



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

February 14, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Grundy National Bank
Charter Number: 15247

22112 Riverside Drive
Grundy, VA 24614

Office of the Comptroller of the Currency

VIRGINIA (ROANOKE) Field Office
4419 Pheasant Ridge Road Suite 300
Roanoke, VA. 24014

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

The major factors supporting the institution's rating include:

- The loan-to-deposit ratio is reasonable given the bank's size, financial condition, credit needs within the assessment areas, and the bank's market share within the assessment areas.
- The bank made the majority of its loans inside its assessment areas.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment areas.
- The distribution of borrowers reflects reasonable penetration among individuals of different income levels (including low- and moderate-income borrowers and businesses of different sizes), given the demographics of the assessment areas.
- The bank's community development performance demonstrates adequate responsiveness to community development needs in its assessment areas.

Scope of Examination

This Performance Evaluation assesses the bank's performance under the Lending and Community Development Tests for Intermediate Small Banks. The Lending Test evaluates the bank's record of meeting the credit needs of its assessment areas (AA) through its lending activities. The Community Development (CD) test evaluates the bank's responsiveness to CD needs in its AA through CD lending, services and qualified investments. The evaluation period under the Lending Test covers the bank's performance from January 1, 2008 through December 31, 2010. The evaluation period for community development loans, investments, and services is December 1, 2007 through February 14, 2011.

Information regarding the bank's financial performance was as of December 31, 2010, whereas information regarding the bank's deposit market share within the counties comprising its assessment areas was as of June 30, 2010.

Data Integrity

Grundy National Bank's public lending information is materially accurate. We performed a data integrity review in August 2010 to validate the accuracy of the bank's HMDA data for 2008 and 2009. At that time, we determined that the HMDA data was unreliable because we found errors in the 'rate field' spread that exceeded the tolerable limits. We issued a Matters Requiring Attention (MRA) to communicate the inaccuracy to the Board. Bank management scrubbed the loan data to correct the errors. During November 2010, we conducted follow up testing of 2008, 2009 and first 9 months of 2010 HMDA LAR, and determined management had corrected the issues as reported in the MRA.

Determination of Bank's Primary Loan Products

We determined the bank's primary loan products based on bank generated reports of loan origination data from 1/1/2008 through 12/31/2010. Primary loan products were determined to be Consumer and Small Business Loans based on total number of loans and total dollar amount. We sampled Consumer and Small Business Loans originated between January 1, 2008 and December 31, 2010 using the numerical sampling methodology defined in the Comptroller's Handbook, Sampling Methodologies, dated August 1998. Home mortgage loans were not a primary loan product; however, we elected to include the loan type because the bank has one AA located in a MSA and collects and reports its HMDA loan data. Refer to Table 1 for loan origination data for each loan type during the evaluation period.

Table 1. Loan Originations by Loan Type.

Loan Type				
	Total Number of loans	% of Number	Total \$ of loans (000)	% of total \$ of loans
Home Mortgage	322	2.87	38,597	13.42
Consumer	4,006	35.70	75,394	26.22
Small Business	601	5.36	125,892	43.79
Total loans for evaluation period	11,221		287,520	

*Institution's Monthly Board Reports of New Loans by loan type, total number, and total dollar for the period of January 1, 2008 to December 31, 2010.

Description of Institution

Grundy National Bank (GNB) is an intrastate bank, established in 1964 with its main bank office headquartered in Grundy, Virginia. The bank is owned by GNB Bankshares Corporation, a \$361.9 million single-bank holding company. GNB Bankshares stock is closely held and is not listed on any public exchange or over-the-counter (OTC) bulletin.

GNB is a full-service community bank serving the counties of Buchanan, Tazewell, and Washington in southwestern Virginia. The bank operates eight full-service branches, all with drive-thru facilities, within its assessment areas. The bank also operates seven ATMs: five adjacent to bank branches and two located within supermarkets. The three banking locations within Tazewell County (Richlands, North Tazewell and Claypool Hill) are operated under the name, "Clinch Valley Bank, a division of Grundy National Bank". This is merely a "doing business as" (d.b.a.) arrangement with the assets and deposits of these three locations being incorporated and reported on the bank's Report of Income and Condition (Call Report).

During this evaluation period, the bank has opened one full-service branch in Pounding Mill, VA (located in Tazewell County). The bank has not closed a banking location during this same period.

