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## Mountain Commerce Bancorp, Inc. (MCBI - OTCQX)

5003 Falls of Neuse Road

Raleigh  
North Carolina  
27609

919-876-8868 ph

[www.equityresearch.com](http://www.equityresearch.com)

**John A. (Buddy) Howard, CFA**  
April 14, 2017

<b>Price:</b>	\$ 14.50	<b>Basic EPS:* 2015A:</b>	\$ 0.79	<b>P/E 2015A:</b>	18.4x
<b>52 Wk. Range:</b>	\$ 9.00 - \$ 14.50	(FY: DEC) <b>2016A:</b>	\$ 1.03	<b>2016A:</b>	14.1x
<b>Div/Div Yld:</b>	\$0.00 / 0.0%	<b>2017E:</b>	\$ 1.04	<b>2017E:</b>	11.1x
<b>Shrs/Mkt Cap:</b>	6.0 mm / \$86 mm	<b>Book Value:</b>	\$10.39	<b>Price/Book Value:</b>	1.40x

\* All EPS figures in this report are Basic EPS.

### Background

With approximately \$652 million in assets as of March 31, 2017, Mountain Commerce Bancorp, Inc. ("MCB," or "the Company") is the holding company for Mountain Commerce Bank. The Company is based in Knoxville, Tennessee and serves East Tennessee with branches in Knox, Unicoi, and Washington counties. Mountain Commerce Bank has roots that date back to the early 1900s, as it was formerly known as Erwin National Bank, which was chartered in 1910. MCB acquired Erwin National Bank on September 1, 2006, changed its name to Mountain Commerce Bank, and expanded into Johnson City and Knoxville, growing the Bank from \$83 million in assets in 2006 to more than \$600 million today. The Bank offers a broad array of personal products to its clients, such as checking and savings accounts, online banking, certificates of deposit, credit cards, lines of credit, mortgage and home equity loans and specialty private banking, as well as a line of products tailored for 50+ seniors, including an Age Vantage CD. Business banking products include checking, treasury management services, remote deposit capture, mobile banking, CDs and account analysis services. Through MCB Investment Services, the Company offers IRAs and 401ks, 529 college funds, retirement plan consulting, life insurance and financial planning. MCB has five locations in Knoxville, Unicoi County and Johnson City, in addition to an operations corporate center. The Company's stock is quoted on the OTCQX market under the symbol "MCBI."

### First Quarter Earnings Were Slightly Above Expectations; Excellent Growth in Quarter

Mountain Commerce Bancorp had another excellent quarter in the first three months of 2017. Earnings came in a touch above our expectations, with good cost control and a notable rise in net interest income. The growth in aggregate earnings was quite significant, although the dilutive effects of the additional shares from the Company's recent private placement of common stock (it was completed in December) tempered the increase in earnings per basic share. Balance sheet growth was also impressive, with loan growth remaining especially brisk. We continue to view the ability to generate high quality loan growth as one of the most compelling (and encouraging) aspects of the Company's performance. Finally, we would note that asset quality held up well. Other notable events in the quarter included the Company's redemption of its Series A convertible preferred stock and the stock's move from the OTC Pink quotation system to the OTCQX market, the latter of which provides for more liquidity and is generally regarded as a superior trading platform. (The stock's performance has been excellent, as is discussed in more detail on the opposite page.)

Net income in 2017's first quarter totaled \$1,320,000, or \$0.23 per basic share, up 53% (5% on a per basic share basis) from \$863,000, or \$0.22 per basic share, in the year-ago quarter. The main driver of the higher earnings was net interest income, which primarily grew as a result of higher average earning assets. Specifically, net interest income was \$5.2 million in the first quarter of 2017, up 24% from \$4.2 million in the year-ago quarter. Noninterest income (excluding security gains and losses) was actually down to \$342,000 in 2017's first quarter from \$421,000 in the year-ago quarter, most of which was due to a slowdown in mortgage loan sales and a decline in brokerage and annuity related income. As was mentioned above, the Company also did an excellent job containing costs. Despite a 26%

