

PUBLIC DISCLOSURE

April 11, 2005

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Scottish Bank
Certificate Number: 34700**

**1057 Providence Road
Charlotte, NC 28207**

**Federal Deposit Insurance Corporation
10 Tenth Street, NE, Suite 800
Atlanta, Georgia 30309**

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **The Scottish Bank** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **April 11, 2005**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

INSTITUTION RATING

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

This rating is based on the following reasons.

- ▶ A reasonable geographic distribution of loans within the bank's assessment area.
- ▶ A reasonable distribution of loans among individuals of different income levels and business of different sizes.
- ▶ A majority of loans were within the bank's assessment area.
- ▶ A reasonable loan-to-deposit ratio.

DESCRIPTION OF INSTITUTION

The Scottish Bank is a state chartered commercial bank located in Charlotte, North Carolina. The bank serves Mecklenburg County through its 4 full-service offices. All of the bank's offices are located in middle- and upper-income census tracts. In July 2004, the bank sold its mortgage lending department to Bradford Mortgage Company, giving the bank a 20 percent ownership stake in Bradford Mortgage Company. Bradford Mortgage Company has offices in Winston-Salem, Charlotte, and Charleston, South Carolina.

The bank offers a variety of lending and deposit products to its customers. As of December 31, 2004, the bank's assets were approximately \$151 million. The bank's loan portfolio was approximately \$117 million, which represents 77 percent of assets. The distribution of the loan portfolio by loan type is presented in Table 1 below.

Table 1 – Loan Distribution as of December 31, 2004		
Loan Type	Dollar Amount (000s)	Percent of Total Loans
Construction and Land Development	\$6,701	5.7%
1-4 Family Residential	\$35,911	30.8%
Multi-Family (5 or more) Residential	\$571	.5%
Non Farm Non Residential	\$42,820	36.7%
Commercial and Industrial	\$28,043	24.0%
Loans to Individuals	\$2,689	2.3%
Other	\$13	.0%
Total Loans	\$116,748	100.0%

Source: December 31, 2004 Consolidated Report of Condition and Income

The CRA regulation requires examiners to review a bank's lending performance with respect to home mortgage, small business, and small farm loans, if significant. As the above table illustrates, the significant CRA loan types are small business loans and home mortgage loans. The bank has not originated any small farm loans.

There are no financial or legal impediments to prevent the bank from meeting the credit needs of its assessment area. At the previous CRA evaluation on August 30, 1999 the bank received a "Satisfactory" CRA rating.

DESCRIPTION OF ASSESSMENT AREA

The Scottish Bank's assessment area is Mecklenburg County. This assessment area meets the technical requirements of the CRA regulation, which includes a requirement for not arbitrarily excluding any low- or moderate-income geography.

Mecklenburg County is located in the Charlotte-Concord-Gastonia, NC-SC Metropolitan Statistical Area (MSA). Because Mecklenburg County is located in an MSA, the median family income for the MSA is used to determine the income level of the census tracts and borrowers. This is further discussed in the description of the assessment area presented below.

This analysis considered demographic data from the 2000 U.S. Census. Detailed in Table 2 is certain demographic, housing, and economic information for the assessment area.

Table 2- Demographic Information - 2000 U.S. Census Data*						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	144	9.03	20.83	30.56	38.89	0.69
Population by Geography	695,454	4.75	17.83	38.20	39.22	0.00
Owner-Occupied Housing by Geography	170,392	1.63	12.35	38.36	47.66	0.00
Business by Geography**	49,895	5.57	16.46	33.26	44.38	0.32
Farms by Geography	887	2.37	11.95	41.60	43.97	0.11
Family Distribution by Income Level	176,621	16.87	15.87	20.68	46.59	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	57,818	10.25	30.56	40.55	18.64	0.00
Median Family Income		\$53,868	Median Housing Value		\$127,868	
HUD Adjusted Median Family Income for 2003***		\$61,800	Households Below Poverty Level		8.83%	
HUD Adjusted Median Family Income for 2004***		\$62,500				

* Except for marked data, all information is from the 2000 U.S. Census

** This data is provided by Dunn & Bradstreet

*** This data is based on an estimate by the Department of Housing and Urban Development.

Unemployment figures as of December 31, 2004 indicate that the bank's assessment area is generally experiencing unemployment levels similar to the National and North Carolina unemployment levels of 5.1 percent and 4.9 percent, respectively. The unemployment rate for Mecklenburg County was 4.8 percent.

The Median Family Income (MFI) for the bank’s assessment area is presented in the following table. The Department of Housing and Urban Development’s estimated MFI is used to determine income level classification of borrowers.

