



PUBLIC DISCLOSURE

April 18, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Grayson National Bank
Charter Number 10834

113 West Main Street, Independence, Virginia 24348

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.

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INSTITUTION'S CRA RATING: This institution is rated Outstanding.

The Lending Test is rated: Outstanding.

The Community Development Test is rated: Satisfactory.

Below is a summary of the major factors supporting the institution's rating:

- A substantial majority of the loans originated during the evaluation period were within the bank's assessment areas (AAs);
- The bank's average quarterly loan-to-deposit (LTD) ratio is reasonable based on the bank's size, financial condition, area credit needs, and relevant competitive factors;
- The distribution of loans reflects excellent penetration among borrowers of different incomes and businesses of different sizes;
- The geographic distribution of home mortgage loans and business loans reflects reasonable dispersion throughout census tracts of different income levels; and,
- Community development (CD) performance within the AAs demonstrates adequate responsiveness.

Scope of Examination

Grayson National Bank (GNB) was evaluated under the Intermediate Small Bank examination procedures, which includes a lending test and CD test. The lending test evaluates the bank's record of meeting the credit needs of its AAs through its lending activities. The CD test evaluates the bank's responsiveness to CD needs in its AAs through CD lending, services, and qualified investments. The evaluation period for the Lending Test covers the bank's performance from January 1, 2014 through December 31, 2015. The evaluation period for the CD test is March 25, 2013 through April 18, 2016.

Determination of Bank's Primary Loan Products

We analyzed bank-generated reports of loan origination data from January 1, 2014 through December 31, 2015. Based on this analysis, we determined the bank's primary loan products to be Home Mortgage, Small Business Loans, and Consumer Loans based on the percentage of total number of loans originated during the evaluation period. Consumer loans were included in the lending test because they accounted for 61 percent of the loans originated by number. Farm loans were not included as a primary loan product due to the small number of originations. Please refer to **Table 1** for loan origination data for each loan type during the evaluation period.

| Loan Type | Table 1 – Loan Originations by Loan Type in the AAs | | | |
|-----------------------------------|---|-------------|---------------------------|------------------------|
| | Total Number of Loans | % of Number | Total \$ of Loans (\$000) | % of Total \$ of Loans |
| Small Business* | 376 | 18.56 | 30,603 | 33.66 |
| Home Mortgage* | 248 | 12.24 | 25,961 | 28.55 |
| Small Farm | 168 | 8.29 | 15,461 | 17.01 |
| Consumer | 1,234 | 60.91 | 18,893 | 20.78 |
| Total loans for evaluation period | 2,026 | | 90,918 | |

Source: Bank loan data report for Year 2014 and Year 2015

Description of Institution

GNB is an interstate bank headquartered in Independence, Virginia with operations in Virginia and North Carolina. GNB is wholly-owned by Grayson Bankshares, Inc., a \$332 million bank holding company also headquartered in Independence, Virginia and listed on the OTC Bulletin Board under the symbol “GSON.”

GNB is a full-service community bank serving the counties of Grayson, Carroll, Wythe, and the city of Galax in Virginia and Alleghany County in North Carolina. GNB operates ten full-service facilities and eleven automated teller machines (ATMs) – one at each branch and one at Grayson County High School, in Independence, Virginia. Five of the ten branches are located in moderate-income census tracts, and two of the ten branches are located in middle-income non-metropolitan distressed or underserved geographies. The bank did not open or close any branches during this evaluation period. There are no low-, or high-income census tracts in the bank’s two AAs.

GNB’s main office; and the branch office and drive-thru of the East Independence, Galax, Carroll, Hillsville, and Sparta locations are open weekdays from 9:00 a.m. to 5:30 p.m. and the drive-thru at the locations are open from 9:00 a.m. to noon on Saturday. The Whitetop, Troutdale, and Elk Creek branch lobbies are open from 9:00 a.m. to 1:00 p.m. and from 2:30 p.m. to 5:30 p.m. and the drive-thru for these three locations is open from 9:00 a.m. to 5:30 p.m. The Wytheville branch lobby and drive-thru are open Monday through Thursday from 9:00 a.m. to 5:00 p.m. and on Friday from 9:00 a.m. to 5:30 p.m. The Wytheville drive-thru is open on Saturday from 9:00 a.m. to noon.

GNB’s products include a variety of traditional deposit and loan products, 24-hour telephone banking, and on-line Internet bill payment services. The bank’s Internet website, www.graysonnationalbank.com, provides detailed information on products and services for both consumers and businesses.

As of December 31, 2015, Tier I Capital was \$29.7 million. GNB’s gross loans totaled \$241.2 million, or 72.75 percent of total assets. **Table 2** depicts the loan portfolio by percentage of loan product as of December 31, 2015.

| Table 2 - Loan Portfolio by Loan Product | |
|---|-------------------------------|
| Loan Product Category | Percent of total loans |
| 1 -4 Family Residential Mortgage | 47.97 |
| Commercial /Commercial Real Estate | 24.38 |
| Secured by Farmland /Agricultural | 13.98 |
| Construction & Land Development | 6.62 |
| Multi-family Residential | 4.80 |
| Consumer | 1.68 |
| All Other | 0.57 |
| Total | 100.00 |

*Data obtained from the Uniform Bank Performance Report for the quarter ended December 31, 2015, Page 7A.

