

PUBLIC DISCLOSURE
March 31, 2003
COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Virginia Heartland Bank
1193543
P. O. Box 7267
Fredericksburg, Virginia 22404

Federal Reserve Bank of Richmond
P. O. Box 27622
Richmond, Virginia 23261

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

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COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

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

The major factors supporting this rating include:

- The bank's loan-to-deposit ratio is considered reasonable in relation to demand for credit in the assessment areas.
- A substantial majority of the institution's sampled small business and consumer loans were originated within the bank's assessment areas.
- Lending to borrowers of different income levels and businesses of different revenues is considered excellent using various proxies for demand.
- The distribution of lending by income level of geography is considered reasonable given area demographics and aggregate data.
- There have been no complaints regarding the bank's CRA performance since the previous CRA evaluation.

DESCRIPTION OF INSTITUTION:

Virginia Heartland Bank is headquartered in Fredericksburg, Virginia, and operates six branch offices in the City of Fredericksburg and Caroline, Spotsylvania, and Stafford Counties, Virginia. Virginia Heartland Bank is wholly owned by Virginia Financial Group, Incorporated, a multi-bank holding company headquartered in Culpeper, Virginia. The holding company also owns Second Bank and Trust Company (Culpeper, Virginia), Planters Bank and Trust (Staunton, Virginia), and the Virginia Commonwealth Trust Company (Culpeper, Virginia). Virginia Heartland Bank and Caroline Savings Bank merged on June 24, 2002. The merger added two branches in Caroline County.

As of December 31, 2002, the bank had \$196.2 million in assets, of which 73.1% were loans. Various deposit and loan products are available through the institution including loans for residential mortgage, consumer, and business purposes. The loan portfolio as of December 31, 2002, was comprised of 35.9% one- to four-family residential real estate secured, 51.8% commercial real estate and farm, 3.5% commercial and agricultural, 8.2% consumer, and .6% other. Based on the institution's loan volume during a 12-month period along with its current market strategy, small business and consumer loans were identified as primary credit products for the bank. The institution's previous CRA rating was Outstanding.

DESCRIPTION OF ASSESSMENT AREAS

Virginia Heartland Bank serves two contiguous assessment areas. The metropolitan assessment area is comprised of the City of Fredericksburg and Spotsylvania and Stafford Counties, Virginia, and contains four of the bank's six branch offices. The second assessment area contains two branch offices and is comprised of Caroline County, Virginia; a nonmetropolitan area. The assessment areas are described in detail, and geographic, demographic, and economic information is provided for each area.

Metropolitan Assessment Area

The metropolitan assessment area is a part of the Washington, D. C. metropolitan statistical area (MSA). As previously mentioned, this area is comprised of the City of Fredericksburg and Spotsylvania and Stafford Counties, Virginia. The area contains 29 census tracts. Of these tracts, nine are moderate-income and 12 are middle-income. No median family income was reported for the remaining eight tracts and they are unpopulated. There are no low- or upper-income census tracts in the assessment area.

According to 1990 census data, the assessment area has a population of 137,666 and a median housing value of \$113,844. The owner-occupancy rate for the market is 69.7%, which is higher than both the rates for Virginia (60.9%) and the MSA (57.3%). The 2002 median family income for the MSA is \$91,500. Within the assessment area, 3.8% of families are considered below the poverty level, which is lower than both the Commonwealth level of 7.7% and the MSA level of 4.4%.

The following table provides demographics for the assessment area by the income level of families and the percentage of population living in census tracts of varying income levels. The table also displays the distribution of owner-occupied housing units, families below the poverty level, and the percentage of area businesses by income level of geography.

