



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

April 05, 2010

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Citizens National Bank  
Charter Number: 16076

200 Forks of River Parkway  
Sevierville, TN 37862-3419

Office of the Comptroller of the Currency

NASHVILLE Field Office  
The Parklane Building 5200 Maryland Way, Suite 104  
Brentwood, TN. 37027-5018

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

**INSTITUTION'S CRA RATING: This institution is rated "Outstanding."**

**The Lending Test is rated: "Outstanding."**

**The Community Development Test is rated: "Outstanding."**

- The bank's average loan-to-ratio is more than reasonable at 94.70% during the evaluation period. **CNB's** loan to deposit ratio ranged from a low of 86.77% September 2009 to a high of 104.12% in June 2008.
- A substantial majority of **CNB** loans are inside the bank's Assessment Area. Approximately 89.89% of the number and 86.80% of the dollar volume of loans were to borrowers within the Assessment Area during this evaluation period.
- **CNB's** distribution of loans to borrowers of different income (including low-and moderate-income) levels ranges from lower than ratio to near the ratio. **CNB** has a good track record of qualifying low-and moderate-income residential home purchasers under government assisted lending programs. **CNB's** distribution of loans to businesses of different sizes is more than reasonable.
- **CNB's** community development performance demonstrates excellent responsiveness to the community development needs in its Assessment Area.

## **Scope of Examination**

This Performance Evaluation covers the period April 20, 2006 through April 5, 2010 and is a full scope review. Results were consolidated for comparative and analysis purposes and evaluated using 2000 Census demographic information. **CNB** has no bank owned affiliates. A data integrity review was conducted prior to this evaluation. The review concluded that the bank's internal data was reliable. We also reviewed the bank's community development loans and community development investments and services to ensure they met the definition of community development.

Conclusions regarding the Lending Test are based on residential loans including home purchases, home improvements, and home refinances. **CNB** is a Home Mortgage Disclosure Act (HMDA) reporter. All residential loans considered in the Lending Test originated from January 1, 2008 through December 31, 2009 were considered in our analysis. A sample of small business loans originated during January 1, 2008 through March 31, 2010 was also considered in the Lending Test.

## **Description of Institution**

**CNB** is an independent, intrastate bank which opened for business in 1973. Effective April 1984, the bank became wholly-owned by CNB Bancshares, Inc., a one-bank holding company. Both the holding company and bank are located in Sevierville, Tennessee. The holding company owns CNB Community Development (CNBCD), a community development corporation project which owns two apartment complexes that provide housing to low-income individuals. By virtue of the bank and CNBCD being owned by CNB Bancshares, Inc., the bank and community development company are affiliates of each other. CNBCD’s activities are included in this evaluation. A further description of the community development corporation can be found below. Additionally, the holding company owns two wholly-owned subsidiary grantor trusts known as CNB Statutory Trust I and Trust II. These subsidiaries have no affect on the bank’s community development activities. The bank owns Courthouse Title and Escrow, LLC, which provides professional real estate and other loan closing services (title services and title insurance). This entity neither conducts nor impedes any Community Reinvestment Act (CRA) activities that would be included in this evaluation. The trust subsidiaries and the title escrow entity have neutral CRA implications and therefore are not considered in the bank’s CRA activities for this PE.

Sevierville is approximately 20 miles east of Knoxville, Tennessee. There have not been any major changes in the bank’s corporate structure, including merger or acquisition activities, since the last CRA examination dated April 19, 2006, when the bank received a **Satisfactory** rating. There are no legal or financial impediments to **CNB’s** ability to meet the credit needs of its Assessment Area (AA) including retail and community development loans, qualified investments, and community development services needs. The bank offers a full-range of loan and deposit services. **CNB’s** primary business focus is commercial and industrial loans, including commercial real estate loans, and mortgage loans. As of December 31, 2009, the bank had total assets and loans of \$824 and \$590 million, respectively. Gross loans comprised 72% of total assets. Total assets for the holding company were \$829 million as of December 31, 2009. The following table reflects the composition of **CNB’s** loan portfolio based on December 31, 2009 Report of Condition.

	<b>Product Category</b>	
	<b>Dollar (000’s)</b>	<b>Percent</b>
Construction & Land Development	62,574	10.61
Commercial & Industrial Including Commercial Real Estate	357,031	60.53
Residential Mortgage Loans	164,115	27.83
Individuals	5,902	1.00
Miscellaneous	189	0.03
<b>TOTAL</b>	<b>589,811</b>	<b>100.00</b>

*Source: December 31, 2009 Report of Condition.*

Branches are generally located in areas that make them accessible to bank customers. Twelve branches are located in Sevier County, two branches each are located in Knox and Jefferson County, and one branch is located in Blount County. Lobby hours and drive-up hours are set to meet customer needs. ATM’s that disburse cash and take deposits are located at each branch

office. Additionally, there are 32 free-standing, non-deposit taking ATMs that disburse cash only.

