office
3800 Electric Road, Suite 204
Roanoke, VA 24018

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 that support this rating include:

- Powell Valley National Bank's (PVNB's) loan-to-deposit ratio is more than reasonable.
- A majority of the number of loans was made within their assessment area (AA).
- The distribution of loans to borrowers of different incomes is reasonable.
- A majority of loans to businesses are for amounts less than \$100,000.
- The geographic distribution of residential mortgage loans and loans to businesses is reasonable.

SCOPE OF EXAMINATION

This Performance Evaluation assesses the bank's performance under the Lending Test for the period January 1, 2005 through June 30, 2007. We selected loans to businesses and residential mortgage loans as primary products based on total loans outstanding and discussions with bank management on the bank's business strategy. Our analysis was based on a sample of 30 small loans to businesses and 26 home mortgage loans originated during the evaluation period.

The Lending Test analysis is based on the bank's performance during the evaluation period using comparative demographic data from the 2000 U.S. Census.

DESCRIPTION OF INSTITUTION

Powell Valley National Bank (PVNB) is a community bank with four offices in Jonesville and Pennington Gap in Lee County, and Big Stone Gap and Wise in Wise County. PVNB is a wholly owned subsidiary of Powell Valley Bankshares, Inc., a one-bank holding company with assets of \$236 million located in Jonesville, VA. PVNB offers full service banking at all locations, with both lobby and drive-thru facilities. Deposit-taking automated teller machines (ATM) are located at each branch location. Non-deposit taking ATMs are located at Lee Regional Hospital and Wellmont Lonesome Pine Hospital in Big Stone Gap. The bank offers a variety of traditional deposit and loan products.

PVNB has not opened or closed any branches since the last CRA examination. PVNB's last CRA evaluation was performed in April 2003 and was rated Satisfactory. There are no financial conditions, legal constraints, or other impediments to the bank's ability to meet the credit needs of its assessment area.

As of June 30, 2007, PVNB's assets totaled \$236 million. Net loans comprised 72% of total assets. The following table reflects the composition of PVNB's loan portfolio as of June 30, 2007.

| Loan type | Percent of total loans |
|---------------------------|-------------------------------|
| 1-4 Family residential | 34.2 |
| Non-farm non-residential | 24.3 |
| Commercial and industrial | 24.4 |
| Loans to individuals | 10.3 |
| All other | 6.8 |

DESCRIPTION OF ASSESSMENT AREA

PVNB has one AA (Lee-Wise), located in southwest Virginia. The AA is a non-MSA and consists of Lee and Wise counties, which include the city of Norton and the towns of Jonesville, Big Stone Gap, Pennington Gap, and Wise. The AA meets the requirements of the CRA regulation. PVNB's competitors include Farmers and Miners Bank, First Vantage Bank, Lee Bank and Trust, and New Peoples Bank, all located in the same AA.

Lee County is located in southwest Virginia along the Kentucky and Tennessee border. The current population, based on 2006 census estimates, is approximately 24,000. Wise County is adjacent to Lee County in the foothills of the Appalachian Mountains. The current population, based on 2006 census estimates, is approximately 42,000. Both counties are rural with employment centered in coal mining, government, and manufacturing.

The AA offers low-cost living and overall affordable housing. The unemployment rates at year-end 2005 for Lee and Wise Counties were 4.9% and 4.6% respectively, compared to 3.5% for the State of Virginia. Poverty rates for Lee and Wise Counties were 21.1% and 19.2% respectively compared to 9.5% for the state.

The AA includes twelve moderate-income (44.4%), and six middle-income (55.6%) tracts. There are no low- or upper-income tracts in the AA. Within the AA, 29.7% of families are low-income, 20.1% are moderate-income, 21.4% are middle-income, and 28.8% are upper-income. The median household income in the AA is \$24,972. The median home value is \$54,446 with 65.6% owner occupied units. Median gross monthly rent for the area is \$350.

We contacted a community service organization that serves the entire AA to help identify community credit needs. The contact indicated credit needs include financing for the purchase of mobile homes, and loans with reasonable terms to repay pay-day lenders.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

PVNB's rating is based on the bank's performance in the non-MSA AA of Lee-Wise in VA. PVNB was evaluated as a Small Bank as defined in 12 CFR 25, the implementing regulation for the Community Reinvestment Act.

Loan-to-Deposit Ratio

PVNB's loan-to-deposit ratio is more than reasonable, considering their resources and capacity to lend, demographic, economic and competitive factors, and lending opportunities available in the AA. PVNB's average quarterly loan-to-deposit ratio during the evaluation period is 79%.