There are no legal, financial, or other factors impeding the bank’s ability to help meet the credit needs in its AAs. GNB received an overall “Outstanding” rating on its prior CRA Performance Evaluation as of March 25, 2013.

Selection of Areas for Full-Scope Review

In each state where the bank has an office, a sample of AAs within that state is selected for full-scope reviews. We selected the AA in Virginia and in North Carolina for a full scope review. The counties of Carroll, Grayson and Wythe, and the City of Galax make up the Virginia non-metropolitan statistical area (non-MSA) AA. Alleghany County makes up the North Carolina non-MSA AA. Descriptions of each AA are contained in the respective *State* section of this evaluation.

Ratings

The bank’s overall rating is a blend of the state ratings for Virginia and North Carolina. The Virginia rating weighed most heavily in arriving at the overall bank rating because a majority of GNB’s deposits and loans are from Virginia.

GNB’s rating is based on the bank’s performance in the two AAs. There are no low-income census tracts (CTs) in either of the two AAs. We gave consideration to the CTs in the AAs that are designated as moderate-income geographies and middle-income non-metropolitan distressed or underserved geographies.

Conclusions with Respect to Performance Criteria

The performance under the Lending Test is Outstanding. The institution’s LTD ratio is reasonable and a substantial majority of loans are originated inside the AAs. The institution’s borrower distribution reflects excellent penetration among borrowers of different incomes. The institution’s geographic distribution reflects reasonable dispersion throughout the CTs in the AA. GNB has not received any CRA complaints during this evaluation period.

GNB’s rating is based on the institution’s performance in the Virginia non-MSA AA (Virginia AA) and the North Carolina non-MSA AA (North Carolina AA).

Lending Test

Overall lending levels reflect excellent responsiveness to meeting AA credit needs. In evaluating performance under the Lending Test, we considered the bank's business strategy and financial condition; the number and types of loans originated, and community credit needs identified through discussions with community contacts. We also considered the amount of competition from lenders located in the AA.

Loan-to-Deposit Ratio

The bank's average quarterly loan-to-deposit (LTD) ratio is reasonable based on the bank's size, financial condition, area credit needs, and relevant competitive factors. The bank's average quarterly LTD ratio meets the standards for satisfactory performance.

The bank's average quarterly LTD ratio for the twelve consecutive quarters (March 31, 2013 to December 31, 2015) since the previous CRA evaluation is 76.82 percent. GNB's quarterly LTD ratio ranged from a high of 84.89 percent at December 31, 2015 to a low of 71.09 percent at March 31, 2013. Competitor institutions reported an average quarterly LTD ratio of 81.77 percent with a low average quarterly LTD ratio of 61.89 percent and a high average quarterly LTD ratio of 89.90 percent.

GNB does not have similarly situated local competitor banks in the AAs to which we may compare its performance. The main competitors in the Virginia AA are Branch Banking and Trust (BB&T) and Carter Bank and Trust. These banks have 41.26 percent of the deposit market share in this AA. The main competitors in the North Carolina AA are BB&T and Fifth Third Bank with 55.41 percent of the deposit market share in this AA. These competitors have substantially greater resources and lending limits and offer banking services that GNB does not currently provide.

Lending in Assessment Area

GNB originated a substantial majority of its loans inside its AAs. We used the bank's loan application registers for 2014 and 2015 to calculate the percentage of loans originated in the bank's AAs. As indicated in Table 3, 91.82 percent of the loans were originated within the bank's AAs.

| Table 3 - Lending in All Assessment Areas | | | | | | | | | | |
|---|-----------------|--------------|------------|-------------|--------------|-------------------------|--------------|---------------|--------------|----------------|
| Loan Type | Number of Loans | | | | | Dollars of Loans (000s) | | | | |
| | Inside | | Outside | | Total | Inside | | Outside | | Total |
| | # | % | # | % | # | \$ | % | \$ | % | \$ |
| Home Mortgage Loans | 248 | 89.21 | 30 | 10.79 | 278 | 25,961 | 82.68 | 5,439 | 17.32 | 31,400 |
| Business Loans | 310 | 82.45 | 66 | 17.55 | 376 | 30,603 | 74.65 | 10,391 | 25.35 | 40,994 |
| Farm Loans | 158 | 94.05 | 10 | 5.95 | 168 | 15,461 | 95.40 | 745 | 4.60 | 16,206 |
| Consumer Loans | 1,148 | 95.35 | 56 | 4.65 | 1,204 | 18,893 | 88.50 | 2,456 | 11.50 | 21,349 |
| Totals | 1,706 | 91.82 | 152 | 8.18 | 1,858 | 90,918 | 82.69 | 19,031 | 17.31 | 109,949 |

Source: Bank data of loans originated from January 1, 2014 - December 31, 2015.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), in determining a national bank's (bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any AA 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.

