SmartFinancial, Inc.

Third Quarter 2019 Earnings Release

October 22, 2019

Legal Disclaimer

Forward-Looking Statements

This news release may contain statements that are based on management's current estimates or expectations of future events or future results, and that may be deemed to constitute forward-looking statements as defined under U.S. federal securities laws. These statements are not historical in nature and can generally be identified by such words as "expect," "anticipate," "intend," "plan," "believe," "seek," "may," "estimate," and similar expressions. All forward-looking statements are subject to risks, uncertainties, and other factors that may cause the actual results of SmartFinancial to differ materially from future results expressed or implied by such forward-looking statements. Such risks, uncertainties, and other factors include, among others, (1) the risk of litigation related to the termination of our agreement and plan of merger with Entegra Financial Corp. (the "Entegra Merger Agreement") or the abandonment of the transactions that were contemplated by the Entegra Merger Agreement; (2) reputational risk resulting from the termination of the Entegra Merger Agreement; (3) potential changes to, or the risk that we may not be able to execute on, our business strategy as a result of the termination of the Entegra Merger Agreement; (4) the risk that cost savings and revenue synergies from recently completed acquisitions may not be realized or may take longer than anticipated to realize; (5) disruption from recently completed acquisitions with customer, supplier, employee, or other business relationships; (6) our ability to successfully integrate the businesses acquired as part of previous acquisitions with the business of SmartBank; (7) changes in management's plans for the future; (8) prevailing, or changes in, economic or political conditions, particularly in our market areas; (9) credit risk associated with our lending activities; (10) changes in interest rates, loan demand, real estate values, or competition; (11) changes in accounting principles, policies, or guidelines; (12) changes in applicable laws, rules, or regulations; and (13) other general competitive, economic, political, and market factors, including those affecting our business, operations, pricing, products, or services. These and other factors that could cause results to differ materially from those described in the forward-looking statements can be found in SmartFinancial's most recent annual report on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, in each case filed with or furnished to the Securities and Exchange Commission (the "SEC") and available on the SEC's website (www.sec.gov). Undue reliance should not be placed on forward-looking statements. SmartFinancial disclaims any obligation to update or revise any forward-looking statements contained in this release, which speak only as of the date hereof, whether as a result of new information, future events, or otherwise.

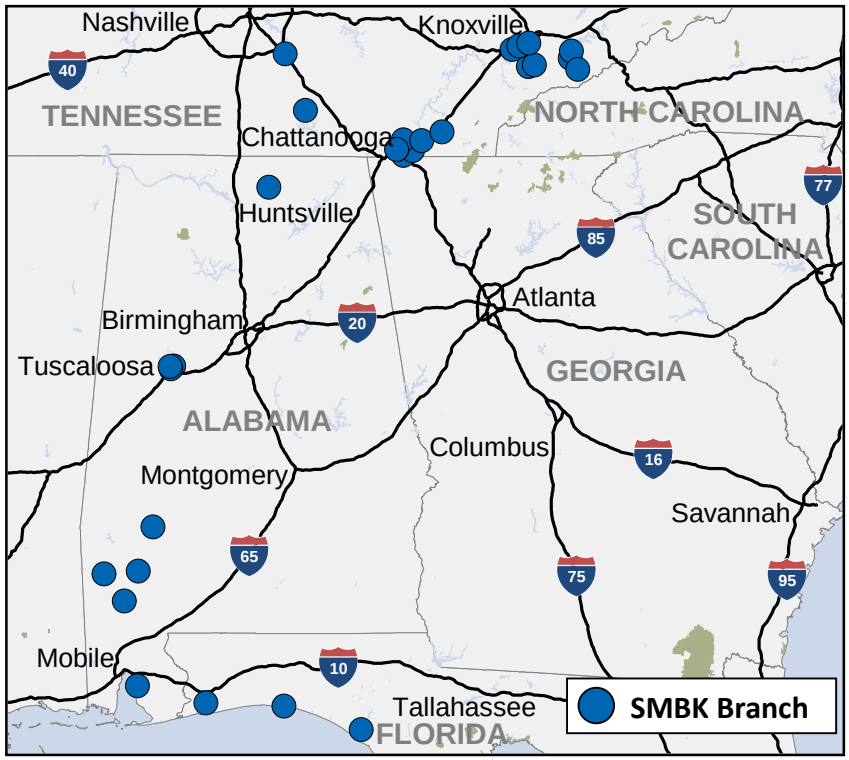
Non-GAAP Financial Measures

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 several Non-GAAP financial measures, including: (i) net operating earnings, (ii) net operating return on average assets, (iii) net operating return on average shareholder equity, (iv) return on average tangible common equity, (v) net operating return on average tangible common equity, (vi) operating efficiency ratio; (vii) tangible common equity; (viii) average tangible common equity; (ix) operating noninterest income; (x) operating noninterest expenses; and ratios derived therefrom, in its analysis of the company's performance. Net operating earnings excludes the following from net income: securities gains and losses, merger termination fee, merger related and restructuring expenses, the effect of the December, 2017 tax law change on deferred tax assets, tax benefit from director options previously exercised, and the income tax effect of adjustments. Net operating return on average equity is the annualized net operating earnings divided by average assets. Net operating return on average equity is the annualized net operating earnings divided by average equity. Return on average tangible common equity is the annualized net income divided by average tangible common equity. Net operating return on average tangible common equity is the annualized net operating earnings divided by average tangible common equity (Non-GAAP). The operating efficiency ratio includes an adjustment for taxable equivalent yields and excludes securities gains and losses and merger related and restructuring expenses from the efficiency ratio. Tangible common equity and average tangible common equity excludes goodwill and other intangible assets. Operating noninterest income excludes the merger termination fee. Operating noninterest excludes merger-related and restructuring cost. Management believes that Non-GAAP financial measures provide additional useful information that allows investors to evaluate the ongoing performance of the company and provide meaningful comparisons to its peers. Management believes these non-GAAP financial measures also enhance investors' ability to compare period-to-period financial results and allow investors and company management to view our operating results excluding the impact of items that are not reflective of the underlying operating performance. 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.

