

PUBLIC DISCLOSURE

February 8, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

HomeTown Bank

3357910

202 South Jefferson Street

Roanoke, Virginia 24011

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 Lending Test is rated: Satisfactory.
The Community Development Test is rated: Satisfactory.

The major factors supporting this rating include:

- The bank's loan-to-deposit ratio is considered more than reasonable in relation to the demand for credit in the assessment areas.
- A majority of the institution's Home Mortgage Disclosure Act (HMDA) and small business loans were originated to borrowers within the bank's assessment areas.
- Lending to borrowers of different income levels and businesses of different sizes is considered reasonable overall.
- The geographic distribution of loans is considered reasonable overall.
- The bank's lending, service, and investment activities demonstrate adequate responsiveness to the community development needs of its assessment areas.
- The institution has not received any complaints regarding its Community Reinvestment Act (CRA) performance since the previous evaluation.

SCOPE OF EXAMINATION

The institution was evaluated using the interagency examination procedures developed by the Federal Financial Institutions Examination Council (FFIEC). HomeTown Bank (HTB) is required to report certain information regarding its home mortgage lending in accordance with the HMDA. Accordingly, the bank's 2013 and 2014 HMDA loan originations were considered in the evaluation. In addition, small business lending was identified as a significant product line and was also considered in the evaluation. The analysis includes all small business loans that were originated by the bank during a recent six-month period (July 1, 2015 through December 31, 2015). Qualified community development loans, investments, and services are considered for activities since the previous evaluation dated March 18, 2013. All qualified investments outstanding as of the date of this evaluation were also considered, regardless of when made.

DESCRIPTION OF INSTITUTION

HTB is headquartered in Roanoke, Virginia, and operates six branch offices in southwestern Virginia. The bank is a wholly owned subsidiary of HomeTown Bankshares Corp., a single bank holding company located in Roanoke, Virginia. The bank also has two affiliates, HomeTown Bank Insurance Services, Inc. and HomeTown Residential Mortgage, LLC. The bank received a Satisfactory rating at the previous CRA evaluation dated March 18, 2013. This evaluation reflects only the performance of HTB and does not consider or include activities of any related entities. No known legal impediments exist that would restrain the bank from meeting the credit needs of its assessment area.

As of December 31, 2015, the bank held total assets of \$479.4 million, of which 76.3% were net loans and 11% were securities. As of the same time period, deposits totaled \$401.1 million. Various deposit and loan products are available through the institution including loans for residential mortgage, consumer, and business purposes. The composition of the loan portfolio (using gross loans) as of December 31, 2015, is depicted in the following table.

Composition of Loan Portfolio

Loan Type	12/31/2015	
	\$(000s)	%
Secured by 1-4 Family dwellings	115,171	31.2
Multifamily	13,116	3.6
Construction and Development	39,219	10.6
Commercial & Industrial/ NonFarm NonResidential	188,625	51.1
Consumer Loans and Credit Cards	7,531	2.0
Agricultural Loans/ Farmland	4,192	1.1
All Other	1,147	0.3
Total	369,001	100.0

As indicated in the preceding table, the bank is an active commercial/small business and residential mortgage lender. The bank also offers other loans, such as consumer and farm loans; however, the volume of such lending is relatively small in comparison to the commercial/small business and residential mortgage lending.

HTB serves two adjacent assessment areas located in southwestern Virginia. One market is located in the Roanoke, VA MSA and the other market is located in the Blacksburg-Christiansburg-Radford, VA MSA. The bank takes entire cities and counties within its assessment areas. There have been no changes to the assessment areas since the previous evaluation. The following table represents the composition of the two assessment areas.

Assessment Area Name	County/City	Census Tracts
Roanoke, VA MSA	Franklin County	All
	Roanoke City	All
	Roanoke County	All
	Salem City	All
Blacksburg-Christiansburg-Radford, VA MSA	Montgomery County	All

The bank opened one branch in its Roanoke, VA MSA assessment area and closed none since the previous evaluation. The branch opening did not require the bank to modify its assessment area delineation.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

To evaluate the bank’s lending performance, HMDA and small business lending activity was analyzed. While HMDA loan data from calendar years 2013 and 2014 were fully analyzed and considered in the evaluation, only bank and aggregate data from 2014 is presented in the following distribution tables. In instances where HMDA loan performance during 2013 varies significantly from performance in 2014, such variance and the corresponding impact on the overall performance are discussed. As previously indicated, analysis of the bank’s small business lending includes all such lending during a recent six-month period (July 1, 2015-December 31, 2015).

Area demographic, D&B business data, and, when available, market aggregate data are used as proxies for demand when evaluating the bank's performance. The area demographic data is from the 2010 census, while the D&B business data is from 2014. Aggregate HMDA data is from calendar year 2014. The aggregate HMDA and small business lending data include all activity reported by lenders subject to reporting residential mortgage and small business lending that originated or purchased such loans within the bank's assessment area. Because HTB is not required to report small business loan data, its lending is not included in the aggregate data. Additionally, since small business loans reviewed for this evaluation were extended during 2015, the 2014 D&B business data and aggregate small business lending data were considered only as performance context when evaluating the bank's performance. Accordingly, 2015 aggregate small business data is not presented in the following analysis tables.

