SmartFinancial, Inc.

Third Quarter 2017 Earnings Call

October 31, 2017

Important Information

Forward Looking Statements

This presentation contains forward-looking statements. SmartFinancial cautions you that a number of important factors could cause actual results to differ materially from those currently anticipated in any forward-looking statement. Such factors include, but are not limited to: the expected revenue synergies and cost savings from the merger with Capstone may not be fully realized or may take longer than anticipated to be realized; the disruption from the Capstone merger with customers, suppliers or employees or other business partners' relationships; the risk of successful integration of our business with that of Capstone after consummation of the merger; the amount of costs, fees, expenses, and charges related to the merger; changes in management's plans for the future, prevailing economic and political conditions, particularly in our market area; credit risk associated with our lending activities; changes in interest rates, loan demand, real estate values and competition; changes in accounting principles, policies, and guidelines; changes in any applicable law, rule, regulation or practice with respect to tax or legal issues; and other economic, competitive, governmental, regulatory and technological factors affecting our operations, pricing, products and services and other factors that may be described in our Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q as filed with the Securities and Exchange Commission from time to time. The forward-looking statements are made as of the date of this presentation, and, except as may be required by applicable law or regulation, SmartFinancial assumes no obligation to update the forward-looking statements or to update the reasons why actual results could differ from those projected in the forward-looking statements.

Non-GAAP Measures

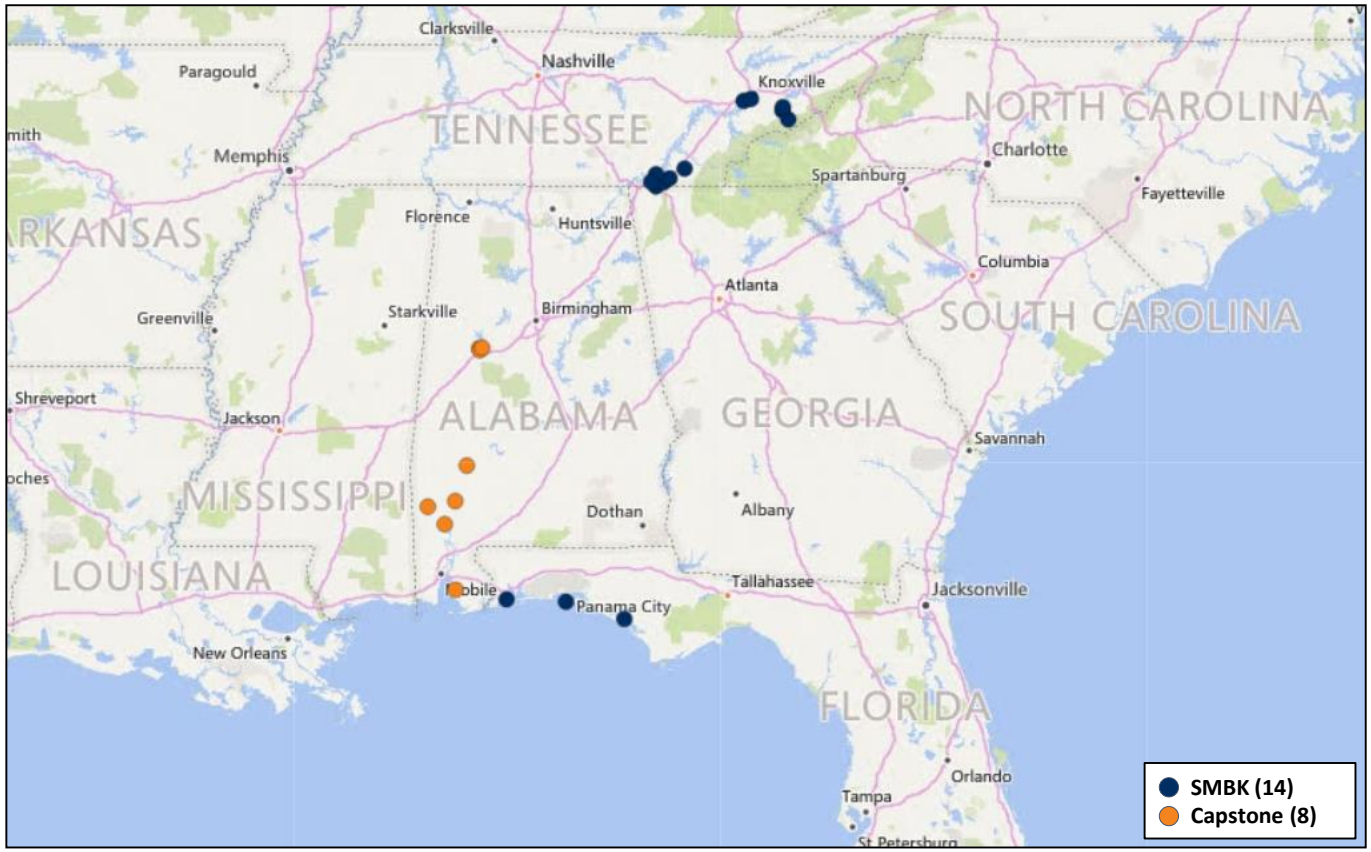
Statements included in this presentation include non-GAAP financial measures and should be read along with the accompanying tables, which provide a reconciliation of non-GAAP financial measures to GAAP financial measures. SmartFinancial management uses non-GAAP financial measures, including: (i) net operating earnings available to common shareholders; (ii) operating efficiency ratio; (iii) tangible common equity, and (iv) net interest income –ex purchase accounting. adjustments in its analysis of the company's performance. Net operating earnings available to common shareholders excludes the following from net income available to common shareholders: securities gains and losses, merger and conversion costs, OREO gain and losses, and the income tax effect of adjustments. The operating efficiency ratio excludes securities gains and losses, merger and conversion costs, and adjustment for OREO gains and losses from the efficiency ratio. Adjusted allowance for loan losses adds net acquisition accounting fair value discounts to the allowance for loan losses. Tangible common equity excludes total preferred stock, preferred stock paid in capital, goodwill, and other intangible assets. Net interest income – ex purchase accounting adjustments adds the taxable equivalent adjustment for tax free yielding assets and removes loan purchase accounting adjustments that are above the contractual loan interest amount. Management believes that non-GAAP financial measures provide additional useful information that allows readers to evaluate the ongoing performance of the company and provide meaningful comparisons to its peers. Non-GAAP financial measures should not be considered as an alternative to any measure of performance or financial condition as promulgated under GAAP, and investors should consider SmartFinancial's performance and financial condition as reported under GAAP and all other relevant information when assessing the performance or financial condition of the company. Non-GAAP financial measures have limitations as analytical tools, and investors should not consider them in isolation or as a substitute for analysis of the results or financial condition as reported under GAAP.

