SmartFinancial

INVESTOR CALL
2Q 2020

July 22, 2020, 10:00am

Webcast: www.smartbank.com
(Investor Relations)
Audio Only: 888-317-6003
Confirmation #: 5925756

Miller Welborn
Chairman of the Board

Billy Carroll
President & CEO



Forward-Looking Statements

This presentation 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 the Private Securities Litigation Reform Act of 1995. These statements, including statements regarding the potential effects of the COVID-19 pandemic on the Company's business and financial results and conditions, 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 and reputational risk associated with historic acquisition activity; (2) the risk that cost savings and revenue synergies from recently completed acquisitions may not be realized or may take longer than anticipated to realize; (3) disruption from recently completed acquisitions with customer, supplier, employee, or other business relationships; (4) our ability to successfully integrate the businesses acquired as part of previous acquisitions with the business of SmartBank; (5) risks related to the completed acquisition of Progressive Financial Group, Inc. ("PFG"); (6) the risk that the anticipated benefits from the completed acquisition of PFG may not be realized in the time frame anticipated; (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, including changes to statutes, regulations or regulatory policies or practices as a result of, or in response to, COVID-19; (13) adverse results 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; (14) the impact of the COVID-19 pandemic on the Company's assets, business, cash flows, financial condition, liquidity, prospects and results of operations; (15) potential increases in the provision for loan losses resulting from the COVID-19 pandemic; and (16) 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

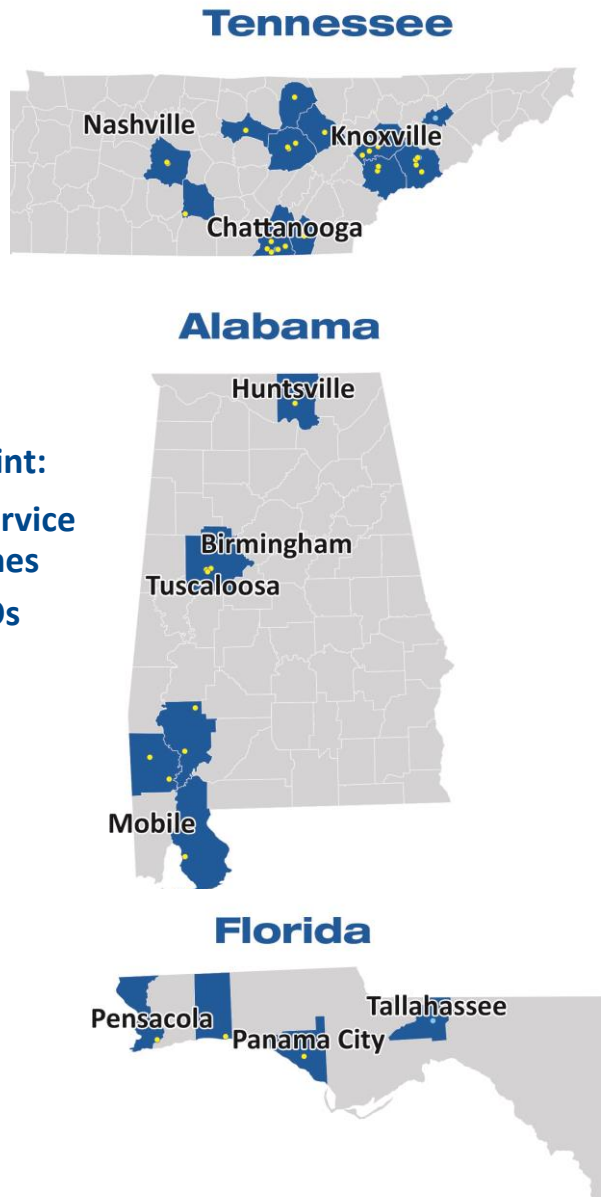
Statements included in this presentation include Non-GAAP financial measures and should be read along with the accompanying tables, which provide a reconciliation of Non-GAAP financial measures to GAAP financial measures. SmartFinancial management uses several Non-GAAP financial measures, including: (i) operating earnings, (ii) operating return on average assets, (iii) operating return on average shareholder equity, (iv) return on average tangible common equity, (v) operating return on average tangible common equity, (vi) operating efficiency ratio; (vii) tangible common equity; (viii) average tangible common equity; (ix) tangible book value; (x) operating pre-tax pre-provision earnings; (xi) operating noninterest income; (xii) operating noninterest expense; and ratios derived therefrom, in its analysis of the company's performance. Operating earnings excludes the following from net income: securities gains and losses, merger termination fee of $6.4 million in the second quarter of 2019, 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. Operating return on average assets is the annualized operating earnings divided by average assets. Operating return on average shareholder equity is the annualized operating earnings divided by average equity. Return on average tangible common equity is the annualized net income divided by average tangible common equity. Operating return on average tangible common equity is the annualized 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 from shareholders' equity (GAAP) and average shareholders' equity (GAAP). Tangible book value excludes goodwill and other intangible assets less shareholders' equity (GAAP) divided by common shares outstanding. Operating pre-tax pre-provision earnings is net interest income (GAAP) plus operating noninterest income (Non-GAAP) less operating noninterest expense (Non-GAAP). Operating noninterest income excludes the following from noninterest income: securities gains and losses, expenses related to the termination of the ADECA loan program and the merger termination fee of $6.4 million in the second quarter of 2019. Operating noninterest expense excludes the following from noninterest expense: prior year adjustments to salaries, merger related and restructuring expenses and certain franchise tax true-up expenses. 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.

- **SmartFinancial, Inc. (Nasdaq: SMBK) is a $3.3 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/Mid Tennessee, Alabama and the Florida Panhandle
  - 475 full-time employees
- **Balance Sheet (6/30/20)**
  - Assets: $3.3 billion
  - Gross Loans: $2.4 billion
  - Deposits: $2.5 billion
  - Shareholders' Equity / Tangible Common Equity (Non-GAAP): $343.5 million / $257.2 million
- **Profitability (Q2 '20)**
  - Net Income / Operating Earnings (Non-GAAP): $6.2 million / $7.3 million
  - Operating Pre-Tax Pre-Provision Earnings (Non-GAAP): $11.9 million
  - ROAA / Operating ROAA (Non-GAAP): 0.79% / 0.93%
  - ROATCE / Operating ROATCE (Non-GAAP): 9.80% / 11.51%
  - Efficiency Ratio / Operating Efficiency Ratio (Non-GAAP): 64.3% / 59.0%
- **Asset Quality**
  - Superior asset quality and proven credit culture
  - NPAs / Total Assets of 0.28%
  - Reserves / Loans: 0.67%
- **Regularly Quarterly Dividend**
  - Declared quarterly cash dividend of $0.05 per share

Footprint:

36 full service branches

2 LPOs



Financial data as of or for the three months ended 6/30/20
Note: For a reconciliation of Non-GAAP financial measures to their most directly comparable GAAP measures, see the Appendix

CORE VALUES

Act with integrity **B**e enthusiastic **C**reate positivity **D**emonstrate accountability **E**mbrace change

SmartBank®

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.

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.

We will achieve our desired position to be the Southeast's next great community bank by:

- CREATING "WOW" EXPERIENCES
- EXHIBITING OVER-THE-TOP ENTHUSIASM AND POSITIVITY
- DELIVERING EXCEPTIONAL, PROFESSIONAL & KNOWLEDGEABLE SERVICE

Proud to be Voted a Top Workplace 4 years in a row!



