

CAPITALMARK BANK & TRUST
(A Tennessee-Chartered Commercial Bank)
Chattanooga, Tennessee
Offering of up to 3,000,000 Shares
of Common Stock - Par Value \$1.00 Per Share
Purchase Price \$10.00 Per Share

The Date of this Offering Memorandum is October 15, 2008

CapitalMark Bank & Trust (the "Bank") is offering up to three million (3,000,000) shares (the "Shares") of its common stock, par value \$1.00 per share ("Common Stock"), at a purchase price of \$10.00 per share (the "Purchase Price") in connection with its operation as a Tennessee-chartered commercial bank ("Offering"). Sale of the Shares will commence on or about October 15, 2008. The Offering will conclude at the earlier of the sale of all the offered shares or March 31, 2009, if all of the offered Shares have not been sold, whichever occurs first. The Bank reserves the right to terminate the Offering without prior notice at any time, and orders submitted after such termination will not be accepted by the Bank. The Bank also reserves the right to extend the Offering for an additional ninety (90) days in the sole discretion of the Board of Directors (the "Board"). The Offering is being conducted in two (2) stages: In **Stage 1**, each shareholder of the Bank as of September 15, 2008 ("Shareholders of Record"), will be offered an opportunity to purchase Shares in the Offering up to the shareholder's *pro rata* ownership. Shareholders of Record may, but are not required to, pay for the Shares they purchase in **Stage 1** of the Offering in installments. Thirty-four percent (34%) of the Purchase Price shall be paid upon subscription for the Shares; thirty-three percent (33%) of the Purchase Price shall be paid not later than June 30, 2009, and the final thirty-three percent (33%) of the Purchase Price shall be paid not later than September 30, 2009. Title to shares purchased in **Stage 1** of the Offering may not be taken in any manner that would increase the total number of "holders of record" (as that term is defined in Rule 12g5-1 of the Securities Exchange Act of 1934) of the Bank's Common Stock in calendar year 2008. For example, if all shares that you currently own are titled in your name individually, title to all Shares that you purchase in **Stage 1** of the Offering must also be titled in your name individually. In **Stage 2** of the Offering, assuming that any Shares remain available for purchase, the Board of Directors (the "Board") of the Bank may strategically sell the remaining Shares to other investors. **Stage 2** of the Offering will begin no earlier than January 2, 2009. The full Purchase Price in **Stage 2** of the Offering shall accompany the Subscription Agreement. Bank employees will be given the option to pay for Shares that they purchase in either **Stage 1** or **Stage 2** of the Offering over a 12-month period through payroll deduction or otherwise. See **THE OFFERING**.

No individual subscriber together with the subscriber's affiliates, as defined herein, may purchase Shares of the Bank's Common Stock if, in the aggregate, the subscriber, together with his or her affiliates, would own or control more than 9% of the Bank's Common Stock. For purposes of this Offering, the term "affiliate" shall include, in a subscriber's family, a spouse, parents, siblings, step-siblings, children, step-children, grandparents, grandchildren, fathers-in-law, mothers-in-law, brothers-in-law, sisters-in-law, sons-in-law, daughters-in-law, and the spouse of any of the foregoing, and any corporation or other business entity of which the subscriber or the subscriber's spouse owns or controls 25% or more of the voting stock or otherwise exercises voting control of the business entity; and shall also include a family limited partnership in which a subscriber is either a general or limited partner. See **THE OFFERING.**

THE SHARES OFFERED HEREBY HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE TENNESSEE DEPARTMENT OF FINANCIAL INSTITUTIONS ("TDFI"), THE FEDERAL RESERVE SYSTEM ("FEDERAL RESERVE"), OR THE FEDERAL DEPOSIT INSURANCE CORPORATION ("FDIC"), NOR HAS THE TDFI, THE FEDERAL RESERVE, OR THE FDIC PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFERING MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE SHARES BEING OFFERED ARE NOT SAVINGS ACCOUNTS OR DEPOSITS OR OTHER OBLIGATIONS OF A BANK AND ARE NOT INSURED BY THE DEPOSIT INSURANCE FUND OF THE FDIC OR ANY OTHER GOVERNMENT AGENCY AND ARE SUBJECT TO INVESTMENT RISK, INCLUDING THE POSSIBLE LOSS OF PRINCIPAL.

THE SHARES ARE BEING OFFERED PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED ("SECURITIES ACT") AND HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE. INVESTMENT IN THE SHARES INVOLVES SIGNIFICANT RISK. SUBSCRIBERS SHOULD BE FINANCIALLY ABLE TO SUSTAIN A TOTAL LOSS OF THEIR INVESTMENT. SEE **RISK FACTORS.**

	<u>Purchase Price</u>	<u>Estimated Expenses of Offering (1)</u>	<u>Net Proceeds to Bank</u>
Per Share	\$10.00	\$-0-	\$10.00
Total Maximum (3,000,000 Shares)	\$30,000,000.00	\$-0-	\$30,000,000.00

- (1) Solicitations will be made only by the Directors and Management. No commissions or other compensation will be paid to any of the foregoing for solicitation. Estimated expenses of the Offering are not expected to be material relative to the Offering. See USE OF PROCEEDS.

THE RECEIPT OF THIS OFFERING MEMORANDUM DOES NOT CONSTITUTE AN OFFER OR SOLICITATION IN ANY STATE OR JURISDICTION IN WHICH SUCH OFFER OR SOLICITATION IS NOT AUTHORIZED BY LAW. THIS OFFERING MEMORANDUM SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY, NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL, PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.

NO PERSON IS AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION NOT CONTAINED IN THIS OFFERING MEMORANDUM. EXCEPT AS SET FORTH HEREIN, NO OFFERING LITERATURE OR ADVERTISING HAS BEEN AUTHORIZED. ANY INFORMATION OR REPRESENTATION NOT CONTAINED HEREIN MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED.

THIS OFFERING MEMORANDUM SPEAKS AS OF THE DATE APPEARING ON THE COVER PAGE HEREOF. NEITHER THE DELIVERY OF THIS OFFERING MEMORANDUM NOR THE PURCHASE OF THE COMMON STOCK OFFERED HEREBY SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE BANK SINCE THE RESPECTIVE DATES AS OF WHICH THE INFORMATION IS GIVEN HEREIN OR AS OF THE DATE HEREOF.

PROSPECTIVE INVESTORS ARE NOT TO CONSTRUE THE CONTENTS HEREOF OR ANY PRIOR OR SUBSEQUENT COMMUNICATIONS FROM THE BANK AS INVESTMENT OR LEGAL ADVICE. PROSPECTIVE INVESTORS SHOULD CONSULT THEIR OWN LEGAL COUNSEL, ACCOUNTANTS, AND PROFESSIONAL ADVISORS FOR SUCH ADVICE.

ADDITIONAL INFORMATION

The Bank is not currently a reporting company under the Securities Exchange Act of 1934, and the securities offered in the Offering Memorandum are not listed on any national stock exchange. If the Bank becomes a reporting company by virtue of having 500 or more shareholders of any class of stock and assets of \$10,000,000 or more, it will become subject to various annual, quarterly, and periodic reporting requirements at the end of the first fiscal year in which both criteria are met. See **RISK FACTORS – Registration Requirements**.

The Bank will provide such additional information, without cost, as may be requested in writing or orally by anyone who receives an Offering Memorandum, including copies of information that is incorporated by reference in the Offering Memorandum. Additional copies of the Offering Memorandum may be obtained without cost by writing or calling Sam Mann, Senior Vice-President, Accounting, CapitalMark Bank& Trust, P.O. Box 671, Chattanooga, TN 37401-0671; telephone number (423) 756-7878, facsimile (423) 756-2578. Additional information concerning the Bank may be obtained from the Tennessee Department of Financial Institutions, 414 Union Street, Suite 1000, Nashville, Tennessee 37219 or the Federal Reserve Bank of Atlanta, 1000 Peachtree Street N.E., Atlanta, Georgia 30309.

CapitalMark Bank & Trust
(A Tennessee-Chartered Commercial Bank)

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OFFERING MEMORANDUM SUMMARY

This summary does not purport to be complete and is qualified in its entirety by the more detailed information contained elsewhere in this Offering Memorandum.

Risk Factors	Investment in the Shares of Common Stock involves significant risk. Potential investors are urged to review carefully the <u>RISK FACTORS</u> section of this Offering Memorandum.
The Bank.....	CapitalMark Bank & Trust (the “Bank”) is a commercial bank chartered under the laws of Tennessee. The Bank’s deposits are insured by the Federal Deposit Insurance Corporation. The Bank is member of the Federal Reserve System. The Bank’s main office is located at 801 Broad Street, Chattanooga, TN 37402 (telephone number 423-756-7878). See <u>THE BANK</u> .
Stock Split.....	Prior to the Offering, the Board of the Bank approved a three-for-two stock split. The Bank’s state and federal regulators did not object to the stock split.
Regulatory Review.....	The Bank has provided this Offering Memorandum to the Tennessee Department of Financial Institutions (“TDFI”) and the Federal Reserve Bank of Atlanta (“Federal Reserve”) for review, but neither the TDFI nor the Federal Reserve has passed on the accuracy of this Offering Memorandum.
Use of Proceeds.....	The net proceeds of the Offering will be used by the Bank for investment in residential mortgage, commercial (including commercial real estate) and consumer loans; operating expenses; working capital; and for other general corporate purposes. See <u>USE OF PROCEEDS</u> .
Business	The principal business of the Bank is to accept demand and savings deposits from the general public and invest these funds in residential mortgage, commercial, and consumer loans and investment securities. See <u>BUSINESS</u> .
Directors	The Directors of the Bank are James W. Atkinson, Charles E. Brock, Patsy Hazlewood, R. Craig Holley, Karen G. Kruesi, Joseph Prebul, Harshad Shah, and Grady P. Williams, CPA. See <u>MANAGEMENT</u> .
The Offering.....	The Offering consists of a maximum of 3,000,000 shares (“Shares”) of Common Stock at a purchase price of \$10.00 per Share (“Purchase Price”), subject to the right of the Bank to refuse to accept any subscription in whole or in part for any reason. The Shares are being offered first to current shareholders of the Bank (Stage 1 of the Offering); then, in Stage 2 , if all of the offered Shares have not been purchased in Stage 1 , the Board may strategically sell the remainder of the Shares to other investors, including, without limitation, existing Shareholders, but in no event will the Shares be

placed in such a way as to increase the number of Bank Shareholders to more than 500 in calendar year 2008. See **RISK FACTORS – Registration Requirements**. No individual subscriber, together with the subscriber’s affiliates as defined herein, may own or control more than 9% of the Bank’s Common Stock. See **THE OFFERING - Price and Terms**. The Purchase Price was determined by the Board of the Bank after taking into consideration the financial condition of the Bank and recent trades of the Bank’s Common Stock, as well as the recent Common Stock split. See **THE BANK – Stock Split** and **DESCRIPTION OF CAPITAL STOCK – Dividends**. Any payments collected from subscribers will be immediately taken into the Bank’s capital and will not be held in escrow until the completion of the Offering. See **THE OFFERING – Method of Subscription**. All potential investors in the Common Stock will have the opportunity to purchase the Shares at the same price. The Bank will seek to limit the number of Bank shareholders to fewer than 500 shareholders in **Stage 1** of the Offering in order to avoid the requirement to register the Bank’s shares under the Securities Exchange Act of 1934 in calendar year 2008. However, the Directors anticipate that in **Stage 2** of the Offering, the Bank will exceed 500 shareholders and will, by year-end 2010, be required to register the Bank’s Common Stock under the Securities Exchange Act of 1934. See **RISK FACTORS – Registration Requirements**.

Payment for Shares

Shareholders of Record may, but are not required to, pay for the Shares they purchase in **Stage 1** of the Offering in installments. 34% of the Purchase Price shall be paid with the Subscription Agreement; 33% of the Purchase Price shall be paid not later than June 30, 2009, and the final 33% of the Purchase Price shall be paid not later than September 30, 2009. Subscribers who purchase Shares in **Stage 2** of the Offering (including those who participate in **Stage 1** of the Offering) are required to pay the full Purchase Price upon subscription. Bank employees who purchase Shares in either **Stage 1** or **Stage 2** of the Offering, will be given the opportunity to spread the payment for those Shares over a twelve (12) month period. The Bank will make payroll deduction available to employees who wish to pay for Shares in this fashion.

Cost of Offering

For purposes of this Offering Memorandum, the Bank has assumed that the cost of the Offering is not material to the anticipated proceeds of the Offering.

RISK FACTORS

INVESTMENT IN THE SHARES OF COMMON STOCK OF THE BANK INVOLVES SIGNIFICANT RISK. EACH POTENTIAL INVESTOR SHOULD CONSIDER CAREFULLY THE FOLLOWING RISK FACTORS, AS WELL AS ALL OF THE OTHER INFORMATION SET FORTH IN THIS OFFERING MEMORANDUM.

Potential Total Loss of Investment

Investment in the shares of Common Stock involves significant risk, and each subscriber should be financially able to sustain a total loss of his or her investment in the shares. **THE SHARES WILL NOT BE INSURED OR GUARANTEED BY THE FDIC OR ANY OTHER GOVERNMENT AGENCY.**

Limited Operating History

The Bank opened for business on March 5, 2007, and as a newly formed bank, it has no history of sustained earnings. The Bank operates from a main office in Chattanooga, Tennessee, and a branch office in Knoxville, Tennessee. The Bank also operates a drive-through facility in Chattanooga. There can be no assurance that the Bank will be successful or that it will succeed in implementing its business plan.

