

**PUBLIC DISCLOSURE**

August 19, 2013

**COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Capon Valley Bank

Bank's RSSD: 18836

2 W. Main Street

Wardensville, West Virginia 26851

**Federal Reserve Bank of Richmond**

**P. O. Box 27622**

**Richmond, Virginia 23261**

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.

## TABLE OF CONTENTS

### Institution Rating

Institution's CRA Rating .....	1
Summary of Major Factors Supporting Rating .....	1

### Institution

Scope of Examination .....	1
Description of Institution .....	1
Conclusions with Respect to Performance Criteria .....	2

### State of West Virginia

State Rating .....	5
Scope of Examination .....	5
Description of Institution's Operations in Hardy, WV NonMSA Assessment Area.....	5
Conclusions with Respect to Performance Criteria .....	8

### Commonwealth of Virginia

State Rating .....	10
Scope of Examination .....	10
Description of Institution's Operations in Winchester, VA-WV MSA Assessment Area	10
Conclusions with Respect to Performance Criteria .....	13

### Appendices

CRA Appendix A: Scope of Examination and Summary of State Ratings .....	17
CRA Appendix B: Loan, Branch, and Deposit Volume by Assessment Area .....	18
CRA Appendix C: Glossary.....	19

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

### **INSTITUTION'S CRA RATING: This institution is rated Outstanding**

The major factors supporting this rating include:

- The bank's loan to deposit ratio is considered more than reasonable given the bank's capacity, location, and demand for credit in assessment areas.
- A substantial majority of the institution's Home Mortgage Disclosure Act (HMDA) and sampled other consumer secured loans were originated within the bank's assessment areas.
- Lending to borrowers of different income levels is considered excellent.
- The distribution of lending by income level of geography for the Virginia assessment area is considered excellent. The distribution of lending by income level of geography for the West Virginia assessment area was not analyzed as it contains only middle-income census tracts.
- The bank has not received any complaints regarding its CRA performance since the previous evaluation.

### **SCOPE OF EXAMINATION**

Capon Valley Bank (CVB) was evaluated using the interagency examination procedures developed by the Federal Financial Institutions Examination Council (FFIEC). Consistent with these procedures, residential mortgage loan originations and purchases reported by the institution in accordance with the HMDA during calendar years 2011 and 2012 were reviewed. Additionally, based on the institution's recent historical loan volume, consumer other secured loans were identified as primary credit to be considered in the evaluation. The analysis includes a sample of 136 consumer other secured loans selected from a universe of 408 such loans, totaling \$3.4 million, extended by the institution during calendar year 2012.

Based on the FFIEC's evaluation procedures, ratings are assigned to the institution, the State of West Virginia, and the Commonwealth of Virginia. Because the bank's branches are located in a single assessment area in each state, the statewide ratings are each based only on the bank's performance in the assessment area located in each state. Appendix B includes information detailing the lending volume, branch locations, and deposit volume by assessment area.

### **DESCRIPTION OF INSTITUTION**

Capon Valley Bank (CVB) is headquartered in Wardensville, West Virginia, and operates three full-service branches in the State of West Virginia and two full-service branches in the Commonwealth of Virginia. The bank is a wholly owned subsidiary of Highland Bankshares, a multi-bank holding company, headquartered in Petersburg, West Virginia. The bank received an Outstanding rating at its prior CRA evaluation dated July 14, 2008. No known legal impediments exist that would prevent the bank from meeting the credit needs of its assessment areas.

As of June 30, 2013, CVB held \$149.5 million in assets, of which 71.7% were net loans. Various deposit and loan products are available through the institution including loans for residential mortgage, consumer, and business purposes. The composition of the loan portfolio (reflecting gross loans) is represented in the following table:

**Composition of Loan Portfolio**

Loan Type	6/30/2013	
	\$(000s)	%
Secured by 1-4 Family dwellings	57,714	52.6
Multifamily	47	0.0
Construction and Development	5,539	5.0
Commercial & Industrial/ NonFarm NonResidential	25,557	23.3
Consumer Loans and Credit Cards	12,269	11.3
Agricultural Loans/ Farmland	5,621	5.1
All Other	2,996	2.7
<b>Total</b>	<b>109,743</b>	<b>100.0</b>

As indicated in the preceding table, the bank is an active residential mortgage, commercial, and consumer lender. While the preceding table reflects all loans currently held by the bank, recent bank lending activity has been concentrated in residential mortgage and consumer loan products. Recent commercial and small business lending activity has declined from the historical volume reflected in the table.

CVB serves two assessment areas. The first assessment area, a nonmetropolitan area, includes all of Hardy County, West Virginia. The second assessment area includes all of the Winchester, VA-WV Metropolitan Statistical Area (MSA). Each assessment area is described in detail later in the report.

Assessment Area	County/City	State	Census Tracts Included
Winchester, VA-WV MSA	Frederick County	VA	All
	Winchester City	VA	All
	Hampshire County	WV	All
Hardy County, WV NonMSA	Hardy County	WV	All

Since its previous evaluation, the bank has not closed any of its branch offices; however, it did open a new office in the Winchester, VA-WA MSA during 2010. The bank's branching activities did require its assessment area delineation to be changed to include all of the Winchester, VA-WV MSA.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

An analysis of lending during the review period is discussed in greater detail in subsequent sections of this evaluation. While HMDA loans from calendar years 2011 and 2012 were fully analyzed and considered, unless otherwise noted, bank and aggregate data from only 2011 is presented in the assessment area analyses. If the performance during 2012 varies significantly from the 2011 performance, then such variance and the corresponding impact on performance are discussed.

