



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

November 2, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank
Charter Number: 9295

622 Broad Street
Altavista, VA 24517-0000

Office of the Comptroller of the Currency

VIRGINIA (ROANOKE) Field Office
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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: Satisfactory.

The major factors supporting the institution's rating include:

- The bank's quarterly average net loan-to-deposit ratio is reasonable based on the bank's size, financial condition, area credit needs, and relevant competitive factors.
- A majority of the bank's loans are made inside its assessment area (AA).
- The distribution of loans reflects reasonable penetration among borrowers of different incomes and businesses of different sizes.
- The geographic distribution of loans reflects reasonable dispersion throughout the census tracts of different income levels.
- Community development performance demonstrates adequate responsiveness in the assessment area.

Scope of Examination

This performance evaluation assesses First National Bank's (FNB) performance under both the Lending Test and the Community Development Test. This was the first time FNB was examined as an Intermediate Small Bank (ISB), and therefore the first time the bank was assessed under the Community Development Test. We performed a full-scope review of FNB's CRA activities. This review covers the bank's performance from December 1, 2007 through November 2, 2010. This review covers FNB's two primary products, residential loans and business loans. Based on the June 30, 2010 Uniform Bank Performance Report, residential mortgage loans and business loans represented 39.40% and 39.41% of the loan portfolio, respectively. Our analysis included a sample of 23 loans to businesses and all residential mortgage loans originated between December 1, 2007 and November 2, 2010.

We conducted a data integrity examination of the bank's Home Mortgage Disclosure Act (HMDA) loans and found the data accurate and reliable for use in this examination.

Description of Institution

FNB is an intrastate community bank headquartered in Altavista, VA. FNB is wholly owned by Pinnacle Bankshares Corporation, a one bank holding company also headquartered in Altavista, VA. The holding company is listed on the OTC Bulletin Board under the symbol "PPBN." FNB has no affiliate relationships and was not

involved in any merger or acquisition activity during the review period.

FNB is a full service community bank serving the counties of Amherst, Campbell, and Bedford and the cities of Bedford and Lynchburg, all located in central Virginia. FNB has eight full service branches and a single loan production office (LPO). All branches are located within the Lynchburg, VA Metropolitan Statistical Area (MSA). The LPO is located in Moneta, VA near Smith Mountain Lake. Seven of FNB's branches have deposit-taking automated teller machines (ATMs). No branches are located in low- or moderate-income areas, or in agency-designated underserved/distressed nonmetropolitan middle-income census tracts, or in major disaster areas. FNB has twelve additional ATMs that do not accept deposits. FNB opened one branch during the review period. The Rustburg, VA branch opened February 10, 2009. FNB did not close any branches during the review period.

FNB offers a variety of deposit and loan products to meet consumer and commercial banking needs. FNB's website, <http://www.1stnatbk.com>, provides information on products and services for both consumers and businesses. Banking services are standard and include online banking and investment services. The bank's business strategy primarily targets commercial loans and residential real estate loans.

As of June 30, 2010, FNB had total assets of \$334 million and Tier One Leverage Capital of \$27 million. FNB's capital position provides the bank sufficient ability to meet the various credit needs of its community. FNB reported \$261 million in net loans and \$304 million in total deposits as of June 30, 2010. Net loans represent 79% of average assets. FNB's loan portfolio is comprised of commercial (39.41%), residential real estate (39.40%), consumer (18.07%), agricultural (2.95%), and other (0.17%).

Competition for loans and deposits comes from local community banks and the branches of larger regional and national institutions. FNB's primary competitors are Bank of the James, Select Bank, American National Bank, BB&T, Wells Fargo and SunTrust.

There are no legal or financial circumstances that impede FNB's ability to help meet the credit needs of its assessment area. FNB received a "Satisfactory" rating at the last CRA examination, which was dated November 30, 2007.

Description of Assessment Area

FNB has one assessment area (AA). The AA includes the counties of Amherst, Bedford, and Campbell and the cities of Bedford and Lynchburg. These counties and cities are contiguous and all are part of the Lynchburg, VA MSA 31340. FNB's main office and all of FNB's eight branches and seven deposit-taking ATMs are located within the AA. The AA consists of 53 census tracts, of which three (5.66%) are low-income census tracts and eight (15.09%) are moderate-income census tracts. None of the census tracts have been designated as distressed or underserved. This assessment area meets the regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies.

