

# **PUBLIC DISCLOSURE**

January 12, 2016

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Bank of Tennessee  
Certificate Number: 21573**

**301 East Center Street  
Kingsport, Tennessee 37660**

**Federal Deposit Insurance Corporation  
Division of Depositor and Consumer Protection  
Dallas Region – Memphis Area Office**

**6060 Primacy Parkway, Suite 300  
Memphis, Tennessee 38119**

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

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## **INSTITUTION'S COMMUNITY REINVESTMENT ACT (CRA) RATING**

**INSTITUTION'S CRA RATING:** This institution is rated **Satisfactory**. An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment areas, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

### **STATE CRA RATINGS:**

The institution is rated **Satisfactory** in Tennessee.

The institution is rated **Needs to Improve** in North Carolina.

The Bank's CRA performance was evaluated using the Interagency Intermediate Small Bank Examination Procedures, which consist of a Lending Test and Community Development Test. A 'Satisfactory' rating regarding the Lending Test, and a 'Satisfactory' rating regarding the Community Development Test, supports the overall rating. Examiners did not identify any discriminatory or other illegal credit practices; therefore, this consideration did not affect the overall rating. The following points summarize the bank's overall performance.

### **Lending Test is rated Satisfactory.**

- The institution's loan to deposit ratio was reasonable, given the institution's size, financial condition, and credit needs of its assessment areas.
- The institution originated a majority of its loans inside its assessment areas. A substantial majority of small business loans and a majority of its home mortgage loans were concentrated in the bank's assessment areas.
- The bank's borrower distribution reflects reasonable penetration among individuals of different income levels and businesses of different sizes given the demographics of the assessment areas.
- The institution's geographic distribution of loans reflects reasonable dispersion throughout its assessment areas for both home mortgage and small business loans.
- Bank of Tennessee did not receive any CRA-related complaints since the previous evaluation; therefore, this performance factor did not adversely affect the Lending Test rating.

### **Community Development Test is rated Satisfactory.**

- The bank's community development performance demonstrates adequate responsiveness to community development needs in its assessment areas through a combination of community development loans, qualified investments, and community development services, as appropriate. Examiners considered the institution's capacity and the need and availability of such opportunities for community development in its assessment areas.

## SCOPE OF EVALUATION

### *General Information*

This evaluation covers the period from the prior evaluation dated April 23, 2013, to the current evaluation dated January 12, 2016. Examiners used the Interagency Intermediate Small Institution Examination Procedures to evaluate Bank of Tennessee’s CRA performance. These procedures include two tests: the Small Bank Lending Test and the Community Development Test.

The Lending Test considered the institution’s performance according to the following criteria.

- Loan-to-deposit ratio
- Assessment area concentration
- Geographic distribution
- Borrower profile
- Response to CRA-related complaints

The Community Development Test considered the following factors.

- Number and dollar amount of community development loans, qualified investments and community development services
- The responsiveness of such activities to the community development needs of the assessment areas

Banks must achieve at least a satisfactory rating under each test to obtain an overall Satisfactory rating. This evaluation does not include any lending activity performed by affiliates.

### *Multiple Rated Areas*

As shown in the following table, Bank of Tennessee (BOT) operates branches in the State of Tennessee and one branch in North Carolina. The bank has three assessment areas (AAs) in the State of Tennessee and one assessment in North Carolina. The bank generated the highest dollar volume and a majority of loan activity in the State of Tennessee, based on home mortgage, small business, and small farm loans, and as such it received more weight in overall rating. This evaluation assigns a bank-wide rating along with each state being assigned a rating.

<b>Assessment Area Breakdown of Loans, Deposits, and Offices</b>						
<b>Assessment Area</b>	<b>Loans</b>		<b>Deposits</b>		<b>Offices</b>	
	<b>\$(000s)</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Johnson City MSA AA</b>	<b>97,632</b>	<b>39.2</b>	<b>504,091</b>	<b>64.5</b>	<b>11</b>	<b>57.9</b>
<b>Kingsport MSA AA</b>	<b>63,806</b>	<b>25.6</b>	<b>256,816</b>	<b>32.9</b>	<b>5</b>	<b>26.3</b>
<b>Nashville MSA AA</b>	<b>83,204</b>	<b>33.4</b>	<b>7,747</b>	<b>1.0</b>	<b>2</b>	<b>10.5</b>
<b>Rated Area –Tennessee</b>	<b>244,642</b>	<b>98.2</b>	<b>768,654</b>	<b>98.4</b>	<b>18</b>	<b>94.7</b>
<b>Rated Area -North Carolina Non-MSA AA</b>	<b>4,415</b>	<b>1.8</b>	<b>12,577</b>	<b>1.6</b>	<b>1</b>	<b>5.3</b>
<b>Total</b>	<b>249,057</b>	<b>100.0</b>	<b>781,231</b>	<b>100.0</b>	<b>19</b>	<b>100.0</b>

Source: Bank Records; HMDA & CRA Data (2014 - 1<sup>st</sup> 3 Qtrs. 2015); FDIC Summary of Deposits (6/30/15)

The table shows that of the assessment areas in which it operates, the bank generates 39 percent of its loans and 65 percent of its deposits in the Johnson City Metropolitan Statistical Area (MSA) Assessment Area. In addition, the bank maintains the majority of its branches in this assessment area. Consequently, examiners performed full-scope procedures and weighted performance in the State of Tennessee and the Johnson City MSA Assessment Area more heavily when arriving at overall conclusions and ratings. Additionally, examiners applied full-scope procedures for the assessment area located in North Carolina in order to arrive at a rating for that state. The Kingsport MSA and Nashville MSA Assessment Areas accounted for a smaller percentage of the bank's loans, deposits, and branches in Tennessee; therefore, examiners applied limited-scope procedures to these areas. Examiners weighted the institution's record in the State of Tennessee more heavily when arriving at the overall rating.

### ***Loan Products Reviewed***

Examiners determined that the bank's major product lines are small business and home mortgage loans. This conclusion considered the bank's business strategy and the number and dollar volume of loans originated since the prior evaluation. CRA Intermediate Small Bank procedures require examiners to consider a bank's home mortgage, small business, and small farm loans, as well as all reported community development loans granted since the prior evaluation. Examiners reviewed the most recent full calendar year of originations and purchases (2014), and noted consumer loans represented a nominal volume of lending by dollar volume and accounted for only 4 percent of total loans. Therefore, they provided no material support for conclusions and ratings and are not presented. Refer to Appendix C for a Glossary of Terms defining what constitutes a small business, small farm, or home mortgage loan for purposes of CRA analysis.

BOT voluntarily collects and reports small business and CRA loan data to Federal Financial Institutions Examination Council (FFIEC). Examiners tested and confirmed accuracy of the FFIEC reported data. Consequently, this evaluation considered all small business loan data collected by the bank for 2014 and 1<sup>st</sup>-3<sup>rd</sup> quarters of 2015. D&B data for 2014 as well as 2014 aggregate data provided a standard of comparison for the sampled small business loans.

This evaluation also considered all home mortgage loans reported on the bank's 2013, 2014, and 1<sup>st</sup>-3<sup>rd</sup> quarters of the 2015 Home Mortgage Disclosure Act (HMDA) Loan Application Registers (LARs). Examiners did not identify any trends with the HMDA or small business loan data between 2013, 2014, or 2015 that materially affect conclusions. CRA loan categories and universe sizes over the review period are reflected below. Therefore, this evaluation presents information for 2014 only, the most recent year for which aggregate data is available.

#### Home Mortgage Loans:

- 2013: 407 loans totaling \$65,493,000
- 2014: 566 loans totaling \$97,003,000
- 2015 (Year-to-Date January-September) 277 loans totaling \$42,471,000

#### Small Business Loans:

- 2013: 379 loans totaling \$80,125,000
- 2014: 478 loans totaling \$56,458,000
- 2015 (Year-to-date January-September): 476 loans totaling \$109,489,000

Small Farm Loans:

- 2013: 6 loans totaling \$907,000
- 2014: 1 loan totaling \$250,000
- 2015 (January-June): 5 loans totaling \$1,970,000

Community Development Loans:

- April 2013-December 2015: 61 loans totaling \$30,965,000

***Loan Product Weighting***

When weighing the loan products' effect on applicable conclusions, examiners only considered home mortgage and small business loans. As seen in the following table, the lending emphasis of reported loans for 2014 reflects a notable emphasis on home mortgage lending. Consequently, home mortgage loans generally received heavier weighting when arriving at applicable conclusions, unless otherwise noted. Additionally, no analysis was performed regarding small farm loans as they provided no support for conclusions, since they represented a nominal percentage of loans originated.

<b>Loans Reported</b>				
<b>Loan Type</b>	<b>Dollar Amount \$(000)</b>	<b>Percent %</b>	<b>Number</b>	<b>Percent %</b>
Home Mortgage	97,003	63.1	566	54.2
Small Business	56,458	36.7	478	45.7
Small Farm	250	0.2	1	0.1
<b>Total Loans</b>	<b>153,711</b>	<b>100.0</b>	<b>1,045</b>	<b>100.0</b>

*Source: Bank records (1/1/14 – 12/31/14).*

Since no trends exist that materially affect conclusions and ratings, except as otherwise noted, this evaluation only presents and discusses information for 2014, the most recent year for which aggregate data exists as of the evaluation date.

For the Lending Test, examiners reviewed the number and dollar volume of small business and home mortgage loans. While number and dollar volume of loans are presented, examiners emphasized performance by number of loans because the number of loans is a better indicator of the number of businesses and individuals served.

For the Community Development Test, bank management provided data on community development loans, qualified investments, and community development services since the prior CRA evaluation dated April 23, 2013. Examiners also consider any qualified investments purchased prior to the previous evaluation that remain outstanding as of current evaluation date.

## DESCRIPTION OF INSTITUTION

### ***Background***

Bank of Tennessee began operations in 1973. The bank is a wholly-owned subsidiary of BancTenn Corporation, a one-bank holding company headquartered in Kingsport, Tennessee. The bank has no subsidiaries but has an affiliate relationship with Paragon Commercial Bank and its parent company, Paragon Commercial Corporation, both headquartered in Raleigh, North Carolina. BOT also has an affiliate relationship with Bankers Title of East Tennessee, LLC headquartered in Knoxville, Tennessee.

BOT operates 18 offices in the following counties in Tennessee: Carter, Davidson, Hawkins, Sumner, Sullivan, Unicoi, and Washington. Additionally, BOT operates one office in Avery County, North Carolina. The bank received a “Satisfactory” rating based on CRA Intermediate Small Bank procedures at its previous April 23, 2013, Federal Deposit Insurance Corporation (FDIC) Performance Evaluation.

### ***Operations***

BOT operates 18 full-service offices throughout Middle and East Tennessee and one office in Western North Carolina. The main office is located in Kingsport, Tennessee. Since the last evaluation, one branch was opened in Hendersonville, Tennessee (Sumner County) and the Nashville, Tennessee branch (Davidson County) in West End was closed, with another office nearby in Nashville opened. In addition, two loan production offices were opened during the evaluation period. No merger or acquisitions occurred since the prior evaluation.

A variety of loan products are offered including mortgage, construction, commercial, agricultural, home equity, credit cards, vehicle, and other personal loans to meet local area credit needs. The bank also provides a variety of deposit services including checking, savings, and time deposits. Other account products and services include safe deposit boxes and E-statements as well as an investment advisory service. The institution maintains banking hours typical for its assessment areas and the industry. Alternative banking services offered include online banking and bill pay, mobile banking, person-to-person transfers, telephone banking, remote deposit capture for business accounts, and the 16 automated teller machines that the bank operates. Since the bank did not provide an ATM in Nashville, it allowed its Nashville customers to use any ATM without incurring a fee from BOT or the ATM proprietor.

### ***Ability and Capacity***

Assets totaled approximately \$933 million as of September 30, 2015, and included total loans of \$658 million and securities totaling \$203 million. The prior evaluation was dated April 2013, but utilized financial data as of December 31, 2012. The institution total assets reflect a 42 percent growth rate since then, due to the merger of Carter County Bank which occurred prior to the date of the last evaluation.

The loan portfolio (composition of loans outstanding) as of September 30, 2015 by loan type is reflected in the table.

<b>Loan Portfolio Distribution as of 9/30/15</b>		
<b>Loan Category</b>	<b>\$(000s)</b>	<b>%</b>
Construction, Land Development, and Other Land Loans	49,158	7.4
Secured by Farmland	3,092	0.5
Secured by 1-4 Family Residential Properties	252,807	38.4
Secured by Multi-family (5 or more) Residential Properties	52,409	8.0
Secured by Non-farm Non-Residential Properties	221,695	33.7
<b>Total Real Estate Loans</b>	<b>579,161</b>	<b>88.0</b>
Commercial and Industrial Loans	51,708	7.9
Agricultural Production and Other Loans to Farmers	602	0.1
Consumer	14,204	2.1
Obligations of States and Political Subdivisions in the United States	9,096	1.4
Other Loans	3,035	0.5
Lease Financing Receivables (net of unearned income)	0	0.0
Less: Unearned Income	0	0.0
<b>Total Loans</b>	<b>657,806</b>	<b>100.0</b>
<i>Source: Reports of Condition and Income</i>		

Examiners did not identify any financial, legal, or other impediments that affect the bank's ability to meet the credit needs of its assessment areas.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS**

This evaluation presents information for the bank as a whole regarding the Lending Test criteria of Loan-to-Deposit (LTD) Ratio and Assessment Area Concentration and bank-wide data for the Community Development Test. The evaluation contains detailed information regarding the Lending Test's loan distribution performance factors, both geographically and by borrower profiles, in the individual rated area discussions.

### **LENDING TEST**

BOT demonstrated a "Satisfactory" record regarding the Lending Test. The bank's reasonable performance regarding the LTD ratio, borrower profile loan distribution, and geographic loan distribution primarily support this conclusion. In addition, the bank originated a majority of its lending within the designated assessment areas.

As previously described, when arriving at applicable conclusions, particularly for the loan distribution performance factors, examiners weighed each rated area's record relative to the percentages of loans originated within each area; consequently, they placed more weight on performance in the State of Tennessee. Additionally, home mortgage loans accounted for 63 percent of reported loans and small business loans accounted for 37 percent of reported loan originations in 2014.

### **Loan-to-Deposit Ratio**

The bank exhibited a reasonable record regarding its loan-to-deposit ratio. Examiners considered the bank's size, business strategy, and capacity relative to the assessment areas' credit needs when arriving at this conclusion.

The level of lending based on the average loan-to-deposit (LTD) ratio reflects reasonable performance given the institution's size, financial condition, and assessment areas' credit needs. The LTD ratio, calculated from Call Report data, averaged 80.7 percent over the past 10 calendar quarters from June 30, 2013 to September 30, 2015. The ratio ranged from a low of 78.7 percent as of September 30, 2014 to a high of 85.2 percent as of September 30, 2015. The LTD ratio increased from September 2014 to September 2015 as loans grew 7.7 percent while deposits declined 0.6 percent. Overall, the level of lending over the review period has remained generally consistent.

