

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM S-1  
REGISTRATION STATEMENT UNDER THE  
SECURITIES ACT OF 1933**

**CAPSTAR FINANCIAL HOLDINGS, INC.**

(Exact name of registrant as specified in its charter)

Tennessee  
State or other jurisdiction of  
incorporation or organization

6022  
(Primary Standard Industrial  
Classification Code Number)

81-1527911  
(IRS Employer  
Identification No.)

201 4th Avenue North, Suite 950  
Nashville, Tennessee 37219  
(615) 732-6400

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Claire W. Tucker  
President and Chief Executive Officer  
CapStar Financial Holdings, Inc.  
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**Approximate date of commencement of proposed sale to the public:** As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

**Calculation of Registration Fee**

Title of each class of securities to be registered	Proposed maximum aggregate offering price (1)(2)	Amount of registration fee
Common Stock, par value \$1.00 per share	\$	\$

- (1) Includes shares of common stock to be sold by the selling shareholders and shares of common stock that may be purchased by the underwriters pursuant to their option to purchase additional shares in the offering.  
(2) Estimated solely for the purposes of calculating the registration fee in accordance with Rule 457(o) under the Securities Act of 1933, as amended. This amount represents the proposed maximum aggregate offering price of the securities registered hereunder to be sold by the Registrant and the selling shareholders specified herein.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to Section 8(a), may determine.

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The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

**SUBJECT TO COMPLETION, DATED JULY 1, 2016**

**PRELIMINARY PROSPECTUS**

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**Shares**



**Common Stock**

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This prospectus relates to the initial public offering of CapStar Financial Holdings, Inc. We are offering \_\_\_\_\_ shares of our common stock. The selling shareholders identified in this prospectus are offering an additional \_\_\_\_\_ shares of our common stock. We will not receive any proceeds from sales by the selling shareholders.

Prior to this offering, there has been no established public market for our common stock. We currently estimate the public offering price per share of our common stock will be between \$ \_\_\_\_\_ and \$ \_\_\_\_\_. We intend to apply to list our common stock on the NASDAQ Global Select Market under the symbol "CSTR."

**We are an "emerging growth company" under the federal securities laws and may take advantage of reduced public company reporting and relief from certain other requirements otherwise generally applicable to public companies. See "Implications of Being an Emerging Growth Company."**

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**Investing in our common stock involves risks. See "[Risk Factors](#)" beginning on page 18.**

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	Per Share	Total
Initial public offering price	\$ _____	\$ _____
Underwriting discount		
Proceeds, before expenses, to us		
Proceeds, before expenses, to selling shareholders		

We have granted the underwriters an option to purchase up to an additional \_\_\_\_\_ shares of our common stock at the initial public offering price less the underwriting discount, within 30 days from the date of this prospectus.

The underwriters expect to deliver the shares of our common stock against payment in New York, New York, on or about \_\_\_\_\_, 2016.

**The shares of our common stock that you purchase in this offering are not deposits, savings accounts or other obligations of our bank subsidiary and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other governmental agency.**

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*Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.*

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**Keefe, Bruyette & Woods**  
A Stifel Company

**Sandler O'Neill + Partners, L.P.**

The date of this prospectus is \_\_\_\_\_, 2016

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## ABOUT THIS PROSPECTUS

In this prospectus, unless we state otherwise or the context otherwise requires, (i) references to “we,” “our,” “us,” “the Company” and “CapStar” refer to CapStar Financial Holdings, Inc. and its wholly owned subsidiary, CapStar Bank, which we sometimes refer to as “CapStar Bank,” “the bank” or “our bank,” (ii) references to “American Security” refer to American Security Bank & Trust Company, (iii) references to “Farmington” refer to Farmington Financial Group, LLC and (iv) references to the “Nashville MSA” refer to the Nashville-Davidson-Murfreesboro-Franklin, Tennessee Metropolitan Statistical Area which includes Davidson County (Nashville) and 13 additional counties.

On July 31, 2012, our bank completed its acquisition of American Security. The selected historical consolidated financial data as of and for the year ended December 31, 2012 includes information regarding the financial position, results of operations and cash flows attributable to American Security for the portion of the year beginning on July 31, 2012, and the selected historical consolidated financial data for all subsequent periods includes information regarding the financial position, results of operations and cash flows attributable to American Security for such periods. Consequently, our financial data for the periods following the year ended December 31, 2011 are not fully comparable to the financial data as of and for the year ended December 31, 2011.

On February 3, 2014, our bank completed its acquisition of Farmington. The consolidated financial statements as of and for the year ended December 31, 2014 include the financial position, results of operations and cash flows attributable to Farmington for the portion of the year beginning on February 3, 2014, and the consolidated financial statements for all subsequent periods include the financial position, results of operations and cash flows attributable to Farmington for such periods. Consequently, our results for the periods following the year ended December 31, 2013 are not fully comparable to the financial statements as of and for the years ended December 31, 2013, 2012 and 2011.

On February 5, 2016, we entered into a share exchange with the shareholders of the bank pursuant to which (i) we acquired all of the bank’s issued and outstanding shares of common stock and preferred stock, (ii) assumed shares of restricted stock, options and warrants that were previously issued by the bank and (iii) the bank became our wholly owned subsidiary.

This prospectus describes the specific details regarding this offering and the terms and conditions of our common stock being offered hereby and the risks of investing in our common stock. For additional information, please see the section entitled “Where You Can Find More Information.”

The information contained in this prospectus or any free writing prospectus is accurate only as of its date, regardless of the time of delivery of this prospectus or of any sale of our common stock. Our assets, business, cash flows, condition (financial or otherwise), liquidity, prospects or results of operations may have changed since that date.

You should not interpret the contents of this prospectus or any free writing prospectus to be legal, business, investment or tax advice. You should consult with your own advisors for that type of advice and consult with them about the legal, tax, business, financial and other issues that you should consider before investing in our common stock.

All information in this prospectus assumes that the underwriters have not exercised their option to purchase additional shares of common stock.

We, the selling shareholders and the underwriters have not authorized anyone to provide any information to you other than that contained in this prospectus or in any free writing prospectus prepared by or on behalf of us

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or to which we have referred you. We, the selling shareholders and the underwriters take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you.

No action is being taken in any jurisdiction outside the United States to permit a public offering of our securities or possession or distribution of this prospectus in that jurisdiction. Persons who come into possession of this prospectus in jurisdictions outside the United States are required to inform themselves about, and to observe, any restrictions as to the offering and the distribution of this prospectus applicable to those jurisdictions. We, the selling shareholders and the underwriters are not making an offer of these securities in any jurisdiction where the offer is not permitted.

“CapStar Bank” and its logos and other trademarks referred to and included in this prospectus belong to us. Solely for convenience, we refer to our trademarks in this prospectus without the ® or the ™ or symbols, but such references are not intended to indicate that we will not assert, to the fullest extent under applicable law, our rights to our trademarks. Other service marks, trademarks and trade names referred to in this prospectus, if any, are the property of their respective owners, although for presentational convenience we may not use the ® or the ™ symbols to identify such trademarks.

### **INDUSTRY AND MARKET DATA**

Market data used in this prospectus has been obtained from government and independent industry sources and publications available to the public, sometimes with a subscription fee, as well as from research reports prepared for other purposes. Industry publications and surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable. We did not commission the preparation of any of the sources or publications referred to in this prospectus. We have not independently verified the data obtained from these sources, and, although we believe such data to be reliable as of the dates presented, it could prove to be inaccurate. Forward-looking information obtained from these sources is subject to the same qualifications and the additional uncertainties regarding the other forward-looking statements in this prospectus.

### **IMPLICATIONS OF BEING AN EMERGING GROWTH COMPANY**

As a company with less than \$1.0 billion in revenue during our last fiscal year, we qualify as an “emerging growth company” under the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. An emerging growth company may take advantage of reduced reporting requirements and is relieved of certain other significant requirements that are otherwise generally applicable to public companies. As an emerging growth company:

- we are permitted to present only two years of audited financial statements and only two years of related discussion in Management’s Discussion and Analysis of Financial Condition and Results of Operations;
- we are exempt from the requirement to obtain an attestation from our auditors on management’s assessment of our internal control over financial reporting under the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act;
- we are permitted to provide less extensive disclosure about our executive compensation arrangements; and
- we are not required to hold non-binding shareholder advisory votes on executive compensation or golden parachute arrangements.

We may take advantage of some or all of these provisions for up to five years unless we earlier cease to be an emerging growth company, which will occur if we have more than \$1.0 billion in annual gross revenue, if we issue more than \$1.0 billion of non-convertible debt in a three-year period, or if the market value of our common stock held by non-affiliates exceeds \$700.0 million as of any June 30 before that time, in which case we would no longer be an emerging growth company as of the following December 31. We have taken advantage of certain

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reduced reporting obligations in this prospectus. Accordingly, the information contained herein may be different than the information you receive from other public companies in which you hold stock.

In addition to scaled disclosure and the other relief described above, the JOBS Act permits us an extended transition period for complying with new or revised accounting standards affecting public companies. However, we have elected not to take advantage of this extended transition period, which means that the financial statements included in this prospectus, as well as any financial statements that we file in the future, will be subject to all new or revised accounting standards generally applicable to public companies. Our election not to take advantage of the extended transition period is irrevocable.

## PROSPECTUS SUMMARY

*This summary highlights selected information contained elsewhere in this prospectus. This summary does not contain all of the information that you should consider before deciding to purchase our common stock in this offering. You should read the entire prospectus carefully, including the sections titled "Risk Factors," "Cautionary Note Regarding Forward-Looking Statements" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," together with our consolidated financial statements and the related notes thereto, before making an investment decision.*

### Our Company

We are CapStar Financial Holdings, Inc., a bank holding company headquartered in Nashville, Tennessee, and we operate primarily through our wholly owned subsidiary, CapStar Bank, a Tennessee-chartered state bank. We are a commercial bank that seeks to establish and maintain comprehensive relationships with our clients by delivering customized and creative banking solutions and superior client service. Our products and services include (i) commercial and industrial loans to small and medium sized businesses, with a particular focus on businesses operating in the healthcare industry, (ii) commercial real estate loans, (iii) private banking and wealth management services for the owners and operators of our business clients and other high net worth individuals and (iv) correspondent banking services to meet the needs of Tennessee's smaller community banks. Our operations are presently concentrated in demographically attractive and fast-growing counties in the Nashville MSA. As of March 31, 2016, on a consolidated basis, we had total assets of \$1.2 billion, total deposits of \$1.1 billion, total net loans of \$827.4 million, and shareholders' equity of \$110.9 million.

### Our Core Operating Principles

Our goal is to become a high-performing financial institution. In striving to achieve this goal, we operate the Company in conformity with our core principles which are, in order of priority:

- **Soundness:** We strive to engage in safe and sound banking practices that preserve the asset quality of our balance sheet and protect our deposit base.
- **Profitability:** We continuously seek to improve our core profitability by growing our revenue faster than our expenses in order to increase net income.
- **Strategic Growth:** We seek to grow our total loans and deposits by leveraging our operating platform to facilitate organic and acquisitive growth.

We have achieved our historical growth through our sustained adherence to these core operating principles, and we believe we have an experienced management team that will continue to emphasize the importance of these principles in order to realize our future growth objectives and enhance long-term shareholder value.

### Our Growth

**Historical Growth.** We have experienced operating success, profitability and significant growth primarily due to:

- our management team which has extensive industry knowledge, banking experience, established and long-term relationships with small to medium sized business leaders through middle Tennessee, and product expertise;
- our experienced bankers who have expertise in our lines of business, including commercial and industrial, healthcare and commercial real estate, and who focus on providing superior client service;

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- our core commitment to maintaining strong asset quality rather than simply growing the balance sheet;
- our funding approach which emphasizes attracting core deposits rather than utilizing a wholesale funding strategy;
- our acquisition of American Security Bank & Trust Company, or American Security, which expanded our geographic reach within the Nashville MSA, enhanced our deposit gathering ability and provided scale to leverage our infrastructure; and
- our acquisition of Farmington Financial Group, LLC, or Farmington, which expanded our product offerings and increased our fee income by allowing us to offer residential mortgage origination services to our clients.

From December 31, 2011 to March 31, 2016, we grew our total assets at a compound annual growth rate, or CAGR, of 13.6%, our total deposits at a CAGR of 14.1% and our total loans at a CAGR of 17.9%. In addition, from December 31, 2011 to December 31, 2015, we grew our net income at a CAGR of 38.2%.

**Future Growth.** We believe that we have an operating platform and infrastructure that is capable of supporting a larger financial institution. We believe we can leverage our platform to continue to deliver customized and creative solutions and superior client service to our clients and sustainable, long-term returns to our shareholders. We intend to achieve future growth through the following:

- **Organic Growth.** Our primary focus is to grow our client base, capture market share and leverage our platform within the Nashville MSA, an economically vibrant and demographically attractive market. Within the Nashville MSA, we believe we have competitive advantages over smaller community banks, which lack our product expertise and breadth of service, and larger regional institutions, which lack our knowledge of the Nashville MSA and responsive, local decision-making. Because of consolidation that has occurred in the banking industry within the Nashville MSA, we also believe that there is a base of potential clients that desire to partner with a bank that is locally headquartered and there are seasoned bankers that we believe we can hire who prefer the local, independent, banking franchise to that of the more diversified, regional financial institution. To capitalize on these opportunities, we intend to (i) leverage the relationships and contacts of our bankers to identify and target these businesses and individuals and (ii) develop comprehensive banking relationships with these businesses and individuals by delivering customized and creative banking solutions comparable to that of a larger regional institution while providing the superior client service expected of a smaller community bank.
- **Strategic Acquisitions.** Although our primary focus is on organic growth, we continually review potential acquisitions that would enable us to leverage our platform. We seek acquisition targets that are strategic, that are financially attractive and that support our organic growth strategy without compromising our risk profile. We believe that there are numerous banking institutions that lack our scale and management expertise and that may encounter capital constraints or liquidity challenges. We expect any future acquisition targets will be financial institutions that are complementary to our operations and that are located in the Nashville MSA or other economically vibrant and demographically attractive markets. We believe that having publicly traded equity as a result of this offering will enhance our ability to capitalize on such acquisition opportunities in the future.
- **Expansion of Fee Income and Deposit Sources.** We intend to continue to diversify our revenue sources by growing our wealth management and mortgage banking lines of business, which generate fee income. We expect that our increased participation in correspondent banking and private banking will provide additional deposits to our bank, thus diversifying our deposit portfolio, while also creating sources of fee income. In addition, we will seek to grow core deposits by cross-selling our products and services to our existing clients and by obtaining new clients.



## Our Leadership

We are led by a team of banking professionals, each of whom has extensive experience with large regional banking institutions, as well as maintaining well-established relationships with the small to medium sized business leaders in the Nashville MSA.

- Our executive management team is led by President and Chief Executive Officer Claire W. Tucker, a banker with a career that spans over 41 years, leading large geographical areas and business segments for regional and national banks. Ms. Tucker has been with CapStar Bank since August 2007. She previously served as Senior Executive Vice President in charge of commercial banking for AmSouth Bancorporation, or AmSouth. In 2011, Ms. Tucker was appointed by the Federal Reserve Bank for the Sixth District to a three-year term (and has since been reappointed to a second three-year term) for the Community Depository Institutions Advisory Council. Ms. Tucker began her banking career in 1975 at First American National Bank and rose to serve as President of Corporate Banking. First American National Bank was a financial institution with approximately \$20.0 billion in assets that was based in Nashville and served the States of Tennessee, Mississippi and Louisiana. First American National Bank was the largest bank in the Nashville MSA and ranked first by deposit market share when acquired in 1999.
- Robert B. Anderson is Chief Financial Officer and Chief Administrative Officer of CapStar and CapStar Bank. Mr. Anderson has more than two decades of leadership experience in the financial sector and has been with CapStar Bank since December 2012. Mr. Anderson has held multiple finance roles with Bank of America, including serving as Chief Financial Officer of the business banking segment. He also served as Chief Financial Officer for Capital One's commercial bank. Mr. Anderson is a certified public accountant (inactive).
- Dandridge W. Hogan is Chief Executive Officer of CapStar Bank. Mr. Hogan is a 30-year banking veteran and has been with CapStar Bank since December 2012. Mr. Hogan was previously the Regional President for Fifth Third Bank and had responsibility for banking operations in the States of Kentucky and Tennessee and led its expansion into the State of Georgia. He is a past member of the board of directors of the Nashville Branch of the Federal Reserve Bank of Atlanta. Mr. Hogan began his career at National Bank of Commerce, which was a \$25.0 billion financial institution based in Memphis, Tennessee with various locations throughout the Southeast region of the United States.
- Christopher G. Tietz is Chief Credit Officer of CapStar Bank. Mr. Tietz has over 31 years of banking experience and has been with CapStar Bank since March 2016. He started as a trainee of First American National Bank in Nashville in 1985 and rose to the position of Executive Vice President and Regional Senior Credit Officer for First American's West Tennessee Region, including oversight of credit functions for private banking, business banking, middle-market, and corporate banking functions. Subsequent to his positions at First American, Mr. Tietz held various Chief Credit Officer roles at banks in the Midwest region of the United States and then most recently at FSG Bank in Chattanooga, Tennessee.

In addition to our experienced executive management team, our board of directors is comprised of well-regarded career bankers, professionals, entrepreneurs and business and community leaders with collective depth and experience in commercial banking, finance, real estate and manufacturing. Of our eleven directors, eight have served previously on the boards of directors of banking institutions, and six have held positions at commercial or investment banking institutions. Collectively, this group of directors has in excess of 150 years of collective financial services. Dennis C. Bottorff is the Chairman of the board of directors of the Company and CapStar Bank. Mr. Bottorff's banking experience spans nearly five decades, and he has held senior leadership roles at numerous banks, including as Chairman and Chief Executive Officer of First American National Corporation and First American National Bank and Chairman of AmSouth and AmSouth Bank. During his career, Mr. Bottorff also served in leadership positions with the Tennessee and American Banking Associations and the Financial Services Roundtable.

We have also attracted, developed and retained bankers with significant in-market experience and relationships in order to support our organic growth strategy. These efforts have gained us significant expertise in client relations, while providing viable internal candidates for eventual management succession at various levels throughout our Company.

### Our Market

According to the U.S. Census Bureau, the Nashville MSA is currently the 36<sup>th</sup> largest MSA in the United States. The Nashville region is expected to surpass the current size of the Austin, Charlotte and Portland regions by 2035, reaching a population of approximately 2.6 million. The following table illustrates the growth profile of the Nashville MSA as compared to the State of Tennessee, the Southeast region of the United States and the entire United States.

#### SUMMARY DEMOGRAPHIC AND OTHER MARKET DATA

<u>Geographic Area</u>	<u>Total Population 2016 (Actual)</u>	<u>Population Change 2010 - 2016</u>	<u>Projected Population Change 2016 - 2021</u>	<u>Median Household Income 2016</u>	<u>Projected Household Income Change 2016 - 2021</u>	<u>Unemployment Rate*</u>
Nashville MSA**	1,840,320	10.14%	6.87%	\$ 55,922	9.41%	3.2%
State of Tennessee	6,623,654	4.37%	3.82%	46,781	7.13%	4.3%
Southeast Region of the United States	82,419,986	5.43%	4.43%	52,942	6.13%	4.9%
United States	322,431,073	4.43%	3.69%	55,551	7.77%	5.1%

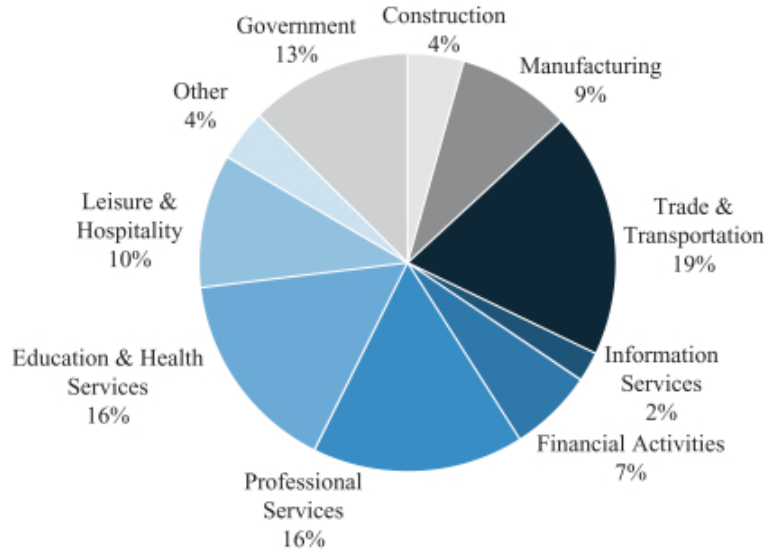
\* Unemployment data as of April 2016

\*\* The Nashville MSA includes Davidson County (Nashville) and 13 additional counties.

Source: SNL Financial, Bureau of Labor Statistics

A recent *Forbes* report ranked the Nashville MSA at fourth on its list of “The Best Big Cities for Jobs 2016,” compiled based on short-, mid- and long-term job growth trends, ahead of such regions as Dallas, Austin, Denver and Charlotte. In April 2016, Nashville reported the second lowest unemployment rate among metropolitan areas with a population of at least one million, according to the U.S. Bureau of Labor Statistics. Since June 2011, Nashville has had the third strongest recovery in jobs among the 50 largest markets in the country, with a 19.3% increase in jobs since their lowest point in September 2009, according to a study published by the Pew Charitable Trusts. According to data compiled by the Nashville Area Chamber of Commerce, since July 2015, more than 100 companies have announced plans to relocate to, or expand within, Nashville and the surrounding area, generating an estimated 10,000 new jobs. We believe that the Nashville MSA is a desirable market for a wide range of industries, and the following table shows the diversity of employment within the Nashville MSA.

**NASHVILLE MSA EMPLOYMENT BY SECTOR**



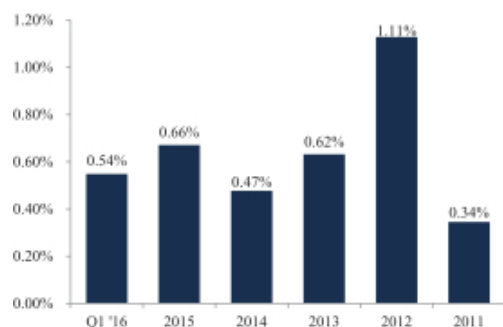
Source: U.S. Bureau of Labor Statistics. Data as of May 2, 2016.

We believe that the economic vibrancy and attractive demographics of the Nashville MSA provide a favorable operating environment in which we can execute our growth strategy.

## Our Competitive Strengths

**Profitable and Scalable Operating Platform and Organizational Infrastructure.** Over the past five years, we have delivered core profitability, which we view as return on average assets and pre-tax, pre-provision return on average assets. We continuously strive to improve our core profitability by growing our revenue faster than our expenses, a process we internally refer to as enhancing “operating leverage.” The following graphs depict our return on average assets and pre-tax, pre-provision return on average assets over the last five years.

**RETURN ON AVERAGE ASSETS**



**PRE-TAX, PRE-PROVISION  
RETURN ON AVERAGE ASSETS**



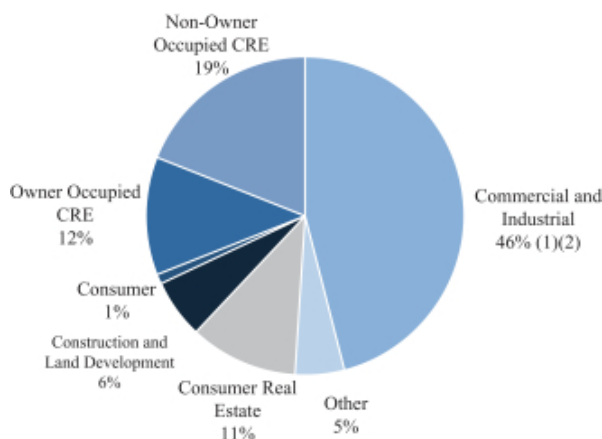
We believe that we have an efficient and scalable operating platform and organizational infrastructure that will allow us to continue to improve our operating leverage. Key attributes of our banking model include:

- an executive management team that is poised to lead a public company;
- an appropriate number of bankers and other personnel that we believe are capable of supporting our growth strategy;
- an ability to grow our noninterest income faster than our net interest income, in part by scaling our wealth management, mortgage, treasury management, and other fee related services;
- an ability to lower our deposit cost, which we measure through demand deposit accounts (our fastest growing type of deposit account), as we become the primary bank for more of our clients;
- highly-sophisticated operating systems that allow us to manage our assets in the same manner as much larger institutions;
- qualified external data processing and technology providers that allow us to remain current with innovation and market practices in key areas; and
- online and mobile banking technologies and amenities that allow us to grow deposits without expanding our physical footprint.

We believe that our platform will enable us to (i) operate efficiently and profitably, (ii) scale our business as we continue to grow and expand and (iii) add experienced bankers in the future with minimal additional expenses other than salaries and benefits.

**Sophisticated Lending Focus.** The primary components of our loan portfolio are commercial and industrial loans to small and medium sized businesses, with a particular focus on businesses operating in the healthcare industry, and commercial real estate loans. We believe that our success is in part dependent on our extensive knowledge of these markets, which we believe are positively affecting much of the economic growth in the Nashville MSA. We have banking teams dedicated to the healthcare industry and each of the commercial and industrial and commercial real estate lending areas. We believe our industry-specific knowledge, product expertise and client engagement increase our profile within these lending verticals, enabling us to successfully identify, select and compete for credit-worthy borrowers and attractive financing projects. The following chart details the composition of our loan portfolio as of March 31, 2016.

**LOAN PORTFOLIO COMPOSITION**



- (1) Loans made to businesses operating in the healthcare line of business comprised 34% of all commercial and industrial loans.
- (2) Loans made to community banks operating in the correspondent banking line of business comprised 7% of commercial and industrial loans.

**Strong Asset Quality.** We maintain a firm commitment to preserving the asset quality of our balance sheet. Reflective of our credit culture is a question we routinely ask ourselves in the underwriting process: “Is this loan merely doable or is it actually prudent and desirable?” We believe our strong asset quality is also due to our experience in the Nashville MSA, our long-standing relationships with our clients and our disciplined underwriting processes. Our thorough underwriting processes collaboratively engage our seasoned business bankers, credit underwriters and portfolio managers in the analysis of each loan request. We manage our credit risks by analyzing metrics related to our lines of business in order to maintain a conservative and well-diversified loan portfolio reflective of our assessment of various industry subsets. Based upon our aggregate exposure to any given borrower relationship, we employ scaled review of loan originations that may involve senior credit officers, our Chief Credit Officer, our bank’s Credit Committee or, ultimately, our full board of directors. The following table compares our asset quality metrics to certain Tennessee regional and community banks.

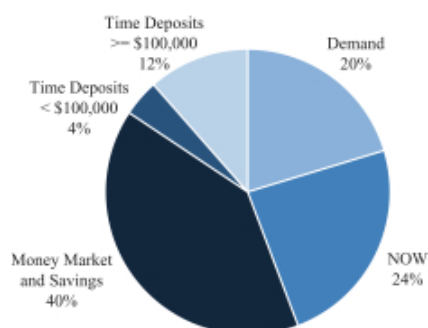
**ASSET QUALITY—NON-PERFORMING ASSETS**

	Non-Performing Assets as a Percentage of Assets	Non-Performing Assets as a Percentage of Loans Plus Other Real Estate Owned
Median	1.27%	2.07%
1st Quartile	0.67	1.08
<b>CapStar</b>	<b>0.46</b>	<b>0.67</b>
<b>Percentile Rank</b>	<b>81.60</b>	<b>84.00</b>

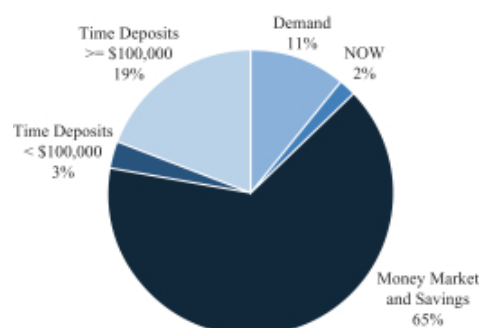
Source: SNL Financial (includes 147 banks and thrifts headquartered in Tennessee with total assets less than \$5.0 billion as of March 31, 2016; excludes merger targets).

**Solid and Growing Core Deposit Base.** A significant component of our business is the growth and stability of our core deposits, which we use to fund our loans and securities. Our private banking and correspondent banking lines of business are significant sources of core deposits, and we believe that the growth of our core deposit base, specifically our Demand and NOW accounts, is a result of our focus on developing comprehensive banking relationships with our clients. As an example, we have increased our Demand and NOW accounts from approximately 12% of total deposits as of December 31, 2011 to approximately 44% of total deposits as of March 31, 2016. This growth has resulted in a lower overall cost of funding and has enhanced our profitability. Our plan is to continue to grow our core deposits by cross-selling deposit relationships and obtaining new clients. The following charts show the improvement in our deposit composition as of March 31, 2016 and December 31, 2011, respectively.

**DEPOSIT COMPOSITION AS OF  
MARCH 31, 2016**



**DEPOSIT COMPOSITION AS OF  
DECEMBER 31, 2011**



**Technology and Innovation.** We have continually adapted to the changing technological needs and wants of our clients by investing in our electronic banking platform. We use a combination of online and mobile banking channels to attract and retain clients and expand the convenience of banking with us. In most cases, our clients can initiate banking transactions from the convenience of their personal computer or smart phone, reducing the number of in-branch visits necessary to conduct routine banking transactions. The remote transactions available to our clients include remote image deposit, bill payment, external and internal transfers, ACH origination and wire transfer. We believe that our investments in technology and innovation are consistent with our clients' needs and will support future migration of our clients' transactions to these and other developing electronic banking channels.

### **Our Recent Accolades**

- CapStar honored by the Nashville Business Journal with a “Best in Business” award, 2016
- CapStar recognized as 8<sup>th</sup> in “25 Fastest Growing Private Companies” (Nashville Business Journal, 2015)
- Claire Tucker named “EY Entrepreneur of the Year in Financial Services for the Southeast Region” (Ernst and Young, 2014)
- CapStar makes the list of “Fastest Growing Privately Held Companies” (Inc., 5000, 2014)

### **Our History and Corporate Information**

CapStar Bank was incorporated in the State of Tennessee in 2007.

The bank successfully completed its initial and only capital issuance in 2008, raising approximately \$88.0 million in shareholders’ equity, which represented and continues to be the largest initial capitalization in Tennessee history for a de novo state-chartered bank. During the economic recession and bank liquidity crisis that soon followed, the bank did not accept government funds from the Troubled Asset Relief Program or the Small Business Lending Fund, nor did it need to supplement its capital base to maintain well-capitalized status by issuing any form of additional capital.

The bank acquired a state charter in 2008 which was accomplished through a de novo application with the Tennessee Department of Financial Institutions, or the TDFI, and the Federal Reserve Bank of Atlanta. Upon approval of its charter, CapStar Bank opened for business to the public on July 14, 2008. Since then, the bank has opened two additional branches in the Nashville MSA. In July 2012, the bank completed the acquisition of American Security which, at the date of acquisition, operated two branch locations and approximately \$160 million in assets. In February, 2014, the bank completed the acquisition of Farmington.

We were incorporated on December 1, 2015, and, on February 5, 2016, we completed the Share Exchange with CapStar Bank’s shareholders that resulted in CapStar Bank becoming a wholly owned subsidiary of the Company. As a result of the Share Exchange, all of our operations are currently conducted through CapStar Bank.

We currently have seven locations, five of which are retail bank branches and two of which are mortgage origination offices.

Our principal executive offices are located at 201 4<sup>th</sup> Avenue North, Suite 950, Nashville, Tennessee 37219, and our telephone number is (615) 732-6400. We also maintain an Internet site at [www.capstarbank.com](http://www.capstarbank.com). Our website and the information contained therein or limited thereto is not incorporated into this prospectus or the registration statement of which it forms a part. We have 163 highly engaged employees as of March 31, 2016, who continue to drive consistent growth across all lines of business.

**THE OFFERING**

Common stock offered by us	shares
Common stock offered by selling shareholders	shares
Underwriter purchase option	shares of common stock from us and shares of common stock from the selling shareholders.
Shares of common stock outstanding after completion of the offering	shares of common stock, assuming the underwriters do not exercise their purchase option.(1)
Use of proceeds	Assuming an initial public offering price of \$ per share, which is the midpoint of the offering price range set forth on the cover page of this prospectus, we estimate that the net proceeds to us from the sale of our common stock in this offering will be \$ million, (or \$ million if the underwriters exercise in full their option to purchase additional shares of common stock from us), after deducting the estimated underwriting discount and offering expenses. We intend to use the net proceeds to us from this offering, along with available cash, for general corporate purposes, which may include the support of our balance sheet growth, the acquisition of other banks or financial institutions or other complementary businesses to the extent such opportunities arise, and the maintenance of our capital and liquidity ratios, and the ratios of our bank, at acceptable levels. We will not receive any proceeds from the sale of our common stock by the selling shareholders. For additional information, see “Use of Proceeds.”
Dividends	Holders of our common stock are only entitled to receive dividends when, as and if declared by our board of directors out of funds legally available for dividends. We have not paid any cash dividends on our capital stock since inception, and we do not intend to pay dividends for the foreseeable future. Our ability to pay dividends to our shareholders in the future will depend on regulatory restrictions, liquidity and capital requirements, our earnings and financial condition, the general economic climate, contractual restrictions, our ability to service any equity or debt obligations senior to our common stock and other factors deemed relevant by our board of directors. For additional information, see “Dividend Policy.”



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NASDAQ Global Select Market listing	We intend to apply to list our common stock on the NASDAQ Global Select Market under the symbol “CSTR.”
Directed share program	The underwriters have reserved for sale at the initial public offering price up to % of the shares of our common stock being offered by this prospectus for sale to certain of our employees, executive officers, directors, business associates and related persons who have expressed an interest in purchasing our common stock in this offering. We do not know if these persons will choose to purchase all or any portion of the reserved shares, but any purchases they do make will reduce the number of shares available to the general public. See “Underwriting.”
Registration rights	Certain of our shareholders have demand and piggyback registration rights. For a detailed description, see “Certain Relationships and Related Party Transactions—Related Party Transactions—Registration Rights.”
Risk factors	Investing in our common stock involves risks. See “Risk Factors” for a discussion of certain factors that you should carefully consider before making an investment decision.

- (1) References in this section to the number of shares of our common stock outstanding after this offering are based on 8,677,902 shares of our common stock issued and outstanding as of March 31, 2016. Unless otherwise noted, these references exclude the following as of March 31, 2016:
- shares of common stock issuable upon the conversion of Series A Preferred Stock that is not included in this offering;
  - 1,023,500 shares of common stock issuable upon the exercise of outstanding stock options at a weighted average exercise price of \$10.50 per share;
  - 796,069 shares of common stock issuable upon the exercise of outstanding warrants at an exercise price of \$10.00 per share; and
  - 196,058 shares of common stock reserved for issuance pursuant to awards granted under the CapStar Financial Holdings, Inc. Stock Incentive Plan, or the Stock Incentive Plan.

Except as otherwise indicated, all information in this prospectus:

- assumes an initial public offering of \$ per share, which is the midpoint of the price range set forth on the cover page of this prospectus; and
- assumes no exercise by the underwriters of their option to purchase additional shares of our common stock from us or the selling shareholders.

## SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

You should read the following selected historical consolidated financial data in conjunction with our consolidated financial statements and related notes and the sections entitled “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” and “*Capitalization*” included elsewhere in this prospectus. The following tables set forth selected historical consolidated financial data (i) as of and for the three months ended March 31, 2016 and 2015 and (ii) as of and for the years ended December 31, 2015, 2014, 2013, 2012, and 2011. Selected financial data as of and for the years ended December 31, 2015, 2014 and 2013, have been derived from our audited financial statements included elsewhere in this prospectus. We have derived the selected financial data as of and for the years ended December 31, 2012 and 2011 from our audited financial statements not included in this prospectus. Selected financial data as of and for the three months ended March 31, 2016 and 2015 have been derived from our unaudited financial statements included elsewhere in this prospectus and have not been audited but, in the opinion of our management, contain all adjustments (consisting of only normal or recurring adjustments) necessary to present fairly in all material respects our financial position and results of operations for such periods in accordance with generally accepted accounting principles, or GAAP. Our historical results are not necessarily indicative of any future period. The performance, asset quality and capital ratios are unaudited and derived from our audited and unaudited financial statements as of and for the periods presented. Average balances have been calculated using daily averages.

(Dollars in thousands, except per share information)	Three Months Ended March 31,		Twelve Months Ended December 31,				
	2016	2015	2015	2014	2013	2012	2011
<b>Statement Of Income Data:</b>							
Interest income	\$ 10,598	\$ 9,620	\$ 40,504	\$ 38,287	\$ 41,157	\$ 33,966	\$ 23,454
Interest expense	1,642	1,450	5,731	5,871	6,576	6,682	7,146
Net interest income	8,956	8,170	34,773	32,416	34,581	27,284	16,308
Provision for loan and lease losses	937	136	1,651	3,869	938	3,968	1,897
Noninterest income	2,371	1,912	8,884	7,419	1,946	1,935	874
Noninterest expense	8,010	7,718	30,977	28,562	25,432	19,021	13,211
Income before income taxes	2,380	2,228	11,029	7,404	10,157	6,230	2,073
Income tax expense	796	659	3,470	2,412	3,749	(3,168)	—
Net income	1,584	1,569	7,559	4,992	6,408	9,398	2,073
Pre-tax pre-provision net income (1)	3,317	2,363	12,680	11,273	11,095	10,197	3,970
<b>Balance Sheet Data (At Period End):</b>							
Cash and due from banks	\$ 76,707	\$ 48,938	\$ 100,185	\$ 73,934	\$ 44,793	\$ 113,282	\$ 44,043
Investment securities	238,179	286,326	221,891	285,514	305,291	280,115	236,837
Loans held for sale	29,530	36,006	35,729	15,386	—	—	—
Gross loans and leases (net of unearned income)	837,690	726,238	808,396	713,077	626,382	624,328	430,329
Total intangibles	6,331	6,385	6,344	6,398	284	317	—
Total assets	1,223,180	1,137,683	1,206,800	1,128,395	1,009,485	1,031,755	711,183
Deposits	1,086,337	995,603	1,038,460	981,057	879,165	919,782	621,212
Borrowings and repurchase agreements	15,000	26,584	48,755	34,837	29,494	7,452	12,622
Total liabilities	1,112,321	1,033,064	1,098,214	1,025,744	913,294	931,277	636,613
Common equity	94,359	88,119	92,086	86,151	79,691	83,977	58,070
Preferred Equity	16,500	16,500	16,500	16,500	16,500	16,500	16,500
Total shareholders’ equity	110,859	104,619	108,586	102,651	96,191	100,478	74,570
Tangible equity (1)	104,528	98,234	102,242	96,253	95,907	100,160	74,570

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(Dollars in thousands, except per share information)	Three Months Ended March 31,		Twelve Months Ended December 31,				
	2016	2015	2015	2014	2013	2012	2011
<b>Selected Performance Ratios:</b>							
Return on average assets (ROAA)	0.54%	0.56%	0.66%	0.47%	0.62%	1.11%	0.34%
Pre-tax pre-provision return on average assets (PTPP ROAA) (1)	1.13%	0.84%	1.11%	1.06%	1.08%	1.20%	0.65%
Return on average equity (ROAE)	5.75%	6.11%	7.08%	4.94%	6.46%	10.56%	2.94%
Return on average tangible equity (ROATE) (1)	6.10%	6.51%	7.53%	5.30%	6.48%	10.70%	2.94%
Net interest margin	3.18%	3.04%	3.19%	3.20%	3.45%	3.30%	2.73%
Efficiency ratio (1)	70.7%	76.6%	71.0%	71.7%	69.6%	65.1%	76.9%
Noninterest income / average assets	0.81%	0.68%	0.78%	0.70%	0.19%	0.23%	0.14%
Noninterest expense / average assets	2.73%	2.75%	2.72%	2.68%	2.47%	2.25%	2.16%
Loan and lease yield	4.39%	4.48%	4.53%	4.74%	5.48%	5.50%	5.02%
Deposit cost	0.61%	0.57%	0.56%	0.62%	0.71%	0.89%	1.34%
<b>Per Share Outstanding Data:</b>							
Basic net earnings per share	\$ 0.18	\$ 0.18	\$ 0.89	\$ 0.59	\$ 0.75	\$ 1.20	\$ 0.29
Diluted net earnings per share	0.15	0.15	0.73	0.49	0.62	1.00	0.24
Shares of common stock outstanding at end of period	8,677,902	8,530,218	8,577,051	8,471,516	8,353,087	8,705,283	7,142,783
Adjusted shares outstanding at end of period (1)	10,287,658	10,139,974	10,186,807	10,081,272	9,962,843	10,315,039	8,752,539
Book value per share, reported	10.87	10.33	10.74	10.17	9.54	9.65	8.13
Tangible book value per share, reported	10.14	9.58	10.00	9.41	9.51	9.61	8.13
Book value per share, adjusted (1)	10.78	10.32	10.66	10.18	9.65	9.74	8.52
Tangible book value per share, adjusted (1)	10.16	9.69	10.04	9.55	9.63	9.71	8.52
<b>Non-Performing Assets:</b>							
Non-performing loans	\$ 5,587	\$ 6,126	\$ 2,689	\$ 7,738	\$ 6,552	\$ 8,784	\$ 141
Troubled debt restructurings	—	2,806	125	2,618	—	—	141
Other real estate and repossessed assets	—	460	216	575	1,451	1,822	—
Non-performing assets	5,587	6,586	2,905	8,313	8,003	10,606	141
<b>Asset Quality Ratios:</b>							
Non-performing assets / assets	0.46%	0.58%	0.24%	0.74%	0.79%	1.03%	0.02%
Non-performing loans / loans	0.67%	0.84%	0.33%	1.09%	1.05%	1.41%	0.03%
Non-performing assets / loans + OREO	0.67%	0.91%	0.36%	1.16%	1.27%	1.69%	0.03%
Net charge-offs to average loans (quarters annualized)	0.38%	0.05%	0.38%	0.15%	0.11%	0.40%	0.14%
Allowance for loan and lease losses to total loans and leases	1.23%	1.56%	1.25%	1.58%	1.35%	1.32%	1.45%
Allowance for loan and lease losses to non- performing loans	184.4%	185.1%	376.8%	145.8%	129.1%	93.5%	4,415.6%
<b>Capital Ratios (At Period End):</b>							
Tier 1 leverage ratio	9.16%	8.77%	9.33%	8.56%	8.96%	9.22%	10.31%
Common equity tier 1 capital (CET1)	8.75%	8.57%	8.89%	—	—	—	—
Tier 1 risk-based capital	10.26%	10.15%	10.41%	10.32%	11.14%	11.77%	13.47%
Total risk-based capital ratio	11.26%	11.32%	11.42%	11.54%	12.19%	12.86%	14.68%
Total shareholders' equity to total asset ratio	9.06%	9.20%	9.00%	9.10%	9.54%	9.74%	10.49%
Tangible equity to tangible assets (1)	8.59%	8.68%	8.52%	8.58%	9.51%	9.71%	10.49%
<b>Real Estate—Commercial And Construction Concentrations:</b>							
Construction and development loans	\$ 52,480	\$ 49,144	\$ 52,522	\$ 46,193	\$ 30,217	\$ 35,674	\$ 24,676
Commercial real estate and construction loans	219,169	171,373	198,285	172,803	146,258	150,253	109,988
Construction and development to total risk-based capital (1)	44.5%	44.4%	45.3%	42.8%	30.1%	36.7%	32.3%
Commercial real estate and construction to total risk- based capital (1)	185.7%	155.0%	170.9%	160.0%	145.8%	154.6%	144.0%

(Dollars in thousands, except per share information)	Three Months Ended March 31,		Twelve Months Ended December 31,				
	2016	2015	2015	2014	2013	2012	2011
<b>Composition Of Loans Held For Investment:</b>							
Commercial real estate—owner occupied	\$ 104,243	\$ 91,406	\$ 108,132	\$ 93,096	\$ 71,968	\$ 70,754	\$ 56,189
Commercial real estate—non-owner occupied	161,467	122,349	143,065	126,697	110,053	106,393	76,417
Consumer real estate	90,393	83,664	93,785	77,688	61,545	74,073	54,505
Construction and land development	52,480	49,144	52,522	46,193	30,217	35,674	24,676
Commercial and industrial	381,548	344,790	353,442	333,613	319,899	297,281	184,747
Consumer	8,291	7,748	8,668	7,911	7,939	10,749	12,687
Other	40,699	28,516	50,197	29,393	26,007	30,333	22,120
<b>Deposit Composition:</b>							
Demand	\$ 220,686	\$ 170,199	\$ 190,580	\$ 157,355	\$ 135,448	\$ 102,786	\$ 66,641
NOW	260,007	137,213	189,983	115,915	84,028	60,663	12,655
Money market and savings	435,680	492,771	437,214	484,600	427,312	544,762	404,775
Time deposits less than \$100,000	45,223	49,010	45,902	51,813	46,819	52,844	21,563
Time deposits greater than or equal to \$100,000	124,740	146,409	174,781	171,373	185,482	158,778	115,578
<b>Mortgage Metrics: (2)</b>							
Total origination volume (1)	\$ 85,108	\$ 98,304	\$ 422,323	\$ 253,099	—	—	—
Total mortgage loans sold	92,654	78,901	407,941	245,891	—	—	—
Purchase volume as a % of originations	64%	54%	72%	76%	—	—	—
Gain on sale of loans	1,347	1,217	5,962	4,067	—	—	—
Gain on sale as a % of loans sold (1)	1.45%	1.54%	1.46%	1.65%	—	—	—
Gain on sale as a % of total revenue (1)	11.9%	12.1%	13.7%	10.2%	—	—	—

- (1) This measure is not recognized under GAAP and is therefore considered to be a non-GAAP measure. See “—GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures” for a reconciliation of this measure to its most comparable GAAP measure.
- (2) Data shown since closing the acquisition of Farmington in February 2014.

### GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures

Some of the financial measures included in our selected historical consolidated financial and other data are not measures of financial performance recognized by GAAP. Our management uses the non-GAAP financial measures set forth below in its analysis of our performance.

- “Pre-tax pre-provision net income” is pre-tax income plus the provision for loan and lease losses.
- “Tangible equity” is total shareholders’ equity less intangible assets.
- “Pre-tax pre-provision return on average assets” is “pre-tax pre-provision net income divided by average assets.
- “Average tangible equity” is total average shareholders’ equity less average intangible assets.
- “Return on average tangible equity,” or ROATE, is defined as net income available to shareholders divided by average tangible equity.
- “Efficiency ratio” is defined as noninterest expense divided by our operating revenue (which is equal to net interest income plus noninterest income).
- “Adjusted shares outstanding at end of period” is total shares of common stock outstanding at end of period plus total shares of preferred stock outstanding at end of period.

- “Book value per share, adjusted” is total shareholders’ equity divided by total shares of common and preferred stock outstanding.
- “Tangible book value per share, adjusted” is tangible equity divided by total shares of common and preferred stock outstanding.
- “Tangible assets” is total assets less intangible assets.
- “Tangible equity to tangible assets” is tangible equity divided by tangible assets.
- “Construction and development to total risk-based capital” is commercial construction loans plus residential construction loans divided by total risk-based capital.
- “Commercial real estate and construction to total risk-based capital” is commercial construction loans plus residential construction loans plus multi-family loans plus non-owner-occupied commercial real estate loans plus loans to finance commercial real estate divided by total risk-based capital.
- “Total mortgage origination volume” is total new purchase mortgage originations plus total mortgage refinance originations.
- “Gain on sale as a percentage of loans sold” is gain on sale of mortgage loans divided by total mortgage loans sold.
- “Gain on sale as a percentage of total revenue” is gain on sale of mortgage loans divided by net interest income plus noninterest income.

We believe that these non-GAAP financial measures provide useful information to management and investors that is supplementary to our financial condition, results of operations and cash flows computed in accordance with GAAP; however, we acknowledge that our non-GAAP financial measures have a number of limitations. As such, you should not view these disclosures as a substitute for results determined in accordance with GAAP, and they are not necessarily comparable to non-GAAP financial measures that other companies use. The following reconciliation table provides a more detailed analysis of these non-GAAP financial measures:

(Dollars in thousands, except per share information)	Three Months Ended March 31,		Twelve Months Ended December 31,				
	2016	2015	2015	2014	2013	2012	2011
<b>Pre-Tax Pre-Provision Net Income:</b>							
Pre-tax income	\$ 2,380	\$ 2,228	\$ 11,029	\$ 7,404	\$ 10,157	\$ 6,230	\$ 2,073
Add: provision for loan and lease losses	937	136	1,651	3,869	938	3,968	1,897
Pre-tax pre-provision net income	3,317	2,363	12,680	11,273	11,095	10,198	3,970
<b>Tangible Equity:</b>							
Total shareholders’ equity	\$ 110,859	\$ 104,619	\$ 108,586	\$ 102,651	\$ 96,191	\$ 100,477	\$ 74,570
Less: intangible assets	6,330	6,385	6,344	6,398	284	317	—
Tangible equity	104,528	98,234	102,242	96,253	95,907	100,160	74,570
<b>Pre-Tax Pre-Provision Return on Average Assets:</b>							
Total average assets	\$ 1,180,768	\$ 1,137,720	\$ 1,140,760	\$ 1,064,705	\$ 1,028,709	\$ 846,901	\$ 612,775
Pre-tax pre-provision net income	3,317	2,363	12,680	11,273	11,095	10,197	3,970
Pre-tax pre-provision return on average assets	1.13%	0.84%	1.11%	1.06%	1.08%	1.20%	0.65%
<b>Return on Average Tangible Equity (ROATE):</b>							
Total average shareholders’ equity	\$ 110,718	\$ 104,086	\$ 106,727	\$ 101,030	\$ 99,153	\$ 88,990	\$ 70,625
Less: average intangible assets	6,338	6,392	6,371	6,855	301	1,151	—
Average tangible equity	104,380	97,694	100,356	94,175	98,852	87,839	70,625
Net income to shareholders	1,584	1,569	7,559	4,992	6,408	9,397	2,073
Return on average tangible equity (ROATE)	6.10%	6.51%	7.53%	5.30%	6.48%	10.70%	2.94%

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(Dollars in thousands, except per share information)	Three Months Ended March 31,		Twelve Months Ended December 31,				
	2016	2015	2015	2014	2013	2012	2011
<b>Efficiency Ratio:</b>							
Net interest income	\$ 8,956	\$ 8,170	\$ 34,773	\$ 32,416	\$ 34,581	\$ 27,284	\$ 16,307
Noninterest income	2,371	1,912	8,884	7,419	1,946	1,935	874
Operating revenue	11,327	10,082	43,657	39,835	36,527	29,219	17,181
Noninterest expense	8,010	7,718	30,977	28,562	25,431	19,021	13,211
Efficiency ratio	70.7%	76.6%	71.0%	71.7%	69.6%	65.1%	76.9%
<b>Adjusted Shares Outstanding at End of Period:</b>							
Shares of common stock outstanding	8,677,902	8,530,218	8,577,051	8,471,516	8,353,087	8,705,283	7,142,783
Shares of preferred stock outstanding	1,609,756	1,609,756	1,609,756	1,609,756	1,609,756	1,609,756	1,609,756
Adjusted shares outstanding at end of period	10,287,658	10,139,974	10,186,807	10,081,272	9,962,843	10,315,039	8,752,539
<b>Book Value per Share, Adjusted:</b>							
Total shareholders' equity	\$ 110,859	\$ 104,619	\$ 108,586	\$ 102,651	\$ 96,191	\$ 100,478	\$ 74,570
Adjusted shares outstanding at end of period	10,287,658	10,139,974	10,186,807	10,081,272	9,962,843	10,315,039	8,752,539
Book value per share, adjusted	\$ 10.78	\$ 10.32	\$ 10.66	\$ 10.18	\$ 9.65	\$ 9.74	\$ 8.52
<b>Tangible Book Value per Share, Adjusted:</b>							
Tangible equity	\$ 104,528	\$ 98,234	\$ 102,242	\$ 96,253	\$ 95,907	\$ 100,160	\$ 74,570
Adjusted shares outstanding at end of period	10,287,658	10,139,974	10,186,807	10,081,272	9,962,843	10,315,039	8,752,539
Tangible book value per share, adjusted	\$ 10.16	\$ 9.69	\$ 10.04	\$ 9.55	\$ 9.63	\$ 9.71	\$ 8.52
<b>Tangible Equity to Tangible Assets:</b>							
Tangible equity	\$ 104,528	\$ 98,234	\$ 102,242	\$ 96,253	\$ 95,907	\$ 100,160	\$ 74,570
Total assets	1,223,180	1,137,683	1,206,800	1,128,395	1,008,709	1,031,755	711,183
Less: intangible assets	6,330	6,385	6,344	6,398	284	317	—
Tangible assets	1,216,849	1,131,298	1,200,456	1,121,997	1,008,425	1,031,437	711,183
Tangible equity to tangible assets	8.59%	8.68%	8.52%	8.58%	9.51%	9.71%	10.49%
<b>Construction and Development to Total Risk-Based Capital (Regulatory threshold guidance of 100%):</b>							
Construction and development loans	\$ 52,480	\$ 49,144	\$ 52,522	\$ 46,193	\$ 30,217	\$ 35,674	\$ 24,676
Total risk-based capital	117,999	110,598	116,047	107,960	100,333	97,215	76,372
Construction and development loans to total risk-based capital (regulatory threshold guidance of 100%)	44.5%	44.4%	45.3%	42.8%	30.1%	36.7%	32.3%
<b>Commercial Real Estate and Construction Loans to Total Risk-Based Capital (Regulatory threshold guidance of 300%):</b>							
Construction and development loans	\$ 52,480	\$ 49,144	\$ 52,522	\$ 46,193	\$ 30,217	\$ 35,674	\$ 24,676
Commercial real estate—other (non farm)	161,255	122,065	142,849	126,392	110,053	106,393	76,416
Loans to finance commercial real estate, not secured by real estate	5,434	164	2,914	218	5,988	8,186	8,896
Subtotal	219,169	171,373	198,285	172,803	146,258	150,253	109,988
Total risk-based capital	117,999	110,598	116,047	107,960	100,333	97,215	76,372
Commercial real estate and construction loans to total risk-based capital (regulatory threshold guidance of 300%)	185.7%	155.0%	170.9%	160.0%	145.8%	154.6%	144.0%

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<b>(Dollars in thousands, except per share information)</b>	<b>Three Months Ended March 31,</b>		<b>Twelve Months Ended December 31,</b>				
	<b>2016</b>	<b>2015</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Purchase Volume as a % of Originations:</b>							
Total new purchase mortgage originations	\$ 54,469	\$ 53,084	\$ 304,073	\$ 192,355	—	—	—
Total mortgage refinance originations	30,639	45,220	118,250	60,744	—	—	—
Total mortgage origination volume	85,108	98,304	422,323	253,099	—	—	—
Purchase volume as a % of originations	64.0%	54.0%	72.0%	76.0%	—	—	—
<b>Gain on Sale as a % of Total Revenue:</b>							
Gain on sale of loans	\$ 1,347	\$ 1,217	\$ 5,962	\$ 4,067	\$ 59	—	—
Net interest income	8,956	8,170	34,773	32,416	34,581	\$ 27,284	\$ 16,307
Noninterest income	2,371	1,912	8,884	7,419	1,946	1,935	874
Operating revenue	11,327	10,082	43,657	39,835	36,527	29,219	17,181
Gain on sale as a % of total revenue	11.90%	12.08%	13.66%	10.21%	0.16%	0.00%	0.00%

## RISK FACTORS

*Investing in our common stock involves a significant degree of risk. You should carefully consider the following risk factors, in addition to the other information contained in this prospectus, before deciding to invest in our common stock. Any of the following risks, as well as risks that we do not know or currently deem immaterial, could materially and adversely affect our assets, business, cash flow, condition (financial or otherwise), liquidity, prospects and results of operations. As a result, the trading price of our common stock could decline and you could lose all or part of your investment. Further, to the extent that any of the information in this prospectus constitutes forward-looking statements, the risk factors below also are cautionary statements identifying important factors that could cause actual results to differ materially from those expressed in any forward-looking statements made by us or on our behalf. See “Cautionary Note Regarding Forward-Looking Statements” beginning on page 42.*

### Risks Related To Our Business

**As a business operating in the financial services industry, our business and operations may be adversely affected in numerous and complex ways by weak economic conditions.**

Our business and operations, which primarily consist of lending money to clients in the form of loans, borrowing money from clients in the form of deposits and investing in securities, are sensitive to general business and economic conditions in the United States. If the U.S. economy weakens, our growth and profitability from our lending, deposit and investment operations could be constrained. Uncertainty about the federal fiscal policymaking process, the medium- and long-term fiscal outlook of the federal government, and future tax rates is a concern for businesses, consumers and investors in the United States.

Weak economic conditions are characterized by numerous factors, including deflation, fluctuations in debt and equity capital markets, a lack of liquidity and/or depressed prices in the secondary market for mortgage loans, increased delinquencies on mortgage, consumer and commercial loans, residential and commercial real estate price declines and lower home sales and commercial activity. The current economic environment is also characterized by interest rates at near historically low levels, which impacts our ability to attract deposits and to generate attractive earnings through our loan and investment portfolios. All of these factors can individually or in the aggregate be detrimental to our business, and the interplay between these factors can be complex and unpredictable. Adverse economic conditions could have a material adverse effect on our assets, business, cash flow, condition (financial or otherwise), liquidity, prospects and results of operations.

The global financial markets continue to experience significant volatility as a result of, among other things, economic and political instability in the wake of the referendum in the United Kingdom in June 2016, in which the majority of voters voted in favor of an exit from the European Union, or Brexit. Following the vote on Brexit, stock markets worldwide experienced significant declines and certain currency exchange rates fluctuated substantially, and the outlook for the global economy in 2016 and beyond remains uncertain as negotiations commence to determine the future terms of the United Kingdom’s relationship with the European Union. Such global market instability may hinder future U.S. economic growth, which could adversely affect our assets, business, cash flow, condition (financial or otherwise), liquidity, prospects and results of operations.

**Our business and operations are concentrated in state of Tennessee generally and the Nashville MSA more specifically, and we are more sensitive than our more geographically diversified competitors to adverse changes in the local economy.**

Unlike with many of our larger competitors that maintain significant operations located outside our market area, substantially all of our clients are individuals and businesses located and doing business in the Nashville MSA. As of March 31, 2016, approximately 85% of the loans in our loan portfolio (measured by dollar amount) were made to borrowers who live or conduct business in the Nashville MSA. Therefore, our success will depend



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upon the general economic conditions in this area, which we cannot predict with certainty. As a result, our operations and profitability may be more adversely affected by a local economic downturn in the Nashville MSA than those of larger, more geographically diverse competitors. For example, the Nashville economy is particularly sensitive to changes in the healthcare service, music and entertainment and hospitality and tourism industries, among others. A downturn in these of the local economy or in the local economy generally could make it more difficult for our borrowers in that market to repay their loans and may lead to loan losses that are not offset by operations in other markets; it may also reduce the ability of depositors to make or maintain deposits with us. For these reasons, any regional or local economic downturn that affects the state of Tennessee generally and the Nashville MSA specifically, or existing or prospective borrowers or depositors in the Nashville MSA could have a material adverse effect on our assets, business, cash flow, condition (financial or otherwise), liquidity, prospects and results of operations.

From time to time, our bank may provide financing to clients who or that have companies or properties located outside the Nashville MSA or the state of Tennessee. In such cases, we would face similar local market risk in those communities for these clients.

### **Competition from financial institutions and other financial service providers may adversely affect our profitability.**

The banking business is highly competitive, and we experience competition in our market from many other financial institutions. We compete with commercial banks, credit unions, savings and loan associations, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market funds, and other mutual funds, as well as other community banks and super-regional and national financial institutions that operate offices in our service area. These competitors often have far greater resources than we do and are able to conduct more intensive and broader-based promotional efforts to reach both commercial and individual clients.

We compete with these other financial institutions both in attracting deposits and in making loans. In addition, we must attract our client base from other existing financial institutions and from new residents. We expect competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. Our profitability depends upon our continued ability to successfully compete with an array of financial institutions in our service area.

Our ability to compete successfully will depend on a number of factors, including, among other things:

- our ability to recruit and retain experienced and talented bankers at competitive compensation levels;
- our ability to build and maintain long-term client relationships while ensuring high ethical standards and safe and sound banking practices;
- the scope, relevance and pricing of products and services that we offer;
- client satisfaction with our products and services;
- industry and general economic trends; and
- our ability to keep pace with technological advances and to invest in new technology.

Increased competition could require us to increase the rates that we pay on deposits or lower the rates that we offer on loans, which could reduce our profitability. We derive a substantial majority of our business from the Nashville MSA. Our failure to compete effectively in our market could restrain our growth or cause us to lose market share, which could have a material adverse effect on our assets, business, cash flow, condition (financial or otherwise), liquidity, prospects and results of operations.

**We are dependent on the services of our management team and board of directors, and the unexpected loss of key personnel or directors may adversely affect our business and operations.**

We are led by an experienced core management team with substantial experience in the markets that we serve, and our operating strategy focuses on providing products and services through long-term relationship managers. Accordingly, our success depends in large part on the performance of our key personnel, as well as on our ability to attract, motivate and retain highly qualified senior and middle management. Competition for employees is intense, and the process of locating key personnel with the combination of skills and attributes required to execute our business plan may be lengthy. If any of our executive officers, other key personnel, or directors leaves us or our bank, our operations may be adversely affected. While we have employment agreements containing non-competition provisions with many of our key personnel, if any of such personnel leaves his or her position for any reason, our financial condition and results of operations may suffer because of their skills, knowledge of our market, years of industry experience and the difficulty of promptly finding qualified personnel to replace him or her. Additionally, our directors' community involvement and diverse and extensive local business relationships are important to our success.

**Our business strategy includes the continuation of our growth plans, and we could be negatively affected if we fail to grow or fail to manage our growth effectively.**

We intend to continue pursuing our growth strategy for our business through organic growth of our loan and deposit portfolio as well as through strategic acquisitions. Our prospects must be considered in light of the risks, expenses and difficulties that can be encountered by financial service companies in rapid growth stages, which include the risks associated with the following:

- maintaining loan quality;
- maintaining adequate management personnel and information systems to oversee such growth;
- maintaining adequate control and compliance functions;
- obtaining regulatory approvals with respect to acquisitions;
- entry into new markets, industries, and product areas; and
- securing capital and liquidity needed to support anticipated growth.

We may not be able to expand our presence in our existing market or new markets. Our ability to grow successfully will depend on a variety of factors, including the continued availability of desirable business opportunities, the competitive responses from other financial institutions in our market areas and our ability to manage our growth. Failure to manage our growth effectively could adversely affect our ability to successfully implement our business strategy, which could have a material adverse effect on our assets, business, cash flow, condition (financial or otherwise), liquidity, prospects and results of operations.

**As a bank that focuses on building comprehensive banking relationships with clients, our reputation is critical to our business, and damage to it could have a material adverse effect on us.**

A key differentiating factor for our business is the strong brand we are building in the Nashville MSA market. Through our branding, we clearly communicate to the market about our company and our service offerings. Maintaining a positive reputation is critical to our attracting and retaining clients and employees. Adverse perceptions of us could make it more difficult for us to execute on our strategy. Harm to our reputation can arise from many sources, including actual or perceived employee misconduct, misconduct by our outsourced service providers or other counterparties, litigation or regulatory actions, failure by us to meet the standards of service and quality we have set and compliance failures. Negative publicity regarding us or our bank, whether or not accurate, may damage our reputation, which could have a material adverse effect on our assets, business, cash flow, condition (financial or otherwise), liquidity, prospects and results of operations.

**We target small and medium sized businesses as loan clients, who may have greater credit risk than larger borrowers.**

We target small and medium sized businesses as loan clients. Because of their size, these borrowers may be less able to withstand competitive, economic or financial pressures than larger borrowers in periods of economic weakness. If loan losses occur at a level where the loan loss reserve is not sufficient to cover actual loan losses, our earnings will decrease.

**Our concentration of large loans to a limited number of borrowers may increase our credit risk.**

Our growth over the last several years has been partially attributable to our ability to originate and retain large loans. In addition to regulatory limits to which our bank is subject, we have established an internal policy limiting loans to one borrower, principal or guarantor based on “total exposure,” which represents the aggregate exposure of economically related borrowers for approval purposes; loans in excess of our internal limit require acknowledgment by our bank’s full board of directors. Many of these loans have been made to a small number of borrowers, resulting in a concentration of large loans to certain borrowers. As of March 31, 2016, our 10 largest borrowing relationships accounted for approximately 14% of our total loan portfolio. Along with other risks inherent in these loans, such as the deterioration of the underlying businesses or property securing these loans, this high concentration of borrowers presents a risk to our lending operations. If any one of these borrowers becomes unable to repay its loan obligations as a result of economic or market conditions, or personal circumstances, such as divorce or death, our non-accrual loans and our allowance for loan and lease losses could increase significantly, which could have a material adverse effect on our assets, business, cash flow, condition (financial or otherwise), liquidity, prospects and results of operations.

**Lack of seasoning of our loan portfolio could increase risk of credit defaults in the future.**

As a result of our growth over the past several years, as of March 31, 2016, approximately \$490 million of the loans in our loan portfolio, or 58% of our loan portfolio, had been originated since March 31, 2014, including new originations and renewals. In general, loans do not begin to show signs of credit deterioration or default until they have been outstanding for some period of time, a process referred to as “seasoning.” As a result, a portfolio of older loans will usually behave more predictably than a newer portfolio. Because a large portion of our portfolio is relatively new, the current level of delinquencies and defaults may not represent the level of delinquencies and defaults that could occur as the portfolio becomes more seasoned and may not serve as a reliable basis for predicting the health and nature of our loan portfolio, including net charge-offs and the ratio of non-performing assets in the future. Our limited experience with these loans does not provide us with a significant payment history pattern with which to judge future collectability. As a result, it may be difficult to predict the future performance of our loan portfolio. If delinquencies and defaults increase, we may be required to increase our allowance for loan and lease losses, which could have a material adverse effect on our assets, business, cash flow, condition (financial or otherwise), liquidity, prospects and results of operations.

**We may not be able to adequately assess and limit our credit risk, which could adversely affect our profitability.**

A primary component of our business involves making loans to clients. The business of lending is inherently risky because the principal of or interest on the loan may not be repaid timely or at all or the value of any collateral supporting the loan may be insufficient to cover our outstanding exposure. These risks may be affected by the strength of the borrower’s business sector and local, regional and national market and economic conditions. Our risk management practices, such as monitoring our loan applicants and the concentration of our loans within specific lines of business and our credit approval practices, may not adequately assess credit risk, and our credit administration personnel, policies and procedures may not adequately adapt to changes in economic or any other conditions affecting clients and the quality of the loan portfolio. A failure to effectively

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assess and limit the credit risk associated with our loan portfolio could have a material adverse effect on our assets, business, cash flow, condition (financial or otherwise), liquidity, prospects and results of operations.

### **Our allowance for loan and lease losses may prove to be insufficient to absorb losses inherent in our loan portfolio.**

We maintain an allowance for loan and lease losses that represents management's best estimate of the loan and lease losses and risks inherent in our loan portfolio. The level of the allowance reflects management's continuing evaluation of concentrations within our lines of business, specific credit risks, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. The determination of the appropriate level of the allowance for loan and lease losses is highly subjective and requires us to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Inaccurate management assumptions, continuing deterioration of economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require us to increase our allowance for loan and lease losses. In addition, our regulators, as an integral part of their examination process, periodically review our loan portfolio and the adequacy of our allowance for loan and lease losses and may require adjustments based upon judgments that are different than those of management. Further, if actual charge-offs in future periods exceed the amounts allocated to the allowance for loan and lease losses, we may need to increase our provision for loan and lease losses to restore the adequacy of our allowance for such losses. If we are required to materially increase our level of allowance for loan and lease losses for any reason, our assets, business, cash flow, condition (financial or otherwise), liquidity, prospects and results of operations could be materially and adversely affected.

### **The healthcare service industry is an integral component of the local economy, and adverse trends in the healthcare service industry could have a material adverse effect on us.**

The healthcare service industry is an integral segment of the local economy, having a local impact of approximately \$38.8 billion and more than 250,000 jobs in the Nashville MSA according to data from the Nashville Healthcare Council as of June 2015. As of March 31, 2016, approximately 20% of our loan portfolio was composed of loans to borrowers in the healthcare service industry. Adverse trends in the healthcare service industry may have a negative impact on a significant portion of the Company's borrowers and clients. The healthcare service industry may be affected by the following:

- trends in the method of delivery of healthcare services;
- competition among healthcare providers;
- consolidation of large health insurers;
- lower reimbursement rates from government and commercial payors, high uncompensated care expense, investment losses and limited admissions growth pressuring operating profit margins for healthcare providers;
- availability of capital;
- credit downgrades;
- liability insurance expense;
- regulatory and government reimbursement uncertainty resulting from changes to laws governing the delivery of healthcare services and reimbursement of providers of healthcare services;
- congressional efforts to repeal and federal court cases challenging the legality of certain aspects of the Patient Protection and Affordable Care Act and the Healthcare and Education Reconciliation Act of 2010;

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- health reform initiatives to address healthcare costs through expanded value-based purchasing programs, bundled provider payments, health insurance exchanges, increased patient cost-sharing, geographic payment variations, comparative effectiveness research, lower payments for hospital readmissions, and shared risk-and-reward payment models such as accountable care organizations;
- federal and state government plans to reduce budget deficits and address debt ceiling limits by lowering healthcare provider Medicare and Medicaid payment rates, while requiring increased patient access to care;
- equalizing Medicare payment rates across different facility-type settings;
- heightened health information technology security standards and the meaningful use of electronic health records by healthcare providers; and
- potential tax law changes affecting healthcare providers.

These changes, among others, could adversely affect the economic performance of some or all of our borrowers and clients in the healthcare services industry and, in turn, have a materially negative impact on our assets, business, cash flow, condition (financial or otherwise), liquidity, prospects and results of operations.

### **Our commercial real estate loan portfolio exposes us to credit risks that may be greater than the risks related to other types of loans.**

Our loan portfolio includes non-owner-occupied commercial real estate loans, or CRE loans, to individuals and businesses for various purposes, which are secured by commercial properties, as well as construction and land development loans. CRE loans typically involve repayment dependent upon income generated, or expected to be generated, by the property securing the loan in amounts sufficient to cover operating expenses and debt service. The availability of such income for repayment may be adversely affected by changes in the economy or local market conditions. These loans expose us to greater credit risk than loans secured by other types of collateral because the collateral securing these loans is typically more difficult to liquidate. Additionally, non-owner-occupied CRE loans generally involve relatively large balances to single borrowers or related groups of borrowers. Unexpected deterioration in the credit quality of our non-owner-occupied CRE loan portfolio could require us to increase our allowance for loan and lease losses, which would reduce our profitability and could have a material adverse effect on our assets, business, cash flow, condition (financial or otherwise), liquidity, prospects and results of operations.

### **A prolonged downturn in the real estate market could result in losses and adversely affect our profitability.**

As of March 31, 2016, approximately 32% of our loan portfolio was composed of commercial real estate loans, 11% consumer real estate loans, and 6% construction and land development loans. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. A decline in real estate values could further impair the value of our collateral and our ability to sell the collateral upon any foreclosure, which would likely require us to increase our allowance for loan and lease losses. In the event of a default with respect to any of these loans, the amounts we receive upon sale of the collateral may be insufficient to recover the outstanding principal and interest on the loan. If we are required to re-value the collateral securing a loan to satisfy the debt during a period of reduced real estate values or to increase our allowance for loan and lease losses, our profitability could be adversely affected, which could have a material adverse effect on our assets, business, cash flow, condition (financial or otherwise), liquidity, prospects and results of operations.

### **Regulatory requirements affecting our loans secured by commercial real estate could limit our ability to leverage our capital and adversely affect our growth and profitability.**

The federal bank regulatory agencies have indicated their view that banks with high concentrations of loans secured by commercial real estate are subject to increased risk and should implement robust risk management

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policies and maintain higher capital than regulatory minimums to maintain an appropriate cushion against loss that is commensurate with the perceived risk. Federal bank regulatory guidelines identify institutions potentially exposed to CRE concentration risk as those that have (i) experienced rapid growth in CRE lending, (ii) notable exposure to a specific type of CRE, (iii) total reported loans for construction, land development and other land loans representing 100% or more of the institution's capital, or (iv) total CRE loans representing 300% or more of the institution's capital if the outstanding balance of the institution's CRE loan portfolio has increased 50 percent or more during the prior 36 months. Because a significant portion of our loan portfolio is dependent on commercial real estate, a change in the regulatory capital requirements applicable to us or a decline in our regulatory capital could limit our ability to leverage our capital as a result of these policies, which could have a material adverse effect on our assets, business, cash flow, condition (financial or otherwise), liquidity, prospects and results of operations.

### **We engage in lending secured by real estate and may be forced to foreclose on the collateral and own the underlying real estate, subjecting us to the costs and potential risks associated with the ownership of the real property.**

Since we originate loans secured by real estate, we may have to foreclose on the collateral property to protect our investment and may thereafter own and operate such property, in which case we would be exposed to the risks inherent in the ownership of real estate. As of March 31, 2016, we did not have any other real estate owned. The amount that we, as a mortgagee, may realize after a default is dependent upon factors outside of our control, including, but not limited to:

- general or local economic conditions;
- environmental cleanup liability;
- neighborhood assessments;
- interest rates;
- real estate tax rates;
- operating expenses of the mortgaged properties;
- supply of and demand for rental units or properties;
- ability to obtain and maintain adequate occupancy of the properties;
- zoning laws;
- governmental and regulatory rules;
- fiscal policies; and
- natural disasters.

Our inability to manage the amount of costs or size of the risks associated with the ownership of real estate, or write-downs in the value of other real estate owned, could have a material adverse effect on our assets, business, cash flow, condition (financial or otherwise), liquidity, prospects and results of operations.

### **We have several large depositor relationships, the loss of which could force us to fund our business through more expensive and less stable sources.**

As of March 31, 2016, our 10 largest non-brokered depositors accounted for \$255.7 million in deposits, or approximately 24% of our total deposits. Further, our non-brokered deposit account balance was \$967.1 million, or approximately 89% of our total deposits, as of March 31, 2016.

Withdrawals of deposits by any one of our largest depositors could force us to rely more heavily on borrowings and other sources of funding for our business and withdrawal demands, adversely affecting our net interest margin and results of operations. We may also be forced, as a result of any withdrawal of deposits, to

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rely more heavily on other, potentially more expensive and less stable funding sources. Consequently, the occurrence of any of these events could have a material adverse effect on our assets, business, cash flow, condition (financial or otherwise), liquidity, prospects and results of operations.

### **Correspondent banking introduces unique risks, which could affect our liquidity.**

Our correspondent banking line of business comprised over \$168.6 million of deposits as of March 31, 2016. Although correspondent banking provides diversification of our funding base, it introduces a unique set of risks. Increases in the federal funds rate could create liquidity issues within the bank as it competes with the interest on reserves rate paid by the Federal Reserve Bank. Additionally, strong industry-wide loan demand could also create liquidity issues as excess balances held at CapStar Bank by our correspondent banks would presumably be redeployed by those banks into new loans. Further, capital inadequacy or asset quality issues at other institutions could result in increased risk to us due to the potential for large deposit withdrawals. If any of the foregoing were to occur, our liquidity could be materially and adversely affected.

### **Liquidity risk could impair our ability to fund operations and meet our obligations as they become due, and our funding sources may be insufficient to fund our future growth.**

Liquidity is essential to our business. Liquidity risk is the potential that we will be unable to meet our obligations as they come due because of an inability to liquidate assets or obtain adequate funding. An inability to raise funds, at competitive rates or at all, through deposits, borrowings, the sale of loans and other sources could have a substantial negative effect on our liquidity. In particular, approximately 84% of our bank's deposits as of March 31, 2016 were checking accounts and other liquid deposits, which are payable on demand or upon several days' notice, while by comparison, 68% of the assets of our bank were loans at March 31, 2016, which cannot be called or sold in the same time frame. Our access to funding sources in amounts adequate to finance our activities or on terms that are acceptable to us could be impaired by factors that affect us specifically or the financial services industry or economy in general.

Factors that could negatively impact our access to liquidity sources include a decrease of our business activity as a result of a downturn in the markets in which our loans are concentrated, adverse regulatory action against us, or our inability to attract and retain deposits. Market conditions or other events could also negatively affect the level or cost of funding, affecting our ongoing ability to accommodate liability maturities and deposit withdrawals, meet contractual obligations and fund asset growth and new business transactions at a reasonable cost, in a timely manner and without adverse consequences. For example, we rely on deposits, federal funds purchased and advances from the Federal Home Loan Bank of Cincinnati, or FHLB, to fund our operations. As of March 31, 2016, we had \$15 million of advances from the FHLB outstanding. Although we have historically been able to replace maturing deposits and advances if desired, we may not be able to replace such funds in the future if, among other things, our financial condition, the financial condition of the FHLB or market conditions were to change. In such a circumstance, we may seek additional borrowings to achieve our long-term business objectives; however, they may not be available to us on favorable terms or at all.

Additionally, whole loan sale agreements may require us to repurchase or substitute mortgage loans, or indemnify buyers against losses, in the event we breach representations or warranties to purchasers, guarantors and insurers, including government-sponsored entities, about the mortgage loans and the manner in which they were originated. In addition, we may be required to repurchase mortgage loans as a result of early payment default of the borrower on a mortgage loan. If repurchase and indemnity demands increase and such demands are valid claims and are in excess of our provision for potential losses, our liquidity, results of operations and financial condition may be adversely affected.

Any substantial, unexpected or prolonged change in the level or cost of liquidity could have a material adverse effect on our ability to meet deposit withdrawals and other client needs, which could have a material adverse effect on our assets, business, cash flow, condition (financial or otherwise), liquidity, prospects and results of operations.

**We are subject to interest rate risk, which could adversely affect our profitability, and we do not have a history of operating in a rising interest rate environment.**

Our profitability, like that of most financial institutions, depends to a large extent on our net interest income, which is the difference between our interest income on interest-earning assets, such as loans and investment securities, and our interest expense on interest-bearing liabilities, such as deposits and borrowings. We have positioned our asset portfolio to benefit in a higher interest rate environment, but this may not remain true in the future. We have managed the growth of our bank since inception in an economic environment characterized by historically low interest rates. Our ability to continue that performance in a rising rate environment is not a certainty. Our interest sensitivity profile was asset sensitive as of March 31, 2016, meaning that our net interest income would increase more from rising interest rates than from falling interest rates. However, because we do not have a history of operating in a rising interest rate environment, we have no historical data on which to model the actual effect of rising interest rates on our assets and liabilities. As a result, these models may not be an accurate indicator of how our interest income will be affected by changes in interest rates.

Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Board of Governors of the Federal Reserve System. Changes in monetary policy, including changes in interest rates, could influence not only the interest we receive on loans and securities and the interest we pay on deposits and borrowings but could also affect our ability to originate loans and obtain deposits, the fair value of our financial assets and liabilities, and the average duration of our assets. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, our net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings.

In addition, an increase in interest rates could also have a negative impact on our results of operations by reducing the ability of borrowers to repay their current loan obligations. These circumstances could not only result in increased loan defaults, foreclosures and charge-offs, but also necessitate further increases to the allowance for loan and lease losses which could have a material adverse effect on our assets, business, cash flow, condition (financial or otherwise), liquidity, prospects and results of operations.

**Changes in monetary policy and government responses to adverse economic conditions such as inflation and deflation may have an adverse effect on our business, financial condition and results of operations.**

Our financial condition and results of operations are affected by credit policies of monetary authorities, particularly the Board of Governors of the Federal Reserve System. Actions by monetary and fiscal authorities, including the Federal Reserve, could lead to inflation, deflation, or other economic phenomena that could adversely affect our financial performance. The primary impact of inflation on our operations most likely will be reflected in increased operating costs. Conversely, deflation generally will tend to erode collateral values and diminish loan quality.

**Our recent results may not be indicative of our future results and may not provide sufficient guidance to assess the risk of an investment in our common stock.**

Our business has grown rapidly. Although rapid business growth can reflect favorable business conditions, financial institutions that grow rapidly can experience significant difficulties as a result of rapid growth. Failure to build infrastructure sufficient to support rapid growth and suffering loan losses in excess of reserves for such losses, as well as other risks associated with rapidly growing financial institutions, could materially impact our operations.

We may not be able to sustain our historical rate of growth and may not be able to expand our business at all. In addition, our recent growth may distort some of our historical financial ratios and statistics. Various factors,



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such as economic conditions, regulatory and legislative considerations and competition, may also impede or prohibit our ability to expand our market presence. As a small commercial bank, we have different lending risks than larger banks. We provide services to our local communities; thus, our ability to diversify our economic risks is limited by our own local market and economy. We lend primarily to small and medium sized businesses, which may expose us to greater lending risks than those faced by banks lending to larger, better-capitalized businesses with longer operating histories. We manage our credit exposure through careful monitoring of loan applicants and loan concentrations in particular industries, and through our loan approval and review procedures. Our use of historical and objective information in determining and managing credit exposure may not be accurate in assessing our risk. Our failure to sustain our historical rate of growth or adequately manage the factors that have contributed to our growth could have a material adverse effect on our assets, business, cash flow, condition (financial or otherwise), liquidity, prospects and results of operations.

### **Our bank's size presents multiple challenges that may restrict our growth and prevent us from effectively implementing our business strategy, such as our regulatory and internal lending limits and our ability to effectively leverage our infrastructure to implement our business strategy.**

We are limited in the amount our bank can loan in the aggregate to a single borrower or related borrowers by the amount of the bank's capital. CapStar Bank is a Tennessee-chartered bank and therefore is subject to the legal lending limits of the state of Tennessee and federal law. Tennessee and federal legal lending limits are safety and soundness measures intended to prevent one person or a relatively small and economically related group of persons from borrowing an unduly large amount of a bank's funds. They are also intended to safeguard a bank's depositors by diversifying the risk of loan losses among a relatively large number of credit-worthy borrowers engaged in various types of businesses. Under Tennessee law, total loans and extensions of credit to a borrower generally may not exceed 15% of our bank's capital, surplus and undivided profits. However, such loans may be in excess of that percentage, but not above 25%, if each loan in excess of 15% is first submitted to and approved in writing by the board of directors and a record is kept of such written approval and reported to the board of directors quarterly. Under federal law applicable to Federal Reserve member banks, total loans and extensions of credit to a borrower may not exceed 15% of our bank's unimpaired capital and surplus. However, such loans may be in excess of that percentage, but not above 25%, if each loan in excess of 15% is fully collateralized by readily marketable collateral. We have also established an internal limit on loans to one borrower between 7% and 15% of our capital, surplus and undivided profits, depending upon the underlying risk rating. Loans in excess of our internal limit are noted as a policy exception and require acknowledgment by our bank's full board of directors. Based upon our bank's current capital levels, the amount it may lend is significantly less than that of many of our larger competitors and may discourage potential borrowers who have credit needs in excess of the bank's lending limit from doing business with us. Our bank accommodates larger loans by selling participations in those loans to other financial institutions, but this strategy may not always be available. If we are unable to compete effectively for loans from our target clients, we may not be able to effectively implement our business strategy, which could have a material adverse effect on our assets, business, cash flow, condition (financial or otherwise), liquidity, prospects and results of operations.

### **Our growth strategy may involve strategic acquisitions, and we may not be able to overcome risks associated with such transactions.**

We plan to continue to explore opportunities to acquire other financial institutions and businesses in or around our existing Nashville market or in comparable markets or that would involve lines of business that are additive to our existing products and services. Our acquisition activities could be material to our business and involve a number of risks, including the following:

- the need to raise new capital;
- the time and expense associated with identifying and evaluating potential acquisitions and negotiating potential transactions, resulting in our management's attention being diverted from the operation of our existing business;

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- the lack of history among our management team in working together on acquisitions and related integration activities;
- the time, expense and difficulty of integrating the operations and personnel of the combined businesses;
- an inability to realize expected synergies or returns on investment;
- failure to discover the existence of liabilities during the due diligence process;
- exposure to unknown or contingent liabilities for which we may not be indemnified;
- potential disruption of our ongoing banking business; and
- a loss of key employees or key clients following an acquisition.

We may not be successful in overcoming these risks or any other problems encountered in connection with potential acquisitions. Our inability to overcome these risks could have an adverse effect on our ability to implement our business strategy and enhance shareholder value, which, in turn, could have a material adverse effect on our assets, business, cash flow, condition (financial or otherwise), liquidity, prospects and results of operations.

### **Our continued pace of growth may require us to raise additional capital in the future to fund such growth, and the unavailability of additional capital on terms acceptable to us could adversely affect us or our growth.**

After giving effect to this offering, we believe that we will have sufficient capital to meet our capital needs for our immediate growth plans. However, we will continue to need capital to support our longer-term growth plans. If capital is not available on favorable terms when we need it, we will have to either issue common stock or other securities on less than desirable terms or reduce our rate of growth until market conditions become more favorable. Either of such events could have a material adverse effect on our assets, business, cash flow, condition (financial or otherwise), liquidity, prospects and results of operations.

### **The fair value of our investment securities could fluctuate because of factors outside of our control, which could have a material adverse effect on us.**

As of March 31, 2016, the fair value of our investment securities portfolio was approximately \$236.9 million. Factors beyond our control could significantly affect the fair value of these securities. These factors include, but are not limited to, rating agency actions in respect of the securities, defaults by the issuer or with respect to the underlying securities, and changes in market interest rates and continued instability in the capital markets. Any of these factors, among others, could cause other-than-temporary impairments, or OTTI, and realized and/or unrealized losses in future periods and declines in earnings and/or other comprehensive income (loss), which could materially and adversely affect our assets, business, cash flow, condition (financial or otherwise), liquidity, prospects and results of operations. The process for determining whether impairment of a security is OTTI usually requires complex, subjective judgments about the future financial performance and liquidity of the issuer, any collateral underlying the security as well as the Company's intent and ability to hold the security for a sufficient period of time to allow for any anticipated recovery in fair value in order to assess the probability of receiving all contractual principal and interest payments on the security. Our failure to assess any impairments or losses with respect to our securities could have a material adverse effect on our assets, business, cash flow, condition (financial or otherwise), liquidity, prospects and results of operations.

### **Deterioration in the fiscal position of the U.S. federal government and downgrades in the U.S. Department of the Treasury and federal agency securities could adversely affect us and our banking operations.**

The long-term outlook for the fiscal position of the U.S. federal government is uncertain, as illustrated by the 2011 downgrade by certain rating agencies of the credit rating of the U.S. government and federal agencies.

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However, in addition to causing economic and financial market disruptions, any future downgrade, failure to raise the U.S. statutory debt limit, or deterioration in the fiscal outlook of the U.S. federal government, could, among other things, materially adversely affect the market value of the U.S. and other government and governmental agency securities that we hold, the availability of those securities as collateral for borrowing, and our ability to access capital markets on favorable terms. In particular, such events could increase interest rates and disrupt payment systems, money markets, and long-term or short-term fixed income markets, adversely affecting the cost and availability of funding, which could negatively affect our profitability. Also, the adverse consequences of any downgrade could extend to those to whom we extend credit and could adversely affect their ability to repay their loans. Any of these developments could have a material adverse effect on our assets, business, cash flow, condition (financial or otherwise), liquidity, prospects and results of operations.

### **We are subject to losses resulting from fraudulent and negligent acts on the part of loan applicants, our borrowers, other third parties, and our employees.**

When we originate loans, we rely heavily upon information supplied by third parties, including the information contained in the loan application, property appraisal, title information and employment and income documentation. If any of this information is intentionally or negligently misrepresented and such misrepresentation is not detected prior to loan funding, the fair value of the loan may be significantly lower than expected. Whether a misrepresentation is made by the loan applicant, the borrower, another third party or one of our employees, we generally bear the risk of loss associated with the misrepresentation. The persons and entities involved in such a misrepresentation are often difficult to locate, and we are often unable to collect any monetary losses that we have suffered from them.

### **We may bear costs associated with the proliferation of computer theft and cyber-crime.**

We necessarily collect, use and hold sensitive data concerning individuals and businesses with whom we have a banking relationship. Threats to data security, including unauthorized access and cyber-attacks, rapidly emerge and change, exposing us to additional costs for protection or remediation and competing time constraints to secure our data in accordance with client expectations and statutory and regulatory requirements. It is not feasible to defend against every risk being posed by changing technologies as well as criminals intent on committing cyber-crime, particularly given their increasing sophistication. Patching and other measures to protect existing systems and servers could be inadequate, especially on systems that are being retired. Controls employed by our information technology department and third-party vendors could prove inadequate. We could also experience a breach by intentional or negligent conduct on the part of our employees or other internal sources, software bugs or other technical malfunctions, or other causes. As a result of any of these threats, our client accounts may become vulnerable to account takeover schemes or cyber-fraud. Our systems and those of our third-party vendors may also become vulnerable to damage or disruption due to circumstances beyond our or their control, such as from network failures, viruses and malware, power anomalies or outages, natural disasters and catastrophic events.

A breach of our security or the security of our third-party vendors that results in unauthorized access to our data could expose us to a disruption or challenges relating to our daily operations as well as to data loss, litigation, damages, fines and penalties, client notification requirements, significant increases in compliance costs, and reputational damage, any of which could individually or in the aggregate have a material adverse effect on our assets, business, cash flow, condition (financial or otherwise), liquidity, prospects and results of operations.

### **Our risk management framework may not be effective in mitigating risks and/or losses to us.**

Our risk management framework is comprised of various processes, systems and strategies and is designed to manage the types of risk to which we are subject, including, among others, credit, liquidity, capital, financial performance, asset/liability, operational, compliance and regulatory, Community Reinvestment Act, or CRA,

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strategic and reputational, information technology and legal. Our framework also includes financial or other modeling methodologies that involve management assumptions and judgment. Our risk management framework may not be effective under all circumstances, including if our management fails to follow our credit policies and procedures, and thus, it may not adequately mitigate any risk or loss to us. If our framework is not effective, we could suffer unexpected losses and our assets, business, cash flow, condition (financial or otherwise), liquidity, prospects and results of operations could be materially and adversely affected. We may also be subject to potentially adverse regulatory consequences.

### **We depend on our information technology and telecommunications systems, and any systems failures or interruptions could adversely affect our operations and financial condition.**

We rely heavily on communications and information systems to conduct our business. Any failure or interruption in the operation of these systems could impair or prevent the effective operation of our client relationship management, general ledger, deposit, lending or other functions. While we have policies and procedures designed to prevent or limit the effect of a failure or interruption in the operation of our information systems, there can be no assurance that any such failures or interruptions will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failures or interruptions impacting our information systems could damage our reputation, result in a loss of clients, and expose us to additional regulatory scrutiny, civil litigation, and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations.

### **We are dependent upon outside third parties for the processing and handling of our records and data.**

We rely on software developed by third-party vendors to process various transactions. In some cases, we have contracted with third parties to run their proprietary software on our behalf. These systems include, but are not limited to, general ledger, payroll, employee benefits, loan and deposit processing, and securities portfolio accounting. For example, one vendor provides our entire core banking system through a service bureau arrangement. While we perform a review of controls instituted by the applicable vendors over these programs in accordance with industry standards and perform our own testing of user controls, we rely on the continued maintenance of controls by these third-party vendors, including safeguards over the security of client data. We may incur a temporary disruption in our ability to conduct business or process transactions, or incur damage to our reputation, if the third-party vendor fails to adequately maintain internal controls or institute necessary changes to systems. Such a disruption or breach of security may have a material adverse effect on our business. In addition, we may not be able to obtain or continue to obtain licenses and technologies from these third parties on reasonable terms or at all.

### **We encounter technological change continually and have fewer resources than certain of our competitors to invest in technological improvements.**

The financial services industry is undergoing rapid technological changes, with frequent introductions of new technology-driven products and services. In addition to serving clients better, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our success will depend in part on our ability to address our clients' needs by using technology to provide products and services that will satisfy client demands for convenience, as well as to create additional efficiencies in our operations. Certain of our competitors have substantially greater resources to invest in technological improvements than us, and in the future, we may not be able to implement new technology-driven products and services timely, effectively or at all or be successful in marketing these products and services to our clients. As these technologies are improved in the future, we may, in order to remain competitive, be required to make significant capital expenditures, which may increase our overall expenses and have a material adverse effect on our net income.

**We may be adversely affected by the lack of soundness of other financial institutions.**

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services companies are interrelated as a result of trading, clearing, counterparty, and other relationships. We have exposure to different industries and counterparties, and through transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, and other institutional clients. Defaults by, or even rumors or questions about, one or more financial services companies, or the financial services industry generally, have led to market-wide liquidity problems in the past and could lead to losses or defaults by us or by other institutions in the future. These losses or defaults could have a material adverse effect on our assets, business, cash flow, condition (financial or otherwise), liquidity, prospects and results of operations.

**We are subject to environmental liability risk associated with our lending activities.**

In the course of our business, we may purchase real estate, or we may foreclose on and take title to real estate. As a result, we could be subject to environmental liabilities with respect to these properties. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination or may be required to investigate or clean up hazardous or toxic substances or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. Any significant environmental liabilities could have a material adverse effect on our assets, business, cash flow, condition (financial or otherwise), liquidity, prospects and results of operations.

**By engaging in derivative transactions, we are exposed to additional credit and market risk.**

We use interest rate swaps to help manage our interest rate risk from recorded financial assets and liabilities when they can be demonstrated to effectively hedge a designated asset or liability and the asset or liability exposes us to interest rate risk or risks inherent in client related derivatives. As of March 31, 2016, we had \$35 million notional value of interest rate swaps. Hedging interest rate risk is a complex process, requiring sophisticated models and routine monitoring, and is not a perfect science. As a result of interest rate fluctuations, hedged assets and liabilities will appreciate or depreciate in market value. The effect of this unrealized appreciation or depreciation will generally be offset by income or loss on the derivative instruments that are linked to the hedged assets and liabilities. We also have derivatives that result from a service we provide to certain qualifying clients approved through our credit process, and therefore, are not used to manage interest rate risk in our assets or liabilities. By engaging in derivative transactions, we are exposed to credit and market risk. If the counterparty fails to perform, credit risk exists to the extent of the fair value gain in the derivative. Market risk exists to the extent that interest rates change in ways that are significantly different from what we expected when we entered into the derivative transaction. The existence of credit and market risk associated with our derivative instruments could adversely affect our net interest income and, therefore, could have a material adverse effect on our assets, business, cash flow, condition (financial or otherwise), liquidity, prospects and results of operations.

**We are or may become involved from time to time in suits, legal proceedings, information-gathering requests, investigations and proceedings by governmental and self-regulatory agencies that may lead to adverse consequences.**

Many aspects of our business involve substantial risk of legal liability. From time to time, we are, or may become, the subject of lawsuits and related legal proceedings, governmental and self-regulatory agency information-gathering requests, reviews, investigations and proceedings and other forms of regulatory inquiry,

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including by bank regulatory agencies, the Securities and Exchange Commission, or SEC, and law enforcement authorities. The results of such proceedings could lead to significant civil or criminal penalties, including monetary penalties, damages, adverse judgments, settlements, fines, injunctions, restrictions on the way in which we conduct our business, or reputational harm.

Although we establish accruals for legal proceedings when information related to the loss contingencies represented by those matters indicates both that a loss is probable and that the amount of loss can be reasonably estimated, we may not have accruals for all legal proceedings where we face a risk of loss. In addition, due to the inherent subjectivity of the assessments and unpredictability of the outcome of legal proceedings, amounts accrued may not represent the ultimate loss to us from the legal proceedings or government or other inquiries. Thus, our ultimate losses may be higher, and possibly materially so, than the amounts accrued for legal loss contingencies, which could adversely affect our financial condition and results of operations.

### **The Nashville MSA is susceptible to floods, tornados and other natural disasters, adverse weather events and acts of God, which may adversely affect our business and operations.**

Substantially all of our business and operations are located in the Nashville MSA, which is an area that has recently been damaged by floods and tornadoes and that is susceptible to other natural disasters, adverse weather events and acts of God. Natural disasters, adverse weather events and acts of God can disrupt our operations, cause widespread property damage, and severely depress the local economies in which we operate. Any economic decline as a result of natural disasters, adverse weather events or acts of God can reduce the demand for loans and our other client solutions as well as client ability to repay such loans. In addition, the rates of delinquencies, foreclosures, bankruptcies and losses on loan portfolios may increase substantially, as uninsured property losses or sustained job interruption or loss may materially impair the ability of borrowers to repay their loans. Moreover, the value of real estate or other collateral that secures the loans could be materially and adversely affected by natural disasters, adverse weather events or acts of God. Therefore, natural disasters, adverse weather events or acts of God could result in decreased revenue and loan losses that have a material adverse effect on our assets, business, cash flow, condition (financial or otherwise), liquidity, prospects and results of operations.

### **Our internal controls over financial reporting may not be effective, and our independent registered public accounting firm may not be able to certify as to their effectiveness, which could have a significant and adverse effect on our business and reputation.**

We are not currently required to comply with SEC rules that implement Section 404 of the Sarbanes-Oxley Act and are, therefore, not required to make a formal assessment of the effectiveness of our internal controls over financial reporting for that purpose. We will be required to comply with these rules upon ceasing to be an emerging growth company, as defined in the JOBS Act.

When evaluating our internal controls over financial reporting, we may identify material weaknesses that we may not be able to remediate in time to meet the applicable deadline imposed upon us for compliance with the requirements of Section 404 of the Sarbanes-Oxley Act. In addition, if we fail to achieve and maintain the adequacy of our internal controls, as such standards are modified, supplemented, or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. We cannot be certain as to the timing of completion of our evaluation, testing, and any remediation actions or the impact of the same on our operations. If we are not able to implement the requirements of Section 404 of the Sarbanes-Oxley Act in a timely manner or with adequate compliance, our independent registered public accounting firm may issue an adverse opinion due to ineffective internal controls over financial reporting, and we may be subject to sanctions or investigations by regulatory authorities, such as the SEC. As a result, there could be a negative reaction in the financial markets due to a loss of confidence in the reliability of our financial statements. In addition, we may be

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required to incur costs in improving our internal control system and hiring additional personnel. Any such action could negatively affect our results of operations and cash flows.

### **Risks Related to Our Industry**

**We are subject to extensive regulation that could limit or restrict our business activities and impose financial requirements, such as minimum capital requirements, and could have a material adverse effect on our profitability.**

We operate in a highly regulated industry and are subject to examination, supervision and comprehensive regulation by various federal and state agencies including the Federal Reserve, the Federal Deposit Insurance Corporation, or FDIC, and the TDFI. Regulatory compliance is costly and restricts certain of our activities, including payment of dividends, mergers and acquisitions, investments, loans and interest rates charged, transactions with affiliates, treatment of our clients, and interest rates paid on deposits. We are also subject to financial requirements prescribed by our regulators such as minimum capitalization guidelines, which require us to maintain adequate capital to support our growth. Violations of various laws, even if unintentional, may result in significant fines or other penalties, including restrictions on branching or bank acquisitions and other activities. Recently, banks generally have faced increased regulatory sanctions and scrutiny particularly with respect to the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act, or USA Patriot Act, and other statutes relating to anti-money laundering compliance and client privacy. Recent legislation has substantially changed, and increased, federal regulation of financial institutions, and there may be significant future legislation (and regulations under existing legislation) that could have a further material effect on bank holding companies like us and banks like CapStar Bank.

In July 2013, the U.S. federal banking agencies approved the implementation of the Basel III regulatory capital reforms, or Basel III, and issued rules effecting certain changes to capital adequacy regulations required by the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act. Basel III is applicable to all U.S. banks that are subject to minimum capital requirements as well as to bank and saving and loan holding companies. The U.S. Basel III rule not only increased most of the required minimum regulatory capital ratios, it introduced a new common equity Tier 1 capital ratio and the concept of a capital conservation buffer. The U.S. Basel III rule also narrowed the current definition of capital by establishing additional criteria that capital instruments must meet to be considered additional Tier 1 capital (that is, Tier 1 capital in addition to common equity) and Tier 2 capital. A number of instruments that previously qualified as Tier 1 capital no longer qualify, subject to a grandfather provision that allows certain depository institution holding companies with less than \$15 billion in assets to include non-qualifying capital instruments issued prior to May 19, 2010, and phase-out periods for other non-qualifying instruments. In addition, the U.S. Basel III rule permitted banking organizations with less than \$15 billion in assets to retain, through a one-time election, the previous treatment of accumulated other comprehensive income (loss) attributable to unrealized gains and losses for available for sale, or AFS, debt securities. We made this election, and as a result, the effect of accumulated other comprehensive income (loss) is “filtered” out of our regulatory capital. The U.S. Basel III rule maintained the general structure of the banking agencies’ prompt corrective action thresholds while incorporating the increased capital requirements, including the common equity Tier 1 capital ratio. In order to be a “well-capitalized” depository institution under the revised prompt corrective action regime, an institution must maintain a common equity Tier 1 capital ratio of 6.5% or more; a Tier 1 capital ratio of 8% or more; a total risk-based capital ratio of 10% or more; and a leverage ratio of 5% or more. Under the U.S. Base III rule, banking organizations must also maintain a capital conservation buffer consisting of common equity Tier 1 capital, which will be phased in through 2019. Generally, banking organizations of our size became subject to the U.S. Basel III rule on January 1, 2015, with a phase-in period through 2019 for certain changes.

The laws and regulations applicable to the banking industry could change at any time, and we cannot predict the effects of these changes on our business and profitability. Because government regulation greatly affects the

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business and financial results of all commercial banks and bank holding companies, our cost of compliance could adversely affect our ability to operate profitably.

### **Federal and state regulators periodically examine our business and may require us to remediate adverse examination findings or may take enforcement action against us.**

The Federal Reserve and the TDFI periodically examine our business, including our compliance with laws and regulations. If, as a result of an examination, the Federal Reserve or the TDFI were to determine that our financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of any of our operations had become unsatisfactory, or that we were in violation of any law or regulation, they may take a number of different remedial actions as they deem appropriate. These actions include the power to require us to remediate any such adverse examination findings.

In addition, these agencies have the power to take enforcement action against us to enjoin “unsafe or unsound” practices, to require affirmative action to correct any conditions resulting from any violation of law or regulation or unsafe or unsound practice, to issue an administrative order that can be judicially enforced, to direct an increase in our capital, to direct the sale of subsidiaries or other assets, to limit dividends and distributions, to restrict our growth, to assess civil monetary penalties against us or our officers or directors, to remove officers and directors and, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate our deposit insurance and place us into receivership or conservatorship. Any regulatory enforcement action against us could have a material adverse effect on our assets, business, cash flow, condition (financial or otherwise), liquidity, prospects and results of operations.

### **We are subject to numerous fair lending laws designed to protect consumers and failure to comply with these laws could lead to a wide variety of sanctions.**

The CRA, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations prohibit discriminatory lending practices by financial institutions. The U.S. Department of Justice, federal banking agencies, and other federal agencies are responsible for enforcing these laws and regulations. A successful regulatory challenge to an institution’s compliance with fair lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions activity, restrictions on expansion, and restrictions on entering new lines of business. Private parties may also have the ability to challenge an institution’s performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on our assets, business, cash flow, condition (financial or otherwise), liquidity, prospects and results of operations.

