



PUBLIC DISCLOSURE

July 8, 2019

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

Powell Valley National Bank

Charter Number 9924

33785 Main Street
Jonesville, Virginia 24263

Office of the Comptroller of the Currency
Roanoke Field Office
4419 Pheasant Ridge Road, Suite 300
Roanoke, Virginia 24014

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

Institution's CRA Rating: This institution is rated **Satisfactory**

The Lending Test is rated Satisfactory

The major factors that support this rating include:

- Powell Valley National Bank's quarterly average loan-to-deposit (LTD) ratio is reasonable based on the bank's size, financial condition, credit needs of the communities served, and competition in its markets.
- Powell Valley National Bank originated a substantial majority of its loans within its AAs.
- The distribution of home mortgage loans reflects reasonable penetration among low- and moderate-income borrowers in the bank's AAs.
- The geographic distribution of home mortgage loans and loans to businesses reflects reasonable dispersion of loans in moderate-income geographies in the bank's AAs.

Loan-to-Deposit Ratio

Considering the bank's size, financial condition, and credit needs of the AA(s), the bank's LTD ratio is reasonable. The LTD ratio meets the standard for satisfactory performance.

The LTD ratio is calculated on a bank-wide basis. The bank's average quarterly LTD ratio for the twelve consecutive quarters from January 1, 2016 through December 31, 2018, was 76.96 percent. The bank's quarterly LTD ratios ranged from a quarterly high of 84.38 percent at September 30, 2018 to a quarterly low of 70.95 percent at March 31, 2016. Peer's average LTD ratio for this same time period is 77.17 percent. Competitor institutions reported an average quarterly LTD ratio of 86.94 percent, with an average low LTD ratio of 81.22 percent, and an average high LTD ratio of 97.02 percent.

We identified no similarly situated local competitor banks to compare to the bank's performance. Given the lack of similarly situated banks, we used the Federal Deposit Insurance Corporation's (FDIC) Deposit Market Share Report as of June 30, 2018 to determine the competitors in each AA. The main competitors in the bank's SW VA non-MSA AA, were The First Bank and Trust Company, Branch Banking and Trust Company (BB&T), and Lee Bank and Trust Company. The main competitors in the Kingsport-Bristol-Bristol, TN-VA MSA AA are BB&T, The First Bank and Trust Company, and First Tennessee Bank, N.A.

Lending in the Assessment Area(s)

A substantial majority of the bank's loans are inside its AAs. The bank originated 93.5 percent of its total loans and 84.3 percent of the dollar amount of loans inside the bank's AAs during the evaluation period. This analysis is performed at the bank, rather than the AA, level. This percentage does not include extensions of credit by affiliates that may be considered under the other performance criteria. The table below details the bank's lending activity within the AAs and demonstrates that a substantial majority of the bank's lending is inside the AAs.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Home Mortgage										
2016	126	94.0	8	6.0	134	9,466	66.6	4,749	33.4	14,215
2017	139	93.3	10	6.7	149	14,667	92.3	1,217	7.7	15,884
2018	150	93.2	11	6.8	161	15,983	91.3	1,518	8.7	17,501
Total	415	93.5	29	6.5	444	40,116	84.3	7,484	15.7	47,600

Source: Evaluation Period: 1/1/2016 - 12/31/2018 Bank Data. Due to rounding, totals may not equal 100.0

Description of Institution

Powell Valley National Bank (hereinafter referred to as PVNB), is a \$279 million interstate community bank, headquartered in Jonesville, Virginia. The bank was established in 1888, and is a wholly-owned subsidiary of Powell Valley Bankshares, Inc., also located in Jonesville, Virginia. The bank has four branch offices in Virginia, located in Pennington Gap (Lee County), Big Stone Gap and Wise (Wise County), and Duffield (Scott County). The bank opened a branch in Kingsport, Tennessee on August 20, 2018.

There are two AAs for the bank's three rating areas. The Southwest Virginia non-MSA AA (Virginia AA) includes all of Lee, and Wise counties and the independent city of Norton. The Kingsport-Bristol-Bristol, TN-VA MSA AA (Kingsport AA) includes all of Scott and Washington counties in Virginia; and Sullivan County, Tennessee, in its entirety.

The bank's hours of operation are reasonable and consistent between all office locations. All branches, except for the Duffield branch, offer Saturday banking hours. The same products and services are offered at each branch location. Each full-service office has a drive-thru and lobby and a proprietary automated teller machine (ATM).