State Rating

State of Virginia

| | |
|---|----------------------|
| CRA Rating for Virginia: | Outstanding. |
| The Lending test is rated: | Outstanding. |
| The Community Development test is rated: | Satisfactory. |

The major factors that support this rating include:

- The distribution of borrowers reflects excellent penetration among individuals of different income levels (including low- and moderate-income) given the demographics of the AA.
- The geographic distribution of loans reflects excellent dispersion throughout the AAs.
- The bank's CD performance demonstrates adequate responsiveness to CD needs in its AA.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN VIRGINIA

The Virginia AA consists of Grayson, Carroll, and Wythe Counties; and the independent city of Galax, which are all located in the southwestern part of Virginia. These counties and city are contiguous, with similar geographies, according to their performance contexts, which allow them to be placed in the same AA.

There are 20 whole CTs in the Virginia AA with 5 moderate-income, and 15 middle-income CTs. Three CTs in Grayson County and the one CT in the City of Galax are designated as Middle-Income Nonmetropolitan Distressed or Underserved Geographies. There are no low-income census tracts in this AA. This AA does not arbitrarily exclude any low- or moderate-income tracts. The demographic information in **Table 4** describes the Virginia AA.

DESCRIPTION OF ASSESSMENT AREA

Virginia AA

| Table 4 Demographic Information for Full Scope Area: Virginia AA | | | | | |
|--|--------|-----------------------------|--|------------------|--------------------|
| Demographic Characteristics | # | Low % of # | Moderate % of # | Middle % of # | Upper % of # |
| Geographies (Census Tracts/BNAs) | 20 | 0.00 | 25.00 | 75.00 | 0.00 |
| Population by Geography | 81,852 | 0.00 | 22.35 | 77.65 | 0.00 |
| Owner-Occupied Housing by Geography | 26,429 | 0.00 | 24.04 | 75.96 | 0.00 |
| Business by Geography | 5,417 | 0.00 | 22.61 | 77.39 | 0.00 |
| Farms by Geography | 519 | 0.00 | 25.43 | 74.57 | 0.00 |
| Family Distribution by Income Level | 23,080 | 22.48 | 19.52 | 23.54 | 34.46 |
| Distribution of Low and Moderate Income Families throughout AA Geographies | 9,695 | 0.00 | 29.80 | 70.20 | 0.00 |
| Median Family Income HUD Adjusted Median Family Income for 2015 Households Below Poverty Level | | \$48,460 \$52,700 19% | Median Housing Value Average Unemployment Rate (Bureau of Labor Statistics-Dec. 2015) | | \$101,410 4.20% |

Source: 2010 U.S. Census and 2015 HUD updated Median Family Income

The Virginia AA consists of three counties, Grayson, Carroll, and Wythe, and the independent city of Galax. The main office is located in Independence, Virginia, which is located in Grayson County. Grayson County has three middle-income census tracts, which were designated as Middle-Income Nonmetropolitan Underserved Geographies for 2015 - characterized as rural remote. The main office and four branch offices are located in Grayson County. Carroll County has six middle-income census tracts. GNB has two branch offices in Carroll County. Wythe County has four middle-income census tracts and one branch office. The bank has one branch in the city of Galax - an independent city in Grayson County with one middle-income census tract that is designated as distressed due to its high poverty percentage. Carroll and Wythe Counties do not have Middle-income Nonmetropolitan Distressed or Underserved Geographies. There are no low- or high-income census tracts in the Virginia AA.

A substantial majority of the bank's operations are within Virginia. Ninety percent of the deposits and 64 percent of the reported loans were originated in the Virginia AA. The FDIC Summary of Deposits Report as of June 30, 2015 listed 15 deposit-taking institutions with 37 offices in this AA. Given the bank's size, and the nature/size of its banking competitors (size, multi-state branch network, etc.), GNB ranked second with 17.12 percent of the deposits inside the market area. Carter Bank and Trust ranked first with 24.19 percent deposit market share. BB&T ranked third with 17.07 percent deposit market share.

Government services employ the largest segment of the population, with manufacturing second, followed by healthcare and retail. Leading employers in the Virginia AA are

Carroll County School Board, Southwest Virginia Training Center, Grayson County School Board, Grayson County Correctional Center, Wythe County School Board, Wythe County Community Hospital, Vaughan Bassett Furniture, and Twin County Regional Hospital.

We obtained current unemployment rates for the Virginia AA from the U. S. Bureau of Labor Statistics. As of December 31, 2015, the unemployment rate in Carroll County was 4.6 percent, Grayson County was 4.7 percent, Wythe County was 4.9 percent, and the city of Galax was 4.7 percent, which are all above the Virginia statewide average of 4.2 percent and below the national average of 5.0 percent.

Scope of Evaluation in Virginia

The Virginia AA received a full-scope review. The Virginia AA rating weighed most heavily in arriving at the overall bank rating due to a substantial majority of deposits and loans being from this rating area.

Residential mortgage lending, business purpose lending, and consumer loans received equal consideration in arriving at conclusions for the Lending Test due to the volume of loans originated in each product type during the evaluation period. GNB's loan registers for the evaluation period reported originations of 217 residential mortgage loans, 192 business purpose loans, and 1,059 consumer loans. The analysis of performance under the Community Development Test equally considered loan, investment, and services activity.

We conducted one community contact with a representative for the Twin County Chamber of Commerce located in the bank's Virginia AA. The contact stated that there was a need in the area for low-interest loans to homeowners for home repairs or to businesses that would like to expand and grow but lack available "market dollars" for advertising to consumers outside the local region to expand business operations.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN VIRGINIA

GNB's performance in Virginia AA is rated **Outstanding**.

