



2022 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 Award



We have been rated 5-stars by BauerFinancial for 20 consecutive quarters (March 2018 – December 2022)

Mountain Commerce Bancorp Financial / Earnings Overview

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

	2018	2019	2020	2021	2022
Total assets	\$849,195	\$906,688	\$1,109,970	\$1,334,929	\$1,600,059
Loans receivable	708,301	807,440	935,482	1,070,532	1,316,883
Allowance for loan losses	6,641	5,833	13,313	10,524	12,645
Real estate owned	7,182	4,973	-	-	-
Deposits	715,134	757,932	921,896	1,107,854	1,346,499
Senior debt	15,984	15,987	13,994	11,998	10,000
Subordinated debt	-	-	9,778	9,826	9,864
Equity	76,454	91,024	103,841	121,061	117,271
Nonperforming assets (NPAs)	\$7,629	\$6,653	\$1,801	\$1,859	\$1,277
NPAs / assets	0.90%	0.73%	0.16%	0.14%	0.08%
Allowance for loan losses to loans	0.94%	0.72%	1.42%	0.98%	0.96%
Allowance for loan losses to NPAs	87%	88%	739%	566%	990%
COVID-19 modifications	N/A	N/A	\$-	\$-	\$-
Shares outstanding	6,142,997	6,249,053	6,286,003	6,285,714	6,361,494
Tangible book value per share	\$12.45	\$14.57	\$16.52	\$19.26	\$18.43
Closing market price	\$17.72	\$22.10	\$20.50	\$30.75	\$27.75
Price to tangible book ratio	142%	152%	124%	160%	151%
Tangible common equity to tangible assets	9.00%	10.04%	9.36%	9.07%	7.33%
Deposits per branch	143,027	151,586	184,379	221,571	224,417

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

	2018	2019	2020	2021	2022
Interest income	\$35,583	\$41,089	\$44,248	\$47,471	\$59,148
Interest expense	9,251	12,419	8,804	3,888	10,659
Net interest income	26,332	28,670	35,444	43,583	48,489
Provision for (recovery of) loan losses	573	(538)	7,500	(2,625)	2,210
Noninterest income	1,945	2,731	1,877	2,592	1,174
Noninterest expense	14,189	15,350	16,739	18,429	23,627
Income before income taxes	13,515	16,589	13,082	30,371	23,826
Income taxes	3,332	4,235	2,912	6,749	5,386
Net income	\$10,183	\$12,354	\$10,170	\$23,622	\$18,440
Diluted earnings per share	\$1.63	\$1.97	\$1.62	\$3.78	\$2.96
Pre-tax, pre-provision earnings	\$14,088	\$16,051	\$20,582	\$27,746	\$26,036
Return on average assets	1.26%	1.42%	0.93%	1.93%	1.25%
Return on average equity	14.35%	14.72%	10.45%	20.86%	15.78%
Efficiency ratio	50.18%	48.88%	44.55%	39.91%	47.57%
Net interest margin	3.56%	3.44%	3.39%	3.74%	3.57%

The President's Address

Dear Shareholders, Clients & Friends of MCB:

2022 was another challenging year for the banking industry as the Federal Reserve battled persistently high levels of inflation with a 425 bp rise in short-term interest rates. Although this historic increase in interest rates presented many challenges for both the value of our assets as well as our funding costs, we remain a strong and consistent partner for our clients, shareholders, employees, and communities.

Selected financial highlights from 2022 included the following:

- Core¹ earnings grew 13% from \$19.3 million in 2021 to \$21.8 million in 2022
- Core¹ diluted earnings per share increased 14% from \$3.08 in 2021 to \$3.50 in 2022
- Core¹ return on average assets remained strong at 1.48% in 2022
- Core¹ return on average equity improved from 17.00% in 2021 to 18.65% in 2022
- Core¹ efficiency ratio remained low at 44.48% in 2022
- Core¹ net interest margin expanded to 3.54% in 2022 from 3.47% in 2021
- Loan balances grew 23.0% to \$1.317 billion at December 31, 2022
- Deposit balances grew 21.5% to \$1.346 billion at December 31, 2022
- Non-performing assets to total assets declined from 0.14% at December 31, 2021 to 0.08% at December 31, 2022
- Net loan charge-offs for 2022 declined to \$89 thousand from \$164 thousand in 2021
- The allowance for loan losses to nonperforming loans stands at nearly 10x as of December 31, 2022
- We increased our quarterly dividend to \$0.16 per share and paid out over \$3.8 million in dividends during 2022

