



PUBLIC DISCLOSURE

August 21, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Pauls Valley National Bank

Charter Number 7892

101 W. Paul Avenue
Pauls Valley, OK 73075-3218

Office of the Comptroller of the Currency

The Harvey Parkway Building
301 NW 63rd Street, Suite 490
Oklahoma City, OK 73116-7908

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, and should not 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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Overall CRA Rating

The Lending Test is rated: **Satisfactory**.

The major factors that support this rating include:

- A majority of the loans are made within the assessment area (AA).
- The performance for lending to borrowers of different incomes and to businesses of different sizes meets the standard for satisfactory performance.
- The loan-to-deposit ratio meets the standard for satisfactory performance.
- The bank is adequately meeting the lending needs of the AA.
- The bank has not received any consumer complaints regarding Community Reinvestment Act (CRA) performance.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate: Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Aggregate Lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

Census Tract (CT): A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts generally have a population between 1,200 and 8,000 people, with an optimal size of 4,000 people. Their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community Development: Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas; or loans, investments, and services that support, enable or facilitate projects or activities under HUD Neighborhood Stabilization Program criteria that benefit low-, moderate-, and middle-income individuals and geographies in the bank's assessment area(s) or outside the assessment area(s) provided the bank has adequately addressed the community development needs of its assessment area(s).

Community Reinvestment Act (CRA): the statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is

further classified into ‘male householder’ (a family with a male householder’ and no wife present) or ‘female householder’ (a family with a female householder and no husband present).

Full Review: Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that conduct business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, the disposition of the application (e.g., approved, denied, and withdrawn), loan pricing, the lien status of the collateral, any requests for preapproval, and loans for manufactured housing.

Home Mortgage Loans: Such loans include home purchase, home improvement and refinancings, as defined in the HMDA regulation. These include loans for multifamily (five or more families) dwellings, manufactured housing and one-to-four family dwellings other than manufactured housing.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited Review: Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

Median Family Income (MFI): The median income determined by the U.S. Census Bureau every five years and used to determine the income level category of geographies. Also, the median income determined by the Federal Financial Institutions Examination Council (FFIEC) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Metropolitan Area (MA): Any metropolitan statistical area or metropolitan division, as defined by the Office of Management and Budget, and any other area designated as such by the appropriate federal financial supervisory agency.

Metropolitan Division: As defined by Office of Management and Budget, a county or group of counties within a Core Based Statistical Area that contains an urbanized population of at least 2.5 million. A

Metropolitan Division consists of one or more main/secondary counties that represent an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area: An area, defined by the Office of Management and Budget, as a core based statistical area associated with at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other Products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified Investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated Area: A rated area is a state or multi-state metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

Small Loan(s) to Business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

Small Loan(s) to Farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Tier One Capital: The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

Upper-Income: Individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent, in the case of a geography.

Description of Institution

Pauls Valley National Bank (PVNB) is a community bank headquartered in Pauls Valley, Oklahoma. PVNB is entirely owned by Valley Bancshares, Inc. of Pauls Valley, Oklahoma. PVNB's main office is located at 101 West Paul Street in Pauls Valley, Oklahoma. A drive-up facility and a 24-hour automatic teller machine (ATM) are located at 217 West Paul Street. Full service branches and ATMs are located at 101 N. Indian Meridian Road in Pauls Valley, 103 S. Main in Elmore City, and 227 E. Main in Davis. No branch locations have been closed since the previous CRA examination. PVNB's primary focus is to serve commercial and consumer customers in Garvin and Murray counties. PVNB meets the loan and deposit needs of the local community by providing various loan and deposit products, and other financial services.

As of June 30, 2017, PVNB reported \$239 million in total assets, of which 58 percent is in various types of loans to individuals, businesses, and small farms. At June 30, 2017, PVNB reported total loans of \$138 million. The table below details PVNB's loan portfolio composition.

LOAN MIX of PVN B as of JUNE 30, 2017		
Loan Category	\$ (000)	% of Gross Loans
Consumer Loans	24,577	17.77%
Commercial Loans	45,616	32.97%
Residential Real Estate Loans	15,452	11.17%
Commercial Real Estate Loans	38,561	27.87%
Farm Loans	12,051	8.71%
Other Loans	2,084	1.51%
Total	138,341	100.00%

Source: 6/30/2017 Call Report Data

There are no legal or financial impediments to PVNB's ability to meet the credit needs of the AA. The bank was rated Satisfactory at its last CRA examination dated March 5, 2012.