GNB offers a variety of deposit and loan products to meet consumer and commercial banking needs. The bank's Internet website, www.grundynationalbank.com, provides detailed information on products and services for both consumers and businesses. Banking services are standard, with the addition of on-line banking and 24-hour telephone banking.

Net loans totaled \$176.9 million, as of December 31, 2010, which represents approximately 51 percent of total assets. Net loans were distributed as follows: 44% commercial loans, including commercial real estate, 22% commercial and industrial loans, 17% residential real estate, 14% loans to individuals, and 1% construction and development loans. The bank's Tier 1 capital was \$60.1 million.

The **Summary of Deposits Report** generated by the FDIC as of June 30, 2010, ranked GNB first among 11 financial institutions in the Buchanan and Tazewell counties AA with 15.48% of the market share, and ranked GNB thirteenth among 17 financial institutions in Washington County AA with 1.44% of the market share. The leading competitors in the market are Large National and State Banks. The bank's competition in Buchanan and Tazewell counties stems from Branch Banking and Trust which ranked second with 15.11% market share, Trupoint Bank which ranked fourth with 13.18% market share, New Peoples, Inc. which ranked sixth with 9.96% market share, and First Sentinel Bank which ranked eighth with 8.72% market share. The bank's competition in Washington County is Highlands Union Bank which ranked first with 26.19% market share. The rankings in each AA are reasonable given the fact that the bank has six branches in Buchanan and Tazewell counties and one branch in Washington County.

During the evaluation period, there were no legal, financial, or other factors impeding the bank's ability to help meet the credit needs of its assessment areas. The bank received a "Satisfactory" rating in its December 3, 2007 CRA Performance Evaluation.

Description of Assessment Area(s)

GNB has defined two assessment areas. The VA non-MSA AA consists of two contiguous counties in VA - Buchanan and Tazewell counties in their entirety. Buchanan County has five moderate income census tracts and two middle income census tracts that are designated distressed underserved nonmetropolitan middle income census tracts. Tazewell County has two moderate income census tracts and nine middle income census tracts, none of which are designated distressed underserved nonmetropolitan middle income census tracts.

Table 2. The VA non-MSA AA (Buchanan and Tazewell Counties)

Demographic Information for Full Scope Area: GNB Buchanan Tazewell VA Non MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	18	0.00	38.89	61.11	0.00	0.00
Population by Geography	71,576	0.00	37.53	62.47	0.00	0.00
Owner-Occupied Housing by Geography	22,801	0.00	38.50	61.50	0.00	0.00
Business by Geography	3,832	0.00	37.63	62.37	0.00	0.00
Farms by Geography	78	0.00	16.67	83.33	0.00	0.00
Family Distribution by Income Level	21,213	27.67	21.56	22.38	28.39	0.00

Distribution of Low and Moderate Income Families throughout AA Geographies	10,442	0.00	45.02	54.98	0.00	0.00
Median Family Income		38,987	Median Housing Value			51,349
HUD Adjusted Median Family Income for 2010		53,300	Unemployment Rate (2000 US Census)			4.26%
Households Below Poverty Level		19.01%				

(*) The NA category consists of geographies that have not been assigned an income classification.
 Source: 2000 US Census and 2010 HUD updated MFI

Demographic data for Buchanan and Tazewell Counties from the 2000 United States Bureau of the Census reports are presented in **Table 2**. This demographic data reported that 5,466 or 19.01% of the total households within the assessment area were below the poverty level, which is higher than the national poverty level of 14.3% in 2009. The population in the assessment area was reported as 71,576 and has been declining since 1980 due to declining coal production and increased mechanization of the coal mining industry.

The second AA is in the VA MSA AA of Washington County.

Buchanan County

Buchanan County is located in the Appalachian Plateau of southwestern Virginia, adjacent to Kentucky and West Virginia. The total land area of the county is 504 square miles. The bank has branch offices in Deel, Grundy, Hurley, and Stiltner, all located in Buchanan County.

Buchanan County remains the largest coal-producing county in Virginia. The largest employers by industry are natural resources and mining, education and health services, and trade, transportation and utilities. At December 31, 2010, the Buchanan County unemployment rate was 7.6%, which was above the State of Virginia at 6.4% and below the national average of 9.1%.