COVID-19 Actions

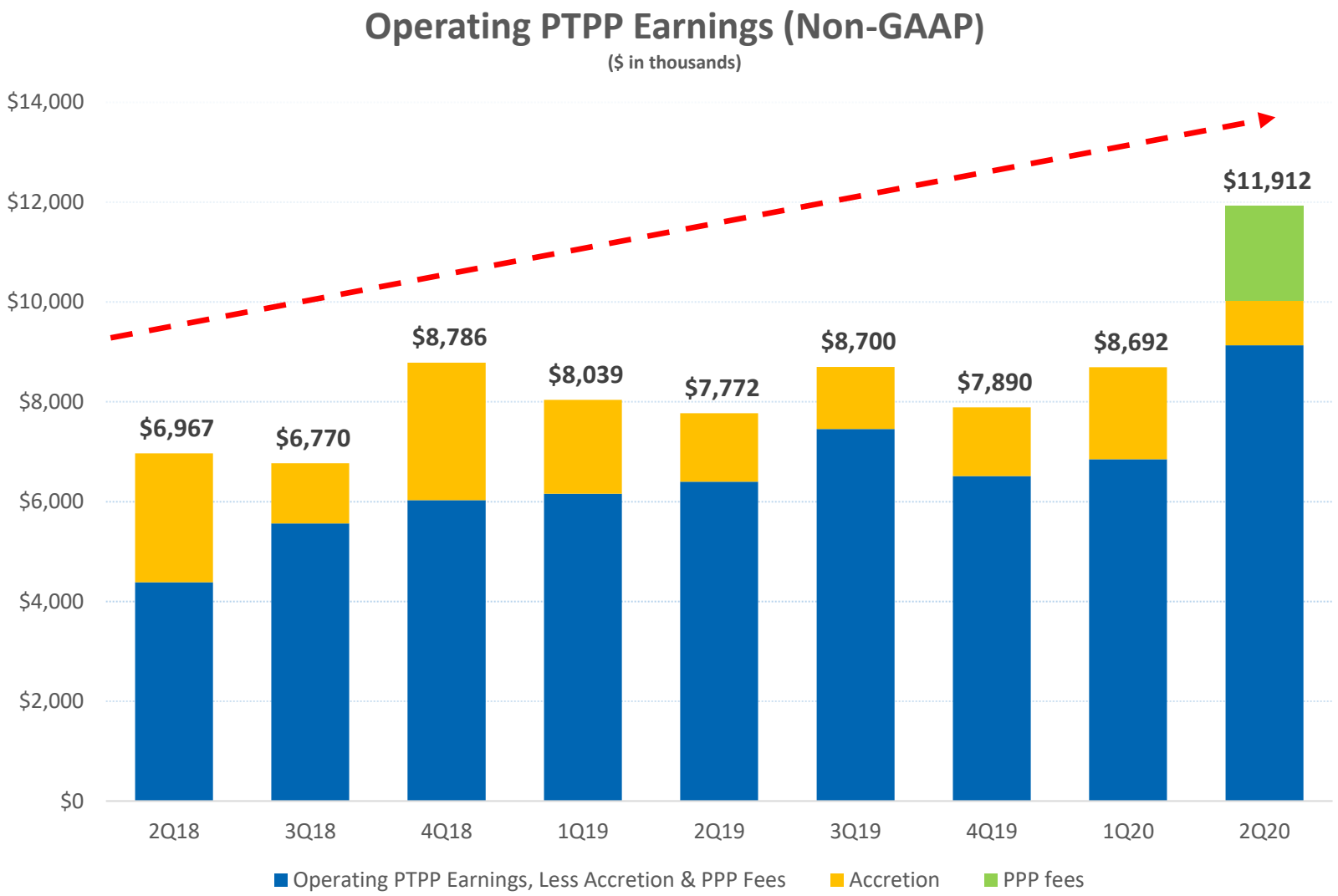
- Pandemic Response Team meets regularly to share latest COVID updates or impacts that we are seeing in all regions across our footprint.
- Continue to evaluate markets on a case by case basis as to bank operations or any changes that need to be made to protect associates and clients.
- Ongoing communication shared with associates on best practices regarding a safe work environment.
- Provided all branches with acrylic counter-shields to be used in teller stations and pods to create space between client and associate.
- Provided all locations with social distance floor markers.
- Provided all locations with marketing collateral (signage posters/tent cards) with tips to promote a healthy & safe working environment.

