

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): January 19, 2023

CAPSTAR FINANCIAL HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Tennessee
(State or other jurisdiction of incorporation)

001-37886
(Commission File Number)

81-1527911
(IRS Employer Identification No.)

1201 Demonbreun Street, Suite 700
Nashville, Tennessee
(Address of principal executive offices)

37203
(Zip Code)

Registrant's telephone number, including area code (615) 732-6400

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$1.00 par value per share	CSTR	Nasdaq Global Select Market

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Item 2.02. Results of Operations and Financial Condition.

On January 19, 2023, CapStar Financial Holdings, Inc. (the “Company”) issued an earnings release announcing its financial results for the fourth quarter ended December 31, 2022. A copy of the earnings release is furnished as Exhibit 99.1 to this Current Report on Form 8-K (this “Report”) and is incorporated herein by reference.

Item 7.01. Regulation FD Disclosure.

The information disclosed under Item 2.02 of this Report is incorporated by reference into this Item 7.01.

The Company will conduct a conference call at 10:30 a.m. (Central Time) on January 20, 2023 to discuss its financial results for the fourth quarter ended December 31, 2022. During the call, management will make reference to the presentation that is furnished as Exhibit 99.2 to this Current Report on form 8-K.

Item 9.01. Financial Statements and Exhibits.

<u>Exhibit Number</u>	<u>Description</u>
99.1	Earnings release issued on January 19, 2023 by CapStar Financial Holdings, Inc.
99.2	Presentation for conference call to be conducted by CapStar Financial Holdings, Inc. on January 20, 2023.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

CAPSTAR FINANCIAL HOLDINGS, INC.

By: /s/ Michael J. Fowler
Michael J. Fowler
Chief Financial Officer

Date: January 19, 2023

EARNINGS RELEASE

CONTACT

Michael J. Fowler
Chief Financial Officer
(615) 732-7404



CapStar Reports Year End 2022 Results and SBA Expansion

NASHVILLE, TN, January 19, 2023 (GLOBE NEWSWIRE) - CapStar Financial Holdings, Inc. (“CapStar”) (NASDAQ:CSTR) today reported net income of \$10.3 million or \$0.47 per diluted share, for the quarter ended December 31, 2022, compared with net income of \$8.0 million or \$0.37 per diluted share, for the quarter ended September 30, 2022, and net income of \$12.5 million or \$0.56 per diluted share, for the quarter ended December 31, 2021. Annualized return on average assets and return on average equity for the quarter ended December 31, 2022 were 1.31% and 11.78%, respectively. Fourth quarter results include a \$0.7 million recovery related to an operational loss that occurred in third quarter 2022.

For the twelve months ended December 31, 2022, the Company reported net income of \$39.0 million or \$1.77 per diluted share, compared with \$48.7 million or \$2.19 per diluted share, for the same period of 2021. Year to date 2022 return on average assets and return on average equity were 1.24% and 10.74%, respectively.

Four Key Drivers	Targets	2022	4Q22	3Q22	4Q21
Annualized revenue growth	> 5%	-9.89%	33.30%	-19.51%	-5.61%
Net interest margin	≥ 3.60%	3.33%	3.44%	3.50%	3.14%
Efficiency ratio	≤ 55%	57.51%	53.23%	62.21%	54.74%
Annualized net charge-offs to average loans	≤ 0.25%	0.02%	0.03%	0.02%	0.04%

Concurrently, the Company announced the hiring of a team of experienced SBA professionals from top 10 SBA originators to expand our SBA division and its fee contribution to the bank. Led by newly appointed director Marc Gilson, an SBA lending professional with over 25 years experience, the division now includes three business development officers along with additions to our existing team totaling 14 dedicated and experienced professionals in processing, underwriting, approval, loan closing and servicing.

“CapStar’s 2022 performance and results were outstanding,” said Timothy K. Schools President and Chief Executive Officer of CapStar. “Our Company delivered excellent service to our valued customers across each of our markets, investments in Chattanooga and Knoxville approached \$450 million in loans helping us remix our earning assets into higher yielding balances through the addition of numerous new customers, net interest margin expanded due to a rise in rates as well as an emphasis on disciplined pricing, our focus on productivity and operating efficiency continues, and our net charge-offs remain limited. Further, we added a new office in Asheville and key hires in our existing markets. With the year’s strong performance and our focus on capital management, we were pleased to return a record \$17.9 million to shareholders in the form of share repurchases and dividends.”

“It is an exciting time at CapStar and our employees' hard work was recognized in 2022 by being named the fourteenth highest performing bank among the nation's top 300 publicly traded banks by Bank Director. As we look to 2023, we will continue to deliver exemplary service and seek to expand existing and new relationships while remaining actively focused on the challenging deposit environment and uncertain economic environment. While the outlook for this year remains clouded with an array of possible outcomes, we are very excited about our progress and the prospects of our markets and company.”

Revenue

Total revenue, defined as net interest income plus noninterest income, was \$31.2 million in the fourth quarter of 2022 compared to the third quarter of 2022 revenue of \$28.8 million.

As previously communicated, loans produced in our Tri-Net division since the spring have proved challenging to achieve a gain on sale. Additional production was ceased in early July. Third quarter 2022 revenue was negatively impacted by \$2.1 million related to realized and unrealized losses associated with selling or transferring to held for investment the remaining Tri-Net loans in held for sale.

Fourth quarter net interest income declined \$0.6 million to \$25.0 million as a result of increased deposit pricing pressure and a shift into higher cost deposit categories. Noninterest income for the fourth quarter of 2022 was \$6.3 million, an increase of \$3.0 million from the previous quarter, or when adjusting for the Tri-Net impact, an increase of \$1.0 million largely due to improved SBA revenues.

Fourth quarter 2022 average earning assets remained relatively flat at \$2.89 billion compared to the third quarter 2022 as fourth quarter growth in loans held for investment was principally funded by a decline in loans held for sale. Average loans held for investment, excluding Tri-Net loan transfers from held for sale to held for investments during the third quarter, increased \$59.5 million, or 11% linked-quarter annualized. The current commercial loan pipeline remains strong, exceeding \$450 million. The Company remains conservative maintaining pricing discipline and limiting commercial real estate lending as a result of an uncertain economic outlook and in an effort to balance loan demand with funding in a challenging deposit environment.

For the fourth quarter of 2022, the net interest margin decreased 6 basis points from the prior quarter to 3.44% primarily resulting from increased deposit pricing pressure and a shift into higher cost deposit categories.

The Company's average deposits totaled \$2.66 billion in the fourth quarter of 2022, flat compared to the third quarter of 2022. During the quarter, the Company experienced a \$155.4 million increase in higher cost average time deposits, primarily a result of brokered deposit issuances. These increases were partially offset by a \$80.2 million decrease in interest-bearing transaction accounts, creating an overall net increase of \$83.6 million in average interest-bearing deposits when compared to the third quarter of 2022. During the quarter, the Company's noninterest-bearing deposits decreased 12% from the linked quarter to 22% of total average deposits as of December 31, 2022. Total deposit costs increased 58 basis points to 1.20% compared to 0.62% for the prior quarter.

Noninterest income for the fourth quarter of 2022 was \$6.3 million compared to the third quarter of 2022 noninterest income of \$3.3 million, or \$5.3 million when adjusted for the previously discussed Tri-Net losses. The \$1.0 million increase versus adjusted third quarter was largely attributable to a \$0.9 million improvement in the Company's SBA division driven by the expansion of the SBA division in the fourth quarter. The Company's mortgage and Tri-Net divisions provided little contribution in the fourth quarter.

Noninterest Expense and Operating Efficiency

Noninterest expense was \$16.6 million for the fourth quarter of 2022, compared to \$17.9 million in the third quarter of 2022. Third quarter expenses included a \$1.5 million wire fraud and a \$0.7 million operational loss, offset by an \$0.8 million voluntary executive incentive reversal. Fourth quarter expenses included a \$0.7 million recovery of the third quarter operational loss. Excluding the third quarter wire fraud, operational loss and incentive reversal, and the fourth quarter operation loss recovery, adjusted noninterest expense was \$17.4 million in the fourth quarter and \$16.5 million for

the third quarter. Commissions and incentives for the SBA division contributed \$0.4 million to the quarter's \$0.9 million increase.

The efficiency ratio was 53.23% for the quarter ended December 31, 2022 and 62.21% for the quarter ended September 30, 2022. The fourth quarter efficiency ratio adjusted for the operational loss recovery was 55.57%. The third quarter ratio adjusted for the wire fraud, operational loss, executive incentive reversal, and Tri-Net losses was 53.44%.

Annualized noninterest expense, adjusted for the wire fraud, operational loss and recovery and executive incentive reversal, as a percentage of average assets increased 14 basis points to 2.20% for the quarter ended December 31, 2022 compared to 2.08% for the quarter ended September 30, 2022. Assets per employee declined to \$7.9 million as of December 31, 2022 compared to \$8.2 million in the previous quarter.

Asset Quality

The provision for credit losses for fourth quarter totaled \$1.5 million, an increase from \$0.9 million in third quarter 2022, as a result of continued strong loan growth and \$0.7 million in specific reserves related to two impaired loans. Net loan charge-offs in fourth quarter were \$172 thousand, or 0.03% of average loans held for investment, compared with \$120 thousand, or 0.02% in third quarter 2022. For the year 2022, net loan charge-offs totaled \$366 thousand or 0.02% of average loans held for investment.