The Bank's primary business is the origination of commercial, consumer, and residential mortgage loans, and its profitability depends, among other things, on the business cycle in the housing industry and the demand for mortgage, small business and other commercial loans, and consumer loans in the Bank's lending area. The Bank will incur operating expenses, and there can be no assurance that it will generate sufficient revenues to operate profitably. Furthermore, because the Bank is a relatively new financial institution, investors do not have access to historical financial information regarding the Bank in assessing their proposed investment as they would have with a financial institution that has a longer operating history. Although the Bank must maintain certain capital requirements throughout its operating history, during the first three (3) years of operations, the Bank must maintain a Tier 1 regulatory capital ratio of at least 9% and an allowance for loan and lease losses of at least 1.25% of total loans. These regulatory requirements may have an adverse impact on the Bank's earnings during the first three (3) years of operation. See **BUSINESS**.

It is difficult to project the net income of the Bank with accuracy. On the income side, all figures are a matter of speculation, dependent on the amount of and mix of loans and securities and other funds available for investment by the Bank, the ability of the Bank to put such funds to use, and the rates of interest then prevailing. On the expense side, the major factor is also a matter of speculation: how much interest the Bank must pay for money. This is a function of the volume of deposits, the division of such deposits between interest- and non-interest-bearing forms, and the rate of interest payable. Adequacy for provision for loan and lease losses also is not ascertainable. On the other hand, many aspects of overhead of operations, such as depreciation and employees' salaries, are relatively fixed, regardless of amount of deposits, investments, or loans. In light of the uncertainties in the base of calculations, any net income figure therefrom is also uncertain.

Net income from the first and second full years of operation is expected to be a loss. This is primarily caused by the provision which must be accrued for the bank regulator-required loan and lease losses reserve through the first years of operation and the write-off of pre-opening and organizational expenses. Income tax during the second and third years will be less than normal as the tax is reduced from the loss carry-forward from the first and second years of operation. The Offering may be dilutive to existing shareholders who do not take advantage of the opportunity to purchase their *pro rata* share of the offered shares. There can be no assurance that additional financing will be available as needed or on terms acceptable to the Bank. See **THE OFFERING and RISK FACTORS – Dilution**.

Potential Requirements for Additional Funds

Although the Board of the Bank believes the proceeds from the Offering and the exercise of Warrants and Options from the Initial Offering will be sufficient to support the continued operations and commitments of the Bank without additional financing, there can be no assurance that such proceeds will be sufficient to meet the future capital requirements of the Bank without additional financing. The amount of capital required will depend, among other things, upon operating results, asset growth, and regulatory requirements.

The Directors and Executive Officers in the aggregate intend to purchase approximately three percent (3%) of the offered shares in **Stage 1** of the Offering. This calculation does not include the purchase of additional Shares by affiliates of the Directors and Executive Officers. No Director or Executive Officer of the Bank will have any greater right to purchase Shares in the Offering than any other current shareholder. See **MANAGEMENT - Ownership of Common Stock by Directors** and **RISK FACTORS - Dilution**.

The Directors and Executive Officers have made no commitments to provide additional funds for the operation of the Bank and have no current plans or commitments to do so in the future. Therefore, investors should not expect the Directors or Executive Officers personally to provide additional funds for the operations or capital requirements of the Bank if the proceeds of the Offering are insufficient for the future capital requirements of the Bank.

Lack of Trading Market

It is unlikely that there will be an active and liquid trading market for the Common Stock upon completion of the Offering. Furthermore, there can be no assurance that an active trading market for the Common Stock will develop in the future or of the prices at which trading might occur if such a market should develop. Investors must consider their investment in the Common Stock as a long-term, illiquid investment. The Common Stock will not be listed on an exchange or included in the Nasdaq Stock market or other established securities exchange upon completion of the Offering.

Determination of Purchase Price

The Purchase Price of the Common Stock (\$10.00 per share) has been determined by the Board after consideration of the potential market for the stock in the Bank's trade area, limited recent sales of the Common Stock by shareholders in private sales, the recent three-for-two stock split, and other market factors. The Board believes that the price per Share will encourage current shareholders to increase their ownership in the Common Stock of the Bank in keeping with the original Organizers' intent to form a community bank with broad local ownership. There can be no assurance that the Shares can be resold at or above the Purchase Price after completion of the Offering. See **THE BANK – Stock Split** and **DESCRIPTION OF CAPITAL STOCK – Dividends**.

Absence of Dividends

The Bank anticipates that the earnings, if any, which may be generated from the further operations of the Bank during at least the next three (3) years of operations will be used to finance operating expenses and to fund growth and will not be paid to the Bank's shareholders as dividends. The ability of the Bank to pay dividends is limited by applicable law and regulation, and there is no assurance that earnings will be sufficient to permit the payment of dividends. The TDFI prohibits the payment of dividends for the first three (3) years of operation without the prior, written approval of the Commissioner of the TDFI and the Federal Reserve, and in no event, until the Bank is profitable. Prior to commencing this Offering, the Board of the Bank sought approval for a three-for-two stock split from the TDFI and the Federal Reserve. The Bank's regulators did not object to the stock split. See **DESCRIPTION OF CAPITAL STOCK – Dividends** and **THE BANK – Stock Dividend**.

Government Regulation

The Bank and its operations are subject to extensive government regulation on both the Federal and state levels. There can be no assurance as to the effect any pending or future legislation or regulation might have on the business of the Bank and the financial services industry generally. See **SUPERVISION AND REGULATION**.

No Independent Counsel

No independent counsel has been retained to represent the interests of the investors. Neither this Offering Memorandum nor the Subscription Agreement has been reviewed by an attorney on behalf of the investors. Each investor is, therefore, urged to consult with his or her own counsel with regard to the terms and provisions of the Subscription Agreement and all other related documents. See **EXHIBIT A - FORM OF SUBSCRIPTION AGREEMENT**.

Lack of Underwriter

No underwriter is being used by the Bank in connection with the Offering. Accordingly, subscribers will not have the benefit of an independent confirmation of the adequacy and accuracy of factual representations in this Offering Memorandum in the form of a “due diligence” investigation and subscribers will not have the benefit of negotiation of the Purchase Price.

Competition

The Bank’s primary market area has been Hamilton and Knox counties in Tennessee and certain adjacent markets. The Bank’s main office is located in Chattanooga, Tennessee. The Bank has also established a branch office in Knoxville and a drive-through facility in Chattanooga. Unlike many new community banks, the Bank offers trust and fiduciary services to its customers. Within the primary market area, the Bank competes for deposits with larger, established financial institutions, as well as with money market mutual funds, credit unions, and other non-traditional financial intermediaries. The Bank attracts its customer base from existing financial institutions and new residents and businesses. Most of the competitors are much larger than the Bank in asset size; have more extensive facilities; and over time have developed a greater depth of organizational and market capabilities. There is no assurance that the Bank will be able to compete successfully. See **BUSINESS - Competition**.

Market Growth

The Board’s assumptions about the viability of the Bank are based on its projections of growth in population, deposits; housing and new business starts in the primary market area, as well as on its projections of interest rates and operating expenses. Although these projections are based on an analysis of historical data, they are merely forecasts and may prove to be inaccurate. The primary market area has experienced growth in population, deposits, housing and new business starts in recent years, but there can be no assurance that such growth will continue in the future or that the Bank will benefit from any such continuing growth. See **BUSINESS - Market Area**.

Economic Conditions

The operating results of the Bank depend to a great extent upon “rate differentials” which result from the difference between the income the Bank receives from its loans, securities, and other assets, and the interest it pays on its deposits, borrowings and other liabilities. These rate differentials are highly sensitive to many factors beyond the control of the Bank. Such factors include general economic conditions, particularly the level of market interest rates, and the policies of various governmental and regulatory authorities. See **BUSINESS - Lending Activities** and **BUSINESS - Source of Funds**.

Monetary Policy

The Bank, like other depository institutions, is affected by the monetary policies implemented by the Board of Governors of the Federal Reserve System (“Federal Reserve”). The Federal Reserve has the power to restrict or expand the money supply through open market operations, including the purchase and sale of government securities and the adjustment of reserve requirements. These actions may result in significant fluctuations in market interest rates, which could adversely affect the operations of the Bank, such as its ability to make loans and attract deposits, as well as market demand for loans. See SUPERVISION AND REGULATION.

Dependence on Key Personnel

The Bank relies on the experience and ability of R. Craig Holley (“Mr. Holley”) as President and Chief Executive Officer. Mr. Holley began his banking career with AmSouth Bank in Birmingham, Alabama, in 1979. Following more than 25 years of advancement with AmSouth, Mr. Holley left the bank to start CapitalMark Bank & Trust. He serves as a member of the Bank’s Board of Directors as its chairman and as a member of the Executive/Loan and Investment/ALCO committees. In addition to Mr. Holley, the Bank’s key executive officers include Barry W. Rich, Chief Financial Officer and Operations Head; James H. Vavalides, General Banking Head and Knoxville City Executive; Ryan R. Murphy III, Chief Credit Officer and Chief Deposit Officer, and Kenneth C. Dyer III, Chattanooga City Executive. Mr. Rich is responsible for the implementation of the Bank’s regulatory and operational functions and supervises the development of all necessary policies/procedures to ensure a safe and sound regulatory environment. Mr. Vavalides oversees the Bank’s sales and services functions and heads the Bank’s Knoxville operations. Mr. Murphy is responsible for the development and oversight of the Bank’s loan policies and procedures. Mr. Dyer is responsible for managing the Bank’s operations in Chattanooga. See MANAGEMENT.

Limitations on Acquisition and Transfer of Shares of Common Stock

The Common Stock has not been registered under the Securities Act of 1933, as amended (“Securities Act”), or the securities laws of any state. The Common Stock is exempt from registration under the laws of the State of Tennessee and the Securities Act; however, the shares may not be exempt from registration or transferable under the laws of other states, and transfers to residents of other states may be prohibited. Prospective investors, therefore, should be prepared to hold the shares of Common Stock indefinitely. Tennessee law does not restrict the sale of bank stock, although the laws of some states may impose certain limitations on acquisitions and transfers of shares of common stock. No individual subscriber together with the subscriber’s affiliates, as defined herein, may purchase shares of the Bank’s Common Stock if, in the aggregate, the subscriber together with his or her affiliates would own or control more than 9% of the Bank’s Common Stock. For purposes of this Offering, the term “affiliate” shall include, in a subscriber’s family, a spouse, parents, siblings, step-siblings, children, step-children, grandparents, grandchildren, fathers-in-law, mothers-in-law, brothers-in-law, sisters-in-law, sons-in-law, daughters-in-law, and the spouse of any of the foregoing, and any corporation or other business entity of which the subscriber or the subscriber’s spouse owns or controls 25% or more of the voting stock or otherwise exercises voting control of the business entity; and shall also include a family limited partnership in which a subscriber is either a general or limited partner. See MANAGEMENT - Stock Options; THE OFFERING - Price and Terms; DESCRIPTION OF CAPITAL STOCK - General; SUPERVISION AND REGULATION - Interstate Banking and Change in Control Restrictions.

Dilution

In this Offering, each Shareholder of Record as of September 15, 2008, is being offered an opportunity in **Stage 1** of the Offering to purchase up to his or her *pro rata* percentage of the offered Shares. For example, if you are a Shareholder of Record as of September 15, 2008, and you own 2% of the Bank’s issued and outstanding Common Stock as of September 15, 2008, you will be given the opportunity to purchase 2% of the total number of Shares offered in this Offering. If you do not take advantage of this opportunity, your percentage of ownership of the Bank’s Common Stock will be diluted to the extent that other Shareholders do purchase all or, in some instances, a portion of their *pro rata* share of the Offering and to the extent that other investors, in **Stage 2** of the Offering, purchase Shares. It is not possible to determine the precise dilution factor that may result. If every Shareholder purchases his or her *pro rata* share in the Offering, your percentage ownership of the Bank’s Common

Stock will not be diluted; however, this is unlikely to occur. After giving effect to the sale of all the shares in the Bank's initial public offering (the "Initial Offering"), the net tangible book value per share was \$10.00. All shares were sold at the same purchase price of \$10.00 per share. As a result (and assuming the Options had no value when subscriptions for shares were accepted), there was no immediate dilution to the net tangible book value of the shares except to the extent pre-opening and organizational expenses were required to be written off. Shareholders who do not fully exercise their Warrants/Options may experience dilution to the book value of their shares to extent that other Shareholders exercise some or all of their Warrants/Options. Up to 875,000 Options were originally reserved for issuance to the Organizers, Senior Management and Employees, which, if exercised, may dilute the book value of the remaining shares. The Bank has entered into stock option agreements with Organizers, Directors, Senior Management, and certain Employees pursuant to the Stock Option Plan and may enter into agreements with other management officials and employees. See **THE OFFERING – Price and Terms**.