BOT maintained a ratio similar to those of comparable institutions, as shown in the following table. Examiners identified similarly situated institutions operating within the bank's assessment areas with a similar asset size and loan portfolio composition for comparison. BOT's average LTD ratio over the review period was generally consistent with the comparable institutions and reflects reasonable performance.

<b>Loan-to-Deposit Ratio Comparison</b>		
<b>Institution</b>	<b>Total Assets as of 9/30/15 \$ (000s)</b>	<b>Average Net LTD Ratio (%)</b>
Avenue Bank – Nashville, TN	1,108,202	84.5
Bank of Tennessee – Kingsport, TN	932,764	80.7
CapStar Bank – Nashville, TN	1,135,767	75.0
Citizens Bank – Elizabethton, TN	676,270	81.5
<i>Source: Reports of Income and Condition 6/30/13 through 9/30/15</i>		

### **Lending Concentration**

The institution originated a majority of its lending within the designated assessment areas by both number and dollar volume. As reflected below, a substantial majority of small business loans and a majority of the bank’s home mortgage loans were originated within the bank’s assessment areas. The following table shows the distribution of loans originated and purchased by number, and dollar volume, and respective percentages inside the assessment areas.

<b>Lending Inside and Outside of the Assessment Areas</b>										
<b>Loan Category</b>	<b>Number of Loans</b>				<b>Total #</b>	<b>Dollars Amount of Loans \$(000s)</b>				<b>Total \$(000s)</b>
	<b>Inside</b>		<b>Outside</b>			<b>Inside</b>		<b>Outside</b>		
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>		<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	
Home Mortgage	442	78.1	124	21.9	566	72,205	74.4	24,798	25.6	97,003
Small Business	456	95.4	22	4.6	478	53,852	95.4	2,606	4.6	56,458
<i>Source: 2014 HMDA Reported Data, 2014 Small Business Reported Data</i>										

### **Borrower Profile Loan Distribution**

BOT’s distribution of borrowers demonstrates a reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes given the demographics of its assessment areas. Reasonable records for the State of Tennessee outweigh poor performance in the State of North Carolina. The minimal lending activity in the North Carolina Assessment Area results in a poor record for both small business and home mortgage lending performance. The bank only originated 2 home mortgage loans and 6 small business loans in 2014, which is an insufficient number of loans to form any valid conclusions on borrower loan distribution. Given the percentage of deposits derived from North Carolina and the branch distribution at this evaluation, the poor performance in North Carolina did not adversely impact the bank’s overall performance under this criterion. Examiners considered the loan product types reviewed relative to the available comparative data and any performance context issues to form conclusions. This factor only considered loans granted inside the bank’s assessment areas.

### ***Small Business Lending***

For the State of Tennessee, the bank displayed a reasonable record regarding the borrower profile loan distribution to businesses with gross annual revenues of \$1 million or less; however, for the State of North Carolina, the bank displayed a poor record based on nominal number of loans being originated. Consequently, given the greater weighting to the State of Tennessee, the bank displayed a reasonable record regarding its small business lending.

### ***Home Mortgage Lending***

For the State of Tennessee, the bank displayed a reasonable record regarding its borrower profile loan distribution of home mortgage loans to families reporting low- and moderate-incomes. However, for the State of North Carolina, the bank displayed a poor record regarding its borrower profile loan distribution of home mortgage loans based on nominal loan volume. Consequently, given the greater weighting to the State of Tennessee, the bank displayed a reasonable record regarding its home mortgage lending.

Based on the weighting afforded each loan product as described under the Scope of Evaluation and given the relative records for each loan product, the overall reasonable record is supported by a reasonable record regarding small business loans and home mortgage loans which supports the overall reasonable borrower profile conclusion.

## **Geographic Loan Distribution**

The bank's geographic distribution of small business and home mortgage loans reflects reasonable dispersion throughout its assessment areas. Reasonable records for the State of Tennessee outweigh poor performance in the State of North Carolina. As stated above the nominal lending activity in the North Carolina Assessment Area results in poor performance, with an insufficient number of loans to analyze to form any valid conclusions with regard to geographic loan distribution for both small business and home mortgage lending. Examiners considered the loan product types reviewed relative to the available comparative data and any performance context issues to form conclusions. This factor only considered loans granted inside the bank's assessment areas.

### ***Small Business Lending***

For the State of Tennessee, the bank demonstrated a reasonable record regarding its geographic loan distribution of small businesses in low- and moderate-income geographies. For the State of North Carolina, the bank demonstrated a poor record based on a low volume of loans being originated. Overall, the bank displayed a reasonable record regarding its small business lending given the greater weight afforded to the State of Tennessee.

### ***Home Mortgage Lending***

For the State of Tennessee, the bank displayed reasonable performance regarding its geographic loan distribution in low- and moderate-income geographies in the assessment areas. For the State of North Carolina, the bank displayed poor performance regarding its geographic distribution based on nominal lending activity in the assessment area. Consequently, given the weighting of the states, the bank displayed an overall reasonable level of home mortgage lending within low- and moderate-income geographies.

## **Response to Complaints**

BOT did not receive any CRA-related complaints since the previous evaluation; therefore, this performance factor did not affect the Lending Test rating.

## **COMMUNITY DEVELOPMENT TEST**

Bank of Tennessee's demonstrated adequate responsiveness to community development (CD) needs in its assessment areas through a combination of CD loans, qualified investments, and CD services, as appropriate, considering the institution's capacity and the need and availability of such opportunities for community development in the institution's assessment areas. Overall adequate performance is supported by reasonable performance in the State of Tennessee which offset poor performance in the State of North Carolina. The following summarizes the bank's performance in relation to its CD activities.

- The bank originated 61 CD loans totaling nearly \$31 million, which equals 3.4 percent of the institution's average total assets since the last evaluation. Examiners considered this level of lending, primarily for the affordable housing efforts, to exhibit excellent responsiveness to CD needs of its assessment areas.
- The bank's qualified investments include 30 securities totaling nearly \$4.9 million, which equals 0.53 percent of average total assets since the last evaluation. Examiners considered this level of qualified investments to represent adequate responsiveness to the CD needs of the bank's assessment areas.
- The bank provided 66 CD services during the evaluation period. This level of responsiveness to identified CD needs is considered reasonable.

## **Community Development Lending**

The bank demonstrated excellent performance regarding CD lending considering its capacity and the need and availability of such opportunities in its assessment areas.

The following tables show that the bank granted a total of 61 CD loans totaling nearly \$31 million, which equates to 3.38 percent of the institution's average total assets and 5.01 percent of average net loans since the last evaluation. The level of CD loans has declined since the prior evaluation, where CD loans represented 4.27 percent of average assets. However the dollar amount of CD loans has increased by over \$3 million since the last evaluation.

The bank's community development lending includes two loans totaling \$5,300,000 outside the assessment areas to entities that serve a broader regional area that includes the bank's assessment areas. However, these loans will not directly benefit the assessment areas. As the bank has been responsive to the community development needs of its assessment area, examiners considered these two loans under the Community Development Test.

Community Development Lending by Rated Area – Whole Bank												
Rated Area	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Neighborhood Stabilization		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
State of Tennessee	32	22,891	21	2,328	0	0	0	0	0	0	53	25,219
State of North Carolina	6	446	0	0	0	0	0	0	0	0	6	446
Regional Area	2	5,300	0	0	0	0	0	0	0	0	2	5,300
<b>Total</b>	<b>40</b>	<b>28,637</b>	<b>21</b>	<b>2,328</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>61</b>	<b>30,965</b>

Source: Bank Records

Community Development Lending by Activity Year – Whole Bank												
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Neighborhood Stabilization		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2013	10	4,650	8	524	0	0	0	0	0	0	18	5,174
2014	17	7,035	8	1,008	0	0	0	0	0	0	25	8,043
2015	13	16,952	5	796	0	0	0	0	0	0	18	17,748
<b>Total</b>	<b>40</b>	<b>28,637</b>	<b>21</b>	<b>2,328</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>61</b>	<b>30,965</b>

Source: Bank Records

The following points summarize the bank’s CD lending activities.

- **Affordable Housing** – Since the previous evaluation, the bank originated 40 loans totaling approximately \$28.6 million to finance multi-family housing projects that provide affordable housing for low- and moderate-income families.
- **Community Services** – Since the previous evaluation, the bank originated 21 loans totaling approximately \$2.3 million to various entities that provide community services to low- and moderate-income families and individuals.

### **Qualified Investments**

The institution demonstrated adequate performance regarding the level of qualified investment activity given the bank’s capacity and the need and availability of such opportunities in its assessment areas.

The following tables show that the bank made use of 30 qualified investments totaling nearly \$4.9 million. This dollar figure equates to 0.53 percent of average total assets since the last evaluation and 2.31 percent of average total investments. This figure also considered qualified investments originated prior to the last evaluation that retained outstanding balances as of this evaluation’s date. The level of community development investments and grants decreased slightly since the prior evaluation, where they represented 0.59 percent of average assets.

Qualified Investments by Rated Area – Whole Bank												
Rated Area	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Neighborhood Stabilization		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
State of Tennessee	2	1,908	0	0	1	975	4	1,985	0	0	7	4,868
State of North Carolina	0	0	0	0	0	0	0	0	0	0	0	0
Regional Area	0	0	0	0	0	0	0	0	0	0	0	0
<b>Subtotal</b>	2	1,908	0	0	1	975	4	1,985	0	0	7	4,868
<b>Qualified Grants &amp; Donations</b>	0	0	23	30	0	0	0	0	0	0	23	30
<b>Total</b>	2	1,908	23	30	1	975	4	1,985	0	0	30	4,898

Source: Bank Records

Qualified Investments by Activity Year – Whole Bank												
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Neighborhood Stabilization		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior Period*	1	246	0	0	0	0	3	960	0	0	4	1,206
2013	0	0	0	0	0	0	0	0	0	0	0	0
2014	0	0	0	0	1	975	0	0	0	0	1	975
2015	0	0	0	0	0	0	1	1,025	0	0	1	1,025
YTD 2016	1	1,662	0	0	0	0	0	0	0	0	1	1,662
<b>Subtotal</b>	2	1,908	0	0	1	975	4	1,985	0	0	7	4,868
<b>Qualified Grants &amp; Donations</b>	0	0	23	30	0	0	0	0	0	0	23	30
<b>Total</b>	2	1,908	23	30	1	975	4	1,985	0	0	30	4,898

Source: Bank Records \*This includes previous period investments with outstanding balances at this evaluation.

The following point summarizes the bank’s qualified investment activities.

- **Revitalize/Stabilize** – A majority of the bank’s investments were in municipal bonds helping to fund electrical and water system improvements in low- and moderate-income (LMI) areas.

### **Community Development Services**

Bank of Tennessee demonstrated adequate performance regarding CD services considering its capacity and the need and availability of such opportunities in its assessment areas. An adequate level of qualified CD services responding to the CD needs of its assessment areas supports this conclusion.

**Types of Services**

The bank established an adequate record of providing the types of services that primarily benefit low- and moderate-income individuals. An adequate extent, or number, of CD services supports this conclusion.

The following tables show the bank’s CD services by rated area and activity year. During the evaluation period, bank employees provided 66 instances of financial expertise or technical assistance to 29 different community development-related organizations within the bank’s assessment areas. This represents a decrease since the last evaluation where 84 community development services were noted.

<b>Community Development Services by Rated Area – Whole Bank</b>						
<b>Rated Area</b>	<b>Affordable Housing</b>	<b>Community Services</b>	<b>Economic Development</b>	<b>Revitalize or Stabilize</b>	<b>Neighborhood Stabilization</b>	<b>Totals</b>
	#	#	#	#	#	#
State of Tennessee	5	57	1	0	0	<b>63</b>
State of North Carolina	3	0	0	0	0	<b>3</b>
<b>Total</b>	<b>8</b>	<b>57</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>66</b>

*Source: Bank Records*

<b>Community Development Services by Activity Year – Whole Bank</b>						
<b>Activity Year</b>	<b>Affordable Housing</b>	<b>Community Services</b>	<b>Economic Development</b>	<b>Revitalize or Stabilize</b>	<b>Neighborhood Stabilization</b>	<b>Totals</b>
	#	#	#	#	#	#
2013	3	14	0	0	0	<b>17</b>
2014	3	19	0	0	0	<b>22</b>
2015	2	24	1	0	0	<b>27</b>
<b>Total</b>	<b>8</b>	<b>57</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>66</b>

*Source: Bank Records*

The following points list examples of CD services.

- **Affordable Housing** – A bank employee served as the Chair of the Tennessee Affordable Housing Coalition. This organization includes not-for-profit housing providers, public housing agencies, builders, realtors, lenders, and agencies from various governmental levels. The mission of the organization is to serve as a catalyst to continuously improve the availability and quality of safe, sound, and affordable housing in the State of Tennessee.
- **Community Services**– A bank employee serves as the Treasurer of a not-for-profit agency providing medical and dental services to LMI individual and families in the Kingsport MSA AA.

Additionally, the bank demonstrated leadership in providing certain community development service activities. Specifically, the bank demonstrated leadership through BOT’s extensive use

of the grant programs made available by the Federal Home Loan Bank (FHLB) of Cincinnati. The bank's expertise in these grant programs is sought out by LMI borrowers throughout Upper East Tennessee and Northwestern North Carolina. During the review period, BOT provided assistance to 58 borrowers in applying for more than \$5.3 million in grants. Nearly \$3.9 million of these grants were awarded.

**Availability of Services**

The institution demonstrated an adequate record of providing services to low- and moderate-income people through branches and other facilities in low- and moderate-income areas. The distribution of branches in combination with the provision of alternative banking systems supports this conclusion.

The bank does not operate any offices in low-income census tracts; however, these geographies only comprise 8.5 percent of the population (and an even smaller percentage of individuals able to enter into banking relationships). The bank has 21.1 percent of its offices and 17.7 percent of its ATMs located in moderate-income census tracts, which only slightly trails the 23.9 percent of the bank-wide population in moderate-income areas. The branching network and availability of services and offices reflects reasonable accessibility to low- or moderate- income individuals and moderate-income census tracts.

<b>Branch and ATM Distribution - Whole Bank</b>								
<b>Census Tract Income Category</b>	<b>Census Tracts in Assessment Areas</b>		<b>Total Population</b>		<b>Offices</b>		<b>ATMs</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
Low	33	10.1	111,369	8.5	0	0.0	0	0.0
Moderate	79	24.2	314,219	23.9	4	21.1	3	17.7
Middle	137	41.9	553,027	42.1	7	36.8	6	35.3
Upper	74	22.6	330,723	25.2	8	42.1	8	47.0
NA	4	1.2	4,045	0.3	0	0	0	0
<b>Total</b>	<b>327</b>	<b>100.0</b>	<b>1,313,383</b>	<b>100.0</b>	<b>19</b>	<b>100.0</b>	<b>17</b>	<b>100.0</b>

*Source: 2010 U.S. Census (Updated 2014); Bank records.*

Besides its facility locations, the bank offers telephone banking services, online banking and bill pay services, mobile banking, and debit and credit cards. These services, particularly the telephone banking services, help avail the bank's services to low- and moderate-income individuals.