When evaluating the geographic and the borrower distribution for a specific loan category, primary emphasis is placed on the number (and corresponding percentage) of loans originated. When combining multiple loan products to arrive at an overall conclusion, the level of performance of each product is weighted primarily by the dollar volume that the product contributes to the overall activity considered in the evaluation. All conclusions also take into consideration relevant performance context factors. Overall, the bank's lending test performance is rated Satisfactory. This rating considers the bank's loan-to-deposit ratio, level of lending in its assessment areas, borrower distribution performance, and geographic distribution performance.

To help determine the availability of community development opportunities in specific assessment areas, the CRA public evaluations of other financial institutions operating in these areas were reviewed. Also, members of the community were contacted to obtain information about local economic conditions, local credit needs, performance of banks in the assessment area, as well as potential community development opportunities. The bank's community development test is rated Satisfactory. This conclusion is based on the amount of qualified investments, the extent to which the bank provides community development services, and its responsiveness to identified community development lending, investment, and service needs.

HTB serves two assessment areas located within southwestern Virginia. Based upon relative market size as determined by loan activity, proportion of bank deposits, and market population, full-scope evaluation procedures were applied to both the Roanoke, VA MSA and the Blacksburg-Christiansburg-Radford, VA MSA. When assigning the institution's overall ratings for the lending and community development tests, primary consideration is given to the dollar volume each full-scope market contributes to the bank's overall level of activity when weighting performance. Appendix A includes information detailing the lending volume, branch locations, and deposit volume by assessment area.

The components of each test are discussed in the following sections. All conclusions also take into consideration relevant performance context factors.

Loan-To-Deposit Ratio

A bank's loan-to-deposit ratio is one measure of its lending relative to its capacity. HTB's loan-to-deposit ratio as of December 31, 2015, equaled 91.2% and averaged 88.8% for the 12-quarter period ending December 31, 2015. During this 12-quarter period, the bank's quarterly average loan-to-deposit ratio ranged from 83.4% to 93.1%. The quarterly average loan-to-deposit ratios for all banks headquartered in metropolitan areas of Virginia and of similar asset size to HTB ranged from 77.9% to 83.3% for the same 12-quarter period ending December 31, 2015. Since December 31, 2012, bank assets, loans, and deposits have increased by 29.4%, 34.9%, and 29.1%, respectively. The bank's level of lending activity as measured by its loan-to-deposit ratio is considered more than reasonable given its size, financial condition, and assessment area credit needs.

Lending in Assessment Areas

To determine the institution's volume of lending within its assessment areas, the geographic location of the bank's 2013 and 2014 HMDA, as well as small business loans extended between July 1, 2015, and December 31, 2015, were considered. The lending distribution inside and outside of the bank's assessment areas is reflected in the following table.

Comparison of Credit Extended Inside and Outside of Assessment Area(s)

Loan Type	Inside				Outside			
	#	%	\$(000)	%	#	%	\$(000)	%
Home Purchase	233	82.9	26,557	79.2	48	17.1	6,992	20.8
Home Improvement	12	100.0	724	100.0	0	0.0	0	0.0
Refinancing	40	80.0	8,380	86.3	10	20.0	1,332	13.7
Multi-Family Housing	6	75.0	1,180	57.1	2	25.0	885	42.9
Total HMDA related	291	82.9	36,841	80.0	60	17.1	9,209	20.0
Small Business*	80	75.5	19,200	78.8	26	24.5	5,154	21.2
TOTAL LOANS	371	81.2	56,041	79.6	86	18.8	14,363	20.4

*The number and dollar amount of loans reflects a sample of such loans originated during the evaluation period and does not reflect loan data collected or reported by the institution.

As illustrated in the preceding table, overall, a majority of the number (81.2%) and dollar volume (79.6%) of loans during the review period were extended to residents and businesses in the bank's assessment areas. The institution's level of lending within its assessment areas is considered responsive to community credit needs.

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

When evaluating the bank's performance under the Lending Test, consideration is given to the bank's level of lending in conjunction with relevant demographic data from the 2010 census, D&B business demographic data from 2014 and aggregate small business and HMDA data from calendar year 2014. The bank's borrower distribution performance, discussed in greater detail later in this report, is considered reasonable within the Roanoke, VA MSA, while the performance is considered excellent within the Blacksburg-Christiansburg-Radford, VA MSA. The bank's overall borrower distribution performance is considered reasonable given the higher volume of lending activity in the Roanoke, VA MSA.

Within the bank's market areas, a high level of small business lending activity has been reported by specialized lenders, who often originate small business loans in the form of credit cards. These loans, however, tend to be much smaller in size than traditional small business bank loans, and revenue data is often not reported for a majority of these loans. The presence of these lenders is reflected in a smaller market share for traditional lenders and tends to understate the percentage of loans to businesses with annual revenues of \$1 million or less. Consequently, the presence of these lenders was considered as an aspect of performance context when evaluating the level and distribution of bank lending. Therefore, to better gauge performance, HTB's lending is also compared to a group of traditional small business lenders that excludes the credit card/specialty lenders.

Geographic Distribution of Loans

The bank's geographic distribution performance, discussed in greater detail later in this report, is considered reasonable overall for both assessment areas.

Community Development Loans, Investments, and Services

HTB supports community development initiatives and organizations that benefit its local markets and larger regional areas by funding community development loans, making qualified investments, and providing financial expertise and other support to local organizations providing community development services.