SMBK at-a-glance

- Core franchise in East Tennessee – SmartBank founded in 2007
- Corporate Headquarters – Knoxville, Tennessee
- 14 Branch Offices located in Knoxville, Pigeon Forge/Gatlinburg and Chattanooga/Cleveland regions in TN with FL offices in Pensacola, Destin and Panama City.
- SmartBank $1B+ platform was created through an East TN Merger of Equals completed in 2016.
- Business Strategy
  - Create a valuable Southeastern banking franchise through organic growth in strong markets coupled with an acquisition model positioning our company as a partner of choice for banks our region.
  - Continually improve earnings and efficiency metrics as we build out our model.
  - Disciplined growth strategy with a focus on strong credit metrics.
  - Build a solid franchise in all of our markets focusing on strong core deposit growth.
  - Create a strong, consistent culture with an environment where top performers want to work.
- Notable acquisition of Alabama-based company that creates scale in our Southern region and allows leverage to our infrastructure expected to close on November 1, 2017.

Pro Forma Branch Map

- Capstone brings the vibrant Tuscaloosa market to complement existing Tennessee and Florida markets.
- Capstone's CEO, Robert Kuhn, will be the Regional President for Alabama and the Florida Panhandle which will enhance SmartBank's geographic profile.
- Pro forma footprint allows for additional opportunities for market expansion.



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Deal Assumptions and Impact

Deal Assumptions	**Cost Savings:**	25%, with 85% phased-in in 2018 and 100% thereafter
	Merger Related Expenses:	$5.0 million after-tax
	Significant Purch. Acct. Mark:	$9.3 million loan credit mark down $2.3 million loan fair value adjustment
	Core Deposit Intangible:	$4.2 million
Estimated Financial Impact	**Earnings Accretion:**	+25% in each of the first two years (excl. merger charges)
	TBV Dilution:	~7.5%, earned back over ~3 years (crossover)

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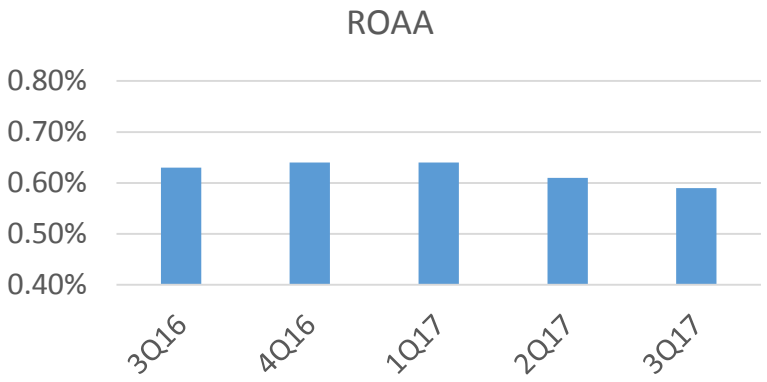
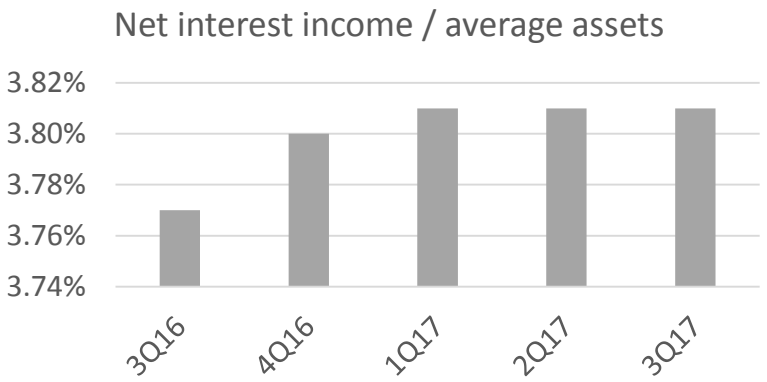
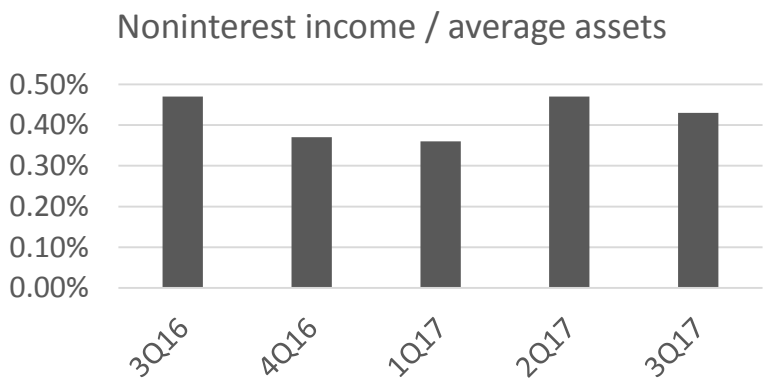
Third Quarter 2017 Highlights

