

PUBLIC DISCLOSURE

November 13, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Great State Bank

3649624

1422 U.S. Highway 421-A

Wilkesboro, North Carolina 28697

**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.

TABLE OF CONTENTS

	Page
Institution's CRA Rating	1
Scope of Examination	1
Description of Institution	1
Description of Wilkes County, NC NonMSA Assessment Area.....	2
Conclusions with Respect to Performance Criteria	4
Glossary	8

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 given the bank's size, financial condition, and demand for credit in the assessment areas.
- A majority of the institution's small business loans were originated within the bank's assessment areas.
- The bank's lending to businesses with revenues of \$1 million or less is considered reasonable when considering area demographic and aggregate data as proxies for demand.
- The bank's geographic distribution performance is considered excellent.
- The institution has not received any complaints regarding its CRA performance since the previous evaluation.

SCOPE OF EXAMINATION

Great State Bank (GSB) was evaluated using the interagency examination procedures developed by the Federal Financial Institutions Examination Council (FFIEC) for small banks. Consistent with these procedures and based upon recent loans originated by the institution, small business loans were identified as the bank's primary credit product. Accordingly, all small business loans originated by the bank from January 1, 2016, to November 7, 2017, are included in the analysis of lending within the bank's assessment areas. The bank's borrower and geographic distribution analyses are based on all of the bank's small business loans originated during calendar year 2016. Small business loan data from 2017 could not be evaluated for borrower or geographic distribution performance because the demographic and aggregate data from 2017 are not yet available.

Currently, the bank serves two assessment areas located within the State of North Carolina. Based upon branch locations, recent branching activity, and relative assessment area size as determined by area population, loan activity, and proportion of bank deposits, the GSB's Wilkes County, NC NonMSA assessment area was evaluated using the FFIEC's full-scope evaluation procedures. An analysis of the bank's borrower and geographic distribution performance in its Winston-Salem, NC assessment area could not be performed from a full- or limited-scope perspective because GSB did not operate a branch in the assessment area until 2017 and, as previously noted, neither demographic nor aggregate loan data from calendar year 2017 is available.

DESCRIPTION OF INSTITUTION

GSB is headquartered in Wilkesboro, North Carolina and operates three branch offices in northwestern North Carolina. The bank is not a subsidiary of a bank holding company, nor does it have any affiliates. The bank has not closed any branches since the previous evaluation. GSB received a Satisfactory rating at its prior CRA evaluation dated November 4, 2013. No known legal impediments exist that would prevent the bank from meeting the credit needs of its assessment areas.

As of September 30, 2017, the bank reported assets totaling \$138.7 million, of which 64% were net loans. As of the same time period, deposits totaled \$124.2 million. Various deposit and loan products are available through the institution including loans for business, consumer, and residential mortgage purposes. The composition of the loan portfolio (using gross loans) as of September 30, 2017, is represented in the following table.

Composition of Loan Portfolio

Loan Type	9/30/2017	
	\$(000s)	%
Secured by 1-4 Family dwellings	21,487	23.9
Multifamily	5,308	5.9
Construction and Development	8,619	9.6
Commercial & Industrial/ NonFarm NonResidential	52,880	58.8
Consumer Loans and Credit Cards	861	1.0
Agricultural Loans/ Farmland	619	0.7
All Other	156	0.2
Total	89,930	100.0

Note, percentages in the table may not equal 100 due to rounding.

As reflected in the preceding table, the largest loan category within the bank’s loan portfolio is commercial and industrial/nonfarm nonresidential loans. The composition of the portfolio is consistent with the number of new loans recently extended by the bank, and consequently led to the selection of small business lending for consideration in the evaluation. Though loans secured by one- to four-family dwellings comprise the second largest proportion of the loan portfolio, the majority of these loans were for commercial purposes reflecting the bank’s primary line of small business lending.

Based on branch locations, the bank has delineated two contiguous assessment areas in northwestern North Carolina. The following table reflects the current composition of the bank’s assessment areas.

Assessment Area Name	City/County	Census Tracts Included
Wilkes County, NC NonMSA	Wilkes County	All
	Watauga County	All
Winston-Salem, NC	Yadkin County	All

GSB has not closed any branch offices since its previous CRA evaluation. During February 2017, a branch office opened in Yadkin County, North Carolina, resulting in the addition of the Winston-Salem, NC assessment area.

DESCRIPTION OF INSTITUTION’S OPERATIONS IN WILKES COUNTY, NC NONMSA ASSESSMENT AREA

The Wilkes County, NC NonMSA assessment area includes all of Wilkes and Watauga counties, North Carolina. The bank operates two branch offices within the assessment area and, as of June 2017, ranked seventh out of 15 institutions in local deposit market share having 6.1% of the assessment area’s available FDIC insured deposits (credit union deposits are not reflected in the deposit market share).