During the evaluation period, the bank originated five qualified community development loans totaling approximately \$11.5 million, of which two loans totaling \$5.7 million benefitted a regional area adjacent to the bank's assessment areas. These two loans promoted economic development through retention and creation of approximately 135 jobs. Specific information regarding the bank's community development lending is included in each assessment area discussion as applicable.

HTB has qualified investments totaling \$2.5 million in Virginia Housing Development Authority (VHDA) bonds. The VHDA is a public mortgage lender that serves the housing needs of low- and moderate-income individuals throughout the Commonwealth of Virginia, including the bank's assessment area. Additionally, the bank provided \$7,900 in charitable donations to various qualified community development organizations during the evaluation period.

Of the bank's six full service branch offices, two (33.3%) are located within moderate-income income areas and none are located in low-income areas. HTB also offers a low-cost checking account, which can benefit low- and moderate-income customers. Additionally, the bank and its employees provide support to organizations that provide community development services throughout its assessment areas. The bank participated in the following qualified service activities that benefitted a broader/regional area:

- A bank officer served on the marketing committee and taught financial literacy courses for Bank on Roanoke Valley, an organization that partners with local financial institutions, governments, and the United Way of Roanoke Valley to improve the financial stability of low- and moderate-income people.
- A bank officer served on the board of directors of Family Services of Roanoke Valley, a non-profit organization that provides social services and counseling to low- and moderate-income families.
- A bank officer served as director for the Foundation for Roanoke Valley, a local philanthropic foundation with funding priorities that include organizations that provide services to low- and moderate-income people.
- A bank officer served on the board of directors of New River Community Action, an organization that provides services to low- and moderate-income people such as food, shelter and financial assistance.
- A bank officer served as director for Project Discovery, an educational program that provides its services free of cost.
- Three bank employees supported fundraising/campaign activities for the United Way of Roanoke Valley and the United Way of Montgomery, Radford and Floyd.
- A bank officer served on the board of directors for the Western Virginia Workforce Development Board. The organization is a partnership of public and private sector organizations dedicated to achieving workforce and economic development goals.

Specific information regarding the bank's qualified investments, donations, and services is included in each assessment area discussion as applicable. The bank's overall performance under the community development test is rated Satisfactory.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified. Adequate policies, procedures, and training programs have been developed to support nondiscrimination in lending activities.

DESCRIPTION OF INSTITUTION’S OPERATIONS IN ROANOKE, VA MSA

HTB's assessment area is located within the Roanoke, Virginia MSA and includes all of Franklin and Roanoke Counties and the Cities of Roanoke and Salem. According to the 2010 census data, the assessment area has a population of 270,369 and a median housing value of \$160,915. The owner-occupancy rate for the assessment area equals 62.2%, which is slightly higher than the rate for the Commonwealth of Virginia (61.8%) and below the rate for the Roanoke, VA MSA (64%). The percentage of area families living below the poverty level in the assessment area (9.3%) is above both Virginia’s overall poverty rate (7.2%) and the rate in the Roanoke, VA MSA (8.7%). The 2013 and 2014 median family incomes for the Roanoke, VA MSA equaled \$63,600 and \$62,900, respectively. According to data from the Federal Deposit Insurance Corporation (FDIC) as of June 30, 2015, HTB ranked seventh out of 15 institutions in local deposit market share with 4.4% of deposits within the assessment area. The following table includes pertinent demographic data for the assessment area.

Assessment Area Demographics

Roanoke, VA MSA (Based on 2000 ACS Data and 2014 D&B Information)								
Income Categories*	Tract Distribution		Families by Tract		Families < Poverty as a % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	3	5.4	3,250	4.5	1,349	41.5	15,092	21.0
Moderate	14	25.0	18,004	25.0	2,906	16.1	13,692	19.0
Middle	23	41.1	30,092	41.8	1,918	6.4	15,438	21.5
Upper	16	28.5	20,588	28.7	537	2.6	27,712	38.5
NA	0	0.0	0	0.0	0	0.0		
Total	56	100.0	71,934	100.0	6,710	9.3	71,934	100.0
					Households			
	Owner Occupied Units by Tract		HHs by Tract		HHs < Poverty by Tract		HHs by HH Income	
	#	%	#	%	#	%	#	%
Low	1,712	2.2	5,347	4.7	2,304	43.1	26,921	23.6
Moderate	18,923	24.1	30,178	26.5	5,549	18.4	19,962	17.5
Middle	32,894	41.9	47,455	41.7	4,532	9.6	21,972	19.3
Upper	25,001	31.8	30,931	27.1	1,645	5.3	45,056	39.6
NA	0	0.0	0	0.0	0	0.0		
Total	78,530	100.0	113,911	100.0	14,030	12.3	113,911	100.0
					Businesses by Tract and Revenue Size			
	Total Businesses by Tract		Less than or = \$1 Million		Over \$1 Million		Revenue not Reported	
	#	%	#	%	#	%	#	%
Low	486	3.7	411	3.5	62	6.8	13	3.2
Moderate	3,057	23.6	2,695	23.1	261	28.6	101	25.2
Middle	5,256	40.5	4,780	41.0	326	35.7	150	37.4
Upper	4,166	32.2	3,764	32.4	265	28.9	137	34.2
NA	0	0.0	0	0.0	0	0.0	0	0.0
Total	12,965	100.0	11,650	100.0	914	100.0	401	100.0
				Percentage of Total Businesses:	89.9		7.0	3.1

*NA-Tracts without household or family income as applicable

The City of Roanoke is located in the southwestern part of Virginia and is the eighth largest city in the commonwealth. Leading employment industries in this assessment area include government, education, healthcare, and retailers. Major employers in the area include Roanoke Memorial Community Hospital, Roanoke City School Board, City of Roanoke, Carillion Services, Wal-Mart, UPS, Kroger, Virginia Western Community College, Postal Service, and Advance Auto Parts. As indicated in the following table, unemployment rates throughout the bank’s assessment area have declined during the recent three-year period at a rate consistent with the decline in the overall unemployment rates for the Commonwealth of Virginia and the MSA.