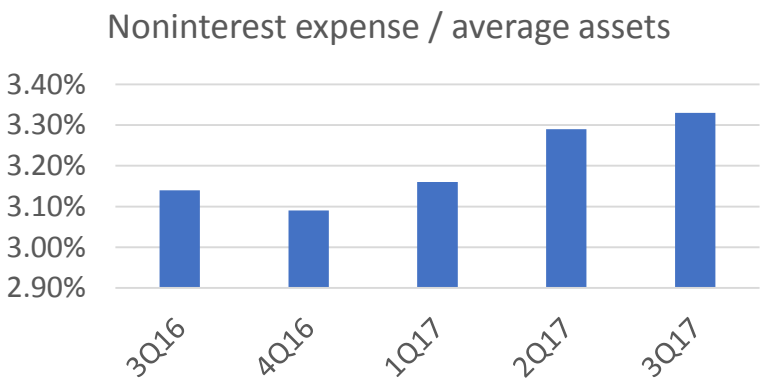
- Net income available to common shareholders of $1.7 million during 3Q17 compared to $1.3 million during 3Q16.
- Net operating earnings (Non-GAAP) available to common shareholders of $1.8 million increased over 40% year over year.
- Increased net interest margin, taxable equivalent, during the quarter to 4.17 percent.
- Asset quality outstanding with nonperforming assets to total assets of just 0.37%.

Summary Results









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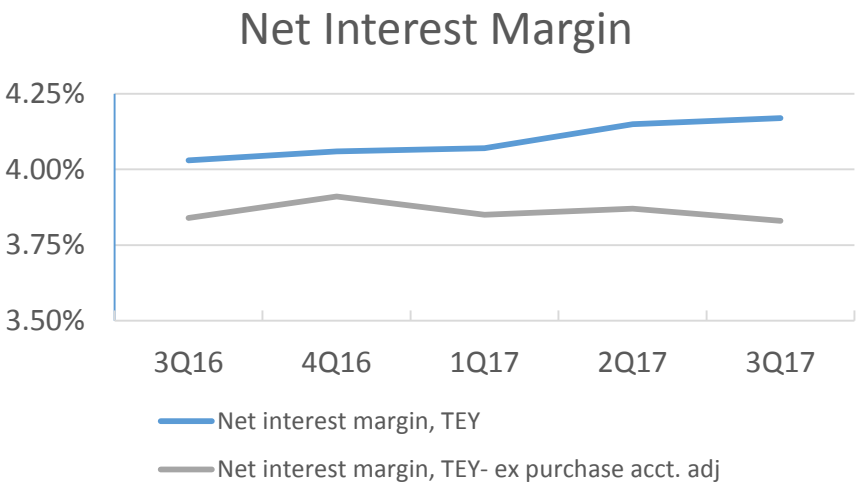
Earnings Profile – Third Quarter 2017

- Net income available to common increased 22% year over year.
- Net interest income up over 13% year over year primarily due to average loan balances that were up 10%.
- Increases in noninterest expense primarily driven by salaries from personnel additions as well as merger and conversion expenses.

	3Q17	2Q17	3Q16
Total interest income	$ 12,317	$ 11,517	$ 10,763
Total interest expense	1,393	1,268	1,099
Net interest income	10,924	10,249	9,664
Provision for loan losses	30	298	218
Net interest income after provision for loan losses	10,894	9,951	9,446
Total noninterest income	1,220	1,253	1,204
Total noninterest expense	9,547	8,829	8,050
Earnings before income taxes	2,567	2,375	2,600
Income tax expense	882	726	947
Net income	1,685	1,649	1,653
Dividends on preferred stock	—	—	270
Net income available to common shareholders	$ 1,685	$ 1,649	$ 1,383
Net income per common share			
Basic	$ 0.20	$ 0.20	$ 0.23
Diluted	0.20	0.20	0.22

Net Interest Income

- Net interest margin, taxable equivalent, increased quarter to quarter due higher average interest-earning assets to average interest-bearing liabilities and increases in the yields of loans and securities.
- Compared to a year ago earning asset yields are up 22bps while cost of interest bearing liabilities are up 11bps.



	3Q17	2Q17	3Q16
Net interest income	$ 10,924	$ 10,249	$ 9,664
Average Earning Assets	1,042,305	992,133	953,710

Average Yields and Rates	3Q17	2Q17	3Q16
Loans	5.25%	5.17%	5.09%
Investment securities and interest-bearing due from banks	2.11%	2.04%	1.53%
Federal funds and other	1.07%	1.69%	3.72%
Earning Asset Yields	4.70%	4.66%	4.48%
Total interest-bearing deposits	0.68%	0.65%	0.58%
Securities sold under agreement to repurchase	0.29%	0.32%	0.30%
Federal Home Loan Bank advances and other borrowings	5.17%	1.27%	0.60%
Total interest-bearing liabilities	0.68%	0.65%	0.57%
Net interest margin	4.17%	4.15%	4.03%
Cost of Funds	0.55%	0.54%	0.48%