Area demographic data and market aggregate information are used as proxies for demand when evaluating the bank's performance. Aggregated data include lending by CVB and all other reporting institutions that originated and/or purchased loans of the type considered within the bank's assessment areas. Demographic data are from the 2000 and 2010 census and HMDA aggregate data are from calendar year 2011. Aggregate HMDA data from 2012 cannot be considered in this evaluation because the data is not currently available.

When evaluating the borrower and the geographic distribution for a specific loan category within an assessment area, primary emphasis is placed on the number of loans originated. To arrive at an overall assessment area level conclusion regarding the distribution of lending, performance in each loan category is then generally weighted by the dollar volume of such loans in the assessment area. Because

the bank operates branches in two states, CRA performance ratings are required for each state, as well as for the institution overall. The institution’s statewide ratings are based on its performance in the assessment areas subject to full-scope review. The institution’s overall rating is based on its performance in each state, and primary consideration is given to the dollar volume each market contributes to the overall activity considered in the evaluation. Detailed information about the bank’s activities (loan volume, branch locations, and deposit accounts) within each assessment area is included in **Appendix B**.

Overall, the bank's performance is rated Outstanding. This rating considers the bank's loan-to-deposit ratio, level of lending in its assessment areas, borrower distribution performance, and geographic distribution performance. Each of these components is discussed in the following sections.

**Loan-To-Deposit Ratio**

The bank’s current loan-to-deposit ratio equals 81.4% and averaged 87.4% for the 20-quarter period ending June 30, 2013. In comparison, the average of quarterly loan-to-deposit ratios for all banks headquartered in nonmetropolitan areas of West Virginia and of similar asset size to CVB ranged from 65.9% to 76.2% for a 20-quarter period ending June 30, 2013. Since March 31, 2008, deposits and assets have increased by 6.3% and 3.4%, respectively, while net loans have decreased 10.7%. Overall, the bank’s loan-to-deposit ratio is considered more than reasonable given the institution’s size, financial condition, and local credit needs.

**Lending In Assessment Area**

To determine the institution's volume of lending within its assessment area, the geographic location of the bank's HMDA loans and consumer other secured loans included in the analysis were considered. The lending distribution inside and outside of the bank's assessment areas is represented in the following table.

**Comparison of Credit Extended Inside and Outside of Assessment Area(s)**

Loan Type	Inside				Outside			
	#	%	\$(000)	%	#	%	\$(000)	%
Home Improvement	22	91.7	1,385	96.7	2	8.3	47	3.3
Home Purchase - Conventional	55	93.2	4,226	87.4	4	6.8	610	12.6
Refinancing	50	90.9	6,049	92.1	5	9.1	520	7.9
<b>Total HMDA related</b>	<b>127</b>	<b>92.0</b>	<b>11,660</b>	<b>90.8</b>	<b>11</b>	<b>8.0</b>	<b>1,177</b>	<b>9.2</b>
Consumer *	125	91.9	960	94.1	11	8.1	60	5.9
<b>TOTAL LOANS</b>	<b>252</b>	<b>92.0</b>	<b>12,620</b>	<b>91.1</b>	<b>22</b>	<b>8.0</b>	<b>1,237</b>	<b>8.9</b>

*\*The number and dollar amount of loans reflects a sample of such loans originated during the evaluation period and does not reflect loan data collected or reported by the institution.*

As illustrated in the preceding table, overall, a substantial majority of the number (92%) and dollar amount (91.1%) of loans during the review period were extended to borrowers in the bank's assessment areas. Overall, the institution's level of lending within its assessment areas is considered highly responsive to community credit needs.

During the evaluation period, CVB also originated 13 loans totaling \$5,127,290 to organizations that provide emergency and health care services to residents within underserved designated areas of West Virginia. These loans qualify as community development loans and further evidence CVB’s responsiveness to credit needs within its assessment area.

**Lending To Borrowers of Different Incomes and To Businesses of Different Sizes**

The bank’s borrower distribution performance by loan product and by year is considered excellent in both Virginia and West Virginia. Accordingly, the bank’s overall borrower distribution performance is considered excellent.

### **Geographic Distribution of Loans**

The bank's geographic distribution performance within the state of Virginia is considered excellent by product and by year. The Hardy County, WV NonMSA assessment area contains only middle-income census tracts, therefore, a meaningful geographic distribution analysis could not be conducted. Accordingly, the bank's overall geographic distribution performance is considered excellent.

### **Investment and Services**

Although located within the Winchester, VA-WV Metropolitan Statistical Area (MSA), Hampshire County is a predominately rural community with limited community development opportunities. Likewise, Hardy County, in the Hardy County, WV NonMSA, is also rural and affords limited community development opportunities. Nonetheless, within both assessment areas, the bank has provided technical expertise to a local entity that supports community development in both communities. This activity is discussed in greater detail within each assessment area analysis section of this evaluation.

### **FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified. Adequate policies, procedures, and training programs have been developed to support nondiscrimination in lending activities.