Past due loans improved to \$11.6 million or 0.50% of total loans held for investment at December 31, 2022 compared to \$14.4 million or 0.63% of total loans held for investment at September 30, 2022. The decrease was primarily related to the renewal of loans that had matured. Past dues are largely comprised of three relationships totaling \$8.9 million for which the Company believes at this time there is nominal risk of loss beyond the impairment-related specific reserve of \$0.7 million recorded in the fourth quarter.

Non-performing assets to total loans and OREO increased to 0.46% at December 31, 2022 compared to 0.30% at September 30, 2022. The increase in non-performing assets is principally related to one of the three previously noted past due relationships that totals \$3.4 million but which has a 90% SBA guaranty of \$3.0 million.

The allowance for loan losses plus the fair value mark on acquired loans to total loans increased to 1.13% as of December 31, 2022 compared to 1.09% as of September 30, 2022.

Asset Quality Data:	12/31/22	9/30/22	6/30/22	3/31/22	12/31/21
Annualized net charge-offs to average loans	0.03%	0.02%	0.00%	0.01%	0.04%
Criticized and classified loans to total loans	1.31%	1.79%	2.12%	2.49%	2.64%
Loans- past due to total end of period loans	0.50%	0.63%	0.12%	0.17%	0.25%
Loans- over 90 days past due to total end of period loans	0.44%	0.27%	0.02%	0.05%	0.11%
Non-performing assets to total loans held for investment and OREO	0.46%	0.30%	0.11%	0.18%	0.18%
Allowance for loan losses plus fair value marks / Non-PPP Loans	1.13%	1.09%	1.09%	1.16%	1.27%
Allowance for loan losses to non-performing loans	222%	333%	974%	596%	666%

Income Tax Expense

The Company's fourth quarter effective income tax rate increased slightly to 21% when compared to 20% in the prior quarter ended September 30, 2022. The Company's effective tax rate for 2022 was approximately 20%.

Capital

The Company continues to be well capitalized with tangible equity of \$308.1 million at December 31, 2022. Tangible book value per share of common stock for the quarter ended December 31, 2022 was \$14.19 compared to \$13.72 and \$14.99 for the quarters ended September 30, 2022 and December 31, 2021, respectively, with the changes being attributable to a decline in the value of the investment portfolio related to an increase in market interest rates, partially offset by ongoing earnings. Excluding the impact of after-tax gain or loss within the available for sale investment portfolio, tangible book value per share of common stock for the quarter ended December 31, 2022 was \$16.57 compared to \$16.16 and \$15.13 for the quarters ended September 30, 2022 and December 31, 2021, respectively.

Capital ratios:	12/31/22	9/30/22	6/30/22	3/31/22	12/31/21
Total risk based capital	14.51%	14.59%	14.79%	15.60%	16.29%
Common equity tier 1 capital	12.61%	12.70%	12.87%	13.58%	14.11%
Leverage	11.40%	11.22%	11.10%	10.99%	10.69%

As a component of the Company's capital allocation strategy, \$17.9 million was returned to shareholders in 2022 in the form of share repurchases and dividends. In total, 523,663 shares were repurchased at an average price of \$19.12 of which 198,610 shares were repurchased in fourth quarter 2022 for an average price of \$17.39. The Board of Directors of the Company renewed a common stock share repurchase of up to \$10 million on January 18, 2023. The Plan will terminate on the earlier of the date on which the maximum authorized dollar amount of shares of common stock has been repurchased or January 31, 2024.

Dividend

On January 18, 2023, the Board of Directors of the Company approved a quarterly dividend of \$0.10 per common share payable on February 22, 2023 to shareholders of record of CapStar's common stock as of the close of business on February 8, 2023.

Conference Call and Webcast Information

CapStar will host a conference call and webcast at 10:30 a.m. Central Time on Friday, January 20, 2023. During the call, management will review the fourth quarter results and operational highlights. Interested parties may listen to the call by registering here to access the live call, including for participants who plan to ask a question during the call. A simultaneous webcast may be accessed on CapStar's website at ir.capstarbank.com by clicking on "News & Events." An archived version of the webcast will be available in the same location shortly after the live call has ended.

About CapStar Financial Holdings, Inc.

CapStar Financial Holdings, Inc. is a bank holding company headquartered in Nashville, Tennessee and operates primarily through its wholly owned subsidiary, CapStar Bank, a Tennessee-chartered state bank. CapStar Bank is a commercial bank that seeks to establish and maintain comprehensive relationships with its clients by delivering customized and creative banking solutions and superior client service. As of December 31, 2022, on a consolidated basis, CapStar had total assets of \$3.1 billion, total loans of \$2.3 billion, total deposits of \$2.7 billion, and shareholders' equity of \$354.2 million. Visit www.capstarbank.com for more information.

NON-GAAP MEASURES

Certain releases may include financial information determined by methods other than in accordance with generally accepted accounting principles ("GAAP"). This financial information may include certain operating performance measures, which exclude merger-related and other charges that are not considered part of recurring operations. Such measures may include: "Efficiency ratio – operating," "Expenses – operating," "Earnings per share – operating," "Diluted earnings per share – operating," "Tangible book value per share," "Return on common equity – operating," "Return on tangible common equity – operating," "Return on assets – operating", "Tangible common equity to tangible assets" or other measures.

Management may include these non-GAAP measures because it believes these measures may provide useful supplemental information for evaluating CapStar's underlying performance trends. Further, management uses these measures in managing and evaluating CapStar's business and intends to refer to them in discussions about our operations and performance. Operating performance measures should be viewed in addition to, and not as an alternative to or substitute for, measures determined in accordance with GAAP, and are not necessarily comparable to non-GAAP measures that may be presented by other companies. To the extent applicable, reconciliations of these non-GAAP measures to the most directly comparable GAAP measures can be found in the 'Non-GAAP Reconciliation Tables' included in the exhibits to this presentation.

CAPSTAR FINANCIAL HOLDINGS, INC. AND SUBSIDIARY
Consolidated Statements of Income (unaudited) (dollars in thousands, except share data)
Fourth quarter 2022 Earnings Release

	Three Months Ended		Year Ended	
	December 31,		December 31,	
	2022	2021	2022	2021
Interest income:				
Loans, including fees	\$ 30,024	\$ 22,284	\$ 101,501	\$ 89,219
Securities:				
Taxable	2,000	1,682	7,642	6,573
Tax-exempt	310	335	1,268	1,408
Federal funds sold	45	9	76	21
Restricted equity securities	240	157	784	640
Interest-bearing deposits in financial institutions	1,187	192	2,262	598
Total interest income	<u>33,806</u>	<u>24,659</u>	<u>113,533</u>	<u>98,459</u>
Interest expense:				
Interest-bearing deposits	2,200	410	4,479	1,626
Savings and money market accounts	2,701	307	5,102	1,203
Time deposits	3,151	556	5,421	2,873
Federal funds purchased	—	—	2	—
Federal Home Loan Bank advances	401	—	862	12
Subordinated notes	394	394	1,575	1,575
Total interest expense	<u>8,847</u>	<u>1,667</u>	<u>17,441</u>	<u>7,289</u>
Net interest income	<u>24,959</u>	<u>22,992</u>	<u>96,092</u>	<u>91,170</u>
Provision for loan losses	1,548	(651)	2,474	(1,066)
Net interest income after provision for loan losses	<u>23,411</u>	<u>23,643</u>	<u>93,618</u>	<u>92,236</u>
Noninterest income:				
Deposit service charges	1,206	1,117	4,781	4,515
Interchange and debit card transaction fees	1,250	1,261	5,053	4,816
Mortgage banking income	637	2,740	5,073	16,058
Tri-Net	39	3,996	78	8,613
Wealth management	403	438	1,687	1,850
SBA lending	1,446	279	2,501	2,060
Net gain on sale of securities	1	8	8	28
Other noninterest income	1,303	1,295	5,341	4,741
Total noninterest income	<u>6,285</u>	<u>11,134</u>	<u>24,522</u>	<u>42,681</u>
Noninterest expense:				
Salaries and employee benefits	9,875	10,549	38,065	41,758
Data processing and software	2,797	2,719	11,152	11,248
Occupancy	1,032	1,012	4,299	4,205
Equipment	753	867	2,988	3,507
Professional services	522	521	2,175	2,155
Regulatory fees	266	284	1,080	1,031
Acquisition related expenses	—	—	—	323
Amortization of intangibles	399	461	1,690	1,939
Other noninterest expense	984	2,269	7,921	7,375
Total noninterest expense	<u>16,628</u>	<u>18,682</u>	<u>69,370</u>	<u>73,541</u>
Income before income taxes	<u>13,068</u>	<u>16,095</u>	<u>48,770</u>	<u>61,376</u>
Income tax expense	2,735	3,625	9,753	12,699
Net income	<u>\$ 10,333</u>	<u>\$ 12,470</u>	<u>\$ 39,017</u>	<u>\$ 48,677</u>
Per share information:				
Basic net income per share of common stock	<u>\$ 0.47</u>	<u>\$ 0.56</u>	<u>\$ 1.77</u>	<u>\$ 2.20</u>
Diluted net income per share of common stock	<u>\$ 0.47</u>	<u>\$ 0.56</u>	<u>\$ 1.77</u>	<u>\$ 2.19</u>
Weighted average shares outstanding:				
Basic	<u>21,887,351</u>	<u>22,166,410</u>	<u>22,010,462</u>	<u>22,127,919</u>
Diluted	<u>21,926,821</u>	<u>22,221,989</u>	<u>22,059,855</u>	<u>22,179,461</u>

This information is preliminary and based on CapStar data available at the time of this earnings release.