Unemployment Rate Trend			
Geographic Area	Dec 2013	Dec 2014	Dec 2015
Franklin County	5.1%	4.8%	4%
Roanoke City	5.8%	5%	4.2%
Roanoke County	4.5%	3.8%	3.4%
Salem City	5.1%	4.2%	3.9%
Roanoke, VA MSA	5.1%	4.5%	3.8%
Virginia	5.1%	4.5%	3.9%

An individual knowledgeable of the local market area was contacted during the evaluation to discuss local economic conditions and community credit needs. The contact indicated that the local economy is unstable as certain industries are thriving while others continue to struggle. Businesses seeking smaller amounts of capital are in high demand as identified by the community contact. While credit appears to be loosening up, small businesses continue to struggle to obtain funding. The contact suggested that the local market area would benefit from additional small business loan programs. Nonetheless, the contact indicated local financial institutions are reasonably meeting the credit needs of the local market.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS:

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

HTB’s borrower distribution performance for both HMDA and small business loans is considered reasonable.

Distribution of HMDA Loans by Income Level of Borrower

Roanoke, VA MSA (2014)								
Income Categories	Bank				Aggregate			
	#	%	\$(000s)	% \$	#	%	\$(000s)	% \$
HMDA Totals								
Low	5	13.5	775	16.6	789	13.2	58,235	6.7
Moderate	6	16.2	351	7.5	1,547	25.9	163,868	18.9
Middle	7	18.9	1,062	22.7	1,476	24.7	195,142	22.5
Upper	19	51.4	2,493	53.2	2,155	36.2	449,094	51.9
Total	37	100.0	4,681	100.0	5,967	100.0	866,339	100.0
Unknown	111		11,306		1,509		253,966	

Percentages (%) are calculated on all loans where incomes are known

During 2014, the bank’s overall lending to low-income borrowers is considered reasonable as the bank’s level of lending (13.5%) approximated the proportion of aggregate lending to low-income borrowers (13.2%) but lagged the percentage of such families residing in the assessment area (21%). HTB’s lending to moderate-income borrowers (16.2%) lagged both the percentage of moderate-income families within the assessment area (19%) and the aggregate lending level (25.9%), but is nonetheless considered reasonable.

During 2013, the bank reported originating 26 loans totaling \$3.6 million, for which the borrowers’ incomes were known. Of these loans, one (3.8%) totaling \$68,000 was extended to a low-income borrower, and two (7.7%) totaling \$255,000 were to moderate-income borrowers. This performance is considered poor when compared to aggregate lending which indicated that 12.5% of HMDA loans were extended to low- income borrowers and 23.4% were extended to moderate- income borrowers.

Overall, the bank's borrower distribution performance during 2013 and 2014 is considered reasonable based upon the relative performance for each year and the greater dollar volume of lending during 2014.

Distribution of Lending by Loan Amount and Size of Business

Roanoke, VA MSA (2015)								
by Revenue	Bank				Aggregate*			
	#	%	\$(000s)	% \$	#	%	\$(000s)	% \$
\$1 Million or Less	41	67.2	8,960	100.5	NA	NA	NA	NA
Over \$1 Million	20	32.8	6,998	78.5	NA	NA	NA	NA
Unknown	0	0.0	0	0.0	NA	NA	NA	NA
by Loan Size								
\$100,000 or less	36	63.2	1,185	13.3	NA	NA	NA	NA
\$100,001-\$250,000	10	17.5	1,857	20.8	NA	NA	NA	NA
\$250,001-\$1 Million	11	19.3	5,871	65.9	NA	NA	NA	NA
Total	57	100.0	8,913	100.0	NA	NA	NA	NA

* No data is available for Aggregate loans with Revenues over \$1 million and those with Unknown revenues

As 2015 D&B business data and aggregate data are not yet available for use as proxies for demand, 2014 D&B and aggregate data were taken into account as elements of performance context when evaluating the bank’s distribution of lending performance. D&B data from 2014 indicates that 89.9% of all local businesses have revenues below \$1 million per year. Aggregate lending data from 2014 indicate that 44.3% of reported small business loans were to businesses having revenues of \$1 million or less. The remaining portion of loans were to businesses that either had revenues exceeding \$1 million or had unknown revenues. As part of the performance context, the 2014 aggregate data was also considered after excluding certain specialty lenders. Of the remaining small business loans originated by traditional bank lenders, 57.3% were made to businesses having annual revenues of \$1 million or less. With 67.2% of its small business loans made to businesses with annual revenues of \$1 million or less, HTB’s level of lending is considered reasonable.

