

 MCB

2021 Annual Report

Purpose Statement

Our brand purpose, Responsive, Relationship Banking, is how we compete, how we prosper, and how we differentiate ourselves.

Core Values

Integrity
Excellence
Leadership
Communication
Reality
Accountability
Teamwork
Consideration

Recent Awards



We have been rated 5-stars by BauerFinancial for 17 consecutive quarters (March 2018 – March 2022)

Mountain Commerce Bancorp Financial / Earnings Overview

Financial Overview (\$000s, Except Percentages and Per Share Data) as of December 31

	2017	2018	2019	2020	2021
Total assets	\$746,860	\$849,195	\$906,688	\$1,109,970	\$1,334,929
Loans receivable	626,102	708,301	807,440	935,482	1,070,532
Allowance for loan losses	6,153	6,641	5,833	13,313	10,524
Real estate owned	7,480	7,182	4,973	-	-
Deposits	640,132	715,134	757,932	921,896	1,107,854
Senior debt	9,982	15,984	15,987	13,994	11,998
Subordinated debt	-	-	-	9,778	9,826
Equity	66,152	76,454	91,024	103,841	121,061
Nonperforming assets (NPAs)	\$9,040	\$7,629	\$6,653	\$1,801	\$1,859
NPAs / assets	1.21%	0.90%	0.73%	0.16%	0.14%
Allowance for loan losses to loans	0.98%	0.94%	0.72%	1.42%	0.98%
Allowance for loan losses to NPAs	68%	87%	88%	739%	566%
COVID-19 modifications	N/A	N/A	N/A	\$-	\$-
Shares outstanding	5,994,287	6,142,997	6,249,053	6,286,003	6,285,714
Tangible book value per share	\$11.04	\$12.45	\$14.57	\$16.52	\$19.26
Closing market price	\$17.50	\$17.72	\$22.10	\$20.50	\$30.75
Price to book ratio	159%	142%	152%	124%	160%
Tangible common equity to tangible assets	8.86%	9.00%	10.04%	9.36%	9.07%
Deposits per branch	128,026	143,027	151,586	184,379	221,571

Earnings Overview (\$000s, Except Per Share Data) For the Year Ended December 31

	2017	2018	2019	2020	2021
Interest income	\$28,467	\$35,583	\$41,089	\$44,248	\$47,471
Interest expense	5,756	9,251	12,419	8,804	3,888
Net interest income	22,711	26,332	28,670	35,444	43,583
Provision for (recovery of) loan losses	1,006	573	(538)	7,500	(2,625)
Noninterest income	1,782	1,945	2,731	1,877	2,592
Noninterest expense	13,223	14,189	15,350	16,739	18,429
Income before income taxes	10,264	13,515	16,589	13,082	30,371
Income taxes	4,791	3,332	4,235	2,912	6,749
Net income	\$5,473	\$10,183	\$12,354	\$10,170	\$23,622
Diluted earnings per share	\$0.89	\$1.63	\$1.97	\$1.62	\$3.78
Pre-tax, pre-provision earnings	\$11,270	\$14,088	\$16,051	\$20,582	\$27,746
Return on average assets	0.80%	1.26%	1.42%	0.93%	1.93%
Return on average equity	8.80%	14.35%	14.72%	10.45%	20.86%
Efficiency ratio	53.99%	50.18%	48.88%	44.55%	39.91%
Net interest margin	3.71%	3.56%	3.44%	3.39%	3.74%

The President's Address

Dear Shareholders, Clients & Friends of MCB:

While 2021 was another challenging year with the highs and lows of the COVID pandemic, we remained a strong and consistent partner for our employees, clients, shareholders and communities. Most importantly, we continued to be a significant participant in both rounds of the Paycheck Protection Program (PPP), distributing 1,158 loans totaling nearly \$150 million dollars into our communities.