PVNB is a traditional, full-service community bank, while the drive-thru locations offer limited banking, which consists primarily of loan payments, deposits, and withdrawals. The bank offers a variety of deposit and loan products to meet consumer and commercial banking needs. PVNB originates all of its home mortgages and does not currently have a secondary market program. Banking services include on-line banking with free bill pay, Popmoney, MobiMoney, Mobile banking, and free credit reports. The bank's Internet website, <https://www.powellvalleybank.com/>, provides detailed information on products and services for both consumers and businesses.

According to the June 30, 2018 FDIC Deposit Market Share Report there are twelve FDIC-insured institutions, operating 31 branches inside the Virginia AA. PVNB operates five branches in this AA, ranked first out of the twelve institutions with 21.35 percent of the deposit market share. There are twenty-four FDIC-insured institutions operating eighty-four branches in the Kingsport AA. PVNB has one branch in Scott County and holds 0.40 percent of the deposit market share as of June 30, 2018. The PVNB branch in Sullivan County did not open for business until August 20, 2018; therefore, no deposits were reported in the FDIC report as of June 30, 2018.

As of December 31, 2018, PVNB reported total assets of \$279 million and Tier One Capital of \$38.6 million. The bank’s loan portfolio of approximately \$194 million in gross loans represents 65 percent of total assets. The table below depicts a summary of the bank’s loan portfolio by loan product.

Loan Product Category	Gross Loans as of December 31, 2018*	
	Dollar amount (\$000's)	Percent of total loans
Residential Mortgage Loans	\$78,966	40.63%
Commercial Real Estate	\$63,064	32.45%
Commercial and Industrial	\$14,781	7.61%
Consumer Loans	\$13,691	7.04%
All Other loans	\$13,095	6.74%
Construction & Land Development	\$8,889	4.57%
Farmland/agricultural production	\$1,872	0.96%
Total	\$194,358	100.00%

* Data obtained from Consolidated Reports of Condition and Income for a Bank with Domestic Offices Only - FFIEC 041 as of December 31, 2018.

There are no legal, financial, or other factors impeding the bank’s ability to help meet the credit needs in its AAs. The bank received a Satisfactory Community Reinvestment Act (CRA) rating at its last CRA Performance Evaluation (PE), dated May 10, 2016.

Scope of the Evaluation

Evaluation Period/Products Evaluated

PVNB was evaluated using the Small Bank CRA procedures. This Performance Evaluation assesses the bank’s performance under the Lending Test for the period of January 1, 2016 through December 31, 2018.

We selected home mortgages as the primary loan product as this loan type represented the largest portion of loans originated during the evaluation period. Small loans to businesses, consumer loans, and small farm loans were not considered primary loan products for this evaluation period because the bank originated a minimal number of these loan types. Therefore, we did not complete a loan sample of these products for analysis.

The Lending Test analysis for 2016 is based on the bank’s performance during this year of the evaluation period using comparative demographic data from the 2010 U.S. Census. Due to changes in census data effective January 1, 2017, we evaluated the bank’s 2017 and 2018 lending performance separately from the bank’s 2016 lending performance. We used the comparative demographic data from the 2015 American Community Survey (ACS) U.S. Census for loans originations during years 2017 and 2018.

Selection of Areas for Full-Scope Review

In each state where the bank has an office, one or more of AAs within that state was selected for a full-scope review. For purposes of this evaluation, bank delineated AAs located within the same metropolitan statistical area (MSA), multistate metropolitan statistical area (MMSA), or combined statistical area (CSA), are combined and evaluated as a single AA. Similarly, bank delineated non-MSA AAs within the same state are combined and evaluated as a single area. These combined AAs may be evaluated as full- or limited-scope.

We performed full-scope reviews for the Virginia AA and the Kingsport AA.

Please refer to the “Scope” section under each State Rating for details regarding how full-scope AAs were selected. Please refer to Appendix A – Scope of Examination, for a list of full- and limited-scope AAs.

Ratings

The bank’s overall rating is a blend of the state ratings, and multistate ratings. We weighted the lending in the Virginia AA more heavily than the Kingsport AA given the majority of the bank’s deposits and branches are located in the Virginia AA.

The MMSA rating and state ratings are based on performance in all bank AAs. Please refer to the “Scope” section under each state and MMSA Rating section for details regarding how the areas were weighted in arriving at the respective ratings.

Discriminatory or Other Illegal Credit Practices Review

Pursuant to 12 CFR 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 AA 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 Bureau of Consumer Financial Protection, 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.