Geographic Distribution of Loans

HTB’s geographic distribution performance for HMDA lending is considered excellent, while the performance for small business lending is considered reasonable. Overall, geographic distribution is considered reasonable given the relatively larger volume of small business lending.

Distribution of HMDA Loans by Income Level of Census Tract

Roanoke, VA MSA (2014)								
Income Categories	Bank				Aggregate			
	#	%	\$(000s)	% \$	#	%	\$(000s)	% \$
	(127)				(4,071)			
Low	9	7.1	478	3.6	72	1.8	7,296	1.1
Moderate	57	44.9	4,512	34.2	789	19.4	89,872	13.3
Middle	40	31.5	4,791	36.3	1,775	43.6	294,331	43.7
Upper	21	16.5	3,417	25.9	1,435	35.2	281,817	41.9
	(9)				(2,629)			
Low	0	0.0	0	0.0	42	1.6	3,683	1.0
Moderate	4	44.4	911	72.1	498	18.9	54,810	14.3
Middle	4	44.4	344	27.2	1,209	46.0	179,686	46.8
Upper	1	11.2	9	0.7	880	33.5	145,658	37.9
	(8)				(751)			
Low	2	25.0	102	16.5	17	2.3	308	1.1
Moderate	3	37.5	465	75.4	195	26.0	4,900	17.7
Middle	3	37.5	50	8.1	322	42.9	10,715	38.6
Upper	0	0.0	0	0.0	217	28.8	11,828	42.6
	(4)				(25)			
Low	2	50.0	490	54.0	5	20.0	2,936	8.3
Moderate	0	0.0	0	0.0	4	16.0	7,055	19.9
Middle	2	50.0	418	46.0	8	32.0	4,059	11.5
Upper	0	0.0	0	0.0	8	32.0	21,351	60.3
	HMDA Totals							
Low	13	8.8	1,070	6.7	136	1.8	14,223	1.3
Moderate	64	43.2	5,888	36.8	1,486	19.9	156,637	14.0
Middle	49	33.1	5,603	35.0	3,314	44.3	488,791	43.6
Upper	22	14.9	3,426	21.5	2,540	34.0	460,654	41.1
NA*	NA	NA	NA	NA	NA	NA	NA	NA
Total	148	100.0	15,987	100.0	7,476	100.0	1,120,305	100.0

NA*-Tracts without household or family income as applicable

During 2014, home purchase loans were extended most frequently by the bank and aggregate lenders. The bank's geographic distribution performance is considered excellent for home purchase lending. Because of the limited number of transactions, HTB's refinance, home improvement and multi-family lending performance had only a limited impact on its overall performance.

On a combined product basis, the bank's level of lending in low-income census tracts (8.8%) considerably exceeded both the proportion of owner-occupied housing units located in such tracts (2.2%) and the aggregate lending level (1.8%). HTB's level of lending to borrowers in moderate-income census tracts (43.2%) also exceeded the proportion of owner-occupied housing units located in such tracts (24.1%) and the aggregate lending level (19.9%). The bank's performance during 2014 is considered excellent, and its 2013 lending is substantially similar.

Distribution of Small Business Loans by Income Level of Census Tract

Roanoke, VA MSA (2015)								
Income Categories	Bank				Aggregate			
	#	%	\$(000s)	% \$	#	%	\$(000s)	% \$
Low	2	3.3	257	1.6	NA	NA	NA	NA
Moderate	10	16.4	1,267	7.9	NA	NA	NA	NA
Middle	20	32.8	4,628	29.0	NA	NA	NA	NA
Upper	29	47.5	9,805	61.5	NA	NA	NA	NA
NA*	NA	NA	NA	NA	NA	NA	NA	NA
Total	61	100.0	15,957	100.0	NA	NA	NA	NA

**NA-Tracts without household or family income as applicable
Loans where the geographic location is unknown are excluded from this table.*

During the six-month evaluation period in 2015, the bank originated 61 small business loans totaling \$16 million within the assessment area. Of these loans, two (3.3%) loans totaling \$257,000 were originated in low-income tracts and, ten (16.4%) loans totaling \$1.3 million were located in moderate-income tracts. Aggregate and D&B business data are not yet available for 2015; however, such data for 2014 was considered as performance context when evaluating the bank’s geographic distribution of lending. HTB’s level of small business lending in low-income census tracts slightly lags the 2014 aggregate reporter lending level (4.6%) and the percentage of businesses located in such areas (3.7%). The bank’s lending level in moderate-income census tracts also lags the 2014 aggregate reporter lending level (22.1%) and the percentage of businesses in such areas (23.6%). HTB’s performance during the 2015 review period is considered reasonable overall.

Community Development Loans, Investments, and Services

Discussions with individuals knowledgeable of the local market area and reviews of the performance evaluations of other financial institutions having a local presence indicate that local community development opportunities are reasonably available within the assessment area. Currently, the bank does not face any constraints in providing community development services or making qualified investments. HTB supports community development initiatives and organizations that benefit its local assessment area and larger statewide area by making qualified investments and providing financial expertise and other support to local organizations providing community development services.

The bank originated two qualified community development loans totaling approximately \$3.8 million. These loans facilitated affordable housing benefitting low- and moderate-income people.

In addition to the qualified investment activity previously discussed for the institution, the bank made charitable donations totaling \$2,250 to organizations that provide community services within the assessment area.