Overview of SmartFinancial

- **SmartFinancial, Inc. (Nasdaq: SMBK) is a $2.4 billion asset bank holding company headquartered in Knoxville, Tennessee**
  - Operates one subsidiary bank, SmartBank, which was founded in January 2007
  - Located primarily in attractive, high-growth markets throughout East Tennessee, Alabama and Florida
  - 395 full-time employees
  - ~$285 million market capitalization(1)
- **Balance Sheet (09/30/19)**
  - Assets: $2.4 billion
  - Gross Loans: $1.9 billion
  - Deposits: $2.0 billion
  - Shareholders' Equity / Tangible Common Equity (Non-GAAP): $306.0 million / $228.5 million
- **Profitability (Q3 '19)**
  - Net Income / Net Operating Earnings (Non-GAAP): $6.0 million / $6.0 million
  - ROAA / Net Operating ROAA (Non-GAAP): 1.01% / 1.02%
  - ROATCE / Net Operating ROATCE (Non-GAAP): 10.52% / 10.61%
  - Efficiency Ratio / Operating Efficiency Ratio (Non-GAAP): 63.03% / 62.42%
- **Asset Quality**
  - Superior asset quality and proven credit culture
  - NPAs / Total Assets of 0.20%

Branch Footprint



Financial data as of or for the three months ended 09/30/19
(1) Pricing data as of 10/14/19
Note: For a reconciliation of Non-GAAP financial measures to their most directly comparable GAAP measures, see the Appendix

Culture

We are **building a culture** where **Associates thrive** and are **empowered** to be **leaders**. The **core values** that we have established as a company help us operate in unison and have become a **critical part of our culture**. Our Associates are key to SmartBank's success.

Core Values

Act with Integrity
Be Enthusiastic
Create Positivity
Demonstrate Accountability
Embrace Change

Creating "WOW" Experiences

Exhibiting Over-The-Top Enthusiasm and Positivity

Delivering Exceptional, Professional & Knowledgeable Service

Positioning Statement

At SmartBank, delivering **unparalleled value** to our Shareholders, Associates, Clients and the Communities we serve drives **every** decision and action we take. **Exceptional value** means being there with **smart solutions**, **fast responses** and **deep commitment** every single time. By doing this, we will create the Southeast's next, great community banking franchise.

TOP WORK PLACES 2019 News Sentinel knox.biz

TOP WORK PLACES 2018 News Sentinel

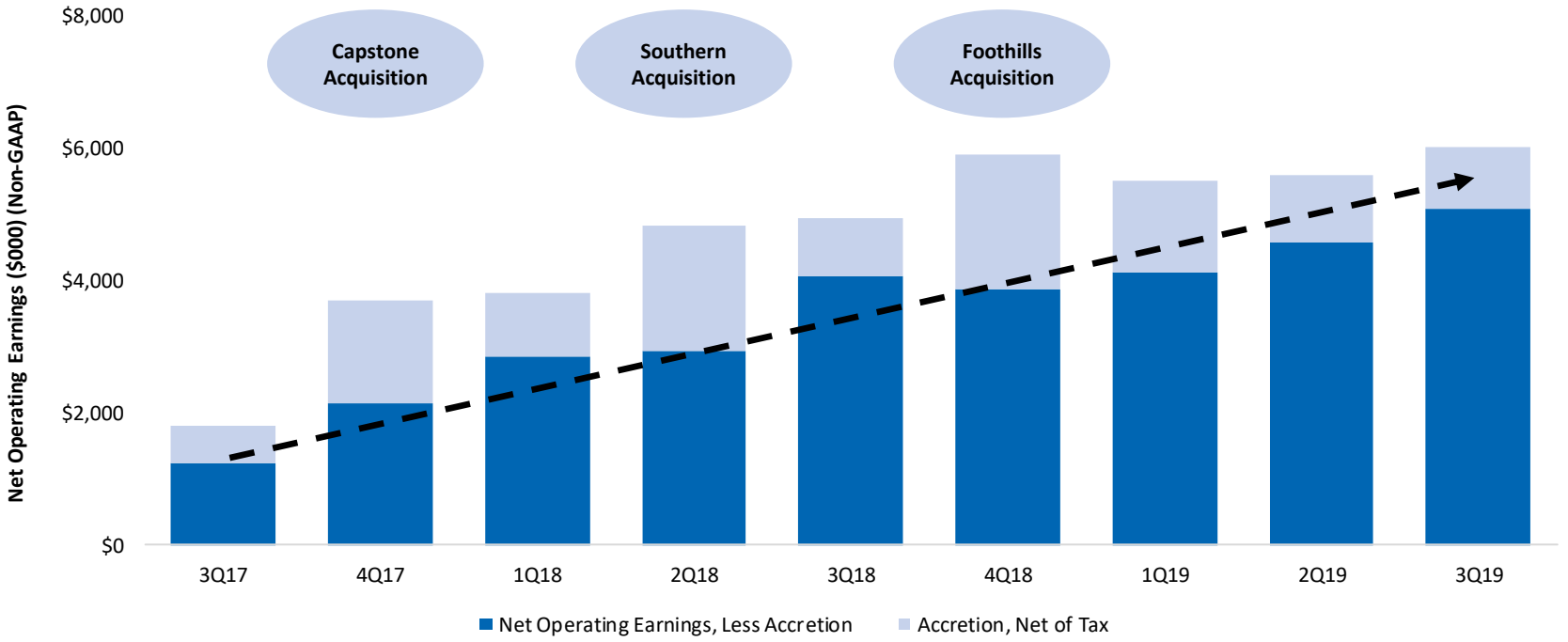
TOP WORK PLACES 2017 News Sentinel

SmartFinancial, Inc.

Third Quarter Financial Highlights

SmartFinancial, Inc.