Financially, 2021 was a record-setting year for the Company in many ways, including:

- Core¹ earnings grew 26% from \$15.3 million in 2020 to \$19.3 million in 2021
- Core¹ earnings per share increased 25% from \$2.44 in 2020 to \$3.05 in 2021
- Core¹ return on average assets improved from 1.4% in 2020 to 1.58% in 2021
- Core¹ return on average equity improved from 15.7% in 2020 to 17% in 2021
- Core¹ efficiency ratio declined to 43.02% in 2021 from 44.88% in 2020, which is among the best in the industry
- Core¹ net interest margin expanded to 3.47% in 2021 from 3.22% in 2020
- Pre-tax, pre-provision earnings increased 34.8% to \$27.8 million in 2021 from \$20.6 million in 2020
- Loan balances (excluding PPP loans) grew 23.5% to \$1.055 billion at December 31, 2021
- Deposit balances grew 20.2% to \$1.107 billion at December 31, 2021, including a \$268.5 million, or 43.3%, increase in core (non-time) deposits.
- Non-performing assets to total assets declined from 0.16% at December 31, 2020 to 0.14% at December 31, 2021
- Tangible book value grew from \$16.52 at December 31, 2020 to \$19.26 at December 31, 2021
- We began paying a dividend, which in 2021 totaled \$0.53
- We repurchased 82,600 shares of our stock at an average price of \$27.74 per share, positively impacting our earnings per share and return on average equity
- Our stock price increased from \$20.50 at December 31, 2020 to \$30.75 at December 31, 2021

- We ranked #47 on American Banker Magazine's Top 200 Publicly Traded Community Banks list
- We ranked #51 on the S&P Global Top 100 Banks Under \$3 Billion in Assets

We have also been actively executing our strategy of providing Responsive Relationship Banking in high-growth markets. To that end, we recently announced that we have received all necessary regulatory approvals to open a branch in Brentwood, Tennessee—just south of Nashville. Brentwood is in Williamson County, which is among the top 40 counties in the US in population growth, as well as household and per capita income. This area presents considerable Relationship Banking opportunities for the Company.

The significant growth of the last several years, however, has left us with a very good problem: We are out of space! As a result, we are in the process of several projects, including:

- The construction of a new operations center to replace our existing leased space. This will provide significant growth opportunities for the Company in the years to come.
- The construction of a new Johnson City combined financial/corporate center with significant I-26 visibility. This building will be a major upgrade from our existing 3,000 sq. ft. branch, and will allow us to substantially grow our Johnson City and TriCities market share.
- We are currently exploring various build/purchase opportunities for a second financial center in Knoxville and hope to announce something soon.



While the ongoing war in Ukraine and inflationary pressures present challenges, we are confident that we can continue to successfully navigate these uncertain times and deliver the top-tier shareholder returns you have come to expect from us. Thank you for the trust and support you have provided the Company over the years. Be assured we will work hard to continue to foster and grow our relationship with you.

Sincerely,

William E. "Bill" Edwards, III
Founder, President and Chief Executive Officer

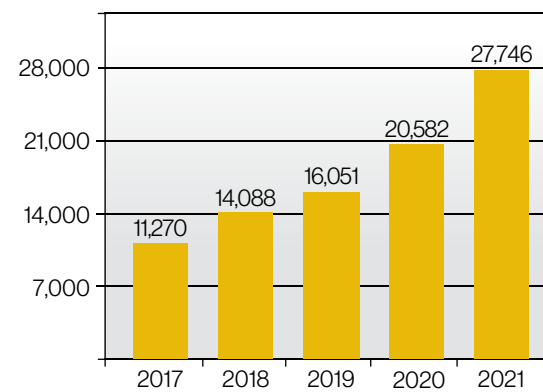
¹ Core results exclude realized and unrealized gains and losses on investments, accretion of PPP fees, net, losses from the sale of REO, impairment of premises and the provision for credit losses. See our Q4 2021 press release

Our Top-Tier Earnings Grew and Reached Another Record

Net income in 2021 was \$23.6 million, or \$3.78 per diluted share, versus \$10.2 million in 2020, or \$1.62 per diluted share. Pre-tax, pre-provision earnings increased 34.8% to \$27.8 million in 2021. The improvement was primarily driven by an increase in net interest income of \$8.1 million, or 23%, from \$35.4 million for the year ended December 31, 2020 to \$43.6 million for the same period in 2021. The growth in net interest income was primarily the result of an increase in average interest-earning assets, a rise in average net interest-earning assets, and a reduction in the rate paid on interest-bearing liabilities, resulting in an increase in the net interest margin to 3.74%. The Company also recognized approximately \$3.2 million in PPP loan origination fees, net of the amortization of deferred PPP loan costs, through net interest income during the year ended December 31, 2021. A recovery of loan losses of \$2.6 million was recorded during the year ended December 31, 2021. The underlying