2022 was also a year of significant physical expansion for the Bank as we continued to work on the following projects:

- We opened our first financial center in middle Tennessee in the highly desirable Brentwood market on June 30, 2022. This market has already grown to over \$140 million in loans and \$71 million in deposits as of December 31, 2022 as a result of the addition of several top performing relationship managers.
- We purchased a financial center in Knoxville in the Cedar Bluff/Farragut area. This 37,000 sf building will replace approximately 9,000 sf of leased space and provide much needed additional capacity in lieu of constructing a new financial center. After completing some needed renovations, we expect this building to be operational in the third quarter of 2023. We anticipate that a portion of the building will be leased out to other tenants.
- We completed a new 25,000 sf operations center in Gray, TN which will replace approximately 10,000 sf of leased space. This will accommodate additional growth for the Company in the years to come.
- We started construction on a new 23,000 sf 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 current leased corporate office space allowing us to substantially grow our Johnson City and Tri-Cities market share.



While the ongoing war in Ukraine, inflationary and funding pressures, and a looming possible recession present concerns, we are confident we can continue to successfully navigate these uncertain times and deliver the shareholder returns you have come to expect from us. Thank you for the trust, patience and support you have provided the Company over the years.

Sincerely,

A handwritten signature in black ink, appearing to read "W. Edwards, III".

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

¹ Core results (which are non-GAAP financial measures) reflect adjustments for realized and unrealized investment gains and losses, PPP fee accretion (net of the amortization of PPP deferred loan costs and one-time PPP bonuses), gains and losses from the sale of REO, the provision for (recovery of) loan losses, the provision for (recovery of) unfunded loan commitments, and the impact of a fraudulent wire loss incurred in the second quarter of 2022. See our Q4 2022 press release for more information.

Our Earnings Remained Strong

Net income in 2022 was \$18.4 million, or \$2.96 per diluted share, versus \$23.6 million in 2021, or \$3.78 per diluted share. Pre-tax, pre-provision earnings were \$26.0 million in 2022, down slightly from \$27.8 million in 2021. The following factors were the primary contributors to our results:

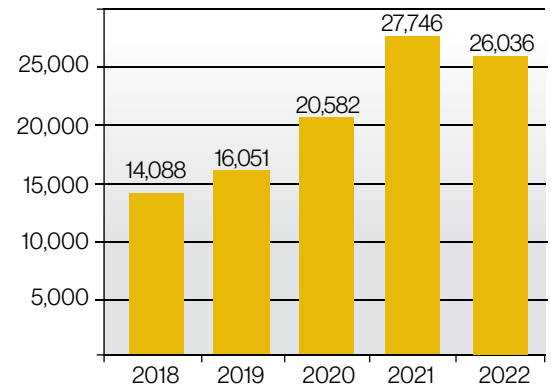
- Net interest income increased \$4.9 million, or 11.3%, from \$43.6 million for the year ended December 31, 2021, to \$48.5 million for the same period in 2022. The growth in net interest income was primarily the result of an increase in average interest-earning assets, a rise in average net interest-earning assets, an increase in the average rate earned on interest-earning assets, offset by an increase in the average rate paid on interest-bearing liabilities, resulting in a decrease in the net interest margin to 3.57% in 2022 from 3.74% in 2021.
- A provision for loan losses of \$2.2 million was recorded during the year ended December 31, 2022, as compared to

a recovery of loan losses of \$2.6 million in 2021, due primarily to growth in loan balances.

- Noninterest income declined \$1.4 million, or 54.7%, to \$1.2 million in 2022. This decrease was due primarily to approximately unrealized losses on equity securities (primarily bank preferred stock) during 2022 as a result of an increase in interest rates and not due to credit concerns, as well as realized losses on the sale of investment securities available for sale during 2022, the majority of which resulted from a December 2022 loss trade.
- Noninterest expense increased \$5.2 million, or 28.2%, from \$18.4 million during the year ended December 31, 2021 to \$23.6 million in the same period of 2022. Compensation and benefits increased \$2.6 million, or 24.7%, as a result of an increase in employee headcount and incentive compensation expense

as described above. Increases in occupancy expenses and professional fees as well as a loss from wire fraud also contributed to the increase.