Solid Earnings Track Record



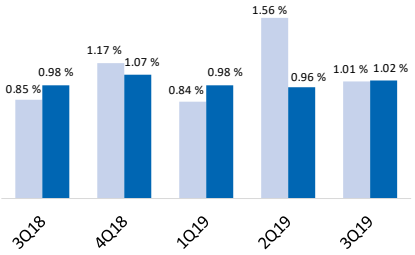
($ in thousands)	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19
Net Operating Earnings (Non-GAAP)	$1,819	$3,707	$3,810	$4,844	$4,966	$5,908	$5,509	$5,603	$6,016
Less: Accretion, Net of Tax	($577)	($1,567)	($943)	($1,911)	($894)	($2,039)	($1,392)	($1,017)	($919)
Net Operating Earnings, Less Accretion	$1,242	$2,140	$2,867	$2,933	$4,072	$3,869	$4,117	$4,586	$5,097

Note: For a reconciliation of Non-GAAP financial measures to their most directly comparable GAAP measures, see the Appendix

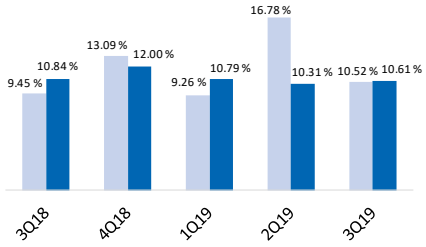
Performance Trends

- Net Operating Earnings (Non-GAAP) of $6.0 million for the quarter, up 21% from a year earlier
- ROAA of 1.01% for the quarter and Net Operating ROAA (Non-GAAP) of 1.02%
- ROATCE (Non-GAAP) of 10.52% for the quarter and Operating ROATCE (Non-GAAP) of 10.61%
- Efficiency Ratio of 63.03% for the quarter and Operating Efficiency Ratio (Non-GAAP) of 62.42%
- Net Interest Margin (fully taxable equivalent "FTE") of 3.91%, down 3 basis points from the prior quarter
- Nonperforming Assets were 0.20% of Total Assets

ROAA (%)

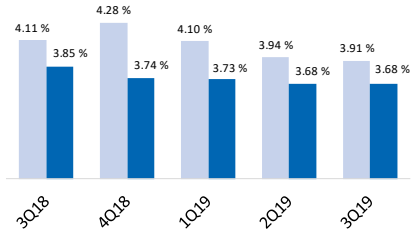


ROATCE (%)

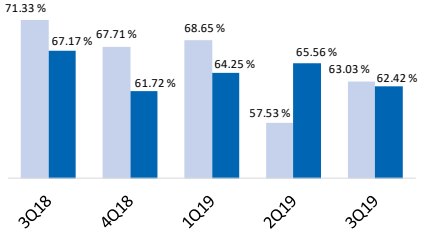


Reported Operating (1)

Net Interest Margin (%)



Efficiency Ratio (%)



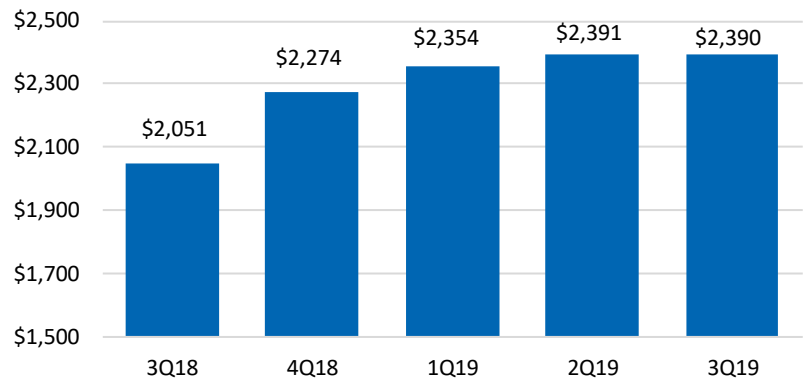
Reported Operating (1)

(1) *Operating profitability (Non-GAAP) figures exclude gain on sale of securities, merger termination fees, merger-related and restructuring expenses and nonrecurring items; net interest margin excludes purchase accounting adjustments*

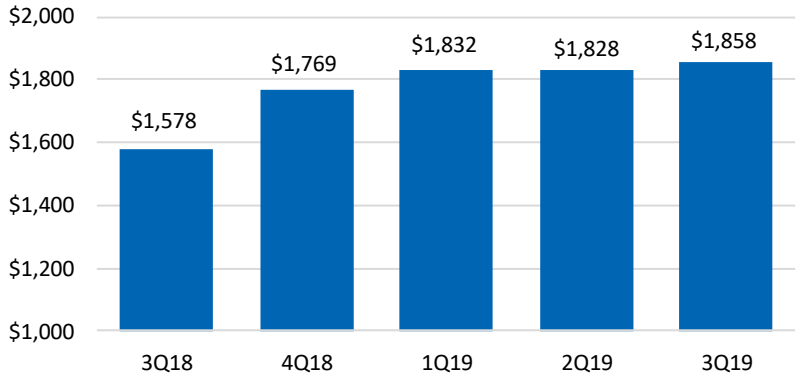
Note: For a reconciliation of Non-GAAP financial measures to their most directly comparable GAAP measures, see the Appendix

Balance Sheet Trends

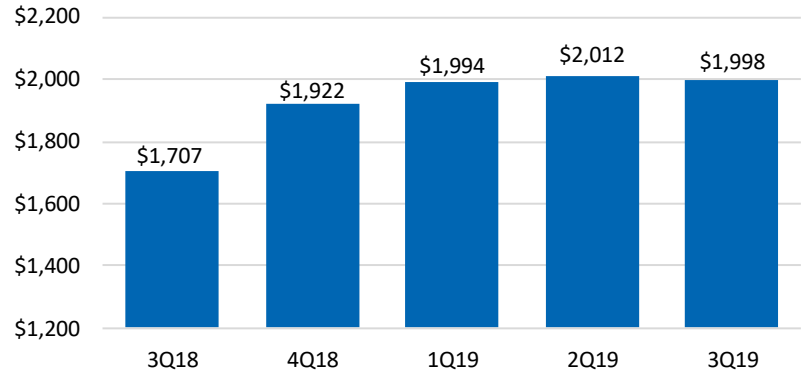
Total Assets ($mm)