reason was three-fold: First, the Company decreased the qualitative factors in its allowance for loan loss model in response to a declining and de minimis level of COVID-related loan modifications. Second, the asset quality continued to be strong. And third, the economy in our primary markets continued its improvement. Noninterest income grew \$700,000, or 38.1%, to \$2.6 million in 2021. This was due primarily to increases in service charges and fee income resulting from enhanced transaction deposit balances, improvements on the sale of loans as continued low interest rates drove mortgage loan production volume, and a rise in wealth management fees as a result of increases in equity market values. Noninterest expense increased \$1.7 million, or 10.1%, to \$18.4 million for 2021. The increase was primarily the result of rising compensation, employee

Pre-tax, Pre-provision Earnings (in \$000's)



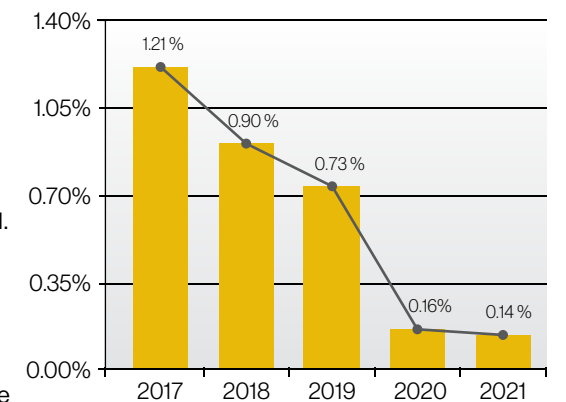
benefits and data processing costs. The Company's effective tax rate for 2021 was 22.2% and continues to benefit from certain sources of non-taxable income including bank-owned life insurance (BOLI), tax-free loans, and investments in tax-free municipal securities.

Problem Assets Hit an All-Time Low

The non-performing loans to total loans ratio decreased from 0.19% at December 31, 2020 to 0.17% at December 31, 2021, while the non-performing assets to total assets ratio decreased from 0.16% to 0.14% in the same timeframe. During the year ended December 31, 2021, the Company successfully liquidated the balance of its 2021-acquired, real estate owned. Net charge-offs of \$164,000 were recognized during the year ended December 31, 2021 compared to \$20,000 during 2020. The allowance for loan losses to total loans ratio decreased from 1.42% (1.56% excluding PPP loans/

non-GAAP) at December 31, 2020 to 0.98% (1% excluding PPP loans/non-GAAP) at December 31, 2021. The main driver of this reduction was a \$2.6 million recovery for loan losses recognized during the year ended December 31, 2021. Coverage of non-performing loans by the allowance for loan losses remained strong at a ratio of more than 5:1 at December 31, 2021. There were no COVID-related modifications in place as of December 31, 2021.

NPAs/Assets (%)



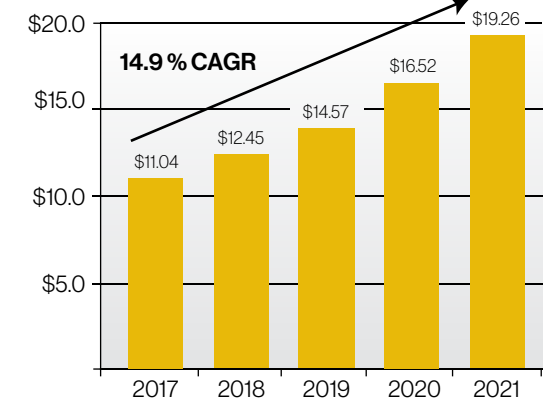
We Continued to Deliver Strong Increases in Shareholder Value

Total equity increased \$17.2 million, or 16.6%, from \$103.8 million at December 31, 2020 to \$121.1 million at December 31, 2021. This improvement was primarily the result of net income of \$23.6 million, offset by dividends paid (\$3.3 million), share repurchases (\$2.3 million) and a net decline in the value of investments and derivatives (\$1.2 million).

Tangible book value per share improved from \$16.52 at December 31, 2020 to \$19.26 at December 31, 2021, an

increase of 16.6%. Tangible book value per share has grown at a compounded annual growth rate of 14.9% since 2017. The Company's equity to assets ratio was 9.07% at December 31, 2021, down from 9.36% at December 31, 2020. The Company continues to manage its equity levels through a combination of share repurchases and dividends. The Company and Bank both remain well capitalized at December 31, 2021.