SmartFinancial

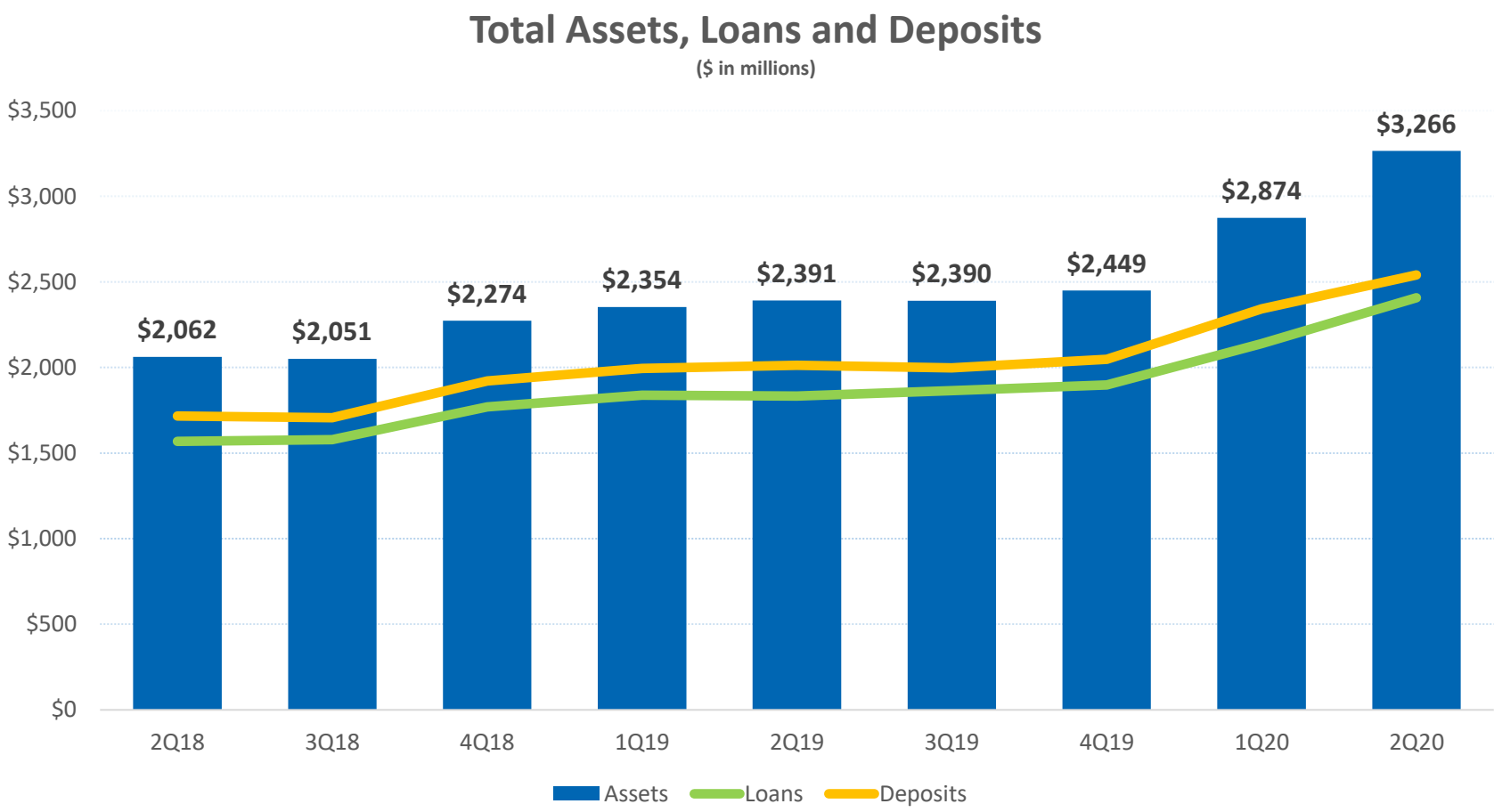
Second Quarter Financial Highlights

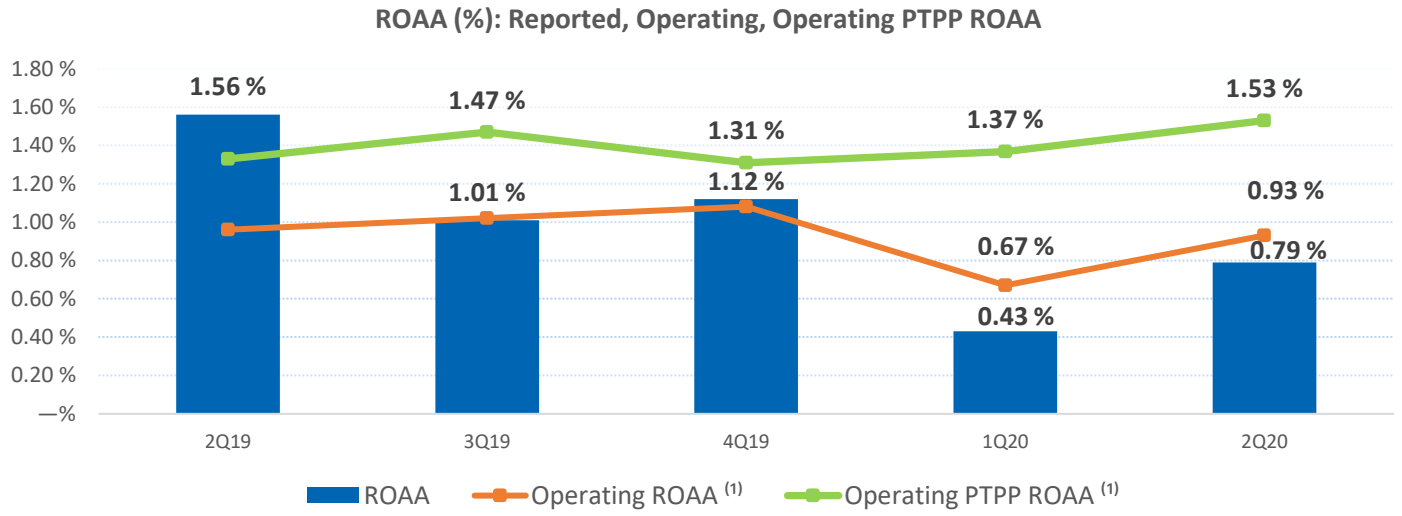
($ in thousands, except per share data)	2Q20	1Q20	Change
Net interest income	$ 25,746	$ 22,571	$ 3,175
Provision for loan losses	2,850	3,200	(350)
Noninterest income	3,511	2,818	693
Noninterest expense	18,806	18,793	13
Income tax expense	1,427	664	763
Net income	6,174	2,732	3,442
Non-GAAP Reconciliations			
Noninterest income	(16)	-	(16)
Noninterest expense	1,477	2,096	(619)
Income taxes	(382)	(548)	166
Operating earnings (Non-GAAP)	$ 7,253	$ 4,280	$ 2,973
Operating Pre-Tax Pre-Provision Earnings (Non-GAAP)	$ 11,912	$ 8,692	$ 3,220
Non-GAAP Performance Metrics			
Diluted operating earnings per share	$ 0.48	$ 0.30	$ 0.18
Tangible book value per share	16.90	16.40	0.50
Operating return on average assets	0.93%	0.67%	0.26%
Operating PTPP return on average assets	1.53%	1.37%	0.16%
Operating return on average tangible common equity	11.51%	6.90%	4.61%
Operating efficiency ratio	58.95%	65.46%	(6.51%)

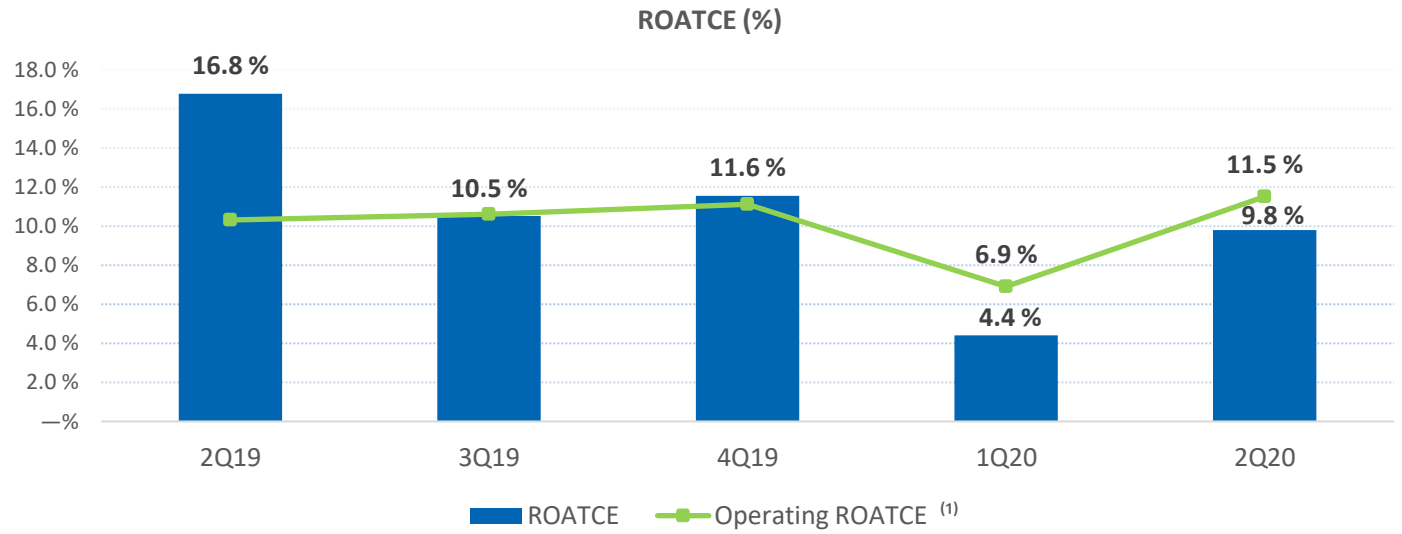
Note: For a reconciliation of Non-GAAP financial measures to their most directly comparable GAAP measures, see the Appendix



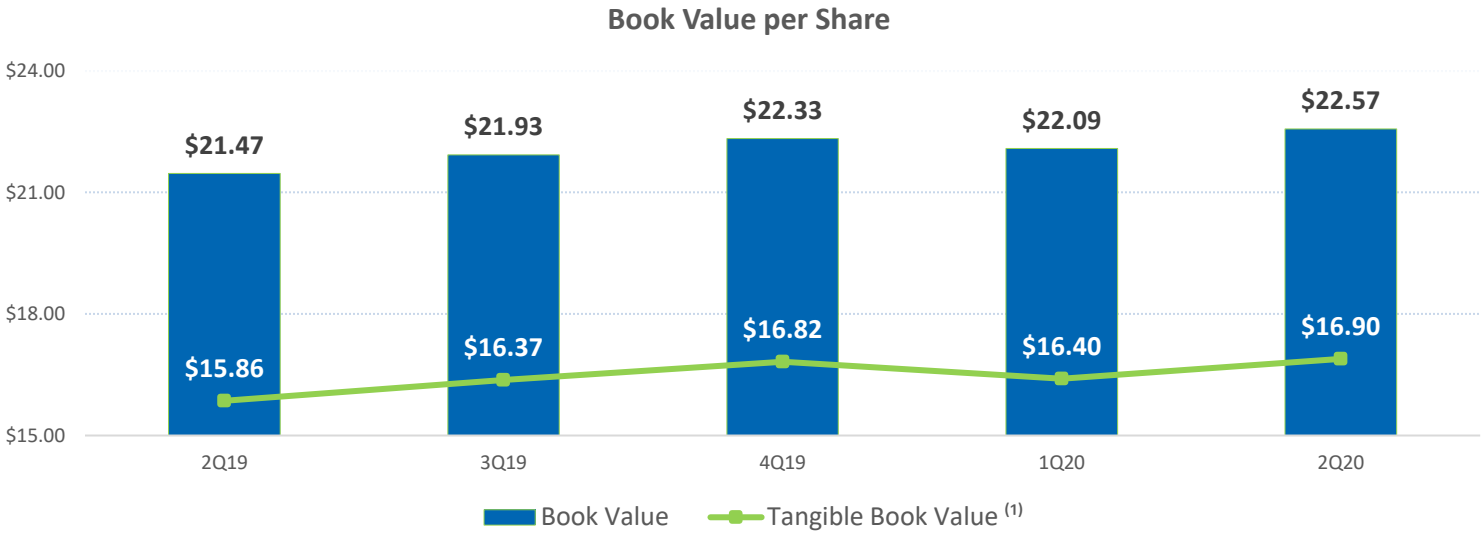
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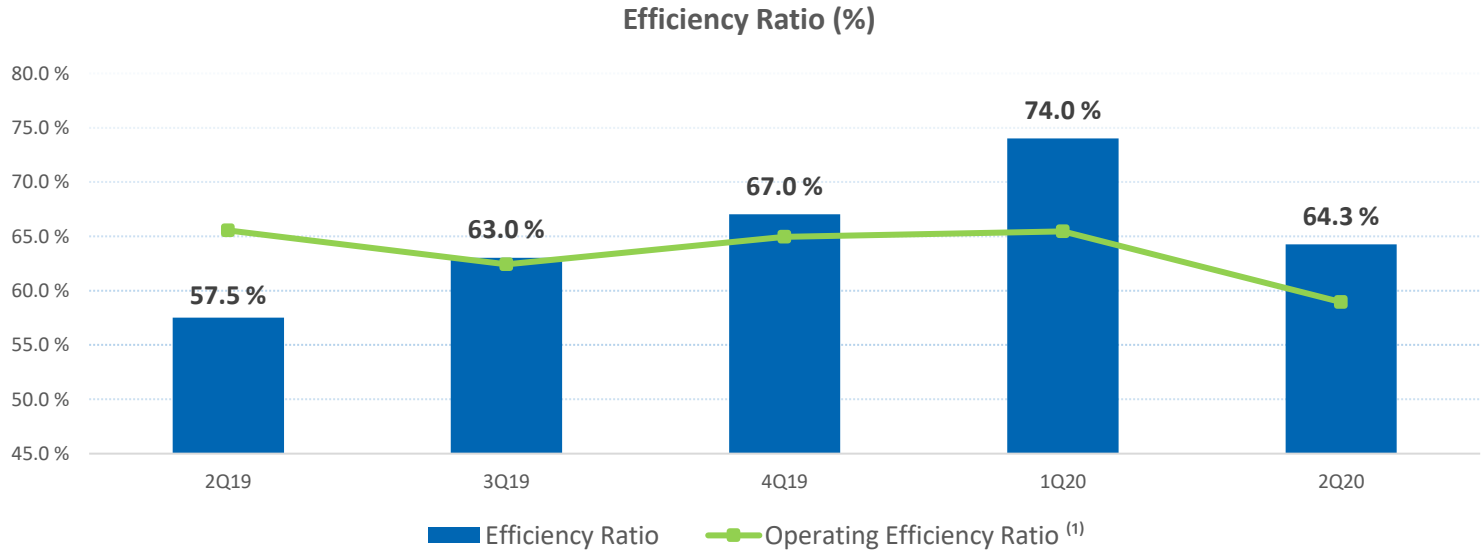