### **We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.**

The Bank Secrecy Act, the USA Patriot Act and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and to file reports such as suspicious activity reports and currency transaction reports. We are required to comply with these and other anti-money laundering requirements. The federal banking agencies and Financial Crimes Enforcement Network are authorized to impose significant civil money penalties for violations of those requirements and have recently engaged in coordinated enforcement efforts against banks and other financial service providers with the U.S. Department of Justice, Drug Enforcement Administration and Internal Revenue Service, or IRS. We are also subject to increased scrutiny of compliance with the rules enforced by the Office of Foreign Assets Control, or OFAC. If our policies, procedures and systems are deemed deficient, we would be subject to liability, including fines and regulatory actions, which may include restrictions on our ability to pay dividends and the requirement to obtain regulatory approvals to proceed with certain aspects of our business plan, including our acquisition plans. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing



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could also have serious reputational consequences for us. Any of these circumstances could have a material adverse effect on our assets, business, cash flow, condition (financial or otherwise), liquidity, prospects and results of operations.

### **Financial reform legislation has, among other things, tightened capital standards, created the Consumer Financial Protection Bureau and resulted in new regulations that are likely to increase our costs of operations.**

As final rules and regulations implementing the Dodd-Frank Act have been adopted, this law has significantly changed the current bank regulatory framework and affected the lending, deposit, investment, trading and operating activities of banks and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new implementing rules and regulations and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act depends on the rules and regulations that implement it.

Among many other changes, the Dodd-Frank Act eliminated the federal prohibitions on paying interest on demand deposits effective one year after the date of its enactment, thus allowing businesses to have interest-bearing checking accounts. Depending on competitive responses, this significant change to existing law could have an adverse impact on our interest expense. The Dodd-Frank Act permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to \$250,000 per depositor. The Dodd-Frank Act also directs the federal banking regulators to issue rules prohibiting incentive compensation that encourages inappropriate risks.

The Dodd-Frank Act created the Consumer Financial Protection Bureau, or the CFPB, with broad powers to supervise and enforce consumer financial protection laws. The CFPB has broad rule-making authority for a wide range of consumer protection laws that apply to all banks, including the authority to prohibit “unfair, deceptive or abusive” acts and practices.

As noted above, many aspects of the Dodd-Frank Act are subject to rulemaking and take effect over several years, making it difficult to anticipate the overall financial impact on us. However, compliance with the Dodd-Frank Act and its implementing regulations will result in additional operating and compliance costs that could have a material adverse effect on our assets, business, cash flow, condition (financial or otherwise), liquidity, prospects and results of operations.

### **We are required to act as a source of financial and managerial strength for our bank in times of stress.**

Under federal law and long-standing Federal Reserve policy, we are expected to act as a source of financial and managerial strength to our bank, and to commit resources to support our bank if necessary. We may be required to commit additional resources to our bank at times when we may not be in a financial position to provide such resources or when it may not be in our, or our shareholders’ or creditors,’ best interests to do so. A requirement to provide such support is more likely during times of financial stress for us and our bank, which may make any capital we are required to raise to provide such support more expensive than it might otherwise be. In addition, any capital loans we make to our bank are subordinate in right of repayment to deposit liabilities of our bank. In the event of our bankruptcy, any commitment by us to a federal banking regulator to maintain the capital of our bank will be assumed by the bankruptcy trustee and entitled to priority of payment over general unsecured creditor claims.

### **Our FDIC deposit insurance premiums and assessments may increase.**

The deposits of our bank are insured by the FDIC up to legal limits and, accordingly, subject it to the payment of FDIC deposit insurance assessments as determined according to the calculation described in “Supervision and Regulation—Bank Regulation and Supervision—FDIC Insurance and Other Assessments.” High levels of bank

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failures since the financial crisis and increases in the statutory deposit insurance limits have increased resolution costs to the FDIC and put significant pressure on the Deposit Insurance Fund. In order to maintain a strong funding position and restore the reserve ratios of the Deposit Insurance Fund following the financial crisis, the FDIC increased deposit insurance assessment rates and charged special assessments to all FDIC-insured financial institutions. Further increases in assessment rates or special assessments may occur in the future, especially if there are significant additional financial institution failures. Any future special assessments, increases in assessment rates or required prepayments in FDIC insurance premiums could reduce our profitability or limit our ability to pursue certain business opportunities, which could have a material adverse effect on our assets, business, cash flow, condition (financial or otherwise), liquidity, prospects and results of operations.

**The federal banking agencies have finalized new liquidity standards that could result in our having to lengthen the term of our funding, restructure our lines of business by forcing us to seek new sources of liquidity for them, and/or increase our holdings of liquid assets.**

In September 2014, the U.S. federal banking agencies finalized a new liquidity standard, the liquidity coverage ratio, which requires a large banking organization to hold sufficient “high quality liquid assets” to meet liquidity needs for a 30 calendar day liquidity stress scenario. Although the liquidity coverage ratio does not apply directly to us, the substance of the rule may in the future inform the regulators’ assessment of our liquidity. We could be required to reduce our holdings of illiquid assets, which may adversely affect our results and financial condition. A net stable funding ratio, which imposes a similar requirement over a one-year period, is under consideration for large banking organizations.

### **Risks Related to Our Common Stock and the Offering**

**The market price of our common stock may be subject to substantial fluctuations, which may make it difficult for you to sell your shares at the volume, prices and times desired.**

The market price of our common stock may be highly volatile, which may make it difficult for you to resell your shares at the volume, prices and times desired. There are many factors that may impact the market price and trading volume of our common stock, including, without limitation, the risks discussed elsewhere in this “Risk Factors” section and:

- actual or anticipated fluctuations in our operating results, financial condition or asset quality;
- publication of research reports about us, our competitors, or the financial services industry generally, or changes in, or failure to meet, securities analysts’ estimates of our financial and operating performance, or lack of research reports by industry analysts or ceasing of coverage;
- operating and stock price performance of companies that investors deem comparable to us;
- future issuances of our common stock or other securities;
- perceptions in the marketplace regarding our competitors and/or us; and
- other news, announcements or disclosures (whether by us or others) related to us, our competitors, our core market or the financial services industry.

The stock market and, in particular, the market for financial institution stocks, have experienced substantial fluctuations in recent years, which in many cases have been unrelated to the operating performance and prospects of particular companies. In addition, significant fluctuations in the trading volume in our common stock may cause significant price variations to occur. Increased market volatility may materially and adversely affect the market price of our common stock, which could make it difficult to sell your shares at the volume, prices and times desired.

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### **An active, liquid market for our common stock may not develop or be sustained following the offering, which may impair your ability to sell your shares.**

Before this offering, there has been no established public market for our common stock. Although we intend to apply to list our common stock on the NASDAQ Global Select Market, our application may not be approved. Even if approved, an active, liquid trading market for our common stock may not develop or be sustained following the offering. A public trading market having the desired characteristics of depth, liquidity and orderliness depends upon the presence in the marketplace and independent decisions of willing buyers and sellers of our common stock, over which we have no control. Without an active, liquid trading market for our common stock, shareholders may not be able to sell their shares at the volume, prices and times desired. Moreover, the lack of an established market could materially and adversely affect the value of our common stock.

### **Securities analysts may not initiate or continue coverage of our common stock, which could adversely affect the market for our common stock.**

The trading market for our common stock will depend in part on the research and reports that securities analysts publish about us and our business. We do not have any control over these securities analysts, and they may not cover our common stock. If securities analysts do not cover our common stock, the lack of research coverage may adversely affect its market price. If we are covered by securities analysts, and our common stock is the subject of an unfavorable report, the price of our common stock may decline. If one or more of these analysts cease to cover us or fail to publish regular reports on us, we could lose visibility in the financial markets, which could cause the price or trading volume of our common stock to decline.

### **We have broad discretion in the use of the net proceeds from this offering, and our use of those proceeds may not yield a favorable return on your investment.**

We expect to use the net proceeds of this offering, along with available cash, for general corporate purposes, which may include, among other things, the support of balance sheet growth, the acquisition of other banks or financial institutions or other complementary businesses to the extent such opportunities arise, and the maintenance of our capital and liquidity ratios, and the ratios of our bank, at appropriate levels. Our management has broad discretion over how these proceeds are used and could spend the proceeds in ways with which you may not agree. In addition, we may not use the proceeds of this offering effectively or in a manner that increases our market value or enhances our profitability. We have not established a timetable for the effective deployment of the proceeds, and investing the offering proceeds in securities until we are able to deploy the proceeds will provide lower margins that we generally earn on loans, potentially adversely affecting shareholder returns, including earnings per share, return on assets and return on equity.

### **Investors in this offering will experience immediate and substantial dilution.**

The initial public offering price is expected to be substantially higher than the tangible book value per share of our common stock immediately following this offering. Therefore, if you purchase shares in this offering, you will experience immediate and substantial dilution in tangible book value per share in relation to the price that you paid for your shares. We expect the dilution as a result of the offering to be \$        per share, based on an assumed initial public offering price of \$        per share (the midpoint of the range on the cover page of this prospectus), and our tangible book value of \$        per share as of March 31, 2016. Accordingly, if we were liquidated at our tangible book value, you would not receive the full amount of your investment.

### **A future issuance of stock could dilute the value of our common stock.**

Our charter permits us to issue up to an aggregate of 25 million shares of common stock. As of March 31, 2016, 8,677,902 shares of our common stock were issued and outstanding, including 223,145 shares of restricted common stock that have yet to vest. Those shares outstanding do not include the potential issuance, as of

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March 31, 2016, of 1,609,756 shares of our common stock that are potentially issuable pursuant to conversion of shares of our Series A Preferred Stock, 1,023,500 shares of our common stock subject to issuance upon exercise of outstanding stock options under the Stock Incentive Plan, 796,069 shares of our common stock that are potentially issuable pursuant to exercise of outstanding warrants and 196,058 additional shares of our common stock that were reserved for issuance under the Stock Incentive Plan. A future issuance of any new shares of our common stock would, and equity-related securities could, cause further dilution in the value of our outstanding shares of common stock.

**If a substantial number of shares become available for sale and are sold in a short period of time, the market price of our common stock could decline.**

If our existing shareholders sell substantial amounts of our common stock in the public market following this offering, the market price of our common stock could decrease significantly. The perception in the public market that our existing shareholders might sell shares of common stock could also depress our market price and hinder our ability to raise equity capital in the future. Upon completion of this offering, we will have \_\_\_\_\_ shares of common stock outstanding, or \_\_\_\_\_ shares if the underwriters exercise their option to purchase additional shares in full.

All of the \_\_\_\_\_ shares of common stock sold in this offering (or \_\_\_\_\_ shares if the underwriters exercise their option to purchase additional shares in full) will be freely tradable without further restriction or registration under the Securities Act, except that our directors, executive officers, and certain additional other holders of our common stock will be subject to the lock-up agreements described in “Underwriting” and the Rule 144 requirements described in “Shares Eligible for Future Sale.” After expiration of the lock-up periods and pursuant to compliance with Rule 144, \_\_\_\_\_ additional shares, or \_\_\_\_\_ % of our outstanding shares (assuming the underwriters do not exercise their option to purchase additional shares), will be eligible for sale in the public market. The market price of shares of our common stock may drop significantly when these resale restrictions lapse. A decline in the price of shares of our common stock might impede our ability to raise capital through the issuance of additional shares of our common stock or other equity securities and could result in a decline in the value of the shares of our common stock purchased in this offering.

In addition, we plan to file a registration statement on Form S-8 under the Securities Act to register an aggregate of \_\_\_\_\_ shares of common stock for issuance under our Stock Incentive Plan, of which \_\_\_\_\_ shares are subject to outstanding options to purchase such shares and \_\_\_\_\_ are reserved for future issuance. We may issue all of these shares without any action or approval by our shareholders, and these shares, once issued (including upon exercise of outstanding options), will be available for sale into the public market, subject to the restrictions described in “Shares Eligible for Future Sale.”

**Following this offering, our directors, executive officers and principal shareholders will continue to have the ability to exert influence over our business and corporate affairs.**

Our executive officers, directors and principal shareholders, as a group, beneficially owned approximately 39.4% of our outstanding common stock as of June 30, 2016. Upon consummation of this offering, that same group, in the aggregate, will beneficially own approximately \_\_\_\_\_ % of our common stock, assuming no exercise by the underwriters of their over-allotment option and no exercise of outstanding options and after giving effect to the issuance of shares in this offering (including shares purchased by our existing shareholders). As a result of their ownership, our executive officers, directors and principal shareholders will have the ability, by voting their shares in concert, to influence the outcome of all matters submitted to our shareholders for approval, as well as our management and affairs. This concentration of voting power could delay or prevent an acquisition of our Company on terms that other shareholders may desire, which in turn could depress our share price and may prevent attempts by our shareholders to replace or remove the board of directors or management..

In addition, pursuant to the terms of the Amended and Restated Shareholders’ Agreement, or ARSA, among us, our bank, Corsair III Financial Services Capital Partners, L.P., Corsair III Financial Services Offshore 892

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Partners, L.P., or together, the Corsair funds, and certain other investors, the Corsair funds may recommend one nominee to the Nominating and Corporate Governance Committee of the boards of directors of the Company and our bank for election to such boards, subject to any required regulatory and shareholder approvals. All shareholders party to the ARSA have agreed to vote their shares to elect such nominee upon recommendation by the Nominating and Corporate Governance Committee of the Company and our bank and approval by the boards of directors and all applicable regulatory authorities (if necessary). This right of the Corsair funds is not expected to terminate in connection with this offering. See “Certain Relationships and Related Party Transactions—Related Party Transactions—Amended and Restated Shareholders’ Agreement” for additional information.

### **There are substantial regulatory limitations on changes of control of bank holding companies.**

With certain limited exceptions, federal regulations prohibit a person or company or a group of persons deemed to be “acting in concert” from, directly or indirectly, acquiring 10% or more (5% if the acquirer is a bank holding company) of any class of our voting stock or obtaining the ability to control in any manner the election of a majority of our directors or otherwise direct the management or policies of our company without prior notice or application to and the approval of the Federal Reserve. Accordingly, prospective investors need to be aware of and comply with these requirements, if applicable, in connection with any purchase of shares of our common stock. These provisions effectively inhibit certain mergers or other business combinations, which, in turn, could adversely affect the market price of our common stock.

### **We have the ability to incur debt and pledge our assets, including our stock in our bank, to secure that debt.**

We have the ability to incur debt and pledge our assets to secure that debt. Absent special and unusual circumstances, a holder of indebtedness for borrowed money has rights that are superior to those of holders of our common stock. For example, interest must be paid to a lender before dividends can be paid to our shareholders, and, in the case of liquidation, our borrowings must be repaid before we can distribute any assets to our shareholders. Furthermore, we would have to make principal and interest payments on our indebtedness, which could reduce our profitability or result in net losses on a consolidated basis even if our bank were profitable.

### **The rights of our common shareholders are subordinate to the rights of the holders of our Series A Preferred Stock and any debt securities that we may issue and may be subordinate to the holders of any other class of preferred stock that we may issue in the future.**

As of March 31, 2016, we have issued 1,609,756 shares of our Series A Preferred Stock. These shares have certain rights that are senior to our common stock. Holders of our Series A Preferred Stock are entitled to receive, when, as and if declared by our board of directors, cash dividends to the same extent and on the same basis as, and contemporaneously with, cash dividends as declared by our board of directors with respect to common stock. Such dividends on shares of Series A Preferred Stock are payable on the same dates as dividends on shares of common stock but prior to the payment of any dividends on shares of common stock. In the event of our bankruptcy, dissolution or liquidation, the holders of our Series A Preferred Stock are entitled to receive a liquidation preference of \$10.25 per share of Series A Preferred Stock, plus any amount equal to all dividends declared and unpaid thereon, before any distributions can be made to the holders of our common stock.

Our charter authorizes our board of directors to issue an aggregate of up to five million shares of preferred stock without any further action on the part of our shareholders. Our board of directors also has the power, without shareholder approval, to set the terms of any series of preferred stock that may be issued, including voting rights, dividend rights, and preferences over our common stock with respect to dividends or in the event of a dissolution, liquidation or winding up and other terms. Accordingly, you should assume that any shares of preferred stock that we may issue in the future will also be senior to our common stock. In the event that we issue preferred stock in the future that has preference over our common stock with respect to payment of dividends or

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upon our liquidation, dissolution or winding up, or if we issue preferred stock with voting rights that dilute the voting power of our common stock, the rights of the holders of our common stock or the market price of our common stock could be adversely affected.

### **We and our bank are subject to capital and other legal and regulatory requirements which restrict our ability to pay dividends, and we do not intend to pay dividends in the foreseeable future.**

We are subject to certain restrictions on the payment of cash dividends as a result of banking laws, regulations and policies. In addition, because our bank is our only material asset, our ability to pay dividends to our shareholders depends on our receipt of dividends from the bank, which is also subject to restrictions on dividends as a result of banking laws, regulations and policies. Finally, our board of directors intends to retain all of our earnings to promote growth and build capital. Accordingly, we do not expect to pay dividends in the foreseeable future. Accordingly, if the receipt of dividends over the near term is important to you, you should not invest in our common stock. For additional information, see “Dividend Policy.”

### **Tennessee and federal law limits the ability of others to acquire us or the bank, which may restrict your ability to fully realize the value of your common stock.**

In many cases, shareholders receive a premium for their shares when one company purchases another. Tennessee and federal law makes it difficult for anyone to purchase us or our bank without approval of our board of directors and the approval of state and federal regulators. Thus, your ability to realize the potential benefits of any sale by us may be limited, even if such sale would represent a greater value for shareholders than our continued independent operation.

### **An investment in our common stock is not an insured deposit and is subject to risk of loss.**

Our common stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, the Deposit Insurance Fund or by any other public or private entity. Investment in our common stock is inherently risky for the reasons described in this “Risk Factors” section and is subject to the same market forces that affect the price of common stock in any company. As a result, an investor may lose some or all of such investor’s investment in our common stock.

### **Our corporate governance documents, and certain corporate and banking laws applicable to us, may adversely affect our common shareholders and could make a takeover of us more difficult.**

Certain provisions of our charter and bylaws and corporate and federal banking laws could make it more difficult for a third party to acquire control of our organization, even if those events were perceived by many of our shareholders as beneficial to their interests. These provisions, and the corporate and banking laws and regulations applicable to us:

- provide that special meetings of shareholders, unless otherwise prescribed by the TBCA, may be called only by our board of directors, by the Chairman of our board of directors, by the President and Chief Executive Officer or by the Secretary acting under the instructions of any of the foregoing;
- enable our board of directors by a majority vote to increase the number of persons serving as directors up to the maximum of 25 and to fill the vacancies created as a result of the increase by a majority vote of the directors then in office;
- require no more than 120 days’ and no less than 75 days’ advance notice of nominations for the election of directors and the presentation of shareholder proposals at meetings of shareholders;
- enable our board of directors to amend our bylaws without shareholder approval;
- require either (i) the affirmative vote of two-thirds of our directors then in office and the affirmative vote of a majority of our outstanding shares entitled to vote or (ii) the affirmative vote of a majority of our directors

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then in office and the affirmative vote of two-thirds of our outstanding shares entitled to vote, if the TBCA or other applicable law requires shareholder approval of a merger, share exchange or sale, lease, exchange or other disposition of all or substantially all of our assets and either (i) the affirmative vote of two-thirds of our directors then in office or (ii) the affirmative vote of two-thirds of our outstanding shares entitled to vote to amend or rescind the immediately preceding provision;

- do not provide for cumulative voting rights (therefore prohibiting shareholders from giving more than one vote per share to any single director nominee); and
- require prior regulatory application and approval of any transaction involving control of our organization.

These provisions may adversely affect our common shareholders and could discourage potential acquisition proposals and could delay or prevent a change in control, including under circumstances in which our shareholders might otherwise receive a premium over the market price of our shares.

### **We are an “emerging growth company,” and the reduced regulatory and reporting requirements applicable to emerging growth companies may make our common stock less attractive to investors.**

We are an “emerging growth company,” as described in the JOBS Act. For as long as we continue to be an emerging growth company we may take advantage of reduced regulatory and reporting requirements that are otherwise generally applicable to public companies. These include, without limitation, not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act, reduced financial reporting requirements, reduced disclosure obligations regarding executive compensation, a potential exemption from new auditing standards adopted by the Public Company Accounting Oversight Board and exemptions from the requirements of holding non-binding advisory votes on executive compensation and golden parachute payments.

We may take advantage of these provisions for up to five years, unless we earlier cease to be an emerging growth company, which would occur if our annual gross revenue exceeds \$1.0 billion, if we issue more than \$1.0 billion in non-convertible debt in a three-year period, or if the market value of our common stock held by non-affiliates exceeds \$700.0 million as of any June 30 before that time, in which case we would no longer be an emerging growth company as of the following December 31. Investors may find our common stock less attractive if we rely on the exemptions, which may result in a less active trading market and increased volatility in our stock price.

### **Fulfilling our public company financial reporting and other regulatory obligations will be expensive and time consuming, and it may strain our resources and negatively impact our operations.**

Following this offering, we will become subject to the reporting requirements of the Securities and Exchange Act of 1934, or the Exchange Act, the Sarbanes-Oxley Act, and the related rules and regulations promulgated by the SEC. These laws and regulations increase the scope, complexity and cost of corporate governance, reporting and disclosure practices over those of non-public or non-reporting companies. Despite our conducting business in a highly regulated environment, these laws and regulations have different requirements for compliance than we experienced prior to becoming a reporting company. Our expenses related to services rendered by our accountants, legal counsel and consultants have increased in order to ensure compliance with these laws and regulations that we became subject to as a reporting company and may increase further as we become a public company and grow in size. These provisions, as well as any other aspects of current or proposed regulatory or legislative changes to laws applicable to us may impact the profitability of our business activities and may change certain of our business practices, including our ability to offer new products, obtain financing, attract deposits, make loans and achieve satisfactory interest spreads and could expose us to additional costs, including increased compliance costs, which could have a material adverse effect on our assets, business, cash flow, condition (financial or otherwise), liquidity, prospects and results of operations.

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

We have made statements in this prospectus, including within the sections entitled “Prospectus Summary,” “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business,” that constitute forward-looking statements within the meaning of section 27A of the Securities Act and section 21E of the Exchange Act. These forward-looking statements reflect our current views with respect to, among other things, future events and our financial performance. These statements are often, but not always, made through the use of words or phrases such as “may,” “should,” “could,” “predict,” “potential,” “believe,” “will likely result,” “expect,” “continue,” “will,” “anticipate,” “seek,” “estimate,” “intend,” “plan,” “project,” “projection,” “forecast,” “goal,” “target,” “would,” and “outlook,” or the negative version of those words or other comparable words of a future or forward-looking nature. These forward-looking statements are not historical facts, and are based on current expectations, estimates and projections about our industry, management’s beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. The inclusion of these forward-looking statements should not be regarded as a representation by us, the selling shareholders, the underwriters or any other person that such expectations, estimates and projections will be achieved. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions and uncertainties that are difficult to predict. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements.

There are or will be important factors that could cause our actual results to differ materially from those indicated in these forward-looking statements, including, but are not limited to, the following:

- economic conditions (including interest rate environment, government economic and monetary policies, the strength of global financial markets and inflation and deflation) that impact the financial services industry as a whole and/or our business;
- the concentration of our business in the Nashville MSA and the effect of changes in the economic, political and environmental conditions on this market;
- increased competition in the financial services industry, locally, regionally or nationally, which may adversely affect pricing and the other terms offered to our clients;
- our dependence on our management team and board of directors and changes in our management and board composition;
- our reputation in the community;
- our ability to execute our strategy and to achieve loan and deposit growth through organic growth and strategic acquisitions;
- credit risks related to the size of our borrowers and our ability to adequately assess and limit our credit risk;
- our concentration of large loans to a small number of borrowers;
- the significant portion of our loan portfolio that originated during the past two years and therefore may less reliably predict future collectability than older loans;
- the adequacy of reserves (including our allowance for loan and lease losses) and the appropriateness of our methodology for calculating such reserves;
- adverse trends in the healthcare service industry, which is an integral component of our market’s economy;
- our management of risks inherent in our commercial real estate loan portfolio, and the risk of a prolonged downturn in the real estate market, which could impair the value of our collateral and our ability to sell collateral upon any foreclosure;



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- governmental legislation and regulation, including changes in the nature and timing of the adoption and effectiveness of new requirements under the Dodd-Frank Act, Basel guidelines, capital requirements, accounting regulation or standards and other applicable laws and regulations;
- the loss of large depositor relationships, which could force us to fund our business through more expensive and less stable sources;
- operational and liquidity risks associated with our business, including liquidity risks inherent in correspondent banking;
- volatility in interest rates and our overall management of interest rate risk, including managing the sensitivity of our interest-earning assets and interest-bearing liabilities to interest rates, and the impact to our earnings from a change in interest rates;
- the potential for our bank’s regulatory lending limits and other factors related to our size to restrict our growth and prevent us from effectively implementing our business strategy;
- strategic acquisitions we may undertake to achieve our goals;
- the sufficiency of our capital, including sources of capital and the extent to which we may be required to raise additional capital to meet our goals;
- fluctuations to the fair value of our investment securities that are beyond our control;
- deterioration in the fiscal position of the U.S. government and downgrades in Treasury and federal agency securities;
- potential exposure to fraud, negligence, computer theft and cyber-crime;
- the adequacy of our risk management framework;
- our dependence on our information technology and telecommunications systems and the potential for any systems failures or interruptions;
- our dependence upon outside third parties for the processing and handling of our records and data;
- our ability to adapt to technological change;
- the financial soundness of other financial institutions;
- our exposure to environmental liability risk associated with our lending activities;
- our engagement in derivative transactions;
- our involvement from time to time in legal proceedings and examinations and remedial actions by regulators;
- the susceptibility of our market to natural disasters and acts of God; and
- the effectiveness of our internal controls over financial reporting and our ability to remediate any future material weakness in our internal controls over financial reporting.

The foregoing factors should not be construed as exhaustive and should be read in conjunction with other cautionary statements that are included in this prospectus, including those discussed in the section entitled “Risk Factors.” If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from our forward-looking statements. Accordingly, you should not place undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date of this prospectus, and we do not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise, except as required by law. New risks and uncertainties may emerge from time to time, and it is not possible for us to predict their occurrence or how they will affect us.

## USE OF PROCEEDS

Assuming an initial public offering price of \$        per share, which is the midpoint of the offering price range set forth on the cover page of this prospectus, we estimate that the net proceeds to us from the sale of our common stock in this offering will be \$        million, (or \$        million if the underwriters exercise in full their option to purchase additional shares of common stock from us), after deducting the estimated underwriting discount and offering expenses. Each \$1.00 increase (decrease) in the assumed initial public offering price would increase (decrease) the net proceeds to us from this offering by \$        million, or \$        million (if the underwriters elect to exercise in full their purchase option), assuming the number of shares we sell, as set forth on the cover of this prospectus, remains the same, after deducting the estimated underwriting discount and offering expenses.

We intend to use the net proceeds to us from this offering, along with available cash, for general corporate purposes, which may include the support of our balance sheet growth, the acquisition of other banks or financial institutions or other complementary businesses to the extent such opportunities arise, and the maintenance of our capital and liquidity ratios, and the ratios of our bank, at acceptable levels. We have not specifically allocated the amount of net proceeds to us that will be used for these purposes, and our management will have broad discretion over how these proceeds are used.

We plan to invest these proceeds in short term investments until needed for the uses described above.

We will not receive any proceeds from the sale of our common stock by the selling shareholders.

## **DIVIDEND POLICY**

Holders of our common stock are only entitled to receive dividends when, as and if declared by our board of directors out of funds legally available for dividends. We have not paid any cash dividends on our capital stock since inception, and we do not intend to pay dividends for the foreseeable future. As a Tennessee corporation, we are not permitted to pay dividends if, after giving effect to such payment, we would not be able to pay our debts as they become due in the usual course of business or our total assets would be less than the sum of our total liabilities plus any amounts needed to satisfy any preferential rights if we were dissolving.

Because we are a bank holding company and do not engage directly in business activities of a material nature, our ability to pay any dividends on our common stock depends, in large part, upon our receipt of dividends from our bank, which is also subject to numerous limitations on the payment of dividends under federal and state banking laws, regulations and policies. Pursuant to Tennessee law, our bank may not, without the prior approval of the Commissioner of the TDFI, pay any dividends to us in a calendar year in excess of the total of our bank's net income for that year plus the retained net income for the preceding two years. For additional information, see "Supervision and Regulation—Bank Regulation and Supervision—Payment of Dividends."

Our ability to pay dividends to our shareholders in the future will depend on regulatory restrictions and our liquidity and capital requirements, as well as our earnings and financial condition, the general economic climate, contractual restrictions, our ability to service any equity or debt obligations senior to our common stock and other factors deemed relevant by our board of directors.

## DILUTION

If you invest in our common stock, your ownership interest will be diluted to the extent the initial public offering price per share of our common stock exceeds the pro forma tangible book value per share of our common stock immediately following this offering. As of March 31, 2016, the tangible book value of our common stock was approximately \$88.0 million, or \$10.14 per share of common stock based on 8,677,902 shares of our common stock issued and outstanding. Tangible book value per share represents common equity less intangible assets and goodwill, divided by the number of shares of our common stock outstanding.

After giving effect to our sale of \_\_\_\_\_ shares of our common stock in this offering (assuming the underwriters do not exercise their purchase option) at an assumed initial public offering price of \$ \_\_\_\_\_ per share, the midpoint of the price range on the cover of this prospectus, and after deducting the estimated underwriting discount and offering expenses, the pro forma tangible book value of our common stock at March 31, 2016 would have been approximately \$ \_\_\_\_\_ million, or \$ \_\_\_\_\_ per share. Therefore, this offering will result in an immediate increase of \$ \_\_\_\_\_ in the tangible book value per share of our common stock of existing shareholders and an immediate dilution of \_\_\_\_\_ in the tangible book value per share of our common stock to investors purchasing shares in this offering, or approximately \_\_\_\_\_ % of the assumed public offering price of \$ \_\_\_\_\_ per share.

If the underwriters exercise their option to purchase additional shares of our common stock in full, the pro forma tangible book value per share of common stock after giving effect to this offering would be approximately \$ \_\_\_\_\_ per share, and the dilution in pro forma tangible book value per share of common stock to new investors in this offering would be approximately \$ \_\_\_\_\_.

The following table illustrates the calculation of the amount of dilution per share that a new investor of our common stock in this offering will incur given the assumptions above:

Assumed initial public offering price	\$
Tangible book value per share of common stock at March 31, 2016	10.14
Increase in tangible book value per share of common stock attributable to new investors	
Pro forma tangible book value per share of common stock after this offering	
Dilution per share of common stock to new investors in this offering	

The following table illustrates the differences between the number of shares of common stock purchased from us, the total consideration paid, and the average price per share paid by existing shareholders and new investors purchasing shares of our common stock in this offering based on an assumed initial public offering price of \$ \_\_\_\_\_ per share, the midpoint of the price range on the cover of this prospectus, and before deducting estimated underwriting discounts and estimated offering expenses as of March 31, 2016 on a pro forma basis.

	<u>Shares Purchased</u>		<u>Total Consideration (Dollars in thousands)</u>		<u>Average Price Per Share</u>
	<u>Number</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>	<u>Per Share</u>
Shareholders as of March 31, 2016		%	\$	%	\$
New investors in this offering					
Total		100%	\$	100%	\$

Assuming no shares are sold to existing shareholders in this offering, sales of shares of our common stock by the selling shareholders in this offering will reduce the number of shares of common stock held by existing shareholders to \_\_\_\_\_, or approximately \_\_\_\_\_ % of the total shares of our common stock outstanding after this offering, and will increase the number of shares held by new investors to \_\_\_\_\_, or approximately \_\_\_\_\_ % of the total shares of our common stock outstanding after this offering.

If the underwriters exercise their purchase option in full, the percentage of shares of our common stock held by existing shareholders will decrease to approximately \_\_\_\_\_ % of the total number of shares of our common stock

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outstanding after this offering, and the number of shares held by new investors will be increased to \_\_\_\_\_, or approximately \_\_\_\_\_ % of the total number of shares of our common stock outstanding after this offering.

The table above excludes the following as of March 31, 2016:

- \_\_\_\_\_ shares of common stock issuable upon the conversion of Series A Preferred Stock that is not included in this offering;
- 1,023,500 shares of our common stock issuable upon the exercise of outstanding stock options at a weighted average exercise price of \$10.50 per share;
- 796,069 shares of our common stock issuable upon the exercise of outstanding warrants at an exercise price of \$10.00 per share; and
- 196,058 shares of our common stock reserved for issuance pursuant to awards granted under the Stock Incentive Plan.

To the extent that any of the foregoing are converted or exercised, investors participating in the offering will experience further dilution.

## CAPITALIZATION

The following table sets forth our consolidated capitalization as of March 31, 2016:

- on an actual basis;
- on an as adjusted basis to give effect to the net proceeds from the sale by us of \_\_\_\_\_ shares of our common stock in this offering (assuming the underwriters do not exercise their purchase option), at an assumed offering price of \$ \_\_\_\_\_ per share (the midpoint of the offering price range set forth on the cover page of this prospectus), after deducting the estimated underwriting discount and offering expenses.

You should read this information together with the sections entitled “Selected Historical Consolidated Financial Data,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Description of Capital Stock” and our consolidated financial statements and related notes appearing elsewhere in this prospectus.

	As of March 31, 2016	
	Actual	As adjusted
(Dollars in thousands, except per share data)		
<b>Shareholders’ Equity:</b>		
Preferred Stock, par value \$1.00 per share, 5,000,000 shares authorized Series A Nonvoting Noncumulative Perpetual Convertible Preferred Stock, 1,609,800 shares authorized; 1,609,756 shares issued and outstanding, actual; _____ shares issued and outstanding, as adjusted	\$ 1,610	\$ _____
Common Stock, par value \$1.00 per share, 20,000,000 shares authorized; 8,677,902 shares issued and outstanding, actual; _____ shares issued and outstanding, as adjusted	8,678	
Non-Voting Common Stock, par value \$1.00 per share, 5,000,000 shares authorized; no shares issued and outstanding, actual and as adjusted	—	
Additional paid-in-capital	95,385	
Retained Earnings	9,620	
Accumulated other comprehensive income (loss), net of tax	(4,434)	
Total shareholders’ equity:	\$ 110,859	\$ _____
Book value per share, reported	\$ 10.87	\$ _____
Book value per share, adjusted (1)	10.78	
Tangible book value per share, reported (1)	10.14	
Tangible book value per share, adjusted (1)	10.16	

(1) This is a non-GAAP financial measure. See “Selected Historical Consolidated Financial Data—GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures” for a reconciliation of this measure to its most comparable GAAP measure.

We and our bank both meet the minimum regulatory capital requirements applicable to us under federal banking regulations. The following table sets forth the minimum required regulatory capital and our consolidated capital ratios as of March 31, 2016, on an actual basis and on an as adjusted basis to give effect to the net proceeds to us from this offering, after deducting the estimated underwriting discount and offering expenses.

	AMOUNT		RATIO		Minimum Requirement*	Basel III Fully Phased-In Requirement**
	Actual	As Adjusted	Actual	As Adjusted		
	(Dollars in thousands)					
Tier 1 Leverage Capital	\$ 107,534		9.16%		4.0%	4.0%
Tier 1 Risk-Based Capital	107,534		10.26		6.0	8.5
Total Risk-Based Capital	117,999		11.26		8.0	10.5
Common Equity Tier 1 Capital	91,716		8.75		4.5	7.0

\* For the calendar year 2016, we must maintain a capital conservation buffer of Common Equity Tier 1 capital in excess of minimum risk-based capital ratios by at least 0.625% to avoid limits on capital distributions and certain discretionary bonus payments to executive officers and similar employees.

\*\* Reflects full implementation of the capital conservation buffer.

## **PRICE RANGE OF OUR COMMON STOCK**

Prior to this offering, our common stock has not been traded on an established public trading market, and quotations for our common stock were not reported on any market. As a result, there has been no regular market for our common stock. Although shares of our common stock may have been sporadically traded in private transactions, the prices at which such transactions occurred may not necessarily reflect the price that would be paid for our common stock in an active market. As of June 30, 2016, there were approximately 709 holders of record of our common stock.

We anticipate that this offering and the anticipated listing of our common stock on the NASDAQ Global Select Market will result in a more active trading market for our common stock. However, we cannot assure you that a liquid trading market for our common stock will develop or be sustained after this offering. You may not be able to sell your shares quickly or at the market price if trading in our common stock is not active. See the section of this prospectus titled “Underwriting” for more information regarding our arrangements with the underwriters and the factors considered in setting the initial public offering price.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion and analysis of our financial condition and results of operations should be read together with our consolidated financial statements and related notes thereto and other financial information appearing elsewhere in this prospectus. In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions that could cause actual results to differ materially from our expectations. Factors that could cause such differences are discussed in the sections entitled "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements." We assume no obligation to update any of these forward-looking statements except to the extent required by law.*

*The following discussion pertains to our historical results, on a consolidated basis. However, because we conduct all of our material business operations through our wholly owned subsidiary, CapStar Bank, the discussion and analysis relates to activities primarily conducted at the subsidiary level.*

*All dollar amounts in the tables in this section are in thousands of dollars, except per share data or when specifically identified. Dollar amounts in the narratives in this section are rounded to the nearest thousand dollars, except per share data or when specifically identified.*

### Overview

#### *Our Business*

We are a bank holding company headquartered in Nashville, Tennessee, and we operate primarily through our wholly owned subsidiary, CapStar Bank, a Tennessee-chartered state bank. We are a commercial bank that seeks to establish and maintain comprehensive relationships with our clients by delivering customized and creative banking solutions and superior client service. Our products and services include (i) commercial and industrial loans to small and medium sized businesses, with a particular focus on businesses operating in the healthcare industry, (ii) commercial real estate loans, (iii) private banking and wealth management services for the owners and operators of our business clients and other high net worth individuals and (iv) correspondent banking services to meet the needs of Tennessee's smaller community banks. Our operations are presently concentrated in demographically attractive and fast-growing counties in the Nashville MSA. As of March 31, 2016, on a consolidated basis, we had total assets of \$1.2 billion, total deposits of \$1.1 billion, total net loans of \$827.4 million, and shareholders' equity of \$110.9 million.

#### *Primary Factors Affecting Comparability*

*American Security Bank and Trust Company.* On July 31, 2012, our bank completed its acquisition of American Security, a Tennessee banking corporation headquartered in Hendersonville, Tennessee. Our bank acquired all outstanding shares of common stock of American Security for approximately \$15.2 million in total consideration which was comprised of the issuance of approximately 1.5 million shares of common stock of our bank. At the time of the acquisition, American Security had two banking locations located in Sumner County, Tennessee. The operations of American Security are included in CapStar Bank's financial statements beginning on July 31, 2012.

*Farmington Financial Group, LLC.* On February 3, 2014, CapStar Bank completed its acquisition of Farmington, a Tennessee limited liability company headquartered in Nashville, Tennessee. Farmington primarily originates residential real estate loans that are sold in the secondary market. The bank acquired all the assets and liabilities of Farmington for approximately \$6.4 million in total consideration which was comprised of \$3.0 million in cash, 100,000 shares of common stock of our bank and a five year earn-out based on pre-tax income. The operations of Farmington are included in CapStar Bank's financial statements beginning February 3, 2014.



## Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared based on the application of certain accounting policies, the most significant of which are described in Note 1 to our Financial Statements for the year ended December 31, 2015, which are contained elsewhere in this prospectus. Certain of these policies require numerous estimates and strategic or economic assumptions that may prove inaccurate or subject to variation and may materially and adversely affect our reported results and financial position for the current period or future periods. The use of estimates, assumptions, and judgments are necessary when financial assets and liabilities are required to be recorded at, or adjusted to reflect, fair value. Assets carried at fair value inherently result in more financial statement volatility. Fair values and information used to record valuation adjustments for certain assets and liabilities are either based on quoted market prices or are provided by other independent third-party sources, when available. When such information is not available, management estimates valuation adjustments based upon historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Management evaluates our estimates and assumptions on an ongoing basis. Changes in underlying factors, assumptions or estimates in any of these areas could have a material impact on our future financial condition and results of operations.

We have identified the following accounting policies and estimates that, due to the difficult, subjective or complex judgments and assumptions inherent in those policies and estimates and the potential sensitivity of our financial statements to those judgments and assumptions, are critical to an understanding of our financial condition and results of operations. We believe that the judgments, estimates and assumptions used in the preparation of our financial statements are reasonable and appropriate.

### *Allowance for Loan and Lease Losses*

We record estimated probable inherent credit losses in the loan portfolio as an allowance for loan and lease losses. The methodologies and assumptions for determining the adequacy of the overall allowance for loan and lease losses involve significant judgments to be made by management. Some of the more critical judgments supporting our allowance for loan and lease losses include judgments about the credit-worthiness of borrowers, estimated value of underlying collateral, assumptions about cash flow, determination of loss factors for estimating credit losses, and the impact of current events, conditions, and other factors impacting the level of inherent losses. Under different conditions or using different assumptions, the actual or estimated credit losses ultimately realized by us may be different from our estimates. In determining the allowance, we estimate losses on individual impaired loans, or groups of loans that are not impaired, where the probable loss can be identified and reasonably estimated. On a quarterly basis, we assess the risk inherent in our loan portfolio based on qualitative and quantitative trends in the portfolio, including the internal risk classification of loans, historical loss rates, changes in the nature and volume of the loan portfolio, industry or borrower concentrations, delinquency trends, detailed reviews of significant loans with identified weaknesses, and the impacts of local, regional, and national economic factors on the quality of the loan portfolio. Based on this analysis, we may record a provision for loan and lease losses in order to maintain the allowance at appropriate levels. For a more complete discussion of the methodology employed to calculate the allowance for loan and lease losses, see Note 1 to our Financial Statements for the year ended December 31, 2015, which are included elsewhere in this prospectus.

### *Investment Securities Impairment*

We assess on a quarterly basis whether there have been any events or economic circumstances to indicate that a security with respect to which there is an unrealized loss is impaired on an other-than-temporary basis. In any instance, we would consider many factors, including the severity and duration of the impairment, our intent and ability to hold the security for a period of time sufficient for a recovery in value, recent events specific to the issuer or industry, and, for debt securities, external credit ratings and recent downgrades. Securities with respect to which there is an unrealized loss that is deemed to be other-than-temporary are written down to fair value.

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### *Income Taxes*

Deferred income tax assets and liabilities are computed using the asset and liability method, which recognizes a liability or asset representing the tax effects, based on current tax law, of future deductible or taxable amounts attributable to events recognized in the financial statements. A valuation allowance may be established to the extent necessary to reduce the deferred tax asset to a level at which it is “more likely than not” that the tax asset or benefit will be realized. Realization of tax benefits depends on having sufficient taxable income, available tax loss carrybacks or credits, the reversal of taxable temporary differences and/or tax planning strategies within the reversal period, and that current tax law allows for the realization of recorded tax benefits.

### *Business Combinations*

Assets purchased and liabilities assumed in a business combination are recorded at their fair value. The fair value of a loan portfolio acquired in a business combination requires greater levels of management estimates and judgment than the remainder of purchased assets or assumed liabilities. When the loans have evidence of credit deterioration since origination and it is probable at the date of acquisition that the Company will not collect all contractually required principal and interest payments, the loans are considered impaired, and the expected cash flows in excess of the amount paid are recorded as interest income over the remaining life of the loan. The excess of the loan’s contractual principal and interest over expected cash flows is not recorded. We must estimate expected cash flows at each reporting date. Subsequent decreases to the expected cash flows will generally result in a provision for loan losses. Subsequent increases in cash flows result in a reversal of the provision for loan losses to the extent of prior charges and adjusted accretible yield which will have a positive impact on interest income. Purchased loans without evidence of credit deterioration are recorded at their initial fair value and adjusted as necessary for subsequent advances, pay downs, amortization or accretion of any premium or discount on purchase, charge-offs and additional provisions that may be required.

## **Results of Operations**

### *Net Income*

The following table sets forth the principal components of net income for the periods indicated.

<b>(Dollars in thousands)</b>	<b>Three Months Ended March 31,</b>					<b>Twelve Months Ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>Change from the Prior Year</b>	<b>2015</b>	<b>Change from the Prior Year</b>	<b>2014</b>	<b>Change from the Prior Year</b>	<b>2013</b>
Interest income	\$10,598	\$9,620	10.2%	\$40,504	5.8%	\$38,287	(7.0)%	\$41,157
Interest expense	1,642	1,450	13.2%	5,731	(2.4)%	5,871	(10.7)%	6,576
<b>Net interest income</b>	<b>8,956</b>	<b>8,170</b>	<b>9.6%</b>	<b>34,773</b>	<b>7.3%</b>	<b>32,416</b>	<b>(6.3)%</b>	<b>34,581</b>
Provision for loan and lease losses	937	136	589.0%	1,651	(57.3)%	3,869	312.3%	938
<b>Net interest income after provision</b>	<b>8,019</b>	<b>8,034</b>	<b>(0.2)%</b>	<b>33,122</b>	<b>16.0%</b>	<b>28,547</b>	<b>(15.1)%</b>	<b>33,643</b>
Noninterest income	2,371	1,912	24.0%	8,884	19.7%	7,419	281.3%	1,946
Noninterest expense	8,010	7,718	3.8%	30,977	8.5%	28,562	12.3%	25,432
<b>Net income before taxes</b>	<b>2,380</b>	<b>2,228</b>	<b>6.8%</b>	<b>11,029</b>	<b>49.0%</b>	<b>7,404</b>	<b>(27.1)%</b>	<b>10,157</b>
Income tax expense	796	659	20.8%	3,470	43.8%	2,412	(35.7)%	3,749
<b>Net income</b>	<b>\$ 1,584</b>	<b>\$1,569</b>	<b>1.0%</b>	<b>\$ 7,559</b>	<b>51.4%</b>	<b>\$ 4,992</b>	<b>(22.1)%</b>	<b>\$ 6,408</b>

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### *Three months ended March 31, 2016 compared to three months ended March 31, 2015*

For the three months ended March 31, 2016, our net income was \$1.6 million, compared to \$1.6 million for the three months ended March 31, 2015. The relatively flat quarter resulted from strong loan growth and continued growth in noninterest income, which were offset by the provision for loan and lease losses in connection with the loan growth and a higher than normal amount of charge-offs associated with two particular loans. Net charge-offs during the three months ended March 31, 2016 were \$770,000, compared to \$81,000 for the prior-year period.

Net interest income increased \$786,000, or 9.6%, resulting from higher levels of loan balances. Average loans increased 15.0% compared to the prior-year period as a result of increases in the number of our bankers in the Nashville MSA and continued focus on attracting new clients to our Company. We funded this growth in loans through an increase in our deposits and by shifting funds out of lower yielding investment securities. Our increase in interest income on loans was partially offset by an increase in our interest expense. The average rate paid on interest-bearing liabilities was 0.76% for the three months ended March 31, 2016, compared to 0.69% for the prior-year period. A portion of the increase was due to the 0.25% increase in the Fed Funds rate in December 2015.

For the three months ended March 31, 2016, we recorded a provision for loan and lease losses of \$937,000 as compared to \$136,000 for the three months ended March 31, 2015. The increase was related to loan growth and higher than normal net charge-offs for the quarter of \$770,000 related to two loans, as compared to a provision of \$81,000 for the three months ended March 31, 2015.

Noninterest income was \$2.4 million for the three months ended March 31, 2016, a 24.0% increase as compared to the prior-year period. This growth was primarily attributable to increased production in our fee-based products such as mortgages and loans. The growth in mortgage fee income reflects continuing purchase activity due to low mortgage rates and the overall vibrancy of the residential real estate market in the Nashville MSA. Mortgage originations were predominantly sourced from new loan originations as opposed to the refinancing of existing loans.

Noninterest expense was \$8.0 million for the three months ended March 31, 2016, a 3.8% increase as compared to the prior-year period, primarily due to an increase between periods in employee costs. The number of full-time employees increased from 153 at March 31, 2015 to 163 at March 31, 2016.

Income tax expense was \$796,000 for the three months ended March 31, 2016, compared to \$659,000 for three months ended March 31, 2015. Our effective tax rates for the three months ended March 31, 2016 and 2015 were 33.5% and 29.6%, respectively. The increase in the 2016 effective tax rate was due primarily to a decrease in tax credits.

### *Year ended December 31, 2015 compared to year ended December 31, 2014*

For the year ended December 31, 2015, our net income was \$7.6 million, compared to \$5.0 million for the year ended December 31, 2014, an increase of 51.4%. The largest contributing factors leading to the increase in net income include continued loan growth, improvement in the overall quality of our loan portfolio, and growth in noninterest income driven by our mortgage line of business.

Net interest income was \$34.8 million for the year ended December 31, 2015, an increase of \$2.4 million, or 7.3%, resulting from higher levels of loan balances. Average loans increased 9.1% compared to the prior-year period as a result of increases in the number of our bankers in the Nashville MSA and continued focus on attracting new clients to our Company. We funded this growth in loans through an increase in our deposits and shifting funds out of lower yielding investment securities. Our increase in interest income on loans was partially offset by a decrease in loan yields. Average loan yields declined 21 basis points compared to the prior-year period due to continued competitive pricing pressures associated with securing the business of credit-worthy

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borrowers in the Nashville MSA. The increase in net interest income was also due to lower deposit costs compared to the prior-year period. The average rate paid on interest-bearing liabilities was 0.68% for the year ended December 31, 2015, down 4 basis points from the prior-year period. Both average interest-bearing transaction and average noninterest-bearing deposits grew most notably as we continued to build core deposit relationships across our lines of business. Average noninterest-bearing deposits increased 26.8% for the year ended December 31, 2015, while average interest-bearing transaction deposits increased 28.8%.

Our provision for loan and lease losses for the year ended December 31, 2015 was \$1.7 million, compared to \$3.9 million for the prior-year period. The primary driver of this decrease was a specific provision of \$2.4 million for one particular loan that was recognized in 2014 and subsequently charged off during 2015.

Noninterest income for the year ended December 31, 2015 was \$8.9 million, a 19.7% increase as compared to the prior-year period, primarily driven by the impact of a full year of revenue from our mortgage line of business, which was purchased in February 2014, as well as increased mortgage production. Mortgage fee income increased as a result of continued strong purchase and refinance activity due to low mortgage rates and a strong residential real estate market in the Nashville MSA. Loan fee income of \$822,000 during the year ended December 31, 2015 represented a decrease of 12.6% as compared to the prior-year period due to a shift in focus within our healthcare line of business from transaction-based activity to relationship generating activities.

Noninterest expense for the year ended December 31, 2015 was \$31.0 million, a 8.5% increase as compared to the prior-year period, primarily due to an increase between periods in employee costs. During the year ended December 31, 2015, we added bankers in our healthcare and commercial and industrial lines of business. In addition, we added the wealth management line of business and experienced a full year of expenses in connection with our acquisition of Farmington. The number of full-time employees increased from 157 at December 31, 2014 to 162 at December 31, 2015. Furthermore, during the year ended December 31, 2015, we made significant investments in our infrastructure, which we believe will allow us to operate more efficiently and effectively as a public company. We believe that these investments enable us to execute our growth strategy and provide us with a scalable and efficient operating model. We believe that our overhead costs as a percentage of our revenue will decrease over time.

Income tax expense was \$3.5 million for the year ended December 31, 2015, compared to \$2.4 million for the year ended December 31, 2014. Our effective tax rates for 2015 and 2014 were 31.5% and 32.6%, respectively. The decrease in the 2015 effective tax rate was due primarily to utilization of one-time tax credits. Total income tax expense increased \$1.1 million as compared to the prior-year period, primarily driven by the impact of \$3.6 million of additional income before taxes.

### *Year ended December 31, 2014 compared to year ended December 31, 2013*

For the year ended December 31, 2014, our net income was \$5.0 million, compared to \$6.4 million for the year ended December 31, 2013, a decrease of 22.1%. The largest contributing factors leading to the decrease were an increase in provision for loan and lease losses of \$2.4 million related to one loan, which was subsequently charged off during 2015, and decreased interest income related to purchase accounting of \$2.2 million. Excluding these items, we experienced growth in our business during the year ended December 31, 2014, including growth in earning assets and deposits. We also closed on the acquisition of Farmington in February 2014, which increased our fee income product offerings to our clients.

Net interest income was \$32.4 million for the year ended December 31, 2014, a decrease of \$2.2 million, or 6.3%, resulting from lower levels of purchase accounting interest income associated with our acquisition of American Security as well as a lower rate cycle. Although average loans increased 7.2% during the year ended December 31, 2014 as compared to the prior-year period, the average yield on loans was 4.7% during the year ended December 31, 2014, compared to 5.5% during the year ended December 31, 2013, as a result of lower levels of purchase accounting interest income associated with our acquisition of American Security as well as a

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lower rate cycle. The ten-year Treasury rate declined from 3.02% at December 31, 2013 to 2.25% at December 31, 2014. The impact of these events resulted in a decline in our net interest spread from 3.31% for the year ended December 31, 2013 to 3.06% for the year ended December 31, 2014 and a decline in our net interest margin from 3.45% for the year ended December 31, 2013 to 3.20% for the year ended December 31, 2014. We funded our growth in loans through an increase in our noninterest-bearing deposits and shifting funds out of lower yielding investment securities. Average noninterest-bearing deposits increased 31.1% for the year ended December 31, 2014 as compared to the prior-year period as we continued to build core deposit relationships across our lines of business, especially correspondent banking settlement accounts.

Provision for loan and lease losses for the years ended December 31, 2014 and 2013 was \$3.9 million and \$938,000, respectively. The primary driver of the increase was due to loan growth and a specific reserve of \$2.4 million for one loan that was recognized in 2014. In addition we recognized \$1.1 million of net charge-offs for the year ended December 31, 2014.

Noninterest income for the years ended December 31, 2014 and 2013 was \$7.4 million and \$1.9 million, respectively, primarily driven by mortgage fee income during 2014 as a result of our acquisition of Farmington in February 2014, as well as increases in other sources of fee income. Service charges and fees on deposit accounts of \$1.1 million for the year ended December 31, 2014 represented an increase of \$306,000 as compared to the year ended December 31, 2013. This increase resulted from treasury management fees in our commercial and industrial line of business and our expansion of correspondent bank settlement deposit accounts. Loan fee income of \$941,000 during the year ended December 31, 2014 represented an increase of \$354,000 as compared to the prior-year period due to fees generated from our commercial and industrial and healthcare lines of business. The income from bank-owned life insurance increased \$640,000 during the year ended December 31, 2014 as compared to the prior-year period due to a full year of income on an investment in bank-owned life insurance purchased in December 2013.

Noninterest expense for the years ended December 31, 2014 and 2013 was \$28.6 million and \$25.4 million, respectively, an increase of \$3.1 million, which was primarily due to expenses incurred as a result of the acquisition of Farmington in February 2014. In addition, data processing and software expense increased \$605,000 during the year ended December 31, 2014, or 30.8%, due to the expansion of our correspondent banking settlement services platform. Increases in other components of noninterest expense during the year ended December 31, 2014 were due to our increased asset size and volumes. In addition, our employee costs rose between periods as the number of full-time employees increased from 126 at December 31, 2013 to 157 at December 31, 2014, most notably due to the Farmington acquisition.

Income tax expense was \$2.4 million for the year ended December 31, 2014, compared to \$3.7 million for the year ended December 31, 2013. Our effective tax rates for 2014 and 2013 were 32.6% and 36.9%, respectively. The decrease in the 2014 effective tax rate was due primarily to an increase in tax-exempt interest income and earnings on life insurance contracts.

### *Net Interest Income and Net Interest Margin Analysis*

The largest component of our net income is net interest income – the difference between the income earned on interest-earning assets and the interest paid on deposits and borrowed funds used to support our assets. Net interest income divided by average earning assets represents our net interest margin. The major factors that affect net interest income and net interest margin are changes in volumes, the yield on interest-earning assets and the cost of interest-bearing liabilities. Our margin can also be affected by economic conditions, the competitive environment, loan demand and deposit flow. Our ability to respond to changes in these factors by using effective asset-liability management techniques is critical to maintaining the stability of the net interest margin and our primary source of earnings.

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The following tables show for the periods indicated the average balance of each principal category of our assets, liabilities, and shareholders' equity and the average yields on assets and average costs of liabilities. Such yields and costs are calculated by dividing income or expense by the average daily balances of the associated assets or liabilities.

**AVERAGE BALANCE SHEET AND NET INTEREST ANALYSIS**

	For the Three Months Ended March 31,					
	2016			2015		
(Dollars in thousands, except yields and rates)	Average Outstanding Balance	Interest Income/Expense	Average Yield/Rate	Average Outstanding Balance	Interest Income/Expense	Average Yield/Rate
<b>Interest-Earning Assets</b>						
Loans (1)	\$ 822,112	\$ 8,976	4.39%	\$ 715,101	\$ 7,899	4.48%
Loans exempt from federal income tax	—	—	—	—	—	—
Total loans (gross)	\$ 822,112	\$ 8,976	4.39%	\$ 715,101	\$ 7,899	4.48%
Loans held for sale	29,799	292	3.94%	18,875	182	3.91%
Securities:						
Taxable investment securities	209,865	1,193	2.27%	279,830	1,461	2.09%
Investment securities exempt from federal income tax (2)	10,417	56	2.15%	6,436	34	2.11%
Total securities	220,282	1,249	2.27%	286,266	1,495	2.09%
Cash balances in other banks	56,427	76	0.54%	65,319	39	0.24%
Funds sold	2,703	4	0.61%	3,002	5	0.71%
<b>Total interest-earning assets</b>	<b>\$1,131,323</b>	<b>\$10,597</b>	<b>3.77%</b>	<b>\$1,088,564</b>	<b>\$9,619</b>	<b>3.58%</b>
Noninterest-earning assets	49,445			49,156		
<b>Total assets</b>	<b>\$1,180,768</b>			<b>\$1,137,720</b>		
<b>Interest-Bearing Liabilities</b>						
Interest-bearing transaction accounts	\$ 203,283	\$ 302	0.60%	\$ 132,171	\$ 157	0.48%
Savings and money market deposits	445,891	732	0.66%	486,436	715	0.60%
Time deposits	188,778	514	1.10%	209,346	533	1.03%
Borrowings and repurchase agreements	30,798	94	1.23%	29,531	45	0.62%
<b>Total interest-bearing liabilities</b>	<b>\$ 868,750</b>	<b>\$ 1,642</b>	<b>0.76%</b>	<b>\$ 857,484</b>	<b>\$ 1,450</b>	<b>0.69%</b>
Noninterest-bearing deposits	189,505			165,332		
<b>Total funding sources</b>	<b>1,058,255</b>			<b>1,022,816</b>		
Noninterest-bearing liabilities	11,795			10,818		
Shareholders' equity	110,718			104,086		
<b>Total liabilities and shareholders' equity</b>	<b>\$1,180,768</b>			<b>\$1,137,720</b>		
<b>Net interest spread (3)</b>			<b>3.01%</b>			<b>2.89%</b>
<b>Net interest income/margin (4)</b>		<b>\$ 8,955</b>	<b>3.18%</b>		<b>\$8,169</b>	<b>3.04%</b>

(1) Average loan balances include nonaccrual loans. Interest income on loans includes amortization of deferred loan fees, net of deferred loan costs.

(2) Balances for investment securities exempt from federal income tax are not calculated on a tax equivalent basis.

(3) Net interest spread is the average yield on total interest-earning assets minus the average rate on total interest-bearing liabilities.

(4) Net interest margin is net interest income divided by total interest-earning assets.

## AVERAGE BALANCE SHEET AND NET INTEREST ANALYSIS

	For the Year Ended December 31,								
	2015			2014			2013		
(Dollars in thousands, except yields and rates)	Average Outstanding Balance	Interest Income/Expense	Average Yield/Rate	Average Outstanding Balance	Interest Income/Expense	Average Yield/Rate	Average Outstanding Balance	Interest Income/Expense	Average Yield/Rate
<b>Interest-Earning Assets</b>									
Loans (1)	\$ 744,151	\$ 33,722	4.53%	\$ 682,218	\$ 32,311	4.74%	\$ 636,123	\$ 34,839	5.48%
Loans exempt from federal income tax	—	—	0.00%	—	—	0.00%	—	—	0.00%
Total loans (gross)	\$ 744,151	\$ 33,722	4.53%	\$ 682,218	\$ 32,311	4.74%	\$ 636,123	\$ 34,839	5.48%
Loans held for sale	29,324	1,123	3.83%	11,733	492	4.19%	—	—	—
Securities:									
Taxable investment securities	252,588	5,335	2.11%	254,214	5,301	2.09%	286,547	5,789	2.02%
Investment securities exempt from federal income tax (2)	7,739	166	2.14%	539	10	1.86%	14,968	369	2.47%
Total securities	260,327	5,501	2.11%	254,753	5,311	2.08%	301,515	6,158	2.04%
Cash balances in other banks	54,143	140	0.26%	59,952	148	0.25%	59,219	148	0.25%
Funds sold	3,094	18	0.60%	4,185	25	0.60%	4,088	12	0.29%
<b>Total interest-earning assets</b>	<b>\$ 1,091,039</b>	<b>\$ 40,504</b>	<b>3.71%</b>	<b>\$ 1,012,840</b>	<b>\$ 38,287</b>	<b>3.78%</b>	<b>\$ 1,000,946</b>	<b>\$ 41,157</b>	<b>4.11%</b>
Noninterest-earning assets	49,721			51,865			27,763		
<b>Total assets</b>	<b>\$ 1,140,760</b>			<b>\$ 1,064,705</b>			<b>\$ 1,028,709</b>		
<b>Interest-Bearing Liabilities</b>									
Interest-bearing transaction accounts	\$ 143,939	\$ 748	0.52%	\$ 111,725	\$ 599	0.54%	\$ 93,158	\$ 517	0.56%
Savings and money market deposits	465,622	2,733	0.59%	453,984	2,754	0.61%	480,224	3,404	0.71%
Time deposits	197,535	2,031	1.03%	217,647	2,323	1.07%	220,002	2,488	1.13%
Borrowings and repurchase agreements	39,581	218	0.55%	32,404	195	0.60%	26,131	166	0.64%
<b>Total interest-bearing liabilities</b>	<b>\$ 846,678</b>	<b>\$ 5,731</b>	<b>0.68%</b>	<b>\$ 815,760</b>	<b>\$ 5,871</b>	<b>0.72%</b>	<b>\$ 819,516</b>	<b>\$ 6,577</b>	<b>0.80%</b>
Noninterest-bearing deposits	176,577			139,312			106,271		
<b>Total funding sources</b>	<b>1,023,255</b>			<b>955,072</b>			<b>925,787</b>		
Noninterest-bearing liabilities	10,778			8,603			3,769		
Shareholders' equity	106,727			101,030			99,153		
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,140,760</b>			<b>\$ 1,064,705</b>			<b>\$ 1,028,709</b>		
<b>Net interest spread (3)</b>			<b>3.03%</b>			<b>3.06%</b>			<b>3.31%</b>
<b>Net interest income/margin (4)</b>		<b>\$ 34,773</b>	<b>3.19%</b>		<b>\$ 32,416</b>	<b>3.20%</b>		<b>\$ 34,581</b>	<b>3.45%</b>

- (1) Average loan balances include nonaccrual loans. Interest income on loans includes amortization of deferred loan fees, net of deferred loan costs.
- (2) Balances for investment securities exempt from federal income tax are not calculated on a tax equivalent basis.
- (3) Net interest spread is the average yield on total interest-earning assets minus the average rate on total interest-bearing liabilities.
- (4) Net interest margin is net interest income divided by total interest-earning assets.

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The following table reflects, for the periods indicated, the changes in our net interest income due to changes in the volume of interest-earning assets and interest-bearing liabilities and the associated rates paid or earned on these assets and liabilities.

**ANALYSIS OF CHANGES IN NET INTEREST INCOME**

	For the Three Months Ended March 31,			For the Year Ended December 31,					
	2016 vs. 2015			2015 vs. 2014			2014 vs. 2013		
	Variance Due To			Variance Due To			Variance Due To		
	Volume	Yield/ Rate	Total	Volume	Yield/ Rate	Total	Volume	Yield/ Rate	Total
<b>(Dollars in thousands)</b>									
<b>Interest-Earning Assets</b>									
Loans	\$ 1,182	\$ (105)	\$ 1,077	\$ 2,933	\$ (1,523)	\$ 1,410	\$ 2,524	\$ (5,052)	\$ (2,528)
Loans exempt from federal income tax	—	—	—	—	—	—	—	—	—
Total loans (gross)	\$ 1,182	\$ (105)	\$ 1,077	\$ 2,933	\$ (1,523)	\$ 1,410	\$ 2,524	\$ (5,052)	\$ (2,528)
Loans held for sale	105	5	110	737	(106)	631	492	—	492
<b>Securities:</b>									
Taxable investment securities	(365)	98	(268)	(34)	67	33	(653)	165	(488)
Investment securities exempt from federal income tax	21	1	22	134	22	156	(356)	(3)	(359)
Total securities	(344)	99	(246)	100	90	189	(1,009)	162	(847)
Cash balances in other banks	(5)	42	37	(14)	7	(7)	2	(3)	(1)
Funds sold	(1)	(1)	(1)	(7)	—	(6)	—	13	13
<b>Total interest-earning assets</b>	<b>\$ 937</b>	<b>\$ 41</b>	<b>\$ 978</b>	<b>\$ 3,749</b>	<b>\$ (1,532)</b>	<b>\$ 2,217</b>	<b>\$ 2,009</b>	<b>\$ (4,880)</b>	<b>\$ (2,870)</b>
<b>Interest-Bearing Liabilities</b>									
Interest-bearing transaction accounts	\$ 84	\$ 61	\$ 145	\$ 173	\$ (24)	\$ 149	\$ 103	\$ (21)	\$ 82
Savings and money market deposits	(60)	76	16	71	(91)	(21)	(186)	(464)	(651)
Time deposits	(52)	34	(19)	(215)	(77)	(291)	(27)	(139)	(166)
Borrowings and repurchase agreements	2	47	49	43	(20)	23	40	(11)	29
<b>Total interest-bearing liabilities</b>	<b>\$ (26)</b>	<b>\$ 218</b>	<b>\$ 192</b>	<b>\$ 72</b>	<b>\$ (212)</b>	<b>\$ (140)</b>	<b>\$ (70)</b>	<b>\$ (636)</b>	<b>\$ (706)</b>
<b>Net Interest Income</b>									
<b>Net interest income</b>	<b>\$ 963</b>	<b>\$ (177)</b>	<b>\$ 786</b>	<b>\$ 3,677</b>	<b>\$ (1,320)</b>	<b>\$ 2,357</b>	<b>\$ 2,079</b>	<b>\$ (4,244)</b>	<b>\$ (2,165)</b>

Three months ended March 31, 2016 compared to three months ended March 31, 2015

Net interest income increased \$786,000, or 9.6%, to \$9.0 million for the three months ended March 31, 2016, compared to \$8.2 million for the three months ended March 31, 2015, primarily due to higher levels of loan balances partially offset by an increase in our interest-bearing liability costs.

Total interest-earning assets averaged \$1.1 billion for the three months ended March 31, 2016, an increase of \$42.8 million, or 3.9%, from the prior-year period. For the three months ended March 31, 2016, loans, as a percentage of total interest-earning assets, were 73%, compared to 66% for the prior-year period.

Average loans increased 15.0% compared to the prior-year period as a result of increases in the number of our bankers in the Nashville MSA and continued focus on attracting new clients to our Company. Interest income on loans due to additional volumes increased \$1.2 million but was slightly offset by lower loan yields. Average loan yields decreased from 4.48% for the three months ended March 31, 2015 to 4.39% for the three months ended March 31, 2016. The decrease in loan yields was primarily due to the lower loan rates on new loan production as compared to the average yield on the current loan portfolio, as well as continued competitive pricing pressures associated with securing the business of credit-worthy borrowers in the Nashville MSA. The resulting yield on average interest-earning assets increased from 3.58% for the three months ended March 31, 2015 to 3.77% for the three months ended March 31, 2016 despite the above noted loan yield decrease.



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We funded this growth in loans through an increase in our funding sources of 3.5% and shifting funds out of lower yielding investment securities, which decreased 23% between periods. Our increase in interest income on loans was partially offset by an increase in our interest-bearing liability costs. Interest-bearing liabilities averaged \$868.8 million for the three months ended March 31, 2016, compared to \$857.5 million for the prior-year period, an increase of \$11.3 million, or 1.3%. The average rate paid on interest-bearing liabilities was 0.76% for the three months ended March 31, 2016, as compared to 0.69% for the prior-year period. A portion of the increase was due to the 0.25% increase in the Fed Funds rate in December 2015. We passed along a portion of this rate increase to our clients.

The impact of the above resulted in a widening of our net interest spread between periods from 2.89% to 3.01% and a widening of our net interest margin between periods from 3.04% to 3.18%.

### *Year ended December 31, 2015 compared to year ended December 31, 2014*

Net interest income increased \$2.4 million, or 7.3%, to \$34.8 million for the year ended December 31, 2015, compared to \$32.4 million for the year ended December 31, 2014, primarily due to higher levels of loan balances and decreased interest-bearing liability costs.

Total interest-earning assets averaged \$1.1 billion for the year ended December 31, 2015, an increase of \$78.2 million, or 7.7%, from the prior-year period. For the year ended December 31, 2015, loans, as a percentage of total interest-earning assets, were 68%, compared to 67% for the prior-year period.

Average loans increased 9.1% compared to the prior-year period as a result of increases in the number of our bankers in the Nashville MSA and continued focus on attracting new clients to our Company. Interest income on loans due to additional volumes increased \$2.9 million but was partially offset by \$1.5 million due to lower loan yields. Average loan yields decreased from 4.74% for the year ended December 31, 2014 to 4.53% for the year ended December 31, 2015. The decrease in loan yields was primarily due to the lower loan rates on new loan production as compared to the average yield on the existing loan portfolio, as well as continued competitive pricing pressures associated with securing the business of credit-worthy borrowers in the Nashville MSA. The resulting average yield on average interest-earning assets decreased from 3.78% for the year ended December 31, 2014 to 3.71% for the year ended December 31, 2015 due to the above noted loan yield decline.

We funded this growth in loans through an increase in our funding sources of 7.1%. Interest-bearing liabilities averaged \$846.7 million for the year ended December 31, 2015, compared to \$815.8 million for the prior-year period, an increase of \$30.9 million, or 3.8%. Our average noninterest deposits increased \$37.3 million between periods, or 26.8%, to \$176.6 million as of December 31, 2015. Our increase in net interest income on loans was also due to a decrease in our interest-bearing liability costs. The average rate paid on interest-bearing liabilities was 0.68% for the year ended December 31, 2015, as compared to 0.72% for the prior-year period.

The impact of the above resulted in a slight decrease of our net interest spread between periods from 3.06% to 3.03% and a slight decline of our net interest margin between periods from 3.20% to 3.19%.

### *Year ended December 31, 2014 compared to year ended December 31, 2013*

Net interest income decreased \$2.2 million, or 6.3%, to \$32.4 million for the year ended December 31, 2014, compared to \$34.6 million for the year ended December 31, 2013, primarily due to lower levels of purchase accounting interest income associated with our acquisition of American Security as well as a lower rate cycle.

Total interest-earning assets averaged \$1.0 billion for the year ended December 31, 2014, an increase of \$11.9 million, or 1.2%, from the prior-year period. For the year ended December 31, 2014, loans, as a percentage of total interest-earning assets, were 67%, compared to 64% for the prior-year period.

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Average loans increased 7.3% compared to the prior-year period as a result of increases in the number of our bankers in the Nashville MSA and increased focus on attracting new clients to our Company. Interest income on loans due to additional volumes increased \$2.5 million which was offset by \$5.1 million due to lower loan yields and purchase accounting interest income associated with our acquisition of American Security. Average loan yields decreased from 5.48% for the year ended December 31, 2013 to 4.74% for the year ended December 31, 2014. The decrease in loan yields was primarily due to the lower levels of purchase accounting interest income as well as a lower rate cycle. The ten-year Treasury rate declined from 3.02% at December 31, 2013 to 2.25% at December 31, 2014.

We funded this growth in loans through an increase in our funding sources of 3.2% and shifting funds out of lower yielding investment securities. Average investments decreased 15.5% during the period. Interest-bearing liabilities averaged \$815.8 million for the year ended December 31, 2014, compared to \$819.5 million for the prior-year period, a decrease of \$3.8 million or 0.5%. Our average noninterest deposits increased \$33.0 million between periods, or 31.1%, to \$139.3 million as of December 31, 2014, as we continued to build core deposit relationships across our lines of business, with a large increase of 67.3% between periods from correspondent banking settlement accounts. Interest-bearing transaction accounts continued to grow as well, with \$111.7 million on average for the year ended December 31, 2014 as compared to \$93.2 million for the prior-year period, an increase of 19.9%. The average rate paid on interest-bearing liabilities was 0.72%, compared to 0.80% for the prior-year period, which was a result of proactively managing deposit costs with rate sensitive clients and growing other low cost funding within interest-bearing transaction accounts at lower rates.

The impact of the above actions resulted in a decrease of our net interest spread between periods from 3.31% to 3.06% and a decrease in our net interest margin between periods from 3.45% to 3.20%.

### *Provision for Loan and Lease Losses*

Our policy is to maintain an allowance for loan and lease losses at a level sufficient to absorb probable incurred losses inherent in the loan portfolio. The allowance is increased by a provision for loan and lease losses, which is a charge to earnings, is decreased by charge-offs and increased by loan recoveries. In determining the adequacy of our allowance for loan and lease losses, we consider our historical loan loss experience, the general economic environment, the overall portfolio composition and other relevant information. As these factors change, the level of loan and lease loss provision changes.

#### *Three months ended March 31, 2016 compared to three months ended March 31, 2015*

For the three months ended March 31, 2016, we recorded a provision for loan and lease losses of \$937,000 as compared to \$136,000 for the three months ended March 31, 2015. The increase was related to loan growth and higher than normal net charge-offs for the quarter of \$770,000 for two loans as compared to \$81,000 for the three months ended March 31, 2015.

#### *Year ended December 31, 2015 compared to year ended December 31, 2014*

Provision for loan and lease losses for the year ended December 31, 2015 and 2014 was \$1.7 million and \$3.9 million, respectively. The primary driver of this decrease was a specific reserve of \$2.4 million for one loan that was recognized in 2014 and subsequently charged off in 2015.

#### *Year ended December 31, 2014 compared to year ended December 31, 2013*

Provision for loan and lease losses for the years ended December 31, 2014 and 2013 was \$3.9 million and \$938,000, respectively. The primary driver of the increase was due to an increase in the loan portfolio and a specific reserve of \$2.4 million for one loan that was recognized in 2014. In addition we recognized \$1.1 million of net charge-offs for the year ended December 31, 2014.

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*Noninterest Income*

In addition to net interest margin, we generate other types of recurring noninterest income from our lines of business. Our banking operations generate revenue from service charges and fees on deposit accounts. We have a mortgage banking line of business that generates revenue from originating and selling mortgages, and we have a revenue-sharing relationship with a registered broker-dealer, which generates wealth management fees. In addition to these types of recurring noninterest income, we own insurance on several key employees and record income on the increase in the cash surrender value of these policies.

The following table sets forth the principal components of noninterest income for the periods indicated.

**NONINTEREST INCOME**

<b>(Dollars in thousands)</b>	<b>Three Months Ended March 31,</b>			<b>Twelve Months Ended December 31,</b>				
	<b>2016</b>	<b>2015</b>	<b>Change from the Prior Year</b>	<b>2015</b>	<b>Change from the Prior Year</b>	<b>2014</b>	<b>Change from the Prior Year</b>	<b>2013</b>
<b>Noninterest Income</b>								
Service charges on deposit accounts	\$ 225	\$ 201	12.0%	\$ 910	(15.8)%	\$1,080	39.5%	\$ 774
Loan commitment fees	430	171	151.5%	822	(12.6)%	941	60.3%	587
Net gain (loss) on sale of securities	39	(2)	2050.0%	55	308.9%	13	(81.6)%	73
Net gain on sale of loans	1,347	1,217	10.7%	5,962	46.6%	4,067	6790.2%	59
Other noninterest income	330	325	1.5%	1,135	(13.9)%	1,318	190.9%	453
<b>Total noninterest income</b>	<b>\$2,371</b>	<b>\$1,912</b>	<b>24.0%</b>	<b>\$8,884</b>	<b>19.7%</b>	<b>\$7,419</b>	<b>281.3%</b>	<b>\$1,946</b>

*Three months ended March 31, 2016 compared to three months ended March 31, 2015*

Noninterest income for the three months ended March 31, 2016 was \$2.4 million, a 24.0% increase as compared to the three months ended March 31, 2015. All categories of noninterest income experienced an increase. Mortgage fee income increased due to the continued benefit from purchase activity due to low mortgage rates and a vibrant residential real estate market in the Nashville MSA. Loan fees increased due to increased loan activities and enhanced positioning of services to our clients.

*Year ended December 31, 2015 compared to year ended December 31, 2014*

Noninterest income for the year ended December 31, 2015 was \$8.9 million, a 19.7% increase as compared to the year ended December 31, 2014. Mortgage fee income increased due to the continued benefit from strong purchase and refinance activity due to low mortgage rates and a strong residential real estate market in the Nashville MSA. Loan fee income of \$822,000 reflected a 12.6% decrease in such fee income between periods due to a shift in focus within our healthcare line of business from transaction-based activity to relationship generating activities.

*Year ended December 31, 2014 compared to year ended December 31, 2013*

Noninterest income for the years ended December 31, 2014 and 2013 was \$7.4 million and \$1.9 million, respectively. Mortgage fee income increased due to the acquisition of Farmington in February 2014. Service charges and fees on deposit accounts were \$1.1 million for the year ended December 31, 2014 and increased \$306,000 compared to the year ended December 31, 2013. This increase resulted from treasury management fees in our commercial and industrial line of business and our expansion of correspondent bank settlement deposit

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accounts. Loan fee income was \$941,000 and increased \$354,000 during 2014 from fees generated from our commercial and industrial and healthcare lines of business. The income from bank-owned life insurance increased \$640,000 during 2014 due to a full year of income on an investment in bank-owned life insurance purchased in December 2013.

### *Noninterest Expense*

Our total noninterest expense increase reflects expenses that we have incurred as we build the foundation to support our recent growth and enable us to execute our growth strategy. We believe that our overhead costs as a percentage of our revenue will decrease over time. The following table presents the primary components of noninterest expense for the periods indicated.

#### NONINTEREST EXPENSE

(Dollars in thousands)	Three Months Ended March 31,			Twelve Months Ended December 31,				
	2016	2015	Change from the Prior Year	2015	Change from the Prior Year	2014	Change from the Prior Year	2013
<b>Noninterest Expense</b>								
Salaries and employee benefits	\$ 5,218	\$ 4,890	6.7%	\$19,278	10.3%	\$17,474	9.1%	\$16,019
Data processing and software	568	631	(9.9)%	2,317	(9.7)%	2,566	30.8%	1,962
Occupancy	410	391	4.9%	1,538	1.8%	1,512	34.8%	1,122
Equipment	407	327	24.4%	1,598	26.9%	1,259	15.3%	1,092
Professional fees	331	419	(21.1)%	1,469	8.2%	1,357	(16.4)%	1,623
Regulatory fees	227	237	(3.9)%	915	(2.8)%	941	(2.3)%	963
Other real estate expense	8	17	(55.1)%	34	(86.0)%	243	(6.4)%	259
Other expenses	841	807	4.3%	3,827	19.2%	3,210	34.2%	2,391
<b>Total noninterest expense</b>	<b>\$ 8,010</b>	<b>\$ 7,718</b>	<b>3.8%</b>	<b>\$30,977</b>	<b>8.5%</b>	<b>\$28,562</b>	<b>12.3%</b>	<b>\$25,431</b>

#### *Three months ended March 31, 2016 compared to three months ended March 31, 2015*

Noninterest expense for the three months ended March 31, 2016 and 2015 was \$8.0 million and \$7.7 million, respectively. The largest increase between periods within noninterest expense was related to employee costs as salaries and employee benefits increased due to our expanded presence in the Nashville MSA. The number of full-time employees increased from 153 at March 31, 2015 to 163 at March 31, 2016.

#### *Year ended December 31, 2015 compared to year ended December 31, 2014*

Noninterest expense for the years ended December 31, 2015 and 2014 was \$31.0 million and \$28.6 million, respectively. The largest increase between periods within noninterest expense was related to employee costs as salaries and employee benefits increased as we expanded our presence in the Nashville MSA. The number of full-time employees increased from 157 at December 31, 2014 to 162 at December 31, 2015. We also incurred a full year of expenses related to our acquisition of Farmington in February 2014. Furthermore, during 2014 and 2015, we made significant investments in our infrastructure, which we believe will allow us to operate more efficiently and effectively as a public company. At the end of 2014, we renegotiated our FIS core processing contract and outsourced our information technology services, which we believe will allow us to better manage the costs and risks associated with information technology and data processing. This contract has a term of five years. Additionally, we upgraded and automated our financial reporting tools and allowance for loan and lease loss model. As a result of these investments, our equipment expense increased \$339,000, which was partially offset by decreased fees in

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our data processing expenses. We believe that these investments will enable us to execute our growth strategy and provide us with a scalable and efficient operating model and that our overhead costs as a percentage of our revenue will decrease over time.

Contingent consideration expenses associated with our mortgage line of business, which are included in other expenses in the table above, increased \$574,000 during 2015, primarily due to higher mortgage originations. The changes in the other components of noninterest expense for the year ended December 31, 2015 are due to our increasing asset size and volumes.

### *Year ended December 31, 2014 compared to year ended December 31, 2013*

Noninterest expense for the years ended December 31, 2014 and 2013 was \$28.6 million and \$25.4 million, respectively, an increase of \$3.1 million, which was primarily due to expenses incurred as a result of the acquisition of Farmington in February 2014. In addition, data processing and software expense increased \$605,000 during the year ended December 31, 2014, or 30.8%, due to the expansion of our correspondent banking settlement services platform. Increases in other components of noninterest expense during the year ended December 31, 2014 were due to our increased asset size and volumes. In addition our employee costs rose between periods as the number of full-time employees increased from 126 at December 31, 2013 to 157 at December 31, 2014, most notably due to the Farmington acquisition.

### *Income Tax Provision*

The provision for income taxes includes both federal and state taxes. Fluctuations in effective tax rates reflect the effect of the differences in the inclusion or deductibility of certain income and expenses for income tax purposes. Our future effective income tax rate will fluctuate based on the mix of taxable and tax-free investments we make, periodic increases in surrender value of bank-owned life insurance policies for certain named executive officers and our overall taxable income.

### *Three months ended March 31, 2016 compared to three months ended March 31, 2015*

Income tax expense was \$796,000 for the three months ended March 31, 2016, compared to \$659,000 for three months ended March 31, 2015. Our effective tax rates for the three months ended March 31, 2016 and 2015 were 33.5% and 29.6%, respectively. The increase in the 2016 effective tax rate was due primarily to one-time tax credits utilized in the first quarter of 2015.

### *Year ended December 31, 2015 compared to year ended December 31, 2014*

Income tax expense was \$3.5 million for the year ended December 31, 2015, compared to \$2.4 million for the year ended December 31, 2014. Our effective tax rates for 2015 and 2014 were 31.5% and 32.6%, respectively. The decrease in the 2015 effective tax rate was due primarily to utilization of one-time tax credits. Total income tax expense increased \$1.1 million as compared to the prior-year period, primarily driven by the impact of \$3.6 million of additional income before taxes.

### *Year ended December 31, 2014 compared to year ended December 31, 2013*

Income tax expense was \$2.4 million for the year ended December 31, 2014, compared to \$3.7 million for the year ended December 31, 2013. Our effective tax rates for 2014 and 2013 were 32.6% and 36.9%, respectively. The decrease in the 2014 effective tax rate was due primarily to an increase in tax-exempt interest income and earnings on life insurance contracts.

## Financial Condition

Our total assets at March 31, 2016 were \$1.22 billion, an increase of \$16.4 million, or 1.4%, over total assets of \$1.21 billion at December 31, 2015. Total loans and leases increased \$29.3 million, or 3.6%, to \$837.7 million at March 31, 2016 compared to \$808.4 million at December 31, 2015. AFS securities were \$189.8 million at March 31, 2016 compared to \$173.4 million at December 31, 2015, an increase of \$16.4 million as securities were purchased with excess liquidity. Total deposits increased by \$47.9 million, or 4.6%, to \$1.1 billion between December 31, 2015 and March 31, 2016.

Our total assets at December 31, 2015 were \$1.2 billion, an increase of \$78.4 million, or 6.9%, over total assets of \$1.1 billion at December 31, 2014. Loan growth was the primary reason for the increase. Total loans and leases increased \$95.3 million, or 13.4%, to \$808.4 million at December 31, 2015 compared to \$713.1 million at December 31, 2014, while AFS securities declined \$63.2 million, or 26.7%, to \$173.4 million at December 31, 2015 compared to \$236.6 million at December 31, 2014. Total deposits increased \$57.4 million, or 5.9%, to \$1.0 billion between December 31, 2014 and December 31, 2015.

Our total assets at December 31, 2014 were \$1.1 billion, an increase of \$119.7 million, or 11.9%, over total assets of \$1.0 billion at December 31, 2013. Loan growth was the primary reason for the increase. Total loans and leases increased \$86.7 million, or 13.8%, to \$713.1 million at December 31, 2014 compared to \$626.4 million at December 31, 2013. Total deposits increased \$102.0 million, or 11.6%, to \$981.1 million between December 31, 2013 and December 31, 2014.

## Investment Portfolio

Our investment portfolio is used to provide liquidity through cash flow, marketability and collateral for borrowings, manage interest rate risk and the corresponding risk to the bank's market value, maximize the bank's profitability (includes minimizing tax liability), manage the diversification of the bank's asset base, and maintain adequate risk-based capital levels. We manage our investment portfolio according to a written investment policy approved by our board of directors. Investment balances in our securities portfolio are subject to change over time based on our funding needs and interest rate risk management objectives. Our liquidity levels take into account anticipated future cash flows and all available sources of credit, and are maintained at levels management believes are appropriate to assure future flexibility in meeting our anticipated funding needs.

Our investment portfolio consists primarily of securities issued by U.S. government-sponsored agencies, obligations of states and political subdivisions, mortgage-backed securities, asset-backed securities and other debt securities, all with varying contractual maturities. However, these maturities do not necessarily represent the expected life of the securities as some of these securities may be called or paid down without penalty prior to their stated maturities. The investment portfolio is regularly reviewed by the Asset Liability Management committee, or ALCO, of the bank to ensure an appropriate risk and return profile as well as for adherence to the investment policy.

Although our investment portfolio consists mainly of AFS securities, during the third quarter of 2013, approximately \$36.8 million of AFS securities were transferred to the held to maturity, or HTM, category. The transfers of the securities into the HTM category from the AFS category were made at fair value at the date of transfer. The unrealized holding loss at the date of the transfer continues to be reported as a separate component of shareholders' equity and is being amortized over the remaining life of the securities as an adjustment of yield in a manner consistent with the amortization of the premiums and discounts.

The carrying values of our AFS securities are adjusted on a monthly basis for unrealized gain or loss as a valuation allowance, and any gain or loss is reported on an after-tax basis as a component of other comprehensive income in shareholders' equity. Periodically, we may need to assess whether there have been any events or economic circumstances to indicate that a security on which there is an unrealized loss is impaired on an other-than-temporary basis. In any such instance, we would consider many factors, including the severity and duration

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of the impairment, our intent and ability to hold the security for a period of time sufficient for a recovery in value, recent events specific to the issuer or industry, and for debt securities, external credit ratings and recent downgrades. Securities on which there is an unrealized loss that is deemed to be other-than-temporary are written down to fair value, with the write-down recorded as a realized loss in securities gains (losses). There are currently no securities which management has deemed other-than-temporarily impaired.

Our AFS securities increased to \$189.8 million as of March 31, 2016, up from \$173.4 million at December 31, 2015 as excess cash due to the seasonal buildup in deposits was deployed into higher-earning assets. As of March 31, 2016, AFS investment securities having a carrying value of \$122.3 million were pledged to secure borrowings or municipal deposits. The carrying values of AFS securities have been trending down over the past several years, as management has redeployed these funds into higher-earning loans.

The following table presents the book value of securities available for sale and held to maturity by type at March 31, 2016 and December 31, 2015, 2014 and 2013.

### INVESTMENT PORTFOLIO

	March 31, 2016	December 31,		
		2015	2014	2013
(Dollars in thousands)				
<b>Securities Available for Sale:</b>				
U.S. government-sponsored agencies	\$ 14,817	\$ 19,542	\$ 15,582	\$ 2,869
Obligations of states and political subdivisions (1)	15,565	13,868	8,665	1,116
Mortgage-backed securities	137,750	118,380	183,733	207,249
Asset-backed securities	21,676	21,593	23,611	41,071
Other debt securities	—	—	5,014	6,136
<b>Total</b>	<b>\$ 189,808</b>	<b>\$ 173,383</b>	<b>\$ 236,605</b>	<b>\$ 258,441</b>
<b>Securities Held to Maturity:</b>				
Obligations of states and political subdivisions (1)	\$ 37,027	\$ 37,005	\$ 36,923	\$ 34,330
Mortgage-backed securities	5,926	6,089	6,921	7,625
<b>Total</b>	<b>\$ 42,953</b>	<b>\$ 43,094</b>	<b>\$ 43,844</b>	<b>\$ 41,955</b>

(1) The book values of obligations of states and political subdivisions are not calculated on a tax equivalent basis.

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The following table presents the fair value of our securities as of March 31, 2016 by their stated maturities (this maturity schedule excludes security prepayment and call features), as well as the weighted average yields for each maturity range.

**INVESTMENT PORTFOLIO**

	One year or less		More than one year through five years		More than five years through 10 years		More than 10 years		Total	
	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield
<b>At March 31, 2016</b>										
<b>Securities Available for Sale:</b>										
U.S. government-sponsored agencies	\$3,005	2.5%	\$ 6,293	1.8%	\$ 5,519	2.6%	\$ —	—%	\$ 14,817	2.3%
Obligations of states and political subdivisions (1)	—	—	2,242	1.4	11,924	2.4	1,399	2.8	15,565	2.3
Mortgage-backed securities	—	—	80,541	1.8	47,676	2.2	9,533	3.1	137,750	2.0
Asset-backed securities	—	—	4,839	1.3	9,485	1.4	7,352	1.3	21,676	1.4
Total	\$3,005	2.5%	93,915	1.8%	74,604	2.2%	18,284	2.4%	189,808	2.0%
<b>Securities Held to Maturity:</b>										
Obligations of states and political subdivisions (1)	\$ 252	3.7%	\$16,489	3.4%	\$17,588	3.3%	\$ 6,630	4.0%	\$ 40,959	3.4%
Mortgage-backed securities	—	—	2,245	3.2	—	—	3,928	3.3	6,173	3.3
Total	\$ 252	3.7%	\$18,734	3.4%	\$17,588	3.3%	\$10,558	3.7%	\$ 47,132	3.4%

(1) The fair values of obligations of states and political subdivisions are not calculated on a tax equivalent basis.

At March 31, 2016, we had \$11.4 million in federal funds sold, compared with \$6.7 million at December 31, 2015. Most of our excess cash balances are held at the Federal Reserve Bank of Atlanta or one of our correspondent banks. At March 31, 2016, there were no holdings of securities of any issuer, other than the U.S. government and its agencies, in an amount greater than 10% of our shareholders' equity.

*Loans and Leases*

Loans and leases are our largest category of earning assets and typically provide higher yields than other types of earning assets. Associated with the higher loan yields are the inherent credit and liquidity risks that we attempt to control and counterbalance.



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The tables below provide a summary of the loan portfolio composition in dollars and percentages as of the periods indicated.

**COMPOSITION OF LOAN PORTFOLIO**

	March 31, 2016	December 31,				
		2015	2014	2013	2012	2011
Commercial real estate	\$ 265,710	\$ 251,197	\$ 219,793	\$ 182,021	\$ 177,147	\$ 132,606
Consumer real estate	90,393	93,785	77,688	61,545	74,073	54,505
Construction and land development	52,480	52,522	46,193	30,217	35,674	24,676
Commercial and industrial	381,548	353,442	333,613	319,899	297,281	184,747
Consumer	8,291	8,668	7,911	7,939	10,749	12,687
Other	40,699	50,197	29,393	26,007	30,333	22,120
Total gross loans	839,121	809,811	714,591	627,628	625,257	431,341
Unearned income	(1,431)	(1,415)	(1,514)	(1,246)	(929)	(1,012)
Total loans net of unearned income	837,690	808,396	713,077	626,382	624,328	430,329
Allowance for loan and lease losses	(10,299)	(10,132)	(11,282)	(8,459)	(8,214)	(6,226)
Total net loans	\$ 827,391	\$ 798,264	\$ 701,795	\$ 617,923	\$ 616,114	\$ 424,103

**COMPOSITION OF LOAN PORTFOLIO**

	March 31, 2016	December 31,				
		2015	2014	2013	2012	2011
Commercial real estate	31.67%	31.02%	30.76%	29.00%	28.33%	30.74%
Consumer real estate	10.77	11.58	10.87	9.81	11.85	12.64
Construction and land development	6.25	6.49	6.46	4.81	5.71	5.72
Commercial and industrial	45.47	43.65	46.69	50.97	47.55	42.83
Consumer	0.99	1.07	1.11	1.26	1.72	2.94
Other	4.85	6.20	4.11	4.14	4.85	5.13
Total gross loans	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Over the past five years, we have experienced significant growth in our loan portfolio, although the relative composition of our loan portfolio has not changed significantly over that time. Our primary focus has been on commercial and industrial and commercial real estate lending, which constituted 77% of our loan portfolio as of March 31, 2016. Although we expect continued growth with respect to our loan portfolio, we do not expect any significant changes over the foreseeable future in the composition of our loan portfolio or in our emphasis on commercial lending. Our loan growth since inception has been reflective of the market we serve. A portion of our commercial real estate exposure represents loans to commercial businesses secured by owner-occupied real estate, which, in effect, are commercial loans with the borrowers' real estate providing a secondary source of repayment. Since 2009, our commercial and industrial and commercial real estate portfolios have continued to experience strong growth, primarily due to implementation of our relationship-based banking model and the success of our relationship managers in transitioning commercial banking relationships from other local financial institutions and in competing for new business from attractive small to mid-sized commercial clients. Many of our larger commercial clients have lengthy relationships with members of our senior management team or our relationship managers that date back to former institutions.

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The repayment of loans is a source of additional liquidity for us. The following table details maturities and sensitivity to interest rate changes for our loan portfolio at December 31, 2015:

(Dollars in thousands)	December 31, 2015			
	Due in 1 year or less	Due in 1-5 years	Due after 5 years	Total
Commercial real estate	\$ 33,668	\$150,039	\$ 67,490	\$251,197
Consumer real estate	7,133	12,968	73,684	93,785
Construction and land development	17,668	26,876	7,978	52,522
Commercial and industrial	92,095	235,853	25,494	353,442
Consumer	7,773	895	—	8,668
Other	29,081	15,616	5,500	50,197
Total gross loans	<u>\$ 187,418</u>	<u>\$442,247</u>	<u>\$180,146</u>	<u>\$809,811</u>
<b>Interest rate sensitivity:</b>				
Fixed interest rates	\$ 73,472	\$218,453	\$116,086	\$408,011
Floating or adjustable rates	113,946	223,794	64,060	401,800
Total gross loans	<u>\$ 187,418</u>	<u>\$442,247</u>	<u>\$180,146</u>	<u>\$809,811</u>

The information presented in the table above is based upon the contractual maturities of the individual loans, which may be subject to renewal at their contractual maturity. Renewal of such loans is subject to review and credit approval, as well as modification of terms at their maturity. Consequently, we believe that this treatment presents fairly the maturity structure of the loan portfolio. Fixed interest rate loans include \$71.7 million of variable rate loans that have reached their contractual floor.

### *Asset Quality*

One of our key objectives is to maintain a high level of asset quality in our loan portfolio. We utilize disciplined and thorough underwriting processes that collaboratively engage our seasoned and experienced business bankers, credit underwriters and portfolio managers in the analysis of each loan request. Based upon our aggregate exposure to any given borrower relationship, we employ scaled review of loan originations that may involve senior credit officers, our Chief Credit Officer, our bank's Credit Committee or, ultimately, our full board of directors. In addition, we have adopted underwriting guidelines to be followed by our lending officers that require senior management review of proposed extensions of credit exceeding certain thresholds. When delinquencies exist, we monitor the levels of such delinquencies for any negative or adverse trends. Our loan review procedures include approval of lending policies and underwriting guidelines by the board of directors of our bank, an independent loan review, approval of larger credit relationships by our bank's Credit Committee and loan quality documentation procedures. Like other financial institutions, we are subject to the risk that our loan portfolio will be subject to increasing pressures from deteriorating borrower credit due to general economic conditions.

We target small and medium sized businesses, the owners and operators of such businesses and other high net worth individuals as loan clients. Because of their size, these borrowers may be less able to withstand competitive or economic pressures than larger borrowers in periods of economic weakness. If loan losses occur at a level where the loan loss reserve is not sufficient to cover actual loan losses, our earnings will decrease. We use an independent consulting firm to review our loans for quality in addition to the reviews that may be conducted internally and by bank regulatory agencies as part of their examination process.

Our bank has procedures and processes in place intended to assess whether losses exceed the potential amounts documented in our bank's impairment analyses and to reduce potential losses in the remaining performing loans within our loan portfolio. These procedures and processes include the following:

- we monitor the past due and overdraft reports on a weekly basis to identify deterioration as early as possible and the placement of identified loans on the watch list;

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- we perform quarterly credit reviews for all watch list/classified loans, including formulation of action plans. When a workout is not achievable, we move to collection/foreclosure proceedings to obtain control of the underlying collateral as rapidly as possible to minimize the deterioration of collateral and/or the loss of its value;
- we require updated financial information, global inventory aging and interest carry analysis where appropriate for existing borrowers to help identify potential future loan payment problems; and
- we generally limit loans for new construction to established builders and developers that have an established record of turning their inventories, and we restrict our funding of undeveloped lots and land.

Our bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. Our bank analyzes loans individually by classifying each loan as to credit risk. This analysis includes all commercial loans, and consumer relationships with an outstanding balance greater than \$500,000, individually. This analysis is performed on a continual basis by the by the relationship managers and credit department personnel. On at least an annual basis an independent party performs a formal credit risk review of a sample of the loan portfolio. Among other things, this review assesses the appropriateness of the loan's risk rating. Our bank uses the following definitions for risk ratings:

- *Watch* – Borrowers with declining earnings, strained cash flow, increasing leverage, and/or weakening fundamentals that indicate above average risk.
- *Special Mention* – A special-mention asset possesses deficiencies or potential weaknesses deserving of management's attention. If uncorrected, such weaknesses or deficiencies may expose our bank to an increased risk of loss in the future.
- *Substandard* – A substandard asset is inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that our bank will sustain some loss if deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard assets, does not have to exist in individual assets classified substandard.
- *Doubtful* – A doubtful asset has all weaknesses inherent in one classified substandard, with the added characteristic that weaknesses make collection or liquidation in full, on the basis of existing facts, conditions, and values, highly questionable and improbable. The probability of loss is extremely high, but certain important and reasonable specific pending factors which may work to the advantage and strengthening of the asset exist. Therefore, its classification as an estimated loss is deferred until a more exact status may be determined. Pending factors include proposed merger, acquisition or liquidation procedures, capital injection, perfecting liens on additional collateral, and refinancing plans.

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Loans not meeting the criteria above are considered to be pass-rated loans. The following tables present the loan balances by category as well as risk rating.

### LOAN PORTFOLIO

	Performing Loans			Total Performing	Total Impaired Loans	Total
	Pass/ Watch	Special Mention	Substandard			
<b>March 31, 2016</b>						
Commercial real estate	\$264,112	\$ —	\$ —	\$ 264,112	\$ 1,598	\$265,710
Consumer real estate	90,142	—	11	90,153	240	90,393
Construction and land development	52,480	—	—	52,480	—	52,480
Commercial and industrial	360,655	11,019	6,158	377,832	3,716	381,548
Consumer	8,269	—	22	8,291	—	8,291
Other	40,699	—	—	40,699	—	40,699
<b>Total</b>	<b>\$816,357</b>	<b>\$11,019</b>	<b>\$ 6,191</b>	<b>\$ 833,567</b>	<b>\$ 5,554</b>	<b>\$839,121</b>
<b>December 31, 2015</b>						
Commercial real estate	\$249,249	\$ —	\$ —	\$ 249,249	\$ 1,948	\$251,197
Consumer real estate	93,181	—	—	93,181	604	93,785
Construction and land development	52,522	—	—	52,522	—	52,522
Commercial and industrial	338,106	6,230	9,106	353,442	—	353,442
Consumer	8,543	—	—	8,543	125	8,668
Other	50,197	—	—	50,197	—	50,197
<b>Total</b>	<b>\$791,798</b>	<b>\$ 6,230</b>	<b>\$ 9,106</b>	<b>\$ 807,134</b>	<b>\$ 2,677</b>	<b>\$809,811</b>

As of March 31, 2016, we had impaired loans of \$5.6 million, inclusive of non-accrual loans, an increase of \$2.9 million from \$2.7 million as of December 31, 2015. We allocated \$0.4 million and \$0.6 million of our allowance for loan and lease losses at March 31, 2016 and December 31, 2015, to these impaired loans, respectively. A loan is considered impaired, based on current information and events, if it is probable that we will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan. Impairment does not always indicate credit loss, but provides an indication of collateral exposure based on prevailing market conditions and third-party valuations. Impaired loans are measured by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral less costs to sell if the loan is collateral-dependent. The amount of any initial impairment and subsequent changes in impairment are included in the allowance for loan and lease losses. Interest accruing on impaired loans is recognized as long as such loans do not meet the criteria for non-accrual status. Our credit administration group performs verification and testing to ensure appropriate identification of impaired loans and that proper reserves are allocated to these loans.

#### *Allowance for Loan and Lease Losses and Non-Performing Assets*

##### *Allowance for Loan and Lease Losses*

Our allowance for loan and lease losses represents our estimate of probable inherent credit losses in the loan portfolio. We determine the allowance based on an ongoing evaluation of risk as it correlates to potential losses within the portfolio. Increases in the allowance are made by charges to the provision for loan losses. Loans deemed to be uncollectible are charged against the allowance. Recoveries of previously charged-off amounts are credited to our allowance for loan and lease losses.

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The following table presents a summary of changes in the allowance for loan and lease losses for the periods and dates indicated.