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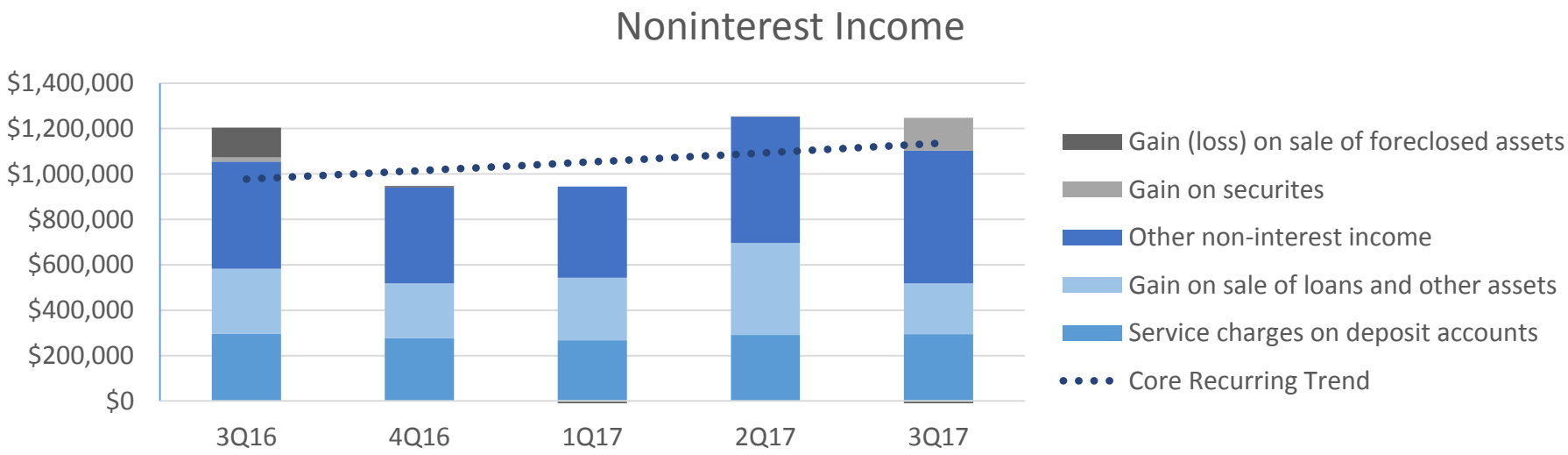
Noninterest Income

- 3Q17 Noninterest income down due to lower gains on sales of SBA and mortgage loans.
- Quarterly recurring core noninterest income of service charges, gains on the sale of loans, and other noninterest income has trended higher over the last four quarters from approximately $1 million thousand in 3Q16 to $1.1 million in 3Q17.



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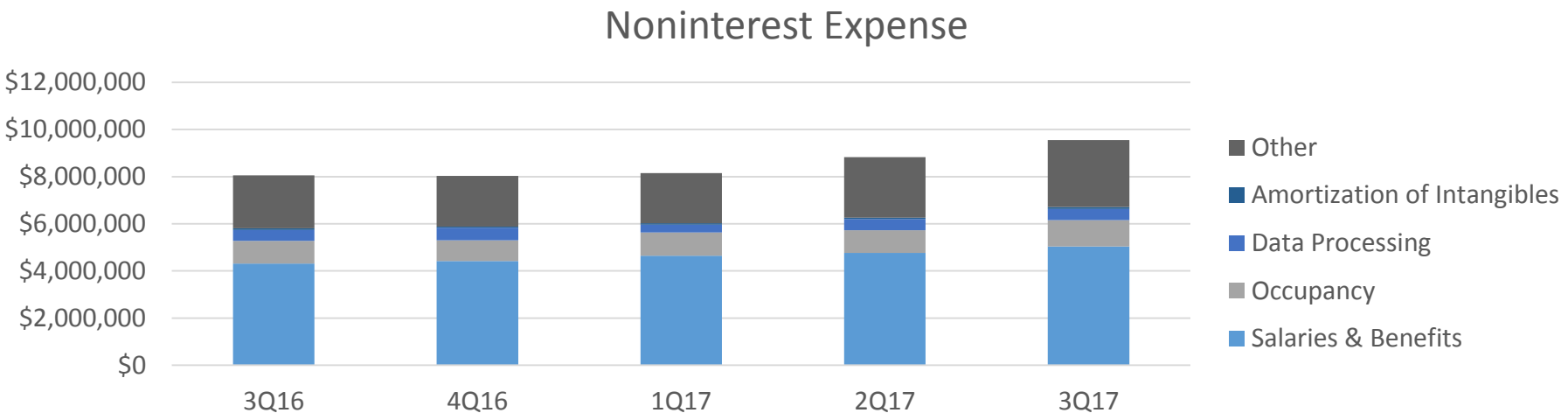
Noninterest Expense

- Salary increases are primarily due to the additions of revenue producing personnel along with operations additions to support the upcoming merger.
- Increases in other noninterest expense compared to the prior year primarily due to merger expenses, loan expense, and reserves for mortgage loans sold.