<b>Distribution of Bank Offices and ATMs by Census Tract</b>						
Census Tract Income Level	Tracts		Full-Service Branches		Automated Teller Machines *	
	#	%	#	%	#	%
Low	0	0	0	0	0	0
Moderate	1	4.35	1	5.88	2	6.25
Middle	20	86.95	15	88.24	29	90.63
Upper	2	8.70	1	5.88	1	3.12
NA	0	0	0	0	0	0
<b>TOTAL</b>	<b>23</b>	<b>100.00%</b>	<b>17</b>	<b>100.00%</b>	<b>32</b>	<b>100.00%</b>

*There are 17 branch offices with contiguous ATMs. All of the ATM machines at the branch offices accept deposits and dispense cash. There are 32 free-standing ATMs which dispense cash only.*

Customers may also access their accounts through telephone banking or by the Internet ([www.cnbtn.com](http://www.cnbtn.com)). Internet and telephone banking include transfers between **CNB** accounts, review of bank balances and transactions, access loan account information and bill-paying capability for the Internet banking product. The Bank also offers Visa debit cards that can be used to access customer accounts at point of sale (POS) or ATM locations. Additionally, Visa and MasterCard credit cards are offered by the bank.

**CNB's** business strategy includes continued marketing of commercial credit to small businesses and individuals through its products, staff, and locations. The bank actively generates commercial, mortgage, and consumer loans to customers located primarily in Sevier, Jefferson, Knox, and Blount County, Tennessee. Commercial loan activity includes all types of commercial real estate development and construction. Small Business Administration (SBA) loans are offered for new business startups as well as to expand existing businesses. **CNB** also offers United States Department of Agriculture (USDA) and SBA's America's Recovery Capital Loan Program (SBA ARC) loans to qualifying businesses. Government guarantees can be as high as 100%. **CNB** also supports the purchase and long-term financing of residential home loans through its conventional secondary market home mortgage, Farmers Home Administration, Veterans Administration, and rural housing home mortgage guarantee programs.

## **Description of Assessment Area(s)**

The bank's **AA** consists of 23 census tracts in Sevier, Blount, Knox, and Jefferson County, TN. The **AA** includes all (11) census tracts in Sevier County, one census tract in Blount County, four census tracts in Knox County, and seven census tracts in Jefferson County. Sevier County is in a non-Metropolitan Statistical Area (MSA). Blount County and Knox County are part of the Knoxville Metropolitan Statistical Area (MSA #28940). Jefferson County is part of the Morristown MSA #34100. **CNB** has 17 offices. Twelve of the offices including its main office are located in Sevier County. There is one branch offices located in Blount County and two branch offices located in both Knox County (Knoxville MSA #28940) and Jefferson County (Morristown MSA #34100). Branches opened since the previous PE are: Strawberry Plains,

Knoxville, TN June 2007; Food City Branch, Kodak, TN February 2008; and White Pine Branch, White Pine, TN March 2008. Although not closed, two branch offices were sold since the previous PE. In March 2008, branch offices in the Food City Supermarket and Kroger Supermarket, Knoxville, TN were sold to a credit union. Since the previous PE, the census tracts where these branches were located have been removed from the bank’s Knoxville MSA AA. The bank’s AA meets regulatory requirements and does not arbitrarily exclude any low- or moderate-income areas.

**CNB’s** competition consists of six other financial institutions. All six are independent banks headquartered in **CNB’s AA**. Although other regional bank branches, federal savings bank offices, and other financial intermediaries exist within **CNB’s** market, the bank does not consider these to be competitors.

At February 28, 2010, the unemployment rates for the State of Tennessee and the United States were 10.7% and 9.7%, respectively.

<b>Demographic Information for Non MSA Assessment Area</b>							
<b>Sevier County, Tennessee</b>							
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #	
Geographies (Census Tracts/BNAs)	11	0	0	81.82	18.18	0	
Population by Geography	71,170	0	0	82.38	17.62	0	
Owner-Occupied Housing by Geography	37,252	0	0	81.41	18.59	0	
Businesses by Geography	9,778	0	0	88.73	11.27	0	
Farms by Geography	166	0	0	84.94	15.06	0	
Family Distribution by Income Level	20,952	14.89	17.43	24.68	43.00	0	
Distribution of Low- and Moderate-Income Families throughout AA Geographies	6,770	46.07	53.93	-	-	0	
Median Family Income (MFI)	= \$40,171		Median Housing Value		= \$106,560		
HUD Adjusted Median Family Income (MFI) for 2007	= \$46,300				Unemployment Rates		= 15.4%
Households Below the Poverty Level	= 3,347						

(\*) The NA category consists of geographies that have not been assigned an income classification.  
 Source: 2000 U.S. Census and 2007 HUD updated MFI. Unemployment rate is as of February 2010.