Tangible Book Value

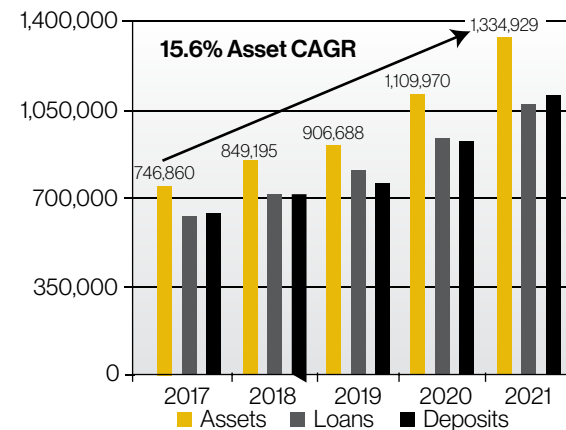


The Balance Sheet Grew to More Than \$1.3 Billion

Total assets increased \$225 million, or 20.3%, from \$1.11 billion at December 31, 2020 to \$1.335 billion at December 31, 2021. In fact, assets have grown at a compounded annual growth rate of over 15% from 2017 to the present. Loans receivable increased \$135.1 million, or 14.4%, from \$935.5 million at December 31, 2020 to \$1.071 billion at December 31, 2021. Increases in residential, multi-family, owner-occupied and non-owner occupied commercial real estate, and commercial and industrial lending offset a \$66 million reduction in PPP loans. Excluding PPP loans (non-GAAP), the Company's loan portfolio grew 23.5% from December 31, 2020 to December 31, 2021. Total deposits increased \$186 million, or 20.2%, from \$921.9 million

at December 31, 2020 to \$1.108 billion at December 31, 2021. The primary drivers of this increase were two-fold: First, a \$99.9 million, or 48%, increase in noninterest-bearing deposit balances from \$208.3 million to \$308.2 million. And second, a \$137.7 million, or 143%, increase in NOW and money market accounts. These increases were offset by a \$88.4 million, or 51%, decrease in retail time deposits, as customers continued to prefer shorter maturities to offset historically low interest rates.

Balance Sheet Growth (in \$000's)

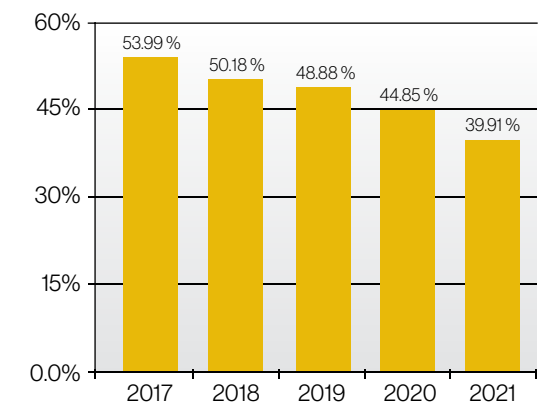


Our Industry-Leading Efficiency Ratio Continued to Improve

During 2021, we continued to operate one of the most efficient banks in our peer group, with our efficiency ratio dropping to 39.91% in 2021 from 44.85% in 2020. The average efficiency ratio for all banks with assets between \$1 billion and \$3 billion was 60.4% as of December 31, 2021, according to data derived from Bank Trends. This 20-basis-point

variance when compared to our peer group provides the Bank a significant competitive advantage and is the primary driver behind the Bank's top-tier earnings profile.