Total Assets, Loans and Deposits
($ in millions)
$3,500
$3,000
$2,500
$2,000
$1,500
$1,000
$500
$0
$2,062
$2,051
$2,274
$2,354
$2,391
$2,390
$2,449
$2,874
$3,266
2Q18
3Q18
4Q18
1Q19
2Q19
3Q19
4Q19
1Q20
2Q20
Assets
Loans
Deposits





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

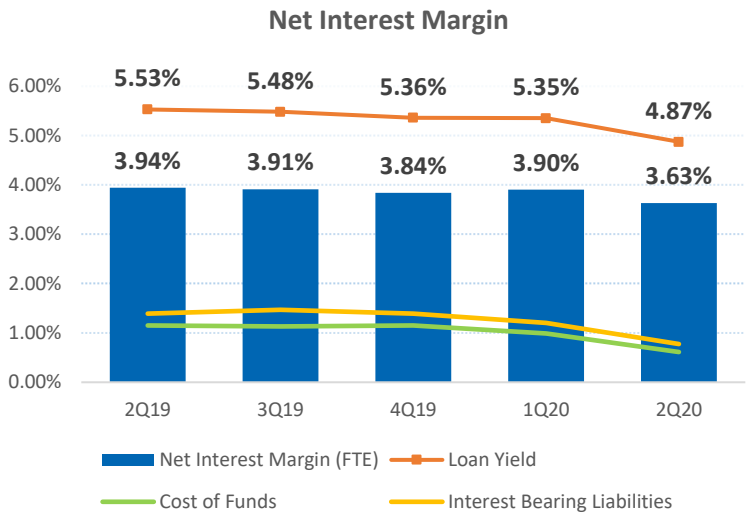




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Average Yields and Rates

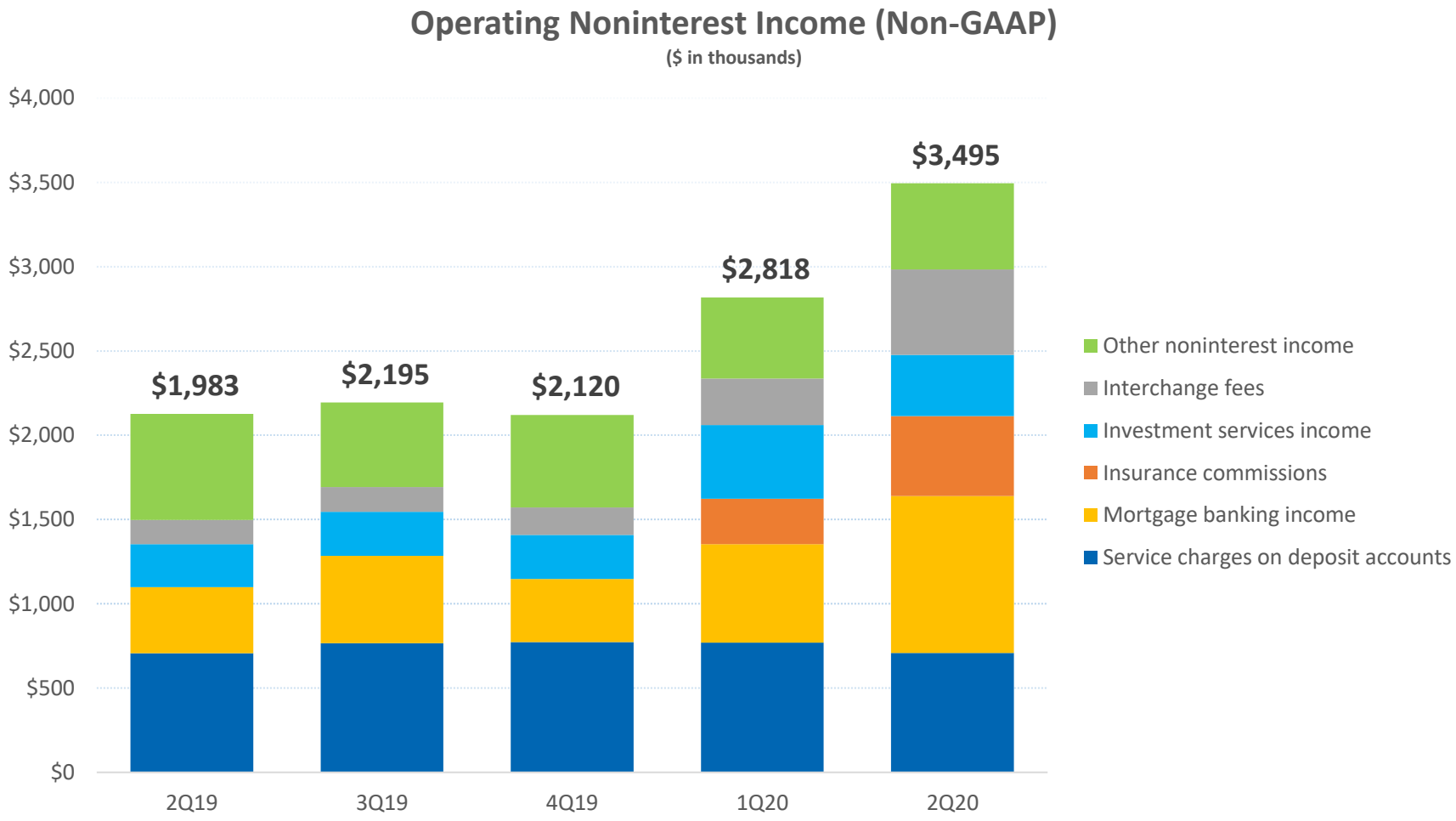
	2Q20	1Q20	Change
Loans, less accretion, less PPP fees	4.39%	4.98%	(0.59%)
Accretion	0.15%	0.37%	(0.22%)
PPP Fees	0.33%	0.00%	0.33%
Loans including fees	4.87%	5.35%	(0.48%)
Loans held for sale	4.28%	4.24%	0.04%
Taxable securities	1.94%	2.34%	(0.40%)
Tax-exempt securities (FTE)	2.66%	2.28%	0.38%
Federal funds and other investments	0.37%	1.46%	(1.09%)
Interest earning asset yields	4.22%	4.83%	(0.61%)
Total interest-bearing deposits	0.71%	1.10%	(0.39%)
Borrowings	0.42%	0.69%	(0.27%)
Subordinated debt	5.98%	5.98%	-
Total interest-bearing liabilities	0.77%	1.20%	(0.43%)
Net interest margin (FTE)	3.63%	3.90%	(0.27%)
Net interest margin (FTE - Less accretion)	3.50%	3.58%	(0.08%)
Cost of funds	0.61%	0.99%	(0.38%)
($ in thousands)			
Net interest income (FTE)	$ 25,900	$ 22,688	$ 3,212
Average earning assets	2,872,027	2,340,037	531,990