Sevier County is one of the fastest-growing counties in Tennessee. In 2006, the population was 79,875 and grew to 83,527 in 2007. The county seat is Sevierville, which is the largest city in the county. Other cities include Pigeon Forge and Gatlinburg. Also known as the "Gateway" to the Great Smoky Mountains National Park, Sevier County is located off of major East-West connector Interstate I-40. From its beginnings as a traditional subsistence-based farming society, Sevier County has grown into a major tourist destination. Dedicated in 1940, the [Great Smoky Mountains National Park](#) dominates the southern part of the county. In 2003, the park had nearly

10 million visitors. This traffic has had a positive impact on motels, restaurants, shopping, theme parks, theaters, and festivals in the cities of Sevierville, Pigeon Forge, and Gatlinburg. Tourism has also caused tremendous interest and growth in the commercial cabin rental industry. Tourism accounts for greater than 90% of the county's economic base. Although the county has experienced good economic and employment growth, the February 2010 unemployment rate of 15.4% was higher than the state's and US's 10.7% and 9.7%, respectively. Typically, unemployment is higher during the winter months versus spring, summer, and fall seasons when tourism thrives. Steady population growth coupled with a strong tourism industry should continue to favorably support the local economy.

<b>Demographic Information for Knoxville MSA Assessment Area (#28940)</b>						
<b>Knox and Blount County, Tennessee</b>						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	5	0	20.00	80.00	0	0
Population by Geography	31,091	0	19.58	80.42	0	0
Owner-Occupied Housing by Geography	13,109	0	17.32	82.68	0	0
Businesses by Geography	2,152	0	17.61	82.39	0	0
Farms by Geography	89	0	22.47	77.53	0	0
Family Distribution by Income Level	9,256	18.11	19.76	23.43	38.70	0
Distribution of Low- and Moderate-Income Families throughout AA Geographies	3,505	47.82	52.18	-	-	0
Median Family Income (MFI)	= \$46,469	Median Housing Value		= \$90,023		
HUD Adjusted Median Family Income (MFI) for 2007	= \$58,800	Unemployment Rates		= 8.4% (Knox)		
Households Below the Poverty Level	= 1,139			= 10.5% (Blount)		

(\*) The NA category consists of geographies that have not been assigned an income classification.  
 Source: 2000 U.S. Census and 2007 HUD updated MFI. Unemployment rate is as of February 2010.

Knox County is adjacent to Sevier County, Blount County, and Jefferson County. Knox County is north of Sevier County and Blount County. Jefferson County borders Knox County's eastern boundary. Knoxville and Farragut are the major cities in Knox County. Knoxville is the third-largest city in the State of Tennessee and is the county seat of Knox County. It is also the largest city in East Tennessee. Knoxville's economy is largely fueled by the regional location of the main campus of the University of Tennessee, the Oak Ridge National Laboratory and other Department of Energy facilities in nearby Oak Ridge, the National Transportation Research Center, and the Tennessee Valley Authority. Because of its central location in the eastern half of the United States and proximity to two major Interstate highways, many warehousing and distribution companies operate in and around Knoxville. Other major employers in the county and East Tennessee include: Tennessee Valley Authority (TVA) an electric utility; AC

Entertainment, a music promotion company; family owned Bush Brothers and Company, a nationwide distributor of baked beans and other baked products; Jewelry Television, an American television network jewelry retailer; Home and Garden Television (HGTV) a cable-television network which broadcasts a variety of garden and home improvement, maintenance, renovation, craft, and remodeling products and concepts; EdFinancial Services which provides student loan servicing for 15 of the nation's top 100 lenders, including regional and national banks, secondary markets, state agencies and other student loan providers; Pilot Corporation, a petroleum corporation which also owns many convenience stores and truck stop style travel centers around the country; and Weigel's, a gas station and convenience store chain which operates nearly 50 dairy and convenience stores, all within a 50-mile radius of its corporate headquarters. In April 2008, Forbes Magazine named Knoxville among the Top 10 Metropolitan Hotspots in the United States. Farragut is a bedroom community adjacent to Knoxville. Additionally, there are numerous commercial outlets concentrated in Farragut which is located on the west side of Knoxville. Knox County's unemployment rate of 8.4% is lower than both the state and US at 10.7% and 9.7%, respectfully.

Blount County is adjacent to Sevier County and bordered on the east by the Great Smoky Mountains National Park and on the west by the great chain of lakes created by the Tennessee Valley Authority. Maryville is bordered on the north by its twin city, Alcoa, a number of small suburbs to its east and west, and Townsend to its south. The county is part of the Knoxville, TN Metropolitan Statistical Area (MSA) and the county seat is Maryville. **CNB** has one branch office (Census Tract 0113) located at the extreme northern end of Blount County. The branch is in close proximity to both Knox and Sevier County. **CNB** includes only one of the 18 census tracts in Blount County within its defined AA. In 2007, the county's population was 119,855. For many years lumbering was the primary industrial trade in Blount County. Today, lumbering has been replaced with many varied occupational opportunities. Over 100 manufacturing plants can be found in Blount County. In 2007, manufacturing was the largest of 20 major sectors. The principal employers for the residents of Blount County are DENSO Manufacturing TN, Inc. (one of the world's most respected manufacturers of automotive components), Alcoa, Inc. (aluminum manufacturing and recycling), and Blount Memorial Hospital (health care). DENSO is the county's largest employer with 3,000 employees. Blount County's February 2010 unemployment rate of 10.5% was slightly less than the state's 10.7%, but higher than the US's 9.7%.