CAPSTAR FINANCIAL HOLDINGS, INC. AND SUBSIDIARY
Selected Quarterly Financial Data (unaudited) (dollars in thousands, except share data)
Fourth quarter 2022 Earnings Release

	Five Quarter Comparison				
	12/31/2022	9/30/2022	6/30/2022	3/31/2022	12/31/2021
Income Statement Data:					
Net interest income	\$ 24,959	\$ 25,553	\$ 24,440	\$ 21,140	\$ 22,992
Provision for loan losses	1,548	867	843	(784)	(651)
Net interest income after provision for loan losses	23,411	24,686	23,597	21,924	23,643
Deposit service charges	1,206	1,251	1,182	1,142	1,117
Interchange and debit card transaction fees	1,250	1,245	1,336	1,222	1,261
Mortgage banking	637	765	1,705	1,966	2,740
Tri-Net	39	(2,059)	(73)	2,171	3,996
Wealth management	403	385	459	440	438
SBA lending	1,446	560	273	222	279
Net gain (loss) on sale of securities	1	7	—	—	8
Other noninterest income	1,303	1,118	994	1,926	1,295
Total noninterest income	6,285	3,272	5,876	9,089	11,134
Salaries and employee benefits	9,875	8,712	9,209	10,269	10,549
Data processing and software	2,797	2,861	2,847	2,647	2,719
Occupancy	1,032	1,092	1,076	1,099	1,012
Equipment	753	743	783	709	867
Professional services	522	468	506	679	521
Regulatory fees	266	269	265	280	284
Acquisition related expenses	—	—	—	—	—
Amortization of intangibles	399	415	430	446	461
Other noninterest expense	984	3,371	1,959	1,607	2,269
Total noninterest expense	16,628	17,931	17,075	17,736	18,682
Net income before income tax expense	13,068	10,027	12,398	13,277	16,095
Income tax expense	2,735	1,988	2,426	2,604	3,625
Net income	\$ 10,333	\$ 8,039	\$ 9,972	\$ 10,673	\$ 12,470
Weighted average shares - basic	21,887,351	21,938,259	22,022,109	22,198,339	22,166,410
Weighted average shares - diluted	21,926,821	21,988,085	22,074,260	22,254,644	22,221,989
Net income per share, basic	\$ 0.47	\$ 0.37	\$ 0.45	\$ 0.48	\$ 0.56
Net income per share, diluted	0.47	0.37	0.45	0.48	0.56
Balance Sheet Data (at period end):					
Cash and cash equivalents	\$ 135,305	\$ 199,913	\$ 113,825	\$ 355,981	\$ 415,125
Securities available-for-sale	396,416	401,345	437,420	460,558	459,396
Securities held-to-maturity	1,240	1,762	1,769	1,775	1,782
Loans held for sale	44,708	43,122	85,884	106,895	83,715
Loans held for investment	2,312,798	2,290,269	2,234,833	2,047,555	1,965,769
Allowance for loan losses	(23,806)	(22,431)	(21,684)	(20,857)	(21,698)
Total assets	3,117,169	3,165,706	3,096,537	3,190,749	3,133,046
Non-interest-bearing deposits	512,076	628,846	717,167	702,172	725,171
Interest-bearing deposits	2,167,743	2,004,827	1,913,320	2,053,823	1,959,110
Federal Home Loan Bank advances and borrowings	44,666	149,633	74,599	29,566	29,532
Total liabilities	2,762,987	2,818,341	2,738,802	2,821,832	2,752,952
Shareholders' equity	\$ 354,182	\$ 347,365	\$ 357,735	\$ 368,917	\$ 380,094
Total shares of common stock outstanding	21,714,380	21,931,624	21,934,554	22,195,071	22,166,129
Book value per share of common stock	\$ 16.31	\$ 15.84	\$ 16.31	\$ 16.62	\$ 17.15
Tangible book value per share of common stock *	14.19	13.72	14.17	14.49	14.99
Tangible book value per share of common stock plus after-tax unrealized available for sale investment losses*	16.57	16.16	15.86	15.53	15.13
Market value per common share	17.66	18.53	19.62	21.08	21.03
Capital ratios:					
Total risk based capital	14.51 %	14.59 %	14.79 %	15.60 %	16.29 %
Tangible common equity to tangible assets*	10.03 %	9.65 %	10.19 %	10.23 %	10.77 %
Tangible common equity to tangible assets less after-tax unrealized available for sale investment (gains) losses*	11.52 %	11.17 %	11.27 %	10.88 %	10.86 %
Common equity tier 1 capital	12.61 %	12.70 %	12.87 %	13.58 %	14.11 %
Leverage	11.40 %	11.22 %	11.10 %	10.99 %	10.69 %

*This metric is a non-GAAP financial measure. See Non-GAAP disclaimer in this earnings release and below for discussion and reconciliation to the most directly comparable GAAP financial measure. This information is preliminary and based on CapStar data available at the time of this earnings release.

CAPSTAR FINANCIAL HOLDINGS, INC. AND SUBSIDIARY
Selected Quarterly Financial Data (unaudited) (dollars in thousands, except share data)
Fourth quarter 2022 Earnings Release

	Five Quarter Comparison				
	12/31/2022	9/30/2022	6/30/2022	3/31/2022	12/31/2021
Average Balance Sheet Data:					
Cash and cash equivalents	\$ 154,150	\$ 154,543	\$ 189,542	\$ 380,262	\$ 470,963
Investment securities	415,414	450,933	473,167	483,339	491,135
Loans held for sale	37,945	94,811	114,223	90,163	123,962
Loans held for investment	2,309,349	2,241,355	2,147,750	2,001,740	1,888,094
Assets	3,124,928	3,146,841	3,128,864	3,153,320	3,159,308
Interest-bearing deposits	2,076,743	1,993,172	1,936,910	1,976,803	1,964,641
Deposits	2,662,954	2,659,268	2,664,614	2,704,938	2,713,314
Federal Home Loan Bank advances and other borrowings	74,812	88,584	70,516	29,547	29,514
Liabilities	2,776,902	2,782,703	2,767,714	2,773,281	2,781,951
Shareholders' equity	\$ 348,027	\$ 364,138	\$ 361,150	\$ 380,039	\$ 377,357
Performance Ratios:					
Annualized return on average assets	1.31 %	1.01 %	1.28 %	1.37 %	1.57 %
Annualized return on average equity	11.78 %	8.76 %	11.08 %	11.39 %	13.11 %
Net interest margin (1)	3.44 %	3.50 %	3.41 %	2.97 %	3.14 %
Annualized noninterest income to average assets	0.80 %	0.41 %	0.75 %	1.17 %	1.40 %
Efficiency ratio	53.23 %	62.21 %	56.32 %	58.67 %	54.74 %
Loans by Type (at period end):					
Commercial and industrial	\$ 496,347	\$ 499,048	\$ 510,987	\$ 499,719	\$ 497,615
Commercial real estate - owner occupied	246,109	235,519	241,461	231,933	209,261
Commercial real estate - non-owner occupied	803,611	832,156	786,610	652,936	616,023
Construction and development	229,972	198,869	205,573	208,513	214,310
Consumer real estate	402,615	386,628	357,849	327,416	326,412
Consumer	53,382	52,715	53,227	48,790	46,811
Other	80,762	85,334	79,126	78,248	55,337
Asset Quality Data:					
Allowance for loan losses to total loans	1.03 %	0.98 %	0.97 %	1.02 %	1.10 %
Allowance for loan losses to non-performing loans	222 %	333 %	974 %	596 %	666 %
Nonaccrual loans	10,714	6,734	2,225	3,502	3,258
Troubled debt restructurings	344	344	86	1,847	1,832
Loans - over 90 days past due	10,222	6,096	494	1,076	2,120
Total non-performing loans	10,714	6,734	2,225	3,502	3,258
OREO and repossessed assets	-	165	165	178	266
Total non-performing assets	\$ 10,714	\$ 6,899	\$ 2,390	\$ 3,680	\$ 3,524
Non-performing loans to total loans held for investment	0.46 %	0.29 %	0.10 %	0.17 %	0.17 %
Non-performing assets to total assets	0.34 %	0.22 %	0.08 %	0.12 %	0.11 %
Non-performing assets to total loans held for investment and OREO	0.46 %	0.30 %	0.11 %	0.18 %	0.18 %
Annualized net charge-offs to average loans	0.03 %	0.02 %	0.00 %	0.01 %	0.04 %
Net charge-offs	\$ 172	\$ 120	\$ 16	\$ 59	\$ 184
Interest Rates and Yields:					
Loans	5.03 %	4.62 %	4.25 %	3.97 %	4.47 %
Securities (1)	2.53 %	2.29 %	2.11 %	1.92 %	1.84 %
Total interest-earning assets (1)	4.66 %	4.17 %	3.69 %	3.20 %	3.36 %
Deposits	1.20 %	0.62 %	0.23 %	0.19 %	0.19 %
Borrowings and repurchase agreements	4.22 %	3.41 %	2.79 %	5.40 %	5.29 %
Total interest-bearing liabilities	1.63 %	0.93 %	0.41 %	0.33 %	0.33 %
Other Information:					
Full-time equivalent employees	397	387	391	397	397

This information is preliminary and based on CapStar data available at the time of this earnings release.

