



PUBLIC DISCLOSURE

January 5, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The National Bank of Blacksburg
Charter Number 12229

100 South Main Street
Blacksburg, Virginia 24060

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: | Satisfactory |
| THE LENDING TEST IS RATED: | Satisfactory |
| THE COMMUNITY DEVELOPMENT TEST IS RATED: | Satisfactory |

The major factors supporting the rating are:

- The bank's average loan-to-deposit (LTD) ratio is reasonable compared to similarly situated institutions.
- A majority of the loans originated during the evaluation period were inside the bank's assessment areas (AAs).
- The distribution of borrowers, given the demographics of the AAs, reflects an overall reasonable dispersion and satisfactory performance.
- The geographic distribution of loans reflects reasonable dispersion throughout the AAs.
- The bank demonstrates adequate responsiveness to community development needs.

SCOPE OF EXAMINATION

The National Bank of Blacksburg (NBB) was evaluated under the Intermediate Small Bank examination procedures, which include a lending test and a community development test. The lending test evaluates the bank's record of meeting the credit needs of its AAs through its lending activities. The Community Development (CD) test evaluates the bank's responsiveness to CD needs in its AAs through CD lending, services and qualified investments. The evaluation period under the Lending Test covers the bank's performance from January 1, 2012 through December 31, 2013. The evaluation period for the community development test was from February 27, 2012 through January 5, 2014.

Information regarding the bank's financial performance was as of March 31, 2014, whereas information regarding the bank's deposit market share within the counties comprising its AAs was as of June 30, 2013.

Data Integrity

NBB's public lending information is materially accurate. We performed a data integrity review in August 2014 to validate the accuracy of the bank's Home Mortgage Disclosure Act (HMDA) data for January 1, 2012 through December 31, 2013. At that time, we determined that the HMDA data was reliable. We did not find errors in the bank's HMDA data collected and reported on its Loan Application Register.

Community development loans, investments and services submitted by bank management were verified to ensure they met the regulatory definition for community development.

Determination of Bank's Primary Loan Products

NBB's business strategy focuses on loans to businesses, residential mortgage loans, and consumer loans. For purposes of this evaluation, we considered loans to businesses and residential mortgage loans as primary products, based on the bank's business strategy and balances outstanding. As a percentage of total loans outstanding as of September 30, 2014, loans to businesses, which included loans secured by nonfarm non-residential property and commercial and industrial loans, represented approximately 46 percent; and 1-4 family residential mortgage loans were approximately 24 percent. Please refer to **Table 1** below for a summary of the Institution's loan types during the evaluation period.

| Table 1 – Loan Product Category | Gross Loans as of September 30, 2014 | |
|---------------------------------|--------------------------------------|------------------|
| | Balance Outstanding (\$000s) | % of Total Loans |
| Non-Farm/Non-Residential | 241,969 | 40.56 |
| 1-4 Family Residential | 144,809 | 24.28 |
| Commercial & Industrial | 30,561 | 5.12 |
| Multi-family Residential | 69,894 | 11.72 |
| Construction & Land Development | 42,031 | 7.05 |
| Loans to Individuals | 17,846 | 2.99 |
| Other | 46,897 | 7.86 |
| Farm loans | 2,519 | 0.42 |
| Total | \$595,526 | 100.00 |

*Schedule RC-C Part 1 - Loans and Leases as reported in the Consolidated Reports of Condition and Income as of September 30, 2014

Selection of Areas for Full-Scope Review

In each state where the bank has an office, a sample of AAs within that state are selected for full-scope reviews. NBB does business in three defined AAs within the state of Virginia. The Blacksburg-Christiansburg-Radford MSA 13980 AA ("Blacksburg AA") and the Southwest Virginia-West Virginia non-MSA AA (SW Virginia AA) were selected for full scope review as the majority of the bank's operations are within these AAs. The Blacksburg AA accounted for 68 percent of home mortgage loans originated during the evaluation period and approximately 65 percent of the bank's deposits as of December 31, 2014. The SW Virginia AA accounted for 30 percent of home mortgage loans originated during the evaluation period and approximately 34 percent of the bank's deposits as of December 31, 2014.

The Kingsport-Bristol-Bristol Tennessee-Virginia MSA 28700 AA ("Washington County AA") received a limited scope review due to low volume of loan activity and deposits in this AA. This AA accounted for only 2 percent of home mortgage loans originated during the evaluation period, and approximately 1 percent of total deposits as of December 31, 2014.

Ratings

The bank's overall rating is based on the rating for the state of Virginia. The state rating is based on a blend of ratings from all three AAs in Virginia. A full-scope review was performed for the Blacksburg AA and the SW Virginia AA. A limited scope review was performed for the Washington County AA.

In evaluating performance under the Lending Test and determining how each loan type would be weighted, we considered the bank's business strategy and financial condition, the number and types of loans originated and outstanding, and community credit needs identified through discussions with community contacts. We also considered the state of the area economy, business climate, and market demographics to determine the extent to which opportunities to lend are present.

Based on discussions with bank management, NBB's primary loan types are home mortgage loans and small business loans. To achieve the lending test rating, more weight was placed on the home mortgage loans originated in the Blacksburg AA because a majority of the bank's lending and deposits are located in this AA.

DESCRIPTION OF INSTITUTION

The National Bank of Blacksburg (NBB) is a \$1.1 billion intrastate bank headquartered in Blacksburg, Virginia. The bank is solely owned by its holding company, National Bankshares, Inc. (NBI). NBI also operates an insurance and brokerage subsidiary, National Bankshares Financial Services, Inc., which does business as National Bankshares Insurance Services and National Bankshares Investment Services. National Bankshares, Inc.'s common stock trades on the Nasdaq Capital Market under the symbol "NKSH".