## STATE OF WEST VIRGINIA

### CRA RATING FOR STATE OF WEST VIRGINIA: OUTSTANDING

Major factors supporting the rating include:

- The level of lending to borrowers of different income levels is excellent when considering demographic and aggregate lending data.
- The presence of only middle-income census tracts within this assessment area precludes the ability to conduct a meaningful geographic distribution analysis.

### SCOPE OF EXAMINATION

The bank serves one assessment area in the State of West Virginia. Statewide ratings for West Virginia are based solely on the bank's performance in this assessment area. More specific information regarding the bank and its assessment areas is included in Appendix B.

### DESCRIPTION OF INSTITUTION'S OPERATIONS IN HARDY COUNTY ASSESSMENT AREA:

The bank operates three branch offices in Hardy County, West Virginia. As of June 30, 2012, the bank ranked 2<sup>nd</sup> out of five institutions in local deposit market share with 17.9% of the assessment area's FDIC insured deposits (credit union deposits are not included).

The three middle-income census tracts in Hardy County, WV are designated as underserved areas. With this designation, census tracts must meet criteria for population size, density, and dispersion that indicate the area's population is sufficiently small, thin, and distant from a population center. These tracts are also likely to have difficulty financing the fixed costs of meeting essential community needs.

According to the 2000 census data, the assessment area had a population of 12,669 and a median housing value of \$70,921. The assessment area owner-occupancy rate (58.9%) lagged the rate for nonmetropolitan areas of West Virginia (65.6%) and the State of West Virginia (65.6%). Within the assessment area, 10.5% of families were considered below the poverty level, which was lower than the rate in nonmetropolitan areas of West Virginia (16.4%) and the statewide rate (13.9%). The estimated 2011 HUD median family income equals \$44,800.

In comparison, the 2010 census reflects an increased assessment area population of 14,025 and an increased area median housing value of \$130,642. Based on 2010 census data, the owner occupancy rate (47.9%) continues to lag the rates for nonmetropolitan areas of West Virginia (62.2%) and the State of West Virginia (62.9%). The area's family poverty rate increased (11.1%), but is lower than the rate for nonmetropolitan areas of West Virginia (14.9%) and the statewide rate (12.8%). The estimated 2012 HUD median family income equals \$45,400.

The following tables provide relevant demographics for the assessment area, the first table is based on the 2000 census data and the second table is based on 2010 census data. Each table also includes recent Dun and Bradstreet (D&B) business demographic information.

**Assessment Area Demographics**

<b>Hardy County, WV NonMSA</b>								
<i>(Based on 2000 Census Boundaries and 2011 D&amp;B information)</i>								
<b>Income Categories*</b>	<b>Tract Distribution</b>		<b>Families by Tract</b>		<b>Families &lt; Poverty as a % of Families by Tract</b>		<b>Families by Family Income</b>	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	534	15.0
Moderate	0	0.0	0	0.0	0	0.0	535	15.0
Middle	3	100.0	3,566	100.0	374	10.5	840	23.6
Upper	0	0.0	0	0.0	0	0.0	1,657	46.5
NA	0	0.0	0	0.0	0	0.0		
<b>Total</b>	<b>3</b>	<b>100.0</b>	<b>3,566</b>	<b>100.0</b>	<b>374</b>	<b>10.5</b>	<b>3,566</b>	<b>100.0</b>
	<b>Owner Occupied Units by Tract</b>		<b>Households</b>					
			<b>HHs by Tract</b>		<b>HHs &lt; Poverty by Tract</b>		<b>HHs by HH Income</b>	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	1,022	19.6
Moderate	0	0.0	0	0.0	0	0.0	656	12.6
Middle	4,187	100.0	5,208	100.0	786	15.1	899	17.3
Upper	0	0.0	0	0.0	0	0.0	2,631	50.5
NA	0	0.0	0	0.0	0	0.0		
<b>Total</b>	<b>4,187</b>	<b>100.0</b>	<b>5,208</b>	<b>100.0</b>	<b>786</b>	<b>15.1</b>	<b>5,208</b>	<b>100.0</b>
	<b>Total Businesses by Tract</b>		<b>Businesses by Tract and Revenue Size</b>					
			<b>Less than or = \$1 Million</b>		<b>Over \$1 Million</b>		<b>Revenue not Reported</b>	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	0	0.0	0	0.0	0	0.0	0	0.0
Middle	660	100.0	600	100.0	27	100.0	33	100.0
Upper	0	0.0	0	0.0	0	0.0	0	0.0
NA	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total</b>	<b>660</b>	<b>100.0</b>	<b>600</b>	<b>100.0</b>	<b>27</b>	<b>100.0</b>	<b>33</b>	<b>100.0</b>
<b>Percentage of Total Businesses:</b>				90.9		4.1		5.0