(1) Net Interest Margin, Securities yields, and Total interest-earning asset yields are calculated on a tax-equivalent basis.

CAPSTAR FINANCIAL HOLDINGS, INC. AND SUBSIDIARY
Analysis of Interest Income and Expense, Rates and Yields (unaudited) (dollars in thousands)
Fourth quarter 2022 Earnings Release

	For the Three Months Ended December 31,					
	2022			2021		
	Average Outstanding Balance	Interest Income/Expense	Average Yield/Rate	Average Outstanding Balance	Interest Income/Expense	Average Yield/Rate
Interest-Earning Assets						
Loans held for investment (1)	\$ 2,309,349	\$ 29,278	5.03 %	\$ 1,888,094	\$ 21,291	4.47 %
Loans held for sale	37,945	746	7.80 %	123,962	993	3.18 %
Securities:						
Taxable investment securities (2)	361,563	2,239	2.48 %	432,165	1,839	1.70 %
Investment securities exempt from federal income tax (3)	53,851	310	2.91 %	58,970	335	2.88 %
Total securities	415,414	2,549	2.53 %	491,135	2,174	1.84 %
Cash balances in other banks	122,493	1,187	3.84 %	397,381	192	0.19 %
Funds sold	1,608	46	—	19,906	9	—
Total interest-earning assets	2,886,809	33,806	4.66 %	2,920,478	24,659	3.36 %
Noninterest-earning assets	238,119			238,830		
Total assets	\$ 3,124,928			\$ 3,159,308		
Interest-Bearing Liabilities						
Interest-bearing deposits:						
Interest-bearing transaction accounts	\$ 741,347	2,200	1.18 %	\$ 964,932	410	0.17 %
Savings and money market deposits	717,999	2,701	1.49 %	616,610	307	0.20 %
Time deposits	617,397	3,151	2.02 %	383,099	556	0.58 %
Total interest-bearing deposits	2,076,743	8,052	1.54 %	1,964,641	1,273	0.26 %
Borrowings and repurchase agreements	74,812	795	4.22 %	29,514	394	5.29 %
Total interest-bearing liabilities	2,151,555	8,847	1.63 %	1,994,155	1,667	0.33 %
Noninterest-bearing deposits	586,211			748,673		
Total funding sources	2,737,766			2,742,828		
Noninterest-bearing liabilities	39,135			39,123		
Shareholders' equity	348,027			377,357		
Total liabilities and shareholders' equity	\$ 3,124,928			\$ 3,159,308		
Net interest spread (4)			3.03 %			3.03 %
Net interest income/margin (5)		\$ 24,959	3.44 %		\$ 22,992	3.14 %

- (1) Average loan balances include nonaccrual loans. Interest income on loans includes amortization of deferred loan fees, net of deferred loan costs.
- (2) Taxable investment securities include restricted equity securities.
- (3) Yields on tax exempt securities, total securities, and total interest-earning assets are shown on a tax equivalent basis.
- (4) Net interest spread is the average yield on total average interest-earning assets minus the average rate on total average interest-bearing liabilities.
- (5) Net interest margin is annualized net interest income calculated on a tax equivalent basis divided by total average interest-earning assets for the period.

This information is preliminary and based on CapStar data available at the time of this earnings release.

CAPSTAR FINANCIAL HOLDINGS, INC. AND SUBSIDIARY
Non-GAAP Financial Measures (unaudited) (dollars in thousands except share data)
Fourth quarter 2022 Earnings Release

	Five Quarter Comparison				
	12/31/2022	9/30/2022	6/30/2022	3/31/2022	12/31/2021
Operating net income:					
Net income	\$ 10,333	\$ 8,039	\$ 9,972	\$ 10,673	\$ 12,470
Add: acquisition related expenses	—	—	—	—	—
Less: income tax impact of acquisition related expenses	—	—	—	—	—
Operating net income	<u>\$ 10,333</u>	<u>\$ 8,039</u>	<u>\$ 9,972</u>	<u>\$ 10,673</u>	<u>\$ 12,470</u>
Operating diluted net income per share of common stock:					
Operating net income	\$ 10,333	\$ 8,039	\$ 9,972	\$ 10,673	\$ 12,470
Weighted average shares - diluted	21,926,821	21,988,085	22,074,260	22,254,644	22,221,989
Operating diluted net income per share of common stock	<u>\$ 0.47</u>	<u>\$ 0.37</u>	<u>\$ 0.45</u>	<u>\$ 0.48</u>	<u>\$ 0.56</u>
Operating annualized return on average assets:					
Operating net income	\$ 10,333	\$ 8,039	\$ 9,972	\$ 10,673	\$ 12,470
Average assets	\$ 3,124,928	\$ 3,146,841	\$ 3,128,864	\$ 3,153,320	\$ 3,159,308
Operating annualized return on average assets	<u>1.31 %</u>	<u>1.01 %</u>	<u>1.28 %</u>	<u>1.37 %</u>	<u>1.57 %</u>
Operating annualized return on average tangible equity:					
Average total shareholders' equity	\$ 348,027	\$ 364,138	\$ 361,150	\$ 380,039	\$ 377,357
Less: average intangible assets	(46,328)	(46,737)	(47,160)	(47,604)	(48,054)
Average tangible equity	301,699	317,401	313,990	332,435	329,303
Operating net income	\$ 10,333	\$ 8,039	\$ 9,972	\$ 10,673	\$ 12,470
Operating annualized return on average tangible equity	<u>13.59 %</u>	<u>10.05 %</u>	<u>12.74 %</u>	<u>13.02 %</u>	<u>15.02 %</u>
Operating efficiency ratio:					
Total noninterest expense	\$ 16,628	\$ 17,931	\$ 17,075	\$ 17,736	\$ 18,682
Less: acquisition related expenses	—	—	—	—	—
Total operating noninterest expense	16,628	17,931	17,075	17,736	18,682
Net interest income	24,959	25,553	24,440	21,140	22,992
Total noninterest income	6,285	3,272	5,876	9,089	11,134
Total revenues	\$ 31,244	\$ 28,825	\$ 30,316	\$ 30,229	\$ 34,126
Operating efficiency ratio:	<u>53.23 %</u>	<u>62.21 %</u>	<u>56.32 %</u>	<u>58.67 %</u>	<u>54.74 %</u>
Operating annualized pre-tax pre-provision income to average assets:					
Income before income taxes	\$ 13,068	\$ 10,027	\$ 12,398	\$ 13,277	\$ 16,095
Add: acquisition related expenses	—	—	—	—	—
Add: provision for loan losses	1,548	867	843	(784)	(651)
Operating pre-tax pre-provision income	14,616	10,894	13,241	12,493	15,444
Average assets	\$ 3,124,928	\$ 3,146,841	\$ 3,128,864	\$ 3,153,320	\$ 3,159,308
Operating annualized pre-tax pre-provision income to average assets:	<u>1.86 %</u>	<u>1.37 %</u>	<u>1.70 %</u>	<u>1.61 %</u>	<u>1.94 %</u>

CAPSTAR FINANCIAL HOLDINGS, INC. AND SUBSIDIARY
Non-GAAP Financial Measures (unaudited) (dollars in thousands except share data)
Fourth quarter 2022 Earnings Release

	Five Quarter Comparison				
	12/31/2022	9/30/2022	6/30/2022	3/31/2022	12/31/2021
Tangible Equity:					
Total shareholders' equity	\$ 354,182	\$ 347,365	\$ 357,735	\$ 368,917	\$ 380,094
Less: intangible assets	(46,069)	(46,468)	(46,883)	(47,313)	(47,759)
Tangible equity	<u>\$ 308,113</u>	<u>\$ 300,897</u>	<u>\$ 310,852</u>	<u>\$ 321,604</u>	<u>\$ 332,335</u>
Tangible book value per share of common stock:					
Tangible equity	\$ 308,113	\$ 300,897	\$ 310,852	\$ 321,604	\$ 332,335
Total shares of stock outstanding	21,714,380	21,931,624	21,934,554	22,195,071	22,166,129
Tangible book value per share of common stock	<u>\$ 14.19</u>	<u>\$ 13.72</u>	<u>\$ 14.17</u>	<u>\$ 14.49</u>	<u>\$ 14.99</u>
Tangible book value per share of common stock plus after-tax unrealized available for sale investment losses:					
Total shareholders' equity	\$ 354,182	\$ 347,365	\$ 357,735	\$ 368,917	\$ 380,094
Less: intangible assets	(46,069)	(46,468)	(46,883)	(47,313)	(47,759)
Add: after-tax unrealized available for sale investment (gains) losses	51,760	53,488	37,034	23,041	2,978
Tangible equity plus after-tax unrealized available for sale investment (gains) losses	<u>\$ 359,873</u>	<u>\$ 354,385</u>	<u>\$ 347,886</u>	<u>\$ 344,645</u>	<u>\$ 335,313</u>
Total shares of common stock outstanding	21,714,380	21,931,624	21,934,554	22,195,071	22,166,129
Tangible book value per share of common stock plus after-tax unrealized available for sale investment losses	<u>\$ 16.57</u>	<u>\$ 16.16</u>	<u>\$ 15.86</u>	<u>\$ 15.53</u>	<u>\$ 15.13</u>
Tangible common equity to tangible assets:					
Tangible equity	\$ 308,113	\$ 300,897	\$ 310,852	\$ 321,604	\$ 332,335
Assets	\$ 3,117,169	\$ 3,165,706	\$ 3,096,537	\$ 3,190,749	\$ 3,133,046
Less: intangible assets	(46,069)	(46,468)	(46,883)	(47,313)	(47,759)
Tangible assets	<u>\$ 3,071,100</u>	<u>\$ 3,119,238</u>	<u>\$ 3,049,654</u>	<u>\$ 3,143,436</u>	<u>\$ 3,085,287</u>
Tangible common equity to tangible assets	<u>10.03%</u>	<u>9.65%</u>	<u>10.19%</u>	<u>10.23%</u>	<u>10.77%</u>
Tangible common equity to tangible assets plus after-tax unrealized available for sale investment losses:					
Tangible equity plus after-tax unrealized available for sale investment losses	\$ 359,873	\$ 354,385	\$ 347,886	\$ 344,645	\$ 335,313
Tangible assets	\$ 3,071,100	\$ 3,119,238	\$ 3,049,654	\$ 3,143,436	\$ 3,085,287
Add: after-tax unrealized available for sale investment losses	51,760	53,488	37,034	23,041	2,978
Tangible assets plus after-tax unrealized available for sale investment losses	<u>\$ 3,122,860</u>	<u>\$ 3,172,726</u>	<u>\$ 3,086,688</u>	<u>\$ 3,166,477</u>	<u>\$ 3,088,265</u>
Tangible common equity to tangible assets plus after-tax unrealized available for sale investment losses	<u>11.52%</u>	<u>11.17%</u>	<u>11.27%</u>	<u>10.88%</u>	<u>10.86%</u>

