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**SUPPLEMENT**  
TO THE  
**APPLICATION**  
TO THE  
**BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM**  
RELATING TO THE PROPOSED ACQUISITION OF  
**CAPITAL BANK FINANCIAL CORP.**  
BY  
**FIRST HORIZON NATIONAL CORPORATION**  
AND  
**FIRESTONE SUB, INC.**  
PURSUANT TO SECTIONS 3(a)(2), 3(a)(3) AND 3(a)(5)  
OF THE BANK HOLDING COMPANY ACT OF 1956, AS AMENDED,  
AND REGULATION Y PROMULGATED THEREUNDER

August 2, 2017

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**RESPONSES OF FIRST HORIZON NATIONAL CORPORATION  
TO THE REQUEST FOR ADDITIONAL INFORMATION**

Set forth below are the responses of First Horizon National Corporation (“First Horizon”) to the Board of Governors of the Federal Reserve System staff’s request for additional information, dated July 14, 2017, relating to First Horizon’s application (the “Application”) pursuant to Section 3 of the Bank Holding Company Act of 1956, as amended (the “BHC Act”), for prior approval to merge with Capital Bank Financial Corp. (“CBFC”), and thereby indirectly acquire Capital Bank Corp. (“Capital Bank”). Preceding each response, the related question is restated in bold. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Application.

- 1. Provide current and pro forma shareholders lists for First Horizon that specifically identify any shareholder or group of shareholders that would own or control, directly or indirectly, 5 percent or more of any class of voting securities, or 10 percent or more of the total equity, of First Horizon both before and after consummation of the proposed transaction. In calculating the voting ownership, include any warrants, options, and other convertible instruments, and show all levels of voting ownership on both a fully diluted and an individually diluted basis. For purposes of calculating voting ownership on an individually diluted basis, any warrants, options, and other convertible instruments should be treated as having been exercised by individual holders (or commonly controlled entity groups or family groups), and by no other holders of the warrants, options, or convertible instruments. Aggregate the interests of any related shareholders, including, for example, shareholders that are acting in concert (pursuant to definitions and presumptions in 12 C.F.R. § 225.41) and shareholders that are commonly controlled or advised. Your response should also indicate whether any identified shareholder is a bank or bank holding company.**

As of March 31, 2017, there were five shareholders that owned 5% or more of First Horizon’s outstanding common stock. None owned 10% or more of First Horizon’s total equity.

<u>Shareholder</u>	<u>Number of Shares of Common Stock</u>	<u>Percentage of Common Stock Outstanding as of March 31, 2017</u>
BlackRock, Inc.	21,381,745*	9.13%
The Vanguard Group, Inc.	19,236,997*	8.22%
T. Rowe Price Group, Inc.	17,323,497*	7.40%
State Street Global Advisors, Inc.	13,353,169*	5.70%
Invesco Ltd.	13,172,294*	5.63%

\* Ownership based on information contained in each shareholder’s Form 13F-HR, reflecting ownership as of March 31, 2017.

These five shareholders are certain investment funds and vehicles managed by BlackRock, Inc., The Vanguard Group, Inc., T. Rowe Price Group, Inc., State Street Global Advisors, Inc. and Invesco Ltd. and none is a bank holding company (although First Horizon understands that each of Blackrock, Inc. and State Street Global Advisors, Inc. is affiliated with a bank holding company). These entities are some of the top money managers in the world in assets under management. BlackRock, Inc. has approximately \$5.4 trillion in assets under management, The Vanguard Group, Inc. has approximately \$4 trillion in assets under management, State Street Global Advisors, Inc. has approximately \$2.47 trillion in assets under management and T. Rowe Price Group, Inc. has approximately \$904 billion in assets under management. All are some of the top shareholders in a number of large U.S. and non-U.S. companies. As set forth below, each of BlackRock, Inc., The Vanguard Group, Inc. and T. Rowe Price Group, Inc. is expected to own more than 5% of First Horizon's outstanding common stock on a pro forma basis and none is expected to own 10% or more of First Horizon's outstanding common stock or total equity on a pro forma basis.

All directors and executive officers of First Horizon as a group (19 persons) collectively own less than 5% of First Horizon's outstanding common stock (1.50%) and will continue to do so on a pro forma basis.

On a pro forma basis, and assuming that every CBFC shareholder equally elects to exchange each of their shares for 1.75 First Horizon shares plus \$7.90 in cash, four shareholders are expected to own 5% or more of First Horizon's outstanding common stock. None is expected to own 10% or more of First Horizon's total equity. None is a bank holding company (although Blackrock, Inc. is affiliated with a bank holding company).

<u>Shareholder</u>	<u>Number of Shares of Common Stock on a Pro Forma Basis</u>	<u>Percentage of Common Stock Outstanding on a Pro Forma Basis</u>
BlackRock, Inc.	24,326,267*	7.48%
The Vanguard Group, Inc.	23,093,927**	7.10%
T. Rowe Price Group, Inc.	21,614,144***	6.65%
Crestview Partners	21,256,284****	6.54%

\* As of March 31, 2017, we understand that Blackrock, Inc. owned 1,682,584 shares of CBFC's Class A voting common stock (4.78%), which represented 3.24% of CBFC's total outstanding voting and nonvoting common stock. Ownership based on information contained shareholder's Form 13F-HR, reflecting ownership as of March 31, 2017.

\*\* As of March 31, 2017, we understand that The Vanguard Group, Inc. owned 2,203,960 shares of CBFC's Class A voting common stock (6.26%), which represented 4.24% of CBFC's total outstanding voting and nonvoting common stock. Ownership based on information contained shareholder's Form 13F-HR, reflecting ownership as of March 31, 2017.