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



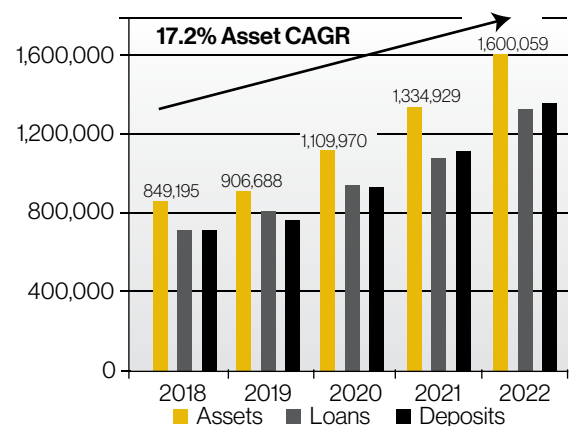
The Balance Sheet Grew to \$1.6 Billion

Total assets increased \$265.1 million, or 19.9%, from \$1.335 billion at December 31, 2021 to \$1.600 billion at December 31, 2022. Assets have grown at a compounded annual growth rate of over 17.2% from 2018 to the present. Loans receivable increased \$246.4 million, or 23.0%, from \$1.071 billion at December 31, 2021 to \$1.317 billion at December 31, 2022. Increases in construction, residential, multi-family, owner-occupied and non-owner-occupied commercial and commercial & industrial loan categories offset a \$12.8 million reduction in PPP loans. Total deposits increased \$238.6 million, or 21.5%, from \$1.108 billion at December 31, 2021 to \$1.346 billion at December 31, 2022.

The primary drivers of this increase

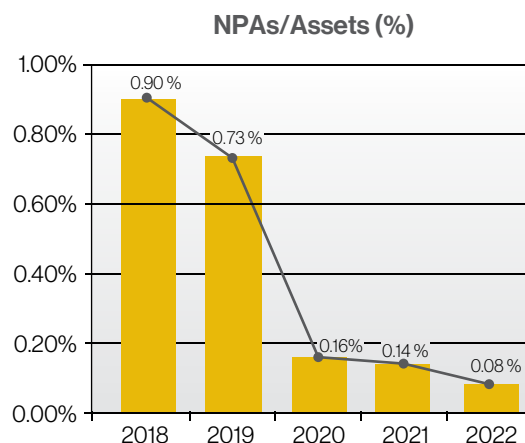
were a \$87.1 million, or 37.2%, increase in NOW and money market balances, and a \$94.8 million, or 111.7%, increase in retail time deposits (primarily 18 months maturity or less), as the Company has offered attractive interest rates on certain money market and time deposit products. Wholesale time deposits consist primarily of brokered certificates of deposit with a maximum maturity of three months or less.

Balance Sheet Growth (in \$000's)



Problem Assets Hit an All-Time Low

The non-performing loans to total loans ratio decreased from 0.17% at December 31, 2021 to 0.10% at December 31, 2022, while the non-performing assets to total assets ratio decreased from 0.14% to 0.08% during the same timeframe. Net charge-offs of \$89,000 were recognized during the year ended December 31, 2022 compared to \$164,000 during 2021. The allowance for loan losses to total loans ratio decreased from 0.98% at December 31, 2021 to 0.96% at December 31, 2022. Coverage of non-performing loans by the allowance for loan losses remained strong at a ratio of nearly 10:1 at December 31, 2022.

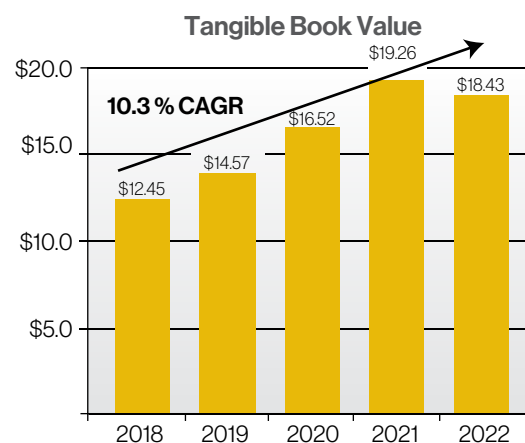


Tangible Book Value Remained Stable Despite Decline in Bond Values

Total equity decreased \$3.8 million, or 3.1%, from \$121.1 million at December 31, 2021 to \$117.3 million at December 31, 2022. This decline was primarily the result of a \$19.3 million decrease in the fair value of investments available for sale and dividends paid of \$3.9 million, offset by net income of \$18.4 million.