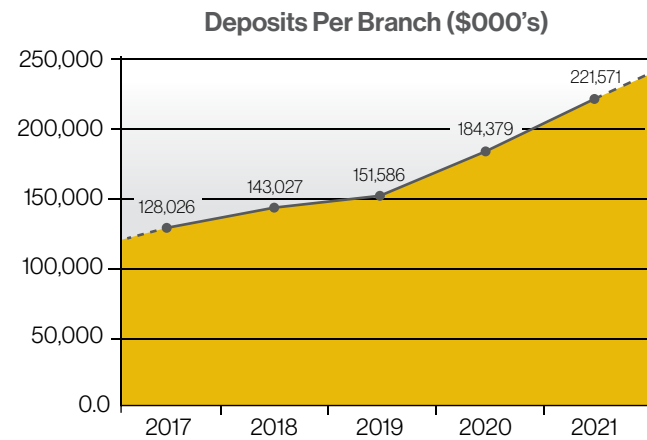
Efficiency Ratio



We Remain Committed to a Branch-Light, Relationship Banking Model

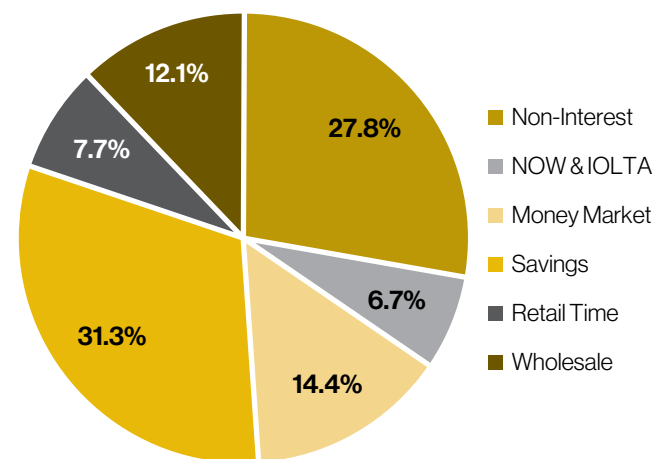
As the banking industry continues to evolve, we believe the largest banks are best equipped to serve the mass consumer market of those individuals and companies who do not require or desire a personal banking relationship. Community banks, on the other hand, are better suited to serve the customers that do desire a personal banking relationship. As a result, our clients tend to be business owners, professionals, real estate investors and high net-worth individuals who understand and appreciate a personal banking relationship. This model relies on the strength and expertise of relationship bankers, not the quantity of branches. During 2021,

we continued to grow our customer base without expanding our number of branches. This resulted in a deposits-per-branch factor increase of \$32.8 million, or 20.2%, to \$221.6 million at December 31, 2021. By comparison, the average deposits-per-branch for banks with \$1 billion to \$3 billion in assets was just \$91.2 million as of December 31, 2021, based on data supplied by Bank Trends.



Our Deposit Profile Continues to Improve

We continue to make significant progress increasing our core (non-time) deposits, and decreasing our reliance on expensive and unpredictable time deposits. As of December 31, 2021, our core deposits represented approximately 80% of our total deposits, up from 73% at December 31, 2017 and 41% at December 31, 2012.



Recognition as a Top Performing Community Bank



In addition to earning a five-star rating (the highest possible) from BauerFinancial, we were once again named to American Banker Magazine's Top 200 Publicly Traded Community

Banks list, landing at #47. This ranking is primarily based on the three-year average return on equity for the Bank.

We are also pleased to report that we were named a Top 100 Community Bank Under \$3 Billion in Assets by S&P Global, coming in at #51 on that list. This ranking is based on a number of factors, among them:

- Pretax return on tangible common equity
- Efficiency ratio



- Operating revenue growth
- Net charge-offs to average loans and leases, net of PPP loans ratio
- Nonperforming assets and loans 90 days or more past due as a percentage of total assets, net of PPP loans, and
- Leverage ratio

Delivering shareholder value continues to be our top priority, and we have taken several steps over the past year to improve our earnings and our visibility in the investment community.

Mountain Commerce Bancorp, Inc. and Mountain Commerce Bank - Board of Directors

Ernest D. Campbell
General Contractor; Owner of Ernest Campbell Development, LLC
Director of Mountain Commerce Bancorp, Inc. and Mountain Commerce Bank

Alvin J. Nance
Chief Executive Officer; LHP Development, LLC
Director of Mountain Commerce Bancorp, Inc. and Mountain Commerce Bank

William E. "Bill" Edwards, III
Founder / Vice-Chairman / President / Chief Executive Officer
Director of Mountain Commerce Bancorp, Inc. and Mountain Commerce Bank

Tim A. Topham
EVP / Area President – Knoxville Region
Director of Mountain Commerce Bancorp, Inc. and Mountain Commerce Bank