As of September 30, 2014, Tier One Capital plus the Allowance for Loan and Lease Losses was \$162 million, Tier One Risk-Based Capital to Risk-Weighted Assets equaled 23.58 percent, and Tier One Leverage Capital equaled 14.44 percent.

NBB is a full service community bank, with 25 branches and 21 automated teller machines (ATMs) serving the cities of Radford and Galax, and the counties of Bland, Carroll, Giles, Grayson, Montgomery, Pulaski, Smyth, Tazewell, Washington, and Wythe in Virginia. NBB did not open or close any branches during the evaluation period.

The bank's primary focus is on retail banking. NBB offers a variety of deposit and loan products to meet consumer and commercial banking needs. The bank's Internet website, <http://www.nbbank.com>, provides detailed information on products and services for both consumers and businesses. Banking services are standard, with the addition of mobile banking, on-line banking and 24-hour telephone banking services.

NBB reported total loans of \$596 million, or 54 percent of total assets as of September 30, 2014. The bank is primarily a real estate lender, with approximately 84 percent of the loan portfolio consisting of real estate secured loans.

There are no legal, financial or other factors impeding NBB's ability to help meet the credit needs in its AAs. NBB received a "Satisfactory" rating on its February 2012 CRA Performance Evaluation.

DESCRIPTION OF ASSESSMENT AREA(S)

Assessment Areas Receiving Full-Scope Reviews

Blacksburg AA

| Table 2 Demographic Information for Full Scope Area: Blacksburg AA | | | | | | |
|--|---------|---------------|----------------------|------------------|-----------------|---------------|
| Demographic Characteristics | # | Low % of # | Moderate % of # | Middle % of # | Upper % of # | NA* % of # |
| Geographies (Census Tracts/BNAs) | 33 | 0.00 | 18.18 | 45.45 | 27.27 | 9.10 |
| Population by Geography | 162,958 | 0.00 | 17.62 | 46.61 | 30.57 | 5.21 |
| Owner-Occupied Housing by Geography | 38,733 | 0.00 | 20.91 | 55.58 | 23.51 | 0.00 |
| Business by Geography | 11,318 | 0.00 | 19.15 | 54.24 | 25.74 | 0.87 |
| Farms by Geography | 425 | 0.00 | 14.35 | 63.29 | 22.12 | 0.24 |
| Family Distribution by Income Level | 36,693 | 22.01 | 16.77 | 21.06 | 40.17 | 0.00 |
| Distribution of Low and Moderate Income Families throughout AA Geographies | 14,227 | 0.00 | 31.72 | 53.39 | 14.89 | 0.00 |
| Median Family Income | | \$57,442 | Median Housing Value | | \$165,207 | |
| HUD Adjusted Median Family Income for 2013 | | \$60,100 | | | | |
| Households Below Poverty Level | | 20% | | | | |

(*) The NA category consists of geographies that have not been assigned an income classification
 Source: 2010 U.S. Census and 2013 HUD updated MFI

NBB operates 14 of its 25 bank branches in the Blacksburg AA. This AA includes the city of Radford, and the counties of Giles, Montgomery, and Pulaski. These geographies represent the entirety of the Blacksburg AA. This AA consists of 33 census tracts: six moderate-income tracts, 15 middle-income tracts, nine upper-income tracts, and three undesignated income tracts. There are no low income tracts and no designated distressed or underserved middle income tracts in this AA.

This MSA is dominated by the presence of Virginia Tech and Radford University. The area, known as the New River Valley (or NRV), has experienced tremendous growth in the last twenty years and continues to be among the fastest growing areas in Virginia. Blacksburg, the larger of the towns, is home to Virginia Tech, while Radford, the only city in the group, is home to Radford University. While Christiansburg, a town which lies between Blacksburg and Radford in both population and geographic location, does not have an institution of higher education, it is home to hundreds of stores, restaurants, and a historic downtown.

The area is known for its higher education facilities, transportation projects, quality of life, and favorable cost of living. Virginia Tech is the state’s leading research institution and ranks among the nation’s top 50 research universities with research funding over \$150 million. Radford University is known for its use of technology in the learning environment.

Government and manufacturing sectors are the highest percentage of employers in the AA with 29.0 percent and 16.8 percent, respectively. Virginia Tech and Radford University are the two largest employers in the government sector. Major employers in the manufacturing sector are: Volvo Trucks North America, Inc.; Alliant Techsystems, Inc.; Celanese Acetate LLC;

Kollmorgen Corporation; Moog Components Group; and, Rowe Industries, Inc. According to the Bureau of Labor Statistics, unemployment in the AA was 5.3 percent in November 2014, which is slightly above the state average for Virginia of 5.0 percent; and slightly below the national average of 5.8 percent for that month.

NBB ranks second with 21.25 percent of the deposit market share in the Blacksburg AA, according to the Deposits Market Share Report prepared by the FDIC. The report listed the bank’s primary competitors as Union First Market Bank branches (home office in Richmond, VA); Wells Fargo Bank, N.A. branches (San Francisco, CA); Carter Bank and Trust branches (Martinsville, VA); and, Branch Banking and Trust Company branches (BB&T – Winston-Salem, NC) with deposit market share of 23.10 percent, 12.43 percent, 9.15 percent; and 9.03 percent, respectively.

We conducted a community contact to determine credit and development needs in the AA. We interviewed representatives of the Economic Development Authority for Montgomery County. The purpose of the organization is to recruit new businesses and assist existing businesses with expansion. The contact identified no specific credit needs in the AA.