**ANALYSIS OF THE ALLOWANCE FOR LOAN AND LEASE LOSSES**

(Dollars in thousands, except percentages)	For the Three Months Ended March 31, 2016	For the Twelve Months Ended December 31,				
		2015	2014	2013	2012	2011
Total loan outstanding, net of unearned income	\$837,690	\$808,396	\$713,077	\$626,382	\$624,328	\$430,329
Average loans outstanding, net of unearned income	\$822,112	\$744,151	\$682,218	\$636,123	\$500,216	\$347,159
Allowance for loan and lease losses at beginning of period	\$ 10,132	\$ 11,282	\$ 8,459	\$ 8,214	\$ 6,226	\$ 4,806
Charge-offs:						
Commercial real estate	350	—	92	1	—	—
Consumer real estate	—	173	57	593	24	—
Construction and land development	—	—	—	36	—	—
Commercial and industrial	300	3,033	816	290	1,612	485
Consumer	124	—	182	273	359	—
Other	—	—	—	—	—	—
Total charge-offs	774	3,206	1,147	1,193	1,995	485
Recoveries:						
Commercial real estate	—	(31)	—	—	—	—
Consumer real estate	—	(68)	(21)	(23)	—	—
Construction and land development	—	—	—	—	—	—
Commercial and industrial	(4)	(299)	(52)	(381)	(15)	(8)
Consumer	—	(7)	(28)	(96)	—	—
Other	—	—	—	—	—	—
Total recoveries	(4)	(405)	(101)	(500)	(15)	(8)
Net charge-offs	770	2,801	1,046	693	1,980	477
Provision for loan and lease losses	937	1,651	3,869	938	3,968	1,897
Allowance for loan and lease losses at period end	\$ 10,299	\$ 10,132	\$ 11,282	\$ 8,459	\$ 8,214	\$ 6,226
Allowance for loan and lease losses to period end loans	1.23%	1.25%	1.58%	1.35%	1.32%	1.45%
Net charge-offs to YTD average loans	0.09%	0.38%	0.15%	0.11%	0.40%	0.14%

While no portion of our allowance for loan and lease losses is in any way restricted to any individual loan or group of loans and the entire allowance is available to absorb losses from any and all loans, the following tables represent management's allocation of our allowance for loan and lease losses to specific loan categories for the periods indicated.

## ALLOCATION OF THE ALLOWANCE FOR LOAN AND LEASE LOSSES

	March 31, 2016	December 31,				
		2015	2014	2013	2012	2011
Commercial real estate	\$ 2,970	\$ 2,879	\$ 1,535	\$ 1,408	\$ 1,178	\$ 1,658
Consumer real estate	963	968	621	688	624	569
Construction and land development	799	914	408	332	191	567
Commercial and industrial	4,923	4,693	8,540	5,870	5,526	2,818
Consumer	113	103	75	81	159	614
Other	531	575	103	80	536	—
<b>Total allowance for loan and lease losses</b>	<b>\$ 10,299</b>	<b>\$ 10,132</b>	<b>\$ 11,282</b>	<b>\$ 8,459</b>	<b>\$ 8,214</b>	<b>\$ 6,226</b>

	March 31, 2016	December 31,				
		2015	2014	2013	2012	2011
Commercial real estate	28.84%	28.41%	13.61%	16.65%	14.34%	26.63%
Consumer real estate	9.35	9.55	5.50	8.13	7.60	9.14
Construction and land development	7.76	9.02	3.62	3.92	2.33	9.11
Commercial and industrial	47.80	46.32	75.70	69.39	67.28	45.26
Consumer	1.10	1.02	0.66	0.96	1.94	9.86
Other	5.16	5.68	0.91	0.95	6.53	—
<b>Total allowance for loan and lease losses</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

### *Non-Performing Assets*

The following table presents our non-performing assets for the dates indicated.

	March 31, 2016	December 31,				
		2015	2014	2013	2012	2011
Non-accrual loans	\$ 5,587	\$ 2,689	\$ 7,738	\$ 6,552	\$ 8,784	\$ —
Loans past due 90 days or more and still accruing	—	—	—	—	—	—
<b>Total non-performing loans</b>	<b>5,587</b>	<b>2,689</b>	<b>7,738</b>	<b>6,552</b>	<b>8,784</b>	<b>—</b>
Other real estate	—	216	575	1,451	1,822	—
<b>Total non-performing assets</b>	<b>\$ 5,587</b>	<b>\$ 2,905</b>	<b>\$ 8,313</b>	<b>\$ 8,003</b>	<b>\$ 10,606</b>	<b>\$ —</b>
Allowance for loan and lease losses to period end loans	1.23%	1.25%	1.58%	1.35%	1.32%	1.45%
Allowance for loan and lease losses to period end non-performing loans	184.34%	376.79%	145.80%	129.11%	93.51%	N/A
Net charge-offs to average loans	0.09%	0.38%	0.15%	0.11%	0.40%	0.14%
Non-performing assets to period end loans and foreclosed property	0.67%	0.36%	1.16%	1.27%	1.69%	0.00%
Non-performing loans to period end loans	0.67%	0.33%	1.09%	1.05%	1.41%	0.00%

The balance of non-performing assets can fluctuate due to changes in economic conditions. We have established a policy to discontinue accruing interest on real estate and commercial loans (that is, place the loan on non-accrual status) after they have become 90 days delinquent as to payment of principal or interest, unless the loans are considered to be well-collateralized and are in the process of collection. Consumer loans and any accrued interest are typically charged off no later than 180 days past due. In addition, a loan will not be placed on non-accrual status before it becomes 90 days delinquent unless management believes that the collection of

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interest is not expected. Interest previously accrued but uncollected on such loans is reversed and charged against interest income when the receivable is determined to be uncollectible. If we believe that a loan will not be collected in full, we will increase the allowance for loan and lease losses to reflect management's estimate of any potential exposure or loss. Generally, payments received on non-accrual loans are applied directly to principal. As of March 31, 2016, there were not any loans, outside of those included in the table above, that cause management to have serious doubts as to the ability of borrowers to comply with present repayment terms.

### *Cash Surrender Value of Bank-Owned Life Insurance*

At March 31, 2016, we maintained investments of \$21.5 million in bank-owned life insurance policies as protection against the loss of certain employees, as compared to \$21.3 million and \$20.7 million at December 31, 2015 and 2014, respectively. Our tax equivalent yield on these products was 4.55%, 4.89 %, and 5.60 % for the three months ended March 31, 2016 and the years ending December 31, 2015, and 2014, respectively.

### *Deposits*

Client deposits are the primary funding source for the bank's loan growth. Through our commercial and industrial and healthcare lines of business, we offer a competitive array of deposit accounts and treasury management services designed to meet and exceed the client's business needs. Our personal and private banking and wealth management line of business is focused on the needs of the owners and operators of these businesses, offering a suite of checking, savings, money market and time deposit accounts, and utilizing superior client service to build and expand client relationships. A unique aspect of our business model is our focus on serving the correspondent banking needs of Tennessee's smaller community banks. Our correspondent banking line of business provides full correspondent services to our clients, diversifying our funding base and providing lower cost deposits. As of March 31, 2016, demand deposits totaled 20% of our deposit base, while money markets and savings accounts were the largest source of funding at 40%.

The following table presents the average balance and average rate paid on deposits for each of the following categories for the three months ended March 31, 2016 and the years ended December 31, 2015, 2014 and 2013:

### COMPOSITION OF DEPOSITS

	Average Deposits							
	Average for Three Months Ended March 31,		Average for Years Ended December 31,					
	2016		2015		2014		2013	
(Dollars in thousands)	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
<b>Types of Deposits:</b>								
Noninterest-bearing demand deposits	\$ 189,505	0.00%	\$196,454	0.00%	\$168,603	0.00%	\$128,902	0.00
Interest-bearing demand deposits	203,283	0.60	165,368	0.53	121,199	0.53	91,966	0.55
Money market accounts	443,471	0.66	436,210	0.59	477,526	0.61	424,532	0.69
Savings accounts	2,420	0.15	2,261	0.43	8,260	0.48	8,994	0.69
Time deposits, \$100,000 and over	143,186	0.91	133,920	0.89	170,985	0.94	184,996	1.08
Time deposits, less than \$100,000	45,592	1.68	45,607	1.64	51,841	1.57	47,026	1.38
<b>Total deposits</b>	<b>\$ 1,027,457</b>	<b>0.61%</b>	<b>\$979,821</b>	<b>0.58%</b>	<b>\$998,413</b>	<b>0.62%</b>	<b>\$886,416</b>	<b>0.71</b>

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Total average deposits for the three months ended March 31, 2016 were \$1.03 billion, an increase of \$47.6 million, or 4.9% over total average deposits of \$979.8 million for the full year ended December, 31, 2015. Our focus on demand deposits has resulted in an increase in average balances of \$60.6 million, or a CAGR of 18.7%, in noninterest-bearing demand deposits and an increase of \$111.3 million, or a CAGR of 42.3%, in interest-bearing demand deposits when comparing the average for the three months ended March 31, 2016 to the average balance for the year ended December, 31, 2015.

The following table presents the maturities of our certificates of deposit as of March 31, 2016.

### MATURITIES OF CERTIFICATES OF DEPOSIT

	At March 31, 2016				Total
	Three Months or Less	Over three through six months	Over six through twelve months	Over twelve months	
\$100,000 or more	\$ 39,876	\$27,493	\$23,723	\$37,095	\$ 128,186
Less than \$100,000	1,254	2,435	3,854	34,234	41,776
<b>Total</b>	<b>\$ 41,129</b>	<b>\$29,927</b>	<b>\$27,578</b>	<b>\$71,329</b>	<b>\$ 169,963</b>

#### *Borrowed Funds*

We supplement our deposit funding with wholesale funding when needed for balance sheet planning or when the terms are attractive and will not disrupt our offering rates in our markets. Our bank is a member of the FHLB and, as a result, is eligible for advances from the FHLB pursuant to the terms of various borrowing agreements. This allows us to efficiently meet both expected and unexpected cash flows and collateral needs without adversely affecting either daily operations or the financial condition of the bank.

As of March 31, 2016 we had \$15.0 million of variable rate advances outstanding at a rate of 3-Month Libor + 0.17%. While we occasionally draw on the Fed Funds lines of credit that we have established with our upstream correspondent banks to manage temporary fluctuations in our daily cash balances, we had no outstanding balances at March 31, 2016.

#### *Off-Balance Sheet Arrangements*

In the normal course of business, we enter into various transactions that, in accordance with GAAP, are not included in our consolidated balance sheets. We enter into these transactions to meet the financing needs of our clients. These transactions include commitments to extend credit and standby letters of credit, which involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amounts recognized in our consolidated balance sheets. Most of these commitments mature within two years and are expected to expire without being drawn upon. Standby letters of credit are included in the determination of the amount of risk-based capital that the Company and the Bank are required to hold.

We enter into contractual loan commitments to extend credit, normally with fixed expiration dates or termination clauses, at specified rates and for specific purposes. Substantially all of our commitments to extend credit are contingent upon clients maintaining specific credit standards until the time of loan funding.

Standby letters of credit are written conditional commitments issued by us to guarantee the performance of a client to a third party. In the event that the client does not perform in accordance with the terms of the agreement with the third party, we would be required to fund the commitment. The maximum potential amount of future payments we could be required to make is represented by the contractual amount of the commitment. If the commitment is funded, we would be entitled to seek recovery from the client. Our policies generally require that standby letter of credit arrangements contain security and debt covenants similar to those contained in loan agreements.



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We minimize our exposure to loss under loan commitments and standby letters of credit by subjecting them to the same credit approval and monitoring procedures as we do for on-balance sheet instruments. We assess the credit risk associated with certain commitments to extend credit and establish a liability for probable credit losses. The effect on our revenue, expenses, cash flows and liquidity of the unused portions of these commitments cannot be reasonably predicted because there is no guarantee that the lines of credit will be used.

Our off-balance sheet arrangements are summarized in the following table for the periods indicated.

	As of March 31,	As of December 31,		
	2016	2015	2014	2013
Unfunded lines	\$ 407,095	\$384,837	\$342,344	\$280,848
Letters of credit	15,742	13,450	15,187	15,290
Total credit extension commitments	<u>\$ 422,837</u>	<u>\$398,287</u>	<u>\$357,531</u>	<u>\$296,138</u>

### *Contractual Obligations*

We have contractual obligations to make future payments on debt and lease agreements. While our liquidity monitoring and management consider both present and future demands for and sources of liquidity, the following table of contractual commitments focuses only on future obligations and summarizes our contractual obligations as of March 31, 2016.

As of March 31, 2016	Due in 1 year or less	Due after 1 through 3 years	Due after 3 through 5 years	Due after 5 years	Total
FHLB advances	\$ 15,000	—	—	—	\$ 15,000
Certificates of deposit \$100,000 or more	92,492	\$32,203	\$ 4,828	—	129,523
Certificates of deposit less than \$100,000	6,143	27,697	6,353	—	40,193
Operating leases	995	1,961	1,892	\$11,271	16,119
<b>Total</b>	<b>\$114,630</b>	<b>\$61,861</b>	<b>\$13,073</b>	<b>\$11,271</b>	<b>\$200,835</b>

### **Asset and Liability Management**

The Asset Liability Management Committee of our bank, or ALCO, is comprised of senior management who are responsible for ensuring that board-approved strategies, policies, and procedures for managing risks are appropriately executed within the designated lines of authority and responsibility.

As such, ALCO oversees the establishment, approval, implementation, and review of interest rate risk, or IRR, management strategies, policies, procedures and risk tolerances. While some degree of IRR is inherent in the business of banking, ALCO has put sound risk management practices in place to identify, measure, monitor and control IRR exposures. Management considers both earnings and economic perspectives when assessing the scope of IRR exposure, as reduced earnings or outright losses could adversely affect the bank's liquidity and capital adequacy.

Earnings at Risk, or EAR, simulations are used to assess the impact of changing rates on earnings under a variety of scenarios and time horizons. These simulations utilize both instantaneous and parallel changes in the level of interest rates, as well as non-parallel changes such as changing slopes and twists of the yield curve. Static simulation models are based on current exposures and assume a constant balance sheet with no new growth. Dynamic simulation models are also utilized that rely on detailed assumptions regarding changes in existing lines of business, new business, and changes in management and client behavior.

Economic value-based methodologies are also utilized to measure the degree to which the economic values of an institution's positions change under different interest rate scenarios. The economic-value approach focuses on

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a longer-term time horizon and captures all future cash flows expected from existing assets and liabilities. The economic value model utilizes a static approach in that the analysis does not incorporate new business; rather, the analysis shows a snapshot in time of the risk inherent in the balance sheet.

### Quantitative and Qualitative Disclosures about Market Risk

At March 31, 2016, December 31, 2015 and December 31, 2014, our EAR static simulation results indicated that our balance sheet is asset sensitive to parallel shifts in interest rates. This indicates that our assets generally reprice faster than our liabilities, which results in a favorable impact to net interest income when market interest rates increase. Many assumptions are used to calculate the impact of interest rate fluctuations on our net interest income, such as asset prepayments, non-maturity deposit price sensitivity and decay rates, and key rate drivers. Because of the inherent use of these estimates and assumptions in the model, our actual results may, and most likely will, differ from our static EAR results. In addition, static EAR results do not include actions that our management may undertake to manage the risks in response to anticipated changes in interest rates or client behavior. For example, as part of our asset/liability management strategy, management has the ability to increase asset duration and decrease liability duration in order to reduce asset sensitivity, or to decrease asset duration and increase liability duration in order to increase asset sensitivity.

The following table illustrates the results of our EAR analysis to determine the extent to which our net interest income over the next 12 months would change if prevailing interest rates increased or decreased by the specified amounts.

#### IMPACT ON NET INTEREST INCOME UNDER A STATIC BALANCE SHEET, PARALLEL INTEREST RATE SHOCK

<u>Earnings at Risk as of:</u>	<u>-100 bps</u>	<u>Flat</u>	<u>+100 bps</u>	<u>+200 bps</u>	<u>+300 bps</u>
March 31, 2016	-1.8%	0.0%	4.0%	8.8%	13.5%
December 31, 2015	-2.1%	0.0%	2.3%	5.1%	9.2%
December 31, 2014	3.0%	0.0%	1.8%	5.4%	8.9%

Utilizing an economic value of equity, or EVE, approach, we analyze the risk to capital from the effects of various interest rate scenarios through a long-term discounted cash flow model. This measures the difference between the economic value of our assets and the economic value of our liabilities, which is a proxy for our liquidation value. While this provides some value as a risk measurement tool, management believes EAR is more appropriate in accordance with the going concern principle.

The following table illustrates the results of our EVE analysis as of March 31, 2016, December 31, 2015 and December 31, 2014.

#### ECONOMIC VALUE OF EQUITY ANALYSIS UNDER A STATIC BALANCE SHEET, PARALLEL INTEREST RATE SHOCK

<u>As of:</u>	<u>-100 bps</u>	<u>Flat</u>	<u>+100 bps</u>	<u>+200 bps</u>	<u>+300 bps</u>
March 31, 2016	-1.4%	0.0%	0.0%	-1.0%	-2.5%
December 31, 2015	-4.6%	0.0%	-1.6%	-3.6%	-5.8%
December 31, 2014	-5.7%	0.0%	-1.4%	-2.5%	-3.9%

### Liquidity and Capital Adequacy

#### Liquidity

Liquidity is defined as the bank's capacity to meet its cash and collateral obligations at a reasonable cost. Maintaining an adequate level of liquidity depends on the bank's ability to efficiently meet both expected and unexpected cash flows and collateral needs without adversely affecting either daily operations or the financial

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condition of the bank. Liquidity risk is the risk that the bank's financial condition or overall safety and soundness is adversely affected by an inability (or perceived inability) to meet its obligations. The bank's obligations, and the funding sources used to meet them, depend significantly on our business mix, balance sheet structure, and the cash flow profiles of its on- and off-balance sheet obligations. In managing our cash flows, management regularly confronts situations that can give rise to increased liquidity risk. These include funding mismatches, market constraints on the ability to convert assets into cash or in accessing sources of funds (i.e., market liquidity), and contingent liquidity events. Changes in economic conditions or exposure to credit, market, operation, legal and reputational risks also could affect the bank's liquidity risk profile and are considered in the assessment of liquidity and asset/liability management.

Management has established a comprehensive management process for identifying, measuring, monitoring and controlling liquidity risk. Because of its critical importance to the viability of the bank, liquidity risk management is fully integrated into our risk management processes. Critical elements of our liquidity risk management include: effective corporate governance consisting of oversight by the board of directors and active involvement by management; appropriate strategies, policies, procedures, and limits used to manage and mitigate liquidity risk; comprehensive liquidity risk measurement and monitoring systems (including assessments of the current and prospective cash flows or sources and uses of funds) that are commensurate with the complexity and business activities of the bank; active management of intraday liquidity and collateral; an appropriately diverse mix of existing and potential future funding sources; adequate levels of highly liquid marketable securities free of legal, regulatory, or operational impediments, that can be used to meet liquidity needs in stressful situations; comprehensive contingency funding plans that sufficiently address potential adverse liquidity events and emergency cash flow requirements; and internal controls and internal audit processes sufficient to determine the adequacy of the institution's liquidity risk management process.

Funds are available from a number of basic banking activity sources, including the core deposit base, the repayment and maturity of loans and investment security cash flows. Other funding sources include federal funds purchased, brokered certificates of deposit, and borrowings from the FHLB. Cash and cash equivalents at March 31, 2016, December 31, 2015 and December 31, 2014 were \$76.7 million, \$100.2 million, and \$73.9 million, respectively. Accordingly, our liquidity resources were at sufficient levels to fund loans and meet other cash needs as necessary.

### *Capital Adequacy*

As of March 31, 2016, our bank was well-capitalized under the regulatory framework for prompt corrective action. To remain categorized as well-capitalized, our bank must maintain minimum ratios as disclosed in the table below.

	<b>Well Capitalized</b>	<b>Actual as of March 31, 2016</b>
Total risk-based capital ratio	10.00%	11.26%
Tier 1 risk-based capital	8.00%	10.26%
Common equity tier 1 capital (CET1)	6.50%	8.75%
Tier 1 leverage ratio	5.00%	9.16%

### **Impact of Inflation**

Our consolidated financial statements and related data presented herein have been prepared in accordance with GAAP which requires the measure of financial position and operating results in terms of historic dollars, without considering changes in the relative purchasing power of money over time due to inflation.

Inflation generally increases the costs of funds and operating overhead, and to the extent loans and other assets bear variable rates, the yields on such assets. Virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates generally have a more significant effect on the performance of a

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financial institution than the effects of general levels of inflation. In addition, inflation affects financial institutions' cost of goods and services purchased, the cost of salaries and benefits, occupancy expense and similar items. Inflation and related increases in interest rates generally decrease the market value of investments and loans held and may adversely affect liquidity, earnings and shareholders' equity. Mortgage originations and refinancings tend to slow as interest rates increase and likely will reduce our volume of such activities and the income from the sale of residential mortgage loans in the secondary market.

**Adoption of Recent Accounting Pronouncements**

Recently issued accounting pronouncements are discussed in Note 1 to our Financial Statements for the year ended December 31, 2015.

## BUSINESS

### Our Company

We are CapStar Financial Holdings, Inc., a bank holding company headquartered in Nashville, Tennessee, and we operate primarily through our wholly owned subsidiary, CapStar Bank, a Tennessee-chartered state bank. We are a commercial bank that seeks to establish and maintain comprehensive relationships with our clients by delivering customized and creative banking solutions and superior client service. Our products and services include (i) commercial and industrial loans to small and medium sized businesses, with a particular focus on businesses operating in the healthcare industry, (ii) commercial real estate loans, (iii) private banking and wealth management services for the owners and operators of our business clients and other high net worth individuals and (iv) correspondent banking services to meet the needs of Tennessee's smaller community banks. Our operations are presently concentrated in demographically attractive and fast-growing counties in the Nashville MSA. As of March 31, 2016, on a consolidated basis, we had total assets of \$1.2 billion, total deposits of \$1.1 billion, total net loans of \$827.4 million, and shareholders' equity of \$110.9 million.

### Our Core Operating Principles

Our goal is to become a high-performing financial institution. In striving to achieve this goal, we operate the Company in conformity with our core principles which are, in order of priority:

- **Soundness:** We strive to engage in safe and sound banking practices that preserve the asset quality of our balance sheet and protect our deposit base.
- **Profitability:** We continuously seek to improve our core profitability by growing our revenue faster than our expenses in order to increase net income.
- **Strategic Growth:** We seek to grow our total loans and deposits by leveraging our operating platform to facilitate organic and acquisitive growth.

We have achieved our historical growth through our sustained adherence to these core operating principles, and we believe we have an experienced management team that will continue to emphasize the importance of these principles in order to realize our future growth objectives and enhance long-term shareholder value.

### Our Growth

**Historical Growth.** We have experienced operating success, profitability and significant growth primarily due to:

- our management team which has extensive industry knowledge, banking experience, established and long-term relationships with small to medium sized business leaders through Middle Tennessee and product expertise;
- our experienced bankers who have expertise in our lines of business, including commercial and industrial, healthcare and commercial real estate, and who focus on providing superior client service;
- our core commitment to maintaining strong asset quality rather than simply growing the balance sheet;
- our funding approach which emphasizes attracting core deposits rather than utilizing a wholesale funding strategy;
- our acquisition of American Security Bank & Trust Company, or American Security, which expanded our geographic reach within the Nashville MSA, enhanced our deposit gathering ability and provided scale to leverage our infrastructure; and
- our acquisition of Farmington Financial Group, LLC, or Farmington, which expanded our product offerings and increased our fee income by allowing us to offer residential mortgage origination services to our clients.

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From December 31, 2011 to March 31, 2016, we grew our total assets at a compound annual growth rate, or CAGR, of 13.6%, our total deposits at a CAGR of 14.1% and our total loans at a CAGR of 17.9%. In addition, from December 31, 2011 to December 31, 2015, we grew our net income at a CAGR of 38.2%.

**Future Growth.** We believe that we have an operating platform and infrastructure that is capable of supporting a larger financial institution. We believe we can leverage our platform to continue to deliver customized and creative solutions and superior client service to our clients and sustainable, long-term returns to our shareholders. We intend to achieve future growth through the following:

- **Organic Growth.** Our primary focus is to grow our client base, capture market share and leverage our platform within the Nashville MSA, an economically vibrant and demographically attractive market. Within the Nashville MSA, we believe we have competitive advantages over smaller community banks, which lack our product expertise and breadth of service, and larger regional institutions, which lack our knowledge of the Nashville MSA and responsive, local decision-making. Because of consolidation that has occurred in the banking industry within the Nashville MSA, we also believe that there is a base of potential clients that desire to partner with a bank that is locally headquartered and there are seasoned bankers that we believe we can hire who prefer the local, independent banking franchise to that of the more diversified, regional financial institution. To capitalize on these opportunities, we intend to (i) leverage the relationships and contacts of our bankers to identify and target these businesses and individuals and (ii) develop comprehensive banking relationships with these businesses and individuals by delivering customized and creative banking solutions comparable to that of a larger regional institution while providing the superior client service expected of a smaller community bank.
- **Strategic Acquisitions.** Although our primary focus is on organic growth, we continually review potential acquisitions that would enable us to leverage our platform. We seek acquisition targets that are strategic, that are financially attractive and that support our organic growth strategy without compromising our risk profile. We believe that there are numerous banking institutions that lack our scale and management expertise and that may encounter capital constraints or liquidity challenges. We expect any future acquisition targets will be financial institutions that are complementary to our operations and that are located in the Nashville MSA or other economically vibrant and demographically attractive markets. We believe that having publicly traded equity as a result of this offering will enhance our ability to capitalize on such acquisition opportunities in the future.
- **Expansion of Fee Income and Deposit Sources.** We intend to continue to diversify our revenue sources by growing our wealth management and mortgage banking lines of business, which generate fee income. We expect that our increased participation in correspondent banking and private banking will provide additional deposits to our bank, thus diversifying our deposit portfolio, while also creating sources of fee income. In addition, we will seek to grow core deposits by cross-selling our products and services to our existing clients and by obtaining new clients.

## **Our Leadership**

We are led by a team of banking professionals, each of whom has extensive experience with large regional banking institutions as well as maintaining well-established relationships with the small to medium sized business leaders in the Nashville MSA.

- Our executive management team is led by President and Chief Executive Officer Claire W. Tucker, a banker with a career that spans over 41 years, leading large geographical areas and business segments for regional and national banks. Ms. Tucker has been with CapStar Bank since August 2007. She previously served as Senior Executive Vice President in charge of commercial banking for AmSouth Bancorporation, or AmSouth. In 2011, Ms. Tucker was appointed by the Federal Reserve Bank for the Sixth District to a three-year term (and has since been reappointed to a second three-year term) for the Community Depository Institutions Advisory Council. Ms. Tucker began her banking career in 1975 at First American National Bank and rose to serve as President of Corporate Banking. First American National Bank was a financial

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institution with approximately \$20.0 billion in assets that was based in Nashville and served the States of Tennessee, Mississippi and Louisiana. First American National Bank was the largest bank in the Nashville MSA and ranked first by deposit market share when acquired in 1999.

- Robert B. Anderson is Chief Financial Officer and Chief Administrative Officer of CapStar and CapStar Bank. Mr. Anderson has more than two decades of leadership experience in the financial sector and has been with CapStar Bank since December 2012. Mr. Anderson has held multiple finance roles with Bank of America, including serving as Chief Financial Officer of the business banking segment. He also served as Chief Financial Officer for Capital One's commercial bank. Mr. Anderson is a certified public accountant (inactive).
- Dandridge W. Hogan is Chief Executive Officer of CapStar Bank. Mr. Hogan is a 30-year banking veteran and has been with CapStar Bank since December 2012. Mr. Hogan was previously the Regional President for Fifth Third Bank and had responsibility for banking operations in the States of Kentucky and Tennessee and led its expansion into the State of Georgia. He is a past member of the board of directors of the Nashville Branch of the Federal Reserve Bank of Atlanta. Mr. Hogan began his career at National Bank of Commerce, which was a \$25.0 billion financial institution based in Memphis, Tennessee with various locations throughout the Southeast region of the United States.
- Christopher G. Tietz is Chief Credit Officer of CapStar Bank. Mr. Tietz has over 31 years of banking experience and has been with CapStar Bank since March 2016. He started as a trainee of First American National Bank in Nashville in 1985 and rose to the position of Executive Vice President and Regional Senior Credit Officer for First American's West Tennessee Region, including oversight of credit functions for private banking, business banking, middle-market, and corporate banking functions. Subsequent to his positions at First American, Mr. Tietz held various Chief Credit Officer roles at banks in the Midwest region of the United States and then most recently at FSG Bank in Chattanooga, Tennessee.

In addition to our experienced executive management team, our board of directors is comprised of well-regarded career bankers, professionals, entrepreneurs and business and community leaders with collective depth and experience in commercial banking, finance, real estate and manufacturing. Of our eleven directors, eight have served previously on the boards of directors of banking institutions, and six have held positions at commercial or investment banking institutions. Collectively, this group of directors has in excess of 150 years of financial services experience. Dennis C. Bottorff is the Chairman of the board of directors of the Company and CapStar Bank. Mr. Bottorff's banking experience spans nearly five decades, and he has held senior leadership roles at numerous banks, including as Chairman and Chief Executive Officer of First American National Corporation and First American National Bank and Chairman of AmSouth and AmSouth Bank. During his career, Mr. Bottorff also served in leadership positions with the Tennessee and American Banking Associations and the Financial Services Roundtable.

We have also attracted, developed and retained bankers with significant in-market experience and relationships in order to support our organic growth strategy. These efforts have gained us significant expertise in client relations, while providing viable internal candidates for eventual management succession at various levels throughout our Company.

## **Our Market**

The Nashville MSA includes a 14-county area in Middle Tennessee, including the cities of Nashville (Davidson County), Franklin (Williamson County), and Murfreesboro (Rutherford County) and is the 36th largest MSA in the United States. *Forbes* magazine recently ranked Nashville fifth on its list of "The Cities Americans are Thronging to and Fleeing," which measured population growth attributable to migration between 2010 and 2014. The Nashville region's population is expected to grow to approximately 2.6 million by 2035, according to the Nashville Metropolitan Planning Organization. From 2000 until 2015, Nashville's population has grown approximately 40% and job growth has been 26%, according to the Bureau of Labor Statistics. We believe the

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projected growth of the Nashville MSA can be primarily attributed to a vibrant and resilient economy, driven by its leadership in a diverse set of industries and a highly favorable environment for economic development. The following tables illustrate the growth profile of the Nashville MSA as compared to the State of Tennessee, the Southeast region of the United States, the entire United States and certain other MSAs in the Southeast region of the United States.



**SUMMARY DEMOGRAPHIC AND OTHER MARKET DATA**

<b>Geographic Area</b>	<b>Total Population 2016 (Actual)</b>	<b>Population Change 2010 - 2016</b>	<b>Projected Population Change 2016 - 2021</b>	<b>Median Household Income 2016</b>	<b>Projected Household Income Change 2016 - 2021</b>	<b>Unemployment Rate*</b>
Nashville MSA**	1,840,320	10.14%	6.87%	\$ 55,922	9.41%	3.2%
State of Tennessee	6,623,654	4.37%	3.82%	46,781	7.13%	4.3%
Southeast Region of the United States	82,419,986	5.43%	4.43%	52,942	6.13%	4.9%
United States	322,431,073	4.43%	3.69%	55,551	7.77%	5.1%

\* Unemployment data as of April 2016

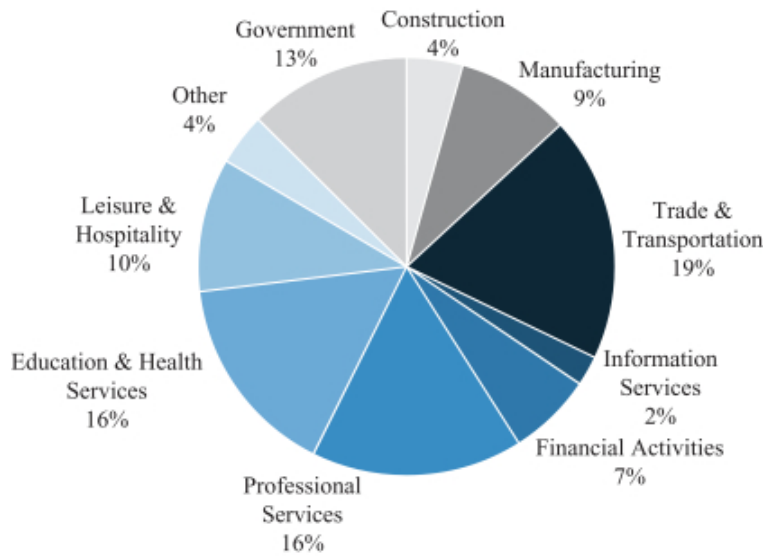
\*\* The Nashville MSA includes Davidson County (Nashville) and 13 additional counties.

Source: SNL Financial, Bureau of Labor Statistics

We believe that our market in the Nashville MSA, and in Tennessee as a whole, exhibits the necessary attributes for sustained, long-term economic vitality. In terms of industry diversity, demographics, job growth, quality of life, political landscape and geographic location, Nashville remains poised to continue its economic growth. As a result, while we remain open to the possibility of expanding to other markets, we do not believe our continued growth depends on entering new geographic areas.

A recent *Forbes* report ranked the Nashville MSA at fourth on its list of “The Best Big Cities for Jobs 2016,” compiled based on short-, mid- and long-term job growth trends, ahead of such regions as Dallas, Austin, Denver and Charlotte. In April 2016, Nashville reported the second lowest unemployment rate among metropolitan areas with a population of at least one million, according to the U.S. Bureau of Labor Statistics. Since June 2011, Nashville has had the third strongest recovery in jobs among the 50 largest markets in the country, with a 19.3% increase in jobs since their lowest point in September 2009, according to a study published by the Pew Charitable Trusts. According to data compiled by the Nashville Area Chamber of Commerce, since July 2015, more than 100 companies have announced plans to relocate to, or expand within, Nashville and the surrounding area, generating an estimated 10,000 new jobs. We believe that the Nashville MSA is a desirable market for a wide range of industries, and the following table shows the diversity of employment within the Nashville MSA.

**NASHVILLE MSA EMPLOYMENT BY SECTOR**



Source: U.S. Bureau of Labor Statistics. Data as of May 2, 2016.

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This diversity is reflected in the range of industries for which Nashville is a regional, national or global hub, such as the following:

### *Healthcare (Source: Nashville Healthcare Council)*

- Nearly 400 healthcare companies have operations in Nashville, including 16 publicly-traded companies.
- 400 professional service firms with expertise in healthcare are located in Nashville.
- This industry has an estimated local economic impact of \$38.8 billion and provides more than 250,000 jobs.

### *Technology and Entrepreneurship*

- Nashville is home to nationally recognized business incubators including Entrepreneur Center, LaunchTN and Jumpstart Foundry.
- Other recognition from national publications includes:
  - *Thumbtack*—No. 4 of “10 Best Cities to be a Millennial Entrepreneur” (2015);
  - *Dice.com*—No. 2 fastest-growing technology job market (2015); and
  - *CNN*—No. 5: “Best Cities to Launch a Startup” (2014).

### *Hospitality and Tourism*

- Recent accolades from national publications include:
  - One of 16 destinations in the 2016 *Forbes Travel Guide*;
  - No. 1: “The 25 Best US Cities to Spend a Weekend”—*Thrillist* (2016);
  - “Destination of the Year: Reader’s Choice”—*Travel & Leisure Magazine* (2015);
  - “The South’s Red Hot Town”—*Time Magazine* (2014); and
  - “The New ‘It’ City”—*New York Times* (2013).
- The St. Jude Rock ‘N’ Roll Nashville Marathon and Half Marathon had more than 30,000 participants in 2016.
- Nashville had an estimated 13.5 million visitors in 2015 (up 3% from 2014) and has had year-over-year growth since 2010 in hotel rooms sold, occupancy tax collections, conventions held and convention delegates (Source: Nashville Convention & Visitors Corp.)
- The Music City Center, which opened in 2013, hosted 305 events with 676,060 attendees during its 2015 fiscal year.

### *Music and Entertainment*

- The music industry has an estimated \$10 billion economic impact and provides more than 56,000 jobs (Source: Metro Government of Nashville and Davidson County, Tennessee)
- Nashville is home to professional sports teams, including the Tennessee Titans, Nashville Predators and Nashville Sounds.
- Nashville hosts numerous commercial and music video-related companies, as well as the annual CMA Music Festival and Nashville Film Festival.

### *Industrial and Transportation Hub (Source: Nashville Chamber of Commerce, Nashville Business Journal)*

- Nashville is located within approximately 650 miles of 150 million people.

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- Three Interstates (I-40, I-65, I-24) merge in Nashville, and the city is also within 135 miles of Interstates 75 and 59.
- In 2015 more than 11.6 million passengers passed through Nashville International Airport, a 5.7% increase over the prior year.

### *Education (Source: Nashville Chamber of Commerce)*

- Nashville is home to 21 accredited four-year and post-graduation institutions, six community colleges, and 11 vocational and technical schools. It also has 70 private schools, 21 with no religious affiliation, 49 with religious affiliation.

### *Non-Profit Organizations (Source: Nonprofitquarterly.com)*

- Non-profits provide total revenue of \$9.4 billion, or 6.7% of the area's total and employ approximately 15% of the area's workforce.
- There are more than 2,000 non-profits in the Nashville MSA.

In addition to its diverse economy, we believe the Nashville MSA maintains a highly favorable environment for economic development. Local municipalities and state government have demonstrated consistent willingness to offer effective incentives to retain current job-creating businesses, as well as to attract new businesses from outside the region. In the last decade, the Nashville MSA has attracted numerous corporate relocations and expansions, including large national and international companies such as Nissan North America, as well as many small and medium sized businesses. For example, since July 2015, more than 100 companies have announced plans to relocate to, or expand within, Nashville and the surrounding area, generating an estimated 10,000 new jobs and adding 6,805,820 square feet of space, according to data compiled by the Nashville Area Chamber of Commerce.

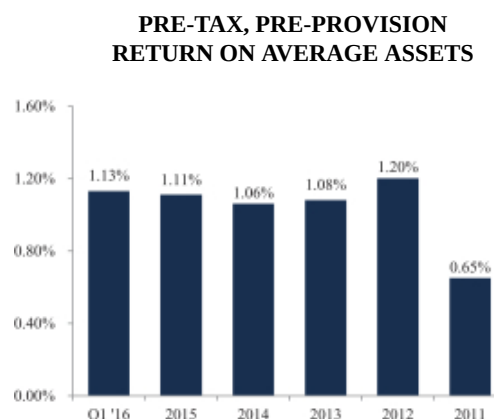
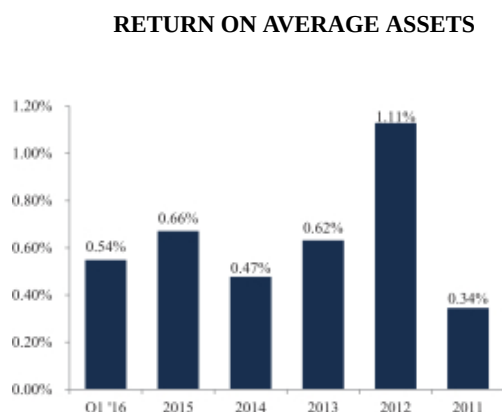
As businesses and their employees continue to be drawn to the Nashville area, we believe our focus on serving small and medium sized businesses and their owners and employees serving the greater Nashville market will position us to benefit from continued growth in jobs and population.

The regional economy has created a robust and competitive banking environment, consisting of a broad range of sizes and types of banks, from small community banks to large international banks. As banks have experienced cycles of consolidation over the last 20 years in our market, a recurring opportunity has arisen for locally controlled, middle-market commercial banks to emerge and succeed. The trend of consolidation continued in 2015, as several local banks completed and announced mergers that we believe will create more disruption in the local banking market. Since 2007, as the overall deposit base in the Nashville MSA has grown substantially, banking market share has continued to transfer steadily from the larger regional banks to more local, middle-market banks. Given that four of the top six banks in Nashville are not headquartered in Tennessee, we intend to continue to capitalize on this market dislocation.

We believe that repeated acquisition of Nashville banks by large and/or out-of-market competition creates a growing opportunity for us to serve businesses and high net worth clients in the area. Such clients demand banking services from local institutions that can provide the sophistication of larger banks, but with local and agile decision-making authority, real personal connections, and an interest in investing in the local economy. We seek to be the bank of choice for such clients and, in the process, to re-define how they experience banking.

## Our Competitive Strengths

**Profitable and Scalable Operating Platform and Organizational Infrastructure.** Over the past five years, we have delivered core profitability, which we view as return on average assets and pre-tax, pre-provision return on average assets. We continuously strive to improve our core profitability by growing our revenue faster than our expenses, a process we internally refer to as enhancing “operating leverage.” The following graphs depict our return on average assets and pre-tax, pre-provision return on average assets over the last five years.



We believe that we have an efficient and scalable operating platform and organizational infrastructure that will allow us to continue to improve our operating leverage. Key attributes of our banking model include:

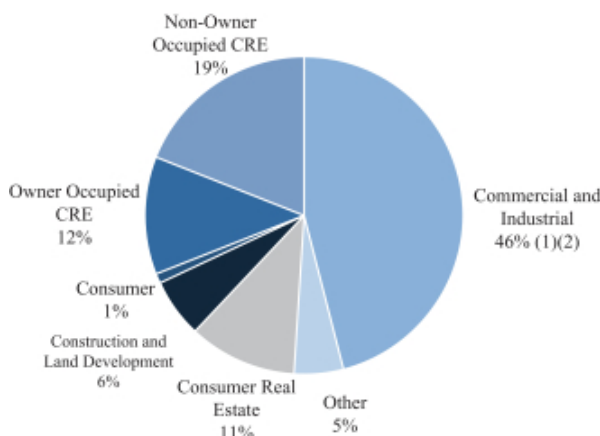
- an executive management team that is poised to lead a public company;
- an appropriate number of bankers and other personnel that we believe are capable of supporting our growth strategy;
- an ability to grow our noninterest income faster than our net interest income, in part by scaling our wealth management, mortgage, treasury management, and other fee related services;
- an ability to lower our deposit cost, which we measure through demand deposit accounts (our fastest growing type of deposit account), as we become the primary bank for more of our clients;
- highly-sophisticated operating systems that allow us to manage our assets in the same manner as much larger institutions;
- qualified external data processing and technology providers that allow us to remain current with innovation and market practices in key areas; and
- online and mobile banking technologies and amenities that allow us to grow deposits without expanding our physical footprint.

We believe that our platform will enable us to (i) operate efficiently and profitably, (ii) scale our business as we continue to grow and expand and (iii) add experienced bankers in the future with minimal additional expenses other than salaries and benefits.

**Sophisticated Lending Focus.** The primary components of our loan portfolio are commercial and industrial loans to small and medium sized businesses, with a particular focus on businesses operating in the healthcare industry, and commercial real estate loans. We believe that our success is in part dependent on our extensive knowledge of these markets, which we believe are positively affecting much of the economic growth in the Nashville MSA. We have banking teams dedicated to the healthcare industry and each of the commercial and

industrial and commercial real estate lending areas. We believe our industry-specific knowledge, product expertise and client engagement increases our profile within these lending verticals, enabling us to successfully identify, select and compete for credit-worthy borrowers and attractive financing projects. The following chart details the composition of our loan portfolio as of March 31, 2016.

**LOAN PORTFOLIO COMPOSITION**



- (1) Loans made to businesses operating in the healthcare line of business comprised 34% of all commercial and industrial loans.
- (2) Loans made to community banks operating in the correspondent banking line of business comprised 7% of commercial and industrial loans.

**Strong Asset Quality.** We maintain a firm commitment to preserving the asset quality of our balance sheet. Reflective of our credit culture is a question we routinely ask ourselves in the underwriting process: “Is this loan merely doable or is it actually desirable?” We believe our strong asset quality is also due to our experience in the Nashville MSA, our long-standing relationships with our clients and our disciplined underwriting processes. Our thorough underwriting processes collaboratively engage our seasoned business bankers, credit underwriters and portfolio managers in the analysis of each loan request. We manage our credit risks by analyzing metrics related to our lines of business in order to maintain a conservative and well-diversified loan portfolio reflective of our assessment of various industry subsets. Based upon our aggregate exposure to any given borrower relationship, we employ scaled review of loan originations that may involve senior credit officers, our Chief Credit Officer, our bank’s Credit Committee or, ultimately, our full board of directors. The following table compares our asset quality metrics to certain Tennessee regional and community banks.

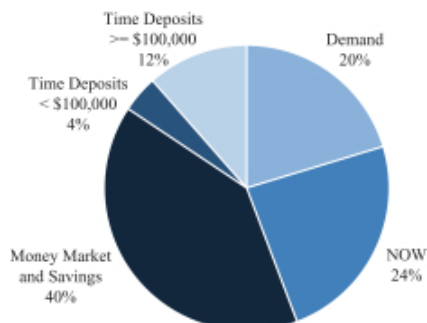
**ASSET QUALITY—NON-PERFORMING ASSETS**

	<u>Non-Performing Assets as a Percentage of Assets</u>	<u>Non-Performing Assets as a Percentage of Loans Plus Other Real Estate Owned</u>
Median	1.27%	2.07%
1st Quartile	0.67	1.08
<b>CapStar</b>	<b>0.46</b>	<b>0.67</b>
<b>Percentile Rank</b>	<b>81.6</b>	<b>84.0</b>

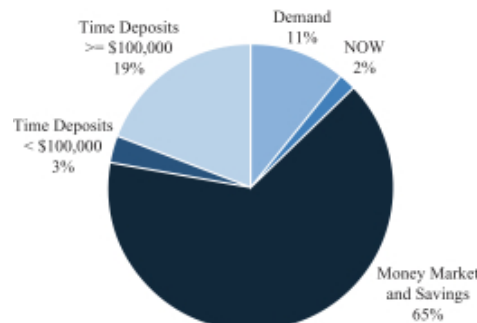
Source: SNL Financial (includes 147 banks and thrifts headquartered in Tennessee with total assets less than \$5.0 billion as of March 31, 2016; excludes merger targets)

**Solid and Growing Core Deposit Base.** A significant component of our business is the growth and stability of our core deposits, which we use to fund our loans and securities. Our private banking and correspondent banking lines of business are significant sources of core deposits, and we believe that the growth of our core deposit base, specifically our Demand and NOW accounts, is a result of our focus on developing comprehensive banking relationships with our clients. As an example, we have increased our Demand and NOW accounts from approximately 12% of total deposits as of December 31, 2011 to approximately 44% of total deposits as of March 31, 2016. This growth has resulted in a lower overall cost of funding and has enhanced our profitability. Our plan is to continue to grow our core deposits by cross-selling deposit relationships and obtaining new clients. The following charts show the improvement in our deposit composition as of March 31, 2016 and December 31, 2011, respectively.

**DEPOSIT COMPOSITION AS OF MARCH 31, 2016**



**DEPOSIT COMPOSITION AS OF DECEMBER 31, 2011**



**Technology and Innovation.** We have continually adapted to the changing technological needs and wants of our clients by investing in our electronic banking platform. We use a combination of online and mobile banking channels to attract and retain clients and expand the convenience of banking with us. In most cases, our clients can initiate banking transactions from the convenience of their personal computer or smart phone, reducing the number of in-branch visits necessary to conduct routine banking transactions. The remote transactions available to our clients include remote image deposit, bill payment, external and internal transfers, ACH origination and wire transfer. We believe that our investments in technology and innovation are consistent with our clients' needs and will support future migration of our clients' transactions to these and other developing electronic banking channels.

**Our Recent Accolades**

- CapStar honored by the Nashville Business Journal with a “Best in Business” award, 2016
- CapStar recognized as 8<sup>th</sup> in “25 Fastest Growing Private Companies” (Nashville Business Journal, 2015)
- Claire Tucker named “EY Entrepreneur of the Year in Financial Services for the Southeast Region” (Ernst and Young, 2014)
- CapStar makes the list of “Fastest Growing Privately Held Companies” (Inc., 5000, 2014)
- Nashville Business Journal recognizes Claire Tucker and Dan Hogan as Power Leaders in Finance category for 2014, 2015 and 2016
- Claire Tucker, Dan Hogan and Mark Mattson recognized on the annual “In Charge” list (Nashville Post, 2015 and 2016)
- Finalist in Lipscomb University’s Business with Purpose Awards, April 2016
- Farmington named one of Nashville Business Journal’s “Best Places to Work” in 2014

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- CapStar wins the Readers' Choice for "Best Bank in Sumner County" two years in a row from The Tennessean/Gannett

### **Our Products and Services**

**Loans.** Through our bank, we offer a broad range of commercial lending products to small and medium sized businesses, the owners and operators of our business clients and other high net worth individuals. Our strategy is to maintain a broadly diversified loan portfolio in terms of type of loan product, type of client and industries in which our business clients are engaged. For a more detailed discussion of the diversity of our loan portfolio, see "– Our Competitive Strengths – Sophisticated Lending Focus."

Our commercial and industrial lending products include commercial loans, business term loans, equipment financing and lines of credit to a diversified mix of small and midsized businesses. We offer commercial real estate loans that are both owner-occupied and non-owner occupied properties, as well as interim construction loans. As a general practice, we originate substantially all of our loans, and we limit the amount of participations we purchase to loans originated by lead banks with which we have a close relationship and which share our credit philosophies.

Consumer lending products include residential first mortgage loans originated through Farmington, which are typically thereafter sold on the secondary market. We offer second mortgage home equity mortgage loans and other consumer related loans such as loans for automobile or other recreational vehicles, which we maintain on the bank's balance sheet. Additionally, we offer lines of credit to facilitate investment opportunities for consumer clients whose financial characteristics support the request.

We market our lending products and services to existing clients through our superior client service. We seek to attract new lending clients through customized and creative lending solutions and competitive pricing. We have highly-experienced banking teams that are specifically dedicated to our lines of business, including a team that is dedicated to the healthcare sector. We believe our industry-specific knowledge, product and local market expertise and engagement increase our profile within these lending verticals, enable us to successfully identify, select and compete for qualified borrowers and attractive financing projects and manage more effectively the potential risks of our loan portfolio.

As of March 31, 2016, we had \$827.4 million of total net loans. We have grown total loans at a CAGR of 17.9% from December 31, 2011 to March 31, 2016. Our largest sources of loans are commercial and industrial loans (including loans to businesses operating in the healthcare industry) and commercial real estate loans (including owner-occupied and non-owner occupied real estate) which accounted for approximately 46% and 31%, respectively, of our total loan portfolio as of March 31, 2016.

**Underwriting.** Disciplined underwriting is the foundation of our credit culture and our strong asset quality. We strive to adhere to thorough underwriting standards and deliver customized and creative loan solutions in a responsive and timely manner.

Philosophically, we seek loans that are prudent and desirable, not just "doable." In considering a loan, we follow the underwriting principles in our loan and credit administration policies which include the following requirements:

- receipt of certain financial information, such as financial statements, tax returns and credit reports, to ensure that the potential borrower has sufficient recurring cash flow and liquidity to repay the loan;
- determination that the structure of the loan matches the underlying purpose of and repayment source for the loan, the potential borrower's creditworthiness and the depreciable life of any collateral;

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- verification that the potential borrower has an adequate credit score;
- consideration of the value, liquidity and marketability of the potential borrower's assets and identifying and evaluating all significant direct and contingent liabilities; and
- determination and approval by the bank's ALCO of the rates and fees associated with the potential loan.

Except in very limited circumstances in which substantial equity is present, our commercial and industrial and owner-occupied commercial real estate loans are supported by personal guaranties from the principals of the borrower. In addition, we require our non-owner occupied commercial real estate loans to be secured by well-managed income producing property with adequate margins, supported by a history of profitable operations and cash flows, and proven operating stability.

Our underwriting processes collaboratively engage our bankers, credit underwriters and portfolio managers in the analysis of each loan request. We manage our credit risks by analyzing metrics related to our lines of business in order to maintain a conservative and well-diversified loan portfolio reflective of our assessment of various subsets within these lines of business. Based upon our aggregate exposure to any given borrower relationship, we employ tiered review of loan originations that may involve senior credit officers, our Chief Credit Officer, our bank's Credit Committee or, ultimately, our full board of directors.

**Concentrations.** We are a relationship-oriented, rather than a transaction-based, lender. Accordingly, substantially all of our loans have been made to borrowers located or operating in the Nashville MSA. As of March 31, 2016, approximately 85% of the loans in our loan portfolio (measured by dollar amount) were made to borrowers who live or conduct business in the Nashville MSA, and a substantial portion of those loans are considered commercial and industrial loans (including loans to businesses operating in the healthcare industry), commercial real estate loans (including owner-occupied and non-owner occupied real estate), mortgage loans and construction loans. As such, a substantial majority of our loan portfolio is dependent upon the economic environment of the Nashville MSA. We do have a limited number of loans secured by properties located outside of the Nashville MSA, most of which are made to borrowers who are well-known to us because they are headquartered or reside within the Nashville MSA.

In addition, we employ appropriate limits on our overall loan portfolio and requirements with respect to certain types of lending. As a general practice, we operate with an internal guideline limiting loans to any single borrowing relationship to a tiered amount based upon our internal risk rating. Many of our loans have been made to a small number of borrowers, resulting in a concentration of large loans to certain borrowers. As of March 31, 2016, our 10 largest borrowing relationships accounted for approximately 14% of our total loan portfolio.

**Credit Risk Management.** Managing credit risk is a process that involves the entire Company. Our strategy for credit risk management includes the disciplined underwriting process described above, adherence to prudent standards, and ongoing risk monitoring and review processes for all loan exposures. Our Chief Credit Officer provides bank-wide credit oversight and periodically reviews the loan portfolio to ensure that the risk identification processes are functioning properly and that our credit standards are followed. We periodically submit ourselves to review by independent third parties to validate our internal oversight. We strive to identify potential problem loans early in an effort to aggressively seek resolution of these situations before the loans become a loss, record any necessary charge-offs promptly and maintain adequate allowance levels for probable loan losses inherent in the loan portfolio.

Credit risk management involves a partnership between our lenders and our credit administration group with credit approval processes requiring concurrence of the two. The members of our credit administration group primarily focus their efforts on credit analysis, underwriting and monitoring new credits and providing management reporting to executive management and the board of directors. Based upon size, emerging problem loans are assigned to Special Assets Group to mitigate the risk of loss. Executive management regularly reviews the status of the watch list and classified assets portfolio as well as the larger credits in the portfolio. The Special



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Assets Group is also responsible for managing the collection and foreclosure process and the disposal of other real estate owned.

**Deposits.** Core deposits are our principal source of funds for use in lending and other general banking purposes. We solicit core deposits through our relationship-driven team of dedicated and accessible bankers and through relationship-focused marketing. We provide a full range of deposit products and services, including demand deposits, interest-bearing transaction accounts, money market accounts, time and savings deposits, certificates of deposit and CDARS® reciprocal products. Other than deposits obtained through the CDARS program, we do not rely on brokered deposits as a source of funding. For a more detailed discussion of the diversity of our deposit base, see “– Our Competitive Strengths – Solid and Growing Core Deposit Base.”

Our ability to gather deposits is an important aspect of our business franchise, and we believe this is a significant driver of our success. As of March 31, 2016, we held \$1.1 billion of total deposits. We have grown total deposits at a CAGR of 14.1% from December 31, 2011 to March 31, 2016. Our largest source of deposits is money market and savings accounts which account for approximately 40% of our total deposits as of March 31, 2016. Our transaction accounts include checking and NOW accounts, which provide us with a source of fee income, as well as a low-cost source of funds. Time accounts also provide us with a relatively stable and low-cost source of funding. Certificates of deposit in excess of \$100,000 are held primarily by clients in the Nashville MSA.

Because of our relationship-driven approach to our clients, we believe our deposit base is less sensitive to our competitors’ interest rates. Nevertheless, deposit rates are reviewed regularly by senior management as we continuously seek to price our deposit products and services competitively to promote core deposit growth. Our management believes that the rates that we offer are competitive with those offered by other institutions in the Nashville MSA.

## **Lines of Business**

**Commercial and Industrial.** The commercial and industrial line of business focuses on small and medium sized businesses and maintains the largest portfolio of loans and deposits in our bank, comprising approximately \$533.7 million of our total loans and \$598.1 million of our total deposits as of March 31, 2016. The loan portfolio for this line of business is comprised primarily of a mix of lines of credit, business term loans, equipment financing, owner-occupied commercial real estate and other traditional commercial loans. The deposit base consists largely of the operating accounts of our commercial clients that utilize our treasury management products. We have a dedicated team of bankers to service this line of business.

**Commercial Real Estate.** The commercial real estate line of business focuses on qualified and experienced real estate developers and investors and maintains a portfolio of loans and deposits that is comprised of approximately \$188.7 million of our total loans and \$19.4 million of our total deposits as of March 31, 2016. The loan portfolio for this line of business is comprised largely of a mix of commercial real estate loans which are primarily non-owner occupied real estate and construction loans for owner-occupied properties. These loans are collateralized by office, retail, multi-family and hospitality properties. We have a dedicated team of bankers to service this line of business.

**Healthcare.** The healthcare line of business focuses on developing relationships with businesses operating in the healthcare sector as trusted advisors by sharing our extensive financial and operational experience and maintains a portfolio of loans and deposits that is comprised of approximately \$195.3 million of our total loans and \$65.1 million of our total deposits as of March 31, 2016. We include the amount of total loans and total deposits from our healthcare line of business in the amounts of our total loans and total deposits for our commercial and industrial line of business. Loans made to businesses operating in the healthcare industry comprised 34% of commercial and industrial loans as of March 31, 2016. We have a dedicated team of

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relationship managers with 55 years of collective healthcare experience, including financing and operations, to service this line of business.

With nearly 400 healthcare companies that have operations located in the Nashville MSA, we believe that there is significant opportunity to grow this line of business. Target industries within our healthcare line of business include outpatient services, post-acute care, hospitals, behavioral facilities, healthcare information technology, and healthcare revenue cycle. By following a business model that is comprised of sales, credit and sales support, we believe that our healthcare banking team will be able to engage in streamlined and efficient business development, portfolio management and client servicing.

**Correspondent Banking.** The correspondent banking line of business focuses on providing correspondent banking services to community banks located in the State of Tennessee and maintains a portfolio of loans and deposits that is comprised of approximately \$24.8 million of our total loans and \$168.6 million of our total deposits as of March 31, 2016. We include the amount of total loans and total deposits from our correspondent banking line of business in the amounts of our total loans and total deposits for our commercial and industrial line of business. Loans made to community banks operating in the correspondent banking line of business comprised 7% of commercial and industrial loans as of March 31, 2016. Deposits from community banks operating in the correspondent banking line of business comprised 16% of total deposits as of March 31, 2016.

Correspondent banking provides a valuable funding source for the bank. In 2013 management identified a void in the correspondent banking market due to the instability of larger correspondent banks. Other factors leading to the expansion of correspondent banking included a need to diversify our funding base, the desire by many community banks to do business with a Tennessee-based correspondent bank, the ability to recruit well-known and respected talent for business development and risk management, and the ability to license a low cost proprietary settlement platform. With approximately 175 community banks located in Tennessee, we have a significant opportunity to gain a share of this market. This line of business offers services including settlement, Fed Funds lines of credit, depository products, wire transfer services, bank holding company loans and loan participations on larger commercial and commercial real estate exposures.

**Personal and Private Banking and Wealth Management.** The personal and private banking and wealth managements line of business focuses on the needs of the owners and operators of our business clients and other high net worth individuals and maintains a portfolio of loans and deposits that is comprised of approximately \$113.8 million of our total loans and \$468.8 million of our total deposits as of March 31, 2016. The loan portfolio for this line of business is comprised of a mix of consumer home-equity, portfolio mortgages, and commercial-purpose loans. The deposit base consists largely of consumer checking, money market and certificate of deposit accounts. We have a dedicated team of personal banking center managers and private bankers to service this line of business. In addition, a wealth management team supports the private banking team with consultation and investment strategies for their clients.

**Mortgage Banking.** The mortgage banking line of business generated \$422.3 million in total mortgage loan originations for the fiscal year ended December 31, 2015 and \$85.1 million for the quarter ended March 31, 2016. Mortgage loans are typically sold in the secondary market and are underwritten by the investor. This line of business has provided the bank a source of noninterest income and referrals for other banking services including home equity lines of credit and deposit products. We have a dedicated team of 21 mortgage loan officers to service this line of business.

## **Employees**

As of March 31, 2016, we had 163 total employees. None of our employees are represented by any collective bargaining unit or are parties to a collective bargaining agreement. We believe that our relations with our employees are good.

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### Properties

Our headquarters, which also serve as our main retail bank branch, are currently located at 201 4th Avenue North, Suite 950, Nashville, Tennessee 37219. The following table summarizes pertinent details of our retail bank branch locations and mortgage origination offices as of March 31, 2016.

<u>Location</u>	<u>Owned/Leased</u>	<u>Lease Expiration</u>	<u>Type of Office</u>
CapStar Bank 201 4th Avenue North Nashville, TN 37219	Leased	02/28/17	Current Headquarters and Current Main Retail Bank Branch
CapStar Bank 1201 Demonbreun Street Nashville, TN 37203	Leased	02/28/32	Future Headquarters and Future Main Retail Bank Branch
2321 Crestmoor Road Nashville, TN 37215	Building (Owned); Land (Leased)	Building: N/A Land: 02/15/28	Retail Bank Branch
2002 Richard Jones Road Nashville, TN 37215	Leased	10/31/18	Mortgage Origination Office
1600 Westgate Circle, Suite 150 Brentwood, TN 37027	Leased	09/14/16	Mortgage Origination Office
5500 Maryland Way, Suite 130 Brentwood, TN 37027	Leased	09/30/18	Retail Bank Branch
101 Springhouse Court Hendersonville, TN 37075	Owned	N/A	Retail Bank Branch
885 Greenlea Blvd. Gallatin, TN 37066	Owned	N/A	Retail Bank Branch

Effective March 1, 2017, we will be relocating our current headquarters and main branch office from its existing location to 1201 Demonbreun Street, Nashville, Tennessee 37203. Construction of our future headquarters and main branch office, which will be approximately 29,000 square feet, is scheduled to be completed in March 1, 2017. In addition, our new building is located in a dynamic urban neighborhood located in the Nashville MSA, is easily accessible and will feature CapStar signage that is visible from the interstate. We believe that each of these attributes will enhance our profile and our brand within the Nashville MSA.

We believe that the leases to which we are subject are generally on terms consistent with prevailing market terms. None of the leases are with our directors, officers, beneficial owners of more than 5% of our voting securities or any affiliates of the foregoing. We believe that our facilities are in good condition and are adequate to meet our operating needs for the foreseeable future.

### Material Legal Proceedings

We are sometimes party to legal actions that are routine and incidental to our business. Management, in consultation with legal counsel, does not expect the ultimate disposition of any or a combination of these matters to have a material adverse effect on our assets, business, cash flow, condition (financial or otherwise), liquidity, prospects and results of operations. However, given the nature, scope and complexity of the extensive legal and regulatory landscape applicable to our business, including laws and regulations governing consumer protection, fair lending, fair labor, privacy, information security and anti-money laundering and anti-terrorism laws, we, like all banking organizations, are subject to heightened legal and regulatory compliance and litigation risk.

## **Competition**

The financial services industry is highly competitive. We compete for loans, deposits, and financial services in our market area. We compete directly with other bank and nonbank institutions located within our market area, Internet-based banks, out-of-market banks, and bank holding companies that advertise in or otherwise serve our market area, along with money market and mutual funds, brokerage houses, mortgage companies, and insurance companies or other commercial entities that offer financial services products. Competition involves efforts to retain current clients, obtain new loans and deposits, increase the scope and type of services offered, and offer competitive interest rates paid on deposits and charged on loans. Many of our competitors enjoy competitive advantages, including greater financial resources, a wider geographic presence, more accessible branch office locations, the ability to offer additional services, more favorable pricing alternatives, and lower origination and operating costs. Some of our competitors have been in business for a long time and have an established client base and name recognition. We believe that our experienced leadership, efficient and scalable operating model, personalized service and emphasis on attracting core deposits from our other product offerings enable us to effectively compete in the communities in which we operate.

## SUPERVISION AND REGULATION

### General

Insured banks, their holding companies and their affiliates are extensively regulated under federal and state law. As a result, our growth and earnings performance and that of our subsidiaries may be affected not only by management decisions and general economic conditions, but also by the requirements of federal and state statutes and by the regulations and policies of various bank regulatory agencies, including the TDFI, the Board of Governors of the Federal Reserve, the FDIC and the CFPB. Furthermore, tax laws administered by the Internal Revenue Service and state taxing authorities, accounting rules developed by the Financial Accounting Standards Board, securities laws administered by the SEC and state securities authorities, anti-money laundering laws enforced by the U.S. Department of the Treasury and mortgage related rules, including with respect to loan securitization and servicing by the U.S. Department of Housing and Urban Development and agencies such as Ginnie Mae and Freddie Mac, have an impact on our business. The effect of these statutes, regulations, regulatory policies and rules are significant to our operations and results and those of our bank, and the nature and extent of future legislative, regulatory or other changes affecting financial institutions are impossible to predict with any certainty.

Federal and state banking laws impose a comprehensive system of supervision, regulation and enforcement on the operations of insured banks, their holding companies and affiliates that is intended primarily for the protection of the FDIC-insured deposits and depositors of banks, rather than their shareholders. These federal and state laws, and the regulations of the bank regulatory agencies issued under them, affect, among other things, the scope of business, the kinds and amounts of investments banks may make, reserve requirements, capital levels relative to operations, the nature and amount of collateral for loans, the establishment of branches, the ability to merge, consolidate and acquire, dealings with insiders and affiliates and the payment of dividends.

This supervisory and regulatory framework subjects banks and bank holding companies to regular examination by their respective regulatory agencies, which results in examination reports and ratings that, while not publicly available, can impact the conduct and growth of their businesses. These examinations consider not only compliance with applicable laws and regulations, but also capital levels, asset quality and risk, management ability and performance, earnings, liquidity, and various other factors. The regulatory agencies generally have broad discretion to impose restrictions and limitations on the operations of a regulated entity where the agencies determine, among other things, that such operations are unsafe or unsound, fail to comply with applicable law or are otherwise inconsistent with laws and regulations or with the supervisory policies of these agencies.

The following is a summary of the material elements of the supervisory and regulatory framework applicable to us and our bank. It does not describe all of the statutes, regulations and regulatory policies that apply, nor does it restate all of the requirements of those that are described. The descriptions are qualified in their entirety by reference to the particular statutory and regulatory provision.

### Bank Holding Company Regulation

Since we own all of the capital stock of our bank, we are a bank holding company under the Bank Holding Company Act of 1956, as amended, or the BHC Act. As a result, we are primarily subject to the supervision, examination and reporting requirements of the BHC Act and the regulations of the Federal Reserve.

#### *Acquisition of Banks*

The BHC Act requires every bank holding company to obtain the Federal Reserve's prior approval before:

- acquiring direct or indirect ownership or control of any voting shares of any bank if, after the acquisition, the bank holding company will, directly or indirectly, own or control 5% or more of the bank's voting shares;

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- acquiring all or substantially all of the assets of any bank; or
- merging or consolidating with any other bank holding company.

Additionally, the BHC Act provides that the Federal Reserve may not approve any of the above transactions if such transaction would result in or tend to create a monopoly or substantially lessen competition or otherwise function as a restraint of trade, unless the anti-competitive effects of the proposed transaction are clearly outweighed by the public interest in meeting the convenience and needs of the community to be served. The Federal Reserve is also required to consider the financial and managerial resources and future prospects of the bank holding companies and banks concerned and the convenience and needs of the community to be served. The Federal Reserve's consideration of financial resources includes a focus on capital adequacy, which is discussed in the section titled "—Bank Regulation and Supervision—Capital Adequacy." The Federal Reserve also considers the effectiveness of the institutions in combating money laundering, including a review of the anti-money laundering program of the acquiring bank holding company and the anti-money laundering compliance records of a bank to be acquired as part of the transaction. Finally, the Federal Reserve takes into consideration the extent to which the proposed transaction would result in greater or more concentrated risks to the stability of the U.S. banking or financial system.

Under the BHC Act, if well-capitalized and well-managed, we or any other bank holding company located in Tennessee may purchase a bank located outside of Tennessee without regard to whether such transaction is prohibited under state law. Conversely, a well-capitalized and well-managed bank holding company located outside of Tennessee may purchase a bank located inside Tennessee without regard to whether such transaction is prohibited under state law. In each case, however, restrictions may be placed under state law on the acquisition of a bank that has only been in existence for a limited amount of time or will result in concentrations of deposits exceeding limits specified by statute. For example, Tennessee law currently prohibits a bank holding company from acquiring control of a Tennessee-based financial institution until the target financial institution has been in operation for at least three years.

### *Change in Bank Control*

Subject to various exceptions, the BHC Act and the Change in Bank Control Act, together with related regulations, require Federal Reserve approval prior to any person's or company's acquiring "control" of a bank holding company. Under a rebuttable presumption established by the Federal Reserve pursuant to the Change in Bank Control Act, the acquisition of 10% or more of a class of voting stock of a bank holding company would constitute acquisition of control of the bank holding company if no other person will own, control, or hold the power to vote a greater percentage of that class of voting stock immediately after the transaction or the bank holding company has registered securities under the Exchange Act. In addition, any person or group of persons acting in concert must obtain the approval of the Federal Reserve under the BHC Act before acquiring 25% (5% in the case of an acquirer that is already a bank holding company) or more of the outstanding voting stock of a bank holding company, the right to control in any manner the election of a majority of the company's directors, or otherwise obtaining control or a "controlling influence" over the bank holding company.

### *Permitted Activities*

Under the BHC Act, a bank holding company is generally permitted to engage in or acquire direct or indirect control of the voting shares of any company engaged in the following activities:

- banking or managing or controlling banks; and
- any activity that the Federal Reserve determines to be so closely related to banking as to be a proper incident to the business of banking.

Activities that the Federal Reserve has found to be so closely related to banking as to be a proper incident to the business of banking include:

- factoring accounts receivable;

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- making, acquiring, brokering or servicing loans and usual related activities in connection with the foregoing;
- leasing personal or real property under certain conditions;
- operating a non-bank depository institution, such as a savings association;
- engaging in trust company functions in a manner authorized by state law;
- financial and investment advisory activities;
- discount securities brokerage activities;
- underwriting and dealing in government obligations and money market instruments;
- providing specified management consulting and counseling activities;
- performing selected data processing services and support services;
- acting as an agent or broker in selling credit life insurance and other types of insurance in connection with credit transactions; and
- performing selected insurance underwriting activities.

The Federal Reserve may order a bank holding company or its subsidiaries to terminate any of these activities or to terminate its ownership or control of any subsidiary when it has reasonable cause to believe that the bank holding company's continued ownership, activity or control constitutes a serious risk to the financial safety, soundness, or stability of it or any of its bank subsidiaries.

In addition to the permissible bank holding company activities listed above, a bank holding company may qualify and elect to become a financial holding company, thereby permitting the bank holding company to engage in activities that are financial in nature or incidental or complementary to financial activity. The BHC Act expressly lists the following activities as financial in nature:

- lending, exchanging, transferring, investing for others, or safeguarding money or securities;
- insuring, guaranteeing, or indemnifying against loss or harm, or providing and issuing annuities, and acting as principal, agent, or broker for these purposes, in any state;
- providing financial, investment, or economic advisory services;
- issuing or selling instruments representing interests in pools of assets permissible for a bank to hold directly;
- underwriting, dealing in or making a market in securities;
- engaging in other activities that the Federal Reserve may determine to be so closely related to banking or managing or controlling banks as to be a proper incident to managing or controlling banks;
- engaging in the United States in activities permitted outside of the United States if the Federal Reserve has determined them to be usual in connection with banking or other financial operations abroad;
- merchant banking through securities or insurance affiliates; and
- insurance company portfolio investments.

For us to qualify to become a financial holding company, we must be well-capitalized and well-managed. In addition, our bank and any other depository institution subsidiary we control must be well-capitalized and well-managed and must have a CRA rating of at least "satisfactory." Additionally, we must file an election with the Federal Reserve to become a financial holding company and must provide the Federal Reserve with 30 days written notice prior to engaging in a permitted financial activity. We have not elected to become a financial holding company at this time.

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### *Support of Subsidiary Institutions*

The Federal Deposit Insurance Act and Federal Reserve policy require a bank holding company to serve as a source of financial and managerial strength to its bank subsidiaries. In addition, where a bank holding company has more than one FDIC-insured bank or thrift subsidiary, each of the bank holding company's subsidiary FDIC-insured depository institutions is responsible for any losses to the FDIC as a result of an affiliated depository institution's failure. As a result of a bank holding company's source of strength obligation, a bank holding company may be required to provide funds to a bank subsidiary in the form of subordinate capital or other instruments which qualify as capital under bank regulatory rules. Any loans from the holding company to such subsidiary banks likely would be unsecured and subordinated to such bank's depositors and perhaps to other creditors of the bank.

### *Repurchase or Redemption of Securities*

A bank holding company is generally required to give the Federal Reserve prior written notice of any purchase or redemption of its own then outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, is equal to 10% or more of the company's consolidated net worth. The Federal Reserve may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe and unsound practice, or would violate any law, regulation, Federal Reserve order or directive, or any condition imposed by, or written agreement with, the Federal Reserve. The Federal Reserve has adopted an exception to this approval requirement for well-capitalized bank holding companies that meet certain conditions.

## **Bank Regulation and Supervision**

Our bank is subject to extensive federal and state banking laws and regulations that impose restrictions on and provide for general regulatory oversight of the operations of our bank. These laws and regulations are generally intended to protect the safety and soundness of our bank and our bank's depositors, rather than our shareholders. The following discussion describes the material elements of the regulatory framework that applies to our bank.

Since our bank is a commercial bank chartered under the laws of the state of Tennessee and is a member of the Federal Reserve System, it is primarily subject to the supervision, examination and reporting requirements of the Federal Reserve and the TDFI. The Federal Reserve and the TDFI regularly examine our bank's operations and have the authority to approve or disapprove mergers, the establishment of branches and similar corporate actions. Both regulatory agencies have the power to take enforcement action to prevent the development or continuance of unsafe or unsound banking practices or other violations of law. Our bank's deposits are insured by the FDIC to the maximum extent provided by law. Our bank is also subject to numerous federal and state statutes and regulations that affect its business, activities and operations.

### *Branching*

Under current Tennessee law, our bank may open branch offices throughout Tennessee with the prior approval of, or prior notice to, the TDFI. In addition, with prior regulatory approval, our bank may acquire branches of existing banks located in Tennessee. Under federal law, our bank may establish branch offices with the prior approval of the Federal Reserve. While prior law imposed various limits on the ability of banks to establish new branches in states other than their home state, the Dodd-Frank Act allows a bank to branch into a new state by setting up a new branch if, under the laws of the state in which the branch is to be located, a state bank chartered by that state would be permitted to establish the branch. This makes it much simpler for banks to open de novo branches in other states.

### *FDIC Insurance and Other Assessments*

Our bank's deposits are insured by the FDIC to the full extent provided in the Federal Deposit Insurance Act (currently \$250,000 per deposit account), and our bank pays assessments to the FDIC for that coverage. Under



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the FDIC's risk-based deposit insurance assessment system, an insured institution's deposit insurance premium is computed by multiplying the institution's assessment base by the institution's assessment rate.

- **Assessment Base.** An institution's assessment base equals the institution's average consolidated total assets during a particular assessment period, minus the institution's average tangible equity capital (that is, Tier 1 capital) during such period.
- **Assessment Rate.** An institution's assessment rate is assigned by the FDIC on a quarterly basis. To assign an assessment rate, the FDIC designates an institution as falling into one of four risk categories, or as being a large and highly complex financial institution. The FDIC determines an institution's risk category based on the level of the institution's capitalization and on supervisory evaluations provided to the FDIC by the institution's primary federal regulator. Each risk category designation contains upward and downward adjustment factors based on long-term unsecured debt and brokered deposits. Assessment rates currently range from 0.025% per annum for an institution in the lowest risk category with the maximum downward adjustment, to 0.45% per annum for an institution in the highest risk category with the maximum upward adjustment. For the first quarter of 2016, the bank's assessment rate was set at 1.59%, or 6.36% annually, per \$100 of assessment base.

In April 2016, the board of directors of the FDIC approved a final rule to amend the risk-based assessment methodology for banks with less than \$10.0 billion in assets that have been FDIC-insured for at least five years, such as our bank. The final rule replaces the four risk categories for determining such a bank's assessment rate with a financial ratios method based on a statistical model estimating the bank's probability of failure over three years. The final rule also eliminates the brokered deposit downward adjustment factor for such banks' assessment rates; lowers the range of assessment rates authorized to 0.015% per annum for an institution posing the least risk, to 0.40% per annum for an institution posing the most risk; and will further lower the range of assessment rates if the reserve ratio of the Deposit Insurance Fund increases to 2% or more. The final rule will be effective beginning the first quarter after the reserve ratio reaches 1.15%. We are still assessing the impact of the final rule on our business, but we do not currently believe the rule will have a material impact on our results of operations.

In addition to its risk-based insurance assessments, the FDIC also imposes Financing Corporation, or FICO, assessments to help pay the \$780 million in annual interest payments on the approximately \$8 billion of bonds issued in the late 1980s as part of the government rescue of the savings and loan industry. For the first quarter of 2016, the bank's FICO assessment was equal to 0.14%, or 0.56% annually, per \$100 of assessment base. FICO assessments will continue until all outstanding bonds mature in 2019.

The FDIC is responsible for maintaining the adequacy of the Deposit Insurance Fund, and the amount our bank pays for deposit insurance is affected not only by the risk our bank poses to the Deposit Insurance Fund, but also by the adequacy of the fund to cover the risk posed by all insured institutions. In recent years, systemic economic problems and changes in law have put pressure on the Deposit Insurance Fund. In this regard, from 2008 to 2013, the United States experienced an unusually high number of bank failures, resulting in significant losses to the Deposit Insurance Fund. Moreover, the Dodd-Frank Act permanently increased the standard maximum deposit insurance amount from \$100,000 to \$250,000, and raised the minimum required Deposit Insurance Fund reserve ratio (i.e., the ratio of the amount on reserve in the Deposit Insurance Fund to the total estimated insured deposits) from 1.15% to 1.35%. To support the Deposit Insurance Fund in light of these types of pressures, the FDIC took several actions in 2009 to supplement the revenue received from its annual deposit insurance premium assessments. Such actions included imposing a one-time special assessment on insured institutions and requiring that insured institutions prepay their regular quarterly assessments for the fourth quarter of 2009 through 2012. The FDIC's possible need to increase assessment rates, charge additional one-time assessment fees, and take other extraordinary actions to support the Deposit Insurance Fund is generally considered to be greater in the current economic climate.

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### *Termination of Deposit Insurance*

The FDIC may terminate its insurance of deposits of a bank if it finds that the bank has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

### *Community Reinvestment Act*

The CRA requires that, in connection with examinations of financial institutions within their respective jurisdictions, the federal banking agencies will evaluate the record of each financial institution in meeting the needs of its local community, including low- and moderate-income neighborhoods. Our bank's record of performance under the CRA is publicly available. A bank's CRA performance is also considered in evaluating applications seeking approval for mergers, acquisitions, and new offices or facilities. Failure to adequately meet these criteria could result in additional requirements and limitations being imposed on the bank. Additionally, we must publicly disclose the terms of certain CRA-related agreements.

### *Interest Rate Limitations*

Interest and other charges collected or contracted for by our bank are subject to applicable state usury laws and federal laws concerning interest rates.

### *Federal Laws Applicable to Consumer Credit and Deposit Transactions*

Our bank's loan and deposit operations are subject to a number of federal consumer protection laws, including:

- the Federal Truth in Lending Act, governing disclosures of credit terms to consumer borrowers;
- the Home Mortgage Disclosure Act, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the communities it serves;
- the Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, color, religion, national origin, sex, marital status or certain other prohibited factors in all aspects of credit transactions;
- the Fair Credit Reporting Act, or FCRA, governing the use and provision of information to credit reporting agencies;
- the Fair Debt Collection Practices Act, governing the manner in which consumer debts may be collected by debt collectors;
- the Service Members Civil Relief Act, governing the repayment terms of, and property rights underlying, secured obligations of persons in military service;
- the Gramm-Leach-Bliley Act, governing the disclosure and safeguarding of sensitive non-public personal information of our clients;
- the Right to Financial Privacy Act, imposing a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- the Electronic Funds Transfer Act governing automatic deposits to and withdrawals from deposit accounts and clients' rights and liabilities arising from the use of automated teller machines and other electronic banking services; and
- the rules and regulations of the CFPB and various federal agencies charged with the responsibility of implementing these federal laws.

### *Capital Adequacy*

In July 2013, the federal banking regulators, in response to the statutory requirements of the Dodd-Frank Act, adopted regulations implementing the Basel Capital Adequacy Accord, or Basel III, which had been approved by

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the Basel member central bank governors in 2010 as an agreement among the countries' central banks and bank regulators on the amount of capital banks and their holding companies must maintain as a cushion against losses and insolvency. The U.S. Basel III rule's minimum capital to risk-weighted assets, or RWA, requirements are a common equity Tier 1 capital ratio of 4.5%, a Tier 1 capital ratio of 6.0%, and a total capital ratio of 8.0%. The minimum leverage ratio (Tier 1 capital to total assets) is 4.0%. The rule also changes the definition of capital, mainly by adopting stricter eligibility criteria for regulatory capital instruments, and new constraints on the inclusion of minority interests, mortgage-servicing assets, deferred tax assets, and certain investments in the capital of unconsolidated financial institutions. In addition, the U.S. Basel III rule requires that most regulatory capital deductions be made from common equity Tier 1 capital.

Under the U.S. Basel III rule, in order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers, a banking organization must maintain a capital conservation buffer composed of common equity Tier 1 capital above its minimum risk-based capital requirements. The buffer is measured relative to RWA. Phase-in of the capital conservation buffer requirements began on January 1, 2016, and the requirements will be fully phased in on January 1, 2019. A banking organization with a buffer greater than 2.5% once the capital conservation buffer is fully phased in would not be subject to limits on capital distributions or discretionary bonus payments; however, a banking organization with a buffer of less than 2.5% would be subject to increasingly stringent limitations as the buffer approaches zero. A banking organization also would be prohibited from making distributions or discretionary bonus payments during any quarter if its eligible retained income is negative in that quarter and its capital conservation buffer ratio was less than 2.5% at the beginning of the quarter. Effectively, the Basel III framework will require us to meet minimum risk-based capital ratios of (i) 7% for common equity Tier 1 capital, (ii) 8.5% Tier 1 capital, and (iii) 10.5% total capital, once it is fully phased in. The eligible retained income of a banking organization is defined as its net income for the four calendar quarters preceding the current calendar quarter, based on the organization's quarterly regulatory reports, net of any distributions and associated tax effects not already reflected in net income. When the rule is fully phased in, the minimum capital requirements plus the capital conservation buffer will exceed the prompt corrective action, or PCA, well-capitalized thresholds.

The U.S. Basel III rule includes stringent criteria for capital instruments to qualify as Tier 1 or Tier 2 capital. For instance, the rule effectively disallows newly-issued trust preferred securities to be a component of a holding company's Tier 1 capital. However, depository institution holding companies with less than \$15 billion in total assets may permanently include non-qualifying instruments that were issued and included in Tier 1 or Tier 2 capital prior to May 19, 2010 in Additional Tier 1 or Tier 2 capital until they redeem such instruments or until the instruments mature. The Company had no such non-qualifying instruments included in Tier 1 or Tier 2 capital that were issued prior to May 19, 2010.

Under the U.S. Basel III rule, mortgage-servicing assets and deferred tax assets are subject to stricter limitations than those previously applicable under capital rules. More specifically, certain deferred tax assets arising from temporary differences, mortgage-servicing assets, and significant investments in the capital of unconsolidated financial institutions in the form of common stock are each subject to an individual limit of 10% of common equity Tier 1 capital elements and are subject to an aggregate limit of 15% of common equity Tier 1 capital elements. The amount of these items in excess of the 10% and 15% thresholds are to be deducted from common equity Tier 1 capital. Amounts of mortgage servicing assets, deferred tax assets, and significant investments in unconsolidated financial institutions that are not deducted due to the aforementioned 10% and 15% thresholds must be assigned a 250% risk weight. Finally, the rule increases the risk weights for past-due loans, certain commercial real estate loans, and some equity exposures, and makes selected other changes in risk weights and credit conversion factors.

Generally, banking organizations of our size became subject to the U.S. Basel III rule on January 1, 2015, while the capital conservation buffer and the deductions from common equity Tier 1 capital will phase in over time. Failure to meet statutorily mandated capital guidelines or more restrictive ratios separately established for a banking institution could subject the institution to a variety of enforcement remedies available to federal

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regulatory authorities, including issuance of a capital directive, the termination of deposit insurance by the FDIC, a prohibition on accepting or renewing brokered deposits, limitations on the rates of interest that the institution may pay on its deposits, and other restrictions on its business.

### *Prompt Corrective Action*

The Federal Deposit Insurance Corporation Improvement Act of 1991 establishes a system of “prompt corrective action” to resolve the problems of undercapitalized insured depository institutions. Under this system, the federal banking regulators have established five capital categories (well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized) into which all insured depository institutions are placed. The federal banking agencies have specified by regulation the relevant capital thresholds and other qualitative requirements for each of those categories. For an insured depository institution to be “well-capitalized” under the PCA framework, it must have a common equity Tier 1 capital ratio of 6.5%, Tier 1 capital ratio of 8.0%, a total capital ratio of 10.0%, and a leverage ratio of 5.0%, and must not be subject to any written agreement, order or capital directive, or prompt corrective action directive issued by its primary federal regulator to meet and maintain a specific capital level for any capital measure. At March 31, 2016, our bank qualified for the well-capitalized category.

Federal banking regulators are required to take various mandatory supervisory actions and are authorized to take other discretionary actions with respect to institutions in the three undercapitalized categories. The severity of the action depends upon the capital category in which the institution is placed. For example, institutions in all three undercapitalized categories are automatically restricted from paying distributions and management fees, whereas only an institution that is significantly undercapitalized or critically undercapitalized is restricted in its compensation paid to senior executive officers. Generally, subject to a narrow exception, the banking regulator must appoint a receiver or conservator for an institution that is critically undercapitalized.

An institution that is categorized as undercapitalized, significantly undercapitalized, or critically undercapitalized is required to submit an acceptable capital restoration plan to its appropriate federal banking agency. A bank holding company must guarantee that a subsidiary depository institution meets its capital restoration plan, subject to various limitations. The controlling holding company’s obligation to fund a capital restoration plan is limited to the lesser of (i) 5% of an undercapitalized subsidiary’s assets at the time it became undercapitalized and (ii) the amount required to meet regulatory capital requirements. An undercapitalized institution is also generally prohibited from increasing its average total assets, making acquisitions, establishing any branches or engaging in any new line of business, except under an accepted capital restoration plan or with Federal Reserve approval.

The regulations also establish procedures for downgrading an institution to a lower capital category based on supervisory factors other than capital.

### *Liquidity*

Financial institutions are subject to significant regulatory scrutiny regarding their liquidity positions. This scrutiny has increased during recent years, as the economic downturn that began in the late 2000s negatively affected the liquidity of many financial institutions. Various bank regulatory publications, including Federal Reserve SR 10-6 (Funding and Liquidity Risk Management) and FDIC Financial Institution Letter FIL-84-2008 (Liquidity Risk Management), address the identification, measurement, monitoring and control of funding and liquidity risk by financial institutions.

The U.S. federal banking regulators have introduced two new liquidity metrics for large banking organizations. The first metric is the “Liquidity Coverage Ratio,” and it aims to require a financial institution to maintain sufficient high-quality liquid resources to survive an acute stress scenario that lasts for one month. The second metric is the “Net Stable Funding Ratio,” and its objective is to require a financial institution to maintain a

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minimum amount of stable sources relative to the liquidity profiles of the institution's assets, as well as the potential for contingent liquidity needs arising from off-balance sheet commitments, over a one-year horizon.

The federal banking regulators finalized the Liquidity Coverage Ratio in September 2014, and proposed the Net Stable Funding Ratio in May 2016. While the Liquidity Coverage Ratio and the proposed Net Stable Funding Ratio only apply to the largest banking organizations in the country, certain elements may filter down and become applicable to or expected of all insured depository institutions. We and our bank are currently reviewing our liquidity risk management policies in light of these new ratios.

Any increased liquidity requirements applied to us or our bank generally would be expected to cause us or our bank to invest assets more conservatively—and therefore at lower yields—than we and our bank otherwise might invest. Such lower-yield investments likely would reduce our revenue stream, and in turn our earnings potential.

### *Payment of Dividends*

We are a legal entity separate and distinct from our bank. Our principal source of cash flow, including cash flow to pay dividends to our shareholders, is dividends our bank pays to us as our bank's sole shareholder. Statutory and regulatory limitations apply to our bank's payment of dividends to us as well as to our payment of dividends to our shareholders. The requirement that a bank holding company must serve as a source of strength to its subsidiary banks also results in the position of the Federal Reserve that a bank holding company should not maintain a level of cash dividends to its shareholders that places undue pressure on the capital of its bank subsidiaries or that can be funded only through additional borrowings or other arrangements that may undermine the bank holding company's ability to serve as such a source of strength. Our ability to pay dividends is also subject to the provisions of Tennessee corporate law which prevents payment of dividends if, after giving effect to such payment, we would not be able to pay our debts as they become due in the usual course of business or our total assets would be less than the sum of our total liabilities plus any amounts needed to satisfy any preferential rights if we were dissolving. In addition, in deciding whether or not to declare a dividend of any particular size, our board of directors must consider our and our bank's current and prospective capital, liquidity, and other needs.

The TDFI also regulates our bank's dividend payments. Under Tennessee law, a state-chartered bank may not pay a dividend without prior approval of the Commissioner if the total of all dividends declared by its board of directors in any calendar year will exceed (i) the total of its retained net income for that year, plus (2) its retained net income for the preceding two years.

Our bank's payment of dividends may also be affected or limited by other factors, such as the requirement to maintain adequate capital above regulatory guidelines. The federal banking agencies have indicated that paying dividends that deplete a depository institution's capital base to an inadequate level would be an unsafe and unsound banking practice. Under the Federal Deposit Insurance Corporation Improvement Act of 1991, a depository institution may not pay any dividends if payment would cause it to become undercapitalized or if it already is undercapitalized. Moreover, the federal agencies have issued policy statements providing that bank holding companies and insured banks should generally only pay dividends out of current operating earnings.

### *Restrictions on Transactions with Affiliates and Insiders*

Our bank is subject to Section 23A of the Federal Reserve Act, which places limits on the amount of:

- a bank's loans or extensions of credit to affiliates;
- a bank's investment in securities issued by affiliates;
- assets a bank may purchase from affiliates;
- loans or extensions of credit made by a bank to third parties collateralized by the securities or obligations of affiliates;

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- a bank's guarantee, acceptance or letter of credit issued on behalf of an affiliate;
- a bank's transactions with an affiliate involving the borrowing or lending of securities to the extent they create credit exposure to the affiliate; and
- a bank's derivative transactions with an affiliate to the extent they create credit exposure to the affiliate.

Subject to various exceptions, the total amount of the above transactions is limited in amount, as to any one affiliate, to 10% of a bank's capital and surplus and, as to all affiliates combined, to 20% of a bank's capital and surplus. In addition to the limitation on the amount of these transactions, the above transactions also must meet specified collateral requirements and safety and soundness requirements. Our bank must also comply with provisions prohibiting the acquisition of low-quality assets from an affiliate.

Our bank is also subject to Section 23B of the Federal Reserve Act, which, among other things, prohibits a bank from engaging in the above transactions with affiliates, as well as other types of transactions set forth in Section 23B, unless the transactions are on terms substantially the same, or at least as favorable to the bank, as those prevailing at the time for comparable transactions with nonaffiliated companies.

Our bank is also subject to restrictions on extensions of credit to its executive officers, directors, principal shareholders and their related interests. These extensions of credit (i) must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions between the bank and third parties, and (ii) must not involve more than the normal risk of repayment or present other unfavorable features. There are also individual and aggregate limitations on loans to insiders and their related interests. The aggregate amount of insider loans generally cannot exceed the institution's total unimpaired capital and surplus. Insiders and banks are subject to enforcement actions for knowingly entering into insider loans in violation of applicable restrictions.

### *Single Borrower Credit Limits*

Under federal law, total loans and extensions of credit to a borrower may not exceed 15% of our bank's unimpaired capital and surplus. However, such loans may be in excess of that percentage, but not above 25%, if each loan in excess of 15% is fully collateralized by readily marketable collateral. Under Tennessee law, total loans and extensions of credit to a borrower may not exceed 15% of our bank's capital, surplus and undivided profits. However, such loans may be in excess of that percentage, but not above 25%, if each loan in excess of 15% is first submitted to and approved in advance in writing by the board of directors and a record is kept of such written approval and reported to the board of directors quarterly.

### *Commercial Real Estate Concentration Limits*

In December 2006, the federal banking regulators issued guidance entitled "Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices" to address increased concentrations in commercial real estate, or CRE, loans. In addition, in December 2015, the federal bank agencies issued additional guidance entitled "Statement on Prudent Risk Management for Commercial Real Estate Lending." Together, these guidelines describe the criteria the agencies will use as indicators to identify institutions potentially exposed to CRE concentration risk. An institution that has (i) experienced rapid growth in CRE lending, (ii) notable exposure to a specific type of CRE, (iii) total reported loans for construction, land development, and other land representing 100% or more of the institution's capital, or (iv) total CRE loans representing 300% or more of the institution's capital, and the outstanding balance of the institutions CRE portfolio has increased by 50% or more in the prior 36 months, may be identified for further supervisory analysis of the level and nature of its CRE concentration risk. As of March 31, 2016, our bank's total CRE loans represented 185.7% of its capital, thus falling beneath the 300% target.

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### *Privacy*

Financial institutions are required to disclose their policies for collecting and protecting non-public personal information of their clients. Clients generally may prevent financial institutions from sharing non-public personal information with nonaffiliated third parties except under certain circumstances, such as the processing of transactions requested by the consumer or when the financial institution is jointly offering a product or service with a nonaffiliated financial institution. Additionally, financial institutions generally are prohibited from disclosing consumer account numbers to any nonaffiliated third party for use in telemarketing, direct mail marketing or other marketing to consumers.

### *Consumer Credit Reporting*

The FCRA imposes, among other things:

- requirements for financial institutions to develop policies and procedures to identify potential identity theft and, upon the request of a consumer, to place a fraud alert in the consumer's credit file stating that the consumer may be the victim of identity theft or other fraud;
- requirements for entities that furnish information to consumer reporting agencies to implement procedures and policies regarding the accuracy and integrity of the furnished information and regarding the correction of previously furnished information that is later determined to be inaccurate;
- requirements for mortgage lenders to disclose credit scores to consumers in certain circumstances; and
- limitations on the ability of a business that receives consumer information from an affiliate to use that information for marketing purposes.

### *Anti-Terrorism and Money Laundering Legislation*

Our bank is subject to the Bank Secrecy Act and USA Patriot Act. These statutes and related rules and regulations impose requirements and limitations on specified financial transactions and accounts and other relationships intended to guard against money laundering and terrorism financing. Our bank has established an anti-money laundering program pursuant to the Bank Secrecy Act and customer identification program pursuant to the USA Patriot Act. The bank also maintains records of cash purchases of negotiable instruments, files reports of certain cash transactions exceeding \$10,000 (daily aggregate amount), and reports suspicious activity that might signify money laundering, tax evasion, or other criminal activities pursuant to the Bank Secrecy Act. Our bank otherwise has implemented policies and procedures to comply with the foregoing requirements.

### *Sarbanes-Oxley Act*

The Sarbanes-Oxley Act represents a comprehensive revision of laws affecting corporate governance, accounting obligations and corporate reporting. The Sarbanes-Oxley Act is applicable to all companies with equity securities registered, or that file reports, under the Exchange Act. In particular, the act established (i) requirements for audit committees, including independence, expertise and responsibilities; (ii) responsibilities regarding financial statements for the chief executive officer and chief financial officer of the reporting company and new requirements for them to certify the accuracy of periodic reports; (iii) standards for auditors and regulation of audits; (iv) disclosure and reporting obligations for the reporting company and its directors and executive officers; and (v) civil and criminal penalties for violations of the federal securities laws. The legislation also established a new accounting oversight board to enforce auditing standards and restrict the scope of services that accounting firms may provide to their public company audit clients.

### *Overdraft Fees*

Federal Reserve Regulation E restricts banks' abilities to charge overdraft fees. The rule prohibits financial institutions from charging fees for paying overdrafts on ATM and one-time debit card transactions, unless a consumer consents, or opts in, to the overdraft service for those types of transactions.

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### *The Dodd-Frank Act*

As final rules and regulations implementing the Dodd-Frank Act have been adopted, this new law has significantly changed and is significantly changing the bank regulatory framework and affected the lending, deposit, investment, trading and operating activities of banks and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new implementing rules and regulations and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act will depend on the rules and regulations that implement it.

A number of the effects of the Dodd-Frank Act are described or otherwise accounted for in various parts of this “Supervision and Regulation” section. The following items provide a brief description of certain other provisions of the Dodd-Frank Act that may be relevant to us and our bank.

- The Dodd-Frank Act created the CFPB with broad powers to supervise and enforce consumer financial protection laws. The CFPB has broad rule-making authority for a wide range of consumer protection laws that apply to all banks, including the authority to prohibit “unfair, deceptive or abusive” acts and practices. The Bureau has examination and enforcement authority with respect to enumerated consumer financial protection laws over all banks with more than \$10 billion in assets. Institutions with less than \$10 billion in assets will continue to be examined for compliance with consumer financial protection laws by their primary bank regulator.
- The Dodd-Frank Act imposed new requirements regarding the origination and servicing of residential mortgage loans. The law created a variety of new consumer protections, including limitations, subject to exceptions, on the manner by which loan originators may be compensated and an obligation on the part of lenders to verify a borrower’s “ability to repay” a residential mortgage loan. Final rules implementing these latter statutory requirements became effective in 2014.
- The Dodd-Frank Act eliminated the federal prohibitions on paying interest on demand deposits effective one year after the date of its enactment, thus allowing businesses to have interest-bearing checking accounts. Depending on competitive responses, this significant change to existing law could have an adverse impact on our interest expense.
- The Dodd-Frank Act addresses many investor protection, corporate governance and executive compensation matters that will affect most U.S. publicly traded companies. The Dodd-Frank Act (i) requires publicly traded companies to give shareholders a non-binding vote on executive compensation and golden parachute payments; (ii) enhances independence requirements for compensation committee members; (iii) requires national securities exchanges to require listed companies to adopt incentive-based compensation clawback policies for executive officers; (iv) authorizes the SEC to promulgate rules that would allow shareholders to nominate their own candidates using a company’s proxy materials; and (v) directs the federal banking regulators to issue rules prohibiting incentive compensation that encourages inappropriate risks.
- While insured depository institutions have long been subject to the FDIC’s resolution regime, the Dodd-Frank Act creates a new mechanism for the FDIC to conduct the orderly liquidation of certain “covered financial companies,” including bank holding companies and systemically important non-bank financial companies. Upon certain findings being made by the U.S. Secretary of the Treasury, in consultation with the President of the United States, including that the failure of the company would have serious adverse effects on financial stability in the United States, the FDIC may be appointed receiver for a covered financial company, and would conduct an orderly liquidation of the entity. The FDIC liquidation process is modeled on the existing Federal Deposit Insurance Act process for resolving insured banks. The FDIC has issued final rules implementing certain aspects of its orderly liquidation authority.

As noted above, many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on us. However, compliance with the



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Dodd-Frank Act and its implementing regulations clearly will result in additional operating and compliance costs that could have a material adverse effect on our business, financial condition and results of operations.

### *The Volcker Rule*

On December 10, 2013, five U.S. financial regulators, including the Federal Reserve, adopted a final rule implementing the “Volcker Rule.” The Volcker Rule was created by Section 619 of the Dodd-Frank Act and prohibits “banking entities” from engaging in “proprietary trading.” Banking entities also are prohibited from sponsoring or investing in private equity or hedge funds, or extending credit to or engaging in other covered transactions with affiliated private equity or hedge funds. The fundamental prohibitions of the Volcker Rule generally apply to banking entities of any size, including us, the bank and any other “affiliate” under the BHC Act.

**MANAGEMENT****Board of Directors**

Our charter and bylaws provide that our board of directors will consist of between five and 25 directors, with the precise number being determined by our board of directors from time to time. As of the date of this prospectus we have 11 directors. In accordance with our bylaws and Tennessee law, our board of directors oversees the management of the business and affairs of the Company. Our directors are elected by our shareholders at our annual shareholders meeting for one-year terms and to serve until their successors are duly elected and qualified or until their earlier death, resignation or removal. Our board of directors also serves as the board of directors of our bank subsidiary, CapStar Bank. Shareholders are not entitled to cumulative voting in the election of our directors. Our board of directors elects certain officers, including the Chief Executive Officer and Chief Administrative Officer, and the bank's board of directors elects certain officers of the bank, including its Chief Executive Officer and President. The following tables set forth certain information regarding our directors and executive officers.

<u>Name</u>	<u>Age</u>	<u>Since</u>	<u>Term Expires</u>	<u>Position(s) with Our Company</u>
Dennis C. Bottorff	71	2008	2017	Chairman
L. Earl Bentz	64	2008	2017	Director
Thomas R. Flynn	43	2008	2017	Director
Julie D. Frist	45	2008	2017	Vice Chairman
Louis A. Green III	62	2012	2017	Director
Dale W. Polley	67	2011	2017	Director
Stephen B. Smith	62	2008	2017	Director
Richard E. Thornburgh	63	2008	2017	Director
Claire W. Tucker	63	2008	2017	Director, President and Chief Executive Officer
James S. Turner, Jr.	45	2008	2017	Director
Toby S. Wilt	71	2008	2017	Director

*Executive Officers*

In addition to Ms. Tucker, who is listed above, our executive officers consist of the following persons:

<u>Name</u>	<u>Age</u>	<u>Since</u>	<u>Position(s) with Our Company and Our Bank</u>
Robert B. Anderson	50	2012	Chief Financial Officer and Chief Administrative Officer of CapStar Financial Holdings, Inc. and CapStar Bank
Dandridge W. Hogan	55	2012	Chief Executive Officer of CapStar Bank
Christopher G. Tietz	54	2016	Chief Credit Officer of CapStar Bank

We have summarized below certain information regarding the experience of our directors and executive officers, including their business experience and directorships during the last five years, that we believe qualifies them to serve in such capacities.

**Claire W. Tucker—Director, Chief Executive Officer and President, CapStar Financial Holdings, Inc.**

Ms. Tucker serves as President and Chief Executive Officer for CapStar Financial Holdings, Inc. Ms. Tucker was one of the founders of CapStar Bank in 2007 and has 41 years of experience in the banking industry. Ms. Tucker started her banking career in 1975 at First American National Bank and was named its President of Corporate Banking in 1996. When First American National Bank was sold to AmSouth in 1999, she became a Senior Executive Vice President in charge of commercial banking for AmSouth, which had commercial banking activities in six Southeastern states and New York. In 2011, Ms. Tucker was appointed by the Federal Reserve Bank for the Sixth District to a three-year term (and has since been reappointed to a second three-year term) for

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the Community Depository Institutions Advisory Council, or CDIAAC. In the first three-year term she served as the Sixth District representative to the national CDIAAC board, which was presided over by Federal Reserve Board Chairman Ben Bernanke. Ms. Tucker is a board member of Ingram Entertainment and has been a member of its executive committee since its founding in 1997. She currently serves on the boards of Belmont University and the Nashville Entrepreneur Center. She recently chaired the board of the Tennessee Performing Arts Center and has chaired several other boards, including the boards of the Nashville Ballet, Nashville's Table, St. Luke's Community House and Tennessee Wesleyan College. She was a member of the inaugural board of directors for the Tennessee Education Lottery Corporation, serving as chair of the finance and audit committees. A member of the Leadership Nashville class of 1996, Ms. Tucker holds an undergraduate degree from Tennessee Wesleyan College and an M.B.A from the University of Tennessee, and she completed the Stonier Graduate School of Banking at Rutgers University. We believe Ms. Tucker's extensive leadership and governance experience in the banking industry and thorough knowledge of our business have given her valuable insight and enable her to make significant contributions as a member of our board.