\*\*\* As of March 31, 2017, we understand that T. Rowe Price Group, Inc. owned 2,451,798 shares of CBFC's Class A voting common stock (6.96%), which represented 4.72% of CBFC's total outstanding

voting and nonvoting common stock. Ownership based on information contained shareholder's Form 13F-HR, reflecting ownership as of March 31, 2017.

\*\*\*\* As of March 31, 2017, we understand that Crestview Partners owned 2,583,760 shares of CBFC's Class A voting common stock (7.34%) and 9,562,688 shares of CBFC's Class B nonvoting common stock (57.08%), which collectively represented 23.37% of CBFC's total outstanding voting and nonvoting common stock. Ownership based on information contained shareholder's Form 13F-HR, reflecting ownership as of March 31, 2017.

**2. Provide a copy of the Bank Merger Act application filed on behalf of First Horizon's subsidiary national bank, First Tennessee Bank National Association ("First Tennessee Bank"), Memphis, Tennessee, with the OCC regarding the merger of First Tennessee Bank and Capital Bank.**

A copy of the Bank Merger Act application filed on behalf of First Tennessee Bank with the OCC was submitted under separate cover via eApps.

**3. Regarding the Agreement and Plan of Merger (the "Agreement"), dated May 3, 2017, by and among First Horizon, CBFC, and Firestone Sub, Inc., please explain whether the provisions listed below provide First Horizon with the ability to direct the ordinary course business decisions of CBFC and its subsidiaries prior to approval of the application (e.g., by showing that CBFC does not engage in the ordinary course of business in the activities being restricted). To the extent that any such provisions may interfere with CBFC's ordinary course business decisions, please confirm that First Horizon will only exercise rights provided by or enforce these provisions in regard to activities that fall outside of CBFC's ordinary course of business and past practices.**

- a. Sections 5.2(b)(ii) and 6.11 (regarding payment of dividends);
- b. Section 5.2(f)(iv) (regarding payment or awards of bonuses and incentive compensation);
- c. Section 5.2(f)(viii) (regarding the termination of officers or employees whose base salary is greater than \$100,000);
- d. Section 5.2(f)(ix) (regarding the hiring of any employee whose base salary or wage is greater than \$100,000); and
- e. Section 5.2(n) (regarding capital expenditures).

First Horizon respectfully submits that the provisions listed above do not provide First Horizon with the ability to direct the ordinary course business decisions of CBFC and its subsidiaries prior to approval of the Application. Furthermore, CBFC has confirmed that it does not engage in the ordinary course of business in the activities being restricted.

a. Section 5.2(b)(ii) provides that CBFC will not make, declare or pay any dividend except for: (i) regular quarterly cash dividends at a rate of \$0.12 per share of CBFC common stock; (ii) quarterly dividends payable on CBFC's preferred stock; (iii) dividends paid by any of CBFC's subsidiaries to CBFC or any of its wholly owned subsidiaries; or (iv) the acceptance of shares of CBFC common stock as payment for the exercise price of CBFC stock options or for withholding taxes incurred in connection

with the exercise of CBFC stock options or the vesting or settlement of CBFC equity awards and dividend equivalents thereon. Section 6.11 provides that First Horizon and CBFC will coordinate with the other regarding the declaration of dividends and their record and payment dates so that holders of CBFC common stock do not receive two dividends, or fail to receive one dividend, in any quarter with respect to their shares of CBFC common stock or any shares of First Horizon common stock any such shareholder receives in exchange upon the consummation of the merger. Section 6.11 is not designed in any way to allow First Horizon any control or consent over CBFC's declaration of dividends.

CBFC has declared and paid a dividend only eight times: a dividend of \$0.12 per share for the past four quarters, including the two quarters immediately preceding the parties entering into the Agreement; and a dividend of \$0.10 per share for the four prior quarters. CBFC was incorporated in late 2009 and did not declare or pay a dividend until the fourth quarter of 2015. As demonstrated by this data, First Horizon respectfully submits that it would be outside the ordinary course of business for CBFC to declare an increase to its dividend and, therefore, the provision does not permit First Horizon to control CBFC's ordinary course business decisions.

Finally, First Horizon confirms that it will only exercise rights provided by or enforce these provisions in regard to activities that fall outside of CBFC's ordinary course of business and past practices. For additional information, please see Confidential Exhibit 1.

**4. Indicate whether the consumer compliance, fair lending compliance, and CRA programs of the merged bank will be the current programs of First Tennessee Bank, Capital Bank's current programs, some combination of the current programs of each, or programs developed from other sources. Discuss how these programs would be integrated at the merged institution.**

Consumer compliance, fair lending compliance and CRA programs of the merged bank will be the current programs of First Tennessee Bank with potentially some minor enhancements. First Horizon and First Tennessee Bank are in the process of completing a Target Operating Model for consumer compliance, fair lending compliance and CRA programs for the combined bank. The Target Operating Model defines the infrastructure to integrate Compliance responsibilities for the combined bank. Successful integration includes taking the best from both banks (e.g., people, processes, technology) to create the most efficient Compliance program. The components outlined in the Target Operating Model include, but are not limited to, the key Compliance functions, such as policies and procedures; risk assessments, regulatory/product change management; compliance testing and reporting; CRA and fair lending analysis; compliance training; and examination management. Best practices from Capital Bank will be incorporated into First Tennessee Bank's program to create a model commensurate with the size and risk of the combined bank.