Of the five branches located in the Roanoke, VA MSA assessment area, one (20%) is located in a moderate-income census tract, which is reasonable as 25% of area families reside in such tracts within the assessment area. Further, the bank and its employees volunteer their time and provide financial expertise to the following organizations that provide community development services targeted to area low- and moderate-income residents:

- A bank officer chaired the scholarship committee for the Loudon/Melrose Neighborhood Organization. This committee provides scholarships to low- and moderate-income students that plan to attend college.
- Two bank employees taught financial literacy classes to low- and moderate-income students in partnership with Junior Achievement. This non-profit organization promotes a national financial education program for students in grades K-12.

HTB's performance demonstrates an adequate level of responsiveness to local community development needs through its lending activities, donations, and support of area organizations that facilitate community development.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN BLACKSBURG-CHRISTIANSBURG-RADFORD, VA MSA

HTB's assessment area is located within the Blacksburg-Christiansburg-Radford, VA MSA and includes all of Montgomery County. According to the 2010 census data, the assessment area has a population of 94,392 and a median housing value of \$187,610. The owner-occupancy rate for the assessment area equals 51.8% and is below the rates of the Commonwealth of Virginia (61.8%) and the Blacksburg-Christiansburg-Radford, VA MSA (56.8%). The percentage of area families living below the poverty level in the assessment area (8.8%) is above Virginia's overall poverty rate (7.2%) but below the rate in the MSA (10%). The 2013 and 2014 median family income remained unchanged between both years for the Blacksburg-Christiansburg-Radford, VA MSA and equaled \$60,100. According to recent data from the FDIC as of June 30, 2015, HTB ranked sixth out of 14 institutions in local deposit market share with 4.3% of deposits within the assessment area. The following table includes pertinent demographic data for the assessment area.

Assessment Area Demographics

Blacksburg-Christiansburg-Radford, VA MSA <i>(Based on 2000 ACS Data and 2014 D&B Information)</i>								
Income Categories*	Tract Distribution		Families by Tract		Families < Poverty as a % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	3,441	17.9
Moderate	1	6.3	1,739	9.0	341	19.6	2,650	13.7
Middle	7	43.7	9,852	51.1	780	7.9	3,785	19.6
Upper	7	43.7	7,685	39.9	582	7.6	9,400	48.8
NA	1	6.3	0	0.0	0	0.0		
Total	16	100.0	19,276	100.0	1,703	8.8	19,276	100.0
	Owner Occupied Units by Tract		Households					
			HHs by Tract		HHs < Poverty by Tract		HHs by HH Income	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	9,211	26.8
Moderate	1,359	7.0	2,702	7.9	581	21.5	4,433	12.9
Middle	10,039	51.8	15,584	45.3	2,196	14.1	5,486	16.0
Upper	7,989	41.2	16,083	46.8	4,834	30.1	15,239	44.3
NA	0	0.0	0	0.0	0	0.0		
Total	19,387	100.0	34,369	100.0	7,611	22.1	34,369	100.0
	Total Businesses by Tract		Businesses by Tract and Revenue Size					
			Less than or = \$1 Million		Over \$1 Million		Revenue not Reported	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	387	11.6	333	11.1	41	19.2	13	10.2
Middle	1,720	51.5	1,524	50.7	128	60.1	68	53.5
Upper	1,227	36.6	1,140	38.0	44	20.7	43	33.9
NA	9	0.3	6	0.2	0	0.0	3	2.4
Total	3,343	100.0	3,003	100.0	213	100.0	127	100.0
Percentage of Total Businesses:				89.8		6.4		3.8

*NA-Tracts without household or family income as applicable

The local economy is based on a variety of manufacturers, retail establishments, and educational facilities. Major area employers include area school systems, Virginia Polytechnic Institute and State University, Carillion New River Valley Community Services, Moog Inc. (manufacturing), BAE Systems (government contractor), HCA Virginia Health System, and Kroger. As indicated in the following table, unemployment rates in Montgomery County have declined during the recent three-year period at a rate consistent with the decline in the overall unemployment rates for the Commonwealth of Virginia and the MSA.

Unemployment Rate Trend			
Geographic Area	Dec 2013	Dec 2014	Dec 2015
Montgomery County	4.8%	4.2%	3.7%
Blacksburg-Christiansburg-Radford, VA MSA	5.3%	4.5%	3.9%
Virginia	5.1%	4.5%	3.9%

A local affordable housing official was contacted recently to discuss local housing conditions and area credit needs. The contact stated there is continued demand for affordable housing, and opportunities are available to provide assistance to low- and moderate-income individuals. The contact expressed that local financial institutions are adequately serving the needs of the local community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS:

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

Overall, the bank’s distribution of lending to borrowers of different incomes and businesses of different sizes is considered excellent.