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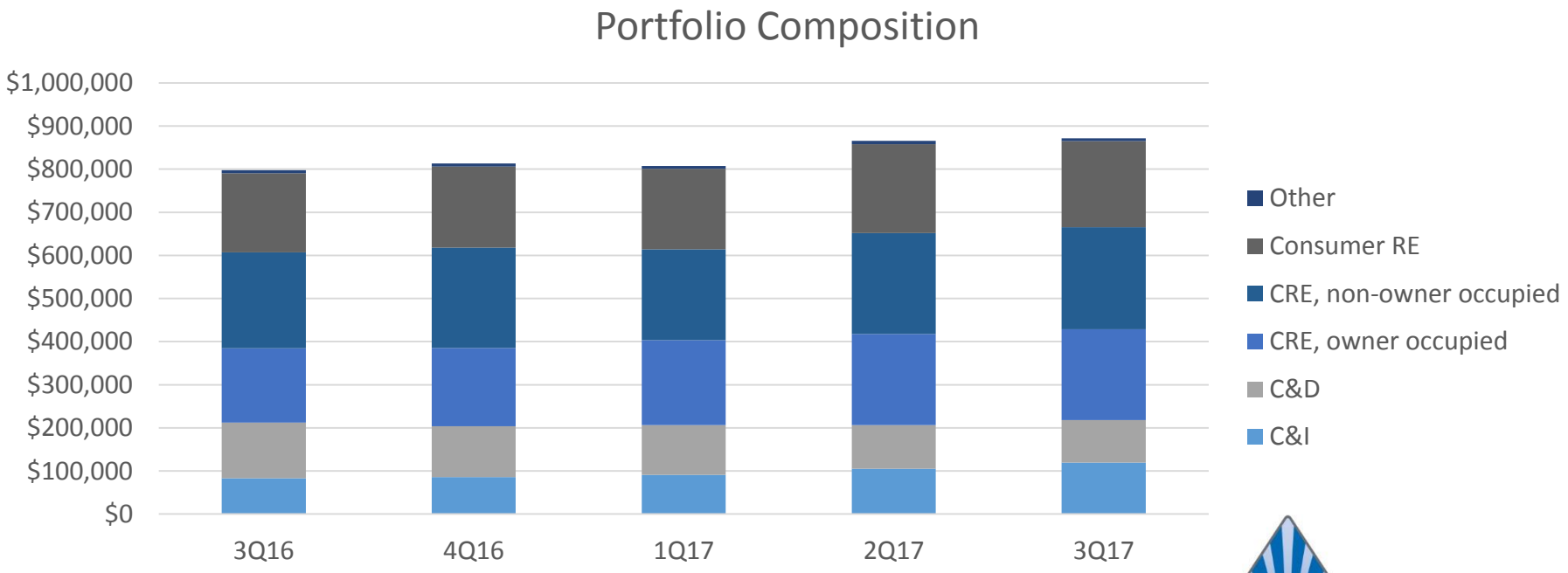
Balance Sheet

	3Q17	2Q17	3Q16
Cash & cash equivalents	$ 84,098	$ 82,835	$ 58,587
Securities available for sale	115,535	132,762	138,628
Other investments	6,081	6,081	4,451
Total loans	871,679	865,421	797,143
Allowance for loan losses	(5,393)	(5,498)	(4,964)
Premises and equipment	33,778	33,765	27,863
Foreclosed assets	2,888	2,369	2,536
Goodwill and other intangibles	7,414	7,492	6,675
Other assets	19,742	20,253	9,808
Total assets	$ 1,135,822	$ 1,145,479	$ 1,040,726
Noninterest demand	$ 185,386	$ 183,324	$ 145,509
Interest-bearing demand	156,953	156,150	152,216
Money market and savings	306,357	324,014	271,259
Time deposits	311,490	318,147	291,858
Total deposits	960,187	981,635	860,842
Repurchase agreements	26,542	22,946	24,202
FHLB & other borrowings	6,000	—	43,048
Other liabilities	6,505	6,164	7,463
Total liabilities	$ 999,234	$ 1,010,745	$ 935,556
Total shareholders' equity	$ 136,588	$ 134,734	$ 105,170
Total liabilities & shareholders' equity	$ 1,135,822	$ 1,145,479	$ 1,040,726

- Cash & cash equivalents were reduced slightly.
- Securities were reduced as gains were recognized when interest rates fell in September.
- Loans increased $6 million.
- Demand deposits decreased while reductions in money markets and time deposits were concentrated in wholesale borrowings.
- Compared to the prior year average interest earning assets to average interest-earning liabilities increased from 125.2% to 127.7%.

Loan Portfolio

- Loan growth of over $74 million year over year, about 9%.
- Growth over the last year has been broad based with increases in C&I, CRE, and Consumer RE.
- The bank's Commercial Real Estate 100 & 300 ratios dropped even further.



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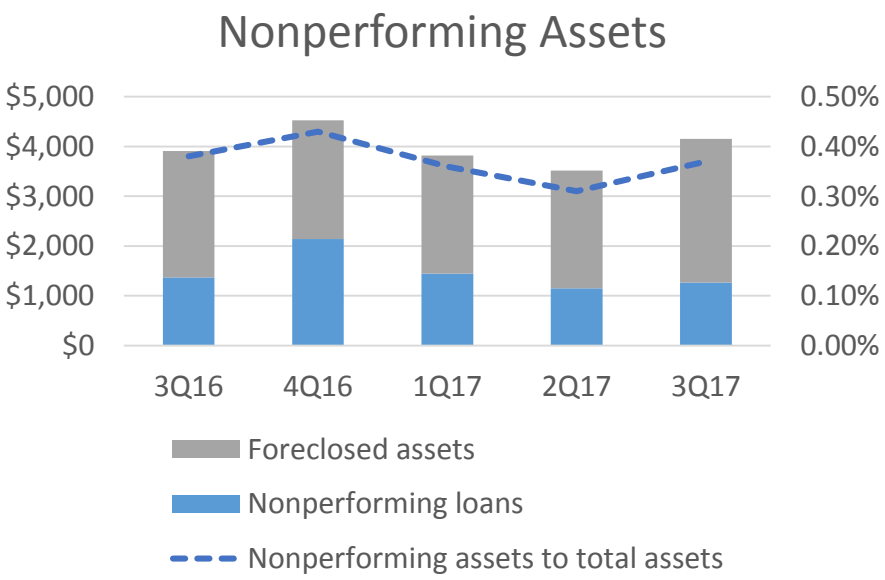
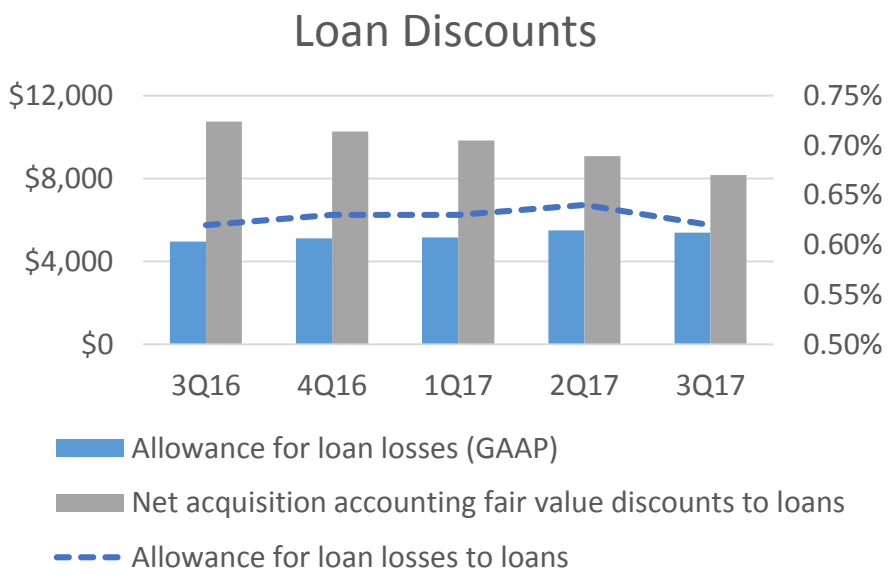
Asset Quality