5. **Provide a detailed description of any due diligence conducted by First Horizon regarding convenience and needs and CRA with respect to the communities currently served by Capital Bank, including the following:**
- a. **First Tennessee Bank's ascertainment of any identified needs relating to credit and/or deposit products or services;**

First Horizon completed its convenience and needs and CRA due diligence with respect to the communities currently served by Capital Bank by completing a full review of:

- Capital Bank's 2016 CRA Performance Evaluation completed by the Federal Deposit Insurance Corporation.
- Capital Bank's lending activity for community development, small business and residential mortgage. The 2016 and 2017 lending activity was analyzed by pro forma combined assessments in order to understand the CRA impact of the combined institution.
- Capital Bank's suite of depository and lending products currently offered and service and locations as well as new products approved or retired in 2016 and 2017 as part of the convenience and needs evaluation.

First Tennessee Bank ascertained that both banks operate as community-oriented financial institutions responsive to the needs of their customers. The merger of the two banks will further the ability to meet the convenience and needs and the commitments under the CRA with respect to the communities served by Capital Bank because it will afford the surviving bank with greater lending limits and additional human and financial resources with which to offer new and expanded services to Capital Bank customers. These products and services include the expansion of our partnership with Operation HOPE (our current target is 15 new Operation HOPE locations, with a future commitment to increase the number to 30 locations after consummation of the proposed transaction), the offering of prepaid cards and the Access Checking product to Capital Bank customers as well as marketing resources to promote the aforementioned products and Capital Bank's affordable housing program (launched in the fourth quarter of 2016). These consumer products and services will provide for better penetration of the underbanked consumers in Capital Bank's assessment areas as well as an enhanced ability to meet their credit needs. Furthermore, First Tennessee Bank plans to increase its strategic support for low-and moderate income ("LMI") geographies and individuals across Capital Bank's footprint by enhancing the First Tennessee Community Development Fund by \$15 million and continuing First Tennessee Bank's commitment to community service hours.

First Tennessee Bank has and continues to take its CRA responsibilities into consideration as it designs its programs, products and activities to meet the existing or anticipated needs of its communities. This responsibility will be expanded to all communities in Capital Bank's footprint, including LMI communities, with focused

outreach to various community groups and centers of influence upon consummation of the proposed acquisition.

**b. First Tennessee Bank's plans to offer products or services that address the financial service or credit needs of the communities currently served by Capital Bank, including any plans to enhance, discontinue, or limit the products and services currently offered by Capital Bank; and**

Like First Tennessee Bank, Capital Bank currently offers an array of products that spans the spectrum of consumer segments. Many products at both institutions have similar value propositions. First Tennessee Bank plans to map Capital Bank customers into products that most closely resemble the products they currently own, with a bias towards minimizing incremental costs for Capital Bank customers. Where no close analog exists in First Tennessee Bank's product suite, First Tennessee Bank will evaluate retaining the Capital Bank product structure (e.g., features, benefits, pricing) or mapping Capital Bank customers into First Tennessee Bank products with fee waivers.

Non-interest and Interest-bearing Checking Accounts: Both Capital Bank and First Tennessee Bank offer a number of checking account products that have no monthly service charge if specific criteria are met. Capital Bank currently offers three consumer checking products with no monthly service fees. In addition, Capital Bank has approximately 52,000 accounts in 10 grandfathered consumer checking products with no monthly service fee that are no longer actively marketed to new customers. In order to support its objective of not losing a single Capital Bank customer as a result of the merger, First Tennessee Bank's customer mapping evaluation is being done at an account level rather than product category level. This means that individual account balances, transaction activity, statement preferences and other behaviors are being evaluated against existing First Tennessee Bank products to enable First Tennessee Bank to understand only potential financial or other impact, then indicating which product Capital Bank customers will map into.

This approach has identified a similar product for approximately 40% of Capital Bank's consumer checking customers. Where no First Tennessee Bank product closely matches the Capital Bank product structure, First Tennessee Bank is evaluating whether to modify an existing First Tennessee Bank product or to import the Capital Bank product structure into First Tennessee Bank's technology environment.

Examples of Capital Bank products that may be retained include:

- CashBack Checking/Saver Package (approximately 42,000 customers)
- Emerald Plus Checking (approximately 64,000 customers)

Examples of Capital Bank products that may be mapped to a First Tennessee Bank product with a permanent fee waiver include:

- Lifestyle 50 Checking (approximately 18,000 customers)
- Employee Advantage Checking (approximately 17,000 customers)

- Student Checking (99 customers)

To the extent that there is a differential cost for Capital Bank customers with the planned product migration, First Tennessee Bank will waive monthly service charges on checking accounts for all Capital Bank customers for up to 12 months.

Capital Bank does not currently offer a “lifeline” checking account for consumers who otherwise would not be able to qualify for an account. First Tennessee Bank will introduce its Access Checking product to Capital Bank’s markets. First Tennessee Bank has offered the Access Checking product for a number of years. This account has a low minimum opening deposit of \$25, \$3.00 monthly service charge and no minimum balance requirements. A free ATM card (with PIN POS access) or Visa Debit Card (with PIN POS and Visa purchase access at more than 11 million merchants) is available for the account and the account comes with free online banking, bill pay and online statements. However, no conventional paper check writing is permitted and overdraft protection products or services are not available.

Interest-bearing Deposit Accounts (Savings, Money Markets, CDs/Time Deposits, IRAs): Capital Bank’s current products align very well with First Tennessee Bank’s products. For these accounts, First Tennessee Bank will honor all rates and terms on these balances in corresponding First Tennessee Bank products.