The town of Grundy is the county seat of Buchanan County. The town is noted for its educational institutions and their role in the town's economic rebirth. Grundy is home to the Appalachian School of Law (ASL), which opened in 1997, and the Appalachian College of Pharmacy, which opened in 2005. The presence of ASL has brought \$12 million to the local economy, and is credited with construction of rental homes and the opening of additional businesses in the area. Additionally, ASL has successfully demonstrated the concept of creating institutions of higher education as an economic development tool. This success led to the creation of the Appalachian College of Pharmacy (ACP), located in Oakwood, which, like the ASL, was created as part of a continuing economic redevelopment effort. ACP is forecast to add \$20 million per year to the local economy. The Appalachian School of Optometry is also being established in Grundy. The new school has selected a building location and the Board of Directors is in the process of seeking qualified candidates for Dean of the new school.

A revitalization project, started in 2001, to relocate much of the town to higher ground has been completed. New utilities were placed and new bridges across the river were built. A new downtown is planned that will include a multi-level Wal-Mart with a parking deck. Buildings backing on the river have been demolished and a new flood wall protects the county courthouse.

Tazewell County

Tazewell County is located in the southwestern portion of Virginia. It is part of the Bluefield, WV-VA micropolitan area which has a population of 107,578. Its county seat is the town of Tazewell. The county has a total area of 520 square miles. The bank has branch offices in Richlands, Pounding Mill, and North Tazewell, all located in Tazewell County. The largest employers by industry are natural resources and mining, education and health services, and trade, transportation and utilities.

The economy of Southwest Virginia has traditionally been tied to the coal mining industry, however these jobs have been in steady decline for more than two decades. Between 1990 and 2009, Virginia coal mining employment dropped by 57% to fewer than 4,600 jobs, tracking a 54% drop in coal production during the same period. At December 31, 2010, Tazewell County unemployment rate was 6.4%, which is the same as the State of Virginia at 6.4% and below the national average of 9.1%.

Table 3. The VA MSA 28700 AA (Washington County)

Demographic Information for Full Scope Area: GNB Washington Co MSA 28700						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	10	0.00	0.00	90.00	10.00	0.00
Population by Geography	51,103	0.00	0.00	91.53	8.47	0.00
Owner-Occupied Housing by Geography	16,268	0.00	0.00	90.90	9.10	0.00
Business by Geography	3,769	0.00	0.00	86.26	13.74	0.00
Farms by Geography	203	0.00	0.00	94.09	5.91	0.00
Family Distribution by Income Level	14,910	16.36	19.22	22.86	41.56	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	5,305	0.00	0.00	94.57	5.43	0.00
Median Family Income		39,138	Median Housing Value			83,815
HUD Adjusted Median Family Income for 2010		49,400	Unemployment Rate (2000 US Census)			2.48%
Households Below Poverty Level		12.51%				

(*) The NA category consists of geographies that have not been assigned an income classification.
 Source: 2000 US Census and 2010 HUD updated MFI

Demographic data for Washington County from 2000 United States Bureau of the Census reports are presented in **Table 3**. This demographic data reported that 2,630, or 12.51%, of the total households within the assessment area were below the poverty level, which is higher than the national poverty level of 14.3% in 2009.

Washington County, established in 1776, is part of the Kingsport-Bristol (TN)-Bristol (VA) Metropolitan Statistical Area, which is a component of the Johnson City-Kingsport-Bristol, TN-VA Combined Statistical Area - commonly known as the "Tri-Cities" region. Nestled in the foothills of the Appalachians and secured in the valley formed by the Holston River is Abingdon, which has the largest livestock marketing center east of the Mississippi and the county seat of Washington County.

Agriculture, manufacturing and tourism-related businesses are the main economic contributors to Washington County. Washington County is a leader in the state of Virginia in barley tobacco production and marketing. The largest employers in the county are Gates Corporation, a non-tire rubber manufacturer of automotive and industrial products located near Glade Spring, VA; AFG Industries, a glass coating plant in the Oak Park Center for Business and Industry in Abingdon; and Universal Companies, Inc., the nation's largest single-source supplier of spa supplies. At December 31, 2010, the Washington County unemployment rate was 8.6%, which is above the State of Virginia rate at 6.4% and below the national average of 9.1%.