- Excellent asset quality with nonperforming assets at just 0.37% of total assets.
- Purchase accounting discounts are significantly higher than ALLL.





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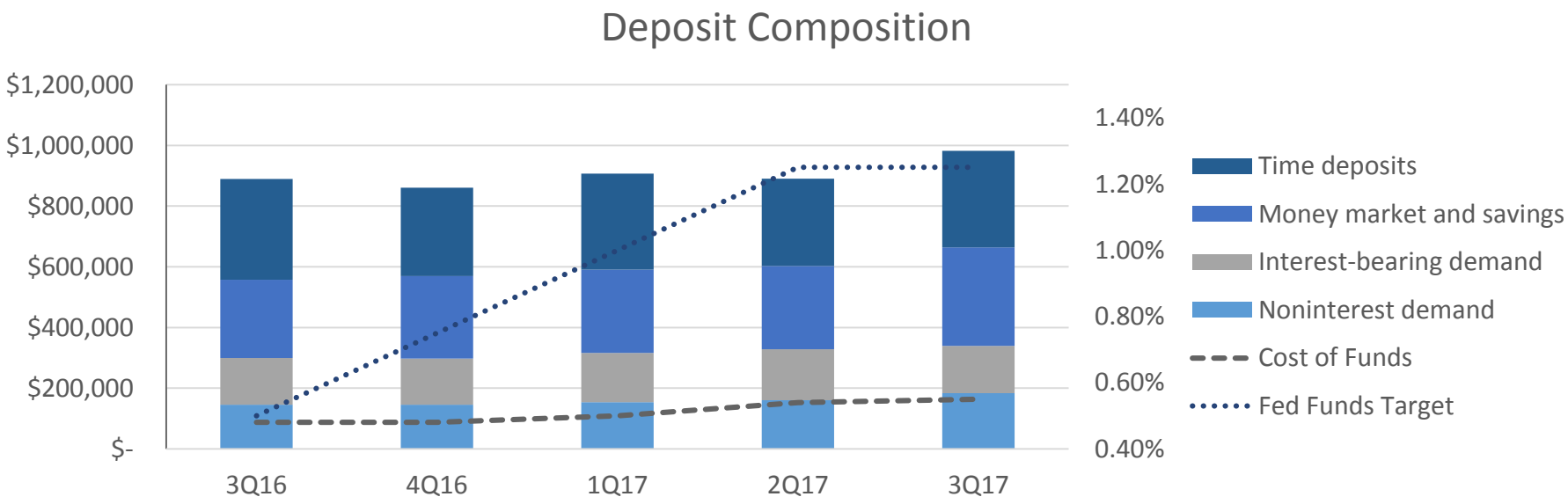
Deposits

- Well diversified deposit mix with growth of money market, savings, and noninterest demand replacing mostly wholesale time deposits.
- Cost of funds up just 7bps while Fed Funds has increased 75bps over the last year.



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Conclusions

- Net income available to common increased 26% compared to a year ago.
- Fourth quarter acquisition of Capstone Bancshares.
- Improved loan mix with less CRE which will allow continued growth.
- SMBK continues focus on long-term shareholder value by:
  - Building the foundation for organic growth and profitability.
  - Exploring expansion to strategic markets.
- Q&A

Non-GAAP Reconciliations

	3Q17	2Q17	1Q17	4Q16	3Q16
Net interest income -ex purchase acct. adj.					
Net interest income (GAAP)	$ 10,924	$ 10,249	$ 9,820	$ 9,856	$ 9,665
Taxable equivalent adjustment	22	(371)	(141)	(225)	(516)
Net interest income TEY (Non-GAAP)	10,946	$9,878	$9,679	9,631	9,149
Purchase accounting adjustments	888	696	540	430	450
Net interest income -ex purchase acct. adj. (Non-GAAP)	$ 11,834	$ 10,574	$ 10,219	$ 10,061	$ 9,599
Loan Discount Data					
Allowance for loan losses (GAAP)	$ 5,393	$ 5,498	$ 5,152	$ 5,105	$ 4,964
Net acquisition accounting fair value discounts to loans	8,167	9,086	9,831	10,271	10,742
Tangible Common Equity					
Shareholders' equity (GAAP)	$ 136,588	$ 134,734	$ 132,551	$ 105,240	$ 105,170
Less preferred stock & preferred stock paid in capital	—	—	—	12,000	12,000
Less goodwill and other intangible assets	7,414	7,492	6,583	6,636	6,675
Tangible common equity (Non-GAAP)	$ 129,174	$ 127,242	$ 125,968	$ 86,604	$ 86,495

