



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

January 11, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Grayson National Bank
Charter Number 10834

113 West Main Street
Independence, VA 24348-0000

Office of the Comptroller of the Currency

Virginia Field Office
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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:

- The bank's average loan-to-deposit (LTD) ratio is more than reasonable compared to similarly situated institutions.
- A substantial majority of the loans originated during the evaluation period were within the bank's assessment areas (AAs).
- The distribution of borrowers, given the demographics of the AAs, reflects an overall excellent dispersion and good performance.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment areas.

Scope of Examination

Grayson National Bank (GNB) was evaluated under the Intermediate Small Bank examination procedures, which includes a lending and community development (CD) test. The lending test evaluates the bank's record of meeting the credit needs of its assessment areas (AA) through its lending activities. The CD test evaluates the bank's responsiveness to CD needs in its AAs through CD lending and services and qualified investments. The evaluation period under the Lending Test covers the bank's performance from January 1, 2007 through December 31, 2009. The evaluation period for the community development test is March 6, 2007 through December 31, 2009.

For the lending test, we took into consideration GNB's business strategy and types of credit offered. We reviewed a sample of 41 residential mortgage loans and 52 business loans originated during the evaluation period. We selected these samples using the statistical sampling process in National Credit Tool and a random sample selection process, also using National Credit Tool.

The analyses are based on the bank's performance using comparative demographic data from the 2000 U. S. Census. The Bank has two AAs. Grayson County, Carroll County, Wythe County and the City of Galax make up the Virginia (VA) AA. Alleghany County makes up the North Carolina (NC) AA. Descriptions of each AA are contained in the respective State section of this evaluation.

Description of Institution

Grayson National Bank (GNB) is an interstate bank headquartered in Independence, VA with operations in VA and NC. GNB is wholly-owned by Grayson Bankshares., Inc., a \$367 million bank holding company also headquartered in Independence, VA 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 VA and Alleghany County in NC. GNB operates 10 full-service facilities and 10 automated teller machines (ATMs). During this evaluation period the bank opened a branch in Wytheville, VA, and did not close any branches. There are no low or moderate income census tracts in either of the bank's two AAs.

GNB branches are open weekdays during normal business hours with the exception of Wednesday when all bank locations close at noon. GNB also offers Saturday drive-thru hours at the Galax, Carroll, Hillsville, East Independence, and Sparta locations.

GNB's products include a variety of traditional deposit and loan products, twenty-four 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 September 30, 2009, GNB's net loans totaled \$267,263,000, or 73% of average assets, and total deposits were \$311,516,000. The bank's loan portfolio consisted of 48% 1 - 4 family residential mortgages, 22% commercial and commercial real estate loans, 11% construction and development loans, 12% farmland loans, 2% agricultural loans, and 5% consumer loans. GNB's primary loan products, and the focus of this CRA review, are residential home mortgages and business loans.

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 5, 2007.

Selection of Areas for Full-Scope Review

GNB operates in two states, VA and NC, with one AA in each state. Both AAs received a full-scope review.

Ratings

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

Residential mortgage lending received more consideration than business purpose lending 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 trial balance reported originations of 743 residential mortgage loans and 575 business purpose loans. The analysis of performance under the Community Development Test equally considered loan, investment, donation, and services activity.

Conclusions with Respect to Performance Criteria

LENDING TEST

Loan-to-Deposit Ratio

GNB's average loan-to-deposit (LTD) ratio is more than reasonable compared to similarly situated institutions. The bank's quarterly average loan-to-deposit ratio since the last CRA examination is 86%. This ratio exceeds those of the two similarly situated banks, National Bank of Blacksburg at 67% and The Bank of Floyd at 66%. These institutions are similar in market area and product offerings.

Lending in Assessment Area

A substantial majority of loans and other lending related activities were inside the bank's AAs. As indicated in Table 1 below, 90% of the residential mortgage and business loans sampled were originated within the bank's AAs.

Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%	#	\$	%	\$	%	\$
Residential Mortgage Loans	17	85	3	15	20	1,449	79	376	21	1,825
Business loans	19	95	1	5	20	4,800	98	111	2	4,911
Totals	36	90	4	10	40	6,249	93	487	7	6,736

Source: Statistical sample of residential mortgage loans from January 1, 2007 - December 31, 2009 and a statistical sample of business purpose loans for the same period.