Scope of the Evaluation

PVNB was evaluated under the Small Bank examination procedures, which includes a lending test. The lending test evaluates the bank's record of meeting the credit needs of the AA through lending activities. The bank's AA was reviewed and includes all census tracts in Garvin and Murray counties located in south central Oklahoma.

The products sampled include consumer loans, residential real estate loans, and business loans originated in 2015, 2016 and through June 30, 2017. PVNB does not have any offices located in a Metropolitan Statistical Area and is therefore not required to complete the Home Mortgage Disclosure Act reporting log.

Description of the Assessment Area

PVNB's AA consists of whole geographies and does not reflect illegal discrimination nor arbitrarily exclude low- or moderate-income geographies. All requirements of the CRA regulation are satisfied.

PVNB's AA consists of 12 census tracts, as of 2010 Census Data, including all census tracts in Garvin and Murray counties. All nine census tracts in Garvin County are middle-income tracts. In Murray County, one tract is upper-income and the other two tracts are middle-income. The main bank and all branches are located within middle-income census tracts. The following table, based on 2010 U.S. Census data, describes major demographic and economic characteristics of PVNB's AA:

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF PVNB'S AA	
Population	
Number of Families	11,033
Number of Households	15,324
Geographies	
Number of Census Tracts	12
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	0.00%
% Middle-Income Census Tracts	91.67%
% Upper-Income Census Tracts	8.33%
% N/A	0.00%
Median Family Income (MFI)	
2010 MFI for AA	\$45,970
2015 HUD-Adjusted MFI	\$48,800
Economic Indicators	
Unemployment Rate	5.30%
2010 Median Housing Value	\$75,539
% of Households Below Poverty Level	15.01%

Source: 2010 Census data and 2015 HUD updated income data

The current state of the local economy for the AA is characterized as stable. The economic downturn in the energy sector over the past two years had a negative impact on local businesses and families in the AA. However, recent improvement in the energy sector has boosted the local economy and positively impacted families in the AA. Average unemployment for the area remains relatively low. The Bureau of Labor Statistics reports an unemployment rate for Garvin County of 5.3 percent as of December 31, 2016. Major employers in the area are the Wal-Mart Distribution Center, Pauls Valley General Hospital, and the local school systems. Competition stems from branches of larger financial institutions in Pauls Valley, and other financial institutions located in the surrounding areas.

In conducting the assessment of the bank's performance, a community contact was made with a member of the local business resource organization. This contact indicated that lending needs of the community were being adequately satisfied. The core financial need of the community is to provide banking services, including loans to individuals and businesses. Additionally, there is a general need for low- and moderate-income housing. PVNB is actively involved in the community and takes a proactive role in meeting the banking needs of the communities served.

Discriminatory or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. §25.28(c) or §195.28(c), respectively, in determining a national bank's or federal savings association's (collectively, bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Consumer Financial Protection Bureau, as applicable.

The OCC has not identified that this institution has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

The OCC will consider any information that this institution engaged in discriminatory or other illegal credit practices, identified by or provided to the OCC before the end of the institution's next performance evaluation in that subsequent evaluation, even if the information concerns activities that occurred during the evaluation period addressed in this performance evaluation.

Conclusions with Respect to Performance Tests

LENDING TEST

The Lending Test is rated: Satisfactory

This Performance Evaluation assesses PVNB's performance focusing primarily on five performance criteria: the loan-to-deposit ratio; lending in the assessment area; lending to borrowers of different incomes and to businesses of different sizes; geographic distribution of loans; and responses to CRA related complaints.

To evaluate PVNB's lending performance, 30 consumer loans, 30 residential real estate loans, and 30 commercial loans originated in 2015, 2016 and year-to-date June 30, 2017 were evaluated. Consumer loans, residential real estate loans, and business loans serve as PVNB's primary loan products. Based on the analysis and consistent with available resources and capabilities, PVNB is meeting the credit needs of the AA in a satisfactory manner.