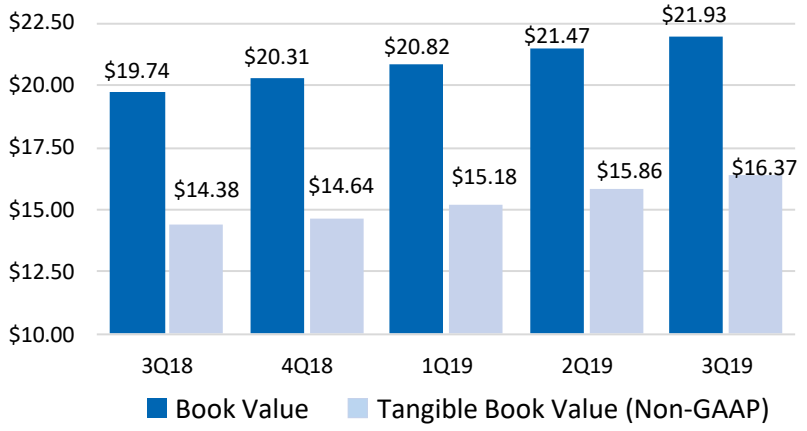
Net Loans ($mm)



Total Deposits ($mm)



Book Value Per Share



Note: For a reconciliation of Non-GAAP financial measures to their most directly comparable GAAP measures, see the Appendix

Earnings Profile – Third Quarter 2019

- Net Interest Income increased over 12% year-over-year ("YoY") due to higher average earning asset balances
- Increases in Noninterest Income YoY primarily driven by increased service charges on deposit accounts
- Total Revenue increased 13% YoY
- Decreases in quarter-over-quarter Noninterest Expense primarily driven by decrease in merger related and restructuring expenses
- Net Operating Diluted EPS (Non-GAAP) increased almost 10% YoY

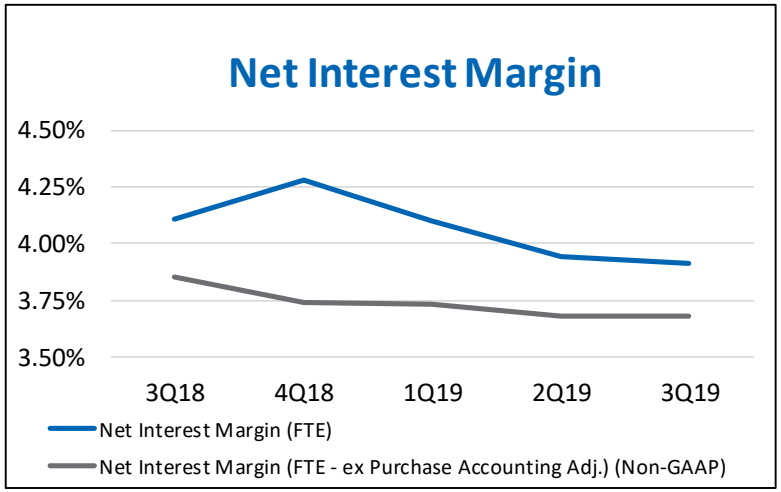
($ in thousands, expect per share data)	3Q19	2Q19	3Q18
Total Interest Income	$27,344	$27,303	$23,068
Total Interest Expense	6,204	6,501	4,208
Net Interest Income	21,140	20,802	18,860
Total Noninterest Income	2,196	8,416	1,831
Total Revenue	23,336	29,218	20,691
Provision for Loan Losses	724	393	302
Total Noninterest Expense	14,708	16,809	14,760
Earnings Before Income Taxes	7,904	12,016	5,629
Income Tax Expense	1,941	2,895	1,305
Net Income	$5,963	$9,121	$4,324
Net Income Per Share:			
Diluted Net Income Per Share	$0.42	$0.65	$0.34
Net Operating Earnings Per Share (Non-GAAP):			
Diluted Operating Earnings Per Share	$0.43	$0.40	$0.39

Note: For a reconciliation of Non-GAAP financial measures to their most directly comparable GAAP measures, see the Appendix

Net Interest Income

- Net Interest Margin (FTE) decreased quarter to quarter primarily due to lower accretion on acquired loans and yield on federal funds and other investments
- Compared to a year ago, Earning Asset Yields are up 2 basis points; the Average Cost of Interest-bearing Liabilities is up 32 basis points
- Excluding the effect of purchase accounting adjustments, the Net Interest Margin (FTE) remained flat quarter-to-quarter

($ in thousands)	3Q19	2Q19	3Q18
Net Interest Income (FTE)	$21,250	$20,918	$18,896
Average Earning Assets	$2,157,193	$2,128,226	$1,822,296