In evaluating performance under the Lending Test and determining how each loan type would be weighted, we considered GNB's business strategy, the volume of originations, and community credit needs identified through discussions with the community contact.

In evaluating performance under the Community Development Test, we considered the bank's capacity to lend and invest in its community, the availability of investment and CD lending opportunities, and the bank's responsiveness in providing services to the communities in which it does business.

LENDING TEST

The bank’s performance under the lending test in Virginia is rated Outstanding.

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

Overall lending to borrowers of different incomes and to businesses of different sizes is excellent.

In making this assessment, we considered the number of families that live below the poverty level and the barriers that this may have on home ownership in evaluating the borrower distribution of home mortgage loans. Approximately 19 percent of the households in the Virginia AA live below the poverty level.

Home Mortgage Loans

The distribution of borrowers reflects reasonable penetration among individuals of different income levels, given the demographics of the Virginia AA.

To evaluate the bank’s performance in the Virginia AA we used the population of home mortgage loans originated in the Virginia AA during the evaluation period.

As indicated in **Table 5**, the percentage of loans to low-income borrowers is well below the percentage of low-income families in the Virginia AA. The percentage of loans to moderate-income borrowers exceeds the percentage of moderate-income families in the Virginia AA. There were ten loans originated in the AA without a borrower income designation. Please refer to **Table 5** for the facts and data used to evaluate the borrower distribution of the bank’s home mortgage loan originations in the Virginia AA.

| Table 5 - Borrower Distribution of Home Mortgage Loans in 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 Mortgage Loans | 22.48 | 11.52 | 19.52 | 21.66 | 23.54 | 20.28 | 34.46 | 41.94 |

Source: 2010 U.S. Census data and GNB Loan Application Register for 2014 and 2015.

Consumer Loans

The distribution of borrowers reflects excellent penetration among individuals of different income levels, given the demographics of the Virginia AA.

We used the population of consumer loans originated in the Virginia AA during the evaluation period to evaluate the bank’s performance in the Virginia AA.

As indicated in **Table 6**, the percentage of loans to low-income borrowers exceeds the percentage of low-income households in the Virginia AA. The percentage of loans to moderate-income borrowers exceeds the percentage of moderate-income households in the Virginia AA. There were 31 loans originated in the AA without a borrower income designation. Please refer to **Table 6** for the facts and data used to evaluate the borrower distribution of the bank’s consumer loan originations and purchases in the Virginia AA.

| Table 6 - Borrower Distribution of Consumer Loans in Virginia AA | | | | | | | | |
|--|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Borrower Income Level | Low | | Moderate | | Middle | | Upper | |
| Loan Type | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans |
| Consumer Loans | 28.19 | 31.16 | 16.19 | 24.93 | 18.90 | 18.60 | 36.72 | 22.38 |

Source: U.S. Census data and GNB Loan Application Register for 2014 and 2015.

Business Loans

GNB’s record of originating business purpose loans among the Virginia AA businesses of different sizes reflects excellent distribution considering the demographic context in which GNB operates.

We analyzed data collected from the population of business loans originated in the Virginia AA during the evaluation period. The analysis was performed to assess GNB’s record of distributing its business loan originations among Virginia businesses of different sizes. Specifically, during the evaluation period we collected and analyzed data from 192 business loans that GNB originated to Virginia AA businesses.

The distribution of borrowers reflects excellent penetration among businesses of different sizes. As indicated in **Table 7**, the percentage of loans to small businesses (those with less than \$1 million in gross annual revenues) exceeds the percentage of small businesses in the Virginia AA.

| Table 7 - Borrower Distribution of Loans to Businesses in Virginia AA | | | | |
|---|---------------|--------------|---------------------|-------|
| Business Revenues (or Sales) | <=\$1,000,000 | >\$1,000,000 | Unavailable/Unknown | Total |
| % of AA Businesses | 79.34 | 3.18 | 17.48 | 100 |
| % of Bank Loans in AA by # | 84.90 | 15.10 | 0.00 | 100 |
| % of Bank Loans in AA by \$ | 65.01 | 34.99 | 0.00 | 100 |

Source: U.S. Census data and GNB Loan Application Register for 2014 and 2015.

Geographic Distribution of Loans

The geographic distribution of home mortgage, consumer and business loans reflects reasonable dispersion throughout census tracts of different income levels. GNB’s performance meets the standard for satisfactory performance. There were no

conspicuous gaps identified within the bank’s AA.

There are five moderate-income geographies, and fifteen middle-income geographies in the AA. Four middle-income geographies have been designated as distressed and underserved geographies because of the poverty rate, population losses, and the remote rural location of the AA.

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects reasonable dispersion throughout census tracts of different income levels. GNB’s performance for home mortgage lending meets the standard for satisfactory performance.

The percentage of home mortgage loans made in moderate-income geographies is below the percentage of owner-occupied housing units in these geographies. Since four middle-income geographies were designated as distressed and underserved non-metropolitan middle-income geographies for the duration of the evaluation period, the bank received consideration for lending to the middle-income geographies. The percentage of home mortgage loans made in the middle-income geographies exceeds the percentage of owner-occupied housing units in these geographies.