Conclusions with Respect to Performance Tests

The performance under the Lending Test is considered "Satisfactory." The bank's loan-to-deposit ratio is reasonable, and a majority of loans are originated inside the assessment area. 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.

GNB's rating is based on the bank's performance in the two assessment areas in Virginia. 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 AAs. There are no low-income tracts in the AAs, and only 25% of total tracts in the AAs are designated as moderate-income tracts.

LENDING TEST

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 community credit needs identified through discussions with community contacts. We also considered the amount of competition from lenders located in the AA and also competitors not located in the AA.

GNB's primary loan types, based on originations during the evaluation period, are loans to consumers and loans to businesses. We included HMDA loans since the AA for Washington County is located in an MSA and the bank collects and reports this loan data. To achieve the lending test rating, loans to consumers were given more weight than HMDA or business loans because there were almost twice as many consumer loan originations as there were HMDA or business loan originations during the evaluation period.

Loan-to-Deposit Ratio

Grundy National Bank's (GNB) loan-to-deposit ratio is reasonable, given the competition from other banking institutions and the opportunities to lend within the assessment areas. The

bank's quarterly average loan-to-deposit ratio since the last CRA examination is 65.94%. This loan-to-deposit ratio has been reduced over the past two years due to the inordinately high deposits placed and retained in the bank by a customer who liquidated his coal mining interests.

GNB's primary competitors in the two AAs are New Peoples Bank, Inc., Branch Banking and Trust, Highlands Union Bank, First Sentinel Bank, and TruPoint Bank, with quarterly average LTD of 98.78%, 96.65%, 90.10%, 84.17%, and 83.48%, respectively for this time period.

Lending in Assessment Area

Inside/Outside Ratio

The analysis in **Table 4** of the bank's lending inside and outside the AAs includes originations and purchases only and was performed at the bank level as opposed to the AA level.

A majority of the loans sampled during our review were found to be inside the bank's assessment areas. For the evaluation period, 90 percent of consumer loans, 82 percent of home mortgage loans, and 90 percent of small business loans were made inside of the bank's assessment area. The blended average of all loans made within the bank's assessment area areas was 84 percent. This analysis had a positive impact on the overall geographic distribution analysis.

Table 4 – Lending Bank-wide										
Loan Type	Number of Loans					Dollars of Loans (\$000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%	#	\$	%	\$	%	\$
Consumer Loans	38	90.48	4	9.52	42	328	96.25	13	3.75	341
Mortgage Loans	265	82.30	57	17.70	322	24	60.98	15	39.02	39
Business Loans	54	90.00	6	10.00	60	3,161	93.06	236	6.94	3,397
Totals	357	84.20	67	15.80	424	3,513	93.02	264	6.98	3,777

Source: Data reported under HMDA from January 1, 2008 - December 31, 2010. Consumer loans and business loans data are from loan samples for the same time period. Home purchase included 3 multi-family loans.

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

The distribution of borrowers reflects reasonable penetration among individuals of different income levels and businesses of different sizes. The distribution of consumer, home mortgage, and business loans was reasonable. A majority of loans to businesses were for amounts less than \$100,000.

We considered that opportunities to lend to low- and moderate-income borrowers within the assessment area were limited due to the competition among the banking institutions within the assessment areas, and Grundy National Bank's market share within its two assessment areas.

As mentioned previously, one of the stated credit needs identified by the community contact performed during the prior evaluation period was the need for small dollar consumer loans. Grundy National Bank's lending policy does not restrict the minimum loan amount for consumer loans. As of the date of our evaluation, the bank reflected a total of 892 loans with original loan amounts of less than \$1,000. The total current outstanding balance for these loans is \$684,103. This lending practice and philosophy addresses that credit need within the bank's assessment

areas.

VA non-MSA AA (Buchanan and Tazewell County)

The distribution of borrowers reflects reasonable penetration among individuals of different income levels and businesses of different sizes. Refer to **Table 5** and **Table 6** for the facts and data used to evaluate the borrower distribution of the bank’s consumer and home mortgage loan originations and purchases in the VA non-MSA AA. 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 consumer or home mortgage loans. Approximately 19% of the households in the VA non-MSA AA live below the poverty level.