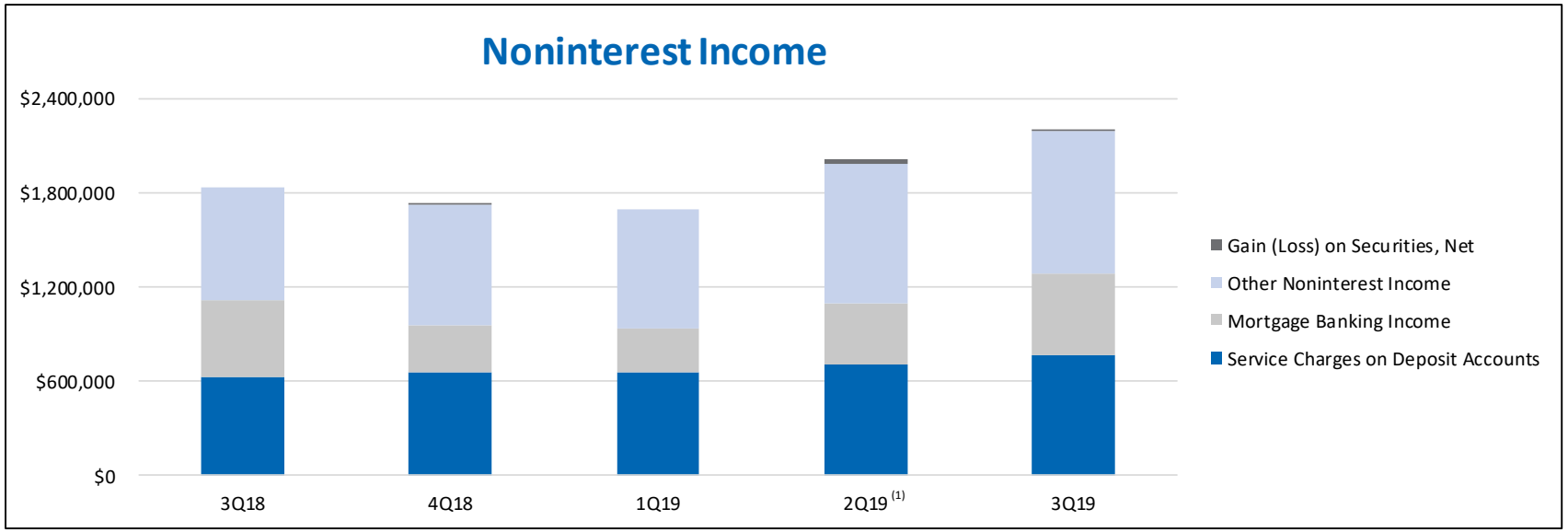


Average Yields and Rates	3Q19	2Q19	3Q18
Loans, less accretion	5.22%	5.23%	5.12%
Accretion	0.26%	0.30%	0.31%
Loans	5.48%	5.53%	5.43%
Taxable securities	2.49%	2.55%	2.35%
Tax-exempt securities (FTE)	3.14%	3.75%	3.80%
Federal funds and other investments	2.18%	2.91%	2.43%
Earning Asset Yields	5.05%	5.17%	5.03%
Total Interest-Bearing Deposits	1.37%	1.42%	1.11%
Securities sold under agreement to repurchase	0.31%	0.33%	0.25%
Federal funds purchased and other borrowings	0.58%	2.87%	5.05%
Subordinated debt	5.91%	6.03%	5.78%
Total Interest-Bearing Liabilities	1.47%	1.54%	1.15%
Net Interest Margin (FTE)	3.91%	3.94%	4.11%
Cost of Funds	1.21%	1.28%	0.95%

Note: For a reconciliation of Non-GAAP financial measures to their most directly comparable GAAP measures, see the Appendix

Noninterest Income

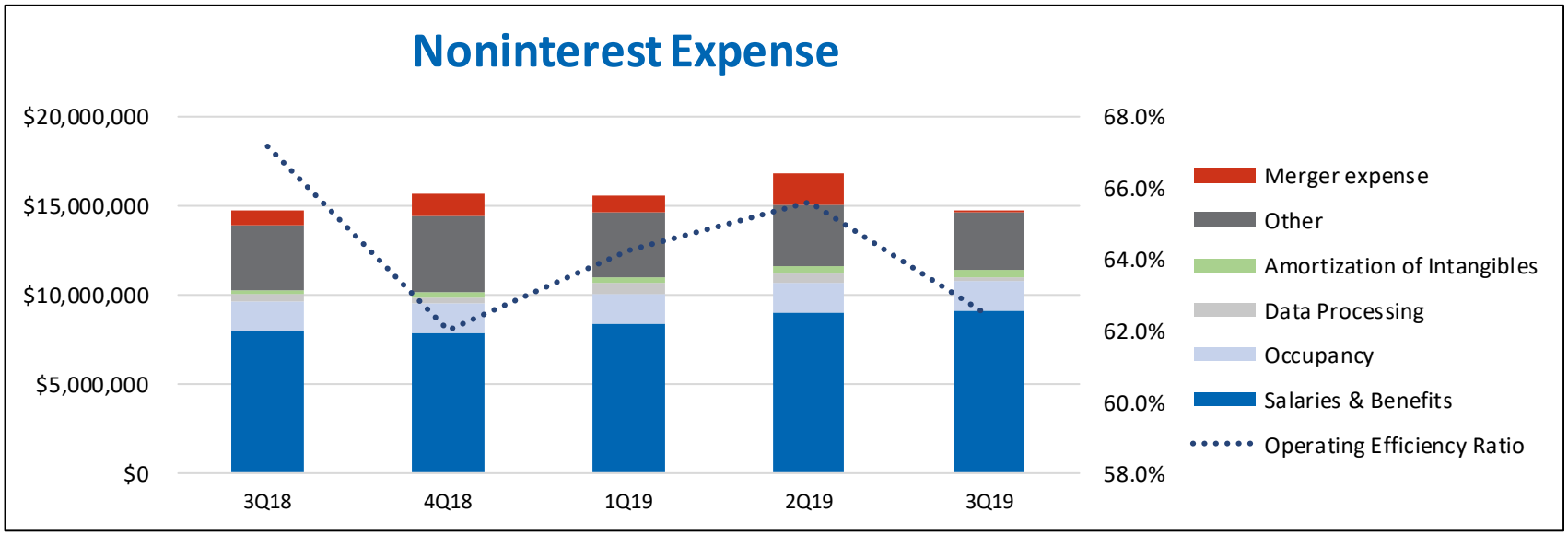
- Consistent increases in service charges on deposit accounts, and other noninterest income components
- All noninterest income components for 2019 are trending upward



(1) *Excludes $6.4 million fee received for merger termination of Entegra Financial Corp. in 2Q19*

Noninterest Expense

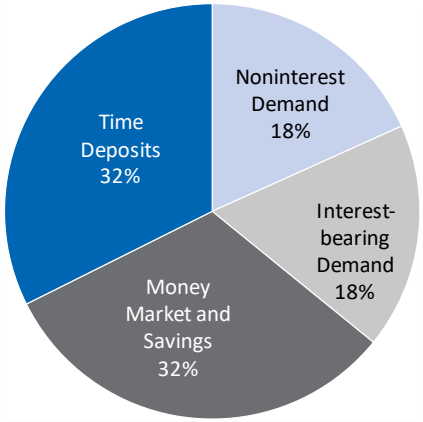
- Efficiency Ratio remained under 70% for the fourth consecutive quarter while Operating Efficiency Ratio (Non-GAAP) was 62.42%
- Salary increases are driven by our continued investment in hiring talented revenue producing associates in order to complement our strategic initiatives