SW Virginia AA

| Table 3 Demographic Information for Full Scope Area: SW Virginia AA | | | | | | |
|--|---------|---------------|----------------------|------------------|-----------------|---------------|
| Demographic Characteristics | # | Low % of # | Moderate % of # | Middle % of # | Upper % of # | NA* % of # |
| Geographies (Census Tracts/BNAs) | 49 | 0.00 | 24.49 | 75.51 | 0.00 | 0.00 |
| Population by Geography | 185,373 | 0.00 | 18.95 | 81.05 | 0.00 | 0.00 |
| Owner-Occupied Housing by Geography | 57,092 | 0.00 | 19.44 | 80.56 | 0.00 | 0.00 |
| Business by Geography | 13,377 | 0.00 | 17.66 | 82.34 | 0.00 | 0.00 |
| Farms by Geography | 931 | 0.00 | 18.15 | 81.85 | 0.00 | 0.00 |
| Family Distribution by Income Level | 51,459 | 24.69 | 19.72 | 23.20 | 32.39 | 0.00 |
| Distribution of Low and Moderate Income Families throughout AA Geographies | 22,853 | 0.00 | 23.48 | 76.52 | 0.00 | 0.00 |
| Median Family Income | | \$47,416 | Median Housing Value | | \$88,993 | |
| HUD Adjusted Median Family Income for 2013 | | \$49,159 | | | | |
| Households Below Poverty Level | | 19% | | | | |

(*) The NA category consists of geographies that have not been assigned an income classification
Source: 2010 U.S. Census and 2013 HUD updated MFI

This non-MSA is located in southwestern Virginia, and includes the counties of Bland, Carroll, Grayson, Smyth, Tazewell, Wythe, and the city of Galax in the state of Virginia. The bank has added two census tracts in McDowell County and six census tracts in Mercer County in the state of West Virginia. These 8 census tracts in West Virginia are contiguous to the counties in Virginia included in the SW Virginia AA. The AA consists of 12 moderate-income tracts, 37 middle-income tracts and one upper income tract. Five of the 47 middle-income tracts are designated underserved middle-income tracts in this AA due to the remote rural location. Another five of the 47 middle-income tracts are designated distressed middle-income tracts in this AA due to high poverty levels. There are no low income tracts in this AA. Ten of the bank’s branches are located within this AA.

Southwestern Virginia differs from the rest of the commonwealth in that its culture is more closely associated with Appalachia than the other regions of Virginia. While endowed with abundant natural resources, Appalachia has long been associated with and struggled with poverty. According to the Virginia Employment Commission, Local Area Unemployment Statistics, unemployment in the AA was 5.7 percent in November 2014, which is moderately above the state average for Virginia of 5.0 percent; and slightly below the national average of 5.8 percent for that month.

This AA is known as the Virginia *aCorridor*. Stretching from the City of Bristol to the City of Galax along Interstates 81 and 77, the *aCorridor* includes the two cities and Washington, Smyth, Wythe, Grayson, Carroll and Bland counties. Fast developing is a cluster of food processing and beverage companies that take advantage of the *aCorridor's* strategic East Coast location along the crossroads of two major interstates.

Also in the mix are automotive-related industries that use sophisticated technology to make precision parts for the world's leading automakers, and other businesses that utilize high-tech manufacturing expertise in plastics, furniture-making, defense and distribution. Major employment sectors in this AA are: government; manufacturing; retail trade; and, health care and social assistance. Major employers are: Food City; Utility Trailer Manufacturing of Glade Springs; Wal*Mart; Mountain States Health; Smyth County School Board; Wythe County School Board; Carroll County School Board; Mount Rogers Community Mental Health Retardation Services Board; and Lowes Home Centers, Inc.

NBB ranks fourth with 7.98 percent of the deposit market share in the SW Virginia AA, according to the Deposits Market Share Report prepared by the FDIC. The report listed the bank's primary competitors as BB&T branches; First Community Bank (Bluefield, VA); and, Carter Bank and Trust branches with deposit market shares of 19.73 percent, 12.77 percent, and 9.59 percent, respectively.

A community contact in the AA was reviewed to determine credit and development needs in the AA. This contact was with a local community service organization. The contact stated that there is a need in this area for consumer credit counseling and for affordable housing.

Assessment Area Receiving Limited-Scope Review

Washington County AA

| Table 4 Demographic Information for Limited Scope Area: Washington County AA | | | | | | |
|---|--------|------------|----------------------|---------------|--------------|------------|
| Demographic Characteristics | # | Low % of # | Moderate % of # | Middle % of # | Upper % of # | NA* % of # |
| Geographies (Census Tracts/BNAs) | 13 | 0.00 | 15.38 | 61.54 | 23.08 | 0.00 |
| Population by Geography | 54,876 | 0.00 | 15.67 | 67.86 | 16.46 | 0.00 |
| Owner-Occupied Housing by Geography | 16,853 | 0.00 | 12.14 | 70.28 | 17.58 | 0.00 |
| Business by Geography | 4,584 | 0.00 | 18.70 | 63.11 | 18.19 | 0.00 |
| Farms by Geography | 362 | 0.00 | 10.50 | 75.69 | 13.81 | 0.00 |
| Family Distribution by Income Level | 16,077 | 20.62 | 16.13 | 20.25 | 43.01 | 0.00 |
| Distribution of Low and Moderate Income Families throughout AA Geographies | 5,908 | 0.00 | 19.08 | 70.58 | 10.34 | 0.00 |
| Median Family Income | | \$48,038 | Median Housing Value | | | \$130,482 |
| HUD Adjusted Median Family Income for 2013 | | \$48,700 | | | | |
| Households Below Poverty Level | | 15% | | | | |

(*) The NA category consists of geographies that have not been assigned an income classification
 Source: 2010 U.S. Census and 2013 HUD updated MFI

This AA is in the Kingsport-Bristol-Bristol TN-VA 28700 MSA. The bank’s AA is Washington County, which is located in the state of Virginia. NBB has one branch in this AA located in Abingdon, Virginia. Washington County consists of two moderate-income census tracts, eight middle-income census tracts, and three upper-income census tracts. There are no low-income tracts and no designated distressed or underserved middle-income tracts in this AA.