In addition to the services included above, BOT continues to partner with the Upper East Tennessee Human Development Agency (UETHDA) to establish individual development accounts (IDAs) for low- and moderate-income first-time homebuyers. This program helps participants establish accounts with BOT with specific dollar goals, which UETHDA then matches two-for-one. The participants use the funds for down payment assistance or closing costs to obtain housing. BOT provides these savings accounts with no monthly service charges, no minimum balance requirements, no fees, and special interest rates. The bank presently holds 18 IDAs totaling approximately \$5,000.

## **DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

Examiners did not identify any evidence of discriminatory or other illegal credit practices; therefore, this consideration did not affect the institution's overall CRA rating.

## STATE OF TENNESSEE

### ***CRA RATING FOR TENNESSEE: Satisfactory***

A 'Satisfactory' rating regarding the Lending Test, and a 'Satisfactory' rating regarding the Community Development Test, support this state's rating. Examiners did not identify any discriminatory or other illegal credit practices; therefore, this consideration did not affect the overall rating. The following discussion summarizes the bank's performance under each test, which is detailed in the body of this section of the evaluation.

#### **Lending Test is rated Satisfactory.**

Reasonable records regarding borrower profile and geographic loan distributions support this rating. The following points summarize performance regarding the applicable performance factors, discussed in detail elsewhere.

- BOT established a reasonable record in the State of Tennessee regarding its borrower profile loan distribution among businesses of different sizes and individuals of different income levels. Reasonable performances regarding small business and home mortgage loans support this conclusion.
- BOT achieved a reasonable record regarding its geographic loan distribution. Reasonable performances regarding small business and home mortgage loans support this conclusion.

#### **Community Development Test is rated Satisfactory.**

Bank of Tennessee demonstrated an adequate record in the State of Tennessee regarding the Community Development (CD) Test. The bank's CD performance demonstrates adequate responsiveness to CD needs in the State of Tennessee through CD loans, qualified investments, and CD services, as appropriate, considering the institution's capacity and the need and availability of such opportunities for CD in the State. Adequate community development activities were illustrated by an adequate level of qualified investments and services, and an excellent level of loans.

## SCOPE OF EVALUATION

The time period covered for the State of Tennessee remained consistent with that used for the bank as a whole. The bank designated three assessment areas within the State of Tennessee: 1) the Johnson City MSA Assessment Area consisting of all of Carter, Unicoi, and Washington Counties; 2) the Kingsport Multi-State MSA Assessment Area (Kingsport AA) containing all of Hawkins and Sullivan Counties in Tennessee and Bristol City, Scott, and Washington Counties in Virginia; and 3) the Nashville MSA Assessment Area containing all of Davidson and Sumner Counties. As noted previously, examiners applied full-scope procedures to the review of the Johnson City MSA Assessment Area (AA) and limited-scope procedures to the Kingsport and Nashville MSA Assessment Areas.

The bank's lending emphasis in the State of Tennessee remained relatively consistent with the overall lending focus; therefore, examiners considered the bank's small business and home mortgage lending to arrive at conclusions for the Lending Test. When evaluating the borrower profile and geographic loan distribution factors, loan products were weighted according to the lending focus in the various AAs. For this evaluation the following summarizes how examiners weighted small business and home mortgage loans in forming conclusions for these two performance criteria: Johnson City MSA AA equal weight to both loan products, Kingsport AA more weight to small business loans, and in the Nashville AA more weight was afforded to home mortgage lending performance. The weighting evaluated the number and dollar volume of loans in 2014, the year presented.

This analysis presents an analysis of the 2014 small business loans reported by the bank to the FFIEC that were originated in the Johnson City MSA Assessment Area. For 2014, there were 274 loans totaling \$26.7 million originated in the Johnson City MSA Assessment Area. This data is compared to D&B demographic data and 2014 aggregate data. Due to the limited-scope review of the other two Tennessee assessment areas, no small business analysis is presented. However, data on all assessment areas is presented in Appendix D.

This evaluation also presents an analysis of the 2014 HMDA data for loans originated and purchased by the bank in the Johnson City MSA Assessment Area. For 2014, there were 183 loans totaling \$26.8 million originated in this assessment area. This data is compared to the demographics of the area and the 2014 HMDA aggregate data. Due to the limited-scope review of the other Tennessee assessment areas, no HMDA analysis is presented. However, data on all assessment areas is presented in Appendix D.

Since none of the other loan types represents a major product line in this area and thus would not materially affect any conclusions or ratings, including small farm and consumer loans, this evaluation does not discuss them.

## DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE STATE OF TENNESSEE

As previously noted, the State of Tennessee accounted for 98.2 percent of the bank's originated loans, 98.4 percent of its deposits, and 94.7 percent of its branches. The bank operates a total of 18 offices in the State of Tennessee with 5 offices in Carter County, 1 office in Davidson County, 5 offices in Sullivan County, 1 office in Sumner County, 1 office in Unicoi County and 5 offices in Washington County. These counties encompass the bank's three designated assessment areas in the State of Tennessee. The designated assessment areas conform to CRA regulatory requirements and do not arbitrarily exclude any low- or moderate-income census tracts. The section below further describes each of the bank's designated assessment areas.

### **Johnson City MSA Assessment Area (Full-scope)**

The Johnson City MSA AA comprises the entire Johnson City, TN MSA and includes all of Carter, Unicoi, and Washington Counties in Tennessee. As of 2014, this assessment area includes 44 census tracts with the following income designations according to 2010 Census: 1 low-income, 15 moderate-income, 19 middle-income and 8 upper-income census tracts. There is also one census tract with no income level designation. As seen in the following table, Bank of Tennessee operates 11 offices in this assessment area, with 3 located in a moderate-income tract, 4 in middle-income tracts, and 4 in upper-income tracts.

<b>Office Distribution – Johnson City MSA Assessment Area</b>				
<b>Office Name</b>	<b>Office Type</b>	<b>Census Tract</b>	<b>CT Income Level</b>	<b>Opened or Closed Since Last Examination</b>
<b>Carter County</b>				
Downtown Elizabethtown	Full Service	0701.00	Moderate	No
Milligan-Pinecrest	Full Service	0708.00	Middle	No
Roan Mountain	Full Service	0717.00	Middle	No
Williamsburg	Full Service	0703.00	Moderate	No
Village	Full Service	0701.00	Moderate	No
<b>Unicoi County</b>				
Erwin	Full Service	0804.00	Middle	No
<b>Washington County</b>				
Gray	Full Service	0615.00	Middle	No
Jonesborough	Full Service	0617.01	Upper	No
Med Tech	Full Service	0604.00	Upper	No
Mountcastle	Full Service	0604.00	Upper	No
University	Full Service	0605.02	Upper	No
<i>Source: Internal Bank Data and 2010 U.S. Census.</i>				

### ***Economic and Demographic Data***

The following table illustrates select demographic characteristics of this assessment area.

<b>Demographic Information of the Johnson City MSA Assessment Area</b>						
<b>Demographic Characteristics</b>	<b>#</b>	<b>Low % of #</b>	<b>Moderate % of #</b>	<b>Middle % of #</b>	<b>Upper % of #</b>	<b>NA* % of #</b>
Geographies (Census Tracts)	44	2.3	34.1	43.2	18.1	2.3
Population by Geography	198,716	1.3	26.2	44.8	26.6	1.1
Housing Units by Geography	92,058	1.4	28.0	44.8	25.8	0.0
Owner-Occupied Units by Geography	56,344	0.8	23.4	49.1	26.7	0.0
Occupied Rental Units by Geography	24,300	2.3	36.5	35.0	26.2	0.0
Vacant Units by Geography	11,414	2.3	32.5	44.6	20.6	0.0
Businesses by Geography	11,595	1.4	24.9	38.6	34.4	0.7
Family Distribution by Income Level	52,505	22.2	17.2	19.7	40.9	0.0
Median Family Income (2010 U.S. Census)		\$47,017	Median Housing Value			\$128,745
FFIEC-Estimated Median Family Income for 2014		\$51,300	Median Gross Rent			\$557
			Families Below Poverty Level			14.1%

*Source: 2010 U.S. Census, 2014 D&B Data, and FFIEC Estimated Median Family Income; (\*) The NA category consists of geographies that have not been assigned an income classification.*

According to 2014 D&B data, there were 11,595 businesses. Gross annual revenues (GARs) for these businesses are below.

- 70.9 percent have \$1 million or less.
- 3.9 percent have more than \$1 million.
- 25.2 percent have unknown revenues.

The analysis of small business loans under the Borrower Profile criterion compares the distribution of businesses by GAR level. The Geographic Distribution criterion analyzes the dispersion of loans in the assessment area, with emphasis on the bank's lending record in low- or moderate- income geographies and compares the institution's performance to demographic data (percentage of owner-occupied housing units or percentage of businesses located in those geographies). Service industries represent the largest portion of businesses at 43.3 percent; followed by retail trade at 14.8 percent. Additionally, 64.1 percent of area businesses have four or fewer employees, and 89.2 percent operate from a single location.

The 2014 FFIEC-updated median family income level is used to analyze home mortgage loans under the Borrower Profile criterion. The low-, moderate-, middle- and upper-income categories are presented in the following table. These categories are based on the 2014 FFIEC-updated median family income of \$51,300. The 2010 U.S. Census MFI of \$47,017 is used to define the income levels of the geographies within the assessment area, which is used for the Geographic Distribution analysis.

<b>Median Family Income Ranges</b>				
<b>Median Family Incomes</b>	<b>Low &lt;50%</b>	<b>Moderate 50% to &lt;80%</b>	<b>Middle 80% to &lt;120%</b>	<b>Upper ≥120%</b>
2014 (\$51,300)	<\$25,650	\$25,650 to <\$41,040	\$41,040 to <\$61,560	≥\$61,560

*Source: FFIEC*

There are 92,058 housing units. Of these, 61.2 percent are owner-occupied, 26.4 percent are occupied rental units, and 12.4 percent are vacant. The Geographic Distribution criterion compares home mortgage loans to the distribution of owner-occupied housing units.

Data obtained from the U. S. Bureau of Labor and Statistics indicates that the 2015 year-end unemployment rate was 5.3 percent for the State of Tennessee, which is slightly higher than the national unemployment rate of 5.0 percent. The year-end unemployment rate for the Johnson City MSA AA, 5.8 percent, is higher than the national and state unemployment, but has declined significantly since the prior evaluation. Major employers in the assessment area, include Mountain States Health Alliance, US Veterans Medical Center, American Water Heater Company, and Watauga Children and Youth Services.

### ***Competition***

The assessment area is moderately competitive in the market for financial services and highly competitive in the lending market. According to the FDIC Deposit Market Share data as of June 2015, there were 21 financial institutions that operated 68 full-service branches within the Johnson City MSA Assessment Area. Of these institutions, BOT ranked 2<sup>nd</sup> with a 17.8 percent deposit market share.

There is a high level of competition for home mortgage loans. In 2014, 207 lenders reported a total of 4,032 residential mortgage loans originated or purchased. BOT ranked 5<sup>th</sup> out of this group of lenders with only 4.5 percent of the market share. The three most prominent home mortgage lenders accounted for 23.7 percent of total market share.

The bank is not required to collect or report its small business loan data, but elected to do so. Therefore, the analysis of small business loans under the Lending Test includes comparisons against aggregate data. The aggregate data reflects the level of demand for small business loans. The 2014 aggregate data shows that 48 institutions reported 2,073 small business loans in the Johnson City MSA Assessment Area, indicating a high degree of competition for this product. BOT ranked 2<sup>nd</sup> out of this group of lenders with 13.8 percent of the market share.

### ***Community Contact***

As part of the evaluation process, examiners contact third parties active in the assessment areas to assist in identifying the credit and community development needs. This information helps determine whether local financial institutions are responsive to these needs. It also shows what credit and community development opportunities are available.

Examiners utilized a previous community contact with an organization that promotes both economic development and affording housing in an eight county area that included Carter, Unicoi, and Washington Counties. The contact noted a particular need in the area of micro-lending for commercial and consumer loans. In addition, the contact stated that there is a need for working capital loans for small and mid-size businesses. Overall, the contact indicated that financial institutions have been responsive to the credit and community development needs.

### ***Community Credit Needs and Opportunities***

Consistent with other metropolitan areas, the bank's assessment area created varied loan demand for commercial, home mortgage, and consumer loans. Despite the competition levels, lending

opportunities still exist. Considering information obtained from the community contacts, bank management, review of other performance evaluations, and demographic and economic information, examiners concluded that the primary credit needs of this assessment area include small business and home mortgage loans. Community development needs in the area primarily involve revitalizing or stabilizing low- or moderate-income areas, affordable housing, and economic development projects.

**Kingsport MSA Assessment Area (Limited-scope)**

The Kingsport MSA AA is comprised of the entire Kingsport-Bristol-Bristol, TN-VA multi-state MSA and includes Hawkins and Sullivan Counties in upper east Tennessee along with Bristol City, Scott, and Washington Counties in southwestern Virginia. As of 2014, this assessment area includes 75 census tracts with the following income designations according to 2010 Census: 2 low- income, 14 moderate- income, 42 middle- income, and 17 upper- income census tracts. As seen in the following table, BOT operates 5 offices in this assessment area, with 1 located in a moderate-income tract, 2 in middle-income tracts, and 2 in upper-income tracts.

<b>Office Distribution</b>				
<b>Office Name</b>	<b>Office Type</b>	<b>Census Tract</b>	<b>CT Income Level</b>	<b>Opened or Closed Since Last Examination</b>
<b>Sullivan County</b>				
Blountville	Full Service	0434.02	Middle	No
Bristol	Full Service	0426.00	Middle	No
Colonial Heights	Full Service	0412.00	Upper	No
Eastman Road	Full Service	0407.00	Upper	No
Main Office	Full Service	0402.00	Moderate	No
<i>Source: Internal Bank Data and 2010 U.S. Census.</i>				

***Economic and Demographic Data***

The following table illustrates select demographic characteristics of this assessment area.

Demographic Information of the Kingsport MSA Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	75	2.7	18.7	56.0	22.6	0.0
Population by Geography	309,544	2.0	19.2	56.7	22.1	0.0
Housing Units by Geography	146,046	2.1	19.7	57.2	21.0	0.0
Owner-Occupied Units by Geography	97,623	1.4	17.6	57.0	24.0	0.0
Occupied Rental Units by Geography	32,899	4.0	23.4	58.1	14.5	0.0
Vacant Units by Geography	15,524	2.4	25.1	56.3	16.2	0.0
Businesses by Geography	18,993	1.8	17.8	58.0	22.4	0.0
Family Distribution by Income Level	89,608	21.9	17.1	20.5	40.5	100.0
Median Family Income (2010 U.S. Census)		\$48,038	Median Housing Value			\$114,374
FFIEC-Estimated Median Family Income for 2014		\$50,600	Median Gross Rent			\$537
			Families Below Poverty Level			12.9%

*Source: 2010 U.S. Census, 2014 D&B Data, and FFIEC Estimated Median Family Income; (\*) The NA category consists of geographies that have not been assigned an income classification.*

According to 2014 D&B data, there were 18,993 businesses. Gross annual revenues (GARs) for these businesses are below.

- 70.9 percent have \$1 million or less.
- 4.2 percent have more than \$1 million.
- 24.9 percent have unknown revenues.