Demographic Information for Morristown MSA Assessment Area (#34100)						
Jefferson County, Tennessee						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	7	0	0	100	0	0
Population by Geography	35,957	0	0	100	0	0
Owner-Occupied Housing by Geography	15,867	0	0	100	0	0
Businesses by Geography	2,719	0	0	100	0	0
Farms by Geography	99	0	0	100	0	0
Family Distribution by Income Level	10,286	18.21	18.18	23.57	40.04	0
Distribution of Low- and Moderate-Income Families throughout AA Geographies	3,743	50.04	49.96	-	-	0
Median Family Income (MFI)	= \$38,860	Median Housing Value		= \$82,703		
HUD Adjusted Median Family Income (MFI) for 2007	= \$47,700	Unemployment Rates		= 14.9%		
Households Below the Poverty Level	= 2,061					

(\*) The NA category consists of geographies that have not been assigned an income classification.  
 Source: 2000 U.S. Census and 2007 HUD updated MFI. Unemployment rate is as of February 2010.

Jefferson County is adjacent to Sevier County and Knox County to its West. Major cities in Jefferson County include Dandridge, Jefferson City, White Pine, and Baneberry. Dandridge is a short drive from Pigeon Forge and Gatlinburg, Knoxville and the University of Tennessee. Situated only two miles from the intersection of Interstate-40 and Interstate-81, Dandridge is a prime destination for anyone visiting the Smoky Mountains. Jefferson City is approximately twenty miles northeast of Knoxville. Jefferson City offers a small town atmosphere with all the amenities and entertainment of Knoxville, Pigeon Forge, and Gatlinburg. In the heart of the Lakeway Area, Jefferson City is minutes from Cherokee Lake and Douglas Lake. These TVA operated recreational facilities offer excellent opportunities to sportsmen and fishermen, as well as campers and recreational watercraft owners. Baneberry is primarily a resort community nestled at the foot of the Smoky Mountains. It is partially surrounded by Douglas Lake which has almost 600 miles of shoreline and is one of the premier fishing lakes in Tennessee. A championship golf course winds through the heart of the city. Baneberry is just minutes from Knoxville, Gatlinburg, and Pigeon Forge, Home of Dollywood, a variety of music theaters and some of the best outlet shopping in the Southeast. Jefferson County’s unemployment rate of 14.9% is higher than the state’s and US’s rate of 10.7% and 9.7%, respectively.

We completed one community contact with a local economic development organization. No specific credit needs were identified. Although in a recession, the contact reported that area banks have been very responsive and active in securing new business to the area and providing needed funding. The contact also noted that local bank members including CNB personnel serve on committees and in Board roles.

## Conclusions with Respect to Performance Tests

### LENDING TEST

The bank's performance under the Lending Test is rated **"Outstanding."** Based on a full-scope review, the bank's performance in the AA is excellent.

### Loan-to-Deposit Ratio

At 94.70%, the quarterly average loan-to-deposit ratio for **CNB** is more than reasonable for the sixteen quarters ending December 31, 2009. **CNB's** average loan-to-deposit ratio compared very favorably to competitor banks in the AA for the period. Of the seven independent banks headquartered in the AA, **CNB** had the highest average loan-to-deposit ratio at 94.70%. Smartbank (Sevierville) had the next highest at 92.05%, followed by Tennessee State Bank (Pigeon Forge) at 88.84%, then Mountain National Bank (Sevierville) at 88.40%, Bankeast (Knoxville) 81.79%, First Peoples Bank of Tennessee (Jefferson City) 79.14%, and Sevier County Bank (Sevierville) 69.52%.

Loan-To-Deposit Ratios		
Institution	Assets as of 12/31/09(*)	Average LTD Ratio % (**)
<b>Citizens National Bank, Sevierville, TN</b>	<b>\$828</b>	<b>94.70</b>
SmartBank, Sevierville, TN(#)	\$281	92.05
Tennessee State Bank, Pigeon Forge, TN	\$765	88.84
Mountain National Bank, Sevierville, TN	\$638	88.40
BankEast, Knoxville, TN	\$329	81.79
First Peoples Bank of Tennessee, Jefferson City, TN	\$128	79.14
Sevier County Bank, Sevierville, TN	\$396	69.52

\*Asset sizes of institutions are in millions (000,000's)

\*\*The quarterly average LTD ratio for CNB and the 13 comparable banks is for the period March 31, 2006 through December 31, 2009.