According to ACS data from 2010, the market has a population of 120,419 and a median housing value of \$139,572. The owner-occupancy rate for the assessment area equals 50.7%, which is less than the rates for the state of North Carolina (58.4%) and the nonmetropolitan areas of North Carolina (55.8%). In the assessment area, 13.6% of families are considered below the poverty level, which is lower than the rate for nonmetropolitan areas of North Carolina (14.7%), but higher than the rate for the state (11.4%). The 2016 HUD estimated median family income for nonmetropolitan areas of North Carolina equaled \$47,600. The following table includes pertinent demographic data for the assessment area based on census data from 2010 and D&B data from 2016.

Assessment Area Demographics

Wilkes County, NC NonMSA (Based on 2010 ACS Data and 2016 D&B Information)									
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	7,086	23.0	
Moderate	2	7.4	1,818	5.9	535	29.4	5,263	17.1	
Middle	17	63.0	22,480	73.1	3,168	14.1	5,705	18.5	
Upper	8	29.6	6,460	21.0	473	7.3	12,704	41.4	
NA	0	0.0	0	0.0	0	0.0			
Total	27	100.0	30,758	100.0	4,176	13.6	30,758	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	13,907	28.4
Moderate		1,656	5.2	2,793	5.7	843	30.2	8,868	18.1
Middle		23,448	73.1	34,138	69.7	7,020	20.6	7,431	15.2
Upper		6,994	21.7	12,036	24.6	3,488	29.0	18,761	38.3
NA		0	0.0	0	0.0	0	0.0		
Total		32,098	100.0	48,967	100.0	11,351	23.2	48,967	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		307	6.0	259	5.6	46	12.7	2	2.6
Middle		3,466	68.2	3,184	68.6	223	61.4	59	75.6
Upper		1,311	25.8	1,200	25.8	94	25.9	17	21.8
NA		0	0.0	0	0.0	0	0.0	0	0.0
Total		5,084	100.0	4,643	100.0	363	100.0	78	100.0
Percentage of Total Businesses:				91.3		7.2		1.5	

*NA-Tracts without household or family income as applicable

As indicated in the preceding table, the assessment area contains no low-income census tracts and two moderate-income census tracts. Additionally, all 17 middle-income census tracts within the assessment area are designated as distressed because of comparatively high poverty rates.

The local economy is based on a mixture of education, food processing, retail, and health care. Major employers include Appalachian State University, Tyson Farms, Lowe's, Appalachian and Wilkes Medical Centers, and local government, including area school systems. Biannual unemployment rates since February 2014 are provided in the following table

Geographic Area	Unemployment Rate Trend			
	Aug 14	Aug 15	Aug 16	Aug 17
Wilkes County	7.1%	6%	4.9%	4.4%
Watauga County	5.5%	5%	4.7%	4.1%
State of North Carolina	6.8%	6%	5.3%	4.5%

As reflected in the preceding table, unemployment rates have steadily declined since GSB's previous CRA evaluation. Overall, assessment area unemployment rates are similar to the statewide rates, which suggests that the strength of the local economy is similar to that of the overall state.

A local economic development official was contacted during the examination to discuss local economic conditions and area credit needs. The contact stated many local businesses, both large and small in service and manufacturing, were expanding. The individual indicated that opportunities and needs exist for small business financing and advisory services within the local community. Additionally, the contact noted that local financial institutions support area economic development activities and indicated that these institutions have been meeting the credit needs of the local community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

As previously noted, all small business loans originated by GSB from January 1, 2016, to November 7, 2017, are utilized to determine the bank's level of lending within its assessment areas. The bank's borrower and geographic distribution performance is based only on small business loans originated during 2016 because demographic and aggregate lending data from 2017 is not available.

When evaluating the bank's performance, relevant area demographic data from the 2010 American Community Survey (ACS) is used as a proxy for demand. While ACS data is collected and published by the U.S. Census Bureau on an annual basis, the demographic data relied upon in this performance evaluation is based on ACS data that is updated once every five years. Dun & Bradstreet (D&B) business demographic data is current as of 2016. Aggregate small business lending data are also used as a proxy for demand in the evaluation. The aggregate data includes all activity reported by lenders that originated or purchased such loans within the bank's assessment areas. Aggregate small business data is from 2016. Because GSB is not required to collect or report small business lending data, its small business loans are not part of the aggregate data.

Within the bank's assessment 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 a substantial majority of such loans do not have revenue data reported. The presence of these lenders is reflected in a smaller market share for traditional lenders and tends to understate the percentage of aggregate lending 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, GSB's lending is also compared to a group of traditional small business lenders that excludes these high-volume, small-dollar lenders.

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 lending distribution performance, and geographic lending distribution performance.