\*NA-Tracts without household or family income as applicable



**Assessment Area Demographics**

Hardy County, WV NonMSA (Based on 2010 ACS Boundarie and 2012 D&B information)								
Income Categories*	Tract Distribution		Families by Tract		Families < Poverty as a % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	619	20.5
Moderate	0	0.0	0	0.0	0	0.0	651	21.6
Middle	3	100.0	3,016	100.0	334	11.1	608	20.2
Upper	0	0.0	0	0.0	0	0.0	1,138	37.7
NA	0	0.0	0	0.0	0	0.0		
<b>Total</b>	<b>3</b>	<b>100.0</b>	<b>3,016</b>	<b>100.0</b>	<b>334</b>	<b>11.1</b>	<b>3,016</b>	<b>100.0</b>
	Owner Occupied Units by Tract		Households					
			HHs by Tract		HHs < Poverty by Tract		HHs by HH Income	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	1,077	22.1
Moderate	0	0.0	0	0.0	0	0.0	1,048	21.5
Middle	3,824	100.0	4,877	100.0	726	14.9	806	16.5
Upper	0	0.0	0	0.0	0	0.0	1,946	39.9
NA	0	0.0	0	0.0	0	0.0		
<b>Total</b>	<b>3,824</b>	<b>100.0</b>	<b>4,877</b>	<b>100.0</b>	<b>726</b>	<b>14.9</b>	<b>4,877</b>	<b>100.0</b>
	Total Businesses by Tract		Businesses by Tract and Revenue Size					
			Less than or = \$1 Million		Over \$1 Million		Revenue not Reported	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	0	0.0	0	0.0	0	0.0	0	0.0
Middle	664	100.0	594	100.0	30	100.0	40	100.0
Upper	0	0.0	0	0.0	0	0.0	0	0.0
NA	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total</b>	<b>664</b>	<b>100.0</b>	<b>594</b>	<b>100.0</b>	<b>30</b>	<b>100.0</b>	<b>40</b>	<b>100.0</b>
<b>Percentage of Total Businesses:</b>				89.5		4.5		6.0

\*NA-Tracts without household or family income as applicable

The local economy is primarily rural with the poultry industry having a large presence. Poultry processors, Pilgrim's Pride Corp. and Con Agra Poultry Company, and local government, including public schools, are the largest employers. Many residents commute to Winchester, Virginia, for employment. Current and recent periodic employment rates are included in the following table.

Geographic Area	Unemployment Rate Trend									
	Sept 2008	Mar 2009	Sept 2009	Mar 2010	Sept 2010	Mar 2011	Sept 2011	Mar 2012	Sept 2012	Mar 2013
Hardy County	3.6%	8.4%	8.8%	11.1%	8.3%	9.7%	7%	8.2%	7.5%	7.9%
WestVirginia	3.7%	7.5%	7.6%	9.2%	7.7%	8.6%	7.3%	7.6%	6.8%	7.2%

As indicated in the table, area unemployment rates have been marked by great volatility. Assessment area unemployment rates have remained persistently high both from an historical perspective and in comparison to the overall statewide unemployment rate.

A local affordable housing official was recently contacted to further assist in evaluating the bank's CRA performance. The official works for an organization whose primary purpose is to bring families and the local community together with volunteers and resources to build decent, affordable housing for low- and moderate-income families. The contact stated that the area unemployment rate is elevated, and given the county's lack of job opportunities, affordable housing continues to be a need for the area. The contact was not able to provide an opinion on the performance of local financial institutions, as the organization does not work with or rely on local banks. When asked if they were aware of any discriminatory practices or particular groups of people having difficulty obtaining credit, they were not aware of any such practices or difficulties.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

During calendar year 2012, the bank originated \$4.3 million in HMDA (residential mortgage) loans and \$714,000 in other secured consumer loans within this assessment area. Accordingly, the bank's HMDA lending performance is given more weight than the consumer performance when evaluating the bank's overall lending performance.

**Lending to Borrowers of Different Incomes and to Business of Different Sizes**

CVB's HMDA and its consumer borrower distribution performance are both considered excellent.

**Distribution of HMDA Loans by Income Level of Borrower**

Hardy County, WV NonMSA (2011)								
Income Categories	Bank				Aggregate			
	#	%	\$(000s)	%\$	#	%	\$(000s)	%\$
<b>HMDA Totals</b>								
Low	10	29.4	475	14.4	22	7.3	1,116	2.8
Moderate	4	11.8	163	5.0	44	14.6	3,303	8.3
Middle	7	20.6	351	10.7	50	16.6	4,715	11.9
Upper	13	38.2	2,302	69.9	186	61.5	30,522	77.0
<b>Total</b>	<b>34</b>	<b>100.0</b>	<b>3,291</b>	<b>100.0</b>	<b>302</b>	<b>100.0</b>	<b>39,656</b>	<b>100.0</b>
Unknown	0		0		32		3,872	

*Percentage's (%) are calculated on all loans where incomes are known*

During 2011, the bank and the aggregate reporters extended a larger volume of home purchase and refinance loans in the assessment area compared to other loan types. Multi-family lending was not considered a factor in the analysis as no loans were extended in this category by either CVB or aggregate lenders. When considering CVB's borrower distribution performance by product line, both its home purchase and its refinance loan performance are considered excellent. The bank did not originate any home improvement loans to low- or moderate-income borrowers and this performance is considered poor.

CVB's HMDA lending to low-income borrowers (29.4%) significantly exceeded the percentage of area low-income families (15%) and the aggregate level of lending (7.3%) to such borrowers. However, CVB's lending to moderate-income borrowers (11.8%) slightly lagged the percentage of area moderate-income families (15%) and the aggregate lending level (14.6%). The bank's overall HMDA performance for 2011 is considered excellent, in large part, because of the strength of its low-income borrower performance and CVB's performance during 2012 is substantially similar.