Loan-to-Deposit Ratio

PVNB's loan-to-deposit (LTD) ratio meets the standards for satisfactory performance and is reasonable given the bank's size, financial condition, and AA credit needs. The average quarterly LTD ratio is 55 percent for the period ranging from March 31, 2012 through June 30, 2017. Ratios of five similarly situated banks were evaluated over the same period. The quarterly average LTD ratio for the other institutions is 52 percent with a range from 45 percent to 73 percent. The following table shows total assets as of June 30, 2017 and the average LTD ratio for PVNB, as well as, the average LTD ratio of the other five similarly situated banks:

INSTITUTION	ASSETS 6/30/2017 \$ (000)	AVERAGE LTD RATIO
<i>The Pauls Valley National Bank</i>	238,889	55.44%
The State Bank of Wynnewood	85,849	62.73%
The First National Bank of Lindsay	51,311	44.74%
Farmers and Merchants Bank, Maysville	20,890	52.27%
American Exchange Bank, Lindsay	60,203	27.56%
First State Bank, Elmore City	12,000	73.00%

Lending in Assessment Area

PVNB's lending in its AA meets the standard for satisfactory performance. A majority of the number and dollar amount of home mortgage, consumer and small business loans originated within the bank's AA. As depicted in the following table, 82.22 percent of the number and 72.93 percent of the dollar amount of loans sampled originated in PVNB's AA.

TOTAL LOANS REVIEWED										
Type of Loan	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
RE - Home Purchase	25	83.33%	5	16.67%	30	\$1,575	81.96%	\$346	18.04%	\$1,922
Consumer Loans	24	80.00%	6	20.00%	30	\$282	73.67%	\$101	26.33%	\$383
Business Loans	25	83.33%	5	16.67%	30	\$4,202	69.99%	\$1,801	30.01%	\$6,003
Totals	74	82.22%	16	17.78%	90	\$6,059	72.93%	2,248	27.07%	\$8,308

Source: Consumer Loans, Residential Real Estate Loans & Business Loans Sample

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

The distribution of loans reflects a reasonable penetration and meets the standard for satisfactory performance for lending among individuals of different income levels and businesses of different sizes. The following tables represent the distribution of lending based on the 24 consumer loans, 25 residential real estate loans, and 25 small business loans originated in 2015, 2016 and year-to-date June 30, 2017 within PVNB's AA.

BORROWER DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
	% 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
Residential Loans	19.47%	8.00%	20.86%	28.00%	20.25%	16.00%	39.42%	48.00%

Source: 2010 U.S. Census Data & Residential Real Estate Loan Sample

PVNB's distribution of residential real estate loans to borrowers of different income levels is reasonable. The bank's distribution of residential mortgage loans to low-income families reflects poor penetration. However, the distribution of mortgage loans to moderate-income families reflects excellent penetration for overall good performance. Slightly more weight was given to the distribution to moderate-income families as they can more easily qualify for conventional home mortgage loans.

BORROWER DISTRIBUTION OF CONSUMER LOANS								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Automobile Loans	21.87%	12.50%	16.99%	29.17%	20.98%	16.67%	40.16%	41.67%

Source: 2010 U.S. Census Data & Consumer Loan Sample

PVNB’s overall distribution of consumer loans by income level is good. The percentage of the number of consumer loans to low-income households is adequate. The percentage of loans to moderate-income borrowers exceeds the percentage of moderate-income households in the AA and reflects excellent performance.

BORROWER DISTRIBUTION OF SMALL BUSINESS LOANS				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	58.52%	2.47%	39.01%	100%
% of Bank Loans in AA by #	72.00%	28.00%	0%	100%
% of Bank Loans in AA by \$	32.14%	67.86%	0%	100%

Source: 2010 U.S. Census Data & Commercial Loan Sample

PVNB's distribution of loans to businesses is good. A majority of the number of business loans were originated to small businesses with annual gross revenues of less than \$1 million per year. A large percentage of the businesses in the AA did not report revenues or revenues were unavailable or unknown, as reflected in the table above.

Geographic Distribution of Loans

No analysis of geographic distribution of credit within the AA was performed. The AA is comprised entirely of middle or upper-income census tracts. Because PVNB’s AA does not include any low- or moderate-income geographies, a review of a geographic distribution of credit would not be meaningful.

Responses to Complaints

There have been no consumer complaints pertaining to PVNB's CRA performance during this evaluation period.