Loan-To-Deposit Ratio

The bank’s current loan-to-deposit ratio equals 71.5% and averaged 74.9% for the 16-quarter period ending September 30, 2017. In comparison, the quarterly average loan-to-deposit ratios for three institutions operating in GSB’s assessment areas ranged from 76% to 93.5% during a recent 15-quarter period ending June 30, 2017. While these three institutions are considered similar to GSB in that they are either small or intermediate small banks operating branches within GSB’s assessment areas, there is one key difference between these banks and GSB. GSB brokers all of its residential mortgage loan applications to other lenders that originate the loans, while its three local competitors all originate residential mortgage loans and hold some portion of them in their own loan portfolios. GSB’s average loan-to-deposit ratio may lag that of its three local competitors because GSB brokers residential mortgage loans rather than originating them. Not originating residential mortgage loans, however, has not hampered GSB’s growth, as the its assets, loans, and deposits have increased by 64.5%, 62.8%, and 70.4%, respectively, since September 30, 2013. The bank’s loan-to-deposit ratio is considered reasonable given the institution’s size, financial condition, and local 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 small business loans originated between January 1, 2016, and November 7, 2017, were considered. The lending distribution inside and outside of the bank’s assessment areas is represented in the following table.

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

Loan Type	Inside				Outside			
	#	%	\$(000)	%	#	%	\$(000)	%
Small Business	98	58.7	12,465	43.9	69	41.3	15,913	56.1
TOTAL LOANS	98	58.7	12,465	43.9	69	41.3	15,913	56.1

As indicated in the preceding table, a majority of the number of small business loans were extended to businesses and residents of the bank’s assessment areas. While the percentage of the dollar volume within the bank’s assessment areas equaled 43.9%, this was due in part to a small number of large dollar loans to a single borrower outside of the bank’s assessment areas. In addition, the bank also operates two loan production offices in metropolitan areas outside of its existing assessment areas. Within the banks existing assessment areas, the average size of reported small business loans originated during 2016 is smaller than the average size of small business loans originated in the more urban, metropolitan statistical areas where the bank has its loan production offices. Overall, the institution’s level of lending within its assessment areas is considered responsive to community credit needs.

Lending to Businesses of Different Sizes

Distribution of Lending by Loan Amount and Size of Business

Wilkes County, NC NonMSA (2016)								
by Revenue	Bank				Aggregate*			
	#	%	\$(000s)	% \$	#	%	\$(000s)	% \$
\$1 Million or Less	23	52.3	1,924	28.6	1,332	57.6	54,969	51.1
Over \$1 Million	19	43.2	4,744	70.5	NA	NA	NA	NA
Unknown	2	4.5	60	0.9	NA	NA	NA	NA
by Loan Size								
\$100,000 or less	30	68.2	1,124	16.7	2,114	91.4	40,745	37.8
\$100,001-\$250,000	5	11.4	780	11.6	100	4.3	17,004	15.8
\$250,001-\$1 Million	9	20.4	4,825	71.7	98	4.3	49,908	46.4
Total	44	100.0	6,729	100.0	2,312	100.0	107,657	100.0

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

D&B data from 2016 indicates that 91.3% of all local businesses have revenues that do not exceed \$1 million per year. Aggregate lending data from 2016 indicate that 57.6% 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 aggregate data was also considered after excluding certain specialty lenders. Of the remaining small business loans originated by traditional bank lenders, 67% were made to businesses having annual revenues of \$1 million or less. Of the small business loans considered in the evaluation, 52.3% were to businesses with annual revenues of \$1 million or less. GSB's small business lending is considered reasonable.

Geographic Distribution of Loans

The Wilkes County, NC NonMSA assessment area contains no low-income census tracts.

Distribution of Small Business Loans by Income Level of Census Tract

Wilkes County, NC NonMSA (2016)								
Income Categories	Bank				Aggregate			
	#	%	\$(000s)	% \$	#	%	\$(000s)	% \$
Low	NA	0.0	0	0.0	0	0.0	0	0.0
Moderate	4	9.1	321	4.8	102	4.6	8,074	7.6
Middle	31	70.5	3,951	58.7	1,415	63.7	63,989	60.4
Upper	9	20.4	2,457	36.5	704	31.7	33,906	32.0
NA*	NA	0.0	0	0.0	0	0.0	0	0.0
Total	44	100.0	6,729	100.0	2,221	100.0	105,969	100.0

*NA-Tracts without household or family income as applicable

Loans where the geographic location is unknown are excluded from this table.

GSB's lending in moderate-income census tracts (9.1%) exceeded the percentage of businesses located in moderate-income census tracts (6%) and the aggregate lending level (4.6%) in such areas. GSB's small business loan performance is considered excellent.

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.

A review of the bank's assessment areas during the evaluation found that its delineations complied with the requirements of Regulation BB. To the extent that the bank delineated less than a whole MSA or other political subdivision within an assessment area, the delineated area contained whole political subdivisions, did not reflect illegal discrimination (e.g. through the exclusion of majority-minority census tracts), and did not arbitrarily exclude low- or moderate-income census tracts.

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 Test (and if applicable, consideration of investments and services) 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 Test (and if applicable, consideration of investments and services) 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.