Table 8 details the bank’s performance as compared to the percentage of owner-occupied housing units in each census tract income level for the evaluation period.

| Table 8 - Geographic Distribution of Home Mortgage Loans in 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 Mortgage Loans | 0.00 | 0.00 | 24.04 | 18.89 | 75.96 | 81.11 | 0.00 | 0.00 |

Source: 2010 U.S. Census and GNB Loan Application Register for 2014 and 2015.

Consumer Loans

The geographic distribution of consumer loans reflects excellent dispersion throughout census tracts of different income levels. GNB’s performance for consumer lending exceeds the standard for satisfactory performance.

The percentage of consumer loans made in moderate-income geographies exceeds the percentage of households in these geographies. Since four middle-income geographies were designated as distressed and underserved non-metropolitan middle-income geographies for the duration of the evaluation period, the bank received consideration for lending to the middle-income geographies. The percentage of home mortgage loans made in the middle-income geographies is near to the percentage of households in these geographies.

Table 9 details the bank’s performance as compared to the percentage of households in each census tract income level for the evaluation period.

| Table 9 - Geographic Distribution of Consumer Loans in Virginia AA | | | | | | | | |
|--|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Census Tract Income Level | Low | | Moderate | | Middle | | Upper | |
| Loan Type | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans |
| Consumer Loans | 0.00 | 0.00 | 23.47 | 25.97 | 76.53 | 74.03 | 0.00 | 0.00 |

Source: 2010 U.S. Census and GNB Loan Application Register for 2014 and 2015.

Loans to Small Businesses

The distribution of loans to businesses reflects excellent dispersion among geographies of different income levels compared to the percent of business located in those geographies as depicted in **Table 10**. GNB’s performance for lending to small businesses exceeds the standard for satisfactory performance.

The percentage of loans to borrowers in moderate-income census tracts exceeds the percentage of businesses in those census tracts. Since four middle-income geographies were designated as distressed and underserved non-metropolitan middle-income geographies for the duration of the evaluation period, the bank received consideration for lending to the middle-income geographies. The percentage of loans to borrowers in the middle-income geographies is near to the percentage of businesses in these geographies.

| Table 10 - Geographic Distribution of Loans to Businesses in 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 Loans | 0.00 | 0.00 | 22.61 | 31.77 | 77.39 | 68.23 | 0.00 | 0.00 |

Source: 2015 Business Geodemographic Data and GNB Loan Application Register for 2014 and 2015.

COMMUNITY DEVELOPMENT TEST

The bank’s performance under the community development test in Virginia is rated **Satisfactory**.

The bank’s CD performance demonstrates adequate responsiveness to CD needs, considering the bank’s capacity, need, and availability of such opportunities for CD in the bank’s Virginia AA. GNB’s CD activities include CD loans, qualified investments, and CD services.

Number and Amount of Community Development Loans

GNB originated seven CD loans in the Virginia AA during the evaluation period with total outstanding balances of approximately \$1.5 million. These loans were to promote economic development in the AA through permanent job creation, retention and/or improvement for persons who are currently low- or moderate-income. Examples of the bank's performance to support CD are as follows:

- One non-revolving line of credit (LOC) with an unfunded commitment of \$650 thousand to facilitate a grant to build an access road for the commerce park in Carroll County to improve recruitment of businesses to the park and promote job creation.
- An LOC to a local water authority to provide public water for the towns of Sparta, North Carolina and Independence, Virginia to provide jobs for low- and moderate-income households by attracting new industry for distressed and/or underserved areas.
- Two non-revolving LOC loans to fund the purchase of new building for expansion of the business's facilities to provide new jobs for low- or moderate-income households in an area of high unemployment.
- One loan to provide short-term financing for the purchase of a new building to house a local law enforcement agency, which serves a distressed and/or underserved geography.

Number and Amount of Qualified Investments

The bank did not have any qualified investments in this Virginia AA during the evaluation period. Management reported that there were minimal to no investments available for purchase that would directly benefit the Virginia AA. The bank had two prior period investments, totaling \$1.5 million. One investment is an industrial revenue bond to a local manufacturing company for the purpose of retaining low/moderate income jobs and promoting future growth. The second investment is a general obligation bond to refinance the fire department building loan and purchase a fire truck, which is located in a distressed and/or underserved geography.

GNB also had qualified donations totaling approximately \$6 thousand during the evaluation period. The donations were made to service organizations that provide food and housing assistance to low- and moderate-income families in the Virginia AA; and a non-profit organization that provides opportunities for children of low-income families to attend summer camps.

Extent to Which the Bank Provides Community Development Services

During the evaluation period, five employees provided technical services and support to six qualified CD organizations. The organizations function to promote economic development or to provide services to qualified low-income families in the AA. Four of the five employees provide lending expertise to their respective organizations to make recommendations on approving and denying loan requests. The fifth employee lends financial expertise to provide and/or disperse funding to non-profit organizations.

Responsiveness to Community Development Needs

The bank's CD performance demonstrates adequate responsiveness to CD needs in its Virginia AA. GNB operates in predominantly middle-income geographies. There are no low-income tracts in the AA. There are five moderate-income tracts and four middle-income tracts located in the Virginia AA that are designated middle-income nonmetropolitan distressed/underserved middle-income geographies.