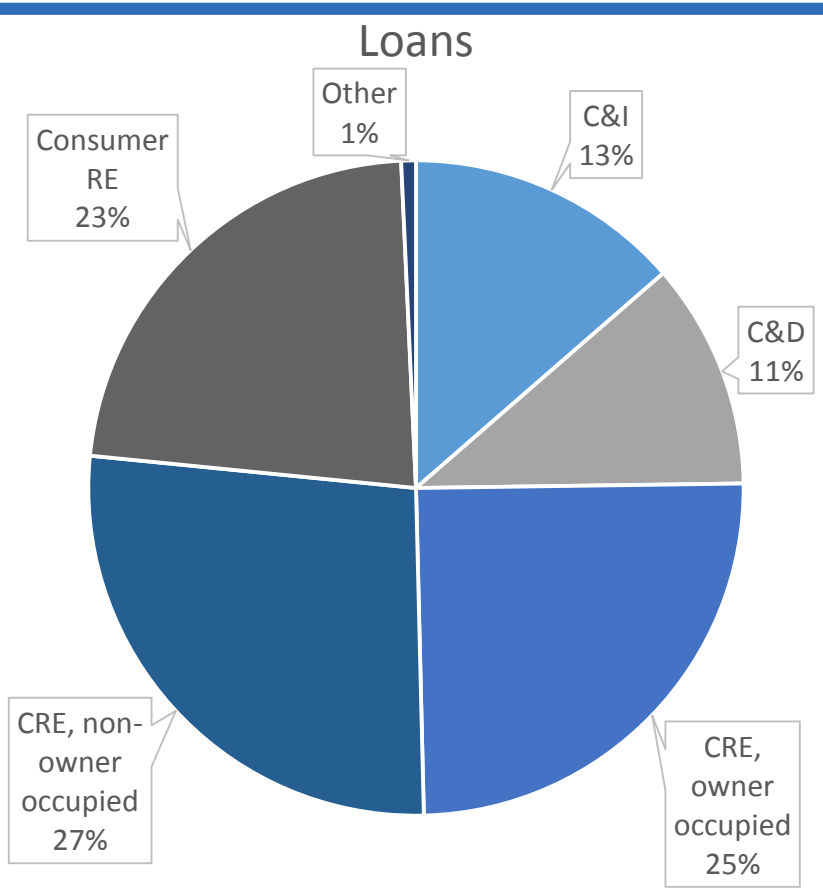
Non-GAAP Reconciliations

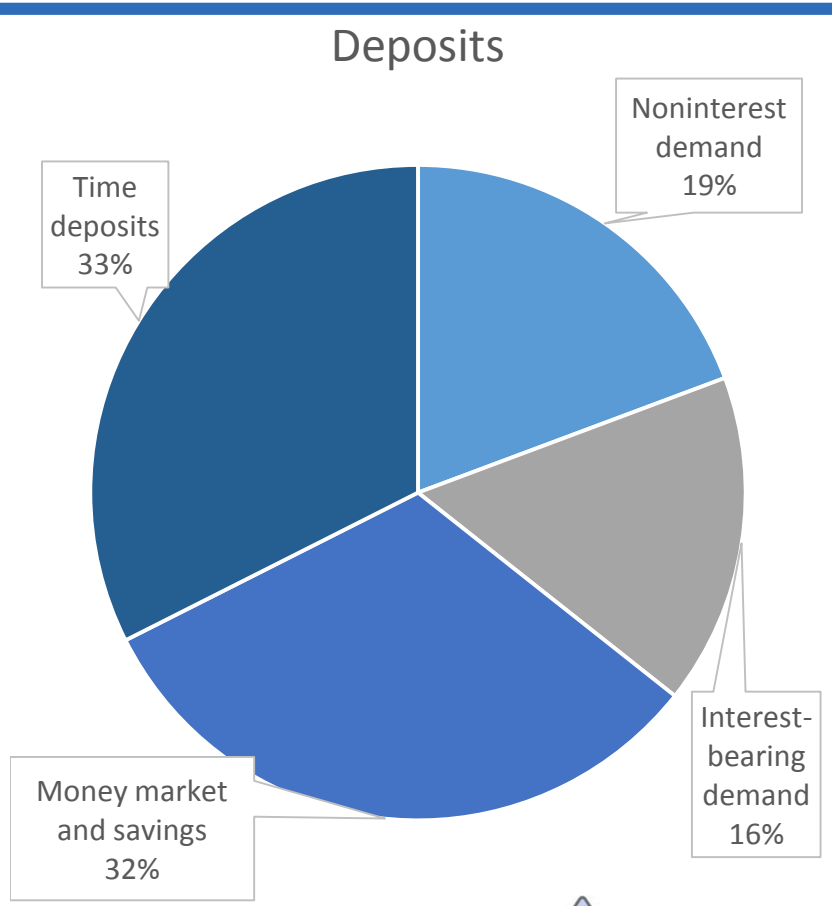
	3Q17	2Q17	1Q17	4Q16	3Q16
Operating Earnings					
Net income (loss) (GAAP)	$ 1,685	$ 1,648	$ 1,644	$ 1,647	$ 1,611
Securities (gains) losses	(144)	—	—	—	(18)
Foreclosed assets (gains) losses	27	—	15	(6)	(130)
Merger and conversion costs	303	420	—	—	—
Income tax effect of adjustments2	(71)	(161)	(6)	2	57
Net operating earnings (Non-GAAP)	1,800	1,907	1,653	1,643	1,520
Dividends on preferred stock	—	—	(195)	(270)	(270)
Net operating earnings available to common shareholders (Non-GAAP)	$ 1,800	$ 1,907	$ 1,458	$ 1,373	$ 1,250
Net operating earnings per common share:					
Basic	$ 0.22	$ 0.23	$ 0.19	$ 0.23	$ 0.21
Diluted	0.22	0.23	0.19	0.22	0.21
Operating Efficiency Ratio					
Efficiency ratio (GAAP)	78.62%	76.77%	75.79%	74.29%	74.06%
Adjustment for taxable equivalent yields	-0.22%	-0.22%	-0.25%	-0.26%	-0.18%
Adjustment for securities (gains) losses	1.51%	—%	—%	—%	0.23%
Adjustment for OREO gains (losses)	-0.28%	—%	-0.18%	0.08%	1.62%
Adjustment for merger and conversion costs	-3.17%	-4.76%	—%	—%	—%
Operating efficiency ratio (Non-GAAP)	76.46%	71.79%	75.36%	74.11%	75.73%