To the extent there are Options reserved and available for issuance to the Organizers, Senior Management and Employees under the Stock Option Plan which have not been issued, current holders of Options will be granted additional Options for the number of shares necessary to bring the total number of shares subject to Option by the Organizers, Senior Management and Employees to the same *pro rata* percentage of the outstanding shares of Bank Common Stock previously subject to Option by the Organizers, Senior Management and Employees. For example, a holder of Options to purchase that number of shares of Bank Common Stock equal to 2% of the Bank Common Stock outstanding prior to the Offering will, to the extent there are unissued Options available, be issued additional Options to purchase enough shares to ensure he or she has the option to purchase that number of shares of Bank Common Stock equal to 2% of the Bank Common Stock outstanding after the Offering. Your percentage ownership of the Bank's Common Stock will be diluted to the extent there are Options available for issuance under the Stock Option Plan that are issued to current Option holders. Further, if you are a current Option holder, to the extent there are not enough available, unissued Options under the Stock Option Plan for issuance to all current Option holders, your right to purchase additional shares of Bank Common Stock itself will be diluted. For example, if you currently hold Options representing the right to purchase that number of shares of Bank Common Stock equal to 3% of the total number of shares of Bank Common Stock outstanding, you may, after the Offering, only hold Options representing the right to purchase that number of shares of Bank Common Stock equal to 2% of the total number of shares of Bank Common Stock outstanding. The following table sets out the Options that have been awarded to Organizers, Senior Management and Employees to date:

Organizer	Number of Options
James W. Atkinson	25,000
Charles E. Brock	25,000
Patsy Hazlewood	20,000
R. Craig Holley	100,000
Karen G. Kruesi	25,000
Joseph Prebul	50,000
Harshad Shah	30,000
Grady P. Williams, CPA	50,000
Total	325,000
Management Official	Number of Options
R. Craig Holley	60,000
Barry W. Rich	50,000
James H. Vavalides	50,000
Ryan R. Murphy III	35,000
Kenneth C. Dyer III	35,000
Total	235,000
Additional Options Awarded to Other Employees	192,000
Total Number of Options Awarded under the Plan	752,000
Total Number of Unissued Options Remaining in Plan	123,000

Registration Requirements

Banks whose securities are registered with their primary federal regulator under the provisions of the Securities Exchange Act of 1934 (“Exchange Act”), are required to furnish to their shareholders certain reports concerning their operations, including financial statements audited by independent certified public accountants. If the Bank has at least 500 shareholders after the completion of the Offering, it would be required to register its Common Stock under the Exchange Act 120 days after the end of the fiscal year in which the Bank has at least 500 shareholders and has assets of at least \$10,000,000. Pursuant to the regulations of the Exchange Act and regulation of the Federal Reserve, the Bank would file annual, quarterly, and periodic reports with its primary federal regulator. The Bank would also be subject to the insider trading requirements of Sections 16(a) and 16(b) of the Exchange Act. Because the Bank is not currently an Exchange Act reporting company, the amount of information regarding the Bank’s operations and management, which the Bank would otherwise be required to furnish to shareholders and make available to the public, will be substantially increased. In addition, the proxy and tender offer rules, insider trading reporting and restrictions, annual and periodic reporting, and other requirements of the Exchange Act will not be applicable until the Bank becomes a reporting company. This may adversely affect the marketability of the Common Stock because potential purchasers would not have access to current financial information about the Bank. The Bank does not intend to list its Common Stock on any national stock exchange.

In **Stage 1** of the Offering, the Bank will limit the number of Bank shareholders to fewer than 500 shareholders in order to avoid the requirement to register the Bank’s shares under the Exchange Act and enhanced audit and compliance costs associated with the Sarbanes-Oxley Act in calendar year 2008. Following **Stage 2** of the Offering, it is likely that the Bank will have more than 500 shareholders and will be required to register the Bank’s shares under the Exchange Act and become a “reporting company”.

THE BANK

General

The Bank is organized as a Tennessee-chartered commercial bank whose deposits are insured by the FDIC and which is a member of the Federal Reserve. The Bank is regulated and supervised by the TDFI and the Federal Reserve. The Organizers of the Bank filed a Notice of Intention to Organize a State Bank with the TDFI on April 12, 2006, and on September 7, 2006, made application for approval from the TDFI to organize as a state-chartered bank and for federal deposit insurance of its accounts by the FDIC. Simultaneously with its approval to operate the bank, granted by the TDFI on March 5, 2007, the Bank was granted membership in the Federal Reserve. The principal business of the Bank is to accept demand and savings deposits from the general public and to invest these funds in residential mortgage, commercial, and consumer loans and in other permissible and prudent investments. The Bank’s regulators authorized the Bank to offer trust and fiduciary services to its customers on August 5, 2008. The Bank has approximately four hundred fifty-two (452) shareholders that in the aggregate own approximately 3,504,500 shares of the Bank’s issued and outstanding shares of Common Stock.

While the Board has no current intention to do so, the Bank may at some future date form a bank holding company and become a wholly-owned subsidiary of such bank holding company. If a bank holding company is formed, it would also be subject to regulation by the Federal Reserve. See **SUPERVISION AND REGULATION – Regulation of Bank Holding Companies**.

Stock Split

The Board of the Bank approved a three-for-two stock split for shareholders who owned Bank Common Stock as of September 15, 2008. For every two (2) shares of Bank Common stock a shareholder owned on September 15, 2008, the shareholder received one additional share as of the close of business on October 1, 2008.

Certified Audits and Financial Condition

The Bank is required to have an annual, independent, certified audit of its financial statements by an independent public accountant who must determine and report whether the financial statements of the Bank are presented fairly in accordance with generally accepted accounting principles. The scope of each report by an independent public accountant must meet or exceed the scope required by generally accepted auditing standards. The Bank has an Audit Committee of the Board of Directors that employs the independent, certified public accountant and to whom the accountant directly reports. The Bank is required to provide to the TDFI and the Federal Reserve a copy of each audit report and any qualification to such report, any management letter, and any other report within fifteen (15) days of receipt of any such report, qualification, or letter from the Bank's independent auditor.

The Audit Committee of the Bank employs the outside accounting firm of Hazlett, Lewis & Bieter, PLLC, Certified Public Accountants, Chattanooga, Tennessee, as the Bank's independent certified public accountants. A copy of the Bank's 2007 audited financial statements is available to any investor upon request.

The Bank's June 30, 2008 Report of Condition reported that as of the end of the second quarter 2008, the Bank had total assets of \$261,796,000; total liabilities of \$231,825,000, of which \$230,005,000 are demand and time deposits; and total equity capital of \$29,971,000. A copy of the Bank's 2007 audited financial statements is available to any investor upon request.

As of June 30, 2008, the Bank was well-capitalized in all capital categories. *De novo* banks that are members of the Federal Reserve System are required to maintain at least a 9.0% equity capital to assets ratio for the first three years of operation. At the end of the second quarter 2008, the Bank's equity capital-to-assets ratio was 11.45%; its core capital (leverage) ratio was 12.96%; its Tier 1 risk-based capital ratio was 12.46%; and its total risk-based capital ratio was 13.58%.

Other key performance and condition ratios are detailed in the chart below:

Performance and Condition Ratio	June 30, 2008	June 30, 2007
Yield on earning assets	6.09%	4.94%
Net interest margin	3.32%	4.17%
Net operating income to assets	(0.93%)	(8.93%)
Return on assets	(0.93%)	(8.93%)
Return on equity	(6.23)	(14.98%)
Net charge-offs to loans	0	0
Assets per employee (\$millions)	5.82	2.43
Loss allowance to loans	1.25%	1.50%
Noncurrent loans to loans	0.26%	0
Net loans and leases to deposits	93.71%	120.61%

THE OFFERING

Price and Terms

The Bank is offering up to three million (3,000,000) shares (the "Shares") of its Common Stock at a Purchase Price of \$10.00 per Share in connection with its operation as a Tennessee-chartered commercial bank ("Offering"). Sale of the Shares will commence on or about October 15, 2008. The Offering will conclude at the earlier of the sale of all the offered Shares or March 31, 2009, if all of the offered Shares have not been sold, whichever occurs first. The Bank reserves the right to terminate the Offering without prior notice at any time, and orders submitted after such termination will not be accepted by the Bank. In addition, the Bank, in the sole discretion of the Board, may extend the Offering for an additional ninety (90) days. The Offering is being conducted in two (2) stages: In **Stage 1**, each shareholder of the Bank as of September 15, 2008 ("Shareholders of

Record”), will be offered an opportunity to purchase Shares in the Offering up to the shareholder’s *pro rata* ownership. Shareholders of Record may, but are not required to, pay for the Shares they purchase in **Stage 1** of the Offering in installments. Thirty-four percent (34%) of the Purchase Price must accompany the Subscription Agreement; thirty-three percent (33%) of the Purchase Price shall be paid not later than June 30, 2009; and the final thirty-three percent (33%) of the Purchase Price shall be paid not later than September 30, 2009. Title to shares purchased in Stage 1 of the Offering may not be taken in any manner that would increase the total number of “holders or record” (as that term is defined in Rule 12g5-1 of the Securities Exchange Act of 1934) of the Bank’s Common Stock. For example, if all shares that you currently own are titled in your name individually; title to all Shares you purchase in **Stage 1** of the Offering must also be titled in your name individually. In **Stage 2** of the Offering, assuming that any shares remain available for purchase, the Board of the Bank may strategically sell the remaining Shares. **Stage 2** subscribers (including those who participate in **Stage 1** of the Offering) must pay for their Shares with the Subscription Agreement. See **THE OFFERING – Method of Subscription** and **EXHIBIT A – Subscription Agreement**.

Bank employees who purchase Shares in either **Stage 1** or **Stage 2** of the Offering may elect to pay for the Shares through payroll deduction or otherwise over a twelve (12) month period. The Board believes that it is in the best interest of the Bank for Bank employees to be owners of the Bank, and this payment plan is designed to encourage stock ownership by Bank employees.

No individual subscriber together with the subscriber’s affiliates, as defined herein, may purchase shares of the Bank’s Common Stock if, in the aggregate, the subscriber together with his or her affiliates would own or control more than 9% of the Bank’s Common Stock. For purposes of this Offering, the term “affiliate” shall include, in a subscriber’s family, a spouse, parents, siblings, step-siblings, children, step-children, grandparents, grandchildren, fathers-in-law, mothers-in-law, brothers-in-law, sisters-in-law, sons-in-law, daughters-in-law, and the spouse of any of the foregoing, and any corporation or other business entity of which the subscriber or the subscriber’s spouse owns or controls 25% or more of the voting stock or otherwise exercises voting control of the business entity; and shall also include a family limited partnership in which a subscriber is either a general or limited partner.

The chart below sets out the schedule for the Offering:

	Beginning Date	Ending Date
Stage 1 (offering to Shareholders of Record as of September 15, 2008, on <i>pro rata</i> basis)	October 15, 2008	March 31, 2009
Stage 2 (offering to other investors at the discretion of the Board)	January 2, 2009	March 31, 2009

Subscriber Warrants

In the Bank’s Initial Offering, for every five (5) shares of Common Stock that a subscriber purchased in the Initial Offering, the subscriber received a Warrant to purchase one (1) share of Common Stock for \$10.00 per share. While the Offering itself will have no impact on the exercise price of the Warrants, the post-stock split exercise price for the Warrants will be \$6.67 per share.. **No additional warrants attach to the Common Stock offered in this Offering.**

Distribution

The Shares is being offered to the public through the Directors and Management. No commission or other sales compensation will be paid to any of the foregoing in connection with the Offering.

Method of Subscription

All subscriptions must be made by completing a Subscription Agreement, a copy of which is attached to this Offering Memorandum as **EXHIBIT A**. Additional copies of the Subscription Agreement may be obtained by contacting the Bank at the address set forth below. Photocopies of the Subscription Agreement may also be made. Subscriptions will not be binding on subscribers until accepted by the Bank. **SUBSCRIPTIONS WILL NOT BE ACCEPTED UNLESS PROPERLY COMPLETED AND SIGNED.** Shareholders of Record may, but are not required to, pay for the shares they purchase in **Stage 1** of the Offering in installments. **Thirty-four percent (34%) of the Purchase Price shall be paid upon subscription for the shares; thirty-three percent (33%) of the Purchase Price shall be paid not later than June 30, 2009; and the final thirty-three percent (33%) of the Purchase Price shall be paid not later than September 30, 2009.** Title to shares purchased in **Stage 1** of the Offering may not be taken in any manner that would increase the total number of “holders or record” (as that term is defined in Rule 12g5-1 of the Securities Exchange Act of 1934) of the Bank’s Common Stock in calendar year 2008. For example, if all shares that you currently own are titled in your name individually, title to all shares you purchase in **Stage 1** of the Offering must also be titled in your name individually. In **Stage 2** of the Offering, assuming that any Shares remain available for purchase, the Board of Directors (the “Board”) of the Bank may strategically sell the remaining Shares. The full Purchase Price in **Stage 2** of the Offering shall be paid upon subscription. Bank employees may elect to pay for their Shares in either **Stage 1** or **Stage 2** through a payroll deduction plan or otherwise over a twelve (12) month period.

The Bank reserves the right to reject any subscription for any reason. Subscription Agreements may not be revoked without the Bank’s permission. The Bank will refuse any subscription by sending written notice to the subscriber by personal delivery or first-class mail within thirty (30) calendar days after receipt of the subscription, and the subscriber’s Subscription Agreement and refund of payment will accompany such notice. Any Subscription Agreement which is completely and correctly filled out and which is physically received at the offices of the Bank by any employee or agent of the Bank shall be deemed to have been accepted if it is not refused as hereinbefore provided within thirty (30) calendar days after such receipt.

No individual subscriber, together with the subscriber’s affiliates, as defined herein, may purchase shares of the Bank’s Common stock if, in the aggregate the subscriber, together with his or her affiliates, would own or control more than 9% of the Bank’s Common Stock. For purposes of this Offering, the term “affiliate” shall include, in a subscriber’s family, a spouse, parents, siblings, step-siblings, children, step-children, grandparents, grandchildren, fathers-in-law, mothers-in-law, brothers-in-law, sisters-in-law, sons-in-law, daughters-in-law, and the spouse of any of the foregoing, and any corporation or other business entity of which the subscriber or the subscriber’s spouse owns or controls 25% or more of the voting stock or otherwise exercises voting control of the business entity; and shall also include a family limited partnership in which a subscriber is either a general or limited partner.

A completed Subscription Agreement should be mailed or delivered to:

CapitalMark Bank & Trust
Attention: Sam Mann, Senior Vice-President - Accounting
P. O. Box 671 (37401)
801 Broad Street
Chattanooga, TN 37402

EXCEPT AS PROVIDED HEREIN FOR BANK EMPLOYEES, AT LEAST 34% OF THE TOTAL PURCHASE PRICE MUST ACCOMPANY THE SUBSCRIPTION AGREEMENT IN STAGE 1 OF THE OFFERING. IN STAGE 2 OF THE OFFERING, PAYMENT IN FULL IS REQUIRED AT THE TIME OF COMPLETING THE SUBSCRIPTION AGREEMENT. PAYMENT MUST BE MADE IN UNITED STATES FUNDS BY CHECK, BANK DRAFT, OR MONEY ORDER, PAYABLE TO CAPITALMARK BANK & TRUST.