Fair Lending or Other Illegal Credit Practices Review

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 bank’s community development performance demonstrates adequate responsiveness to community development needs in its AA.

DESCRIPTION OF INSTITUTION’S OPERATIONS IN VIRGINIA

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

There are 14 whole census tracts (CT) in the VA AA, all of which are middle income level tracts. Three census tracts in Grayson County and the one census tract in the City of Galax are identified as Middle-Income Nonmetropolitan Distressed or Underserved Geographies. There are no low- or moderate- income level tracts in this AA. This AA does not arbitrarily exclude any low or moderate income tracts. The demographic information in **Table 2** describes the VA AA.

TABLE 2						
Demographic Information for Full Scope Area: Grayson NB - VA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	14	0.00	0.00	100.00	0.00	0.00
Population by Geography	81,598	0.00	0.00	100.00	0.00	0.00
Owner-Occupied Housing by Geography	26,712	0.00	0.00	100.00	0.00	0.00
Business by Geography	5,840	0.00	0.00	100.00	0.00	0.00
Farms by Geography	306	0.00	0.00	100.00	0.00	0.00
Family Distribution by Income Level	33,904	26.66	17.20	19.53	36.61	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	23,950	19.88	20.26	24.75	35.11	0.00

Median Family Income	37,501	Median Housing Value	65,691
HUD Adjusted Median Family Income for 2009	53,100	Unemployment Rate (2000	
Households Below Poverty Level	14.84%	US Census)	2.29%

(*) The NA category consists of geographies that have not been assigned an income classification.
Source: 2000 US Census and 2009 HUD updated MFI

A substantial majority of the bank’s operations are within VA. GNB holds 81% of the deposit market share in Grayson County as of June 30, 2009 based on the FDIC Deposit Market Share Report. Also, the bank’s trial balance shows 77% of the bank’s loans are to customers in VA. Based on this information, the VA AA weighted heavier in our analysis. Branch Banking and Trust ranked second with a 12.82% deposit market share. Carter Bank and Trust ranked third with a 5.83% deposit market share.

The VA AA is located in the “aCorridor” region of VA. This region includes two cities, Bristol and Galax, and Washington, Smyth, Wythe, Grayson, Carroll and Bland counties. The region is located in southwestern Virginia along Interstate 81, one of the leading trucking routes in the eastern United States, and its intersection with Interstate 77 in Wythe County.

Manufacturing businesses employ the largest segment of the population, with healthcare being the second largest segment. Leading employers in the VA AA are Nautilus, General Dynamics, Guardian Glass, Vaughn-Bassett Furniture, National Textiles, Wythe County Community Hospital and Twin County Regional Hospital.

Virginia is experiencing a growing disparity of economies between Northern Virginia and the rest of the state. During the evaluation period, the AA experienced an economic downturn due to an accelerated loss of manufacturing jobs. We obtained current unemployment rates for the VA AA from the Virginia Employment Commission. As of November 30, 2009, the unemployment rate in Carroll County was 11.1%, Grayson County was 10.6%, Wythe County was 10%, and the City of Galax was 10%, which are all well above the Virginia statewide average of 6.4%. Fifteen percent (15%) of the households in the VA AA are below poverty level, according to the 2000 U. S. Census.

SCOPE OF EVALUATION IN VIRGINIA

The VA AA received a full-scope review. The VA 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 received more consideration than lending to businesses in arriving at conclusions for the Lending Test due to loan volumes in the evaluation period. GNB’s loan trial balance reported originations of 589 residential mortgage loans and 411 business purpose loans in VA. The analysis of performance under the Community Development Test equally considered loan, investment, donation, and services activity.

We conducted one community contact with a real estate brokerage firm located in the bank’s AA. The contact identified the most pressing need in the AA as job creation, which would help curtail unemployment. Refer to the Community Contact section for further details.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN VIRGINIA

GNB's performance in VA 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. We also took into consideration the limitations that high rates of unemployment place on the bank's opportunities to lend.

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 community development 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 VA is rated **Outstanding**.

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 15% of the households in the AA live below the poverty level.

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

Home Mortgage Loans

The distribution of borrowers reflects excellent penetration among individuals of different income levels, given the demographics of the VA AA. To evaluate the bank's performance in the VA AA we used a statistical sample of 21 residential mortgage loans located in the VA AA. As indicated in the table below, the percentage of loans to low-income borrowers significantly exceeds the percentage of low-income families in the VA AA. Likewise, the percentage of loans to moderate-income borrowers significantly exceeds the percentage of moderate-income families in the VA AA.

Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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	19.88	33.33	20.26	38.10	24.75	9.52	35.11	19.05

Source: US Census data and loan sample.

Business Loans

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

We analyzed data collected from a statistical sample of business loans originated the VA AA. The analysis was performed to assess GNB’s record of distributing its business loan originations among VA businesses of different sizes. Specifically, during the evaluation period we collected and analyzed data from 30 business loans that GNB originated to VA AA businesses.

The distribution of borrowers reflects reasonable penetration among businesses of different sizes. As indicated in Table 4, the percentage of loans to small businesses (those with less than \$1 million in gross annual revenues) is below the percentage of small businesses in the AA. However, the percentage of loans with “unavailable/unknown” is higher than the percentage of businesses in the VA AA with unavailable/unknown revenues. Therefore, we further analyzed the loans with unavailable/unknown revenue information in our sample, using loan size as a proxy. As indicated in Table 5, a substantial majority of these loans are of a size less than \$250,000, suggesting these are also loans to small businesses.

Business Revenues (or Sales)	<=\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	76.44	3.13	20.43	100%
% of Bank Loans in AA by #	50.00	20.00	30.00	100%
% of Bank Loans in AA by \$	33.91	44.41	21.66	100%

Source: US Census data and loan sample.

Loan Size (000's)	Number of Loans	Percent of Number	Dollar Volume of Loans	Percent of Dollar Volume
\$0 - \$100,000	4	44.44	163	14.47
\$100,001 - \$250,000	4	44.44	693	61.37
\$250,001 - \$1,000,000	1	11.12	273	24.16

Source: US Census data an loan sample

Geographic Distribution of Loans

An analysis of the geographic distribution of loans is not meaningful because there are no low- or moderate-income geographies in the VA AA. However, it is worthy of mentioning that our loan sample results show 14 home mortgage loans (70% of the home mortgage loan sample), and 17 business loans (57% of the business loan sample) were made in census tracts identified as nonmetropolitan distressed or underserved tracts.

Lending Gap Analysis

We did not identify any unexplained conspicuous lending gaps that would adversely impact the analysis of the distribution of loans by income level of the geography.

Responses to Complaints

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

COMMUNITY DEVELOPMENT TEST

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

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

Number and Amount of Community Development Loans

GNB originated six (6) community development (CD) loans with outstanding balances of approximately \$2.7 million in the VA AA during the evaluation period. A noteworthy loan included one loan that benefited the VA AA and the NC AA. The outstanding amount of \$1.197 million was given to the Virginia/Carolina Water Authority for construction and renovation activities to the public water systems for the towns of Sparta, NC and Independence, VA to attract new industry. The towns are designated in middle-income nonmetropolitan distressed or underserved geographies. The loan has an uncommitted balance of \$53,000. GNB has three (3) prior period CD loans totaling approximately \$1.4 million to carry forward in this evaluation period.

Number and Amount of Qualified Investments

The bank had one investment during the evaluation period, totaling \$1,139,267. The investment is an industrial revenue bond to Turman Hardwood Flooring, Inc., for the purpose of retaining low/moderate income jobs and promoting future growth. The bank has two prior period investments totaling \$2 million.

GNB also had qualified donations totaling \$9,250 during the evaluation period. The donations were made to service organizations that provide assistance to low and moderate income families in the bank's two AAs.

Extent to Which the Bank Provides Community Development Services

During the evaluation period and across the bank's AA, five officers and employees provided technical services and support to five qualified community development organizations.

Responsiveness to Community Development Needs

The bank's community development performance demonstrates adequate responsiveness to community development needs in its VA AA. GNB operates in predominantly middle income geographies. There are no low or moderate income tracts in the bank's two assessment areas. Four (4) of the middle income tracts located in the VA AA are designated middle-income nonmetropolitan distressed/underserved middle income tracts.

Product Innovation and Flexibility

GNB does not have any innovative or flexible loan products designed to meet the specific credit needs of low- and moderate-income individuals and small businesses.

State Rating

State of North Carolina

CRA Rating for North Carolina:1 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 NC AA.
- The bank’s community development performance demonstrates adequate responsiveness to community development needs in its NC AA.