### **Robert B. Anderson—Chief Financial Officer and Chief Administrative Officer, CapStar Financial Holdings, Inc. and CapStar Bank**

Mr. Anderson is Chief Financial Officer and Chief Administrative Officer for CapStar Financial Holdings, Inc. and CapStar Bank. He joined the bank in December 2012 and brings more than two decades of leadership experience in the financial sector. Mr. Anderson spent several years with Bank of America and held several different roles, including as Chief Financial Officer of the business banking segment. Additionally, Mr. Anderson was Chief Financial Officer for Capital One's Commercial Bank. Mr. Anderson earned a bachelor's degree in accounting from The Ohio State University and an M.B.A. in finance from Pepperdine University, and he is a certified public accountant (inactive). He is a graduate of the University of Virginia's Darden School of Business executive education series.

### **Dandridge W. Hogan—Chief Executive Officer, CapStar Bank**

Mr. Hogan, Chief Executive Officer for CapStar Bank, joined the bank in December 2012. Mr. Hogan began his career in 1985 as a management trainee with National Bank of Commerce in Memphis, Tennessee. He held numerous leadership positions at National Bank of Commerce in retail and commercial banking, including Regional President when National Bank of Commerce was sold to SunTrust Banks, Inc. in 2004. Mr. Hogan joined Fifth Third Bank in 2005 as President and Chief Executive Officer of Fifth Third Bank's Tennessee operations. He remained with Fifth Third Bank until 2012, and during that time he was promoted to Regional President and Affiliate Chairman for Fifth Third Bank and assumed responsibility for its banking operations in Kentucky and Tennessee and its expansion into Georgia. Mr. Hogan is a former member of the board of directors of the Nashville Branch of the Federal Reserve Bank of Atlanta. He currently serves on the boards of the Middle Tennessee Council, Boy Scouts of America, Nashville Sports Council, Nashville Downtown Partnership and Habitat for Humanity. In addition, he is a member of the Downtown Nashville Rotary Club and completed Leadership Nashville in 2006 and Leadership Knoxville in 1999. Mr. Hogan received a bachelor's degree in finance and banking from the University of Arkansas and graduated from the Graduate Banking School of the South at Louisiana State University.

### **Christopher G. Tietz—Chief Credit Officer, CapStar Bank**

Mr. Tietz was hired as Chief Credit Officer of CapStar Bank in March 2016. Mr. Tietz has over 31 years of banking experience starting as a trainee of First American National Bank in Nashville in 1985 and rising to the position of Executive Vice President and Regional Senior Credit Officer for First American's West Tennessee Region including oversight of credit functions for private banking, business banking, middle-market, and corporate banking functions. Subsequent to his positions at First American, Mr. Tietz held various Chief Credit Officer roles at banks in the Midwest including at First Place Bank in Ohio from 2011 to 2012. From 2012 to 2016 he was Chief Credit Officer of FSG Bank in Chattanooga, Tennessee. His experience includes capital raising activities, asset quality resolution, development of lending initiatives to achieve quality asset growth, and management and resolution of regulatory actions. Mr. Tietz holds a bachelor's degree from the University of Alabama.

**Dennis C. Bottorff—Chairman of the Board of Directors**

Mr. Bottorff was one of the founders of CapStar Bank and currently serves as Chairman of our board of directors and as a member of the Nominating and Corporate Governance Committee and the Compensation and Human Resources Committees. He is also the Managing General Partner of Council Capital Management, a private equity firm located in Nashville, where he was previously a Managing Partner from 2001 to 2016. Mr. Bottorff began his career in banking in 1968 at the former Commerce Union Bank in Nashville. After serving in numerous positions, including Head of Retail Banking, Strategic Planning, Corporate and International Banking, he was named President in 1981 and Chief Executive Officer shortly thereafter. When Commerce Union Bank merged with Sovran Financial Corporation, or Sovran, in 1987, Mr. Bottorff became Chief Operating Officer of Sovran and moved to Norfolk, Virginia. He continued in this position when Sovran merged with Citizens and Southern Bank in Atlanta. Mr. Bottorff returned to Nashville in 1991 to become Chief Executive Officer of First American National Bank. Following AmSouth's acquisition of First American National Bank in 1999, Mr. Bottorff served as AmSouth's chairman of the board until his retirement in January 2001. He has served on 11 corporate boards, including all of the banks at which he was an officer, Dollar General and Tennessee Valley Authority, where he served as Chairman. Presently he is Trustee Emeritus at Vanderbilt University and a director of Ingram Industries and NuscriptRX. His leadership in the community has included serving as Chairman of the Tennessee Education Lottery Corporation, the United Way, the Nashville Symphony, the Nashville Area Chamber of Commerce, the Monroe Carell Jr. Children's Hospital at Vanderbilt, the Titans Advisory Board of Directors, and the Tennessee Performing Arts Center. He received a B.E. degree in electrical engineering from Vanderbilt University and an M.B.A. from Northwestern University. We believe Mr. Bottorff's extensive leadership and governance experience at regional banks, in private equity and on corporate and non-profit boards gives him valuable insight and enables him to make significant contributions as a member of our board.

**L. Earl Bentz—Director**

Mr. Bentz was one of the founders of CapStar Bank and currently serves on the Audit Committee and the Credit Committee. Since 1996, he has been President and Chief Executive Officer of Triton Boats, a company he sold to Brunswick Corporation in 2005. Mr. Bentz serves on the board of directors of the Country Music Hall of Fame, and he has formerly served on the boards of the Middle Tennessee Council, Boy Scouts of America, the Tennessee Wildlife Resources Foundation, the National Association of Boat Manufacturers, the National Marine Manufacturers' Association, the Recreational Boating and Fishing Foundation and the Congressional Sportsman's Foundation. Mr. Bentz attended Clemson University and participated in continuing education programs in business finance at Vanderbilt University; he has also completed the Dale Carnegie Human Relations courses and training. Mr. Bentz's business background, which also includes extensive experience in commercial real estate development and start-up companies, gives him valuable insight and enables him to make significant contributions as a member of our board.

**Thomas R. Flynn—Director**

Mr. Flynn serves as Chairman of the Audit Committee and also serves on the Nominating and Corporate Governance Committee. Mr. Flynn is a director of Flynn Enterprises, LLC, a family owned, multi-national garment manufacturing, sales and distribution company headquartered in Hopkinsville, Kentucky, and serves on the boards of Planters Bank, Hopkinsville, for which he is also a member of the audit committee, and Jennie Stuart Medical Center, a regional hospital that serves Western Kentucky. Mr. Flynn attended Vanderbilt University as a National Merit Scholar, graduating with a bachelor's degree in English, and subsequently received a law degree from Vanderbilt University Law School. We believe Mr. Flynn's leadership in manufacturing and experience as a director in banking, healthcare and manufacturing and legal knowledge give him valuable insight and enables him to make significant contributions as a member of our board.

**Julie D. Frist—Vice Chair of the Board of Directors**

Mrs. Frist was one of the founders of CapStar Bank and serves as Chairman of the Nominating and Corporate Governance Committee and also serves on the Compensation and Human Resources Committee. After graduating from Yale University, she worked for Goldman Sachs as a financial analyst in its Investment Banking Division (Corporate Finance) and returned to Goldman Sachs to work in its Private Client Group after receiving her M.B.A. from Harvard Business School. Mrs. Frist later joined Bruckmann, Rosser, Sherrill & Co., a New York-based private equity firm, where she worked until 2000. Mrs. Frist is a trustee for Ensworth School and serves on the Advisory Board of Teach for America—Nashville. She is also a member of the Board of Dean’s Advisors at Harvard Business School, where she recently chaired the Major Gifts Committee for her 15-year reunion. Mrs. Frist is a former board member of St. Paul’s School (Concord, NH), the American Red Cross (Nashville chapter), the Oasis Center (Nashville, TN) and the Women’s Fund of the Community Foundation (Nashville, TN). We believe that Mrs. Frist’s educational background, experience in the financial services industry and significant involvement in the national and Nashville non-profit community give her valuable insight and enable her to make significant contributions as a member of our board.

**Louis A. Green, III—Director**

Louis A. Green III serves on the Audit Committee and the Nominating and Corporate Governance Committee and chairs our Advisory Board for Sumner County, which provides guidance to our management regarding that portion of our market. He was an incorporator of American Security, which merged with CapStar in July 2012. Mr. Green is General Partner of Green & Little, a real estate investment company, and President of Green-Little Corporation, a real estate management company. He holds partnership interests in several companies investing in industrial, commercial and retail real estate. Mr. Green has served as director of Commerce Union Bank of Sumner County and as an advisory director of NationsBank. He attended the University of Tennessee. We believe Mr. Green’s extensive experience in banking and real estate gives him valuable insight and enable him to make significant contributions as a member of our board.

**Dale W. Polley—Director**

Mr. Polley serves as Chairman of the Risk Committee and also serves on the Compensation and Human Resources Committee. He has extensive experience within the financial services industry, having most recently served as Vice Chairman and President of First American Corporation. Before joining First American National Bank in 1991, Mr. Polley was Group Executive Vice President and Treasurer for C&S/Sovran Corporation after holding various executive positions within Sovran before its merger with Citizens and Southern Bank. Mr. Polley joined Sovran from Commerce Union Bank of Nashville, where he was Executive Vice President and Chief Financial Officer. Mr. Polley retired as a Vice Chairman and member of the board of directors of First American Corporation and First American National Bank in 2000. Mr. Polley is a member of Leadership Nashville, the Financial Executives Institute and the Tennessee Society of Certified Public Accountants. He is currently a member of the board of directors and audit committee of HealthStream, Inc., and member of the board of the Franklin American Music City Bowl. He has also served on the board, including the audit and executive committees, of Pinnacle Financial Partners, the board, including the audit committee, of O’Charley’s Inc., and the board of the Nashville branch of the Federal Reserve Bank of Atlanta. Mr. Polley received a bachelor’s degree from the University of Memphis. We believe his long career in leadership positions at regional banks and experience as a director of public companies, including chairing several audit committees, give him valuable insight and enable him to make significant contributions as a member of our board.

**Stephen B. Smith—Director**

Mr. Smith serves on the Credit Committee and the Nominating and Corporate Governance Committee. He is Chairman of Haury & Smith Contractors, Inc., a building and development company. He is active in the community, having served on the Metropolitan Nashville Planning Commission and the Regional Transit

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Authority and as Chairman of the Metropolitan Nashville Parks and Recreation board of directors. Mr. Smith served as National Finance Co-Chair for Senator Lamar Alexander's presidential campaigns in 1996 and 2000, and he achieved Super Ranger status in President George W. Bush's 2004 campaign. He was National Finance Chairman for Senate Majority Leader Bill Frist's leadership political action committee, VOLPAC, served as Finance Chairman for Senator Lamar Alexander's 2008 and 2014 re-election campaigns, and is currently the Finance Chairman for Senator Alexander's leadership political action committee, TENNPAC. In addition he has served on the boards of the FHLB and Franklin Road Academy, and as director of the First Union National Bank community board. He holds a bachelor's degree from Middle Tennessee State University. We believe Mr. Smith's business experience, banking board service and involvement in the community give him valuable insight and enable him to make significant contributions as a member of our board.

### **Richard E. Thornburgh—Director**

Mr. Thornburgh serves as a member of the Risk Committee and the Credit Committee. He is a member of the investment committee of Corsair Capital LLC, a private equity investment firm with more than \$2 billion invested in financial services companies worldwide. See "Certain Relationships and Related Transactions—Related Party Transactions—Amended and Restated Shareholders' Agreement." Mr. Thornburgh is the Chairman of the board of Credit Suisse Holdings USA and a director of S & P Global Inc. and Newstar Financial, Inc., and he serves on various committees for these companies. He has previously served as a director of RAI, Inc., Dollar General Corporation, National City Corporation and Reynolds American, Inc. He has an extensive background in investment banking and has served as an advisor to the governments of Sweden, New Zealand, Australia and Mexico. Mr. Thornburgh also serves on the Executive Committee of the University of Cincinnati Foundation. He graduated (cum laude) from the University of Cincinnati and earned an M.B.A. from Harvard Business School. We believe Mr. Thornburgh's extensive knowledge of the financial industry, from community banking to international commercial and investment banking, as well as his service on public company boards, give him valuable insight and enable him to make significant contributions as a member of our board.

### **James S. Turner, Jr.—Director**

Mr. Turner serves as Chairman of the Credit Committee and also serves on the Risk Committee. He has served as a Managing Director for Marketstreet Equities Company and Marketstreet Management Company since 2007 and, prior to that, was a Director of Development for Marketstreet Enterprises from 1999 to 2007. Mr. Turner has been a member of the board of directors of the Farmers National Bank Financial Corporation in Scottsville, Kentucky, for more than 15 years. He also serves on the boards of Cumberland Heights, the Nashville Downtown Partnership Board and the Frist Center for the Visual Arts. He received his bachelor's degree from Vanderbilt University and his law degree from Vanderbilt University Law School. We believe Mr. Turner's experience in and knowledge of the commercial real estate industry, his community banking board service, as well as his investment and legal knowledge, give him significant insight and enable him to make significant contributions as a member of our board.

### **Toby S. Wilt—Director**

Mr. Wilt was a founder of CapStar Bank and serves as Chairman of the Compensation and Human Resources Committee and also serves on the Audit Committee. Mr. Wilt has nearly four decades of experience in the banking industry. Mr. Wilt is also a non-practicing certified public accountant, having practiced accountancy with Ernst & Ernst. He has previously served on the boards of directors of banks and public companies including C&S/Sovran Corporation, Commerce Union Bank, Outback Steakhouse and Genesco Inc. Mr. Wilt currently serves as President of TSW Investment Company, Founding President of Golf Club of Tennessee, and Chairman of the board of Christie Cookie Company. Mr. Wilt is also a former board member of First American National Bank. He earned a B.E. in civil engineering from Vanderbilt University and is a former pilot in the United States Air Force. We believe Mr. Wilt's significant experience in banking and as a director of banks and public

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companies, including his service on audit and human resource committees, gives him valuable insight and enables him to make significant contributions as a member of our board.

### **Corporate Governance Principles and Board Matters**

We are committed to having sound corporate governance principles, which are essential to running our business efficiently and maintaining our integrity in the marketplace. Our board of directors has adopted Corporate Governance Guidelines, which, in conjunction with our committee charters and Board Supervision Policy, set forth the framework within which our board of directors, assisted by board committees, direct the affairs of the Company. Our Corporate Governance Guidelines address, among other things, the composition and functions of our board of directors, director independence, compensation of directors, management succession and review, board committees, board and committee evaluation processes and selection of new directors. Upon completion of this offering, our Corporate Governance Guidelines will be available on our website at [www.capstarbank.com](http://www.capstarbank.com).

*Director Qualifications.* When considering potential director candidates, our board of directors and Nominating and Corporate Governance Committee consider the candidate's skills and background, the candidate's integrity, education, business experience, accounting and financial expertise, age, diversity, reputation, civic and community relationships, knowledge and experience in matters impacting financial institutions such as the Company, and the ability of the candidate to devote the necessary time to serving on a board. Our Corporate Governance Guidelines require that (i) a director who also serves as a senior officer of a company or in equivalent positions should not serve on more than two other boards of public companies (or other boards that are deemed by the board to be equivalent) in addition to our board, (ii) other directors should not serve on more than four other boards of public companies (or other boards that are deemed by the board to be equivalent) in addition to our board and (iii) the Chief Executive Officer should not serve on more than one other board of a public company (or other boards that are deemed by the board to be equivalent) in addition to the board. We have no formal policy regarding the diversity of our board of directors.

*Director Independence.* Under the rules of the NASDAQ Stock Market, independent directors must comprise a majority of our board of directors within a specified period of time of this offering. The rules of the NASDAQ Stock Market, as well as those of the SEC, also impose several other requirements with respect to the independence of our directors. Our board of directors has evaluated the independence of its members based upon the rules of the NASDAQ Stock Market and the SEC. Applying these standards, our board of directors has affirmatively determined that, with the exception of Ms. Tucker, each of our current directors is an independent director, as defined under the applicable rules. Our board of directors determined that Ms. Tucker does not qualify as an independent director because she is an executive officers of the Company.

*Board Leadership Structure.* Our board of directors meets at least quarterly. Our Corporate Governance Guidelines provide for separation of the roles of Chief Executive Officer and Chairman of our board of directors, a structure which our board of directors has determined is in the best interests of our shareholders at this time. In addition, our committee charters require that our Audit, Compensation and Human Resources and Nominating and Corporate Governance Committees be comprised entirely of independent directors. The charters of our Risk and Credit Committees provide that a majority of the members of each committee must be independent.

*Role of the Board of Directors in Risk Oversight.* Our board of directors is responsible for risk management and strives to develop and oversee implementation of policies and procedures that enable management to engage in sound risk management practices in our daily operations. To further these goals, our board of directors has established a Risk Committee, which is specifically tasked with helping our board of directors execute its risk management objectives by overseeing an enterprise-wide approach to risk management, which is structured to achieve our strategic objectives, improve our long-term performance and support growth in shareholder value.

## Compensation Committee Interlocks and Insider Participation

No member of our Compensation and Human Resources Committee (i) is or has ever been an employee of the Company or our bank, (ii) was, during the last completed fiscal year, a participant in any related party transaction requiring disclosure under “Certain Relationships and Related Party Transactions,” except with respects to loans made to such committee members in the ordinary course of business on substantially the same terms as those prevailing at the time for comparable transactions with unrelated parties or (iii) had, during the last completed fiscal year, any other interlocking relationship requiring disclosure under applicable SEC rules.

## Code of Conduct

Our board of directors has adopted a Code of Ethics and Conflicts of Interest Policy, or Code of Ethics, governing all of our directors, officers, including our principal executive officer, principal financial officer and principal accounting officer, and other employees. The Code of Ethics covers compliance with law, fair and honest dealings with us, with competitors and with others, fair and honest disclosure to the public, conflicts of interest, and procedures for ensuring accountability and adherence to the Code of Ethics. Upon completion of the offering, a copy of our Code of Ethics will be available free of charge on our website at [www.capstarbank.com](http://www.capstarbank.com). We expect that any amendments to the Code of Ethics, or any waivers of its requirements, will be disclosed on our website, as well as any other means required by the NASDAQ Stock Market rules.

## Certain Relationships

There is no family relationship between any of our directors, executive officers or persons nominated to become a director or executive officer. Mr. Thornburgh was appointed as a director pursuant to the terms of the ARSA among us, our bank, the Corsair funds, North Dakota Investors, LLC, L. Earl Bentz, Dennis C. Bottorff, GSD Family Investments, LLC, Julie D. Frist, James S. Turner, Toby S. Wilt, and Thomas R. Flynn. In this prospectus, the Corsair funds and North Dakota Investors, LLC will be referred to as the Corsair investors, and the remaining shareholders party to the ARSA will be referred to as the non-Corsair investors. See “Certain Relationships and Related Party Transactions—Related Party Transactions—Amended and Restated Shareholders’ Agreement.”

## Committees of our Board of Directors

Our board of directors maintains the authority to appoint committees to perform certain management and administrative functions. Our board of directors has established five permanent committees: the Audit Committee, the Nominating and Corporate Governance Committee, the Compensation and Human Resources Committee, the Credit Committee and the Risk Committee. These committees of our board of directors also perform the same functions for the bank. Our board of directors has adopted written charters for each of these committees. As necessary from time to time, special committees may be established by our board of directors to address certain issues. The following table shows the current composition of each of the committees of our board:

<u>Name</u>	<u>Audit</u>	<u>Nominating and Corporate Governance</u>	<u>Compensation and Human Resources</u>	<u>Credit</u>	<u>Risk</u>
Dennis C. Bottorff		x	x		
L. Earl Bentz	x			x	
Thomas R. Flynn	x*	x			
Julie D. Frist		x*	x		
Louis A. Green III	x	x			
Dale W. Polley			x		x*
Stephen B. Smith		x		x	
Richard E. Thornburgh				x	x
Claire W. Tucker				x	x
James S. Turner, Jr.				x*	x
Toby S. Wilt	x		x*		

\* Committee Chair



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### *Audit Committee*

Our Audit Committee consists of Mr. Flynn (Committee Chair) and Messrs. Bentz, Green and Wilt. The committee is responsible for, among other things: monitoring the integrity of, and assessing the adequacy of, our financial statements, the financial reporting process and our system of internal accounting and financial controls; assisting our board in ensuring compliance with laws, regulations, policies and procedures; selecting our independent public accounting firm and assessing its qualifications, independence and performance; monitoring the internal audit function; reviewing and, if appropriate, pre-approving all auditing and permissible non-audit services performed by the independent public accounting firm; and reviewing and, if appropriate, approving related party transactions other than those subject to Regulation O. At least once per year, our Audit Committee meets privately with each of our independent public accounting firm, management and our internal auditors.

Our board of directors has affirmatively determined that each of Messrs. Flynn, Bentz, Green and Wilt satisfies the requirements for independence as an audit committee member and that all satisfy the requirements for financial literacy under the rules and regulations of the NASDAQ Stock Market and the SEC. Mr. Wilt qualifies as an “audit committee financial expert” as defined in the SEC rules and satisfies the financial sophistication requirements of the NASDAQ Stock Market. Upon completion of the offering, the Audit Committee charter will be available on our website at [www.capstarbank.com](http://www.capstarbank.com).

### *Compensation and Human Resources Committee*

Our Compensation and Human Resources Committee consists of Mr. Bottorff, Mrs. Frist and Messrs. Polley and Wilt (Committee Chair), each of whom is a nonemployee member of our board of directors. The committee is responsible for, among other things, reviewing and approving compensation arrangements with our Chief Executive Officer and other executive officers; advising management with respect to compensation, including equity and non-equity incentives; making recommendations to the board of directors regarding our overall equity-based incentive programs; and administering a performance review process for, and periodically reviewing the succession plan for, the Chief Executive Officer and other executive officers. In addition, the committee annually reviews corporate goals and objectives relevant to the compensation of our Chief Executive Officer and other executive officers and recommends compensation levels to the board based on this evaluation. See “Executive Compensation and Other Matters—Executive Compensation—Compensation Process” for more information. The Compensation and Human Resources Committee has retained the services of a compensation consultant, Buffington HR Consulting, to provide review of executive compensation benchmarking, peer review and recommendations with respect to our executive compensation.

Our board of directors has determined that each member of our Compensation and Human Resources Committee meets the requirements for independence under the rules of the NASDAQ Stock Market and the SEC rules and regulations, and qualifies as an “outside director” for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended, or the Code, and as a “non-employee director” for purposes of Exchange Act Rule 16b-3. Upon completion of this offering, the Compensation and Human Resources Committee charter will be available on our website at [www.capstarbank.com](http://www.capstarbank.com).

### *Nominating and Corporate Governance Committee*

Our Nominating and Corporate Governance Committee consists of Messrs. Bottorff and Flynn, Mrs. Frist (Committee Chair) and Messrs. Green and Smith. The committee is responsible for, among other things, identifying and recommending to our board of directors qualified individuals to become directors; nominating candidates for election to our board of directors to fill vacancies that occur between annual meetings of shareholders; advising our board of directors with respect to the roles and composition of committees; overseeing the evaluation of our board of directors; assisting our board of directors in establishing and maintaining effective corporate governance practices; and annually evaluating our board and committees and providing recommendations to help them function more effectively.

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Our board of directors has determined that each member of our Nominating and Corporate Governance Committee meets the requirements for independence under the rules of the NASDAQ Stock Market and the SEC rules and regulations. Upon completion of this offering, the Nominating and Corporate Governance Committee charter will be available on our website at [www.capstarbank.com](http://www.capstarbank.com).

### *Credit Committee*

Our Credit Committee consists of Messrs. Bentz, Smith, Thornburgh, Ms. Tucker and Mr. Turner (Committee Chair). The Credit Committee is responsible for, among other things, monitoring the management of our assets; reviewing and monitoring compliance with our Loan and Credit Administration Policy; ensuring review of each criticized and classified loan; reviewing charge-offs and recoveries; monitoring exceptions to loan policies, collateral and financial statements; regularly reviewing credit extensions of \$1,000,000 or more; ensuring that extensions of credit to directors, executive officers and their affiliates are in compliance with law and reviewing loans subject to Regulation O, and, to the extent required by Regulation O and where appropriate, recommending approval of such loans by the full board; and reviewing progress with respect to management's goals for improvements in credit quality. Our Executive Loan Committee acts as a subcommittee of our Credit Committee. Meetings of the Executive Loan Committee are attended by the Chief Credit Officer and Chief Executive Officer of the bank and any member of our board who wishes to attend, with at least three individuals required for a quorum. This subcommittee is responsible for, among other things, approving loans, along with extensions and modifications of classified credits, up to the limits set forth in our Loan and Credit Administration Policy; and considering proposed changes to the Loan and Credit Administration Policy for recommendation to the full board.

### *Risk Committee*

Our Risk Committee consists of Mr. Polley (Committee Chair), Mr. Thornburgh, Mr. Turner and Ms. Tucker. This committee is responsible for, among other things, assisting our board of directors in its oversight of our enterprise risk management governance and processes and for reviewing and approving the risk appetite parameters to be used by management in operation of the Company. Additionally, its roles include providing oversight of asset liability management processes; reviewing the strategic plan and budget before their presentation to the full board; reviewing our insurance risk management program; ensuring that our internal policies, procedures and guidelines are appropriate to manage risk; monitoring interest rate risk management; and approving our asset/liability and investment policies.

## EXECUTIVE COMPENSATION AND OTHER MATTERS

### Executive Compensation

**Compensation Philosophy.** As an organization, we focus on successfully addressing client needs, maintaining critical quality standards and driving superior shareholder value, and our overall compensation philosophy is a direct reflection of those values. Our executive compensation program carries out these values by rewarding our named executive officers for the achievement of specific short- and long-term individual and corporate goals and the realization of increased value to our shareholders. Our goal is to maintain compensation that is affordable to the Company, fair to our executives and in the long-term best interests of our shareholders. More specifically, we target overall base compensation levels that are at or slightly above the median for the markets in which we operate and aim to provide short-term incentive opportunities that we believe are generally in line with those of our peers but allow for more substantial rewards for exceptional performance. In addition, we provide our executive officers the opportunity to participate in the long-term success of the Company by awarding equity incentives. Finally, we are committed to helping maintain the health and welfare of our executive officers and offer benefits packages that meet or exceed median levels of coverage.

**Compensation Process.** Our Compensation and Human Resources Committee regularly reviews our executive compensation program to ensure it achieves our desired goals and is responsible for approving compensation arrangements for our named executive officers. As part of this process, the committee annually reviews and approves corporate goals and objectives relevant to the compensation of our named executive officers, evaluates the performance of the named executive officers in light of these goals and objectives, and approves the compensation levels for the named executive officers based on such evaluation. The committee annually reviews our incentive compensation arrangements to confirm they do not encourage unnecessary risk-taking. In determining the long-term incentive component of our executive compensation program, the Compensation and Human Resources Committee considers our performance and relative shareholder return, the value of similar incentive awards to our peers and the awards given to our named executive officers in past years.

**Components of Compensation.** Our executive compensation program consists primarily of the following elements:

- base compensation;
- cash bonuses;
- awards of restricted stock and stock options;
- participation in our 401(k) Plan, to which we make annual contributions;
- health and welfare benefits; and
- perquisites.

Each of these elements is discussed in more detail under “Narrative Discussion of Summary Compensation Table” below.

**Named Executive Officers.** Our named executive officers for 2015 are:

- Claire W. Tucker, President and Chief Executive Officer of CapStar Financial Holdings, Inc.;
- Robert B. Anderson, Chief Financial Officer and Chief Administrative Officer of CapStar Financial Holdings, Inc. and CapStar Bank; and
- Dandridge W. Hogan, Chief Executive Officer of CapStar Bank.

The compensation of these individuals in the Summary Compensation Table below is not necessarily indicative of how we will compensate our named executive officers in the future to achieve the goals set forth above. We plan to continue to review, evaluate and modify our compensation framework to ensure that our executive officer compensation packages remain competitive, achieve our desired goals and remain consistent with our compensation philosophy.

**Summary Compensation Table**

The following table sets forth information regarding the compensation paid to each of our named executive officers during 2015, 2014 and 2013.

**SUMMARY COMPENSATION TABLE**

<u>Name and Principal Position</u>	<u>Year</u>	<u>Salary</u>	<u>Cash Bonus (1)</u>	<u>Stock Awards (2)</u>	<u>All Other Compensation (3)</u>	<u>Total</u>
Claire W. Tucker	2015	\$375,000	\$ —	\$ —	\$ 23,451	\$398,451
<i>Chief Executive Officer—CapStar Financial Holdings, Inc.</i>	2014	375,000	—	—	25,004	400,004
	2013	375,000	—	—(1)	30,996	405,996
Robert B. Anderson	2015	291,667	—	267,821	11,515	571,003
<i>Chief Financial Officer and Chief Administrative Officer</i>	2014	250,000	109,376	—	10,842	370,218
	2013	250,000	—	—	75,887	325,887
Dandridge W. Hogan	2015	345,833	—	267,821	11,895	625,549
<i>Chief Executive Officer—CapStar Bank</i>	2014	325,000	165,887	—	11,745	502,632
	2013	325,000	35,000	—	10,793	370,793

- (1) Ms. Tucker participated in a performance-based long-term incentive equity plan in 2013 and prior years in lieu of participating in an annual cash incentive plan.
- (2) Represents the aggregate grant date fair value of 15,000 restricted stock awards (based on a share price of \$11.41 per award) and 30,000 stock option awards (based on an option value of \$3.22 per award) to both Mr. Anderson and Mr. Hogan, computed in accordance with FASB ASC Topic 718.
- (3) Consists of 401(k) safe harbor contribution, long-term disability, group term life, auto allowance, phone allowance, relocation (Anderson—2013: \$67,117) and club membership. Details of the amounts reported as All Other Compensation for 2015 are as follows:

<u>Name</u>	<u>401(k) Contribution</u>	<u>Automobile Allowance</u>	<u>Phone Allowance</u>	<u>Health and Country Club Memberships</u>	<u>Long-Term Disability/Group Term Life</u>
Claire W. Tucker	\$ 7,950	\$ 3,000	\$ —	\$ 10,902	\$ 1,599
Robert B. Anderson	7,950	—	1,380	—	2,185
Dandridge W. Hogan	7,950	—	1,380	—	2,565

**Narrative Discussion of Summary Compensation Table**

**General.** We have compensated our named executive officers through a combination of base salary, cash bonuses, equity incentive plan bonuses and other benefits including perquisites. Each of our named executive officers has substantial responsibilities in connection with the day-to-day operations of our bank.

**Base Salary.** The base salaries of our named executive officers have been historically reviewed and set annually by our board of directors through the review and recommendations of our Compensation and Human Resources Committee as part of our performance review process; base salaries are also reviewed upon the promotion of an executive officer to a new position or another change in job responsibility. In establishing base salaries for our named executive officers, our Compensation and Human Resources Committee has relied on external market data and peer data obtained from outside sources. In addition to considering the information obtained from such sources, our Compensation and Human Resources Committee has considered:

- each named executive officer’s scope of responsibility;
- each named executive officer’s years of experience;

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- the types and amount of the elements of compensation to be paid to each named executive officer;
- our financial performance and performance with respect to other aspects of our operations, such as our growth, asset quality, profitability and other matters, including the status of our relationship with the banking regulatory agencies; and
- each named executive officer's individual performance and contributions to our performance, including leadership and team work.

**Cash Bonuses.** Our named executive officers are also eligible to receive an annual cash bonus as a percentage of base salary based on our achievement of various metrics, including earnings per share, return on assets and our level of classified assets. Annual incentive awards are intended to recognize and reward those named executive officers who contribute meaningfully to our performance for the year. These bonuses are subject to the discretion of the board of directors each year as to whether and in what amounts they will be paid.

**Stock Awards.** The stock awards reflected in the table above all relate to shares of bank restricted stock and stock options that were originally issued under the CapStar Bank 2008 Stock Incentive Plan adopted by the bank's board of directors in 2008. Following the formation of CapStar Financial Holdings, Inc. in 2016, and in connection with the Share Exchange, the outstanding awards of restricted stock and stock options under the CapStar Bank 2008 Stock Incentive Plan were exchanged for similar awards of restricted stock and stock options issued by CapStar Financial Holdings, Inc. under the Stock Incentive Plan, which the board of directors adopted in 2016. The Stock Incentive Plan provides for the grant of stock-based incentives, including stock options, restricted stock units, performance awards and restricted stock, to employees, directors and service providers that are subject to forfeiture until vesting conditions have been satisfied by the award recipient under the terms of the award. We believe these awards to our executive officers help align the interests of management and our shareholders and reward our executive officers for improved Company performance.

**CapStar Bank 401(k) Plan.** Our 401(k) Plan is designed to provide retirement benefits to all eligible full-time and part-time employees. The 401(k) Plan provides employees the opportunity to save for retirement on a tax-favored basis. Our named executive officers, all of whom were eligible to participate in the 401(k) Plan during 2015, 2014 and 2013, may elect to participate in the 401(k) Plan on the same basis as all other employees. We have elected a safe harbor 401(k) Plan and as such make an annual contribution of 3% of the employees' salaries annually. An employee does not have to contribute to receive the employer contribution.

**Health and Welfare Benefits.** Our named executive officers are eligible to participate in the same benefit plans designed for all of our fulltime employees, including health, dental, vision, disability and basic group life insurance coverage. Messrs. Anderson and Hogan are entitled to life insurance in an amount equal to two times their respective base salary, subject to a maximum of \$400,000. Ms. Tucker is entitled to life insurance equal to \$700,000. The purpose of our employee benefit plans is to help us attract and retain quality employees, including executives, by offering benefit plans similar to those typically offered by our competitors.

**Perquisites.** We provide our named executive officers with a limited number of perquisites that we believe are reasonable and consistent with our overall compensation program to better enable us to attract and retain superior employees for key positions. Our Compensation and Human Resources Committee periodically reviews the levels of perquisites and other personal benefits provided to named executive officers. Based on these periodic reviews, perquisites are awarded or adjusted on an individual basis. The perquisites received by our named executive officers in 2015, 2014 and 2013 included automobile and phone allowances, and health and country club memberships.

**Section 162(m) of the Code.** Section 162(m) of the Code generally limits the corporate tax deduction for compensation in excess of \$1 million that is paid to our named executive officers. However, because we are becoming a publicly held corporation in connection with an initial public offering, the \$1 million annual deduction limit does not apply during a limited "transition period" for compensation paid under a plan that existed prior to the initial public offering. In addition, qualifying performance-based compensation is fully

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deductible without regard to the \$1 million limit if certain requirements are met. Section 162(m) also permits full deductibility for certain pension contributions and other payments. The Compensation and Human Resources Committee has carefully considered the impact of Section 162(m) and its limits on deductibility. To avoid such deductibility limits, the Compensation and Human Resources Committee intends to design its compensation programs: (i) to rely on the transition relief to the extent possible until the transition period expires at the annual shareholders meeting in the fourth calendar year following the initial public offering; and (ii) to the extent practical and to the extent that such transition relief is not available, maintain compensation programs that qualify as “performance-based compensation.”

### Outstanding Equity Awards at Year End

*CapStar Financial Holdings, Inc. Stock Incentive Plan.* The Stock Incentive Plan, like the CapStar Bank 2008 Stock Incentive Plan prior to consummation of the Share Exchange, is intended to provide incentives to certain officers, employees, and directors to stimulate their efforts toward the continued success of the Company and to operate and manage the business in a manner that will provide for our long-term growth and profitability. Additionally, the Stock Incentive Plan is intended to encourage stock ownership to align the interests of employees and shareholders and to provide a means of rewarding and retaining officers, employees and directors. Currently, the board of directors has reserved a total of 1,569,475 shares of stock for issuance pursuant to the Stock Incentive Plan, and there were 196,058 shares remaining available for issuance as of March 31, 2016.

The Stock Incentive Plan is administered by our Compensation and Human Resources Committee. In order to be eligible for participation in the Stock Incentive Plan, an individual must be an employee or other service provider of the Company or an affiliate of the Company. In determining awards under the Stock Incentive Plan, the Compensation and Human Resources Committee takes into account the nature of the services rendered by the eligible individual, their present and potential contributions to our success, and such other factors as the Compensation and Human Resources Committee deems relevant. The following table provides information regarding outstanding stock awards held by the named executive officers as of December 31, 2015. These outstanding stock awards were originally issued under the CapStar Bank 2008 Stock Incentive Plan and were exchanged for comparable Company stock awards under the Stock Incentive Plan pursuant to the Share Exchange as discussed above.

Name of Executive	Grant Date	Option Awards				Stock Awards	
		Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable (1)	Option Exercise Price	Option Expiration Date	Number of Shares that have not Vested (#) (2)	Market Value of Shares of Stock that have not Vested (\$)
Claire W. Tucker	11/13/2008	210,000	—	\$ 10.00	11/13/2018	—	\$ —
Robert B. Anderson	12/10/2012	37,500	12,500	12.27	12/10/2022	—	—
	2/27/2015	—	30,000	11.41	2/27/2025	15,000	171,150
Dandridge W. Hogan	12/1/2012	37,500	12,500	12.27	12/1/2022	—	—
	2/27/2015	—	30,000	11.41	2/27/2025	15,000	171,150

(1) These option awards vest over a four year period from the grant date, with one-fourth of the options under the grant becoming exercisable on each of the first four anniversaries of the grant date.

(2) These stock awards vest in full on the third anniversary of the grant date.

### Employment Agreements

We have employment agreements with each of our named executive officers. The employment agreements for Messrs. Anderson and Hogan specify a one-year term of employment and the option for annual renewal by

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mutual agreement. The employment agreement for Ms. Tucker specifies a three-year period of employment that expires on May 31, 2019. Both parties have the right to terminate the employment agreements at any time, with or without cause, as defined in the employment agreements, subject to the potential for severance payments as discussed below. The employment agreements specify each executive's base salary and eligibility to participate in certain benefits programs.

**Potential Payments upon Termination or Change in Control.** Our employment agreements with our named executive officers provide for certain severance payments to be made in connection with the termination of employment in certain circumstances.

- Specifically, these officers are entitled to a severance payment equal to continued payment of base salary and benefits in the event we terminate the employment agreements without cause or the executive resigns for good reason, as such terms are defined in the employment agreement. For Ms. Tucker, base salary would be continued through May 31, 2019 and healthcare coverage would be continued until she becomes eligible for Medicare (or other similar government health care coverage). However, continuation of base salary would be extended to May 31, 2020 if such a termination occurred prior to May 31, 2017. For Messrs. Anderson and Hogan, base salary and benefits would be continued for 24 months.
- For termination occurring within 12 months of a change in control, as defined in the employment agreement, Messrs. Anderson and Hogan would receive payments equal to two times their respective base salary (payable in 24 equal monthly installments) and continuation of benefits for 24 months, unless employment was terminated with cause or by reason of disability or the executive resigned without good reason, as defined in their employment agreements. Ms. Tucker would not receive benefits for a termination following a change in control beyond the severance payments described above.

**Confidentiality and Restrictive Covenants.** Under the employment agreements, our named executive officers agree to maintain the confidentiality of non-public information and trade secrets learned during the course of employment and further agree that we maintain ownership over their work product. In addition, the executives are subject to restrictive covenants relating to their ability to (i) solicit our clients for or on behalf of a competing business, (ii) solicit employees of us or our bank for another business, or (iii) engage in a competing business that operates in Davidson, Sumner or Williamson Counties, Tennessee, or any other county inside or outside of Tennessee in which CapStar operates. These restrictions apply for the duration of employment and following termination for a period of 24 months for Ms. Tucker and Mr. Hogan and 12 months for Mr. Anderson.

### **Director Compensation**

During 2015, our non-employee directors received compensation for service and attendance as follows:

- \$75,000 annual retainer for the chair of the board of directors;
- \$12,000 annual retainer for directors other than the chair;
- \$5,000 annual retainer for committee chairs;
- \$1,000 for each board meeting attended in person or \$500 for attending by phone;
- \$500 for each meeting of the Audit, Compensation and Human Resources, Credit, Nominating and Corporate Governance and Risk Committees attended in person or \$250 for attending by phone; and
- \$250 for each meeting of the Executive Loan Committee or \$125 for attending by phone.

Ms. Tucker does not receive fees or other compensation for her service as a director of our Company. Other than the retainer for the chair of the board of directors, which is paid in cash in equal monthly payments, all director compensation is paid in equal parts cash and restricted stock awards that vest ratably over three years.

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The following table sets forth information regarding compensation paid to our directors during 2015 that were not named executive officers:

<u>Name</u>	<u>Fees Earned</u>		<u>All Other Compensation</u>	<u>Total</u>
	<u>Paid in Cash</u>	<u>Paid in Stock Awards (1)</u>		
L. Earl Bentz	\$11,625	\$ 11,630		\$23,255
Dennis C. Bottorff	82,250	7,250		89,500
Thomas R. Flynn	13,750	13,750		27,500
Julie D. Frist	14,250	14,250		28,500
Louis A. Green III	12,000	12,000		24,000
Dale W. Polley	14,500	14,500	\$ 30,000(2)	59,000
Steven B. Smith	11,875	11,880		23,755
Richard E. Thornburgh	11,375	11,380		22,755
James S. Turner, Jr.	15,750	15,750		31,500
Toby S. Wilt	14,625	14,630		29,255

(1) The amounts set forth in the “Paid in Stock Awards” column represent the aggregate grant date fair value of restricted stock awards for the year ended December 31, 2015, computed in accordance with FASB ASC Topic 718 based on a fair market value of \$10.00 per share.

(2) Represents compensation for consulting services provided to the Company.

### **2016 Compensation Update**

In 2016, we have entered into new or amended employment agreements with our named executive officers, as described above in “Employment Agreements.” In addition, we have granted the following incentive awards to our named executive officers under the Stock Incentive Plan:

<u>Name</u>	<u>Date of Grant</u>	<u>Description of Award</u>
Claire W. Tucker	3/2/2016	2,837 shares of restricted stock (1)
Robert B. Anderson	3/2/2016	4,968 shares of restricted stock (1)
Dandridge W. Hogan	3/2/2016	6,869 shares of restricted stock (1)

(1) Awards vest in three equal installments on the first three anniversaries of the grant date.

We have also granted restricted stock awards to our directors who are not executive officers consistent with our director compensation program, as described above in *Director Compensation*.



## CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

### Related Party Transactions

#### *Banking Transactions*

Our bank has made in the past and, assuming continued satisfaction of generally applicable credit standards, expects to continue to make loans to directors, executive officers, principal shareholders and their affiliates including corporations or organizations for which they serve as officers or directors or in which they have beneficial ownership interests of 10% percent or more. These loans have all been made in the ordinary course of our business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with persons not related to us. Further, such loans are and will be subject to the policies and procedures regarding related party transactions discussed below, and we do not believe they present us more than the normal risk of uncollectability or other unfavorable characteristics.

#### *Amended and Restated Shareholders' Agreement*

In June 2008, CapStar Bank entered into a Shareholders' Agreement with the Corsair investors and the non-Corsair investors. On February 5, 2016, in connection with the Share Exchange, we entered into the ARSA with the same shareholders, which will terminate on June 30, 2018, unless earlier terminated. As of June 30, 2016, the aggregate beneficial ownership of our Company that is held by shareholders that are party to the ARSA is approximately 57.8% and will be % following this offering assuming the underwriters do not exercise their purchase option and the selling shareholders sell all of their shares of our common stock that are being offered in this offering. Unless otherwise indicated below, the following provisions will remain in effect until termination of the ARSA.

#### *Right to Nominate Director*

The ARSA permits the Corsair funds to recommend one nominee to the Nominating and Corporate Governance Committee of the boards of directors of the Company and our bank for election to such boards, subject to any required regulatory and shareholder approvals. To the extent that the non-Corsair investors are members of the Nominating and Corporate Governance Committee of such boards, they have agreed to consider in good faith this recommendation and not to unreasonably withhold their approval or recommendation of the nominee to these boards of directors. All shareholders party to the ARSA have further agreed to vote their shares to elect such nominee upon recommendation by the Nominating and Corporate Governance Committee of the Company and our bank and approval by the boards of directors and all applicable regulatory authorities (if necessary). Currently, Mr. Thornburgh serves on our board of directors pursuant to this arrangement. See "Management" for additional information. This right of the Corsair funds will terminate upon the occurrence of any of the following: termination of the ARSA, a change of control or the transfer by the Corsair funds of more than 75% of the equity securities held by them as of February 5, 2016 to a person or persons not related to the Corsair investors.

#### *Registration Rights*

The ARSA further provides the Corsair funds with "demand" registration rights and all of shareholders party thereto with piggyback registration rights. With respect to demand registration rights, the Corsair funds have the one-time right to require us to register for sale under the Securities Act all or any portion of such requesting shareholders' common stock and preferred stock, or registrable securities. At least 45 business days prior to the anticipated filing date of the registration statement relating to the demand registration, we must provide notice of the demand registration to all other shareholders party thereto to allow such shareholders to register their registrable securities on such registration statement relating to the demand registration. In addition, the Corsair

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funds have the right to demand that we file an unlimited number of registration statements on Form S-3 to register their registrable securities.

We will be required to pay the expenses associated with the demand registrations described above, even if the registration is not completed, unless the demand registration is withdrawn by the Corsair funds which, in connection with such withdrawal, also agree to reimburse us for all associated expenses.

With respect to piggyback registration rights, we may register for sale under the Securities Act our capital stock or other securities that are convertible into our capital stock, whether or not for our own account. If we elect to register our capital stock or other securities that are convertible into our capital stock, then, at least 45 business days prior to the anticipated filing date of the registration statement relating to the piggyback registration, we must provide notice of the registration to all shareholders party thereto to allow such shareholders to register securities on such registration statement relating to the piggyback registration.

If a piggyback registration involves an underwritten public offering of registrable securities, such as this offering, (a) all shareholders requesting to be included in the registration statement must sell their registrable securities to the underwriters selected by us on the same terms and conditions as are applicable to us and (b) if, at any time after giving notice of its intention to conduct a piggyback registration but prior to the effective date of the registration statement filed in connection with such piggyback registration, we determine for any reason not to register such securities, we must give notice to all shareholders and, thereafter, we will be relieved of our obligation to register any registrable Securities in connection with such piggyback registration. We will be required to pay for all piggyback registration expenses, even if the registration is not completed.

This offering is a piggyback registration, and \_\_\_\_\_ shareholders have elected to exercise their piggyback registration rights in connection with this offering with respect to a total of \_\_\_\_\_ shares of capital stock.

### *Right to Receive Financial and Other Information*

The ARSA provides the Corsair investors with rights to receive certain financial reports and other information about the Company.

The foregoing description of the ARSA does not purport to be complete and is subject to, and qualified in its entirety by, the full text of the ARSA, which is filed as an exhibit to this registration statement on Form S-1 and is incorporated herein by reference in its entirety.

### *Passivity Commitments*

The Corsair investors have each provided a set of passivity commitments to the Federal Reserve in connection with their initial investments in us. These passivity commitments include, among other things, limitations on the ability of such investors to conduct transactions with us or our affiliates. These passivity commitments also include the agreement of each of these investors not to, without the prior approval of the Federal Reserve, among other things, exercise or attempt to exercise a controlling influence over our management or policies, have or seek to have more than one representative serve on our board of directors or permit any representative to serve as the chairman of our board of directors or any committee thereof.

### **Policies and Procedures Regarding Related Party Transactions**

Transactions by the Company with affiliates and insiders are subject to regulatory requirements and restrictions as well as our own policies and procedures. These requirements and restrictions include Sections 23A and 23B of the Federal Reserve Act (which govern certain transactions by our bank with its affiliates) and the Federal Reserve's Regulation O (which governs certain loans by our bank to its executive officers, directors, and principal shareholders). We have adopted policies to comply with these regulatory requirements and restrictions,

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including provisions in our Loan and Credit Administration Policy that place restrictions on the bank with respect to loans to our executive officers, directors and principal shareholders. Pursuant to its charter, our Credit Committee is responsible for ensuring that extensions of credit to directors, executive officers and their affiliates comply with all applicable law, reviewing loans that are subject to Regulation O and, if required by Regulation O and where appropriate, recommending such loans to the full board for approval. Our Audit Committee approves all related party transactions that are not subject to Regulation O.

In addition, prior to completion of this offering, our board of directors will adopt a written policy governing the approval of related party transactions that complies with all applicable requirements of the SEC and the NASDAQ Stock Market concerning related party transactions. Related party transactions, for purposes of the requirements of the SEC and the NASDAQ Stock Market, are transactions in which we are a participant, the amount involved exceeds \$120,000 and a related party has or will have a direct or indirect material interest. Our related parties include our directors (including nominees for election as directors), executive officers, 5% or greater shareholders and the immediate family members of these persons. Our Chief Financial Officer, in consultation with management and outside counsel, as appropriate, will review potential related party transactions to determine if they are subject to the policy. If so, the transaction will be referred to our Audit Committee or, if such transaction is a loan subject to Regulation O, our Credit Committee. In determining whether to approve a related party transaction, our Audit Committee or Credit Committee, as applicable, will consider, among other factors, the fairness of the proposed transaction, the direct or indirect nature of the related party's interest in the transaction, the appearance of an improper conflict of interests for any director, executive officer or 5% or greater shareholder, taking into account the size of the transaction and the financial position of the related party, whether the transaction would impair a director's independence, the acceptability of the transaction to our regulators and the potential violations of other company policies. Upon completion of this offering, our Related Party Transactions Policy will be available on our website at [www.capstarbank.com](http://www.capstarbank.com), as an annex to our Corporate Governance Guidelines.

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth the beneficial ownership of our common stock immediately prior to and immediately after the completion of this offering by:

- each shareholder known by us to beneficially own more than 5% of our outstanding common stock;
- each of our directors;
- each of our named executive officers;
- all of our directors and executive officers as a group; and
- each selling shareholder.

We have determined beneficial ownership in accordance with the rules of the SEC. These rules generally provide that a person is the beneficial owner of securities if such person has or shares the power to vote or direct the voting of securities, or to dispose or direct the disposition of securities. A security holder is also deemed to be, as of any date, the beneficial owner of all securities that such security holder has the right to acquire within 60 days after such date through (i) the exercise of any option or warrant, (ii) the conversion of a security, (iii) the power to revoke a trust, discretionary account or similar arrangement or (iv) the automatic termination of a trust, discretionary account or similar arrangement. Except as disclosed in the footnotes to this table and subject to applicable community property laws, we believe that each person identified in the table has sole voting and investment power over all of the shares shown opposite such person's name.

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The percentage of beneficial ownership is based on 8,683,902 shares of our common stock outstanding as of June 30, 2016 and \_\_\_\_\_ shares to be outstanding after the completion of this offering (or \_\_\_\_\_ shares if the underwriters exercise their purchase option in full). The table does not reflect any shares of our common stock that may be purchased in this offering by the persons listed in the table below through the directed share program described in the section titled “Underwriting.”

Name (1)	Prior to this Offering		Shares Offered		After this Offering			
	Shares Beneficially Owned		Assuming Underwriters' Option to Purchase Additional Shares is Not Exercised	Assuming Underwriters' Option to Purchase Additional Shares is Exercised in Full	Assuming Underwriters' Option to Purchase Additional Shares is Not Exercised		Assuming Underwriters' Option to Purchase Additional Shares is Exercised in Full	
	Number of Shares	Percentage of Shares			Shares Beneficially Owned		Shares Beneficially Owned	
	Number of Shares	Percentage of Shares	Number of Shares	Percentage of Shares	Number of Shares	Percentage of Shares	Number of Shares	Percentage of Shares
<b>5% Shareholders Who Are Not Directors</b>								
Corsair III Financial Services Capital Partners, L.P. (2)	1,478,049	15.4%						
North Dakota Investors, LLC (3)	981,707	10.4						
GSD Family Investments, LLC (4)	643,500	7.4						
<b>Directors</b>								
L. Earl Bentz (5)	237,414	2.7						
Dennis C. Bottorff (6)	241,944	2.8						
Thomas R. Flynn (7)	543,114	6.2						
Julie D. Frist (8)	711,239	8.1						
Louis A. Green, III (9)	98,142	1.1						
Dale W. Polley (10)	30,597	*						
Stephen B. Smith (11)	44,714	*						
Richard E. Thornburgh (12)	16,576	*						
Claire W. Tucker (13)	283,423	3.2						
James S. Turner, Jr. (14)	717,663	8.2						
Toby S. Wilt (15)	556,070	6.4						
<b>Executive Officers Who Are Not Directors</b>								
Dandridge W. Hogan (16)	101,869	1.2						
Robert B. Anderson (17)	99,968	1.1						
<b>Directors and Executive Officers as a Group (14 persons)</b>	<b>3,687,733</b>	<b>39.4%</b>						

\* Indicates one percent or less.

- Unless otherwise noted, the address for each shareholder listed in the table above is: c/o CapStar Financial Holdings, Inc., 201 4<sup>th</sup> Avenue North, Suite 950, Nashville, TN 37219.
- Includes shares owned by Corsair III Financial Services Capital Partners, L.P. and shares owned by Corsair III Financial Services Offshore 892 Partners, L.P. Corsair Capital LLC is the general partner of Corsair III Management L.P. which is the general partner of both Corsair III Financial Services Capital Partners, L.P. and Corsair III Financial Services Offshore 892 Partners, L.P. Corsair Capital LLC has sole voting and investment power with respect to all such shares. Includes 878,049 shares of our Series A Preferred Stock that may be converted into shares of our common stock in connection with this offering, of which the shareholder has elected to convert \_\_\_\_\_ shares of Series A Preferred Stock into \_\_\_\_\_ shares of common stock and to offer those shares of our common stock for sale as part of this offering. The address for this group of shareholders is 717 5<sup>th</sup> Avenue, 24<sup>th</sup> Floor, New York, NY 10022.
- Includes 731,707 shares of our Series A Preferred Stock that may be converted into shares of our common stock in connection with this offering, of which the shareholder has elected to convert \_\_\_\_\_ shares of Series A Preferred Stock into \_\_\_\_\_ shares of common stock and to offer those shares of our common stock for sale as part of this offering. The address of this shareholder is 1930 Burnt Boat Drive, Bismarck, ND 58507.

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- (4) Jeff Gould, as manager of GSD Family Investments, LLC, possesses the voting and investment power with respect to the securities beneficially owned by GSD Family Investments, LLC and may be deemed the beneficial owner of such securities. The address for GSD Family Investments, LLC and Jeff Gould is 1163 Gateway Lane, Nashville, TN 37220.
- (5) Includes shares owned by Bentz Properties LLC and shares owned by Mr. Bentz, including (i) 2,514 shares of restricted stock of which Mr. Bentz retains voting control and will vest over a three year period, (ii) 12,000 shares of our common stock underlying options that are currently exercisable or exercisable within 60 days of June 30, 2016, and (iii) 20,000 shares of our common stock underlying warrants that are currently exercisable or exercisable within 60 days of June 30, 2016.
- (6) Includes shares owned by Mr. Bottorff, or by entities he controls, including (i) 1,595 shares of restricted stock of which Mr. Bottorff retains voting control and will vest over a three year period, (ii) 18,000 shares of our common stock underlying options that are currently exercisable or exercisable within 60 days of June 30, 2016, and (iii) 20,000 shares of our common stock underlying warrants that are currently exercisable or exercisable within 60 days of June 30, 2016.
- (7) Includes shares owned by Mr. Flynn and members of his family, including (i) 2,710 shares of restricted stock of which Mr. Flynn retains voting control and will vest over a three year period, (ii) 12,000 shares of our common stock underlying options that are currently exercisable or exercisable within 60 days of June 30, 2016, and (iii) 25,000 shares of our common stock underlying warrants that are currently exercisable or exercisable within 60 days of June 30, 2016. Mr. Flynn shares voting and investment power with respect to 400,000 of these shares and with respect to 20,000 of the shares underlying warrants.
- (8) Includes shares owned Mrs. Frist and members of her family, including (i) 2,782 shares of restricted stock of which Mrs. Frist retains voting control and will vest over a three year period, (ii) 12,000 shares of our common stock underlying options that are currently exercisable or exercisable within 60 days of June 30, 2016, and (iii) 42,500 shares of our common stock underlying warrants that are currently exercisable or exercisable within 60 days of June 30, 2016. Mrs. Frist shares voting and investment power with respect to 433,334 of these shares and with respect to 21,667 of the shares underlying warrants.
- (9) Includes shares owned by Mr. Green and members of his family, including 2,196 shares of restricted stock of which Mr. Green retains voting control and will vest over a three year period. Mr. Green shares voting and investment power with respect to 8,850 of these shares.
- (10) Includes shares owned by Mr. Polley, including 2,880 shares of restricted stock of which Mr. Polley retains voting control and will vest over a three year period.
- (11) Includes shares owned by Mr. Smith, including (i) 2,245 shares of restricted stock of which Mr. Smith retains voting control and will vest over a three year period, (ii) 13,250 shares of our common stock underlying options that are currently exercisable or exercisable within 60 days of June 30, 2016, and (iii) 1,250 shares of our common stock underlying warrants that are currently exercisable or exercisable within 60 days of June 30, 2016.
- (12) Includes shares owned by Mr. Thornburgh, including (i) 2,114 shares of restricted stock of which Mr. Thornburgh retains voting control and will vest over a three year period and (ii) 12,000 shares of our common stock underlying options that are currently exercisable or exercisable within 60 days of June 30, 2016.
- (13) Includes shares owned by Ms. Tucker and members of her family, including (i) 2,837 shares of restricted stock of which Ms. Tucker retains voting control and will vest over a three year period and (ii) 210,000 shares of our common stock underlying options that are currently exercisable or exercisable within 60 days of June 30, 2016. Ms. Tucker shares voting and investment power with respect to 27,500 of these shares.
- (14) Includes shares owned by Mr. Turner and members of his family, including (i) 3,011 shares of restricted stock of which Mr. Turner retains voting control and will vest over a three year period, (ii) 18,000 shares of our common stock underlying options that are currently exercisable or exercisable within 60 days of June 30, 2016, and (iii) 42,500 shares of our common stock underlying warrants that are currently exercisable or exercisable within 60 days of June 30, 2016. Mr. Turner shares voting and investment power with respect to 200,000 of these shares and with respect to 10,000 of the shares underlying warrants.
- (15) Includes shares owned by Mr. Wilt and members of his family, including (i) 2,906 shares of restricted stock of which Mr. Wilt retains voting control and will vest over a three year period, (ii) 18,000 shares of our

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common stock underlying options that are currently exercisable or exercisable within 60 days of June 30, 2016, and (iii) 34,825 shares of our common stock underlying warrants that are currently exercisable or exercisable within 60 days of June 30, 2016. Mr. Wilt shares voting and investment power with respect to 246,500 of these shares and with respect to 12,325 of the shares underlying warrants.

- (16) Includes shares owned by Mr. Hogan, including (i) 21,869 shares of restricted stock of which Mr. Hogan retains voting control and will vest over a three year period and (ii) 80,000 shares of our common stock underlying options that are currently exercisable or exercisable within 60 days of June 30, 2016.
- (17) Includes shares owned by Mr. Anderson, including (i) 19,968 shares of restricted stock of which Mr. Anderson retains voting control and will vest over a three year period and (ii) 80,000 shares of our common stock underlying options that are currently exercisable or exercisable within 60 days of June 30, 2016.

## DESCRIPTION OF CAPITAL STOCK

*The following is a summary of the material rights of our capital stock and related provisions of our charter and bylaws. This discussion does not purport to be a complete description of these rights and may not contain all of the information regarding our capital stock that is important to you. These rights can be determined in full only by reference to federal and state banking laws and regulations and the Tennessee Business Corporation Act and other applicable law, as well as our charter and bylaws, copies of which are filed with the SEC as exhibits to the registration statement of which this prospectus is a part.*

### General

Our charter authorizes us to issue a total of (i) 25,000,000 shares of common stock, par value \$1.00 per share, or common stock, of which 5,000,000 shares have been designated as non-voting common stock, and (ii) five million shares of preferred stock, par value \$1.00 per share, of which 1,609,800 shares have been designated as Series A Preferred Stock. The authorized but unissued shares of our capital stock will be available for future issuance without shareholder approval, unless otherwise required by applicable law or the rules of any applicable securities exchange.

As of March 31, 2016, (i) 8,677,902 shares of common stock were issued and outstanding, including 223,145 shares of restricted common stock that have yet to vest, (ii) 1,609,756 shares of Series A Preferred Stock were issued and outstanding, (iii) 1,023,500 shares of common stock were subject to issuance upon exercise of issued and outstanding stock options, (iv) 796,069 shares of common stock were subject to issuance upon exercise of issued and outstanding warrants and (v) 196,058 shares of common stock were reserved for issuance pursuant to awards under the Stock Incentive Plan.

### Common Stock

#### *Governing Documents*

Holders of our shares of common stock have the rights set forth in our charter, our bylaws and the Tennessee Business Corporation Act, or TBCA. Certain existing holders of our common stock also have rights, including director nomination and election rights and registration rights, pursuant to the ARSA. See “Certain Relationships and Related Party Transactions—Related Party Transactions—Amended and Restated Shareholders’ Agreement” for additional information.

#### *Ranking*

Our common stock, with respect to dividend rights, ranks on a parity with, and with respect to rights upon a liquidation, dissolution and winding up of the Company, ranks junior to, the Series A Preferred Stock, any other series of preferred stock that may be designated, issued and outstanding and any indebtedness of the Company.

#### *Dividends and Other Distributions*

Subject to certain regulatory restrictions discussed in “Dividend Policy,” holders of shares of common stock are entitled to receive cash dividends, when, as and if declared by the board of directors, out of funds legally available for the payment of dividends.

#### *Voting*

Except as set forth below under “—Non-Voting Common Stock,” each outstanding share of our common stock is entitled to one vote on each matter voted on at a shareholders’ meeting. Our common stock does not have cumulative voting rights. A majority of the voting power of the outstanding shares entitled to vote at a shareholders’ meeting, present in person or represented by proxy, will constitute a quorum at a meeting of shareholders. If a quorum exists, except with respect to the election of directors, action on a matter is approved if



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the votes cast in favor of an action exceed the votes cast in opposition to the action, unless the charter or the TBCA requires a greater number of affirmative votes. Directors of the Company are elected by a plurality of the votes cast by the shares entitled to vote in the election at a shareholders' meeting at which a quorum is present.

### *Liquidation Rights*

In the event of a liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, and subject to the payment of all debts and other liabilities of the Company and the prior rights of any holders of shares of preferred stock then outstanding, including the right of holders of Series A Preferred Stock to receive \$10.25 per share plus any declared but unpaid dividends, the holders of shares of common stock are entitled to receive, *pro rata*, our assets which are legally available for distribution.

### *Conversion Rights.*

Our common stock is not convertible into any other shares of our capital stock.

### *Preemptive Rights.*

Holders of our common stock do not have any preemptive rights.

### *Redemption.*

We have no obligation or right to redeem our common stock.

### *Fully Paid and Non-Assessable*

The issued and outstanding shares of our common stock are fully paid and non-assessable.

### *Listing and Trading*

We intend to apply to list our common stock on the NASDAQ Global Select Market under the symbol "CSTR."

### *Transfer Agent and Registrar*

The transfer agent and registrar for our common stock is .

## **Non-Voting Common Stock**

The holders of our non-voting common stock are entitled to all rights and privileges afforded to holders of our common stock as described above under "—Common Stock," except the holders of our non-voting common stock are not entitled to vote on any matter to be voted on by the holders of our common stock. Shares of our non-voting common stock are convertible on a one-to-one basis into shares of our common stock at the option of the holder thereof in connection with or as a part of any of the following:

- a sale or transfer of our non-voting common stock to us;
- a public offering of our common stock;
- a private offering in which the transferee of our non-voting common stock will acquire no more than two percent of our non-voting common stock being so offered; or
- a transaction in which, after the completion of such transaction, any person or group owns, directly or indirectly, a majority of our common stock without regard to the transfer of our non-voting common stock.

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We expect that this offering will constitute a public offering of our common stock. As described in “—Preferred Stock—Conversion Rights” below, in connection with this offering, holders of our Series A Preferred Stock plan to exercise their conversion rights, thereby (a) converting \_\_\_\_\_ shares of our Series A Preferred Stock into \_\_\_\_\_ shares of our non-voting common stock, (b) immediately thereafter, converting those shares of our non-voting common stock into \_\_\_\_\_ shares of our common stock, and (c) offering those shares of our common stock for sale as part of this offering.

### **Preferred Stock**

#### *General*

Under our charter, our board of directors is authorized, without further shareholder action, to issue up to 5,000,000 shares of preferred stock, par value \$1.00 per share, in one or more series, and to establish the number of shares to be included in each such series, and to fix the designation, preferences, limitations and relative rights of each such series. Our Series A Preferred Stock is currently the only designated series of preferred stock. As of March 31, 2016, 1,609,800 shares of preferred stock had been designated as Series A Preferred Stock, and 1,609,756 shares of our Series A Preferred Stock were issued and outstanding. Our charter may be amended in accordance with the TBCA to increase the number of authorized shares of preferred stock that we may issue.

Although the creation and authorization of preferred stock does not, in and of itself, have any effect on the rights of the holders of common stock, the issuance of one or more series of preferred stock may affect the holders of our common stock in a number of respects, including (i) by subordinating our common stock to the preferred stock with respect to dividend rights, liquidation preferences, and other rights, preferences, and privileges, (ii) by diluting the voting power of our common stock, (iii) by diluting the earnings per share of our common stock and (iv) upon the conversion of the preferred stock, by issuing common stock, at a price below the fair market value or original issue price of our common stock that is outstanding prior to such issuance.

#### *Governing Documents*

Holders of shares of Series A Preferred Stock have the rights set forth in our charter, our bylaws and the TBCA. These holders also have certain rights, including registration rights, pursuant to the ARSA. See “Certain Relationships and Related Party Transactions—Related Party Transactions—Amended and Restated Shareholders’ Agreement” for additional information.

#### *Ranking*

Our Series A Preferred Stock, with respect to dividend rights ranks on a parity with, and with respect to rights upon a liquidation, dissolution and winding up of the Company ranks senior to, our common stock.

#### *Dividends and Other Distributions*

Subject to certain regulatory restrictions discussed in “Dividend Policy”, holders of shares of our Series A Preferred Stock are entitled to receive, when, as and if declared by the board of directors, out of funds legally available for the payment of dividends, cash dividends to the same extent and on the same basis as, and contemporaneously with, cash dividends as declared by the board of directors with respect to shares of our common stock.

#### *Voting*

Holders of our Series A Preferred Stock do not have voting rights, except as provided below or as otherwise required by the TBCA. When voting rights are applicable, each holder of our Series A Preferred Stock has one vote per share.

So long as any shares of Series A Preferred Stock are outstanding, we may not, without the written consent or affirmative vote of the holders of a majority of the outstanding shares of our Series A Preferred Stock (i) amend,

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alter or repeal any provision of our charter or bylaws so as to materially adversely affect the preferences, rights or powers of our Series A Preferred Stock, provided that any such amendment that changes any dividend payable on or liquidation preference of our Series A Preferred Stock will require the written consent or the affirmative vote of each holder of Series A Preferred Stock or (ii) issue any additional shares of our Series A Preferred Stock.

### *Liquidation Rights*

In the event of our liquidation, dissolution or winding up, whether voluntary or involuntary, and before any payment or distribution of our assets (whether capital or surplus) may be made to holders of securities ranking junior to the Series A Preferred Stock, the holders of shares of our Series A Preferred Stock are entitled to receive \$10.25 per share of Series A Preferred Stock plus any declared but unpaid dividends.

### *Conversion Rights*

Each holder of our Series A Preferred Stock has the right, upon and from and after the earlier to occur of (i) a firm commitment, underwritten public offering of our capital stock representing at least 20% of the shares of our outstanding common stock or, when taken together with other prior underwritten public offerings of our common stock, results in at least 20% in aggregate of shares of our outstanding common stock having been publicly offered in such offerings (in each case, after giving effect to such offering), which we refer to as a Qualified Public Offering or (ii) transfers or proposed transfers of our common stock by one or more of certain of our organizers and directors or any of their respective affiliates in an aggregate amount that equals or exceeds 20% of the outstanding shares of our common stock, at such holder's option, to convert any or all outstanding shares (and fractional shares) of Series A Preferred Stock, in whole or in part, into fully paid and non-assessable shares of our non-voting common stock. Initially, one share of our non-voting common stock is deliverable for each share of our Series A Preferred Stock converted, though such conversion ratio is subject to adjustment as more fully set forth in our charter.

We expect that this offering will constitute a Qualified Public Offering. As described in “—Non-Voting Common Stock” above, in connection with this offering, holders of our Series A Preferred Stock plan to exercise their conversion rights, thereby (a) converting \_\_\_\_\_ shares of our Series A Preferred Stock into \_\_\_\_\_ shares of our non-voting common stock, (b) immediately thereafter, converting those shares of our non-voting common stock into \_\_\_\_\_ shares of our common stock, and (c) offering those shares of our common stock for sale as part of this offering.

### *Preemptive Rights*

Holders of shares of our Series A Preferred Stock do not have any preemptive rights.

### *Redemption*

We have no obligation or right to redeem shares of our Series A Preferred Stock.

### *Fully Paid and Non-Assessable*

The issued and outstanding shares of our Series A Preferred Stock are fully paid and non-assessable.

## **Selected Provisions of Our Charter and Bylaws and Tennessee Law**

We summarize various provisions of our charter, our bylaws and Tennessee law, including the TBCA, in the following paragraphs. These provisions may have an anti-takeover effect and may delay, defer or prevent a tender offer or takeover attempt that a shareholder might consider to be in such shareholder's best interests, including those attempts that might result in a premium over the market price paid for such shareholder's shares.

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### *Charter and Bylaws*

Our charter and bylaws currently contain provisions that may be deemed to be “antitakeover” in nature. Among other provisions, our charter and bylaws:

- provide that special meetings of shareholders, unless otherwise prescribed by the TBCA, may be called only by our board of directors, by the Chairman of our board of directors, by the President and Chief Executive Officer or by the Secretary acting under the instructions of any of the foregoing;
- enable our board of directors by a majority vote to increase the number of persons serving as directors up to the maximum of 25 and to fill the vacancies created as a result of the increase by a majority vote of the directors then in office;
- require no more than 120 days’ and no less than 75 days’ advance notice of nominations for the election of directors and the presentation of shareholder proposals at meetings of shareholders;
- enable our board of directors to amend our bylaws without shareholder approval;
- require:
  - either (i) the affirmative vote of two-thirds of our directors then in office and the affirmative vote of a majority of our outstanding shares entitled to vote or (ii) the affirmative vote of a majority of our directors then in office and the affirmative vote of two-thirds of our outstanding shares entitled to vote, if the TBCA or other applicable law requires shareholder approval of a merger, share exchange or sale, lease, exchange or other disposition of all or substantially all of our assets;
  - either (i) the affirmative vote of two-thirds of our directors then in office or (ii) the affirmative vote of two-thirds of our outstanding shares entitled to vote to amend or rescind the immediately preceding provision; and
- do not provide for cumulative voting rights (therefore prohibiting shareholders from giving more than one vote per share to any single director nominee).

In addition, our charter and bylaws and the TBCA enable our board of directors to issue, from time to time and at its discretion, but subject to limits imposed by applicable law and by any exchange on which our securities may be listed, any authorized but unissued shares of our common or preferred stock. The additional authorized shares could be used by our board of directors, if consistent with its fiduciary responsibilities, to discourage persons from attempting to gain control of us by diluting the voting power of shares then outstanding or increasing the voting power of persons that would support the board of directors in a potential takeover situation, including by preventing or delaying a proposed business combination that is opposed by the board of directors although perceived to be desirable by some shareholders.

### *Tennessee Law*

We are a Tennessee corporation and consequently are also subject to certain anti-takeover provisions of the following Tennessee statutes.

The Tennessee Business Combination Act generally prohibits a “business combination” by us or our subsidiary, CapStar Bank, with an “interested shareholder” within five years after the shareholder becomes an interested shareholder. The Company or CapStar Bank can, however, enter into a business combination within that period if, before the interested shareholder became such, the Company’s board of directors approved the business combination or the transaction in which the interested shareholder became an interested shareholder. After that five-year moratorium, the business combination with the interested shareholder can be consummated only if it satisfies certain fair price criteria or is approved by at least two-thirds of our shares of common stock held by holders other than the interested shareholder .

For purposes of these provisions of the Tennessee Business Combination Act, a “business combination” includes mergers, share exchanges, sales and leases of assets, issuances of securities, and similar transactions. An

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“interested shareholder” is generally any person or entity that beneficially owns 10% or more of the voting power of any outstanding class or series of our stock.

The Tennessee Greenmail Act applies to a Tennessee corporation that has a class of voting stock registered or traded on a national securities exchange or registered with the SEC pursuant to Section 12(g) of the Exchange Act. Under the Tennessee Greenmail Act, a company may not purchase any of its shares at a price above the market value of such shares from any person who holds more than 3% of the class of securities to be purchased if such person has held such shares for less than two years, unless the purchase has been approved by the affirmative vote of a majority of the outstanding shares of each class of voting stock issued by the company or the company makes an offer, or at least equal value per share, to all shareholders of such class.

### *Indemnification and Limitation of Liability*

The TBCA provides that a corporation may indemnify its directors and officers against liability incurred in connection with a proceeding if (i) the director or officer acted in good faith, (ii) in the case of conduct in his or her official capacity with the corporation, the director or officer reasonably believed such conduct was in the corporation’s best interests and in all other cases, the director or officer reasonably believed that his or her conduct was at least not opposed to the best interests of the corporation and (iii) in connection with any criminal proceeding, the director or officer had no reasonable cause to believe that his or her conduct was unlawful. Conversely, the TBCA provides that a corporation may not indemnify a director or officer (i) in connection with a proceeding by or in the right of the corporation in which the director or officer was adjudged liable to the corporation or (ii) in connection with any other proceeding charging improper personal benefit to the director or officer, whether or not involving action in the director or officer’s official capacity, in which the director or officer was adjudged liable on the basis that personal benefit was improperly received by the director or officer. Unless limited by the corporation’s charter, in cases where the director or officer is wholly successful, on the merits or otherwise, in the defense of any proceeding to which the director or officer was a party because the director or officer is or was a director or officer of the corporation, the TBCA mandates that the corporation indemnify the director or officer against reasonable expenses incurred in connection with the proceeding. With respect to the advancement of expenses, the TBCA provides that a corporation may pay for or reimburse the reasonable expenses incurred by a director or officer who is a party to a proceeding in advance of final disposition of the proceeding if (i) the director or officer furnishes the corporation a written affirmation of the director or officer’s good faith belief that the director or officer has met the applicable standard of conduct described above, (ii) the director or officer furnishes the corporation a written undertaking to repay the advance if it is ultimately determined that the director or officer is not entitled to indemnification and (iii) a determination is made that the facts then known to those making the advancement determination would not preclude the director or officer from being indemnified. Notwithstanding the foregoing, the TBCA provides that, unless the corporation’s charter provides otherwise, a court of competent jurisdiction, upon application, may order that a director or officer be indemnified if (i) the director or officer is entitled to mandatory indemnification as described above, in which case the court will also order the corporation to pay the reasonable fees of such director or officer incurred to obtain the court-ordered indemnification or (ii) in consideration of all relevant circumstances, the court determines that the director or officer is fairly and reasonably entitled to indemnification, notwithstanding the fact that (a) the director or officer did not meet the applicable standard of conduct described above or (b) the director or officer was adjudged liable to the corporation in a proceeding by or in right of the corporation or was adjudged liable on the basis that he or she received improper personal benefit, in which case such director or officer’s indemnification would be limited to reasonable expenses incurred. The TBCA also permits a corporation to purchase and maintain insurance on behalf of any director or officer regarding liability asserted against or incurred by the director or officer in his or her capacity as a director or officer whether or not the corporation would have the ability to indemnify the officer or director from the same liability under the TBCA.

The TBCA is not exclusive of rights relating to indemnification and advancement of expenses to which a director may be entitled in the corporation’s charter, bylaws, or, when authorized by such charter or bylaws, in a

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resolution of the shareholders or directors or by agreement. A corporation may not indemnify a director if a final judgment adverse to such director establishes his or her liability for any breach of loyalty to the corporation or its shareholders, for any acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, or for unlawful distributions. A corporation may indemnify and advance expenses to an officer who is not a director to the extent, consistent with public policy, that may be provided in its charter, its bylaws, an action of its board of directors or contract.

Our charter states that, to the fullest extent permitted by the TBCA, we will indemnify our directors and officers from and against any and all expenses, liabilities and other matters covered by the TBCA. Such right of indemnification is not exclusive of rights to which directors and officers may be entitled under any bylaw, vote of shareholders or disinterested directors, or otherwise, both as to action in their official capacity and as to action in another capacity while holding such office, and such right of indemnification will continue as to a director or officer who has ceased to be a CapStar director or officer.

In addition, our charter provides that, to the fullest extent permitted by the TBCA, a director will not be liable to us or our shareholders for monetary damages for breach of fiduciary duty as a director. Under the TBCA, however, there is no elimination of liability for:

- a breach of a director's duty of loyalty to a corporation or its shareholders;
- an act or omission not in good faith or which involves intentional misconduct or a knowing violation of law; or
- any payment of a dividend or approval of a stock repurchase that is illegal under the TBCA.

Our charter does not eliminate or limit our right or the right of our shareholders to seek injunctive or other equitable relief not involving monetary damages.

Pursuant to our bylaws, a CapStar director or officer who was or is made a party or is threatened to be made a party to or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that the director or officer is or was a CapStar director or officer or is or was serving at CapStar's request as a director, officer, manager or employee of an affiliate or of another entity, whether the basis of such proceeding is an alleged action in an official capacity as a director, officer, manager, employee or agent or in any other capacity while serving as a director, officer, manager, or employee or agent, will be indemnified and held harmless by us to the fullest extent authorized by the TBCA against all expense, liability and loss reasonably incurred by the director or officer if the director or officer acted in good faith and in a manner the director or officer reasonably believed to be in or not opposed to our best interests or the best interests of any other entity covered by this right to indemnification, and, with respect to any criminal action or proceeding, had no reasonable cause to believe that the director or officer's conduct was unlawful. Such right of indemnification will continue as to a director or officer who has ceased to be a CapStar director or officer and includes the right to require us to pay the expenses incurred in defending a proceeding in advance of its final disposition, provided, however, that an advancement of expenses incurred by a director or officer will be made only upon delivery to us of an undertaking to repay all amounts advanced if the director or officer is determined not to be entitled to be indemnified for such expenses. The rights to indemnification and to the advancement of expenses provided by our bylaws are not exclusive of any other right which a director or officer may have or acquire under any statute, our charter, bylaws, any agreement, any vote of shareholders or disinterested directors or otherwise. In addition, our bylaws provide that we may purchase and maintain insurance on behalf of any director or officer against any liability asserted against and incurred by the director or officer in his or her capacity as a director, officer, employee or agent whether or not we would have had the power to indemnify against such liability.

## SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there has been no established public market for our common stock. Although we intend to apply to list our common stock on the NASDAQ Global Select Market, we cannot assure you that a significant public market for our common stock will develop or be sustained. Future sales of substantial amounts of our common stock (including shares issued on the exercise of options, warrants or conversion of our Series A Preferred Stock and non-voting common stock) in the public market, or the perception that such sales could occur, could adversely affect prevailing market prices as well as our ability to raise equity capital in the future.

Upon completion of this offering, we will have \_\_\_\_\_ shares of common stock issued and outstanding (and \_\_\_\_\_ shares if the underwriters exercise their purchase option in full).

Of these shares, the \_\_\_\_\_ shares sold in this offering (or \_\_\_\_\_ shares if the underwriters exercise their option in full) will be freely tradable without further restriction or registration under the Securities Act, except for any shares held by our “affiliates” as that term is defined in Rule 144 under the Securities Act, including those shares purchased by certain of our directors and executive officers through the directed share program described in the section titled “Underwriting.” The remaining outstanding shares (or \_\_\_\_\_ shares if the underwriters exercise their option in full) will be deemed “restricted securities” or “control securities” under the Securities Act. Subject to certain contractual restrictions, including the lock-up agreements described below, restricted securities and control securities may be sold in the public market only if (i) they have been registered or (ii) they qualify for an exemption from registration under Rule 144 or any other applicable exemption.

### Lock-Up Agreements

We, our executive officers and directors, the selling shareholders, and certain other persons who will beneficially own in the aggregate approximately \_\_\_\_\_ shares of our common stock after this offering (assuming the underwriters do not exercise their purchase option), have entered into lock-up agreements under which we and they have generally agreed not to sell or otherwise transfer our or their shares for a period of 180 days after the completion of this offering. These lock-up agreements may be extended in specified circumstances and are subject to certain exceptions. For additional information, see “Underwriting—Lock-Up Agreements.” As a result of these contractual restrictions, shares of our common stock subject to lock-up agreements will not be eligible for sale until these agreements expire or the restrictions are waived by the underwriters.

Following the lock-up period, all of the shares of our common stock that are restricted securities or are held by our affiliates as of the date of this prospectus will be eligible for sale in the public market only if (i) they are registered under the Securities Act or (ii) an exemption from registration, such as Rule 144, is available.

### Rule 144

All shares of our common stock held by our “affiliates,” as that term is defined in Rule 144, generally may be sold in the public market only in compliance with Rule 144. Rule 144 defines an “affiliate” as any person who directly or indirectly controls, or is controlled by, or is under common control with, the Company, which generally includes our directors, executive officers, 10% or more shareholders and certain other related persons. Upon completion of this offering and subject to the lock-up agreements described above, we expect that approximately \_\_\_\_\_ % of our outstanding common stock (or \_\_\_\_\_ % of our outstanding common stock if the underwriters exercise their purchase option in full) will be eligible for sale under Rule 144 subject to limitations on sales by “affiliates” (assuming such affiliates do not purchase any shares in this offering and taking into account \_\_\_\_\_ shares to be sold by the selling shareholders).

Under Rule 144, a person (or persons whose shares are aggregated) who is, or was at any time during the three months preceding a sale, deemed to be our “affiliate” would be entitled to sell within any three-month period a number of shares that does not exceed the greater of 1% of the then outstanding shares of our common stock,

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which would be approximately \_\_\_\_\_ shares of common stock immediately after this offering (assuming the underwriters do not elect to exercise their purchase option), or the average weekly trading volume of our common stock on the NASDAQ Global Select Market during the four calendar weeks preceding such sale. Sales under Rule 144 are also subject to a six-month holding period and requirements relating to manner of sale and notice requirements and the availability of current public information about us.

Rule 144 also provides that a person who is not deemed to be, or have been, at any time during the three months preceding a sale, our affiliate, and who has for at least six months beneficially owned shares of our common stock that are restricted securities, will be entitled to freely sell such shares of our common stock subject only to the availability of current public information regarding us. A person who is not deemed to be, or have been, at any time during the three months preceding a sale, our affiliate, and who has beneficially owned for at least one year shares of our common stock that are restricted securities, will be entitled to freely sell such shares of our common stock under Rule 144 without regard to the current public information requirements of Rule 144.

### **Rule 701**

Rule 701 under the Securities Act generally applies to stock options and restricted common stock granted by an issuer to its employees, directors, officers, consultants or advisors in connection with a compensatory stock or option plan or other written agreement before the issuer becomes subject to the reporting requirements of the Exchange Act, along with the shares acquired upon exercise of such options. Securities issued in reliance on Rule 701 are restricted securities and, subject to the contractual restrictions described above, beginning 90 days after the date of this prospectus, may be sold by persons other than our “affiliates,” as defined in Rule 144, without compliance with its current public information and minimum holding period requirement of Rule 144 and by “affiliates” under Rule 144 without compliance with its minimum holding period requirement.

### **Registration Rights**

For a description of demand and piggyback registration rights granted to certain of our shareholders, see “Certain Relationships and Related Party Transactions—Related Party Transactions—Amended and Restated Shareholders’ Agreement—Registration Rights.”

### **Restricted Common Stock, Stock Options and Warrants**

As of March 31, 2016, (i) 223,145 shares of restricted common stock that have yet to vest were issued and outstanding, (ii) 1,023,500 shares of common stock were subject to issuance upon exercise of issued and outstanding stock options, (iii) 796,069 shares of common stock were subject to issuance upon exercise of issued and outstanding warrants and (iv) 196,058 shares of common stock were reserved for issuance pursuant to awards under the Stock Incentive Plan.

### **Registration Statement on Form S-8**

Upon completion of this offering, we intend to file a registration statement on Form S-8 under the Securities Act registering all of the shares of restricted common stock, all of the shares of our common stock subject to outstanding options, all of the shares of our common stock subject to outstanding warrants, and all of the shares of our common stock reserved for issuance pursuant to awards under the Stock Incentive Plan. Subject to Rule 144 volume limitations applicable to affiliates, shares registered under any registration statements will be available for sale in the open market, beginning 90 days after the date of this prospectus, except to the extent that the shares are subject to vesting restrictions or the contractual restrictions described above.



## **MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES FOR NON-U.S. HOLDERS OF COMMON STOCK**

The following is a summary of the material U.S. federal income tax consequences to Non-U.S. Holders (as defined below) with respect to the ownership and disposition of our common stock. This summary is limited to Non-U.S. Holders who purchase our common stock issued pursuant to this offering and who hold such shares of common stock as a capital asset (i.e., generally as an investment) within the meaning of Section 1221 of the Code.

For purposes of this summary, a “Non-U.S. Holder” means a beneficial owner of our common stock that is for U.S. federal income tax purposes:

- a nonresident alien individual;
- a foreign corporation (or entity treated as a foreign corporation for U.S. federal income tax purposes); or
- a foreign estate or foreign trust.

This summary is based on current provisions of the Code, the U.S. Treasury regulations promulgated under the Code and administrative and judicial interpretations of the Code, all as of the date hereof. Those authorities may be changed, perhaps retroactively, so as to result in U.S. federal income tax consequences different from those summarized below. We cannot assure you that a change in law, possibly with retroactive application, will not alter significantly the tax considerations described below. We have not sought and do not plan to seek any ruling from the IRS with respect to statements made and the conclusions reached in the following discussion, and we cannot assure you that the IRS or a court will agree with our statements and conclusions.

This discussion does not address all aspects of U.S. federal income taxation or any aspects of alternative minimum, estate and gift, state, local, or non-U.S. taxation. In addition, this discussion does not address any aspects of the Medicare contribution tax. This discussion also does not consider any specific facts or circumstances that may apply to particular Non-U.S. Holders that may be subject to special treatment under the U.S. federal income tax laws, including, but not limited to insurance companies; tax-exempt organizations; financial institutions; tax-qualified retirement plans; brokers or dealers in securities; investors that hold our common stock as part of a straddle, hedge, conversion transaction, synthetic security or other integrated investment; controlled foreign corporations; passive foreign investment companies; expatriates and former long-term residents of the United States; and investors in pass-through entities. Such Non-U.S. Holders should consult their own tax advisors to determine the U.S. federal, state, local and other tax consequences that may be relevant to them.

If a partnership or any other entity or arrangement taxed as a partnership for U.S. federal income tax purposes is a beneficial owner of our common stock, the treatment of a partner in the partnership will generally depend upon the status of the partner of such partnership and the activities of the partnership. Accordingly, partnerships (and entities and arrangements taxed as partnerships) that hold our common stock and owners in such partnerships (or other entities or arrangements taxed as partnerships) are urged to consult their tax advisors regarding the specific U.S. federal income tax consequences to them of acquiring, owning or disposing of our common stock.

**PROSPECTIVE INVESTORS ARE URGED TO CONSULT THEIR TAX ADVISORS REGARDING THE PARTICULAR U.S. FEDERAL INCOME TAX CONSEQUENCES TO THEM OF ACQUIRING, OWNING AND DISPOSING OF SHARES OF OUR COMMON STOCK, AS WELL AS THE U.S. FEDERAL, STATE, LOCAL, ESTATE AND GIFT TAX AND NON-U.S. INCOME AND OTHER TAX CONSIDERATIONS OF ACQUIRING, OWNING AND DISPOSING OF SHARES OF OUR COMMON STOCK.**

## **Distributions on Our Common Stock**

As discussed under the section entitled “Dividend Policy,” we do not currently anticipate paying dividends. In the event that we do make a distribution of cash or property (other than certain stock distributions) with respect to our common stock (or certain redemptions that are treated as distributions with respect to common stock), any such distributions will be treated as a dividend for U.S. federal income tax purposes to the extent paid from our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Dividends paid to you generally will be subject to U.S. federal withholding tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty, unless the dividends are effectively connected with a trade or business carried on by you within the United States (and, if required by an applicable income tax treaty, are attributable to a U.S. permanent establishment or fixed base maintained by you).

Dividends that are effectively connected with the conduct of a trade or business by you within the United States and, where a tax treaty applies, are generally attributable to a U.S. permanent establishment or fixed base, are not subject to the U.S. withholding tax, but instead are subject to U.S. federal income tax on a net income basis at applicable graduated individual or corporate rates. Certain certification and disclosure requirements including delivery of a properly executed IRS Form W-8ECI (or other applicable form) must be satisfied for effectively connected dividends to be exempt from withholding. Any such effectively connected dividends received by a foreign corporation may be subject to an additional “branch profits tax” at a 30% rate or such lower rate as may be specified by an applicable income tax treaty.

If the amount of a distribution paid on our common stock exceeds our current and accumulated earnings and profits, such excess will be allocated ratably among each share of common stock with respect to which the distribution is paid and treated first as a tax-free return of capital to the extent of your adjusted tax basis in each such share, and thereafter as capital gain from a sale or other disposition of such share of common stock that is taxed to you as described below under the heading “—Gain on Sale or Other Disposition of Our Common Stock.” Your adjusted tax basis is generally the purchase price of such shares, reduced by the amount of any such tax-free returns of capital.

If you wish to claim the benefit of an applicable treaty rate to avoid or reduce withholding of U.S. federal income tax for dividends, then you must (a) provide the withholding agent with a properly completed IRS Form W-8BEN or W-8BEN-E (or other applicable form) and certify under penalties of perjury that you are not a U.S. person and are eligible for treaty benefits, or (b) if our common stock is held through certain foreign intermediaries, satisfy the relevant certification requirements of applicable U.S. Treasury regulations. Special certification and other requirements apply to certain Non-U.S. Holders that act as intermediaries (including partnerships). Non-U.S. Holders should consult their own tax advisors regarding these certification requirements.

## **Gain on Sale or Other Disposition of Our Common Stock**

Subject to the discussions below regarding backup withholding and provisions of the Code commonly referred to as the Foreign Account Tax Compliance Act, or FATCA, you generally will not be subject to U.S. federal income tax with respect to gain realized on the sale or other taxable disposition of our common stock, unless:

- the gain is effectively connected with a trade or business you conduct in the United States, and, in cases in which certain tax treaties apply, is attributable to a U.S. permanent establishment or fixed base;
- if you are a nonresident alien individual, you are present in the United States for 183 days or more in the taxable year of the sale or other taxable disposition, and certain other conditions are met; or
- we are or have been during a specified testing period a “U.S. real property holding corporation,” or USRPHC, for U.S. federal income tax purposes, and certain other conditions are met.

If you are an individual described in the first bullet point above, you will be subject to tax on the net gain derived from the sale under regular graduated U.S. federal income tax rates. If you are a foreign corporation

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described in the first bullet point above, you will be subject to tax on your gain under regular graduated U.S. federal income tax rates and, in addition, may be subject to the branch profits tax equal to 30% of your effectively connected earnings and profits, subject to certain adjustments, or at such lower rate as may be specified by an applicable income tax treaty.

If you are an individual described in the second bullet point above, you will be subject to a flat 30% tax (or such lower rate as may be specified by an applicable income tax treaty between the United States and your country of residence) on the net gain derived from the sale, which may be offset by certain U.S. source capital losses, if any, recognized in the taxable year of the disposition of our common stock.

With respect to the third bullet point above, generally, we will be a USRPHC if the fair market value of our U.S. real property interests equals or exceeds 50% of the sum of the fair market values of our worldwide real property interests and other assets used or held for use in a trade or business, all as determined under applicable U.S. Treasury regulations. We believe that we are not currently and will not become a USRPHC.

### **Information Reporting and Backup Withholding**

Generally, we must report annually to the IRS and to each Non-U.S. Holder the amount of the dividends on our common stock paid to such holder and the tax withheld, if any, with respect to such dividends. This information also may be made available under a specific treaty or agreement with the tax authorities in the country in which the Non-U.S. Holder resides or is established. Non-U.S. Holders will have to comply with specific certification procedures to establish that the holder is not a U.S. person (as defined in the Code) in order to avoid backup withholding at the applicable rate with respect to dividends on our common stock.

Information reporting and backup withholding will generally apply to the proceeds of a disposition of our common stock by a Non-U.S. Holder effected by or through the U.S. office of any broker, U.S. or foreign, unless the holder certifies its status as a Non-U.S. Holder and satisfies certain other requirements, or otherwise establishes an exemption. Generally, information reporting and backup withholding will not apply to a payment of disposition proceeds to a Non-U.S. Holder where the transaction is effected outside the United States through a non-U.S. office of a broker. However, for information reporting purposes, dispositions effected through a non-U.S. office of a broker with substantial U.S. ownership or operations generally will be treated in a manner similar to dispositions effected through a U.S. office of a broker.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a Non-U.S. Holder may be allowed as a credit against the Non-U.S. Holder's U.S. federal income tax liability, if any, and may entitle such holder to a refund, provided that the required information is timely furnished to the IRS.

### **Foreign Accounts**

Under FATCA, and related Treasury guidance, a withholding tax of 30% will be imposed in certain circumstances on payments of (a) dividends on our common stock, and (b) gross proceeds from the sale or other disposition of our common stock on or after January 1, 2019.

In the case of payments made to a "foreign financial institution" as defined under FATCA (including, among other entities, an investment fund), as a beneficial owner or as an intermediary, the tax generally will be imposed, subject to certain exceptions, unless such institution (i) enters into (or is otherwise subject to) and complies with an agreement with the U.S. government, or a FATCA Agreement, or (ii) is required by and complies with applicable foreign law enacted in connection with an intergovernmental agreement between the United States and a foreign jurisdiction, or an IGA, in either case to, among other things, collect and provide to the U.S. or other relevant tax authorities certain information regarding U.S. account holders of such institution.

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In the case of payments made to a foreign entity that is not a financial institution (as a beneficial owner), the tax generally will be imposed, subject to certain exceptions, unless such foreign entity provides the withholding agent with a certification that it does not have any “substantial” U.S. owners (generally, any specified U.S. person that directly or indirectly owns more than 10% of such entity) or that identifies its “substantial” U.S. owners.

If our common stock is held through a foreign financial institution that enters into (or is otherwise subject to) a FATCA Agreement, such foreign financial institution (or, in certain cases, a person paying amounts to such foreign financial institution) generally will be required, subject to certain exceptions, to withhold tax on payments of dividends and proceeds described above made to (x) a person (including an individual) that fails to comply with certain information requests or (y) a foreign financial institution that has not entered into (and is not otherwise subject to) a FATCA Agreement and is not a person required to comply with FATCA pursuant to applicable foreign law enacted in connection with an IGA.

Prospective investors should consult their own tax advisors regarding the possible impact of these rules on their investment in our common stock, and the entities through which they hold our common stock, including, without limitation, the process and deadlines for meeting the applicable requirements to prevent the imposition of this 30% withholding tax under FATCA.

**THE SUMMARY OF MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS ABOVE IS INCLUDED FOR GENERAL INFORMATION PURPOSES ONLY. POTENTIAL PURCHASERS OF OUR COMMON STOCK ARE URGED TO CONSULT THEIR OWN TAX ADVISORS TO DETERMINE THE U.S. FEDERAL, STATE, LOCAL AND NON-U.S. TAX CONSIDERATIONS OF PURCHASING, OWNING AND DISPOSING OF OUR COMMON STOCK.**

## UNDERWRITING

We and the selling shareholders are offering the shares of our common stock described in this prospectus in an underwritten offering in which we, the selling shareholders, and Keefe, Bruyette & Woods, Inc. and Sandler O’Neill & Partners, L.P., as representatives for the underwriters named below, are entering into an underwriting agreement with respect to the shares of our common stock being offered hereby. Subject to certain conditions, each underwriter has severally agreed to purchase, and we and the selling shareholders have severally agreed to sell, the number of shares of our common stock indicated in the following table:

	<u>Number of Shares</u>
Keefe, Bruyette & Woods, Inc.	
Sandler O’Neill and Partners, L.P	
<b>Total</b>	

The underwriters are offering the shares of our common stock subject to a number of conditions, including receipt and acceptance of our common stock by the underwriters. The obligations of the underwriters to pay for and accept delivery of the shares offered by this prospectus are subject to these conditions. The underwriting agreement between us, the selling shareholders, and the underwriters provides that if any underwriter defaults, the purchase commitments of the non-defaulting underwriters may be increased or this offering may be terminated.

In connection with this offering, the underwriters or securities dealers may distribute offering documents to investors electronically. See “—Electronic Distribution.”

### Underwriting Discount

Shares of our common stock sold by the underwriters to the public will be offered at the initial public offering price set forth on the cover of this prospectus. Any shares of our common stock sold by the underwriters to securities dealers may be sold at a discount of up to \$ \_\_\_\_\_ per share from the initial public offering price. Any of these securities dealers may resell any shares of our common stock purchased from the underwriters to other brokers or dealers at a discount of up to \$ \_\_\_\_\_ per share from the initial public offering price. If all of the shares of our common stock are not sold at the initial public offering price, the representatives may change the offering price and the other selling terms. Sales of shares of our common stock made outside of the U.S. may be made by affiliates of the underwriters.

The following table shows the initial public offering price, underwriting discount, and proceeds before expenses to us and to the selling shareholders. The information assumes either no exercise or full exercise by the underwriters of their option to purchase an additional \_\_\_\_\_ shares of our common stock, discussed below:

	<u>Per Share</u>	<u>No Exercise</u>	<u>Full Exercise</u>
Public offering price	\$	\$	\$
Underwriting discount			
Proceeds to us before expenses			
Proceeds to the selling shareholders before expenses			

We and the selling shareholders estimate the expenses of this offering, not including the underwriting discount, to be \$ \_\_\_\_\_, and such expenses are payable by us.

### Option to Purchase Additional Shares

We have granted the underwriters an option to buy up to \_\_\_\_\_ additional shares of our common stock, at the initial public offering price less the underwriting discount. The underwriters may exercise this option, in whole or

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in part, from time to time for a period of 30 days from the date of this prospectus. If the underwriters exercise this option, each underwriter will be obligated, subject to the conditions in the underwriting agreement, to purchase a number of additional shares of our common stock proportionate to the number of shares reflected next to such underwriter's name in the table above relative to the total number of shares reflected in such table.

### **Lock-Up Agreements**

We, our executive officers and directors, the selling shareholders, and certain other persons are entering into lock-up agreements with the underwriters. Under these agreements, we and each of these persons may not, without the prior written approval of the representatives and subject to limited exceptions:

- offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant for the sale of, or otherwise dispose of or transfer any shares of our common stock or any securities convertible into or exchangeable or exercisable for our common stock, whether now owned or hereafter acquired or with respect to which such person has or hereafter acquires the power of disposition, or exercise any right with respect to the registration thereof, or file or cause to be filed any registration statement under the Securities Act, with respect to any of the foregoing; or
- enter into any swap, hedge, or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of the shares of our common stock or such other securities, whether any such swap or transaction is to be settled by delivery of shares of our common stock or other securities, in cash or otherwise.

These restrictions will be in effect for a period of 180 days after the completion of this offering. At any time and without public notice, the representatives may, in their sole discretion, waive or release all or some of the securities from these lock-up agreements. However, as to any of our executive officers or directors, the representatives have agreed to notify us at least three business days before the effective date of any release or waiver, and we have agreed to announce the impending release or waiver by press release through a major news service at least two business days before the effective date of the release or waiver.

These restrictions also apply to securities convertible into or exchangeable or exercisable for or repayable with our common stock to the same extent as they apply to our common stock. They also apply to common stock owned now or later acquired by the person executing the agreement or for which the person executing the agreement later acquires the power of disposition.

### **Pricing of the Offering**

Prior to this offering, there has been no public market for our common stock. The initial public offering price will be determined by negotiations between us, the selling shareholders, and the representatives of the underwriters. In addition to prevailing market conditions, among the factors to be considered in determining the initial public offering price of our common stock will be our historical performance, estimates of our business potential and our earnings prospects, an assessment of our management, and the consideration of the above factors in relation to market valuation of companies in related businesses. The estimated initial public offering price range set forth on the cover page of this preliminary prospectus is subject to change as a result of market conditions and other factors. An active trading market for the shares of our common stock may not develop. It is also possible that the shares of our common stock will not trade in the public market at or above the initial public offering price following the completion of this offering.

### **Exchange Listing**

We intend to apply to have our common stock approved for listing on the NASDAQ Global Select Market under the symbol "CSTR."

## **Indemnification and Contribution**

We and the selling shareholders have agreed to indemnify the underwriters and their affiliates, selling agents, and controlling persons against certain liabilities, including under the Securities Act. If we are unable to provide this indemnification, we will contribute to the payments the underwriters and their affiliates, selling agents, and controlling persons may be required to make in respect of those liabilities.

## **Price Stabilization, Short Positions, and Penalty Bids**

To facilitate this offering and in accordance with Regulation M under the Exchange Act, or Regulation M, the underwriters may engage in transactions that stabilize, maintain, or otherwise affect the price of our common stock, including:

- stabilizing transactions;
- short sales; and
- purchase to cover positions created by short sales.

Stabilizing transactions consist of bids or purchases made for the purpose of preventing or retarding a decline in the market price of our common stock while this offering is in progress. These transactions may also include making short sales of our common stock, which involve the sale by the underwriters of a greater number of shares of common stock than they are required to purchase in this offering. Short sales may be “covered short sales,” which are short positions in an amount not greater than the underwriters’ purchase option referred to above, or may be “naked short sales,” which are short positions in excess of that amount.

The underwriters may close out any covered short position either by exercising their purchase option, in whole or in part, or by purchasing shares in the open market. In making this determination, the underwriters will consider, among other things, the price of shares available for purchase in the open market compared to the price at which they may purchase shares through the purchase option described above. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of our common stock in the open market that could adversely affect investors who purchased in this offering.

As an additional means of facilitating our initial public offering, the underwriters may bid for, and purchase, shares of our common stock in the open market. The underwriting syndicate also may reclaim selling concessions allowed to an underwriter or a dealer for distributing shares of our common stock in this offering, if the syndicate repurchases previously distributed shares of our common stock to cover syndicate short positions or to stabilize the price of our common stock.