Termination or Extension of the Offering

The Board may terminate the Offering at any time. In the sole discretion of the Board, the Bank may extend the Offering for up to ninety (90) days. The Bank currently intends to follow the following schedule for the Offering unless all of the Shares are sold before March 31, 2009 or such extended time as the Board may determine. See **THE OFFERING**.

	Beginning Date	Ending Date
Stage 1 (offering to Shareholders of Record as of September 15, 2008, on <i>pro rata</i> basis)	October 15, 2008	March 31, 2009
Stage 2 (offering to other investors in the discretion of the Board)	January 2, 2009	March 31, 2009

USE OF PROCEEDS

General

The net proceeds to the Bank from the sale of the Common Stock offered hereby will be used for general corporate purposes, including operational expenses and loans and investments in the Bank's markets. The specific purpose for the Offering is to support the Bank's further growth.

Additional Financing

The Bank believes that the proceeds of the Offering will provide sufficient capital to support the future operations of the Bank without additional financing. The amount of capital required, however, will depend upon several factors, including operating results, growth of assets and regulatory requirements. See **BUSINESS – Competition**. If the proceeds of the Offering prove insufficient to support the operations of the Bank in the future, additional financing will be required. There can be no assurance that additional financing will be available, or if available, that it can be obtained on terms which management believes are reasonable. However, Management intends to maintain the Bank at adequate capital levels and would consider additional equity investments by the public in the event conditions warrant. Neither the Directors nor Executive Officers have committed to provide any additional funds in the event that such funds are needed by the Bank. See **RISK FACTORS – Potential Requirements for Additional Funds**.

Capital

The Bank's regulators require banks to maintain capital at adequate levels based on a percentage of assets and off-balance sheet exposures, adjusted for risk weights ranging from 0% to 100%. Under the risk-based standard, capital is classified into two tiers. The most highly-rated institutions must meet a "Tier 1" leverage capital ratio of at least 3.0% of total assets. All other banks must have a Tier 1 leverage ratio of at least 100-200 basis points above the 3.0% minimum. Federal capital regulations establish a minimum leverage ratio of not less than 4% for banks that are not highly-rated or are anticipating or experiencing significant growth. New banks that are members of the Federal Reserve are generally required to maintain at least a 9% Tier 1 leverage ratio for the first three (3) years of operation.

Federal capital regulations require higher capital levels for banks which exhibit more than a moderate degree of risk or exhibit other characteristics which necessitate that higher than minimum levels of capital be maintained. Any insured bank with a Tier 1 capital-to-total assets ratio of less than 2% is deemed to be operating in an unsafe and unsound condition pursuant to Section 8(a) of the Federal Deposit Insurance Act ("FDIA") unless the insured bank enters into a written agreement, to which the FDIC is a party, to correct its capital deficiency. Insured banks operating with Tier 1 capital levels below 2% (and which have not entered into a written agreement) are subject to a deposit insurance removal action.

Federal regulations also require that banks meet a risk-based capital standard. The risk-based capital standard requires the maintenance of total capital-, which is defined as Tier 1 capital and Tier 2 or supplementary capital, to-risk-weighted-assets of 8% and Tier 1 capital-to-risk-weighted-assets of 4%. In determining the amount of risk-weighted assets, all assets, plus certain off balance sheet items, are multiplied by a risk-weight of 0% to 100%, based on the risks the bank's regulators believe are inherent in the type of asset or item. The components of Tier 1 capital are equivalent to those discussed above under the 3% leverage requirement. The components of Tier 2 capital include mandatory convertible securities, term subordinated debt, intermediate-term preferred stock and allowance for possible loan and lease losses. Allowance for possible loan and lease losses includable in supplementary capital is limited to a maximum of 1.25% of risk-weighted assets. Overall, the amount of capital counted toward supplementary capital cannot exceed 100% of Tier 1 capital. The Bank's regulators include in their evaluation of a bank's capital adequacy an assessment of risk-based capital, focusing principally on broad categories of credit risk.

Liquidity Management and Capital Resources

Liquidity management involves monitoring the Bank's sources and uses of funds in order to meet its day-to-day cash flow requirements while maximizing profits. Liquidity represents the ability of a bank to convert assets into cash or cash equivalents without significant loss and to raise additional funds by increasing liabilities. Without proper liquidity management, the Bank would not be able to perform the primary function of a financial intermediary and would, therefore, not be able to meet the needs of the communities it serves. Liquidity management is made more complex because different balance sheet components are subject to varying degrees of management control. For example, the timing of maturities of the investment portfolio is very predictable and subject to a high degree of control at the time investment decisions are made. However, net deposit inflows and outflows are far less predictable and are not subject to nearly the same degree of control.

The Bank intends to use the net proceeds of the Offering primarily to fund the Bank's growth and for other corporate purposes, including meeting the credit needs of Bank customers. See **USE OF PROCEEDS**. The Bank anticipates that the net proceeds of the Offering will be adequate for its capital needs for the foreseeable future. However, the TDFI or the Federal Reserve could require the Bank to increase its capitalization. See **RISK FACTORS**. In such event, the Bank would likely fund the increased capitalization through a public offering of Common Stock, from Bank earnings (to the extent available), or through the offering of additional capital stock. See **SUPERVISION AND REGULATION – Dividends**.

Accounting for Stock Options

The Financial Accounting Standards Board ("FASB") issued its most recent standard on accounting for share-based payment ("SBP"), FASB Statement No. 123 (revised 2004), Share-Based Payment (FAS 123R), that requires companies to expense the value of employee stock options and other forms of stock-based compensation. Non-public companies may account for SBP awards using their fair value on the grant date, except in certain circumstances. Specifically, if it is not possible to reasonably estimate the fair value of equity share options and similar instruments because it is not practicable to estimate the expected volatility of the entity's share price, a nonpublic entity can measure its SBP awards based on a value calculated using the historical volatility of an appropriate industry sector index instead of the expected volatility of its share price.

Impact of Inflation

Unlike most industrial companies, the assets and liabilities of financial institutions such as the Bank are primarily monetary in nature. Therefore, interest rates have a more significant effect on the Bank's performance than do the effects of changes in the general rate of inflation and change in prices. In addition, interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services. As discussed previously, management seeks to manage the relationships between interest-sensitive assets and liabilities in order to protect against wide interest rate fluctuations, including those resulting from inflation. See **RISK FACTORS – Government Regulation**.

Industry Developments

Legislation that may be enacted by Congress or the Tennessee General Assembly that may impact the financial services industry could have an effect on both the costs of doing business and the competitive factors facing the financial institutions industry. The Bank is unable at this time to assess the impact of future legislation on its financial condition or results of operations. See **SUPERVISION AND REGULATION – General**.

BUSINESS

General

A group of individuals (the “Organizers”) decided to form a new state-chartered, community, commercial bank in Hamilton County, Tennessee. On April 12, 2006, the Organizers submitted a Notice of Intent to Form a State-Chartered Bank to the Tennessee Department of Financial Institutions (“TDFI”) and on September 7, 2006, submitted an application to the TDFI for permission to operate a State-chartered commercial bank and with the Federal Deposit Insurance Corporation (“FDIC”) for federal insurance of deposit accounts. The Bank also applied for membership in the Federal Reserve System and was granted membership simultaneously with the opening of the Bank. The Bank opened for business at 801 Broad Street, Chattanooga, Tennessee, on March 5, 2007. The Bank’s initial meeting of shareholders was held on April 19, 2007. The Shareholders elected the proposed slate of Directors, approved the Bank’s Stock Option Plan, approved the Bank’s organizational documents, including its charter and bylaws, and approved its pre-opening expenses. Hazlett, Lewis & Bieter, PLLC, Certified Public Accountants, the Bank’s outside auditing firm, was also approved by the Shareholders at this initial meeting.

In 2007, the Bank opened a second office in Knoxville, Tennessee. Regulatory approval is required whenever the Bank seeks to expand into other markets, establish new offices, offer new products and services that were not detailed in the Bank’s original Business Plan, and/or raise additional capital.

The banking industry is significantly affected by prevailing economic conditions, as well as government policies and regulations concerning, among other things, monetary and fiscal affairs, the housing industry, and financial institutions. Deposits at commercial banks are influenced by a number of economic factors, including interest rates, competing investment instruments and levels of personal income and savings, among others. Lending activities are also influenced by a number of economic factors, including demand for and supply of housing; conditions in the construction industry; local economic and seasonal factors; and availability of funds. Primary sources of funding for lending activities include time, savings and demand deposits; income from investments; loan principal payments; and borrowings.

Competition

The Bank competes with approximately thirty-five (35) commercial banks in Hamilton and Knox counties. The following table, taken from the FDIC’s website (www.fdic.gov), reports market share information for banks with offices in the market area, as of June 30, 2008, the most recent reported data.

State: County: City: Zip Code:					June 30, 2008				
TENNESSEE		HAMILTON		ALL	ALL				
TENNESSEE		KNOX		ALL	ALL				
					Outside of Market		Inside of Market		
Institution Name	CERT	State (Hqtrd)	Bank Class	State/Federal Charter	No. of Offices	Deposits (\$000)	No. of Offices	Deposits (\$000)	Market Share
SUNTRUST BANK	867	GA	SM	State	1,677	110,934,970	53	3,341,147	25.15%
FIRST TENNESSEE BANK NA	4977	TN	N	Federal	152	12,046,412	45	3,214,990	24.20%
REGIONS BANK	12368	AL	SM	State	1,876	83,886,982	48	2,338,778	17.61%
HOME FEDERAL BANK OF TN	29683	TN	SA	Federal	5	174,620	18	1,278,089	9.62%
BRANCH BANKING&TRUST CO	9846	NC	NM	State	1,478	85,043,944	13	607,583	4.57%
FSGBANK NATIONAL ASSN	35525	TN	N	Federal	28	609,443	11	346,100	2.61%
CORNERSTONE COMMUNITY BANK	26256	TN	NM	State	1	0	6	314,347	2.37%
BANK OF AMERICA NA	3510	NC	N	Federal	5,731	641,977,534	7	274,681	2.07%
CAPITALMARK BANK&TRUST	58507	TN	SM	State	0	0	2	230,005	1.73%
FIRST VOLUNTEER BANK OF TN	10307	TN	NM	State	13	349,393	6	126,046	0.95%
PINNACLE NATIONAL BANK	35583	TN	N	Federal	31	3,049,769	1	119,160	0.90%
COMMUNITY TRUST&BANKING CO	35138	TN	NM	State	0	0	4	118,709	0.89%
BANKEAST	19869	TN	SM	State	6	154,980	5	118,082	0.89%
CLAYTON BANK&TRUST	6104	TN	NM	State	9	287,136	2	111,023	0.84%
TENNESSEE STATE BANK	20720	TN	SM	State	11	464,593	2	66,076	0.50%
COHUTTA BANKING CO OF TN	57913	TN	NM	State	0	0	3	64,055	0.48%
COMMERCIAL BANK	22354	TN	SM	State	10	290,881	4	61,857	0.47%
FIRST NATIONAL BANK	4947	TN	N	Federal	9	273,632	1	56,577	0.43%
UNITED COMMUNITY BANK	16889	GA	NM	State	106	6,662,557	1	50,526	0.38%
AMERICAN TR BANK OF EAST TN	57689	TN	NM	State	3	63,784	2	48,434	0.36%
NORTHWEST GEORGIA BANK	9246	GA	NM	State	6	401,099	3	46,527	0.35%
MOUNTAIN COMMERCE BANK	4931	TN	NM	State	6	250,221	1	41,827	0.31%
CITIZENS TRI-COUNTY BANK	20818	TN	NM	State	19	393,085	2	39,976	0.30%
GREENBANK	895	TN	NM	State	63	2,235,133	3	38,224	0.29%
TNBANK	34023	TN	NM	State	3	126,400	2	27,398	0.21%
JEFFERSON FEDERAL BANK	31367	TN	SA	Federal	2	201,319	2	23,766	0.18%
FIRST PEOPLES BANK OF TN	21874	TN	NM	State	5	77,729	2	22,266	0.17%
FIRST CENTURY BANK	1700	TN	NM	State	6	214,049	2	19,846	0.15%
FIRST-CITIZENS BANK&TRUST CO	11063	NC	NM	State	338	11,046,436	2	19,190	0.14%
CITIZENS NATIONAL BANK	20954	TN	N	Federal	17	521,121	2	18,584	0.14%
COMMUNITY SOUTH BANK	19849	TN	NM	State	14	485,406	2	17,960	0.14%
CITIZENS BANK OF BLOUNT CNTY	21227	TN	NM	State	9	224,411	2	17,508	0.13%
PEOPLES BANK	10730	VA	NM	State	4	42,854	1	17,150	0.13%
COMMUNITY BANK OF EAST TN	34847	TN	NM	State	1	54,926	2	13,772	0.10%
FIFTH THIRD BANK NA	32712	TN	N	Federal	103	4,587,043	1	10,966	0.08%
FIRST BANK	8663	TN	NM	State	40	1,599,469	2	9,282	0.07%
COMMUNITY NATIONAL BANK	19272	TN	N	Federal	2	74,318	1	7,831	0.06%
HIGHLANDS UNION BANK	26191	VA	SM	State	12	505,075	1	3,740	0.03%
FIRST STATE BANK	1479	TN	NM	State	27	1,022,742	1	166	0.00%
FORT SILL NATIONAL BANK	16416	OK	N	Federal	51	219,126	1	113	0.00%
Number of Institutions in the Market: 40 TOTALS					11,874	970,552,592	269	13,282,357	100.00%

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 and other federal and state laws, including the “Bank Structure Act” in Tennessee and the Gramm-Leach-Bliley Act of 1999, have resulted in increased competition from both conventional banking institutions and other businesses offering financial services and products. Mortgage banking firms, credit unions, finance companies, real estate investment trusts, insurance companies, leasing companies, and certain government agencies provide additional competition for loans and for certain financial services. The Bank also competes for deposit accounts with a number of other financial intermediaries, including securities brokerage firms, credit unions, money market mutual funds, and government and corporate securities.