**Distribution of Consumer Loans by Income Level of Borrower**

<b>Hardy County, WV NonMSA ( 2012)</b>				
<b>Income Categories</b>	<b>#</b>	<b>Consumer Loans</b>		
		<b>%</b>	<b>\$(000s)</b>	<b>% \$</b>
Low	27	29.7	149	20.8
Moderate	25	27.5	176	24.6
Middle	18	19.8	137	19.2
Upper	21	23.0	253	35.4
<b>Total</b>	<b>91</b>	<b>100.0</b>	<b>715</b>	<b>100.0</b>
<i>Unknown</i>	<i>0</i>		<i>0</i>	

*Percentage's (%) are calculated on all loans where incomes are known*

CVB’s consumer other secured lending to low-income borrowers (29.7%) exceeded the proportion of low-income households in the assessment area (22.1 %). The bank’s level of lending to moderate-income borrowers (27.5%) also exceeded the percentage of moderate-income households living in the assessment area (21.5%). Overall, the bank’s performance is considered excellent.

**Geographic Distribution of Loans**

As noted previously, the West Virginia assessment area consists of only middle-income census tracts. As such, all of the 179 HMDA and consumer other secured loans extended inside the assessment area were located in middle-income census tracts.

**Investments and Services**

CVB supports community development initiatives and organizations that benefit the assessment area by providing community development services. As previously mentioned, while opportunities are limited with regard to community development investments, a bank officer serves as the Chairman for the Region 8 Planning and Development Council, which supports economic development by promoting small business development and job creation within Hardy County.

## COMMONWEALTH OF VIRGINIA

### CRA RATING FOR COMMONWEALTH OF VIRGINIA: OUTSTANDING

Major factors supporting the rating include:

- The level of lending to borrowers of different income levels is excellent when considering demographic and aggregate lending data.
- The distribution of lending by income level of geography for the assessment area is considered excellent.

### SCOPE OF EXAMINATION

The Winchester, VA-WV MSA consists of Frederick County and the City of Winchester, in Virginia, as well as Hampshire County, West Virginia. The bank operates branches in only the Virginia portion of the multistate MSA; therefore, a rating is assigned only for the Commonwealth of Virginia. However, the bank has defined the entire MSA as its assessment area. Hampshire County is contiguous to Hardy County, West Virginia, where the bank has branches, and to Frederick County, Virginia. The bank is able to serve Hampshire County with the branches it operates in these adjacent areas. Since Hampshire County is part of the MSA it cannot be evaluated as a part of the bank's Hardy County assessment area. Therefore, the rating for the Commonwealth of Virginia does consider the bank's activities in Hampshire County, West Virginia when evaluating the bank's single Virginia assessment area. More specific information regarding the bank and its assessment areas is included in **Appendix B**.

### DESCRIPTION OF INSTITUTION'S OPERATIONS IN WINCHESTER, VA-WV ASSESSMENT AREA:

As previously noted, the bank's assessment area is located in northwest Virginia and northeast West Virginia, and includes all of the Winchester, VA-WV MSA. The bank operates two branch offices in Frederick County within the Commonwealth of Virginia. As of June 30, 2012, the bank ranked 11<sup>th</sup> out of 14 institutions in local deposit market share with 1% of the assessment area's FDIC insured deposits (credit union deposits are not included).

According to the 2000 census data, the assessment area had a population of 102,997 and a median housing value of \$102,852. The assessment area owner-occupancy rate (63.8%) was similar to the rates for the Commonwealth of Virginia (63.3%) and the State of West Virginia (65.6%). Within the assessment area, 6.6% of families were considered below the poverty level, which was lower than the level in the State of West Virginia (13.9%), but similar to the poverty level in the Commonwealth of Virginia (7%). The estimated 2011 HUD median family income equals \$64,400.

In comparison, the 2010 reflects an increased assessment area population of 128,472 and an increased area median housing value of \$228,510. Based on 2010 census data, the owner occupancy rate (61.6%) continues to slightly lag the rate for the State of West Virginia (62.9%) while approximating the rate in the Commonwealth of Virginia (61.8%). The area's family poverty rate increased (7.3%), but remains less than the rate in the State of West Virginia (12.8%) and approximates the Commonwealth of Virginia rate (7.2%). The estimated 2012 HUD median family income equals \$65,300.

The following tables provide relevant demographics for the assessment area, the first table is based on the 2000 census data and the second table is based on 2010 census data. Each table also includes recent Dun and Bradstreet (D&B) business demographic information.