Multistate Metropolitan Statistical Area Rating

Kingsport AA

CRA rating for the Kingsport AA¹: Satisfactory

The Lending Test is rated: Satisfactory

The major factors that support this rating include:

- The distribution of home mortgage loans reflects reasonable penetration among low- and moderate-income borrowers in the bank's AAs.
- The geographic distribution of home mortgage loans reflects reasonable dispersion of loans in moderate-income geographies in the bank's AAs.

Description of Institution's Operations in Kingsport AA

The bank's focus within the AA consists of two full-service branches in Duffield, Virginia, and Kingsport, Tennessee. Both branches include ATMs and drive-thru facilities. Deposits in this market total \$16.4 million, or 0.40 percent of the deposit market share. The bank has 7.34 percent of its deposits in this market. Until August 2018, the bank had one full-service branch in Duffield, Virginia, and a loan production office (LPO) in Kingsport, Tennessee. On August 20, 2018, the LPO was replaced with a full-service branch, which is expected to realize increased deposit market share.

The competition for deposits and loans consists of a wide variety of financial institutions, including megabanks, large regional institutions, mortgage companies, and local institutions. The strong competition for deposits and loans creates a challenging market for institutions, such as PVNB, to achieve growth in its deposit base and loan portfolios. The bank's AA has twenty-four banking institutions according to the June 30, 2018 FDIC Deposit Market Share Report. BB&T, The First Bank and Trust Company, First Tennessee Bank, NA, Regions Bank, and Highlands Union Bank collectively hold the 48.80 percent of the total deposit market share.

The Kingsport AA is comprised of Scott and Washington Counties and the city of Bristol, located both in the Commonwealth of Virginia and the state of Tennessee (Sullivan County). There are 62 census tracts (CTs) in this AA, of which 12 are moderate-income, 35 are middle-income, and 15 are upper-income tracts. There are no low-income CTs. This AA meets regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies.

This AA is transitioning from recovery to expansion as the mainstay chemical industry expands. Industrial production is at a near decade high, and manufacturing employment has been climbing since mid-2017. Jobs in manufacturing and healthcare are increasing, while slower global growth and trade-policy uncertainty cast a pall over chemical manufacturing. Capacity additions in textiles and gains in aerospace ensure factory payrolls will increase. Manufacturing and healthcare workers account for one-third of all jobs and earn, on average, 75 percent more than those in other industries. Major employers in the area include Eastman Chemical Company, Ballad Health, Broch Group, Pinnacle, and East Tennessee University.

¹ This rating reflects performance within the MMSA. The statewide evaluations do not reflect performance in the parts of those states contained within the MMSA.

Community Contact

As part of the public evaluation, we contacted the Holston Habitat for Humanity (HHH), a low to moderate income-housing provider. HHH services Carter and Sullivan counties in Tennessee, and Washington County in Virginia, without exclusion. The community contact for HHH voiced a concern that predatory lending was a significant problem, not only in the Tennessee AA, but also in the state, as a whole. According to our contact, as a whole, banks could be more active in the community through financial education classes and by offering products that offset the need for locals to use “*Pay Day type*” lender services, such as providing low-cost check cashing services, and small dollar loans and lower interest rates.

Demographic Information of the Assessment Area Assessment Area: Kingsport AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	62	0.0	19.4	56.5	24.2	0.0
Population by Geography	251,605	0.0	19.2	57.0	23.8	0.0
Housing Units by Geography	120,425	0.0	20.2	56.6	23.2	0.0
Owner-Occupied Units by Geography	77,675	0.0	15.4	58.6	26.0	0.0
Occupied Rental Units by Geography	28,516	0.0	32.1	50.5	17.4	0.0
Vacant Units by Geography	14,234	0.0	22.3	58.3	19.4	0.0
Businesses by Geography	14,356	0.0	22.9	53.5	23.5	0.0
Farms by Geography	624	0.0	10.3	65.1	24.7	0.0
Family Distribution by Income Level	70,491	20.5	18.2	19.5	41.8	0.0
Household Distribution by Income Level	106,191	23.5	16.2	17.3	43.0	0.0
Median Family Income MSA - 28700 Kingsport-Bristol-Bristol, TN-VA MSA	"Kingsport AA"	\$51,210	Median Housing Value			\$122,663
			Median Gross Rent			\$590
			Families Below Poverty Level			12.8%
Source: 2015 ACS Census and 2018 D&B Data. Due to rounding, totals may not equal 100.0 (*) The NA category consists of geographies that have not been assigned an income classification.						