Ancillary Products: With the strategic decision to exclusively use First Tennessee Bank’s technology and vendor environment post-integration, ancillary products, services and features such as debit cards, overdraft protection, checkbooks, check cashing services, etc. will generally reflect First Tennessee Bank’s current programs and features. A focal point of training for customer-facing staff at Capital Bank will be understanding the differences between the Capital Bank product and experience versus the First Tennessee Bank product and experience.

If Capital Bank offers a deposit product First Tennessee Bank does not, where practical and aligned with its overall strategy, First Tennessee Bank will evaluate replicating a Capital Bank ancillary product or service in First Tennessee Bank’s technology environment. For example, Capital Bank offers an overdraft line of credit. First Tennessee Bank does not currently sell this product. In order to close this gap and ensure continuity of service for Capital Bank customers, First Tennessee Bank will replicate this Capital Bank product on First Tennessee Bank’s platform.

Credit Cards: First Tennessee Bank and Capital Bank both offer a variety of credit card products with similar credit, line assignment and account management criteria. Capital Bank’s program is managed by Elan Financial Services, a subsidiary of US Bank, and the accounts (and assets) also are owned by Elan Financial Services.

For existing Capital Bank-branded credit cardholders, First Tennessee Bank will evaluate purchasing that portfolio and converting each product to the corresponding First Tennessee Bank credit card product. In the event First Tennessee Bank does not



purchase that portfolio (approximately 18,000 cardholders), those cardholders will experience no change in service.

First Tennessee Bank will replace the Elan-supported program with its credit card products for sale in Capital Bank's branch and online banking environment. These products include a student credit card (lines up to \$500), a newly-developed secured card expected to be available in the third quarter of 2017 (lines up to \$3,000, secured with deposits equal to 100% of the line of credit) and unsecured cards (lines up to \$50,000).

Prepaid Cards: Capital Bank has no prepaid program. However, Capital Bank does offer gift cards in its South Carolina market; the gift card is non-reloadable. First Tennessee Bank offers a range of prepaid cards, including non-reloadable (e.g., gift) cards as well as a variety of reloadable prepaid cards, and plans to introduce all of these products to Capital Bank's markets. These products are a low-cost alternative to checking accounts (as little as \$3.00 in monthly service charges), the ability to add value to the cards via cash loads in First Tennessee Bank or Capital Bank branches, via direct deposit / ACH or online using any First Tennessee Bank or Capital Bank debit card. These cards come with the same zero-liability fraud protections as a traditional debit card and have the additional consumer protection of not being able to overdraw. Balances, transactions and other account information are accessible online and via a dedicated digital app, which also supports text and email alerts.

Mortgages: Capital Bank and First Tennessee Bank offer substantially similar mortgage products with similar eligibility criteria, although Capital Bank has a wider variety of terms for adjustable rate products than First Tennessee Bank's organic capabilities. First Tennessee Bank has filled that and other product gaps through a relationship with LenderLive. At this time, the mortgages originated through LenderLive are all Fannie Mae/Freddie Mac conforming loans and are sold servicing-released after closing in First Tennessee Bank's name.

Both institutions' practices include origination and sale of Fannie Mae/Freddie Mac conforming mortgages, including first-time homebuyer products with LTVs of 97%, as well as selectively balance-sheeting mortgages based on each institution's credit risk appetite. However, First Tennessee Bank has limitations in its ability to support escrow, flood insurance, private mortgage insurance and other key mortgage product features in its current servicing environment. As such, First Tennessee Bank will adopt Capital Bank's platforms, processes and procedures for mortgage origination, with modifications needed to make them consistent with First Tennessee Bank's risk tolerance and credit policies. Any post-merger originations will be sub-serviced in First Tennessee Bank's name at Dovenmuehle ("DMI"). Mortgages currently serviced on Capital Bank's platform will be migrated to DMI as part of the integration process.

Home Equity Lines of Credit ("HELOC"): Capital Bank and First Tennessee Bank offer substantially similar HELOC products with similar eligibility criteria. There are, however, key differences:

- Capital Bank offers a balloon HELOC. This product will be discontinued for future originations.
- First Tennessee Bank offers check, electronic funds transfer and card access, whereas Capital Bank only offers check and electronic funds transfers.

First Tennessee Bank's current origination and servicing platforms will be utilized post-integration.

Other Secured: Both institutions offer lending products that may be secured by various collateral types (e.g., auto, boat, marketable securities, cash, land). There are minor differences in credit criteria. For example, Capital Bank generally has lower loan/line limits, whereas First Tennessee Bank typically accepts lower credit scores. Maximum DTI also varies slightly by product type. First Tennessee Bank will migrate all Capital Bank products to its servicing environment with prices and terms unchanged.

Other Unsecured: Both institutions generally have similar unsecured lending appetites. Debt-to-income ratios and credit score criteria are identical, although First Tennessee Bank offers higher maximum loan amounts (\$250,000 versus \$50,000) and longer term (72 months versus 60 months). With the continued use of First Tennessee Bank's lending origination and servicing platform, First Tennessee Bank expects the unsecured program going forward to continue under the existing First Tennessee Bank design.

For additional information, please see Confidential Exhibit 2.

**c. First Tennessee Bank's plans to conduct marketing or outreach in the communities presently served by Capital Bank upon consummation of the proposal.**

In addition to disclosures required at time of change in legal ownership of Capital Bank, First Tennessee Bank would leverage its current marketing approach, including to LMI communities, across Capital Bank's footprint. First Tennessee Bank's existing approach focuses on advertising, leveraging out-of-home (e.g., billboards), radio and other direct marketing channels to promote our products and services in areas in our footprint, inclusive of LMI communities. First Tennessee Bank has successfully executed this approach in its current markets and will evaluate each Capital Bank market for appropriate tactics to meet each community's needs.