Assessment Area Demographics

| | Low- Income | Moderate- Income | Middle- Income | Upper- Income | Total |
|---|----------------|---------------------|-------------------|------------------|-------|
| Percentage of Area Families by Income Level | 20.4% | 26.1% | 29.3% | 24.2% | 100% |
| Percentage of Population Residing in Geographies by Income Level of Geography | N/A | 32% | 68% | N/A | 100% |
| Percentage of Owner-Occupied Housing Units by Income Level of Geography | N/A | 28.8% | 71.2% | N/A | 100% |
| Percentage of Businesses in Geographies by Income Level of Geography | N/A | 35.9% | 64.1% | N/A | 100% |
| Percentage of Families Below Poverty Rate by Income Level of Geography | N/A | 5.7% | 3% | N/A | N/A |

The area has continued to see increased commercial and population expansion in recent years. Over the previous 10 years, the population in Northern Virginia has increased by 25%. More than 40% of jobs in the Northern Virginia area are in the service sector industries. Large companies such as Capital One, GEICO Insurance, Mary Washington Hospital, Atlantic Coast Airlines, as well as tourism and various service industries, provide local job opportunities. Many local residents commute to the Cities of Washington, D. C. and Richmond, Virginia, for additional employment opportunities. As of February 2003, the unemployment rates for the City of Fredericksburg, Stafford County, Spotsylvania County, and the Commonwealth of Virginia, are 6.5%, 3%, 2.8%, and 4.3%, respectively.

A local economic development official was contacted to assist in evaluating the bank's CRA performance. According to the individual, financial institutions are adequately serving the credit needs of area residents.

Nonmetropolitan Assessment Area

The nonmetropolitan assessment area includes all of Caroline County, Virginia. There are six block numbering areas (BNAs) in the county. All of the BNAs are middle-income.

According to 1990 census data, the assessment area has a population of 19,217 and a median housing value of \$64,217. The owner-occupancy rate for the market is 72.7% which is higher than the rate for nonmetropolitan areas of Virginia (65.1%). The 2002 median family income for nonmetropolitan areas of Virginia is \$45,400. In this assessment area, 8.7% of families are considered below the poverty level, which is

lower than the nonmetropolitan state rate of 11.5%.

The following table provides demographics for the assessment area by the income level of families and the percentage of population living in geographies of varying income levels. The table also displays the distribution of owner-occupied housing units, families below the poverty level, and the percentage of area businesses by income level of geography.

Assessment Area Demographics

| | Low- Income | Moderate- Income | Middle- Income | Upper- Income | Total |
|---|----------------|---------------------|-------------------|------------------|-------|
| Percentage of Area Families by Income Level | 16% | 14.8% | 22.7% | 46.5% | 100% |
| Percentage of Population Residing in Geographies by Income Level of Geography | N/A | N/A | 100% | N/A | 100% |
| Percentage of Owner-Occupied Housing Units by Income Level of Geography | N/A | N/A | 100% | N/A | 100% |
| Percentage of Businesses in Geographies by Income Level of Geography | N/A | N/A | 100% | N/A | 100% |
| Percentage of Families Below Poverty Rate by Income Level of Geography | N/A | N/A | 8.7% | N/A | N/A |

Caroline County draws from both the Fredericksburg and greater Richmond regional labor markets. Historically, Caroline County's major private industries have been tied directly to natural resources, including agriculture and forestry products. Principal crops include soybeans, wheat, and corn. Commercial forestland harvest includes loblolly pine, shortleaf pine, oak, and hickory. Recently, the county has seen an increase in the variety of new businesses to the area. These new industries include distribution and light manufacturing, tourism, business services, and retail. As of February 2003, the unemployment rate for Caroline County is 4.8%.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

LOAN-TO-DEPOSIT RATIO

The bank's loan-to-deposit ratio, as of December 31, 2002, is 81.5% and averaged 78.2% for the 19-quarter period also ending December 31, 2002. The average quarterly loan-to-deposit ratio for all banks headquartered in metropolitan areas of Virginia and of similar asset size to Virginia Heartland Bank ranged from 72.7% to 79.2% for the 19-quarter period ending December 31, 2002. From June 30, 1998, to December 31, 2002, bank assets, loans, and deposits have increased by 90.3%, 117%, and 89.3%, respectively. The bank's loan-to-deposit ratio is considered reasonable given the institution's size, branch locations, and financial capacity.

LENDING IN ASSESSMENT AREA

To determine the institution's volume of lending within its assessment areas, samples of 130 consumer and 97 commercial loans were reviewed. The samples were based on 369 consumer and 200 commercial loans extended during a recent 12-month period. The lending distribution is represented in the following table for both assessment areas.

