



PUBLIC DISCLOSURE

May 12, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank
Charter Number 9295

622 Broad Street
Altavista, Virginia 24517

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, 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 more than reasonable based on the bank's size, financial condition, area credit needs, and relevant competitive factors.
- A majority of the bank's loans were 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

First National Bank (FNB), located in Altavista, Virginia, was evaluated under the Intermediate Small Bank examination procedures, which include a lending and community development (CD) test. The lending test evaluates the institution's record of meeting the credit needs of its AAs through its lending activities. The CD test evaluates the institution's responsiveness to CD needs in its AAs through CD qualified loans, services, and investments. The evaluation period under the Lending Test covers the institution's performance from January 1, 2011 through December 31, 2013. The evaluation period for the community development test is November 2, 2010 through May 12, 2014.

For purposes of this evaluation, we considered residential mortgage loans as the primary loan product, based on the institution's business strategy and total loan originations by loan product during the evaluation period. FNB originated 327 mortgage loans during the evaluation period. We excluded business loans, small loans to farms, and multi-family loans because FNB made a minimal number of these loans.

Our analysis for the lending test included Home Mortgage Disclosure Act (HMDA) reported mortgage loans for the period of January 1, 2012 through December 31, 2013. We determined that this period was representative of FNB's lending activity during the evaluation period, using comparative demographic data from the 2010 U.S. Census.

Description of Institution

FNB is an intrastate community bank headquartered in Altavista, Virginia. FNB is wholly owned by Pinnacle Bankshares Corporation, a one-bank holding company also headquartered in Altavista, Virginia. 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, Appomattox, Bedford and Campbell, and the cities of Bedford and Lynchburg, all located in central Virginia. FNB has eight full-service branches, which have deposit-taking automated teller machines (ATMs). All branches are located within the Lynchburg, Virginia Metropolitan Statistical Area (MSA). The bank recently added an additional ATM in Arrington, Virginia. No branches are located in low- or moderate-income areas; 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 did not open or close any branches during the evaluation period. The bank closed the Smith Mountain Lake loan production office located in Moneta, Virginia in April 2011 due to the impact of a continued weak economic environment.

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 March 31, 2014, FNB had total assets of \$360 million and Tier One Capital of \$33 million. FNB's capital position provides the bank sufficient ability to meet the various credit needs of its community. FNB reported \$279 million in gross loans as of March 31, 2014, representing 77.50 percent of total assets. Table 1 provides further detail of FNB's loan portfolio by product type.

Table 1 - Loan Product Category	Gross Loans as of March 31, 2014*	
	Dollar (000's)	% of Total Loans
All Other	70	0.03
Agricultural / Farm / Farmland	7,312	2.62
Commercial and Industrial	28,493	10.20
Construction & Land Development	31,782	11.37
Individuals	48,383	17.31
Commercial and Commercial Real Estate	59,568	21.31
Residential Mortgage Loans	103,858	37.16
Total	279,466	100.00

*Data obtained from "Consolidated Reports of Condition and Income for a Bank with Domestic Offices Only – FFIEC 041" as of March 31, 2014.

Competition for loans and deposits comes from local community banks and the branches of larger regional and national institutions. FNB’s primary competitors are Wells Fargo, Branch Bank and Trust (BB&T), Bank of the James, and The Farmers Bank of Appomattox.

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 evaluation, which was dated November 2, 2010.

Description of Assessment Area(s)

Lynchburg MSA AA

FNB has identified the Lynchburg MSA as its AA. The Lynchburg MSA includes the counties of Amherst, Appomattox, Bedford, and Campbell, and the independent cities of Bedford and Lynchburg. The AA consists of 60 census tracts (CTs) according to the 2010 U. S. Census. This AA meets regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies. **Table 2** below presents demographic data for the AA using 2010 U. S. Census data.