The other institutions have been in existence for a longer period of time than the Bank, are better established than the Bank, have financial resources substantially greater than those of the Bank and have more

extensive facilities than those of the Bank. Because of the size and established presence of the existing financial institutions in the primary market area, many of the competing institutions are able to offer a wider range of services than the Bank will offer in its early years of operation. The Bank competes for deposits with larger, established institutions as well as the money market mutual funds and other non-traditional financial intermediaries. The Bank has to attract its customer base from existing financial institutions and growth in the community.

Lending Activities

General. The Bank concentrates its loan originations in its primary market area of Hamilton and Knox Counties, but may make loans in contiguous markets. The Bank, like most other commercial banks, concentrates its lending activity and is developing a portfolio consisting of first mortgage loans secured by residential properties and by commercial properties; commercial loans; and consumer loans. The Bank is limited in the amount of loans it may extend to one borrower. See **SUPERVISION AND REGULATION – Loans to One Borrower**.

Real Estate Lending. The Bank originates permanent and construction loans on residential real estate comprised of single-family dwellings and multi-family dwellings of up to four (4) units with terms of up to five (5) years with amortizations up to thirty (30) years. Such loans consist of conventional loans (which are neither insured nor partially guaranteed by government agencies). Loan-to-value ratios for mortgage loans are determined in accordance with guidelines established by the Board of Directors pursuant to applicable law.

The Bank may originate some permanent conventional residential mortgage loans for sale to private institutional investors such as savings institutions, banks, life insurance companies and pension funds. Such loans are made on similar terms and conditions as those for sale to FHLMC, FNMA, FHA, VA, and USDA Rural Development programs, except for possible higher dollar limits on the maximum loan amount.

Consumer Lending. The Bank makes consumer loans that are secured by first liens and junior liens on real estate, including home improvement and home equity loans (such loans have an average maturity of about ten (10) years and generally are limited to 80–89.9% of appraised value), or loans that are secured by personal property such as automobiles, recreational vehicles or boats (generally 36 to 60 month loans), as well as loans to depositors of the institution on the security of their time deposit accounts or certificates of deposit. The Bank offers unsecured personal loans and personal lines of credit in conjunction with its demand deposit accounts and otherwise. In addition, the Bank offers a credit card program.

Consumer loans entail greater risk than residential mortgage loans, particularly in the case of consumer loans that are unsecured or secured by rapidly depreciating assets such as automobiles. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. Furthermore, the application of various federal and state laws, including federal bankruptcy and state insolvency laws, may limit the amount that can be recovered on such loans. Such loans may also give rise to claims and defenses by a consumer loan borrower against an assignee of such loans such as the Bank, and a borrower may be able to assert against such assignee claims and defenses that it has against the seller of the underlying collateral.

Construction Lending. The Bank offers single family residential construction loans to borrowers for construction of one-to-four family residences in the Bank's primary market area. Typically, the Bank limits its construction lending to construction-permanent loans to individuals building their primary or secondary residences and construction loans to selected local builders to build single-family dwellings. These loans have fixed or adjustable interest rates and are underwritten in accordance with standards similar to the Bank's permanent loans, except these loans generally provide for disbursement in stages during a construction period of up to 12 months, during which period the borrower is required to make monthly payments of accrued interest on the outstanding loan balance. Construction loans generally have a maximum loan-to-value ratio of 85%. Individual borrowers must generally satisfy all credit requirements which would apply to the Bank's permanent mortgage loan financing for the subject property. While the Bank's construction loans will generally convert to permanent loans following construction, the Bank's construction loans to builders will generally require repayment in full or amortization upon the completion of construction.

Construction lending affords the Bank the opportunity to achieve higher interest rates and fees with shorter terms to maturity than does its single-family permanent mortgage lending. Construction lending, however, is generally considered to involve a higher degree of risk than single-family permanent mortgage lending because of the inherent difficulty in estimating both a property's value at completion of the project and the estimated cost of the project. The nature of these loans is such that they are generally more difficult to evaluate and monitor. If the estimate of construction costs proves to be inaccurate, the Bank may be required to advance funds beyond the amount originally committed to permit completion of the project. If the estimate of value upon completion proves inaccurate, the Bank may be confronted at, or prior to, the maturity of the loan, with a project whose value is insufficient to assure full repayment. Projects may also be jeopardized by disagreements between borrowers and builders and by the failure of builders to pay subcontractors. Loans to builders to construct homes for which no purchaser has been identified carry more risk because the payoff for the loan is dependent on the builder's ability to sell the property prior to the time that the construction loan is due. The Bank will address these risks by adhering to strict underwriting policies, disbursement procedures, and monitoring practices.

Commercial Lending. The Bank makes secured and unsecured loans for commercial, corporate, and business purposes and will engage in commercial real estate and construction lending and commercial leasing activities. Initially, the Bank will concentrate on loans to closely-held businesses for purposes of providing working capital, capital improvements, equipment, construction, and leasehold improvements. Such loans typically have two (2) or fewer year maturities for unsecured loans and an average maturity of three (3) to five (5) years for loans secured by real estate. The Bank may participate in the Small Business Administration's guaranteed commercial loan program.

Commercial real estate lending, while generally considered to involve a higher degree of credit risk than long-term financing of residential properties, generally provides higher yields and greater interest rate sensitivity than residential mortgage loans. Commercial real estate loans are subject to certain risks not inherent in residential mortgage loans, such as delays in leasing the collateral and excessive collateral dependency, vacancy, delays or inability to obtain permanent financing and difficulties in exerting influence over or acquiring the properties when such loans become delinquent. Moreover, commercial real estate lending often involves larger loan balances to single borrowers or groups of related borrowers than does residential real estate lending. Because loans secured by income-producing property typically depend on the successful operation of the related real estate project, these loans are more sensitive to both the entire real estate market and broader economic conditions than are residential real estate loans. The Bank attempts to mitigate these risks by, among other things, lending on collateral and to persons located in its primary market area.

Creditworthiness and Collateral. The Bank requires detailed loan applications to determine the creditworthiness of potential borrowers. All loan applications are reviewed and approved or disapproved in accordance with guidelines established by the Bank's Board of Directors. Appraisals of collateral by independent appraisers approved by the Board of Directors are also often required, and borrowers are required to maintain fire and casualty insurance on collateral in accordance with guidelines established by the Board of Directors. Title insurance may be required for real property collateral.

Loan Originations. The Bank originates loans primarily for its portfolio but, subject to market conditions, may sell in the secondary market. Initially, most residential mortgage loans will originate from referrals and walk-in customers. Local advertising will be used to stimulate originations.

Secondary Market Activities. The Bank may engage in secondary mortgage market activities subject to market conditions. Secondary mortgage market activities permit the Bank to generate fee income and mortgage servicing income to supplement a traditional source of income, the interest margin between the yield on mortgage portfolios and the interest paid on savings deposits and time deposit certificates. The Bank sells loans in the FHLMC, FNMA, FHA, VA, and USDA Rural Development programs.

Income from Lending Activities. The Bank's lending activities generate interest, loan set-up fees, and loan origination fee income. Loan origination fees are calculated as a percentage of the principal amount of the loan and are charged to the borrower by the Bank for originating the loan. The Bank also receives loan fees and charges related to existing loans, which include late charges and assumption fees.

Loan Delinquencies and Defaults. When a borrower fails to make a required loan payment to the Bank for ten (10) days, the loan will be classified as delinquent. If the delinquency exceeds sixty (60) days and is not cured through the Bank's normal collection procedures, the Bank will institute measures to remedy the default. If a foreclosure action is initiated, and the loan is not reinstated, paid in full or refinanced, the property will be sold at a judicial or trustee sale at which, in some instances, the Bank will acquire the property. Thereafter, such acquired property will be listed in the Bank's "other real estate owned" account until the property is resold. In some cases, such re-sales may be financed by "loans to facilitate," which involve a lower down payment or a longer term.

Allowance for Possible Loan Losses. The allowance for possible loan and lease losses is a valuation allowance which represents the cumulative effect of provisions for possible losses charged to income, less charge-offs, plus recoveries of previously charged-off loans. The Bank will maintain an adequate allowance for loan and lease losses, based on regulatory guidelines and management's assessment of possible losses. The Bank's regulators require that the Bank maintain at least a 1.25% of total loans allowance for possible loan and lease losses for the first three (3) years of its operation. This may have the effect of delaying profitability.

Investment Activities

The Bank's investment portfolio is an integral part of the Bank's total assets and liability management strategy. The Bank uses its investments to further the objective of reducing the institution's sensitivity to interest rate fluctuation risks. The Bank's goal is to achieve a high degree of maturity and rate matching between assets and liabilities. In order to achieve this goal, the Bank concentrates its investments, approximately 15% of its assets, in U.S. government securities or other securities of similarly low risk. Such U.S. government and other investment-grade securities have maturities ranging from thirty (30) days to fifteen (15) years.

Source of Funds

General. Deposit accounts are a primary source of funds for lending and other general business purposes. Other sources of funds include loan repayments, loan sales, and borrowings. Although deposit activity is significantly influenced by fluctuations in interest rates and general money market conditions, loan repayments are a relatively stable source of funds. Short-term borrowings are used to compensate for reductions in normal sources of funds, such as deposit inflows that are insufficient to fund loan commitments. Long-term borrowing is used to support extended activities and to extend the term of the Bank's liabilities.

Deposits. The Bank has a number of different programs designed to attract both short-term and long-term deposits from the general public. These programs include savings accounts, NOW accounts, demand deposit accounts, money market deposit accounts, fixed-rate and variable-rate certificate accounts of varying maturities, and jumbo certificates, as well as certain other accounts. The Bank may accept brokered deposits to supplement its growth. The Board has set limits on the amount of brokered deposits the Bank may accept.

Borrowing. The Bank is a member of the Federal Home Loan Bank of Cincinnati ("FHLB of Cincinnati"). The FHLB of Cincinnati functions as a central reserve bank which provides credit for member institutions. The Bank, as a member of the FHLB of Cincinnati, is required to own capital stock in the FHLB of Cincinnati. Provided certain standards related to creditworthiness have been met, the Bank would be authorized to apply for advances on the security of such stock and on certain of its residential mortgage loans and other assets (principally, securities which are obligations of, or guaranteed by, the United States). FHLB of Cincinnati advances are made pursuant to several different credit programs. Each credit program has its own interest rate and range of maturities. Interest rates on advances are adjusted as often as necessary to reflect actual conditions existing in the credit markets. The FHLB of Cincinnati prescribes the acceptable uses to which the advances pursuant to each program may be made as well as limitations on the size of advances. Acceptable uses prescribed by the FHLB of Cincinnati have included expansion of residential mortgage lending and funding short-term liquidity needs. Depending on the particular credit program, limitations on the amount of advances are generally based on the FHLB of Cincinnati's assessment of the borrowing institution's creditworthiness. The FHLB of Cincinnati is required to review its credit limitations and standards at least once every six (6) months. Initially, the Bank does not intend to rely significantly on FHLB advances or other borrowing as a source of funds.

Employees

The Bank opened for business with twenty-two (22) full time equivalent employees. Since opening, the Bank has hired twenty-six (26) additional employees, including lenders and other officers and employees. Before year-end 2008, the Bank plans to have a total staff of approximately fifty-four (54) full time equivalent employees.

MANAGEMENT

Executive Officer and Directors

The persons listed in the following table are currently serving as Directors and Executive Officers of the Bank. The table sets forth the name, position and occupation of each Director.

Name	City of Residence	Occupation/Profession	Elected to the Board
James (Jim) W. Atkinson	Lookout Mountain, TN	Sales Executive, Frontier Spinning Mills	2007
Charles (Charlie) E. Brock	Lookout Mountain, TN	Manager, Brock Partnerships	2007
Patsy Hazlewood	Signal Mountain, TN	Senior Executive, AT&T	2007
R. Craig Holley	Lookout Mountain, TN	Chairman, President & CEO, CapitalMark Bank & Trust	2007
Karen (Candy) G. Kruesi	Signal Mountain, TN	Vice President for marketing, Bevis Rope Manufacturing Company; Vice President and Treasurer, High Acres, Inc.	2007
Joseph (Joe) Prebul	Signal Mountain, TN	Owner/operator of automobile dealerships in Southeast Tennessee and North Georgia	2007
Harshad Shah	Chattanooga, TN	Founder, Hamilton Plastics, Inc. and hotel-owner	2007
Grady P. Williams, CPA	Signal Mountain, TN	Certified public accountant affiliated with Lattimore Black Morgan & Cain, PC	2007
Barry W. Rich, CPA	Hixon, TN	Chief Financial Officer and Operations Head	n/a
James H. Vavalides	Signal Mountain, TN	General Banking Head and Knoxville City Executive	n/a
Ryan R. Murphy III	Lookout Mountain, GA	Chief Credit Officer and Chief Deposit Officer	n/a
Kenneth C. Dyer III	Chattanooga, TN	Chattanooga City Executive	n/a

Director Compensation

The Bank currently does not compensate Directors for their attendance at Board and Committee meetings. Upon obtaining sustained profitability the Bank anticipates paying reasonable Directors' fees.

Employment Agreements

The Bank has entered into employment agreements with Bank officers Craig Holley, Barry Rich, Jim Vavalides and Kenny Dyer. The agreements set out (i) the term of the agreement; (ii) compensation and benefits; (iii) events of termination; and (iv) other typical employment agreement provisions. Total compensation, including Stock Options and benefits, for all officers and for each individual officer, is subject to regulatory approval during the Bank's first three (3) years of operation.