**Assessment Area Demographics**

Winchester, VA-WV MSA (Based on 2000 Census Boundaries and 2011 D&B information)								
Income Categories*	Tract Distribution		Families by Tract		Families < Poverty as a % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	4,917	17.5
Moderate	5	23.8	6,092	21.6	878	14.4	5,419	19.3
Middle	12	57.1	18,065	64.2	878	4.9	6,784	24.1
Upper	4	19.0	3,991	14.2	109	2.7	11,028	39.2
NA	0	0.0	0	0.0	0	0.0		
<b>Total</b>	<b>21</b>	<b>100.0</b>	<b>28,148</b>	<b>100.0</b>	<b>1,865</b>	<b>6.6</b>	<b>28,148</b>	<b>100.0</b>
	<b>Owner Occupied Units by Tract</b>		<b>Households</b>					
			<b>HHs by Tract</b>		<b>HHs &lt; Poverty by Tract</b>		<b>HHs by HH Income</b>	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	8,228	20.5
Moderate	5,797	20.1	9,429	23.5	1,580	16.8	7,294	18.2
Middle	18,979	66.0	24,659	61.5	2,013	8.2	8,532	21.3
Upper	3,999	13.9	6,015	15.0	406	6.7	16,049	40.0
NA	0	0.0	0	0.0	0	0.0		
<b>Total</b>	<b>28,775</b>	<b>100.0</b>	<b>40,103</b>	<b>100.0</b>	<b>3,999</b>	<b>10.0</b>	<b>40,103</b>	<b>100.0</b>
	<b>Total Businesses by Tract</b>		<b>Businesses by Tract and Revenue Size</b>					
			<b>Less than or = \$1 Million</b>		<b>Over \$1 Million</b>		<b>Revenue not Reported</b>	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	1,201	16.8	1,082	16.5	65	18.6	54	22.2
Middle	4,338	60.7	3,989	60.9	200	57.3	149	61.3
Upper	1,606	22.5	1,482	22.6	84	24.1	40	16.5
NA	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total</b>	<b>7,145</b>	<b>100.0</b>	<b>6,553</b>	<b>100.0</b>	<b>349</b>	<b>100.0</b>	<b>243</b>	<b>100.0</b>
<b>Percentage of Total Businesses:</b>				91.7		4.9		3.4

\*NA-Tracts without household or family income as applicable

**Assessment Area Demographics**

<b>Winchester, VA-WV MSA</b> <i>(Based on 2010 ACS Boundaries and 2012 D&amp;B information)</i>								
<b>Income Categories*</b>	<b>Tract Distribution</b>		<b>Families by Tract</b>		<b>Families &lt; Poverty as a % of Families by Tract</b>		<b>Families by Family Income</b>	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	6,342	19.5
Moderate	8	33.3	9,615	29.5	1,242	12.9	6,123	18.8
Middle	9	37.5	13,185	40.5	528	4.0	6,835	21.0
Upper	7	29.2	9,744	29.9	591	6.1	13,244	40.7
NA	0	0.0	0	0.0	0	0.0		
<b>Total</b>	<b>24</b>	<b>100.0</b>	<b>32,544</b>	<b>100.0</b>	<b>2,361</b>	<b>7.3</b>	<b>32,544</b>	<b>100.0</b>
	<b>Owner Occupied Units by Tract</b>		<b>Households</b>					
			<b>HHs by Tract</b>		<b>HHs &lt; Poverty by Tract</b>		<b>HHs by HH Income</b>	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	11,154	23.0
Moderate	9,824	28.7	16,276	33.5	2,838	17.4	8,157	16.8
Middle	14,099	41.2	18,936	39.0	1,452	7.7	8,792	18.1
Upper	10,339	30.2	13,322	27.4	1,002	7.5	20,431	42.1
NA	0	0.0	0	0.0	0	0.0		
<b>Total</b>	<b>34,262</b>	<b>100.0</b>	<b>48,534</b>	<b>100.0</b>	<b>5,292</b>	<b>10.9</b>	<b>48,534</b>	<b>100.0</b>
	<b>Total Businesses by Tract</b>		<b>Businesses by Tract and Revenue Size</b>					
			<b>Less than or = \$1 Million</b>		<b>Over \$1 Million</b>		<b>Revenue not Reported</b>	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	2,489	35.6	2,157	33.9	196	56.0	136	51.7
Middle	2,339	33.5	2,193	34.4	84	24.0	62	23.6
Upper	2,157	30.9	2,022	31.7	70	20.0	65	24.7
NA	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total</b>	<b>6,985</b>	<b>100.0</b>	<b>6,372</b>	<b>100.0</b>	<b>350</b>	<b>100.0</b>	<b>263</b>	<b>100.0</b>
	<b>Percentage of Total Businesses:</b>			91.2		5.0		3.8

\*NA-Tracts without household or family income as applicable

The assessment area benefits from employment opportunities in a variety of industries, including education, health services, trade, transportation, utilities, and leisure and hospitality. Furthermore, many residents commute to areas around Washington, D.C. for work. Current and recent periodic unemployment rates are included in the following table.

Geographic Area	Unemployment Rate Trend									
	Sept 2008	Mar 2009	Sept 2009	Mar 2010	Sept 2010	Mar 2011	Sept 2011	Mar 2012	Sept 2012	Mar 2013
Frederick County, VA	4.3%	8.1%	7.7%	7.9%	6.7%	6.2%	6.2%	5.3%	5.3%	4.4%
Winchester City, VA	4.7%	9.3%	8.4%	7.9%	7.9%	7.1%	8%	7.1%	6.4%	5.7%
Hampshire County, WV	3.3%	8.2%	7.2%	11.5%	7.3%	10.1%	6.2%	8.7%	6.6%	7.5%
Winchester, VA-WV MSA	4.3%	8.4%	7.8%	8.4%	7%	6.9%	6.6%	6.2%	5.7%	5.1%
Commonwealth of Virginia	4%	6.9%	7.1%	7.6%	6.7%	6.4%	6.5%	6%	5.7%	5.2%
West Virginia	3.7%	7.5%	7.6%	9.2%	7.7%	8.6%	7.3%	7.6%	6.8%	7.2%

As indicated in the table, area unemployment rates have been marked by great volatility. Unemployment in the counties and city within the assessment area appear to approximate the associated state rates for West Virginia and the Commonwealth of Virginia, although, overall rates remain at somewhat elevated levels which reflects continued economic weakness caused, in large part, by the recent national economic recession.