CAPSTAR FINANCIAL HOLDINGS, INC. AND SUBSIDIARY
Non-GAAP Financial Measures (unaudited) (dollars in thousands except share data)
Fourth quarter 2022 Earnings Release

	12/31/2022	9/30/2022	6/30/2022
Average loans held for investment	\$ 2,309,349	\$ 2,241,355	\$ 2,147,750
Less: Average PPP Loans	(496)	(834)	(3,337)
Less: Average Tri-Net transfers from held for sale to held for investment	(115,386)	(106,590)	(58,757)
Loans held for investment excluding PPP loans and Tri-Net transfers	<u>2,193,467</u>	<u>2,133,931</u>	<u>2,085,656</u>
Annualized loans held for investment growth excluding PPP and Tri-Net transfers	<u>11.1 %</u>	<u>9.2 %</u>	
	12/31/2022	9/30/2022	
Net interest income	\$ 24,959	\$ 25,553	
Noninterest income	6,285	3,272	
Less: Tri-Net losses	—	2,059	
Noninterest income excluding Tri-Net losses	<u>6,285</u>	<u>5,331</u>	
Total income excluding Tri-Net losses	31,244	30,884	
Noninterest expense	16,628	17,931	
Less: Operational recoveries (losses)	734	(2,197)	
Less: Executive incentive reversal	—	770	
Noninterest expense excluding operational losses and incentive reversal	<u>17,362</u>	<u>16,504</u>	
Efficiency ratio excluding Tri-Net losses, operational losses, and executive incentive reversal	<u>55.57 %</u>	<u>53.44 %</u>	

	Five Quarter Comparison				
	12/31/2022	9/30/2022	6/30/2022	3/31/2022	12/31/2021
Allowance for loan losses	\$ 23,806	\$ 22,431	\$ 21,684	\$ 20,857	\$ 21,698
Purchase accounting marks	2,438	2,535	2,717	2,838	3,003
Allowance for loan losses and purchase accounting fair value marks	<u>26,244</u>	<u>24,966</u>	<u>24,401</u>	<u>23,695</u>	<u>24,701</u>
Loans held for investment	2,312,798	2,290,269	2,234,833	2,047,555	1,965,769
Less: PPP Loans net of deferred fees	221	748	921	6,529	26,539
Non-PPP Loans	<u>2,312,577</u>	<u>2,289,521</u>	<u>2,233,912</u>	<u>2,041,026</u>	<u>1,939,230</u>
Allowance for loan losses plus fair value marks / Non-PPP Loans	<u>1.13 %</u>	<u>1.09 %</u>	<u>1.09 %</u>	<u>1.16 %</u>	<u>1.27 %</u>

(1) Net interest margin and adjusted net interest margin are shown on a tax equivalent basis.



CAPSTARTM
FINANCIAL HOLDINGS, INC.

Fourth Quarter 2022

Earnings Call

January 20, 2023

Disclosures

FORWARD-LOOKING STATEMENTS

This investor presentation contains forward-looking statements, as defined by federal securities laws, including statements about CapStar Financial Holdings, Inc. ("CapStar") and its financial outlook and business environment. All statements, other than statements of historical fact, included in this release and any oral statements made regarding the subject of this release, including in the conference call referenced herein, that address activities, events or developments that the Company expects, believes or anticipates will or may occur in the future are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The words "expect", "anticipate", "intend", "may", "should", "plan", "believe", "seek", "estimate" and similar expressions are intended to identify such forward-looking statements, but other statements not based on historical information may also be considered forward-looking statements. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could cause the actual results to differ materially from the statements, including, but not limited to: (I) deterioration in the financial condition of borrowers of the Company and its subsidiaries, resulting in significant increases in loan losses and provisions for those losses; (II) the effects of the emergence of widespread health emergencies or pandemics, including the magnitude and duration of the Covid-19 pandemic and its impact on general economic and financial market conditions and on the Company's customer's business, results of operations, asset quality and financial condition; (III) the ability to grow and retain low-cost, core deposits and retain large, uninsured deposits, including during times when the Company is seeking to lower rates it pays on deposits; (IV) the impact of competition with other financial institutions, including pricing pressures and the resulting impact on the Company's results, including as a result of compression to net interest margin; (V) fluctuations or differences in interest rates on loans or deposits from those that the Company is modeling or anticipating, including as a result of the Company's inability to better match deposit rates with the changes in the short term rate environment, or that affect the yield curve; (VI) difficulties and delays in integrating required businesses or fully realizing cost savings or other benefits from acquisitions; (VII) the Company's ability to profitably grow its business and successfully execute on its business plans; (VIII) any matter that would cause the Company to conclude that there was impairment of any asset, including goodwill or other intangible assets; (IX) the vulnerability of the Company's network and online banking portals, and the systems of customers or parties with whom the Company contracts, to unauthorized access, computer viruses, phishing schemes, spam attacks, human error, natural disasters, power loss and other security breaches; (X) the availability of and access to capital; (XI) adverse results (including costs, fines, reputational harm, inability to obtain necessary approvals, and/or other negative affects) from current or future litigation, regulatory examinations or other legal and/or regulatory actions, including as a result of the Company's participation in and execution of government programs related to the Covid-19 pandemic; and (XII) general competitive, economic, political and market conditions. Additional factors which could affect the forward-looking statements can be found in the Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K, filed with the SEC. The Company disclaims any obligation to update or revise any forward-looking statements contained in this press release (we speak only as of the date hereof), whether as a result of new information, future events, or otherwise.

NON-GAAP MEASURES

This investor presentation includes financial information determined by methods other than in accordance with generally accepted accounting principles ("GAAP"). This financial information may include certain operating performance measures, which exclude merger-related and other charges that are not considered part of recurring operations. Such measures may include: "Efficiency ratio – operating," "Expenses – operating," "Earnings per share – operating," "Diluted earnings per share – operating," "Tangible book value per share," "Return on common equity – operating," "Return on tangible common equity – operating," "Return on assets – operating", "Tangible common equity to tangible assets" or other measures.

Management may include these non-GAAP measures because it believes these measures may provide useful supplemental information for evaluating CapStar's underlying performance trends. Further, management uses these measures in managing and evaluating CapStar's business and intends to refer to them in discussions about our operations and performance. Operating performance measures should be viewed in addition to, and not as an alternative to or substitute for, measures determined in accordance with GAAP, and are not necessarily comparable to non-GAAP measures that may be presented by other companies. To the extent applicable, reconciliations of these non-GAAP measures to the most directly comparable GAAP measures can be found in the 'Non-GAAP Reconciliation Tables' included in the exhibits to this presentation.