We identified three similarly situated banks, all doing business in the same geographic region. The average quarterly loan-to-deposit ratio for these banks was 69%.

Lending in Assessment Area

PVNB originated a majority of its loans inside the AA in terms of the number of loans made.

| Table 1 - Lending in Lee-Wise AA | | | | | | | | | | |
|----------------------------------|-----------------|------|---------|------|-------|-------------------------|------|---------|------|---------|
| Loan Type | Number of Loans | | | | | Dollars of Loans (000s) | | | | |
| | Inside | | Outside | | Total | Inside | | Outside | | Total |
| | # | % | # | % | | \$ | % | \$ | % | |
| Home Mortgage | 24 | 92.3 | 2 | 7.7 | 26 | \$1,827 | 83.8 | \$353 | 16.2 | \$2,179 |
| Business | 25 | 83.3 | 5 | 16.7 | 30 | \$1,251 | 34.9 | \$2,333 | 65.1 | \$3,584 |
| Totals | 49 | 87.5 | 7 | 12.5 | 56 | \$3,078 | 53.4 | \$2,685 | 46.6 | \$5,763 |

Source: Bank Data

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

The distribution of loans to borrowers of different incomes is reasonable given the level of poverty in the AA. A majority of loans to businesses were for amounts less than \$100 thousand. Gross annual revenue information was not available for a majority of the loans to businesses sampled. As a result, we were unable to conduct a fair assessment of the distribution of loans to business of different sizes. Table 2A reflects the number and dollar volume of loans sampled by gross annual revenue.

| Table 2 - Borrower Distribution of Residential Real Estate Loans in Lee-Wise AA | | | | | | | | |
|---|------------------|----------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|
| Borrower Income Level | Low | | Moderate | | Middle | | Upper | |
| Loan Type | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans |
| Home Mortgage | 29.7 | 0.0 | 20.1 | 25.0 | 21.4 | 33.3 | 28.8 | 41.7 |

Source: Loan data, 2000 Census Data

| Table 2A - Borrower Distribution of Loans to Businesses in Lee-Wise AA | | | | |
|--|--------------|--------------|---------------------|-------|
| Business Revenues (or Sales) | ≤\$1,000,000 | >\$1,000,000 | Unavailable/Unknown | Total |
| % of AA Businesses | 55.80 | 4.69 | 39.52 | 100% |
| % of Bank Loans in AA by # | 8.0 | 12.0 | 80.0 | 100% |
| % of Bank Loans in AA by \$ | 7.3 | 13.3 | 79.4 | 100% |

Source: Loan data, 2000 Census Data

| Table 2C - Distribution of Loans to Businesses by Loan Size in Lee-Wise AA | | | | |
|--|-----------------|-------------------|------------------------|--------------------------|
| Loan Size (000's) | Number of Loans | Percent of Number | Dollar Volume of Loans | Percent of Dollar Volume |
| \$0 - \$100,000 | 21 | 84.0 | 513,810 | 41.0 |
| \$100,001 - \$250,000 | 3 | 12.0 | 449,980 | 36.0 |
| \$250,001 - \$500,000 | 1 | 4.0 | 287,465 | 23.0 |
| \$500,001 - \$1,000,000 | 0 | 0.0 | 0 | 0.0 |
| Total | 25 | 100.0 | 1,251,255 | 100.0 |

Source: Loan data

Geographic Distribution of Loans

The geographic distribution of residential mortgage loans and loans to businesses reflects a reasonable distribution of loans in moderate-income geographies. We identified no unexplained gaps in the bank's lending patterns. The AA does not contain any low-income geographies.

| Table 3 - Geographic Distribution of Residential Real Estate Loans in Lee-Wise 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 mortgage | 0% | 0% | 45.7% | 37.5% | 54.3% | 62.5% | 0% | 0% |

Source: Loan data, 2000 Census Data

| Table 3A - Geographic Distribution of Loans to Businesses in Lee-Wise AA | | | | | | | | |
|---|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Census Tract Income Level | Low | | Moderate | | Middle | | Upper | |
| Loan Type | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans |
| Business | 0 | 0.00 | 49.1% | 36.8 | 50.9% | 63.2 | 0 | 0.00 |

Source: Loan data, 2000 Census Data

Responses to Complaints

There have been no complaints regarding PVNB's performance under CRA during this evaluation period. This has a neutral impact on the overall CRA rating.

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.