#SmartBank is a newly chartered bank. The quarterly average LTD is for the period March 31, 2007 through December 31, 2009.

As of June 30, 2009, 42 financial institutions with 291 offices reside within the four counties of Sevier, Knox, Blount, and Jefferson and control \$13.150 billion in deposits. **CNB** controlled the seventh largest market share within the four counties at \$624 million, or 4.75%, of total deposits. One community bank (Tennessee State Bank) controlled slightly more in local deposits at \$631 million, or 4.80% of total deposits. Other competitor banks include: Mountain National Bank with deposits of \$539 million (4.10%); Sevier County Bank with deposits of \$374 million (2.84%); Bankeast with deposits of \$259 million (1.79%); Smartbank with deposits of \$218 million (1.66%); and, First Peoples Bank of Tennessee with deposits of \$92 million (0.70%). Large regional banks dominate the four county market. First Tennessee Bank, NA (Memphis) controlled deposits of \$2.4 billion (18.51%); SunTrust Bank (Atlanta) controlled deposits of \$1.9 billion (14.25%); Regions Bank (Birmingham), controlled deposits of \$1.7 billion (13.08%); and Branch Banking & Trust Co. (Winston-Salem, NC) controlled deposits of \$900 million (6.85%). Home Federal Bank of Tennessee, a federal savings bank headquartered in Knoxville, controlled

deposits of \$1.5 billion (11.15%). The remaining thirty institutions controlled deposits from \$258 million (1.96%) to \$7 million (0.05%).

### Lending in Assessment Area

A substantial majority of **CNB's** lending is in its AA. The number of residential and business loans inside the bank's AA was 89.18% and 90.37%, respectively. Similarly, the dollar amount of residential and business loans inside the bank's AA was 92.89% and 84.20%, respectively. Collectively, 89.89% and 86.80% of the number and dollar amount of residential and business loans were inside the bank's AA. Conclusions are based on all HMDA reportable loans originated during 2008 and 2009 and business loans originated during 2008, 2009, and through March 31, 2010.

<b>Lending in CNB AAs</b>										
Loan Type(s)	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
HMDA Home Purchase Loans	180	89.11	22	10.89	202	45,951	92.00	3,998	8.00	49,949
HMDA Home Improvement Loans	96	87.27	14	12.73	110	3,343	97.29	93	2.71	3,436
HMDA Home Refinance Loans	70	92.11	6	7.89	76	17,613	94.49	1,027	5.51	18,640
<b>Total HMDA Residential Loans</b>	<b>346</b>	<b>89.18</b>	<b>42</b>	<b>10.82</b>	<b>388</b>	<b>66,907</b>	<b>92.89</b>	<b>5,118</b>	<b>7.11</b>	<b>72,025</b>
Business Loans	516	90.37	55	9.63	571	141,915	84.20	26,626	15.80	168,541
<b>Total</b>	<b>862</b>	<b>89.89</b>	<b>97</b>	<b>10.11</b>	<b>959</b>	<b>208,822</b>	<b>86.80</b>	<b>31,744</b>	<b>13.20</b>	<b>240,566</b>

*Source: All HMDA reportable residential loans originated during, 2008, 2009 and thru March 31, 2010 are included. Residential loans include purchase, home improvement, and home refinance loans. Business loans include all loans originated during 2008, 2009, and through March 31, 2010; 2000 U.S. Census Data.*

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

**CNB's** overall record of lending to borrowers of different incomes is reasonable. While the actual lending to borrowers of different incomes in most of the bank's AA's is lower than to near the % of AA families ratio, the bank does work with low- to moderate-income borrowers arranging for government guaranteed home buyer programs which boost their lending efforts. **CNB's** record of lending to businesses of different sizes is more than reasonable. At 5.64% and 13.91%, the number of HMDA reportable residential loans to low- and moderate-income families within the Sevier County Non MSA AA is less than the percentage of low-and moderate-income families of 14.89% and 17.43%, respectively. At 8.33% and 33.33%, the number of HMDA reportable residential loans to low-and moderate-income families in the Knoxville MSA AA is reasonable to the percentage of low-and moderate-income families of 18.11% and 19.76%, respectfully. At 2.50% and 12.50%, the number of HMDA reportable

residential loans to low-and moderate-income families within the Morristown MSA AA is significantly less than the percentage of low-and moderate-income families of 18.21% and 18.18%, respectfully. The bank attributes its record of lending to borrowers of different incomes, particularly low-and moderate-income families, as a by-product of its loan underwriting policy which require a 15% down payment by purchasers of residential property. The bank directs those loans into government home loan programs. These type loans are not included in the tables below.