**ASSETS: \$652 MILLION**

**HQ: KNOXVILLE, TN**

**CONTACT:**  
**WILLIAM "BILL" E.**  
**EDWARDS, III**  
**(865) 694-5755**  
**(423) 232-5000**

**1<sup>ST</sup> QUARTER HIGHLIGHTS:**

**EARNINGS WERE SLIGHTLY  
BETTER THAN EXPECTED**

**BASIC EPS: \$0.23 vs. \$0.22**

**NET INTEREST INCOME WAS  
UP 24%**

**ALTHOUGH NONINTEREST  
INCOME DECLINED, IT WAS  
MORE THAN OFFSET BY THE  
STRONG NET INTEREST  
INCOME GROWTH**

**NONINTEREST EXPENSE  
INCREASED ONLY 4%, DESPITE  
RAPID ASSET GROWTH**

increase in the asset size over the past year, noninterest expense increased a relatively modest 4% to \$3,225,000 in the first quarter of 2017 from \$3,081,000 in the year-ago quarter. Finally, we would note that the earnings increase was achieved despite an increase in the provision for loan losses to \$231,000 in the first quarter of 2017, up from \$158,000 in the year-ago quarter. We expect the provision to remain elevated given the robust loan origination taking place at the Company.

### Balance Sheet Growth Remains Quite Robust

As was mentioned earlier, Mountain Commerce continues to do an excellent job building its loan portfolio, as well as its overall balance sheet. From March 31, 2016 to March 31, 2017, for example,



gross loans increased 26% to \$546 million, while assets grew 26% to \$652 million, and deposits increased 24% to \$567 million. As can be seen from the adjacent chart, the loan growth has been quite consistent. The Company remains well capitalized, with shareholders' equity of \$62 million at March 31, 2017, or 9.5% of total assets. Shareholders' equity includes approximately 206,000 shares that were converted at \$12 per share from the Company's recent redemption of its Series A convertible preferred stock. (Under the redemption, 500 shares of the 2,969 preferred stock shares were redeemed for \$1,000 per share

in cash, while the remaining shares were converted into common stock at the \$12 price.) The additional common shares added approximately \$2.5 million to shareholders' equity.

### Management Has Done An Excellent Job of Building Shareholder Value

Mountain Commerce's stock has been performing quite well, some of which we attribute to management's decision to have the stock included on the OTCQX market. As a result, the stock has attracted broader attention from the investment community and, while trading is still limited, the listing has helped to provide more visibility to the Company and the stock. The stock's track record has been impressive, as can be seen from the adjacent table. The shares are up 21% on a year-to-date basis, 56% on a one-year basis, and 150% over the past three years, all of which are much higher than broad market indices such as the S&P 500 and the NASDAQ Bank Index.

Approximate Dates	Relative Stock Performance		
	Total Appreciation		
	Mountain Commerce	S&P 500	NASDAQ Bank
Year to Date	21%	4%	-8%
One Year	56%	12%	30%
Three Year	150%	28%	39%

**LOANS INCREASED 26% IN THE  
PAST YEAR**

**CAPITAL POSITION REMAINS  
QUITE STRONG AND WAS  
FURTHER STRENGTHENED BY  
PREFERRED CONVERSION**

**EQUITY TO ASSETS: 9.5%**

**MANAGEMENT HAS DONE AN  
EXCELLENT JOB OF BUILDING  
SHAREHOLDER VALUE**

**MOUNTAIN COMMERCE'S  
STOCK HAS OUTPERFORMED ALL  
OF THE MAJOR MARKET  
BENCHMARKS FOR THE PERIODS  
WE CONSIDERED**

**NPAS-TO-ASSETS: 1.40%**

**RESERVES/LOANS: 1.01%**

**BASIC EPS:  
2015A: \$ 0.79  
2016A: \$ 1.03  
2017E: \$ 1.04**

### Nonperforming Assets

Mountain Commerce Bancorp continues to have solid asset quality. As of March 31, 2017, nonperforming assets (which consisted of \$8.8 million in OREO and \$0.4 million in nonaccrual loans) were \$9.2 million, or 1.40% of total assets, versus \$10.0 million, or 1.62% of total assets, at December 31, 2016 and \$12.3 million, or 2.39% of assets, at March 31, 2016. The allowance for loan losses totaled \$5.5 million, or 1.01% of total loans, at March 31, 2017, versus \$5.4 million, or 1.24% of total loans, at March 31, 2016.

### Projections Maintained

Mountain Commerce Bancorp has been performing right in line with our expectations. Accordingly, we are maintaining our 2017 earnings projections at \$6.1 million, or \$1.04 per basic share. Note that these projections reflect the additional shares from the recent stock offering, and that the projections could vary widely based on the economy and credit conditions.

### ADDITIONAL INFORMATION UPON REQUEST

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