The analysis of small business loans under the Borrower Profile criterion compares the distribution of businesses by GAR level. The Geographic Distribution criterion analyzes the dispersion of loans in the assessment area, with emphasis on the bank's lending record in low- or moderate- income geographies and compares the institution's performance to demographic data (percentage of owner-occupied housing units or percentage of businesses located in those geographies). Service industries represent the largest portion of businesses at 42.5 percent; followed by retail trade at 13.9 percent. Additionally, 64.8 percent of area businesses have four or fewer employees, and 89.0 percent operate from a single location.

Service industries represent the largest portion of businesses at 43.3 percent; followed by retail trade at 14.8 percent. Additionally, 64.1 percent of area businesses have four or fewer employees, and 89.2 percent operate from a single location.

The 2014 FFIEC-updated median family income level is used to analyze home mortgage loans under the Borrower Profile criterion. The low-, moderate-, middle- and upper-income categories are presented in the following table. These categories are based on the 2014 FFIEC-updated median family income of \$50,600. The 2010 U.S. Census MFI of \$48,038 is used to define the income levels of the geographies within the assessment area, which is used for the Geographic Distribution analysis.

<b>Median Family Income Ranges</b>				
<b>Median Family Incomes</b>	<b>Low &lt;50%</b>	<b>Moderate 50% to &lt;80%</b>	<b>Middle 80% to &lt;120%</b>	<b>Upper ≥120%</b>
2014 (\$50,600)	<\$25,300	\$25,300 to <\$40,480	\$40,480 to <\$60,720	≥\$60,720
<i>Source: FFIEC</i>				

There are 146,046 housing units. Of these, 66.9 percent are owner-occupied, 22.5 percent are occupied rental units, and 10.6 percent are vacant. The Geographic Distribution criterion compares home mortgage loans to the distribution of owner-occupied housing units.

The unemployment rate for the Kingsport MSA AA was 5.1 percent at year-end 2015. This is consistent with the state and national unemployment rates and has been declining since the prior evaluation. Major employers in the assessment area include: Eastman Chemical Company, Pfizer Inc., Holston Valley Medical Center, and Exide Technologies.

***Competition***

The assessment area is moderately competitive in the market for financial services and highly competitive lending market. According to the FDIC Deposit Market Share data as of June 2015, there were 18 financial institutions that operated 62 full-service branches within the Kingsport MSA Assessment Area. Of these institutions, BOT ranked 3<sup>rd</sup> with an 11.1 percent deposit market share.

There is a very high level of competition for home mortgage loans. In 2014, 246 lenders reported a total of 5,613 residential mortgage loans originated or purchased. BOT ranked 14<sup>th</sup> out of this group of lenders with only 1.7 percent of the market share. The three most prominent home mortgage lenders accounted for 32.2 percent of total market share.

The bank is not required to collect or report its small business loan data, but elected to do so. Therefore, the analysis of small business loans under the Lending Test includes comparisons against aggregate data. The aggregate data reflects the level of demand for small business loans. The 2014 aggregate data shows that 48 institutions reported 2,041 small business loans in the Tennessee portion of the Kingsport MSA Assessment Area, indicating a high degree of competition for this product. In the Tennessee portion of this assessment area, BOT ranked 4<sup>th</sup> out of the group of lenders with 7.55 percent of the market share. The 2014 Aggregate data for the Virginia portion of the assessment areas shows that 44 institutions reported 1,506 small business loans, indicating a high degree of competition for this product. In the Virginia portion of this assessment area, BOT ranked 16<sup>th</sup> out of the group of lenders with 0.9 percent of the market share.

***Community Credit Needs and Opportunities***

Consistent with other metropolitan areas, the bank’s assessment area created varied loan demand for commercial, home mortgage, and consumer loans. Despite the competition levels, lending opportunities still exist. Considering information obtained from bank management, review of other performance evaluations, and demographic and economic information, examiners concluded that the primary credit needs of this assessment area include small business and home

mortgage loans. Community development needs in the area primarily involve revitalizing or stabilizing low- or moderate-income areas, affordable housing, and economic development projects.

**Nashville MSA Assessment Area (Limited-scope)**

The Nashville MSA Assessment Area is comprised of Davidson and Sumner counties which are part of the Nashville-Davidson-Murfreesboro-Franklin, TN MSA. As of 2014, this assessment area includes 203 census tracts with the following income designations according to 2010 Census: 29 low-income, 45 moderate-income, 76 middle-income and 50 upper-income census tracts. There are also three census tracts with no income level designation. BOT operates 2 offices in this assessment area both located in upper-income census tracts. The bank moved office locations from the West End office which closed in September 2015 to the Crestmore location. BOT opened a loan production office in June of 2014 in Hendersonville, Tennessee which is part of Sumner County. Additionally, a second loan production office was opened just south of the assessment area in Williamson County in December 2014.

<b>Office Distribution</b>				
<b>Office Name</b>	<b>Office Type</b>	<b>Census Tract</b>	<b>CT Income Level</b>	<b>Opened or Closed Since Last Examination</b>
<b>Davidson County</b>				
Nashville – West End	Full Service	0165.00	Upper	Closed 9/1/15
Nashville - Crestmore	Full Service	0179.01	Upper	Opened 9/14/15
<b>Sumner County</b>				
Hendersonville	Full Service	0212.05	Upper	Opened 6/17/2013
<i>Source: Internal Bank Data and 2010 U.S. Census.</i>				

***Economic and Demographic Data***

The following table illustrates select demographic characteristics of this assessment area.

<b>Demographic Information of the Nashville MSA Assessment Area</b>						
<b>Demographic Characteristics</b>	<b>#</b>	<b>Low % of #</b>	<b>Moderate % of #</b>	<b>Middle % of #</b>	<b>Upper % of #</b>	<b>NA* % of #</b>
Geographies (Census Tracts)	203	14.3	22.2	37.4	24.6	1.5
Population by Geography	787,326	12.7	23.1	36.9	27.1	0.2
Housing Units by Geography	344,133	12.2	23.9	37.5	26.4	0.0
Owner-Occupied Units by Geography	189,980	6.5	18.2	41.9	33.4	0.0
Occupied Rental Units by Geography	122,000	19.9	31.4	32.4	16.3	0.0
Vacant Units by Geography	32,153	16.9	29.0	30.4	23.7	0.0
Businesses by Geography	63,127	11.6	21.5	29.3	36.1	1.5
Family Distribution by Income Level	185,633	24.0	18.2	20.8	37.0	0.0
Median Family Income (2010 U.S. Census)		\$62,315	Median Housing Value			\$200,049
FFIEC-Estimated Median Family Income for 2014		\$65,600	Median Gross Rent			\$772
			Families Below Poverty Level			11.9%

*Source: 2010 U.S. Census, 2014 D&B Data, and FFIEC Estimated Median Family Income; (\*) The NA category consists of geographies that have not been assigned an income classification.*

According to 2014 D&B data, there were 63,127 businesses. Gross annual revenues (GARs) for these businesses are below.

- 69.8 percent have \$1 million or less.
- 5.7 percent have more than \$1 million.
- 24.5 percent have unknown revenues.

The analysis of small business loans under the Borrower Profile criterion compares the distribution of businesses by GAR level. The Geographic Distribution criterion analyzes the dispersion of loans in the assessment area, with emphasis on the bank's lending record in low- or moderate- (LMI) income geographies and compares the institution's performance to relative demographic data (percentage of owner-occupied housing units or percentage of businesses located in the LMI geographies). Service industries represent the largest portion of businesses at 47.7 percent; followed by retail trade at 12.8 percent. Additionally, 62.5 percent of area businesses have four or fewer employees, and 88.8 percent operate from a single location.

The 2014 FFIEC-updated median family income level is used to analyze home mortgage loans under the Borrower Profile criterion. The low-, moderate-, middle- and upper-income categories are presented in the following table. These categories are based on the 2014 FFIEC-updated median family income of \$65,600. The 2010 U.S. Census MFI of \$62,315 is used to define the income levels of the geographies within the assessment area, which is used for the Geographic Distribution analysis.

<b>Median Family Income Ranges</b>				
<b>Median Family Incomes</b>	<b>Low &lt;50%</b>	<b>Moderate 50% to &lt;80%</b>	<b>Middle 80% to &lt;120%</b>	<b>Upper ≥120%</b>
2014 (\$65,600)	<\$32,800	\$32,800 to <\$52,480	\$52,480 to <\$78,720	≥\$78,720

*Source: FFIEC*

There are 344,133 housing units. Of these, 55.2 percent are owner-occupied, 35.5 percent are occupied rental units, and 9.3 percent are vacant. The Geographic Distribution criterion compares home mortgage loans to the distribution of owner-occupied housing units.

Data obtained from the U.S. Bureau of Labor and Statistics indicates that the 2015 year-end unemployment rates for Davidson and Sumner Counties in Tennessee was 4.0 percent and 4.3 percent respectively. These rates are lower than the national and state unemployment rates and have been declining since the prior evaluation. Major employers in the assessment area include: Vanderbilt University, Gaylord Opryland Resort, St. Thomas West Hospital, and Volunteer State Community College.

### ***Competition***

The assessment area is highly competitive in the market for financial services. According to the FDIC Deposit Market Share data as of June 2015, there were 42 financial institutions that operated 268 full-service branches within the Nashville MSA Assessment Area. Of these institutions, BOT ranked 39<sup>th</sup> with a 0.02 percent deposit market share.

There is an extremely high level of competition for home mortgage loans. In 2014, 496 lenders reported a total of 28,347 residential mortgage loans originated or purchased. BOT ranked 43<sup>rd</sup> out of this group of lenders with only 0.6 percent of the market share. The three most prominent home mortgage lenders accounted for 16.8 percent of total market share.

The bank is not required to collect or report its small business loan data, but elected to do so. Therefore, the analysis of small business loans under the Lending Test includes comparisons against aggregate data. The aggregate data reflects the level of demand for small business loans. The 2014 aggregate data shows that 92 institutions reported 14,584 small business loans in the Johnson City MSA Assessment Area, indicating a very high degree of competition for this product. BOT ranked 35<sup>th</sup> out of this group of lenders with 0.1 percent of the market share. The top 3 lenders accounted for 40.0 percent of the total market share.

### ***Community Contact***

As part of the evaluation process, examiners contact third parties active in the assessment area to assist in identifying the credit and community development needs. This information helps determine whether local financial institutions are responsive to these needs. It also shows what credit and community development opportunities are available.

Examiners utilized a previous community contact with an organization that promotes affordable housing throughout Davidson County. The contact noted a particular need in the area for affordable housing and job training. The contact stated the overall economic condition is booming, but it is making it hard for the city to remain affordable. Overall, the contact indicated that financial institutions have been responsive to the credit and community development needs.

### ***Community Credit Needs and Opportunities***

Consistent with other similar type areas, the bank's assessment area created varied loan demand for commercial, home mortgage, and consumer loans. Despite the competition levels, lending opportunities still exist. Considering information obtained from the community contacts, bank management, review of other performance evaluations, and demographic and economic

information, examiners concluded that the primary credit needs of this assessment area include small business and home mortgage loans (particularly affordable housing for LMI families).

Community development needs in the area primarily involve revitalizing or stabilizing low- or moderate-income areas, affordable housing, and economic development projects.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN THE STATE OF TENNESSEE**

As previously noted, this evaluation presents information for the bank as a whole regarding the loan-to-deposit ratio and the lending concentration performance factors. Examiners applied full-scope procedures for the Johnson City MSA AA, the area receiving the most weight in arriving at overall conclusions, and this evaluation presents detailed discussions for this assessment area regarding both of the loan distribution factors, borrower profile and geographic distribution.

As previously discussed, examiners applied limited-scope procedures for the bank's lending performance in the Kingsport MSA AA and Nashville MSA AA Assessment Areas. Appendix D contains the applicable loan data for both limited-scope assessment areas.

All the Community Development Test discussions in this section provide information for the State as a whole.

### ***Conclusions for the Kingsport MSA AA***

The Interstate Branching and Banking Efficiency Act (IBBEA) requires separate conclusions for each MSA in which a bank operates a branch. Conclusions regarding the bank's overall performance, as well as conclusions regarding its Lending Test and Community Development Test in the Kingsport MSA AA proved generally consisted with those presented herein, unless otherwise noted. Appendix D contains applicable loan distribution tables for the Kingsport MSA AA.

### ***Conclusions for the Nashville MSA AA***

The Interstate Branching and Banking Efficiency Act (IBBEA) requires separate conclusions for each MSA in which a bank operates a branch. Conclusions regarding the bank's overall performance, as well as conclusions regarding its Lending Test and Community Development Test in the Nashville MSA AA proved generally consisted with those presented herein, unless otherwise noted. Appendix D contains applicable loan distribution tables for the Nashville MSA AA.

## **LENDING TEST**

BOT established a reasonable record in the State of Tennessee regarding the Lending Test. A reasonable record regarding both the borrower profile loan distribution and the geographic loan distribution support this conclusion. The following discussions detail the bank's performance regarding these performance factors.

## **Borrower Profile Loan Distribution (Johnson City MSA Assessment Area)**

The distribution of borrowers reflects reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses of varying sizes. Reasonable records regarding both small business lending and home mortgage lending support the conclusion. As previously noted, in this AA small business loans and home mortgage loans were equally weighted based on loan volume of originations in 2014 with approximately \$26.7 million of small business loans and \$26.8 million of home mortgage loans being originated.

Examiners considered the loan product types reviewed relative to the available comparative data and any performance context issues when forming conclusions. This factor only presents data for loans granted inside the Johnson City MSA AA.

### ***Small Business Loans***

The distribution of the bank's small business loans based on borrowers' profiles reflects reasonable performance within the Johnson City MSA AA, Kingsport MSA AA, and Nashville MSA AA. Examiners focus on the bank's record to businesses with gross annual revenues of \$1 million or less compared to D&B data and the aggregate data when arriving at this conclusion. The companies' gross annual revenues define the borrowers' profile for this analysis.

Appendix D, Table 11a illustrates the reasonable penetration among businesses of different sizes. According to 2014 D&B business data, 70.9 percent of the businesses in the Johnson City assessment area have gross annual revenues of \$1 million or less. BOT originated 74.5 percent of its small loans to businesses (by number) to businesses with gross revenues of \$1 million or less during 2014, which is slightly higher than D&B data. The bank's level was significantly higher than 2014 aggregate data showed that 47.8 percent of loans made in the Johnson City MSA were to businesses with revenues of \$1 million or less.

Bank of Tennessee also originated 78.8 percent of its small business loans in amounts of \$100,000 or less in this area during 2014, which is a proxy for business size indicating the bank's reasonable record of providing loans to very small businesses.

### ***Home Mortgage Loans***

The distribution of the bank's home mortgage loans based on the borrower's income levels reflects reasonable performance. Overall reasonable performance in the Johnson City MSA AA, Kingsport MSA AA, and Nashville MSA AA support this conclusion. Reasonable performance regarding home purchase, home refinances, and home improvement support the overall conclusion.

Examiners focused on the percentages of the number of loans to low- and moderate-income borrowers compared to the aggregate data when arriving at conclusions. The borrower's income designations define the borrowers' profile for this analysis. The analysis below focuses on Johnson City MSA only.