**CNB** supports the purchase and long-term financing of residential home loans through Veterans Administration (VA) home mortgage program, Farmers Home Mortgage Association (FMHA) home mortgage program, and Rural Development (RD) home mortgage loan program. The government sponsored home ownership programs are designed for low- and-moderate income borrowers. These programs are intended for modest homes and generally first-time home buyers. Mortgages must be insured or guaranteed by Veterans Administration (VA), Federal Housing Authority (FHA), or RD loans. **CNB** underwrites these loans to agency guidelines, receives a fee for its efforts, and the loan is funded by a third party in the secondary market. Since these loans are never funded by the bank, they are not reported on the bank's HMDA-LAR report. Consequently, they are not reflected in the table below. During 2008, 2009, and through March 31, 2010, **CNB** underwrote 23 RD loans totaling \$2.783 million, 7 VA loans totaling \$698 thousand, and 3 FHA loans totaling \$488 thousand. Many of these loans were to low-and moderate-income individuals. **CNB** also underwrites conventional home mortgages to low- and moderate-income individuals. Conventional mortgages are also underwritten to moderate- and upper-income individuals. These loans are underwritten to the standards of third-party lenders and sold directly into the secondary market. The bank also receives a fee for its efforts. Similar to the government housing programs, conventional loans can be temporarily funded by the bank, but are not reported on the bank's HMDA-LAR report, and are not reflected in the tables below. During the reporting period, **CNB** underwrote 66 conventional loans totaling \$9.224 million. The majority of these loans were in the bank's AA.

Residential loans generated through the bank's secondary market department are not included on the bank's HMDA reports. However, an analysis of secondary conventional, Rural Housing Development, VA, and FHA loans generated in the bank's AAs for 2008, 2009, and through March 31, 2010 revealed the following: there were 20 loans totaling \$2.224 million generated to low- and moderate-income individuals in the Sevier County Non-MSA AA; there were 4 loans totaling \$354 thousand generated to low- and moderate-income individuals in the Knox/Blount County MSA AA; and, there were no loans generated in the Morristown MSA AA. Taking these loans into consideration and the loans made to middle-and upper-income families, the number and dollar amount of loans to low-income families in the Sevier County Non-MSA AA would change the percentage to 5.42% (slight decrease) and 1.69% (slight increase), respectively. Similarly, the number and dollar amount of loans to moderate-income families would change to 16.27% (moderate increase) and 6.98% (moderate increase), respectively. Using the same analogy for the Knoxville MSA AA, the number and dollar amount of loans to low-income families would change the percentage to 16.67% (significant increase) and 7.00% (significant increase), respectively. Similarly, the number and dollar amount of loans to moderate-income families would change to 33.33% (unchanged) and 18.73% (significant increase), respectively. Following through using the same analogy for the Morristown MSA AA, the number and dollar amount of loans to low-income families would change the percentage to 2.04% (modest

decrease) and 1.18% (modest decrease), respectively. Similarly, the number and dollar amount of loans to moderate-income families would change to 10.20% (slight decrease) and 8.18% (slight decrease), respectively. The Knoxville MSA AA is the most significant benefactor of this analysis

Demographic data for the Sevier County Non-MSA AA shows 3,347 households, or 11.75% of all AA households, are below the poverty level. The median housing value in the Sevier County Non MSA AA is \$106,560. Demographic data for the Knoxville MSA AA shows 1,139 households, or 9.34% of all households, are below the poverty level. The median housing value in the Knoxville MSA AA is \$90,023. Demographic data for the Morristown MSA AA shows 2,061 households, or 14.72% of all households, are below the poverty level. The median housing value in the Morristown MSA AA is \$82,703. Opportunities to lend to low- and moderate-income individuals within the bank’s three AA’s is limited based on the number of below poverty level households and median housing values in each AA.

CNB’s overall record of lending to businesses of different sizes is reasonable. Business revenues within the Sevier County Non MSA AA reflect that 77.29% have annual sales less than \$1 million, 2.95% exceed \$1 million, and 19.76% of business sales are unavailable. At 93.06% and 76.17%, both the number and dollar amount of loans to Sevier County businesses compared favorably to demographic data for the period. Business revenues within the Knoxville MSA AA reflect that 86.08% have annual sales less than \$1 million, 2.45% exceed \$1 million, and 11.47% of business sales are unavailable. At 95.00% and 98.46%, both the number and dollar amount of loans to Knoxville MSA businesses exceeds the demographic ratios for the period. Business revenues within the Morristown MSA AA reflect that 79.99% have annual sales less than \$1 million, 2.66% exceed \$1 million, and 17.35% of business sales are unavailable. At 91.38% and 65.92%, both the number and dollar amount of loans to Morristown MSA businesses compared favorably to demographic data for the period. The bank does a good job in obtaining business revenue information on its business loans as reflected by the low percentage of unavailable information in each AA.