Scope of Evaluation in the Kingsport AA

The Kingsport AA received a full-scope review. The results of this review were incorporated into PVNB's overall CRA rating. In evaluating the bank's lending performance, we reviewed home mortgage loans reported under the Home Mortgage Disclosure Act (HMDA), for calendar years 2016 through 2018. More weight and consideration were given to lending in the AA during 2017 and 2018 as this time period had sufficient number of loan originations to perform geographic analysis.

LENDING TEST

The bank's performance under the Lending Test in the Kingsport AA is rated Satisfactory. Based on a full-scope review, the bank's performance in the Kingsport AA is reasonable.

Distribution of Loans by Income Level of the Geography

The geographic distribution of home mortgage loans in the AA reflects reasonable dispersion throughout census tracts of different income levels, when compared to the percentage of owner-occupied housing units and the aggregate lending. PVNB's performance meets the standard for satisfactory performance in this AA.

Home Mortgage Loans

Refer to Table A in the “MMSA” section of Appendix D for the facts and data used to evaluate the geographic distribution of the bank’s home mortgage loan originations and purchases.

Year 2016

The Kingsport AA for 2016 consisted of Scott County, Virginia. The bank originated three home mortgage loans in Scott County during 2016. This is an insufficient number of loans to perform lending analysis; therefore, no such analysis was performed for this year.

Year 2017 - 2018

The Kingsport AA for 2017 – 2018 expanded to include Scott and Washington County (Virginia); and the city of Bristol. A total of 87 home mortgage loans were originated in the AA during this time period.

The percentage of home mortgage loans made to borrowers in moderate-income census tracts is somewhat below the percentage of AA owner occupied housing in moderate-income census tracts; and the percentage of aggregate lending in moderate-income census tracts in the AA. There are no low-income census tracts in the AA.

Distribution of Loans by Income Level of the Borrower

PVNB's lending in the multi-state MSA shows reasonable distribution to borrowers of different income levels considering competition from other institutions; and the location of the bank's branches in relation to moderate-income geographies.

Home Mortgage Loans

Refer to Table B in the “MMSA” section of Appendix D for the facts and data used to evaluate the borrower distribution of the bank’s home mortgage loan originations and purchases.

Year 2016

The lending to borrowers in low- and moderate-income families was not performed for 2016 because the bank originated three loans in Scott County for the AA. Table B shows that one loan was made to a low-income borrower, one loan was made to a moderate-income borrower, and one loan was made to an upper-income borrower.

Year 2017 – 2018

The bank's AA expanded in this evaluation period to include Scott and Washington County, and the city of Bristol. The percentage of home mortgage loans made to low-income borrowers was significantly below the percentage of low-income families in the AA; and well below the percentage of aggregate lending considering its performance context. The percent of home mortgage loans made to moderate-income borrowers is somewhat below the percentage of moderate-income families in the AA; and somewhat below the percentage of aggregate HMDA Peer Group lending considering its performance context.

Lending to low-, and moderate-income families is limited due to demographic constraints in the AA. The median housing value was \$122,663 per the 2015 ACS U.S. Census data. The FFIEC updated MSA median family income was \$54,800 for the AA, which means the maximum income for low-income families (as defined as less than 50.00 percent of the area median family income) is \$27,400. Therefore, low-income borrowers may have difficulty qualifying for home mortgages. Additionally, approximately 16.70 percent of the AA is below poverty level. Peer banks display similar difficulties with lending to low-income families.

Opportunities to originate home mortgage loans to low- and moderate-income borrowers are limited due to the demographics of the AA. According to the most recent census information, 16.7 percent of families within the AA live below the poverty level. In addition, 43.2 percent of all households in the AA receive social security benefits. Also impacting the ability to originate home purchase loans is the availability and affordability of rental units. Within the AA, 25.4 percent of all housing are rental units.

Responses to Complaints

There were no complaints regarding the bank's CRA performance during the evaluation period. This has a neutral impact on the overall CRA rating.

State Rating

State of Tennessee

We did not assign a CRA rating for the state of Tennessee because PVNB did not open the branch in Sullivan County, Tennessee until August 20, 2018. The bank did not produce at least six months of loan originations to perform lending analysis for the CRA evaluation period. The bank's HMDA data reported that PVNB originated 16 home mortgage loans in Sullivan County during 2018, which is an insufficient number of loans to perform loan analysis for geographic or borrower distribution.

State Rating

Commonwealth of Virginia

CRA rating for the Commonwealth of Virginia: Satisfactory
The Lending Test is rated: Satisfactory

The major factors that support this rating include:

- The distribution of home mortgage loans reflects reasonable penetration among low- and moderate-income borrowers in the bank's AAs.
- The geographic distribution of home mortgage loans and loans to businesses reflects reasonable dispersion of loans in moderate-income geographies in the bank's AAs.