Major employment sectors in the AA are Manufacturing, Government, Retail Trade, and Health Care and Social Assistance. The top five employers in this AA, according to the Virginia Employment Commission, Quarterly Census of Employment and Wages, Second Quarter 2014 are: Washington County Schools; Food City; Mountain State Health; Bristol Compressors International; and, Camac Corporation.

According to the Bureau of Labor Statistics, the unemployment rate for Washington County, VA as of November 2014 was 5.0 percent, which matched the state average for Virginia of 5.0 percent and was significantly below the national average of 5.8 percent for that month.

NBB ranks fifteenth with 0.85 percent of the deposit market share in the Washington County AA, according to the Deposits Market Share Report prepared by the FDIC. NBB’s primary competitors in Washington County are Highlands Union Bank (Abingdon, VA); The First Bank and Trust Company (Lebanon, VA); Wells Fargo Bank, NA branches; and, BB&T branches (Winston Salem, NC) with deposit market shares of 23.82 percent, 20.47 percent, 9.32 percent, and 9.18 percent, respectively.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

The bank's loan-to-deposit ratio is reasonable, and a substantial majority of loans are originated inside the AA. The bank's borrower distribution reflects reasonable penetration among borrowers of different incomes. Geographic distribution reflects reasonable dispersion throughout the census tracts of different income levels.

NBB's rating is based on the bank's performance in the three AAs in Virginia. More weight and consideration was given to lending in the Blacksburg AA as this is the area in which a substantial majority of the bank's offices are located, and hence the substantial majority of loans are originated. Consideration was also given to the lending in the SW Virginia AA and the Washington County AA reviews of these AAs.

The distribution of loans by income level of the borrower received greater consideration than the distribution of loans by income level of the geography. This is due to the limited number of moderate-income tracts in the full-scope AAs. There are no low-income tracts in the AAs, and approximately 21 percent of total tracts are designated as moderate-income. A majority of low- and moderate-income families live in middle-income tracts in the AAs, with ten middle-income tracts in the SW Virginia AA designated as distressed or underserved nonmetropolitan middle-income tracts due to the remote rural location or poverty level.

LENDING TEST

Overall lending levels reflect reasonable responsiveness to meeting AA credit needs. The bank ranked seventh in overall market share among 300 HMDA reporters in the combined three AAs, with 3.52 percent of the market share for originated or purchased mortgage loans. NBB ranked seventh for home purchase loans, first for home improvement loans, and tenth for home mortgage refinance loans with respective market shares of 3.34 percent, 15.70 percent, and 2.44 percent. Residential lending market shares reflect strong competition in the AAs.

Lending Activity

To evaluate NBB's CRA lending performance, we focused on its record of lending in its AAs, loan-to-deposit ratio since the last CRA evaluation (including a comparison to similarly situated institutions), record of lending to borrowers of different incomes and businesses of different sizes, and the geographic distribution of lending in the bank's AAs.

Loan-to-Deposit Ratio

NBB's average quarterly loan-to-deposit (LTD) ratio is reasonable, considering the low dollar loans it is willing to make and the opportunities to lend within the assessment areas. The bank's average quarterly LTD ratio since the last CRA evaluation period is 61.73 percent. This ratio has declined since the prior CRA evaluation, which posted an average quarterly LTD ratio of 66.54 percent. This ratio is also below the average of 80 percent for similarly situated banks in the bank's AA. The bank is very conservative in their lending practices, and the LTD ratio has remained fairly consistent since the last CRA evaluation.

NBB’s average quarterly LTD ratio ranked seventh of eight banks considered competitors during the evaluation period. The competitor banks primarily are large, multi-state national banks and large state banks with multiple branches within the same AAs as NBB. These banks offer highly competitive rates on loans and deposit products, which has led to their capturing a higher percentage of the market share. Competitor banks and the average quarterly LTD ratios are displayed in the following table.

| Table 5 Competitor Banks | | |
|----------------------------------|---------------|---|
| Bank Name | Total Assets | Average Loan-to-Deposit Ratio* (percentage) |
| Union First Market Bank | \$ 7,164,274 | 92.99 |
| The First Bank and Trust Company | \$ 1,332,526 | 85.51 |
| First Community Bank | \$ 2,526,830 | 85.20 |
| Branch Banking and Trust Company | \$182,901,216 | 83.20 |
| The National Bank of Blacksburg | \$ 1,113,987 | 61.73 |
| Bank of Floyd | \$ 298,055 | 54.98 |

*Average Loan-to-Deposit Ratio for Quarters ended March 31, 2012 through September 30, 2014

Lending in Assessment Area

Table 6 reports that a substantial majority of loans were inside the bank’s AAs. Overall 90 percent of loans made during the evaluation period were inside the bank’s AAs. By loan product, 97 percent of business loans, and 90 percent of home mortgage loans were made inside the bank’s AAs.

| Table 6 - Lending in AAs | | | | | | | | | | |
|----------------------------|-----------------|-------|---------|-------|----------|-------------------------|-------|---------|-------|----------|
| Loan Type | Number of Loans | | | | Total \$ | Dollars of Loans (000s) | | | | Total \$ |
| | Inside | | Outside | | | Inside | | Outside | | |
| | # | % | # | % | | \$ | % | \$ | % | |
| Residential Mortgage Loans | 858 | 89.66 | 99 | 10.34 | 957 | 128,408 | 90.73 | 13,122 | 9.27 | 141,530 |
| Small Loans to Businesses | 63 | 96.92 | 2 | 2.08 | 65 | 9,894 | 71.62 | 3,920 | 28.38 | 13,814 |
| Totals | 921 | 90.12 | 101 | 9.88 | 1,022 | 138,302 | 89.03 | 17,042 | 10.97 | 155,344 |

Source: Data reported under HMDA from January 1, 2012 - December 31, 2013 and a sample of small loans to businesses for the same period

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

NBB’s borrower distribution reflects an overall reasonable dispersion. The distribution of borrowers reflects reasonable penetration among individuals of different income levels. The distribution of home mortgage loans was reasonable. We considered the lack of affordability for low- and moderate-income individuals to purchase a home in each of the three AAs. Overall, there are no low-income tracts in the bank’s three AAs and 20 moderate-income tracts. Demographic data from the 2010 U.S. Census indicated households below the poverty level were 14.91 percent for Washington County AA, 19.44 percent for the SW Virginia AA, and 20.04 percent for the Blacksburg AA. Another limiting factor to lending opportunities is the unemployment rate in the AAs as was stated in the **Description of Assessment Areas** section of this report.