Table 3 – Income Level Definitions for Mecklenburg County		
Income Level	2003	2004
Low-Less than 50%	<\$30,900	<\$31,250
Moderate-50% to < 80%	\$30,900 To \$49,439	\$31,250 to \$49,999
Middle-80% to < 120%	\$49,440 To \$74,159	\$50,000 to \$74,999
Upper-120% and over	>=\$74,160	>=\$75,000

Competition

The Scottish Bank faces competition from a number of financial institutions operating in its assessment area. According to market share data distributed by the FDIC and the Office of Thrift Supervision (OTS), the bank’s primary competition is Wachovia, Bank of America, Branch Banking & Trust Company, First Charter Bank, and First Citizens Bank.

Community Contact

During a CRA evaluation, it is customary for examiners to contact various persons and/or organizations within the institution's assessment area to gain insight regarding local economic conditions and credit needs. A community contact was conducted with a local non-profit organization involved in community development.

According to the demographic data reviewed for the bank’s assessment area, as well as a review of the community contact, the bank’s assessment area primarily has a need for business and mortgage lending. Business lending would lead to the creation of jobs and mortgage lending would increase the number of homeowners living within the bank’s assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Scope of Evaluation

Examiners reviewed the lending performance of The Scottish Bank using CRA procedures for small banks. Examiners used home mortgage loans reported in accordance with the Home Mortgage Disclosure Act (HMDA) for 2003 and 2004 and a sample of small business loans to evaluate the bank's lending performance within its assessment area. Small farm loans were not evaluated as the bank did not make a significant number of small farm loans.

From January 1, 2004 through December 31, 2004, the bank originated 204 small business loans totaling \$31,689,718. For this CRA evaluation, examiners selected a random sample of 36 small business loans with origination amounts totaling \$6,480,000.

Loan-to-Deposit Ratio

The Scottish Bank's loan-to-deposit (LTD) ratio shows reasonable performance. The average LTD ratio is calculated using Call Report data for the 22 quarters from September 30, 1999 to December 31, 2004. The LTD ratio ranged from a low of 82 percent in the fourth quarter of 2001, to a high of 96 percent in the fourth quarter of 2004. The bank's LTD ratio was compared to three similarly situated institutions located in or near the bank's assessment area. Please see Table 4 below.

Table 4 – Average Loan-to-Deposit Ratios (September 30, 1999 to December 31, 2004)				
Name of Institution	The Scottish Bank	First Trust Bank	Trinity Bank	First Gaston Bank
Total Assets (000)	\$151,100	\$239,056	\$150,973	\$207,540
Loan-to-Deposit Ratio	89%	72%	85%	90%

Lending Inside the Assessment Area

A majority of the bank's loans are in its assessment area. This data is presented in Table 5 below.

Table 5 – Distribution of Loans Inside and Outside of the Assessment Areas										
Loan Category or Type	Number of Loans					Dollars in Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
2003 HMDA Loans	357	74.5%	122	25.5%	479	\$69,197	77.9%	\$19,608	22.1%	\$88,805
2004 HMDA Loans	92	73.0%	34	27.0%	126	\$17,643	67.3%	\$8,576	22.7%	\$26,219
Small Business	32	88.8%	4	11.2%	36	\$5,864	90.5%	\$616	9.5%	\$6,480
Total	481	75.0%	160	25.0%	641	\$92,704	76.3%	\$28,800	23.7%	\$121,504

Geographic Distribution of Lending

The distribution of the bank's loans reflects a reasonable distribution among geographies of different income levels. When compared to the number and percent of owner-occupied housing units and aggregate lending data, the number and dollar volume of home mortgage loans originated within the low- and moderate-income census tracts is reasonable. The percentage of the bank's HMDA loans originated in low- and moderate-income census tracts increased from 2003 to 2004. The geographic distribution of HMDA loans originated in the assessment area is presented in Table 6.

Census Tract Income Level		Low	Moderate	Middle	Upper	NA	Total	
Owner-Occupied Housing Units*	Percent	1.6%	12.3%	38.4%	47.7%	0.00%	100.0%	
2003 Aggregate Lending Data	Percent	1.0%	8.0%	32.2%	58.8%	0.0%	100.0%	
Home Mortgage Loans	2003	Number	2	35	85	235	0	357
		Percent	.6%	9.8%	23.8%	65.8%	0.0%	100.0%
		Dollar (000s)	388	4,615	11,735	52,459	0	69,197
		Percent	.6%	6.7%	16.9%	75.8%	0.0%	100.0%
	2004	Number	3	14	23	52	0	92
		Percent	3.3%	15.2%	25.0%	56.5%	0.0%	100.0%
		Dollar (000s)	841	2,431	2,267	12,104	0	17,643
		Percent	4.8%	13.8%	12.8%	68.6%	0.0%	100.0%

*2000 U.S. Census Data

The geographic distribution of small business loans throughout the bank's assessment area is adequate. The bank's performance in low-income census tracts is significantly higher than the business demographics, but significantly lower in moderate-income census tracts. Table 7 depicts the dispersion of small business loans within the bank's assessment area.