Comparison of Credit Extended Inside and Outside of Assessment Area

| Loan Category | IN | | | | OUT | | | |
|----------------|------------|---------------|-----------------|---------------|-----------|---------------|----------------|---------------|
| | # | % | \$ (000's) | % | # | % | \$ (000's) | % |
| Small Business | 112 | 86.2% | \$1,699 | 80.4% | 18 | 13.8% | \$414 | 19.6% |
| Consumer | 79 | 81.4% | \$12,764 | 83.5% | 18 | 18.6% | \$2,527 | 16.5% |
| TOTAL | 191 | 84.10% | \$14,463 | 83.10% | 36 | 15.90% | \$2,941 | 16.90% |

As illustrated in the preceding chart, a substantial majority of the number (84.1%) and dollar amount (83.1%) of sampled loans were provided to borrowers and businesses located in the institution's two assessment areas. The institution's level of lending within its assessment areas is considered highly responsive to community credit needs.

BORROWER AND GEOGRAPHIC DISTRIBUTION

When evaluating the borrower and geographic distribution for a specific loan category (small business and consumer) within an assessment area, primary emphasis is placed on the number of loans originated during a recent 12-month period. To arrive at an overall conclusion regarding the distribution of lending, performance in each loan category is then weighted by dollar volume of loans made in the assessment area. Small business loans represented the largest category by dollar volume for the bank and were weighted more heavily in the analyses. Additionally, since 147 of the sampled loans were originated in the metropolitan assessment area (compared with 44 loans in the nonmetropolitan assessment area), the metropolitan assessment area is weighted more heavily in the overall evaluation.

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES

The bank's lending to borrowers of different income and revenue levels in the assessment areas is reflected in the following tables. Area demographics, Dunn and Bradstreet (D&B) business information, and 2001 aggregate data are used as proxies for demand. Aggregate small business lending data includes all reporting institutions that originated such loans within the bank's assessment areas during 2001, as required by the CRA. Virginia Heartland Bank is not subject to CRA reporting requirements; consequently, the bank's small business lending activity is not included within the aggregate information. The data are provided separately for each of the bank's assessment areas. Discussion of the bank's performance follows each table.

Metropolitan Assessment Area

Distribution of Loans by Size of Business

| | Revenues \leq \$ 1 Million | Revenues $>$ \$ 1 Million | Total |
|-------------------------------|------------------------------|---------------------------|----------|
| Total Number of Loans | 57 | 17 | 74 |
| Percentage of Total Loans | 77% | 23% | 100% |
| Total Amount of Loans (000's) | \$9,441 | \$2,781 | \$12,222 |
| Percentage of Total Amount | 77.2% | 22.8% | 100% |

Based on recent D&B demographic data, 93.3% of businesses within this assessment area that reported revenue data have annual revenues of \$1 million or less. According to 2001 aggregate small business data, at least 43.9% of all small business loans reported within the market area were to businesses with revenues of \$1 million or less. The remaining loans were extended to businesses having revenues in excess of \$1 million per annum or revenue data was not reported. As indicated in the table, 77% of the bank's loans were to entities with revenues of \$1 million or less. This level of small business lending is considered excellent.

Distribution of Consumer Loans by Income Level of Borrower

Nine of the transactions did not contain income data and, therefore, are not included in the analysis.

| | Low-Income | Moderate-Income | Middle-Income | Upper-Income | Total |
|-------------------------------|------------|-----------------|---------------|--------------|---------|
| Total Number of Loans | 35 | 17 | 8 | 4 | 64 |
| Percentage of Total Loans | 54.7% | 26.5% | 12.5% | 6.3% | 100% |
| Total Amount of Loans (000's) | \$387 | \$413 | \$221 | \$116 | \$1,137 |
| Percentage of Total Amount | 34% | 36.4% | 19.4% | 10.2% | 100% |

Of the consumer loans reviewed, 54.7% were to low-income borrowers and 26.5% were to moderate-income borrowers. This level of lending exceeds the percentage of area families that are low- (20.4%) and moderate-income (26.1%) and is considered excellent.