CONCLUSIONS FOR AREAS RECEIVING FULL-SCOPE REVIEWS

Blacksburg AA

Overall lending levels in the Blacksburg AA reflect reasonable responsiveness to meeting AA credit needs. NBB ranked seventh for home purchase loans, first for home improvement loans, and tenth for home mortgage refinance loans with respective market shares of 4.57 percent, 21.04 percent, and 2.44 percent. Residential lending market shares reflect strong competition with 227 residential lenders in the AA, most of which are not financial institutions.

The borrowers' distribution of loans reflects reasonable penetration among individuals of different income levels and businesses of different sizes, given the demographics of the AA. The overall distribution of HMDA loans is reasonable. As reported in Table 7, the percentage of total HMDA loans to low-income borrowers is below the percentage of low-income families in the AA. The percentage of total HMDA loans to moderate-income families exceeds the percentage of moderate-income families in the AA. See Table 7 for borrower distribution of home mortgage loan segments.

| 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 Loans | 22.01 | 9.46 | 16.77 | 14.86 | 21.06 | 19.59 | 40.17 | 56.08 |
| Home Improvement Loans | 22.01 | 28.47 | 16.77 | 30.66 | 21.06 | 18.98 | 40.17 | 21.90 |
| Home Refinance Loans | 22.01 | 4.65 | 16.77 | 16.28 | 21.06 | 20.16 | 40.17 | 58.91 |
| TOTAL HMDA LOANS¹ | 22.01 | 12.24 | 16.77 | 17.63 | 21.06 | 16.80 | 40.17 | 39.21 |

Source: 2010 U.S. Census. Data reported under HMDA for evaluation period January 1, 2012-December 31, 2013.

The weighted average of median housing in this AA is \$165,207. According to the 2013 HUD updated median family income, low-income families earn less than \$30,044. Additionally, 20 percent of households are below the poverty level. The lack of affordability limits the opportunities for home purchase, home improvement, and home refinance lending to low-income individuals. For this reason, it is deemed reasonable for the number of loans made to low-income families to be below the number of families that represent these income tracts.

The distribution of loans to small businesses (those with less than \$1 million in gross annual revenues) is reasonable. By number volume, the percentage of loans to small businesses is proportionate to the percentage of small businesses in the AA as reported in Table 8.

| Business Revenues (or Sales) | <=\$1,000,000 | >\$1,000,000 | Unavailable/ Unknown | Total |
|------------------------------|---------------|--------------|-------------------------|-------|
| % of AA Businesses | 69.48 | 3.33 | 27.19 | 100% |
| % of Bank Loans in AA by # | 72.41 | 20.69 | 6.90 | 100% |
| % of Bank Loans in AA by \$ | 30.81 | 52.67 | 16.51 | 100% |

Source: CRA Data and Loan sample; Dun and Bradstreet data

¹ Loans for which borrower income was available.

SW Virginia AA

The borrowers' distribution of loans reflects reasonable penetration among individuals of different income levels and businesses of different sizes. The overall distribution of HMDA loans is reasonable. As reported in Table 9, the percentage of total HMDA loans to low-income families is well below the percentage of low-income families in the AA. The percentage of total HMDA loans to moderate-income borrowers exceeds the percentage to moderate-income families in the AA. See Table 9 for borrower distribution of home mortgage loan segments.

| Table 9 - Borrower Distribution of Residential Real Estate Loans in SW Virginia AA | | | | | | | | |
|--|------------------|----------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|
| 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 Loans | 24.69 | 7.41 | 19.72 | 14.81 | 23.20 | 27.78 | 32.39 | 50.00 |
| Home Improvement Loans | 24.69 | 23.31 | 19.72 | 28.57 | 23.20 | 24.11 | 32.39 | 24.11 |
| Home Refinance | 24.69 | 15.63 | 19.72 | 12.50 | 23.20 | 18.75 | 32.39 | 53.13 |
| TOTAL HMDA** | 24.69 | 16.59 | 19.72 | 20.85 | 23.20 | 22.75 | 32.39 | 33.65 |

Source: 2010 U.S. Census. Data reported under HMDA for evaluation period January 1, 2012-December 31, 2013

The weighted average of median housing values in this AA is \$88,993. According to the 2013 HUD updated median family income, low-income families earn less than \$25,346. Additionally, 19 percent of households are below the poverty level. The lack of affordability limits the opportunities for home purchase, home improvement, and home refinance lending to low- and moderate-income individuals. For this reason, it is deemed reasonable for the number of loans made to low-income families to be below the number of families that represent these income tracts.