The 2000 U.S. Census reported the total population for the AA to be 214,911. Within the population are 59,068 families and 84,364 households. The number of families in each income category is as follows: 11,393 (19.29%) categorized as low-income; 10,756 (18.21%) as moderate-income; 13,646 (23.10%) as middle-income; and 23,273 (39.40%) as upper-income. The percentage of households below the poverty level is 11.72%. The 2009 HUD updated Median Family Income (MFI) is \$58,100. There are 104,612 housing units, of which 59.59% are owner occupied, 21.10% are rental occupied, and 7.47% are vacant. The remaining 11.84% are mobile homes, trailers, or other units. The weighted average median cost of housing in the AA is \$96,180.

According to 2009 business demographic data, there are a total of 16,904 businesses in the AA. Of these businesses, 77.49% reported having revenues less than \$1 million, 4.07% reported having revenues greater than \$1 million, and 18.44% did not report revenue. The geographic distribution of businesses is as follows: 4.59% are located in low-income tracts; 12.90% are located in moderate-income tracts; 60.17% are located in middle-income tracts; and 22.34% are located in upper-income tracts.

According to the Bureau of Labor Statistics, as of September 2010, the average unemployment rate in the Lynchburg, VA MSA was 7.4%. This was higher than Virginia's rate of 6.5% but lower than the national rate of 9.6%. The highest percentage of total employment in the Lynchburg, VA MSA is Education and Healthcare (16.2%), followed by Manufacturing (14.5%) and Government (14.3%). The top four employers are Centra Health (healthcare – 5,700 employees), Liberty University (education – 3,321 employees), B&W (nuclear energy – 2,060 employees), and Areva, Inc (nuclear energy – 2,000 employees).

Banking competition is moderate. The June 30, 2010 FDIC Deposit Market Share Report ranks FNB sixth out of sixteen institutions in the Lynchburg, VA MSA. FNB holds approximately 7.23% of the market share behind Wells Fargo (23.98%), BB&T (19.42%), SunTrust (14.20%), Bank of the James (8.48%), and Carter Bank & Trust (8.17%). Wells Fargo and BB&T each have sixteen offices inside the MSA, SunTrust has nine, Bank of the James has ten, Carter Bank & Trust has nine, and FNB has eight.

We contacted the Lynchburg Neighborhood Development Foundation (LNDF) in Lynchburg, VA to help determine the credit needs for the area. LNDF finances and develops housing in the Central Virginia area, enabling citizens of low- and moderate-incomes to live in safe, decent and affordable homes. Bank management and the community contact identified an increased demand for home improvement loans. The bank exceeds the standard for home improvement loans to both low- and moderate-income borrowers. The bank has adequate opportunities to provide community development services and invest in qualified investments for CRA purposes.

The economy in the AA has declined significantly since 2007 and is still experiencing effects from the recent national recession. The unemployment rate has increased from 3.4% to 7.4%. Mortgage originations in the AA have declined from \$1.5 billion in 2007 to \$423 million in 2010. Existing home prices have dropped approximately \$13,000. The local economy benefits from low business and living costs, a stable core

manufacturing base built around nuclear technology, and its reputation as a retirement community. The local economy suffers from low educational attainment, low growth potential for manufacturing, and the local economy being overshadowed by Richmond and Raleigh-Durham. Positive notes from economic forecasts include an increase in growth and enrollment at Liberty University and lower business costs, which could increase business relocations from Richmond and Washington, D.C. Negative notes from economic forecasts include decreased demand for nuclear power, which may reduce output at B&W and Areva. Additionally, increased living costs may reduce the area's appeal to retirees, and reduced in-migration could lower growth potential.