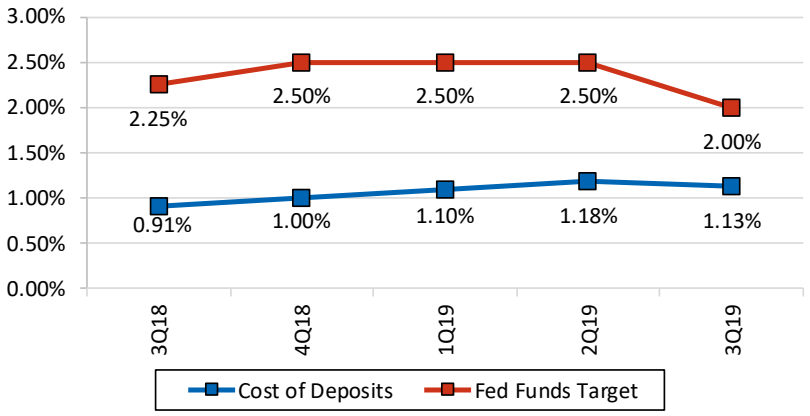
Note: For a reconciliation of Non-GAAP financial measures to their most directly comparable GAAP measures, see the Appendix

Attractive Deposit Mix

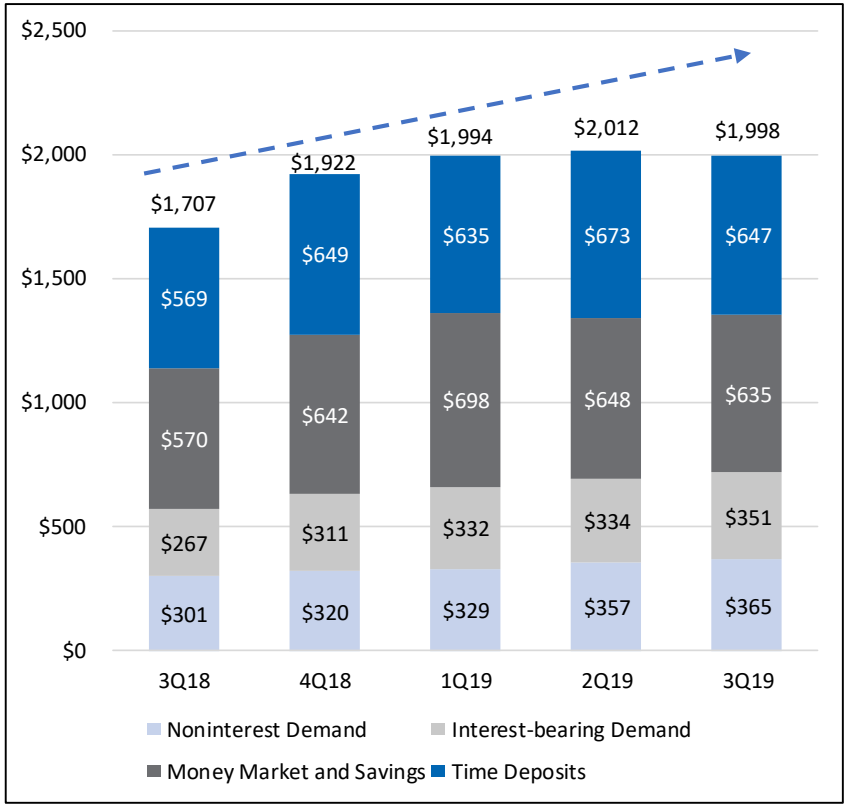
Deposit Composition (09/30/19)



Historical Cost of Deposits

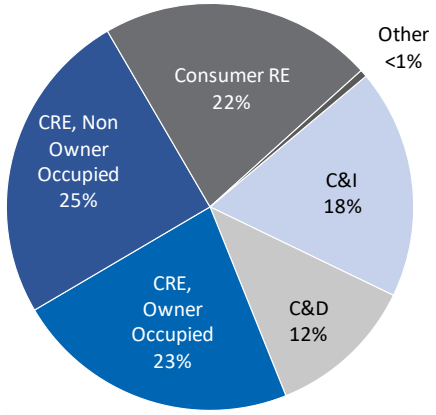


Historical Deposit Composition ($mm)