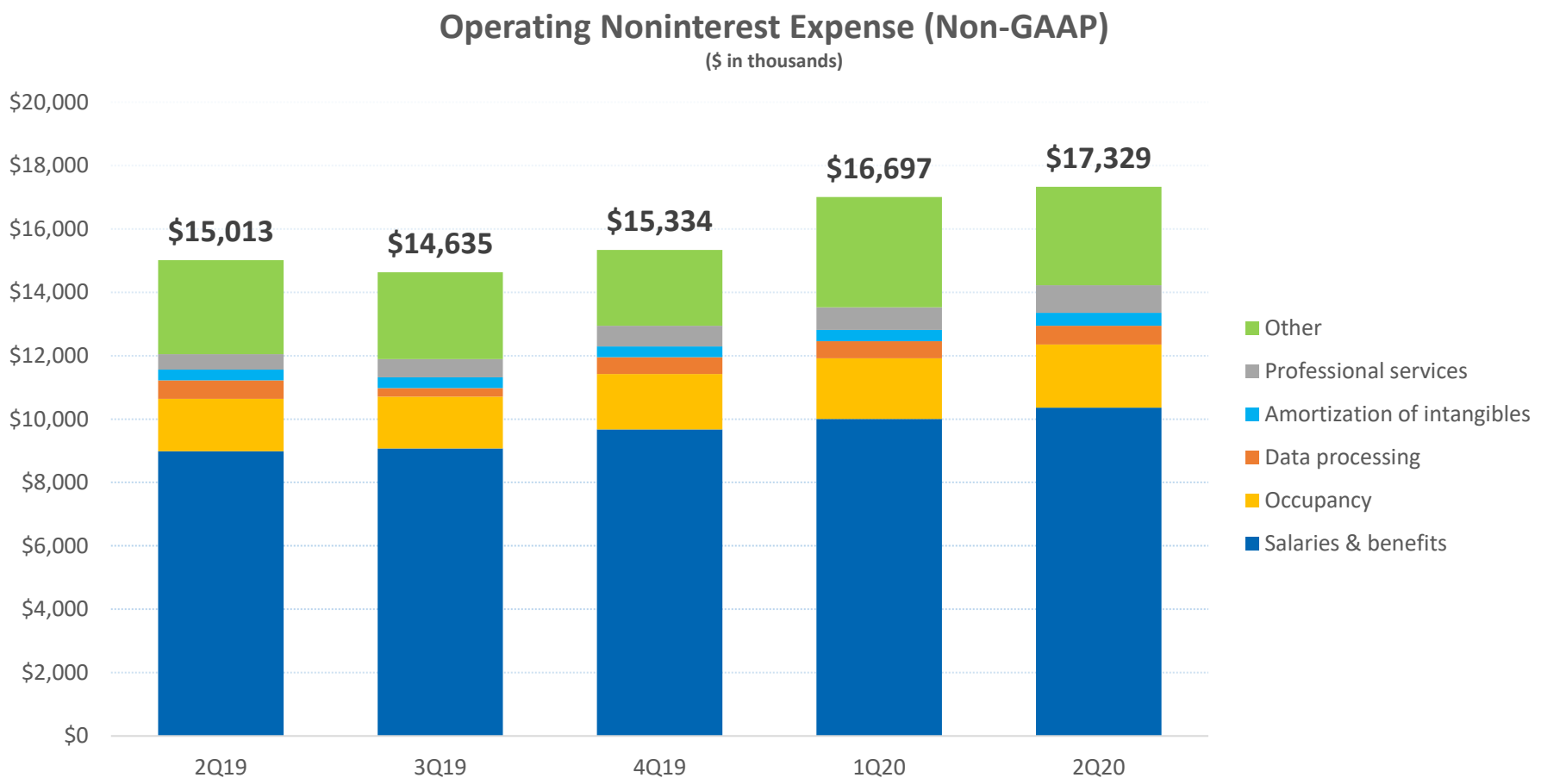
Liqudity Funding Sources

($mm)

	2Q20	1Q20	Change
Cash and cash equivalents	$ 399.5	$ 309.1	$ 90.4
Unpledged investment securities	140.2	105.3	34.9
Overnight Fed funds	69.6	69.6	-
FRB discount window	165.6	95.8	69.8
FHLB	52.0	52.0	-
Holding company line of credit	25.0	25.0	-
Total	$ 851.9	$ 656.8	$ 195.1

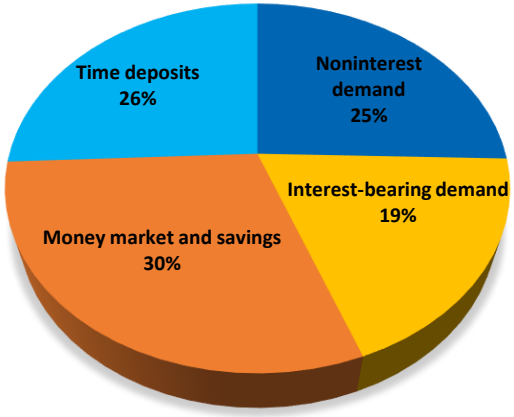


Note: For a reconciliation of Non-GAAP financial measures to their most directly comparable GAAP measures, see the Appendix

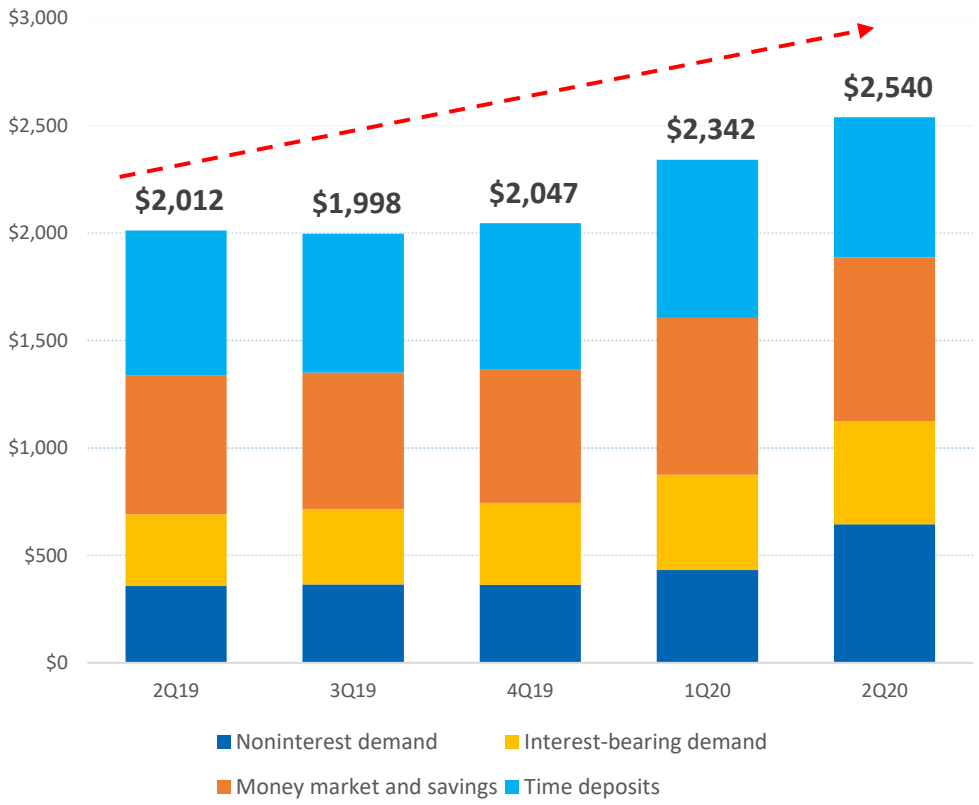


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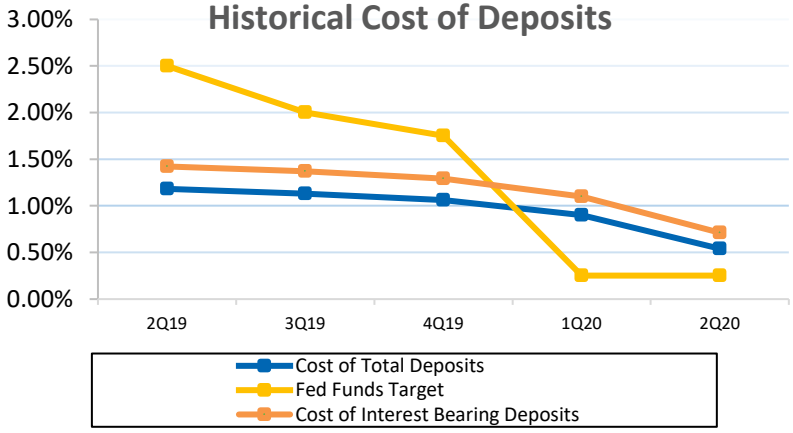
Deposit Compostion (6/30/20)