As a result of these activities, the price of our common stock may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the underwriters at any time without notice. The underwriters may carry out these transactions on the NASDAQ Global Select Market, in the over-the-counter market or otherwise.

## **Passive Market Making**

In connection with this offering, the underwriters may engage in passive market making transactions in our common stock on the NASDAQ Global Select Market in accordance with Rule 103 of Regulation M during a period before the commencement of offers or sales of our common stock and extending through the completion of the distribution of this offering. A passive market maker must generally display its bid at a price not in excess of the highest independent bid of that security. However, if all independent bids are lowered below the passive

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market maker's bid, the passive market maker may continue to bid and effect purchases at a price exceeding the then highest independent bid until specified purchase limits are exceeded, at which time such bid must be lowered to an amount no higher than the then highest independent bid. Passive market making may cause the price of our common stock to be higher than the price that otherwise would exist in the open market in the absence of those transactions. The underwriters and selling shareholders engaged in passive market making are not required to engage in passive market making and may end passive market making activities at any time.

### **Electronic Distribution**

A prospectus in electronic format may be made available by e-mail or on the websites or through online services maintained by one or more of the underwriters or their affiliates. In those cases, prospective investors may view offering terms online and may be allowed to place orders online. The underwriters may agree with us to allocate a specific number of shares for sale to online brokerage account holders. Any such allocation for online distributions will be made by the underwriters on the same basis as other allocations. Other than the prospectus in electronic format, the information on the underwriters' websites and any information contained on any other website maintained by any of the underwriters is not part of this prospectus, has not been approved and/or endorsed by the underwriters or us, and should not be relied upon by investors.

### **Directed Share Program**

At our request, the underwriters have reserved for sale, at the initial public offering price, up to 5% of the shares of our common stock offered by this prospectus for sale to our directors, officers, employees, business associates, and related persons. Reserved shares purchased by our directors and executive officers will be subject to the lock-up provisions described above. The number of shares of our common stock available for sale to the general public will be reduced to the extent these persons purchase the reserved shares. Any reserved shares of our common stock that are not so purchased will be offered by the underwriters to the general public on the same terms as the other shares of common stock offered by this prospectus.

### **Affiliations**

The underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment advisory, investment research, principal investment, hedging, financing, loan referrals, valuation, and brokerage activities. From time to time, the underwriters and/or their respective affiliates have directly and indirectly engaged, and may in the future engage, in various financial advisory, investment banking loan referrals, and commercial banking services with us and our affiliates, for which they received or paid, or may receive or pay, customary compensation, fees, and expense reimbursement. In the ordinary course of their various business activities, the underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and those investment and securities activities may involve securities and/or instruments of ours. The underwriters and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of those securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in those securities and instruments.

### **Selling Restrictions**

#### *European Economic Area*

In relation to each member state of the European Economic Area that has implemented the Prospectus Directive, each a Relevant Member State, with effect from and including the date on which the Prospectus



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Directive is implemented in that Relevant Member State, or the Relevant Implementation Date, no offer of shares to the public has been or will be made in that Relevant Member State prior to the publication of a prospectus in relation to the shares of our common stock offered hereby that has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that, with effect from and including the Relevant Implementation Date, an offer of shares to the public may be made in that Relevant Member State at any time:

- to any legal entity which is a “qualified investor” as defined in the Prospectus Directive;
- to fewer than 150 natural or legal persons (other than qualified investors, as defined in the Prospectus Directive), subject to obtaining the prior consent of the representatives for any such offer; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive.

For the purposes of this provision, the expression “an offer of shares to the public” in relation to any shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the shares to be offered so as to enable an investor to decide to purchase or subscribe for the shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State, and the expression “Prospectus Directive” means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in each Relevant Member State.

### *United Kingdom*

The prospectus has only been communicated or caused to have been communicated and will only be communicated or caused to have been communicated as an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000, as amended, or the FSMA) received in connection with the issue or sale of the shares of our common stock offered hereby in circumstances in which Section 21(1) of the FSMA does not apply to us. All applicable provisions of the FSMA have been or will be complied with in respect of anything done in relation to the shares of our common stock offered hereby in, from or otherwise involving the United Kingdom.

## LEGAL MATTERS

The validity of the shares of our common stock offered by this prospectus will be passed upon for us by Waller Lansden Dortch & Davis, LLP, Nashville, Tennessee. Covington & Burling LLP, Washington, D.C., is acting as counsel for the underwriters in this offering.

## EXPERTS

The financial statements of CapStar Bank as of December 31, 2015 and 2014 and for each of the years in the three-year period ended December 31, 2015, have been included herein and in the registration statement in reliance upon the report of KPMG LLP, independent registered public accounting firm, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing.

## WHERE YOU CAN FIND MORE INFORMATION

This prospectus, which constitutes a part of a registration statement on Form S-1 filed with the SEC, does not contain all of the information set forth in the registration statement and the related exhibits and schedules. Some items are omitted in accordance with the rules and regulations of the SEC. Accordingly, we refer you to the complete registration statement, including its exhibits and schedules, for further information about us and the shares of our common stock to be sold in this offering. Statements or summaries in this prospectus as to the contents of any contract or other document referred to in this prospectus are not necessarily complete and, where that contract or document is filed as an exhibit to the registration statement, each statement or summary is qualified in all respects by reference to the exhibit to which the reference relates. You may read and copy the registration statement, including the exhibits and schedules to the registration statement, at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information about the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. Our filings with the SEC, including the registration statement, are also available to you for free on the SEC's Internet website at [www.sec.gov](http://www.sec.gov).

Upon completion of the offering, we will become subject to the informational and reporting requirements of the Exchange Act and, in accordance with those requirements, will file reports and proxy statements with the SEC. You will be able to inspect and obtain copies of these reports and proxy statements and other information at the physical and Internet addresses set forth above. We intend to furnish to our shareholders our annual reports containing our audited consolidated financial statements certified by an independent public accounting firm.

We also maintain an Internet website at [www.capstarbank.com](http://www.capstarbank.com). On our website we will make available our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such materials with, or furnish them to, the SEC. This reference to our website is for the convenience of investors as required by the SEC; our website and the information contained therein or limited thereto is not incorporated into this prospectus or the registration statement of which it forms a part.

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors  
CapStar Bank:

We have audited the accompanying balance sheets of CapStar Bank (the Bank) as of December 31, 2015 and 2014, and the related statements of income and comprehensive income (loss), changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CapStar Bank as of December 31, 2015 and 2014, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

(signed) KPMG LLP

Nashville, Tennessee  
July 1, 2016

## CAPSTAR BANK

## Balance Sheets

December 31, 2015 and 2014

(In thousands, except for share data)

	2015	2014
<b>Assets</b>		
Cash and due from banks	\$ 8,265	\$ 9,387
Interest-bearing deposits in financial institutions	85,190	60,388
Federal funds sold	6,730	4,159
Total cash and cash equivalents	<u>100,185</u>	<u>73,934</u>
Securities available for sale, at fair value	173,383	236,605
Securities held to maturity, fair value of \$46,459 and \$46,982 at December 31, 2015 and 2014, respectively	43,094	43,844
Loans held for sale	35,729	15,386
Loans and leases	808,396	713,077
Less allowance for loan and lease losses	<u>(10,132)</u>	<u>(11,282)</u>
Loans, net	<u>798,264</u>	<u>701,795</u>
Premises and equipment, net	4,972	5,662
Restricted equity securities	5,414	5,065
Accrued interest receivable	3,030	2,633
Goodwill	6,219	6,219
Core deposit intangible	125	179
Other real estate owned	216	575
Deferred tax assets	12,849	13,154
Bank owned life insurance	21,299	20,672
Other assets	2,021	2,672
Total assets	<u>\$1,206,800</u>	<u>\$1,128,395</u>
<b>Liabilities and Shareholders' Equity</b>		
Deposits:		
Non-interest-bearing	\$ 190,580	\$ 157,355
Interest-bearing	189,983	115,915
Savings and money market accounts	437,214	484,600
Time	220,683	223,187
Total deposits	<u>1,038,460</u>	<u>981,057</u>
Securities sold under repurchase agreements	3,755	14,837
Federal Home Loan Bank advances	45,000	20,000
Accrued interest payable	177	214
Other liabilities	10,822	9,636
Total liabilities	<u>1,098,214</u>	<u>1,025,744</u>
Shareholders' equity:		
Series A convertible preferred stock, \$1 par value. 5,000,000 shares authorized; 1,609,756 shares issued and outstanding	1,610	1,610
Common stock, voting, \$1 par value. 20,000,000 shares authorized; 8,577,051 and 8,471,516 shares issued and outstanding at December 31, 2015 and 2014, respectively	8,577	8,472
Additional paid-in capital	95,277	94,926
Retained earnings	8,036	477
Accumulated other comprehensive income (loss), net of income tax	<u>(4,914)</u>	<u>(2,834)</u>
Total shareholders' equity	<u>108,586</u>	<u>102,651</u>
Total liabilities and shareholders' equity	<u>\$1,206,800</u>	<u>\$1,128,395</u>

See accompanying notes to financial statements.

**CAPSTAR BANK**  
**Statements of Income**  
**For the years ended December 31, 2015, 2014 and 2013**  
**(In thousands except per share data)**

	2015	2014	2013
Interest income:			
Loans, including fees	\$ 34,845	\$ 32,803	\$ 34,839
Securities:			
Taxable	4,153	4,138	5,325
Tax-exempt	1,080	915	574
Federal funds sold	18	25	12
Restricted equity securities	268	258	259
Interest-bearing deposits in financial institutions	140	148	148
Total interest income	<u>40,504</u>	<u>38,287</u>	<u>41,157</u>
Interest expense:			
Interest-bearing deposits	748	599	517
Savings and money market accounts	2,733	2,754	3,405
Time deposits	2,031	2,323	2,488
Federal funds purchased	24	7	2
Securities sold under agreements to repurchase	15	26	19
Federal Home Loan Bank advances	180	162	145
Total interest expense	<u>5,731</u>	<u>5,871</u>	<u>6,576</u>
Net interest income	34,773	32,416	34,581
Provision for loan and lease losses	1,651	3,869	938
Net interest income after provision for loan and lease losses	<u>33,122</u>	<u>28,547</u>	<u>33,643</u>
Noninterest income:			
Service charges on deposit accounts	910	1,080	774
Loan commitment fees	822	941	587
Net gain on sale of securities	55	13	73
Net gain on sale of loans	5,962	4,067	59
Other noninterest income	1,135	1,318	453
Total noninterest income	<u>8,884</u>	<u>7,419</u>	<u>1,946</u>
Noninterest expense:			
Salaries and employee benefits	19,278	17,474	16,019
Data processing and software	2,317	2,566	1,962
Professional fees	1,469	1,357	1,623
Occupancy	1,538	1,512	1,122
Equipment	1,598	1,233	1,092
Regulatory fees	915	941	963
Other real estate expense	34	243	259
Other operating	3,828	3,236	2,392
Total noninterest expense	<u>30,977</u>	<u>28,562</u>	<u>25,432</u>
Income before income taxes	11,029	7,404	10,157
Income tax expense	3,470	2,412	3,749
Net income	<u>\$ 7,559</u>	<u>\$ 4,992</u>	<u>\$ 6,408</u>
Per share information:			
Basic net income per common share	<u>\$ 0.89</u>	<u>\$ 0.59</u>	<u>\$ 0.75</u>
Diluted net income per common share	<u>\$ 0.73</u>	<u>\$ 0.49</u>	<u>\$ 0.62</u>
Weighted average shares outstanding:			
Basic	<u>8,538,970</u>	<u>8,456,386</u>	<u>8,583,105</u>
Diluted	<u>10,381,895</u>	<u>10,281,044</u>	<u>10,409,750</u>

See accompanying notes to financial statements.

**CAPSTAR BANK**  
**Statements of Comprehensive Income (Loss)**  
**For the years ended December 31, 2015, 2014 and 2013**  
**(In thousands)**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Net income	\$ 7,559	\$ 4,992	\$ 6,408
Other comprehensive income (loss):			
Unrealized gains (losses) on securities available for sale:			
Unrealized holding gain (loss) arising during the period	(946)	3,497	(10,923)
Reclassification adjustment for gains included in net income	(55)	(13)	(73)
Tax effect	383	(1,333)	4,255
Net of tax	<u>(618)</u>	<u>2,151</u>	<u>(6,741)</u>
Unrealized losses on securities transferred to held to maturity:			
Unrealized holding loss arising during the period	—	—	(2,505)
Reclassification adjustment for losses included in net income	167	166	42
Tax effect	(64)	(64)	943
Net of tax	<u>103</u>	<u>102</u>	<u>(1,520)</u>
Unrealized gains (losses) on cash flow hedges:			
Unrealized holding gain (loss) arising during the period	(1,485)	(3,696)	230
Reclassification adjustment for losses included in net income	37	—	—
Tax effect	(117)	1,415	(88)
Net of tax	<u>(1,565)</u>	<u>(2,281)</u>	<u>142</u>
Other comprehensive income (loss)	<u>(2,080)</u>	<u>(28)</u>	<u>(8,119)</u>
Comprehensive income (loss)	<u>\$ 5,479</u>	<u>\$ 4,964</u>	<u>\$ (1,711)</u>

See accompanying notes to financial statements.

**CAPSTAR BANK**

**Statements of Changes in Shareholders' Equity**

**For the years ended December 31, 2015, 2014 and 2013**

**(In thousands, except for share data)**

	Preferred stock	Common Stock		Additional paid-in capital	Retained earnings (accumulated deficit)	Accumulated other comprehensive income (loss)	Total shareholders' equity
		Shares	Amount				
Balance December 31, 2012	\$ 1,610	8,705,283	\$ 8,705	\$ 95,773	\$ (10,923)	\$ 5,313	\$ 100,478
Issuance of restricted common stock, net of forfeitures	—	51,668	52	(52)	—	—	—
Stock-based compensation expense	—	—	—	306	—	—	306
Retirement of common stock	—	(403,864)	(404)	(2,478)	—	—	(2,882)
Net income	—	—	—	—	6,408	—	6,408
Other Comprehensive loss	—	—	—	—	—	(8,119)	(8,119)
Balance December 31, 2013	\$ 1,610	8,353,087	\$ 8,353	\$ 93,549	\$ (4,515)	\$ (2,806)	\$ 96,191
Issuance of restricted common stock, net of forfeitures	—	10,929	11	(11)	—	—	—
Stock-based compensation expense	—	—	—	261	—	—	261
Excess tax benefit from stock compensation	—	—	—	12	—	—	12
Issuance of common stock pursuant to acquisition of Farmington Financial Group, LLC	—	100,000	100	1,048	—	—	1,148
Exercise of employee common stock options	—	7,500	8	67	—	—	75
Net income	—	—	—	—	4,992	—	4,992
Other Comprehensive loss	—	—	—	—	—	(28)	(28)
Balance December 31, 2014	1,610	8,471,516	8,472	94,926	477	(2,834)	102,651
Issuance of restricted common stock, net of forfeitures	—	104,535	104	(104)	—	—	—
Stock-based compensation expense	—	—	—	438	—	—	438
Excess tax benefit from stock compensation	—	—	—	8	—	—	8
Exercise of employee common stock options	—	1,000	1	9	—	—	10
Net income	—	—	—	—	7,559	—	7,559
Other Comprehensive loss	—	—	—	—	—	(2,080)	(2,080)
Balance December 31, 2015	\$ 1,610	8,577,051	\$ 8,577	\$ 95,277	\$ 8,036	\$ (4,914)	\$ 108,586

See accompanying notes to financial statements.



**CAPSTAR BANK**  
**Statements of Cash Flows**

**For the years ended December 31, 2015, 2014 and 2013**

**(In thousands)**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Cash flows from operating activities:</b>			
Net income	\$ 7,559	\$ 4,992	\$ 6,408
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Provision for loan and lease losses	1,651	3,869	938
Accretion of discounts on acquired loans and deferred fees	(2,237)	(1,940)	(3,095)
Depreciation and amortization	506	626	656
Net amortization of premiums on investment securities	1,467	1,233	2,243
Securities gains, net	(55)	(13)	(73)
Net gain on sale of loans and leases	(5,962)	(4,067)	(59)
Net (gain) loss on disposal of premises and equipment	(31)	1	10
Net loss on sale and write downs of other real estate owned	4	178	170
Stock-based compensation	438	261	306
Excess tax benefit from stock compensation	(8)	(12)	—
Deferred income tax expense	508	449	1,025
Origination of loans held for sale	(422,323)	(253,099)	—
Proceeds from loans held for sale	407,941	245,891	—
Net (increase) decrease in accrued interest receivable and other assets	103	(867)	(737)
Net increase (decrease) in accrued interest payable and other liabilities	1,093	(4,484)	592
Net cash provided by (used in) operating activities	<u>(9,346)</u>	<u>(6,982)</u>	<u>8,384</u>
<b>Cash flows from investing activities:</b>			
Activities in securities available for sale:			
Purchases	(57,704)	(163,195)	(253,161)
Sales	90,445	161,603	163,173
Maturities, prepayments and calls	28,152	25,777	56,972
Activities in securities held to maturity:			
Purchases	—	(2,512)	(7,797)
Maturities, prepayments and calls	833	704	152
Purchase of restricted equity securities	(349)	(170)	(227)
Proceeds from the sale of restricted equity securities	—	—	156
Net increase in loans	(95,884)	(85,893)	(31,347)
Purchase of premises and equipment	(31)	(303)	(270)
Proceeds from the sale of premises and equipment	233	—	—
Proceeds from the sale of other real estate	355	790	1,253
Proceeds from the sale of loans and leases	—	—	30,702
Purchase of bank owned life insurance	—	(5,000)	(15,000)
Cash paid in the acquisition of Farmington Financial Group, LLC	—	(3,000)	—
Net cash used in investing activities	<u>(33,950)</u>	<u>(71,199)</u>	<u>(55,394)</u>
<b>Cash flows from financing activities:</b>			
Net increase (decrease) in deposits	57,404	101,892	(40,618)
Proceeds from Federal Home Loan Bank advances	25,000	—	20,000
Retirement of common stock	—	—	(2,903)
Exercise of common stock options	10	75	—
Excess tax benefit from stock compensation	8	12	—
Termination of interest rate swap agreement	(1,793)	—	—
Net increase (decrease) in repurchase agreements	(11,082)	5,343	2,042
Net cash provided by (used in) financing activities	<u>69,547</u>	<u>107,322</u>	<u>(21,479)</u>
Net increase (decrease) in cash and cash equivalents	26,251	29,141	(68,489)
Cash and cash equivalents at beginning of year	73,934	44,793	113,282
Cash and cash equivalents at end of year	<u>\$ 100,185</u>	<u>\$ 73,934</u>	<u>\$ 44,793</u>
<b>Supplemental disclosures of cash paid:</b>			
Interest paid	\$ 5,768	\$ 5,926	\$ 6,653
Income taxes	2,756	1,768	3,416
<b>Supplemental disclosures of noncash transactions:</b>			
Transfer of loans to other real estate	\$ —	\$ 92	\$ 1,052
Loans charged off to the allowance for loan and lease losses	3,206	1,147	1,193
Transfer of investment securities from available for sale to held to maturity	—	—	36,789
Common stock issued in acquisition of Farmington Financial Group, LLC	—	1,148	—

See accompanying notes to financial statements.

**CAPSTAR BANK**  
**Notes to Financial Statements**  
**December 31, 2015 and 2014**

**(1) Summary of Significant Accounting Policies**

The accounting and reporting policies of CapStar Bank (the Bank) are in accordance with U.S. generally accepted accounting principles (GAAP) and conform to general practices within the banking industry. The following is a brief summary of the more significant policies.

*(a) Nature of Operations*

The Bank provides full banking services to consumer and corporate customers located primarily in Davidson, Sumner, Williamson, and the surrounding counties in Tennessee. The Bank operates under a state bank charter and is a member of the Federal Reserve System. As a state member bank, the Bank is subject to regulations of the Tennessee Department of Financial Institutions, the Board of Governors of the Federal Reserve System (the "Federal Reserve"), and the Federal Deposit Insurance Corporation.

*(b) Estimates*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan and lease losses, the fair value of securities available for sale, the valuations of other real estate owned, deferred tax assets and the contingent liability related to the acquisition of Farmington Financial Group, LLC.

*(c) Cash and Cash Equivalents*

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, interest-bearing deposits in financial institutions and federal funds sold. Generally, federal funds sold are purchased and sold for one-day periods. The Bank maintains deposits in excess of the federal insurance amounts with other financial institutions. Management makes deposits only with financial institutions it considers to be financially sound.

*(d) Securities*

The Bank accounts for securities under the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 320, *Investments – Debt and Equity Securities*. Under the provisions of FASB ASC 320, securities are to be classified in three categories and accounted for as follows:

*Securities Held to Maturity*

Debt securities are classified as held to maturity securities when the Bank has the positive intent and ability to hold the securities to maturity. Securities held to maturity are carried at amortized cost.

*Trading Securities*

Debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings. No securities have been classified as trading securities.

**CAPSTAR BANK**  
**Notes to Financial Statements**  
**December 31, 2015 and 2014**

Securities Available for Sale

Debt and equity securities not classified as either held to maturity securities or trading securities are classified as available for sale securities. Securities available for sale are carried at estimated fair value with unrealized gains and losses excluded from earnings and reported as a separate component of shareholders' equity in other comprehensive income (loss).

Interest income includes amortization of purchase premiums or discounts. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage backed securities where prepayments are anticipated. Realized gains and losses from the sales of securities are recorded on the trade date and determined using the specific-identification method.

Management evaluates securities for other-than-temporary impairment (OTTI) on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, the financial condition and near-term prospects of the issuer and any collateral underlying the relevant security. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income (loss). The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

*(e) Loans Held for Sale*

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. Realized gains and losses are recognized when legal title of the loan has transferred to the investor and sales proceeds have been received and are reflected in the accompanying statement of income in gain on sale of loans, net of related costs such as compensation expenses. The Bank does not securitize mortgage loans and does not retain the servicing for loans sold.

*(f) Loans*

The Bank has six classes of loans for financial reporting purposes: commercial real estate, consumer real estate, construction and land development, commercial and industrial, consumer and other. The appropriate classification is determined based on the underlying collateral utilized to secure each loan.

Commercial real estate loans are categorized as such based on investor exposures where repayment is largely dependent upon the operation, refinance, or sale of the underlying real estate. Commercial real estate also includes owner occupied commercial real estate.

Consumer real estate consists primarily of 1-4 family residential properties including home equity lines of credit.

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**Notes to Financial Statements**  
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Construction and land development loans include loans where the repayment is dependent on the successful operation of the related real estate project. Construction and land development loans include 1-4 family construction projects and commercial construction endeavors such as warehouses, apartments, office and retail space and land acquisition and development.

Commercial and industrial loans include loans to business enterprises issued for commercial, industrial and/or other professional purposes.

Consumer loans include all loans issued to individuals not included in the consumer real estate class.

Other loans include all loans not included in the classes of loans above and leases.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of purchase premiums and discounts, deferred loan fees and costs, and an allowance for loan and lease losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

The accrual of interest on loans secured by real estate and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well secured and in process of collection. Consumer loans and any accrued interest is typically charged off no later than 180 days past due. Past-due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful and collection is highly questionable. Amortization of deferred loan fees is discontinued when a loan is placed on nonaccrual status.

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual status. Under the cost-recovery method, interest income is not recognized until the loan balance is reduced to zero. Under the cash-basis method, interest income is recorded when the payment is received in cash. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Loans can also be returned to accrual status when they become well secured and in the process of collection.

*(g) Acquired Loans*

Acquired loans are accounted for under the acquisition method of accounting. The acquired loans are recorded at their estimated fair values as of the acquisition date. Fair value of acquired loans is determined using a discounted cash flow model based on assumptions regarding the amount and timing of principal and interest payments, estimated prepayments, estimated default rates, estimated loss severity in the event of defaults, and current market rates. Estimated credit losses are included in the determination of fair value; therefore, an allowance for loan and lease losses is not recorded on the acquisition date.

An acquired loan is considered impaired when there is evidence of credit deterioration since origination and it is probable at the date of acquisition that the Bank will be unable to collect all contractually required payments.

Acquired impaired loans are accounted for individually or aggregated into pools of loans based on common risk characteristics such as loan type and risk rating. The Bank estimates the amount and timing of expected cash

**CAPSTAR BANK**

**Notes to Financial Statements**

**December 31, 2015 and 2014**

flows for each loan or pool, and the expected cash flows in excess of amount paid (fair value) is recorded as interest income over the remaining life of the loan or pool (accretable yield). The excess of the loan's or pool's contractual principal and interest over expected cash flows is not recorded (nonaccretable difference). Over the life of the loan or pool, expected cash flows continue to be estimated. If the present value of expected cash flows is less than the carrying amount, a loss is recorded as a provision for loan and lease losses. If the present value of expected cash flows is greater than the carrying amount, it is recognized as part of future interest income.

Acquired non-impaired loans are recorded at their initial fair value and adjusted for subsequent advances, pay downs, amortization or accretion of any premium or discount on purchase, charge-offs and additional provisioning that may be required.

*(h) Allowance for Loan and Lease Losses*

The allowance for loan and lease losses is maintained at a level that management believes to be adequate to absorb expected loan and lease losses inherent in the loan portfolio as of the balance sheet date. The allowance for loan and lease losses is a valuation allowance for estimated credit losses inherent in the loan and lease portfolio, increased by the provision for loan and lease losses and decreased by charge-offs, net of recoveries. Quarterly, the Bank estimates the allowance balance required using peer group loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. The Bank's historical loss experience is based on the actual loss history by class of loan for comparable peer institutions due to the Bank's limited loss history. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off. Loan and lease losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries are credited to the allowance for loan and lease losses.

The Bank also considers the results of the external independent loan review when assessing the adequacy of the allowance and incorporates relevant loan review results in the loan impairment and overall adequacy of allowance determinations. Furthermore, regulatory agencies periodically review the Bank's allowance for loan and lease losses and may require the Bank to record adjustments to the allowance based on their judgment of information available to them at the time of their examinations.

Additional considerations are included in determination of the adequacy of the allowance based on the continuous review conducted by relationship managers and credit department personnel. The Bank's loan policy requires that each customer relationship wherein total exposure exceeds \$1.5 million be subject to a formal credit review at least annually. Should these reviews identify potential collection concerns, appropriate adjustments to the allowance may be made.

The allowance consists of specific and general components as discussed below. While the allowance consists of separate components, these terms are primarily used to describe a process. Both portions of the allowance are available to provide for inherent losses in the entire portfolio.

*Specific Component*

The specific component relates to loans that are individually determined to be impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the

**CAPSTAR BANK**

**Notes to Financial Statements**

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contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings (TDRs) and classified as impaired.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Loans meeting any of the following criteria are individually evaluated for impairment: risk rated substandard (as defined in Note 4), on non-accrual status or past due greater than 90 days. If a loan is impaired, a portion of the allowance is allocated based on the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral less costs to sell if repayment is expected solely from the collateral. Changes to the valuation allowance are recorded as a component of the provision for loan and lease losses.

Troubled debt restructurings are individually evaluated for impairment and included in the separately identified impairment disclosures. TDRs are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a TDR is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral less costs to sell.

General Component

The general component of the allowance for loan and lease losses covers loans that are collectively evaluated for impairment. Large groups of homogeneous loans are collectively evaluated for impairment, and accordingly, they are not included in the separately identified impairment disclosures. The general allowance component also includes loans that are individually identified for impairment evaluation but are not considered impaired. The general component is based on historical loss experience adjusted for current factors. Due to the Bank's limited loss history, the historical loss experience is based on the actual loss history by class of loan for comparable peer institutions.

The Bank utilized a 16 quarter look-back period as of December 31, 2014. Subsequently, the Bank increased its look-back period for a total of 24 quarters as of December 31, 2015. In this current economic environment, management believes the extension of the Bank's look-back period was appropriate in order to have sufficient loss observations to develop a reliable loss estimate.

The actual loss experience is supplemented with other environmental factors that capture changes in trends, conditions, and other relevant factors that may cause estimated credit losses as of the evaluation date to differ from historical loss experience. The allocation for environmental factors is by nature subjective. These amounts represent estimated probable inherent credit losses, which exist but have not yet been identified. The environmental factors include consideration of the following: changes in lending policies and procedures, economic conditions, nature and volume of the portfolio, experience of lending management, volume and severity of past due loans, quality of the loan review system, value of underlying collateral for collateral dependent loans, concentrations, and other external factors.

**CAPSTAR BANK**  
**Notes to Financial Statements**  
**December 31, 2015 and 2014**

*(i) Transfers of Financial Assets*

Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Bank, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

*(j) Premises and Equipment*

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed principally by the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized by the straight-line method based on the shorter of the asset lives or the expected lease terms. Useful lives for premises and equipment range from three to thirty-nine years.

These assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

The Bank is the lessee with respect to several office locations. All such leases are accounted for as operating leases within the accompanying financial statements. These leases include rent escalation clauses. The Bank expenses the costs associated with these escalating payments over the life of the expected lease term using the straight-line method. As of December 31, 2015, the deferred liability associated with these escalating rentals was approximately \$222,000 and is included in other liabilities in the accompanying balance sheets.

*(k) Bank Owned Life Insurance*

The Bank has purchased life insurance policies on certain key executives. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

*(l) Securities Sold under Agreements to Repurchase*

The Bank enters into sales of securities under agreements to repurchase at a specified future date. Such repurchase agreements are considered financing arrangements and, accordingly, the obligation to repurchase assets sold is reflected as a liability in the balance sheets of the Bank. Repurchase agreements are collateralized by debt securities which are owned and under the control of the Bank.

*(m) Goodwill and Other Intangible Assets*

Goodwill resulting from business combinations is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually or more frequently if events and circumstances exist that indicate that a goodwill impairment test should be performed. The Bank has selected October 31<sup>st</sup> as the date to perform the

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annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on the balance sheet.

Other intangible assets consist of core deposit intangible assets arising from whole bank acquisitions and are amortized on an accelerated method over their estimated useful lives, which range from five to six years.

*(n) Other Real Estate Owned*

Other real estate owned (OREO) includes assets that have been acquired in satisfaction of debt through foreclosure and are recorded at estimated fair value less the estimated cost of disposition. Fair value is based on independent appraisals and other relevant factors. Valuation adjustments required at foreclosure are charged to the allowance for loan and lease losses. Subsequent to foreclosure, additional losses resulting from the periodic revaluation of the property are charged to other real estate expense. Costs of operating and maintaining the properties and any gains or losses recognized on disposition are also included in other real estate expense. Improvements made to properties are capitalized if the expenditures are expected to be recovered upon the sale of the properties.

*(o) Restricted Equity Securities*

The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest additional amounts. FHLB stock is carried at cost, classified as a restricted equity security, and periodically evaluated for impairment based on an assessment of the ultimate recovery of par value. Both cash and stock dividends are reported as income.

The Bank is also a member of the Federal Reserve System, and as such, holds stock of the Federal Reserve Bank of Atlanta (Federal Reserve Bank). Federal Reserve Bank stock is carried at cost, classified as a restricted equity security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

*(p) Income Taxes*

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

The Bank's tax returns remain open to audit under the statute of limitations by the IRS and various states for the years ended December 31, 2012 through 2015.

It is the Bank's policy to recognize interest and/or penalties related to income tax matters in income tax expense.



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*(q) Stock-Based Compensation*

Stock-based compensation expense is recognized based on the fair value of the portion of stock-based payment awards that are ultimately expected to vest, reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods, if actual forfeitures differ from those estimates. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Bank's common stock at the date of grant is used for restricted stock awards. Compensation expense is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation expense is recognized on a straight-line basis over the requisite service period for the entire award. For awards with performance vesting criteria, anticipated performance is projected to determine the number of awards expected to vest, and the corresponding aggregate expense is adjusted to reflect the elapsed portion of the performance period.

*(r) Advertising Costs*

Advertising costs are expensed as incurred. Advertising expense was approximately \$310,000, \$460,000 and \$203,000 for the years ended December 31, 2015, 2014 and 2013, respectively.

*(s) Off-Balance Sheet Financial Instruments*

In the ordinary course of business, the Bank has entered into off-balance-sheet financial instruments consisting of commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

*(t) Derivative Instruments*

Derivative instruments are recorded on the balance sheet at their respective fair values. The accounting for changes in fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship. If the derivative instrument is not designated as a hedge, the gain or loss on the derivative instrument is recognized in earnings in the period of change.

The Bank enters into interest rate swaps (swaps) to facilitate customer transactions and meet their financing needs. Upon entering into these arrangements to meet customer needs, the Bank enters into offsetting positions with large U.S. financial institutions in order to minimize risk to the Bank. These swaps are derivatives, but are not designated as hedging instruments.

The Bank also has forward starting cash flow hedges to manage its future interest rate exposure. These derivative contracts have been designated as hedges and, as such, changes in the fair value of these derivative instruments are recorded in other comprehensive income (loss). The Bank prepares written hedge documentation for all derivatives which are designated as hedges. The written hedge documentation includes identification of, among other items, the risk management objective, hedging instrument, hedged item and methodologies for assessing and measuring hedge effectiveness and ineffectiveness, along with support for management's assertion that the hedge will be highly effective.

The effective portion of the changes in the fair value of a derivative that is highly effective and that has been designated and qualifies as a cash flow hedge are initially recorded in accumulated other comprehensive income (loss) and subsequently reclassified into earnings in the same period during which the hedged item affects earnings. The ineffective portion, if any, would be recognized in current period earnings.

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The Bank discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the cash flows of the hedged item, the derivative is settled or terminates, or treatment of the derivative as a hedge is no longer appropriate or intended. When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as non-interest income. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains or losses that were accumulated in other comprehensive income (loss) are amortized into earnings over the same periods which the hedged transactions will affect earnings.

Cash flows resulting from the derivative financial instruments that are accounted for as hedges are classified in the cash flow statement in the same category as the cash flows of the items being hedged.

*(u) Comprehensive Income (Loss)*

Comprehensive income (loss) consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale and unrealized gains and losses on cash flow hedges which are also recognized as separate components of equity.

*(v) Fair Value Measurements*

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

*(w) Restriction on Cash Balances*

Regulation D of the Federal Reserve Act requires that banks maintain reserve balances with their applicable Federal Reserve Bank based principally on the type and amount of their deposits. The Bank was required to have a reserve balance of \$27,105,000 and \$20,212,000 at December 31, 2015 and 2014, respectively. The reserve balance that the Bank must maintain at the Federal Reserve Bank of Atlanta is included in interest-bearing deposits in financial institutions as of December 31, 2015 and 2014.

*(x) Subsequent Events*

The Bank has evaluated subsequent events for recognition and disclosure through July 1, 2016, which is the date the financial statements were available to be issued.

*(y) Income Per Common Share*

Basic net income per share available to common stockholders (EPS) is computed by dividing net income available to common stockholders by the weighted average common shares outstanding for the period. Diluted EPS reflects the dilution that could occur if securities or other contracts to issue common stock were exercised or converted. The difference between basic and diluted weighted average shares outstanding is attributable to convertible preferred stock, common stock options and warrants. The dilutive effect of outstanding convertible preferred stock, common stock options and warrants is reflected in diluted EPS by application of the treasury stock method.

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For the years ended December 31, 2015, 2014, and 2013 respectively, approximately 203,000, 133,000 and 188,000 of antidilutive stock options were excluded from the diluted earnings per common share calculation under the treasury stock method.

The following is a summary of the basic and diluted earnings per share calculation for each of the years in the three-year period ended December 31, 2015 (in thousands except share data):

	2015	2014	2013
<b>Basic net income per share calculation:</b>			
Numerator – Net income	\$ 7,559	\$ 4,992	\$ 6,408
Denominator – Average common shares outstanding	8,538,970	8,456,386	8,583,105
Basic net income per share	<u>\$ 0.89</u>	<u>\$ 0.59</u>	<u>\$ 0.75</u>
<b>Diluted net income per share calculation:</b>			
Numerator – Net income	\$ 7,559	\$ 4,992	\$ 6,408
Denominator – Average common shares outstanding	8,538,970	8,456,386	8,583,105
Dilutive shares contingently issuable	1,842,925	1,824,658	1,826,645
Average diluted common shares outstanding	<u>10,381,895</u>	<u>10,281,044</u>	<u>10,409,750</u>
Diluted net income per share	<u>\$ 0.73</u>	<u>\$ 0.49</u>	<u>\$ 0.62</u>

*(z) Recently Issued Accounting Pronouncements*

ASU 2014-09, Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers, which outlines a single comprehensive model for use in accounting for revenue arising from contracts with customers, and supersedes most current revenue recognition guidance. The ASU was originally effective for fiscal years and interim periods beginning after December 15, 2016. In August 2015, FASB issued ASU 2015-14 which delays the effective date. The effective date will be annual reporting periods beginning after December 15, 2017, and the interim periods within that year. The Bank is evaluating the potential impact of adoption of ASU 2014-09.

ASU 2016-02, Leases

In February 2016, the FASB issued guidance in the form of a FASB ASU, “Leases”. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain optional practical expedients available. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Bank is evaluating the impact of the pending adoption of the new standard on the Bank’s financial statements and disclosures.

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ASU 2016-13, Financial Instruments – Credit Losses

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments–Credit Losses, which outlines changes to replace the incurred loss impairment methodology currently in place with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to estimate credit losses. The ASU is effective for fiscal years and interim periods beginning after December 15, 2019. The adoption of ASU 2016-13 is expected to have a significant impact on the Bank’s operations and financial statements.

*(aa) Reclassifications*

Certain reclassifications have been made to the 2013 and 2014 balances to conform to the presentation for 2015. The reclassifications had no effect on net income for any of the periods presented.

**(2) Business Combinations**

On February 3, 2014, the Bank completed its acquisition of Farmington Financial Group, LLC (Farmington), a Tennessee limited liability company headquartered in Nashville, Tennessee. Farmington primarily originates residential real estate loans that are sold in the secondary market. The Bank acquired all the assets and liabilities of Farmington for approximately \$6.4 million in total consideration. The operations of Farmington are included in the Bank’s financial statements beginning February 3, 2014. Pre-acquisition amounts in 2014 are not significant.

Goodwill of approximately \$6.2 million arising from the acquisition consisted largely of synergies and the cost savings resulting from the combining of the operations of the companies. At the time of acquisition, the amount of goodwill that was expected to be deductible for income taxes purposes was approximately \$4.0 million. The following table summarizes the consideration paid for Farmington and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date (in thousands):

Consideration:	
Cash	\$3,000
Equity instruments	1,148
Contingent consideration	2,206
Fair value of total consideration transferred	<u>\$6,354</u>
Fair value of assets acquired:	
Loans held for sale	\$4,111
Premises and equipment	102
Total assets acquired	<u>4,213</u>
Fair value of liabilities assumed:	
Warehouse line of credit	3,996
Other liabilities	31
Total liabilities assumed	<u>4,027</u>
Total identifiable net assets acquired	186
Goodwill	<u>6,168</u>
	<u>\$6,354</u>

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The fair value of loans held for sale was determined based on contracts with investors. Fair values for all other assets and liabilities assumed was based upon book value, which approximated fair value. Contingent consideration is based on a five year earn-out, payable annually. As of the acquisition date the total contingent consideration payable was estimated to range from \$2.0 million to \$4.2 million on an undiscounted basis. The fair value of contingent consideration is based on an income approach utilizing a discounted cash flow model.

**(3) Investment Securities**

Investment securities have been classified in the balance sheet according to management's intent. The Bank's classification of securities at December 31, 2015 and 2014 was as follows (in thousands):

	December 31, 2015			Estimated fair value
	Amortized Cost	Gross unrealized gains	Gross unrealized (losses)	
<b>Securities available for sale:</b>				
U. S. government-sponsored agencies	\$ 19,562	\$ 16	\$ (36)	\$ 19,542
Obligations of states and political subdivisions	13,776	99	(7)	13,868
Mortgage-backed securities:				
Residential mortgage pass through securities:				
Guaranteed by GNMA	4,756	—	(63)	4,693
Issued by FNMA and FHLMC	70,582	—	(888)	69,694
Other residential mortgage-backed securities:				
Issued or guaranteed by FNMA, FHLMC, or GNMA	44,490	13	(510)	43,993
Asset-backed securities	22,814	—	(1,221)	21,593
Total	<u>\$175,980</u>	<u>\$ 128</u>	<u>\$ (2,725)</u>	<u>\$173,383</u>
<b>Securities held to maturity:</b>				
Obligations of states and political subdivisions	\$ 37,005	\$ 3,245	\$ —	\$ 40,250
Mortgage-backed securities:				
Residential mortgage pass through securities:				
Guaranteed by GNMA	2,277	55	—	2,332
Issued by FNMA and FHLMC	3,812	65	—	3,877
Total	<u>\$ 43,094</u>	<u>\$ 3,365</u>	<u>\$ —</u>	<u>\$ 46,459</u>

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	December 31, 2014			Estimated fair value
	Amortized Cost	Gross unrealized gains	Gross unrealized (losses)	
<b>Securities available for sale:</b>				
U. S. government-sponsored agencies	\$ 15,590	\$ 18	\$ (26)	\$ 15,582
Obligations of states and political subdivisions	8,753	—	(88)	8,665
<b>Mortgage-backed securities:</b>				
<b>Residential mortgage pass through securities:</b>				
Guaranteed by GNMA	3,902	—	(29)	3,873
Issued by FNMA and FHLMC	102,390	91	(630)	101,851
<b>Other residential mortgage-backed securities:</b>				
Issued or guaranteed by FNMA, FHLMC, or GNMA	75,811	85	(620)	75,276
<b>Commercial mortgage-backed securities:</b>				
Issued by nonagencies	2,819	—	(86)	2,733
Asset-backed securities	23,930	—	(319)	23,611
Other debt securities	5,006	8	—	5,014
Total	<u>\$238,201</u>	<u>\$ 202</u>	<u>\$ (1,798)</u>	<u>\$236,605</u>
<b>Securities held to maturity:</b>				
Obligations of states and political subdivisions	\$ 36,923	\$ 2,927	\$ —	\$ 39,850
<b>Mortgage-backed securities:</b>				
<b>Residential mortgage pass through securities:</b>				
Guaranteed by GNMA	2,791	97	—	2,888
Issued by FNMA and FHLMC	4,130	114	—	4,244
Total	<u>\$ 43,844</u>	<u>\$ 3,138</u>	<u>\$ —</u>	<u>\$ 46,982</u>

During the third quarter of 2013, approximately \$36,789,000 of available for sale securities were transferred to the held to maturity category. The transfers of the securities into the held to maturity category from the available for sale category were made at fair value at the date of transfer. The unrealized holding loss at the date of the transfer continues to be reported in a separate component of shareholders' equity and is being amortized over the remaining life of the securities as an adjustment of yield in a manner consistent with the amortization of the premiums and discounts.

The amortized cost and fair value of debt and equity securities at December 31, 2015, by contractual maturity, are shown below (in thousands). Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

	Amortized cost	Estimated fair value
<b>Available for sale:</b>		
Due one to five years	\$ 10,846	\$ 10,837
Due five to ten years	22,492	22,573
Mortgage-backed securities	119,828	118,380
Asset-backed securities	22,814	21,593
	<u>\$ 175,980</u>	<u>\$ 173,383</u>

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	<u>Amortized cost</u>	<u>Estimated fair value</u>
<b>Held to maturity:</b>		
Due one to five years	\$ 9,695	\$ 10,621
Due five to ten years	21,582	23,282
Due beyond ten years	5,728	6,347
Mortgage-backed securities	6,089	6,209
	<u>\$ 43,094</u>	<u>\$ 46,459</u>

Results from sales of debt and equity securities were as follows (in thousands):

	<u>Year ended December 31</u>	
	<u>2015</u>	<u>2014</u>
<b>Available for sale:</b>		
Proceeds from sales of securities	\$ 90,445	\$ 161,603
Gross realized gains	261	520
Gross realized losses	(206)	(507)

Securities with a carrying value of \$146,921,000 and \$148,272,000 at December 31, 2015 and 2014, respectively, were pledged to collateralize public deposits, securities sold under repurchase agreements, derivative positions and Federal Home Loan Bank advances.

At December 31, 2015 and 2014, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders' equity.

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The following tables show the Bank's securities with unrealized losses, aggregated by major security type and length of time in a continuous unrealized loss position (in thousands):

	Less than 12 months		12 months or more		Total	
	Estimated fair value	Gross unrealized (losses)	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses
<b>December 31, 2015</b>						
Available for sale:						
U. S. government-sponsored agencies	\$ 13,100	\$ (36)	\$ —	\$ —	\$ 13,100	\$ (36)
Obligations of states and political subdivisions	3,099	(7)	—	—	3,099	(7)
Mortgage-backed securities:						
Residential mortgage pass through securities:						
Guaranteed by GNMA	4,693	(63)	—	—	4,693	(63)
Issued by FNMA and FHLMC	64,249	(789)	5,446	(99)	69,695	(888)
Other residential mortgage-backed securities:						
Issued or guaranteed by FNMA, FHLMC, or GNMA	28,212	(215)	10,814	(295)	39,026	(510)
Asset-backed securities	—	—	21,593	(1,221)	21,593	(1,221)
Total available for sale	<u>\$113,353</u>	<u>\$ (1,110)</u>	<u>\$ 37,853</u>	<u>\$ (1,615)</u>	<u>\$ 151,206</u>	<u>\$ (2,725)</u>

<b>December 31, 2014</b>						
Available for sale:						
U. S. government-sponsored agencies	\$ 10,542	\$ (26)	\$ —	\$ —	\$ 10,542	\$ (26)
Obligations of states and political subdivisions	6,636	(88)	—	—	6,636	(88)
Mortgage-backed securities:						
Residential mortgage pass through securities:						
Guaranteed by GNMA	—	—	3,873	(29)	3,873	(29)
Issued by FNMA and FHLMC	23,178	(94)	38,805	(536)	61,983	(630)
Other residential mortgage-backed securities:						
Issued or guaranteed by FNMA, FHLMC, or GNMA	39,931	(163)	16,675	(457)	56,606	(620)
Commercial mortgage-backed securities:						
Issued by nonagencies	—	—	2,733	(86)	2,733	(86)
Asset-backed securities	—	—	23,611	(319)	23,611	(319)
Total available for sale	<u>\$ 80,287</u>	<u>\$ (371)</u>	<u>\$ 85,697</u>	<u>\$ (1,427)</u>	<u>\$ 165,984</u>	<u>\$ (1,798)</u>

Declines in the fair value of securities below their cost that are deemed to be other-than-temporary are reflected in earnings as realized losses to the extent the impairment is related to credit losses. The amount of the impairment of available for sale securities related to other factors is recognized in other comprehensive income



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(loss). In estimating other-than-temporary impairment losses, management considers, among other things, the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer and the intent and ability of the Bank to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value. The unrealized losses shown above are primarily due to increases in market rates over the yields available at the time of purchase of the underlying securities and not credit quality. Because the Bank does not intend to sell these securities and it is more likely than not that the Bank will not be required to sell the securities before recovery of their amortized cost bases, which may be maturity, the Bank does not consider these securities to be other than temporarily impaired at December 31, 2015. There were no other-than-temporary impairments for the years ended December 31, 2015 and 2014.

**(4) Loans and Allowance for Loan and Lease Losses**

Loans at December 31, 2015 and 2014 were as follows (in thousands):

	<u>2015</u>	<u>2014</u>
Commercial real estate:	\$ 251,197	\$ 219,793
Consumer real estate	93,785	77,688
Construction and land development	52,522	46,193
Commercial and industrial	353,442	333,613
Consumer	8,668	7,911
Other	50,197	29,393
<b>Total</b>	<b>809,811</b>	<b>714,591</b>
Less net unearned income	<u>(1,415)</u>	<u>(1,514)</u>
	808,396	713,077
Allowance for loan and lease losses	<u>(10,132)</u>	<u>(11,282)</u>
	<u><b>\$ 798,264</b></u>	<u><b>\$ 701,795</b></u>

At December 31, 2015, variable-rate and fixed-rate loans totaled \$401,800,000 and \$408,011,000, respectively. At December 31, 2014, variable-rate and fixed-rate loans totaled \$292,777,000 and \$421,814,000, respectively. Fixed-rate loans include certain variable-rate loans that have reached their respective floor rates.

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The following table details the activity in the allowance for loan and lease losses by loan classification from December 31, 2012 to December 31, 2015 (in thousands):

	Commercial real estate	Consumer real estate	Construction and land development	Commercial and industrial	Consumer	Other	Total
Balances, December 31, 2012	\$ 1,178	\$ 624	\$ 191	\$ 5,526	\$ 159	\$ 536	\$ 8,214
Charged-off loans	(1)	(593)	(36)	(290)	(273)	—	(1,193)
Recoveries	—	23	—	381	96	—	500
Provision for loan losses	231	634	177	253	99	(456)	938
Balances, December 31, 2013	\$ 1,408	\$ 688	\$ 332	\$ 5,870	\$ 81	\$ 80	\$ 8,459
Charged-off loans	(92)	(57)	—	(816)	(182)	—	(1,147)
Recoveries	—	21	—	52	28	—	101
Provision for loan losses	219	(31)	76	3,434	148	23	3,869
Balances, December 31, 2014	1,535	621	408	8,540	75	103	11,282
Charged-off loans	—	(173)	—	(3,033)	—	—	(3,206)
Recoveries	31	68	—	299	7	—	405
Provision for loan losses	1,313	452	506	(1,113)	21	472	1,651
Balances, December 31, 2015	<u>\$ 2,879</u>	<u>\$ 968</u>	<u>\$ 914</u>	<u>\$ 4,693</u>	<u>\$ 103</u>	<u>\$ 575</u>	<u>\$10,132</u>

The following table presents the balance in the allowance for loan and lease losses and the recorded investment in loans by loan classification and based on impairment method as of December 31, 2015 and 2014 (in thousands):

December 31, 2015	Allowance for loan and lease losses			Total
	Individually evaluated for impairment	Collectively evaluated for impairment	Acquired with deteriorated credit quality	
Commercial real estate	\$ 565	\$ 2,314	\$ —	\$ 2,879
Consumer real estate	—	968	—	968
Construction and land development	—	914	—	914
Commercial and industrial	—	4,693	—	4,693
Consumer	—	103	—	103
Other	—	575	—	575
Total	<u>\$ 565</u>	<u>\$ 9,567</u>	<u>\$ —</u>	<u>\$10,132</u>

	Loans			Total
	Individually evaluated for impairment	Collectively evaluated for impairment	Acquired with deteriorated credit quality	
Commercial real estate	\$ 1,948	\$ 249,249	\$ —	\$251,197
Consumer real estate	604	93,181	—	93,785
Construction and land development	—	52,522	—	52,522
Commercial and industrial	—	353,442	—	353,442
Consumer	—	8,543	—	8,543
Other	125	50,197	—	50,322
Total	<u>\$ 2,677</u>	<u>\$ 807,134</u>	<u>\$ —</u>	<u>\$809,811</u>

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	<b>Allowance for loan and lease losses</b>			<b>Total</b>
	<b>Individually evaluated for impairment</b>	<b>Collectively evaluated for impairment</b>	<b>Acquired with deteriorated credit quality</b>	
Commercial real estate	\$ 285	\$ 1,250	\$ —	\$ 1,535
Consumer real estate	173	448	—	621
Construction and land development	—	235	173	408
Commercial and industrial	2,400	6,140	—	8,540
Consumer	—	75	—	75
Other	—	103	—	103
<b>Total</b>	<b>\$ 2,858</b>	<b>\$ 8,251</b>	<b>\$ 173</b>	<b>\$ 11,282</b>

	<b>Loans</b>			<b>Total</b>
	<b>Individually evaluated for impairment</b>	<b>Collectively evaluated for impairment</b>	<b>Acquired with deteriorated credit quality</b>	
Commercial real estate	\$ 2,165	\$ 217,628	\$ —	\$ 219,793
Consumer real estate	592	77,056	40	77,688
Construction and land development	—	45,058	1,135	46,193
Commercial and industrial	3,806	329,807	—	333,613
Consumer	—	7,911	—	7,911
Other	—	29,393	—	29,393
<b>Total</b>	<b>\$ 6,563</b>	<b>\$ 706,853</b>	<b>\$ 1,175</b>	<b>\$ 714,591</b>

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(Continued)

**CAPSTAR BANK**  
**Notes to Financial Statements**  
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The following table presents information related to impaired loans as of and for the years ended December 31, 2015 and 2014 (in thousands):

	December 31, 2015			Year ended December 31, 2015	
	Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment	Interest income recognized
With no related allowance recorded:					
Commercial real estate	\$ —	\$ —	\$ —	\$ 42	\$ —
Consumer real estate	604	681	—	357	—
Construction and land development	—	—	—	—	—
Commercial and industrial	—	—	—	594	—
Consumer	125	125	—	63	5
Other	—	—	—	—	—
Subtotal	729	806	—	1,056	5
With an allowance recorded:					
Commercial real estate	1,948	1,948	565	2,015	—
Consumer real estate	—	—	—	262	—
Construction and land development	—	—	—	568	—
Commercial and industrial	—	—	—	1,309	—
Consumer	—	—	—	—	—
Other	—	—	—	—	—
Subtotal	1,948	1,948	565	4,154	—
Total	\$ 2,677	\$ 2,754	\$ 565	\$ 5,210	\$ 5

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	December 31, 2014			Year ended December 31, 2014	
	Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment	Interest income recognized
<b>With no related allowance recorded:</b>					
Commercial real estate	\$ 83	\$ 120	\$ —	\$ 915	\$ —
Consumer real estate	109	120	—	205	—
Construction and land development	—	—	—	—	—
Commercial and industrial	1,188	1,638	—	594	—
Consumer	—	—	—	6	—
Other	—	—	—	—	—
Subtotal	<u>1,380</u>	<u>1,878</u>	<u>—</u>	<u>1,720</u>	<u>—</u>
<b>With an allowance recorded:</b>					
Commercial real estate	2,082	2,082	285	1,661	—
Consumer real estate	523	600	173	516	—
Construction and land development	1,135	1,623	173	1,064	—
Commercial and industrial	2,618	2,618	2,400	3,728	—
Consumer	—	—	—	29	—
Other	—	—	—	—	—
Subtotal	<u>6,358</u>	<u>6,923</u>	<u>3,031</u>	<u>6,998</u>	<u>—</u>
Total	<u>\$ 7,738</u>	<u>\$ 8,801</u>	<u>\$ 3,031</u>	<u>\$ 8,718</u>	<u>\$ —</u>

The recorded investment in loans excludes accrued interest receivable and loan origination fees, net due to immateriality. For purposes of this disclosure, the unpaid principal balance is not reduced for partial charge-offs.

Non-accrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. Impaired loans include commercial loans that are individually evaluated for impairment and deemed impaired (i.e., individually classified impaired loans) as well as TDRs for all loan classifications.

The following table presents the recorded investment in non-accrual and loans past due over 90 days still on accrual by class of loans as of December 31, 2015 and December 31, 2014 (in thousands):

	Non-Accrual		Loans Past Due Over 90 Days Still Accruing	
	2015	2014	2015	2014
Commercial real estate	\$1,948	\$2,165	\$ —	\$ —
Consumer real estate	616	632	—	—
Construction and land development	—	1,135	—	—
Commercial and industrial	—	3,806	—	—
Consumer	125	—	—	—
Other	—	—	—	—
Total	<u>\$2,689</u>	<u>\$7,738</u>	<u>\$ —</u>	<u>\$ —</u>

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The following table presents the aging of the recorded investment in past-due loans as of December 31, 2015 and 2014 by class of loans (in thousands):

	30 – 59 Days Past Due	60 – 89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
<b>December 31, 2015</b>						
Commercial real estate	\$ —	\$ —	\$ 1,948	\$ 1,948	\$249,249	\$251,197
Consumer real estate	100	54	616	770	93,015	93,785
Construction and land development	—	—	—	—	52,522	52,522
Commercial and industrial	—	—	—	—	353,442	353,442
Consumer	—	—	125	125	8,543	8,668
Other	—	—	—	—	50,197	50,197
<b>Total</b>	<b>\$ 100</b>	<b>\$ 54</b>	<b>\$ 2,689</b>	<b>\$ 2,843</b>	<b>\$806,968</b>	<b>\$ 809,811</b>
<b>December 31, 2014</b>						
Commercial real estate	\$ 3,590	\$ —	\$ 83	\$ 3,673	\$216,120	\$219,793
Consumer real estate	12	—	564	576	77,112	77,688
Construction and land development	—	—	—	—	46,193	46,193
Commercial and industrial	1,338	—	—	1,338	332,275	333,613
Consumer	—	—	—	—	7,911	7,911
Other	—	—	—	—	29,393	29,393
<b>Total</b>	<b>\$ 4,940</b>	<b>\$ —</b>	<b>\$ 647</b>	<b>\$ 5,587</b>	<b>\$709,004</b>	<b>\$714,591</b>

Credit Quality Indicators

The Bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Bank analyzes all commercial loans, and consumer relationships with an outstanding balance greater than \$500,000, individually and assigns each loan a risk rating. This analysis is performed on a continual basis by the relationship managers and credit department personnel. On at least an annual basis an independent party performs a formal credit risk review of a sample of the loan portfolio. Among other things, this review assesses the appropriateness of the loan's risk rating. The Bank uses the following definitions for risk ratings:

- *Watch* – Borrowers with declining earnings, strained cash flow, increasing leverage, and/or weakening fundamentals that indicate above average risk.
- *Special Mention* – A special-mention asset possesses deficiencies or potential weaknesses deserving of management's attention. If uncorrected, such weaknesses or deficiencies may expose the Bank to an increased risk of loss in the future.
- *Substandard* – A substandard asset is inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard assets, does not have to exist in individual assets classified substandard.

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- *Doubtful* – A doubtful asset has all weaknesses inherent in one classified substandard, with the added characteristic that weaknesses make collection or liquidation in full, on the basis of existing facts, conditions, and values, highly questionable and improbable. The probability of loss is extremely high, but certain important and reasonable specific pending factors which may work to the advantage and strengthening of the asset exist, therefore, its classification as an estimated loss is deferred until a more exact status may be determined. Pending factors include proposed merger, acquisition or liquidation procedures, capital injection, perfecting liens on additional collateral, and refinancing plans.

Loans not falling into the criteria above are considered to be pass-rated loans. The Bank utilizes five loan grades within the pass risk rating.

The following table provides the risk category of loans by applicable class of loans as of December 31, 2015 and 2014 (in thousands):

<u>December 31, 2015</u>	<u>Commercial real estate</u>	<u>Construction and land development</u>	<u>Commercial and industrial</u>	<u>Other</u>	<u>Total</u>
Pass	\$ 239,221	\$ 52,522	\$ 331,156	\$50,197	\$673,096
Watch	10,028	—	6,950	—	16,978
Special mention	—	—	6,230	—	6,230
Substandard	1,948	—	9,106	—	11,054
Total loans	<u>\$ 251,197</u>	<u>\$ 52,522</u>	<u>\$ 353,442</u>	<u>\$50,197</u>	<u>\$707,358</u>
<u>December 31, 2014</u>	<u>Commercial real estate</u>	<u>Construction and land development</u>	<u>Commercial and industrial</u>	<u>Other</u>	<u>Total</u>
Pass	\$ 212,005	\$ 44,242	\$ 305,593	\$29,393	\$591,233
Watch	2,874	816	7,804	—	11,494
Special mention	988	—	9,948	—	10,936
Substandard	3,926	1,135	10,268	—	15,329
Total loans	<u>\$ 219,793</u>	<u>\$ 46,193</u>	<u>\$ 333,613</u>	<u>\$29,393</u>	<u>\$628,992</u>

None of the Bank's loans had a risk rating of "Doubtful" as of December 31, 2015 and 2014, respectively. For consumer real estate and consumer loan classes, the Bank also evaluates credit quality based on payment activity. The following table presents the payment activity category of loans by class of loans evaluated under this method as of December 31, 2015 and 2014 (in thousands):

<u>December 31, 2015</u>	<u>Consumer real estate</u>	<u>Consumer</u>	<u>Total</u>
Performing	\$ 93,181	\$ 8,543	\$101,724
Nonperforming	604	125	729
Total	<u>\$ 93,785</u>	<u>\$ 8,668</u>	<u>\$102,453</u>
<u>December 31, 2014</u>	<u>Consumer real estate</u>	<u>Consumer</u>	<u>Total</u>
Performing	\$ 77,056	\$ 7,911	\$ 84,967
Nonperforming	632	—	632
Total	<u>\$ 77,688</u>	<u>\$ 7,911</u>	<u>\$ 85,599</u>

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*Troubled Debt Restructurings*

As of December 31, 2015 and 2014, the Bank has a recorded investment in troubled debt restructurings of \$0.1 million and \$2.6 million, respectively. The Bank has allocated \$0 and \$2.4 million of specific allowance for those loans at December 31, 2015 and 2014 and there are no commitments to lend additional amounts.

The modification of the terms of the consumer loan completed during the year ended December 31, 2015 included allowing interest only payments until maturity. The modification of the terms of the commercial and industrial loan completed during the year ended December 31, 2014 included allowing interest only payments until maturity.

The following table presents loans by class modified as troubled debt restructurings that occurred during the years ended December 31, 2015 and 2014 (dollars in thousands).

<u>December 31, 2015</u>	<u>Number of Loans</u>	<u>Pre-Modification Outstanding Recorded Investment</u>	<u>Post-Modification Outstanding Recorded Investment</u>
<b>Troubled Debt Restructurings:</b>			
Consumer	<u>1</u>	<u>\$ 125</u>	<u>\$ 125</u>

The troubled debt restructurings described above did not impact the allowance for loan losses nor did it result in any charge-offs during the year ended December 31, 2015.

<u>December 31, 2014</u>	<u>Number of Loans</u>	<u>Pre-Modification Outstanding Recorded Investment</u>	<u>Post-Modification Outstanding Recorded Investment</u>
<b>Troubled Debt Restructurings:</b>			
Commercial and industrial	<u>1</u>	<u>\$ 2,618</u>	<u>\$ 2,618</u>

The troubled debt restructurings described above increased the allowance for loan losses by \$2.4 million and resulted in no charge-offs during the year ended December 31, 2014.

The following table presents loans by class modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the year ended December 31, 2015. There were no subsequent payment defaults within twelve months following the modification for any troubled debt restructurings during the year ending December 31, 2014.

Troubled Debt Restructurings That Subsequently Defaulted:

<u>December 31, 2015</u>	<u>Number of Loans</u>	<u>Recorded Investment</u>
Commercial and industrial	<u>1</u>	<u>\$ —</u>

The troubled debt restructurings that subsequently defaulted did not increase the allowance for loan losses and resulted in \$2.5 million of charge-offs during the year ended December 31, 2015.



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A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Bank's loan policy.

Purchased Credit Impaired Loans

The Bank has purchased loans, for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. The carrying amount of those loans was as follows for the years ended December 31 (in thousands):

	<u>2015</u>	<u>2014</u>
Construction and land development	\$—	\$1,623
Consumer real estate	—	51
Total	<u>\$—</u>	<u>\$1,674</u>

Accretable yield, or income expected to be collected, was as follows (in thousands):

	<u>2015</u>	<u>2014</u>
Balance at January 1	\$(190)	\$(297)
New loans purchased	—	—
Accretion of income	499	255
Reclassifications from nonaccretable difference	(309)	(148)
Disposals	—	—
Balance at December 31	<u>\$—</u>	<u>\$(190)</u>

For those purchased impaired loans disclosed above, the Bank reduced the allowance for loan and lease losses by \$173,000 and 167,000 during 2015 and 2014, respectively.

Leases

The Bank has entered into various direct finance leases. The leases are reported as part of consumer and other loans. The lease terms vary from two to six years. The components of the direct financing leases as of December 31, 2015 and 2014 were as follows (in thousands):

	<u>2015</u>	<u>2014</u>
Total minimum lease payments receivable	\$5,215	\$7,186
Less:		
Unearned income	(321)	(609)
Net leases	<u>\$4,894</u>	<u>\$6,577</u>

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The future minimum lease payments receivable under the direct financing leases as of December 31, 2015 are as follows (in thousands):

Year ending December 31:	
2016	\$2,418
2017	2,110
2018	331
2019	302
2020	54
	<u>\$5,215</u>

**(5) Premises and Equipment**

Premises and equipment at December 31, 2015 and 2014 are summarized as follows (in thousands):

	<u>Range of useful lives</u>	<u>2015</u>	<u>2014</u>
Land	Not applicable	\$ 1,180	\$ 1,370
Buildings	39 years	3,586	3,577
Leasehold improvements	2 to 10 years	1,174	1,168
Furniture and equipment	3 to 7 years	2,431	3,061
		<u>8,371</u>	<u>9,176</u>
Less accumulated depreciation and amortization		<u>(3,399)</u>	<u>(3,514)</u>
		<u>\$ 4,972</u>	<u>\$ 5,662</u>

Depreciation and amortization expense for the years ended December 31, 2015, 2014 and 2013 totaled \$506,000 and \$626,000 and \$656,000, respectively.

The Bank leases certain properties under noncancelable lease arrangements. The leases have various terms, and maturity dates, including extensions through 2028. The leases have various other terms including payments for common area maintenance, escalation increases over the term of the lease and various renewal options. Rent expense related to these leases for 2015, 2014 and 2013 totaled \$1,018,000, \$994,000 and \$643,000 respectively.

Future minimum payments under these operating leases as of December 31, 2015 are as follows (in thousands):

Year ending December 31:	
2016	\$ 1,057
2017	805
2018	1,126
2019	933
2020	951
Thereafter	11,511
	<u>\$16,383</u>

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**(6) Goodwill and Intangible Assets**Goodwill

The change in goodwill during the years ended December 31, 2015 and 2014, respectively, was as follows (in thousands):

	<u>2015</u>	<u>2014</u>
Beginning of year	\$6,219	\$ 51
Acquired goodwill	—	6,168
Impairment	—	—
End of year	<u>\$6,219</u>	<u>\$6,219</u>

Impairment exists when a reporting unit's carrying value of goodwill exceeds its fair value. At October 31, 2015, the Bank's reporting unit had positive equity and the Bank elected to perform a qualitative assessment to determine if it was more likely than not that the fair value of the reporting unit exceeded its carrying value, including goodwill. The qualitative assessment indicated that it was more likely than not that the fair value of the reporting unit exceeded its carrying value, resulting in no impairment.

Acquired Intangible Assets

Acquired intangible assets at December 31, 2015 and 2014 were as follows (in thousands):

	<u>2015</u>		<u>2014</u>	
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>
Amortized intangible assets:				
Core deposit intangibles	<u>\$ 287</u>	<u>\$ (162)</u>	<u>\$ 287</u>	<u>\$ (108)</u>

Aggregate amortization expense was \$54,000 for 2015, 2014 and 2013.

Estimated amortization expense for each of the next five years is as follows (in thousands):

Year ending December 31:	
2016	\$54
2017	48
2018	23
2019	—
2020	—

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**(7) Other Real Estate Owned**

Other real estate owned activity was as follows (in thousands):

	<u>2015</u>	<u>2014</u>
Beginning balance	\$ 575	\$1,451
Loans transferred to other real estate owned	—	92
Direct write-downs	—	(89)
Sales of other real estate owned	(359)	(879)
End of year	<u>\$ 216</u>	<u>\$ 575</u>

Other real estate owned is presented net of the valuation allowance which is allocated to the specific properties held.

Activity in the valuation allowance was as follows during the years ended December 31, 2015 and 2014, respectively (in thousands):

	<u>2015</u>	<u>2014</u>
Beginning balance	\$450	\$ 978
Additions/(recoveries) charged/(credited) to expense	—	—
Reductions from sales of other real estate owned	—	(617)
Direct write-downs	—	89
End of year	<u>\$450</u>	<u>\$ 450</u>

Expenses related to other real estate owned during the years ended December 31, 2015 and 2014, respectively include (in thousands):

	<u>2015</u>	<u>2014</u>
Net loss on sales	\$ 4	\$ 89
Provision for unrealized losses	—	89
Operating expenses, net of rental income	30	65
Total	<u>\$ 34</u>	<u>\$243</u>

**(8) Deposits**

Time deposits that meet or exceed the FDIC deposit insurance limit of \$250,000 at December 31, 2015 and 2014 were \$84,248,000 and \$82,122,000.

Scheduled maturities of time deposits for the next five years are as follows (in thousands):

Maturity:	
2016	\$ 146,315
2017	28,564
2018	25,456
2019	16,740
2020	3,608
	<u>\$ 220,683</u>

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At December 31, 2015 and 2014, the Bank had \$216,000 and \$19,000 of deposit accounts in overdraft status that were reclassified to loans in the accompanying balance sheets.

**(9) Securities Sold under Repurchase Agreements**

Securities sold under repurchase agreements are secured by securities with a carrying amount of \$3,724,000 and \$24,470,000 at December 31, 2015 and 2014.

Securities sold under repurchase agreements are financing arrangements that mature at various dates. At maturity, the securities underlying the agreements are returned to the Bank. The underlying securities are typically held by other financial institutions and are designated as pledged. Information concerning securities sold under repurchase agreements is summarized as follows (in thousands):

	<u>2015</u>	<u>2014</u>
Average daily balance during the year	\$ 6,489	\$11,212
Average interest rate during the year	0.23%	0.21%
Maximum month-end balance during the year	\$15,862	\$18,670
Weighted average interest rate at year-end	0.25%	0.20%

**(10) Federal Home Loan Bank Advances**

As a member of the Federal Home Loan Bank of Cincinnati (FHLB), the Bank is eligible for advances from the FHLB pursuant to the terms of various borrowing agreements. At December 31, advances from the FHLB were as follows (in thousands):

	<u>2015</u>	<u>2014</u>
Maturities, 2016, fixed rates ranging from 0.34% to 0.81%, averaging 0.63%	\$30,000	\$20,000
Maturity 2016, floating rate at 0.78%	15,000	—
<b>Total</b>	<u>\$45,000</u>	<u>\$20,000</u>

Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances. The advances are collateralized by investment securities, FHLB stock and \$33,865,000 and \$39,153,000 of first mortgage loans under a blanket lien arrangement at December 31, 2015 and 2014. Based on this collateral and the Bank's holdings of FHLB stock the Bank is eligible to borrow up to a total of \$45,000,000 at December 31, 2015. No additional funds were available to borrow from the FHLB at December 31, 2015.

Payments over the next five years are as follows (in thousands):

2016	\$45,000
2017	—
2018	—
2019	—
2020	—
	<u>\$45,000</u>

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**(11) Income Taxes**

The components of income tax expense are summarized as follows (in thousands):

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Current:</b>			
Federal	\$2,794	\$1,630	\$2,202
State	168	333	522
	<u>2,962</u>	<u>1,963</u>	<u>2,724</u>
<b>Deferred:</b>			
Federal	314	373	851
State	194	76	174
	<u>508</u>	<u>449</u>	<u>1,025</u>
<b>Total</b>	<u>\$3,470</u>	<u>\$2,412</u>	<u>\$3,749</u>

A reconciliation of actual income tax expense in the financial statements to the “expected” tax expense (computed by applying the statutory federal income tax rate of 34% to income before income taxes) for the years ended December 31, 2015, 2014 and 2013 is as follows (in thousands):

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Computed “expected” tax expense	\$3,750	\$2,517	\$3,453
State income taxes, net of effect of federal income taxes	239	270	459
Tax-exempt interest income	(367)	(311)	(194)
Earnings on bank owned life insurance contracts	(213)	(223)	(5)
Disallowed expenses	71	62	50
Expiration of capital loss carryforward	—	98	—
Other	(10)	(1)	(14)
<b>Total</b>	<u>\$3,470</u>	<u>\$2,412</u>	<u>\$3,749</u>

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Significant items that gave rise to deferred taxes at December 31, 2015 and 2014 were as follows (in thousands):

	2015	2014
<b>Deferred tax assets:</b>		
Allowance for loan and lease losses	\$ 3,787	\$ 4,170
Depreciation	341	286
Net operating loss carryforward	1,705	1,875
Excess of rent expense deducted in the financial statements over amounts deducted for tax purposes	84	98
Organization and preopening costs amortized over a fifteen-year period for tax purposes, expensed for financial statements as incurred	1,142	1,305
Stock-based compensation not currently deductible	941	965
Acquired loans	401	736
Acquired deposits	109	176
Nonaccrual interest	60	164
Write-downs of other real estate	171	172
Accrued incentive compensation	694	344
Reserve for contingencies	63	64
Accrued contributions	140	15
Unrealized loss on securities available for sale	995	611
Unrealized loss on securities held to maturity	816	879
Cash flow hedge	1,209	1,327
Contingent liability	399	91
Accrued vacation	53	47
Deferred tax assets	<u>13,110</u>	<u>13,325</u>
<b>Deferred tax liabilities:</b>		
FHLB stock	10	10
Goodwill	204	92
Amortization of core deposit intangible	47	69
Deferred tax liabilities	<u>261</u>	<u>171</u>
Net deferred tax asset	<u>\$12,849</u>	<u>\$13,154</u>

At December 31, 2015, the Bank had federal net operating loss carryforwards of approximately \$5,014,000, which expire at various dates from 2029 to 2032. Deferred tax assets are fully recognized because the benefits are more likely than not to be realized based on management's estimation of future taxable earnings.

There are no significant unrecognized income tax benefits as of December 31, 2015 or 2014. As of December 31, 2015, the Bank has no accrued interest or penalties related to uncertain tax positions.

## (12) Commitments and Contingencies

The Bank is party to litigation and claims arising in the normal course of business. Management, after consultation with legal counsel, believes that the liabilities, if any, arising from such litigation and claims will not be material to the results of operations or financial position of the Bank.

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The Bank has entered into various Federal funds guideline facilities with certain time restrictions on outstanding borrowings. The lines are generally renewable annually and bear interest at a variable rate equivalent to the correspondent bank's daily internal lending rate. The combined lines provide for up to \$110,000,000 in borrowings at December 31, 2015. No amounts are outstanding as of December 31, 2015.

During 2013, the Bank entered into a master repurchase agreement with another institution whereby the Bank could borrow money against the transfer of securities or other assets. As of December 31, 2015, the Bank did not have any outstanding borrowings related to this facility, and therefore, no exposure to fluctuations in the market value of transferred assets.

**(13) Financial Instruments with Off-Balance-Sheet Risk**

In the normal course of business, the Bank has outstanding commitments and contingent liabilities, such as commitments to extend credit and standby letters of credit, which are not included in the accompanying financial statements. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Bank uses the same credit policies in making such commitments as it does for instruments that are included in the balance sheet (in thousands).

	<u>Contract or notional amount</u>	
	<u>2015</u>	<u>2014</u>
Financial instruments whose contract amounts represent credit risk:		
Unused commitments to extend credit	\$ 384,837	\$ 342,344
Standby letters of credit	13,450	15,187
Total	<u>\$ 398,287</u>	<u>\$ 357,531</u>

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property and equipment, and income-producing commercial properties.

Standby letters of credit are conditional lending commitments issued by the Bank to guarantee the performance of a customer to a third party. The guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. Most guarantees are extended for one year. Standby letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank's policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit.

**(14) Concentration of Credit Risk**

Substantially all of the Bank's loans, commitments, and standby letters of credit have been granted to customers in the Bank's market area. The concentrations of credit by type of loan are set forth in Note 4 to the financial statements.



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At December 31, 2015 and 2014, the Bank's cash and due from banks, federal funds sold and interest-bearing deposits in financial institutions aggregated \$14,000,000 and \$13,000,000, respectively, in excess of insured limits.

**(15) Regulatory Matters and Restrictions on Dividends**

The Company and the Bank are subject to regulatory capital requirements administered by the Federal Reserve and the Bank is also subject to the regulatory capital requirements of the Tennessee Department of Financial Institutions. Failure to meet capital requirements can initiate certain mandatory – and possibly additional discretionary – actions by regulators that could, in that event, have a material adverse effect on the institutions' financial statements. The relevant regulations require the Company and the Bank to meet specific capital adequacy guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting principles. The capital classifications of the Company and the Bank are also subject to qualitative judgments by their regulators about components, risk weightings, and other factors. Those qualitative judgments could also affect the capital status of the Company and the Bank and the amount of dividends the Company and the Bank may distribute. The final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Bank on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Capital amounts and ratios as of December 31, 2014 are calculated using Basel I rules. Management believes as of December 31, 2015, the Bank met all regulatory capital adequacy requirements to which it was subject.

The Federal Deposit Insurance Corporation Improvement Act of 1991 establishes a system of "prompt corrective action" to resolve the problems of undercapitalized insured depository institutions. Under this system, federal banking regulators have established five capital categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. Federal banking regulators are required to take various mandatory supervisory actions and are authorized to take other discretionary actions with respect to institutions in the three undercapitalized categories. The severity of the action depends upon the capital category in which the institution is placed. For example, institutions in all three undercapitalized categories are automatically restricted from paying distributions and management fees, whereas only an institution that is significantly undercapitalized or critically undercapitalized is restricted in its compensation paid to senior executive officers. Generally, subject to a narrow exception, the banking regulator must appoint a receiver or conservator for an institution that is critically undercapitalized.

At year-end 2015 and 2014, the Bank was well capitalized under the regulatory framework for prompt corrective action. There have been no conditions or events since that notification that management believes have changed the Bank's category.

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The Bank's actual and required capital amounts and ratios are presented in the following table (in thousands). Only the Bank's capital amounts and ratios are presented as of December 31, 2015 and December 31, 2014 because the share exchange had not yet occurred.

	<u>Actual</u>		<u>Minimum capital requirement</u>		<u>Minimum to be well-capitalized</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<b>At December 31, 2015:</b>						
Total capital to risk-weighted assets	\$ 116,047	11.4%	\$81,224	8.0%	\$101,530	10.0%
Tier I capital to risk-weighted assets	105,749	10.4	60,918	6.0	81,224	8.0
Common equity tier 1 capital	90,272	8.9	45,688	4.5	65,994	6.5
Tier I capital to average assets	105,749	9.3	45,328	4.0	56,660	5.0
<b>At December 31, 2014:</b>						
Total capital to risk-weighted assets	\$107,960	11.5%	\$74,810	8.0%	\$ 93,512	10.0%
Tier I capital to risk-weighted assets	96,512	10.3	37,405	4.0	56,107	6.0
Tier I capital to average assets	96,512	8.6	45,152	4.0	56,440	5.0

Under Tennessee banking law, the Bank is subject to restrictions on the payment of dividends. Banking regulations limit the amount of dividends that may be paid without prior approval of the Tennessee Department of Financial Institutions. Under these regulations, the amount of dividends that may be paid in any calendar year without prior approval of the Tennessee Department of Financial Institutions is limited to the current year's net income, combined with the retained net income of the preceding two years, subject to the capital requirements described above. The Bank's payment of dividends may also be affected or limited by other factors, such as the requirement to maintain adequate capital above regulatory guidelines. The federal banking agencies have indicated that paying dividends that deplete a depository institution's capital base to an inadequate level would be an unsafe and unsound banking practice. Under the Federal Deposit Insurance Corporation Improvement Act of 1991, a depository institution may not pay any dividends if payment would cause it to become undercapitalized or if it already is undercapitalized. Moreover, the federal agencies have issued policy statements that provide that bank holding companies and insured banks should generally only pay dividends out of current operating earnings.

Based on these regulations, the Bank was eligible to pay \$18,959,000 and \$20,798,000 of dividends as of December 31, 2015 and 2014, respectively. However, no dividend payments were made in 2015 or 2014.

#### **(16) Nonvoting and Series A Preferred Stock and Stock Warrants**

##### Nonvoting Common Stock

The Bank has authorized 5,000,000 shares of its common stock as nonvoting common stock. The nonvoting common stock has the same rights and privileges as the common stock other than the nonvoting designation. Under certain conditions, as outlined in the Bank's charter, the nonvoting stock may be converted, on a one-to-one basis, to common stock. No nonvoting common stock has been issued as of December 31, 2015.

##### Preferred Stock

In conjunction with its initial capital issuance in 2008, the Bank issued 1,609,756 shares of Series A Preferred Stock to certain shareholders. The Series A Preferred Stock is noncumulative, perpetual and, except as otherwise

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provided below or pursuant to Tennessee law, nonvoting. Holders of Series A Preferred Stock participate equally in dividends paid on the common stock on an as converted basis. In addition, the Series A Preferred Stock is convertible to nonvoting common stock upon the occurrence of certain underwritten public offerings and certain transfers or proposed transfers by the Bank's organizing shareholders. The Series A Preferred Stock contains a liquidation preference and certain antidilution provisions. Holders of Series A Preferred Stock also have certain consent rights with respect to changes to the Bank's charter or bylaws that would materially adversely affect the preferences, rights and powers of such stock and the right to receive certain financial reports.

Warrants

In conjunction with the issuance of the 1,609,756 shares of the Series A Preferred Stock, the holders of such stock were issued 500,000 warrants to purchase shares of the Bank's nonvoting common stock at a purchase price of \$10.25 per share. The warrants are exercisable at any time and expire ten years from the date of grant of July 14, 2008. As of December 31, 2015, no warrants have been exercised.

As part of the initial offering, each organizer of the Bank (Organizers) who became a director of the Bank received a warrant to purchase, at the purchase price of \$10.00 per share, 10,000 shares of the Bank's common stock. These warrants were issued in compliance with the FDIC's policy on noncash compensation in recognition of the Organizers considerable contribution of time, expertise, and capital. The Bank issued warrants to purchase 60,000 shares of common stock to these organizers. The warrants expire ten years from date of grant of July 14, 2008. As of December 31, 2015, no warrants have been exercised.

In addition, each subscriber for shares who is a Tennessee resident or any entity controlled by a Tennessee resident and invested a minimum of \$500,000 in the offering, received a warrant to purchase additional shares of common stock equal to 5% of accepted subscriptions at the purchase price of \$10.00 per share. The Bank issued warrants to purchase 237,069 shares of common stock to these subscribers. The warrants expire ten years from date of grant of July 14, 2008. As of December 31, 2015, no warrants have been exercised.

**(17) Shareholders' Agreement**

In June 2008, the Bank entered into a shareholders' agreement (the Shareholders' Agreement) with certain investors (the Investors). Among other things, the Shareholders' Agreement permits the Investors to nominate an individual for election to the board of directors and certain tag-along rights. In the event certain Organizers of the Bank sell their shares or upon the fourth anniversary date of the Shareholders' Agreement, the Investors can request the board of directors to consider, in good faith, the propriety and timing of a public offering of the common stock. As no such offering had been completed prior to the commencement of the Bank's seventh fiscal year (2014), the Investors have the right to cause the Bank to complete an initial public offering (IPO). The Bank would be responsible for all costs related to the IPO.

**(18) Stock Options and Restricted Shares**

The Bank has a share based compensation plan as described below. Total compensation cost that has been charged against income for those plans was \$438,000, \$261,000, and \$306,000 for 2015, 2014 and 2013, respectively.

During 2008, the board of directors of the Bank approved the CapStar Bank 2008 Stock Incentive Plan (the Plan). The Plan is intended to provide incentives to certain officers, employees, and directors to stimulate their efforts toward the continued success of the Bank and to operate and manage the business in a manner that will

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provide for the long-term growth and profitability of the Bank. Additionally the Plan is intended to encourage stock ownership to align the interests of employees and shareholders and to provide a means of obtaining, rewarding and retaining officers, employees, and directors. The Plan reserved 1,569,475 shares of stock for issuance of stock incentives. Stock incentives include both restricted share and stock option grants. Total shares issuable under the plan are 300,909 at December 31, 2015.

Restricted Shares

Compensation expense is recognized over the vesting period of the awards based on the fair value of the stock at the issue date. The fair value of each restricted stock grant is based on valuations performed by independent consultants. The recipients have the right to vote and receive dividends but cannot sell, transfer, assign, pledge, hypothecate, or otherwise encumber the restricted stock until the shares have vested. Restricted shares fully vest on the third anniversary of the grant date. A summary of the changes in the Bank's nonvested restricted shares for 2015 follows:

<u>Nonvested Shares</u>	<u>Restricted Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Nonvested at beginning of year	52,681	\$ 9.80
Granted	111,202	11.49
Vested	(18,763)	9.80
Forfeited	(6,667)	9.71
Nonvested at end of year	<u>138,453</u>	\$ 11.16

As of December 31, 2015, there was \$958,000 of total unrecognized compensation cost related to nonvested shares granted under the Plan. The cost is expected to be recognized over a weighted-average period of 2.3 years. The total fair value of shares vested during the years ended December 31, 2015 and 2014 was \$184,000 and \$212,000.

Stock Options

Option awards are generally granted with an exercise price equal to the fair value of the Bank's common stock at the date of grant, determined based on the most recent valuation performed by an independent consultant. Option awards generally have a three year vesting period and a ten year contractual term.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model that uses the assumptions noted in the table below. Expected volatility is based on calculations performed by management using industry data. The Bank's expected dividend yield is 0.00% because the Bank has not intended, and does not intend, to pay dividends for the foreseeable future. The expected term of options granted was calculated using the "simplified" method for plain vanilla options as permitted under authoritative literature. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

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The fair value of options granted was determined using the following weighted average assumptions as of the grant date (There were no stock option grants issued during 2014):

	2015	2014
Dividend yield	—	—
Expected term (in years)	7.29	—
Expected stock price volatility	21.26%	—
Risk-free interest rate	1.86%	—
Pre-vest forfeiture rate	10.33%	—

A summary of the activity in stock options for 2015 follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)
Outstanding at beginning of year	1,069,750	\$ 10.32	
Granted	70,000	11.41	
Exercised	(1,000)	10.00	
Forfeited or expired	(120,250)	10.08	
Outstanding at end of year	<u>1,018,500</u>	<u>\$ 10.42</u>	4.1
Fully vested and expected to vest	<u>1,005,611</u>	<u>\$ 10.41</u>	4.0
Exercisable at end of year	<u>898,500</u>	<u>\$ 10.26</u>	3.5

Information related to stock options during each year follows:

	2015	2014
Intrinsic value of options exercised	\$ 1,410	\$11,100
Cash received from option exercises	10,000	75,000
Tax benefit realized from option exercises	900	6,818
Weighted average fair value of options granted	3.20	—

As of December 31, 2015, there was \$158,000 of total unrecognized compensation cost related to nonvested stock options granted under the Plan. The cost is expected to be recognized over a weighted-average period of 3.0 years.

**(19) Employment Contracts**

The Bank has entered into employment contracts with certain senior executives with various expiration dates. Each of the contracts has an option for annual renewal by mutual agreement. The agreements specify that in certain terminating events the Bank will be obligated to provide certain benefits and pay each of the senior executives severance based on their annual salaries and bonuses. These terminating events include termination of employment without "Cause" (as defined in the agreements) or in certain other circumstances specified in the agreements.

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**(20) Employee Benefit Plans**

The Bank has a Retirement Savings 401(k) Plan in which employees may participate. The Bank has elected a safe harbor 401(k) plan and as such is required to make an annual contribution of 3% of the employees' salaries annually. An employee does not have to contribute to receive the employer contribution. In addition, the Bank may make an additional discretionary contribution up to 6% of the employees' salaries annually. For the years ended December 31, 2015, 2014 and 2013, the Bank contributed \$469,000, \$426,000 and \$306,000, respectively, to the 401(k) Plan.

The Bank also has a Health Reimbursement Plan in place to offset the cost of healthcare deductibles for employees. At the end of the year, up to one-half of the unused balance in the employee's account will be available for the following year up to a maximum of the deductible for that employee.

**(21) Derivative Instruments**

The Bank utilizes interest rate swap agreements as part of its asset liability management strategy to help manage its interest rate risk position. The notional amount of the interest rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreements.

**Interest Rate Swaps Designated as Cash Flow Hedges**

Forward starting interest rate swaps with notional amounts totaling \$35 million and \$65 million as of December 31, 2015 and 2014, respectively, were designated as cash flow hedges of certain liabilities and were determined to be fully effective during all periods presented. As such, no amount of ineffectiveness has been included in net income. Therefore, the aggregate fair value of the swaps is recorded in other assets (liabilities) with changes in fair value recorded in other comprehensive income (loss). The amount included in accumulated other comprehensive income (loss) would be reclassified to current earnings should the hedges no longer be considered effective. The Bank expects the hedges to remain fully effective during the remaining terms of the swaps.

Summary information about the interest-rate swaps designated as cash flow hedges as of year-end was as follows (dollars in thousands):

	<u>2015</u>	<u>2014</u>
Notional amounts	\$ 35,000	\$ 65,000
Weighted average pay rates	3.67%	3.36%
Weighted average receive rates	3 month LIBOR	3 month LIBOR
Weighted average maturity	7.4 years	7.2 years
Fair value	\$ (3,158)	\$ (3,466)
Amount of unrealized loss recognized in accumulated other comprehensive income (loss), net of tax	\$ (1,949)	\$ (2,139)

Cash flows have not begun on these forward starting interest rate swaps and therefore, no interest income (expense) was recorded on these swap transactions during 2015 and 2014. Cash flows begin at various dates between September 2016 and June 2017.

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Pursuant to its interest rate swap agreements, the Bank pledged collateral to the counterparties in the form of investment securities with a carrying value of \$6,338,000 at December 31, 2015. There was no collateral posted from the counterparties to the Bank as of December 31, 2015. It is possible that the Bank may need to post additional collateral in the future or that the counterparties may be required to post collateral to the Bank in the future.

*Other Interest Rate Swaps*

The Bank also enters into swaps to facilitate customer transactions and meet their financing needs. Upon entering into these transactions the Bank enters into offsetting positions with large U.S. financial institutions in order to minimize risk to the Bank. A summary of the Bank's customer related interest rate swaps is as follows (in thousands):

	December 31			
	2015		2014	
	<u>Notional amount</u>	<u>Estimated fair value</u>	<u>Notional amount</u>	<u>Estimated fair value</u>
Interest rate swap agreements:				
Pay fixed/receive variable swaps	\$45,675	\$ (726)	\$44,800	\$ (817)
Pay variable/receive fixed swaps	45,675	726	44,800	817
Total	<u>\$91,350</u>	<u>\$ —</u>	<u>\$89,600</u>	<u>\$ —</u>

**(22) Related Party**

The Bank may enter into loan transactions with certain directors, executive officers, significant shareholders, and their affiliates. Such transactions were made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with persons not affiliated with the Bank, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features. None of these loans were impaired at December 31, 2015 or 2014. Activity within these loans during the year ended December 31, 2015 was as follows (in thousands):

	<u>Total commitment</u>	<u>Total funded commitment</u>
Balance December 31, 2014	\$ 27,484	\$ 20,067
New commitments/draw downs	17	1,966
Repayments	—	(4,263)
Balance December 31, 2015	<u>\$ 27,501</u>	<u>\$ 17,770</u>

Deposits from directors, executive officers, significant shareholders and their affiliates at December 31, 2015 and 2014 were \$12.7 million and \$16.9 million, respectively.

One director provided consulting services to the Bank. The Bank incurred \$30,000 of expense in 2015 related to these services. In addition, the Bank also paid \$100,000 to a shareholder of the Bank for the lease of one of the Bank's branches.

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**(23) Fair Value**

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2: Significant observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.
- Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Bank used the following methods and significant assumptions to estimate fair value:

Investment Securities: The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2), using matrix pricing. Matrix pricing is a mathematical technique commonly used to price debt securities that are not actively traded and values debt securities by relying on quoted prices for the specific securities and the securities' relationship to other benchmark quoted securities (Level 2 inputs). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3). See below for additional discussion of Level 3 valuation methodologies and significant inputs. The fair values of all securities are determined from third party pricing services without adjustment.

Derivatives-Interest Rate Swaps: The fair values of derivatives are based on valuation models using observable market data as of the measurement date (Level 2). The Bank's derivatives are traded in an over-the-counter market where quoted market prices are not always available. Therefore, the fair values of derivatives are determined using quantitative models that utilize multiple market inputs. The inputs will vary based on the type of derivative, but could include interest rates, prices and indices to generate continuous yield or pricing curves, prepayment rates, and volatility factors to value the position. The majority of market inputs are actively quoted and can be validated through external sources, including brokers, market transactions and third-party pricing services. The fair values of all interest rate swaps are determined from third party pricing services without adjustment.

Impaired Loans: The fair value of impaired loans with specific allocations of the allowance for loan and lease losses is generally based on recent appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available for similar loans and collateral underlying such loans. Such adjustments result in a Level 3 classification of the inputs for determining fair value. Collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on at least a quarterly basis for additional impairment and adjusted in accordance with the loan policy.



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**Other Real Estate Owned:** Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals which are updated no less frequently than annually. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach with data from comparable properties. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Appraisals may be adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and/or management's expertise and knowledge of the collateral. Such adjustments result in a Level 3 classification of the inputs for determining fair value. Real estate owned properties are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

**Loans Held For Sale:** Loans held for sale are carried at the lower of cost or fair value, which is evaluated on a pool-level basis. The fair value of loans held for sale is determined using quoted prices for similar assets, adjusted for specific attributes of that loan or other observable market data, such as outstanding commitments from third party investors (Level 2).

Assets and liabilities measured at fair value on a recurring basis are summarized below (in thousands):

	<b>Fair value measurements at December 31, 2015</b>			
	<b>Carrying Value</b>	<b>Quoted prices in active markets for identical assets (Level 1)</b>	<b>Significant other observable inputs (Level 2)</b>	<b>Significant unobservable inputs (Level 3)</b>
<b>Assets:</b>				
Securities available for sale:				
U.S. government-sponsored agencies	\$ 19,542	\$ —	\$ 19,542	\$ —
Obligations of states and political subdivisions	13,868	—	13,868	—
Mortgage-backed securities-residential	118,380	—	118,380	—
Asset-backed securities	21,593	3,526	18,067	—
Total securities available for sale	<u>\$173,383</u>	<u>\$ 3,526</u>	<u>\$169,857</u>	<u>\$ —</u>
Derivatives:				
Interest rate swaps – customer related	<u>\$ 726</u>	<u>\$ —</u>	<u>\$ 726</u>	<u>\$ —</u>
<b>Liabilities:</b>				
Derivatives:				
Interest rate swaps – customer related	\$ (726)	\$ —	\$ (726)	\$ —
Interest rate swaps – cash flow hedges	(3,158)	—	(3,158)	—
Total derivatives	<u>\$ (3,884)</u>	<u>\$ —</u>	<u>\$ (3,884)</u>	<u>\$ —</u>

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	Fair value measurements at December 31, 2014			
	Carrying Value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Assets:</b>				
Securities available for sale:				
U.S. government-sponsored agencies	\$ 15,582	\$ —	\$ 15,582	\$ —
Obligations of states and political subdivisions	8,665	—	8,665	—
Mortgage-backed securities-residential	181,000	—	181,000	—
Mortgage-backed securities-commercial	2,733	—	2,733	—
Asset-backed securities	23,611	4,160	19,451	—
Other debt securities	5,014	—	5,014	—
Total securities available for sale	<u>\$236,605</u>	<u>\$ 4,160</u>	<u>\$232,445</u>	<u>\$ —</u>
Derivatives:				
Interest rate swaps – customer related	<u>\$ 817</u>	<u>\$ —</u>	<u>\$ 817</u>	<u>\$ —</u>
<b>Liabilities:</b>				
Derivatives:				
Interest rate swaps – customer related	\$ (817)	\$ —	\$ (817)	\$ —
Interest rate swaps – cash flow hedges	(3,466)	—	(3,466)	—
Total derivatives	<u>\$ (4,283)</u>	<u>\$ —</u>	<u>\$ (4,283)</u>	<u>\$ —</u>

Assets measured at fair value on a nonrecurring basis are summarized below (in thousands):

	Fair value measurements at December 31, 2015			
	Carrying Value	Quoted prices in active markets for identical assets (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)
<b>Assets:</b>				
Impaired loans:				
Commercial real estate	\$ 1,383	—	—	1,383
Other real estate owned:				
Construction and land development	216	—	—	216

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	Fair value measurements at December 31, 2014			
	Carrying Value	Quoted prices in active markets for identical assets (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)
<b>Assets:</b>				
Impaired loans:				
Commercial real estate	\$ 1,797	—	—	1,797
Consumer real estate	350	—	—	350
Construction and land development	962	—	—	962
Commercial and industrial	218	—	—	218
Other real estate owned:				
Construction and land development	451	—	—	451

The following table presents quantitative information about Level 3 fair value measurements for assets measured at fair value on a nonrecurring basis at December 31, 2015 and 2014 (dollars in thousands):

<b>December 31, 2015</b>	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted-Average)
Impaired loans:				
Commercial real estate	\$1,383	Sales comparison approach	Appraisal discounts	20%
Other real estate owned:				
Construction and land development	216	Sales comparison approach	Appraisal discounts	15%
<b>December 31, 2014</b>	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted-Average)
Impaired loans:				
Commercial real estate	\$1,797	Sales comparison approach	Appraisal discounts	15%
Consumer real estate	350	Sales comparison approach	Appraisal discounts	15%
Construction and land development	962	Income Approach	Constant prepayment rate Probability of default Loss severity	0% 20%-40% (25%) 0%-10% (2%)
Commercial and industrial	218	Sales comparison approach	Inventory liquidation discount	75%
Other real estate owned:				
Construction and land development	451	Sales comparison approach	Appraisal discounts	15%

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Fair Value of Financial Instruments

The carrying value and estimated fair values of the Bank's financial instruments at December 31, 2015 and 2014 were as follows (in thousands):

	2015		2014	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets:</b>				
Cash and due from banks, interest-bearing deposits in financial institutions	\$ 93,455	\$ 93,455	\$ 69,775	\$ 69,775
Federal funds sold	6,730	6,730	4,159	4,159
Securities available for sale	173,383	173,383	236,605	236,605
Securities held to maturity	43,094	46,459	43,844	46,982
Loans held for sale	35,729	36,552	15,386	15,725
Restricted equity securities	5,414	N/A	5,065	N/A
Loans, net	798,264	806,030	701,795	706,999
Accrued interest receivable	3,030	3,030	2,633	2,633
Bank owned life insurance	21,299	21,299	20,672	20,672
Other assets	726	726	817	817
<b>Financial liabilities:</b>				
Deposits	1,038,460	1,035,978	981,057	979,091
Securities sold under repurchase agreements	3,755	3,755	14,837	14,837
Federal Home Loan Bank advances	45,000	44,926	20,000	19,918
Accrued interest payable	177	177	214	214
Other liabilities	6,536	6,536	6,727	6,727

The methods and assumptions, not previously presented, used to estimate fair values are described as follows:

*(a) Cash and Due from Banks, Interest-Bearing Deposits in Financial Institutions*

For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

*(b) Federal Funds Sold*

Federal funds sold clear on a daily basis. For this reason, the carrying amount is a reasonable estimate of fair value.

*(c) Restricted Equity Securities*

It is not practical to determine the fair value of restricted securities due to restrictions placed on their transferability.

*(d) Loans, net*

The fair value of the Bank's loan portfolio includes a credit risk assumption in the determination of the fair value of its loans. This credit risk assumption is intended to approximate the fair value that a market participant would realize in a hypothetical orderly transaction. The Bank's loan portfolio is initially fair valued using a segmented approach. The Bank divides its loan portfolio into the following categories: variable rate loans,

**CAPSTAR BANK**  
**Notes to Financial Statements**  
**December 31, 2015 and 2014**

impaired loans and all other loans. The results are then adjusted to account for credit risk. For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values approximate carrying values. Fair values for impaired loans are estimated using discounted cash flow models or based on the fair value of the underlying collateral. For other loans, fair values are estimated using discounted cash flow models, using current market interest rates offered for loans with similar terms to borrowers of similar credit quality. The values derived from the discounted cash flow approach for each of the above portfolios are then further discounted to incorporate credit risk. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

*(e) Bank Owned Life Insurance*

For bank owned life insurance, the carrying amount is based on the cash surrender value and is a reasonable estimate of fair value.

*(f) Other Assets*

Included in other assets are certain interest rate swap agreements and the cash flow hedge relationships. The fair values of interest rate swap agreements and the cash flow hedge relationships are based on independent pricing services that utilize pricing models with observable market inputs.

*(g) Deposits*

The fair value of demand deposits, savings accounts and certain money market deposits is the amount payable on demand at the reporting date. The fair value of certificates of deposit is estimated by discounted cash flow models, using current market interest rates offered on certificates with similar remaining maturities.

*(h) Securities Sold under Repurchase Agreements*

The securities sold under repurchase agreements are payable upon demand. For this reason, the carrying amount is a reasonable estimate of fair value.

*(i) Federal Home Loan Bank Advances*

The fair value of fixed rate Federal Home Loan Bank Advances is estimated using discounted cash flow models, using current market interest rates offered on certificates, advances and other borrowings with similar remaining maturities.

*(j) Accrued Interest Receivable/Payable*

The carrying amounts of accrued interest approximate fair value.

*(k) Other Liabilities*

Included in other liabilities are certain interest rate swap agreements, the cash flow hedge relationships and contingent consideration. The fair values of interest rate swap agreements and the cash flow hedge relationships are based on independent pricing services that utilize pricing models with observable market inputs. The fair value of contingent consideration is estimated by a discounted cash flow model that utilizes various unobservable inputs.

**CAPSTAR BANK**  
**Notes to Financial Statements**  
**December 31, 2015 and 2014**

*(l) Off-Balance Sheet Instruments*

Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value of commitments is not material.