An individual knowledgeable of the local market area was contacted during the evaluation to discuss local economic conditions and community credit needs. The contact stated that small businesses within the area could further benefit from local banks providing micro-lending to very small or start-up businesses. However, overall, the official expressed a satisfaction with the participation of local financial institutions given the current economic conditions.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

During calendar year 2012, the bank originated \$1.5 million in HMDA loans and \$246,000 in other secured consumer loans within this assessment area. Accordingly, the bank’s HMDA lending performance is given more weight than the consumer performance when evaluating the bank’s overall lending performance.

**Lending To Borrowers of Different Incomes and To Businesses of Different Sizes**

CVB's HMDA and its consumer borrower distribution performance are both considered excellent.

**Distribution of HMDA Loans by Income Level of Borrower**

Winchester, VA-WV MSA (2011)								
Income Categories	Bank				Aggregate			
	#	%	\$(000s)	% \$	#	%	\$(000s)	% \$
<b>HMDA Totals</b>								
Low	5	22.7	130	5.1	373	9.4	35,309	5.1
Moderate	5	22.7	300	11.9	862	21.8	112,937	16.2
Middle	6	27.3	602	23.8	868	22.0	142,883	20.6
Upper	6	27.3	1,498	59.2	1,848	46.8	404,113	58.1
<b>Total</b>	<b>22</b>	<b>100.0</b>	<b>2,530</b>	<b>100.0</b>	<b>3,951</b>	<b>100.0</b>	<b>695,242</b>	<b>100.0</b>
Unknown	0		0		711		146,320	

*Percentage's (%) are calculated on all loans where incomes are known*

During 2011, the bank and the aggregate reporters extended a larger volume of home purchase and refinance loans in the assessment area compared to other loan types. Multi-family lending was not considered a factor in the analysis as no loans were extended in this category by either CVB or aggregate lenders. When considering CVB’s borrower distribution performance by product line, home purchase performance is considered poor because of the low level of lending to both low- and moderate-income borrowers. The bank’s refinance and its home improvement loan performance are both considered excellent primarily because of the strength the bank’s lending to low-income borrower

borrowers. When considering the bank’s overall performance during 2011, lending to low-income borrowers (22.7%) exceeded the percentage of area low-income families (17.5%) and the aggregate level of lending (9.4%) to such borrowers. The bank’s level of lending to moderate-income borrowers (22.7%) also exceeded the percentage of area moderate-income families (19.3%) and the aggregate lending level (21.8%). The bank's performance during 2011 is considered excellent and its performance during 2012 is similar.

**Distribution of Consumer Loans by Income Level of Borrower**

Winchester, VA-WV MSA ( 2012)				
Income Categories	Consumer Loans			
	#	%	\$(000s)	% \$
Low	21	61.8	93	37.8
Moderate	4	11.8	59	24.0
Middle	5	14.7	51	20.7
Upper	4	11.7	43	17.5
<b>Total</b>	<b>34</b>	<b>100.0</b>	<b>246</b>	<b>100.0</b>
Unknown	0		0	

*Percentage's (%) are calculated on all loans where incomes are known*

CVB’s 2012 consumer other secured lending to low-income borrowers (61.8%) substantially exceeds the proportion of low-income households in the assessment area (23%). The bank’s level of lending to moderate-income borrowers (11.8%) slightly lagged the percentage of moderate-income households in the assessment area (16.8%). Overall, the bank’s performance during 2012 is considered excellent, in large part, because of the strength of its low-income borrower performance.

**Geographic Distribution of Loans**

When considering the bank’s performance by loan product, both CVB’s HMDA and consumer lending geographic distribution performance are deemed excellent. As mentioned previously, there are no low-income census tracts in the assessment area.



**Distribution of HMDA Loans by Income Level of Census Tract**

Winchester, VA-WV MSA (2011)								
Income Categories	Bank				Aggregate			
	#	%	\$(000s)	% \$	#	%	\$(000s)	% \$
	(9) Home Purchase				(1,993)			
Low	NA	NA	NA	NA	NA	NA	NA	NA
Moderate	3	33.3	293	31.2	235	11.8	27,788	7.7
Middle	6	66.7	645	68.8	1,493	74.9	273,389	76.0
Upper	0	0.0	0	0.0	264	13.2	58,232	16.2
	(10) Refinance				(2,497)			
Low	NA	NA	NA	NA	NA	NA	NA	NA
Moderate	1	10.0	18	1.4	312	12.5	41,438	8.9
Middle	8	80.0	1,226	93.1	1,724	69.0	322,268	69.0
Upper	1	10.0	73	5.5	458	18.3	103,126	22.1
	(3) Home Improvement				(167)			
Low	NA	NA	NA	NA	NA	NA	NA	NA
Moderate	1	33.3	170	61.8	46	27.5	2,925	28.6
Middle	2	66.7	105	38.2	105	62.9	5,971	58.3
Upper	0	0.0	0	0.0	16	9.6	1,339	13.1
	(0) Multi-Family				(5)			
Low	NA	NA	NA	NA	NA	NA	NA	NA
Moderate	0	0.0	0	0.0	4	80.0	2,603	58.1
Middle	0	0.0	0	0.0	1	20.0	1,874	41.9
Upper	0	0.0	0	0.0	0	0.0	0	0.0
	HMDA Totals							
Low	NA	NA	NA	NA	NA	NA	NA	NA
Moderate	5	22.7	481	19.0	597	12.8	74,754	8.9
Middle	16	72.7	1,976	78.1	3,323	71.3	603,502	71.7
Upper	1	4.6	73	2.9	738	15.8	162,697	19.3
NA*	0	0.0	0	0.0	4	0.1	609	0.1
<b>Total</b>	<b>22</b>	<b>100.0</b>	<b>2,530</b>	<b>100.0</b>	<b>4,662</b>	<b>100.0</b>	<b>841,562</b>	<b>100.0</b>