DESCRIPTION OF INSTITUTION’S OPERATIONS IN NORTH CAROLINA

The NC AA consists of Alleghany County, in its entirety. There are 3 whole census tracts in the NC AA, all of which are middle income level tracts. All 3 census tracts are identified as middle-income nonmetropolitan distressed or underserved geographies. The bank has one branch and one ATM in this AA. There are no low- or moderate- income level tracts in the NC AA. This AA does not arbitrarily exclude any low- or moderate- income areas. The demographic information in Table 6 describes this area.

TABLE 6						
Demographic Information for Full Scope Area: Grayson NB - NC AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	3	0.00	0.00	100.00	0.00	0.00
Population by Geography	10,677	0.00	0.00	100.00	0.00	0.00
Owner-Occupied Housing by Geography	3,627	0.00	0.00	100.00	0.00	0.00
Business by Geography	1,036	0.00	0.00	100.00	0.00	0.00
Farms by Geography	91	0.00	0.00	100.00	0.00	0.00
Family Distribution by Income Level	4,601	28.23	16.80	19.82	35.14	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	3,171	20.06	20.81	24.50	34.63	0.00
Median Family Income		38,519	Median Housing Value			86,056
HUD Adjusted Median Family Income for 2009		49,900	Unemployment Rate (2000			
Households Below Poverty Level		18.52%	US Census)			2.32%

(*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2000 US Census and 2009 HUD updated MFI

A smaller percentage of the bank's operations is in NC. GNB holds a 14.5% deposit market share in their NC AA, compared to 81% of the deposit market share in Grayson County, VA as of June 30, 2009 and based on the FDIC Deposit Market Share Report. Also, the bank's trial balance shows 77% of the bank's loans are to customers in VA. Based on this information, the VA AA weighted heavier in our analysis. The bank competitors in the NC AA are Branch Banking and Trust with 27.36% deposit market share in the NC AA, Fifth Third Bank, NA with 19.51%, and First Community Bank, NA with 16.02%.

Alleghany County is located in the Blue Ridge Mountains of Northwestern NC and is the state's fifth smallest county in land area, encompassing 233 square miles and sixth smallest in population with around 10,000 residents. It is bordered by Grayson County, VA., on the north, Ashe County on the west, Wilkes County to the south, and Surry County to the east.

For years, the Blue Ridge Mountains were not a vantage point, but rather a barrier separating Alleghany from the rest of the state. Commerce and society were inclined into Ashe County and northward into Virginia such that Alleghany was dismissed as one of the state's "Lost Provinces." The development of the Blue Ridge Parkway in the 1930s and modern paved roads now make Alleghany easily accessible to everyone. However, that earlier isolation allowed the county to escape some of the mixed blessings of modern life -- strip malls and freeways -- such that it claims the title "Unspoiled Province." Today, it is a modern bustling rural community where its rich mountain heritage is revealed in the people and the peaks and valleys of the countryside.

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 Wilkes Community College, Alleghany Memorial Hospital, Sparta Industries, Bristol Compressors, NAPCO and Magnolia Manufacturing.

We obtained current unemployment rates for the NC AA from the Bureau of Labor Statistics. As of November 30, 2009, the unemployment rate in Alleghany County was 11.6%, which is above the North Carolina statewide average of 10.7%. Approximately 19% of households in the NC AA live below poverty level, according to the 2000 U. S. Census.

SCOPE OF EVALUATION IN NORTH CAROLINA

The NC AA received a full-scope review. The NC AA rating was weighted proportionately to the amount of deposits and loans from this rating area, in arriving at the overall bank rating.

Residential mortgage lending received equal consideration to business lending in arriving at conclusions for the Lending Test based on loan volumes in the evaluation period. GNB's loan trial balance reported originations of 154 residential mortgage loans and 164 business purpose loans for the NC AA. The analysis of performance under the Community Development Test equally considered loan, investment, donation, and services activity.

We conducted one community contact with a tax-exempt organization that helps provide needed funds for hopeful entrepreneurs. The most pressing need in the AA identified by the contact was job creation to help curtail unemployment. Refer to the Community Contact section for further

details.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN NORTH CAROLINA

GNB’s performance in NC 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. We also took into consideration the limitations that high rates of unemployment place on the bank’s opportunities to lend.

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 community development 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 NC AA is rated **Outstanding**.