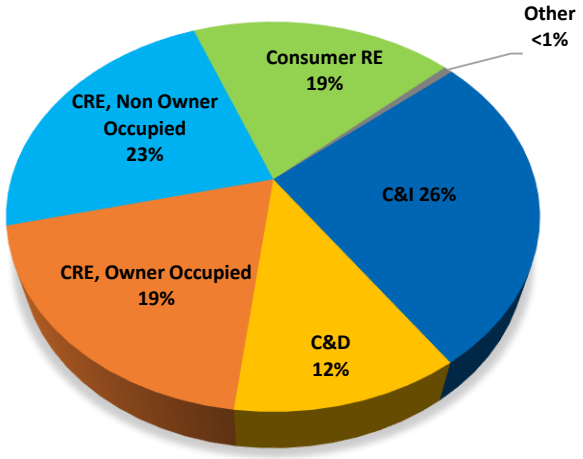
Historical Deposit Compostion ($mm)



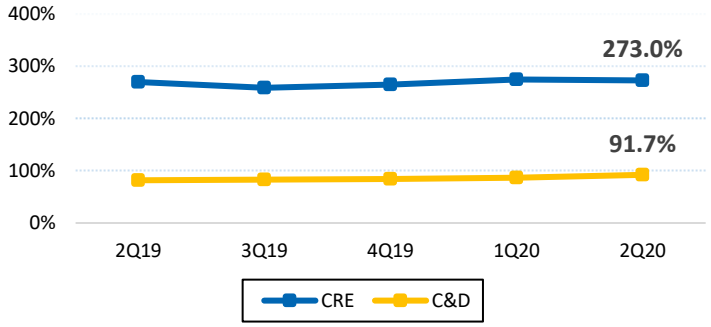
Historical Cost of Deposits



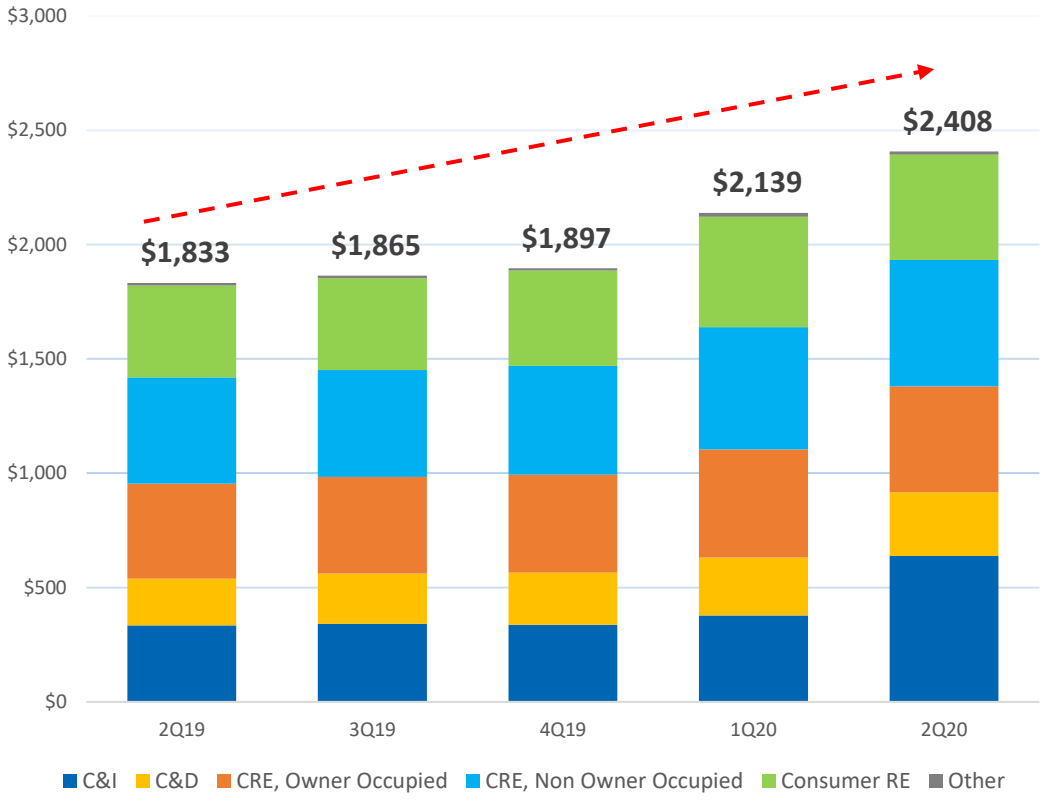
Loan Composition (6/30/20)



CRE Ratios

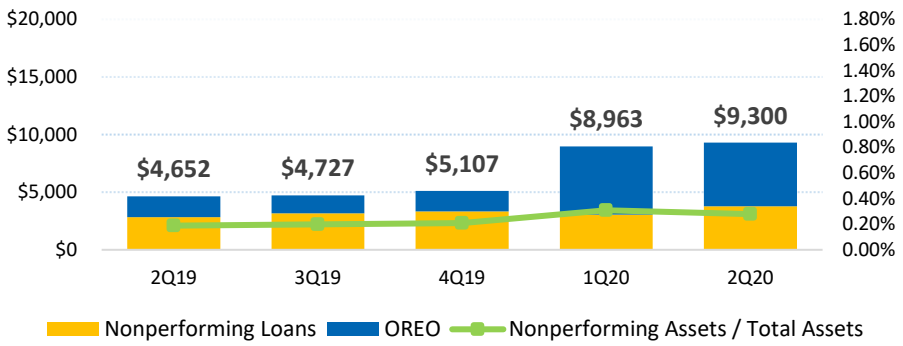


Historical Loan Composition ($mm)



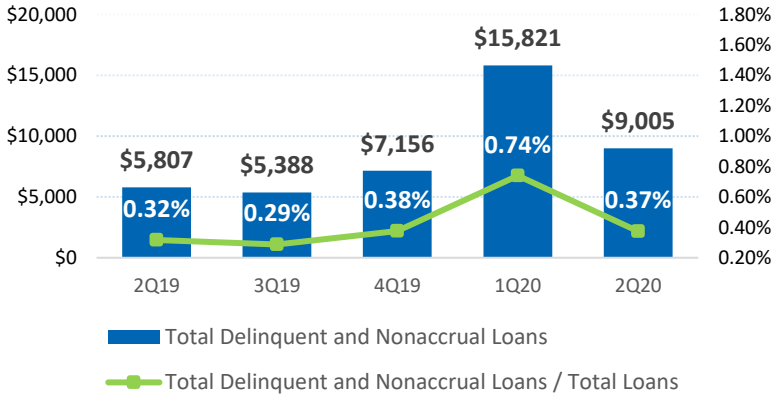
Nonperforming Assets

($ in thousands)

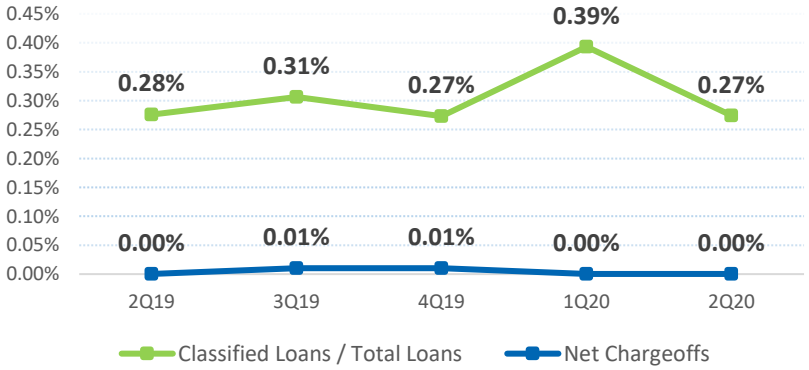


Delinquent and Nonaccruals / Total Loans

($ in thousands)