In the Johnson City MSA, low-income families represent 22.2 percent of all families in the assessment area with 14.1 percent of the families below the poverty level. BOT originated 7.5

percent of its home purchase loans to low-income applicants in 2014, which is consistent with the aggregate lending level of 8.0 percent to low-income borrowers reflecting reasonable performance. In addition, BOT originated 17.5 percent of its home purchase loans to moderate-income borrowers; this is slightly lower than aggregate lending data at 20.9 but within an acceptable range and reflects reasonable performance.

Regarding home improvement loans, the bank's level of lending to low- and moderate-income borrowers in 2014 were both just higher than that of aggregate lending in these categories, revealing reasonable performance in the Johnson City MSA AA.

Regarding home refinance loans, the bank's level of lending to low- income borrowers in 2014 was higher (3.9 percentage points) than aggregate lending data reflecting reasonable performance, and significantly less (15.2 percentage points) than aggregate to moderate- income borrowers reflecting poor performance. Overall, the distribution of home refinance loans to borrowers of different incomes within the Johnson City MSA is considered reasonable.

Overall, the level of home mortgage lending to low- and moderate-income borrowers in the Johnson City MSA AA is considered reasonable. See Tables 8a to 10a in Appendix D for details.

### **Geographic Loan Distribution**

BOT displayed a reasonable dispersion of loans throughout the Johnson City MSA AA, Kingsport MSA AA, and Nashville MSA AA. The reasonable records regarding both small business and home mortgage lending support this conclusion. As previously noted, small business and home mortgage products were weighted relative to their respective percentages in the various assessment areas.

Examiners considered the loan product types reviewed relative to the available comparative data and any performance context issues when arriving at this conclusion. This factor only presents data for loans granted inside the Johnson City MSA AA.

#### ***Small Business Loans***

The geographic distribution of the bank's small business loans reflects reasonable performance. Reasonable performances in the Johnson City MSA AA, Kingsport MSA AA, and the Nashville MSA AA support this conclusion.

Only 1.4 percent of businesses in the Johnson City MSA AA are located in low-income areas. BOT originated 0.4 percent of its small business loans in low-income census tracts during 2014. The bank's level of small business lending slightly trails the 2014 aggregate percentage of 1.8 percent. Given the limited lending opportunities illustrated by the demographic and aggregate data, the bank's level of small business lending in low-income census tracts is considered reasonable. BOT originated 29.9 percent of its small business loans in moderate-income census tracts during 2014. The bank's level of small business lending slightly exceeds the 2014 aggregate of 24.9 percent, by 5.0 percentage points is considered reasonable. An analysis of the

geographic distribution of the bank's 2014 small business lending is presented in Table 6a of Appendix D.

### ***Home Mortgage Loans***

The bank's geographic distribution of its home loans reflects reasonable performance. Reasonable performance was noted regarding home purchase, home improvement, and home refinance loans to support this conclusion in the Johnson City MSA AA, Kingsport MSA AA, and the Nashville MSA AA. However, no weighting was afforded to performance regarding home improvement loans in the Nashville MSA AA; as there were only six loans, which is an insufficient number of loans to form conclusions. Home purchase loans accounted for 61.9 percent of the number of loans originated in 2014, while home improvement loans accounted for 21.0 percent, and home refinance loans accounted for 17.1 percent.

In the Johnson City MSA AA, only 0.8 percent of owner-occupied homes are located in low-income areas. During 2014, BOT did not originate any of its home purchase loans in the low-income census tract; however, the 2014 aggregate percentage was only 0.8 percent in low-income areas. Improved performance in the low-income census tract was noted in 2015. Furthermore, the bank's performance at 0.9 percent in 2013 slightly exceeded demographics and aggregate percentages. Over the review period, performance in low-income tracts was considered reasonable. In the Johnson City MSA AA, 23.4 percent of owner-occupied homes are located in moderate-income areas. During 2014, BOT originated 21.2 percent of its home purchase loans in the moderate-income census tracts. This level of lending exceeds the aggregate percentage of 18.8 percent and is considered reasonable performance. In 2013, BOT also exceeded aggregate data by 3.0 percentage points also supporting reasonable performance.

During 2014, BOT did not originate any of its home improvement loans in the low-income census tract; however, the 2014 aggregate percentage was only 1.0 percent in low-income geography. Additionally, no loans were originated in 2013 in low-income tract. However, given the very nominal opportunity in this one tract, as illustrated by both the demographic and aggregate data, performance is considered reasonable. Improved performance in the low-income census tract was noted in 2015. During 2014, the bank originated 41.0 percent of its home improvement loans in the moderate-income census tracts. This level of lending greatly exceeds the aggregate percentage of 27.5 percent and exhibits excellent performance. In 2013, the bank extended 43.2 percent of its loans in moderate-income geographies, exceeding aggregate's percentage of 25.5 percent. More weight was placed on lending in moderate-income geographies given the greater opportunity based on demographics to lend in those areas.

During 2014 and 2013, BOT did not originate any of its home refinance loans in the low-income census tract; however, the 2014 aggregate percentage was only 1.6 percent in low-income areas; therefore, within an acceptable range of comparable resources, based on nominal opportunities, with minimal weight on the overall conclusion. During 2014, the bank originated 27.3 percent of its home improvement loans in the moderate-income census tracts. This level of lending exceeds the aggregate percentage of 21.8 percent and is considered reasonable performance. In 2013, BOT's percentage in moderate-income tracts trailed aggregate lenders by 2.2 percentage points.

Overall, the bank’s performance is considered reasonable for all three loan products. An analysis of the geographic distribution of the bank’s 2014 home mortgage lending is presented in Tables 2a to 5a of Appendix D.

## COMMUNITY DEVELOPMENT TEST

BOT demonstrated an adequate record in the State of Tennessee regarding the Community Development Test. The bank demonstrated adequate responsiveness to the community development (CD) needs of its assessment areas through CD loans, qualified investments, and CD services. Examiners considered the institution’s capacity and the need and availability of such opportunities in the State of Tennessee.

### Community Development Lending

The bank exhibited an excellent record in the State of Tennessee regarding its CD lending. An excellent record regarding the dollar volume of CD loans supports this conclusion. Examiners considered the number and dollar volume relative to the considerations noted for the Community Development Test and to the bank’s total activities when arriving at this conclusion.

The following tables show that the bank granted a total of 53 CD loans equaling over \$25.2 million in the State of Tennessee. These levels represent approximately 86.9 percent by number and 81.4 percent by dollar volume of the bank’s total CD lending. As noted previously, the State of Tennessee accounts for approximately 98.2 percent of the bank’s total lending and 98.4 percent of its deposits. The bank’s community development lending includes four loans totaling \$11,307,000 outside the assessment area to entities that serve a broader statewide area that includes the bank’s assessment areas. However, these loans will not directly benefit the assessment area. As the bank has been responsive to the community development needs of its assessment area, examiners provided credit these four loans under the Community Development Test.

Of the 53 community development loans, 32 totaling nearly \$22.9 million were used to create affordable housing in the State of Tennessee. These loans demonstrate the bank’s responsiveness to this community development need identified by a community contact.

Community Development Lending by Area in the State of Tennessee												
Assessment Area	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Neighborhood Stabilization		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Johnson City MSA AA	18	3,187	12	1,524	0	0	0	0	0	0	30	4,711
Kingsport MSA AA	8	677	7	551	0	0	0	0	0	0	15	1,228
Nashville MSA AA	3	7,845	1	128	0	0	0	0	0	0	4	7,973
Regional Activities in TN	3	11,182	1	125	0	0	0	0	0	0	4	11,307
<b>Total State of Tennessee</b>	<b>32</b>	<b>22,891</b>	<b>21</b>	<b>2,328</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>53</b>	<b>25,219</b>

*Source: Bank Records*

Community Development Lending by Activity Year – State of Tennessee												
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Neighborhood Stabilization		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2013	10	4,650	8	524	0	0	0	0	0	0	18	5,174
2014	12	6,169	8	1,008	0	0	0	0	0	0	20	7,177
2015	10	12,072	5	796	0	0	0	0	0	0	15	12,868
<b>Total</b>	<b>32</b>	<b>22,891</b>	<b>21</b>	<b>2,328</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>53</b>	<b>25,219</b>

*Source: Bank Records*

The following points list examples of CD loans.

- In 2014, the bank providing funding of \$600,000 to an affordable housing agency in Upper East Tennessee. The funds were used for a master line of credit for a 41 unit project providing affordable housing to the Johnson City MSA assessment area.
- In 2013, the bank providing funding of nearly \$300,000 to the Boys and Girls Club of Greater Kingsport to construct a new facility in Kingsport. The organization provides community services targeted to LMI individuals and families.
- In 2014, the bank provided funding of nearly \$3 million to an affordable housing agency in Nashville, Tennessee. The loan funded the permanent mortgage of a 72 unit apartment complex providing affordable housing to LMI individual and families in Davidson County.

### **Qualified Investments**

The bank exhibited an adequate record in the State of Tennessee regarding its qualified investments based on an adequate record regarding the dollar volume of qualified investments. Examiners considered the number and dollar volume relative to the considerations noted for the Community Development Test and relative to the bank’s activities when arriving at this conclusion.

The following tables show the bank maintained 30 qualified investments totaling nearly \$4.9 million in the State of Tennessee. All of the bank’s qualified investments were in the State of Tennessee. An individual assessment area may show a fractional interest in an investment when that investment benefits more than one assessment area. These investments have been split among the areas that benefitted from them.

Qualified Investments by Area in the State of Tennessee												
Assessment Area	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Neighborhood Stabilization		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Johnson City MSA AA	0.3	531	9	15	0.4	390	4	1,985	0	0	13.7	2,921
Kingsport MSA AA	1.1	334	10	10	0.3	292.5	0	0	0	0	11.4	636.5
Nashville MSA AA	0.6	1,043	4	5	0.3	292.5	0	0	0	0	4.9	1,340.5
Regional Activities in TN	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total State of TN</b>	<b>2</b>	<b>1,908</b>	<b>23</b>	<b>30</b>	<b>1</b>	<b>975</b>	<b>4</b>	<b>1,985</b>	<b>0</b>	<b>0</b>	<b>30</b>	<b>4,898</b>

Source: Bank Records

Community Development Investments by Activity Year – State of Tennessee												
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Neighborhood Stabilization		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior Period	1	246	0	0	0	0	3	960	0	0	4	1,206
2013	0	0	8	9	0	0	0	0	0	0	8	9
2014	0	0	7	11	1	975	0	0	0	0	8	986
2015	0	0	8	10	0	0	1	1,025	0	0	9	1,035
YTD 2016	1	1,662	0	0	0	0	0	0	0	0	1	1,662
<b>Total</b>	<b>2</b>	<b>1,908</b>	<b>23</b>	<b>30</b>	<b>1</b>	<b>975</b>	<b>4</b>	<b>1,985</b>	<b>0</b>	<b>0</b>	<b>30</b>	<b>4,898</b>

Source: Bank Records

The following points list examples of CD investments.

- The bank retained its ownership interest, totaling nearly \$246,000, in a limited partnership whose purpose includes the development of 38 units of affordable housing in Kingsport. Thirty of the units are designated to low-income individuals and eight units are designated to moderate-income individuals. The project’s scope expects to reach \$12.5 million and includes multiple institutions, Low-Income Housing Tax Credits, and HOPE VI grant proceeds.
- The bank maintains 4 securities totaling nearly \$2 million in government infrastructure projects that revitalize and stabilize LMI areas in the Johnson City MSA AA. The funds contribute to the acquisition, construction, and equipping of extensions and improvements to the areas electrical distribution system. In addition, the funds support improvement of water treatment and distribution facilities.

### Community Development Services

Bank of Tennessee demonstrated adequate responsiveness to CD needs in the State of Tennessee through its CD services. This conclusion considered the bank’s capacity and the need and availability of such opportunities for CD services in the assessment areas and the broader statewide area that includes their assessment areas. An adequate record regarding the availability

and types of services support this conclusion. Examiners reviewed the types of CD services and the availability of services relative to the considerations noted for the Community Development Test and relative to the bank's total activities when arriving at this conclusion.

**Types of Services**

The bank established an adequate record of providing the types of services that primarily benefit low- and moderate-income individuals. An adequate number of CD services relative to the bank's total activities support this conclusion.

The following table shows that the bank provided a total of 63 CD services in the State of Tennessee. This represents a decline from the 84 CD services noted during the prior evaluation. As previously noted, this area accounted for 94.7 percent of the bank's total offices and thus provided the majority of CD services relative to percentage of overall offices it operates.

Qualified Community Development Services in the State of Tennessee						
Assessment Area	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Neighborhood Stabilization	Totals
	#	#	#	#	#	#
Johnson City MSA AA	5	30	1	0	0	36
Kingsport MSA AA	0	19	0	0	0	19
Nashville MSA AA	0	8	0	0	0	8
<b>Total State of Tennessee</b>	<b>5</b>	<b>57</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>63</b>
<i>Source: Bank Records</i>						

Qualified Community Development Services in the State of Tennessee						
Activity Year	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Neighborhood Stabilization	Totals
	#	#	#	#	#	#
2013	2	14	0	0	0	16
2014	2	19	0	0	0	21
2015	1	24	1	0	0	26
<b>Total</b>	<b>5</b>	<b>57</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>63</b>
<i>Source: Bank Records</i>						

The following points list examples of CD services in the State of Tennessee.

- A bank employee serves on the Board of the Boys and Girls Club of Johnson City/Washington County. This organization provides community services to LMI individuals and families.
- A bank employee serves as Treasurer for Family Promise of Johnson City. This organization provides housing solutions for homeless families.

### ***Availability of Services***

The institution demonstrated an adequate record of providing services to low- and moderate-income people through branches and other facilities in low- and moderate-income areas. The distribution of branches in combination with the provision of alternative banking systems supports this conclusion.

The following table shows that in low-income census tracts the bank has no branches or ATMs although this is the smallest income category at 8.4 percent of the population. The bank has 22.2 percent of its offices and 18.7 percent of its ATMs located in moderate-income census tracts, which only slightly trails the 22.6 percent of the bank-wide population in moderate-income areas. Consequently, the availability of offices and ATMs in these areas demonstrates a reasonable branching network distribution.

Besides its facility locations, the bank offers telephone banking, online banking, mobile banking, bill pay services, debit card, and credit cards. These services, particularly the telephone banking services, help avail the bank's services to low- and moderate-income individuals.

<b>Branch and ATM Distribution State of Tennessee</b>								
<b>Census Tract Income Category</b>	<b>Census Tracts in Assessment Areas</b>		<b>Total Population</b>		<b>Branches</b>		<b>ATMs</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
Low	32	9.9	108,505	8.4	0	0.0	0	0.0
Moderate	74	23.0	293,000	22.6	4	22.2	3	18.7
Middle	137	42.6	555,029	42.8	6	33.3	7	37.5
Upper	75	23.3	335,007	25.9	8	44.5	4	43.8
N/A	4	1.2	4,045	0.3	0	0	0	0
<b>Total</b>	<b>322</b>	<b>100.0</b>	<b>1,295,586</b>	<b>100.0</b>	<b>18</b>	<b>100.0</b>	<b>15</b>	<b>100.0</b>

*Source: 2010 U.S. Census (Updated 2014); Bank records.*

## **DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

Examiners did not identify any evidence of discriminatory or other illegal credit practices in the State of Tennessee; therefore, this consideration did not affect the State of Tennessee's CRA rating.