The distribution of loans to small businesses is reasonable. The distribution of loans to small businesses (those with less than \$1 million in gross annual revenues) is reasonable. By number and dollar volume, the percentage of loans to small businesses is proportionate to the percentage of small businesses in the AA as reported in Table 10.

| Table 10 - Borrower Distribution of Loans to Businesses in SW Virginia AA | | | | |
|---|---------------|--------------|-------------------------|-------|
| Business Revenues (or Sales) | <=\$1,000,000 | >\$1,000,000 | Unavailable/ Unknown | Total |
| % of AA Businesses | 71.38% | 3.34% | 25.27% | 100% |
| % of Bank Loans in AA by # | 65.22% | 17.39% | 17.39% | 100% |
| % of Bank Loans in AA by \$ | 12.15% | 14.00% | 73.85% | 100% |

Source: Small Business Loan sample; 2013 Dun and Bradstreet data

Conclusions for Areas Receiving Limited-Scope Reviews

Washington County AA

The borrowers' distribution of loans, given the demographics of the AA and the bank's market share, reflects poor penetration among individuals of different income levels but reasonable penetration to businesses of different sizes. The overall distribution of HMDA loans is poor. There was one home improvement loan made to a low-income borrower and no home purchase loans made to moderate-income borrowers. As reported in Table 11 the percentage of total HMDA loans to low-income borrowers (5.26 percent) is well below the percentage of low-income families in the AA (20.62 percent). The percentage of total HMDA loans to moderate-income borrowers (0.00 percent) is significantly below the percentage of moderate-income families in the AA (16.13 percent). See Table 11 for borrower distribution of home mortgage loan segments.

| Table 11 - Borrower Distribution of Residential Real Estate Loans in Washington County AA | | | | | | | | |
|--|------------------|----------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|
| 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 Loans | 20.62 | 0.00 | 16.13 | 0.00 | 20.25 | 40.00 | 43.01 | 60.00 |
| Home Improvement Loans | 20.62 | 25.00 | 16.13 | 0.00 | 20.25 | 25.00 | 43.01 | 50.00 |
| Home Refinance | 20.62 | 0.00 | 16.13 | 0.00 | 20.25 | 28.57 | 43.01 | 71.43 |
| TOTAL HMDA LOANS** | 20.62 | 5.26 | 16.13 | 0.00 | 20.25 | 26.32 | 43.01 | 52.63 |

*Source: 2010 U.S. Census. **Data reported under HMDA for valuation period January 1, 2012 - December 31, 2013*

Although the distribution of loans to borrowers of different incomes in the Washington County AA is poor, this has a negligible effect on our overall assessment given the bank's minimal market presence in this AA. Additionally, the weighted average of median housing values in this AA is \$130,483. According to the 2013 HUD updated median family income, low-income families earn less than \$24,345 and moderate-income families earn between \$24,345 and \$38,955. Fifteen percent of households within the AA are below the poverty level. The lack of affordability limits the opportunities for home purchase, home improvement, and home refinance lending to low- and moderate-income individuals. For this reason, it is deemed reasonable for the number of loans made to low- and moderate-income families to be below the number of families that represent these income tracts.

The distribution of loans to small businesses is reasonable. Table 12 indicates the percentage of loans to small businesses by number volume is well below the percentage of small businesses in the AA. The percentage of loans to small businesses is well below to the percentage of small businesses in the AA.

| Table 12 -Borrower Distribution of Loans to Businesses in Washington County AA | | | | |
|---|---------------|--------------|-------------------------|-------|
| Business Revenues (or Sales) | <=\$1,000,000 | >\$1,000,000 | Unavailable/ Unknown | Total |
| % of AA Businesses | 73.32 | 3.45 | 23.23 | 100% |
| % of Bank Loans in AA by # | 60.00 | 40.00 | 0.00 | 100% |
| % of Bank Loans in AA by \$ | 34.30 | 65.70 | 0.00 | 100% |

Source: Small Business Loan sample; 2013 Dun and Bradstreet data.

GEOGRAPHIC DISTRIBUTION OF LOANS

There are no low-income census geographies in the AAs. Therefore, the evaluation of geographic loan distribution in the AAs reflects performance in twenty moderate-income geographies. Consideration is also given to the ten designated distressed or underserved middle income tracts in the SW Virginia AA. This designation is given to these four tracts due to the remote rural location and poverty level of these census tracts.

We considered the demographic characteristics of moderate-income geographies in evaluating geographic distribution of mortgage loans in the AAs. We considered the percentage of owner-occupied housing units in these geographies as well as the percentage of rental properties in the AAs. These are limiting factors that impact the bank's ability to make mortgage loans to individuals residing in moderate-income geographies. We also considered the number of competitors making loans in this market.

NBB's geographic distribution of loans reflects reasonable dispersion and is indicative of reasonable performance. There are twenty moderate-income geographies, and no low-income geographies in the AA. Overall, the bank made loans in moderate-income geographies proportionate to the percentage of owner-occupied housing units located in the AA. More weight is given to the bank's performance in the SW Virginia AA due to the number of moderate income geographies in the area (12), and the presence of ten (10) designated distressed or underserved middle income tracts. We identified no apparent gaps or areas of low penetration in the bank's lending patterns.

Conclusions for Areas Receiving Full-Scope Reviews

Blacksburg AA

There are 33 census tracts located in this AA. There are no low-income census tracts, and six moderate-income tracts located in the AA. The percentage of households living below the poverty level is 20.04 percent. The percentage of owner-occupied housing units located in the moderate-income tract totals 20.91 percent.