The overall borrower distribution of home mortgage loans is excellent. 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 18% of the households in the AA live below the poverty level.

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

Home Mortgage Loans

The distribution of borrowers reflects excellent penetration among individuals of different income levels given the demographics of the NC AA. As indicated in Table 7, the percentage of loans to low-income borrowers exceeds the percentage of low-income families in the AA. Likewise, the percentage of loans to moderate-income borrowers exceeds the percentage of moderate-income families in the AA.

Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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	20.06	38.89	20.81	27.78	24.50	0	34.63	33.33

Source: US Census data and loan sample.

Business Lending

GNB's record of originating business purpose loans among the NC AA businesses of different sizes reflects a reasonable distribution considering the demographic context in which GNB operates.

We analyzed data collected from a statistical sample of business loans originated the NC AA. The analysis was performed to assess GNB's record of distributing its business loan originations among NC businesses of different sizes. Specifically, during the evaluation period we collected and analyzed data from 20 business loans that GNB originated to NC AA businesses.

The distribution of borrowers reflects reasonable penetration among businesses of different sizes. As indicated in Table 8 the percentage of loans to small businesses (those with less than \$1 million in gross annual revenues) is near the percentage of small businesses in the NC AA based on the percentage of the number of loans. The percentage of the dollar amount of loans to small businesses is below the percent of AA businesses, but the size of the loans to small businesses is generally smaller.

Business Revenues (or Sales)	<=\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	74.81	2.99	22.20	100%
% of Bank Loans in AA by #	65.00	20.00	15.00	100%
% of Bank Loans in AA by \$	46.62	31.82	21.56	100%

Source: US Census data and loan sample.

Geographic Distribution of Loans

An analysis of the geographic distribution of loans is not meaningful because there are no low- or moderate-income geographies in the NC AA. However, it is worthy of mentioning that since all census tracts in the bank's NC AA are classified as nonmetropolitan distressed or underserved tracts, all loans in the home mortgage and business loan samples were made in census tracts identified as nonmetropolitan distressed or underserved tracts.

Lending Gap Analysis

We did not identify any unexplained conspicuous lending gaps that would adversely impact the analysis of the distribution of loans by income level of the geography.

Responses to Complaints

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

COMMUNITY DEVELOPMENT TEST

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

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

Number and Amount of Community Development Loans

GNB originated one community development loan totaling \$1.25 million in the NC AA during the evaluation period. This loan benefited both the VA AA and the NC AA. The outstanding amount of \$1.197 million was given to the Virginia/Carolina Water Authority for construction and renovation activities to the public water systems for the towns of Sparta, NC and Independence, VA to attract new industry. The towns are located in areas designated as middle-income nonmetropolitan distressed or underserved geographies. The loan has an uncommitted balance of \$53,000.

Number and Amount of Qualified Investments

The bank did not have any qualified investments in this NC AA during the evaluation period. Management reported that there were minimal to no investments available for purchase that would directly affect the NC AA. GNB had qualified donations totaling \$250 during the evaluation period. The donation was made to a service organization that provides assistance to low- and moderate- income families in the bank's two AAs.

Extent to Which the Bank Provides Community Development Services

During the evaluation period and across the bank's NC AA, two officers and employees provided technical services and support to two qualified community development organizations.

Responsiveness to Community Development Needs

The bank's community development performance demonstrates adequate responsiveness to community development needs in its NC AA. There are no low- or moderate- income tracts in the bank's two AAs. The three middle income tracts located in the NC AA; and four (4) of the middle income tracts located in the VA AA are designated middle-income nonmetropolitan distressed/underserved middle income tracts.

Product Innovation and Flexibility

GNB does not have any innovative or flexible loan products designed to meet the specific credit needs of low- and moderate-income individuals and small businesses.

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.

Time Period Reviewed	Lending Test: (January 1, 2007 through December 31, 2009) Community Development Test: (March 6, 2007 through December 31, 2009)	
Financial Institution	Products Reviewed	
Grayson National Bank (GNB) Independence, VA	Residential Mortgage Loans Business purpose loans	
Affiliate(s)	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: Grayson County 9901, 9902, 9903 Carroll County 9901, 9902, 9903, 9904, 9905, 9906 Wythe County 9901, 9902, 9903, 9904 City of Galax 9901
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	Outstanding	Satisfactory	Outstanding

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