Organizer, Management and Employee Stock Options

The Bank's shareholders approved the *CapitalMark Bank & Trust Stock Option Plan* (the "Plan") at the first meeting of shareholders on April 19, 2007. The options granted to Bank employees under the Management Stock Option Agreement are generally expected to be qualified incentive stock options within the meaning of Section 422A of the Internal Revenue Code of 1986, as amended, ("Code"). One of the primary purposes of this agreement is to provide incentives for the attraction and retention of key senior management officials and other employees by facilitating their purchase of the Bank's stock. The Directors believe that it is important for the officers and employees of the Bank to have an ownership interest in the Bank and believe that stock options are an important incentive for attracting and retaining qualified management. The Organizers Stock Option Agreement grants to the original Organizers of the Bank, who each made a significant financial contribution toward the organizational expense fund and/or a significant contribution of property and who contributed time and services to the Bank during its organizational stage, an option to purchase shares of stock at the option price of \$10.00 per share, the Initial Offering price, up to the value of the Organizers' initial investments in the Bank's Common Stock in the Initial Offering, subject to the availability of shares in the option pool. These options granted to the original Organizers of the Bank conform to the FDIC's proposed statement of policy that deals with stock benefit plans for organizers. Under the FDIC's policy regarding Organizer stock options, an Organizer is entitled to purchase up to one (1) share of the Bank's stock for each share he or she commits to purchase in the Initial Offering (at the Initial Offering price). The grant to and exercise of stock options by Organizers, Employees, and Management has the effect of diluting the percentage of ownership of the Common Stock of the Bank by other shareholders in that when Options are exercised. The optionees' percentage of ownership will increase incrementally, decreasing other shareholders' percentage of ownership by 17.68%. The dilution resulting from the exercise of any Common Stock Options will be reduced to the extent that the shareholders exercise their Warrants. If all shareholders exercise their Warrants, and all Options are exercised, the dilution would be 15.18%. There is no assurance that any individual will exercise his or her right to purchase additional shares. Options must be exercised within ten (10) years of the grant date. It is not possible to calculate with any precision the degree of dilution that may occur following this Offering because it is not known whether every Shareholder will exercise his or her right to purchase the Shareholder's *pro rata* share of the Offering. **RISK FACTORS - Dilution**

Transactions with Management

The Bank may engage in transactions with its Directors, Officers, Employees, and other affiliated persons only to the extent that such activities are permitted by, and consistent with, all applicable laws and regulations. Federal regulations impose a number of restrictions on transactions and dealings between the Bank and affiliated persons. In general, the regulations require that transactions between the Bank and its affiliates be on substantially the same terms and conditions as available in transactions between the Bank and unaffiliated persons. The definition of "affiliated person" includes the Bank's Directors and officers and their spouses and certain members of their immediate families. Also included as affiliated persons are certain persons, corporations and other organizations that have a close relationship with the Bank as set out in the state and federal regulations. All dealings between the Bank and its affiliated persons must comply with those regulations. The Bank has adopted policies designed to assure compliance with those regulations. Such transactions, should they occur, are expected to be primarily in the nature of loans made in the ordinary course of business, such as home loans, educational loans, consumer loans, or business loans. It is possible that certain Directors will provide goods and/or services to the Bank. If such occurs, all transactions with insiders will be subject to regulatory approval and in accordance with the Bank's conflicts of interest policy. The Board has adopted a written plan for avoidance of conflicts of interest and usurpation of corporate opportunities by Directors or management. The plan describes the specific areas in which abuses can occur. Some of the areas in which such abuses can occur and areas specifically addressed in the plan include loan procurement; loan fees; purchases or leases to or from an affiliated person; loans to an affiliated person or third parties; purchasing from affiliated persons; and the insurance of loans. Management officials who violate the Bank's policies concerning conflicts of interest and corporate opportunity abuses will be subject to discipline, including dismissal in appropriately egregious cases. Directors who violate such policies will be advised of the violation and requested to remedy the situation by disgorging any gain and/or rescinding the offending transaction. If the disinterested members of the Board of Directors cannot reach a satisfactory resolution of the matter, the Board is authorized to retain special counsel for the Bank to advise such disinterested members and take such action in the name of the Bank as may be deemed appropriate by such disinterested members.

OWNERSHIP OF COMMON STOCK BY DIRECTORS/EXECUTIVE OFFICERS

The table set forth below shows for each Director and Executive Officer of the Bank (i) the Director's/Executive Officer's name, (ii) the number of shares of Common Stock (including Options and Warrants) the Director/Executive Officer beneficially owns before this Offering (including all affiliates of the Director/Executive Officer as "affiliate" is defined herein); (iii) the number of shares of Common Stock the Director/Executive Officer (individually) intends to purchase in Stage 1 of the Offering; (iv) the percentage of issued and outstanding Common Stock the Director/Executive Officer and his or her affiliates own currently (including Options and Warrants); (v) and the percentage the Director/Executive Officer would individually own following the Offering, assuming that the Bank sells all 3,000,000 shares in the Offering. **The Directors/Executive Officers reserve the right to purchase additional shares in the Offering, subject to availability and to the percentage of ownership limitations described herein.**

Name	Number of Shares (including Options and Warrants) Currently Owned by Individual and all Affiliates (as defined herein)	Number of Shares Individual will Purchase in Stage 1 of Offering * (1)	Percentage of Issued and Outstanding Shares (including Options and Warrants) Prior to Offering Owned by Individual and Affiliates	Percentage of Issued and Outstanding Shares (including Options and Warrants) following Offering, Assuming the Sale of 3,000,000 Shares (excluding Affiliates)
James W. Atkinson	82,500	25,000	1.13%	1.16%
Charles E. Brock	91,500	20,000	1.25%	1.20%
Patsy Hazlewood	66,000	2,500	.90%	.77%
R. Craig Holley	420,000	10,000	5.73%	5.03%
Karen G. Kruesi	120,000	5,000	1.64%	1.32%
Joseph Pebul	172,500	2,000	2.35%	1.94%
Harshad Shah	139,500	10,000	1.90%	1.58%
Grady P. Williams	165,000	10,000	2.25%	1.95%
Barry W. Rich	148,800	5,000	2.03%	1.75%
James H. Vavalides	120,000	1,000	1.64%	1.45%
Kenneth C. Dyer III	106,500	10,000	1.45%	1.31%
Ryan R. Murphy III	56,280	2,000	.77%	.77%

DESCRIPTION OF CAPITAL STOCK

General

The Charter of Incorporation of the Bank authorizes ten million (10,000,000) shares of capital stock consisting of ten million (10,000,000) shares of Common Stock, \$1.00 par value per share. The Bank is offering up to an additional three million (3,000,000) shares of Common Stock in the Offering for a purchase price of \$10.00 per share. Each holder of Common Stock will have the same relative rights as each other holder of Common Stock. **The Common Stock will not be savings accounts or deposits and will not be insured by the FDIC or any other government agency.**

Dividends

It is anticipated that for at least the first three (3) years of operations any earnings that may be generated from the operations of the Bank will be used to finance the growth of the Bank and will not be paid to shareholders as dividends. Thereafter, in determining whether dividends will be declared on the Common Stock, the Board of Directors will take into account the Bank's operating results, financial condition, tax considerations, future capital requirements and other relevant factors. Although it is not anticipated that cash dividends will be paid during the first three (3) years of operations, the Directors decided to declare a stock split. The Directors approved a three-for-two stock split for shareholders who owned Bank Common Stock as of September 15, 2008. For every two (2) shares of Bank Common Stock, a shareholder owned on September 15, 2008, the shareholder received one (1) additional share as of the close of business on October 1, 2008. The approval of the TDFI and the Federal Reserve is required prior to declaring and paying both cash and non-cash (stock or dividends-in-kind) dividends during the first three (3) years of the Bank's operation. The board of directors of a Tennessee-chartered commercial bank may not declare dividends in any calendar year that exceed the total of its net income for that year combined with its retained net income for the preceding two (2) years without the prior approval of the Commissioner.

Voting Rights

Exclusive voting rights with respect to the affairs of the Bank are vested in the holders of its issued and outstanding Common Stock. Holders of Common Stock are entitled to one (1) vote per share. Cumulative voting is not permitted.

Liquidation Rights

In the event of any liquidation or dissolution of the Bank, the holders of Common Stock are entitled to receive, after payment or provision for payment of all debts and liabilities of the Bank (including all accounts and accrued interest thereon), all assets of the Bank available for distribution, in cash or in kind.

Redemption; Liability for Assessment

The Common Stock is not subject to call for redemption, and upon receipt by the Bank of the full purchase price therefore, each share of Common Stock will be fully paid and non-assessable.

Issuance of Additional Shares

Apart from the shares of Common Stock reserved for issuance under the Stock Option Plan, the Warrants issued to initial subscribers in the Initial Offering, and the shares offered in this Offering, the Bank has no present plans for the issuance of additional shares of Common Stock or for the issuance of any shares of preferred stock. In the future, the authorized but unissued and unreserved shares of Common Stock would be available for general corporate purposes, including, but not limited to, possible issuance as stock dividends, in future mergers or acquisitions, cash dividend reinvestment and stock purchase plans, in additional offerings, or in employee stock ownership programs. No shareholder approval is required for the issuance of additional authorized shares of Common Stock.

Indemnification of Directors, Officers and Controlling Persons

State law permits the Bank to indemnify its Officers, Directors and Employees to the same extent a general business corporation is permitted to indemnify such persons under Tennessee law. In general, Tennessee law permits a corporation to indemnify its Officers, Directors and Employees who were wholly successful, on the merits or otherwise, in the defense of any proceeding to which such Director, Officer or Employee was a party, against reasonable expenses incurred by such Director, Officer or Employee in connection with the proceeding; provided, however, that such Officer, Director or Employee (i) conducted himself or herself in good faith and (ii) he or she reasonably believed, in the case of conduct in his or her official capacity, his or her conduct was in the best interest of the corporation. Indemnification is not permitted in connection with any proceeding charging improper personal benefit in which such an Officer, Director or Employee was adjudged liable on the basis that personal benefit was improperly received by such Director, Officer or Employee. The Bank's Charter of Incorporation permits the Bank to indemnify its Officers, Directors and Employees to the fullest extent permitted by governing law. The Bank may not indemnify such persons in actions brought by bank regulatory agencies unless the regulatory agency is unsuccessful on the merits of the administrative or enforcement action.

SUPERVISION AND REGULATION

General

State-chartered banks are regulated extensively under both federal and state law. The following is a brief summary of certain statutes, rules and regulations which will affect the Bank. The summary is qualified in its entirety by reference to the particular statutory and regulatory provision referred to below and is not intended to be an exhaustive description of the statutes or regulations which will be applicable to the business of the Bank. Supervision, regulation and examination of the Bank by bank regulatory agencies are intended primarily for the protection of depositors rather than shareholders of the Bank.

Bank Regulation

The descriptions of certain laws and regulations below are qualified in their entirety by the complete statutes and regulations.

As a Tennessee-chartered bank, the Bank is supervised, regulated and regularly examined by the TDFI. The Bank is also a member of the FDIC and, as such, deposits in the Bank will be insured by the Deposit Insurance Fund ("DIF") of the FDIC up to applicable limits. The Bank is also a member of the Federal Reserve System (hereinafter sometimes designated as a "Member Bank"). The operation of the Bank is subject to state and Federal statutes applicable to state Member Banks and the regulations of the TDFI and the Federal Reserve. Such statutes and regulations relate to required reserves, investments, loans, mergers and consolidations, issuances of securities, payment of dividends, establishment of branches and other aspects of the Bank's operations.

Capital Requirements. The Federal Reserve's minimum capital standards applicable to state Member Banks (also adopted by the TDFI) require the most highly-rated institutions to meet a Tier 1 leverage capital ratio of at least 3.0% of total assets. Tier 1 capital (or "core capital") consists of common shareholders' equity, non-cumulative perpetual preferred stock and minority interests in consolidated subsidiaries minus all intangible assets other than limited amounts of purchased mortgage servicing rights and certain other accounting adjustments. All other banks must have a Tier 1 leverage ratio of at least 100-200 basis points above the 3% minimum. The capital regulations establish a minimum leverage ratio of not less than 4% for banks that are not highly-rated or are anticipating or experiencing significant growth.

Capital regulations require higher capital levels for banks which exhibit more than a moderate degree of risk or exhibit other characteristics which necessitate that higher than minimum levels of capital be maintained. Any insured bank with a Tier 1 capital-to-total-assets ratio of less than 2% is deemed to be operating in an unsafe and unsound condition pursuant to Section 8(a) of the FDIA unless the insured bank enters into a written agreement, to which the FDIC is a party, to correct its capital deficiency. Insured banks operating with Tier 1 capital levels below 2% (and which have not entered into a written agreement) are subject to an insurance removal

action. Banks operating with lower than the prescribed minimum capital levels generally will not receive approval of applications submitted to the TDFI and the Federal Reserve. Also, inadequately capitalized banks will be subject to such administrative action as the Federal Reserve and TDFI deem necessary. For the first three years of its operation, the Bank is required to maintain a Tier 1 capital-to-average-assets ratio of at least 9%.