The AA is beginning to show steady signs of recovery. The metro area's service sector has been adding jobs since the middle of last year and gains in retail payrolls have bolstered growth in recent months. The education and health services industry will continue to buoy both employment and output. The area's two largest employers, Centra Health and Liberty University, have been relatively immune to the drastic cuts seen in other sectors. Although it anchors the local economy during recessions, the relative stability and noncyclical nature of education/healthcare will prevent it from driving the area's recovery. Aside from Centra and Liberty, the two largest employers are nuclear energy firms B&W and Areva. Both companies struggled during the recession. The area's personal income levels remain lower than both state and national levels. Employment declines are moderating; but unemployment is still relatively high and labor force participation has declined. Historically low income levels coupled with decreasing population trends could lead to a milder recovery than in the past.

Conclusions with Respect to Performance Tests

LENDING TEST

FNB's performance under the lending test is rated "Satisfactory". The loan-to-deposit ratio is reasonable. A majority of the loans are located inside the assessment area. The borrower distribution of loans reflects reasonable penetration among borrowers of different incomes and businesses of different sizes. The geographic distribution of residential real estate loans and business loans reflects reasonable dispersion among geographies of different income levels.

Loan-to-Deposit Ratio

FNB's loan-to-deposit ratio is reasonable. The quarterly average loan-to-deposit ratio since the last CRA examination is 93.25%. We identified one similarly situated bank in FNB's assessment area with a quarterly average loan-to-deposit ratio of 94.60% for the same period.

Lending in Assessment Area

A majority of FNB's loans are located inside the assessment area. Of the total number of loans reviewed, 64.73% are located inside the assessment area. The following table provides further detail by primary product.

Table 1 - Lending in Assessment Area										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Mortgage	273	63.79	155	36.21	428	34,216	71.01	13,969	28.99	48,185
Business	17	85.00	3	15.00	20	3,251	96.97	102	3.03	3,353
Totals	290	64.73	158	35.27	448	37,467	72.70	14,071	27.30	51,538

Source: loan sample and data reported under HMDA.

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

The borrower distribution of loans reflects reasonable penetration among borrowers of different incomes and businesses of different sizes and meets the standard for satisfactory performance.

Residential Mortgage Loans

The distribution of loans to borrowers of different incomes reflects reasonable penetration. FNB does not meet the standard for home purchase loans to low-income borrowers but meets the standard for moderate-income borrowers. FNB does not meet the standard for refinancing loans to low-income borrowers but meets the standard for moderate-income borrowers. FNB exceeds the standard for home improvement loans to both low- and moderate-income borrowers.

In our analysis, we considered the significant increase in unemployment, significant decrease in mortgages originated, and the decline in existing home prices indicating decreased demand for home purchases. Additionally, the weighted average median cost of housing in the AA is \$96,180. According to the 2009 HUD updated Median Family Income of \$58,100, low-income families earn \$29,049 or less and moderate-income families earn from \$29,050 to \$46,479. Also, 11.72% of households are below the poverty level. These factors limit the opportunities for home purchase and refinance lending to low- and moderate-income borrowers. However, bank management and the community contact identified an increased demand for home improvement loans. The bank exceeds the standard for home improvement loans to both low- and moderate-income borrowers.

The following table shows the distribution of residential mortgage loans, by product, among different income levels for the evaluation period as compared to the percent of families in each category.

Borrower Distribution of Residential Real Estate Loans in the Assessment Area								
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 Purchase	19.29	8.33	18.21	14.29	23.10	8.33	39.40	44.05
Refinancing	19.29	6.30	18.21	13.39	23.10	17.32	39.40	37.01
Home Improvement	19.29	19.35	18.21	22.58	23.10	24.19	39.40	32.26

Source: data reported under HMDA; U.S. Census data.

Note: Rows for % of Number of Loans do not total 100% due to some loans lacking reported applicant income. This affected 25.00% of home purchase loans, 25.98% of refinancing loans, and 1.62% of home improvement loans.

Business Loans

The distribution of loans to businesses of different sizes reflects excellent penetration. In terms of the number of loans originated, the percentage of loans FNB made to businesses with gross annual revenues less than or equal to \$1 million exceeds the percentage of businesses within the assessment area with gross annual revenues less than or equal to \$1 million.

The following table details the bank’s performance in lending to businesses of different sizes for the evaluation period.

Borrower Distribution of Loans to Businesses in the Assessment Area				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	77.49%	4.07%	18.44%	100.00%
% of Bank Loans in AA by #	85.00%	15.00%	0.00%	100.00%
% of Bank Loans in AA by \$	61.82%	38.18%	0.00%	100.00%

Source: Loan sample; Dun and Bradstreet data.