- 6. In its order approving First Horizon's acquisition of TrustAtlantic Financial Corporation, the Board noted that it "expects First Horizon to continue making progress to address weaknesses in the CRA performance of its banks and to implement a program for lending, investments, and services that is commensurate with the size, complexity, and expanding geography of the combined organization." First Horizon National Corporation, FRB Order 2015-25 at 25 (Sept. 17, 2015). Specifically discuss any progress First Horizon has made in meeting these expectations. Your response should include an update on First Tennessee Bank's**

**CRA activities since its last CRA Performance Evaluation in April 2014 in every banking market in which the bank operates, including any significant CRA initiatives undertaken, particularly with respect to credit and deposit products and retail banking services targeted toward LMI and minority geographies and individuals. In addition, provide information regarding community development lending, investments, and services since the last evaluation period, including total number and dollar amount (except for community development services) and a brief description of the most significant community development loans, investments, and services.**

First Tennessee Bank's last Community Reinvestment Act ("CRA") examination by the OCC was completed in 2014 for the period of January 1, 2010 through December 31, 2013 and carrying forward the review for Community Development ("CD") Loans, Investments and Services to April 7, 2014. The rating for that performance period was "Satisfactory" with a component "High Satisfactory" rating in Lending, Investment, and Service tests.

Since the exam ended, First Tennessee Bank has been very active with lending, investment and service activities that promote community development, and the goals and objectives of the CRA.

First Tennessee Bank is currently operating under a CRA plan ("CRA Plan") as part of the conditions of acquiring the TrustAtlantic Bank in 2015. The CRA Plan was approved by the First Tennessee Bank Board of Directors on December 20, 2015. First Tennessee Bank received the OCC's Supervisory No Objection letter on March 8, 2016, noting the OCC had no objection to the implementation of First Tennessee Bank's CRA Plan as written. The CRA Plan, which covers the period from 2014 through 2017, has specific commitments related to home mortgage lending and small business lending to LMI borrowers and tracts. In addition, the CRA Plan contains commitments related to CD Loans and Investments as well as other corporate initiatives. Below please find First Tennessee Bank's specific commitments, along with a description of its progress demonstrating how each commitment has been satisfied to date or will be satisfied by the end of 2017.

First Tennessee Bank is on track to meet or in many cases exceed all of the CRA Plan commitments through 2017. The remaining commitments are to fully deploy all Operation HOPE sites (with the exception of one that is being reserved for a Capital Bank location) and obtain its Small Business Administration ("SBA") preferred lender status. In that connection, First Tennessee Bank's SBA lender has closed six loans for a total of \$496,000.<sup>1</sup>

**1. 30% (approximately \$135 million) of our overall HMDA reportable mortgage loans will be in LMI tracts and/or to LMI borrowers.**

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<sup>1</sup> This meets the threshold to become a preferred lender and First Tennessee Bank is actively pursuing that designation.

First Tennessee Bank has met and exceeded the 30% goal of overall home mortgage lending for home mortgages originated in LMI tracts and/or to LMI borrowers. Indeed, approximately 31.1% of mortgage loan originations with a principal amount of approximately \$270.5 million have been made during the period of the CRA Plan. Mortgage lending in First Tennessee Bank’s specific metropolitan statistical areas (“MSAs”) to LMI tracts and borrowers is set forth below:

Raleigh	56%
Memphis	27%
Chattanooga	34%
Knoxville	28%
Nashville	34%

In reaching this goal, key accomplishments since October 2016 include First Tennessee Bank beginning production utilizing the LenderLive mortgage platform, which allows access to Fannie Mae and Freddie Mac affordable mortgage options. In addition, First Tennessee Bank implemented the Fannie Mae Home Ready product on February 21, 2017, which also benefits LMI homebuyers. First Tennessee Bank also has developed an Affordable Mortgage Program to serve the needs of LMI homebuyers. This program will be implemented in conjunction with First Tennessee Bank’s establishment of a mortgage servicing relationship that provides escrow capabilities. Each program is designed to provide credit services to all borrowers in First Tennessee Bank’s footprint.

**2. 30% (approximately \$495 million) of our small business loans will be to small businesses located in LMI tracts.**

First Tennessee Bank has met and exceeded the 30% goal of overall small business lending for small businesses located in LMI tracts. Indeed, approximately 32.5% of First Tennessee Bank’s small business lending has been in LMI tracts for a total of \$793 million in small business loan originations in LMI tracts. Twenty-six percent of First Tennessee Bank’s lending has been to businesses with revenues of \$1 million or less and 46.8% of has been loans of less than \$100,000.

First Tennessee Bank also is directing more attention to small businesses by continuing to support organizations that are funding small businesses, such as Pathway Lending (the largest Community Development Financial Institution (“CDFI”) Loan Fund in the State of Tennessee) which benefits the entire State of Tennessee with its Small Business Jobs Opportunity Fund. First Tennessee Bank invested \$5 million into this fund in early 2016.

**3. A minimum of 6% (approximately \$160 million) and up to 9% (approximately \$240 million) of First Tennessee Bank’s Tier 1 capital committed to community development (“CD”) loans in the First Tennessee CRA Assessment Areas (based on availability and suitability of opportunities).**

First Tennessee Bank has met and exceeded the 6% (approximately \$160 million) to 9% (approximately \$240 million) of Tier 1 capital<sup>2</sup> committed to CD loans in First Tennessee Bank's CRA assessment areas goal (measured as of the date of approval of the CRA Plan). Indeed, CD loans totaled approximately 15% of Tier 1 capital from 2014 through the first quarter of 2017, for a total of approximately \$400 million.