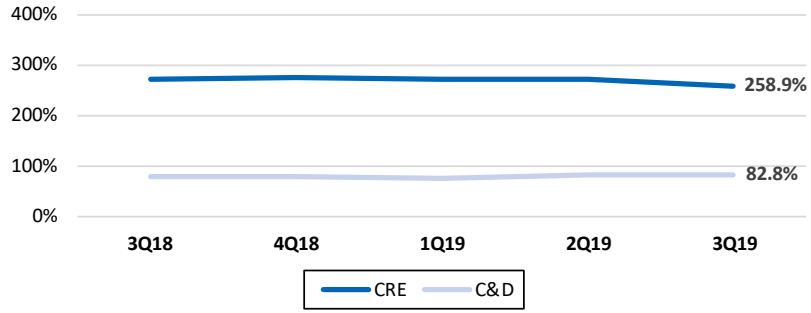


Overview of Loan Portfolio

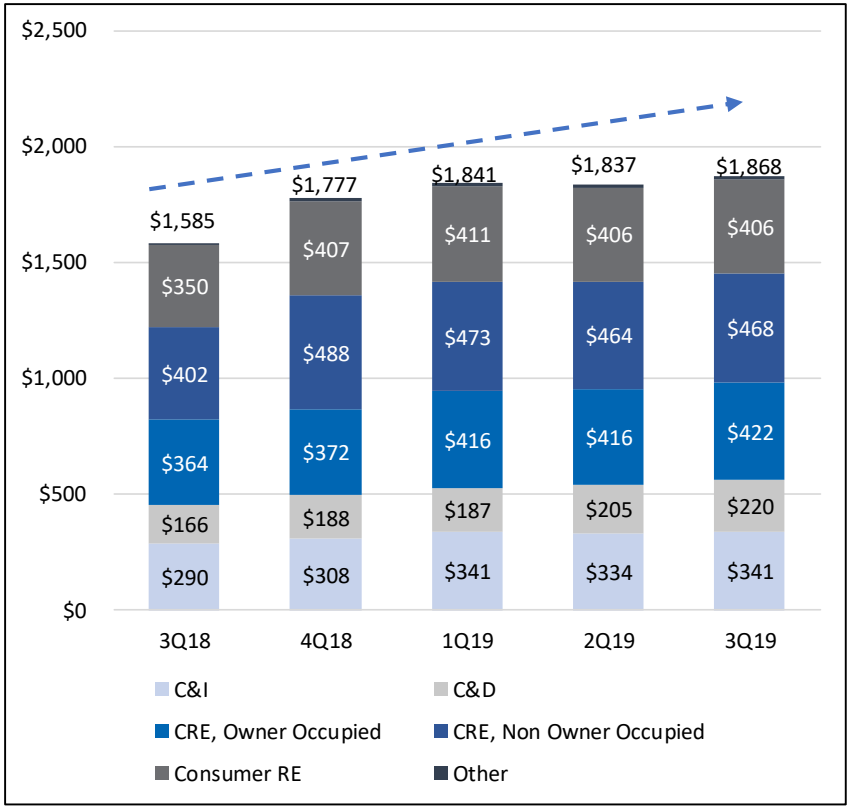
Loan Composition (09/30/19)



Historical CRE Ratios



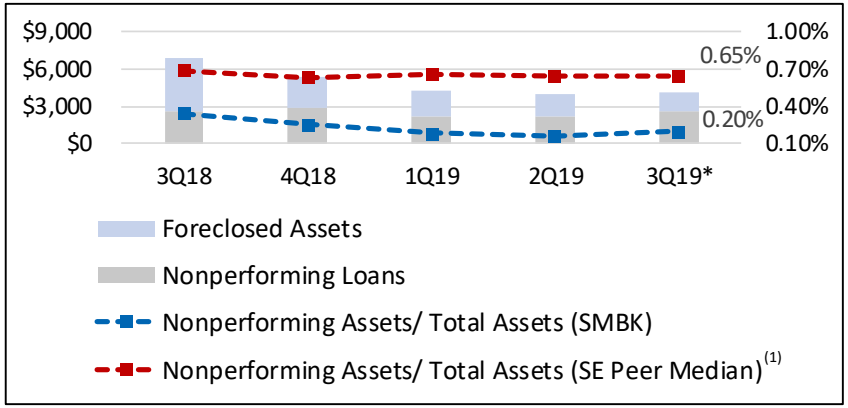
Historical Loan Composition ($mm)



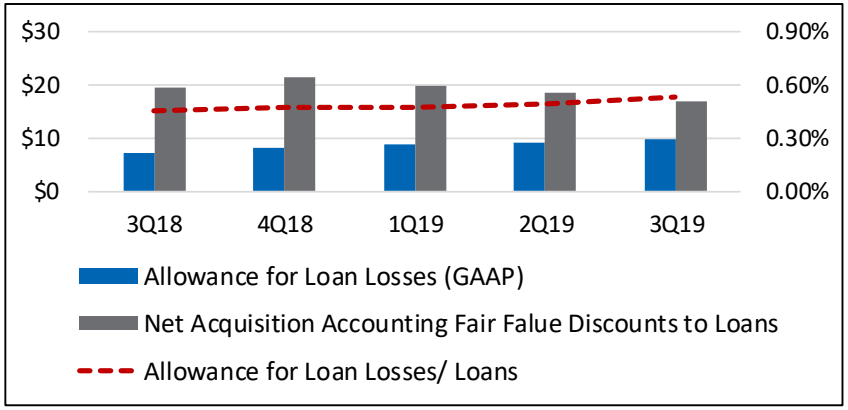
Asset Quality

- Superior asset quality, with Nonperforming Assets at 0.20% of Total Assets compared to the Southeast Peer Median [(1)] of 0.65%
- Remaining fair value discounts on acquired loans are 1.7x the current Allowance For Loan Losses
- Allowance for loan losses to loans is 0.53% at 3Q19
- Proven credit culture, with Net Charge-Offs to Average Loans of 0.01% compared to the Southeast Peer Median [(1)] of 0.02%

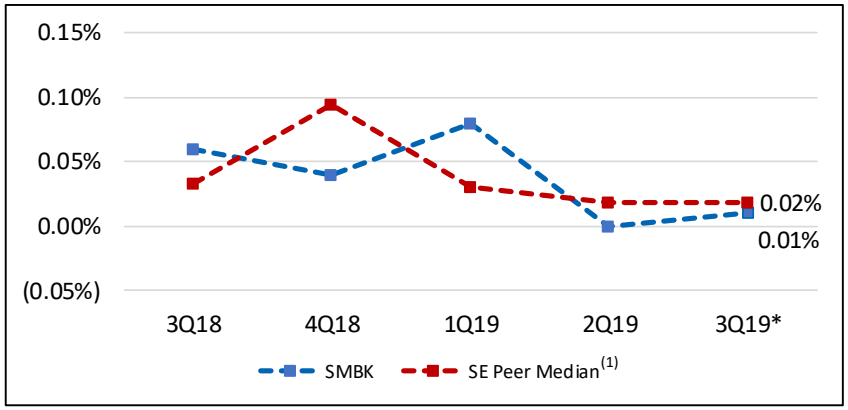
Nonperforming Assets ($ in thousands)



Loan Discounts ($ in thousands)



Net Charge-Offs/ Average Loans



Source: S&P Global Market Intelligence

(1) Major-exchange (NYSE, NYSEAM, NASDAQ) traded banks between $1.5B and $3B in assets headquartered in the Southeast (AL, AR, FL, GA, LA, MS, NC, SC, TN and WV) as of 06/30/19

** Peer median data held constant from 2Q19 due to unavailable 3Q19 data as of SMBK reporting date*

SmartFinancial, Inc.