Overall, the distribution of HMDA loans in the Blacksburg AA reflects reasonable dispersion among the geographic areas. As reported in Table 13, the percentage of home purchase loans and the percentage of home refinance loans made in moderate-income geographies are below the percentage of owner-occupied housings units in the moderate-income census tracts. The percentage of home improvement loans made in moderate-income geographies exceeds the percentage of owner-occupied housing units in the moderate-income census tracts.

| Census Tract Income Level | Low | | Moderate | | Middle | | Upper | |
|-------------------------------|------------------------------|----------------------|------------------------------|----------------------|------------------------------|----------------------|------------------------------|----------------------|
| Loan type | % of AA Owner Occupied Units | % of Number of Loans | % of AA Owner Occupied Units | % of Number of Loans | % of AA Owner Occupied Units | % of Number of Loans | % of AA Owner Occupied Units | % of Number of Loans |
| Home Purchase | 0.00 | 0.00 | 20.91 | 16.57 | 55.58 | 45.71 | 23.51 | 37.71 |
| Home Improvement | 0.00 | 0.00 | 20.91 | 28.17 | 55.58 | 50.00 | 23.51 | 21.83 |
| Home Refinance | 0.00 | 0.00 | 20.91 | 14.67 | 55.58 | 36.67 | 23.51 | 48.67 |
| TOTAL HMDA² | 0.00 | 0.00 | 20.91 | 19.09 | 55.58 | 44.19 | 23.51 | 36.72 |

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

As reported in Table 14, the distribution of loans to businesses reflects reasonable dispersion in the AA. The percentage of loans to businesses is well below the percentage of businesses located in the moderate-income geography.

| Census Tract Income Level | Low | | Moderate | | Middle | | Upper | |
|---------------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Loan Type | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans |
| Small Business loans | 0.00 | 0.00 | 19.15 | 14.29 | 54.24 | 42.86 | 25.74 | 42.86 |

Source: Small Business Loan sample: Dun and Bradstreet data

SW Virginia AA

There are 49 census tracts located in the AA, of which 12 are moderate-income tracts. In addition, there are 10 designated distressed or underserved nonmetropolitan middle-income census tracts located in Bland and Grayson Counties in Virginia and Mercer County, West Virginia, which are included in this AA. There are no low-income census tracts in the AA. The percentage of households living below the poverty level is 19.44 percent. The percentage of owner-occupied housing units located in the moderate-income tracts total 57.38 percent.

The distribution of HMDA loans in the SW Virginia AA reflects reasonable dispersion among the geographic areas. As reported in Table 15, the percentage of home purchase loans made in moderate-income geographies is well below the percentage of owner-occupied housing units in the moderate-income census tracts. The percentage of home improvement loans is well below the percentage of owner-occupied units in the moderate-income census tracts. The percentage of home refinance loans is below the percentage of owner-occupied units in the moderate-income census tracts.

² Loans for which census tracts were available.

| Table 15 - Geographic Distribution of Residential Real Estate Loans in SW Virginia AA | | | | | | | | |
|---|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|
| 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 | 0.00 | 0.00 | 19.44 | 12.90 | 80.56 | 87.10 | 0.00 | 0.00 |
| Home Improvement | 0.00 | 0.00 | 19.44 | 15.65 | 80.56 | 84.35 | 0.00 | 0.00 |
| Home Refinance | 0.00 | 0.00 | 19.44 | 18.75 | 80.56 | 81.25 | 0.00 | 0.00 |
| TOTAL HMDA loans³ | 0.00 | 0.00 | 19.44 | 8.53 | 87.40 | 91.47 | 0.00 | 0.00 |

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

As depicted in Table 16, the distribution of loans to businesses reflects reasonable dispersion in the AA. The percentage of loans to businesses is well below the percentage of businesses located in the moderate-income geography.

| Table 16 - Geographic Distribution of Loans to Businesses in SW Virginia AA | | | | | | | | |
|---|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Census Tract Income Level | Low | | Moderate | | Middle | | Upper | |
| Loan Type | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans |
| Business Loan | 0.00 | 0.00 | 17.66 | 13.64 | 82.34 | 86.36 | 0.00 | 0.00 |

Source: Small Business Loan sample; 2013 Dun and Bradstreet data.

Conclusions for Area(s) Receiving Limited-Scope Reviews

Washington County AA

There are two moderate-income census tracts and no low-income census tracts in the Washington County AA. No middle-income census tracts are designated distressed or underserved nonmetropolitan middle-income census tracts in this AA. The percentage of households living below the poverty level is 14.91 percent. The percentage of owner-occupied housing units located in the moderate-income tracts total 12.14 percent.

As depicted in Table 17, the distribution of loans to businesses reflects reasonable dispersion in the AA. The percentage of loans to businesses exceeds the percentage of businesses located in the moderate-income geographies.

| Table 17 - Geographic Distribution of Loans to Businesses in Washington County AA | | | | | | | | |
|---|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Census Tract Income Level | Low | | Moderate | | Middle | | Upper | |
| Loan Type | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans |
| Business Loan | 0.00 | 0.00 | 18.70 | 35.00 | 63.11 | 50.00 | 18.19 | 15.00 |

Source: Small Business Loan sample; 2013 Dun and Bradstreet data.

³ Loans for which census tracts were available.

COMMUNITY DEVELOPMENT TEST

The Community Development test is rated Satisfactory. The bank's community development performance demonstrates adequate responsiveness to community development needs in the assessment areas. The bank provides adequate community development loans, qualified investments, and services considering the bank's capacity and the need and availability of such opportunities.

Number and Amount of Community Development Loans

Conclusions for Areas Receiving Full-Scope Reviews

Blacksburg AA

Community development lending had a positive impact on lending performance in the Blacksburg AA. During the evaluation period, NBB originated eight community development loans totaling \$19.4 million.

One loan of \$10 thousand provided a line of credit for a community organization in Montgomery County, Virginia to help fund expenses involved in moving families from shelters to apartments. The bank originated two loans in the amount of \$3.5 million and \$6 million to an industrial development authority in the Blacksburg AA to fund economic development projects. The loan for \$3.5 million refinanced the construction loan and funded expansion of the facility that is leased to a leading plastic manufacturer. This new facility supports permanent job creation in the Blacksburg AA. The \$6 million loan refinanced existing bond indebtedness for economic development projects in the Blacksburg AA.

SW Virginia AA

Community development lending had a positive impact on lending performance in the SW Virginia AA. During the evaluation period, NBB originated one community development loan totaling \$100 thousand. The loan was provided to a community service organization in Tazewell County to fund programs that assist special needs individuals, low-income families and seniors. Financial assistance was provided to 20 percent of children in low-income families for childcare programs.