Geographic Distribution of Loans

The geographic distribution of residential real estate loans and business loans reflects reasonable dispersion among geographies of different income levels. FNB’s record over the evaluation period meets the standard for satisfactory performance.

The AA consists of 53 census tracts, of which three (5.66%) are low-income census tracts and eight (15.09%) are moderate-income census tracts. None of the census tracts have been designated as distressed or underserved. Our analysis reflects lending in all tracts.

Residential Mortgage Loans

FNB does not meet the standard for home purchase loans in low-income geographies but does meet the standard in moderate-income geographies. FNB meets the standard for refinancing loans in low- and moderate-income geographies. FNB exceeds the standard for home improvement loans in low-income geographies but does not meet the standard for moderate-income geographies.

In our analysis, we considered the significant increase in unemployment, significant decrease in mortgages originated, and the decline in existing home prices. Also, the majority (88.83%) of owner occupied housing in the assessment area is located in middle and upper income geographies. The bank has no home purchase loans in low-income census tracts, however low-income census tracts only account for 1.06% of owner-occupied housing in the assessment area. Only 4.84% of the bank's home improvement loans are made to borrowers in moderate-income census tracts, however moderate-income census tracts only account for 10.10% of the owner-occupied housing in the assessment area.

The following table details the bank's performance, by product, as compared to the percentage of owner-occupied housing units in each census tract income level for the evaluation period.

Geographic Distribution of Residential Real Estate Loans in the Assessment Area								
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 Purchase	1.06	0.00	10.10	7.14	66.55	84.52	22.28	8.33
Refinancing	1.06	0.79	10.10	7.87	66.55	73.23	22.28	18.11
Home Improvement	1.06	1.61	10.10	4.84	66.55	82.26	22.28	11.29

Source: data reported under HMDA; U.S. Census data.

Business Loans

FNB does not meet the standard for business loans in low-income geographies and meets the standard in moderate-income geographies.

The bank has no business loans in low-income census tracts. However, there are only three low-income census tracts in the assessment area, and only 4.39% of businesses in the assessment area are located in low-income census tracts. The bank has 5.00% of its business loans in moderate-income census tracts. However, there are only eight moderate-income census tracts in the assessment area, and only 12.90% of businesses in the assessment area are located in moderate-income census tracts. Of the businesses located in the assessment area, 82.51% are located in middle or upper income census tracts. The bank has significant competition for business loans in the assessment area combined with a low number of low- and moderate-income census

tracts.

The following table details the bank’s performance compared to the percentage of businesses in each census tract income level for the evaluation period.

Geographic Distribution of Loans to Businesses in Lynchburg, VA MSA 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	4.59%	0.00%	12.90%	5.00%	60.17%	80.00%	22.34%	15.00%

Source: loan sample; U.S. Census data

Responses to Complaints

FNB received no complaints regarding performance in helping to meet the credit needs of the AA during the evaluation period. This has a neutral impact on the CRA rating.

COMMUNITY DEVELOPMENT TEST

FNB’s performance under the community development test is rated “Satisfactory”. The bank’s community development performance demonstrates adequate responsiveness to community development needs in the assessment area. The bank provides adequate community development loans, qualified investments, and services considering the bank’s capacity and the need and availability of such opportunities.

Number and Amount of Community Development Loans

The number and amount of community development loans is adequate. FNB made three community development loans totaling \$258,000 during the evaluation period. Proceeds were used to support organizations providing transitional housing; affordable, long-term housing options; and supportive services to low-income individuals.

Number and Amount of Qualified Investments

The number and amount of qualified investments is adequate. FNB has two qualified investments totaling \$1,146,860. The investments increase affordable housing opportunities for low- and moderate-income households.

Extent to Which the Bank Provides Community Development Services

The extent to which the bank provides community development services is adequate. A number of bank employees represent the bank by participating in several community development services. During the evaluation period, three employees provided financial

expertise to organizations providing affordable housing or community services to low- and moderate-income individuals

Responsiveness to Community Development Needs

The bank is adequately responsive to community credit needs and opportunities to lend for community development purposes.

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.