Distribution of HMDA Loans by Income Level of Borrower

Blacksburg-Christiansburg-Radford, VA MSA (2014)								
Income Categories	Bank				Aggregate			
	#	%	\$(000s)	% \$	#	%	\$(000s)	% \$
HMDA Totals								
Low	2	7.7	678	14.4	93	5.6	7,424	2.7
Moderate	6	23.1	1,092	23.1	296	17.9	33,914	12.1
Middle	5	19.2	819	17.4	369	22.4	52,887	18.9
Upper	13	50.0	2,131	45.1	893	54.1	185,888	66.3
Total	26	100.0	4,720	100.0	1,651	100.0	280,113	100.0
Unknown	8		1,337		304		70,969	

Percentages (%) are calculated on all loans where incomes are known

During 2014, the bank’s level of lending to low-income borrowers (7.7%) exceeded the aggregate lending level (5.6%) but lagged the percentage of low-income families within the assessment area (17.9%). HTB’s lending to moderate-income borrowers (23.1%) exceeded both the percentage of moderate-income families in the assessment area (13.7%) as well as the aggregate lending level (17.9%). The bank’s performance during 2014 is considered excellent, and its performance during 2013 is similar.

Distribution of Lending by Loan Amount and Size of Business

Blacksburg-Christiansburg-Radford, VA MSA (2015)								
by Revenue	Bank				Aggregate*			
	#	%	\$(000s)	% \$	#	%	\$(000s)	% \$
\$1 Million or Less	15	78.9	2,523	77.8	NA	NA	NA	NA
Over \$1 Million	4	21.1	719	22.2	NA	NA	NA	NA
Unknown	0	0.0	0	0.0	NA	NA	NA	NA
by Loan Size	Bank				Aggregate*			
\$100,000 or less	11	57.9	358	11.0	NA	NA	NA	NA
\$100,001-\$250,000	3	15.8	423	13.0	NA	NA	NA	NA
\$250,001-\$1 Million	5	26.3	2,462	76.0	NA	NA	NA	NA
Total	19	100.0	3,243	100.0	NA	NA	NA	NA

* No data is available for Aggregate loans with Revenues over \$1 million and those with Unknown revenues

As 2015 D&B business data and aggregate data are not yet available for use as proxies for demand, 2014 D&B and aggregate data were taken into account as elements of performance context when evaluating the bank’s distribution of lending performance. According to 2014 D&B data, 89.8% of all local businesses have revenues below \$1 million per year. Aggregate lending data from 2014 indicate that 41.3% of reported small business loans were to businesses having revenues of \$1 million or less. The remaining portion of loans were to businesses that either had revenues exceeding \$1 million or had

unknown revenues. As part of the performance context, the 2014 aggregate data was also considered after excluding certain specialty lenders. Of the remaining small business loans originated by traditional bank lenders, 54.5% were made to businesses having annual revenues of \$1 million or less. HTB's level of lending during 2015 (78.9%) is considered excellent when compared to available proxies.

Geographic Distribution of Loans

As previously noted in the assessment area demographic table, the bank only has one moderate-income census tract and no low-income census tracts in the assessment area; and thus, there is little effective opportunity to lend in this tract. The bank's geographic distribution of lending is considered reasonable for both HMDA and small business lending and therefore, reasonable overall.

Distribution of HMDA Loans by Income Level of Census Tract

Blacksburg-Christiansburg-Radford, VA MSA (2014)								
Income Categories	Bank				Aggregate			
	#	%	\$(000s)	% \$	#	%	\$(000s)	% \$
	(19) Home Purchase				(1,147)			
Low	NA	NA	NA	NA	NA	NA	NA	NA
Moderate	1	5.3	128	4.3	119	10.4	17,648	8.1
Middle	11	57.9	1,895	64.3	458	39.9	79,586	36.4
Upper	7	36.8	926	31.4	570	49.7	121,645	55.5
	(15) Refinance				(642)			
Low	NA	NA	NA	NA	NA	NA	NA	NA
Moderate	1	6.7	335	10.8	45	7.0	5,770	5.6
Middle	6	40.0	1,689	54.3	309	48.1	47,673	46.6
Upper	8	53.3	1,084	34.9	288	44.9	48,889	47.8
	(0) Home Improvement				(159)			
Low	NA	NA	NA	NA	NA	NA	NA	NA
Moderate	0	0.0	0	0.0	12	7.5	114	1.3
Middle	0	0.0	0	0.0	86	54.1	4,353	48.0
Upper	0	0.0	0	0.0	61	38.4	4,595	50.7
	(0) Multi-Family				(7)			
Low	NA	NA	NA	NA	NA	NA	NA	NA
Moderate	0	0.0	0	0.0	0	0.0	0	0.0
Middle	0	0.0	0	0.0	3	42.9	17,971	86.4
Upper	0	0.0	0	0.0	4	57.1	2,838	13.6
	HMDA Totals							
Low	NA	NA	NA	NA	NA	NA	NA	NA
Moderate	2	5.9	463	7.6	176	9.0	23,532	6.7
Middle	17	50.0	3,584	59.2	856	43.8	149,583	42.6
Upper	15	44.1	2,010	33.2	923	47.2	177,967	50.7
NA*	0	0.0	0	0.0	0	0.0	0	0.0
Total	34	100.0	6,057	100.0	1,955	100.0	351,082	100.0

NA*-Tracts without household or family income as applicable

During 2014, home purchase and refinance loans were extended most frequently by the bank and aggregate lenders. The bank's performance is considered poor for home purchase lending, while its refinance lending is considered reasonable. HTB did not make any home improvement or multi-family loans in 2014; and therefore, these categories of lending had no impact on the bank's overall performance.