Responses to Complaints

GNB did not receive any complaints about its performance in helping to meet credit needs in the Virginia AA during this evaluation period. This has a neutral impact on the CRA rating.

State Rating

State of North Carolina

| | |
|---|----------------------|
| CRA Rating for North Carolina: | Satisfactory. |
| The Lending test is rated: | Satisfactory. |
| The Community development test is rated: | Satisfactory. |

The major factors that support this rating include:

- The distribution of borrowers reflects reasonable penetration among individuals of different income levels (including low- and moderate-income) given the demographics of the North Carolina AA;
- The geographic distribution of loans reflects excellent dispersion throughout the AAs; and,
- The bank's CD performance demonstrates adequate responsiveness to CD needs in its North Carolina AA.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN NORTH CAROLINA

The North Carolina AA consists of Alleghany County, in its entirety. There are three whole CTs in the AA two of which are moderate-income CTs and one is a middle-income CT. The middle-income CT is designated as a middle-income nonmetropolitan distressed or underserved geographies due to the poverty level and the remote rural location of the AA. The bank has one branch and one ATM in this AA. There are no low- or upper-income CTs in the North Carolina AA. This AA does not arbitrarily exclude any low- or moderate- income areas. The demographic information in **Table 11** describes this area.

DESCRIPTION OF ASSESSMENT AREA

| Table 11 – Demographic Information for Full Scope Area North Carolina AA | | | | | |
|--|--------|-----------------------------|---|------------------|-------------------|
| Demographic Characteristics | # | Low % of # | Moderate % of # | Middle % of # | Upper % of # |
| Geographies (Census Tracts/BNAs) | 3 | 0.00 | 66.67 | 33.33 | 0.00 |
| Population by Geography | 11,155 | 0.00 | 71.26 | 28.74 | 0.00 |
| Owner-Occupied Housing by Geography | 3,678 | 0.00 | 72.65 | 27.35 | 0.00 |
| Business by Geography | 749 | 0.00 | 75.97 | 24.03 | 0.00 |
| Farms by Geography | 103 | 0.00 | 57.28 | 42.72 | 0.00 |
| Family Distribution by Income Level | 3,080 | 27.24 | 21.20 | 23.60 | 27.95 |
| Distribution of Low and Moderate Income Families throughout AA Geographies | 1,492 | 0.00 | 72.52 | 27.48 | 0.00 |
| Median Family Income HUD Adjusted Median Family Income for 2015 Households Below Poverty Level | | \$46,764 \$50,000 25% | Median Housing Value Unemployment Rate (Bureau of Labor Statistics – Dec 2015) | | \$136,083 5.6% |

Source: 2010 U.S. Census and 2015 HUD updated Median Family Income

The North Carolina AA consists of Alleghany County in the State of North Carolina. Alleghany County consists of two moderate-, and one middle-income CT. The middle-income CT was identified as a distressed and underserved nonmetropolitan middle-income CT due to the poverty level and the remote rural location. The bank has one branch location in Alleghany County located in a moderate-income CT. There are no low- or high-income CTs in the North Carolina AA.

A smaller percentage of the bank's operations are in North Carolina. GNB holds a 16.21 percent deposit market share in the North Carolina AA based on the FDIC Deposit Market Share Report as of June 2015. The bank competitors and their respective deposit market share in the North Carolina AA are BB&T with 39.19 percent; Fifth Third Bank with 16.22 percent; and First Community Bank, N.A. with 15.61 percent.

Alleghany County is located in the Blue Ridge Mountains of Northwestern North Carolina. It is bordered by Ashe County on the west, Wilkes County to the south, Surry County to the east, and Grayson County, Virginia on the north.

Alleghany County has mostly rural population, with only a few small towns. The county seat, Sparta, had about 1,800 inhabitants in the year 2010 census. Sparta is the home to the satellite campus of Wilkes Community College and Alleghany Memorial Hospital.

Much of the county's residents work in either the education field or the healthcare profession as the school system and hospital are major employers in the region.

Leading employers are Allegheny Board of Education, Parkdale Mills, Allegheny County Public Administration, and Allegheny Memorial Hospital.

We obtained current unemployment rates for the North Carolina AA from the U. S. Bureau of Labor Statistics. As of December 31, 2015, the unemployment rate in Allegheny County was 6.1 percent, which is above the North Carolina statewide average of 5.6 percent and well above the national unemployment average of 5.0 percent.

Scope of Evaluation in North Carolina

The North Carolina AA received a full-scope review. Residential mortgage lending, business purpose lending, and consumer loans received equal consideration in arriving at conclusions for the Lending Test based on loan volumes in the evaluation period.

The bank's loan application register reported 12.81 percent of the bank's loans are to customers in North Carolina. GNB's loan registers for the evaluation period reported originations of 31 residential mortgage loans, 118 business purpose loans, and 89 consumer loans.

The analysis of performance under the Community Development Test equally considered loan, investment, donation, and services activity.

We conducted one community contact with a representative of a local CD organization in Allegheny County. The contact stated that community banking in Allegheny County has been strong and community banks are very supportive of the community. The contact did not identify any unmet credit needs in the AA.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN NORTH CAROLINA

GNB's performance in North Carolina is rated **Satisfactory**.