The loans originated during the CRA-plan period were responsive to community development and credit needs that included:

- affordable housing for LMI individuals;
- community services targeted to LMI individuals;
- promoting economic development by financing small businesses that resulted in permanent job creation and/or retention; and
- revitalization of targeted LMI census tracts or other qualified geographies and neighborhood stabilization projects to stimulate growth, stability and investment in distressed areas.

**4. Establishment of a \$50 million First Tennessee Community Development Fund, providing up to \$3,000,000 a year in qualified grants targeted to community needs.**

In January 2016, First Tennessee Bank established a \$50 million First Tennessee Community Development Fund (the "CD Fund"). The CD Fund is committed to providing \$3 million per year in funding to agencies serving LMI communities and individuals. In light of the proposed transaction, First Tennessee Bank is committed to increasing the CD Fund by another \$15 million. Between the newly established CD Fund and the First Tennessee Foundation, approximately \$8 million is distributed annually to non-profit organizations supporting local communities. The CD Fund has specifically been used in 2016 to align funding for projects and programs that were identified by First Tennessee Bank's market community development managers in meetings with community development groups.

**5. A minimum of 3% (approximately \$80 million) and up to 6% (approximately \$160 million) of First Tennessee Bank's Tier 1 capital committed to qualified CRA investments (based on availability and suitability of opportunities);**

First Tennessee Bank has met the 3% (approximately \$80 million) to 6% (approximately \$160 million) of Tier 1 capital committed to qualified CRA investments goal. First Tennessee Bank deployed \$150 million in qualified CRA investments for a total of 5.8% of First Tennessee Bank's Tier 1 capital. These included investments into several CDFIs, a small business investment company and a minority owned financial institution.

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<sup>2</sup> Tier 1 capital as referenced in this response is based on projected Tier 1 capital for First Tennessee Bank as of February 2016 when the CRA Plan was finalized and approved.

First Tennessee Bank's investments in CDFIs are bringing innovative programs for affordable housing and workforce development training that will create hundreds of new jobs and retain thousands of existing jobs providing for specific identified community needs.

**6. Expanding our partnership with Operation HOPE to 15 locations;**

As of the second quarter of 2017, with ten First Tennessee Bank Operation HOPE locations opened and operating, Operation HOPE reports that First Tennessee Bank successfully served the needs of more than 1,570 clients during the first quarter of 2017 and 6,830 since 2014. Focusing its efforts mostly on credit and money management, Operation HOPE's financial coaches at these locations aim to positively affect the financial lives of the individuals it serves. First Tennessee Bank plans to open three more Operation HOPE locations in Jackson, Nashville and Kingsport, Tennessee, with additional plans to open Operation HOPE Inside sites in First Tennessee Bank's new Capital Bank markets. This remaining commitment is on target for completion by the end of 2017. As noted above, First Tennessee Bank recently modified this goal to increase the number to 30 locations after consummation of the proposed transaction.

**7. 2% (approximately \$17 million) of our supplier spend with minority-owned businesses;**

First Tennessee Bank has met and exceeded the 2% minority supplier spend goal. Indeed, from 2014 through the first quarter of 2017, First Tennessee Bank's minority supplier spend has been approximately \$58.80 million, or 6.21% of total supplier spending during the CRA Plan period.

**8. Development of a credit program specifically designed to meet the needs of LMI borrowers and geographies;**

In addition to the First Tennessee Bank product offerings through the LenderLive platform, First Tennessee Bank has developed an Affordable Mortgage Program designed to serve the needs of LMI homebuyers. The unique characteristics of this program include the following: no private mortgage insurance required, alternative credit accepted and flexible underwriting. This program will be implemented in conjunction with First Tennessee Bank's establishment of a mortgage servicing relationship that provides escrow capabilities.

**9. Enhancement of First Tennessee Bank's existing deposit products specifically designed for LMI customers;**

First Tennessee Bank currently offers the Access Checking product and has done so for a number of years. This account has a low minimum opening deposit of \$25, \$3.00 monthly service charge and no minimum balance requirements. A free ATM (with PIN POS access) or Visa Debit Card (with PIN POS and Visa purchase access at more than 11 million merchants) is available for the account and the account comes with free online banking, bill pay and online statements. However, no conventional paper check writing is permitted and overdraft protection products or services are not available.

## **10. Enhancement of First Tennessee Bank’s marketing program to better target LMI borrowers and geographies;**

The marketing plan was implemented in June 2016. The following marketing programs were deployed during 2016:

- 500 radio spots in Memphis, Nashville, Chattanooga and Knoxville, which included 250 spots specifically with WLOK in Memphis, Memphis’ first African-American owned radio station.<sup>3</sup>
- Three billboards erected in LMI tracts of Memphis.
- A refinance offer provided to 25,000 LMI homeowners.

A comprehensive marketing plan for 2017 has been developed, the goal of which is to:

- Build awareness of home lending offerings in LMI communities;
- Leverage varied media approaches to reach LMI consumers; and
- Promote existence of Hope Inside locations and services.