## STATE OF NORTH CAROLINA

### ***CRA RATING FOR NORTH CAROLINA: Needs to Improve.***

Bank of Tennessee (BOT) demonstrated a poor record in that State of North Carolina regarding both the Lending Test and the Community Development Test. While BOT's performance in the State of North Carolina is poor, it did not detract from the bank's overall CRA performance. As mentioned previously, the State of North Carolina only has 1.8 percent of the loans, 1.6 percent of deposits, and 5.3 percent of branches for the overall bank. Therefore, very little weighting was given to the bank's performance in the State of North Carolina in determining the overall bank rating and performance.

Examiners did not identify any discriminatory or other illegal credit practices; therefore, this consideration did not affect the overall rating. The following discussion summarizes the bank's performance under each test, which is detailed in the body of this section of the evaluation.

#### **Lending Test is rated Needs to Improve.**

BOT did not adequately meet the credit needs of the North Carolina assessment area. The bank's poor level of home mortgage and small business lending in this area resulted in a Needs to Improve Lending Test rating. The low volume of loans originated resulted in an insufficient number to conduct a meaningful analysis. The rating is supported based on the nominal level of loan originations or purchases in this assessment area over the review period. The following bullet points summarize the bank's performance regarding these factors.

- The bank demonstrated a poor record regarding its geographic loan distribution. A poor record regarding level of lending and low volume of home mortgage and small business affected performance under this criterion.
- The bank established a poor record regarding its borrower profile loan distribution. A poor record regarding the bank's level of lending and low volume affected the performance under this criterion.

#### **Community Development Test is rated Needs to Improve.**

BOT demonstrated a poor record in the State of North Carolina regarding the Community Development Test. The bank's CD performance demonstrates poor responsiveness to CD needs in the State of North Carolina considering the institution's capacity and the need and availability of such opportunities for CD in the State. A complete lack of CD investments detracted from an adequate level of community development lending and services.

## SCOPE OF EVALUATION

The time period depicted for the State of North Carolina review is consistent with the time period used for the bank as a whole.

Examiners reviewed the bank’s home mortgage and small business loans when arriving at applicable conclusions for this state. However, the bank only originated two home mortgage loans totaling \$860,000 in 2014 and seven loans totaling \$225,000 in 2013 (home mortgage loans includes: home purchase, home improvement, and home refinancings). Lending volume improved year-to-date in 2015. Additionally, the bank only granted 11 small business loans totaling \$2,377,000 in the State of North Carolina during 2014 and year-to-date 2015, which represents an insufficient number of loans to analyze and form definitive conclusions. Since none of the other loan types represent a major product line and thus would not materially affect any state conclusions or ratings, including farm loans and consumer loans, this section does not discuss them.

Examiners considered the dollar volume and number of loans for each loan type, and management’s stated business strategy when weighing each reviewed loan type’s effect on overall conclusions for the applicable performance factors. The bank originated only a nominal number of home mortgage and small business loans over the review period, with an insufficient volume to analyze and form valid conclusions.

## DESCRIPTION OF INSTITUTION’S OPERATIONS IN THE STATE OF NORTH CAROLINA

As previously noted, BOT has one assessment area in the State of North Carolina which is located in the northwestern non-metropolitan (Non-MSA) portion of the state. The defined area conforms to CRA regulatory requirements and does not arbitrarily exclude any low- or moderate-income census tracts. The section below further describes the bank’s designated assessment area in the State of North Carolina.

### Avery County Non-MSA Assessment Area

The Avery County Non-MSA Assessment Area is comprised of Avery County which is part of the non-MSA portion of North Carolina. As of 2014, this assessment area includes 5 census tracts with the following income designations according to 2010 Census: 1 moderate-income, 3 middle-income and 1 upper-income census tracts. As seen in the table BOT operates 1 office in this assessment area in upper-income census tract.

Office Distribution				
Office Name	Office Type	Census Tract	CT Income Level	Opened or Closed Since Last Examination
Mountain Community	Full Service	9302.00	Upper	No
<i>Source: Internal Bank Data and 2010 U.S. Census.</i>				

### ***Economic and Demographic Data***

The following table illustrates select demographic characteristics of the assessment area.

<b>Demographic Information of the Non-MSA Assessment Area</b>						
<b>Demographic Characteristics</b>	<b>#</b>	<b>Low % of #</b>	<b>Moderate % of #</b>	<b>Middle % of #</b>	<b>Upper % of #</b>	<b>NA* % of #</b>
Geographies (Census Tracts)	5	0.0	20.0	60.0	20.0	0.0
Population by Geography	17,797	0.0	17.6	67.1	15.3	0.0
Housing Units by Geography	13,669	0.0	12.9	48.6	38.5	0.0
Owner-Occupied Units by Geography	5,235	0.0	21.3	58.4	20.3	0.0
Occupied Rental Units by Geography	1,959	0.0	17.2	55.7	27.1	0.0
Vacant Units by Geography	6,475	0.0	4.7	38.5	56.8	0.0
Businesses by Geography	1,255	0.0	7.7	70.4	21.9	0.0
Family Distribution by Income Level	4,625	23.0	18.6	17.2	41.2	0.0
Median Family Income (2010 U.S. Census)		\$46,764	Median Housing Value			\$149,026
FFIEC-Estimated Median Family Income for 2014		\$49,500	Median Gross Rent			\$679
			Families Below Poverty Level			13.4%

*Source: 2010 U.S. Census, 2014 D&B Data, and FFIEC Estimated Median Family Income; (\*) The NA category consists of geographies that have not been assigned an income classification.*

According to 2014 D&B data, there were 1,255 businesses. Gross annual revenues (GARs) for these businesses are below.

- 73.9 percent have \$1 million or less.
- 3.8 percent have more than \$1 million.
- 22.3 percent have unknown revenues.

The analysis of small business loans under the Borrower Profile criterion compares the distribution of businesses by GAR level. Service industries represent the largest portion of businesses at 34.5 percent; followed by retail trade at 15.5 percent. Additionally, 65.5 percent of area businesses have four or fewer employees, and 90.6 percent operate from a single location.

The 2014 FFIEC-updated median family income level is used to analyze home mortgage loans under the Borrower Profile criterion. The low-, moderate-, middle- and upper-income categories are presented in the following table. These categories are based on the 2014 FFIEC-updated median family income of \$49,500.

<b>Median Family Income Ranges</b>				
<b>Median Family Incomes</b>	<b>Low &lt;50%</b>	<b>Moderate 50% to &lt;80%</b>	<b>Middle 80% to &lt;120%</b>	<b>Upper ≥120%</b>
2014 (\$49,500)	<\$24,750	\$24,750 to <\$39,600	\$39,600 to <\$59,400	≥\$59,400

*Source: FFIEC*

There are 13,669 housing units. Of these, 38.3 percent are owner-occupied, 14.3 percent are occupied rental units, and 47.4 percent are vacant. The Geographic Distribution criterion compares home mortgage loans to the distribution of owner-occupied housing units.

Data obtained from the U. S. Bureau of Labor and Statistics indicates that the 2015 year-end unemployment rate was 5.6 percent for the State of North Carolina which was higher than the national unemployment rate of 5.0 percent. Unemployment rates for Avery County have been higher than the national and state unemployment rates dating back to the prior evaluation, and were at 5.8 percent at year-end 2015. Decreases in employment rates in the assessment area and on a statewide and national level over the evaluation period are indicative of the recovering economy. Major employers in Avery County include: North Carolina Department of Public Safety, Avery County Schools, Triple H Services, and Appalachian Regional Healthcare System.

Second homes, gated communities, condominiums, rental properties, hotel-motel lodging, bed and breakfasts, campgrounds and real estate in general are all important sources of jobs, income, and tax revenue in Avery County.

### ***Competition***

The assessment area is competitive in the market for financial services. According to the FDIC Deposit Market Share data as of June 2015, there were 9 financial institutions that operated 9 full-service branches within the Non-MSA Assessment Area. Of these institutions, BOT ranked 8<sup>th</sup> with a 5.2 percent deposit market share.

There is a moderate level of competition for home mortgage loans. In 2014, 92 lenders reported a total of 413 residential mortgage loans originated or purchased. BOT ranked 29<sup>th</sup> out of this group of lenders with only 0.5 percent of the market share. The three most prominent home mortgage lenders accounted for 32.5 percent of total market share.

The bank is not required to collect or report its small business loan data, but elected to do so. Therefore, the analysis of small business loans under the Lending Test includes comparisons against aggregate data. The aggregate data reflects the level of demand for small business loans. The 2014 aggregate data shows that 29 institutions reported 439 small business loans in the Non-MSA Assessment Area, indicating a low degree of competition for this product. BOT ranked 16<sup>th</sup> out of this group of lenders with 1.4 percent of the market share. The top 3 lenders accounted for 29.2 percent of the total market share.

### ***Community Credit Needs and Opportunities***

Consistent with other non-metropolitan areas, the bank's assessment area created varied loan demand for commercial, home mortgage, and consumer loans. Despite the competition levels, lending opportunities still exist. Considering information obtained from bank management, review of other performance evaluations, and demographic and economic information, examiners concluded that the primary credit needs of this assessment area include small business and home mortgage loans. Community development opportunities in the area are somewhat limited; however, needs exist in the broader regional area that includes Avery County. Specific community development needs include revitalizing or stabilizing low- or moderate-income areas, affordable housing, and economic development projects.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN THE STATE OF NORTH CAROLINA**

### ***Format***

Examiners used full-scope procedures for the Avery County Non-MSA AA as it is the sole AA in the State of North Carolina.

### **LENDING TEST**

Bank of Tennessee demonstrated a poor record in the State of North Carolina regarding the Lending Test. A poor record was based on the very low volume of lending in this AA. Based on the nominal number of home mortgage and small business loans originated in this assessment area, performance is considered poor.

### **Borrower Profile Loan Distribution**

Bank of Tennessee exhibited a poor record in the State of North Carolina. This conclusion is based on the lack of loan volume and the very nominal number of loans originated since the last evaluation.

### ***Small Business Loans***

The bank only originated 11 small business loans in the Avery County Non-MSA AA combined in 2014 and the first three quarter of 2015 which is an insufficient number of loans to draw definitive conclusions. Considering the nominal level of small business lending, performance within the AA is considered poor.

### ***Home Mortgage Loans***

The bank only originated 7 loans in 2013, 2 home mortgage loans in 2014, which is an insufficient number of loans to draw definitive conclusions. Aggregate data is only available for 2013 and 2014. An improvement in lending volume occurred in 2015. Considering nominal level of home mortgage lending over the review period, performance within the Avery County Non-MSA AA is considered poor.

### **Geographic Loan Distribution**

BOT exhibited a poor record in the State of North Carolina. This conclusion is based on the low loan volume and the very nominal number of loans originated since the last evaluation.

### ***Small Business Loans***

The bank only originated 11 small business loans in the Avery County Non-MSA AA combined in 2014 and the first three quarter of 2015 which is an insufficient number of loans to draw definitive conclusions. Considering the nominal level of small business lending, performance within the AA is considered poor.

### ***Home Mortgage Loans***

An insufficient number of loans were originated during the review period to form conclusions. Considering the nominal level of home mortgage lending, performance within the Avery County Non-MSA AA is considered poor.

## **COMMUNITY DEVELOPMENT TEST**

BOT demonstrated a poor record in the State of North Carolina regarding the Community Development Test. The bank's performance demonstrates poor responsiveness to CD needs in the State of North Carolina considering the institution's capacity and the need and availability of such opportunities for CD in the State. A complete lack of CD investments detracted from an adequate level of community development lending and services.

### **Community Development Lending**

The bank exhibited an adequate record in the State of North Carolina regarding its CD lending based on an adequate record regarding the dollar volume of CD loans. Examiners considered the number and dollar volume relative to the considerations noted for the Community Development Test and relative to the bank's total activities when arriving at this conclusion.

The following tables show that the bank granted a total of 6 CD loans equaling \$446,000 in the State of North Carolina. These levels represent approximately 9.8 percent by number and 1.4 percent by dollar volume of the bank's total CD lending. As noted previously, the State of North Carolina accounts for approximately 1.8 percent of the bank's total lending and 1.6 percent of its deposits. The bank's community development lending includes six loans totaling \$125,000 outside the assessment area to entities that serve a broader statewide area that includes the assessment area. However, these loans will not directly benefit the assessment area. As the bank has been responsive to the community development needs of its assessment area, examiners considered these four loans under the Community Development Test.

<b>Community Development Lending by Area in the North Carolina</b>												
<b>Assessment Area</b>	<b>Affordable Housing</b>		<b>Community Services</b>		<b>Economic Development</b>		<b>Revitalize or Stabilize</b>		<b>Neighborhood Stabilization</b>		<b>Totals</b>	
	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>
Avery County Non-MSA	2	321	0	0	0	0	0	0	0	0	2	321
Regional Activities in NC	4	125	0	0	0	0	0	0	0	0	4	125
<b>Total North Carolina</b>	<b>6</b>	<b>446</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>6</b>	<b>446</b>

*Source: Bank Records*

Community Development Lending by Activity Year – State of North Carolina												
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Neighborhood Stabilization		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2013	0	0	0	0	0	0	0	0	0	0	0	0
2014	4	366	0	0	0	0	0	0	0	0	4	366
2015	2	80	0	0	0	0	0	0	0	0	2	80
<b>Total</b>	<b>6</b>	<b>446</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>6</b>	<b>446</b>

Source: Bank Records

The following point lists an example of CD loans in the North Carolina AA.

- In 2014, the bank funded the refinance of two loans for a 12-unit apartment complex that provides affordable housing to low and moderate income individuals in Avery County.

### Qualified Investments

The bank exhibited a poor record in the State of North Carolina regarding its qualified investments. The bank did not have any qualified investments in the State of North Carolina during the review period.

### Community Development Services

BOT demonstrated adequate responsiveness to CD needs in the State of North Carolina through CD services, considering its capacity and the need and availability of such opportunities for CD in North Carolina. An adequate record regarding the availability and types of services support this conclusion. Examiners reviewed the types of CD services and the availability of services relative to the considerations noted for the Community Development Test and relative to the bank’s total activities when arriving at this conclusion.

### *Types of Services*

The bank established an adequate record of providing CD services in the Avery County Non-MSA AA and consequently the State of North Carolina. The bank provided three CD services in the State of North Carolina during the review period which represents 3.6 percent of the bank’s total CD Services. As previously noted, the bank has only 5.3 percent of its offices in this AA.

Community Development Services by Area in the State of North Carolina						
Assessment Area	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Neighborhood Stabilization	Totals
	#	#	#	#	#	#
Avery County Non-MSA AA	3	0	0	0	0	3
<b>Total State of North Carolina</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3</b>

Source: Bank Records

Community Development Services by Activity Year – State of North Carolina						
Activity Year	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Neighborhood Stabilization	Totals
	#	#	#	#	#	#
2013	1	0	0	0	0	1
2014	1	0	0	0	0	1
2015	1	0	0	0	0	1
<b>Total</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3</b>

*Source: Bank Records*

- A bank employee serves as Chair of an affordable housing loan consortium with over 100 bank members. The developments house families, seniors, and persons with disabilities that earn no more than 60 percent of the area median income.