Nonmetropolitan Assessment Area

Only five of the sampled small business loans were extended in the nonmetropolitan assessment area. All five (100%) of the loans were to businesses with revenues of \$1 million or less. Based on recent D&B demographic data, 95.1% of businesses within the assessment area that reported revenue data have annual revenues of \$1 million or less. According to 2001 aggregate small business data, at least 54.2% of all small business loans reported within the market area were to businesses with revenues of \$1 million or less. The remaining loans were extended to businesses having revenues in excess of \$1 million per annum or revenue data was not reported. The limited number of sampled loans in this market limits the usefulness of the data.

Distribution of Consumer Loans by Income Level of Borrower

Seven of the transactions did not contain income data and, therefore, are not included in the analysis.

| | Low-Income | Moderate-Income | Middle-Income | Upper-Income | Total |
|-------------------------------|------------|-----------------|---------------|--------------|-------|
| Total Number of Loans | 8 | 9 | 6 | 9 | 32 |
| Percentage of Total Loans | 25% | 28.1% | 18.8% | 28.1% | 100% |
| Total Amount of Loans (000's) | \$71 | \$74 | \$58 | \$164 | \$367 |
| Percentage of Total Amount | 19.3% | 20.2% | 15.8% | 44.7% | 100% |

Of the consumer loans reviewed, 25% were to low-income borrowers and 28.1% were to moderate-income borrowers. This level of lending exceeds the percentage of area families that are low- (16%) and moderate-income (14.8%) and is considered excellent.

Overall, the distribution of loans to borrowers of different income levels and revenues is responsive to community credit needs and considered excellent when considering area demographics, D&B data, and 2001 aggregate data.

GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution of loans in the assessment areas is reflected in the following tables. Area demographics, D&B business information, and 2001 aggregate data are used as proxies for demand. The data are provided separately for each of the bank's assessment areas. Discussion of the bank's performance follows each table.

Metropolitan Assessment Area

As previously mentioned, there are no low- or upper-income census tracts in the assessment area.

Distribution of Small Business Loans in Assessment Area
by Income Level of Geography

Two loans totaling \$89,000 were originated in unpopulated census tracts where income was not reported. These loans are not included in the following table.

| | Moderate-Income | Middle-Income | Total |
|-------------------------------|-----------------|---------------|----------|
| Total Number of Loans | 26 | 46 | 72 |
| Percentage of Total Loans | 36.1% | 63.9% | 100% |
| Total Amount of Loans (000's) | \$5,116 | \$7,018 | \$12,134 |
| Percentage of Total Amount | 42.2% | 57.8% | 100% |

The bank's lending to businesses located in moderate-income areas (36.1%) approximates both the percentage of businesses in such geographies (35.9%) and the 2001 aggregate level (38.1%). The bank's small business lending is considered reasonable.

Distribution of Consumer Loans in Assessment Area
by Income Level of Geography

| | Moderate-Income | Middle-Income | Total |
|-------------------------------|-----------------|---------------|---------|
| Total Number of Loans | 27 | 46 | 72 |
| Percentage of Total Loans | 37% | 63% | 100% |
| Total Amount of Loans (000's) | \$459 | \$770 | \$1,229 |
| Percentage of Total Amount | 37.3% | 62.7% | 100% |

The bank's lending in moderate-income areas (37%) is slightly higher than the percentage of area population residing in such areas (32%). This level of lending is considered reasonable.

Nonmetropolitan Assessment Area

As previously mentioned, there are only middle-income geographies in this market. Accordingly, 100% of the number and dollar amount of loans within the assessment area were extended within these geographies. Therefore, the distribution of lending by income level of geographies for the nonmetropolitan assessment area was not considered in evaluating the institution's CRA performance.

Overall, the geographic distribution of lending is considered reasonable given various proxies for demand.

COMPLIANCE WITH ANTIDISCRIMINATION LAWS AND REGULATIONS

No credit practices inconsistent with the substantive provisions of the fair housing and fair lending laws and regulations were identified. Adequate policies, procedures, and training programs have been developed to support nondiscrimination in lending activities.