<b>Borrower Distribution of Residential Real Estate Loans in Sevier County Non MSA AA</b>								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	14.89%		17.43%		24.68%		43.00%	
Loan Type(s)	% of Number	% of Amount						
Home Purchase	2.21	1.20	10.29	3.46	9.56	4.28	58.82	51.63
Home Improvement	12.00	1.73	18.67	16.37	21.33	18.53	29.33	55.83
Home Refinancing	5.45	1.69	16.36	5.58	14.55	7.08	50.91	63.47
Total	5.64	1.34	13.91	4.63	13.91	5.69	48.87	54.64

Source: 2008 & 2009 Residential loans include residential home purchases, home improvement loans, and home refinance loans recorded on the bank’s HMDA LAR; 17.67% of the number and 33.70 % of the amount of loans recorded on the bank’s HMDA LAR are N/A. That is residential real estate loans were made to corporations and other entities that are not required to report income level. 2000 U.S. Census Data.

<b>Borrower Distribution of Residential Real Estate Loans in Knoxville MSA AA</b>								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	18.11%		19.76%		23.43%		38.70%	
Loan Type(s)	% of Number	% of Amount						
Home Purchase	0.00	0.00	28.57	16.69	14.29	12.58	57.14	70.73
Home Improvement	33.33	30.00	33.33	40.00	0.00	0.00	33.33	30.00
Home Refinancing	0.00	0.00	50.00	11.65	0.00	0.00	0.00	0.00
Total	8.33	0.17	33.33	13.91	8.33	5.24	41.67	29.64

Source: 2008 & 2009 Residential loans include residential home purchases, home improvement loans, and home refinance loans recorded on the bank's HMDA LAR; 8.33% of the number and 51.05 % of the amount of loans recorded on the bank's HMDA LAR are N/A. That is residential real estate loans were made to corporations and other entities that are not required to report income level. 2000 U.S. Census Data.

<b>Borrower Distribution of Residential Real Estate Loans in Morristown MSA AA</b>								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	18.21%		18.18%		23.57%		40.04%	
Loan Type(s)	% of Number	% of Amount						
Home Purchase	5.56	3.14	11.11	18.23	11.11	7.98	50.00	50.23
Home Improvement	0.00	0.00	15.38	8.05	30.77	10.34	38.46	78.16
Home Refinancing	0.00	0.00	11.11	2.27	22.22	4.50	66.67	93.23
Total	2.50	1.42	12.50	9.82	20.00	6.42	50.00	72.92

Source: 2008 & 2009 Residential loans include residential home purchases, home improvement loans, and home refinance loans recorded on the bank's HMDA LAR; 15.00% of the number and 9.43 % of the amount of loans recorded on the bank's HMDA LAR are N/A. That is residential real estate loans were made to corporations and other entities that are not required to report income level. 2000 U.S. Census Data.

<b>Borrower Distribution of Loans to Businesses in Sevier County Non MSA AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total

<b>Full Review: Sevier County AA</b>				
% of AA Businesses	77.29	2.95	19.76	100%
% of Bank Loans in AA by #	93.06	5.74	1.20	100%
% of Bank Loans in AA by \$	76.17	23.59	0.24	100%

Source: 2007 Business Geodemographic data compared to 2008, 2009, and through March 31, 2010 business loans originated..

<b>Borrower Distribution of Loans to Businesses in Knoxville MSA AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
<b>Full Review: Knox &amp; Blount County AA</b>				
% of AA Businesses	86.08	2.45	11.47	100%
% of Bank Loans in AA by #	95.00	0.00	5.00	100%
% of Bank Loans in AA by \$	98.46	0.00	1.54	100%

Source: 2007 Business Geodemographic data compared to 2008, 2009, and through March 31, 2010 business loans originated..

<b>Borrower Distribution of Loans to Businesses in Morristown MSA AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
<b>Full Review: Jefferson County AA</b>				
% of AA Businesses	79.99	2.66	17.35	100%
% of Bank Loans in AA by #	91.38	5.17	3.45	100%
% of Bank Loans in AA by \$	65.92	33.94	0.14	100%

Source: 2007 Business Geodemographic data compared to 2008, 2009, and through March 31, 2010 business loans originated..

## Geographic Distribution of Loans

CNB's geographic distribution of loans to businesses and low- and moderate-income families is not meaningful. There are no low-and moderate-income census tracts in either the Sevier County Non-MSA AA or Morristown MSA AA. And, there is no low-income census tracts and only one moderate-income census tract in the Knoxville MSA AA. A geographic analysis of the distribution of HMDA or business loans would not be meaningful. Therefore no such analysis was completed for this evaluation period.]

## Responses to Complaints

There have been no consumer complaints relating to the bank's CRA performance during this evaluation period, therefore this criteria is not applicable.

## COMMUNITY DEVELOPMENT TEST

The bank's performance under the Community Development Test is rated **"Outstanding."**

**CNB** demonstrated excellent responsiveness to Community Development needs of the AA through CD lending, investments, and services.

**CNB** originated 55 community development loans, investments, and donations totaling \$10,174,000 during this evaluation period. As evidenced by the table below, 7 loans and 48 investments, totaling \$5,220,000 and \$5,018,000, respectively, were for community development.