Census Tract Income Level		Low	Moderate	Middle	Upper	NA	Total	
Businesses*	Number	3,026	8,134	18,365	20,209	161	49,895	
	Percent	6.1%	16.3%	36.8%	40.5%	.3%	100.0%	
Small Business Loans	January 2004 To December 2004	Number	5	1	5	19	2	32
		Percent	15.6%	3.1%	15.6%	59.4%	6.3%	100.0%
	Dollar (000s)	465	103	884	4,171	241	5,864	
	Percent	7.9%	1.8%	15.1%	71.1%	4.1%	100.0%	

*2004 Dunn and Bradstreet

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

The distribution of the bank's loans reflects a reasonable distribution among borrowers of different income levels and businesses of different revenue levels. The Scottish Bank's borrower characteristics reflect adequate penetration among borrowers of different income levels, particularly low- and moderate-income individuals. The bank's level of lending to low- and moderate-income borrowers in 2003 is slightly lower than the aggregate lending data. The bank's percentage of loans to low-income borrowers is significantly below the percentage of low-income families. However, it should be taken into consideration that almost 9 percent of families in the assessment area are below the poverty level. These families would generally not be able to qualify for mortgage loan financing.

In 2004, the bank increased the percentage of its loans to low-income borrowers, but the bank's performance regarding moderate-income borrowers decreased. Table 8 depicts the distribution of mortgage loans by the borrower's annual income level. For comparison, 2003 aggregate lending data and the distribution of the assessment area's families by income level is shown.

Table 8 - Distribution of Home Mortgage Loans by Borrower Income Level								
Borrower Income Level		Low	Moderate	Middle	Upper	N/A	Total	
Total Assessment Area Families*	Percent	16.8%	15.9%	20.7%	46.6%	0.0%	100.0%	
2003 Aggregate Lending Data	Percent	6.3%	17.9%	21.4%	43.5%	10.9%	100.0%	
Home Mortgage Loans	2003	Number	18	55	80	198	6	357
		Percent	5.0%	15.4%	22.4%	55.5%	1.7%	100.0%
		Dollar (000s)	1,586	6,070	11,077	48,959	1,505	69,197
		Percent	2.3%	8.8%	16.0%	70.7%	2.2%	100.0%
	2004	Number	7	8	19	52	6	92
		Percent	7.6%	8.7%	20.7%	56.5%	6.5%	100.0%
		Dollar (000s)	\$741	\$975	\$2,990	\$11,740	\$1,197	\$17,643
		Percent	4.2%	5.6%	16.9%	66.5%	6.8%	100.0%

*2000 U.S. Census Data

The bank's distribution of loans to businesses of different sizes is reasonable. Table 9 depicts the distribution of small business loans in the assessment area. The percent of loans originated to businesses with revenues under \$1 million is higher than the percent of businesses in the bank's assessment area which reported annual revenues of under \$1 million.

Table 9 - Distribution of Small business Loans by Gross Annual Revenues of Business					
Gross Annual Revenues (000)		<=\$1,000	>\$1,000	N/A	Total
Business Distribution	Number	29,061	3,746	17,088	49,895
	Percent	58.2%	7.5%	34.3%	100%
Small Business Loans	Number	22	10	0	32
	Percent	68.7%	31.3%	0.0%	100%
	Dollar (000)	\$2,800	\$3,064	\$0	\$5,864
	Percent	47.7%	52.3%	0.0%	100%

Response to Complaints

There have been no CRA-related complaints since the last evaluation.

Compliance with Antidiscrimination Laws

Examiners evaluated the bank's compliance with antidiscrimination laws, including the Fair Housing Act and the Equal Credit Opportunity Act. The fair lending review disclosed no evidence of discriminatory lending practices on a prohibited basis.

APPENDIX - GENERAL DEFINITIONS

GEOGRAPHY TERMS

Census Tract: Small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. They usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designated to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparison.

Metropolitan Area (MA): One or more large population centers and adjacent communities that have a high degree of economic and social integration. Each MA must contain either a place with a minimum population of 50,000 of Census Bureau-defined urbanized area and a total MA population of at least 100,000 (75,000) in New England. An MA comprises one or more central counties and may include one or more outlying counties that have close economic and social relationships with the central county. In New England, MAs are composed of cities and towns rather than whole counties.

Metropolitan Statistical Area (MSA): One or more metropolitan areas that have economic and social ties.

HOUSING TERMS

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family which is further classified into "male householder" (a family with a male householder and no wife present) or a "female householder" (a family with a female householder and no husband present).

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

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

Owner-Occupied Unit: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

INCOME TERMS

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

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

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

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or median family income that is at least 50 percent and less than 80 percent in the case of a geography.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or median family income that is at least 80 percent and less than 120 percent in the case of a geography.

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

OTHER TERMS

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