Conclusions for Areas Receiving Limited-Scope Reviews

During the evaluation period, the bank did not originate any community development loans in the Washington County AA. However, there were \$2 million in prior period investments and \$2 thousand in contributions to charitable and civic organizations specifically targeted to LMI persons. While there were no bank employees reported to have been involved in qualified community development services, there were bank personnel involved in charitable or civic organizations that provide indirect service to LMI persons or geographies. This had a neutral impact on the evaluation of community development activities in the AAs.

Opportunities to lend in the AA for community development purposes are limited. NBB participates in two lending programs that support small business and downtown redevelopment. During the evaluation period, the bank originated no loans under these programs. Borrowers typically are drawn to these programs to take advantage of low or subsidized interest rates. However, interest rates on conventional business loans remained low during the evaluation period. Additionally, the bank originates loans for community development purposes, in amounts less than \$1 million that are considered, by definition in the CRA, small loans to businesses.

Number and Amount of Qualified Investments

Qualifying investments are investments, deposits, membership shares, or grants that have as their purpose community development, as defined in the CRA regulation. The opportunity and availability of qualified community development related investments within the bank's assessment areas is limited.

Conclusions for Areas Receiving Full-Scope Reviews

The bank's performance under the investment test in Virginia is rated Satisfactory. Based on a full-scope review, the bank's performance in the Blacksburg AA is Satisfactory and the bank's performance in the SW Virginia AA is Satisfactory.

Blacksburg AA

The bank has an adequate level of qualified investments in the AA. The bank was credited for prior period qualified investments in the total amount of \$1.6 million for the Blacksburg AA.

NBB made current investments totaling \$106 thousand to community development organizations that provide direct support, services and activities that impact moderate-income geographies and low- and moderate-income individuals in the AA. Recipients included:

- An organization that builds and repairs houses using volunteer labor and donations;
- An organization that provides high quality primary and specialty health care to people in the New River Valley who are uninsured, and who can't afford access to health care;
- An organization that provides temporary housing and food pantries;
- An organization that offers housing, food and educational support services and resources for low-income families;
- An organization that funds economic development activities and programs to revitalize or stabilize moderate-income areas in the AA; and,
- Financial literacy programs designed into the school curriculum for high schools in the AA.

NBB also made \$86 thousand in donations and contributions to charitable and civic organizations. All funds are specifically targeted to benefit low-and moderate-income persons within the AA or to support organizations whose major purpose is providing economic

development, revitalizing central business districts, and offering assistance to attract, expand, and retain small business entities, payrolls, and job levels throughout the AA.

SW Virginia AA

NBB made investments totaling approximately \$3 thousand to community development organizations that provide direct support, services and activities that impact moderate-income geographies and low- and moderate-income individuals in the AA. Recipients included:

- An organization that offers programs to assist special needs individuals, low-income families and seniors. Financial assistance was given to 20 percent of children in childcare programs from low-income families; and
- An organization that provides financial assistance, food, clothing, and temporary shelter for the purpose of reducing poverty and promoting self-sufficiency of the low-income families in the AA.

NBB also made approximately \$4 thousand in donations and contributions to charitable and civic organizations. All funds are specifically targeted to benefit low-and moderate-income persons within the AA.

Conclusions for Areas Receiving Limited-Scope Reviews

The level of community development lending in the Washington County AA is adequate. During the evaluation period, the bank did not purchase any qualified investments in this AA. The bank was given credit for prior period investments in the total amount of \$2 million for the Washington County AA. NBB made approximately \$2 thousand in donations and contributions to charitable and civic organizations. All funds are specifically targeted to benefit low-and moderate-income persons within the AA. This had a positive impact on the evaluation of community development activities in the AAs.

Statewide Investments

Virginia Housing Development Authority

The bank made two qualifying Virginia Housing Development Authority (VHDA) investments during the review period of \$2 million. The remaining book value total is \$2.01 million. The bank also purchased \$2 million prior-period qualified investments for VHDA. One of the prior period investments matured January 1, 2013. The remaining book value for the prior period investments is \$1.03 million. The investments are located in the broader statewide or regional area that includes the bank's assessment area and have the potential to benefit the bank's AA. The 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. NBB's AA is located in the Commonwealth of Virginia, and has the ability to benefit from the efforts of the VHDA.

Extent to Which the Bank Provides Community Development Services

Conclusions for Area Receiving a Full-Scope Review

The bank's performance under the service test is rated Satisfactory. Based on a full-scope review, the bank's performance in the Blacksburg AA and the SW Virginia AA is satisfactory.

Blacksburg AA

Officers and staff contributed their services to eleven community service organizations in the AA during the evaluation period. Their services consistently addressed community development needs through service on committees and boards of Directors for organizations that provide assistance to small businesses, affordable housing and services to low- and moderate-income (LMI) areas or individuals.

SW Virginia AA

Officers and staff contributed their services to two community service organizations in the AA during the evaluation period. Their services addressed community development needs through service on committees and boards of directors for organizations that provide assistance to small businesses and health services to LMI areas or individuals.

Conclusions for Areas Receiving Limited-Scope Reviews

The level of community development services in the Washington County AA is poor. During the evaluation period, bank officers or employees did not participate in community development services in the Washington County AA. However, this has a negligible effect on our overall assessment given the bank's minimal market presence in this AA.

Responsiveness to Community Development Needs

The bank is responsive to community credit needs and opportunities to lend for community development purposes in the Blacksburg AA. The bank adequately responds to community credit needs and opportunities to lend for community development purposes in the SW Virginia AA and the Washington County AA.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

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

Responses to Complaints

There were no complaints regarding the bank's CRA performance during the evaluation period.