Wade H. Farmer, CPA
Partner, Blackburn Childers and Steagall, PLC
Director of Mountain Commerce Bancorp, Inc. and Mountain Commerce Bank

Samuel L. Widener
Owner of Winco Tile and Wincrest Angus Farm; Partner, Wincrest Properties, LP
Director of Mountain Commerce Bancorp, Inc. and Mountain Commerce Bank

Dwight B. Ferguson, Jr., CPA (inactive)
Chairman of the Board
Retired since 2009; prior thereto President & CEO of Nuclear Fuel Services, Inc.
Director of Mountain Commerce Bancorp, Inc. and Mountain Commerce Bank

Frank Wood
Owner & Chief Executive Officer of Holston Companies; includes Holston Distributing Co., Inc., Warehouse Central, LLC, Truck Central, LLC, Records Storage and Management Central, LLC
Director of Mountain Commerce Bancorp, Inc. and Mountain Commerce Bank

Michael L. Hatcher, CPA (inactive)
Vice-Chairman
Commercial Developer; Owner of Hatcher Properties
Director of Mountain Commerce Bancorp, Inc. and Mountain Commerce Bank

Douglas A. Yoakley, CPA
Co-founded Pershing Yoakley and Associates, a CPA firm in Knoxville; serves as wealth management consultant for PYA Waltman Capital
Director of Mountain Commerce Bancorp, Inc. and Mountain Commerce Bank

Kevin W. Horne
EVP / Chief Credit Officer / Chief Operating Officer & Area President – Tri-Cities
Director of Mountain Commerce Bancorp, Inc. and Mountain Commerce Bank

Wendell C. Kirk, CPA (inactive)
Retired since 1990; prior thereto President & CEO of Heritage Federal Bank; Consultant - Kirk and Associates
Director of Mountain Commerce Bancorp, Inc. and Mountain Commerce Bank

Branch Locations

Bearden (Main Office)

6101 Kingston Pike
Knoxville, TN 37919
Phone: (865) 694-5725

Bristol Highway

3122 Bristol Highway
Johnson City, TN 37601
Phone: (423) 232-5129

Cedar Bluff

320 N. Cedar Bluff Road, Suite 101
Knoxville, TN 37923
Phone: (865) 694-5701

Erwin N Main

400 North Main Avenue
Erwin, TN 37650
Phone: (423) 735-5331

Unicoi Branch

4200 Unicoi Drive
Unicoi, TN 37692
Phone: (423) 735-5380

Boone Ridge Operations Center

121 Boone Ridge Drive, Suite 1002
Johnson City, TN 37615
Phone: (423) 262-5820

Brentwood (Opening in 2nd Q 2022)

5205 Maryland Way
Brentwood, TN 37027

Corporate Information

Corporate Office

6101 Kingston Pike
P.O. Box 52942
Knoxville, TN 37919

Independent Public Accounting Firm

Dixon Hughes Goodman LLP
4350 Congress Street
Charlotte, NC 28209

Legal Counsel

Bass Berry & Sims PLC
150 Third Avenue South, Suite 2800
Nashville, TN 37201

Shareholder Inquiries

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Stock Investor Relations
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Email: ir@mcb.com

www.mcb.com

1-866-622-1910 (866-MCB-1910)

Stock Symbol

MCBI

As a Mountain Commerce Bancorp shareholder, we encourage you to access your account(s) online at www.astfinancial.com. Here you can easily initiate a number of transactions and inquiries as well as access important details about your portfolio and general stock transfer information.

- Update your mailing address
- Access statement information
- Print a duplicate 1099 tax form
- Consolidate accounts
- Download stock transfer forms
- Request a replacement dividend check

TDD for hearing impaired: (718) 921-8386 | 866-703-9077

Foreign shareowners: (718) 921-8386 | 866-703-9077

TDD foreign shareowners: 866-703-9077 | (718) 921-8386

You may also access this information via the Interactive Voice Response (IVR) system by calling 800-937-5449. Outside of the US, dial (718) 921-8386 | 866-703-9077.

By mail, contact our Transfer Agent at the address below:

Transfer Agent and Registrar
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c/o American Stock Transfer (AST)
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Brooklyn, NY 11219
www.astfinancial.com

For current financial disclosure and Real-Time Level 2 quotes for Mountain Commerce Bancorp, Inc. "MCBI" visit www.otcm Markets.com