Description of Institution's Operations in Virginia

The Virginia AA consists of Lee and Wise counties and the city of Norton. There are no low-income; seven moderate-income; ten middle-income; and one is upper-income CTs. The middle income CTs have been designated as non-metropolitan middle-income distressed and/or underserved because of high poverty rates and the remote rural geographies. This AA meets regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies.

Lee and Wise Counties are located in the Appalachian Highlands with high mountain ridges running along the northern and southern borders. These geographic barriers and inadequate infrastructure within the sparsely populated region burden economic growth and development.

The largest industries in the AA are Health Care & Social Assistance, Retail Trade, Manufacturing, and Educational Services. The unemployment rate as of March 31, 2019, for Lee County was 4.0 percent; for Wise County was 5.0 percent; and for city of Norton was 4.0 percent. The county unemployment rates are above the national unemployment rate of 3.8 percent, and the Commonwealth of Virginia at 2.9 percent.

PVNB's branches in Lee and Wise Counties, and the city of Norton are located in the AA. The bank offers a traditional range of loan and deposit products and services in its AA through four full-service branches. It holds the largest market share in this AA. During the evaluation period, 91.05 percent of bank-wide deposits and, 79.70 percent of originated loans were in the Commonwealth of Virginia. As of June 30, 2018, PVNB held deposits totaling \$208 million in Virginia, which represented a 21.35 percent market share.

Community Contact

As part of the performance evaluation process, the OCC contact community representatives to gain insight regarding the credit needs and economic conditions of an assessment area. During the course of this evaluation, we contacted a director from the Lee County Redevelopment & Housing Authority (LCRHA). LCRHA is a Public Housing Agency in Jonesville, Virginia that participates in the Section 8 Housing Choice Voucher (HCV), and Public Housing programs.

The contact stated that local financial institutions actively participate in local community activities. The contact identified the need for public housing and a hospital to address the opioid crisis in the AA.

Demographic Information of the Assessment Area Assessment Area: Virginia AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	18	0.0	38.9	55.6	5.6	0.0
Population by Geography	69,743	0.0	36.6	56.5	6.9	0.0
Housing Units by Geography	31,496	0.0	36.8	56.7	6.5	0.0
Owner-Occupied Units by Geography	18,441	0.0	34.5	58.1	7.3	0.0
Occupied Rental Units by Geography	8,041	0.0	39.8	54.8	5.4	0.0
Vacant Units by Geography	5,014	0.0	40.3	54.5	5.2	0.0
Businesses by Geography	2,479	0.0	38.2	53.2	8.6	0.0
Farms by Geography	73	0.0	27.4	63.0	9.6	0.0
Family Distribution by Income Level	17,516	27.4	17.3	20.4	34.8	0.0
Household Distribution by Income Level	26,482	31.1	16.3	16.1	36.5	0.0
Median Family Income Non-MSAs - VA		\$51,375	Median Housing Value			\$87,138
			Median Gross Rent			\$562
			Families Below Poverty Level			18.4%
<i>Source: 2015 ACS Census and 2018 D&B Data. Due to rounding, totals may not equal 100.0</i> <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

Scope of Evaluation in Virginia

The Virginia AA received a full-scope review. The results of this review were incorporated into PVNB's overall CRA rating. In evaluating the bank's lending performance, we reviewed home mortgage loans reported under the HMDA for calendar years 2016 through 2018.

LENDING TEST

The bank's performance under the Lending Test in Virginia is rated Satisfactory. Based on a full-scope review, the bank's lending performance in the state of Virginia is reasonable.

Distribution of Loans by Income Level of the Geography

The geographic distribution of home mortgage loans in the AA reflects reasonable dispersion throughout census tracts of different income levels. PVNB's performance meets the standard for satisfactory performance in this AA.

Home Mortgage Loans

Refer to Table A in the Commonwealth of Virginia section of Appendix D for the facts and data used to evaluate the geographic distribution of the bank's home mortgage loan originations and purchases.

Year 2016

The percentages of home mortgage loans made to borrowers in moderate-income census tracts are below the percentage of AA owner occupied housing in moderate-income census tracts; and below the aggregate lending performance in the moderate-income tracts in the AA.

In our analysis, we also considered lending in the ten middle-income census tracts in the AA that have been designated as distressed and/or underserved due to poverty rates and remote rural geographies. The percentage of home mortgage loans made to borrowers in middle-income census tracts exceed the percentage of owner occupied housing in middle-income census tracts; and exceeds the aggregate lending performance in the middle-income tracts in the AA.