### *Availability of Services*

The institution exhibited an adequate record of availing its services in the Avery County Non-MSA AA and consequently the State of North Carolina.

The bank does not have any offices or ATMs in LMI areas; however, this assessment area only contains one office. This one office is located in a middle-income geography. Middle-income geographies represent the majority of the population in the area, while moderate-income geographies encompass only 17.6 percent of the assessment area’s population (there are no low-income census tracts in the assessment area). In addition to its facilities, the bank offers telephone-banking, online banking, mobile banking, bill pay services, debit cards, and credit cards. These services, particularly the telephone banking services, help avail the bank’s services to low- and moderate-income individuals. Consequently, the bank’s performance under this factor is helped somewhat by its services through other means to low- or moderate-income individuals residing in middle- and moderate-income areas.

Branch and ATM Distribution State of North Carolina								
Census Tract Income Category	Census Tracts in Assessment Areas		Total Population		Branches		ATMs	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	1	20.0	3,130	17.6	0	0.0	0	0.0
Middle	3	60.0	11,944	67.1	1	100.0	1	100.0
Upper	1	20.0	2,723	15.3	0	0.0	0	0.0
N/A	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total</b>	<b>5</b>	<b>100.0</b>	<b>17,797</b>	<b>100.0</b>	<b>1</b>	<b>100.0</b>	<b>1</b>	<b>100.0</b>

*Source: 2010 U.S. Census; Bank records.*

## **DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

Examiners did not identify any evidence of discriminatory or other illegal credit practices in the State of North Carolina; therefore, this consideration did not affect the State of North Carolina's CRA rating.

## APPENDIX A

### SCOPE OF EVALUATION:

<b>Bank of Tennessee</b>	
<b>SCOPE OF EVALUATION</b>	
<b>TIME PERIOD REVIEWED:</b>	4/23/2013 – 1/12/2016
<b>PRODUCTS REVIEWED:</b>	
Residential Mortgage Loans: From 1/1/2014 to 9/30/2015 Small Business Loans: From 1/1/2014 to 9/30/2015 Qualified Community Development Loans: From 4/23/2013 to 1/12/2016 Qualified Community Development Investments: From inception to 1/12/2016 Qualified Community Development Services: From 4/23/2013 to 1/12/2016	

<b>LIST OF AFFILIATES AND PRODUCTS REVIEWED</b>		
<b>AFFILIATE(S):</b>	<b>AFFILIATE RELATIONSHIP:</b>	<b>PRODUCTS REVIEWED:</b>
Paragon Commercial Bank	Bank Affiliate	None
Paragon Commercial Corporation	Bank Affiliate	None
Bankers Title of East Tennessee, LLC	Bank Affiliate	None

## APPENDIX B

<b>SUMMARY OF STATE RATINGS</b>			
<b>STATE NAME:</b>	<b>LENDING TEST RATING:</b>	<b>COMMUNITY DEVELOPMENT TEST RATING:</b>	<b>OVERALL STATE RATING:</b>
Tennessee	Satisfactory	Satisfactory	Satisfactory
North Carolina	Needs to Improve	Needs to Improve	Need to Improve

## APPENDIX C - 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.

**Area Median Income:** The median family income for the MSA, if a person or geography is located in an MSA; or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

**Assessment Area:** A geographic area delineated by the bank under the requirements of the Community Reinvestment Act.

**Census Tract:** A small, relatively permanent statistical subdivision of a county. Census tract boundaries normally follow visible features, but they may follow governmental unit boundaries and other non-visible features in some instances. They always nest within counties. Census tracts average about 4,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogenous for population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Combined Statistical Area (CSA):** A combination of several adjacent metropolitan statistical areas or micropolitan statistical areas or a mix of the two, which are linked by economic ties.

**Community Development:** For loans, investments, and services to qualify as community development activities, their primary purpose must:

- (1) Support affordable housing for low- and moderate-income individuals;
- (2) Target community services toward low- and moderate-income individuals;
- (3) Promote economic development by financing small businesses or farms;
- (4) Provide activities that revitalize or stabilize low- and moderate-income geographies, designated disaster areas, or distressed or underserved nonmetropolitan middle-income geographies; or
- (5) Enable or facilitate projects or activities that address needs regarding foreclosed or abandoned residential properties in designated target areas.

**Community Development Corporation (CDC):** A CDC allows banks and holding companies to make equity type of investments in community development projects. Bank CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community. Bank CDCs are also tailored to their financial and marketing needs. A CDC may purchase, own, rehabilitate, construct, manage, and sell real property. Also, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit low- and moderate-income groups, and the investment dollars should not represent an undue risk on the banking organization.

**Community Development Financial Institutions (CDFIs):** CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, micro enterprise funds, and community development venture capital funds.

A certified CDFI must meet eligibility requirements. These requirements include the following:

- Having a primary mission of promoting community development;
- Serving an investment area or target population;
- Providing development services;
- Maintaining accountability to residents of its investment area or targeted population through representation on its governing board of directors, or by other means;
- Not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

**Community Development Loan:** A loan that

- (1) Has as its primary purpose community development; and
- (2) Except in the case of a wholesale or limited purpose bank:
  - (i) Has not been reported or collected by the bank or an affiliate for consideration in the bank's assessment area as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan (as described in Appendix A to Part 203 of this title); and
  - (ii) Benefits the bank's assessment area(s) or a broader statewide or regional area including the bank's assessment area(s).

**Community Development Service:** A service that

- (1) Has as its primary purpose community development;
- (2) Is related to the provision of financial services; and
- (3) Has not been considered in the evaluation of the bank's retail banking services under § 345.24(d).

**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.

**Core Based Statistical Area (CBSA):** The county or counties or equivalent entities associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties with the counties associated with the core. Metropolitan and Micropolitan Statistical Areas are the two categories of CBSAs.

**Distressed Middle-Income Nonmetropolitan Geographies:** A nonmetropolitan middle-income geography will be designated as distressed if it is in a county that meets one or more of the following triggers:

- (1) An unemployment rate of at least 1.5 times the national average;
- (2) A poverty rate of 20 percent or more; or
- (3) A population loss of 10 percent or more between the previous and most recent decennial census or a net migration loss of 5 percent or more over the 5-year period preceding the most recent census.

**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. Other family 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).

**Family Income:** Includes the income of all members of a family that are age 15 and older.

**FFIEC-Estimated Income Data:** The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

**Full-Scope Review:** A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower profile, 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 applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

**Home Mortgage Disclosure Loan Application Register (HMDA LAR):** The HMDA LARs record all applications received for residential purchase, refinance, home improvement, and temporary-to-permanent construction loans.

**Home Mortgage Loans:** Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multi-family (five or more families) dwelling loans, loans to purchase 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.

**Household Income:** Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households are only one person, median household income is usually less than median family income.

**Housing Unit:** Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

**Limited-Scope Review:** A limited scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is often analyzed using only quantitative factors (for example, geographic distribution, borrower profile, 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.

**Low Income Housing Tax Credit:** The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended. It is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department distributes low-income housing tax credits to housing credit agencies through the Internal Revenue Service. The housing agencies allocate tax credits on a competitive basis.

Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits. Or, they may sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains throughout the compliance period, usually 30 years.

**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.

**Median Income:** The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

**Metropolitan Division (MD):** A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

**Metropolitan Statistical Area (MSA):** CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

**Micropolitan Statistical Area:** CBSA associated with at least one urbanized area having a population of at least 10,000, but less than 50,000.

**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 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 and less than 80 percent in the case of a geography.

**Multi-family:** Refers to a residential structure that contains five or more units.

**Nonmetropolitan Area:** All areas outside of metropolitan areas. The definition of nonmetropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan areas.

**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 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.

**Rural Area:** Territories, populations, and housing units that are not classified as urban.

**Small Business Investment Company (SBIC):** SBICs are privately-owned investment companies which are licensed and regulated by the Small Business Administration (SBA). SBICs provide long-term loans and/or venture capital to small firms. Because money for venture or risk investments is difficult for small firms to obtain, SBA provides assistance to SBICs to stimulate and supplement the flow of private equity and long-term loan funds to small companies. Venture capitalists participate in the SBIC program to supplement their own private capital with funds borrowed at favorable rates through SBA's guarantee of SBIC debentures. These SBIC debentures are then sold to private investors. An SBIC's success is linked to the growth and profitability of the companies that it finances. Therefore, some SBICs primarily assist businesses with significant growth potential, such as new firms in innovative industries. SBICs finance small firms by providing straight loans and/or equity-type investments. This kind of financing gives them partial ownership of those businesses and the possibility of sharing in the companies' profits as they grow and prosper.

**Small Business Loan:** A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

**Small Farm Loan:** 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, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

**Underserved Middle-Income Nonmetropolitan Geographies:** A nonmetropolitan middle-income geography will be designated as underserved if it meets criteria for population size, density, and dispersion indicating the area's population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

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

**Urban Area:** All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, "urban" consists of territory, persons, and housing units in places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin).

"Urban" excludes the rural portions of "extended cities"; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.

## APPENDIX D

### 2014 CORE TABLES - TENNESSEE

**Institution ID:** BANK OF TENNESSEE

**Table 1. Lending Volume**

LENDING VOLUME		Geography: STATE OF TENNESSEE						Evaluation Period: JANUARY 1, 2014 TO DECEMBER 31, 2014				
Assessment Area (2014):	% of Rated Area Loans (#) in MA/AA*	Home Mortgage		Small Loans to Businesses		Small Loans to Farms		Community Development Loans**		Total Reported Loans		% of Rated Area Deposits in MA/AA***
		#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	
<b>Full Review:</b>												
Bank of TN_Johnson City AA	51.35	183	26,763	274	26,652	0	0	30	4,711	457	53,415	65.58
<b>Limited Review:</b>												
Bank of TN_Kingsport AA	28.88	95	12,158	162	22,472	0	0	15	1,228	257	34,630	33.41
Bank of TN_Nashville AA	19.78	162	32,424	14	4,629	0	0	4	7,973	176	37,053	1.01

\* Loan Data as of December 31, 2014. Rated area refers to either state or multi-state MA rating area.

\*\* The evaluation period for Community Development Loans is from April 23, 2013 to January 12, 2016. Not included in the chart are 4 CD loans totaling \$11.3 million serving a broader regional area in the State of Tennessee (not allocated to specific AA) and excludes 2 loans totaling \$5.3 million outside AAs.

\*\*\* Deposit Data as of June 30, 2015. Rated Area refers to either the state, multi-state MA, or institution, as appropriate.

**Table 2a. Geographic Distribution of Home Purchase Loans**

Geographic Distribution: HOME PURCHASE		Geography: STATE OF TENNESSEE						Evaluation Period: JANUARY 1, 2014 TO DECEMBER 31, 2014						
Assessment Area:	Total Home Purchase Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Aggregate HMDA Lending (%) by Tract Income*			
	#	% of Total**	% Owner Occ Units***	% BANK Loans***	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Low	Mod	Mid	Upp
<b>Full Review:</b>														
Bank of TN_Johnson City AA	85	31.72	0.81	0.00	23.36	21.18	49.10	52.94	26.73	25.88	0.80	18.76	44.23	36.21
<b>Limited Review:</b>														
Bank of TN_Kingsport AA	56	20.90	1.44	0.00	17.61	17.86	57.00	32.14	23.96	50.00	1.25	15.31	50.54	32.91
Bank of TN_Nashville AA	127	47.39	6.46	7.87	18.22	22.83	41.93	37.01	33.40	32.28	6.72	18.10	38.70	36.49

\* Based on 2014 Peer Mortgage Data -- US and PR

\*\* Home purchase loans originated and purchased in the MA/AA as a percentage of all home purchase loans originated and purchased in the rated area.

\*\*\* Percentage of Owner Occupied Units is the number of owner occupied units in a particular geography divided by the number of owner occupied housing units in the area based on 2010 Census information.

\*\*\*\* Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

**Table 3a. Geographic Distribution of Home Improvement Loans**

Geographic Distribution: HOME IMPROVEMENT		Geography: STATE OF TENNESSEE						Evaluation Period: JANUARY 1, 2014 TO DECEMBER 31, 2014						
Assessment Area:	Total Home Improvement Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Aggregate HMDA Lending (%) by Tract Income*			
	#	% of Total*	% Owner Occ Units***	% BANK Loans***	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Low	Mod	Mid	Upp
<b>Full Review:</b>														
Bank of TN_Johnson City AA	61	67.03	0.81	0.00	23.36	40.98	49.10	52.46	26.73	6.56	0.95	27.53	49.37	22.15
<b>Limited Review:</b>														
Bank of TN_Kingsport AA	24	26.37	1.44	0.00	17.61	12.50	57.00	62.50	23.96	25.00	1.86	17.63	54.55	25.97
Bank of TN_Nashville AA	6	6.59	6.46	16.67	18.22	16.67	41.93	33.33	33.40	33.33	10.30	20.31	42.25	27.14

\* Based on 2014 Peer Mortgage Data -- US and PR

\*\* Home improvement loans originated and purchased in the MA/AA as a percentage of all home improvement loans originated and purchased in the rated area.

\*\*\* Percentage of Owner Occupied Units is the number of owner occupied units in a particular geography divided by the number of owner occupied housing units in the area based on 2010 Census information.

\*\*\*\* Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

**Table 4a. Geographic Distribution of Home Mortgage Refinance Loans**

Geographic Distribution: HOME MORTGAGE REFINANCE		Geography: STATE OF TENNESSEE						Evaluation Period: JANUARY 1, 2014 TO DECEMBER 31, 2014						
Assessment Area:	Total Home Mortgage Refinance Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Aggregate HMDA Lending (%) by Tract Income*			
	#	% of Total**	% Owner Occ Units***	% BANK Loans****	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Low	Mod	Mid	Upp
<b>Full Review:</b>														
Bank of TN_Johnson City AA	33	44.59	0.81	0.00	23.36	27.27	49.10	45.45	26.73	27.27	1.61	21.81	44.39	32.18
<b>Limited Review:</b>														
Bank of TN_Kingsport AA	15	20.27	1.44	0.00	17.61	6.67	57.00	53.33	23.96	40.00	1.24	15.58	54.70	28.47
Bank of TN_Nashville AA	26	35.14	6.46	3.85	18.22	7.69	41.93	42.31	33.40	46.15	6.31	17.31	41.30	35.09

\* Based on 2014 Peer Mortgage Data -- US and PR

\*\* Home refinance loans originated and purchased in the MA/AA as a percentage of all home refinance loans originated and purchased in the rated area.

\*\*\* Percentage of Owner Occupied Units is the number of owner occupied units in a particular geography divided by the number of owner occupied housing units in the area based on 2010 Census information.