Third Quarter 2017

Supplemental Information

Loan & Deposit Composition 3Q17





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Loan Composition History

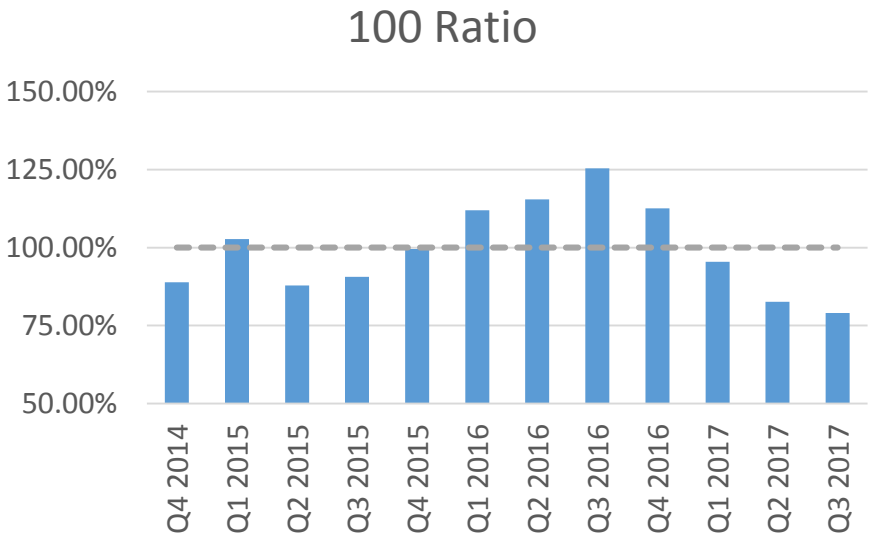
	3Q17	2Q17	1Q17	4Q16	3Q16
Gross Loans					
C&I	$ 119,782	$ 105,129	$ 90,649	$ 85,696	$ 83,471
C&D	98,212	101,151	115,675	117,748	128,727
CRE, owner occupied	210,489	211,469	197,032	181,840	172,397
CRE, non-owner occupied	237,131	233,707	210,901	233,021	222,592
Consumer RE	199,704	206,667	186,344	187,557	182,952
Other	6,361	7,298	6,938	7,515	7,263
Total Loans, gross	$ 871,679	$ 865,421	$ 807,539	$ 813,377	$ 797,402

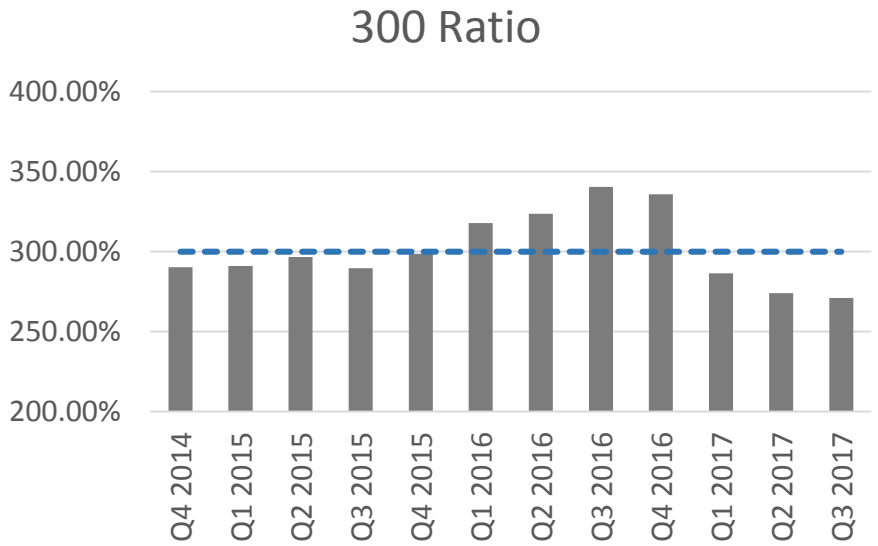
Deposit Composition History

	3Q17	2Q17	1Q17	4Q16	3Q16
Deposits					
Noninterest demand	$ 185,386	$ 183,324	$ 160,673	$ 153,483	$ 145,509
Interest-bearing demand	156,953	156,150	167,433	162,702	152,216
Money market and savings	306,358	324,014	274,993	274,605	271,259
Time deposits	311,490	318,147	286,600	316,275	291,858
Total Deposits	$ 960,187	$ 981,635	$ 889,699	$ 907,065	$ 860,842

CRE Ratios

- Declining trend in CRE ratios has been a result of targeted focus by lending teams across Bank's geography to primarily prospect opportunities within the owner occupied CRE and Commercial and Industrial portfolio segments.
- This strategy was implemented to further diversify the bank's loan portfolio by reducing existing concentrations within the CRE segment.





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Management Team



Billy Carroll
President & CEO



Miller Welborn
Chairman of the Board



C. Bryan Johnson
Chief Financial Officer



Rhett Jordan
Chief Credit Officer



Gary Petty
Chief Risk Officer



Greg Davis
Chief Lending Officer