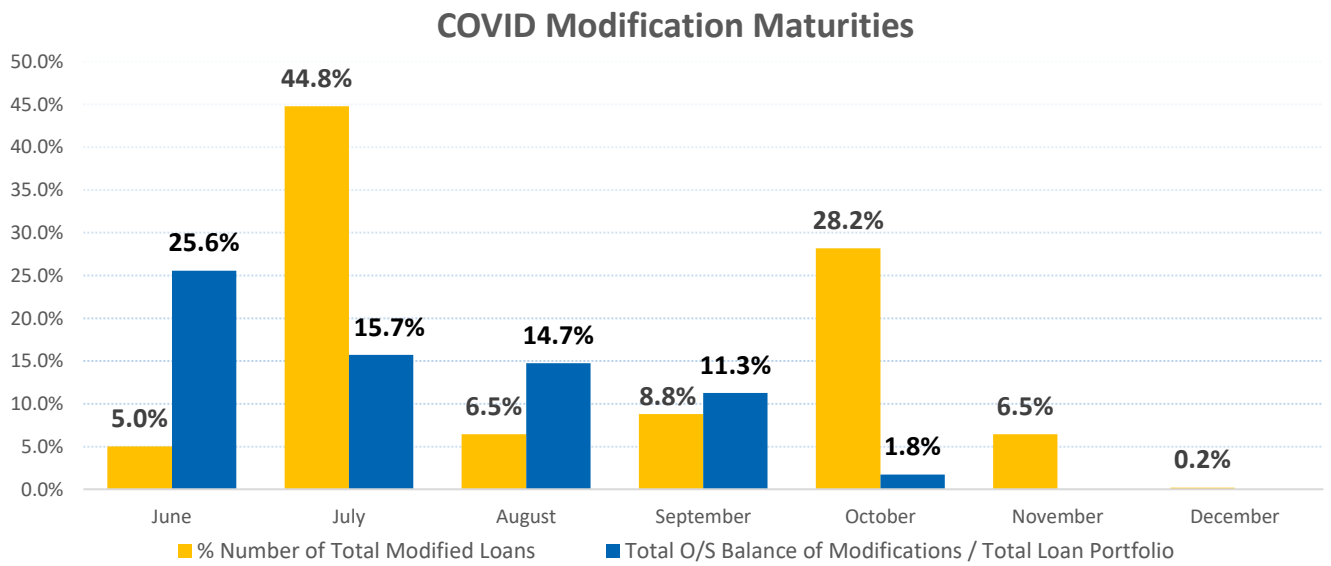
Credit Quality



- NPAs increased due to the acquisition of ORE assets from PFG in Q1 2020
- Delinquencies remain at low levels
- Asset quality remains strong with nonperforming assets to total assets of 0.28%
- Credit quality remains strong with classified loans / total loans of 0.27%
- Disciplined credit culture remains strong, driven by our conservative underwriting standards

($ in thousands)

Industries with Modifications	O/S Balance	% of Total Loan Portfolio	% of Total Modified Loans
Hospitality	$ 145,364	6.0%	23.6%
Overnight Rentals	72,601	3.0%	11.8%
Restaurants	69,300	2.9%	11.3%
CRE Retail	62,447	2.6%	10.1%
Religious Organizations	30,355	1.3%	4.9%
Lessors of Nonresidential Buildings	28,936	1.2%	4.7%
Medical	22,034	0.9%	3.6%
Amusement	19,531	0.8%	3.2%
Consumer	18,270	0.8%	3.0%
Trucking	17,696	0.7%	2.9%
Manufacturing	11,587	0.5%	1.9%
All Other Miscellaneous Industries	117,572	4.9%	19.0%
Total Modifications	615,693	25.6%	100.0%
Total Loan Portfolio	$ 2,408,284	100.0%	



Source: Company information
Note: As of June 30, 2020

Modified Hospitality Loans By Region

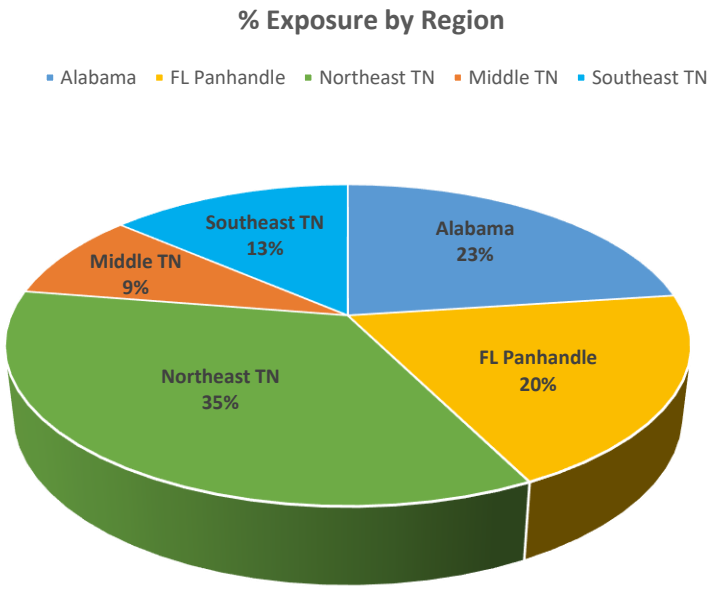
($ in thousands)

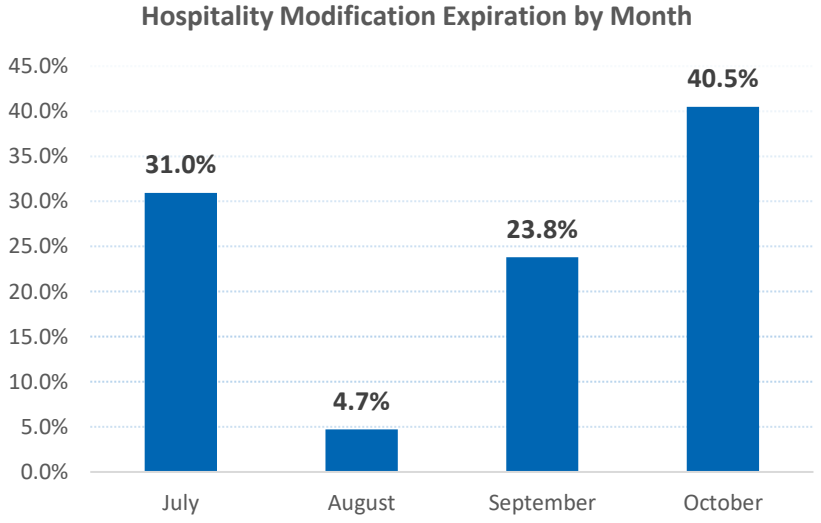
Region	O/S Balance	% Exposure by Region	Average LTV
Alabama	$ 33,300	22.9%	31.6%
FL Pandhandle	28,605	19.6%	32.1%
Northeast TN	50,819	35.0%	49.9%
Middle TN	12,785	8.8%	51.7%
Southeast TN	19,855	13.7%	46.5%
Total Modifications	145,364	100.0%	41.6%
Total Hotel Portfolio	$ 151,248		
% Modified of Total	96.1%		

Modified Hospitality Loans by Product

($ in thousands)

Product	Loan Count	O/S Balance	Average LTV
C & I	3	$ 521	19.9%
CRE NOO	35	136,200	42.6%
C & D	4	8,295	52.5%
Other	3	348	36.9%
Total	45	$ 145,364	41.6%





Source: Company information
Note: As of June 30, 2020

Modified Restaurant Loans by Region

($ in thousands)

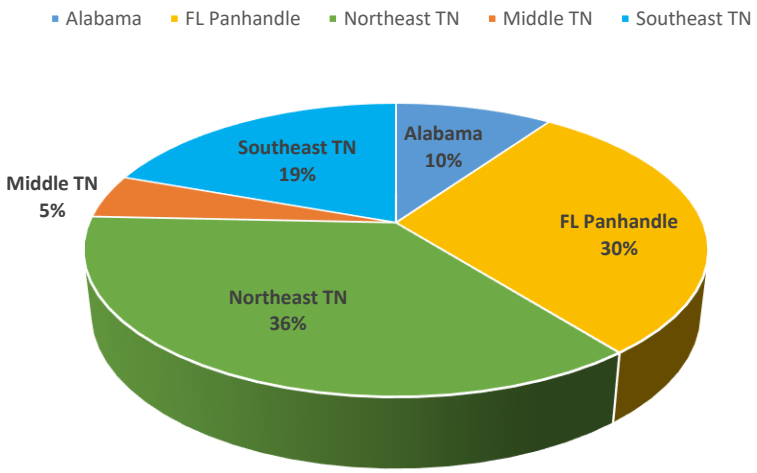
Region	O/S Balance	% Exposure by Region
Alabama	$ 6,751	9.7%
FL Panhandle	20,532	29.6%
Northeast TN	25,217	36.4%
Middle TN	3,345	4.8%
Southeast TN	13,455	19.5%
Total Modifications	$ 69,300	100.0%

Modified Loans by Restaurant Type

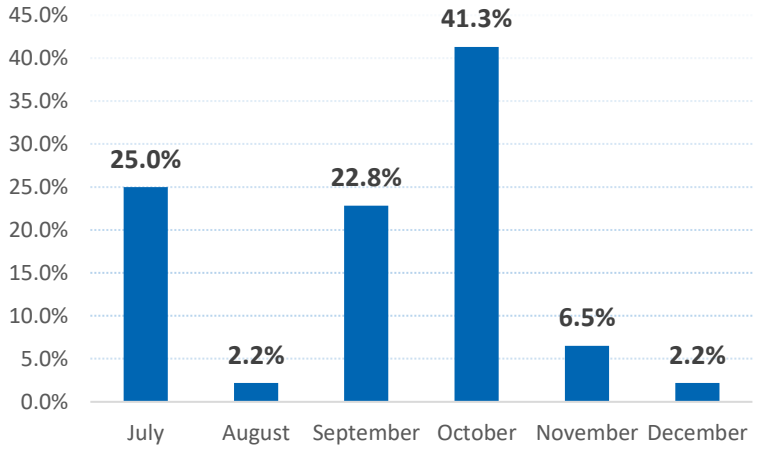
($ in thousands)