TABLE 2 Demographic Information for Assessment Area: Lynchburg VA MSA 2010					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts/BNAs)	60	5.00	21.67	60.00	13.33
Population by Geography	252,634	2.11	19.69	61.32	16.88
Owner-Occupied Housing by Geography	71,264	1.09	14.66	65.24	19.01
Business by Geography	20,397	4.49	19.97	55.20	20.34
Farms by Geography	963	1.25	7.48	72.07	19.21
Family Distribution by Income Level	66,258	20.43	18.65	20.95	39.96
Distribution of Low and Moderate Income Families throughout AA Geographies	25,895	2.91	23.48	64.09	9.52
Median Family Income HUD Adjusted Median Family Income for 2013 Households Below Poverty Level		56,509 57,900 14%	Median Housing Value		156,177

Source: 2010 U.S. Census and 2013 HUD updated MFI

Lynchburg is the principal city of the Metropolitan Statistical Area of Lynchburg, near the geographic center of Virginia. It is the fifth largest MSA in Virginia with a population of 252,634. The 2,122-square mile Lynchburg Metropolitan Statistical Area (MSA) is located in south central Virginia in the foothills of the Blue Ridge Mountains. The historic James River bisects the region with the Roanoke (Staunton) River and expansive 23,400-acre Smith Mountain Lake situated to the south. The region’s two major U.S. highways, Routes 29 and 460 have become corridors for most of the

industrial, commercial, and residential development. The city of Lynchburg is a major highway and transportation hub, as well as a diversified manufacturing center.

According to the Bureau of Labor Statistics, as of March 2014, the average unemployment rate in the Lynchburg, VA MSA was 6.0 percent. This rate is well above the state's average unemployment rate of 4.9 percent, but below the national average unemployment rate of 6.7 percent for the same period.

Industries within the Lynchburg MSA include nuclear technology, pharmaceuticals and material handling. A diversity of small businesses within the region has helped maintain a stable economy and minimized the downturns of the national economy. According to the Virginia Employment Commission, the highest percentage of total employment in the Lynchburg, VA MSA is Manufacturing (15.1 percent), Health Care and Social Assistance (14.4 percent), Government (13.8 percent), and Retail Trade (13.1 percent). The top five employers are Centra Health, Babcock & Wilcox Nuclear, Bedford County School Board, Lynchburg City Schools, and Wal Mart.

Banking competition is moderate. The June 30, 2013 FDIC Deposit Market Share Report ranks FNB sixth out of seventeen institutions in the Lynchburg, VA MSA. FNB holds 7.18 percent of the market share behind Wells Fargo Bank, N.A. with 22.14 percent, BB&T with 20.43 percent, SunTrust Bank with 13.67 percent, Carter Bank & Trust with 9.40 percent, and Bank of the James with 8.56 percent. Wells Fargo and BB&T each have sixteen offices inside the MSA; and SunTrust Bank and Carter Bank & Trust have nine offices inside the MSA. Unlike the aforementioned institutions that have offices located outside the MSA, Bank of the James has ten offices and FNB has eight offices inside the MSA and no offices outside the MSA.

COMMUNITY CONTACT

We contacted a representative of the Industrial Development Authority of Campbell County, a local governmental organization located in Campbell County, Virginia created to present opportunities for economic development in the county. The entity's purpose is to provide programs and services to promote area business, as well as attract companies and industries in an effort to promote job growth in the area. The contact discussed the need for low-cost business loans in Campbell County and the organization's efforts to work with financial institutions in the market area to address this need. The contact stated that the local financial institutions have been supportive of the community, providing credit availability for local agencies.

Conclusions with Respect to Performance Tests

Lending Test

FNB's performance under the lending test in the AA is rated "Satisfactory". The bank's geographic distribution reflects reasonable distribution throughout census tracts of

different income levels. The bank's borrower distribution reflects reasonable penetration among borrowers of different incomes.

For purposes of this evaluation, we considered residential mortgage loans as the primary loan product, based on the institution's business strategy and total loan originations by loan product during the evaluation period. We generated a Standard Summary Report, which indicated a total of 327 mortgage loans were originated during the evaluation period. Our analysis of the bank's performance for the respective evaluation factors is described below.

Loan-to-Deposit Ratio

FNB's quarterly average net loan-to-deposit (LTD) ratio is more than reasonable given the institution's size, financial condition, credit needs of the AA, other similarly situated institutions in their assessment area, and demographic and economic facts about the assessment areas. The institution's average quarterly LTD ratio exceeds the standards for satisfactory performance.

The bank's average quarterly loan-to-deposit ratio for the fifteen consecutive quarters since the previous CRA Evaluation (June 30, 2010 to December 31, 2013) is 85.26 percent. The bank's peer average quarterly LTD was 84.40 percent during the same period. The bank's LTD ratio has remained relatively stable over the past several years and through December 2013. The bank's quarterly LTD ratios ranged from a quarterly high of 87.69 percent at June 30, 2011 to a quarterly low of 81.63 percent at March 31, 2013.