Year 2017-2018

The percentages of home mortgage loans made to borrowers in moderate-income census tracts are well below the percentage of AA owner occupied housing in moderate-income census tracts; and well below the aggregate lending performance in the moderate-income tracts in the AA.

In our analysis, we also considered lending in the ten middle-income census tracts in the AA that have been designated as distressed and/or underserved due to poverty rates and remote rural geographies. The percentage of home mortgage loans made to borrowers in middle-income census tracts is somewhat below the percentage of owner occupied housing in middle-income census tracts; and exceeds the aggregate lending performance in the middle-income tracts in the AA.

Distribution of Loans by Income Level of the Borrower

PVNB's lending in the Commonwealth of Virginia shows reasonable distribution to borrowers of different income levels considering competition from other institutions; and the location of the bank's branches in relation to moderate-income geographies.

Home Mortgage Loans

Refer to Table B in the Commonwealth of Virginia section of Appendix D for the facts and data used to evaluate the borrower distribution of the bank's home mortgage loan originations and purchases.

Year 2016

The percent of home mortgage loans made to low-income families is significantly below the percent of low-income families in the AA. However, the bank's lending is well below the aggregate lending considering its performance context. The percent of home mortgages made to moderate-income borrowers is well below the percent of moderate-income families in the AA; and is somewhat below the percentage of aggregate lending considering its performance context.

Lending to low-, and moderate-income families is limited due to demographic constraints in the AA. The median housing value was \$79,370 per the 2010 census data. The FFIEC updated MSA median family income was \$52,300 for the AA, which means the maximum income for low-income families (as defined as less than 50.00 percent of the area median family income) is \$26,150; and the maximum income for moderate-income families (as defined as less than 80.00 percent of the area median family income) is

\$41,480. Therefore, low-, and moderate-income borrowers may have difficulty qualifying for home mortgages. Peer banks display similar difficulties with lending to low-income families.

Opportunities to originate home mortgage loans to low- and moderate-income borrowers are limited due to the demographics of the AA. According to the most recent census information, 21.3 percent of families within the AA live below the poverty level. In addition, 44.7 percent of all households in the AA receive social security benefits. Also impacting the ability to originate home purchase loans is the availability and affordability of rental units. Within the AA, 27.85 percent of all housing are rental units.

Year 2017 – 2018

The percent of home mortgage loans made to low-income families is significantly below the percent of low-income families in the AA. However, the bank's lending is somewhat below the aggregate lending considering its performance context. The percent of home mortgages made to moderate-income borrowers exceeds the percent of moderate-income families in the AA; and is somewhat below the percentage of aggregate lending considering its performance context.

Lending to low-income families is limited due to demographic constraints in the AA. The median housing value was \$87,138 per the 2015 ACS U.S. Census data. The FFIEC updated MSA median family income was \$55,900 for the AA, which means the maximum income for low-income families (as defined as less than 50 percent of the area median family income) is \$27,950. Therefore, low-income borrowers may have difficulty qualifying for home mortgages. Peer banks display similar difficulties with lending to low-income families.

Opportunities to originate home mortgage loans to low- and moderate-income borrowers are limited due to the demographics of the AA. According to the most recent census information, 23.3 percent of families within the AA live below the poverty level. In addition, 49.83 percent of all households in the AA receive social security benefits. Also impacting the ability to originate home purchase loans is the availability and affordability of rental units. Within the AA, 28.15 percent of all housing are rental units.

Responses to Complaints

There were no complaints regarding the bank's CRA performance during the evaluation period. This has a neutral impact on the overall CRA rating.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the MSAs and non-MSAs that received comprehensive examination review, designated by the term “full-scope,” and those that received a less comprehensive review, designated by the term “limited-scope”.

Time Period Reviewed:	January 1, 2016 to December 31, 2018	
Bank Products Reviewed:	Home Mortgage loans	
Affiliate(s)	Affiliate Relationship	Products Reviewed
Not applicable		
List of Assessment Areas and Type of Examination		
Rating and Assessment Areas	Type of Exam	Other Information
MMSA(s)		
Kingsport-Bristol-Bristol, TN-VA MSA AA (Kingsport AA)	Full-scope	Counties of Scott and Washington in Virginia, and Sullivan County, Tennessee
Tennessee		
Tennessee AA	Limited scope	Sullivan County, Tennessee
Virginia		
Virginia non-MSA (Virginia AA)	Full-scope	Lee and Wise Counties and the city of Norton in the Commonwealth of Virginia ²

² PVNB operated an LPO in Abingdon, Virginia during a portion of this evaluation period. LPO activities are not counted as branch activities, thus were not considered in our evaluation. PVNB has since converted the LPO into a branch in 2019 and will be considered in the next CRA evaluation.