Tangible book value per share declined from \$19.26 at December 31, 2021 to \$18.43 at December 31, 2022, due

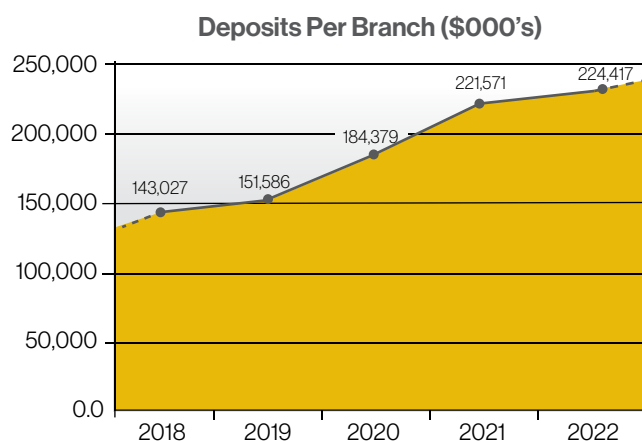
primarily to a decrease in the fair value of investments available for sale. Tangible book value per share has grown at a compounded annual growth rate of 10.3% since 2018. The Company continues to manage its equity levels through a combination of share repurchases and dividends. The Company and Bank both remain well capitalized as of December 31, 2022.



Continued Commitment 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 customers that do desire a personal banking relationship. As a result, our clients tend to be business owners, professionals, real estate

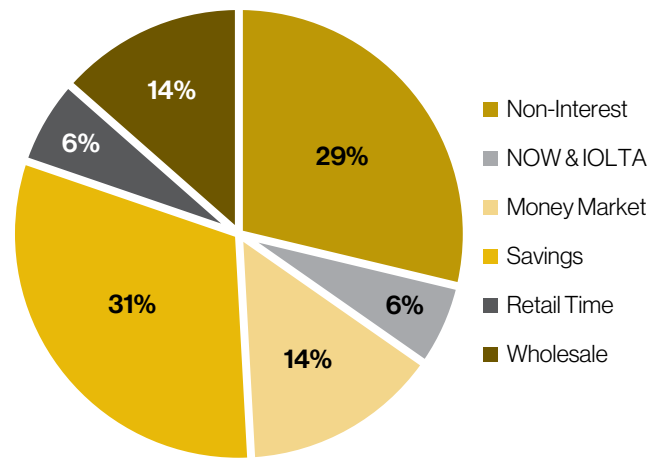
investors and high net-worth individuals who understand and appreciate a personal banking relationship. This model relies on the strength and expertise of relationship bankers, not the number of branches. During 2022, although we added one additional branch in



Brentwood (Nashville) TN, our deposits per branch ratio grew to \$224.4 million.

We Remain Focused on Core Deposits

We continue to make significant progress in increasing our core (non-time) deposits, and decreasing our reliance on expensive and unpredictable time deposits. As of December 31, 2022, our core deposits represented approximately 73% of our total deposits, up from 41% at December 31, 2012.



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

William E. "Bill" Edwards, III

Founder / Vice-Chairman / President / Chief Executive Officer
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

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

Michael L. Hatcher, CPA (inactive)

Vice-Chairman
Commercial Developer; Owner of Hatcher Properties
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

Alvin J. Nance

Chief Executive Officer; LHP Development, LLC
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

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

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

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

Locations

Bearden (Main Office)

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

Bristol Highway Branch

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

Cedar Bluff Branch

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

Erwin N Main Branch

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 Administrative Offices

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

Brentwood Branch

5205 Maryland Way
Brentwood, TN 37027
Phone: (615) 283-5400

West Knoxville Financial Center (Opening in 3rd Q 2023)

9950 Kingston Pike
Knoxville, TN 37922

Johnson City Financial Center (Opening in mid-2024)

109 Memory Gardens Road
Johnson City, TN 37615

Gray Commons Operations Center

50 Gray Commons Circle
Gray, TN 37615
Phone: (423) 262-5879

Corporate Information

Corporate Office

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

Independent Public Accounting Firm

FORVIS, LLP
4350 Congress Street
Charlotte, NC 28209

Legal Counsel

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

Shareholder Inquiries

Mountain Commerce Bancorp, Inc.
Stock Investor Relations
Attn: David A. Bright, EVP / Chief Financial Officer
6101 Kingston Pike
Knoxville, TN 37919
Phone: (865) 694-5731
Email: ir@mcb.com

www.mcb.com

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

Stock Symbol MCB1

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
Mountain Commerce Bancorp, Inc.
c/o American Stock Transfer (AST)
6201 15th Avenue
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