Table 5 – Borrower Distribution of Consumer Loans within the VA non-MSA AA								
Income Level	Low		Moderate		Middle		Upper	
	% of Households	% of # of Loans	% of Households	% of # of Loans	% of Households	% of # of Loans	% of Households	% of # of Loans
Consumer Loans	28.18	0	19.95	85.71	19.41	14.29	32.46	0

Table 6– Borrower Distribution of Mortgage Loans within the VA non-MSA AA								
Income Level	Low		Moderate		Middle		Upper	
	% of Families	% of # of Loans	% of Families	% of # of Loans	% of Families	% of # of Loans	% of Families	% of # of Loans
Home Purchase	23.35	9.21	22.07	25.00	23.42	28.95	31.15	36.84
Home Improvement	23.35	16.22	22.07	18.92	23.42	32.43	31.15	32.43
Home Refinance	23.35	17.78	22.07	16.67	23.42	34.44	31.15	31.11

Source: 2000 US Census

Grundy National Bank’s performance in lending to businesses of different sizes has been effective. Because of a lack of definitive information regarding business revenues, we elected to focus on the size of the bank’s business loans as a determinate of the amount of small business credit the bank is extending.

Table 7 summarizes the bank’s lending to businesses within the VA non-MSA AA by categorizing loans by size.

Table 7 – Distribution of Loans to Businesses by Loan Size within the VA non-MSA AA				
Loan Size (\$000s)	# of Loans	% of #	Dollar Volume of Loans (\$000s)	% of Dollar Volume
< \$100,000	54	100	1,355	100
\$100,001 - \$250,000	0	0	0	0
> \$250,000	0	0	0	0

Total	54	100	1,355	100
-------	----	-----	-------	-----

Source: Business loan sample

The VA MSA 28700 AA (Washington County)

The distribution of borrowers reflects reasonable penetration among individuals of different income levels and businesses of different sizes. Refer to **Table 8 and Table 9** for facts and data used to evaluate the borrower distribution of the bank’s consumer and home mortgage loan originations and purchases in the VA MSA 28700 AA. 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 consumer or home mortgage loans. Approximately 13% of the households in the VA MSA 28700 AA live below the poverty level.

Table 8 – Borrower Distribution of Consumer Loans within the VA MSA 28700 AA								
Income Level	Low		Moderate		Middle		Upper	
	% of Households	% of # of Loans	% of Households	% of # of Loans	% of Households	% of # of Loans	% of Households	% of # of Loans
Consumer Loans	20.75	0	15.32	0	18.54	90	45.39	10

Table 9 – Borrower Distribution of Mortgage Loans within the VA MSA 28700 AA								
Income Level	Low		Moderate		Middle		Upper	
	% of Families	% of # of Loans	% of Families	% of # of Loans	% of Families	% of # of Loans	% of Families	% of # of Loans
Mortgage Loans	16.36	7.14	19.22	7.14	22.86	14.29	41.56	64.29

Source: 2000 U S Census

Grundy National Bank’s performance in lending to businesses of different sizes has been effective. Because of a lack of definitive information regarding business revenues, we elected to focus on the size of the bank’s business loans as a determinate of the amount of small business credit the bank is extending.

Table 10 summarizes the bank’s lending to businesses within the VA MSA 28700 AA by categorizing loans by size.

Table 10 – Distribution of Loans to Businesses by Loan Size within the VA MSA 28700 AA				
Loan Size (\$000s)	# of Loans	% of #	Dollar Volume of Loans (\$000s)	% of Dollar Volume
< \$100,000	13	65	392	19.96
\$100,001 - \$250,000	5	25	922	46.88
> \$250,000	2	10	652	33.16

Source: Business loan sample

Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion throughout the VA non-MSA AA for consumer and home mortgage loans. Refer to **Table 11 and Table 12** for facts and data used to evaluate the bank’s geographic distribution of the bank’s consumer and home mortgage loan originations and purchases in the VA non-MSA AA. The distribution of business loans was reasonable. As previously mentioned, the VA MSA 28700 AA does not contain any low- or moderate-income tracts; therefore an analysis of geographic distribution within that AA would not be meaningful.