Appendix B: Summary of MMSA and State Ratings

RATINGS – Powell Valley National Bank	
Overall Bank:	Lending Test Rating
Powell Valley National Bank	Satisfactory
MMSA or State:	
Kingsport AA	Satisfactory
Tennessee AA	Not rated
Virginia AA	Satisfactory

Appendix C: Definitions and Common Abbreviations

The following terms and abbreviations are used in 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. For example, a bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Aggregate Lending (Aggt.): The number of loans originated and purchased by all reporting lenders (HMDA or CRA) in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the state/assessment area.

Census Tract (CT): A small, relatively permanent statistical subdivision of a county delineated by a local committee of census data users for the purpose of presenting data. Census tracts nest within counties, and their boundaries normally follow visible features, but may follow legal geography boundaries and other non-visible features in some instances, Census tracts ideally contain about 4,000 people and 1,600 housing units.

Combined Statistical Area (CSA): A geographic entity consisting of two or more adjacent Core Based Statistical Areas with employment interchange measures of at least 15. An employment interchange measure is a measure of ties between two adjacent entities. The employment interchange measure is the sum of the percentage of workers living in the smaller entity who work in the larger entity and the percentage of employment in the smaller entity that is accounted for by workers who reside in the larger entity.

Community Development (CD): 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; or activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas.

Community Reinvestment Act (CRA): The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its entire community, including LMI areas, 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, 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-Scope 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), the lien status of the collateral, any requests for preapproval, and loans for manufactured housing.

Home Mortgage Loans: A closed-end mortgage loan or an open-end line of credit as these terms are defined under 12 CFR 1003.2, and that is not an excluded transaction under 12 CFR 1003.3(c)(1) through (c)(10) and (c)(13).

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-Scope 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: Individual income that is less than 50 percent of the area median income.

Low Income Geography: A census tract with a median family income that is less than 50 percent.

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 state/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. The median is the point at which half of the families have income above, and half below, a range of incomes. 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, and half below, a range of incomes.

Metropolitan Division (MD): 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 (MSA): 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.

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.

Rating Area: A rated area is a state or multi-state metropolitan statistical 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 statistical area, the institution will receive a rating for the multi-state metropolitan statistical 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 1 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.

Appendix D: Tables of Performance Data

Content of Standardized Tables

A separate set of tables is provided for each state. All multistate metropolitan statistical areas, if applicable, are presented in one set of tables. References to the “bank” include activities of any affiliates that the bank provided for consideration (refer to appendix A: Scope of the Examination). For purposes of reviewing the Lending Test tables, the following are applicable: (1) purchased are treated as originations; and (2) “aggregate” is the percentage of the aggregate number of reportable loans originated and purchased by all HMDA or CRA-reporting lenders in the MMSA/assessment area. Deposit data are compiled by the FDIC and are available as of June 30th of each year. Tables without data are not included in this PE.

The following is a listing and brief description of the tables included in each set:

Table A. Assessment Area Distribution of Home Mortgage Loans by Income Category of the Geography - Compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of owner-occupied housing units throughout those geographies. The table also presents aggregate peer data for the years the data is available.

Table B. Assessment Area Distribution of Home Mortgage Loans by Income Category of the Borrower - Compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage distribution of families by income level in each MMSA/assessment area. The table also presents aggregate peer data for the years the data is available.

Table A : Assessment Area Distribution of Home Mortgage Loans by Income Category of the Geography																			2016	
Assessment Area:	Total Home Mortgage Loans				Low-Income Tracts			Moderate-Income Tracts			Middle-Income Tracts			Upper-Income Tracts			Not Available-Income Tracts			
	#	\$ (000)	% of Total	Overall Market	% of Owner-Occupied Housing Units	% Bank Loans	Aggt.	% of Owner-Occupied Housing Units	% Bank Loans	Aggt.	% of Owner-Occupied Housing Units	% Bank Loans	Aggt.	% of Owner-Occupied Housing Units	% Bank Loans	Aggt.	% of Owner-Occupied Housing Units	% Bank Loans	Aggt.	
Kingsport AA	3	117	2.6	277	0.0	0.0	0.0	15.2	33.3	12.3	84.8	66.7	87.7	0.0	0.0	0.0	0.0	0.0	0.0	
VA AA	112	7,911	97.4	943	0.0	0.0	0.0	39.9	30.4	38.8	53.9	58.9	50.9	6.2	10.7	10.3	0.0	0.0	0.0	
Total	115	8,028	100.0	1,220	0.0	0.0	0.0	33.0	30.4	32.8	62.5	59.1	59.3	4.5	10.4	8.0	0.0	0.0	0.0	