A breakdown of the marketing plan for 2017 is below:

- 1,120 radio spots in Memphis, Nashville, Chattanooga, Knoxville, and Kingsport/Tri-Cities that will market home mortgage lending and First Tennessee Bank’s Hope Inside program offering free financial counseling in branches.
- 280 radio spots in Raleigh, North Carolina that will promote home purchase.
- Erect 5 billboards in LMI tracts of Memphis, Nashville, Knoxville, Chattanooga and Kingsport/Tri-Cities.
- Increase First Tennessee Bank’s digital and financial center merchandising to its LMI communities to include more information on credit score questions via email and social media.
- Update Take One/Brochures in the financial centers.
- Promote financial education outreach on social media.

First Tennessee Bank also has been the lead sponsor for National Association of Real Estate Brokers events in Memphis and Nashville, the theme of which has been “Rebuilding Wealth through Black Homeownership”, and has been in discussions with the organization regarding a possible partnership.

## **11. Improve accessibility of products and services for LMI individuals by developing specific strategies to leverage alternative channels;**

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<sup>3</sup> These stations, including WLOK, were selected by the Bank’s marketing department to benefit from the widest audience reach by examining the demographics served by those stations with the radio spots being directed to those needing financial counseling and home purchase information.

First Tennessee Bank's goal has been to increase the number of LMI users of mobile and online banking applications and to improve accessibility. In order to effect this strategy, First Tennessee Bank has redesigned its mobile banking platform, offering additional services and easy access. Additionally, First Tennessee Bank continues to encourage and promote the use of mobile and online banking through direct marketing via social media and other avenues. As a result of implementing these action items, First Tennessee Bank has achieved the following outcomes:

- LMI/Income households are using online banking an average of 21.7% and LMI/Geography households are using online banking an average of 19.4%, compared to non-LMI households who use online banking at 33.3%.
- LMI/Income households are using online login at an average of 48% and LMI/Geography households at an average of 45.4%, compared to non-LMI usage at 62.8%.
- LMI/Income households are using mobile banking at an average of 30.4% and LMI/Geography households at an average of 52.5% over the past 3 months, compared to non-LMI usage of 40.2%.

First Tennessee Bank continues to improve its online banking platform and recently upgraded the platform to include a budget component to encourage better money management.

## **12. Continue supporting our communities through a highly active volunteer program;**

First Tennessee Bank has continued to support its communities through a highly active volunteer program. Indeed, between April 2014 and the end of 2016, First Tennessee Bank employees volunteered 7,477 hours with 1,644 activities that qualified for community development. The volunteer program rewards volunteer activities for hours volunteered. In 2016, an additional layer was added to the rewards program, promoting CRA-related activities by providing double rewards per hour. Employees are awarded points for First Tennessee Bank merchandise, such as cups, mugs and t-shirts.

## **13. Hiring five full-time Community Development Managers in our major markets.**

Five community development managers have been hired and are actively meeting with and establishing partnerships with non-profits, affordable housing providers and community organizations throughout the Bank's footprint. In the first quarter of 2017, the Community Development Managers have held meetings with 158 organizations seeking input, providing their expertise and discussing community development loan, investment and service opportunities for the Bank.

For additional information, please see [Confidential Exhibit 3](#).



7. **Discuss any pending or recently resolved litigation, including, but not limited to, litigation pertaining to consumer protection laws and regulations, against First Tennessee Bank and Capital Bank.**

Please see Confidential Exhibit 4.

8. **Describe any expected changes to First Horizon's risk management policies, procedures, and controls following consummation of the proposed transaction (or if First Horizon's existing policies, procedures and controls will be implemented at the combined organization). Discuss plans to enhance risk management practices to ensure they are commensurate with the growth and complexity of the resultant institution.**

First Horizon will continue to operate in compliance with the Board of Director's approved Statement of Strategic Objectives and Risk Appetite, a copy of which is attached hereto as Confidential Exhibit 5. First Horizon's existing risk management framework will remain intact following the transaction, but it is making some adjustments to ensure appropriate coverage for the combined organization. For additional information, please see Confidential Exhibit 6.

9. **The application indicates that management will largely remain the same and that R. Eugene Taylor has agreed to become First Tennessee's vice chairman. Discuss plans for the remainder of Capital Bank's current executive management team and their roles in the resultant institution. Identify whether any employees of Capital Bank will receive a severance payment as part of the proposed transaction.**

First Horizon confirms that management largely will remain the same and R. Eugene Taylor has agreed to become First Horizon's vice chairman. For additional information, please see Confidential Exhibit 7.

10. **Please provide a copy of the strategic business plan for the organization.**

First Horizon presents its strategic plan to its Board of Directors at its quarterly Board meeting each October. Attached as Confidential Exhibit 8 is First Horizon's strategic plan presented at the October 2016 Board meeting. The strategic business plan presented in October 2016 is expected to be the baseline for the proposed combined organization with enhancements and expansions that are currently under consideration.

First Horizon is currently undergoing an assessment of the Target Operating Model for the proposed combined organization. This assessment includes a review of leadership, staffing, systems, products, services, policies and procedures across the organization. This process is intended to identify opportunities to enhance First Horizon's strategic positioning in its existing markets and in new Capital Bank markets in order to serve its customers and communities more effectively. The process is also intended to ensure an appropriate risk infrastructure to maintain safety and soundness while generating appropriate returns for First Horizon's shareholders. It is expected that this assessment will be completed prior to closing the proposed acquisition in order for the combined organization to operate under the enhanced framework.