Federal regulations also require that banks meet a risk-based capital standard. The risk-based capital standard requires the maintenance of total capital- (which is defined as Tier 1 capital and Tier 2 or supplementary capital) to-risk-weighted-assets of 8% and Tier 1 capital to risk-weighted assets of 4%. In determining the amount of risk-weighted assets, all assets, plus certain off-balance-sheet items, are multiplied by a risk-weight of 0% to 100%, based on the risks the federal regulators believe are inherent in the type of asset or item. The components of Tier 1 capital are equivalent to those discussed above under the 3% leverage requirement. The components of Tier 2 capital are mandatory convertible securities, term subordinated debt, intermediate-term preferred stock and allowance for possible loan and lease losses. Allowance for possible loan and lease losses includable in supplementary capital is limited to a maximum of 1.25% of risk-weighted assets. Overall, the amount of capital counted toward supplementary capital cannot exceed 100% of Tier 1 capital. The TDFI and the Federal Reserve include in their evaluation of a bank's capital adequacy an assessment of risk-based capital focusing principally on broad categories of credit risk. No measurement framework for assessing the level of a bank's interest rate risk exposure has been codified, but effective board and senior management oversight of a bank's tolerance for interest rate risk is required.

The Bank is subject to the Federal Financial Institutions Examination Council's recommendation regarding the adoption of Statement of Financial Accounting Standard No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Specifically, the agencies determined that net unrealized holding gains or losses on available-for-sale debt and equity securities should not be included when calculating core and risk-based capital ratios. The foregoing capital requirements are designated as the minimum acceptable standards for banks whose overall financial condition is fundamentally sound, which are well-managed and have no material or significant financial weakness. Capital regulations state that, where the Federal Reserve determines that the financial history or condition, including off-balance-sheet risk, managerial resources and/or the future earnings prospects of a bank are not adequate and/or a bank has a significant volume of assets classified substandard, doubtful or loss or otherwise criticized, the Federal Reserve may determine that the minimum adequate amount of capital for that bank is greater than the minimum standards established in the regulations. Likewise, the TDFI may require additional capital under similar circumstances. The Bank believes that following this Offering, under the current regulations, the Bank will have sufficient capital to meet its minimum capital requirements. However, events beyond the control of the Bank, such as a downturn in the economy in areas where the Bank has most of its loans, could adversely affect future earnings and, consequently, the ability of the Bank to meet its capital requirements.

The Gramm-Leach-Bliley Act of 1999. The Gramm-Leach-Bliley Act of 1999 (the "Act") was enacted by the United States Congress on November 4, 1999. In summary, the Act draws new lines that separate the types of activities that are permitted for banking organizations that are "financial" in nature and those that are not permitted because they are "commercial" in nature. Among other things not particularly relevant to this Offering, the Act authorizes a state bank to have a financial subsidiary that engages as a principal with the same powers that are permitted for a financial subsidiary of a national bank if the state bank meets eligibility criteria and special conditions for maintaining the financial subsidiary. The Act also preempts any state law that works to prevent banks from having affiliations with insurance companies. The Act repeals the prohibitions in the Glass-Steagall Act on bank affiliations with companies that are engaged principally in securities underwriting activities, authorizes banks to underwrite governmental revenue bonds, and sets up a procedure for determining whether a new banking product shall be regulated as a security by the Securities and Exchange Commission and other securities bodies. The Act provides certain customer information confidentiality protections, and provides that small banks (those whose total assets do not exceed \$250 million) will not be subject to routine examinations for compliance with the CRA as often as the normal examination cycle if the institution received a "satisfactory" or "outstanding" CRA rating on its last regular examination.

Prompt Corrective Action

The Federal Deposit Insurance Corporation Improvement Act of 1991 (the “FDICIA”) imposes a regulatory matrix which requires the Federal banking agencies to take prompt corrective action to deal with depository institutions that fail to meet their minimum capital requirements or are otherwise in a troubled condition. The prompt corrective action provisions require undercapitalized institutions to become subject to an increasingly stringent array of restrictions, requirements and prohibitions, as their capital levels deteriorate and supervisory problems mount. Should these corrective measures prove unsuccessful in re-capitalizing the institution and correcting its problems, the FDICIA mandates that the institution be placed in receivership. Pursuant to regulations promulgated under the FDICIA, the corrective actions that the banking agencies either must or may take are tied primarily to an institution’s capital levels. In accordance with the framework adopted by the FDICIA, the banking agencies have developed a classification system, pursuant to which all banks and thrifts will be placed into one of five categories as indicated below:

Capital Category	Tier 1 Capital	Total Risk-Based Capital	Tier 1 Risk-Based Capital	Other
Well-Capitalized	5% or more	10% or more	6% or more	Not subject to a capital directive
Adequately Capitalized	4% or more	8% or more	4% or more	—
Undercapitalized	less than 4%	less than 8%	less than 4%	—
Significantly Undercapitalized	less than 3%	less than 6%	less than 3%	—
Critically Undercapitalized	2% or less tangible equity	—	—	—

The undercapitalized, significantly undercapitalized and critically undercapitalized categories overlap; therefore, a critically undercapitalized institution would also be an undercapitalized institution and a significantly undercapitalized institution. This overlap ensures that the remedies and restrictions prescribed for undercapitalized institutions will also apply to institutions in the lowest two categories.

The down-grading of an institution’s category is automatic in two situations: (a) whenever an otherwise well-capitalized institution is subject to any written capital order or directive; and (b) where an undercapitalized institution fails to submit or implement a capital restoration plan or has its plan disapproved. The federal banking agencies may treat institutions in the well-capitalized, adequately capitalized and undercapitalized categories as if they were in the next lower capital level based on safety and soundness considerations relating to factors other than capital levels.

All insured institutions regardless of their level of capitalization are prohibited by the FDICIA from paying any dividend or making any other kind of capital distribution or paying any management fee to any controlling person if following the payment or distribution the institution would be undercapitalized.

FDIC Insurance Assessments

The Bank is subject to FDIC deposit insurance assessments for the Deposit Insurance Fund. The FDIC has implemented a risk-based assessment system whereby banks are assessed on a sliding scale depending on their placement in nine separate supervisory categories. On February 8, 2006, President Bush signed the Federal Deposit Insurance Reform Act of 2005 into law. The Federal Deposit Reform Conforming Amendments Act of 2005, which the President signed into law on February 15, 2006, contained technical changes that implemented deposit insurance reform. Among other things the new law:

- Merged the Bank Insurance Fund and the Savings Association Insurance Fund into a new fund, the Deposit Insurance Fund, effective March 31, 2006;

- Increased the coverage limit for retirement accounts to \$250,000 and indexed the coverage limit for retirement accounts to inflation as with the general deposit insurance coverage limit, effective April 12, 2006;
- Established a range of 1.15% to 1.50% within which the FDIC Board of Directors may set the funds' designated reserve ratio and allowed the FDIC to manage the pace at which the reserve ratio varies within this range;
- Eliminated the restrictions on premium rates based on the designated reserve ratio and granted the FDIC Board the discretion to price deposit insurance according to risk for all insured institutions regardless of the level of the reserve ratio;
- Granted a one-time initial assessment credit of approximately \$4.7 billion to recognize institutions' past contributions to the fund;
- Required the FDIC and the Comptroller General to conduct certain surveys and studies.

We anticipate that the Bank's deposit insurance premium will increase because of the number of bank failures throughout the country. Bank's 2008 deposit insurance premium assessment will be \$122,000, but it is not known how much the assessment will increase in 2009. It is likely that the assessment will increase significantly because of the number of bank failures nationwide. This anticipated increase is not a function of the Bank's condition, but rather the result of the overall condition of the industry in areas of the country harder hit by mortgage and subprime loan problems, the general downturn in commercial real estate, and other economic factors.

Community Reinvestment Act

The Federal bank regulatory agencies have adopted revisions (effective September 1, 2005) to the regulations promulgated pursuant to the Community Reinvestment Act (the "CRA") which are intended to address regulatory burden imposed on small banks with an asset size between \$250 million and \$1 billion by exempting them from CRA loan data collection and reporting obligations. The new regulations also exempt such banks from the large bank lending, investment and service tests and make them eligible for evaluation under the small bank lending test and a flexible new community development test. Holding company affiliation is no longer a factor in determining which CRA evaluation standards apply to a bank. In addition, the term "community development" has been revised under the new rules to include activities to revitalize and stabilize distressed or underserved rural areas and designated disaster areas. The new rules also address the impact on a bank's CRA rating of evidence of discrimination or other credit practices that violate an applicable law, rule or regulation. The Bank will be evaluated under the "small bank test." The Gramm-Leach-Bliley Act of 1999 also provides that small banks with satisfactory or outstanding CRA ratings may be subject to less frequent examinations for compliance with the CRA. **See SUPERVISION AND REGULATION - Bank Regulation**.

Fair Lending

Congress and various Federal agencies (including, in addition to the bank regulatory agencies, the Department of Housing and Urban Development, the Federal Trade Commission and the Department of Justice) (collectively the "Federal Agencies") responsible for implementing the nation's fair lending laws have been increasingly concerned that prospective home buyers and other borrowers are experiencing discrimination in their efforts to obtain loans. In recent years, the Department of Justice has filed suit against financial institutions which it determined had discriminated, seeking fines and restitution for borrowers who allegedly suffered from discriminatory practices. Most, if not all, of these suits have been settled (some for substantial sums) without a full adjudication on the merits.

On March 8, 1994, the Federal Agencies, in an effort to clarify what constitutes lending discrimination and to specify the factors the agencies will consider in determining if lending discrimination exists, announced a joint policy statement detailing specific discriminatory practices prohibited under the Equal Credit Opportunity Act and the Fair Housing Act. In the policy statement, three methods of proving lending discrimination were identified: (a) overt evidence of discrimination (when a lender blatantly discriminates on a prohibited basis); (b) evidence of disparate treatment (when a lender treats applicants differently based on a prohibited factor even where there is no showing that the treatment was motivated by prejudice or a conscious intention to discriminate against a person); and (c) evidence of disparate impact (when a lender applies a practice uniformly to all applicants,

but the practice has a discriminatory effect, even where such practices are neutral on their face and are applied equally, unless the practice can be justified on the basis of business necessity).

USA PATRIOT Act and Office of Foreign Assets Control Regulations

As a direct result of the tragic events of September 11, 2001, President George W. Bush signed into law the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2002 (“USA PATRIOT Act”). The USA PATRIOT Act makes a number of amendments to the anti-money laundering provisions of the Bank Secrecy Act (“BSA”). The stated purpose of the BSA amendments is to require financial institutions to assist the United States government “in the conduct of intelligence or counter-intelligence activities, including analysis, to protect against international terrorism.” The amendments which apply to most financial institutions are intended to facilitate the prevention, detection and prosecution of money laundering and the financing of terrorism. On April 23, 2002, the United States Treasury Department issued interim final rules to provide guidance to financial institutions concerning the new BSA provisions added by § 352 of the USA PATRIOT Act. The Bank is required, at a minimum, to (i) develop internal policies, procedures and controls to complement the provisions of the USA PATRIOT Act; (ii) appoint a compliance officer; (iii) conduct ongoing employee training; and (iv) provide for the independent auditing of the Bank’s BSA program.

The USA PATRIOT Improvement and Reauthorization Act of 2005 (the “New Act”) was signed into law on March 9, 2005, by President Bush and became Public Law 109-177. The New Act renewed sixteen sunset provisions of the USA PATRIOT Act that were set to expire December 31, 2005, including those authorizing secret searches of records and roving wiretaps. The New Act extended the USA PATRIOT Act indefinitely.

The Office of Foreign Assets Control (“OFAC”) is the United States government agency charged with implementing federal economic sanctions against other countries and individuals that have associated with terrorists or drug traffickers. OFAC regulations require the blocking of certain bank accounts. The Board of the Bank is required to (i) adopt a comprehensive plan of OFAC compliance; (ii) appoint an OFAC compliance officer; and (iii) assure that there are procedures in place for monitoring the program and for reporting blocked transactions.

Future Requirements

Statutes and regulations are regularly introduced which contain wide-ranging proposals for altering the structures, regulations and competitive relationships of the nation’s financial institutions. It cannot be predicted whether or in what form any proposed statute or regulation will be adopted or the extent to which the business of the Bank may be affected by any such statute or regulation.

Monetary Policy

The earnings of the Bank may be affected by domestic and foreign economic conditions, particularly by the monetary and fiscal policies of the United States government and its agencies. The Federal Reserve has had, and will continue to have, an important impact on the operating results of commercial banks through its power to implement national monetary policy in order, among other things, to mitigate recessionary and inflationary pressures by regulating the national money supply. The techniques used by the Federal Reserve include setting the reserve requirements of Member Banks and establishing the discount rate on Member Bank borrowings. The Federal Reserve also conducts open market transactions in United States government securities.

Loans to One Borrower

The aggregate amount of loans that the Bank is permitted to make under applicable regulations to any one borrower, including related entities, is 15% of unimpaired capital, surplus and undivided profits or, with prior, written approval of the Bank's board of directors or executive/loan committee, 25% of the Bank's unimpaired capital, surplus and undivided profits.

Interstate Banking

On September 29, 1994, Congress enacted the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "1994 Act"). The provisions of the 1994 Act became effective on September 29, 1995, at which time eligible bank holding companies in any state were permitted, with Federal Reserve Board approval, to acquire banking organizations in any other state. As such, all existing regional compacts and substantially all existing regional limitations on interstate acquisitions of banking organizations have been eliminated. The 1994 Act and subsequent state enactments removed substantially all of the existing prohibitions on interstate branching by banks subject to certain state law conditions. In order for an out-of-state bank or bank holding company to establish a branch in Tennessee, the bank or bank holding company must purchase an existing bank, bank holding company, or branch of a bank in Tennessee which has been in existence for at least three years. *De novo* interstate branching is not currently permitted under Tennessee law unless reciprocity exists between the states. The Bank will be ineligible to be acquired by any bank or bank holding company, whether interstate or intrastate, until it becomes three (3) years old, unless the acquiring company is also domiciled in Hamilton County, Tennessee.