Source: 2010 U.S Census; 01/01/2016 - 12/31/2016 Bank Data, 2016 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0

Table A : Assessment Area Distribution of Home Mortgage Loans by Income Category of the Geography																			2017-18	
Assessment Area:	Total Home Mortgage Loans				Low-Income Tracts			Moderate-Income Tracts			Middle-Income Tracts			Upper-Income Tracts			Not Available-Income Tracts			
	#	\$ (000)	% of Total	Overall Market	% of Owner-Occupied Housing Units	% Bank Loans	Aggt.	% of Owner-Occupied Housing Units	% Bank Loans	Aggt.	% of Owner-Occupied Housing Units	% Bank Loans	Aggt.	% of Owner-Occupied Housing Units	% Bank Loans	Aggt.	% of Owner-Occupied Housing Units	% Bank Loans	Aggt.	
Kingsport AA	87	15,027	30.1	5,564	0.0	0.0	0.0	15.4	12.6	16.9	58.6	54.0	53.0	26.0	33.3	30.1	0.0	0.0	0.0	
VA AA	202	15,624	69.9	927	0.0	0.0	0.0	34.5	17.8	32.3	58.1	70.8	57.4	7.3	11.4	10.4	0.0	0.0	0.0	
Total	289	30,650	100.0	6,491	0.0	0.0	0.0	19.0	16.3	19.1	58.5	65.7	53.6	22.4	18.0	27.3	0.0	0.0	0.0	

Source: 2015 ACS Census; 01/01/2017 - 12/31/2018 Bank Data, 2017 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0

Table B: Assessment Area Distribution of Home Mortgage Loans by Income Category of the Borrower																			2016	
Assessment Area:	Total Home Mortgage Loans				Low-Income Borrowers			Moderate-Income Borrowers			Middle-Income Borrowers			Upper-Income Borrowers			Not Available-Income Borrowers			
	#	\$ (000)	% of Total	Overall Market	% Families	% Bank Loans	Aggt.	% Families	% Bank Loans	Aggt.	% Families	% Bank Loans	Aggt.	% Families	% Bank Loans	Aggt.	% Families	% Bank Loans	Aggt.	
Kingsport AA	3	117	2.6	277	24.0	33.3	6.1	18.0	33.3	21.7	22.3	0.0	24.9	35.8	33.3	36.1	0.0	0.0	11.2	
VA AA	112	7,911	97.4	943	25.5	5.4	12.5	21.4	12.5	19.5	18.1	26.8	25.5	35.1	43.8	32.1	0.0	11.6	10.4	
Total	115	8,028	100.0	1,220	25.1	6.1	11.1	20.5	13.0	20.0	19.2	26.1	25.3	35.3	43.5	33.0	0.0	11.3	10.6	

Source: 2010 U.S. Census: 01/01/2016 - 12/31/2016 Bank Data, 2016 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0

Table B: Assessment Area Distribution of Home Mortgage Loans by Income Category of the Borrower																			2017-18	
Assessment Area:	Total Home Mortgage Loans				Low-Income Borrowers			Moderate-Income Borrowers			Middle-Income Borrowers			Upper-Income Borrowers			Not Available-Income Borrowers			
	#	\$ (000)	% of Total	Overall Market	% Families	% Bank Loans	Aggt.	% Families	% Bank Loans	Aggt.	% Families	% Bank Loans	Aggt.	% Families	% Bank Loans	Aggt.	% Families	% Bank Loans	Aggt.	
Kingsport AA	87	15,027	58.0	5,564	20.5	2.3	9.0	18.2	10.3	18.3	19.5	20.7	22.1	41.8	35.6	35.9	0.0	31.0	14.7	
VA AA	202	15,624	69.9	927	27.4	10.4	13.2	17.3	18.3	22.8	20.5	17.8	23.1	34.8	43.1	29.8	0.0	10.4	11.2	
Total	289	30,650	100.0	6,491	21.9	8.0	9.6	18.0	15.9	18.9	19.7	18.7	22.2	40.4	40.8	35.0	0.0	16.6	14.2	

Source: 2015 ACS Census: 01/01/2017 - 12/31/2018 Bank Data, 2017 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0