11. **Explain whether and under what authority First Tennessee Bank may operate North Carolina Title Center, LLC and Ridgeway Tennessee, LP. If it is determined that such activities are impermissible for a national bank, explain the authority under which First Horizon may acquire and operate these companies.**

*North Carolina Title Center, LLC*

We understand that North Carolina Title Center, LLC (“NCTC”), is an agent of Investors Title Insurance Company. NCTC is a multi-owner title agent, whose owners include Capital Bank, American National Bank & Trust Company, First Bank, HomeTrust Bank, First National Bank, blueharbor bank, Aquesta Bank and First South Bank. NCTC is licensed as a “Title Insurance Agent” in the States of North Carolina, South Carolina and Virginia. NCTC also has several employees who hold individual resident and non-resident producer licenses for title insurance.

We understand that Capital Bank owns a 16.74% noncontrolling interest in NCTC. Capital Bank owned this interest during the time it was a national bank prior to its conversion to a state-chartered non-member bank. Capital Bank acquired its 16.74% noncontrolling interest through three separate acquisitions. Both legacy Capital Bank (4.7%) and legacy Southern Community Bank & Trust (4.2%), each of which was supervised by the Federal Deposit Insurance Corporation and North Carolina Commissioner of Banks, had noncontrolling interests in NCTC prior to their acquisition by Capital Bank. Additionally, legacy CommunityOne Bank, N.A. had a noncontrolling interest in NCTC that it acquired as part of its acquisition of Bank of Granite.

First Tennessee Bank has the legal authority to hold Capital Bank’s noncontrolling investment in NCTC, which will be transferred to First Tennessee Bank by operation of law upon the consummation of the merger of Capital Bank with and into First Tennessee Bank, with First Tennessee Bank surviving. In fact, First Tennessee Bank currently owns and operates three operating subsidiaries engaged in insurance-related activities, FTB Advisors, Inc., FTB Advisors Insurance Services, Inc. (“FTBIS”) and First Horizon Insurance Services, Inc. (“FHIS”). Each entity acts as an agent in connection with the solicitation and sale of insurance products. FTB Advisors, Inc. offers annuities (as well as other investment-related products and services) and FTBIS and FHIS provide life insurance products to individuals. Furthermore, until as recently as 2016, First Tennessee Bank also owned and operated as many as 10 other insurance-related operating subsidiaries. For example, until April 30, 2011, First Tennessee Bank owned and operated First Horizon Insurance Group, Inc., an insurance company licensed and doing business in more than 40 states, which sold commercial and personal lines property and casualty insurance, bonds, employee benefits and risk management services to individuals and businesses. First Horizon Insurance Group, Inc. was sold to Brown & Brown, Inc. on April 30, 2011. Most recently, FT Reinsurance Company, a captive insurance company licensed by the State of South Carolina, was dissolved in 2016.

National banks and their subsidiaries are permitted to make various types of equity investments pursuant to 12 U.S.C. § 24(Seventh) and other statutes. Under Section 5.36 of the OCC’s regulations, a national bank may make a non-controlling

investment, directly or through an operating subsidiary, in any company that engages in the activities described in Section 5.36(e)(2) and Section 5.34(e)(5)(v) of the OCC's regulations by filing a written notice no later than 10 days after making the investment. Under Section 5.34(e)(5)(v)(P) of the OCC's regulations, national banks may "[a]ct[] as an insurance agent or broker, including title insurance to the extent permitted under Section 303 of the Gramm-Leach-Bliley Act (15 U.S.C. § 6713)" (the "GLB Act"). Under Section 303 of the GLB Act, national banks and their subsidiaries may sell title insurance as agents in a state to the same extent as permitted for state banks. NCTC is a multi-owner title agent and, therefore, First Tennessee Bank has the legal authority to acquire and continue to hold Capital Bank's noncontrolling investment in NCTC.

First Tennessee Bank confirms that it will comply with the notice requirements of Section 5.36 of the OCC's regulations with respect to this investment.

### ***Ridgeway Tennessee, LP***

We understand that Capital Bank acquired a 4.99% interest in Ridgeway Tennessee, LP ("Ridgeway" or the "partnership") through its acquisition of GreenBank, which closed on September 7, 2011. At the time, Capital Bank was a national bank and received approval to consummate the transaction that resulted in its acquisition of a 4.99% interest in Ridgeway. We also understand that Ridgeway is not a licensed insurance company itself but, instead, owns an interest in Mountain Services Corp., which owns an interest in Mountain Life Insurance, Inc., which according to its website provides insurance products and services to financial institutions and automobile dealerships, including credit insurance, term life and accident insurance. Mountain Life Insurance, Inc. is licensed in several states in the Southeast. For additional information, please see Confidential Exhibit 9.

At this time, First Tennessee Bank is unable to confirm that all of the direct or indirect activities of Ridgeway would be permissible for a national bank. As a result, First Tennessee Bank has respectfully requested that the OCC provide First Tennessee Bank a reasonable period of time, not to exceed two years, after consummation of the transaction to identify all of the partnership's activities and determine whether or not to divest its noncontrolling interest in the partnership. As noted above, the noncontrolling interest will be transferred to First Tennessee Bank by operation of law upon the consummation of the merger of Capital Bank with and into First Tennessee Bank, with First Tennessee Bank surviving. As noted above, First Tennessee Bank currently owns and operates three operating subsidiaries engaged in insurance-related activities and until as recently as 2016, owned and operated as many as 10 other insurance-related operating subsidiaries. With respect to a plan of divestiture, please see Confidential Exhibit 9.

Alternatively, First Horizon has the authority under the BHC Act to hold the investment directly if transferred to it by First Tennessee Bank as a noncontrolling investment under Section 4(c)(6) of the BHC Act. Any transfer of the investment from First Tennessee to First Horizon would be effected in compliance with Section 23B of the Federal Reserve Act and Regulation W.