Table 11 – Geographic Distribution of Consumer Loans within the VA non-MSA AA								
Income Level	Low		Moderate		Middle		Upper	
	% of Households	% of # of Loans	% of Households	% of # of Loans	% of Households	% of # of Loans	% of Households	% of # of Loans
Consumer Loans	20.75	0	15.32	0	18.54	90	45.39	10

Table 12 – Geographic Distribution of Mortgage Loans within the VA non MSA AA								
Income Level	Low		Moderate		Middle		Upper	
	% of Owner occupied Housing	% of # of Loans	% of Owner occupied Housing	% of # of Loans	% of Owner occupied Housing	% of # of Loans	% of Owner occupied Housing	% of # of Loans
Home Purchase	0	0	38.50	57.69	61.50	42.31	0	0
Home Improvement	0	0	38.50	72.97	61.50	27.03	0	0
Home Refinance	0	0	38.50	71.28	61.50	28.72	0	0

Source: 2000 U S Census

Lending Gap Analysis

We evaluated the lending distribution to determine if any unexplained conspicuous gaps existed. We considered loan distributions, branch locations, competition, market conditions, and demographic information. We used reports and maps to compare the geographies where loans were made to the geographies in the AA. No unexplained conspicuous gaps were identified. This had a positive impact on the bank’s geographic distribution of loans.

Responses to Complaints

There were no complaints regarding the bank’s CRA performance during the evaluation period. This has a neutral impact on the overall CRA rating.

COMMUNITY DEVELOPMENT TEST

Grundy National Bank's community development performance demonstrates an adequate level of responsiveness to the community development needs of its assessment areas through community development loans and services. The opportunity and availability of qualified community development related investments within the bank's assessment area is limited. The VA MSA 28700 AA does not have low or moderate income census tracts; and none of the middle income census tracts are designated distressed underserved nonmetropolitan middle income census tracts. In the VA non-MSA AA, the bank has one branch in Tazewell County and two branches in Buchanan County in a moderate-income census tract. There are also two branches in Buchanan County located in two middle income census tracts that are designated distressed underserved nonmetropolitan middle income census tracts.

Number and Amount of Community Development Loans

The bank's community development performance demonstrates an adequate level of responsiveness to the community development needs in the Virginia non-MSA AA. The bank has made 10 community development loans totaling \$7.3 million during the evaluation period in the Virginia non-MSA AA. Proceeds of four of these loans were used to renovate existing housing and construct affordable housing in Buchanan County. This low cost housing supports the Appalachian School of Law and the new University of Appalachia College of Pharmacy. The bank also provided funding for the construction of Wal-Mart that is intended to promote economic development and stabilize the Town of Grundy. Buchanan County is listed as an economically distressed area due to poverty and population loss.

The bank's community development performance demonstrates an adequate level of responsiveness to the community development needs in the VA MSA 28700 AA. The bank made five community development loans totaling \$4.1 million during the evaluation period in the MSA AA for Washington County. Proceeds from these loans were used to establish a new industry in Abingdon. This industry provided employment opportunities to low- and moderate-income families.

Number and Amount of Qualified Investments

The bank's community development performance demonstrates an adequate level of responsiveness to the community development needs in the Virginia non-MSA AA, and VA MSA 28700 AA. As mentioned previously, the opportunity and availability of qualified community development related investments within the bank's assessment areas is limited. The bank has sought to purchase community development investments within southwest Virginia and within the state as a whole. Community development investments presently equate to 3 percent of the bank's Tier 1 Capital. The bank has made seven prior period qualified investments totaling approximately \$900,000; and ten current period qualified investments totaling \$990,000 within the State of Virginia. These investments went to organizations that provide health, human services, and affordable housing to low- and moderate-income or economically distressed geographies.

Extent to Which the Bank Provides Community Development Services

The bank's community development performance demonstrates an adequate level of responsiveness to the community development needs in the Virginia non-MSA AA, and VA MSA 28700 AA. During this evaluation period, directors, officers and employees of Grundy National Bank have provided technical services and financial support to qualified community development organizations. In addition to these development activities, the bank has contributed a total of \$105,000 in donations during this evaluation period.

Responsiveness to Community Development Needs

The bank's community development activities demonstrate adequate responsiveness to the community development needs of its assessment areas. This takes into consideration the bank's capacity, the need, and the availability of such opportunities for community development in the bank's assessment areas. The demographic characteristics of the assessment areas limit the types of community development needs that can be served by the institution. We did not identify any unmet community development needs during the evaluation.

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.

.