Highlights

2022 results

- Earnings per share of \$1.77 and ROE of 10.74%
- Led by strong loan growth and improved balance sheet mix, NIM expansion, disciplined expense management, and low credit cost
- Includes cumulative mortgage and wire loss of \$2.7MM and \$0 annual contribution from Tri-Net

4Q22 results

- Earnings per share of \$0.47 and ROE of 11.78%
- Led by improved SBA results offset recent deposit and NIM pressure, continued expense discipline, and low credit costs
- Includes operational loss recovery of \$0.7MM, loan impairment of \$0.7MM, and cumulative mortgage and Tri-Net contribution of (\$864K)

Proactively managing risk

- Managing through a complex operating environment
- Level and pace of rate increases is causing deposit rates to rise faster than earning asset yields in the short-term and is expected to continue through 1H23
- Asset quality remains strong with isolated past dues and low criticized and classified levels; tightening underwriting criteria and increasing monitoring with uncertain economic outlook

Deploying capital in a disciplined manner

- Chattanooga and Knoxville expansions performing well having approached \$450MM in loans
- Further expansion in Asheville and with in-market bankers
- Returned \$17.9MM to shareholders through share repurchases and dividends

4Q22 Financial Results

Financial Results

	(Dollars in millions, except per share data)		
	4Q22	GAAP Favorable/(Unfavorable)	
		3Q22	4Q21
Net Interest Income	\$24.96	-2%	9%
Noninterest Income	\$6.29	92%	-44%
Revenue	\$31.25	8%	-8%
Noninterest Expense	\$16.63	7%	11%
Pre-tax Pre-provision Income	\$14.62	34%	-5%
Provision for Loan Losses	\$1.55	-79%	-338%
Net Income	\$10.33	29%	-17%
Diluted Earnings per Share	\$0.47	29%	-16%

Key Performance Indicators

(Dollars in millions, except for per share data)		4Q22	3Q22	4Q21
Profitability	Net Interest Margin ⁽¹⁾	3.44%	3.50%	3.14%
	Efficiency Ratio ⁽²⁾	53.23%	62.21%	54.74%
	Pretax Preprovision Income / Assets ⁽³⁾	1.86%	1.37%	1.94%
	Return on Average Assets	1.31%	1.01%	1.57%
	Return on Average Tangible Equity	13.59%	10.05%	15.02%
Growth	Total Assets (Avg)	\$3,125	\$3,147	\$3,159
	Total Deposits (Avg)	\$2,663	\$2,659	\$2,713
	Total Loans HFI (Avg) (Excl PPP)	\$2,309	\$2,241	\$1,846
	Diluted Earnings per Share	\$0.47	\$0.37	\$0.56
	Tangible Book Value per Share	\$14.19	\$13.72	\$14.99
Soundness	Net Charge-Offs to Average Loans (Annualized)	0.03%	0.02%	0.04%
	Non-Performing Assets / Loans + OREO	0.46%	0.30%	0.18%
	Allowance for Loan Losses + Fair Value Mark / Loans Excl PPP	1.13%	1.09%	1.27%
	Common Equity Tier 1 Capital	12.61%	12.70%	14.11%
	Total Risk Based Capital	14.51%	14.59%	16.29%

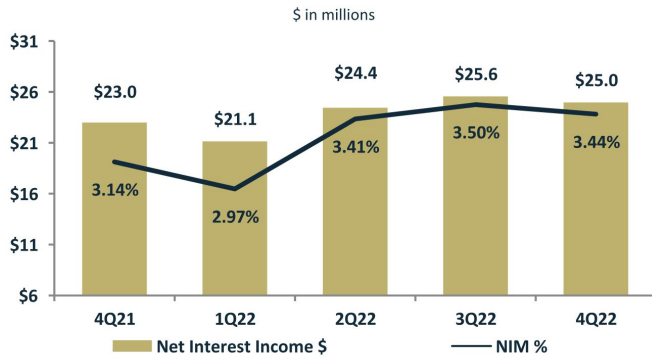
(1) Calculated on a tax equivalent basis.

(2) Efficiency ratio is Noninterest expense divided by the sum of net interest income and noninterest income.

(3) Pre-tax Pre-provision ROA calculated as ROA excluding the effect of income tax expense and provision expense.

Net Interest Income / Margin⁽¹⁾

Net Interest Income / Margin

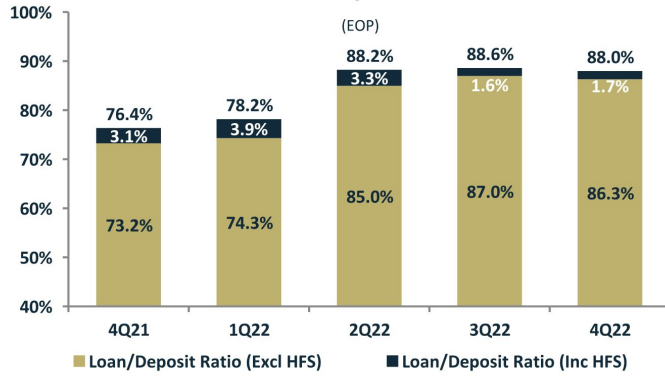


- 4Q22 NIM of 3.44% declined 6 bps vs 3Q22 primarily due a shift into higher cost categories and deposit pressure from an increase in customers seeking alternatives

- NII and NIM outlook

- NIM pressure late in quarter as accelerating deposit betas reflect elevated competitive pricing and continued deposit shift into higher cost categories
- Suggests likely near-term NIM compression

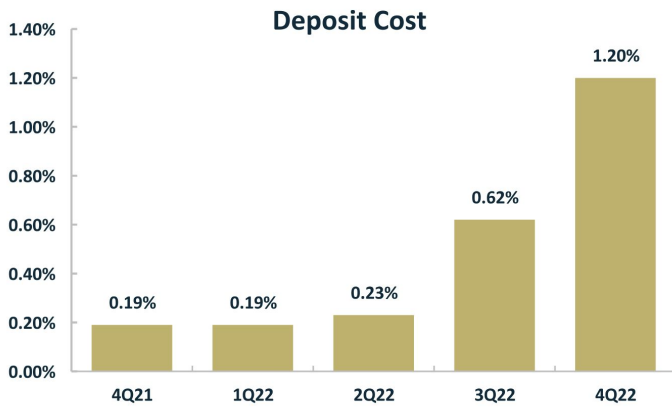
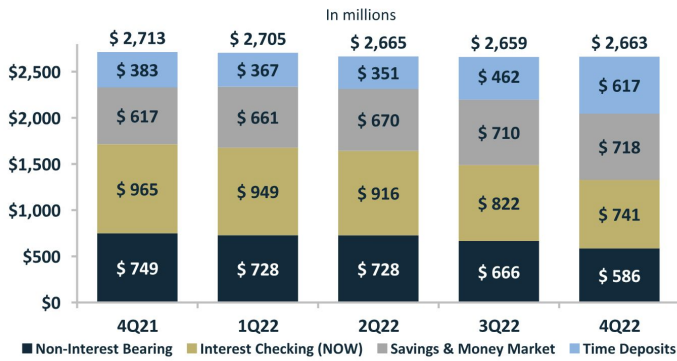
Loan / Deposit Ratio



(1) Calculated on a tax equivalent basis.

Deposit Growth and Costs

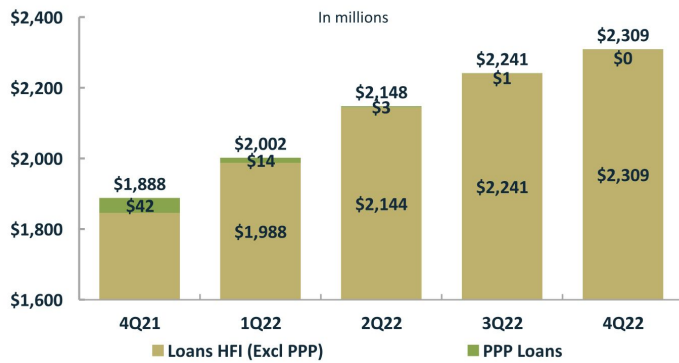
Deposit Portfolio (QTR Avg)



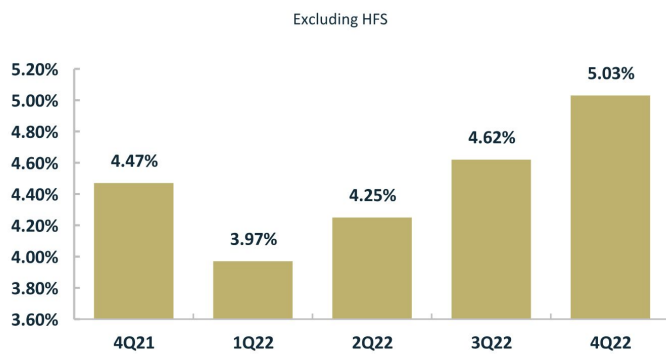
- Deposit pricing pressure has risen as cumulative Fed rate hikes increase
 - Experiencing a mix shift as customers seek higher rates
 - Customers are actively exploring options
- Disciplined pricing of deposits, while remaining competitive to retain and attract core relationships
- Total average customer deposits decreased \$156MM
 - \$59MM Correspondent decline
 - \$97MM bank customer decline
- Offset deposit declines with \$160MM in brokered CDs
- Total deposit cost was 1.20%, up 58 bps vs 3Q22

Loan Growth and Yields

Total Loans (QTR Avg)



Loan Yields



- Average HFI loan growth (excluding PPP and the Tri-Net transfer) of 11.1% and 8.6% EOP linked-quarter annualized
- 4Q22 production of \$149MM (annualized \$591MM) in HFI loans
 - 2022 - \$721MM
 - 2021 - \$674MM
 - 2020 - \$445MM
 - 2019 - \$296MM
- Commercial loan pipeline remains strong across all markets at \$450MM
 - Limiting loan growth through a focus on disciplined pricing and limited CRE due to softening economy to align loan and funding
- 4Q22 loan yield increased 41 bps vs 3Q22
 - Disciplined pricing with 4Q22 matched funding spread of ~2.39% at time of funding