Bank of the James is a similarly situated institution to First National Bank in number of offices and total deposits. Bank of the James has all 10 bank offices located within the Lynchburg Virginia MSA and reported total deposits of \$391.5 million as of June 30, 2013 Deposit Market Share Report and a deposit market share of 8.56 percent. Bank of the James' average quarterly loan-to-deposit ratio since FNB's last CRA evaluation is 84.80 percent.

Lending in Assessment Area

The majority of the home mortgage loans and business purpose loans originated during the evaluation period were within the AA. FNB meets the standard for satisfactory performance for lending in its AA.

Lending in the assessment area is considered reasonable with a majority of loans originated within the AA. Cumulatively, 72.78 percent by number and 72.35 percent by dollar volume were extended inside the institution's AA. The distribution of loans inside the AA indicates that the institution is serving the credit needs of its AA. **Table 3** provides a summary of the lending activity during the evaluation period.

Table 3- Lending inside / outside Lynchburg VA MSA AA										
Loan Type	Number of Loans					Dollars of Loans (\$000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%	#	\$	%	\$	%	\$
Home Purchase	84	76.36	26	23.64	110	8,218	79.73	2,089	20.27	10,307
Home Refinance	93	73.81	33	26.19	126	16,042	68.82	7,267	31.18	23,309
Home Improvement	61	67.03	30	32.97	91	770	78.41	212	21.59	982
Totals	238	72.78	89	27.22	327	25,030	72.35	9,568	27.65	34,598

Source: Data reported in HMDA reports from January 1, 2012 – December 31, 2013.

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

FNB meets the standard for satisfactory performance during the evaluation period for the distribution of home mortgage loans to borrowers of different income levels in the AA. The distribution of loans, given the demographics of the AA, reflects reasonable penetration among borrowers of different income levels.

The analysis of lending to borrowers of different income levels was completed using loans made inside the AA from the HMDA data reports shown in Table 3 above. Small loans to businesses were not a primary loan product for this evaluation period; therefore we did not complete a loan sample for analysis.

The percentage of home purchase loans made to low-income borrowers is below the percentage of low-income families in the AA. The percentage of home purchase loans made to moderate-income borrowers is below the percentage of moderate-income families in the AA.

The percentage of home improvement loans made to low-income borrowers is below the percentage of low-income families in the AA. The percentage of home improvement loans made to moderate-income borrowers is near to the percentage of moderate-income families in the AA.

The percentage of home mortgage refinance loans made to low-income borrowers is significantly below the percentage of low-income families in the AA. The percentage of home mortgage loans made to moderate-income borrowers exceeds the percentage of moderate-income families in the AA.

In our analysis, we considered the unemployment rate, the increase in the number of households below poverty level, and the decrease in the median family income as indicators of decreased demand for home purchases. The unemployment rate for the AA at March 31, 2014 of 6.0 percent was above the average unemployment rate for the State of Virginia of 4.9 percent. According to the 2013 HUD updated MSA Median Family Income of \$57,900, low-income families earn \$28,950 or less and moderate-income families earn from \$28,950 to \$46,320. Also 14.34 percent of households are below the poverty level, compared to 11.72 percent for the prior evaluation period. These factors limit the opportunities for home mortgage lending to low- and moderate-

income borrowers.

Table 4 illustrates loan originations, categorized by loan type and borrower income level, during the review period.

TABLE 4 Borrower Distribution of Home Mortgage 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	20.43	15.69	18.65	15.69	20.95	23.53	39.96	45.10
Home Improvement	20.43	15.22	18.65	17.39	20.95	39.13	39.96	28.26
Home Mortgage Refinance	20.43	6.38	18.65	19.15	20.95	21.28	39.96	53.19

Source: Data reported under HMDA; 2010 U.S. Census data.

Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable distribution throughout census tracts of different income levels, when compared to the percentage of owner-occupied units in each income level census tract. FNB's performance meets the standard for satisfactory performance.

The AA consists of 60 census tracts, of which three, or 5.0 percent, are low-income census tracts and thirteen, or 21.67 percent, are moderate-income census tracts. Our analysis reflects lending in all tracts.