NA\*-Tracts without household or family income as applicable

During 2011, refinance and home purchase lending were the bank's leading HMDA products by number of loans, followed by home improvement lending. As such, when determining an overall performance level, similar weight was given to the bank's refinance and home purchase lending followed by its home improvement lending. Considering both demographic and aggregate proxies for demand, the bank's performance in moderate-income tracts for refinance loans is reasonable while the performance of home purchase loans is excellent. The distribution of home improvement loans is also excellent in such tracts.

On a combined basis, the bank's lending in moderate-income census tracts (22.7%) exceeded the proportion of owner-occupied housing units located in moderate-income census tracts (20.1%) and significantly exceeded the aggregate lending level (12.8%). The bank's performance during 2011 is considered excellent. The bank's geographic distribution during 2012 is similar, and is also considered excellent.

**Distribution of Consumer Loans by Income Level of Census Tract**

Winchester, VA-WV MSA ( 2012)				
Income Categories	#	Consumer Loans		
		%	\$(000s)	% \$
Low	NA	NA	NA	NA
Moderate	25	73.5	170	68.9
Middle	5	14.7	41	16.9
Upper	4	11.8	35	14.2
NA*	0	0.0	0	0.0
<b>Total</b>	<b>34</b>	<b>100.0</b>	<b>246</b>	<b>100.0</b>

*\*NA-Tracts without household or family income as applicable*

*Loans where the geographic location is unknown are excluded from this table.*

During 2012, the bank's level of consumer other secured lending in moderate-income census tracts (73.5%) significantly exceeded the percentage of households within the moderate-income census tracts (33.5%). When considering the composition of the assessment area, the bank's performance is excellent.

**Investments and Services**

CVB supports community development initiatives and organizations that benefit the assessment area by providing community development services. As previously mentioned, while opportunities are limited with regard to community development investments, a bank officer serves as the Chairman for the Region 8 Planning and Development Council, which supports economic development by promoting small business development and job creation within Hampshire County.

**CRA APPENDIX A**  
**SCOPE OF EXAMINATION**

<b>LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION</b>			
<b>ASSESSMENT AREA</b>	<b>TYPE OF EXAMINATION</b>	<b>BRANCHES VISITED<sup>1</sup></b>	<b>OTHER INFORMATION</b>
Hardy County, WV NonMSA	Full Scope	2 W. Main St. Wardensville, WV 26851	None
Winchester, VA-WV MSA	Full Scope	5511 S. Main St. Stephens City, VA 22655	None

**SUMMARY OF STATE AND MULTISTATE MSA RATINGS**

<b>State Names</b>	<b>Overall State Rating</b>
Commonwealth of Virginia	Outstanding
State of West Virginia	Outstanding

<sup>1</sup> There is a statutory requirement that the written evaluation of a multistate institution's performance must list the individual branches examined in each state.

**CRA APPENDIX B**

**LOAN, BRANCH, AND DEPOSIT VOLUME BY ASSESSMENT AREA**

The following table includes the distribution of branch offices, along with deposit and loan volume. The deposit volume includes all bank deposits and is current as of June 30, 2012, while the loan volume includes all HMDA and other secured consumer loans considered in the evaluation.

Assessment Area	Loan Volume				Full-Service Branches		Deposit Volume	
	#	%	\$(000s)	%	#	%	\$(000s)	%
Winchester, VA MSA	73	29.0%	\$4,298	34.1%	2	40.0%	\$22,936	16.9%
Hardy County, WV NonMSA	179	71.0%	\$8,322	65.9%	3	60.0%	\$112,422	83.1%
<b>Total</b>	252	100.0%	\$12,620	100.0%	5	100.0%	\$135,358	100.0%

## CRA APPENDIX C

### GLOSSARY

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

**Census tract:** A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Community development:** All Agencies have adopted the following language. 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 the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize-

- (i) Low-or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
  - a. Rates of poverty, unemployment, and population loss; or
  - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

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

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

**Full-scope review:** Performance under the Lending Test (and if applicable, consideration of investments and services) is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (for example, 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 do 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 applications, the amount of loan requested, and the disposition of the application (for example, approved, denied, and withdrawn).

**Home mortgage loans:** Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

**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 Test (and if applicable, consideration of investments and services) is analyzed using only quantitative factors (for example, geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

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

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

**Metropolitan area (MA):** A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a population of at least 2.5 million may be divided into MDs.

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

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

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

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

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

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

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

**Small loan(s) to business(es):** A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) 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. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial 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.

**Upper-income:** Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.