*(m) Limitations*

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Bank's entire holdings of a particular instrument. Because no market exists for a significant portion of the Bank's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on estimating on and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. For example, fixed assets are not considered financial instruments and their value has not been incorporated into the fair value estimates. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

**CAPSTAR BANK**  
**Notes to Financial Statements**  
**December 31, 2015 and 2014**

**(24) Accumulated Other Comprehensive Income (Loss)**

The following were changes in accumulated other comprehensive income (loss) by component, net of tax, for the years ending December 31, 2015 and 2014 (in thousands):

	<b>Gains and Losses on Cash Flow Hedges</b>	<b>Unrealized Gains and Losses on Available for Sale Securities</b>	<b>Unrealized Losses on Securities Transferred to Held to Maturity</b>	<b>Total</b>
<b>December 31, 2015</b>				
Beginning Balance	\$ (2,139)	\$ 723	\$ (1,418)	\$(2,834)
Other comprehensive income (loss) before reclassification	(1,542)	(652)	206	(1,988)
Amounts reclassified from accumulated other comprehensive income (loss)	(23)	34	(103)	(92)
Net current period other comprehensive income (loss)	(1,565)	(618)	103	(2,080)
Ending Balance	<u>\$ (3,704)</u>	<u>\$ 105</u>	<u>\$ (1,315)</u>	<u>\$(4,914)</u>
<b>December 31, 2014</b>				
Beginning Balance	\$ 142	\$ (1,428)	\$ (1,520)	\$(2,806)
Other comprehensive income (loss) before reclassification	(2,281)	2,143	204	66
Amounts reclassified from accumulated other comprehensive income (loss)	—	8	(102)	(94)
Net current period other comprehensive income (loss)	(2,281)	2,151	102	(28)
Ending Balance	<u>\$ (2,139)</u>	<u>\$ 723</u>	<u>\$ (1,418)</u>	<u>\$(2,834)</u>

**CAPSTAR BANK**  
**Notes to Financial Statements**  
**December 31, 2015 and 2014**

The following were significant amounts reclassified out of each component of accumulated other comprehensive income (loss) for the year ending December 31, 2015 (in thousands):

<u>Details about Accumulated Other Comprehensive Income (Loss) Components</u>	<u>Amount Reclassified from Accumulated Other Comprehensive Income (Loss)</u>	<u>Affected Line Item in the Statement Where Net Income is Presented</u>
Unrealized losses on cash flow hedges	\$ (37)	Interest expense – savings and money market accounts
	14	Income tax expense
	<u>\$ (23)</u>	Net of tax
Unrealized gains and losses on available for sale securities	\$ 55	Net gain on sale of securities
	(21)	Income tax expense
	<u>\$ 34</u>	Net of tax
Unrealized losses on securities transferred to held to maturity	\$ (167)	Interest income – securities
	64	Income tax expense
	<u>\$ (103)</u>	Net of tax

The following were significant amounts reclassified out of each component of accumulated other comprehensive income (loss) for the year ending December 31, 2014 (in thousands):

<u>Details about Accumulated Other Comprehensive Income (Loss) Components</u>	<u>Amount Reclassified from Accumulated Other Comprehensive Income (Loss)</u>	<u>Affected Line Item in the Statement Where Net Income is Presented</u>
Unrealized gains and losses on available for sale securities	\$ 13	Net gain on sale of securities
	(5)	Income tax expense
	<u>\$ 8</u>	Net of tax
Unrealized losses on securities transferred to held to maturity	\$ (166)	Interest income – securities
	64	Income tax expense
	<u>\$ (102)</u>	Net of tax

**(25) Subsequent Event**

On February 5, 2016 the shareholders of the Bank approved and entered into a share exchange with Capstar Financial Holdings, Inc. (the Holding Company) to facilitate the formation of a one-bank holding company that owns all of the issued and outstanding shares of the Bank. As such, the Bank became a wholly owned subsidiary of the Holding Company. Each share of the Bank's common and preferred stock was exchanged for and converted into Holding Company common and preferred stock. All outstanding warrants issued by the Bank, restricted stock and stock options granted under the stock option plans of the Bank were assumed by the Holding Company.



## CAPSTAR FINANCIAL HOLDINGS, INC. &amp; SUBSIDIARY

## Condensed Consolidated Balance Sheets

	March 31, 2016 (unaudited)	December 31, 2015
<b>Assets</b>		
Cash and due from banks	\$ 7,379	\$ 8,265
Interest-bearing deposits in financial institutions	57,968	85,190
Federal funds sold	11,360	6,730
Total cash and cash equivalents	<u>76,707</u>	<u>100,185</u>
Securities available for sale, at fair value	189,808	173,383
Securities held to maturity, fair value of \$47,132 and \$46,459 at March 31, 2016 and December 31, 2015, respectively	42,953	43,094
Loans held for sale	29,530	35,729
Loans and leases	837,690	808,396
Less allowance for loan and lease losses	(10,299)	(10,132)
Loans, net	<u>827,391</u>	<u>798,264</u>
Premises and equipment, net	4,799	4,896
Restricted equity securities	5,418	5,414
Accrued interest receivable	3,400	3,030
Goodwill	6,219	6,219
Core deposit intangible	112	125
Other real estate owned	—	216
Deferred tax assets	12,571	12,850
Bank owned life insurance	21,449	21,299
Other assets	2,822	2,097
Total assets	<u>\$ 1,223,179</u>	<u>\$ 1,206,801</u>
<b>Liabilities and Shareholders' Equity</b>		
Deposits:		
Non-interest-bearing	\$ 220,686	\$ 190,580
Interest-bearing	260,007	189,983
Savings and money market accounts	435,680	437,215
Time	169,963	220,683
Total deposits	<u>1,086,336</u>	<u>1,038,461</u>
Securities sold under repurchase agreements	—	3,755
Federal Home Loan Bank advances	15,000	45,000
Accrued interest payable	198	177
Other liabilities	10,786	10,822
Total liabilities	<u>1,112,320</u>	<u>1,098,215</u>
Shareholders' equity:		
Series A convertible preferred stock, \$1 par value. Authorized, 5,000,000 shares; issued and outstanding, 1,609,756 shares	1,610	1,610
Common stock, voting, \$1 par value; 20,000,000 shares authorized; 8,677,902 and 8,577,051 shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively	8,678	8,577
Additional paid-in capital	95,385	95,277
Retained earnings	9,620	8,036
Accumulated other comprehensive loss, net of income tax	(4,434)	(4,914)
Total shareholders' equity	<u>110,859</u>	<u>108,586</u>
Total liabilities and shareholders' equity	<u>\$ 1,223,179</u>	<u>\$ 1,206,801</u>

See accompanying notes to consolidated financial statements (unaudited).

## CAPSTAR FINANCIAL HOLDINGS, INC. &amp; SUBSIDIARY

## Condensed Consolidated Statements of Income

(Unaudited)

	Three Months Ended March 31,	
	2016	2015
Interest income:		
Loans, including fees	\$ 9,268	\$ 8,081
Securities:		
Taxable	898	1,166
Tax-exempt	282	263
Federal funds sold	4	5
Restricted equity securities	69	66
Interest-bearing deposits in financial institutions	77	39
Total interest income	<u>10,598</u>	<u>9,620</u>
Interest expense:		
Interest-bearing deposits	302	157
Savings and money market accounts	732	716
Time deposits	514	533
Federal funds purchased	2	—
Securities sold under agreements to repurchase	1	5
Federal Home Loan Bank advances	91	40
Total interest expense	<u>1,642</u>	<u>1,451</u>
Net interest income	8,956	8,169
Provision for loan and lease losses	937	136
Net interest income after provision for loan and lease losses	<u>8,019</u>	<u>8,033</u>
Noninterest income:		
Service charges on deposit accounts	225	201
Loan commitment fees	430	171
Net gain (loss) on sale of securities	39	(2)
Net gain on sale of loans	1,347	1,217
Other noninterest income	330	325
Total noninterest income	<u>2,371</u>	<u>1,912</u>
Noninterest expense:		
Salaries and employee benefits	5,218	4,890
Data processing and software	568	631
Professional fees	331	419
Occupancy	410	391
Equipment	407	327
Regulatory fees	227	237
Other real estate expense	8	17
Other operating	841	806
Total noninterest expense	<u>8,010</u>	<u>7,718</u>
Income before income taxes	2,380	2,227
Income tax expense	796	659
Net income	<u>\$ 1,584</u>	<u>\$ 1,568</u>
Per share information:		
Basic net income per common share	<u>\$ 0.18</u>	<u>\$ 0.18</u>
Diluted net income per common share	<u>\$ 0.15</u>	<u>\$ 0.15</u>
Weighted average shares outstanding:		
Basic	<u>8,628,683</u>	<u>8,493,040</u>
Diluted	<u>10,572,193</u>	<u>10,317,506</u>

See accompanying notes to consolidated financial statements (unaudited).

**CAPSTAR FINANCIAL HOLDINGS, INC. & SUBSIDIARY**  
**Condensed Consolidated Statements of Comprehensive Income**  
**(Unaudited)**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2016</b>	<b>2015</b>
Net income	\$ 1,584	\$ 1,568
Other comprehensive income:		
Unrealized gains (losses) on securities available for sale:		
Unrealized holding gain arising during the period	2,138	1,803
Reclassification adjustment for (gains) losses included in net income	(39)	2
Tax effect	(804)	(691)
Net of tax	<u>1,295</u>	<u>1,114</u>
Unrealized losses on securities transferred to held to maturity:		
Reclassification adjustment for losses included in net income	42	42
Tax effect	(16)	(16)
Net of tax	<u>26</u>	<u>26</u>
Unrealized (losses) on cash flow hedges:		
Unrealized holding (loss) arising during the period	(1,502)	(1,334)
Reclassification adjustment for losses included in net income	86	—
Tax effect	575	511
Net of tax	<u>(841)</u>	<u>(823)</u>
Other comprehensive income	<u>480</u>	<u>317</u>
Comprehensive income	<u>\$ 2,064</u>	<u>\$ 1,885</u>

See accompanying notes to consolidated financial statements (unaudited).

**CAPSTAR FINANCIAL HOLDINGS, INC. & SUBSIDIARY**  
**Condensed Consolidated Statements of Changes in Shareholders' Equity**  
**(Unaudited)**

	Preferred stock	Common Stock		Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
		Shares	Amount				
Balance December 31, 2014	1,610	8,471,516	8,472	94,926	477	(2,834)	102,651
Issuance of restricted common stock, net of forfeitures	—	58,702	59	(59)	—	—	—
Stock-based compensation expense	—	—	—	83	—	—	83
Net income	—	—	—	—	1,568	—	1,568
Other comprehensive income	—	—	—	—	—	317	317
Balance March 31, 2015	1,610	8,530,218	8,531	94,950	2,045	(2,517)	104,619
Balance December 31, 2015	\$ 1,610	8,577,051	\$8,577	\$ 95,277	\$ 8,036	\$ (4,914)	\$ 108,586
Issuance of restricted common stock, net of forfeitures	—	99,851	100	(100)	—	—	—
Stock-based compensation expense	—	—	—	196	—	—	196
Excess tax benefit from stock compensation	—	—	—	3	—	—	3
Exercise of common stock warrants	—	1,000	1	9	—	—	10
Net income	—	—	—	—	1,584	—	1,584
Other comprehensive income	—	—	—	—	—	480	480
Balance March 31, 2016	\$ 1,610	8,677,902	\$8,678	\$ 95,385	\$ 9,620	\$ (4,434)	\$ 110,859

See accompanying notes to consolidated financial statements (unaudited).

## CAPSTAR FINANCIAL HOLDINGS, INC. &amp; SUBSIDIARY

## Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Three Months Ended	
	March 31,	
	2016	2015
Cash flows from operating activities:		
Net income	\$ 1,584	\$ 1,568
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for loan and lease losses	937	136
Accretion of discounts on acquired loans and deferred fees	(440)	(383)
Depreciation and amortization	112	175
Net amortization of premiums on investment securities	286	383
Securities (gains) losses, net	(39)	2
Net gain on sale of loans and leases	(1,347)	(1,217)
Net loss on disposal of premises and equipment	—	15
Net gain on sale of other real estate owned	(73)	—
Stock-based compensation	196	83
Excess tax benefit from stock compensation	(3)	—
Deferred income tax expense	34	18
Origination of loans held for sale	(85,108)	(98,304)
Proceeds from loans held for sale	92,654	78,901
Net (increase) decrease in accrued interest receivable and other assets	(1,226)	(263)
Net decrease in accrued interest payable and other liabilities	(1,449)	(309)
Net cash provided by (used in) operating activities	<u>6,118</u>	<u>(19,195)</u>
Cash flows from investing activities:		
Activities in securities available for sale:		
Purchases	(37,585)	(18,048)
Sales	18,750	12,086
Maturities, prepayments and calls	4,282	6,374
Activities in securities held to maturity:		
Maturities, prepayments and calls	163	255
Purchase of restricted equity securities	(4)	(17)
Net increase in loans	(29,624)	(12,859)
Proceeds from sale of other real estate	289	115
Net cash used in investing activities	<u>(43,729)</u>	<u>(12,094)</u>
Cash flows from financing activities:		
Net increase in deposits	47,875	14,546
Payments on Federal Home Loan Bank advances	(30,000)	—
Exercise of common stock warrants	10	—
Excess tax benefit from stock compensation	3	—
Net decrease in repurchase agreements	(3,755)	(8,253)
Net cash provided by financing activities	<u>14,133</u>	<u>6,293</u>
Net decrease in cash and cash equivalents	<u>(23,478)</u>	<u>(24,996)</u>
Cash and cash equivalents at beginning of period	100,185	73,934
Cash and cash equivalents at end of period	<u>\$ 76,707</u>	<u>\$ 48,938</u>
Supplemental disclosures of cash paid:		
Interest paid	\$ 1,621	\$ 1,448
Income taxes	807	287
Supplemental disclosures of noncash transactions:		
Loans charged off to the allowance for loan and lease losses	\$ 774	\$ 173

See accompanying notes to consolidated financial statements (unaudited).

**CAPSTAR FINANCIAL HOLDINGS, INC. AND SUBSIDIARY**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**NOTE 1 – BASIS OF PRESENTATION**

The unaudited condensed consolidated financial statements as of and for the period ended March 31, 2016 include CapStar Financial Holdings, Inc. and its wholly owned subsidiary, CapStar Bank (the “Bank”), together referred to as the “Company”. The financial statements as of and for the period ended March 31, 2015 and December 31, 2015 only include CapStar Bank because CapStar Financial Holdings, Inc. became the Parent Company of CapStar Bank because the share exchange pursuant to which CapStar Financial Holdings, Inc., a bank holding company and a Tennessee corporation, became the parent company of CapStar Bank had not yet taken place. On February 5, 2016, CapStar Financial Holdings, Inc. acquired all of the Bank’s issued and outstanding shares of common stock and preferred stock, and the Bank became the wholly owned subsidiary of CapStar Financial Holdings, Inc.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) interim reporting requirements, and therefore do not include all information and footnotes necessary for a fair presentation of financial position, results of operations, and cash flows in conformity with U.S. GAAP. All adjustments consisting of normally recurring accruals that, in the opinion of management, are necessary for a fair presentation of the financial position and results of operations for the periods presented have been included. These unaudited condensed consolidated financial statements should be read in conjunction with CapStar Bank’s audited financial statements included elsewhere in this registration statement.

**NOTE 2 – SECURITIES**

The amortized cost and fair value of securities available-for-sale and held-to-maturity at March 31, 2016 and December 31, 2015 are summarized as follows (in thousands):

	March 31, 2016				December 31, 2015			
	Amortized Cost	Gross unrealized gains	Gross unrealized (losses)	Estimated fair value	Amortized Cost	Gross unrealized gains	Gross unrealized (losses)	Estimated fair value
<b>Securities available for sale:</b>								
U. S. government agency securities	\$ 14,650	\$ 167	\$ —	\$ 14,817	\$ 19,562	\$ 16	\$ (36)	\$ 19,542
State and municipal securities	15,221	344	—	15,565	13,776	99	(7)	13,868
Mortgage-backed securities	137,919	395	(564)	137,750	119,828	13	(1,461)	118,380
Asset-backed securities	22,517	—	(841)	21,676	22,814	—	(1,221)	21,593
Total	<u>\$190,307</u>	<u>\$ 906</u>	<u>\$ (1,405)</u>	<u>\$189,808</u>	<u>\$175,980</u>	<u>\$ 128</u>	<u>\$ (2,725)</u>	<u>\$173,383</u>
<b>Securities held to maturity:</b>								
State and municipal securities	\$ 37,027	\$ 3,932	\$ —	\$ 40,959	\$ 37,005	\$ 3,245	\$ —	\$ 40,250
Mortgage-backed securities	5,926	247	—	6,173	6,089	120	—	6,209
Total	<u>\$ 42,953</u>	<u>\$ 4,179</u>	<u>\$ —</u>	<u>\$ 47,132</u>	<u>\$ 43,094</u>	<u>\$ 3,365</u>	<u>\$ —</u>	<u>\$ 46,459</u>

**CAPSTAR FINANCIAL HOLDINGS, INC. AND SUBSIDIARY**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

Security fair values are established by an independent pricing service as of the dates indicated. The difference between amortized cost and fair value reflects current interest rates and represents the potential gain (loss) had the portfolio been liquidated on those dates. Security gains (losses) are realized only in the event of dispositions prior to maturity or other-than-temporary impairment. Securities with unrealized losses as of March 31, 2016 and December 31, 2015, and the length of time they have been in continuous loss positions were as follows (in thousands):

	Less than 12 months		12 months or more		Total	
	Estimated fair value	Gross unrealized (losses)	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses
<b>March 31, 2016</b>						
U. S. government agency securities	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
State and municipal securities	—	—	—	—	—	—
Mortgage-backed securities	16,949	(488)	16,963	(76)	33,911	(564)
Asset-backed securities	—	—	21,676	(841)	21,676	(841)
Total available for sale	<u>\$ 16,949</u>	<u>\$ (488)</u>	<u>\$ 38,638</u>	<u>\$ (916)</u>	<u>\$ 55,587</u>	<u>\$ (1,405)</u>
<b>December 31, 2015</b>						
U. S. government agency securities	\$ 13,100	\$ (36)	\$ —	\$ —	\$ 13,100	\$ (36)
State and municipal securities	3,099	(7)	—	—	3,099	(7)
Mortgage-backed securities	97,154	(1,068)	16,260	(393)	113,414	(1,461)
Asset-backed securities	—	—	21,593	(1,221)	21,593	(1,221)
Total available for sale	<u>\$113,353</u>	<u>\$ (1,111)</u>	<u>\$ 37,853</u>	<u>\$ (1,614)</u>	<u>\$ 151,206</u>	<u>\$ (2,725)</u>

As noted in the table above, as of March 31, 2016, the Company had unrealized losses of \$1.4 million in its investment securities portfolio. The unrealized losses associated with these investment securities are driven by changes in interest rates and the unrealized loss is recorded as a component of equity. These investment securities will continue to be monitored as a part of our ongoing impairment analysis, but are expected to perform even if the rating agencies reduce the credit rating of the bond issuers. Management evaluates the financial performance of the issuers on a quarterly basis to determine if it is probable that the issuers can make all contractual principal and interest payments. If a shortfall in future cash flows is identified, a credit loss will be deemed to have occurred and will be recognized as a charge to earnings and a new cost basis for the security will be established.

Because the Company currently does not intend to sell any investment securities that have an unrealized loss at March 31, 2016, and it is not more-likely-than-not that we will be required to sell these investment securities before recovery of their amortized cost bases, which may be maturity, we do not consider these securities to be other-than-temporarily impaired at March 31, 2016.

**CAPSTAR FINANCIAL HOLDINGS, INC. AND SUBSIDIARY**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

The amortized cost and fair value of debt and equity securities at March 31, 2016, by contractual maturity, are shown below (in thousands). Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

	<u>Available-for-sale</u>		<u>Held-to-maturity</u>	
	<u>Amortized cost</u>	<u>Estimated fair value</u>	<u>Amortized cost</u>	<u>Estimated fair value</u>
Due one to five years	\$ 11,345	\$ 11,540	\$ 15,142	\$ 16,742
Due five to ten years	17,180	17,444	15,983	17,588
Due beyond ten years	1,346	1,398	5,902	6,629
Mortgage-backed securities	137,919	137,750	5,926	6,173
Asset-backed securities	22,517	21,676	—	—
	<u>\$ 190,307</u>	<u>\$ 189,808</u>	<u>\$ 42,953</u>	<u>\$ 47,132</u>

**NOTE 3 – LOANS AND ALLOWANCE FOR LOAN AND LEASE LOSSES**

A summary of the loan portfolio as of March 31, 2016 and December 31, 2015 follows (in thousands):

	<u>March 31, 2016</u>	<u>December 31, 2015</u>
Commercial real estate	\$ 265,710	\$ 251,197
Consumer real estate	90,393	93,785
Construction and land development	52,480	52,522
Commercial and industrial	381,548	353,442
Consumer	8,291	8,668
Other	40,699	50,197
Total	<u>839,121</u>	<u>809,811</u>
Less net unearned income	<u>(1,431)</u>	<u>(1,415)</u>
	837,690	808,396
Allowance for loan and lease losses	<u>(10,299)</u>	<u>(10,132)</u>
	<u>\$ 827,391</u>	<u>\$ 798,264</u>

The adequacy of the allowance for loan and lease losses (ALLL) is assessed at the end of each quarter. The ALLL includes a specific component related to loans that are individually evaluated for impairment and a general component related to loans that are segregated into homogenous pools and collectively evaluated for impairment. The ALLL factors applied to these pools are an estimate of probable incurred losses based on management's evaluation of historical net losses from loans with similar characteristics, which are adjusted by management to reflect current events, trends, and conditions. The adjustments include consideration of the following: changes in lending policies and procedures, economic conditions, nature and volume of the portfolio, experience of lending management, volume and severity of past due loans, quality of the loan review system, value of underlying collateral for collateral dependent loans, concentrations, and other external factors.



**CAPSTAR FINANCIAL HOLDINGS, INC. AND SUBSIDIARY**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

The following tables present the loan balances by category as well as risk rating (in thousands):

	<u>Performing Loans</u>			<u>Total Performing</u>	<u>Total Impaired Loans</u>	<u>Total</u>
	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>			
<b>March 31, 2016</b>						
Commercial real estate	\$264,112	\$ —	\$ 1,598	\$ 265,710	\$ —	\$265,710
Consumer real estate	90,142	—	251	90,393	—	90,393
Construction and land development	52,480	—	—	52,480	—	52,480
Commercial and industrial	360,655	11,019	9,874	381,548	—	381,548
Consumer	8,269	—	22	8,291	—	8,291
Other	40,699	—	—	40,699	—	40,699
<b>Total</b>	<b><u>\$816,357</u></b>	<b><u>\$11,019</u></b>	<b><u>\$ 11,745</u></b>	<b><u>\$ 839,121</u></b>	<b><u>\$ —</u></b>	<b><u>\$839,121</u></b>
<b>December 31, 2015</b>						
Commercial real estate	\$249,249	\$ —	\$ —	\$ 249,249	\$ 1,948	\$251,197
Consumer real estate	93,181	—	—	93,181	604	93,785
Construction and land development	52,522	—	—	52,522	—	52,522
Commercial and industrial	338,106	6,230	9,106	353,442	—	353,442
Consumer	8,543	—	—	8,543	125	8,668
Other	50,197	—	—	50,197	—	50,197
<b>Total</b>	<b><u>\$791,798</u></b>	<b><u>\$ 6,230</u></b>	<b><u>\$ 9,106</u></b>	<b><u>\$ 807,134</u></b>	<b><u>\$ 2,677</u></b>	<b><u>\$809,811</u></b>

None of the Company's loans had a risk rating of "Doubtful" as of March 31, 2016 or December 31, 2015.

**CAPSTAR FINANCIAL HOLDINGS, INC. AND SUBSIDIARY**  
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The following tables detail the changes in the ALLL from December 31, 2014 to December 31, 2015 and December 31, 2015 to March 31, 2016 by loan classification and the allocation of the ALLL (in thousands):

	<u>Commercial real estate</u>	<u>Consumer real estate</u>	<u>Construction and land development</u>	<u>Commercial and industrial</u>	<u>Consumer</u>	<u>Other</u>	<u>Total</u>
<b><u>Allowance for Loan and Lease Losses:</u></b>							
Balances, December 31, 2014	\$ 1,535	\$ 621	\$ 408	\$ 8,540	\$ 75	\$ 103	\$ 11,282
Charged-off loans	—	(173)	—	(3,033)	—	—	(3,206)
Recoveries	31	68	—	299	7	—	405
Provision for loan losses	1,313	452	506	(1,113)	21	472	1,651
Balances, December 31, 2015	<u>\$ 2,879</u>	<u>\$ 968</u>	<u>\$ 914</u>	<u>\$ 4,693</u>	<u>\$ 103</u>	<u>\$ 575</u>	<u>\$ 10,132</u>
Collectively evaluated for impairment	\$ 2,314	\$ 968	\$ 914	\$ 4,693	\$ 103	\$ 575	\$ 9,567
Individually evaluated for impairment	565	—	—	—	—	—	565
Loans acquired with deteriorated credit quality	—	—	—	—	—	—	—
Balances, December 31, 2015	<u>\$ 2,879</u>	<u>\$ 968</u>	<u>\$ 914</u>	<u>\$ 4,693</u>	<u>\$ 103</u>	<u>\$ 575</u>	<u>\$ 10,132</u>
<b><u>Loans:</u></b>							
Collectively evaluated for impairment	\$ 249,249	\$ 93,181	\$ 52,522	\$ 353,442	\$ 8,543	\$50,197	\$807,134
Individually evaluated for impairment	1,948	604	—	—	125	—	2,677
Loans acquired with deteriorated credit quality	—	—	—	—	—	—	—
Balances, December 31, 2015	<u>\$ 251,197</u>	<u>\$ 93,785</u>	<u>\$ 52,522</u>	<u>\$ 353,442</u>	<u>\$ 8,668</u>	<u>\$50,197</u>	<u>\$809,811</u>

**CAPSTAR FINANCIAL HOLDINGS, INC. AND SUBSIDIARY**  
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	Commercial real estate	Consumer real estate	Construction and land development	Commercial and industrial	Consumer	Other	Total
<b>Allowance for Loan and Lease Losses:</b>							
Balances, December 31, 2015	\$ 2,879	\$ 968	\$ 914	\$ 4,693	\$ 103	\$ 575	\$ 10,132
Charged-off loans	(350)	—	—	(300)	(124)	—	(774)
Recoveries	—	—	—	3	—	—	3
Provision for loan losses	441	(5)	(115)	527	134	(44)	938
Balances, March 31, 2016	\$ 2,970	\$ 963	\$ 799	\$ 4,923	\$ 113	\$ 531	\$ 10,299
Collectively evaluated for impairment	\$ 2,542	\$ 963	\$ 799	\$ 4,923	\$ 113	\$ 531	\$ 9,871
Individually evaluated for impairment	428	—	—	—	—	—	428
Loans acquired with deteriorated credit quality	—	—	—	—	—	—	—
Balances, March 31, 2016	\$ 2,970	\$ 963	\$ 799	\$ 4,923	\$ 113	\$ 531	\$ 10,299
<b>Loans:</b>							
Collectively evaluated for impairment	\$ 264,112	\$ 90,153	\$ 52,480	\$ 377,832	\$ 8,291	\$ 40,699	\$ 833,567
Individually evaluated for impairment	1,598	240	—	3,716	—	—	5,554
Loans acquired with deteriorated credit quality	—	—	—	—	—	—	—
Balances, March 31, 2016	\$ 265,710	\$ 90,393	\$ 52,480	\$ 381,548	\$ 8,291	\$ 40,699	\$ 839,121

The following table presents the allocation of the ALLL for each respective loan category with the corresponding percentage of loans in each category to total loans, net of deferred fees as of March 31, 2016 and December 31, 2015:

	March 31, 2016		December 31, 2015	
	Amount	Percent of total loans, net of deferred fees	Amount	Percent of total loans, net of deferred fees
Commercial real estate	\$ 2,970	0.35%	\$ 2,879	0.36%
Consumer real estate	963	0.11	968	0.12
Construction and land development	799	0.10	914	0.11
Commercial and industrial	4,923	0.59	4,693	0.58
Consumer	113	0.01	103	0.01
Other	531	0.06	575	0.07
Total allowance for loan and lease losses	<u>\$10,299</u>	<u>1.22%</u>	<u>\$10,132</u>	<u>1.25%</u>

**CAPSTAR FINANCIAL HOLDINGS, INC. AND SUBSIDIARY**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
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The following table presents the Company's impaired loans that were evaluated for specific loss allowance as of March 31, 2016 and December 31, 2015 (in thousands):

	<u>March 31, 2016</u>			<u>Three months ended March 31, 2016</u>	
	<u>Recorded investment</u>	<u>Unpaid principal balance</u>	<u>Related allowance</u>	<u>Average recorded investment</u>	<u>Interest income recognized</u>
<b>With no related allowance recorded:</b>					
Commercial real estate	\$ —	\$ —	\$ —	\$ —	\$ —
Consumer real estate	240	240	—	422	—
Construction and land development	—	—	—	—	—
Commercial and industrial	3,716	3,716	—	1,858	—
Consumer	—	—	—	63	—
Other	—	—	—	—	—
Subtotal	<u>3,956</u>	<u>3,956</u>	<u>—</u>	<u>2,343</u>	<u>—</u>
<b>With an allowance recorded:</b>					
Commercial real estate	1,598	1,948	428	1,773	—
Consumer real estate	—	—	—	—	—
Construction and land development	—	—	—	—	—
Commercial and industrial	—	—	—	—	—
Consumer	—	—	—	—	—
Other	—	—	—	—	—
Subtotal	<u>1,598</u>	<u>1,948</u>	<u>428</u>	<u>1,773</u>	<u>—</u>
Total	<u>\$ 5,554</u>	<u>\$ 5,904</u>	<u>\$ 428</u>	<u>\$ 4,116</u>	<u>\$ —</u>

**CAPSTAR FINANCIAL HOLDINGS, INC. AND SUBSIDIARY**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
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	December 31, 2015			Year ended December 31, 2015	
	Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment	Interest income recognized
<b>With no related allowance recorded:</b>					
Commercial real estate	\$ —	\$ —	\$ —	\$ 42	\$ —
Consumer real estate	604	681	—	357	—
Construction and land development	—	—	—	—	—
Commercial and industrial	—	—	—	594	—
Consumer	125	125	—	63	5
Other	—	—	—	—	—
Subtotal	<u>729</u>	<u>806</u>	<u>—</u>	<u>1,056</u>	<u>5</u>
<b>With an allowance recorded:</b>					
Commercial real estate	1,948	1,948	565	2,015	—
Consumer real estate	—	—	—	262	—
Construction and land development	—	—	—	568	—
Commercial and industrial	—	—	—	1,309	—
Consumer	—	—	—	—	—
Other	—	—	—	—	—
Subtotal	<u>1,948</u>	<u>1,948</u>	<u>565</u>	<u>4,154</u>	<u>—</u>
<b>Total</b>	<u>\$ 2,677</u>	<u>\$ 2,754</u>	<u>\$ 565</u>	<u>\$ 5,210</u>	<u>\$ 5</u>

*Nonperforming Loans*

The following table presents the recorded investment in non-accrual loans and troubled debt restructurings by class of loans as of March 31, 2016 and December 31, 2015 (in thousands):

	Non-Accrual		Troubled Debt Restructurings	
	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
Commercial real estate	\$ 1,598	\$ 1,948	\$ —	\$ —
Consumer real estate	251	616	—	—
Construction and land development	—	—	—	—
Commercial and industrial	3,716	—	—	—
Consumer	22	125	—	125
Other	—	—	—	—
<b>Total</b>	<u>\$ 5,587</u>	<u>\$ 2,689</u>	<u>\$ —</u>	<u>\$ 125</u>

As of March 31, 2016 and December 31, 2015, all loans classified as nonperforming were deemed to be impaired. The Bank had no loans past due 90 days or more that were not on nonaccrual status as of March 31, 2016 and December 31, 2015.

**NOTE 4 – INCOME TAXES**

The provision for income taxes was \$796,245 and \$658,924 for the three months ended March 31, 2016 and 2015, respectively. The provision represented an effective tax rate of 33.5% and 29.6% for the three months

**CAPSTAR FINANCIAL HOLDINGS, INC. AND SUBSIDIARY**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
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ended March 31, 2016 and 2015, respectively. For the three months ended March 31, 2016 and 2015, the effective tax rate compared favorably to the statutory federal rate of 34% and Tennessee excise tax rate of 6.5% primarily due to investments in qualified municipal securities, company owned life insurance, state tax credits and net of the effect of certain non-deductible expenses. The increase in the March 31, 2016 effective tax rate is due primarily to certain state tax credits that were fully utilized in 2015.

**NOTE 5 – COMMITMENTS AND CONTINGENCIES**

In the normal course of business, the Company has outstanding commitments and contingent liabilities, such as commitments to extend credit and standby letters of credit, which are not included in the accompanying financial statements. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Company uses the same credit policies in making such commitments as it does for instruments that are included in the balance sheet

The following table sets forth outstanding financial instruments whose contract amounts represent credit risk as of March 31, 2016 and December 31, 2015 (in thousands):

	<u>Contract or notional amount</u>	
	<u>March 31, 2016</u>	<u>December 31, 2015</u>
Financial instruments whose contract amounts represent credit risk:		
Unused commitments to extend credit	\$ 407,095	\$ 384,837
Standby letters of credit	15,742	13,450
Total	<u>\$ 422,837</u>	<u>\$ 398,287</u>

The Company is party to litigation and claims arising in the normal course of business. Management believes that the liabilities, if any, arising from such litigation and claims as of March 31, 2016, will not have a material impact on the financial statements of the Company.

**NOTE 6 – REGULATORY CAPITAL REQUIREMENTS**

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies such as the Company.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios set forth in the following table. Management believes, as of March 31, 2016, that the Bank meets all capital adequacy requirements to which it is subject.

**CAPSTAR FINANCIAL HOLDINGS, INC. AND SUBSIDIARY**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
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As of March 31, 2016, the Bank was well capitalized under the regulatory framework for prompt corrective action. There have been no conditions or events since March 31, 2016 that management believes have changed the Bank's category.

The Company's and the Bank's capital amounts and ratios as of March 31, 2016 are presented in the following table (in thousands). Only the Bank's capital amounts and ratios are presented as of December 31, 2015 because the share exchange had not yet occurred.

	<u>Actual</u>		<u>Minimum capital requirement (2)</u>		<u>Minimum to be well-capitalized (1)</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<b>At March 31, 2016:</b>						
Total capital to risk-weighted assets:						
CapStar Financial Holdings, Inc.	\$ 117,999	11.3%	\$83,847	8.0%	\$ N/A	N/A
CapStar Bank	117,999	11.3	83,847	8.0	104,809	10.0
Tier I capital to risk-weighted assets:						
CapStar Financial Holdings, Inc.	107,534	10.3	62,886	6.0	N/A	N/A
CapStar Bank	107,534	10.3	62,886	6.0	83,847	8.0
Common equity Tier 1 capital to risk weighted assets:						
CapStar Financial Holdings, Inc.	91,716	8.8	47,164	4.5	N/A	N/A
CapStar Bank	91,716	8.8	47,164	4.5	68,126	6.5
Tier I capital to average assets:						
CapStar Financial Holdings, Inc.	107,534	9.2	46,949	4.0	N/A	N/A
CapStar Bank	107,534	9.2	46,949	4.0	58,686	5.0
<b>At December 31, 2015:</b>						
Total capital to risk-weighted assets	\$ 116,047	11.4%	\$81,224	8.0%	\$101,530	10.0%
Tier I capital to risk-weighted assets	105,749	10.4	60,918	6.0	81,224	8.0
Common equity tier 1 capital	90,272	8.9	45,688	4.5	65,994	6.5
Tier I capital to average assets	105,749	9.3	45,328	4.0	56,660	5.0

- (1) – For the Company to be well-capitalized, the Bank must be well-capitalized and the Company must not be subject to any written agreement, order, capital directive, or prompt corrective action directive issued by the Federal Reserve to meet and maintain a specific capital level for any capital measure.
- (2) – For the calendar year 2016, the Company must maintain a capital conservation buffer of Tier 1 common equity capital in excess of minimum risk-based capital ratios by at least 0.625% to avoid limits on capital distributions and certain discretionary bonus payments to executive officers and similar employees.

**CAPSTAR FINANCIAL HOLDINGS, INC. AND SUBSIDIARY**  
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**(UNAUDITED)**

**NOTE 7 – EARNINGS PER SHARE**

The following is a summary of the basic and diluted earnings per share calculation for the three months ended March 31, 2016 and 2015 (in thousands except share data):

	<u>2016</u>	<u>2015</u>
<b>Basic net income per share calculation:</b>		
Numerator – Net income	\$ 1,584	\$ 1,568
Denominator – Average common shares outstanding	8,628,683	8,493,040
Basic net income per share	<u>\$ 0.18</u>	<u>\$ 0.18</u>
<b>Diluted net income per share calculation:</b>		
Numerator – Net income	\$ 1,584	\$ 1,568
Denominator – Average common shares outstanding	8,628,683	8,493,040
Dilutive shares contingently issuable	<u>1,943,510</u>	<u>1,824,466</u>
Average diluted common shares outstanding	<u>10,572,193</u>	<u>10,317,506</u>
Diluted net income per share	<u>\$ 0.15</u>	<u>\$ 0.15</u>



Shares



**CAPSTAR FINANCIAL HOLDINGS, INC.**

Common Stock

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**PROSPECTUS**

Prospectus dated \_\_\_\_\_, 2016

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**Keefe, Bruyette & Woods**  
*A Stifel Company*

**Sandler O'Neill + Partners, L.P.**

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Until \_\_\_\_\_, 2016 (the 25<sup>th</sup> day after the date of this prospectus), all dealers effecting transactions in our common stock, whether or not participating in this offering, may be required to deliver a prospectus. This delivery requirement is in addition to the obligation of dealers to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

**PART II**  
**INFORMATION NOT REQUIRED IN PROSPECTUS**

**Item 13. Other Expenses of Issuance and Distribution.**

The following table sets forth all costs and expenses, other than underwriting discounts and commissions, in connection with the sale of shares of our common stock being registered. We will pay for such costs and expenses. All amounts shown are estimates, except for the SEC registration fee, the FINRA filing fee and the NASDAQ listing fee:

SEC registration fee	\$	*
FINRA filing fee		*
NASDAQ listing fee		*
Transfer agent and registrar fees and expenses		*
Legal fees and expenses		*
Accounting fees and expenses		*
Printing fees and expenses		*
Blue sky qualification fees and expenses		*
Miscellaneous		*
Total	\$	*

\* To be completed by amendment.

**Item 14. Indemnification of Directors and Officers.**

*Tennessee Business Corporation Act*

The TBCA provides that a corporation may indemnify its directors and officers against liability incurred in connection with a proceeding if (i) the director or officer acted in good faith, (ii) in the case of conduct in his or her official capacity with the corporation, the director or officer reasonably believed such conduct was in the corporation's best interests and in all other cases, the director or officer reasonably believed that his or her conduct was at least not opposed to the best interests of the corporation and (iii) in connection with any criminal proceeding, the director or officer had no reasonable cause to believe that his or her conduct was unlawful. Conversely, the TBCA provides that a corporation may not indemnify a director or officer (i) in connection with a proceeding by or in the right of the corporation in which the director or officer was adjudged liable to the corporation or (ii) in connection with any other proceeding charging improper personal benefit to the director or officer, whether or not involving action in the director or officer's official capacity, in which the director or officer was adjudged liable on the basis that personal benefit was improperly received by the director or officer. Unless limited by the corporation's charter, in cases where the director or officer is wholly successful, on the merits or otherwise, in the defense of any proceeding to which the director or officer was a party because the director or officer is or was a director or officer of the corporation, the TBCA mandates that the corporation indemnify the director or officer against reasonable expenses incurred in connection with the proceeding. With respect to the advancement of expenses, the TBCA provides that a corporation may pay for or reimburse the reasonable expenses incurred by a director or officer who is a party to a proceeding in advance of final disposition of the proceeding if (i) the director or officer furnishes the corporation a written affirmation of the director or officer's good faith belief that the director or officer has met the applicable standard of conduct described above, (ii) the director or officer furnishes the corporation a written undertaking to repay the advance if it is ultimately determined that the director or officer is not entitled to indemnification and (iii) a determination is made that the facts then known to those making the advancement determination would not preclude the director or officer from being indemnified. Notwithstanding the foregoing, the TBCA provides that, unless the corporation's charter provides otherwise, a court of competent jurisdiction, upon application, may order that

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director or officer be indemnified if (i) the director or officer is entitled to mandatory indemnification as described above, in which case the court will also order the corporation to pay the reasonable fees of such director or officer incurred to obtain the court-ordered indemnification or (ii) in consideration of all relevant circumstances, the court determines that the director or officer is fairly and reasonably entitled to indemnification, notwithstanding the fact that (a) the director or officer did not meet the applicable standard of conduct described above or (b) the director or officer was adjudged liable to the corporation in a proceeding by or in right of the corporation or was adjudged liable on the basis that he or she received improper personal benefit, in which case such director or officer's indemnification would be limited to reasonable expenses incurred. The TBCA also permits a corporation to purchase and maintain insurance on behalf of any director or officer regarding liability asserted against or incurred by the director or officer in his or her capacity as a director or officer whether or not the corporation would have the ability to indemnify the officer or director from the same liability under the TBCA.

The TBCA is not exclusive of rights relating to indemnification and advancement of expenses to which a director may be entitled in the corporation's charter, bylaws, or, when authorized by such charter or bylaws, in a resolution of the shareholders or directors or by agreement. A corporation may not indemnify a director if a final judgment adverse to such director establishes his or her liability for any breach of loyalty to the corporation or its shareholders, for any acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, or for unlawful distributions. A corporation may indemnify and advance expenses to an officer who is not a director to the extent, consistent with public policy, that may be provided in its charter, its bylaws, an action of its board of directors or contract.

### *Charter and Bylaws*

Our charter states that, to the fullest extent permitted by the TBCA, we will indemnify our directors and officers from and against any and all expenses, liabilities and other matters covered by the TBCA. Such right of indemnification is not exclusive of rights to which directors and officers may be entitled under any bylaw, vote of shareholders or disinterested directors, or otherwise, both as to action in their official capacity and as to action in another capacity while holding such office, and such right of indemnification will continue as to a director or officer who has ceased to be a CapStar director or officer.

Pursuant to our bylaws, a CapStar director or officer who was or is made a party or is threatened to be made a party to or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that the director or officer is or was a CapStar director or officer or is or was serving at CapStar's request as a director, officer, manager or employee of an affiliate or of another entity, whether the basis of such proceeding is an alleged action in an official capacity as a director, officer, manager, employee or agent or in any other capacity while serving as a director, officer, manager, or employee or agent, will be indemnified and held harmless by us to the fullest extent authorized by the TBCA against all expense, liability and loss reasonably incurred by the director or officer if the director or officer acted in good faith and in a manner the director or officer reasonably believed to be in or not opposed to our best interests or the best interests of any other entity, and, with respect to any criminal action or proceeding, had no reasonable cause to believe that the director or officer's conduct was unlawful. Such right of indemnification will continue as to a director or officer who has ceased to be a CapStar director or officer and includes the right to require us to pay the expenses incurred in defending a proceeding in advance of its final disposition, provided, however, that an advancement of expenses incurred by a director or officer will be made only upon delivery to us of an undertaking to repay all amounts advanced if the director or officer is determined not to be entitled to be indemnified for such expenses. The rights to indemnification and to the advancement of expenses provided by our bylaws are not exclusive of any other right which a director or officer may have or acquire under any statute, our charter, bylaws, any agreement, any vote of shareholders or disinterested directors or otherwise. In addition, our bylaws provide that we may purchase and maintain insurance on behalf of any director or officer against any liability asserted against and incurred by the director or officer in his or her capacity as a director, officer, employee or agent whether or not we would have had the power to indemnify against such liability.

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The above is a general summary of certain indemnity provisions of the TBCA, our charter and our bylaws and is subject, in all cases, to the specific and detailed provisions of the TBCA, our charter and our bylaws.

### *Insurance and Contractual Arrangements*

We maintain directors' and officers' liability insurance against any actual or alleged error, misstatement, misleading statement, act, omission, neglect or breach of duty by any director or officer of the Company or any direct or indirect subsidiary, excluding certain matters including fraudulent, dishonest or criminal acts or self-dealing.

Reference is made to the form of underwriting agreement to be filed as Exhibit 1.1 to this Registration Statement for provisions providing that the underwriters are obligated under certain circumstances to indemnify our directors, officers and controlling persons against certain liabilities under the Securities Act.

### **Item 15. Recent Sales of Unregistered Securities.**

Within the past three years, we have engaged in the following transactions that were not registered under the Securities Act.

**Acquisition of Farmington Financial Group, LLC.** On February 3, 2014, the bank acquired all of the assets and liabilities of Farmington Financial Group, LLC, or Farmington, for approximately \$6.4 million in total consideration. Of the total consideration, 100,000 shares of common stock were issued for an aggregate amount of approximately \$1.15 million in value. No underwriter or placement agent was involved in the issuance or sale of any of the shares of common stock, and no underwriting discounts or commissions were paid. The shares of common stock were issued under an exemption from registration pursuant to Section 3(a)(11) and Section 4(a)(2) of the Securities Act as a transaction by an issuer in an intrastate offering and as a transaction by an issuer not involving any public offering.

**Share Exchange and Reorganization.** On February 5, 2016, we entered into a share exchange with the shareholders of the bank pursuant to which (i) we acquired all of the bank's issued and outstanding shares of common stock and preferred stock and (ii) the bank became our wholly owned subsidiary. In the share exchange, 8,625,251 shares of the bank's common stock were exchanged for and converted into 8,625,251 shares of our common stock, and 1,609,756 shares of the bank's preferred stock were exchanged for and converted into 1,609,756 shares of our preferred stock. In addition, we assumed 181,867 shares of restricted stock, 796,069 warrants and 998,500 stock options that were previously issued by the bank. No underwriter or placement agent was involved in this transaction, and no underwriting discounts or commissions were paid. The issuance and sale of the securities in this transaction were made in reliance upon exemptions from registration requirements under Section 3(a)(12) of the Securities Act.

**Equity Awards and Grants.** During the period between July 1, 2013 and the filing of this registration statement, we have granted 105,000 stock options and 259,982 restricted shares of common stock pursuant to the CapStar Bank 2008 Stock Incentive Plan and the CapStar Financial Holdings, Inc. Stock Incentive Plan to our employees and directors. No underwriter or placement agent was involved in the issuance or sale of any of these securities, and no underwriting discounts or commissions were paid. The issuance and sale of the securities described above were made in reliance upon exemptions from registration requirements under Section 4(a)(2) of the Securities Act and pursuant to Rule 701 promulgated under the Securities Act.

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### Item 16. Exhibits.

(a) Exhibits. The following exhibits are filed as part of this registration statement:

<u>Exhibit Number</u>	<u>Description</u>
1.1	Form of Underwriting Agreement*
2.1	Agreement and Plan of Share Exchange, dated as of December 1, 2015, between CapStar Bank and CapStar Financial Holdings, Inc.
3.1	Charter of CapStar Financial Holdings, Inc.
3.2	Bylaws of CapStar Financial Holdings, Inc.
4.1	Form of Common Stock Certificate*
4.2	Amended and Restated Shareholders' Agreement, dated as of February 5, 2016, among CapStar Financial Holdings, Inc., CapStar Bank, Corsair III Financial Services Capital Partners, L.P., Corsair III Financial Services Offshore 892 Partners, L.P., North Dakota Investors, LLC and certain other persons named therein.*
5.1	Opinion of Waller Lansden Dortch & Davis, LLP*
10.1	Fifth Amended and Restated Executive Employment Agreement between CapStar Financial Holdings, Inc. and Claire W. Tucker, dated as of June 27, 2016
10.2	Third Amended and Restated Executive Employment Agreement between CapStar Financial Holdings, Inc. and Robert B. Anderson, dated as of May 31, 2016
10.3	Third Amended and Restated Executive Employment Agreement between CapStar Bank and Dandridge W. Hogan, dated as of June 23, 2016
10.4	Executive Employment Agreement between CapStar Bank and Christopher Tietz, dated as of June 28, 2016
10.5	CapStar Financial Holdings, Inc. Stock Incentive Plan
10.6	CapStar Financial Holdings, Inc. form of Restricted Stock Agreement
10.7	CapStar Financial Holdings, Inc. form of Non-Qualified Stock Option Agreement
10.8	CapStar Financial Holdings, Inc. form of Restricted Stock Agreement to replace awards of CapStar Bank Restricted Stock
10.9	CapStar Financial Holdings, Inc. form of Non-Qualified Stock Option Agreement to replace awards of CapStar Bank Options
10.10	Form of Common Stock Purchase Warrant Agreement
10.11	Form of Non-Voting Common Stock Warrant
21.1	Subsidiaries of CapStar Financial Holdings, Inc.
23.1	Consent of Waller Lansden Dortch & Davis, LLP (contained in Exhibit 5.1)*
23.2	Consent of KPMG LLP*
24.1	Power of attorney (see page II-6 to this registration statement on Form S-1)

\* To be filed by amendment.

(b) Financial Statement Schedules. None.

**Item 17. Undertakings.**

The undersigned registrant hereby undertakes:

- (a) To provide to the underwriter at the closing specified in the underwriting agreement certificates in such denominations and registered in such names as required by the underwriter to permit prompt delivery to each purchaser.
- (b) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that, in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.
- (c) That:
  - (1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective; and
  - (2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

**SIGNATURES**

Pursuant to the requirements of the Securities Act, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Nashville, State of Tennessee, on \_\_\_\_\_, 2016.

CAPSTAR FINANCIAL HOLDINGS, INC.

By: \_\_\_\_\_  
Claire W. Tucker  
Director, President and Chief Executive Officer

**POWERS OF ATTORNEY**

KNOW ALL PERSONS BY THESE PRESENTS, that each of the undersigned officers and/or directors whose signature appears below constitutes and appoints Claire W. Tucker and Robert B. Anderson, and each of them, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her in his or her name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) and exhibits to this Registration Statement, and any other registration statement for the same offering pursuant to Rule 462(b) under the Securities Act of 1933, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing which said attorney-in-fact and agent may deem necessary or advisable to be done or performed in connection with any or all of the above-described matters, as fully as each of the undersigned could do if personally present and acting, hereby ratifying and confirming all that said attorneys-in-fact and agents or either of them, or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof. This power of attorney may be signed in several counterparts.

Pursuant to the requirements of the Securities Act, this registration statement has been signed by the following persons in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
_____ Claire W. Tucker	Director, President and Chief Executive Officer (Principal Executive Officer)	, 2016
_____ Robert B. Anderson	Chief Financial Officer and Chief Administrative Officer (Principal Financial Officer and Principal Accounting Officer)	, 2016
_____ Dennis C. Bottorff	Chairman	, 2016
_____ L. Earl Bentz	Director	, 2016
_____ Thomas R. Flynn	Director	, 2016

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<u>Signature</u>	<u>Title</u>	<u>Date</u>
_____ Julie D. Frist	Vice Chair	, 2016
_____ Louis A. Green III	Director	, 2016
_____ Dale W. Polley	Director	2016
_____ Stephen B. Smith	Director	2016
_____ Richard E. Thornburgh	Director	, 2016
_____ James S. Turner, Jr.	Director	, 2016
_____ Toby S. Wilt	Director	, 2016



**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description</b>
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24.1	Power of attorney (see page II-6 to this registration statement on Form S-1)

\* To be filed by amendment.

**AGREEMENT AND PLAN OF SHARE EXCHANGE**

**THIS AGREEMENT AND PLAN OF SHARE EXCHANGE** (the "Agreement") is executed and delivered as of December 1, 2015, by and between **CAPSTAR FINANCIAL HOLDINGS, INC.**, a Tennessee corporation ("Holding Company"), and **CAPSTAR BANK**, a Tennessee-chartered banking corporation ("Bank"), for the purpose of effecting a statutory share exchange to facilitate the formation of a one-bank holding company that will own all of the issued and outstanding shares of Bank.

WHEREAS, the Boards of Directors of each of the Bank and the Holding Company desire to establish a holding company structure pursuant to which the Bank will become a wholly-owned subsidiary of the Holding Company;

WHEREAS, The Boards of Directors of each of the Bank and the Holding Company have deemed advisable a share exchange transaction between the Bank and the Holding Company in order to establish the holding company structure and have approved this Agreement and authorized its execution and delivery;

WHEREAS, to effect such reorganization, the Bank has organized the Holding Company, and the Bank and the Holding Company are entering into this Agreement pursuant to which the shareholders of the Bank (collectively, the "Shareholders" and individually, a "Shareholder") will receive shares of the common stock and preferred stock of the Holding Company in exchange for their shares of Bank common stock and Bank preferred stock, as applicable;

WHEREAS, the parties intend that the share exchange shall qualify as a reorganization within the meaning of Section 368(a)(1)(B) of the Internal Revenue Code of 1986, as amended ("IRC"); and

WHEREAS, the parties intend that the issuance of shares of the common stock and preferred stock of Holding Company in the share exchange be exempt from registration under the Securities Act of 1933, as amended (the "1933 Act"), pursuant to the exemption contained in Section 3(a)(12) of the 1933 Act.

NOW, THEREFORE, in consideration of the mutual promises and conditions herein contained, the receipt and legal sufficiency of which are hereby acknowledged, the Bank and the Holding Company hereby mutually agree to an exchange of shares on the terms and conditions and in the manner and on the basis hereinafter provided:

**ARTICLE I**  
**EXCHANGE OF THE SHARES**

1.01 The Share Exchange.

(a) Generally. Subject to the terms and conditions herein set forth, at the Effective Time (defined below) and in accordance with the Tennessee Business Corporation Act ("TBCA"), (i) each shareholder of record of Bank common stock, par value \$1.00 per share ("Bank Common Stock"), as of the Effective Time will receive one (1) share of Holding Company common stock, par value one \$1.00 per share ("Holding Company Common Stock")

in exchange for each share of Bank Common Stock such Bank Shareholder (as defined below) owns of record on such date, and (ii) each shareholder of record of Bank preferred stock, par value \$1.00 per share ("Bank Preferred Stock" and together with Bank Common Stock, "Bank Stock"), as of the Effective Time will receive one (1) share of Holding Company preferred stock, par value \$1.00 per share ("Holding Company Preferred Stock" and together with the Holding Company Common Stock, "Holding Company Stock"), in exchange for each share of Bank Preferred Stock such Bank Shareholder owns of record on such date (the "Share Exchange"). On the Closing Date (defined below), Holding Company and Bank shall execute and file with the Secretary of State of Tennessee Articles of Share Exchange in substantially the form of Exhibit A attached to this Agreement (the "Articles of Share Exchange"). Holders of Bank Stock are referred to herein as "Bank Shareholders."

(b) Exchange and Conversion of Shares. Subject to the provisions of this Article I, at the Effective Time, by virtue of the Share Exchange and without any action on the part of Bank or Holding Company, or the shareholders of either of the foregoing:

(i) Each share of Bank Common Stock issued and outstanding at the Effective Time shall be exchanged for and converted into one (1) share of Holding Company Common Stock and the Holding Company shall be deemed to own and hold such number of shares of Bank Common Stock as are exchanged and converted.

(ii) Each share of Bank Preferred Stock issued and outstanding at the Effective Time shall be exchanged for and converted into one (1) share of Holding Company Preferred Stock and the Holding Company shall be deemed to own and hold such number of shares of Bank Preferred Stock as are exchanged and converted.

(iii) Any shares of Holding Company Stock outstanding immediately prior to the Effective Time shall be canceled.

(iv) After the Effective Time, the Holding Company shall be the sole shareholder of the Bank and no Bank Shareholder shall have any rights arising out of or relating to Bank Stock except that such Bank Shareholder shall thereafter be deemed to be a shareholder of the Holding Company with the same number of shares of Holding Company Stock as such Bank Shareholder owned of Bank Stock immediately prior to the Effective Time. Each Bank Shareholder shall be entitled to receive a certificate or certificates evidencing his or her stock in the Holding Company.

(c) Assumption of Restricted Stock Agreements, Warrants and Stock Options. As of the Effective Time of the Share Exchange, all rights with respect to the Bank Stock issuable pursuant to Restricted Stock Agreements entered into by the Bank ("Bank Restricted Stock"), the exercise of warrants issued by the Bank (the "Bank Warrants") and/or stock options (the "Bank Options") granted by the Bank under stock option plans of the Bank (the "Bank Stock Option Plans"), which are outstanding at the Effective Time of the Share Exchange, whether or not such Bank Restricted Stock, Bank Warrants or Bank Options are then vested or exercisable, shall, subject to this section, be assumed by the Holding Company in accordance with the terms of the particular Bank Restricted Stock, Bank Warrant and/or Bank Stock Option Plan under which such Bank Restricted Stock, Bank Warrants and/or Bank Options were issued and the

agreement by which such Bank Restricted Stock, Bank Warrants and/or Bank Options are evidenced. From and after the Effective Time of the Share Exchange, (i) each Bank Restricted Stock, Bank Warrant and Bank Option assumed by the Holding Company hereunder may be exercised solely for Holding Company Stock, (ii) the number of shares of Holding Company Stock subject to such Bank Restricted Stock, Bank Warrant and Bank Option shall be equal to the number of shares of Bank Stock subject to such Bank Restricted Stock, Bank Warrant and Bank Option immediately prior to the Effective Time, and (iii) the per share exercise price under each such Bank Warrant and Bank Option shall be the same as the per share exercise price of the Bank Stock under the Bank Warrant and Bank Option immediately prior to the Effective Time.

(d) Reservation of Stock. At all times after the Effective Time of the Share Exchange, the Holding Company shall reserve for issuance such number of shares of Holding Company Stock as shall be necessary to permit the exercise of the Bank Restricted Stock, Bank Warrants and Bank Options in the manner contemplated by the Agreement.

(e) IRC Compliance. It is intended that the foregoing assumption of the Bank Restricted Stock, Bank Warrants and Bank Options shall satisfy all the requirements under Section 424(a) of the IRC and be undertaken in a manner that will not constitute a “modification” as defined in Section 424(h) of the IRC as to any stock option which is an incentive stock option as defined in Section 422 of the IRC.

1.02 Tax-Free Reorganization. Holding Company and Bank intend that the Share Exchange constitute a “reorganization” within the meaning of section 368(a)(1)(B) of the IRC, and that this Agreement constitute a plan of reorganization thereunder. Neither Holding Company nor Bank shall take any position inconsistent with such intentions.

1.03 Shareholders’ Agreement. At the Effective Time, the Holding Company will enter into an Amended and Restated Shareholders’ Agreement (the “Amended Shareholders’ Agreement”) with the Bank, Corsair III Financial Services Capital Partners, L.P., and Corsair III Financial Services Offshore 892 Partners, L.P. (each, a “Corsair Fund” and, collectively, the “Corsair Funds”), North Dakota Investors, LLC, and, together with the Corsair Funds, the “Corsair Investors”) and certain other persons (the “Other Shareholders”) listed on the signature pages to that certain Shareholders’ Agreement dated June 2008 by and among the Bank, the Corsair Investors, and the Other Shareholders (the “Shareholders’ Agreement”) in substantially the same form as the Shareholders Agreement; provided, however, that (i) all references in the Shareholders’ Agreement to “Bank Securities” shall be referred to as “Holding Company Securities” in the Amended Shareholders’ Agreement; and (ii) all references to “Board” in the Shareholders’ Agreement shall mean the Boards of Directors of the Bank and the Holding Company in the Amended Shareholders’ Agreement.

1.04 Board of Directors. At the Effective Time, the Board of Directors of the Holding Company will be comprised of the members of the Board of Directors of the Bank and such persons shall continue in office until their successors have been duly elected and qualified or until their earlier resignation or removal in accordance with the Bylaws of the Holding Company. At the Effective Time, the executive officers of the Holding Company will be comprised of (i) Claire W. Tucker, Chief Executive Officer; and (ii) Robert B. Anderson, Chief Administrative Officer, Chief Financial Officer and Secretary. In addition, on the Effective Date, Dan W. Hogan will become Chief Executive Officer of the Bank.

1.05 Effective Time. As soon as practicable following the satisfaction or waiver, if permissible, of the conditions set forth in Article III, the Share Exchange shall be consummated by filing with the Secretary of State of the State of Tennessee the Articles of Share Exchange in accordance with the TBCA. The Share Exchange shall become effective at such time as the Articles of Share Exchange are duly filed, or at such later time as the Bank and the Holding Company shall specify in the Articles of Share Exchange (the time the Share Exchange becomes effective being the "Effective Time").

1.06 Rights of Dissenting Shareholders. Notwithstanding anything in this Agreement to the contrary, shares of Bank Stock which are held by any record holder who does not vote in favor of the Share Exchange and who gives timely written notice to the Bank of intent to demand payment in accordance with Section 48-23-202 of the TBCA, who demands payment and deposits share certificates in accordance with Section 48-23-204 of the TBCA, and who otherwise perfects rights of appraisal under Chapter 23 of the TBCA (the "Dissenting Shares") shall not be exchanged for the consideration set forth in Section 1.01 of this Agreement but shall become the right to receive such consideration as may be determined to be due in respect of such Dissenting Shares pursuant to Chapter 23 of the TBCA; provided, however, that any holder of Dissenting Shares who shall have failed to perfect or shall have withdrawn or lost his rights to appraisal of such Dissenting Shares, in each case under the TBCA, shall forfeit the right to appraisal of such Dissenting Shares, and such Dissenting Shares shall be deemed to have been exchanged, as of the Effective Time, for the consideration set forth in Section 1.01 of this Agreement. Any such payments to the holders of Dissenting Shares shall be paid from funds of the Bank, and not from funds of the Holding Company. Notwithstanding anything to the contrary contained in this Section 1.06, if (i) the Share Exchange is rescinded or abandoned or (ii) if the Shareholders revoke the authority to effect the Share Exchange, then the right of any Shareholder to be paid the fair value of such Shareholder's Dissenting Shares shall cease.

1.07 Deliveries. At the At the Effective Time, each outstanding share of Bank Stock, by virtue of the Share Exchange and without any further action on the part of the holders thereof, shall be exchanged for one share of Holding Company Stock (except for Dissenting Shares). After the Share Exchange, Bank Shareholders will be entitled to exchange their certificates evidencing Bank Stock for new certificates representing shares of Holding Company Stock. Promptly after the Effective Time, an agent appointed by the Holding Company and the Bank will notify shareholders of record by mail of the procedures to be followed in order to surrender their certificates evidencing Bank Stock to the transfer agent for the Holding Company and the Bank in exchange for certificates representing an identical number of shares of Holding Company Stock. From the Effective Time until the receipt by the transfer agent of the certificates for such Bank Stock, each certificate for such Bank Stock shall only evidence shares of Holding Company Stock, and shall no longer represent shares of Bank Stock.

**ARTICLE II**  
**THE CLOSING**

2.01 Time, Date and Place of Closing; Articles of Share Exchange. A closing (the "Closing") shall be held as described herein on the date described herein (the "Closing Date"). The deliveries contemplated by this Agreement to be made at the Closing shall be made at the offices of Waller Lansden Dortch & Davis, LLP at 511 Union Street, Suite 2700, Nashville, TN on January 31, 2016, or, if earlier or later, one business day after all the conditions to Closing have been satisfied or such other date and location as may be mutually agreeable, and immediately thereafter the Articles of Share Exchange to be executed and delivered shall be filed with the Secretary of State of Tennessee.

2.02 Obligations of the Parties Pending The Effective Time. The Bank and the Holding Company shall, as soon as practicable take the following action:

(a) This Agreement shall be duly submitted to the Bank Shareholders for the purpose of considering and acting upon the Share Exchange in the manner required by law and their respective charters and bylaws. The Bank shall use its best efforts to obtain the requisite approval of its shareholders for the Share Exchange and the transactions contemplated by this Agreement, and the Bank and the Holding Company shall, through their respective officers, execute and file with the appropriate regulatory authorities, including the Board of Governors of the Federal Reserve System and the Tennessee Department of Financial Institutions, such applications, exhibits, documents and papers as shall be necessary or appropriate to secure approval of this Agreement, the Share Exchange and the other transactions contemplated hereby, as required by applicable statutes, rules and regulations; and

(b) The Holding Company shall use its best efforts to cause the issuance of Holding Company Common Stock and Holding Company Preferred Stock made pursuant to this Agreement and the Share Exchange to be qualified or exempted under the 1933 Act and the securities and blue sky laws of each state in which it deems such qualification or exemption to be required.

**ARTICLE III**  
**CONDITIONS PRECEDENT TO THE SHARE EXCHANGE**

The Share Exchange shall be subject to the satisfaction of the following conditions:

(a) Approval of this Agreement and the Share Exchange set forth herein by affirmative vote of shareholders holding a majority of the shares of Bank Stock entitled to be cast on the Share Exchange as required by law, and all requisite approval by the Board of Directors and the shareholders, if any, of the Holding Company;

(b) Approvals to the extent required, by the Board of Governors of the Federal Reserve System and the Tennessee Department of Financial Institutions of the Share Exchange and the transactions related thereto;

(c) Approval, to the extent required, of any other governmental or regulatory authority;

(d) Receipt of a favorable opinion with respect to the federal tax consequences of the proposed Share Exchange from the Bank's counsel;

(e) All necessary and appropriate actions shall have been taken such that, from and after the Effective Time, all outstanding Bank Restricted Stock, Bank Warrants and Bank Options shall be exercisable for an equal number of shares of Holding Company Stock (and not for shares of Bank Stock), on the same terms and conditions as Bank Restricted Stock, Bank Warrants and Bank Options were previously exercisable for shares of Bank Stock;

(f) Neither the Bank nor the Holding Company shall be subject as of the Effective Time to any order, decree or injunction of a court of competent jurisdiction that enjoins or prohibits the consummation of the Share Exchange, nor shall there be pending an action, suit or proceeding by any governmental authority that seeks injunctive or other relief in connection with the transactions contemplated hereby; and

(g) The Amended Shareholders' Agreement shall have been executed by all parties.

**ARTICLE IV**  
**TERMINATION AND ABANDONMENT**

In the event that:

(a) Any action, suit, proceeding or claim has been instituted, made or threatened relating to the Share Exchange which shall make consummation of the Share Exchange inadvisable in the opinion of the Board of Directors of the Bank or the Company;

(b) Any action, consent, approval, opinion, ruling or condition required by this Agreement shall not have been obtained or met;

(c) The Bank's Board of Directors determines in its sole discretion that the consummation of the Share Exchange may result in having to pay dissenting shareholders an amount of cash that would cause a materially adverse impact on the Bank's operations;

(d) For any other reason the consummation of the Share Exchange is deemed inadvisable in the opinion of the Bank's or the Holding Company's Board of Directors; or

(e) Upon mutual agreement of the Bank and the Holding Company;

then this Agreement may be terminated at any time before consummation of the Share Exchange by written notice, approved or authorized by the Board of Directors of the party wishing to terminate, to the other party. Upon termination by written notice, this Agreement shall be void and of no further effect, and there shall be no liability by reason of this Agreement or the termination hereof on the part of the Bank, the Company or their directors, officers, employees, agents or shareholders.

**ARTICLE V**  
**MISCELLANEOUS PROVISIONS**

5.01 Good Faith; Further Assurances. The parties to this Agreement shall in good faith undertake to perform their obligations under this Agreement, to satisfy all conditions, and to cause the transaction contemplated by this Agreement to be carried out promptly in accordance with the terms of this Agreement. Upon the execution of this Agreement and thereafter, the parties hereto shall do such things as may be reasonably requested by the other parties hereto in order more effectively to consummate or document the transactions contemplated by this Agreement.

5.02 Assignment. This Agreement is binding upon the parties hereto, and their respective legal representatives, heirs, successors and assigns, and inures to the benefit of the parties and their respective legal representatives, heirs, legatees, devisees, beneficiaries and other permitted successors and assigns (and to or for the benefit of no other person whatsoever). No assignment or transfer of rights and obligations hereunder shall be made except with the prior written consent of the parties hereto.

5.03 Captions. The titles or captions of articles, sections and subsections contained in this Agreement are inserted only as a matter of convenience and for reference and in no way define, limit, extend or describe the scope of this Agreement or the intent of any provision hereof and shall not be considered in the interpretation or construction of this Agreement in any proceeding.

5.04 Amendment; Waiver; Remedies Cumulative. This Agreement may not be altered or amended except in writing signed by Holding Company and Bank. The failure of any party hereto at any time to require performance of any provisions hereof shall in no manner affect the right to enforce the same. No waiver by any party hereto of any condition, or of the breach of any term, provision, warranty, representation, agreement or covenant contained in this Agreement, whether by conduct or otherwise, in any one or more instances shall be deemed or construed as a further or continuing waiver of any such condition or breach or a waiver of any other condition or of the breach of any other term, provision, warranty, representation, agreement or covenant herein contained.

5.05 No Third-Party Beneficiaries. With the exception of the parties to this Agreement and each of their legal representatives, heirs, and permitted successors and assigns, there shall exist no right of any person to claim a beneficial interest in this Agreement or any rights arising by virtue of this Agreement.

5.06 Exhibits. All Exhibits to this Agreement are hereby incorporated into this Agreement and hereby are made a part of this Agreement as if set out in full in the first place that reference is made thereto.

5.07 Counterparts; Entire Agreement. This Agreement may be executed by each party upon a separate copy, and in such case one counterpart of this Agreement shall consist of enough of such copies to reflect the signatures of all of the parties to this Agreement. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, and it



shall not be necessary in making proof of this Agreement or the terms of this Agreement to produce or account for more than one of such counterparts. One or more execution pages may be detached from one copy of this Agreement and attached to another copy in order to form one or more counterparts. This Agreement shall become effective when one or more counterparts have been executed by Holding Company and Bank and delivered to such parties. This Agreement together with all Exhibits hereto and all other agreements and undertakings provided for hereunder shall constitute the entire agreement of the parties and supersedes any and all prior agreements, oral or written, with respect to the subject matter contained herein. There are no other agreements, representations, warranties or other understandings between the parties in connection with this transaction which are not set forth in this Agreement and Exhibits hereto.

5.08 Severability. Any determination by any court of competent jurisdiction of the invalidity of any provision of this Agreement that is not essential to accomplishing its purposes shall not affect the validity of any other provision of this Agreement, which shall remain in full force and effect and which shall be construed as valid under applicable law.

5.09 Choice of Law. This Agreement shall be governed by and construed in accordance with the substantive laws and procedural procedures of the State of Tennessee, without regard to any applicable conflicts of laws.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the date first above written.

CAPSTAR FINANCIAL HOLDINGS, INC.

By: /s/ Claire W. Tucker

Name: Claire W. Tucker

Title: Chief Executive Officer

CAPSTAR BANK

By: /s/ Claire W. Tucker

Name: Claire W. Tucker

Title: President and Chief Executive Officer

**EXHIBIT "A"**

**ARTICLES OF SHARE EXCHANGE**

Pursuant to Section 48-21-107 of the Tennessee Business Corporation Act (the "Act"), CAPSTAR FINANCIAL HOLDINGS, INC. (the "Company") and CAPSTAR BANK (the "Bank") hereby deliver the following Articles of Share Exchange and state as follows:

1. A copy of the Agreement and Plan of Share Exchange between the Company and the Bank is attached hereto and incorporated herein by reference (the "Plan of Share Exchange").
2. Chapter 21 of the Act requires approval of the Plan of Share Exchange (and the share exchange contemplated thereby) by the shareholders of the Bank. No approval of the shareholders of the Company is required because the Company has not had shareholders prior to the effective date of these Articles of Share Exchange.
3. As to the Bank, the Plan of Share Exchange (and the share exchange contemplated thereby) was approved by the shareholders of the Bank by the affirmative vote of the required percentage of all votes entitled to be cast by such shareholders. Such approval was obtained at a meeting of the shareholders of the Bank on January 28, 2016.
4. As to the Company, the Plan of Share Exchange (and the share exchange contemplated thereby) was adopted by the Board of Directors of the Company at a meeting of the Board of Directors on November 19, 2015.
5. These Articles of Share Exchange shall be effective upon filing by the Secretary of State.

Dated: \_\_\_\_\_, 20\_\_

CAPSTAR FINANCIAL HOLDINGS, INC.

By: \_\_\_\_\_  
Title: Chief Executive Officer

CAPSTAR BANK

By: \_\_\_\_\_  
Title: Chief Executive Officer

**CHARTER  
OF  
CAPSTAR FINANCIAL HOLDINGS, INC.**

Under the authority of Section 48-20-101, et. al., of the Tennessee Business Corporation Act, as amended, the undersigned corporation adopts the following Charter:

**ARTICLE 1.  
NAME**

The name of the Corporation is: “**CAPSTAR FINANCIAL HOLDINGS, INC.**”

**ARTICLE 2.  
CAPITAL STOCK**

(a) The total number of shares of all classes of the capital stock which the Corporation has authority to issue is thirty million (30,000,000) shares, of which twenty five million (25,000,000) shares shall be common stock, of par value of \$1.00 per share, and five million (5,000,000) shares shall be preferred stock, of par value of \$1.00 per share. Shares of both common and preferred stock shall be given distinguishing designations. All shares of any one series shall have the preferences, limitations, and relative rights identical with those of other shares of the same series. Authority is hereby expressly granted to the Board of Directors to fix from time to time, by resolution or resolutions providing for the establishment and/or issuance of any series of common or preferred stock, the designation of such series and preferences, limitations and relative rights of the shares of such series, including the following:

(1) The distinctive designation and number of shares comprising such series, which number may (except where otherwise provided by the Board of Directors in creating such series) be increased or decreased (but not below the number of shares then outstanding) from time to time by action of the Board of Directors;

(2) The voting rights, if any, which shares of that series shall have, which may be special, conditional, limited, or otherwise;

(3) The rate of dividends, if any, on the shares of that series, whether dividends shall be payable in cash or in shares of the Corporation’s capital stock, and the relative rights of priority, if any, of payment of dividends on shares of that series over shares of any other series;

(4) Whether the shares of that series shall be redeemable; and if so, the terms and conditions of such redemption, including the date or dates upon or after which they shall be redeemable, the event or events upon or after which they shall be redeemable; whether they shall be redeemable at the option of the Corporation, the shareholder or another person; the amount per share payable in case of redemption (which amount may vary under different conditions and at different redemption dates); whether such amount shall be a designated amount or an amount determined in accordance with a designated formula or by reference to extrinsic data or events; and whether such amount shall be paid in cash, indebtedness, securities or other property rights, including securities of any other operation;

(5) Whether that series shall have a sinking fund for the redemption or purchase of shares of that series and, if so, the terms of and amount payable into such sinking fund;

(6) The rights to which the holders of the shares shall be entitled in the event of voluntary or involuntary dissolution or liquidation of the Corporation, and the relative rights of priority, if any, of payment of shares of that series over shares of any other series;

(7) Whether the shares of that series shall be convertible into or exchangeable for cash, shares of stock of any other class or any other series, indebtedness, or other property or rights, and, if so, the terms and conditions of such conversion or exchange, including the rate or rates of conversion or exchange, and whether such rate shall be a designated amount or an amount determined in accordance with a designated formula or by reference to extrinsic data or events; the date or dates upon or after which they shall be convertible or exchangeable; the event or events upon or after which they shall be convertible or exchangeable at the option of the Corporation, the shareholder or another person; and the method (if any) of adjusting the rate of conversion or exchange in the event of a stock split, stock dividend, combination of shares or similar events;

(8) Whether the issuance of any additional shares of such series, or of any shares of any other series, shall be subject to restrictions as to issuance, or as to the powers, preferences or rights of any such other series; and

(9) Any other preferences, privileges and powers and relative, participating, optional or other special rights and qualifications, limitations or restrictions of such series, as the Board of Directors may deem advisable and as shall not be inconsistent with the provisions of this Article 2 and to the full extent now or hereafter permitted by the laws of the State of Tennessee.

(b) Before issuing any shares of a series of either common or preferred stock, the Corporation shall deliver to the Secretary of State for filing Articles of Amendment which shall be effective without shareholder action, that set forth: (i) the name of the Corporation; (ii) the text of the amendment determining the terms of the series; (iii) the date it was adopted, and (iv) a statement that the amendment was duly adopted by the Board of Directors.

(c) The shares of both common and preferred stock may be issued from time to time as authorized by the Board of Directors without the approval of the Corporation's shareholders except to the extent that such approval is required by governing law, rule, or regulation. The consideration for the issuance of the shares shall be paid in full before their issuance and shall not be less than the par value. Neither promissory notes nor future services shall constitute payment or part payment for the issuance of shares of the Corporation. The consideration for the shares shall be cash. Upon payment of such consideration, such shares shall be deemed to be fully paid and non-assessable.

(d) In accordance with the foregoing, a series of 5,000,000 shares of common stock is hereby designated as non-voting common stock (“non-voting common stock”); such shares shall be non-voting, except as may be required by law, and otherwise shall be identical to and shall have the same rights and privileges as the common stock.

(1) The shares of non-voting common stock shall be convertible into shares of common stock, at the option of the holder thereof, in connection with or as a part of any of the following:

(A) a sale or transfer of the non-voting common stock to the Corporation;

(B) a public offering of the common stock of the Corporation;

(C) a private offering in which the transferee of the non-voting common stock will acquire no more than two percent (2%) of the non-voting common stock being so offered; or

(D) a transaction in which after the completion of such transaction, any person or group owns, directly or indirectly, a majority of the common stock without regard to the transfer of the non-voting common stock.

(2) In order to exercise the conversion privilege, the holder of the shares of non-voting common stock shall surrender the certificate representing such shares at the office of the Corporation, with a written notice of election to convert completed and signed, specifying the number of shares to be converted. Unless the shares issuable on conversion are to be issued in the same name as the name in which such shares of non-voting common stock are registered, each share surrendered for conversion shall be accompanied by instruments of transfer, in form satisfactory to the Corporation, duly executed by the holder or the holder’s duly authorized attorney and an amount sufficient to pay any transfer or similar tax.

(3) As promptly as practicable after the surrender by the holder of the certificates for shares of non-voting common stock, the Corporation shall issue and deliver to such holder or on the holder’s written order to the holder’s transferee a certificate or certificates for the whole number of shares of common stock issuable upon conversion.

(4) Each conversion shall be deemed to have been effected immediately prior to the close of business on the date on which the certificates for shares of nonvoting common stock were surrendered and notice of conversion was received by the Corporation. The person in whose name or names any certificate or certificates for shares of common stock are issuable upon such conversion shall be deemed to have become the holder of record of the shares of common stock represented thereby at such time on such date, and such conversion shall be on a one-for-one basis, subject to appropriate adjustments to reflect any stock split, reverse stock split, stock dividend or similar change in the common stock where there is not a concurrent and equivalent stock split, reverse

stock split, stock dividend or similar change in the non-voting common stock. All shares of common stock delivered upon conversion of the non-voting common stock will upon delivery be duly and validly issued and fully paid and non-assessable, free of all liens and charges and not subject to any preemptive rights. Upon the surrender of certificates representing shares of non-voting common stock, such shares shall no longer be deemed to be outstanding and all rights of a holder with respect to such shares surrendered for conversion shall immediately terminate except the right to receive the common stock to be issued and delivered pursuant hereto.

(5) The Corporation shall at all times reserve and keep available, free from preemptive rights, such number of its authorized but unissued shares of common stock as may be required to effect conversions of the non-voting common stock.

(6) Prior to the delivery of any securities that the Corporation is obligated to deliver upon conversion of the non-voting common stock, the Corporation shall comply with all applicable federal and state laws and regulations which require action by the Corporation.

(7) The Corporation shall pay any and all issuance, delivery and transfer taxes in respect of the issuance or delivery of shares of common stock on conversion of the non-voting common stock pursuant hereto. The Corporation shall not, however, be required to pay any tax in respect of any transfer involved in the issuance or delivery of shares of common stock in a name other than that of the holder of the non-voting common stock so converted, and no such issuance or delivery shall be made unless and until the person requesting such issuance or delivery has paid to the Corporation the amount of any such tax or has established to the Corporation's satisfaction that such tax has been paid.

(8) In connection with the conversion of any shares of non-voting common stock, no fractions of shares of common stock shall be issued. In lieu thereof the Corporation shall adjust the number of shares of common stock upwards to the nearest whole number.

(e) In accordance with the foregoing, the following series of preferred stock is hereby designated:

(1) Number and Designation. 1,609,800 shares of the preferred stock of the Corporation shall be designated as Series A Nonvoting Noncumulative Perpetual Convertible Preferred Stock ("Series A Preferred Stock").

(2) Rank. The Series A Preferred Stock shall, with respect to dividend rights, rank on a parity with, and with respect to rights on liquidation, dissolution and winding-up rank prior to, all classes of the Corporation's common stock. All equity securities of the Corporation to which the Series A Preferred Stock ranks prior (whether with respect to dividends or upon liquidation, dissolution, winding-up or otherwise), including the common stock, are collectively the "Junior Securities." All equity securities of the Corporation with which the Series A Preferred Stock ranks on a parity (whether with

respect to dividends or upon liquidation, dissolution, winding-up or otherwise) are collectively the "Parity Securities." The respective definitions of Junior Securities and Parity Securities shall also include any rights or options exercisable for or convertible into any of the Junior Securities and Parity Securities, as the case may be.

(c) Dividends. Holders of Series A Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors, out of funds legally available for the payment of dividends, cash dividends to the same extent and on the same basis as, and contemporaneously with, cash dividends as declared by the Board of Directors with respect to shares of common stock. Such dividends on Series A Preferred Stock shall be payable on the same dates for payment of dividends in respect of shares of common stock (each of such dates being a "Dividend Payment Date") but prior to the payment of any dividends in respect of shares of common stock. Such dividends shall be paid to the holders of record of shares of the Series A Preferred Stock, as they appear on the Corporation's stock register at the close of business on a record date or dates, which record dates shall be not more than sixty (60) days or less than ten (10) days prior to the respective Dividend Payment Date, as shall be fixed by the Board of Directors. If the Corporation shall at any time after the date of issuance of the Series A Preferred Stock pay any dividend on common stock payable in shares of common stock or effect a subdivision or combination of the outstanding shares of common stock (by reclassification or otherwise) into a greater or lesser number of shares of common stock, then in each such case the cash dividend amount to which holders of Series A Preferred Stock were entitled immediately prior to such event under the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of common stock outstanding immediately after such event and the denominator of which is the number of shares of common stock that were outstanding immediately prior to such event.

(d) Liquidation Preference. In the event of any liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, before any payment or distribution of the Corporation's assets (whether capital or surplus) shall be made to or set apart for the holders of Junior Securities, holders of Series A Preferred Stock shall be entitled to receive \$10.25 per share of Series A Preferred Stock (the "Liquidation Preference") plus an amount equal to all dividends declared and unpaid thereon to the date of final distribution to such holders. If, upon any liquidation, dissolution or winding-up of the Corporation, the Corporation's assets, or proceeds thereof, distributable among the holders of Series A Preferred Stock are insufficient to pay in full the preferential amount aforesaid and liquidating payments on the Series A Preferred Stock and any Parity Securities, then such assets, or the proceeds thereof, shall be distributed among the holders of Series A Preferred Stock and any Parity Securities ratably in accordance with the respective amounts that would be payable on such shares of Series A Preferred Stock and such Parity Securities if all amounts payable thereon were paid in full.

(e) Optional Redemption. The Series A Preferred Stock shall not be redeemable by the Corporation.



(f) Conversion.

(1) Subject to the provision of this paragraph (f), each holder of Series A Preferred Stock has the right, upon and from and after the earlier to occur of (A) a Qualified Public Offering or (B) an Organizers' Sale, at such holders' option, to convert any or all outstanding shares (and fractional shares) of Series A Preferred Stock, in whole or in part, at any time and from time to time, into fully paid and non-assessable shares of Non-Voting Common Stock. The number of shares of Non-Voting Common Stock deliverable upon conversion of a share of Series A Preferred Stock, adjusted as provided herein, is the "Conversion Ratio." The Conversion Ratio shall be a number equal to the Liquidation Preference divided by the Initial Preferred Stock Price. The "Initial Preferred Stock Price" is initially \$10.25 subject to adjustment from time to time pursuant to paragraph (g). The Corporation shall provide written notice to the holders of Series A Preferred Stock at least 30 days prior to the occurrence of a Qualified Public Offering or an Organizers' Sale.

(2) In order to exercise the conversion privilege, the holder of the shares of Series A Preferred Stock to be converted shall surrender the certificate representing such shares at the office of the Corporation, with a written notice of election to convert completed and signed, specifying the number of shares to be converted. Unless the shares issuable on conversion are to be issued in the same name as the name in which such shares of Series A Preferred Stock are registered, each share surrendered for conversion shall be accompanied by instruments of transfer, in form satisfactory to the Corporation, duly executed by the holder or the holder's duly authorized attorney and an amount sufficient to pay any transfer or similar tax.

(3) As promptly as practicable after the surrender by the holder of the certificates for shares of Series A Preferred Stock for conversion pursuant to this paragraph (f), the Corporation shall issue and deliver to such holder or on the holder's written order to the holder's transferee a certificate or certificates for the whole number of shares of Non-Voting Common Stock issuable upon conversion.

(4) Each conversion shall be deemed to have been effected immediately prior to the close of business on the date on which the certificates for shares of Series A Preferred Stock were surrendered and notice of conversion was received by the Corporation. The Person in whose name or names any certificate or certificates for shares of Non-Voting Common Stock are issuable upon such conversion shall be deemed to have become the holder of record of the shares of Non-Voting Common Stock represented thereby at such time on such date, and such conversion shall be into a number of shares of Non-Voting Common Stock equal to the product of the number of shares of Series A Preferred Stock surrendered times the Conversion Ratio in effect at such time on such date. All shares of Non-Voting Common Stock delivered upon conversion of the Series A Preferred Stock will upon delivery be duly and validly issued and fully paid and non-assessable, free of all liens and charges and not subject to any preemptive rights. Upon the surrender of certificates representing shares of Series A Preferred Stock, such shares shall no longer be deemed to be outstanding and all rights of a holder with respect to such shares surrendered for conversion shall immediately terminate except the right to receive the Non-Voting Common Stock to be issued and delivered pursuant to this paragraph (f).

(5) The Corporation shall at all times reserve and keep available, free from preemptive rights, such number of its authorized but unissued shares of Non-Voting Common Stock as may be required to effect conversions of the Series A Preferred Stock.

(6) Prior to the delivery of any securities that the Corporation is obligated to deliver upon conversion of the Series A Preferred Stock, the Corporation shall comply with all applicable federal and state laws and regulations which require action by the Corporation.

(7) The Corporation shall pay any and all issuance, delivery and transfer taxes in respect of the issuance or delivery of shares of Non-Voting Common Stock on conversion of the Series A Preferred Stock pursuant hereto. The Corporation shall not, however, be required to pay any tax in respect of any transfer involved in the issuance or delivery of shares of Non-Voting Common Stock in a name other than that of the holder of the Series A Preferred Stock so converted, and no such issuance or delivery shall be made unless and until the Person requesting such issuance or delivery has paid to the Corporation the amount of any such tax or has established to the Corporation's satisfaction that such tax has been paid.

(8) In connection with the conversion of any shares of Series A Preferred Stock, no fractions of shares of Non-Voting Common Stock shall be issued. In lieu thereof the Corporation shall adjust the number of shares of Non-Voting Common Stock upwards to the nearest whole number.

(g) Anti-Dilution.

(1) If the Corporation at any time after the date of initial issue of the Series A Preferred Stock (A) declares a dividend or makes a distribution on common stock payable in common stock, (B) subdivides or splits the outstanding common stock, (C) combines or reclassifies the outstanding common stock into a smaller number of shares, (D) issues any shares of its capital stock in a reclassification of common stock (including any such reclassification in connection with a consolidation or merger in which the Corporation is the continuing corporation) or (E) consolidates with, merges with or into or is converted into any other Person, the Initial Preferred Stock Price in effect at the time of the record date for such dividend or distribution or of the effective date of such subdivision, split, combination, consolidation, conversion, merger or reclassification shall be proportionately adjusted so that the conversion of the Series A Preferred Stock after such time shall entitle the holders of Series A Preferred Stock to receive the aggregate number of shares of Non-Voting Common Stock or other securities of the Corporation (or shares of any security into which such shares of common stock have been combined, consolidated, converted, merged or reclassified pursuant to paragraphs (g)(1)(C), (g)(1)(D) or (g)(1)(E)) which, if the Series A Preferred Stock had been converted immediately prior to such time, such holder of Series A Preferred Stock would have owned upon such conversion and been entitled to receive by virtue of such dividend,

distribution, subdivision, split, combination, consolidation, conversion, merger or reclassification, assuming such holder of Series A Preferred Stock (i) is not a Person with which the Corporation consolidated or into which the Corporation merged or which merged into the Corporation or to which such recapitalization, sale or transfer was made, as the case may be (“constituent Person”), or an affiliate of a constituent Person and (ii) failed to exercise any rights of election as to the kind or amount of securities, cash and other property receivable upon such reclassification, change, consolidation, conversion, merger, recapitalization, sale or transfer (provided, that if the kind or amount of securities, cash and other property receivable upon such reclassification, change, consolidation, conversion, merger, recapitalization, sale or transfer is not the same for each share of common stock held immediately prior to such reclassification, change, consolidation, conversion, merger, recapitalization, sale or transfer by other than a constituent Person or an affiliate thereof and in respect of which such rights of election shall not have been exercised (“non-electing share”), then for the purpose of this paragraph (g) the kind and amount of securities, cash and other property receivable upon such reclassification, change, consolidation, conversion, merger, recapitalization, sale or transfer by each non-electing share shall be deemed to be the kind and amount so receivable per share by a plurality of the non-electing shares). Such adjustment shall be made successively whenever any event listed above shall occur.

(2) If the Corporation fixes a record date for a distribution to holders of common stock (including any such distribution made in connection with a consolidation or merger in which the Corporation is the continuing corporation) of evidences of indebtedness, assets or other property (other than dividends payable in common stock and for which an adjustment is made pursuant to paragraph (g)(1), the Initial Preferred Stock Price-to be in effect after such record date shall be reduced by the fair market value of the portion of the assets, other property or evidence of indebtedness so to be distributed which is applicable to one share of common stock. Such fair market value shall be determined by the Board of Directors of the Corporation, provided that if the holders of 50% or more of the Series A Preferred Stock object to any such determination, the Board of Directors shall retain an independent appraiser reasonably satisfactory to such holders of Series A Preferred Stock to determine such fair market value. Such adjustments shall be made successively whenever such a record date is fixed; and, if such distribution is not so made, the Conversion Ratio shall again be adjusted to be the Conversion Ratio which would then be in effect if such record date had not been fixed.

(3) If, at any time as a result of the provisions of this paragraph (g), the holders of the Series A Preferred Stock upon subsequent conversion shall become entitled to receive any shares of capital stock of the Corporation other than Non-Voting Common Stock, the number of such other shares so receivable upon conversion of the Series A Preferred Stock shall thereafter be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions contained herein.

(4) The Corporation shall provide prompt written notice to the holders of the Series A Preferred Stock of each adjustment pursuant to this paragraph (g), together with a schedule of computation of the adjustment.

(h) Voting Rights.

(1) Holders of record of shares of Series A Preferred Stock are not entitled to any voting rights except as provided in this paragraph (h) or as otherwise provided by Tennessee law.

(2) So long as any shares of Series A Preferred Stock are outstanding, the Corporation shall not, without the written consent of the holders of a majority of the outstanding shares of Series A Preferred Stock or the affirmative vote of the holders of a majority of the outstanding shares of Series A Preferred Stock at a meeting of the holders of Series A Preferred Stock duly called for such purpose:

(a) amend, alter or repeal (by merger, consolidation, combination, reclassification or otherwise) any provision of its Charter or by-laws so as to materially adversely affect the preferences, rights or powers of the Series A Preferred Stock; provided that any such amendment that changes any dividend payable on the Series A Preferred Stock or the Liquidation Preference shall require the written consent of each holder of any shares of Series A Preferred Stock or the affirmative vote of each holder of any shares of Series A Preferred Stock at a meeting of holders of Series A Preferred Stock duly called for such purpose; or

(b) issue any additional shares of Series A Preferred Stock.

(3) In exercising the voting rights set forth in this paragraph (h), each share of Series A Preferred Stock shall have one vote per share, except that when any other preferred shares have the right to vote with the Series A Preferred Stock as a single class on any matter, then each share of Series A Preferred Stock and such other preferred shares.

(i) Reports. So long as any of the Series A Preferred Stock is outstanding, (a) the Corporation will furnish the holders thereof with the quarterly and annual financial reports that the Corporation is required to file with the Securities and Exchange Commission-pursuant to Sections 13 or 15(d) of the Securities Exchange Act of 1934 or (b) if the Corporation is not required to file such reports, the Corporation will furnish the following information to each holder of Series A Preferred Stock:

(1) as soon as practicable and, in any event, within 45 days after the end of each of the first three fiscal quarters, the unaudited consolidated balance sheet of the Corporation and its subsidiaries as at the end of such quarter and the related unaudited statement of operations and cash flow for such quarter and for the portion of the fiscal year then ended, in each case prepared in accordance with GAAP,

(2) as soon as practicable and, in any event, within 90 days after the end of each fiscal year, (x) the audited consolidated balance sheet of the Corporation and its subsidiaries as at the end of such fiscal year and the related audited statement of operations and cash flow for such fiscal year, and for the portion of the fiscal year then

ended, in each case prepared in accordance with GAAP and certified by a firm of independent public accountants of nationally recognized standing, together with a comparison of the figures in such financial statements with the figures for the previous fiscal year and the figures in the Corporation's annual operating budget, and (y) any management letters or other correspondence from such accountants; and

(3) as promptly as reasonably practicable, such other information with respect to the Corporation or any of its subsidiaries as may reasonably be requested by any holder of Series A Preferred Stock.

(j) Definitions.

(1) "Organizers" means Dennis C. Bottorff, Toby S. Wilt, L. Earl Bentz, Julie D. Frist, Gregory S. Daily, and James Stephen Turner, Jr.

(2) "Organizers' Sale" means a transfer or proposed transfer of shares of common stock by one or more of the Organizers and/or Tom Flynn or any of their respective affiliates such that when the number of shares of common stock that is the subject of such transfer or proposed transfer is aggregated with the number of shares of common stock that were the subject of all transfers of shares of common stock by the Organizers and/or Tom Flynn and their respective affiliates prior to such transfer or proposed transfer, the resulting aggregate number of shares of common stock equals or exceeds 20% of the outstanding shares of common stock.

(3) "Non-Voting Common Stock" means the non-voting common stock, par value \$1.00 per share, of the Corporation.

(4) "Outstanding" means, when used with reference to shares of stock, issued shares, excluding shares held by the Corporation or a subsidiary of the Corporation.

(5) "Person" means any corporation, limited liability company, partnership, trust, organization, association, other entity or individual.

(6) "Public Offering" means an underwritten public offering of any capital stock of the Corporation pursuant to an effective registration statement under the Securities Act of 1933, as amended, other than pursuant to a registration statement on Form S-4 or Form S-8 or any similar or successor form.

(7) "Qualified Public Offering" means a firm commitment underwritten Public Offering of a number of shares of common stock that either (i) represents at least 20% of the shares of common stock issued and outstanding (after giving effect to such Public Offering) or (ii) when taken together with prior Public Offerings of shares of common stock, results in at least 20% in aggregate of the shares of common stock issued and outstanding (after giving effect to such Public Offering) having been publicly offered in such Public Offerings.

(8) "common stock," if given no distinguishing designation, means common stock, par value \$1.00 per share, and contains all of the fundamental rights of capital stock contemplated by Section 48-16-103 of the Tennessee Business Corporation Act.

(9) "series" means a series of common stock or preferred stock with the designation, limitations and rights fixed by the Board of Directors.

**ARTICLE 3.  
REGISTERED OFFICE; REGISTERED AGENT**

The name and address of the initial Registered Office of the Corporation is 201 4<sup>th</sup> Avenue North, Suite 950, in the City of Nashville, the County of Davidson, in the State of Tennessee, 37219, and the Registered Agent of the Corporation shall be Claire W. Tucker.

**ARTICLE 4.  
INCORPORATOR**

The name and address of the incorporator are:

Richard T. Hills, Esq.  
Waller Lansden Dortch & Davis, LLP  
511 Union Street, Suite 2700  
Nashville, Tennessee 37219

**ARTICLE 5.  
PRINCIPAL OFFICE**

The mailing address of the principal office of the corporation is 201 4<sup>th</sup> Avenue North, Suite 950, in the City of Nashville, the County of Davidson, in the State of Tennessee, 37219.

**ARTICLE 6.  
PURPOSE**

The Corporation is for profit.

**ARTICLE 7.  
BOARD OF DIRECTORS**

The Corporation shall be under the direction of a Board of Directors. The authorized number of Directors shall not be fewer than five (5) nor more than twenty-five (25) except when a greater number may be approved by operation of law. The Bylaws of the Bank may, but are not required to, establish staggered terms for Directors consistent with the law of the State of Tennessee.

**ARTICLE 8.  
BYLAWS; NUMBER OF DIRECTORS**

A. Except as provided in paragraph B of this Article 8, the Board of Directors shall have the right to adopt, amend or repeal the bylaws of the Corporation by the affirmative vote of a majority of all directors then in office, and the shareholders shall have such right by the affirmative vote of a majority of the issued and outstanding shares of the Corporation entitled to vote in an election of directors.

B. Notwithstanding paragraph A of this Article 8, any amendment of the bylaws of the Corporation establishing or changing the number of directors within the range provided for in the bylaws, or establishing or changing the range itself, shall require the affirmative vote of two-thirds (2/3) of all directors then in office or the affirmative vote of the holders of two-thirds (2/3) of the issued and outstanding shares of the Corporation entitled to vote in an election of directors, at any regular or special meeting of the shareholders, and notice of the proposed change must be contained in the notice of the meeting.

**ARTICLE 9.  
REMOVAL OF DIRECTORS**

The Shareholders of the Corporation may remove one (1) or more Directors with or without cause. Any or all of the Directors may be removed for cause by a vote of a majority of the entire Board of Directors. A Director may be removed by the Shareholders or Directors only at a meeting called for the purpose of removing the Director, and the meeting notice must state that the purpose or one of the purposes, of the meeting is removal of Directors.

**ARTICLE 10.  
LIABILITY OF DIRECTORS**

A. To the fullest extent permitted by the Tennessee Business Corporation Act as in effect on the date hereof and as hereafter amended from time to time, a Director of the Corporation shall not be liable to the Corporation or its shareholders for monetary damages for breach of fiduciary duty as a Director. If the Tennessee Business Corporation Act or any successor statute is amended after adoption of this provision to authorize corporate action further eliminating or limiting the personal liability of Directors, then the liability of a Director of the Corporation shall be eliminated or limited to the fullest extent permitted by the Tennessee Business Corporation Act, as so amended from time to time. Any repeal or modification of this Article 8 by the shareholders of the Corporation shall not adversely affect any right or protection of a director of the Corporation existing at the time of such repeal or modification or with respect to events occurring prior to such time. Any repeal or modification of this Article by the shareholders of the Corporation shall be prospective only and shall not adversely affect any right or protection of a director of the Corporation existing at the time of such repeal or modification.

B. Unless two-thirds (2/3) of the directors then in office shall approve the proposed change, this Article 10 may be amended or rescinded only by the affirmative vote of the holders of at least two-thirds (2/3) of the issued and outstanding shares of the Corporation entitled to vote thereon, at any regular or special meeting of the shareholders, and notice of the proposed change must be contained in the notice of the meeting.

**ARTICLE 11.  
INDEMNIFICATION**

The Corporation shall, to the fullest extent permitted by the provisions of the Tennessee Business Corporation Act, as the same may be amended and supplemented, indemnify its directors and officers, and may indemnify all other persons whom it shall have power to indemnify under the Act from and against any and all of the expenses, liabilities, or other matters referred to in or covered by the Act. Any indemnification effected under this provision shall not be deemed exclusive of rights to which those indemnified may be entitled under any Bylaw, vote of shareholders or disinterested directors, or otherwise, both as to action in their official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee, or agent and shall inure to the benefit of the heirs, executors, and administrators of such a person.

**ARTICLE 12.  
APPROVAL OF BUSINESS TRANSACTIONS**

A. In any case in which the Tennessee Business Corporation Act or other applicable law requires shareholder approval of any merger or share exchange of the Corporation with or into any other corporation, or any sale, lease, exchange or other disposition of substantially all of the assets of the Corporation to any other corporation, person or other entity, approval of such transaction shall require either:

1. the affirmative vote of two-thirds (2/3) of the directors of the Corporation then in office and the affirmative vote of a majority of the issued and outstanding shares of the Corporation entitled to vote; or

2. the affirmative vote of a majority of the directors of the Corporation then in office and the affirmative vote of the holders of at least two-thirds (2/3) of the issued and outstanding shares of the Corporation entitled to vote.

B. The Board of Directors shall have the power to determine for the purposes of this Article 12, on the basis of information known to the Corporation, whether any sale, lease or exchange or other disposition of part of the assets of the Corporation involves substantially all of the assets of the Corporation.

C. Unless two-thirds (2/3) of the directors then in office shall approve the proposed change, this Article 12 may be amended or rescinded only by the affirmative vote of the holders of at least two-thirds (2/3) of the issued and outstanding shares of the Corporation entitled to vote thereon, at any regular or special meeting of the shareholders, and notice of the proposed change must be contained in the notice of the meeting.



**ARTICLE 13.**  
**FACTORS CONSIDERED IN BUSINESS TRANSACTIONS**

A. The Board of Directors, when evaluating any offer of another party (i) to make a tender offer or exchange offer for any equity security of the Corporation, (ii) to merge or consolidate any other corporation with the Corporation, or (iii) to purchase or otherwise acquire all or substantially all of the assets of the Corporation, shall, in determining what is in the best interests of the Corporation and its shareholders, give due consideration to all relevant factors, including without limitation: (A) the short-term and long-term social and economic effects on the employees, customers, shareholders and other constituents of the Corporation and its subsidiaries, and on the communities within which the Corporation and its subsidiaries operate (it being understood that any subsidiary bank of the Corporation is charged with providing support to and being involved in the communities it serves); and (B) the consideration being offered by the other party in relation to the then-current value of the Corporation in a freely negotiated transaction and in relation to the Board of Directors' then-estimate of the future value of the Corporation as an independent entity.

B. Unless two-thirds (2/3) of the directors then in office shall approve the proposed change, this Article 13 may be amended or rescinded only by the affirmative vote of the holders of at least two-thirds (2/3) of the issued and outstanding shares of the Corporation entitled to vote thereon, at any regular or special meeting of the shareholders, and notice of the proposed change must be contained in the notice of the meeting.

**ARTICLE 14.**  
**SAVINGS CLAUSE**

Should any provision of this Charter, or any clause hereof, be held to be invalid, illegal or unenforceable, in whole or in part, the remaining provisions and clauses of this Charter shall remain valid and fully enforceable.

**ARTICLE 15.**  
**EFFECTIVE DATE**

The Charter is to be effective upon filing with the Secretary of State of Tennessee.

/s/ Richard T. Hills  
\_\_\_\_\_  
Richard Hills, Incorporator

Dated: December 1, 2015

**BYLAWS OF  
CAPSTAR FINANCIAL HOLDINGS, INC.**

**ARTICLE ONE  
OFFICES**

Section 1. Principal Place of Business. The principal place of business of the Corporation shall be located in the City of Nashville, County of Davidson, State of Tennessee.

Section 2. Registered Office. The registered office of the Corporation is 201 4<sup>th</sup> Avenue North, Suite 950, Nashville, Tennessee. The name of the Corporation's registered agent at such address is Claire W. Tucker.

Section 3. Other Offices. The Corporation may have offices at such other places, either within or without the State of Tennessee, as the Board of Directors may from time to time determine or as the affairs of the Corporation may require from time to time.

**ARTICLE TWO  
SHAREHOLDERS' MEETINGS**

Section 1. Annual Meeting. The annual meeting of the shareholders shall be held each year at a date and hour fixed by the Board of Directors for the purpose of electing directors and for the transaction of such other business as may come before the meeting.

Section 2. Special Meetings. Special meetings of the shareholders, for any purpose or purposes, unless otherwise prescribed by the Tennessee Business Corporation Act ("TBCA"), may be called by the Board of Directors, the Chairman of the Board, the Vice Chairman of the Board, the President and Chief Executive Officer, or by the Secretary acting under instructions of the Board of Directors, the Chairman of the Board, the Vice Chairman of the Board, the Chief Executive Officer, or the President. Business to be conducted at a special meeting may only be brought before the meeting pursuant to the Corporation's notice of meeting.

Section 3. Place of Meeting. The Board of Directors, the Chairman of the Board, the Chief Executive Officer or the President of the Corporation, or the Secretary acting under instructions of the Board of Directors, the Chairman of the Board, the Chief Executive Officer or the President, shall designate any place, either within or without the State of Tennessee, as the place of meeting for any annual meeting of shareholders or for any special meeting of shareholders.