\*\*\*\* Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

**Table 5a. Geographic Distribution of Multifamily Loans**

Geographic Distribution: MULTIFAMILY		Geography: STATE OF TENNESSEE						Evaluation Period: JANUARY 1, 2014 TO DECEMBER 31, 2014						
Assessment Area:	Total Multifamily Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Aggregate HMDA Lending (%) by Tract Income*			
	#	% of Total**	% of MF Units***	% BANK Loans***	% MF Units**	% BANK Loans	% MF Units***	% BANK Loans	% MF Units***	% BANK Loans	Low	Mod	Mid	Upp
<b>Full Review:</b>														
Bank of TN_Johnson City AA	4	57.14	0.85	0.00	36.54	0.00	23.29	50.00	39.32	50.00	0.00	20.00	43.33	36.67
<b>Limited Review:</b>														
Bank of TN_Kingsport AA	0	0.00	4.70	0.00	22.47	0.00	55.31	0.00	17.52	0.00	7.14	35.71	35.71	21.43
Bank of TN_Nashville AA	3	42.86	19.49	33.33	30.15	33.33	30.95	0.00	19.40	33.33	16.85	34.83	30.34	17.98

\* Based on 2014 Peer Mortgage Data -- US and PR

\*\* Multi-family loans originated and purchased in the MA/AA as a percentage of all multi-family loans originated and purchased in the rated area.

\*\*\* Percentage of Multi Family Units is the number of multi family units in a particular geography divided by the number of multi family housing units in the area based on 2010 Census information.

\*\*\*\* Multifamily loan distribution includes Home Purchases, Home Improvement and Refinances.

**Table 6a. Geographic Distribution of Small Loans to Businesses**

Geographic Distribution: SMALL LOANS TO BUSINESSES				Geography: STATE OF TENNESSEE				Evaluation Period: JANUARY 1, 2014 TO DECEMBER 31, 2014							
Assessment Area:	Total Small Business Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Aggregate Lending (%) by Tract Income*				
	#	% of Total**	% of Businesses***	% BANK Loans	% of Businesses**	% BANK Loans	% of Businesses***	% BANK Loans	% of Businesses***	% BANK Loans	Low	Mod	Mid	Upp	
<b>Full Review:</b>															
Bank of TN_Johnson City AA	274	60.89	1.42	0.36	24.91	29.93	38.62	47.45	34.37	22.26	1.80	26.68	36.29	35.24	
<b>Limited Review:</b>															
Bank of TN_Kingsport AA	162	36.00	1.86	3.09	17.77	16.05	57.99	50.62	22.37	30.25	1.36	15.92	59.09	23.62	
Bank of TN_Nashville AA	14	3.11	11.59	7.14	21.46	14.29	29.34	28.57	36.14	50.00	12.67	22.92	25.83	38.58	

\* Based on 2014 Peer Small Business Data -- US and PR

\*\* Small loans to businesses originated and purchased in the MA/AA as a percentage of all small loans to businesses originated and purchased in the rated area.

\*\*\* Source Data - Dun and Bradstreet (2014).

**Table 8a. Borrower Distribution of Home Purchase Loans**

Borrower Distribution: HOME PURCHASE		Geography: STATE OF TENNESSEE						Evaluation Period: JANUARY 1, 2014 TO DECEMBER 31, 2014						
Assessment Area:	Total Home Purchase Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Aggregate Lending Data*			
	#	% of Total**	% Families***	% BANK Loans****	% Families*	% BANK Loans****	% Families*	% BANK Loans****	% Families**	% BANK Loans****	Low	Mod	Mid	Upp
<b>Full Review:</b>														
Bank of TN_Johnson City AA	85	31.72	22.22	7.50	17.21	17.50	19.69	18.75	40.88	56.25	8.02	20.94	23.61	47.43
<b>Limited Review:</b>														
Bank of TN_Kingsport AA	56	20.90	21.85	9.43	17.12	16.98	20.53	11.32	40.49	62.26	7.83	23.30	26.83	42.04
Bank of TN_Nashville AA	127	47.39	24.00	7.56	18.22	21.85	20.77	31.93	37.00	38.66	9.31	25.47	22.77	42.46

\* Based on 2014 Peer Mortgage Data -- US and PR

\*\* Home purchase loans originated and purchased in the MA/AA as a percentage of all home purchase loans originated and purchased in the rated area.

\*\*\* Percentage of Families is based on the 2010 Census information.

\*\*\*\* As a percentage of loans with borrower income information available. No information was available for 6.0% of loans originated and purchased by BANK.

\* Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

**Table 9a. Borrower Distribution of Home Improvement Loans**

Borrower Distribution: HOME IMPROVEMENT		Geography: STATE OF TENNESSEE						Evaluation Period: JANUARY 1, 2014 TO DECEMBER 31, 2014						
Assessment Area:	Total Home Improvement Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Aggregate Lending Data*			
	#	% of Total*	% Families**	% BANK Loans****	% Families*	% BANK Loans****	% Families**	% BANK Loans****	% Families**	% BANK Loans****	Low	Mod	Mid	Upp
<b>Full Review:</b>														
Bank of TN_Johnson City AA	61	67.03	22.22	14.75	17.21	27.87	19.69	27.87	40.88	29.51	13.11	27.54	24.59	34.75
<b>Limited Review:</b>														
Bank of TN_Kingsport AA	24	26.37	21.85	27.27	17.12	18.18	20.53	4.55	40.49	50.00	14.91	18.93	29.83	36.33
Bank of TN_Nashville AA	6	6.59	24.00	33.33	18.22	0.00	20.77	50.00	37.00	16.67	11.52	25.17	21.92	41.39

\* Based on 2014 Peer Mortgage Data -- US and PR

\*\* Home improvement loans originated and purchased in the MA/AA as a percentage of all home improvement loans originated and purchased in the rated area.

\*\*\* Percentage of Families is based on the 2010 Census information.

\*\*\*\* As a percentage of loans with borrower income information available. No information was available for 2.2% of loans originated and purchased by BANK.

\* Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

**Table 10a. Borrower Distribution of Home Mortgage Refinance Loans**

Borrower Distribution: HOME MORTGAGE REFINANCE		Geography: STATE OF TENNESSEE						Evaluation Period: JANUARY 1, 2014 TO DECEMBER 31, 2014						
Assessment Area:	Total Home Mortgage Refinance Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Aggregate Lending Data*			
	#	% of Total*	% Families***	% BANK Loans****	% Families*	% BANK Loans****	% Families**	% BANK Loans****	% Families*	% BANK Loans****	Low	Mod	Mid	Upp
<b>Full Review:</b>														
Bank of TN_Johnson City AA	33	44.59	22.22	12.90	17.21	6.45	19.69	32.26	40.88	48.39	9.01	21.67	23.26	46.06
<b>Limited Review:</b>														
Bank of TN_Kingsport AA	15	20.27	21.85	13.33	17.12	13.33	20.53	13.33	40.49	60.00	11.31	19.48	25.93	43.28
Bank of TN_Nashville AA	26	35.14	24.00	12.00	18.22	24.00	20.77	12.00	37.00	52.00	10.01	22.27	23.54	44.19

\* Based on 2014 Peer Mortgage Data -- US and PR

\*\* Home refinance loans originated and purchased in the MA/AA as a percentage of all home refinance loans originated and purchased in the rated area.

\*\*\* Percentage of Families is based on the 2010 Census information.

\*\*\*\* As a percentage of loans with borrower income information available. No information was available for 4.1% of loans originated and purchased by BANK.

\* Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

**Table 11a. Borrower Distribution of Small Loans to Businesses**

Borrower Distribution: SMALL LOANS TO BUSINESSES		Geography: STATE OF TENNESSEE			Evaluation Period: JANUARY 1, 2014 TO DECEMBER 31, 2014				
Assessment Area:	Total Small Loans to Businesses		Businesses With Revenues of \$1 million or less		Loans by Original Amount Regardless of Business Size			Aggregate Lending Data*	
	#	% of Total**	% of Businesses***	% BANK Loans****	\$100,000 or less	>\$100,000 to \$250,000	>\$250,000 to \$1,000,000	All	Rev\$ 1 Million or Less
<b>Full Review:</b>									
Bank of TN_Johnson City AA	274	60.89	70.94	74.45	78.83	11.31	9.85	2,031	970
<b>Limited Review:</b>									
Bank of TN_Kingsport AA	162	36.00	70.95	62.35	61.73	22.22	16.05	3,319	1,641
Bank of TN_Nashville AA	14	3.11	69.82	71.43	14.29	28.57	57.14	14,513	6,697

\* Based on 2014 Peer Small Business Data -- US and PR

\*\* Small loans to businesses originated and purchased in the MA/AA as a percentage of all small loans to businesses originated and purchased in the rated area.

\*\*\* Businesses with revenues of \$1 million or less as a percentage of all businesses (Source D&B - 2014).

\*\*\*\* Small loans to businesses with revenues of \$1 million or less as a percentage of all loans reported as small loans to businesses. No information was available for 5.78% of small loans to businesses originated and purchased by the bank.

**Table 14. Qualified Investments**

QUALIFIED INVESTMENTS									
				Geography: STATE OF TENNESSEE				Evaluation Period: April 23, 2013 TO January 12, 2016	
Assessment Area:	Prior Period Investments*		Current Period Investments		Total Investments			Unfunded Commitments**	
	#	\$(000's)	#	\$(000's)	#	\$(000's)	% of Total	#	\$(000's)
<b>Full Review:</b>									
Bank of TN_Johnson City AA	3	960	10.7	1,961	13.7	2,921	0.00	0	0
<b>Limited Review:</b>									
Bank of TN_Kingsport AA	1	246	10.4	390.5	11.3	636.5	0.00	0	0
Bank of TN_Nashville AA	0	0	4.9	1,340.5	4.3	1,340.5	0.00	0	0

\* 'Prior Period Investments' means investments made in a previous period that are outstanding as of the examination date.

\*\* 'Unfunded Commitments' means legally binding investment commitments that are tracked and recorded by the institution's financial reporting system. Number of Investments is in decimals, since some investments benefit broader regional areas, that include the assessment areas.

## 2014 Core Tables – State of North Carolina

**Institution ID:** BANK OF TENNESSEE

**Table 1. Lending Volume**

LENDING VOLUME		Geography: NORTH CAROLINA						Evaluation Period: JANUARY 1, 2014 TO DECEMBER 31, 2014				
Assessment Area (2014):	% of Rated Area Loans (#) in MA/AA*	Home Mortgage		Small Loans to Businesses		Small Loans to Farms		Community Development Loans**		Total Reported Loans		% of Rated Area Deposits in MA/AA***
		#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	
<b>Full Review:</b>												
Bank of TN_Avery NC AA	100.00	2	860	6	99	0	0	6	446	8	959	100.00

\* Loan Data as of December 31, 2014. Rated area refers to either state or multi-state MA rating area.

\*\* The evaluation period for Community Development Loans is from April 23, 2013 to January 12, 2016. Includes CD loans in NC that serve a broader regional area that includes Avery County

\*\*\* Deposit Data as of January 27, 2016. Rated Area refers to either the state, multi-state MA, or institution, as appropriate.

**Table 2a. Geographic Distribution of Home Purchase Loans**

Geographic Distribution: HOME PURCHASE		Geography: NORTH CAROLINA					Evaluation Period: JANUARY 1, 2014 TO DECEMBER 31, 2014							
Assessment Area:	Total Home Purchase Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Aggregate HMDA Lending (%) by Tract Income*			
	#	% of Total**	% Owner Occ Units***	% BANK Loans***	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Low	Mod	Mid	Upp
<b>Full Review:</b>														
Bank of TN_Avery NC AA	2	100.00	0.00	0.00	21.30	0.00	58.45	50.00	20.25	50.00	0.00	7.01	52.34	40.65

\* Based on 2014 Peer Mortgage Data -- US and PR

\*\* Home purchase loans originated and purchased in the MA/AA as a percentage of all home purchase loans originated and purchased in the rated area.

\*\*\* Percentage of Owner Occupied Units is the number of owner occupied units in a particular geography divided by the number of owner occupied housing units in the area based on 2010 Census information.

\*\*\*\* Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

Institution ID: BANK OF TENNESSEE

**Table 6a. Geographic Distribution of Small Loans to Businesses**

Geographic Distribution: SMALL LOANS TO BUSINESSES														Geography: NORTH CAROLINA		Evaluation Period: JANUARY 1, 2014 TO DECEMBER 31, 2014	
Assessment Area:	Total Small Business Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Aggregate Lending (%) by Tract Income*						
	#	% of Total**	% of Business***	% BANK Loans	% of Businesses**	% BANK Loans	% of Businesses***	% BANK Loans	% of Businesses***	% BANK Loans	Low	Mod	Mid	Upp			
<b>Full Review:</b>																	
Bank of TN_Avery NC AA	6	100.00	0.00	0.00	7.65	0.00	70.44	66.67	21.91	33.33	0.00	10.99	63.87	25.13			

\* Based on 2014 Peer Small Business Data -- US and PR

\*\* Small loans to businesses originated and purchased in the MA/AA as a percentage of all small loans to businesses originated and purchased in the rated area.

\*\*\* Source Data - Dun and Bradstreet (2014).

**Table 8a. Borrower Distribution of Home Purchase Loans**

Borrower Distribution: HOME PURCHASE			Geography: NORTH CAROLINA						Evaluation Period: JANUARY 1, 2014 TO DECEMBER 31, 2014					
Assessment Area:	Total Home Purchase Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Aggregate Lending Data*			
	#	% of Total**	% Families***	% BANK Loans****	% Families*	% BANK Loans****	% Families**	% BANK Loans****	% Families*	% BANK Loans****	Low	Mod	Mid	Upp
<b>Full Review:</b>														
Bank of TN_Avery NC AA	2	100.00	22.94	0.00	18.64	0.00	17.21	0.00	41.21	100.00	3.83	16.94	14.75	64.48

\* Based on 2014 Peer Mortgage Data -- US and PR

\*\* Home purchase loans originated and purchased in the MA/AA as a percentage of all home purchase loans originated and purchased in the rated area.

\*\*\* Percentage of Families is based on the 2010 Census information.

\*\*\*\* As a percentage of loans with borrower income information available. No information was available for 0.0% of loans originated and purchased by BANK.

\* Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

Institution ID: BANK OF TENNESSEE

**Table 11a. Borrower Distribution of Small Loans to Businesses**

Borrower Distribution: SMALL LOANS TO BUSINESSES			Geography: NORTH CAROLINA		Evaluation Period: JANUARY 1, 2014 TO DECEMBER 31, 2014				
Assessment Area:	Total Small Loans to Businesses		Businesses With Revenues of \$1 million or less		Loans by Original Amount Regardless of Business Size			Aggregate Lending Data*	
	#	% of Total**	% of Businesses***	% BANK Loans****	\$100,000 or less	>\$100,000 to \$250,000	>\$250,000 to \$1,000,000	All	Rev\$ 1 Million or Less
<b>Full Review:</b>									
Bank of TN_Avery NC AA	6	100.00	73.86	100.00	100.00	0.00	0.00	418	237

\* Based on 2014 Peer Small Business Data -- US and PR

\*\* Small loans to businesses originated and purchased in the MA/AA as a percentage of all small loans to businesses originated and purchased in the rated area.

\*\*\* Businesses with revenues of \$1 million or less as a percentage of all businesses (Source D&B - 2014).

\*\*\*\* Small loans to businesses with revenues of \$1 million or less as a percentage of all loans reported as small loans to businesses. No information was available for 0.00% of small loans to businesses originated and purchased by the bank.