Summary of Moving Forward Initiatives

The company is **Moving Forward** with several major initiatives:

Initiatives	Completed	On-Going
▪ **Centralization of operational areas**	✓	
▪ **Centralization of finance group**	✓	
▪ **Bank-wide organizational chart planning to gain efficiencies**	✓	
▪ **Core data processing decision (contract up in 2020)**	✓	
▪ **Continued hiring of bank talent in our growth markets**		✓
▪ **Evaluation of new M&A opportunities**		✓

SmartFinancial, Inc.

Appendix

Non-GAAP Reconciliations

($ in thousands)	3Q19	2Q19	1Q19	4Q18	3Q18
Net interest income - ex purchase acct. adj.					
Net interest income (GAAP)	$ 21,140	$ 20,802	$ 20,997	$ 21,447	$ 18,860
Taxable equivalent adjustment	110	116	115	94	36
Net interest income TEY	21,250	20,918	21,112	21,541	18,896
Purchase accounting adjustments	1,246	1,374	1,881	2,755	1,208
Net interest income - ex purchase acct. adj. (Non-GAAP)	$ 20,004	$ 19,544	$ 19,231	$ 18,786	$ 17,688
Operating Noninterest Income					
Noninterest income (GAAP)	$ 2,196	$ 8,416	$ 1,698	$ 1,680	$ 1,831
Merger termination fee	-	(6,400)	-	-	-
Operating noninterest income (Non-GAAP)	$ 2,196	$ 2,016	$ 1,698	$ 1,680	$ 1,831
Operating Noninterest Expense					
Noninterest expense (GAAP)	$ 14,708	$ 16,809	$ 15,579	$ 15,661	$ 14,760
Merger related and restructuring charges	(73)	(1,796)	(923)	(1,322)	(838)
Operating noninterest expense (Non-GAAP)	$ 14,635	$ 15,013	$ 14,656	$ 14,339	$ 13,922
Tangible Common Equity					
Shareholders' equity (GAAP)	$ 306,040	$ 299,611	$ 290,481	$ 283,011	$ 251,642
Less goodwill and other intangible assets	77,534	78,348	78,690	79,034	68,254
Tangible Common Equity (Non-GAAP)	$ 228,506	$ 221,263	$ 211,791	$ 203,977	$ 183,388
Non-GAAP Return Ratios					
Net operating return on average assets (Non-GAAP)[1]	1.02%	0.96%	0.98%	1.07%	0.98%
Return on average tangible common equity (Non-GAAP)[2]	10.52%	16.78%	9.26%	13.06%	9.45%
Net operating return on average shareholder equity (Non-GAAP)[3]	7.87%	7.58%	7.81%	8.65%	7.88%
Net operating return on average tangible common equity (Non-GAAP)[4]	10.61%	10.31%	10.79%	12.00%	10.84%

(1) Net operating return on average assets (Non-GAAP) is the annualized net operating earnings (Non-GAAP) divided by average assets.
(2) Return on average tangible common equity (Non-GAAP) is the annualized net income divided by average tangible common equity (Non-GAAP).
(3) Net operating return on average shareholder equity (Non-GAAP) is the annualized net operating earnings (Non-GAAP) divided by average shareholder equity.
(4) Net operating return on average tangible common equity (Non-GAAP) is the annualized net operating earnings (Non-GAAP) divided by average tangible common equity (Non-GAAP).

Non-GAAP Reconciliations

($ in thousands, except per share data)	3Q19	2Q19	1Q19	4Q18	3Q18	2Q18	1Q18	4Q17	3Q17
Operating Earnings									
Net income (GAAP)	$ 5,963	$ 9,121	$ 4,731	$ 6,444	$ 4,324	$ 3,931	$ 3,415	$ 38	$ 1,685
Securities (gains) losses	(1)	(33)	-	(2)	-	1	-	-	(144)
Merger termination fee	-	(6,400)	-	-	-	-	-	-	-
Merger costs	73	1,796	923	1,322	838	1,123	498	1,694	303
Tax benefit from director options previously exercised	-	-	-	(1,600)	-	-	-	2,482	-
Income tax effect of adjustments	(19)	1,119	(145)	(257)	(196)	(211)	(103)	(506)	(25)
Net operating earnings (Non-GAAP)	$ 6,016	$ 5,603	$ 5,509	$ 5,907	$ 4,966	$ 4,844	$ 3,810	$ 3,707	$ 1,819
Net operating earnings per common share:									
Basic	$0.43	$0.40	$0.40	$0.44	$0.39	$0.40	$0.34	$0.35	$0.22
Diluted	$0.43	$0.40	$0.39	$0.43	$0.39	$0.39	$0.34	$0.35	$0.22
Operating Efficiency Ratio									
Efficiency ratio (GAAP)	63.03%	57.53%	68.65%	67.71%	71.33%	72.31%	72.39%	74.25%	78.62%
Adjustment for taxable equivalent yields	(0.37%)	(0.50%)	(0.49%)	(0.45%)	(0.18%)	(0.11%)	(0.06%)	(0.13%)	(0.22%)
Adjustment for securities gains (losses)	-	0.14%	-	0.01%	-	(0.01%)	-	-	1.50%
Adjustment for merger expenses	(0.24%)	8.39%	(3.91%)	(5.55%)	(3.98%)	(5.28%)	(2.71%)	(13.48%)	(3.18%)
Operating efficiency ratio (Non-GAAP)	62.42%	65.56%	64.25%	61.72%	67.17%	66.92%	69.62%	60.64%	76.72%

Investor Contacts

SmartFinancial, Inc.

Billy Carroll

President & CEO

(865) 868-0613

Billy.Carroll@SmartBank.com

Miller Welborn

Chairman

(423) 385-3067

Miller.Welborn@SmartBank.com

SmartFinancial, Inc.
5401 Kingston Pike, Suite 600
Knoxville, TN 37919



SmartFinancial, Inc.