The institution's percentage of home purchase loans made in low-income geographies is significantly below the percentage of owner-occupied units in low-income geographies. The percentage of home purchase loans made in moderate-income geographies exceeds the percentage of owner-occupied units in moderate-income geographies.

The institution's percentage of home-improvement loans made in low-income geographies is significantly below the percentage of owner-occupied units in low-income geographies. The percentage of home improvement loans made in moderate-income geographies is near to the percentage of owner-occupied units in moderate-income geographies.

The institution's percentage of home mortgage refinance loans made in low-income geographies is significantly below the percentage of owner-occupied units in low-income geographies. The percentage of home mortgage refinance loans made in moderate-income geographies exceeds the percentage of owner-occupied units in moderate-income geographies.

Table 5 illustrates loan originations, categorized by loan type and census tract income level, during the review period.

TABLE 5 - Geographic Distribution of Home Mortgage 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	1.09	0.00	14.66	23.19	65.24	72.46	19.01	4.35
Home Improvement	1.09	0.00	14.66	13.04	65.24	80.43	19.01	6.52
Home Mortgage Refinance	1.09	0.00	14.66	19.05	65.24	65.48	19.01	15.48

Source: Data reported under HMDA; 2010 U.S. Census data.

The bank has made reasonable efforts to lend to low and moderate income borrowers. Limiting factors considered were competition from other financial institutions in the AA, the unemployment rate in the AA, the number of households below the poverty level in each AA, and the percentage of the households in each AA that lived on fixed income, either from social security, retirement, or public assistance. Another consideration in this lending test was the availability and access of FNB branches in the low census tract areas.

In our analysis, we took into consideration the lack of affordability for low- or moderate-income individuals to purchase a home. The unemployment rate for the AA at March 31, 2104 of 6.0 percent was above the average unemployment rate for the State of Virginia of 4.9 percent. The lack of affordability limits the opportunities for home purchase, home improvement, and home refinance lending to low- and moderate-income individuals.

Responses to Complaints

FNB did not receive any complaints about its performance in helping to meet credit needs in the assessment area during this evaluation period. This has a neutral impact on the bank’s CRA assessment.

COMMUNITY DEVELOPMENT TEST

FNB’s performance under the community development test is rated “Satisfactory” and demonstrates adequate responsiveness to the community development needs of its assessment areas through community development loans, qualified investments, and community development services, as appropriate, considering the institution’s capacity and the need and availability of such opportunities for community development in the institution’s assessment areas.

Number and Amount of Community Development Loans

The number and amount of community development loans is adequate. During the evaluation period, the bank refinanced or originated four community development loans in its AA totaling \$3.1 million. Proceeds from these loans included:

- \$120,000 to provide direct assistance to low to moderate income individuals and families in the prevention and elimination of poverty and adverse situations, including the administration of homeless shelters;
- \$1,800,000 for the expansion of an industrial plant, resulting in the creation of nearly 50 jobs. The plant is adjacent to several moderate income tracts;
- \$476,000 for the purchase of equipment to construct the aforementioned industrial plant;
- \$100,000 to provide affordable housing opportunities to people with low incomes in the greater Lynchburg region;
- \$100,000 to promote economic development and job creation for a custom-built packing machinery plant in a moderate income census tract in Campbell County; and,
- \$500,000 to purchase a larger facility for the aforementioned custom-built packing machinery plant to support job creation and retention.

Number and Amount of Qualified Investments

Virginia Housing Development Authority

The bank made two qualifying Virginia Housing Development Authority investments during the review period of \$1.15 million. The remaining book value total is \$981 thousand. The investment is located in the broader statewide or regional area that includes the bank's assessment area and has the potential to benefit the bank's AA. The Virginia Housing Development Authority (VHDA) finances the acquisition, construction, rehabilitation, and ownership of housing intended for occupancy or ownership by families of low or moderate income in the Commonwealth of Virginia. The proceeds from the bonds, notes, and other obligations issued by the VHDA are used to make mortgage loans. FNB's AA is located in the Commonwealth of Virginia, and has the ability to benefit from the efforts of the Virginia Housing Development Authority.

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, several employees and officers provided financial expertise to nine organizations providing affordable housing or community services to low- and moderate-income individuals. Services provided include Board membership, financial advice, banking education, and fund raising.

Responsiveness to Community Development Needs

The bank's community development activities, as a whole demonstrate adequate responsiveness to the needs and opportunities in the bank's assessment area.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), in determining a national bank's 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.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.