Section 4. Notice to Shareholders. Except as otherwise provided herein or required by law, whenever shareholders are required or permitted to take any action at a meeting, a written notice of the meeting shall be given which shall state the place, if any, date and hour of the meeting, the means of remote communications, if any, by which the shareholders and proxy holders may be deemed to be present in person and vote at such meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called. Any notice to shareholders shall be effective if given by a form of electronic transmission consented to by the shareholder in the manner and to the extent permitted by the TBCA.

The written notice of any meeting shall be given not less than ten nor more than 60 days before the date of the meeting to each shareholder entitled to vote at such meeting. Notwithstanding the foregoing, notice may be given to shareholders sharing an address in the manner and to the extent permitted by the TBCA. If mailed, notice is given when deposited in the United States mail, postage prepaid, directed to the shareholder at such shareholder's address as it appears on the records of the Corporation.

When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place of the adjourned meeting are announced at the meeting at which the adjournment is taken. At the adjourned meeting the Corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than 30 days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each shareholder entitled to vote at the meeting.

Section 5. Fixing of Record Date. For the purpose of determining shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or shareholders entitled to receive payment of any dividend or other distribution, or in order to make a determination of shareholders for any other proper purpose, the Board of Directors may fix in advance a date for any such determination of shareholders, which record date shall not precede the date upon which the resolution fixing the record date is adopted, and which date in any case to be not more than 60 days and, in case of a meeting of shareholders, not less than ten days prior to, the date of such meeting or on which such action is to be taken. If no record date is fixed for the determination of shareholders entitled to notice of or to vote at a meeting of shareholders, or for determination of the shareholders entitled to receive payment of a dividend or other distribution or any other purpose, the close of business on the day before the first notice is given shall be the record date. When a determination of shareholders entitled to vote at any meeting of shareholders has been made as provided in this section, such determination shall apply to any adjournment thereof unless the Board of Directors fixes a new record date.

Section 6. Stockholders List. The officer who has charge of the stock ledger of the Corporation shall prepare and make, at least ten days before the meeting of shareholders, a complete list of the shareholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each shareholder and the number of shares registered in the name of each shareholder. The list of shareholders shall be open to the examination of any shareholder, for any purpose germane to the meeting, for a period of at least ten days prior to the meeting during ordinary business hours, at the principal place of business of the Corporation, or the Corporation may place the shareholder's list on a reasonably accessible electronic network as permitted by the TBCA. The list shall be produced and kept at the time and place of the meeting and be available for inspection by any shareholder who is present at the meeting.

Section 7. Quorum. A majority of the voting power of the outstanding shares entitled to vote at the meeting, present in person or represented by proxy, shall constitute a quorum at a meeting of shareholders. Where a separate vote by a class or series or classes or series is required, a majority of the votes entitled to be cast by the outstanding shares of such class or series or classes or series, present in person or represented by proxy, shall constitute a quorum entitled to take action with respect to that vote on that matter. In the absence of a quorum, such

meeting may be adjourned from time to time by the approval of the majority of the voting power of the outstanding shares present and entitled to vote at the meeting, even if less than a quorum. Once a quorum is present at a meeting, it is deemed present for the remainder of the meeting and for any adjournment of that meeting, notwithstanding the withdrawal of enough shareholders to leave less than a quorum.

Section 8. Proxies. Each shareholder entitled to vote at a meeting of shareholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for such shareholder by proxy, but no such proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period. Without limiting the manner in which a shareholder may authorize another person or persons to act for such shareholder as proxy, the following shall constitute a valid means by which a shareholder may grant such authority:

(1) A shareholder may execute a writing authorizing another person or persons to act for such shareholder as proxy. Execution may be accomplished by the shareholder or such shareholder's authorized officer, director, employee or agent signing such writing or causing such person's signature to be affixed to such writing by any reasonable means including, but not limited to, by facsimile signature.

(2) A shareholder may authorize another person or persons to act for such shareholder as proxy by transmitting or authorizing the transmission of a telegram, cablegram, or other means of electronic transmission to the person who will be the holder of the proxy or to a proxy solicitation firm, proxy support service organization or like agent duly authorized by the person who will be the holder of the proxy to receive such transmission, provided that any such telegram, cablegram or other means of electronic transmission must either set forth or be submitted with information from which it can be determined that the telegram, cablegram or other electronic transmission was authorized by the shareholder. If it is determined that such telegrams, cablegrams or other electronic transmissions are valid, the inspectors or, if there are no inspectors, such other persons making that determination shall specify the information upon which they relied.

Any copy, facsimile telecommunication or other reliable reproduction of the writing or transmission created pursuant to the previous paragraph of this section may be substituted or used in lieu of the original writing or transmission for any and all purposes for which the original writing or transmission could be used, provided that such copy, facsimile telecommunication or other reproduction shall be a complete reproduction of the entire original writing or transmission.

A duly executed proxy shall be irrevocable if it states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power. A proxy may be made irrevocable regardless of whether the interest with which it is coupled is an interest in the stock itself or an interest in the Corporation generally.

Section 9. Voting of Shares. Except as otherwise provided by the Charter, each outstanding share of common stock is entitled to one vote on each matter voted on at a shareholders meeting. Other shares are entitled to vote only as provided in the Charter or the TBCA. If a quorum exists, action on a matter (other than election of directors or the Chairman of a meeting) is approved if

the votes cast favoring an action exceed the votes cast opposing the action, unless the Charter or the TBCA requires a greater number of affirmative votes. Where a separate vote by a class or series or classes or series is required, the approval of the majority of the votes entitled to be cast within such class or series or classes or series present in person or represented by proxy at the meeting shall be the act of such class or series or classes or series. Such class or series or classes or series shall not be entitled to vote separately unless expressly required by the Charter or as otherwise provided in the TBCA.

Section 10. Voting for Directors. The directors of the Corporation shall be elected by a plurality of the votes cast by the shares entitled to vote in the election at the meeting at which a quorum is present unless otherwise provided in the Charter.

Section 11. Conduct of Meetings. The Chairman of the Board shall preside as chairman at each meeting of shareholders or, in the Chairman's absence, the Chief Executive Officer shall so preside. At the request of the Chairman of the Board or the Chief Executive Officer, in both their absences, such other officer as the Board of Directors shall designate shall so preside at any such meeting. In the absence of a presiding officer determined in accordance with the preceding sentence, any person may be designated to so preside at a shareholders meeting by a plurality vote of the shares represented and entitled to vote at the meeting. The Secretary or, in the absence or at the request of the Secretary, any person designated by the person presiding at a shareholders meeting shall act as secretary of such meeting. The chairman of any meeting of shareholders shall determine the order of business and the procedure at the meeting, including regulation of the manner of voting, the conduct of discussion, and the propriety of any proposal brought before the meeting. The date and time of the opening and closing of the polls for each matter upon which the shareholders will vote at the meeting shall be announced at the meeting.

Section 12. Notice of Shareholder Business and Nominations. At any meeting of the shareholders, only business that has been properly brought before the meeting may be conducted. Nominations for the election of directors and the proposal of other business at an annual meeting may be made only: (a) pursuant to the Corporation's notice of meeting; (b) by or at the direction of the Board of Directors; or (c) by a shareholder entitled to vote who complies with this Section 12.

A notice of the intent of a shareholder to make a nomination or to bring any other matter before the annual meeting shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the seventy-fifth day nor earlier than the close of business on the one hundred twentieth day prior to the first anniversary of the date the Corporation commenced mailing its proxy materials for the preceding year's annual meeting (provided, however, that in the event that the date of the annual meeting is more than thirty days before or more than seventy days after its anniversary date, notice by the shareholder must be so delivered not earlier than the close of business on the one hundred twentieth day prior to such annual meeting and not later than the close of business on the later of the seventy-fifth day prior to such annual meeting or the tenth day following the day on which public announcement of the date of such meeting is first made by the Corporation). In the event of a special meeting at which directors are to be elected, any shareholder entitled to vote may nominate a person or persons for election as director if the shareholder's notice is received by the Secretary of the Corporation not

later than the close of the fifteenth day following the day on which notice of the meeting is first mailed to shareholders. Any notice by a shareholder shall set forth:

- (a) the name and address of the shareholder;
- (b) a representation that the shareholder is a holder of the Corporation's voting stock (including the number and class of shares held) and that the shareholder intends to appear in person or by proxy at the meeting to make the nomination or bring up the matter specified in the notice;
- (c) with respect to notice of an intent to make a nomination, a description of all arrangements or understandings among the shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholder;
- (d) with respect to notice of an intent to make a nomination, all information regarding each nominee that would be required to be disclosed in solicitations of proxies for election of directors in an election contest pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act"); and
- (e) with respect to notice of an intent to bring up any other matter, a description of the matter, and any material interest of the shareholder in the matter.

Notice of intent to make a nomination shall be accompanied by the written consent of each nominee to serve as director of the Corporation if so elected.

Notwithstanding the foregoing provisions of this Section 12, a shareholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 12. Nothing in this Section 12 shall be deemed to affect any rights of shareholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

### **ARTICLE THREE DIRECTORS**

3.1. General Powers. The business and affairs of the Corporation shall be managed under the direction of its Board of Directors, except as otherwise provided in the Charter or permitted under the TBCA.

Section 2. Number and Qualifications. The number of directors of the Corporation shall be not less than five nor more than 25, which number may be fixed or changed from time to time, within the minimum and maximum, by the Board of Directors. Directors need not be residents of the State of Tennessee or shareholders of the Corporation.

Section 3. Terms of Directors. The terms of all directors shall expire at the next annual shareholders meeting following their election. A decrease in the number of directors does not shorten an incumbent director's term. The term of a director elected to fill a vacancy shall expire at the next shareholders meeting at which directors are elected. Despite the expiration of a director's term, however, such director shall continue to serve until the director's successor is elected and qualified or until such director's earlier resignation or removal.

The shareholders of the Corporation may remove one (1) or more of the directors with or without cause. Any or all of the directors may be removed for cause by a vote of a majority of the entire board of directors. A director may be removed by the shareholders or board of directors only at a meeting called for the purpose of removing the director, and the meeting notice must state that the purpose, or one of the purposes, of the meeting is removal of directors.

Section 4. Vacancies and Newly Created Directorships. Except in those instances where the Charter or applicable law provides otherwise, a majority of directors then in office, although less than a quorum, or a sole remaining director, may fill a vacancy or a newly created directorship on the Board of Directors. A vacancy that will occur at a specific later date (by reason of a resignation effective at a later date or otherwise) may be filled before the vacancy occurs by a majority of directors then in office, including those who have so resigned, but the new director may not take office until the vacancy occurs.

Section 5. Compensation. The Board of Directors may provide for the compensation of directors for their services as such and may provide for the payment or reimbursement of any or all expenses reasonably incurred by them in attending meetings of the Board or of any committee of the Board or in the performance of their other duties as directors. Nothing herein contained, however, shall prevent any director from serving the Corporation in any other capacity or receiving compensation therefor.

Section 6. Executive Committee. The Board of Directors may designate three or more directors who shall constitute the Executive Committee of the Corporation. The Executive Committee, between meetings of the Board of Directors and subject to such limitations as may be required by law or imposed by resolution of the Board of Directors, shall have and may exercise all of the authority of the Board of Directors in the management of the Corporation.

Meetings of the Executive Committee may be held at any time on call of its Chairman or any two members of the Committee. A majority of the members shall constitute a quorum at all meetings. The Executive Committee shall keep minutes of its proceedings and shall report its actions to the next succeeding meeting of the Board of Directors.

Section 7. Other Committees. The Board of Directors may from time to time create or eliminate one or more other committees, including but not limited to Audit, Compensation and Human Resources, and Nominating and Corporate Governance committees, and appoint members of the Board of Directors to serve on them. Each committee must have one or more members who serve at the pleasure of the Board of Directors, and the Board of Directors shall periodically approve a charter describing the duties of each committee. The provisions of the TBCA and these Bylaws that govern meetings, action without meetings, notice and waiver of notice, and quorum and voting requirements of the Board of Directors, shall apply to committees and their members as well. To the extent specified by the Board of Directors, each committee may exercise the authority of the Board of Directors, except as to the matters which the TBCA specifically excepts from the authority of such committees. Nothing contained in this Section shall preclude the Board of Directors from establishing and appointing any committee, whether of directors or otherwise, not having or exercising the authority of the Board of Directors.

**ARTICLE FOUR  
MEETINGS OF DIRECTORS**

Section 1. Regular Meetings. A regular meeting of the Board of Directors shall be held without other notice than this Bylaw provision immediately after, and at the same place as, the annual meeting of the shareholders. In addition, the Board of Directors may provide, by resolution, the date, time and place for the holding of additional regular meetings.

Section 2. Special Meetings. Special meetings of the Board of Directors may be held at any date, time and place upon the call of one-third (1/3) of the directors or any two (2) executive officers. Special meetings may be held at any date, time and place and without special notice by unanimous consent of the directors.

Section 3. Notice. The person or persons calling a special meeting of the Board of Directors shall, at least two days before the meeting, give notice thereof by any usual means of communication. Such notice may be communicated, without limitation, in person; by telephone, facsimile, or other electronic transmission; or by mail or private carrier. Written notice of a directors meeting is effective at the earliest of the following:

- (a) when received;
- (b) upon its deposit in the United States mail, as evidenced by the postmark, if mailed with postage thereon prepaid and correctly addressed;
- (c) if by facsimile or other electronic transmission, by acknowledgment of the electronic transmission; or
- (d) on the date shown on the confirmation of delivery issued by a private carrier, if sent by private carrier to the address of the director last known to the Corporation.

Oral notice is effective when actually communicated to the director. Notice of an adjourned meeting of directors need not be given if the time and place are fixed at the meeting being adjourned. The notice of any meeting of directors need not describe the purpose of the meeting unless otherwise required by the TBCA.

Section 4. Waiver of Notice. A director may waive any notice required by the TBCA, the Charter or these Bylaws before or after the date and time stated in the notice. The waiver must be in writing, signed by the director entitled to the notice, and filed with the minutes or corporate records, except that, notwithstanding the foregoing requirement of written notice, a director's attendance at or participation in a meeting waives any required notice to the director of the meeting unless the director at the beginning of the meeting expressly objects to holding the meeting or transacting business at the meeting because the meeting is not lawfully called or convened.

Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the directors or members of a committee of directors need be specified in any written waiver of notice unless so required by the Charter.



Section 5. Quorum. A majority of the number of directors in office immediately before the meeting begins shall constitute a quorum for the transaction of business at any meeting of the Board of Directors, but if less than such majority is present at a meeting, a majority of directors present may adjourn the meeting from time to time without further notice.

Section 6. Manner of Acting. Except as otherwise provided in the TBCA, the Charter or herein, the act of the majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors.

Section 7. Conduct of Meetings. The Chairman or the Chief Executive Officer shall preside at all meetings of the Board of Directors; provided, however, that in the absence or at the request of the Chairman of the Board, or if there shall not be a person holding such offices, the person selected to preside at a meeting of directors by a vote of a majority of the directors present shall preside at such meeting. The Secretary, or in the absence or at the request of the Secretary, any person designated by the person presiding at a meeting of the Board of Directors, shall act as secretary of such meeting.

Section 8. Action Without a Meeting. Any action required or permitted to be taken at a Board of Directors meeting may be taken without a meeting if the action is taken by all members of the Board of Directors. The action must be evidenced by one or more consents in writing or by electronic transmission describing the action taken, which consent or consents shall be included in the minutes or filed with the corporate records.

Section 9. Participation Other Than in Person. Members of the Board of Directors or any committee designated by the Board of Directors may participate in a Board of Directors or committee meeting by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this subsection shall constitute presence in person at the meeting.

## **ARTICLE FIVE OFFICERS**

Section 1. Officers of the Corporation. The officers of the Corporation may include a Chairman of the Board, a Chief Executive Officer, a President, one or more Vice Chairmen, one or more Executive Vice Presidents, one or more Senior Vice Presidents, one or more Vice Presidents, a Secretary, a Treasurer, and such other officers, assistant or deputy officers and agents, as may be elected from time to time by or under the authority of the Board of Directors. No officer of the Corporation may be elected or a contract executed for employment for a period longer than three (3) years; provided, however, that nothing herein shall prohibit the re-election of any officer for subsequent three-year terms. The same individual may simultaneously hold more than one office in the Corporation, but no individual may act in more than one capacity where action of two or more officers is required. The title of any officer may include any additional designation descriptive of such officer's duties as the Board of Directors may prescribe.

Section 2. Appointment and Term. The Chairman of the Board and the Chief Executive Officer of the Corporation shall be elected by the Board of Directors. All other officers shall be

appointed by the officer(s) authorized to do so by the Board of Directors. Each officer shall hold office until his or her death, resignation, retirement, removal or disqualification or until such officer's successor is elected and qualified, subject to the limitations set forth in Section 1 of this Article V.

Section 3. Compensation. The compensation of all officers of the Corporation shall be fixed by or under the authority of the Board of Directors. No officer shall be prevented from receiving such salary by reason of the fact that such officer is also a director.

Section 4. Resignation and Removal of Officers. An officer may resign at any time by communicating such officer's resignation to the Corporation. A resignation is effective when it is communicated unless it specifies in writing a later effective date. If a resignation is made effective at a later date and the Corporation accepts the future effective date, the Board of Directors may fill the pending vacancy before the effective date if the Board of Directors provides that the successor does not take office until the effective date. The Board of Directors, by the affirmative vote of a majority of its members, may remove the Chairman of the Board or the Chief Executive Officer whenever in its judgment the best interest of the Corporation would be served thereby. In addition, the Board of Directors or a committee or an officer authorized by the Board of Directors or a committee may remove any other officer at any time with or without cause.

Section 5. Contract Rights of Officers. The appointment of an officer does not itself create contract rights. An officer's removal does not itself affect the officer's contract rights, if any, with the Corporation, and an officer's resignation does not itself affect the Corporation's contract rights, if any, with the officer.

Section 6. Chief Executive Officer. The Board of Directors may elect a Chief Executive Officer. The Chief Executive Officer shall, subject to the direction and control of the Board of Directors, supervise and control the business and affairs of the Corporation. In general the Chief Executive Officer shall perform all duties incident to the position of chief executive officer or as may be prescribed by the Board of Directors or these Bylaws from time to time. The Chief Executive Officer shall serve as a member of the board of directors.

Section 7. Chairman of the Board. The Board of Directors may elect from among its members a non-employee as an independent officer designated as the Chairman of the Board. The Chairman of the Board shall have such duties and authority as may be prescribed by the Board of Directors from time to time. In general the Chairman of the Board shall perform all duties incident to the position of chairman of the board or as may be prescribed by the Board of Directors or these Bylaws from time to time.

Section 8. President. The Board of Directors may elect a President. If elected, the President shall perform the duties and exercise the powers of that office and, in addition, the President shall perform such other duties and shall have such other authority as the Board of Directors shall prescribe. In general the President shall perform all duties incident to the position of president or as may be prescribed by the Board of Directors or these Bylaws from time to time. The Board of Directors shall, if it deems such action necessary or desirable, designate the officer of the Corporation who is to perform the duties of the President in the event of such officer's absence or inability to act.

Section 9. Vice Chairman. The Board of Directors may elect one or more officers designated as the Vice Chairman, but the appointment of one or more Vice Chairmen shall not be required. If one or more Vice Chairmen shall be elected, then one or more Vice Chairmen shall have such duties and authority as may be prescribed by the Board of Directors from time to time.

Section 10. Vice Presidents. The Board of Directors may appoint one or more Vice Presidents. Categories of Vice Presidents may include, but are not limited to, Executive Vice Presidents, Senior Vice Presidents, and Assistant Vice Presidents. Each Vice President shall have such duties and authorities as may be described by the Board of Directors or by the officer to whom such Vice President reports.

Section 11. Secretary. The Secretary shall keep the minutes of meetings of the shareholders and of the Board of Directors and be custodian of the corporate records, and in general perform all duties incident to the office of the secretary and such other duties as from time to time may be assigned to the Secretary by the Chief Executive Officer, the Board of Directors or a committee created by the Board of Directors.

Section 12. Treasurer. The Treasurer shall have charge and custody of all funds and securities of the Corporation, and in general perform all of the duties incident to the office of Treasurer and such other duties as from time to time may be assigned to the Treasurer by the Chief Executive Officer, the Board of Directors or a committee created by the Board of Directors.

Section 13. Assistant Secretaries and Deputy Treasurers. Assistant Secretaries and Deputy Treasurers, if any, shall, in the event of the death of or the inability or refusal to act by the Secretary or the Treasurer, respectively, have all the powers and perform all of the duties of those offices, and they shall, in general, perform such duties as shall be assigned to them by the Secretary or the Treasurer, respectively, or by the Chief Executive Officer or the Board of Directors.

## **ARTICLE SIX SHARES AND THEIR TRANSFER**

Section 1. Shares. Shares of the Corporation may but need not be represented by certificates. Upon request every holder of uncertificated shares shall be entitled to have a certificate. When shares are represented by certificates, the Corporation shall issue such certificates in such form as shall be required by the TBCA and as determined by the Board of Directors, to every shareholder for the fully paid shares owned by such shareholder. Each certificate shall be signed by the Chairman, Chief Executive Officer, or a Vice Chairman of the Board, or the President, or a Vice President, and the Secretary or an Assistant Secretary or the Treasurer or an Deputy Treasurer of the Corporation representing the number of shares registered in certificate form. Any or all the signatures on the certificate may be a facsimile.

Section 2. Stock Transfer Books and Transfer of Shares. The Corporation, or its agent, shall keep a book or set of books to be known as the stock transfer books of the Corporation, containing the name of each shareholder of record, together with such shareholder's address and the number and class or series of shares held by such shareholder. Transfer of shares of the Corporation represented by certificates shall be made on the stock transfer books of the Corporation only upon surrender of the certificates for the shares sought to be transferred by the holder of record thereof or by such holder's duly authorized agent, transferee or legal representative, who shall furnish proper evidence of authority to transfer with the Secretary. All certificates surrendered for transfer shall be canceled before new certificates for the transferred shares shall be issued.

Section 3. Lost Certificates. The Chairman of the Board, the Chief Executive Officer, the President, any Vice Chairman, any Executive Vice President, the Secretary, the Treasurer, or such other officers, employees or agents as the Board of Directors or such designated officers may direct, may authorize the issuance of a new certificate in place of a certificate claimed to have been lost, destroyed or mutilated, upon receipt of an affidavit of such fact from the persons claiming the loss or destruction and any other documentation satisfactory to the Board of Directors or such officer. At the discretion of the party reviewing such claim, any such claimant may be required to give the Corporation a bond in such sum as it may direct to indemnify against the loss from any claim with respect to the certificate claimed to have been lost or destroyed.

Section 4. Holder of Record. Except as otherwise required by the TBCA, the Corporation may treat the person in whose name the shares stand of record on its books as the absolute owner of the shares and the person exclusively entitled to receive notification and distributions, to vote, and to otherwise exercise the rights, powers and privileges of ownership of such shares.

Section 5. Transfer Agent and Registrar; Regulations. The Corporation may, if and whenever the Board of Directors so determines, maintain in the State of Tennessee or any other state of the United States, one or more transfer offices or agencies and also one or more registry offices, which officers and agencies may establish rules and regulations for the issue, transfer and registration of certificates not inconsistent with these Bylaws. No certificates for shares of stock of the Corporation in respect of which a Transfer Agent and Registrar shall have been designated shall be valid unless countersigned by such Transfer Agent and registered by such Registrar. Any such countersignature may be a facsimile. The Board may also make such additional rules and regulations as it may deem expedient concerning the issue, transfer and registration of certificates.

## **ARTICLE SEVEN BOOKS AND RECORDS; SEAL; ANNUAL STATEMENTS**

Section 1. Inspection of Books and Records. (a) Any person who is a holder of record of, or authorized in writing by a holder of record of, any outstanding shares of any class or series of the Corporation, shall have the right, upon written demand stating the purpose thereof, to examine in person or by agent or attorney at any reasonable time or times for any proper purpose, the books and records of account, minutes and record of shareholders and to make extracts therefrom.

(b) A shareholder may inspect and copy the records described in the immediately preceding paragraph only if (i) his or her demand is made in good faith and for a proper purpose that is reasonably relevant to his or her legitimate interest as a shareholder; (ii) the shareholder describes with reasonable particularity his or her purpose and the records he or she desires to inspect; (iii) the records are directly connected with the stated purpose; and (iv) the records are to be used only for that purpose.

(c) If the Chief Executive Officer, Secretary or a majority of the Corporation's Board of Directors find that the request is proper, the Secretary shall promptly notify the shareholder of the time and place at which the inspection may be conducted.

(d) If said request is found by the Chief Executive Officer, Secretary, or the Board of Directors to be improper, the Secretary shall so notify the requesting shareholder on or prior to the date on which the shareholder requested to conduct the inspection. The Secretary shall specify in said notice the basis for the rejection of the shareholder's request.

(e) The Chief Executive Officer, Secretary, or the Board of Directors shall at all times be entitled to rely on the corporate records in making any determination hereunder.

3.2 Seal. The corporate seal shall be in such form as the Board of Directors may from time to time determine. In the event it is inconvenient to use such a seal at any time, the signature of the Corporation followed by the word "Seal" enclosed in parentheses or scroll shall be deemed the seal of the Corporation.

3.3 Annual Statements. Not later than six (6) months after the close of each fiscal year, and in any case prior to the next annual meeting of shareholders, the Corporation shall prepare:

(a) A balance sheet showing in reasonable detail the financial condition of the Corporation as of the close of its fiscal year, and

(b) A profit and loss statement showing the results of its operations during its fiscal year. Upon written request, the Corporation promptly shall mail to any shareholder of record a copy of its most recent balance sheet and profit and loss statement.

## **ARTICLE EIGHT INDEMNIFICATION**

Section 1. Right to Indemnification. Each person who was or is made a party or is threatened to be made a party to or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she is or was a director, officer, or employee of the Corporation or is or was serving at the request of the Corporation as a director, officer, manager or employee of an affiliate or of another corporation, association, limited liability company, partnership, joint venture, trust or other enterprise, including service with respect to an employee benefit plan (hereinafter an "indemnitee"), whether the basis of such proceeding is alleged action in an official capacity as a director, officer, manager, employee or agent or in any other capacity while serving as a director, officer, manager, or employee or agent, shall be indemnified and held

harmless by the Corporation to the fullest extent authorized by the TBCA, as the same exists or may hereafter be amended, against all expense, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid in settlement) reasonably incurred or suffered by such indemnitee in connection therewith if the indemnitee acted in good faith and in a manner the indemnitee reasonably believed to be in or not opposed to the best interest of the Corporation or other entity covered by this Article VIII, and, with respect to any criminal action or proceeding, had no reasonable cause to believe that indemnitee's conduct was unlawful. Such indemnification shall continue as to an indemnitee who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the indemnitee's heirs, executors and administrators; provided, however, that, except as provided in Section 3 of this Article VIII with respect to proceedings to enforce rights to indemnification, the Corporation shall indemnify any such indemnitee in connection with a proceeding (or part thereof) initiated by such indemnitee only if such proceeding (or part thereof) was authorized by the Board of Directors of the Corporation. Notwithstanding the foregoing, this Article VIII shall not apply to any director, officer, manager or employee of an affiliate that, through its corporate governance documents or otherwise by contract, provides indemnification to its directors, officers, managers or employees.

Section 2. Right to Advancement of Expenses. The right to indemnification conferred in this Article shall include the right to be paid by the Corporation the expenses incurred in defending any proceeding for which such right to indemnification is applicable in advance of its final disposition (hereinafter an "advancement of expenses"); provided, however, that an advancement of expenses incurred by an indemnitee shall be made only upon delivery to the Corporation of an undertaking (hereinafter an "Undertaking"), by or on behalf of such indemnitee, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal (hereinafter a "final adjudication") that such indemnitee is not entitled to be indemnified for such expenses under this Section or otherwise.

Section 3. Right of Indemnitee to Bring Suit. The rights to indemnification and to the advancement of expenses conferred in Sections 1 and 2 of this Article VIII, as limited by Section 7 hereof, shall be contract rights. If a claim under Sections 1 and 2 of this Article VIII is not paid in full by the Corporation within 60 days after a written claim has been received by the Corporation, except in the case of a claim for an advancement of expenses, in which case the applicable period shall be 20 days, the indemnitee may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim. If successful in whole or in part in any such suit, or in a suit brought by the Corporation to recover an advancement of expenses pursuant to the terms of an Undertaking, the indemnitee shall be entitled to be paid also the expense of prosecuting or defending such suit. In (i) any suit brought by the indemnitee to enforce a right to indemnification hereunder (but not in a suit brought by the indemnitee to enforce a right to an advancement of expenses) it shall be a defense that, and (ii) in any suit by the Corporation to recover an advancement of expenses pursuant to the terms of an Undertaking, the Corporation shall be entitled to recover such expenses upon a final adjudication that, the indemnitee has not met any applicable standard for indemnification set forth in the TBCA. Neither the failure of the Corporation (including its Board of Directors or independent legal counsel) to have made a determination prior to the commencement of such suit that indemnification of the indemnitee is proper in the circumstances because the indemnitee has met

the applicable standard of conduct set forth in the TBCA, nor an actual determination by the Corporation (including its Board of Directors or independent legal counsel) that the indemnitee has not met such applicable standard of conduct, shall create a presumption that the indemnitee has not met the applicable standard of conduct or, in the case of such a suit brought by the indemnitee, be a defense to such suit. In any suit brought by the indemnitee to enforce a right to indemnification or to an advancement of expenses hereunder, or by the Corporation to recover an advancement of expenses pursuant to the terms of an Undertaking, the burden of proving that the indemnitee is not entitled to be indemnified, or to such advancement of expenses, under this Article or otherwise shall be on the Corporation.

Section 4. Non-Exclusivity of Rights. The rights to indemnification and to the advancement of expenses conferred in this Article shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, the Corporation's Charter, Bylaws, agreement, vote of shareholders or disinterested directors or otherwise.

Section 5. Insurance. The Corporation may maintain insurance, at its expense, to protect itself and any director, officer, or employee of the Corporation or any person serving at the request of the Corporation as a director, officer, manager, employee or agent of another corporation, association, limited liability company, partnership, joint venture, trust or other enterprise, against any expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under the TBCA.

Section 6. Indemnification of Agents of the Corporation. The Corporation may, to the extent authorized from time to time by the Board of Directors, grant rights to indemnification, and to the advancement of expenses to any agent of the Corporation to the fullest extent of the provisions of this Article VIII with respect to the indemnification and advancement of expenses of directors and officers of the Corporation.

Section 7. Limitations on Indemnification. All indemnification and insurance provisions contained in this Article VIII are subject to the limitations and prohibitions imposed by federal law, including the Securities Act of 1933 and the Federal Deposit Insurance Act, the banking laws of the State of Tennessee and any implementing regulations concerning indemnification.

## **ARTICLE NINE EMERGENCY POWERS**

Section 1. Bylaws. The Board of Directors may adopt emergency bylaws, subject to repeal or change by action of the shareholders, which shall, notwithstanding any provision of law, the Charter or these Bylaws, be operative during any emergency in the conduct of the business of the Corporation resulting from an attack on the United States or on a locality in which the Corporation conducts its business or customarily holds meeting of its Board of Directors or its shareholders, or during any nuclear or atomic disaster, or during the existence of any catastrophe, or other similar emergency condition, as a result of which a quorum of the Board of Directors or a standing committee thereof cannot readily be convened for action. The emergency bylaws may make any provision that may be practical and necessary for the circumstances of the emergency.

Section 2. Lines of Succession. The Board of Directors, either before or during any such emergency, may provide, and from time to time modify, lines of succession in the event that during such an emergency any or all officers or agents of the Corporation shall for any reason be rendered incapable of discharging their duties.

Section 3. Head Office. The Board of Directors, either before or during any such emergency, may (effective during the emergency) change the head office or designate several alternative head offices or regional offices, or authorize the officers to do so.

Section 4. Period of Effectiveness. To the extent not inconsistent with any emergency bylaws so adopted, these bylaws shall remain in effect during any such emergency and upon its termination, the emergency bylaws shall cease to be operative.

Section 5. Notices. Unless otherwise provided in emergency bylaws, notice of any meeting of the Board of Directors during any such emergency may be given only to such of the Directors as it may be feasible to reach at the time, and by such means as may be feasible at the time, including publication, radio or television.

Section 6. Officers as Directors Pro Tempore. To the extent required to constitute a quorum at any meeting of the Board of Directors during any such emergency, the officers of the Corporation who are present shall, unless otherwise provided in emergency bylaws, be deemed, in order of rank and within the same rank in order of seniority, Directors for such meeting.

Section 7. Liability of Officers, Directors and Agents. No officer, Director, agent or employee acting in accordance with any emergency bylaw shall be liable except for willful misconduct. No officer, Director, agent or employee shall be liable for any action taken by him or her in good faith in such an emergency in furtherance of the ordinary business affairs of the Corporation even though not authorized by the bylaws then in effect.

## **ARTICLE 10 GENERAL PROVISIONS**

Section 1. Execution of Instruments. All agreements, indentures, mortgages, deeds, conveyances, transfers, contracts, checks, notes, drafts, loan documents, letters of credit, master agreements, swap agreements, guarantees, Charters, declarations, receipts, discharges, releases, satisfactions, settlements, petitions, schedules, accounts, affidavits, bonds, undertakings, powers of attorney, and other instruments or documents may be signed, executed, acknowledged, verified, attested, delivered or accepted on behalf of the Corporation by the Chairman of the Board, the Chief Executive Officer, the President, any Vice Chairman, any Vice President, any Assistant Vice President, or any individual who is listed on the Corporation's Officer's payroll file in a position equal to any of the aforementioned officer positions, or such other officers, employees or agents as the Board of Directors or any of such designated officers or individuals may direct. The provisions of this Section 1 are supplementary to any other provision of these Bylaws and shall not be construed to authorize execution of instruments otherwise dictated by law.



Section 2. Voting of Ownership Interests. The Chairman of the Board, the Chief Executive Officer, the President, any Vice Chairman, any Executive Vice President, the Secretary, the Treasurer, or such other officers, employees or agents as the Board of Directors or such designated officers may direct are authorized to vote, represent and exercise on behalf of the Corporation all rights incident to any and all shares of stock or other ownership interests in any affiliate or any other corporations, associations, limited liability companies, partnerships, or other entities standing in the name of the Corporation. The authority herein granted to the individuals to vote or represent on behalf of the Corporation any and all ownership interests held by the Corporation may be exercised either by the individuals in person or by any duly executed proxy or power of attorney.

Section 3. Distributions. The Board of Directors may from time to time authorize, and the Corporation may pay or distribute, dividends or other distributions on its outstanding shares in such manner and upon such terms and conditions as are permitted by the Charter, the federal and state banking laws and the TBCA.

Section 4. Amendments. The Board of Directors may amend or repeal these Bylaws and may adopt new Bylaws at any regular or special meeting of the Board of Directors. The shareholders of the Corporation may also amend or repeal these Bylaws and may adopt new Bylaws.

## FIFTH AMENDED AND RESTATED

## EXECUTIVE EMPLOYMENT AGREEMENT

**THIS FIFTH AMENDED AND RESTATED EMPLOYMENT AGREEMENT** (this “**Amended Agreement**”) made and entered into on this 27<sup>th</sup> day of June, 2016 (the “Effective Date”), between **CapStar Financial Holdings, Inc.**, a Tennessee corporation established to be a bank holding company, headquartered in Nashville, Davidson County, Tennessee, hereinafter referred to as “Company” and **Claire W. Tucker**, hereinafter referred to as “Executive.”

WITNESSETH

WHEREAS, Executive has been employed by CapStar Bank (“Bank”) as its President and Chief Executive Officer since its organization in 2007; and

WHEREAS, Executive and Bank previously entered into a Fourth Amended and Restated Employment Agreement on May 4, 2015 (the “Prior Agreement”) regarding the rendering of services for the periods set forth in the Prior Agreement; and

WHEREAS, Company desires to amend and restate the Prior Agreement in order to continue to employ Executive to render services to it for the periods and upon the terms and conditions provided for in this Amended Agreement; and

WHEREAS, Executive wishes to continue to serve in the employ of Company for the period and upon the terms and conditions provided for in this Amended Agreement.

NOW, THEREFORE, for the reasons set forth above and in consideration for the mutual promises and agreements set forth herein, Company and Executive agree as follows:

1. Amendment of Prior Agreement. Company and Executive hereby amend and restate the Prior Agreement in its entirety, and hereby substitute this Amended Agreement for the Prior Agreement.

2. Employment. Subject to continued approval of the Tennessee Department of Financial Institutions and other bank regulatory agencies having jurisdiction over the operations of Company, Company hereby agrees that effective on the Effective Date, Executive will continue to be employed by Company as its Chief Executive Officer pursuant to the terms of this Amended Agreement. Executive agrees to devote her best efforts and her full-time employment to the Company’s business and strategic planning and perform such other related activities and duties as the board of directors of Company (the “Board”) may, from time to time, determine and assign to Executive. The Executive’s services and decisions shall be subject to the review, modification and control of the Board. Service on the Board shall be included in the scope of Executive’s employment if she so serves.

3. Compensation. During the term of Executive's employment hereunder (the "Term"):

(a) Salary. For the services provided for herein, Company shall pay to Executive, and Executive shall accept from Company, a base salary of Three Hundred Seventy-Five Thousand and No/100 Dollars (\$375,000.00), per annum (Executive's "Base Salary"), subject to any and all withholdings and deductions required by law, payable in accordance with the customary payroll practices of Company. During the term of this Amended Agreement, Executive's Base Salary shall be reviewed from time to time by the Board, and, may be increased, but not decreased below the Base Salary, from time to time by the Board, based upon such factors as it may establish from time to time.

(b) Benefits. Company will provide to Executive, consistent with the terms and conditions of the respective plans, and pay the cost of, such employee benefits as are provided to Executive Officers of Company generally under benefit plans adopted by Company or Bank from time to time (Company or Bank's "Employee Benefit Plans"). These Employee Benefit Plans may include vacation days, sick days or other types of paid or unpaid leave, insurance programs, pension plans, profit sharing plans, bonus plans, stock option plans, restricted stock plans or other stock-based incentive plans, and other employee benefit plans. Provision of such benefit plans by Company or Bank is within the sole discretion of Company and Bank, and any such benefits may be amended, modified or discontinued at any time by Company or Bank.

(c) Reimbursements. Upon timely and well-documented requests by Executive submitted within one month from the payment of such expenses by Executive, Company will reimburse Executive for Executive's costs and expenses incurred in connection with the performance of Executive's duties or otherwise for the benefit of bank, specifically including any business expenses incurred with the prior approval of the Board. Such reimbursements shall be made in accordance with the policies established by Company from time to time, recognizing that Company may have different reimbursement policies for executive officers, and likewise may have different reimbursement policies for Executive as Chief Executive Officer. Such reimbursements may be approved by Company on a one-time basis for a particular expenditure, or on an ongoing basis, such as club memberships, automobile expense reimbursements, etc., but such ongoing approvals shall be subject to change from time to time.

4. Term of Employment; Renewal. The extended term of Executive's employment pursuant to this Amended Agreement (the "Renewal Term") shall commence on the Effective Date and shall end on May 31, 2019.

5. Termination of Employment.

(a) Termination By Bank. Notwithstanding any of the foregoing provisions in this Amended Agreement, Company, by action of the Board, may terminate the employment of Executive hereunder without notice at any time for Cause or without Cause. For purposes of this Amended Agreement, "Cause" includes, but is not limited to: (i) any material breach of the terms of this Amended Agreement which negatively impacts Company; (ii) personal dishonesty, fraud, disloyalty, or theft; (iii) disclosure of Company's confidential information except in the course of performing her duties while employed by the Company; (iv) willful illegal or disruptive conduct which impairs the reputation, goodwill or business position of the Company; (v) breach of fiduciary duty involving personal profit; (vi) any order or request for removal of Executive by

any regulatory authority having jurisdiction over Company; (vii) or Executive's disability, as defined in any disability insurance policy with benefits payable to Executive, or if there is no such disability insurance policy, then as defined in Company or Bank's established policy applicable to executive officers ("Disability"). Notwithstanding the foregoing, Executive shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to Executive a copy of a resolution duly adopted by the affirmative vote of a majority of the members of the Board at a duly constituted meeting of the Board, finding that in the good faith opinion of the Board, Executive was guilty of conduct justifying Termination for Cause and specifying the reasons therefor. The Executive shall have the right to appear and defend Executive at any meeting of the Board at which such a resolution is considered.

(b) For Cause. In the event of a termination by Company for Cause, the Executive shall be entitled to receive only the compensation that is earned and accrued as of the date of termination but no other monies or benefits except that: (A) in the case of Executive's Disability, if no Disability Plan or Disability Insurance Policy is in place, Executive shall receive fifty per cent (50%) of her base pay for a period not to exceed twenty four (24) weeks; and (B) Executive shall be entitled to receive any extended benefits provided to all employees of Company or Bank, or required by law, such as COBRA health insurance coverage, etc.

(c) Without Cause. In the event that the Company engages in conduct that constitutes Good Reason, then Executive shall be entitled to resign from her employment with Company, and continue to receive her Base Salary, payable as before such termination, through May 31, 2019, unless she is terminated on or before May 31, 2017, in which case she will continue to receive her Base Salary through May 31, 2020; subject to Section 12 hereof, to continue to receive such health care insurance as may then be provided to Executive pursuant to its Employee benefit plans until such time as Executive is eligible for Medicare, or some similar health care coverage provided by state or federal governments; and shall receive all benefits and reimbursements accrued and payable to Executive at the time of termination of her employment hereunder, including any stock or payments to which Executive is entitled under and subject to the terms of all incentive plans in which Executive participates (including and subject to the terms of each and any individual grant or award agreement), including stock option plans, restricted stock plans, performance share plans, and any other stock-based or cash-based incentive plans and the individual grant or award agreements under such plans (collectively Executive's "Severance Pay"). Notwithstanding the foregoing, if Company offers and Executive voluntarily accepts terms of employment that would otherwise constitute Good Reason, then Executive shall be deemed to have waived her right to resign and receive Severance Pay. Upon termination of Executive's employment hereunder for any reason (other than by Company for Cause), whether voluntarily by Executive or by termination by Company without Cause, Executive shall continue to be bound by the terms of the confidentiality agreement contained in Section 8 hereof, the covenant not to compete contained in Section 8 hereof, and the non-solicitation provisions contained in Sections 9 and 10 hereof. In the event Executive's employment hereunder is terminated by Company for Cause, Executive shall not be bound by the covenant not to compete in Section 8 hereof.

(d) By Executive. Notwithstanding any of the foregoing provisions in this Amended Agreement, Executive may terminate the employment of Executive hereunder without notice at

any time. In the event of a termination by Executive for any reason other than Good Reason, including the death or Disability of Executive, the Executive shall be entitled to receive only the compensation that is earned and benefits and reimbursements accrued as of the date of termination but no other monies or benefits other than continuing benefits under any retirement plan, disability insurance policy, or life insurance policy payable by virtue of the retirement, death or disability of Executive having occurred prior to such termination of employment. Upon termination of Executive's employment hereunder for whatever reason, Executive shall continue to be bound by the terms of the confidentiality agreement contained in Section 7 hereof, the covenant not to compete contained in Section 8 hereof, and the non-solicitation provisions contained in Sections 9 and 10 hereof.

6. Compliance with Section 409A.

(a) Executive shall not have any right to make any election regarding the time or form of any payment due under this Agreement.

(b) A payment of any amount or benefit hereunder that is (i) subject to Code Section 409A, and (ii) to be made because of a termination of employment shall not be made unless such termination is also a "separation from service" within the meaning of Code Section 409A and the regulations promulgated thereunder and, for purposes of any such provision of this Agreement, references to a "termination," "termination of employment," "resignation" or like terms shall mean "separation from service" within the meaning of Code Section 409A. Notwithstanding any provision of this Agreement to the contrary, if at the time of Executive's "separation from service" Executive is a "specified employee" (within the meaning of Code Section 409A), then to the extent that any amount to which Executive is entitled in connection with her separation from service is subject to Code Section 409A, payments of such amounts to which Executive would otherwise be entitled during the six month period following the separation from service will be accumulated and paid in a lump sum on the earlier of (i) the first day of the seventh month after the date of the separation from service, or (ii) the date of Executive's death. This paragraph shall apply only to the extent required to avoid Executive's incurrence of any additional tax or interest under section 409A or any regulations or Treasury guidance promulgated thereunder.

(c) Notwithstanding any provision of this Agreement or any other arrangement to the contrary, to the extent that any payment to Executive under the terms of this Agreement or any other arrangement would constitute an impermissible acceleration or deferral of payments under Code Section 409A of the or any regulations or Treasury guidance promulgated thereunder, or under the terms of any applicable plan, program, arrangement or policy of Company, such payments shall be made no earlier or later than at such times allowed under Code Section 409A or the terms of such plan, program, arrangement or policy.

(d) Any payments provided in this Agreement or any other arrangement subject to Code Section 409A as an installment of payments or benefits, is intended to constitute a separately identified "payment" for purposes of Treas. Reg. § 1.409A-2(b)(2)(i).

7. Confidentiality. Executive shall not, at any time or in any manner, during or after the Term, either directly or indirectly, divulge, disclose or communicate to any person, firm or corporation in any manner, whatsoever, any material information concerning any matters affecting or relating to the business of Company, except in the course of performing her duties while employed by Company or the Bank. This includes, without limitation, the name of its clients, customers or suppliers, the terms and conditions of any contract to which Company or the Bank is a party or any other information concerning the business of Company or the Bank, its manner or operations or its plans for the future without regard to whether all of the foregoing matters will be deemed confidential, material or important. Executive further agrees that she shall continue to be bound by the provisions of this paragraph following any termination of Executive's employment pursuant to this Amended Agreement.

8. Covenant Not to Compete. During the Term and for the period of twenty-four (24) months thereafter, upon termination of Executive's employment hereunder for any reason (other than by Company for Cause), whether voluntarily by Executive or by termination by Bank without Cause, Executive agrees that Executive will not be employed by, consult with, or directly or indirectly own, become interested in, or become involved in any manner whatsoever in any business (including any bank or other financial institution in organization) which is or will be similar to or competitive with any aspect of the business of Company or the Bank which operates a bank branch or other business location in Davidson or Williamson Counties, Tennessee, or in any other county in Tennessee or any other state in which Company or the Bank operates a bank branch or other business location, determined as of the date of termination of Executive's employment with Company. Executive agrees that should a court find the geographical scope of this covenant unreasonably broad, such court should nevertheless enforce this covenant to the extent that it deems reasonable. Executive specifically acknowledges and agrees that the foregoing restriction on competition with Company will not prevent Executive from obtaining gainful employment following termination of employment with Company and is a reasonable restriction upon Executive's ability to compete with Company and to secure such gainful employment. In the event Executive's employment hereunder is terminated by Company for Cause, Executive shall not be bound by the covenant not to compete in this Section 8.

9. Non-Solicitation Covenant. Executive agrees that for a period of two (2) years following the termination of her employment with Company, she will not contact or solicit, directly or indirectly, any customer or account that was a customer or account of Company within twelve (12) months prior to the termination of Executive's employment with Company. Executive further agrees that for a period of two (2) years following the termination of her employment with Company, she will not contact or solicit, directly or indirectly, any employee or person who was an employee of Company or Bank within twelve (12) months prior to the termination of Executive's employment with Company. The parties agree that these covenants are intended to prohibit Executive from engaging in such proscribed activities as an owner, partner, director, officer, executive, consultant, stockholder, agent, salesperson, or in any other capacity for any person, partnership, firm, corporation or other entity (including any financial institution in organization) unless she receives the express written consent of the Board. Executive specifically acknowledges and agrees that the foregoing restriction on competition with Company will not prevent Executive from obtaining gainful employment following termination of her employment with Company and is a reasonable restriction upon Executive's ability to compete with Company and to secure such gainful employment.

10. No Enticement of Officers. Executive shall not, directly or indirectly, entice or induce, or attempt to entice or induce any Officer of Company or the Bank to leave such employment during the term of this Agreement or within two (2) years thereafter.

11. Certain Definitions. Whenever used in this Agreement and not otherwise defined herein, the following terms shall have the meanings set forth below:

(a) "Code" means the Internal Revenue Code of 1986, as the same may be from time to time amended.

(b) "Good Reason" means any of the following:

- (i) Executive's then current base salary is reduced;
- (ii) Executive's work or reporting responsibilities are materially diminished, or
- (iii) Executive is relocated to a work location more than thirty (30) miles from the Executive's then current work location.

(c) "Qualifying Termination" means:

- (i) an involuntary termination of Executive's employment by Company for reasons other than Cause (and other than on account of Executive's Disability);
- (ii) a voluntary termination of employment by Executive for Good Reason.

12. COBRA Health Insurance Coverage. Notwithstanding any provision of this Agreement to the contrary, nothing in this Agreement shall be interpreted to require Company to extend COBRA health insurance coverage benefits to Executive in violation of applicable law. In the event that, following termination of Executive's employment with Company, Executive shall be entitled to receive extended insurance benefits pursuant to the terms of this Agreement, Executive shall be required to elect COBRA health insurance coverage and, thereafter, Company shall provide such coverage to Executive through a COBRA subsidy; provided, however, that at such time as Company is no longer permitted to extend COBRA health insurance coverage benefits to Executive under applicable law, Company shall provide a cash payment to Executive in lieu of such subsidy (with each cash payment being equal to the amount of the last COBRA subsidy provided to Executive prior to Executive's termination pursuant to the terms hereof), and Executive shall elect and obtain her own health insurance coverage.

13. Remedies. Executive acknowledges and agrees that the breach or threatened breach of any of the provisions of Sections 7, 8, 9, or 10 of this Agreement will cause irreparable harm to

Company which cannot be adequately compensated by the payment of damages. Accordingly, Executive covenants and agrees that Company, in addition to any other rights or remedies which Company may have, will be entitled to such equitable and injunctive relief as may be available from any court of competent jurisdiction to restrain Executive from breaching or threatening to breach any of the provisions of this Amended Agreement, without the requirement that Company post bond or other surety. Such right to obtain injunctive relief may be exercised at the option of Company in addition to, concurrently with, prior to, after, or in lieu of the exercise of any other rights or remedies which Company may have as a result of any such breach or threatened breach.

14. Entire Agreement. Company and Executive agree that this Amended Agreement contains the complete agreement concerning the employment arrangement, written or oral, between them and that this Amended Agreement supersedes all prior negotiations, practices and/or agreements. Neither party has made any representations that are not contained herein on which either party has relied in entering into this Amended Agreement.

15. Assignment. It is agreed that Company shall have the right to assign this Amended Agreement to any purchaser of the business of or substantially all of the assets of Company. This is a personal services contract, and may not be assigned by Executive.

16. Modification. This Amended Agreement shall not be modified or amended except by a writing duly executed by both parties. No waiver of any provision of this Amended Agreement shall be effective unless the waiver is in writing and duly executed by both parties.

17. Waiver of Breach. The waiver by a party of the breach of any provision of this Amended Agreement by the other party shall not operate or be construed as a waiver of any subsequent breach of the same of any other provision hereof by that party.

18. Severability. The provisions of this Amended Agreement shall be severable, and the invalidity of any provisions or portion thereof shall not affect the validity of the other provisions.

19. Choice of Law. This Amended Agreement shall be governed by and construed in accordance with the laws of the State of Tennessee.

20. Notice. Any notice required or authorized hereunder shall be deemed delivered when delivered to Executive or to an executive officer of Company, or when deposited, postage prepaid, in the United States mail certified, with return receipt requested, addressed to the parties as follows:

Executive: Claire W. Tucker  
801 Kathridge Ct.  
Brentwood, TN 37027

with a copy (which copy shall not constitute notice) to:

Michael D. Sontag  
Bass, Berry & Sims  
150 Third Avenue South, Suite 2800  
Nashville, TN 37201



Bank: CapStar Financial Holdings, Inc.  
201 4<sup>th</sup> Ave. North, Suite 950  
Nashville, TN 37219  
Attn: Secretary

with a copy (which copy shall not constitute notice) to:

Waller Lansden Dortch & Davis, LLP  
Attn: Chase Cole  
511 Union Street, Suite 2700  
Nashville, TN 37219

21. Survival. The provisions of Sections 7, 8, 9, 10, 11, 13 and 17 of this Amended Agreement shall survive any termination of this Amended Agreement.

22. Withholding. Company shall be entitled to withhold from amounts payable to Executive hereunder such amounts as may be required by applicable law.

*[Execution Page follows]*

**EXECUTION PAGE**

**IN WITNESS WHEREOF**, the parties have caused this Amended Agreement to be executed and delivered as of the day and date first written above.

**COMPANY:**

CapStar Financial Holdings, Inc.

**EXECUTIVE:**

/s/ Claire W. Tucker

Claire W. Tucker

By: /s/ Dennis C. Bottorff

Name: Dennis C. Bottorff

Title: Chairman

**THIRD AMENDED AND RESTATED  
EXECUTIVE EMPLOYMENT AGREEMENT**

**THIS THIRD AMENDED AND RESTATED EXECUTIVE EMPLOYMENT AGREEMENT** (this “**Agreement**”) made and entered into on this 31st day of May, 2016 (the “**Effective Date**”), between **CapStar Financial Holdings**, a Tennessee corporation established to be a bank holding company, headquartered in Nashville, Davidson County, Tennessee, (the “**Company**”) and CapStar Bank, a Tennessee banking corporation headquartered in Nashville, Davidson County, Tennessee, (the “**Bank**”) (the Company and Bank together referred to herein as “**CapStar**”) and **Rob Anderson**, hereinafter referred to as “**Executive**.”

WITNESSETH

WHEREAS, Executive has been employed by Bank as its Chief Financial Officer since December 17, 2012 and has been CapStar’s Chief Financial Officer and Chief Administrative Officer since February 6, 2016; and

WHEREAS, Executive and Bank previously entered into an Amended and Restated Executive Employment Agreement on March 11, 2015 (the “**Prior Agreement**”) regarding the rendering of services for the periods set forth in the Prior Agreement; and

WHEREAS, the parties desires to amend and restate the Prior Agreement to provide for the continued employment of Executive by the Company and the Bank to render services to it for the periods and upon the terms and conditions provided for in this Agreement; and

WHEREAS, Executive wishes to serve in the employ of CapStar for the period and upon the terms and conditions provided for in this Agreement.

NOW, THEREFORE, for the reasons set forth above and in consideration for the mutual promises and agreements set forth herein, CapStar and Executive agree as follows:

1. Amendment of Prior Agreement. The parties hereby amend and restate the Prior Agreement in its entirety, and hereby substitute this Agreement for the Prior Agreement.

2. Employment. Subject to continued approval of the Tennessee Department of Financial Institutions and other bank regulatory agencies having jurisdiction over the operations of Bank, CapStar hereby agrees that effective on the Effective Date, Executive shall be employed by as the Chief Financial Officer and Chief Administrative Officer of CapStar pursuant to the terms of this Agreement. Executive agrees to devote his best efforts and his full-time employment to CapStar’s business, operations and strategic planning and perform such other related activities and duties as the board of directors of the Company (the “**Board**”) and the board of directors of the Bank may, from time to time, determine and assign to Executive. Executive’s services and decisions shall be subject to the review, modification and control of the Board. Service on the Board and/or the board of directors of the Bank by Executive shall be included in the scope of Executive’s employment if he so serves.

3. Compensation. During the term of Executive's employment hereunder:

(a) Salary. For the services provided for herein, CapStar shall pay to Executive, and Executive shall accept from CapStar, a base salary of Three Hundred Twenty Five Thousand and No/100 Dollars (\$325,000.00) per annum (Executive's "**Base Salary**"), subject to any and all withholdings and deductions required by law, payable in accordance with the customary payroll practices of CapStar. During the term of this Agreement, Executive's Base Salary shall be reviewed from time to time by the Board, and may be increased, but not decreased below the Base Salary, from time to time by the Board, based upon such factors as it may establish from time to time.

(b) Benefits. CapStar shall provide to Executive, consistent with the terms and conditions of the respective plans, and pay the cost of, such employee benefits as are provided to Executive Officers of CapStar generally under benefit plans adopted by CapStar from time to time (such benefit plans of CapStar in effect from time to time, "**Employee Benefit Plans**"). The Employee Benefit Plans may include vacation days, sick days or other types of paid or unpaid leave, insurance programs, pension plans, profit sharing plans, bonus plans, stock option plans, restricted stock plans or other stock-based incentive plans, and other employee benefit plans. Provision of such benefit plans by CapStar is within the sole discretion of CapStar, and any such benefits may be amended, modified or discontinued at any time by CapStar.

(c) Reimbursements. Upon timely and well-documented requests by Executive submitted within one month from the payment of such expenses by Executive, CapStar shall reimburse Executive for Executive's costs and expenses incurred in connection with the performance of Executive's duties or otherwise for the benefit of CapStar, specifically including any business expenses incurred with the prior approval of the Board. Such reimbursements shall be made in accordance with the policies established by CapStar from time to time, recognizing that CapStar may have different reimbursement policies for executive officers, and likewise may have different reimbursement policies for Executive as Chief Financial Officer of CapStar. Such reimbursements may be approved by CapStar on a one-time basis for a particular expenditure, or on an ongoing basis, and may include automobile expense reimbursements, among others; provided, that such ongoing approvals shall be subject to change from time to time.

4. Term of Employment; Renewal. The initial extended term of Executive's employment pursuant to this Agreement shall commence on the Effective Date and shall end on May 31, 2017 (the "**Renewal Term**"). The Term of Executive's employment pursuant to this Agreement may be renewed and the term thereof extended by one (1) additional year (each, an "**Extended Term**") at the end of the Renewal Term and at the end of each Extended Term, by mutual agreement of the parties, which shall be evidenced by each party giving notice of renewal to the other party at least ninety (90) days prior to the expiration of the then-current Extended Term. The initial term, Renewal Term and all Extended Terms are collectively referred to herein as the "**Term**."

5. Termination of Employment.

(a) Termination By CapStar. Notwithstanding any of the foregoing provisions in this Agreement, CapStar, by action of the Board, may terminate or elect not to extend the employment of Executive hereunder without notice at any time, for Cause or without Cause. For purposes of this Agreement, "Cause" includes, but is not limited to: (i) any material breach of the terms of this Agreement which negatively impacts CapStar; (ii) personal dishonesty, fraud, disloyalty, or theft; (iii) disclosure of CapStar's confidential information except in the course of performing his duties while employed by CapStar; (iv) willful illegal or disruptive conduct which impairs the reputation, goodwill or business position of CapStar; (v) breach of fiduciary duty involving personal profit; (vi) any order or request for removal of Executive by any regulatory authority having jurisdiction over CapStar; or (vii) Executive's

disability, as defined in any disability insurance policy of CapStar with benefits payable to Executive, or if there is no such disability insurance policy, then as defined in CapStar's established policy applicable to executive officers ("**Disability**"). Notwithstanding the foregoing, Executive shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to Executive a copy of a resolution duly adopted by the affirmative vote of a majority of the members of the Board at a duly constituted meeting of the Board, finding that in the good faith opinion of the Board, Executive was guilty of conduct justifying Termination for Cause and specifying the reasons therefor. Executive shall have the right to appear and defend himself at any meeting of the Board at which such a resolution is under consideration.

(b) For Cause; Nonrenewal. In the event of termination of Executive by CapStar for Cause or election by CapStar or Executive not to renew or extend the Term, Executive shall be entitled to receive only the compensation that has been earned and accrued as of the date of termination but no other monies or benefits except that: (A) in the case of Executive's Disability, if no disability plan or disability insurance policy is in place, Executive shall receive fifty per cent (50%) of his Base Salary for a period not to exceed twenty four (24) weeks following the date of termination; and (B) subject to Section 13 hereof, Executive shall be entitled to receive any extended benefits provided to all employees of CapStar or required by law, such as, for example, COBRA health insurance coverage.

(c) Without Cause. In the event that: (A) CapStar terminates executive's employment hereunder without cause; or (B) CapStar engages in conduct that constitutes Good Reason, Executive shall be entitled (i) to resign from his employment with CapStar, (ii) to continue to receive his Base Salary, payable as before such termination, for a period of two (2) years after the effective date of such termination, (iii) subject to Section 13 hereof, be provided, for a period of twenty-four (24) months after such termination, with life, medical, dental and disability coverage substantially identical to the coverage maintained by the CapStar for Executive prior to Executive's severance, and (iv) to receive all benefits and reimbursements accrued and payable to Executive at the time of termination of his employment hereunder, including any stock or payments to which Executive is entitled under, and subject to the terms of, all incentive plans in which Executive participates (including and subject to the terms of each and any individual grant or award agreement), including stock option plans, restricted stock plans, performance share plans, and any other stock-based or cash-based incentive plans and the individual grant or award agreements under such plans (collectively, Executive's "**Severance Pay**"); provided, however, that if CapStar offers and Executive voluntarily accepts terms of employment that would otherwise constitute Good Reason, then Executive shall be deemed to have waived his right to resign and receive Severance Pay. Upon termination of Executive's employment hereunder for any reason (other than by CapStar for Cause), whether voluntarily by Executive or by termination by CapStar without Cause, by non-renewal, or otherwise, Executive shall continue to be bound by the provisions contained in Sections 8, 9, 10 and 11 hereof. In the event Executive's employment hereunder is terminated by CapStar for Cause, Executive shall not be bound by the covenant not to compete set forth in Section 9 hereof.

(d) By Executive. Notwithstanding any of the foregoing provisions in this Agreement, Executive may terminate or elect not to extend his employment hereunder without notice at any time. In the event of a termination or election not to extend the Term by Executive for any reason other than Good Reason, including the death or Disability of Executive, Executive shall be entitled to receive only the compensation that has been earned and benefits and reimbursements that have accrued as of the date of termination and any extended benefits required by law, but no other monies or benefits other than continuing benefits under any retirement plan, disability insurance policy, or life insurance policy payable by virtue of the retirement, death or disability of Executive having occurred prior to such termination of employment. Upon termination of Executive's employment by Executive for whatever reason, Executive shall continue to be bound by the provisions set forth in Sections 8, 9, 10 and 11 hereof.

6. Change in Control. Capitalized terms used in this Section 6 or in Section 7 but not otherwise defined in this Section 6 or in Section 7 shall have the meanings ascribed to them in Section 12.

(a) Entitlement to Benefits upon Termination. Subject to Section 13 hereof, if during the Protection Period a Qualifying Termination of Executive's employment occurs, CapStar shall pay to Executive the Change in Control benefits described in this Section 6. Change in Control benefits shall not be payable if Executive's employment is terminated (i) for Cause, (ii) by Executive voluntarily without Good Reason or (iii) by reason of Disability. In addition, the Change in Control benefits shall not be payable if Executive's employment is terminated for any or no reason prior to or following the Protection Period.

(b) Change in Control Payment and Benefits. Executive shall be entitled to receive a cash payment equal to two (2) times Executive's Base Salary in effect immediately prior to the date of termination (the "**Change in Control Payment**"), which shall be paid in twenty-four (24) equal monthly payments commencing on the first business day of the first month following the date of termination. Subject to Section 13 hereof, if a Qualifying Termination of Executive's employment occurs during the Protection Period, CapStar shall maintain for the remaining duration of the Protection Period Executive's health insurance coverage under any applicable Employee Benefit Plans, including any insurance policy held by CapStar, and pay CapStar's portion of such coverage, with the intent of the parties being that Executive shall continue to receive such health insurance coverage for a period of twenty-four (24) months following a Change in Control. Subject to Section 13 hereof, Executive shall have the right to continue COBRA health insurance coverage at the end of the Protection Period.

7. Compliance with Section 409A.

(a) Executive shall not have any right to make any election regarding the time or form of any payment due under this Agreement.

(b) A payment of any amount or benefit hereunder that is (i) subject to Code Section 409A, and (ii) to be made because of a termination of employment shall not be made unless such termination is also a "separation from service" within the meaning of Code Section 409A and the regulations promulgated thereunder and, for purposes of any such provision of this Agreement, references to a "termination," "termination of employment," "resignation" or like terms shall mean "separation from service" within the meaning of Code Section 409A. Notwithstanding any provision of this Agreement to the contrary, if at the time of Executive's "separation from service" Executive is a "specified employee" (within the meaning of Code Section 409A), then to the extent that any amount to which Executive is entitled in connection with his separation from service is subject to Code Section 409A, payments of such amounts to which Executive would otherwise be entitled during the six month period following the separation from service will be accumulated and paid in a lump sum on the earlier of (i) the first day of the seventh month after the date of the separation from service, or (ii) the date of Executive's death. This paragraph shall apply only to the extent required to avoid Executive's incurrence of any additional tax or interest under section 409A or any regulations or Treasury guidance promulgated thereunder.

(c) Notwithstanding any provision of this Agreement or any other arrangement to the contrary, to the extent that any payment to Executive under the terms of this Agreement or any other arrangement would constitute an impermissible acceleration or deferral of payments under Code Section 409A of the or any regulations or Treasury guidance promulgated thereunder, or under the terms of any

applicable plan, program, arrangement or policy of Company, such payments shall be made no earlier or later than at such times allowed under Code Section 409A or the terms of such plan, program, arrangement or policy.

(d) Any payments provided in this Agreement or any other arrangement subject to Code Section 409A as an installment of payments or benefits, is intended to constitute a separately identified "payment" for purposes of Treas. Reg. § 1.409A-2(b)(2)(i).

8. Confidentiality. Executive shall not, at any time or in any manner, during or after the Term, either directly or indirectly, divulge, disclose or communicate to any person, firm or corporation in any manner, whatsoever, any material information concerning any matters affecting or relating to the business of CapStar, except in the course of performing his duties while employed by CapStar. This includes, without limitation, the name of CapStar's clients, customers or suppliers, the terms and conditions of any contract to which CapStar is a party or any other information concerning the business of CapStar, its manner or operations or its plans for the future without regard to whether all of the foregoing matters will be deemed confidential, material or important. Executive further agrees that he shall continue to be bound by the provisions of this Section 8 following any termination of Executive's employment pursuant to this Agreement.

9. Covenant Not to Compete. During the Term and for the period of twenty-four (24) months thereafter, upon termination of Executive's employment hereunder for any reason (other than by CapStar for Cause), whether voluntarily by Executive or by termination by CapStar without Cause, by non-renewal, or otherwise, and whether before or after a Change in Control, Executive agrees that Executive shall not be employed by, consult with, or directly or indirectly own, become interested in, or become involved in any manner whatsoever in any business (including any bank or other financial institution in organization) which is or will be similar to or competitive with any aspect of the business of CapStar which operates a bank branch or other business location in Davidson, Sumner or Williamson Counties, Tennessee, or in any other county in which CapStar operates a bank branch or other business location, determined as of the date of termination of Executive's employment with CapStar. Executive agrees that should a court find the geographical scope of this covenant unreasonably broad, such court should nevertheless enforce this covenant to the extent that it deems reasonable. Executive specifically acknowledges and agrees that the foregoing restriction on competition with CapStar will not prevent Executive from obtaining gainful employment following termination of employment with CapStar and is a reasonable restriction upon Executive's ability to compete with CapStar and to secure such gainful employment. In the event Executive's employment hereunder is terminated by CapStar for Cause, Executive shall not be bound by the covenant not to compete in this Section 9.

10. Non-Solicitation Covenant. Executive agrees that for a period of two (2) years following the termination of his employment with CapStar, he shall not contact or solicit, directly or indirectly, any customer or account that was a customer or account of CapStar within twelve (12) months prior to the termination of Executive's employment with CapStar. Executive further agrees that for a period of two (2) years following the termination of his employment with CapStar, he shall not contact or solicit, directly or indirectly, any employee or person who was an employee of CapStar within twelve (12) months prior to the termination of Executive's employment with CapStar. The parties agree that these covenants are intended to prohibit Executive from engaging in such proscribed activities as an owner, partner, director, officer, executive, consultant, stockholder, agent, salesperson, or in any other capacity for any person, partnership, firm, corporation or other entity (including any financial institution in organization) unless he receives the express written consent of the Board. Executive specifically acknowledges and agrees that the foregoing restriction on competition with CapStar will not prevent Executive from obtaining gainful employment following termination of his employment with CapStar and is a reasonable restriction upon Executive's ability to compete with CapStar and to secure such gainful employment.

11. No Enticement of Officers. Executive shall not, directly or indirectly, entice or induce, or attempt to entice or induce any Officer of CapStar to leave such employment during the term of this Agreement or within two (2) years thereafter.

12. Certain Definitions. Whenever used in this Agreement and not otherwise defined herein, the following terms shall have the meanings set forth below:

(a) **“Change in Control”** means a transaction or circumstance in which any of the following have occurred, provided that the Board shall have determined that any such transaction or circumstance has resulted in a Change in Control, as defined in this paragraph, which determination shall be made in a manner consistent with Treas. Reg. § 1.409A-3(i)(5):

- (i) the date that any person, or persons acting as a group, as described in Treas. Reg. § 1.409A-3(i)(5) (a “Person”), other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation controlling the Company or owned directly or indirectly by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company, becomes the beneficial owner (as defined in Rule 13d-3 under the Securities and Exchange Act of 1934, as amended), directly or indirectly, of securities of the Company representing more than 40% of the total voting power represented by the Company’s then outstanding voting securities (as defined below);
- (ii) the merger, acquisition or consolidation of the Company or the Bank with any corporation pursuant to which the other corporation immediately after such merger, acquisition or consolidation owns more than 50% of the voting securities (defined as any securities which vote generally in the election of its directors) of the Company or the Bank outstanding immediately prior thereto or more than 50% of the Company’s or the Bank’s total fair market value immediately prior thereto; or
- (iii) the date that a majority of the members of the Board is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Board before the date of the appointment or election.

(b) **“Code”** means the Internal Revenue Code of 1986, as the same may be from time to time amended.

(c) **“Good Reason”** means any of the following:

- (i) Executive’s then current base salary is reduced;



- (ii) Executive's work or reporting responsibilities are materially diminished, or
- (iii) Executive is relocated to a work location more than thirty (30) miles from the Executive's then current work location.

(d) "**Protection Period**" means the period commencing on the date that a Change in Control occurs, and ending on the last day of the twelfth (12<sup>th</sup>) calendar month following the calendar month during which such Change in Control occurred. Anything in this Agreement to the contrary notwithstanding, if a Change in Control occurs, and if the date of termination with respect to Executive's employment by CapStar occurs prior to the date on which the Change in Control occurs, unless it is reasonably demonstrated by CapStar that such termination of employment (i) was not at the request of a third party who has taken steps reasonably calculated to effect the Change in Control and (ii) did not otherwise arise in connection with or in anticipation of the Change in Control, then for all purposes of this Agreement the "Protection Period" shall be deemed to have commenced on the date immediately preceding the date of termination of Executive.

(e) "**Qualifying Termination**" means:

- (i) an involuntary termination of Executive's employment by CapStar (or any successor to CapStar after the Change in Control) for reasons other than Cause (and other than on account of Executive's Disability); or
- (ii) a voluntary termination of employment by Executive for Good Reason.

13. COBRA Health Insurance Coverage. Notwithstanding any provision of this Agreement to the contrary, nothing in this Agreement shall be interpreted to require CapStar to extend COBRA health insurance coverage benefits to Executive in violation of applicable law. In the event that, following termination of Executive's employment with CapStar, Executive shall be entitled to receive extended insurance benefits pursuant to the terms of this Agreement, Executive shall be required to elect COBRA health insurance coverage and, thereafter, CapStar shall be financially responsible for such coverage to Executive through a COBRA subsidy; provided, however, that at such time as CapStar is no longer permitted to extend COBRA health insurance coverage benefits to Executive under applicable law, CapStar shall provide a cash payment to Executive in lieu of such subsidy (with each cash payment being equal to the amount of the last COBRA subsidy provided to Executive prior to Executive's termination pursuant to the terms hereof), and Executive shall elect and obtain his own health insurance coverage.

14. Remedies. Executive acknowledges and agrees that the breach or threatened breach of any of the provisions of Sections 8, 9, 10 or 11 of this Agreement will cause irreparable harm to CapStar which cannot be adequately compensated by the payment of damages. Accordingly, Executive covenants and agrees that CapStar, in addition to any other rights or remedies which CapStar may have, shall be entitled to such equitable and injunctive relief as may be available from any court of competent jurisdiction to restrain Executive from breaching or threatening to breach any of the provisions of this Agreement, without the requirement that CapStar post bond or other surety. Such right to obtain injunctive relief may be exercised at the option of CapStar in addition to, concurrently with, prior to, after, or in lieu of the exercise of any other rights or remedies which CapStar may have as a result of any such breach or threatened breach.



23. Withholding. CapStar shall be entitled to withhold from amounts payable to Executive hereunder such amounts as may be required by applicable law.

*(Signature Page Follows.)*

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed and delivered as of the day and date first written above.

**CAPSTAR:**

**EXECUTIVE:**

CapStar Bank and CapStar Financial Holdings, Inc.

/s/ Rob Anderson

Rob Anderson

By: /s/ Denny Bottorff

Denny Bottorff, Chairman of the Board

**THIRD AMENDED AND RESTATED  
EXECUTIVE EMPLOYMENT AGREEMENT**

**THIS THIRD AMENDED AND RESTATED EXECUTIVE EMPLOYMENT AGREEMENT** (this “**Agreement**”) made and entered into on this 23<sup>rd</sup> day of June, 2016 (the “**Effective Date**”), between **CapStar Bank**, a Tennessee banking corporation headquartered in Nashville, Davidson County, Tennessee, hereinafter referred to as “**Bank**,” and **Dandridge W. Hogan**, hereinafter referred to as “**Executive**.”

WITNESSETH

WHEREAS, the Bank is a wholly-owned subsidiary of CapStar Financial Holdings, Inc., a Tennessee corporation established to be a bank holding company, (the “**Company**”) and Executive has been employed by Bank as its Chief Operating Officer since December 2012 and has been the Bank’s Chief Executive Officer since February 6, 2016; and

WHEREAS, Executive and Bank previously entered into an Amended and Restated Executive Employment Agreement on May 22, 2015 (the “**Prior Agreement**”) regarding the rendering of services for the periods set forth in the Prior Agreement; and

WHEREAS, Bank desires to amend and restate the Prior Agreement in order to continue to employ Executive to render services to it for the periods and upon the terms and conditions provided for in this Agreement; and

WHEREAS, Executive wishes to continue to serve in the employ of Bank for the period and upon the terms and conditions provided for in this Agreement.

NOW, THEREFORE, for the reasons set forth above and in consideration for the mutual promises and agreements set forth herein, Bank and Executive agree as follows:

1. Amendment of Prior Agreement. Bank and Executive hereby amend and restate the Prior Agreement in its entirety, and hereby substitute this Agreement for the Prior Agreement.

2. Employment. Subject to continued approval of the Tennessee Department of Financial Institutions and other bank regulatory agencies having jurisdiction over the operations of Bank, Bank hereby agrees that effective on the Effective Date, Executive shall continue to be employed by Bank as its Chief Executive Officer pursuant to the terms of this Agreement. Executive agrees to devote his best efforts and his full-time employment to Bank’s business, operations and strategic planning and perform such other related activities and duties as the board of directors of Bank (the “**Board**”) may, from time to time, determine and assign to Executive. Executive’s services and decisions shall be subject to the review, modification and control of the Board. Service on the Board by Executive shall be included in the scope of Executive’s employment if he so serves.

3. Compensation. During the term of Executive’s employment hereunder:

(a) Salary. For the services provided for herein, Bank shall pay to Executive, and Executive shall accept from Bank, a base salary of Three Hundred Fifty Thousand and No/100 Dollars (\$350,000.00), per annum (Executive’s “**Base Salary**”), subject to any and all withholdings and deductions required by law, payable in accordance with the customary payroll practices of Bank. During

the term of this Agreement, Executive's Base Salary shall be reviewed from time to time by the Board, and, may be increased, but not decreased below the Base Salary, from time to time by the Board, based upon such factors as it may establish from time to time.

(b) Benefits. Bank shall provide to Executive, consistent with the terms and conditions of the respective plans, and pay the cost of, such employee benefits as are provided to Executive Officers of Bank generally under benefit plans adopted by Bank from time to time (such benefit plans of Bank in effect from time to time, "**Employee Benefit Plans**"). The Employee Benefit Plans may include vacation days, sick days or other types of paid or unpaid leave, insurance programs, pension plans, profit sharing plans, bonus plans, stock option plans, restricted stock plans or other stock-based incentive plans, and other employee benefit plans. Provision of such benefit plans by Bank is within the sole discretion of Bank, and any such benefits may be amended, modified or discontinued at any time by Bank.

(c) Reimbursements. Upon timely and well-documented requests by Executive submitted within one month from the payment of such expenses by Executive, Bank shall reimburse Executive for Executive's costs and expenses incurred in connection with the performance of Executive's duties or otherwise for the benefit of bank, specifically including any business expenses incurred with the prior approval of the Board. Such reimbursements shall be made in accordance with the policies established by Bank from time to time, recognizing that Bank may have different reimbursement policies for executive officers, and likewise may have different reimbursement policies for Executive as Chief Executive Officer of Bank. Such reimbursements may be approved by Bank on a one-time basis for a particular expenditure, or on an ongoing basis, and may include club memberships, automobile expense reimbursements, among others; provided, that, such ongoing approvals shall be subject to change from time to time.

4. Term of Employment; Renewal. The initial extended term of Executive's employment pursuant to this Agreement shall commence on the Effective Date and shall end on May 31, 2017 (the "**Renewal Term**"). The Term of Executive's employment, pursuant to this Agreement, may be renewed and the term thereof extended by one (1) additional year (each, an "**Extended Term**") at the end of the Renewal Term and at the end of each Extended Term, by mutual agreement of the parties, which shall be evidenced by each party giving notice of renewal to the other party at least ninety (90) days prior to the expiration of the then-current Extended Term. The initial term, Renewal Term and all Extended Terms are collectively referred to herein as the "**Term**."

#### 5. Termination of Employment.

(a) Termination By Bank. Notwithstanding any of the foregoing provisions in this Agreement, Bank, by action of the Board, may terminate or elect not to extend the employment of Executive hereunder without notice at any time for Cause or without Cause. For purposes of this Agreement, "**Cause**" includes, but is not limited to: (i) any material breach of the terms of this Agreement which negatively impacts Bank; (ii) personal dishonesty, fraud, disloyalty, or theft; (iii) disclosure of Bank's confidential information except in the course of performing his duties while employed by Bank; (iv) willful illegal or disruptive conduct which impairs the reputation, goodwill or business position of Bank; (v) breach of fiduciary duty involving personal profit; (vi) any order or request for removal of Executive by any regulatory authority having jurisdiction over Bank; or (vii) Executive's disability, as defined in any disability insurance policy of Bank with benefits payable to Executive, or if there is no such disability insurance policy, then as defined in Bank's established policy applicable to executive officers ("**Disability**"). Notwithstanding the foregoing, Executive shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to Executive a copy of a resolution duly adopted by the affirmative vote of a majority of the members of the Board at a duly constituted

meeting of the Board, finding that in the good faith opinion of the Board, Executive was guilty of conduct justifying Termination for Cause and specifying the reasons therefor. Executive shall have the right to appear and defend himself at any meeting of the Board at which such a resolution is under consideration.

(b) For Cause; Nonrenewal. In the event of termination of Executive by Bank for Cause or election by Bank or Executive not to renew or extend the Term, Executive shall be entitled to receive only the compensation that has been earned and accrued as of the date of termination but no other monies or benefits except that: (A) in the case of Executive's Disability, if no disability plan or disability insurance policy is in place, Executive shall receive fifty per cent (50%) of his Base Salary for a period not to exceed twenty four (24) weeks following the date of termination; and (B) subject to Section 13 hereof, Executive shall be entitled to receive any extended benefits provided to all employees of Bank, or required by law, such as, for example, COBRA health insurance coverage.

(c) Without Cause. In the event that: (A) Bank terminates executive's employment hereunder without cause; or (B) Bank engages in conduct that constitutes Good Reason, Executive shall be entitled (i) to resign from his employment with Bank, (ii) to continue to receive his Base Salary, payable as before such termination, for a period of two (2) years after the effective date of such termination, (iii) subject to Section 13 hereof, be provided, for a period of twenty-four (24) months after such termination, with life, medical, dental and disability coverage substantially identical to the coverage maintained by the Bank for Executive prior to Executive's severance, and (iv) to receive all benefits and reimbursements accrued and payable to Executive at the time of termination of his employment hereunder, including any stock or payments to which Executive is entitled under and subject to the terms of all incentive plans in which Executive participates (including and subject to the terms of each and any individual grant or award agreement), including stock option plans, restricted stock plans, performance share plans, and any other stock-based or cash-based incentive plans and the individual grant or award agreements under such plans (collectively Executive's "**Severance Pay**"); provided, however, that if Bank offers and Executive voluntarily accepts terms of employment that would otherwise constitute Good Reason, then Executive shall be deemed to have waived his right to resign and receive Severance Pay. Upon termination of Executive's employment hereunder for any reason (other than by Bank for Cause), whether voluntarily by Executive or by termination by Bank without Cause, by non-renewal, or otherwise, Executive shall continue to be bound by the provisions set forth in Sections 8, 9, 10 and 11 hereof. In the event Executive's employment hereunder is terminated by Bank for Cause, Executive shall not be bound by the covenant not to compete set forth in Section 9 hereof.

(d) By Executive. Notwithstanding any of the foregoing provisions in this Agreement, Executive may terminate or elect not to extend his employment hereunder without notice at any time. In the event of a termination or election not to extend the Term by Executive for any reason other than Good Reason, including the death or Disability of Executive, Executive shall be entitled to receive only the compensation that has been earned and benefits and reimbursements that have accrued as of the date of termination but no other monies or benefits other than continuing benefits under any retirement plan, disability insurance policy, or life insurance policy payable by virtue of the retirement, death or disability of Executive having occurred prior to such termination of employment. Upon termination of Executive's employment by Executive for whatever reason, Executive shall continue to be bound by the provisions set forth in Sections 8, 9, 10 and 11 hereof.

6. Change in Control. Capitalized terms used in this Section 6 or in Section 7 but not otherwise defined in this Section 6 or in Section 7 shall have the meanings ascribed to them in Section 12.

(a) Entitlement to Benefits upon Termination. Subject to Section 13 hereof, if during the Protection Period a Qualifying Termination of Executive's employment occurs, Bank shall pay to Executive the Change in Control benefits described in this Section 6. Change in Control benefits shall not

be payable if Executive's employment is terminated (i) for Cause, (ii) by Executive voluntarily without Good Reason or (iii) by reason of Disability. In addition, the Change in Control benefits shall not be payable if Executive's employment is terminated for any or no reason prior to or following the Protection Period.

(b) Change in Control Payment and Benefits. Executive shall be entitled to receive a cash payment equal to two (2) times Executive's Base Salary in effect immediately prior to the date of termination (the "**Change in Control Payment**"), which shall be paid in twenty-four (24) equal monthly payments commencing on the first business day of the first month following the date of termination. Subject to Section 13 hereof, if a Qualifying Termination of Executive's employment occurs during the Protection Period, Bank shall maintain for the remaining duration of the Protection Period Executive's health insurance coverage under any applicable Employee Benefit Plans, including any insurance policy held by Bank, and pay Bank's portion of such coverage, with the intent of the parties being that Executive shall continue to receive such health insurance coverage for a period of twenty-four (24) months following a Change in Control. Subject to Section 13 hereof, Executive shall have the right to continue COBRA health insurance coverage at the end of the Protection Period.

7. Compliance with Section 409A.

(a) Executive shall not have any right to make any election regarding the time or form of any payment due under this Agreement.

(b) A payment of any amount or benefit hereunder that is (i) subject to Code Section 409A, and (ii) to be made because of a termination of employment shall not be made unless such termination is also a "separation from service" within the meaning of Code Section 409A and the regulations promulgated thereunder and, for purposes of any such provision of this Agreement, references to a "termination," "termination of employment," "resignation" or like terms shall mean "separation from service" within the meaning of Code Section 409A. Notwithstanding any provision of this Agreement to the contrary, if at the time of Executive's "separation from service" Executive is a "specified employee" (within the meaning of Code Section 409A), then to the extent that any amount to which Executive is entitled in connection with his separation from service is subject to Code Section 409A, payments of such amounts to which Executive would otherwise be entitled during the six month period following the separation from service will be accumulated and paid in a lump sum on the earlier of (i) the first day of the seventh month after the date of the separation from service, or (ii) the date of Executive's death. This paragraph shall apply only to the extent required to avoid Executive's incurrence of any additional tax or interest under section 409A or any regulations or Treasury guidance promulgated thereunder.

(c) Notwithstanding any provision of this Agreement or any other arrangement to the contrary, to the extent that any payment to Executive under the terms of this Agreement or any other arrangement would constitute an impermissible acceleration or deferral of payments under Code Section 409A of the or any regulations or Treasury guidance promulgated thereunder, or under the terms of any applicable plan, program, arrangement or policy of Company, such payments shall be made no earlier or later than at such times allowed under Code Section 409A or the terms of such plan, program, arrangement or policy.

(d) Any payments provided in this Agreement or any other arrangement subject to Code Section 409A as an installment of payments or benefits, is intended to constitute a separately identified "payment" for purposes of Treas. Reg. § 1.409A-2(b)(2)(i).

8. Confidentiality. Executive shall not, at any time or in any manner, during or after the Term, either directly or indirectly, divulge, disclose or communicate to any person, firm or corporation in



any manner, whatsoever, any material information concerning any matters affecting or relating to the business of Bank, except in the course of performing his duties while employed by Bank. This includes, without limitation, the name of Bank's clients, customers or suppliers, the terms and conditions of any contract to which Bank is a party or any other information concerning the business of Bank, its manner or operations or its plans for the future without regard to whether all of the foregoing matters shall be deemed confidential, material or important. Executive further agrees that he shall continue to be bound by the provisions of this Section 8 following any termination of Executive's employment pursuant to this Agreement.

9. Covenant Not to Compete. During the Term and for the period of twenty-four (24) months thereafter, upon termination of Executive's employment hereunder for any reason (other than by Bank for Cause), whether voluntarily by Executive or by termination by Bank without Cause, by non-renewal, or otherwise and whether before or after a Change in Control, Executive agrees that Executive shall not be employed by, consult with, or directly or indirectly own, become interested in, or become involved in any manner whatsoever in any business (including any bank or other financial institution in organization) which is or will be similar to or competitive with any aspect of the business of Bank which operates a bank branch or other business location in Davidson, Sumner or Williamson Counties, Tennessee, or in any other county in which Bank operates a bank branch or other business location, whether within or outside of Tennessee, determined as of the date of termination of Executive's employment with Bank. Executive agrees that should a court find the geographical scope of this covenant unreasonably broad, such court should nevertheless enforce this covenant to the extent that it deems reasonable. Executive specifically acknowledges and agrees that the foregoing restriction on competition with Bank will not prevent Executive from obtaining gainful employment following termination of employment with Bank and is a reasonable restriction upon Executive's ability to compete with Bank and to secure such gainful employment. In the event Executive's employment hereunder is terminated by Bank for Cause, Executive shall not be bound by the covenant not to compete in this Section 9.

10. Non-Solicitation Covenant. Executive agrees that for a period of two (2) years following the termination of his employment with Bank, he shall not contact or solicit, directly or indirectly, any customer or account that was a customer or account of Bank within twelve (12) months prior to the termination of Executive's employment with Bank. Executive further agrees that for a period of two (2) years following the termination of his employment with Bank, he shall not contact or solicit, directly or indirectly, any employee or person who was an employee of Bank within twelve (12) months prior to the termination of Executive's employment with Bank. The parties agree that these covenants are intended to prohibit Executive from engaging in such proscribed activities as an owner, partner, director, officer, executive, consultant, stockholder, agent, salesperson, or in any other capacity for any person, partnership, firm, corporation or other entity (including any financial institution in organization) unless he receives the express written consent of the Board. Executive specifically acknowledges and agrees that the foregoing restriction on competition with Bank will not prevent Executive from obtaining gainful employment following termination of his employment with Bank and is a reasonable restriction upon Executive's ability to compete with Bank and to secure such gainful employment.

11. No Enticement of Officers. Executive shall not, directly or indirectly, entice or induce, or attempt to entice or induce any Officer of Bank to leave such employment during the term of this Agreement or within two (2) years thereafter.

12. Certain Definitions. Whenever used in this Agreement and not otherwise defined herein, the following terms shall have the meanings set forth below:

(a) "**Change in Control**" means a transaction or circumstance in which any of the following have occurred, provided that the board of directors of the Company (the "**Company Board**")

shall have determined that any such transaction or circumstance has resulted in a Change in Control, as defined in this paragraph, which determination shall be made in a manner consistent with Treas. Reg. § 1.409A-3(i)(5):

- (i) the date that any person, or persons acting as a group, as described in Treas. Reg. § 1.409A-3(i)(5) (a “Person”), other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation controlling the Company or owned directly or indirectly by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company, becomes the beneficial owner (as defined in Rule 13d-3 under the Securities and Exchange Act of 1934, as amended), directly or indirectly, of securities of the Company representing more than 40% of the total voting power represented by the Company’s then outstanding voting securities (as defined below);
- (ii) the merger, acquisition or consolidation of the Company or the Bank with any corporation pursuant to which the other corporation immediately after such merger, acquisition or consolidation owns more than 50% of the voting securities (defined as any securities which vote generally in the election of its directors) of the Company or the Bank outstanding immediately prior thereto or more than 50% of the Company’s or the Bank’s total fair market value immediately prior thereto; or
- (iii) the date that a majority of the members of the Company Board is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Company Board before the date of the appointment or election.

(b) “**Code**” means the Internal Revenue Code of 1986, as the same may be from time to time amended.

(c) “**Good Reason**” means any of the following:

- (i) Executive’s then current base salary is reduced;
- (ii) Executive’s work or reporting responsibilities are materially diminished, or
- (iii) Executive is relocated to a work location more than thirty (30) miles from the Executive’s then current work location.

(d) “**Protection Period**” means the period commencing on the date that a Change in Control occurs, and ending on the last day of the twelfth (12<sup>th</sup>) calendar month following the calendar month during which such Change in Control occurred. Anything in this Agreement to the contrary notwithstanding, if a Change in Control occurs, and if the date of termination with respect to Executive’s employment by Bank occurs prior to the date on which the Change in Control occurs, unless it is reasonably demonstrated by Bank that such termination of employment (i) was not at the request of a third party who has taken steps reasonably calculated to effect the Change in Control and (ii) did not otherwise arise in connection with or in anticipation of the Change in Control, then for all purposes of this Agreement the “Protection Period” shall be deemed to have commenced on the date immediately preceding the date of termination of Executive.

(e) “**Qualifying Termination**” means:

(i) an involuntary termination of Executive’s employment by Bank (or any successor to Bank after the Change in Control) for reasons other than Cause (and other than on account of Executive’s Disability); or

(ii) a voluntary termination of employment by Executive for Good Reason.

13. COBRA Health Insurance Coverage. Notwithstanding any provision of this Agreement to the contrary, nothing in this Agreement shall be interpreted to require Bank to extend COBRA health insurance coverage benefits to Executive in violation of applicable law. In the event that, following termination of Executive’s employment with Bank, Executive shall be entitled to receive extended insurance benefits pursuant to the terms of this Agreement, Executive shall be required to elect COBRA health insurance coverage and, thereafter, Bank shall provide such coverage to Executive through a COBRA subsidy; provided, however, that at such time as Bank is no longer permitted to extend COBRA health insurance coverage benefits to Executive under applicable law, Bank shall provide a cash payment to Executive in lieu of such subsidy (with each cash payment being equal to the amount of the last COBRA subsidy provided to Executive prior to Executive’s termination pursuant to the terms hereof) , and Executive shall elect and obtain his own health insurance coverage.

14. Remedies. Executive acknowledges and agrees that the breach or threatened breach of any of the provisions of Sections 8, 9, 10 or 11 of this Agreement will cause irreparable harm to Bank which cannot be adequately compensated by the payment of damages. Accordingly, Executive covenants and agrees that Bank, in addition to any other rights or remedies which Bank may have, shall be entitled to such equitable and injunctive relief as may be available from any court of competent jurisdiction to restrain Executive from breaching or threatening to breach any of the provisions of this Agreement, without the requirement that Bank post bond or other surety. Such right to obtain injunctive relief may be exercised at the option of Bank in addition to, concurrently with, prior to, after, or in lieu of the exercise of any other rights or remedies which Bank may have as a result of any such breach or threatened breach.

15. Entire Agreement. Bank and Executive agree that this Agreement contains the complete agreement concerning the employment arrangement, written or oral, between them and that this Agreement supersedes all prior negotiations, practices and/or agreements, including the Prior Agreement. Neither party has made any representations that are not contained herein on which either party has relied in entering into this Agreement.

16. Assignment. It is agreed that Bank shall have the right to assign this Agreement to any purchaser of the business of or substantially all of the assets of Bank. This is a personal services contract, and may not be assigned by Executive.

17. Modification. This Agreement shall not be modified or amended except by a writing duly executed by both parties. No waiver of any provision of this Agreement shall be effective unless the waiver is in writing and duly executed by both parties.

18. Waiver of Breach. The waiver by a party of the breach of any provision of this Agreement by the other party shall not operate or be construed as a waiver of any subsequent breach of the same of any other provision hereof by that party.

19. Severability. The provisions of this Agreement shall be severable, and the invalidity of any provisions or portion thereof shall not affect the validity of the other provisions.

20. Choice of Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Tennessee.

21. Notice. Any notice required or authorized hereunder shall be deemed delivered when delivered to Executive or to an executive officer of Bank, or when deposited, postage prepaid, in the United States mail certified, with return receipt requested, addressed to the parties as follows:

Executive: Dandridge W. Hogan  
5033 High Valley Dr.  
Brentwood, TN 37027  
Davidson County TN

with a copy (which copy shall not constitute notice) to:

James D. Kay Jr.  
222 Second Ave North  
Suite 340-M  
Nashville, TN 37201

Bank: CapStar Bank  
201 4<sup>th</sup> Ave. North, Suite 950  
Nashville, TN 37219  
Attn. Secretary

with a copy (which copy shall not constitute notice) to:

Waller Lansden Dortch & Davis LLP  
Attn. Chase Cole, Esq.  
511 Union Street, Suite 2700  
Nashville, TN 37219

22. Survival. The provisions of Sections 8, 9, 10, 11, 14 and 18 of this Agreement shall survive any termination of this Agreement.

23. Withholding. Bank shall be entitled to withhold from amounts payable to Executive hereunder such amounts as may be required by applicable law.

*(Signature Page Follows.)*

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed and delivered as of the day and date first written above.

**BANK:**

CapStar Bank

**EXECUTIVE:**

/s/ Dandridge W. Hogan

Dandridge W. Hogan

By: /s/ Denny Bottorff

Name: Denny Bottorff

Title: Chairman of the Board

## EXECUTIVE EMPLOYMENT AGREEMENT

**THIS EXECUTIVE EMPLOYMENT AGREEMENT** (this “**Agreement**”) made and entered into on this 28<sup>th</sup> day of June, 2016 (the “**Effective Date**”), between **CapStar Bank**, a Tennessee banking corporation headquartered in Nashville, Davidson County, Tennessee, hereinafter referred to as “**Bank**,” and **Christopher Tietz**, hereinafter referred to as “Executive.”

WITNESSETH

WHEREAS, the Bank is a wholly-owned subsidiary of CapStar Financial Holdings, Inc., a Tennessee corporation established to be a bank holding company, (the “**Company**”) and Executive has been employed by Bank as its Chief Credit Officer since March 1, 2016; and

WHEREAS, Executive and Bank desire to continue to employ Executive to render services to it for the periods and upon the terms and conditions provided for in this Agreement; and

NOW, THEREFORE, for the reasons set forth above and in consideration for the mutual promises and agreements set forth herein, Bank and Executive agree as follows:

1. Employment. Subject to continued approval of the Tennessee Department of Financial Institutions and other bank regulatory agencies having jurisdiction over the operations of Bank, Bank hereby agrees that effective on the Effective Date, Executive shall continue to be employed by Bank as its Chief Credit Officer pursuant to the terms of this Agreement. Executive agrees to devote his best efforts and his full-time employment to Bank’s business, operations and strategic planning and perform such other related activities and duties as the board of directors of Bank (the “**Board**”) may, from time to time, determine and assign to Executive. Executive’s services and decisions shall be subject to the review, modification and control of the Board. Service on the Board by Executive shall be included in the scope of Executive’s employment if he so serves.

2. Compensation. During the term of Executive’s employment hereunder:

(a) Salary. For the services provided for herein, Bank shall pay to Executive, and Executive shall accept from Bank, a base salary of Two Hundred Seventy Thousand and No/100 Dollars (\$270,000.00) per annum (Executive’s “**Base Salary**”), subject to any and all withholdings and deductions required by law, payable in accordance with the customary payroll practices of Bank. During the term of this Agreement, Executive’s Base Salary shall be reviewed from time to time by the Board, and may be increased, but not decreased below the Base Salary, from time to time by the Board, based upon such factors as it may establish from time to time.

(b) Benefits. Bank shall provide to Executive, consistent with the terms and conditions of the respective plans, and pay the cost of, such employee benefits as are provided to Executive Officers of Bank generally under benefit plans adopted by Bank from time to time (such benefit plans of Bank in effect from time to time, “**Employee Benefit Plans**”). The Employee Benefit Plans may include vacation days, sick days or other types of paid or unpaid leave, insurance programs, pension plans, profit sharing plans, bonus plans, stock option plans, restricted stock plans or other stock-based incentive plans, and other employee benefit plans. Provision of such benefit plans by Bank is within the sole discretion of Bank, and any such benefits may be amended, modified or discontinued at any time by Bank.

(c) Reimbursements. Upon timely and well-documented requests by Executive submitted within one month from the payment of such expenses by Executive, Bank shall reimburse Executive for Executive's costs and expenses incurred in connection with the performance of Executive's duties or otherwise for the benefit of bank, specifically including any business expenses incurred with the prior approval of the Board. Such reimbursements shall be made in accordance with the policies established by Bank from time to time, recognizing that Bank may have different reimbursement policies for executive officers, and likewise may have different reimbursement policies for Executive as Chief Financial Officer of Bank. Such reimbursements may be approved by Bank on a one-time basis for a particular expenditure, or on an ongoing basis, and may include automobile expense reimbursements, among others; provided, that such ongoing approvals shall be subject to change from time to time.

3. Term of Employment; Renewal. The initial extended term of Executive's employment pursuant to this Agreement shall commence on the Effective Date and shall end on May 31, 2017 (the "**Initial Term**"). The Term of Executive's employment pursuant to this Agreement may be renewed and the term thereof extended by one (1) additional year (each, an "**Extended Term**") at the end of the Initial Term and at the end of each Extended Term, by mutual agreement of the parties, which shall be evidenced by each party giving notice of renewal to the other party at least ninety (90) days prior to the expiration of the then-current Extended Term. The Initial term and all Extended Terms are collectively referred to herein as the "**Term**."

#### 4. Termination of Employment.

(a) Termination By Bank. Notwithstanding any of the foregoing provisions in this Agreement, Bank, by action of the Board, may terminate or elect not to extend the employment of Executive hereunder without notice at any time, for Cause or without Cause. For purposes of this Agreement, "Cause" includes, but is not limited to: (i) any material breach of the terms of this Agreement which negatively impacts Bank; (ii) personal dishonesty, fraud, disloyalty, or theft; (iii) disclosure of Bank's confidential information except in the course of performing his duties while employed by Bank; (iv) willful illegal or disruptive conduct which impairs the reputation, goodwill or business position of Bank; (v) breach of fiduciary duty involving personal profit; (vi) any order or request for removal of Executive by any regulatory authority having jurisdiction over Bank; or (vii) Executive's disability, as defined in any disability insurance policy of Bank with benefits payable to Executive, or if there is no such disability insurance policy, then as defined in Bank's established policy applicable to executive officers ("**Disability**"). Notwithstanding the foregoing, Executive shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to Executive a copy of a resolution duly adopted by the affirmative vote of a majority of the members of the Board at a duly constituted meeting of the Board, finding that in the good faith opinion of the Board, Executive was guilty of conduct justifying Termination for Cause and specifying the reasons therefor. Executive shall have the right to appear and defend himself at any meeting of the Board at which such a resolution is under consideration.

(b) For Cause; Nonrenewal. In the event of termination of Executive by Bank for Cause or election by Bank or Executive not to renew or extend the Term, Executive shall be entitled to receive only the compensation that has been earned and accrued as of the date of termination but no other monies or benefits except that: (A) in the case of Executive's Disability, if no disability plan or disability insurance policy is in place, Executive shall receive fifty per cent (50%) of his Base Salary for a period not to exceed twenty four (24) weeks following the date of termination; and (B) subject to Section 12 hereof, Executive shall be entitled to receive any extended benefits provided to all employees of Bank or required by law, such as, for example, COBRA health insurance coverage.

(c) Without Cause. In the event that: (A) Bank terminates executive's employment hereunder without cause; or (B) Bank engages in conduct that constitutes Good Reason, Executive shall be entitled (i) to resign from his employment with Bank, (ii) to continue to receive his Base Salary, payable as before such termination, for a period of one (1) year after the effective date of such termination, (iii) subject to Section 13 hereof, be provided, for a period of twelve (12) months after such termination, with life, medical, dental and disability coverage substantially identical to the coverage maintained by the Bank for Executive prior to Executive's severance, and (iv) to receive all benefits and reimbursements accrued and payable to Executive at the time of termination of his employment hereunder, including any stock or payments to which Executive is entitled under, and subject to the terms of, all incentive plans in which Executive participates (including and subject to the terms of each and any individual grant or award agreement), including stock option plans, restricted stock plans, performance share plans, and any other stock-based or cash-based incentive plans and the individual grant or award agreements under such plans (collectively, Executive's "**Severance Pay**"); provided, however, that if Bank offers and Executive voluntarily accepts terms of employment that would otherwise constitute Good reason, then Executive shall be deemed to have waived his right to resign and receive Severance Pay. Upon termination of Executive's employment hereunder for any reason (other than by Bank for Cause), whether voluntarily by Executive or by termination by Bank without Cause, by non-renewal, or otherwise, Executive shall continue to be bound by the provisions contained in Sections 7, 8, 9, and 10 hereof. In the event Executive's employment hereunder is terminated by Bank for Cause, Executive shall not be bound by the covenant not to compete set forth in Section 8 hereof.

(d) By Executive. Notwithstanding any of the foregoing provisions in this Agreement, Executive may terminate or elect not to extend his employment hereunder without notice at any time. In the event of a termination or election not to extend the Term by Executive for any reason other than Good Reason, including the death or Disability of Executive, Executive shall be entitled to receive only the compensation that has been earned and benefits and reimbursements that have accrued as of the date of termination and any extended benefits required by law, but no other monies or benefits other than continuing benefits under any retirement plan, disability insurance policy, or life insurance policy payable by virtue of the retirement, death or disability of Executive having occurred prior to such termination of employment. Upon termination of Executive's employment by Executive for whatever reason, Executive shall continue to be bound by the provisions set forth in Sections 7, 8, 9, and 10 hereof.

5. Change in Control. Capitalized terms used in this Section 5 or in Section 6 but not otherwise defined in this Section 5 or in Section 6 shall have the meanings ascribed to them in Section 11.