Noninterest Income

(Dollars in thousands)	Three Months Ended				
	December 31, 2022	September 30, 2022	June 30, 2022	March 31, 2022	December 31, 2021
Noninterest Income					
Deposit Service Charges	\$ 1,206	\$ 1,251	\$ 1,182	\$ 1,142	\$ 1,117
Interchange and Debit Transaction Fees	1,250	1,245	1,336	1,222	1,261
Mortgage Banking	637	765	1,705	1,966	2,740
Tri-Net	39	(2,059)	(73)	2,171	3,996
Wealth Management	403	385	459	440	438
SBA Lending	1,446	560	273	222	279
Net Gain on Sale of Securities	1	7	0	0	8
Other	1,303	1,118	994	1,926	1,295
Total Noninterest Income	\$ 6,285	\$ 3,272	\$ 5,876	\$ 9,089	\$ 11,134
Average Assets	\$ 3,124,928	\$ 3,146,841	\$ 3,128,864	\$ 3,153,320	\$ 3,159,308
Noninterest Income / Average Assets	0.80%	0.41%	0.75%	1.17%	1.40%
Revenue	31,244	28,825	\$ 30,316	\$ 30,229	\$ 34,126
% of Revenue	20.12%	11.35%	19.38%	30.07%	32.63%

- Stable deposit and interchange revenue
- Mortgage revenue reflects limited volume in line with national trends; margins returning to more normalized levels
- Tri-Net remained on pause through 4Q22; testing limited pool in 1H23
- SBA Lending revenue increased with division expansion

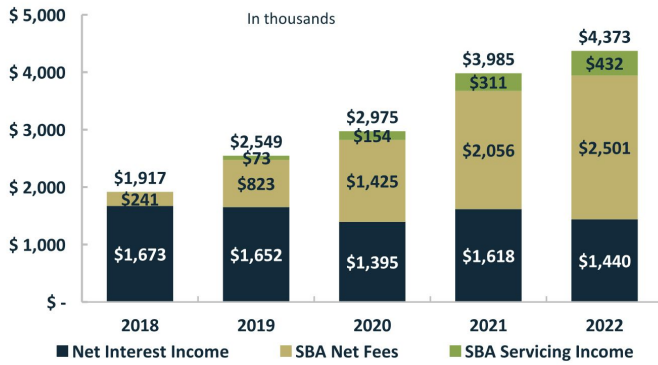
Noninterest Expense

(Dollars in thousands)	Three Months Ended				
	December 31, 2022	September 30, 2022	June 30, 2022	March 31, 2022	December 31, 2021
Noninterest Expense					
Salaries and Employee Benefits	\$ 9,875	\$ 8,712	\$ 9,209	\$ 10,269	\$ 10,549
Data Processing and Software	2,797	2,861	2,847	2,647	2,719
Occupancy	1,032	1,092	1,076	1,099	1,012
Equipment	753	743	783	709	867
Professional Services	522	468	506	679	521
Regulatory Fees	266	269	265	280	284
Acquisition Related Expenses	-	-	-	-	-
Amortization of Intangibles	399	415	430	446	461
Other	984	3,371	1,959	1,607	2,269
Total Noninterest Expense	\$ 16,628	\$ 17,931	\$ 17,075	\$ 17,736	\$ 18,682
Efficiency Ratio	53.23%	62.21%	56.32%	58.67%	54.74%
Average Assets	\$ 3,124,928	\$ 3,146,841	\$ 3,128,864	\$ 3,153,320	\$ 3,159,308
Noninterest Expense / Average Assets	2.11%	2.26%	2.19%	2.28%	2.35%
FTE	397	387	391	397	397

- Continued expense discipline with adoption of productivity mindset across the organization
- Salaries and Employee Benefits increased due to reversal of executive accruals in 3Q22 and SBA commissions in 4Q22
- Other expenses includes \$0.7MM recovery of 3Q22 operational loss
- 3Q22 other expenses includes \$2.2MM operational losses

SBA Expansion

History of SBA Revenue



- Primarily originate variable rate term loans through the SBA 7(a) program generally with a guaranty of 75% of principal

- Four Revenue Drivers:

- Interest Income
- Gain on Sale Fees
- Servicing Income
- Packaging Income

- Target Borrower Profile:

- Business Acquisition
- Owner Occupied Real Estate
- Business Expansion

- Target Experience:

- Consistent BDO Origination >\$20MM/year
- 10+ years line and support experience with a well-run SBA lender

- Risk Management:

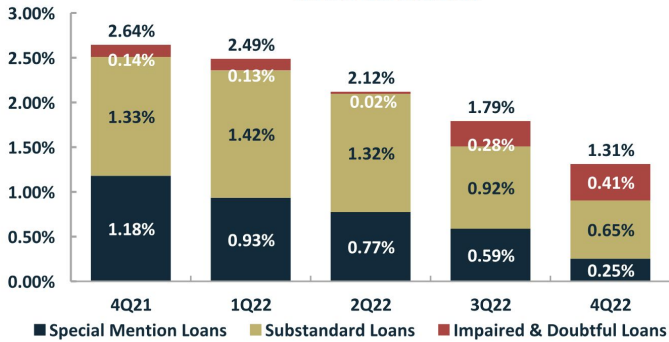
- Robust servicing according to SBA requirements
- Robust SBA specific loan review by an external loan review firm on a regular basis

Risk Management

Loan Portfolio Performance

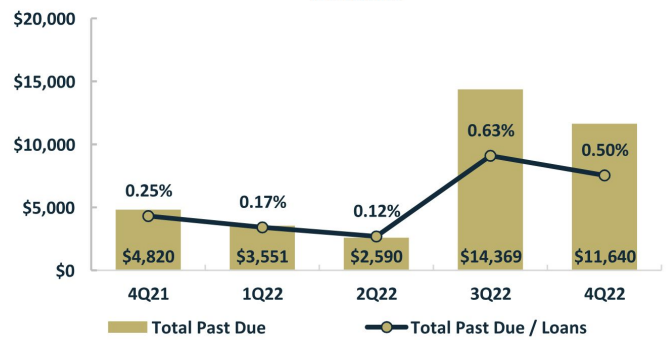
Criticized & Classified Loan Trends

as a % of Total Gross Loans

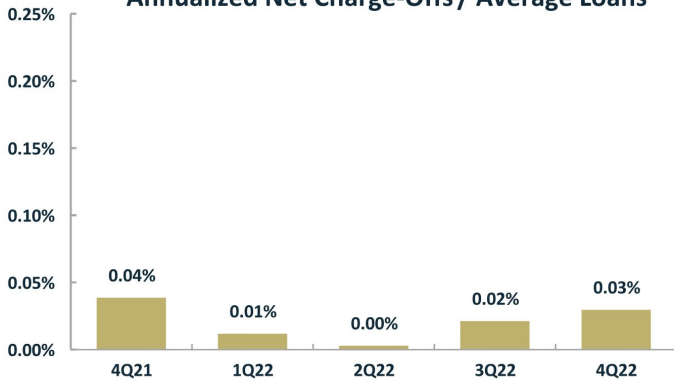


Past Due Trend

In thousands



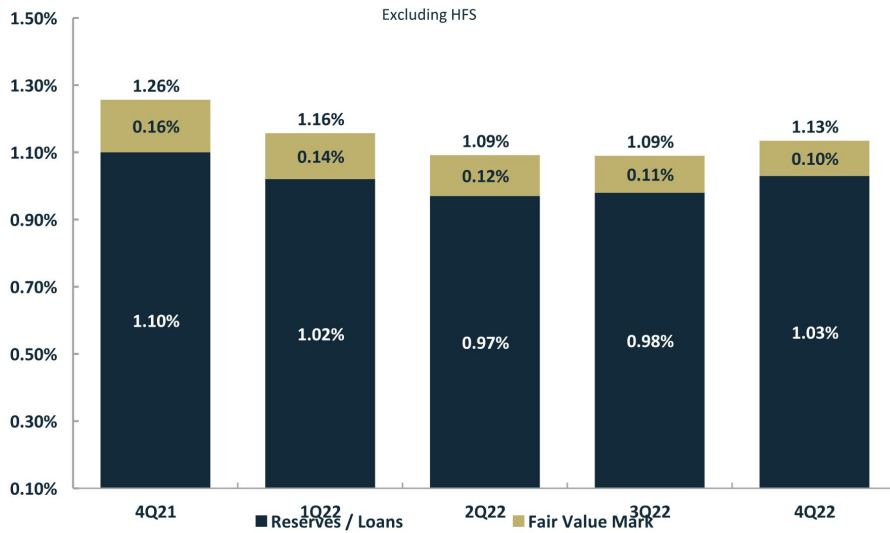
Annualized Net Charge-Offs / Average Loans



- Net charge-offs remained low totaling \$366,181, or 0.02% for the year 2022
- Within delinquencies:
 - \$8.9MM are three impaired relationships in active workout with \$0.07MM impairment recorded in 4Q22
 - SBA guarantees against this total are \$3.0MM
- 27% improvement in Criticized and Classified loans

Allowance for Loan Losses

Reserves and Fair Value Mark / Loans



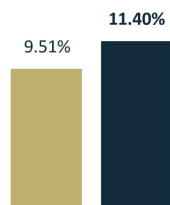
- Provision of \$1.5MM for the quarter comprised of:
 - \$0.8MM provision assigned to loan growth
 - \$0.7MM related to two impaired loans
- The Allowance for Loan Losses at 4Q22 of \$23.8MM plus the \$2.5MM fair value mark on acquired loans was 1.13%



Profitability & Capital Management

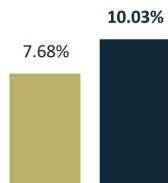
Capital Allocation Strategies

Leverage As of 12/31/22



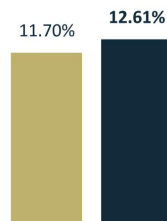
■ Peer Median⁽¹⁾ ■ CSTR

Tangible Common Equity / Tangible Assets As of 12/31/22



■ Peer Median⁽¹⁾ ■ CSTR

Common Equity Tier 1 Capital As of 12/31/22



■ Peer Median⁽¹⁾ ■ CSTR

Total Risk Based Capital As of 12/31/22



■ Peer Median⁽¹⁾ ■ CSTR

1 Internal Investment

- Primary Focus – investing in our core business
- Seeking organic growth that meets or exceeds our cost of capital
- Chattanooga, Knoxville, Asheville and Rutherford/Williamson markets current loan outstandings ~\$670MM

2 Dividends

- Targeting 20-30% payout ratio
- Announced \$0.10 dividend in 1Q23

3 Share Repurchase

- At times, our stock is our best investment
- Bought 523,663 in 2022, 646,041 through 1/18/23 for a total of \$12.2MM
- Announced a new \$10.0MM buyback authorization

4 M&A

- Must have strong strategic rationale
- Disciplined pricing

(1) Source: S&P Capital IQ, Peer Medians based on Selected Nationwide Major Exchange Banks and Thrifts with Assets \$2.0 Billion - \$6.5 Billion as of 3Q22.