## **Number and Amount of Community Development Loans**

### **Community Development Loan**

Qualifying community development loans are loans that meet the definition of community development, as defined in the CRA regulation. During the evaluation period, **CNB** originated 7 community development loans aggregating \$5,220,000. Specific examples of loans qualifying community development organizations are described below.

#### **Loans to Construct and Fund Cost Overruns on Apartments for Rental to Low- and Moderate-Income Individuals**

In 2007, **CNB** originated a \$4,640,000 loan for Phase II construction to Volunteer Housing Management Corp., Inc. Funds were for the addition of 50-affordable housing (affordable housing is a general term applied to public- and private-sector efforts to help low- and moderate-income families) units at the Riverpark Apartments in Sevierville. In 2006, the bank funded a \$100,000 loan for cost overruns on a 50-unit apartment complex in Seymour. The apartment complex provided housing for the elderly.

#### **Loans to Construct Housing or Cover Pre-Development Expenses for Homeless Housing Units**

In 2008, **CNB** funded two construction home loans totaling \$130,000 (\$65,000 each) for lower income individuals who had not owned a home in at least five years. In 2009, **CNB** funded a \$100,000 Line of Credit to Tennessee Valley Coalition to End Homelessness, Inc. Funds were used to construct housing for the homeless. **CNB** also funded a \$250,000 loan to Volunteer Ministry Center, Inc. to cover pre-development expenses related to construction of Minvilla Manor, a housing unit for the chronically homeless.

## **Number and Amount of Qualified Investments**

### **Community Development Investments**

Qualifying investments are investments, deposits, membership share, or grants that have as their purpose community development, as defined in the CRA regulation. Under **12 C.F.R. 24, Community and Economic Development Entities, Community Development Projects**, a national bank is encouraged to make investments consistent with safety and soundness.

Qualifying investments include: investments in a project that develops or operates transitional housing for the homeless; investments in a project that develops or operates special needs housing for disabled or elderly low- and moderate-income individuals; and investments in a project that qualifies for the Federal low-income housing tax credits. During the evaluation period, **CNB** had investments aggregating \$4,898,214 and donations aggregating \$120,893.

These investments resulted in Federal low-income housing tax credits for the bank.

In 2007, **CNB** through CNBCD, a community development project affiliate, made an equity investment in Riverpark Phase II, a 50-unit affordable housing apartment project, in the amount of \$2,821,750. In 2009, a similar equity investment totaling \$2,076,464 was made to Manvilla Manor, a 57-permanent housing facility for the chronically homeless. Creating a community development corporation and actively managing projects is not typical for banks of this size. **CNB** works with local developers and is hands-on when dealing with these affordable housing CDC projects.

During this evaluation period, **CNB** has been an active supporter in their communities through donations targeted for low- and moderate-income and disadvantaged individuals. **CNB** made 47 donations totaling \$120,893. Donations included: 26 donations totaling \$28,633 to 12 schools in the AA with more than 50% of the students coming from low-and moderate-income families; 15 donations totaling \$73,470 to Boys and Girls Club of Smoky Mountains and similar organizations with more than 50% of the youth coming from low- and moderate-income families; 4 donations totaling \$12,390 to United Way of Sevier County which serves the needs of low- and moderate-income families and the disadvantaged; and 1 donation totaling \$3,500 to Sevier County Economic Development for the purpose of offering insurance to low income employees of small businesses.

<b>Community Development Lending and Investments in AA</b>			
<b>Community Development Lending</b>		#	\$ Amount (000's)
Originated CD Loans	AA	7	\$5,220
Unfunded Commitments*	N/A	0	0
Total CD Loans		7	\$5,220
<b>Community Development Investments</b>			
Qualified Investments	AA	2	\$4,898
Originated Grants/Donations	AA	46	\$120
Unfunded Commitments*	N/A	0	0
Total Qualified Investments		48	\$5,0189
Total Community Development Lending and Investments	AA	55	\$10,238

\*Unfunded Commitments means legally binding loan and investment commitments that are tracked and recorded by the bank's financial reporting system.

### **Extent to Which the Bank Provides Community Development Services**

The bank's community development services reflect adequate responsiveness.

**CNB** employees participate in financial literacy programs that are given at schools throughout the Sevier County School System. The majority of students in the Sevier County Public School System are from low-and moderate-income families. The bank was recognized by the Tennessee Banker's Association as an Outstanding Personal Economics Program bank for 2009-2010 for their work in this category. A bank officer also serves as treasurer for the local Boys and Girls Club. The Sevier County Boys and Girls Club provide services for low- and moderate-income children.

The bank has a moderate-income census tract in their Knoxville MSA AA. **CNB** operates one full-service branch inside a Wal-Mart in this census tract. **CNB** also provides a "Fresh Start" checking account that among others benefits low- and moderate-income customers. This service allows individuals with a history of financial difficulties related to checking accounts to open a checking account with the bank.

## **Fair Lending or Other Illegal Credit Practices Review**

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.