(a) Entitlement to Benefits upon Termination. Subject to Section 12 hereof, if during the Protection Period a Qualifying Termination of Executive's employment occurs, Bank shall pay to Executive the Change in Control benefits described in this Section 5. Change in Control benefits shall not be payable if Executive's employment is terminated (i) for Cause, (ii) by Executive voluntarily without Good Reason or (iii) by reason of Disability. In addition, the Change in Control benefits shall not be payable if Executive's employment is terminated for any or no reason prior to or following the Protection Period.

(b) Change in Control Payment and Benefits. Executive shall be entitled to receive a cash payment equal to one (1) times Executive's Base Salary in effect immediately prior to the date of termination (the "**Change in Control Payment**"), which shall be paid in twelve (12) equal monthly payments commencing on the first business day of the first month following the date of termination. Subject to Section 13 hereof, if a Qualifying Termination of Executive's employment occurs during the Protection Period, Bank shall maintain for the remaining duration of the Protection Period Executive's health insurance coverage under any applicable Employee Benefit Plans, including any insurance policy held by Bank, and pay Bank's portion of such coverage, with the intent of the parties being that Executive



shall continue to receive such health insurance coverage for a period of twelve (12) months following a Change in Control. Subject to Section 13 hereof, Executive shall have the right to continue COBRA health insurance coverage at the end of the Protection Period.

6. Compliance with Section 409A.

(a) Executive shall not have any right to make any election regarding the time or form of any payment due under this Agreement.

(b) A payment of any amount or benefit hereunder that is (i) subject to Code Section 409A, and (ii) to be made because of a termination of employment shall not be made unless such termination is also a "separation from service" within the meaning of Code Section 409A and the regulations promulgated thereunder and, for purposes of any such provision of this Agreement, references to a "termination," "termination of employment," "resignation" or like terms shall mean "separation from service" within the meaning of Code Section 409A. Notwithstanding any provision of this Agreement to the contrary, if at the time of Executive's "separation from service" Executive is a "specified employee" (within the meaning of Code Section 409A), then to the extent that any amount to which Executive is entitled in connection with his separation from service is subject to Code Section 409A, payments of such amounts to which Executive would otherwise be entitled during the six month period following the separation from service will be accumulated and paid in a lump sum on the earlier of (i) the first day of the seventh month after the date of the separation from service, or (ii) the date of Executive's death. This paragraph shall apply only to the extent required to avoid Executive's incurrence of any additional tax or interest under section 409A or any regulations or Treasury guidance promulgated thereunder.

(c) Notwithstanding any provision of this Agreement or any other arrangement to the contrary, to the extent that any payment to Executive under the terms of this Agreement or any other arrangement would constitute an impermissible acceleration or deferral of payments under Code Section 409A of the or any regulations or Treasury guidance promulgated thereunder, or under the terms of any applicable plan, program, arrangement or policy of Company, such payments shall be made no earlier or later than at such times allowed under Code Section 409A or the terms of such plan, program, arrangement or policy.

(d) Any payments provided in this Agreement or any other arrangement subject to Code Section 409A as an installment of payments or benefits, is intended to constitute a separately identified "payment" for purposes of Treas. Reg. § 1.409A-2(b)(2)(i).

7. Confidentiality. Executive shall not, at any time or in any manner, during or after the Term, either directly or indirectly, divulge, disclose or communicate to any person, firm or corporation in any manner, whatsoever, any material information concerning any matters affecting or relating to the business of Bank, except in the course of performing his duties while employed by Bank This includes, without limitation, the name of Bank's clients, customers or suppliers, the terms and conditions of any contract to which Bank is a party or any other information concerning the business of Bank, its manner or operations or its plans for the future without regard to whether all of the foregoing matters will be deemed confidential, material or important. Executive further agrees that he shall continue to be bound by the provisions of this Section 8 following any termination of Executive's employment pursuant to this Agreement.

8. Covenant Not to Compete. During the Term and for the period of twelve (12) months thereafter, upon termination of Executive's employment hereunder for any reason (other than by Bank for Cause), whether voluntarily by Executive or by termination by Bank without Cause, by non renewal, or

otherwise, and whether before or after a Change in Control, Executive agrees that Executive shall not be employed by, consult with, or directly or indirectly own, become interested in, or become involved in any manner whatsoever in any business (including any bank or other financial institution in organization) which is or will be similar to or competitive with any aspect of the business of Bank which operates a bank branch or other business location in Davidson, Sumner or Williamson Counties, Tennessee, or in any other county in which Bank operates a bank branch or other business location, determined as of the date of termination of Executive's employment with Bank. Executive agrees that should a court find the geographical scope of this covenant unreasonably broad, such court should nevertheless enforce this covenant to the extent that it deems reasonable. Executive specifically acknowledges and agrees that the foregoing restriction on competition with Bank will not prevent Executive from obtaining gainful employment following termination of employment with Bank and is a reasonable restriction upon Executive's ability to compete with Bank and to secure such gainful employment. In the event Executive's employment hereunder is terminated by Bank for Cause, Executive shall not be bound by the covenant not to compete in this Section 9.

9. Non-Solicitation Covenant. Executive agrees that for a period of one (1) year following the termination of his employment with Bank, he shall not contact or solicit, directly or indirectly, any customer or account that was a customer or account of Bank within twelve (12) months prior to the termination of Executive's employment with Bank. Executive further agrees that for a period of one (1) year following the termination of his employment with Bank, he shall not contact or solicit, directly or indirectly, any employee or person who was an employee of Bank within twelve (12) months prior to the termination of Executive's employment with Bank. The parties agree that these covenants are intended to prohibit Executive from engaging in such proscribed activities as an owner, partner, director, officer, executive, consultant, stockholder, agent, salesperson, or in any other capacity for any person, partnership, firm, corporation or other entity (including any financial institution in organization) unless he receives the express written consent of the Board. Executive specifically acknowledges and agrees that the foregoing restriction on competition with Bank will not prevent Executive from obtaining gainful employment following termination of his employment with Bank and is a reasonable restriction upon Executive's ability to compete with Bank and to secure such gainful employment.

10. No Enticement of Officers. Executive shall not, directly or indirectly, entice or induce, or attempt to entice or induce any Officer of Bank to leave such employment during the term of this Agreement or within one (1) year thereafter.

11. Certain Definitions. Whenever used in this Agreement and not otherwise defined herein, the following terms shall have the meanings set forth below:

(a) "**Change in Control**" means a transaction or circumstance in which any of the following have occurred, provided that the board of directors of the Company (the "**Company Board**") shall have determined that any such transaction or circumstance has resulted in a Change in Control, as defined in this paragraph, which determination shall be made in a manner consistent with Treas. Reg. § 1.409A-3(i)(5):

- (i) the date that any person, or persons acting as a group, as described in Treas. Reg. § 1.409A-3(i)(5) (a "Person"), other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation controlling the Company or owned directly or indirectly by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company, becomes the beneficial owner (as defined in Rule 13d-3 under the Securities and

Exchange Act of 1934, as amended), directly or indirectly, of securities of the Company representing more than 40% of the total voting power represented by the Company's then outstanding voting securities (as defined below);

- (ii) the merger, acquisition or consolidation of the Company or the Bank with any corporation pursuant to which the other corporation immediately after such merger, acquisition or consolidation owns more than 50% of the voting securities (defined as any securities which vote generally in the election of its directors) of the Company or the Bank outstanding immediately prior thereto or more than 50% of the Company's or the Bank's total fair market value immediately prior thereto; or
- (iii) the date that a majority of the members of the Company Board is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Company Board before the date of the appointment or election.

(b) "**Code**" means the Internal Revenue Code of 1986, as the same may be from time to time amended.

(c) "**Good Reason**" means any of the following:

- (i) Executive's then current base salary is reduced;
- (ii) Executive's work or reporting responsibilities are materially diminished, or
- (iii) Executive is relocated to a work location more than thirty (30) miles from the Executive's then current work location.

(d) "**Protection Period**" means the period commencing on the date that a Change in Control occurs, and ending on the last day of the twelfth (12<sup>th</sup>) calendar month following the calendar month during which such Change in Control occurred. Anything in this Agreement to the contrary notwithstanding, if a Change in Control occurs, and if the date of termination with respect to Executive's employment by Bank occurs prior to the date on which the Change in Control occurs, unless it is reasonably demonstrated by Bank that such termination of employment (i) was not at the request of a third party who has taken steps reasonably calculated to effect the Change in Control and (ii) did not otherwise arise in connection with or in anticipation of the Change in Control, then for all purposes of this Agreement the "Protection Period" shall be deemed to have commenced on the date immediately preceding the date of termination of Executive.

(e) "**Qualifying Termination**" means:

- (i) an involuntary termination of Executive's employment by Bank (or any successor to Bank after the Change in Control) for reasons other than Cause (and other than on account of Executive's Disability); or
- (ii) a voluntary termination of employment by Executive for Good Reason.

12. COBRA Health Insurance Coverage. Notwithstanding any provision of this Agreement to the contrary, nothing in this Agreement shall be interpreted to require Bank to extend COBRA health insurance coverage benefits to Executive in violation of applicable law. In the event that, following termination of Executive's employment with Bank, Executive shall be entitled to receive extended insurance benefits pursuant to the terms of this Agreement, Executive shall be required to elect COBRA health insurance coverage and, thereafter, Bank shall be financially responsible for such coverage to Executive through a COBRA subsidy; provided, however, that at such time as Bank is no longer permitted to extend COBRA health insurance coverage benefits to Executive under applicable law, Bank shall provide a cash payment to Executive in lieu of such subsidy (with each cash payment being equal to the amount of the last COBRA subsidy provided to Executive prior to Executive's termination pursuant to the terms hereof), and Executive shall elect and obtain his own health insurance coverage.

13. Remedies. Executive acknowledges and agrees that the breach or threatened breach of any of the provisions of Sections 7, 8, 9, or 10 of this Agreement will cause irreparable harm to Bank which cannot be adequately compensated by the payment of damages. Accordingly, Executive covenants and agrees that Bank, in addition to any other rights or remedies which Bank may have, shall be entitled to such equitable and injunctive relief as may be available from any court of competent jurisdiction to restrain Executive from breaching or threatening to breach any of the provisions of this Agreement, without the requirement that Bank post bond or other surety. Such right to obtain injunctive relief may be exercised at the option of Bank in addition to, concurrently with, prior to, after, or in lieu of the exercise of any other rights or remedies which Bank may have as a result of any such breach or threatened breach.

14. Entire Agreement. Bank and Executive agree that this Agreement contains the complete agreement concerning the employment arrangement, written or oral, between them and that this Agreement supersedes all prior negotiations, practices and/or agreements. Neither party has made any representations that are not contained herein on which either party has relied in entering into this Agreement.

15. Assignment. It is agreed that Bank shall have the right to assign this Agreement to any purchaser of the business of or substantially all of the assets of Bank. This is a personal services contract, and may not be assigned by Executive.

16. Modification. This Agreement shall not be modified or amended except by a writing duly executed by both parties. No waiver of any provision of this Agreement shall be effective unless the waiver is in writing and duly executed by both parties.

17. Waiver of Breach. The waiver by a party of the breach of any provision of this Agreement by the other party shall not operate or be construed as a waiver of any subsequent breach of the same of any other provision hereof by that party.

18. Severability. The provisions of this Agreement shall be severable, and the invalidity of any provisions or portion thereof shall not affect the validity of the other provisions.

19. Choice of Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Tennessee.

20. Notice. Any notice required or authorized hereunder shall be deemed delivered when delivered to Executive or to an executive officer of Bank, or when deposited, postage prepaid, in the United States mail certified, with return receipt requested, addressed to the parties as follows:

Executive: Christopher Tietz  
111 W. Tyne Drive  
Nashville, TN 37205

with a copy (which copy shall not constitute notice) to:

Claire Moynihan, Esq.  
175 15<sup>th</sup> St. NE  
Atlanta, GA 30309

Bank: CapStar Bank  
201 4<sup>th</sup> Ave. North, Suite 950  
Nashville, TN 37219  
Attn.: Secretary

with a copy (which copy shall not constitute notice) to:

Waller Lansden Dortch & Davis LLP  
Attn. Chase Cole, Esq.

511 Union Street, Suite 2700  
Nashville, TN 37219

21. Survival. The provisions of Sections 7, 8, 9, 10, 13 and 17 of this Agreement shall survive any termination of this Agreement.

22. Withholding. Bank shall be entitled to withhold from amounts payable to Executive hereunder such amounts as may be required by applicable law.

*(Signature Page Follows.)*

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed and delivered as of the day and date first written above.

**BANK:**

CapStar Bank

**EXECUTIVE:**

/s/ Christopher Tietz

Christopher Tietz

By: /s/ Dandridge W. Hogan, CEO

Dandridge W. Hogan, CEO

CAPSTAR FINANCIAL HOLDINGS, INC.

STOCK INCENTIVE PLAN

Effective April 20, 2016

## STOCK INCENTIVE PLAN

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**CAPSTAR FINANCIAL HOLDINGS, INC.**

**STOCK INCENTIVE PLAN**

**RECITALS**

**WHEREAS**, CapStar Financial Holdings, Inc., a Tennessee corporation (the “Company”) was created to be a bank holding company and entered into a securities exchange agreement with the CapStar Bank (the “Bank”) that was approved by the shareholders of the Bank and Company and became effective on February 5, 2016 (the “Exchange Agreement”) and, pursuant thereto, the Bank is now a wholly owned subsidiary of CapStar;

**WHEREAS**, the Bank had previously established the CapStar Bank 2008 Stock Incentive Plan (the “Prior Plan”) and, pursuant to the Exchange Agreement, CapStar is assuming (i) all obligations of the Bank under the CapStar Bank 2008 Stock Incentive Plan and (ii) all stock incentive awards issued thereunder;

**WHEREAS**, in order to fulfill its obligations under the Exchange Agreement, the Company desires to establish a stock incentive plan to provide incentive awards in substitution of those issued under the Prior Plan and to provide for future awards that were permissible under the Prior Plan; and

**WHEREAS**, the Company intends that securities to be issued hereunder shall be treated as issued in a transaction to which section 424(a) of the Internal Revenue Code applies and a substitution described in Treasury Regulation § 1.424(b)(5)(v)(D);

**NOW, THEREFORE**, in consideration of the foregoing, and as set forth in this instrument, the Company hereby adopts this instrument to establish the CapStar Financial Holdings, Inc. Stock Incentive Plan.

**SECTION 1. DEFINITIONS**

1.1 **Definitions**. Whenever used herein, the masculine pronoun will be deemed to include the feminine, and the singular to include the plural, unless the context clearly indicates otherwise, and the following capitalized words and phrases are used herein with the meaning thereafter ascribed:

(a) “**Affiliate**” means:

(1) Any Subsidiary or Parent,

(2) An entity that directly or through one or more intermediaries controls, is controlled by, or is under common control with the Company, as determined by the Company, or

(3) Any entity in which the Company has such a significant interest that the Company determines it should be deemed an "Affiliate", as determined in the sole discretion of the Company.

(b) "Board of Directors" means the board of directors of the Company.

(c) "Code" means the Internal Revenue Code of 1986, as amended.

(d) "Committee" means the committee appointed by the Board of Directors to administer the Plan. At such time that the Stock becomes subject to registration under the Exchange Act and publicly traded, the Committee shall consist solely of two or more members of the Board of Directors who are both "outside directors" as defined in Treas. Reg. § 1.162-27(e) as promulgated by the Internal Revenue Service and "non-employee directors" as defined in Rule 16b-3(b)(3) as promulgated under the Exchange Act. Further, the membership of the Committee shall satisfy the requirements of any national securities exchange or nationally recognized quotation or market system on which the Stock is then traded.

(e) "Company" means CapStar Financial Holdings, Inc., a Tennessee corporation.

(f) "Disability" has the same meaning as provided in the long-term disability plan or policy maintained or, if applicable, most recently maintained, by the Company or, if applicable, any Affiliate of the Company for the Participant. If no long-term disability plan or policy was ever maintained on behalf of the Participant or, if the determination of Disability relates to an Incentive Stock Option, Disability means that condition described in Code Section 22(e)(3), as amended from time to time. In the event of a dispute, the determination of Disability will be made by the Committee and will be supported by advice of a physician competent in the area to which such Disability relates.

(g) "Dividend Equivalent Rights" means certain rights to receive cash payments as described in Section 3.5.

(h) "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time.

(i) "Fair Market Value" refers to the determination of the value of a share of Stock as of a date, determined as follows:

(1) if the shares of Stock are actively traded on any national securities exchange or any nationally recognized quotation or market system (including, without limitation NASDAQ), Fair Market Value shall mean the price at which Stock shall have been sold on such date or on the trading day immediately preceding such date, as reported by any such exchange or system selected by the Committee on which the shares of Stock are then traded;

(2) if the shares of Stock are not actively traded on any such exchange or system, Fair Market Value shall mean the price for the Stock on such date, or on the trading day immediately preceding such date, as reported by such exchange or system; or

(3) if the shares of Stock are not actively traded or reported on any exchange or system on such date or on the business day immediately preceding such date, Fair Market Value shall mean the fair market value of a share of Stock as determined by the Committee taking into account such facts and circumstances deemed to be material by the Committee to the value of the Stock in the hands of the Participant.

Notwithstanding the foregoing, for purposes of Paragraph (1), (2), or (3) above, the Committee may use the closing price as of the indicated date, the average price or value as of the indicated date or for a period certain ending on the indicated date, the price determined at the time the transaction is processed, the tender offer price for shares of Stock, or any other method which the Committee determines is reasonably indicative of the fair market value of the Stock; provided further, that for purposes of granted Non-Qualified Stock Options or Stock Appreciation Rights, Fair Market Value of Stock shall be determined in accordance with the requirements of Code Section 409A, and for purposes of granting Incentive Stock Options, Fair Market Value of Stock shall be determined in accordance with the requirements of Code Section 422.

(j) "Incentive Stock Option" means an incentive stock option within the meaning of Section 422 of the Internal Revenue Code.

(k) "Option" means a Non-Qualified Stock Option or an Incentive Stock Option.

(l) "Over 10% Owner" means an individual who at the time an Incentive Stock Option to such individual is granted owns Stock possessing more than 10% of the total combined voting power of the Company or one of its Subsidiaries, determined by applying the attribution rules of Code Section 424(d).

(m) "Non-Qualified Stock Option" means a stock option that is not an Incentive Stock Option.

(n) "Parent" means any corporation (other than the Company) in an unbroken chain of corporations ending with the Company if, with respect to Incentive Stock Options, at the time of the granting of the Option, each of the corporations other than the Company owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain. A Parent shall include any entity other than a corporation to the extent permissible under Section 424(f) or regulations and rulings thereunder.

(o) "Participant" means an individual who receives a Stock Incentive hereunder.

(p) "Performance Unit Award" refers to a performance unit award as described in Section 3.6.

- (q) “Plan” means the CapStar Financial Holdings, Inc. Stock Incentive Plan, as amended.
- (r) “Restricted Stock Units” refers to the rights described in Section 3.7.
- (s) “Stock” means the Company’s common stock.
- (t) “Stock Appreciation Right” means a stock appreciation right described in Section 3.3.
- (u) “Stock Award” means a stock award described in Section 3.4.
- (v) “Stock Incentive Agreement” means an agreement between the Company and a Participant or other documentation evidencing an award of a Stock Incentive.
- (w) “Stock Incentive Program” means a written program established by the Committee, pursuant to which Stock Incentives are awarded under the Plan under uniform terms, conditions and restrictions set forth in such written program.
- (x) “Stock Incentives” means, collectively, Dividend Equivalent Rights, Incentive Stock Options, Non-Qualified Stock Options, Performance Unit Awards, Restricted Stock Units, Stock Appreciation Rights and Stock Awards.
- (y) “Subsidiary” means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if, at the time of the granting of the Option, each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in the chain. A “Subsidiary” shall include any entity other than a corporation to the extent permissible under Section 424(f) or regulations or rulings thereunder.
- (z) “Termination of Employment” means the termination of the employment or other service relationship between a Participant and the Company and its Affiliates, regardless of whether severance or similar payments are made to the Participant for any reason, including, but not by way of limitation, a termination by resignation, discharge, death, Disability or retirement. The Committee will, in its absolute discretion, determine the effect of all matters and questions relating to a Termination of Employment as it affects a Stock Incentive, including, but not by way of limitation, the question of whether a leave of absence constitutes a Termination of Employment.

## SECTION 2. THE STOCK INCENTIVE PLAN

2.1 Purpose of the Plan. The Plan is intended to (a) provide incentives to certain officers, employees, directors, and other service providers of the Company and its Affiliates to stimulate their efforts toward the continued success of the Company and to operate and manage the business in a manner that will provide for the long-term growth and profitability of the Company; (b) encourage stock ownership by certain officers, employees, directors, and other service providers by providing them with a means to acquire a proprietary interest in the

Company, acquire shares of Stock, or to receive compensation which is based upon appreciation in the value of Stock; and (c) provide a means of obtaining, rewarding and retaining officers, employees, directors, and other service providers.

2.2 Stock Subject to the Plan. Subject to adjustment in accordance with Section 5.2, one million five hundred sixty-nine thousand four hundred seventy-five (1,569,475) shares of Stock (the "Maximum Plan Shares") are hereby reserved exclusively for issuance upon exercise or payment pursuant to Stock Incentives, all or any of which may be pursuant to any one or more Stock Incentive, including without limitation, Incentive Stock Options. Except as provided in the second paragraph of Section 2.4 below, the shares of Stock attributable to the nonvested, unpaid, unexercised, unconverted or otherwise unsettled portion of any Stock Incentive that is forfeited or cancelled or expires or terminates for any reason without becoming vested, paid, exercised, converted or otherwise settled in full and shares of stock deducted or withheld to satisfy tax withholding (other than shares of Stock that are withheld from a Stock Award upon vesting) will again be available for purposes of the Plan.

2.3 Administration of the Plan. The Plan is administered by the Committee. The Committee has full authority in its discretion to determine the officers, employees, directors and other service providers of the Company or its Affiliates to whom Stock Incentives will be granted and the terms and provisions of Stock Incentives, subject to the Plan. Subject to the provisions of the Plan, the Committee has full and conclusive authority to interpret the Plan; to prescribe, amend and rescind rules and regulations relating to the Plan; to determine the terms and provisions of the respective Stock Incentive Agreements and to make all other determinations necessary or advisable for the proper administration of the Plan. The Committee's determinations under the Plan need not be uniform and may be made by it selectively among persons who receive, or are eligible to receive, awards under the Plan (whether or not such persons are similarly situated). The Committee's decisions are final and binding on all Participants. Each member of the Committee shall serve at the discretion of the Board of Directors and the Board of Directors may from time to time remove members from or add members to the Committee. Vacancies on the Committee shall be filled by the Board of Directors.

2.4 Eligibility. Stock Incentives may be granted pursuant to this plan only to officers, employees, directors, and other service providers of the Company or any Affiliate of the Company; provided, however, that an Incentive Stock Option may only be granted to an employee of the Company or any Parent or Subsidiary. In the case of Incentive Stock Options, the aggregate Fair Market Value (determined as of the date an Incentive Stock Option is granted) of Stock with respect to which stock options intended to meet the requirements of Code Section 422 become exercisable for the first time by an individual during any calendar year under all plans of the Company and its Subsidiaries may not exceed \$100,000; provided further, that if the limitation is exceeded, the Incentive Stock Option(s) which cause the limitation to be exceeded will be treated as Non-Qualified Stock Option(s).

## SECTION 3. TERMS OF STOCK INCENTIVES

### 3.1 Terms and Conditions of All Stock Incentives.

(a) The number of shares of Stock as to which a Stock Incentive may be granted will be determined by the Committee in its sole discretion, subject to the provisions of Section 2.2 as to the total number of shares available for grants under the Plan and subject to the limits in Section 2.4.

(b) Each Stock Incentive will either be evidenced by a Stock Incentive Agreement in such form and containing such, terms, conditions and restrictions as the Committee may determine to be appropriate or be made subject to the terms of a Stock Incentive Program, containing such terms, conditions and restrictions as the Committee may determine to be appropriate. Each Stock Incentive Agreement or Stock Incentive Program is subject to the terms of the Plan and any provisions contained in the Stock Incentive Agreement or Stock Incentive Program that are inconsistent with the Plan are null and void. The Committee may, but is not required to, structure any Stock Incentive so as to qualify as performance-based compensation under Code Section 162(m).

(c) The date as of which a Stock Incentive is granted will be the date on which the Committee has approved the terms and conditions of the Stock Incentive and has determined the recipient of the Stock Incentive and the number of shares, if any, covered by the Stock Incentive, and has taken all such other actions necessary to complete the grant of the Stock Incentive.

(d) Any Stock Incentive may be granted in connection with all or any portion of a previously or contemporaneously granted Stock Incentive. Exercise or vesting of a Stock Incentive granted in connection with another Stock Incentive may result in a pro rata surrender or cancellation of any related Stock Incentive, as specified in the applicable Stock Incentive Agreement or Stock Incentive Program.

(e) Stock Incentives are not transferable or assignable except by will or by the laws of descent and distribution and are exercisable, during the Participant's lifetime, only by the Participant; or in the event of the Disability of the Participant, by the legal representative of the Participant; or in the event of death of the Participant, by the legal representative of the Participant's estate or if no legal representative has been appointed, by the successor in interest determined under the Participant's will; except to the extent that the Committee may provide otherwise as to any Stock Incentives other than Incentive Stock Options.

(f) After the date of grant of a Stock Incentive, the Committee may, in its sole discretion, modify the terms and conditions of a Stock Incentive, except to the extent that such modification would be inconsistent with other provisions of the Plan or would materially adversely affect the rights of a Participant under the Stock Incentive (except as otherwise permitted under the Plan), or to the extent that the mere possession (as opposed to the exercise) of such power would result in adverse tax consequences to any Participant under Code Section 409A.

3.2 Terms and Conditions of Options. Each Option granted under the Plan must be evidenced by a Stock Incentive Agreement. At the time any Option is granted, the Committee will determine whether the Option is to be an Incentive Stock Option described in Code Section 422

or a Non-Qualified Stock Option, and the Option must be clearly identified as to its status as an Incentive Stock Option or a Non-Qualified Stock Option. Incentive Stock Options may only be granted to employees of the Company or any Subsidiary or Parent. At the time any Incentive Stock Option granted under the Plan is exercised, the Company will be entitled to legend the certificates representing the shares of Stock purchased pursuant to the Option to clearly identify them as representing the shares purchased upon the exercise of an Incentive Stock Option. An Incentive Stock Option may only be granted within ten (10) years from the earlier of the date the Plan is adopted or approved by the Company's stockholders.

(a) Option Price. Subject to adjustment in accordance with Section 5.2 and the other provisions of this Section 3.2, the exercise price (the "Exercise Price") of the Option shall be no less than 100% of the Fair Market Value of the underlying Stock on the date the Option is granted. With respect to each grant of an Incentive Stock Option to a Participant who is an Over 10% Owner, the Exercise Price may not be less than 110% of the Fair Market Value on the date the Option is granted.

(b) Option Term. Any Incentive Stock Option granted to a Participant who is not an Over 10% Owner is not exercisable after the expiration of ten (10) years after the date the Option is granted. Any Incentive Stock Option granted to an Over 10% Owner is not exercisable after the expiration of five (5) years after the date the Option is granted. The term of any Non-Qualified Stock Option shall be as specified in the applicable Stock Incentive Agreement.

(c) Payment. Except as otherwise provided in a Stock Incentive Agreement, payment of the Exercise Price will be made in cash or in other consideration acceptable to the Committee. No shares may be issued or delivered upon exercise of an Option and the holder of the Option shall not have the rights of a stockholder with respect to the shares of Stock covered thereby until full payment has been made.

(d) Conditions to the Exercise of an Option. Each Option granted under the Plan is exercisable on the terms specified in the award and set forth in the Stock Incentive Agreement. Subsequent to the grant of an Option, the Committee, at any time before complete termination of such Option, may modify the terms of an Option to the extent not prohibited by the terms of the Plan, including, without limitation, accelerating the time or times at which such Option may be exercised in whole or in part; provided, however, that the Committee may not modify an Option in a manner that would result in adverse tax consequences to any Participant under Code Section 409A.

(e) Termination of Stock Options. The termination of the right to exercise an Option shall be specified in the respective Stock Incentive Agreement for a Non-Qualified Stock Option. With respect to an Incentive Stock Option, in the event of Termination of Employment of a Participant, the Option or portion thereof held by the Participant which is unexercised will expire, terminate, and become unexercisable no later than the expiration of three (3) months after the date of Termination of Employment; provided, however, that in the case of a holder whose Termination of Employment is due to death or Disability, up to one (1) year may be substituted for such three (3) month period. For purposes of this Subsection (e), Termination of Employment of the



Participant will not be deemed to have occurred if the Participant is employed by another corporation (or a parent or subsidiary corporation of such other corporation) which has assumed the Incentive Stock Option of the Participant in a transaction to which Code Section 424(a) is applicable.

(f) Special Provisions for Certain Substitute Options. Notwithstanding anything to the contrary in this Section 3.2, any Option issued in substitution for an option previously issued by another entity, which substitution occurs in connection with a transaction to which Code Section 424(a) is applicable, may provide for an exercise price computed in accordance with such Code Section and the regulations thereunder and may contain such other terms and conditions as the Committee may prescribe to cause such substitute Option to contain as nearly as possible the same terms and conditions (including the applicable vesting and termination provisions) as those contained in the previously issued option being replaced thereby.

3.3 Terms and Conditions of Stock Appreciation Rights. Each Stock Appreciation Right granted under the Plan must be evidenced by a Stock Incentive Agreement. A Stock Appreciation Right entitles the Participant to receive the excess of (1) the Fair Market Value of a specified or determinable number of shares of the Stock at the time of payment or exercise over (2) a specified or determinable price which may not be less than the Fair Market Value of the Stock on the date of grant. A Stock Appreciation Right granted in connection with a Stock Incentive may only be exercised to the extent that the related Stock Incentive has not been exercised, paid or otherwise settled.

(a) Settlement. Upon settlement of a Stock Appreciation Right, the Company must pay to the Participant the appreciation in cash or shares of Stock (valued at the aggregate Fair Market Value on the date of payment or exercise) as provided in the Stock Incentive Agreement or, in the absence of such provision, as the Committee may determine.

(b) Conditions to Exercise. Each Stock Appreciation Right granted under the Plan is exercisable or payable at such time or times, or upon the occurrence of such event or events, and in such amounts, as the Committee specifies in the Stock Incentive Agreement; provided, however, that subsequent to the grant of a Stock Appreciation Right, the Committee, at any time before complete termination of such Stock Appreciation Right, may accelerate the time or times at which such Stock Appreciation Right may be exercised or paid in whole or in part.

3.4 Terms and Conditions of Stock Awards. The number of shares of Stock subject to a Stock Award and restrictions or conditions on such shares, if any, will be as the Committee determines, and the certificate for such shares will bear evidence of any restrictions or conditions. Subsequent to the date of the grant of the Stock Award, the Committee has the power to permit, in its discretion, an acceleration of the expiration of an applicable restriction period with respect to any part or all of the shares awarded to a Participant. The Committee may require a cash payment from the Participant in an amount no greater than the aggregate Fair Market Value of the shares of Stock awarded determined at the date of grant in exchange for the grant of a Stock Award or may grant a Stock Award without the requirement of a cash payment.

3.5 Terms and Conditions of Dividend Equivalent Rights. A Dividend Equivalent Right entitles the Participant to receive payments from the Company in an amount determined by reference to any cash dividends paid on a specified number of shares of Stock to Company stockholders of record during the period such rights are effective. The Committee may impose such restrictions and conditions on any Dividend Equivalent Right as the Committee in its discretion shall determine, including the date any such right shall terminate and may reserve the right to terminate, amend or suspend any such right at any time.

(a) Payment. Payment in respect of a Dividend Equivalent Right may be made by the Company in cash or shares of Stock (valued at Fair Market Value as of the date payment is owed) as provided in the Stock Incentive Agreement or Stock Incentive Program, or, in the absence of such provision, as the Committee may determine.

(b) Conditions to Payment. Each Dividend Equivalent Right granted under the Plan is payable at such time or times, or upon the occurrence of such event or events, and in such amounts, as the Committee specifies in the applicable Stock Incentive Agreement or Stock Incentive Program; provided, however, that subsequent to the grant of a Dividend Equivalent Right, the Committee, at any time before complete termination of such Dividend Equivalent Right, may accelerate the time or times at which such Dividend Equivalent Right may be paid in whole or in part; provided, however, that the Committee shall not have such power to the extent that the mere possession (as opposed to the exercise) of such power would result in adverse tax consequences to any Participant under Code Section 409A.

3.6 Terms and Conditions of Performance Unit Awards. A Performance Unit Award shall entitle the Participant to receive, at a specified future date, payment of an amount equal to all or a portion of the value of a specified or determinable number of units (stated in terms of a designated or determinable dollar amount per unit) granted by the Committee. At the time of the grant, the Committee must determine the base value, of each unit, the number of units subject to a Performance Unit Award, and the performance goals applicable to the determination of the ultimate payment value of the Performance Unit Award. The Committee may provide for an alternate base value for each unit under certain specified conditions.

(a) Payment. Payment in respect of Performance Unit Awards may be made by the Company in cash or shares of Stock (valued at Fair Market Value as of the date payment is owed) as provided in the applicable Stock Incentive Agreement or Stock Incentive Program or, in the absence of such provision, as the Committee may determine.

(b) Conditions to Payment. Each Performance Unit Award granted under the Plan shall be payable at such time or times, or upon the occurrence of such event or events, and in such amounts, as the Committee may specify in the applicable Stock Incentive Agreement or Stock Incentive Program; provided, however, that subsequent to the grant of a Performance Unit Award, the Committee, at any time before complete termination of such Performance Unit Award, may accelerate the time or times at which such Performance Unit Award may be paid in whole or in part; provided, however, that the Committee shall not have such power to the extent that the mere possession (as opposed to the exercise) of such power would result in adverse tax consequences to any Participant under Code Section 409A.

3.7 Terms and Conditions of Restricted Stock Units. Restricted Stock Units shall entitle the Participant to receive, at a specified future date or event, payment of an amount equal to all or a portion of the Fair Market Value of a specified number of shares of Stock at the end of a specified period. At the time of the grant, the Committee will determine the factors which will govern the portion of the Restricted Stock Units so payable, including, at the discretion of the Committee, any performance criteria that must be satisfied as a condition to payment. Restricted Stock Unit awards containing performance criteria may be designated as performance share awards.

(a) Payment. Payment in respect of Restricted Stock Units may be made by the Company in cash or shares of Stock (valued at Fair Market Value as of the date payment is owed) as provided in the applicable Stock Incentive Agreement or Stock Incentive Program, or, in the absence of such provision, as the Committee may determine.

(b) Conditions to Payment. Each Restricted Stock Unit granted under the Plan is payable at such time or times, or upon the occurrence of such event or events, and in such amounts, as the Committee may specify in the applicable Stock Incentive Agreement or Stock Incentive Program; provided, however, that subsequent to the grant of a Restricted Stock Unit, the Committee, at any time before complete termination of such Restricted Stock Unit, may accelerate the time or times at which such Restricted Stock Unit may be paid in whole or in part; provided, however, that the Committee shall not have such power to the extent that the mere possession (as opposed to the exercise) of such power would result in adverse tax consequences to any Participant under Code Section 409A.

3.8 Treatment of Awards Upon Termination of Employment. Except as otherwise provided by Plan Section 3.2(e), any award under this Plan to a Participant who has experienced a Termination of Employment or termination of some other service relationship with the Company and its Affiliates may be cancelled, accelerated, paid or continued, as provided in the applicable Stock Incentive Agreement or Stock Incentive Program, or, as the Committee may otherwise determine to the extent not prohibited by the Plan. The portion of any award exercisable in the event of continuation or the amount of any payment due under a continued award may be adjusted by the Committee to reflect the Participant's period of service from the date of grant through the date of the Participant's Termination of Employment or other service relationship or such other factors as the Committee determines are relevant to its decision to continue the award.

#### **SECTION 4. RESTRICTIONS ON STOCK**

4.1 Custody of Shares. Shares of Stock that are awarded under a Stock Incentive will be issued in book form or held by the Company as custodian until such shares are no longer subject to a risk of forfeiture or otherwise restricted under the terms of the Stock Incentive Agreement.

4.2 Restrictions on Transfer. The Participant does not have the right to make or permit to exist any disposition of the shares of Stock issued pursuant to the Plan except as provided in the Plan or the applicable Stock Incentive Agreement or Stock Incentive Program. Any disposition of the shares of Stock issued under the Plan by the Participant not made in accordance with the Plan or the applicable Stock Incentive Agreement or Stock Incentive Program will be void. The Company will not recognize, or have the duty to recognize, any disposition not made in accordance with the Plan and the applicable Stock Incentive Agreement or Stock Incentive Program, and the shares so transferred will continue to be bound by the Plan and the applicable Stock Incentive Agreement or Stock Incentive Program.

## SECTION 5. GENERAL PROVISIONS

5.1 Withholding. The Company must deduct from all cash distributions under the Plan any taxes required to be withheld by federal, state or local government. Whenever the Company proposes or is required to issue or transfer shares of Stock under the Plan or upon the vesting of any Stock Award, the Company shall withhold or require the recipient to remit to the Company an amount sufficient to satisfy any federal, state and local tax withholding requirements prior to the delivery of shares of Stock upon the exercise or vesting of such Stock Incentive.

### 5.2 Changes in Capitalization; Merger; Liquidation.

(a) Adjustments to Shares. The number and kind of shares of Stock with respect to which Stock Incentives hereunder may be granted (both overall and individual limitations) and which are the subject of outstanding Stock Incentives, and the maximum number and exercise thereof, shall be adjusted as the Committee determines (in its sole discretion) to be appropriate, in the event that:

- (1) the Company or an Affiliate effects on or more Stock dividends, Stock splits, reverse Stock splits, subdivisions, consolidations or other similar events;
- (2) the Company or an Affiliate engages in a transaction to which section 424 of the Code applies;
- (3) there occurs any other event that in the judgment of the Committee necessitates such action;

provided, however, that if such an event occurs, the Committee shall make adjustments to the limits on Stock Incentives specified in Section 2.2 that are proportionate to the modifications of the Stock that are on account of such corporate changes. If any capital reorganization or reclassification of the capital stock of the Company or any consolidation or merger of the Company with another person, or the sale of all or substantially all the Company's assets to another person, shall be effected such that holders of Stock shall be entitled to receive stock, securities, or other property (including, without limitation, cash) with respect to or in exchange for Stock, then each holder of a Stock Incentive shall thereafter have the right to acquire in accordance with the terms and conditions specified herein and in the Stock Incentive Agreement such shares of stock,

securities or other property (including, without limitation, cash) as would be issuable or payable in such reorganization, reclassification, consolidation, merger or sale with respect to or in exchange for a number of shares of Stock that could have been acquired immediately theretofore with respect to such Stock Incentive had such reorganization, reclassification, consolidation, merger or sale not taken place, subject to such adjustments as the Committee, in its sole discretion, shall determine to be appropriate.

(b) Substitution of Stock Incentives on Merger or Acquisition. The Committee may grant Stock Incentives in substitution for stock awards, stock options, stock appreciation rights or similar awards held by an individual who becomes an employee of the Company or an Affiliate in connection with a transaction to which section 424(a) of the Code applies. The terms of such substituted Stock Incentives shall be determined by the Committee in its sole discretion, subject only to the limitations of Section 2.2.

(c) Effect of Certain Transactions. Unless expressly provided to the contrary in an applicable Stock Incentive Agreement, if the Company experiences an event which results in a Change in Control (as defined below), the Committee shall in its sole discretion provide for one of the following measures with respect to outstanding Awards:

(1) The continuation or assumption of such outstanding Award under the Plan by the Company (if it is the surviving entity) or by the surviving or acquirer entity or its direct or indirect parent;

(2) The substitution by the surviving or acquirer entity or its direct or indirect parent of share awards with substantially the same terms and economic value for such outstanding Award;

(3) The expiration of such outstanding Award to the extent not timely exercised or purchased by the date of the consummation of the Change in Control or other subsequent date designated by the Committee, after reasonable advance written notice thereof to the holder of such Award and full acceleration of the vesting of the Award;

(4) The cancellation of all or any portion of such outstanding Award; *provided that*, with respect to “in-the-money” Options, such cancellation must be made in exchange for a payment in cash or Common shares with a value equal to the excess of the Fair Market Value of the Stock subject to such Option or portion thereof being canceled over the exercise or purchase price, if any, with respect to such Option or portion thereof being canceled; or

(5) The continuation of the outstanding Awards following the Change in Control without modification, provided that an Award will be fully vested and exercisable in the event that the employment of the holder (or other service relationship) is terminated without “Cause” or the holder resigns his or her position for “Good Reason” within one year of such Change in Control Event. For purposes of this Section, the terms “Cause” and “Good Reason” shall be determined by reference to the defined terms contained in a written employment

agreement between the holder and the Company or an Affiliate or, in the absence of such written defined terms, as follows: (i) Good Reason means the holder's base salary in effect at the time of the Change in Control is reduced, the holder's work or reporting responsibilities are materially diminished, or the holder is relocated to a work location more than 30 miles from the work location in effect prior to the Change in Control; and (ii) Cause means (A) personal dishonesty, fraud, disloyalty, or theft; (B) disclosure of the Company's or an Affiliate's confidential information except in the course of performing his duties while employed by the Company or Affiliate; (C) willful illegal or disruptive conduct which impairs the reputation, goodwill or business position of the Company or an Affiliate; (D) breach of fiduciary duty involving personal profit; (E) any order or request for removal of holder by any regulatory authority having jurisdiction over Bank; or (F) Executive's Disability. Notwithstanding the foregoing, Executive shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to Executive a copy of a resolution duly adopted by the affirmative vote of a majority of the members of the Board at a duly constituted meeting of the Board, finding that in the good faith opinion of the Board, Executive was guilty of conduct justifying termination for Cause and specifying the reasons therefor. Executive shall have the right to appear and defend himself at any meeting of the Board at which such a resolution is under consideration.

(d) Change in Control. A "Change in Control" means a transaction or circumstance in which any of the following have occurred, provided that the Board of Directors shall have determined that any such transaction or circumstance has resulted in a Change in Control, as defined in this paragraph, which determination shall be made in a manner consistent with Treas. Reg. § 1.409A-3(i)(5):

(1) the date that any person, or persons acting as a group, as described in Treas. Reg. § 1.409A-3(i)(5) (a "Person"), other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation controlling the Company or owned directly or indirectly by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company, becomes the beneficial owner (as defined in Rule 13d-3 under the Securities and Exchange Act of 1934, as amended), directly or indirectly, of securities of the Company representing more than 40% of the total voting power represented by the Company's then outstanding voting securities (as defined above);

(2) the merger, acquisition or consolidation of the Company or the Bank with any corporation pursuant to which the other corporation immediately after such merger, acquisition or consolidation owns more than 50% of the voting securities (defined as any securities which vote generally in the election of its directors) of the Company or the Bank, as applicable, outstanding immediately prior thereto or more than 50% of the Company's or the Bank's, as applicable, total fair market value immediately prior thereto; or

(3) the date that a majority of the members of the Board of Directors of the Company is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Board of Directors of the Company before the date of the appointment or election.

(e) The existence of the Plan and the Stock Incentives granted pursuant to the Plan shall not affect in any way the right or power of the Company to make or authorize any adjustment, reclassification, reorganization or other change in its capital or business structure, any merger or consolidation of the Company, any issue of debt or equity securities having preferences or priorities as to the Stock or the rights thereof, the dissolution or liquidation of the Company, any sale or transfer of all or any part of its business or assets, or any other corporate act or proceeding.

5.3 Cash Awards. The Committee may, at any time and in its discretion, grant to any holder of a Stock Incentive the right to receive, at such times and in such amounts as determined by the Committee in its discretion, a cash amount which is intended to reimburse such person for all or a portion of the federal, state and local income taxes imposed upon such person as a consequence of the receipt of the Stock Incentive or the exercise of rights thereunder.

5.4 Compliance with Code. All Incentive Stock Options to be granted hereunder are intended to comply with Code Section 422, and all provisions of the Plan and all Incentive Stock Options granted hereunder must be construed in such manner as to effectuate that intent.

5.5 Right to Terminate Employment or Service; No Shareholder Rights. Nothing in the Plan or in any Stock Incentive Agreement confers upon any Participant the right to continue as an officer, employee, director, or consultant of the Company or any of its Affiliates or affect the right of the Company or any of its Affiliates to terminate the Participant's employment or services at any time. The holder of a Stock Option or a Stock Incentive Agreement has, as such, none of the rights of a stockholder.

5.6 Non-Alienation of Benefits. Other than as provided herein, no benefit under the Plan may be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge; and any attempt to do so shall be void. No such benefit may, prior to receipt by the Participant, be in any manner liable for or subject to the debts, contracts, liabilities, engagements or torts of the Participant.

5.7 Restrictions on Delivery and Sale of Shares; Legends. Each Stock Incentive is subject to the condition that if at any time the Committee, in its discretion, shall determine that the listing, registration or qualification of the shares covered by such Stock Incentive upon any securities exchange or under any state or federal law is necessary or desirable as a condition of or in connection with the granting of such Stock Incentive or the purchase or delivery of shares thereunder, the delivery of any or all shares pursuant to such Stock Incentive may be withheld unless and until such listing, registration or qualification shall have been effected. If a registration statement is not in effect under the Securities Act of 1933 or any applicable state securities laws with respect to the shares of Stock purchasable or otherwise deliverable under Stock Incentives then outstanding, the Committee may require, as a condition of exercise of any Option or as a condition to any other delivery of Stock pursuant to a Stock Incentive, that the

Participant or other recipient of a Stock Incentive represent, in writing, that the shares received pursuant to the Stock Incentive are being acquired for investment and not with a view to distribution and agree that the shares will not be disposed of except pursuant to an effective registration statement, unless the Company shall have received an opinion of counsel that such disposition is exempt from such requirement under the Securities Act of 1933 and any applicable state securities laws. The Company may include on certificates representing shares delivered pursuant to a Stock Incentive such legends referring to the foregoing representations or restrictions or any other applicable restrictions on resale as the Company, in its discretion, shall deem appropriate.

5.8 Listing and Legal Compliance. The Committee may suspend the exercise or payment of any Stock Incentive so long as it determines that securities exchange listing or registration or qualification under any securities laws is required in connection therewith and has not been completed on terms acceptable to the Committee.

5.9 Termination and Amendment of the Plan. The Board of Directors may amend or terminate this Plan at any time; provided, however, an amendment that would have a material adverse effect on the rights of a Participant under an outstanding Stock Incentive is not valid with respect to such Stock Incentive without the Participant's consent, except as necessary for Stock Incentives to satisfy the conditions imposed under the Code; and provided, further, that the stockholders of the Company must approve, in general meeting:

(a) 12 months before or after the date of adoption, any amendment that increases the aggregate number of shares of Stock that may be issued under Incentive Stock Options or changes the employees (or class of employees) eligible to receive Incentive Stock Options;

(b) before the effective date thereof, any amendment that increases the number of shares in the aggregate which may be issued pursuant to Stock Incentives granted under the Plan or the maximum number of shares with respect to which any individual may receive options in any calendar year, or increases the period during which Stock Incentives may be granted or exercised; and

(c) any amendment that is subject to approval of shareholders under the rules of the exchange or trading system on which Stock becomes traded.

5.10 Incentive Stock Option Approval. Incentive Stock Options may be issued under this Plan for a period of ten years after the effective date of the Plan, provided that the stockholders of the Company approve the adoption of the Plan within twelve (12) months prior to or after the adoption of the Plan by the Board of Directors of the Company. If such approval is not obtained, any Incentive Stock Options granted hereunder will be treated as Non-Qualified Stock Options.

5.11 Choice of Law. The laws of the State of Tennessee shall govern the Plan, to the extent not preempted by federal law, without reference to the principles of conflict of laws.



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5.12 Effective Date of Plan. The Plan shall be effective as of the date the Plan is or was approved by the Board of Directors.

*[Execution Page follows]*

**EXECUTION PAGE**

**IN WITNESS WHEREOF**, the undersigned authority has executed this Plan on this the \_\_\_ of April, 2016, to be effective as provided herein on April 20, 2016.

**CAPSTAR FINANCIAL HOLDINGS, INC.**

By: /s/ Rob Anderson

Title: Chief Financial Officer / Chief Admin Officer

**CAPSTAR FINANCIAL HOLDINGS, INC.  
RESTRICTED STOCK AGREEMENT**

This Restricted Stock Agreement (this "Agreement") is entered into by and between CapStar Financial Holdings, Inc., a Tennessee corporation (the "Company"), and \_\_\_\_\_ (the "Participant") on this the \_\_ day of \_\_\_\_\_, 20\_\_.

**W I T N E S S E T H:**

1. Grant of Restricted Stock. The Company hereby grants (the "Grant") to the Participant, subject to the terms and conditions herein set forth, [number] restricted shares of its common stock (each a "Share" and collectively, the "Restricted Stock").

2. Terms and Conditions. It is understood and agreed that the Shares are granted to the Participant and this Agreement entered into pursuant to the CapStar Financial Holdings, Inc. Stock Incentive Plan (the "Plan") and are subject to and limited by the provisions of the Plan the following terms and conditions:

(a) Restrictions. Until the restrictions contained herein and in the Plan have lapsed as to all or a portion of the Shares specified in such restriction, the Shares shall not be sold, transferred or otherwise disposed of and shall not be pledged, assigned or otherwise hypothecated or encumbered, nor shall they be delivered to the Participant. The term "Vest" as used in this Agreement means the lapsing of the restrictions contained in this Agreement or the Plan with respect to the Shares or a specified portion of the Shares.

(b) Purchase Price. The purchase price payable by the Participant for the Shares shall be Zero Dollars (\$0.00) per share, payable in full in cash upon Grant.

(c) Vesting. The Shares shall vest as follows:

(1) [number] Shares on [date that is one year after original grant], provided the Participant is then, and since the date of Grant has continuously been, employed by the Company or a Subsidiary.

(2) [number] Shares on [date of that is two years after original grant], provided the Participant is then, and since the date of Grant has continuously been, employed by the Company or a Subsidiary.

(3) [number] Shares [date that is three years after original grant], provided the Participant is then, and since the date of Grant has continuously been, employed by the Company or a Subsidiary.

(d) Change in Control. Notwithstanding the terms of the Plan, a Change in Control will not be deemed to occur unless and until the Board takes action to confirm that an event or transaction that is described as a Change in Control under the Plan has resulted in an actual change in control of the Company, as determined by the Board in its sole discretion. If the Board deems a Change in Control Event to have occurred, the Participant's rights to unvested Shares of Restricted Stock will be determined by the Committee in accordance with terms of the Plan.

(e) Effect of a Termination of Employment.

(1) Except as provided in subsection (2) below, if the Participant's employment with the Company is terminated for any reason other than a Change in Control prior to the vesting of any Shares then held by the Participant, such Shares shall thereupon be forfeited immediately by the Participant and returned to the Company.

(2) The Committee may determine, in its sole discretion, if the Participant's employment with the Company is terminated other than for Cause, that some or all of the Shares of Restricted Stock granted pursuant to this Agreement that have not been previously forfeited shall immediately vest.

(3) The Participant hereby (i) irrevocably authorizes the Company to take such actions as may be necessary or appropriate to effectuate a transfer of the record ownership of any such Shares that are unvested and forfeited hereunder, and (ii) agrees to sign such documents and take such actions as the Company may reasonably request to accomplish the transfer or forfeiture of any unvested Shares that are forfeited hereunder.

3. Compliance with Laws and Regulations. This Agreement and the obligations of the Company hereunder shall be subject to all applicable federal and state laws, rules and regulations and to such approvals by any government or regulatory agency as may be required.

4. Legend. Any certificates representing unvested Shares shall be held by the Company, and any such certificate (and, to the extent determined by the Company, any other evidence of ownership of unvested Shares) shall contain the following legend:

THE TRANSFERABILITY OF THIS CERTIFICATE AND THE SHARES OF STOCK REPRESENTED HEREBY ARE SUBJECT TO THE TERMS AND CONDITIONS (INCLUDING FORFEITURE) OF A RESTRICTED STOCK AGREEMENT ENTERED INTO BETWEEN THE REGISTERED OWNER AND CAPSTAR FINANCIAL HOLDINGS, INC., COPIES OF WHICH ARE ON FILE IN THE OFFICES OF CAPSTAR FINANCIAL HOLDINGS, INC.

As soon as practicable following the vesting of any such Shares the Company shall cause a certificate or certificates covering such Shares, without the aforesaid legend, to be issued and delivered to the undersigned, subject to the payment of any withholding taxes due in connection with such vesting.

5. Withholding. Upon the Vesting of any shares of Restricted Stock, the Company shall withhold an amount sufficient to satisfy any federal, state and local tax withholding requirements in the form of shares of Stock, unless the Participant makes alternate withholding arrangements with the Company. The Company shall withhold a number of shares that is sufficient to cover the minimum required tax withholdings due on exercise, based on the Fair Market Value of Stock upon the date that Restricted Stock becomes vested.

6. Participant Bound by Plan. The Grant is subject to and the Participant agrees to be bound by all of the terms and provisions of the Plan. The terms that are defined in the Plan shall have the same meanings when used herein, except where the context clearly requires otherwise. A copy of the Plan is attached hereto and made a part hereof as if fully set out herein.

7. General. This Agreement shall be construed and interpreted according to the laws of the State of Tennessee. The foregoing contains the entire and only agreement between the parties respecting the subject matter hereof, and any representation, promise, or condition in connection therewith not incorporated herein shall not be binding upon either party. The headings of the various sections of this Agreement are for convenience of reference only, and shall not modify, define, limit or expand the express provisions of this Agreement. This Agreement shall be binding upon and inure to the benefit of any successor or successors of the Company.

8. Acknowledgment. Participant acknowledges receipt of a copy of the Plan, a copy of which is attached hereto, and represents that Participant is familiar with the terms and provisions thereof. Participant agrees to accept as binding, conclusive, and final all decisions and interpretations of the Committee on any questions arising under the Plan.

*[Execution Page follows]*

**EXECUTION PAGE**

**IN WITNESS WHEREOF**, this Restricted Stock Agreement has been executed by a duly authorized officer of the Company and the Participant has executed this Agreement, in each case as of the date first written above.

**CAPSTAR FINANCIAL HOLDINGS, INC.**

By: \_\_\_\_\_

Title: \_\_\_\_\_

**PARTICIPANT:**

\_\_\_\_\_  
[name]

**CAPSTAR FINANCIAL HOLDINGS, INC.  
NON-QUALIFIED STOCK OPTION AGREEMENT**

**THIS AGREEMENT** is entered into by and between CapStar Financial Holdings, Inc., a Tennessee corporation (the "Company"), and \_\_\_\_\_ (the "Participant") on this the \_\_ day of \_\_\_\_\_, 20\_\_.

**W I T N E S S E T H:**

1. Grant of Option. The Company grants to Participant the Option to purchase from the Company [number] ([numeral]) fully paid and non-assessable shares of the common stock, \$1.00 par value ("Stock") of the Company at a price of [dollar value] and [cents]/100 (\$[numeral]) per share, subject to the vesting provisions in Section 2, with such price being not less than the Fair Market Value of the Stock on the date that this Agreement is entered into (the "Date of Grant"). This Option is subject to all of the terms, conditions, and provisions hereof and the CapStar Financial Holdings, Inc. Stock Incentive Plan (the "Plan").

2. Vesting. The Option shall become vested incrementally with respect to the shares of Stock described in Section 1 as follows:

- (a) [number] shares of Stock on or after [date of one year after original grant];
- (b) an additional [number] shares of Stock on or after [two years after original grant];
- (c) an additional [number] shares of Stock on or after [three years after original grant]; and
- (d) an additional [number] shares Stock on or after [four years after original grant].

Notwithstanding any provision of this Agreement to the contrary, the Option is only exercisable to the extent that it has become vested.

3. Transferability. This Option is not transferable or assignable, except by will or by the laws of descent and distribution and shall be exercisable during Participant's lifetime, only by him. Any attempt to alienate, assign, pledge, hypothecate, or otherwise dispose of the Options, except as provided for herein or in the Plan, or attempted levy of any attachment, execution, or similar process upon the rights or interest hereby conferred shall be void *ab initio* and the Committee may take any action it deems appropriate to prevent such attempted disposition.

4. Exercise of Option. The Option may be exercised at any time, in whole or in part, to the extent that it has become vested under Section 2. The right to exercise this Option shall expire ten (10) years after the Date of Grant (the "Expiration Date").

(a) Termination of Provision of Services. If the Participant ceases to provide services to the Company and its Affiliates for any reason other than death or disability (as

defined in section 22(e)(3) of the Internal Revenue Code (“the Code”), the unvested portion of the Option shall thereupon terminate and the Participant may exercise the vested portion of the Option for a period of three months thereafter or, if sooner, until the Expiration Date. Thereafter, the Option shall terminate and cease to be exercisable.

(b) Disability. If the Participant ceases to provide services of the Company or one of its Affiliates by reason of a Disability, the unvested portion of the Option shall thereupon terminate and the Participant may exercise the vested portion of the Option for a period of twelve months thereafter or, if sooner, until the Expiration Date. Thereafter, the Option shall terminate and cease to be exercisable.

(c) Death. Upon the death of the Participant, the unvested portion of the Option shall thereupon terminate, except that the Option may be exercised by the Participant’s legal representatives, heirs, legatees or distributees may exercise the vested portion of the Option for a period of twelve months thereafter or, if sooner, until the Expiration Date. Thereafter, the Option shall terminate and cease to be exercisable.

5. Method of exercise. Any exercise of the Option shall be accompanied by a written notice to Company specifying the number of shares of Stock as to which the Option is being exercised that is accompanied by payment of the exercise price and arrangements for minimum required tax withholdings. Payment of the exercise price shall be made in cash or in other consideration that is acceptable to the Committee.

6. Change in Control. Notwithstanding the terms of the Plan, a Change in Control will not be deemed to occur unless and until the Board takes action to confirm that an event or transaction that is described as a Change in Control under the Plan has resulted in an actual change in control of the Company, as determined by the Board in its sole discretion. If the Board deems a Change in Control Event to have occurred, the Participant’s right to exercise this Option will be determined by the Committee in accordance with terms of the Plan.

7. Securities Act of 1933. Unless at the time of exercise of this Option there is an effective registration statement filed with the Securities and Exchange Commission under the 1933 Act, with respect to the sale of the shares of stock issuable upon exercise of this Option, the Participant’s right to exercise this Option shall be subject to the delivery to the Company upon such exercise of a letter, in form satisfactory to the Company’s counsel: (a) representing that the Participant intends to acquire the shares of stock issuable upon such exercise for investment for his own account and without a view to the resale or distribution thereof; and (b) agreeing that such shares shall not be sold or transferred by him in the absence of an effective registration statement filed with the Securities and Exchange Commission under the 1933 Act with respect to such transfer or an opinion of counsel satisfactory to the Company that such sale or transfer is not required to be registered under the 1933 Act or any applicable state securities law.

8. Subject to Provisions of Plan. The Options provided for herein are granted pursuant to the Plan and are subject to all the terms and conditions and provisions of the Plan. The terms that are defined in the Plan shall have the same meanings when used herein, except where the context clearly requires otherwise. A copy of the Plan is attached hereto and made a part hereof as if fully set out herein.



9. Withholding. As a condition to any exercise of the Option, Participant shall promptly remit in full to the Company the minimum amount of federal and (if any) state income and employment tax withholding that Company is required to remit to the Internal Revenue Service or applicable state department of revenue in accordance with the then-current provisions of the Code and applicable state law. The Company shall withhold from the Stock to be delivered a number of shares that is sufficient to cover the minimum required tax withholdings due on exercise, based on the Fair Market Value of Stock upon exercise, unless alternate arrangements for tax withholdings has been made by the Participant.

10. General. This Agreement shall be construed and interpreted according to the laws of the State of Tennessee. The foregoing contains the entire and only agreement between the parties respecting the subject matter hereof, and any representation, promise, or condition in connection therewith not incorporated herein shall not be binding upon either party. The headings of the various sections of this Agreement are for convenience of reference only, and shall not modify, define, limit or expand the express provisions of this Agreement. This Agreement shall be binding upon and inure to the benefit of any successor or successors of the Company.

11. Acknowledgment. Participant acknowledges receipt of a copy of the Plan, a copy of which is attached hereto, and represents that Participant is familiar with the terms and provisions thereof. Participant agrees to accept as binding, conclusive, and final all decisions and interpretations of the Committee on any questions arising under the Plan.

*[Execution Page Follows]*

**EXECUTION PAGE**

**IN WITNESS WHEREOF**, the parties have executed this Agreement the day and year first above written.

**CAPSTAR FINANCIAL HOLDINGS, INC.**

By: \_\_\_\_\_  
Title: \_\_\_\_\_

**PARTICIPANT**

\_\_\_\_\_  
[name]

## CAPSTAR FINANCIAL HOLDINGS, INC.

## RESTRICTED STOCK AGREEMENT

This Restricted Stock Agreement (this "Agreement") is entered into by and between CapStar Financial Holdings, Inc., a Tennessee corporation (the "Company"), and \_\_\_\_\_ (the "Participant") on this the \_\_ day of April, 2016.

## WITNESSETH:

**WHEREAS**, CapStar Bank (the "Bank") had established the CapStar Bank 2008 Stock Incentive Plan, on November 13, 2008 (the "2008 Plan") and had issued stock incentive awards to eligible participants from time to time;

**WHEREAS**, the Company entered into an exchange agreement with the Bank (the "Exchange Agreement"), effective February 5, 2016, and the Bank is now a wholly owned subsidiary of the Company;

**WHEREAS**, pursuant to the Exchange Agreement, in order to assume all obligations of the Bank under the 2008 Plan, the Company has established the CapStar Financial Holdings, Inc. Stock Incentive Plan (the "Plan"), effective April 20, 2016; and

**WHEREAS**, pursuant to the Exchange Agreement, the Company has authorized the issuance of a Stock Incentive (as defined in the Plan) to the Participant in substitution of the award that had been issued to the Participant on [date of original award] under the 2008 Plan (the "2008 Plan Stock Incentive") and the parties desire to enter into this Agreement to set forth the terms and conditions of such Stock Incentive and intend hereby to completely replace the rights and obligations under the 2008 Plan Stock Incentive that was held by the Participant thereunder pursuant to a transaction to which section 424(a) of the Internal Revenue Code applies;

**NOW, THEREFORE**, based upon the premises set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows, such terms of this Agreement to be effective as of April 20, 2016.

1. Substitution of Restricted Stock. The Company hereby grants (the "Grant") to the Participant, subject to the terms and conditions herein set forth, [number] restricted shares of its common stock (each a "Share" and collectively, the "Restricted Stock"). The parties acknowledge that the Grant is issued in substitution and replacement of the 2008 Plan Stock Incentive and that Participant has no further rights thereto.

2. Terms and Conditions. It is understood and agreed that the Shares are granted to the Participant and this Agreement entered into pursuant to the CapStar Financial Holdings, Inc. Stock Incentive Plan (the "Plan") and are subject to and limited by the provisions of the Plan the following terms and conditions:

(a) Restrictions. Until the restrictions contained herein and in the Plan have lapsed as to all or a portion of the Shares specified in such restriction, the Shares shall not be sold, transferred or otherwise disposed of and shall not be pledged, assigned or otherwise hypothecated or encumbered, nor shall they be delivered to the Participant. The term "Vest" as used in this Agreement means the lapsing of the restrictions contained in this Agreement or the Plan with respect to the Shares or a specified portion of the Shares.

(b) Purchase Price. The purchase price payable by the Participant for the Shares shall be Zero Dollars (\$0.00) per share, payable in full in cash upon Grant.

(c) Vesting. The Shares shall vest as follows:

(1) [number] Shares are deemed vested on the date of this Agreement, based on the continuous employment of the Participant since the grant of the 2008 Plan Stock Incentive.

(2) [number] Shares on [date of that is two years after original grant], provided the Participant is then, and since the date of Grant has continuously been, employed by the Company or a Subsidiary.

(3) [number] Shares [date that is three years after original grant], provided the Participant is then, and since the date of Grant has continuously been, employed by the Company or a Subsidiary.

(d) Change in Control. Notwithstanding the terms of the Plan, a Change in Control will not be deemed to occur unless and until the Board takes action to confirm that an event or transaction that is described as a Change in Control under the Plan has resulted in an actual change in control of the Company, as determined by the Board in its sole discretion. If the Board deems a Change in Control Event to have occurred, the Participant's rights to unvested Shares of Restricted Stock will be determined by the Committee in accordance with terms of the Plan.

(e) Effect of a Termination of Employment.

(1) Except as provided in subsection (3) below, if the Participant's employment with the Company is terminated for any reason other than death, Disability or a Change in Control prior to the vesting of any Shares then held by the Participant, such Shares shall thereupon be forfeited immediately by the Participant and returned to the Company.

(2) If the Participant's employment with the Company is terminated as a result of death or Disability prior to the vesting of any Shares of Restricted Stock then held by the Participant, such Shares that have not been previously forfeited shall immediately vest.

(3) The Committee may determine, in its sole discretion, if the Participant's employment with the Company is terminated other than for Cause, that some or all of the Shares of Restricted Stock granted pursuant to this Agreement that have not been previously forfeited shall immediately vest.

(4) The Participant hereby (i) irrevocably authorizes the Company to take such actions as may be necessary or appropriate to effectuate a transfer of the record ownership of any such Shares that are unvested and forfeited hereunder, and (ii) agrees to sign such documents and take such actions as the Company may reasonably request to accomplish the transfer or forfeiture of any unvested Shares that are forfeited hereunder.

3. Compliance with Laws and Regulations. This Agreement and the obligations of the Company hereunder shall be subject to all applicable federal and state laws, rules and regulations and to such approvals by any government or regulatory agency as may be required.

4. Legend. Any certificates representing unvested Shares shall be held by the Company, and any such certificate (and, to the extent determined by the Company, any other evidence of ownership of unvested Shares) shall contain the following legend:

THE TRANSFERABILITY OF THIS CERTIFICATE AND THE SHARES OF STOCK REPRESENTED HEREBY ARE SUBJECT TO THE TERMS AND CONDITIONS (INCLUDING FORFEITURE) OF A RESTRICTED STOCK AGREEMENT ENTERED INTO BETWEEN THE REGISTERED OWNER AND CAPSTAR FINANCIAL HOLDINGS, INC., COPIES OF WHICH ARE ON FILE IN THE OFFICES OF CAPSTAR FINANCIAL HOLDINGS, INC.

As soon as practicable following the vesting of any such Shares the Company shall cause a certificate or certificates covering such Shares, without the aforesaid legend, to be issued and delivered to the undersigned, subject to the payment of any withholding taxes due in connection with such vesting.

5. Withholding. Upon the Vesting of any shares of Restricted Stock, the Company shall withhold an amount sufficient to satisfy any federal, state and local tax withholding requirements in the form of shares of Stock, unless the Participant makes alternate withholding arrangements with the Company. The Company shall withhold a number of shares that is sufficient to cover the minimum required tax withholdings due on exercise, based on the Fair Market Value of Stock upon the date that Restricted Stock becomes vested.

6. Participant Bound by Plan. The Grant is subject to and the Participant agrees to be bound by all of the terms and provisions of the Plan. The terms that are defined in the Plan shall have the same meanings when used herein, except where the context clearly requires otherwise. A copy of the Plan is attached hereto and made a part hereof as if fully set out herein.

7. General. This Agreement shall be construed and interpreted according to the laws of the State of Tennessee. The foregoing contains the entire and only agreement between the parties respecting the subject matter hereof, and any representation, promise, or condition in connection therewith not incorporated herein shall not be binding upon either party. The headings of the various sections of this Agreement are for convenience of reference only, and shall not modify, define, limit or expand the express provisions of this Agreement. This Agreement shall be binding upon and inure to the benefit of any successor or successors of the Company.

8. Acknowledgment. Participant acknowledges receipt of a copy of the Plan, a copy of which is attached hereto, and represents that Participant is familiar with the terms and provisions thereof. Participant agrees to accept as binding, conclusive, and final all decisions and interpretations of the Committee on any questions arising under the Plan.

*[Execution Page follows]*

**EXECUTION PAGE**

**IN WITNESS WHEREOF**, this Restricted Stock Agreement has been executed by a duly authorized officer of the Company and the Participant has executed this Agreement, in each case as of the date first written above.

**CAPSTAR FINANCIAL HOLDINGS, INC.**

By: \_\_\_\_\_

Title: \_\_\_\_\_

**PARTICIPANT:**

\_\_\_\_\_  
[name]

## CAPSTAR FINANCIAL HOLDINGS, INC.

## NON-QUALIFIED STOCK OPTION AGREEMENT

**THIS AGREEMENT** is made between CapStar Financial Holdings, Inc., a Tennessee corporation (hereinafter the “Company”), and [name] (hereinafter the “Participant”).

**WITNESSETH:**

**WHEREAS**, Capstar Bank (the “Bank”) had established the Capstar Bank 2008 Stock Incentive Plan, on November 13, 2008 (the “2008 Plan”) and had issued stock incentive awards to eligible participants from time to time;

**WHEREAS**, the Company entered into an exchange agreement with the Bank (the “Exchange Agreement”), effective February 5, 2016, and the Bank is now a wholly owned subsidiary of the Company;

**WHEREAS**, pursuant to the Exchange Agreement, in order to assume all obligations of the Bank under the 2008 Plan, the Company has established the Capstar Financial Holdings, Inc. Stock Incentive Plan (the “Plan”), effective April 20, 2016; and

**WHEREAS**, pursuant to the Exchange Agreement, the Company has authorized the issuance of a Stock Incentive (as defined in the Plan) to the Participant in substitution of the award that had been issued to the Participant on [date of original award] under the 2008 Plan (the “2008 Plan Option”) and the parties desire to enter into this Agreement to set forth the terms and conditions of such Stock Incentive and intend hereby to completely replace the rights and obligations under the 2008 Plan Option that was held by the Participant thereunder pursuant to a transaction to which section 424(a) of the Internal Revenue Code applies;

**NOW, THEREFORE**, based upon the premises set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows, such terms of this Agreement to be effective as of April 20, 2016.

1. Substitution of Option. The Company grants to Participant the Option to purchase from the Company [number] ([numeral]) fully paid and non-assessable shares of the common stock, \$1.00 par value (“Stock”) of the Company at a price of [dollar value] and [cents]/100 (\$[numeral]) per share, subject to the vesting provisions in Section 2, with such price being not less than the Fair Market Value of the Stock on the date that the 2008 Plan Option was granted under the 2008 Plan (the “Date of Grant”). The parties acknowledge that the Option is issued in substitution and replacement of the 2008 Plan Option and that Participant has no further rights thereto. This Option is subject to all of the terms, conditions, and provisions hereof and the Plan.



2. Vesting. The Option shall become vested incrementally with respect to the shares of Stock described in Section 1 as follows:

(a) [number] shares of Stock are deemed vested on the date of this Agreement, based on the continuous employment of the Participant since the grant of the 2008 Plan Option;

(b) an additional [number] shares of Stock on or after [two years after original grant];

(c) an additional [number] shares of Stock on or after [three years after original grant]; and

(d) an additional [number] shares Stock on or after [four years after original grant].

Notwithstanding any provision of this Agreement to the contrary, the Option is only exercisable to the extent that it has become vested.

3. Transferability. This Option is not transferable or assignable, except by will or by the laws of descent and distribution and shall be exercisable during Participant's lifetime, only by him. Any attempt to alienate, assign, pledge, hypothecate, or otherwise dispose of the Options, except as provided for herein or in the Plan, or attempted levy of any attachment, execution, or similar process upon the rights or interest hereby conferred shall be void *ab initio* and the Committee may take any action it deems appropriate to prevent such attempted disposition.

4. Exercise of Option. The Option may be exercised at any time, in whole or in part, to the extent that it has become vested under Section 2. The right to exercise this Option shall expire ten (10) years after the Date of Grant (the "Expiration Date").

(a) Termination of Provision of Services. If the Participant ceases to provide services to the Company and its Affiliates for any reason other than death or disability (as defined in section 22(e)(3) of the Internal Revenue Code ("the Code")), the unvested portion of the Option shall thereupon terminate and the Participant may exercise the vested portion of the Option for a period of three months thereafter or, if sooner, until the Expiration Date. Thereafter, the Option shall terminate and cease to be exercisable.

(b) Disability. If the Participant ceases to provide services of the Company or one of its Affiliates by reason of a Disability, the unvested portion of the Option shall thereupon terminate and the Participant may exercise the vested portion of the Option for a period of twelve months thereafter or, if sooner, until the Expiration Date. Thereafter, the Option shall terminate and cease to be exercisable.

(c) Death. Upon the death of the Participant, the unvested portion of the Option shall thereupon terminate, except that the Option may be exercised by the Participant's legal representatives, heirs, legatees or distributees may exercise the vested portion of the Option for a period of twelve months thereafter or, if sooner, until the Expiration Date. Thereafter, the Option shall terminate and cease to be exercisable.

5. Method of exercise. Any exercise of the Option shall be accompanied by a written notice to Company specifying the number of shares of Stock as to which the Option is being exercised that is accompanied by payment of the exercise price and arrangements for minimum required tax withholdings. Payment of the exercise price shall be made in cash or in other consideration that is acceptable to the Committee.

6. Change in Control. Notwithstanding the terms of the Plan, a Change in Control will not be deemed to occur unless and until the Board takes action to confirm that an event or transaction that is described as a Change in Control under the Plan has resulted in an actual change in control of the Company, as determined by the Board in its sole discretion. If the Board deems a Change in Control Event to have occurred, the Participant's rights to exercise this Option will be determined by the Committee in accordance with terms of the Plan.

7. Securities Act of 1933. Unless at the time of exercise of this Option there is an effective registration statement filed with the Securities and Exchange Commission under the 1933 Act, with respect to the sale of the shares of stock issuable upon exercise of this Option, the Participant's right to exercise this Option shall be subject to the delivery to the Company upon such exercise of a letter, in form satisfactory to the Company's counsel: (a) representing that the Participant intends to acquire the shares of stock issuable upon such exercise for investment for his own account and without a view to the resale or distribution thereof; and (b) agreeing that such shares shall not be sold or transferred by him in the absence of an effective registration statement filed with the Securities and Exchange Commission under the 1933 Act with respect to such transfer or an opinion of counsel satisfactory to the Company that such sale or transfer is not required to be registered under the 1933 Act or any applicable state securities law.

8. Subject to Provisions of Plan. The Options provided for herein are granted pursuant to the Plan and are subject to all the terms and conditions and provisions of the Plan. The terms that are defined in the Plan shall have the same meanings when used herein, except where the context clearly requires otherwise. A copy of the Plan is attached hereto and made a part hereof as if fully set out herein.

9. Withholding. As a condition to any exercise of the Option, Participant shall promptly remit in full to the Company the minimum amount of federal and (if any) state income and employment tax withholding that Company is required to remit to the Internal Revenue Service or applicable state department of revenue in accordance with the then-current provisions of the Code and applicable state law. The Company shall withhold from the Stock to be delivered a number of shares that is sufficient to cover the minimum required tax withholdings due on exercise, based on the Fair Market Value of Stock upon exercise, unless alternate arrangements for tax withholdings has been made by the Participant.

10. General. This Agreement shall be construed and interpreted according to the laws of the State of Tennessee. The foregoing contains the entire and only agreement between the parties respecting the subject matter hereof, and any representation, promise, or condition in connection therewith not incorporated herein shall not be binding upon either party. The headings of the various sections of this Agreement are for convenience of reference only, and shall not modify, define, limit or expand the express provisions of this Agreement. This Agreement shall be binding upon and inure to the benefit of any successor or successors of the Company.

11. Acknowledgment. Participant acknowledges receipt of a copy of the Plan, a copy of which is attached hereto, and represents that Participant is familiar with the terms and provisions thereof. Participant agrees to accept as binding, conclusive, and final all decisions and interpretations of the Committee on any questions arising under the Plan.

*[Execution Page Follows]*

**EXECUTION PAGE**

**IN WITNESS WHEREOF**, the parties have executed this Agreement the day and year first above written.

**CAPSTAR FINANCIAL HOLDINGS, INC.**

By: \_\_\_\_\_  
Title: \_\_\_\_\_

**PARTICIPANT**

\_\_\_\_\_  
[name]

WARRANT NUMBER: \_\_\_\_\_

ISSUE DATE: \_\_\_\_\_

**CAPSTAR BANK****COMMON STOCK PURCHASE WARRANT AGREEMENT**

CapStar Bank (the "Bank") hereby grants to:

(the "Grantee"), who is the Registered Holder of Capstar Common Stock, shares of Qualifying Common Stock the right to purchase, at any time and from time to time, until 5:00 p.m. Central Time on the Expiration Date (defined below), up to shares of Common Stock on the terms and subject to the conditions set forth below.

As used herein, the following terms shall have the meanings set forth below.

"Bank" is defined in the Granting Provision hereof.

"Commission" shall mean the United States Securities and Exchange Commission.

"Common Stock" shall mean fully paid and non-assessable shares of common stock of the Bank.

"Designated Office" is defined in Section 11 hereof.

"Effective Date" is defined in Subsection 1.2 hereof.

"Exercise Price" is defined in Subsection 1.1 hereof.

"Expiration Date" is defined in Subsection 1.2 hereof.

"Grantee" is defined in the Granting Provision hereof.

"Granting Provision" shall mean the first paragraph of this agreement.

"Holder" shall mean Registered Holder.

“Qualifying Common Stock” means Common Stock, the subscription for which entitled the original Holder thereof to receive the Warrant represented by this Warrant Agreement.

“Registered Holder” shall mean the stockholder of record holding a Stock Certificate according to the books and records of the Bank, including the records of Bank’s stock transfer agent.

“Securities Act” shall mean the Securities Act of 1933, as amended.

“Stock Certificate” shall mean a certificate from Bank representing shares of Common Stock.

“Transfer” is defined in Subsection 3.1.

“Warrant” shall mean a right to purchase Common Stock granted under this or any other Warrant Agreement issued or granted by Bank.

“Warrant Agreement” shall mean this Common Stock Purchase Warrant Agreement and any other agreement by the Bank which grants a warrant or warrants to purchase shares of its Common Stock.

“Warrant Stock” shall mean all shares of Common Stock issued or issuable upon exercise of Warrants and all shares issued or issuable with respect to such shares through a stock split, stock dividend or similar transaction.

1. Exercise of Warrant; Expiration Date.

1.1. Exercise; Exercise Price. Subject to adjustment as hereinafter provided, the rights represented by this Warrant Agreement (hereinafter, “Warrant”) are exercisable at a price of Ten Dollars (\$10.00) per share of Common Stock issuable hereunder (the “Exercise Price”), payable in immediately available good funds as hereinafter provided. Upon surrender of this Warrant with the annexed Subscription Form duly executed, together with payment of the Exercise Price in good funds immediately available to Bank in Nashville, Tennessee for the shares of Common Stock purchased at the Designated Office (as set forth in Section 11 hereof), the Grantee shall be entitled to receive one or more stock certificates representing the shares of Common Stock so purchased. The shares so purchased shall be deemed to have been issued to Grantee as of the close of business on the date on which this Warrant Agreement shall have been surrendered together with the aforementioned Subscription Form and payment for such shares shall have been made as aforesaid.

1.2. Effective Date; Expiration Date. The “Effective Date” of this agreement shall be deemed to be the date first written above, which was the date on which the Grantee was first entitled to receive this Warrant Agreement. The “Expiration Date” of the Warrant Agreements shall be the date ten (10) years from the Effective Date.

1.3. Time of Exercise. The Warrant granted hereunder may be exercised either in full or in part at any time prior to the Expiration Date at the discretion of the Grantee.

## 2. Issuance of Stock Certificates.

The issuance of stock certificates upon the exercise of the Warrant contained herein shall be made without charge to the Holder including, without limitation, any tax that may be payable in respect thereof, and such stock certificates shall (subject to the provisions of Section 3) be issued in the name of, or in such names as may be directed by, the Grantee; provided, however, that the Bank shall not be required to pay any income tax to which the Grantees hereof may be subject in connection with the Issuance of this Warrant Agreement or of shares of Common Stock upon the exercise of the Warrant contained herein; and, provided further, that the Bank shall not be required to pay any tax that may be payable in respect of any transfer involved in the issuance and delivery of any such certificate or certificates in a name other than that of the Grantees; and the Bank shall not be required to issue or deliver such certificate or certificates unless or until the person or persons requesting the issuance thereof shall have paid to the Bank the amount of such tax or shall have established to the reasonable satisfaction of the Bank that such tax has been paid.

## 3. Restriction on Transfer of Warrants.

3.1. Transfer. The Warrant granted pursuant to this Warrant Agreement shall be deemed to be attached to the Qualifying Common Stock held by Grantee. Any transfer, pledge or assignment of said stock certificate or all or any portion of the shares of Common Stock represented thereby, whether absolute or contingent, outright or as collateral, voluntary or involuntary or by action of law (in each case a "Transfer"), shall be deemed to and shall include the assignment or transfer of a pro-rata portion of the Warrant granted hereunder. Except by and as a part of a Transfer, neither this Warrant Agreement nor the Warrant granted hereunder may be Transferred or otherwise encumbered or alienated, in whole or in part. Subject to compliance with Section 4 hereof, each transfer of this Warrant Agreement and all rights hereunder, in whole or in part, resulting from a Transfer shall be registered on the books of the Bank to be maintained for such purpose. As a condition to the issuance of one or more new stock certificates upon a Transfer, Bank may require the surrender of this Warrant Agreement at the Designated Office. Upon such surrender and delivery, the Bank shall, subject to Section 4, execute and deliver a new Warrant Agreement or Warrant Agreements in the name of the Transferee or Transferees, and in the name of the transferor as to any retained shares, in denominations pro-rated to the number of shares of Qualifying Stock being re-issued pursuant to such Transfer, and this Warrant Agreement, shall be canceled.

3.2. Expenses. The Bank shall prepare, issue and deliver at its own expense (other than transfer taxes) any new Warrant Agreement or Warrant Agreements required to be issued under this Section 3.

## 4. Beneficial Owners.

4.1. Nominees for Beneficial Owners. In the event that any Warrant Agreement, Warrant or Warrant Stock is held by a nominee for a beneficial owner thereof, the beneficial owner shall not be treated as the owner or holder of this Warrant Agreement or the Warrant granted hereunder or any Warrant Stock issued pursuant hereto unless such beneficial ownership is clearly disclosed and reflected on the face of this Warrant Agreement and the stock

certificate evidencing the Qualifying Stock or, in the case of Warrant Stock, the stock certificate evidencing the Warrant Stock. If the beneficial ownership is so reflected, then the beneficial owner may, at its election, be treated as the Grantee of such Warrant Agreement, Warrant or Warrant Stock for purposes of any request or other action by any Grantee or Grantees pursuant to this Agreement. If the beneficial owner of any Warrant Stock does so elect, the Bank may require assurances reasonably satisfactory to Bank of such owner's beneficial ownership of such Warrant Stock.

5. Adjustment of Number of Shares; Exercise Price; and Nature of Securities Issuable Upon Exercise of Warrants.

5.1. Exercise Price; Adjustment of Number of Shares. The Exercise Price set forth in Section 1.1 hereof shall be subject to equitable adjustment up or down from time to time to reflect stock splits, stock dividends, reverse stock splits, mergers, consolidation, and other forms of recapitalization, or reorganization, but only as hereinafter provided. No Warrant shall be "repriced" simply to reflect a reduction in the market price of Common Stock. Upon each adjustment of the Exercise Price, the Grantees shall thereafter be entitled to purchase at the Exercise Price resulting from such adjustment a number of shares obtained by multiplying the Exercise Price immediately prior to such adjustment by the number of shares purchasable pursuant hereto immediately prior to such adjustment and dividing the product thereof by the Exercise Price resulting from such adjustment.

5.2. Reorganization; Reclassification; Consolidation; Merger; or Sale. If any capital reorganization or reclassification of the capital stock of the Bank, or any consolidation or merger of the Bank with another corporation, or the sale of all or substantially all of its assets to another corporation shall be effected in such a way that Holders of Common Stock shall be entitled to receive stock, securities, cash or assets with respect to or in exchange for Common Stock, then, as a condition of such reorganization, reclassification, consolidation, merger or sale, lawful and adequate provisions shall be made whereby the Grantees shall thereafter have the right to purchase and receive upon the basis and upon the terms and conditions specified in this Warrant Agreement, upon exercise of the Warrant contained herein and in lieu of the Warrant Shares immediately theretofore purchasable and receivable upon the exercise of the rights represented hereby, such shares of stock, securities, cash or assets as may be issued or payable with respect to or in exchange for a number of outstanding shares of Common Stock equal to the number of Warrant Shares immediately theretofore purchasable and receivable upon the exercise of the rights represented hereby, and in any such case appropriate provision shall be made with respect to the rights and interest of the Grantees to the end that the provisions hereof (including, without limitation, provisions for adjustments of the Exercise Price and of the number of Warrant Shares purchasable and receivable upon the exercise of the Warrant contained herein) shall thereafter be applicable, as nearly as may be, in relation to any shares of stock or securities thereafter deliverable upon the exercise hereof.

5.3. Stock Splits, Stock Dividends and Reverse Stock Splits. In case at any time the Bank shall subdivide its outstanding shares of Common Stock into a greater number of shares, or shall declare and pay any stock dividend with respect to its outstanding stock that has the effect of increasing the number of outstanding shares of Common Stock, the Exercise Price in effect immediately prior to such subdivision or stock dividend shall be proportionately



reduced and the number of Warrant Shares purchasable pursuant to this Warrant Agreement immediately prior to such subdivision or stock dividend shall be proportionately increased, and conversely, in case at any time the Bank shall combine its outstanding shares of Common Stock into a smaller number of shares, the Exercise Price in effect immediately prior to such combination shall be proportionately increased and the number of Warrant Shares purchasable upon the exercise of the Warrant contained herein immediately prior to such combination shall be proportionately reduced.

5.4. Bank to Prevent Dilution. In case at any time or from time to time any event shall occur or condition shall arise by reason of action taken by the Bank as to which the other provisions of this Section 5 are not strictly applicable and which might materially and adversely affect the exercise rights represented by this Warrant Agreement, the Bank shall determine the adjustment, if any, on a basis consistent with the standards established in the other provisions of this Section 5, necessary with respect to the Exercise Price and the number of Warrant Shares, so as to preserve, without dilution, the exercise rights represented by this Warrant Agreement.

6. Registration; Transfer; Exchange; and Replacement of Warrant Agreement.

7. The Bank shall keep at its principal office or cause its transfer agent to keep at such agent's office a register in which the Bank shall provide for the registration, transfer and exchange of this Warrant Agreement and the Qualifying Common Shares to which it is attached.

The Bank may deem and treat the person in whose name the Qualifying Common Shares to which the Warrant granted hereunder is attached are registered as the holder and owner hereof, without regard to the name reflected herein as Grantee for all purposes and shall not be affected by any notice to the contrary, until this Warrant Agreement and the stock certificate representing such Qualifying Common Shares are duly presented for registration or Transfer.

8. Elimination of Fractional Interests.

The Bank shall not be required upon the exercise of the Warrant evidenced hereby to issue stock certificates representing fractions of shares of Common Stock, but shall honor such Warrant only to the extent of the number of whole shares to which Grantee is entitled.

9. Reservation and Listing of Shares.

The Bank shall at all times reserve and keep available out of its authorized shares of Common Stock, solely for the purpose of issuance upon the exercise of the Warrant granted herein, such number of shares of Common Stock as shall be issuable upon the exercise hereof. The Bank covenants and agrees that, upon exercise of the Warrant granted herein and payment of the Exercise Price therefor, all shares of Common Stock issuable upon such exercise shall be duly and validly issued, fully paid and non-assessable.

10. Supplying Information.

The Bank shall cooperate with Grantee and each holder of Warrant Stock issued upon exercise of the Warrant granted herein in supplying such information as may be reasonably

necessary for such Persons to complete and file any information reporting forms presently or hereafter required by the Commission or any state securities commission as a condition to the availability of an exemption from the Securities Act for the sale of such Warrant or shares of Warrant Stock. The Bank shall use reasonable efforts at all times following any public offering of the Bank's Common Stock to make public information available so as to afford the Grantee and any Warrant Stock issued upon exercise of the Warrant granted hereunder the benefits of any available securities law exemptions in connection with resales which are or may become available.

11. Grantee's Satisfaction and Agreement to be Bound.

This Warrant Agreement has been executed by Bank and accepted by Grantee in full satisfaction of its obligation to grant warrants to Grantee in connection with Grantee's subscription for and purchase of the Qualifying Shares. Grantee agrees to accept the Warrant granted hereunder in full satisfaction of such obligation of Bank, and agrees to be bound by the terms hereof.

12. Loss or Mutilation.

Upon receipt by the Bank from Grantee of evidence reasonably satisfactory to it of the ownership of and the loss, theft, destruction or mutilation of this Warrant Agreement and an indemnity reasonably satisfactory to it and, in case of mutilation, upon surrender and cancellation hereof, the Bank will execute and deliver in lieu hereof a new Warrant Agreement of like tenor to Grantee.

13. Office of the Bank.

As long as any of the Warrants remain outstanding, the Bank shall maintain an office or agency, which may be the principal executive offices of the Bank (the "Designated Office"), where the Warrant Agreements may be presented for exercise, registration of transfer, division or combination as provided in this Warrant Agreement. Such Designated Office shall initially be the office of the Bank at 201 4th Avenue, North, Suite 900, Nashville, Tennessee 37219. Thereafter, such office shall be the principal office of the Bank or of an agency designated by the Bank.

14. Bank Information.

Until the Expiration Date, the Bank shall make available to Grantee upon Grantee's written request one copy of each of the following items:

(i) as soon as available, and in any event within thirty (30) days after the end of each calendar quarter of the Bank, unaudited interim consolidated balance sheets of the Bank and its Subsidiaries as at the end of such quarter and the related consolidated statements of income, cash flow and stockholders' equity of the Bank and its Subsidiaries for the period from the beginning of the current fiscal year to the end of such quarter prepared in accordance with Bank's usual and customary accounting practices;

(ii) within one hundred and twenty (120) days after the end of each fiscal year of the Bank, consolidated balance sheets of the Bank and its Subsidiaries as at the end of such year and the related consolidated statements of income, cash flow and stockholders' equity of the Bank and its Subsidiaries for such fiscal year, prepared in accordance with Bank's usual and customary accounting practices; and

(iii) promptly upon their becoming available, copies of all financial statements, reports, proxy statements, notices, documents or other communications sent or made available generally by the Bank to holders of its Common Stock.

15. Notices.

All notices, requests, consents and other communications hereunder shall be in writing and shall be deemed to have been duly made when delivered personally, or mailed by registered or certified mail, return receipt requested, or telecopied or telexed and confirmed in writing and delivered personally or mailed by registered or certified mail, return receipt requested:

(a) if to the Grantee, to the address of Grantee as shown on the books of the Bank; or

(b) if to the Bank, to the Designated Office;

or at such other address as the Grantees or the Bank may hereafter have advised the other.

16. Successors.

All the covenants, agreements, representations and warranties contained in this Warrant Agreement shall bind the parties hereto and their respective heirs, executors, administrators, distributees, and successors.

17. Headings.

The Section headings in this Warrant Agreement have been inserted for purposes of convenience only and shall have no substantive effect.

18. Law Governing.

This Warrant Agreement shall be construed and enforced in accordance with, and governed by, the laws of the State of Tennessee (not including the choice of law rules thereof) regardless of the jurisdiction of creation or domicile of the Bank or its successors or of the Grantees at any time hereof.

19. Entire Agreement; Amendments and Waivers.

The Section headings in this Warrant Agreement have been inserted for purposes of convenience only and shall have no substantive effect.

20. Law Governing.

This Warrant Agreement shall be construed and enforced in accordance with, and governed by, the laws of the State of Tennessee (not including the choice of law rules thereof) regardless of the jurisdiction of creation or domicile of the Bank or its successors or of the Grantees at any time hereof.

21. Entire Agreement; Amendments and Waivers.

This Warrant Agreement sets forth the entire understanding of the parties with respect to the transactions contemplated hereby. The failure of any party to seek redress for the violation or to insist upon the strict performance of any term of this Warrant Agreement shall not constitute a waiver of such term and such party shall be entitled to enforce such term without regard to such forbearance. This Warrant Agreement may be amended, and any breach of or compliance with any covenant, agreement, warranty or representation may be waived, only if the Bank has obtained the written consent or written waiver of the majority in interest of the holders of Warrants, and then such consent or waiver shall be effective only in the specific instance and for the specific purpose for which given.

22. Severability.

If any term of this Warrant Agreement as applied to any person or to any circumstance is prohibited, void, invalid or unenforceable in any jurisdiction, such term shall, as to such jurisdiction, be ineffective to the extent of such prohibition or invalidity without in any way affecting any other term of this Warrant Agreement or affecting the validity or enforceability of this Warrant Agreement or of such provision in any other jurisdiction.

**IN WITNESS WHEREOF**, CAPSTAR BANK and Grantee have caused this Warrant Agreement to be duly executed to be effective as of the Effective Date.

**CAPSTAR BANK**

By: \_\_\_\_\_  
Claire Tucker, President

Accepted and agreed:

\_\_\_\_\_  
Printed Name: \_\_\_\_\_, Grantee

ANNEX A

SUBSCRIPTION FORM

(To Be Executed By The Grantee)

**In Order To Exercise The Warrant Contained in this Agreement)**

The undersigned hereby irrevocably elects to exercise the right to purchase \_\_\_\_\_ shares of Common Stock of CapStar Bank covered by a Warrant Agreement dated \_\_\_\_\_ according to the conditions thereof and herewith makes payment of the Exercise Price of such shares in full in the amount of \$\_\_\_\_\_.

\_\_\_\_\_, Grantee

Print Name: \_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_

Dated: \_\_\_\_\_

CAPSTAR BANK  
Nashville, Tennessee

## Non-Voting Common Stock Warrant

Number: \_\_\_\_\_

Issuance Date: \_\_\_\_\_, 2008

1. **General Provisions.** CapStar Bank, a Tennessee chartered commercial bank (the "Bank"), for value received, and other good and valuable consideration, receipt of which is hereby acknowledged, hereby certifies that \_\_\_\_\_, the address of which is \_\_\_\_\_, (the "Holder"), is entitled to purchase shares of the fully-paid and nonassessable non-voting Common Stock, \$1.00 par value per share, of the Bank (such number and character of such shares being subject to adjustment as provided in paragraph 4 below) at the Exercise Price set forth herein by surrendering this Non-Voting Common Stock Warrant ("Warrant") and by paying in full the Exercise Price for the number of shares of non-voting Common Stock as to which this Warrant is exercised prior to 5:00 p.m. central time, on the Expiration Date, as defined below, subject to the terms, conditions, and adjustments set forth herein. No fractional shares shall be issued hereunder.

2. **Expiration Date.** This Warrant shall expire and all rights hereunder shall cease on the tenth (10th) anniversary of the issuance date hereof, which shall be the date the Bank receives all regulatory approvals to operate.

3. **Number of Shares Covered by Warrant; Exercise Price.** The number of shares of the Bank's non-voting Common Stock for which this Warrant may be exercised shall be \_\_\_\_\_ (\_\_\_\_\_), subject to adjustment as provided below, which may be purchased as a whole or in part at any time. The "Exercise Price" per share for the shares purchased upon exercise of this Warrant shall be Ten and 25/100 Dollars (\$10.25) per share, subject to adjustment as provided in paragraph 4 below. The right of exercise shall be cumulative, so that if this Warrant is not exercised for the maximum number of shares of non-voting Common Stock permissible on any exercise date, it shall be exercisable, in whole or in part, with respect to shares of non-voting Common Stock not so purchased at any time prior to 5:00 p.m. central time on the Expiration Date. This Warrant may not be exercised after 5:00 p.m. central time on the Expiration Date.

4. **Adjustments in Number of Shares and Exercise Price.** If at any time during the period when this Warrant may be exercised, the Bank shall declare or pay a dividend or dividends payable in shares of its non-voting Common Stock (or any security convertible into or granting rights to purchase shares of such non-voting Common Stock) or split the then outstanding shares of its non-voting Common Stock into a greater number of shares, the number of shares of non-voting Common Stock which may be purchased upon the exercise of this Warrant in effect at the time of taking of a record for such dividend or at the time of such stock split shall be proportionately increased and the Exercise Price proportionately decreased as of such time; and conversely, if at any time the Bank shall reduce the number of outstanding shares of its non-voting Common Stock by combining such shares into a smaller number of shares, the number of shares which may be purchased upon the exercise of this Warrant at the time of such action shall be proportionately decreased and the Exercise Price proportionately increased as of such time.

In the event shares of the Bank are exchanged for shares of stock of a bank holding company organized to own the shares of Bank stock prior to the Expiration Date, this Warrant shall be convertible into a warrant for and grant the Holder the right to purchase the number of shares set forth in paragraph 3 above of non-voting common stock in such bank holding company, subject to any adjustment as may be necessary and appropriate for the Holder to be entitled to receive the same number of shares to which he would have been entitled in the absence of such a share exchange, exercisable prior to the Expiration Date.

**5. Exercise of Non-Voting Common Stock Warrant.**

5.1 **Vesting.** This Warrant is exercisable immediately in full or in part upon issuance.

5.2 **Manner of Exercise.** Subject to the terms hereof, this Warrant may be exercised by the Holder by transmitting written notice of exercise and the required payment by mail or hand-delivery to the President or the Secretary of the Bank, specifying the number of shares of non-voting Common Stock to be purchased and the Exercise Price to be tendered in payment for the shares in accordance with paragraph 5.3 below. Such exercise shall be deemed effective upon the Holder placing in the mail or hand-delivering such written notice together with the required payment. In case of the exercise hereof in part only, the Bank will deliver to the Holder a new Warrant of like tenor in the name of the Holder evidencing the right to purchase the number of shares as to which this Warrant has not been exercised.

**5.3 Payment of Exercise Price.**

(a) Payment of the Exercise Price for the number of shares of non-voting Common Stock as to which this Warrant is exercised shall be in cash or certified or cashier's check payable to the order of the Bank in an amount equal to the purchase price of such shares.

(b) In lieu of making the payment required to exercise this Non-Voting Common Stock Warrant pursuant to paragraph 5.3(a), the Holder may elect to receive Non-Voting Common Shares equal to the value of this Non-Voting Common Stock Warrant (or, in the case of a partial exercise, any portion thereof being exercised), in which event the Bank will issue to the Holder the number of shares of Non-Voting Common Stock equal to the result obtained by (i) subtracting B from A, (ii) multiplying the difference by C, and (iii) dividing the product by A as set forth in the following equation:

$$X = \frac{(A - B) \times C}{A} \text{ where:}$$

X = the number of shares of Non-Voting Common Stock issuable upon exercise pursuant to paragraph 5;

A = the Current Market Price Per Non-Voting Common Share (as defined below) on the day immediately preceding the date on which the Holder delivers written notice of exercise to the Bank pursuant to paragraph 5.2;

B = the Exercise Price; and

C = the number of shares of Non-Voting Common Stock as to which this Non-Voting Common Stock Warrant is being exercised pursuant to paragraph 5.3.

If the foregoing calculation results in a negative number, then no shares of Common Stock shall be issued upon exercise pursuant to this paragraph 5.3.

(c) For the purpose of any computation under paragraph 5.3, on any determination date, the “Current Market Price Per Non-Voting Common Share” shall be equal to (i) prior to the initial public offering of shares of the Bank’s voting common stock, the value per share of the Bank’s outstanding common stock (with the Bank’s voting and non-voting common stock being treated the same for these purposes) as reasonably determined by the Bank’s board of directors (after consultation with the Holder) using the Bank’s tangible book value per share of common stock and the historical price/tangible book value of the SNL Small Cap Bank Index, in each case as of the most recent calendar month end immediately prior to such date, and (ii) from and after the initial public offering of shares of the Bank’s voting common stock, the average closing price per share of the Bank’s voting common stock for the consecutive trading days immediately prior to such date.

**6. Delivery of Stock Certificates; Compliance with Securities Laws, etc.**

6.1 **General.** As soon as practicable after an exercise hereunder, in whole or in part, and in no event later than ten (10) business days after an effective exercise and payment in full of the Exercise Price for the number of shares of non-voting Common Stock to be purchased, the Bank at its expense shall cause to be issued in the name of and delivered to the Holder:

(a) a stock certificate, validly issued, for the number of duly authorized, fully paid and nonassessable shares of non-voting Common Stock to which the Holder is entitled upon such exercise; and

(b) in the case of a partial exercise, a new Warrant of like tenor, specifying the number of shares as to which the Warrant shall be exercisable, which shall be equal in number to the number of shares called for on the face of this Warrant less the number of shares as to which this Warrant has been exercised.

7. **Reservation of Shares.** The Bank shall at all times reserve and keep available a number of its authorized but unissued shares of its non-voting Common Stock sufficient to permit the exercise in full of this Warrant.

8. **Transferability.** This Warrant shall not be transferable by the Holder except to an Affiliate thereof. For purposes of this Warrant the term “Affiliate” means any entity that controls, is controlled by or is under common control with \_\_\_\_\_. Any attempted



assignment, transfer, pledge, hypothecation or other disposition of this Warrant in whole or in part contrary to the provisions hereof, or by the levy of any attachment or similar process upon this Warrant shall be void and of no force or effect.

9. **No Rights or Liabilities as Shareholder.** The Holder shall have no rights or any obligations or liabilities as a shareholder of the Bank with respect to any shares which may be purchased upon exercise of this Warrant unless and until a certificate representing such shares is duly issued and delivered to the Holder.

10. **Merger or Consolidation of the Bank.** In the event the Bank merges or consolidates with or into any other corporation or other business entity, or sells or otherwise transfers its property, assets, and business substantially in its entirety to a successor corporation or other business entity, there shall thereafter be deliverable upon any exercise of this Warrant the number of shares of stock or other securities or property (including cash) to which a holder of the number of shares of non-voting Common Stock which would otherwise have been deliverable upon the exercise of this Warrant would have been entitled upon such merger, consolidation, sale or transfer if this Warrant had been exercised in full immediately prior thereto.

11. **Clerical Changes to Non-Voting Common Stock Warrant.** The Bank may, without the consent of the Holder, make changes in this Warrant that are required to cure any ambiguity or to correct any defective or inconsistent provision or clerical omission or mistake in this Warrant, add to the covenants and agreements that the Bank is required to observe, or result in the surrender of any right or power reserved or conferred upon the Bank in this Warrant, but which changes do not or will not adversely affect, alter, or change the rights, privileges or immunities of the Holder.

12. **Governing Law.** This Warrant is to be construed and enforced in accordance with and governed by the procedural provisions and substantive law of the State of Tennessee.

13. **Miscellaneous.**

(a) Except as provided herein, this Warrant may not be amended or otherwise modified unless evidenced in writing and signed by an authorized officer of the Bank and the Holder.

(b) All notices under this Warrant shall be mailed or delivered by hand to the parties at their respective addresses as recorded in the official stockholder records of the Bank or at such other address as the parties may from time to time provide to each other in writing.

IN WITNESS WHEREOF, the Bank has caused this Warrant to be issued in its corporate name by its duly appointed officer.

**CapStar Bank**

By: \_\_\_\_\_  
Claire W. Tucker, President

**SUBSIDIARY LIST**

CapStar Bank, a Tennessee chartered banking corporation