Looking Forward



2023 Outlook

As of January 2023

Economy	<ul style="list-style-type: none"> • Increase in the Fed Funds rate through mid-year, potential Fed easing in late 2023 • A potential for slower economic growth or recession
Loan Growth	<ul style="list-style-type: none"> • Targeting mid single digit loan growth with appropriate spreads due to caution on the economy and to align with funding trends
Deposit Growth	<ul style="list-style-type: none"> • Focusing on core operating accounts and expansion of correspondent banking division; marginal interest bearing growth could approach wholesale rates • Disciplined use of alternative funding such as brokered CDs and FHLB
Net Interest Income	<ul style="list-style-type: none"> • Could experience net interest margin pressure as deposit pricing competition intensifies and more rate sensitive depositors shift to higher yield options • Within reason, will attempt to grow net interest income through narrower spreads
Provision Expense	<ul style="list-style-type: none"> • Continued low net charge-offs and stable credit trends though not immune to economic conditions • Adoption of CECL 1/1/23
Non-Interest Income	<ul style="list-style-type: none"> • Challenging near-term Mortgage environment. Reduced support staff positions approximately \$400K annualized in late 3Q22. Favorable long-term outlook given strong markets, strength of Mortgage team, and purchase money focus. • Tri-Net production paused in 3Q22 due to market conditions; testing limited pool in 1H23 • Expanded SBA division in 4Q22 and target \$1MM to \$1.5MM quarterly SBA fees in 1H23 rising to \$2MM+ in time
Non-Interest Expense	<ul style="list-style-type: none"> • Expenses excluding mortgage ~\$17.4MM to include new SBA expansion; mortgage ~\$1.5MM depending on revenue
Income Taxes	<ul style="list-style-type: none"> • Expected tax rate to remain at approximately 20% for 2023
Capital	<ul style="list-style-type: none"> • Continued focus on dividends and share repurchases with a conservative posture heading into 2023 based on the uncertain economic outlook

Appendix: Other Financial Results and Non-GAAP Reconciliations

Non-GAAP Financial Measures

	December 31, 2022	September 30, 2022	June 30, 2022	March 31, 2022	December 31, 2021
TANGIBLE EQUITY					
Total Shareholders' Equity	\$ 354,182	\$ 347,365	\$ 357,735	\$ 368,917	\$ 380,094
Less: Intangible Assets	46,069	46,468	46,883	47,313	47,759
Tangible Equity	308,113	300,897	310,852	321,604	332,335
TANGIBLE EQUITY TO TANGIBLE ASSETS					
Tangible Equity	\$ 308,113	\$ 300,897	\$ 310,852	\$ 321,604	\$ 332,335
Total Assets	3,117,169	3,165,706	3,096,537	3,190,749	3,133,046
Less: Intangible Assets	46,069	46,468	46,883	47,313	47,759
Tangible Assets	3,071,100	3,119,238	3,049,654	3,143,436	3,085,287
Tangible Equity to Tangible Assets	10.03%	9.65%	10.19%	10.23%	10.77%
TANGIBLE BOOK VALUE PER SHARE, REPORTED					
Tangible Equity	\$ 308,113	\$ 300,897	\$ 310,852	\$ 321,604	\$ 332,335
Shares of Common Stock Outstanding	21,714,380	21,931,624	21,934,554	22,195,071	22,166,129
Tangible Book Value Per Share, Reported	\$ 14.19	\$ 13.72	\$14.17	\$14.49	\$14.99

Non-GAAP Financial Measures

	Three Months Ended				
	December 31, 2022	September 30, 2022	June 30, 2022	March 31, 2022	December 31, 2021
(Dollars in thousands, except per share information)					
RETURN ON AVERAGE TANGIBLE EQUITY (ROATE)					
Total Average Shareholders' Equity	\$ 348,027	\$ 364,138	\$ 361,150	\$ 380,039	\$ 377,357
Less: Average Intangible Assets	46,328	46,737	47,160	47,604	48,054
Average Tangible Equity	301,699	317,401	313,990	332,435	329,303
Net Income	10,333	8,039	9,972	10,673	12,470
Return on Average Tangible Equity (ROATE)	13.59%	10.05%	12.74%	13.02%	15.02%

Non-GAAP Financial Measures

	Three Months Ended				
	December 31, 2022	September 30, 2022	June 30, 2022	March 31, 2022	December 31, 2021
(Dollars in thousands, except per share information)					
ADJUSTED NET INCOME					
Net Income	\$ 10,333	\$ 8,039	\$ 9,972	\$ 10,673	\$ 12,470
Add: Operational Losses / (Recoveries)	(734)	2,197	-	-	-
Add: Tri-Net Losses		2,059	-	-	-
Less: Executive Incentive Reversal		(770)	-	-	-
Less: Income Tax Impact	143	(680)	-	-	-
Adjusted Net Income	\$ 9,742	\$ 10,846	\$ 9,972	\$ 10,673	\$ 12,470
ADJUSTED DILUTED NET INCOME PER SHARE					
Adjusted Net Income	\$ 9,742	\$ 10,846	\$ 9,972	\$ 10,673	\$ 12,470
Average Diluted Shares Outstanding	21,926,821	21,988,085	22,074,260	22,254,644	22,221,989
Adjusted Diluted Net Income per Share	\$0.44	\$0.49	\$0.45	\$0.48	\$0.56
ADJUSTED RETURN ON AVERAGE ASSETS (ROAA)					
Adjusted Net Income	\$ 9,742	\$ 10,846	\$ 9,972	\$ 10,673	\$ 12,470
Total Average Assets	3,124,928	3,146,841	3,128,864	3,153,320	3,159,308
Adjusted Return on Average Assets (ROAA)	1.24%	1.37%	1.28%	1.37%	1.57%

Adjusted results are non-GAAP financial measures that adjust GAAP reported net income and other metrics for certain income and expense items as outlined in the non-GAAP reconciliation calculations above using an income tax rate of 19.50%.

Non-GAAP Financial Measures

	Three Months Ended				
	December 31, 2022	September 30, 2022	June 30, 2022	March 31, 2022	December 31, 2021
(Dollars in thousands, except per share information)					
ADJUSTED NONINTEREST EXPENSE					
Noninterest Expense	\$ 16,628	\$ 17,931	\$ 17,075	\$ 17,736	\$ 18,682
Less: Operational (Losses) / Recoveries	734	(2,197)	-	-	-
Add: Executive Incentive Reversal	-	770	-	-	-
Adjusted Noninterest Expense	\$ 17,362	\$ 16,504	\$ 17,075	\$ 17,736	\$ 18,682
ADJUSTED NONINTEREST INCOME					
Noninterest Income	\$ 6,285	\$ 3,272	\$ 5,876	\$ 9,089	\$ 11,134
Add: Tri-Net Loss	-	2,059	-	-	-
Adjusted Noninterest Income	\$ 6,285	\$ 5,331	\$ 5,876	\$ 9,089	\$ 11,134
ADJUSTED EFFICIENCY RATIO					
Adjusted Noninterest Expense	\$ 17,362	\$ 16,504	\$ 17,075	\$ 17,736	\$ 18,682
Net Interest Income	24,959	25,553	24,440	21,140	22,992
Adjusted Noninterest Income	6,285	5,331	5,876	9,089	11,134
Adjusted Total Revenues	31,244	30,884	30,316	30,229	34,126
Adjusted Efficiency Ratio	55.57%	53.44%	56.32%	58.67%	54.74%

Adjusted results are non-GAAP financial measures that adjust GAAP reported net income and other metrics for certain income and expense items as outlined in the non-GAAP reconciliation calculations above using an income tax rate of 19.50%.

Non-GAAP Financial Measures

	December 31, 2022	September 30, 2022	June 30, 2022
(Dollars in thousands, except per share information)			
ANNUALIZED LOANS HELD FOR INVESTMENT GROWTH EXCLUDING PPP AND TRI-NET TRANSFERS			
Average loans held for investment	\$ 2,309,349	\$ 2,241,355	\$ 2,147,750
Less: Average PPP Loans (Remove PPP per Mike)	(496)	(834)	(3,337)
Less: Average Tri-Net transfers from held for sale to held for investment	(115,386)	(106,590)	(58,757)
Loans held for investment excluding PPP loans and Tri-Net transfers	2,193,467	2,133,931	2,085,656
Annualized loans held for investment growth excluding PPP and Tri-Net transfers	11.1%	9.2%	19.8%

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