In evaluating performance under the Lending Test and determining how each loan type would be weighted, we considered GNB's business strategy, the volume of originations, and community credit needs identified through discussions with the community contact.

In evaluating performance under the Community Development Test, we considered the bank's capacity to lend and invest in its community, the availability of investment and CD lending opportunities, and the bank's responsiveness in providing services to the communities in which it does business.

LENDING TEST

The bank's performance under the lending test in the North Carolina AA is rated **Satisfactory**.

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

Overall lending to borrowers of different incomes and to businesses of different sizes is reasonable. We considered the number of families that live below the poverty level and the barriers that this may have on home ownership in evaluating the borrower distribution of home mortgage loans. Approximately 25 percent of the households in the North Carolina AA live below the poverty level.

Home Mortgage Loans

The distribution of borrowers reflects reasonable penetration among individuals of different income levels given the demographics of the North Carolina AA. As indicated in **Table 12**, the percentage of loans to low-income borrowers is below the percentage of low-income families in the North Carolina AA. The percentage of loans to moderate-income borrowers is well below the percentage of moderate-income families in the North Carolina AA.

| Table 12 - Borrower Distribution of Home Mortgage Loans in North Carolina 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 Mortgage | 27.24 | 16.13 | 21.20 | 9.68 | 23.60 | 35.48 | 27.95 | 38.71 |

Source: 2010 U.S. Census data and GNB Loan Application Register for 2014 and 2015.

Consumer Loans

The distribution of borrowers reflects excellent penetration among individuals of different income levels, given the demographics of the North Carolina AA. To evaluate the bank’s performance in the North Carolina AA we used the population of consumer loans originated in the North Carolina AA during the evaluation period.

As indicated in the table below, the percentage of loans to low-income borrowers exceeds the percentage of low-income households in the North Carolina AA. The percentage of loans to moderate-income borrowers exceeds the percentage of moderate-income households in the North Carolina AA.

Please refer to **Table 13** below for the facts and data used to evaluate the borrower distribution of the bank’s consumer loan originations and purchases in the North Carolina AA.

| Table 13 - Borrower Distribution of Consumer Loans in North Carolina AA | | | | | | | | |
|---|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Borrower Income Level | Low | | Moderate | | Middle | | Upper | |
| Loan Type | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans |
| Consumer Loans | 32.77 | 33.71 | 15.69 | 29.21 | 20.10 | 17.98 | 31.44 | 15.73 |

Source: 2010 U.S. Census data and GNB Loan Application Register for 2014 and 2015.

Business Loans

GNB's record of originating business purpose loans among the North Carolina AA businesses of different sizes reflects an excellent distribution considering the demographic context in which GNB operates.

We analyzed data collected from the loan application register of business loans originated in the North Carolina AA during the evaluation period. The analysis was performed to assess GNB's record of distributing its business loan originations among North Carolina businesses of different sizes. Specifically, during the evaluation period we collected and analyzed data from the 118 business loans that GNB originated to North Carolina AA businesses.

As indicated in **Table 14**, the percentage of loans to small businesses (those with less than \$1 million in gross annual revenues) exceeds the percentage of small businesses in the North Carolina AA based on the percentage of the number of loans. The percentage of the dollar amount of loans to small businesses exceeds the percent of AA businesses.

| Table 14 - Borrower Distribution of Loans to Businesses in North Carolina AA | | | | |
|--|---------------|--------------|---------------------|-------|
| Business Revenues (or Sales) | <=\$1,000,000 | >\$1,000,000 | Unavailable/Unknown | Total |
| % of AA Businesses | 74.69 | 3.23 | 22.08 | 100 |
| % of Bank Loans in AA by # | 90.68 | 9.32 | 0.00 | 100 |
| % of Bank Loans in AA by \$ | 79.70 | 20.30 | 0.00 | 100 |

Source: U.S. Census data; Dun and Bradstreet data; and GNB Loan Application Register for 2014 and 2015.

Geographic Distribution of Loans

The geographic distribution of home mortgage loans, consumer loans, and business loans reflects excellent dispersion throughout census tracts of different income levels. GNB's performance meets the standard for outstanding performance. There were no conspicuous gaps identified within the bank's AA.

There are two moderate-income geographies and one middle-income geography in the AA. The middle-income geography has been designated as a distressed and underserved geography because of the poverty rate, population losses, and the remote rural location of the AA.

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects excellent dispersion throughout census tracts of different income levels. GNB's performance for home mortgage lending meets the standard for outstanding performance. The percentage of home mortgage loans made in moderate-income geographies exceeds the percentage of owner-occupied housing units in these geographies.

Table 15 details the bank's performance as compared to the percentage of owner-occupied housing units in each census tract income level for the evaluation period.

| Table 15 - Geographic Distribution of Home Mortgage Loans in North Carolina 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 Mortgage Loans | 0.00 | 0.00 | 72.65 | 93.55 | 27.35 | 6.45 | 0.00 | 0.00 |

Source: 2010 U.S. Census and GNB Loan Application Register for 2014 and 2015.

Consumer Loans

The geographic distribution of consumer loans reflects reasonable dispersion throughout census tracts of different income levels given the demographics of the North Carolina AA. GNB's performance for consumer lending meets the standard for satisfactory performance.