On a combined product basis, the bank's level of lending to borrowers in the single moderate-income census tract (5.9%) slightly lagged both the proportion of owner-occupied housing units located in such tracts (7%) and the aggregate lending level (9%). The bank's performance during 2014 is nonetheless considered reasonable.

During 2013, the bank reported originating 14 loans totaling \$2.9 million within the assessment area. Of these loans, three (21.4%) totaling \$507,000 were originated in the one moderate-income census tract exceeding the aggregate level of 8.6%. The bank's performance during 2013 is considered excellent.

Overall, the bank's geographic distribution performance during 2013 and 2014 is considered reasonable based upon the relative performance for each year and the significantly greater dollar volume of lending during 2014.

Distribution of Small Business Loans by Income Level of Census Tract

Blacksburg-Christiansburg-Radford, VA MSA (2015)								
Income Categories	Bank				Aggregate			
	#	%	\$(000s)	% \$	#	%	\$(000s)	% \$
Low	NA	NA	NA	NA	NA	NA	NA	NA
Moderate	2	10.5	139	4.3	NA	NA	NA	NA
Middle	10	52.6	2,272	70.1	NA	NA	NA	NA
Upper	7	36.9	831	25.6	NA	NA	NA	NA
NA*	0	0.0	0	0.0	NA	NA	NA	NA
Total	19	100.0	3,242	100.0	NA	NA	NA	NA

**NA-Tracts without household or family income as applicable
Loans where the geographic location is unknown are excluded from this table.*

During the six-month evaluation period in 2015, the bank originated 19 small business loans totaling \$3.2 million within the assessment area. Of these loans, two (10.5%) totaling \$139,000 were originated in the single moderate-income tract. Aggregate and D&B business data are not yet available for 2015; however, 2014 data was considered as performance context when evaluating the bank's geographic distribution of lending. D&B data from 2014 indicated that 11.6 % of businesses are located in the moderate-income census tract. During 2014, aggregate lenders extended 11.4% of small business loans in the moderate-income tract. When taking this into consideration as performance context, HTB's performance during the 2015 review period is considered reasonable.

Community Development Loans, Investments, and Services

Discussions with individuals knowledgeable of the local market area and reviews of the performance evaluations of other financial institutions having a local presence indicate that local community development opportunities are reasonably available within the assessment area. Currently, the bank does not face any constraints in providing community development services or making qualified investments. HTB supports community development initiatives and organizations that benefit its local assessment area and larger statewide area by making qualified investments and providing financial expertise and other support to local organizations providing community development services.

The bank originated one qualified community development loan totaling \$2 million that facilitated affordable housing benefitting low- and moderate-income people.

In addition to the qualified investment activity previously discussed for the institution, the bank made charitable donations totaling \$150 to organizations that provide community services within the assessment area.

HTB operates one branch office in the assessment area which is located in the single moderate-income census tract. This is considered highly accessible to the 9% of area families that reside in this tract. Additionally, a bank employee served as a director for the Montgomery County Economic Development Authority.

HTB's performance demonstrates an adequate level of responsiveness to local community development needs through its lending activities, donations, and support of an area organization that facilitates community development.

CRA APPENDIX A

LOAN, BRANCH, AND DEPOSIT VOLUME BY ASSESSMENT AREA

The following table includes the distribution of branch offices, along with deposit and loan volume. The deposit volume includes all bank deposits and is current as of June 30, 2015, while the loan volume includes all HMDA and small business loans considered in the evaluation.

Assessment Area	HMDA/CRA Loan Volume				Branches		Deposit Volume	
	#	%	\$ 000s	%	#	%	\$ 000s	%
Roanoke, VA MSA	304	81.9%	\$ 43,860	78.3%	5	83.3%	\$ 298,574	79.1%
Blacksburg-Christiansburg-Radford, VA MSA	67	18.1%	\$ 12,181	21.7%	1	16.7%	\$ 78,771	20.9%
Total	371	100%	\$ 56,041	100%	6	100%	\$ 377,345	100%

CRA APPENDIX B

GLOSSARY

Aggregate lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Census tract: A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community development: All Agencies have adopted the following language. Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize-

- (i) Low-or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
 - (A) Rates of poverty, unemployment, and population loss; or
 - (B) Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

Loans, investments, and services that-

- (i) Support, enable or facilitate projects or activities that meet the "eligible uses" criteria described in Section 2301(c) of the Housing and Economic Recovery Act of 2008 (HERA), Public Law 110-289, 122 Stat. 2654, as amended, and are conducted in designated target areas identified in plans approved by the United States Department of Housing and Urban Development in accordance with the Neighborhood Stabilization Program (NSP);
- (ii) Are provided no later than two years after the last date funds appropriated for the NSP are required to be spent by grantees; and
- (iii) Benefit low-, moderate-, and middle-income individuals and geographies in the bank's assessment area(s) or areas outside the bank's assessment area(s) provided the bank has adequately addressed the community development needs of its assessment area(s).

Consumer loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

Full-scope review: Performance under the Lending and Community Development Tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (for example, innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (for example, approved, denied, and withdrawn).

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited-scope review: Performance under the Lending and Community Development Tests is analyzed using only quantitative factors (for example, geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

Low-income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Market share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Metropolitan area (MA): A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a population of at least 2.5 million may be divided into MDs.

Middle-income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography.

Moderate-income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-occupied units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Small loan(s) to business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

Small loan(s) to farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Upper-income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.