Change in Control Restrictions

State and Federal laws and regulations require the consent of the TDFI and the Federal Reserve prior to any person or company acquiring "control" of a state Member Bank. Upon acquiring control, a company will be deemed to be a bank holding company and must register with the Federal Reserve Board. Conclusive control is presumed to exist if, among other things, an individual or company acquires more than 25% of any class of voting stock of the bank. Rebuttable control is presumed to exist if, among other things, a person acquires more than 10% of any class of voting stock and the issuer's securities are registered under Section 12 of the Exchange Act or the person would be the single largest shareholder. Restrictions applicable to the operations of a bank holding company and conditions that may be imposed by the Federal Reserve Board in connection with its approval of a company to become a bank holding company may deter companies from seeking to obtain control of the Bank. Tennessee law currently prohibits a bank from being acquired until it has been in existence for at least three (3) years, except in certain limited circumstances. See **RISK FACTORS - Limitations on Acquisition and Transfer of Shares of Common Stock**.

Regulation of Bank Holding Companies

In the future the Bank may form a bank holding company and become a wholly-owned subsidiary of such bank holding company. If a bank holding company is formed, it would be subject to regulation by the Federal Reserve. The bank holding company would be required to file with the Federal Reserve annual reports and other information regarding its business operations and the business operations of its subsidiaries. It would also be subject to examination by the Federal Reserve and be required to obtain Federal Reserve approval prior to acquiring, directly or indirectly, ownership or control of voting shares of any bank if, after such acquisition, it would own or control, directly or indirectly, more than 5% of the voting stock of such bank. In addition, pursuant to the provisions of the Bank Holding Company Act of 1956, as amended, and regulations promulgated by the Federal Reserve thereunder, the bank holding company would only be able to engage in, or own or control companies that engage in, activities deemed by the Federal Reserve to be so closely related to banking as to be a proper incident thereto. In addition to the banking regulations imposed on a bank holding company, the securities of a bank holding company are not exempt from the Federal and state securities laws as are the securities of a bank. Accordingly, an offering of bank holding company securities will need to be either registered under both the Securities Act and state securities laws or qualify for exemptions from registration. A bank holding company may also become subject to the reporting requirements of the Exchange Act if it has 500 or more stockholders at the end of any fiscal year.

TAXATION

Federal Taxation

General. The Bank reports its income using the accrual method of accounting and is subject to federal income taxation in the same manner as other corporations with some exceptions, including particularly the Bank's deductions for bad debts as discussed below. The following discussion of tax matters is intended only as a summary and does not purport to be a comprehensive description of the tax rules applicable to the Bank. The Jobs and Growth Tax Relief Reconciliation Act of 2003, signed into law by President Bush on May 28, 2003, modified the taxation of dividends. Prior to 2003, dividends were taxed at ordinary income tax rates. Starting in 2003, dividend income received by individual shareholders from domestic or qualified foreign corporations is taxed at a maximum rate of 15% through 2008. For lower income individuals (taxpayers in the 10% or 15% tax brackets), qualified dividend income is tax-free in 2008. These changes expire on December 31, 2008, unless Congress extends these provisions of the federal tax law.

Bad Debt Deduction. Large banks must use the specific charge-off method of accounting for bad debts for tax purposes, which allows a bank to deduct a bad debt only when the debt becomes partially or completely worthless. Small banks (those with average assets of less than \$500 million), however, may choose between the specific charge-off method and the bad debt reserve method. Under the bad debt reserve method, small banks establish a bad debt reserve and deduct additions by adding to the reserve account. Banks are required to calculate the maximum reasonable addition to the reserve for bad debts based on its actual experience as shown by losses for the current year and the five preceding years. Under this method, a bank increases its reserve at the end of the tax year to an amount that bears the same ratio to the bank's outstanding loans at the close of the taxable year as the total bad debts that the bank sustained during the taxable year and the five preceding taxable years (adjusted for recoveries during the year) bears to the sum of the loans outstanding at the end of such six taxable years. Before a bank has a five-year operating history, the amount of the increase to the reserve is calculated using a formula that incorporates the bad debt experiences of comparable banks. If a small bank subsequently becomes a large bank, it must convert to the specific charge-off method by either the four-year spread method or the elective cut-off method. Under the four-year spread method, the bank begins to deduct bad debts as they become worthless and must include its reserve in taxable income over four (4) years at specified percentages. If the bank elects to use the cut-off method, the reserve is maintained and losses from loans held on the first day of the tax year during which the bank becomes a large bank will be charged against the reserve rather than deducted. Once the reserve account reaches zero, the bank will begin using the specific charge-off method.

State Taxation

The Bank will be subject to an excise tax imposed under Tennessee law of 6.5% of net taxable income, which is computed based on federal taxable income allocable to Tennessee subject to certain adjustments. Bank stock dividends in Tennessee are not subject to the Hall Income Tax. Under Tennessee law, dividends from stock in banks (whether state or federal chartered) doing business in Tennessee are exempt from imposition of the Hall income tax otherwise applicable to dividends and interest. The Tennessee General Assembly may consider changes to the State's tax structure. It is impossible to predict with any accuracy the impact of future legislation.

LEGAL MATTERS

Certain legal matters in connection with the Offering will be passed upon for the Bank by Miller & Martin PLLC, which has served as counsel to the Bank in connection with its Offering, the applications to applicable regulatory agencies, and other matters. The Bank is not a party to any material litigation, and the Directors have no actual knowledge as to any threatened litigation.

EXHIBITS

Exhibit A: Form of Subscription Agreement

EXHIBIT A

CAPITALMARK BANK & TRUST (A Tennessee-Chartered Commercial Bank) Chattanooga, Tennessee

SUBSCRIPTION AGREEMENT

Subject to the terms and conditions of sale contained in the Offering Memorandum dated October 15, 2008 (the "Offering Memorandum"), the undersigned hereby subscribes for the purchase of the number of Shares shown below of the common stock, par value \$1.00 per share (the "Common Stock"), of CapitalMark Bank & Trust (the "Bank"), a commercial bank chartered under the laws of Tennessee. **The purchase price is \$10.00 per Share.** In **Stage 1** of the Offering, at least 34% of the total Purchase Price must accompany this Subscription Agreement in the form of a check, bank draft, or money order payable to CapitalMark Bank & Trust in the amount shown below. The second installment of at least 33% of the total Purchase Price shall be due and payable to CapitalMark Bank & Trust not later than June 30, 2009; and the final installment of not less than 33% of the total Purchase price shall be due and payable to CapitalMark Bank & Trust not later than September 30, 2009. For subscribers in **Stage 2** of the Offering (including those who participate in **Stage 1** of the Offering), payment of the total Purchase Price must accompany this Subscription Agreement. Bank employees who subscribe for Shares in either **Stage 1** or **Stage 2** of the Offering may elect to pay for the Shares through a payroll deduction plan or otherwise over a twelve (12) month period.

Method of Subscription

All subscriptions must be made on this Subscription Agreement. Subscriptions are not binding until accepted by the Bank. **The Bank reserves the right to reject any subscription, with or without cause. The Bank is offering the Shares to existing shareholders in Stage 1 of the Offering and then, in the discretion of the Board of Directors, to other investors in Stage 2 of the Offering, as provided in the Offering Memorandum. SEE THE DETAILS OF PURCHASE LIMITATIONS FOUND IN THE OFFERING MEMORANDUM.** Bank will refuse any subscription by sending written notice to the subscriber by personal delivery or first-class mail within thirty (30) calendar days after receipt of the subscription, and the subscriber's Subscription Agreement and refund of payment will accompany such notice. Any Subscription Agreement which is completely and correctly filled out and which is physically received at the address below shall be deemed to have been accepted if it is not refused as hereinbefore provided within thirty (30) calendar days after such receipt.

No individual subscriber, together with the subscriber's affiliates, as defined herein, may purchase shares of the Bank's Common stock if, in the aggregate, the subscriber, together with his or her affiliates would own or control more than 9% of the Bank's Common Stock. For purposes of this Offering, the term "affiliate" shall include, in a subscriber's family, a spouse, parents, siblings, step-siblings, children, step-children, grandparents, grandchildren, fathers-in-law, mothers-in-law, brothers-in-law, sisters-in-law, sons-in-law, daughters-in-law, and the spouse of any of the foregoing, and any corporation or other business entity of which the subscriber or the subscriber's spouse owns or controls 25% or more of the voting stock or otherwise exercises voting control of the business entity; and shall also include a family limited partnership in which a subscriber is either a general or limited partner.

A completed Subscription Agreement for the number of Shares subscribed should be mailed or delivered to the Bank at:

**CapitalMark Bank & Trust
Attention: Sam Mann, Senior Vice-President - Accounting
801 Broad Street
P. O. Box 671 (38401)
Chattanooga, TN 37402**

EXCEPT AS PROVIDED HEREIN FOR BANK EMPLOYEES, IN STAGE 1 OF THE OFFERING, AT LEAST 34% OF THE TOTAL PURCHASE PRICE MUST ACCOMPANY THE COMPLETED SUBSCRIPTION AGREEMENT. IN STAGE 2 OF THE OFFERING, PAYMENT IN FULL MUST ACCOMPANY THE COMPLETED SUBSCRIPTION AGREEMENT. PAYMENT MUST BE MADE IN UNITED STATES FUNDS BY CHECK, BANK DRAFT OR MONEY ORDER PAYABLE TO CAPITALMARK BANK & TRUST.

Terms of the Offering

The Bank is offering Shares of its Common Stock, \$1.00 par value, pursuant to the Offering Memorandum, subject to the staged schedule set forth in the chart below. The Offering may also be terminated at any time by the Board of Directors. The Bank intends to follow the following schedule for the Offering unless the Board, in its sole discretion, terminates the Offering earlier or extends the Offering as provided in the Offering Memorandum:

	<u>Beginning Date</u>	<u>Ending Date</u>
Stage 1 (offering to Shareholders of Record as of September 15, 2008, 2008, on <i>pro rata</i> basis)	October 15, 2008	March 31, 2009
Stage 2 (offering to other investors in the discretion of the Board)	January 2, 2009	March 31, 2009

Subscribers whose subscriptions have been accepted by the Bank will not be entitled to any return of funds during the Offering period.

Receipts

After receipt of the subscriber’s Subscription Agreement and payment in full for the shares subscribed, the Bank will deliver a receipt to the subscriber by first-class mail or by personal delivery.

Stock Certificates

As soon as practicable after completion of the Offering, the Bank will mail by either certified or first class mail, or deliver to each subscriber, a certificate representing the shares of Common Stock purchased by such subscriber. Title to shares purchased in **Stage 1** of the Offering may not be taken in any manner that would increase the total number of “holders or record” (as that term is defined in Rule 12g5-1 of the Securities Exchange Act of 1934) of the Bank’s Common Stock in calendar year 2008. For example, if all shares a subscriber currently owns are titled in the subscriber’s name individually, title to all shares purchased by such subscriber in Stage 1 of the Offering must also be taken in the subscriber’s name individually.

Acknowledgment and Certification

The undersigned hereby acknowledges that this Subscription Agreement is made solely on the basis of information contained in the Offering Memorandum and is not made in reliance on any inducement, representation or statement not contained in the Offering Memorandum. The undersigned understands that no person (including any Director or Executive Officer of the Bank) has authority to give any information or to make any representation not contained in the Offering Memorandum, and if given or made, such information or representation must not be relied upon as having been authorized. The undersigned represents that this subscription is made for the benefit of the undersigned and not any other person who is not identified on this Subscription Agreement.

The undersigned hereby certifies that, before subscribing for the Common Stock, he or she received a copy of the Offering Memorandum which discloses the nature of the shares of Common Stock offered thereby and describes the certain risks involved in an investment in the Common Stock under the heading “RISK FACTORS” beginning on page 8 of the Offering Memorandum.

This Subscription Agreement is made in consideration of the premises set forth in the Offering Memorandum and the subscriptions of others, and the undersigned acknowledges that this Subscription Agreement creates a legally binding obligation unless refused by the Bank.

The Shares subscribed below are offered in [check appropriate box(es)]:

- Stage 1 of the Offering; or
- Stage 2 of the Offering; or
- Stage 1 or Stage 2 of the Offering – Bank Employee

Number of Shares _____ at \$10.00 per share equals \$ _____ (Total Purchase Price)

Name(s) in which stock certificate should be registered*

Street Address

City/State/ZIP Code

Social Security or Employer I.D. Number

(_____) _____
Home Telephone Number

(_____) _____
Business Telephone Number

Date

Signature(s)**

Signature(s)**

* Title to shares purchased in Stage 1 of the Offering may not be taken in any manner that would increase the total number of “holders or record” (as that term is defined in Rule 12g5-1 of the Securities Exchange Act of 1934) of the Bank’s Common Stock in 2008. For example, if all shares that you currently own are titled in your name individually, title to all shares you purchase in Stage 1 of the Offering must also be taken in your name individually. Stock certificates for shares to be issued in the names of two or more persons will be registered in the names of such persons as joint tenants with right of survivorship, not as tenants in common.

** If shares are to be held in joint ownership, all joint owners should sign this Agreement. All information on the Agreement will be treated confidentially by the Bank.

CERTIFICATION

By his or her signature below, Subscriber hereby certifies that he or she has read and understands the following disclosure:

THESE SECURITIES ARE NOT DEPOSITS. THESE SECURITIES ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER AGENCY, AND ARE SUBJECT TO INVESTMENT RISK, INCLUDING THE POSSIBLE LOSS OF PRINCIPAL.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE TENNESSEE DEPARTMENT OF FINANCIAL INSTITUTIONS, THE FEDERAL RESERVE SYSTEM, OR THE FEDERAL DEPOSIT INSURANCE CORPORATION NOR HAS THE FEDERAL DEPOSIT INSURANCE CORPORATION, THE FEDERAL RESERVE SYSTEM, OR THE TENNESSEE DEPARTMENT OF FINANCIAL INSTITUTIONS PASSED ON THE ADEQUACY OR ACCURACY OF THIS OFFERING MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

Subscriber's Signature

Date

Subscriber's Signature