We used the population of consumer loans originated in the North Carolina AA during the evaluation period to evaluate the bank's performance in the North Carolina AA. The percentage of consumer loans made in moderate-income geographies is near to the percentage of households in these geographies.

Table 16 details the bank's performance as compared to the percentage of households in each census tract income level for the evaluation period.

| Table 16 - Geographic Distribution of Consumer Loans in North Carolina AA | | | | | | | | |
|---|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Census Tract Income Level | Low | | Moderate | | Middle | | Upper | |
| Loan Type | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans |
| Consumer Loans | 0.00 | 0.00 | 72.72 | 65.17 | 27.28 | 34.83 | 0.00 | 0.00 |

Source: 2010 U.S. Census and GNB Loan Application Register for 2014 and 2015.

Loans to Small Businesses

The distribution of loans to businesses reflects excellent dispersion among geographies of different income levels compared to the percent of businesses located in those geographies as depicted in **Table 17** below. The percentage of loans to borrowers in moderate-income census tracts is near to the percentage of businesses in those census tracts.

| Table 17 - Geographic Distribution of Loans to Businesses in North Carolina 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 Loans | 0.00 | 0.00 | 75.97 | 72.88 | 24.03 | 27.12 | 0.00 | 0.00 |

Source: 2015 Business Geodemographic Data and GNB Loan Application Register for 2014 and 2015.

COMMUNITY DEVELOPMENT TEST

The bank's performance under the community development test in North Carolina is rated **Satisfactory**.

The bank's CD performance demonstrates adequate responsiveness to CD needs, considering the bank's capacity, need and availability of such opportunities for CD in the bank's North Carolina AA. GNB's CD activities include community development loans, qualified investments, and CD services.

Number and Amount of Community Development Loans

GNB originated fourteen CD loans with a total outstanding amount of approximately \$48 thousand in the North Carolina AA during the evaluation period. These loans were to promote economic development in Allegheny County. The fourteen small businesses received funding from the Miles JOB (Job Opportunity Base) Fund that was placed in a deposit account with GNB, and used as collateral for the CD loans. The Miles JOB Fund provides Start-up money to help local residents of Allegheny County obtain bank financing to purchase equipment and inventory; to fund operating expenses; or to provide operating capital for their business.

Number and Amount of Qualified Investments

The bank did not have any qualified investments in this North Carolina AA during the evaluation period. Management reported that there were minimal to no investments available for purchase that would directly benefit the North Carolina AA. GNB had qualified donations totaling \$500 during the evaluation period. The donation was made to a service organization that provides assistance of food to low- and moderate- income families in the North Carolina AA.

Extent to Which the Bank Provides Community Development Services

During the evaluation period, three officers provided technical services and support to five qualified CD organizations across the bank's North Carolina AA. The employees provided lending expertise to their respective organizations to make recommendations on approving and denying loan requests; to make recommendations or decisions for policies, rules and operational guidelines for the organization; and to review and approve grants for non-profit organizations that provide assistance to low-income families in the AA.

Responsiveness to Community Development Needs

The bank's CD performance demonstrates adequate responsiveness to CD needs in its North Carolina AA. There are no low-income tracts in the AA. There is one moderate-income tract and two middle-income tracts that are designated nonmetropolitan distressed/underserved middle-income tracts.

Responses to Complaints

GNB did not receive any complaints about its performance in helping to meet credit needs in the North Carolina AA during this evaluation period. This has a neutral impact on the CRA rating.

Appendix A: Scope of Examination

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

| | | | |
|--|-------------------------------|---|--|
| Time Period Reviewed | | Lending Test: (01/01/2014 to 12/31/2015) Community Development Test: (03/25/2013 to 04/18/2016) | |
| Financial Institution | | Products Reviewed | |
| Grayson National Bank (GNB) Independence, Virginia | | Residential Mortgage Loans Business Purpose Loans Consumer Loans | |
| Affiliate(s) None | Affiliate Relationship | Products Reviewed | |
| NONE | NONE | NONE | |
| List of Assessment Areas and Type of Examination | | | |
| Assessment Area | Type of Exam | Other Information | |
| State of Virginia Grayson County, Carroll County, Wythe County, City of Galax non-MSA | Full Scope | Census tracts: Carroll County 801, 802, 803, 804, 805, 806.01, 806.02 Grayson County 601.01, 601.02, 602.01, 602.02, 603 Wythe County 501, 502, 503.01, 503.02, 504.01, 504.02 City of Galax 701.01, 701.02 | |
| State of North Carolina Alleghany County non MSA | Full Scope | Alleghany County 9501, 9502, 9503 | |

Appendix B: Summary of State Ratings

| Overall Bank: | Lending Test Rating | Community Development Test Rating | Overall Bank/State Rating* |
|-----------------------|---------------------|-----------------------------------|----------------------------|
| Grayson National Bank | Outstanding | Satisfactory | Outstanding |
| State Ratings: | | | |
| Virginia** | Outstanding | Satisfactory | Outstanding |
| North Carolina | Satisfactory | Satisfactory | Satisfactory |

(*) The lending test is weighted more heavily than the community development tests in the overall rating.

(**) Performance in the State of Virginia is weighted more heavily than in the State of North Carolina.