Category	Loan Count	O/S Balance
Full-Service	66	$ 48,942
Limited-Service	14	9,847
Drinking Places	6	8,214
Other	6	2,297
Total	92	$ 69,300

% Exposure by Region



Restaurant Modification Expiration by Month



Source: Company information
Note: As of June 30, 2020

Total PPP Loans

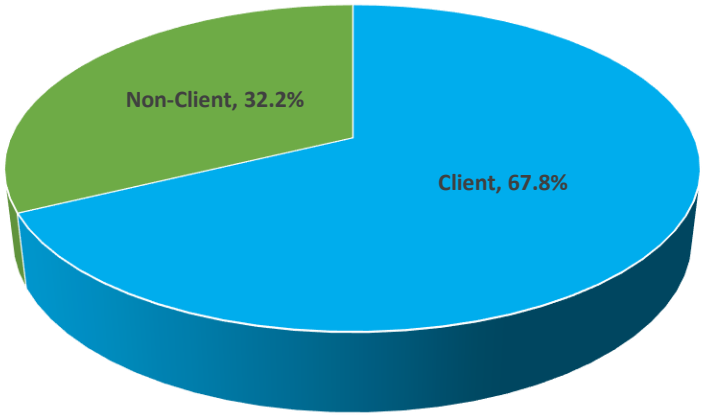
($ in thousands)

State	Loan Amount	Loan Count	Client Loan Amount	Non-Client Loan Amount
Alabama	$ 61,256	551	$ 54,491	$ 6,765
Florida	18,211	202	10,954	7,257
Georgia	793	32	515	278
Tennessee	210,849	2,017	142,882	67,967
Other	2,587	25	1,243	1,344
Total	$ 293,696	2,827	$ 210,085	$ 83,611

Total PPP Loans: Top Industries

Industry	Loan Amount
Professional Services	$ 42,479
Restaurants	39,318
Manufacturing	23,048
Medical	20,974
Construction	17,017
All Other Industries	150,860
Total	$ 293,696

Total PPP Loans: Client vs. Non-Client

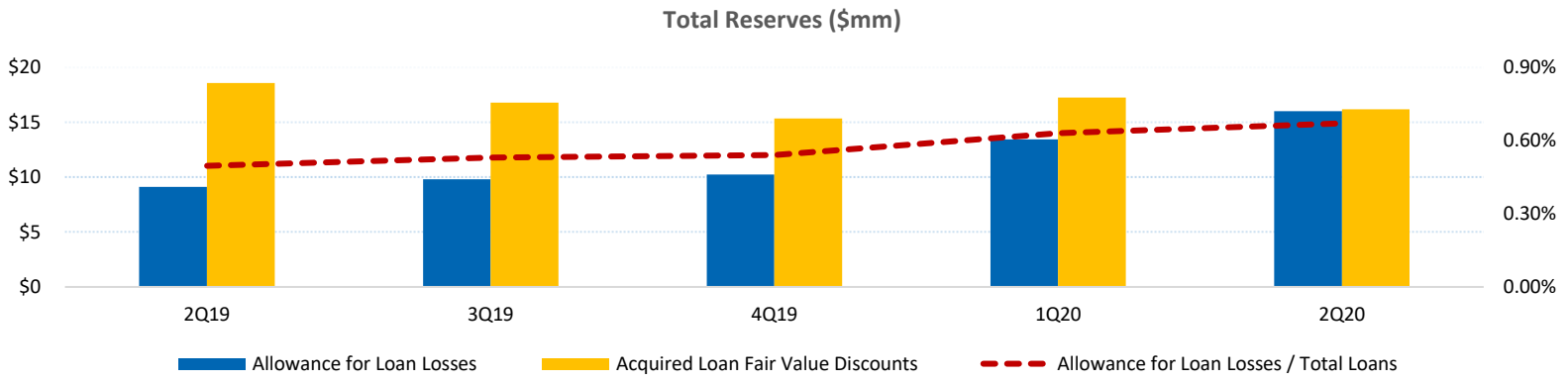


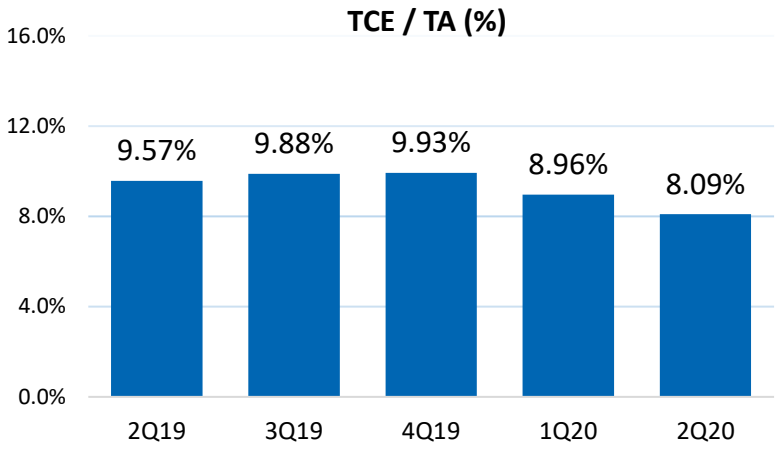
Gross PPP Fees

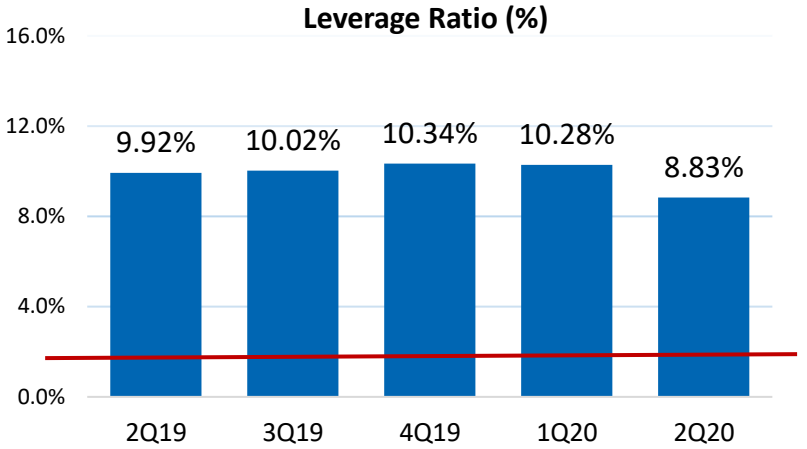
SBA Fee	Loan Count	Loan Amount	Fee Amount
1%	10	$ 36,953	$ 370
3%	155	110,505	3,322
5%	2,662	146,238	7,324
Total	2,827	$ 293,696	$ 11,016

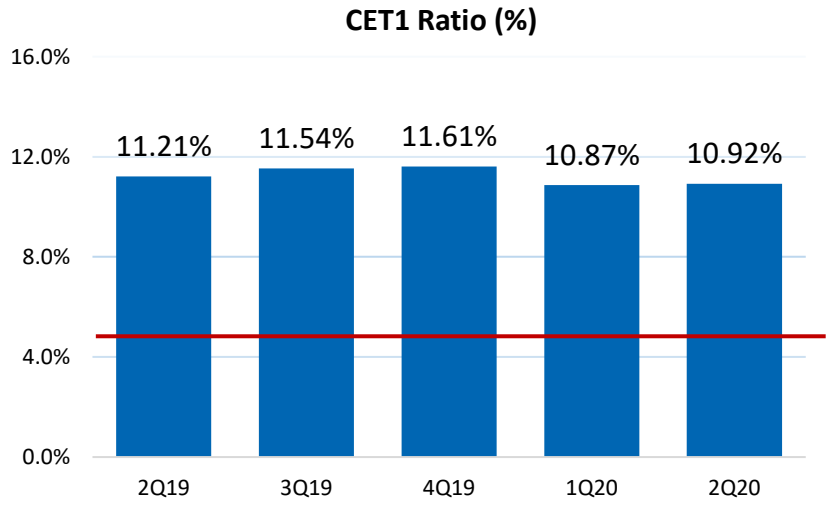
Source: Company information
Note: As of July 14, 2020

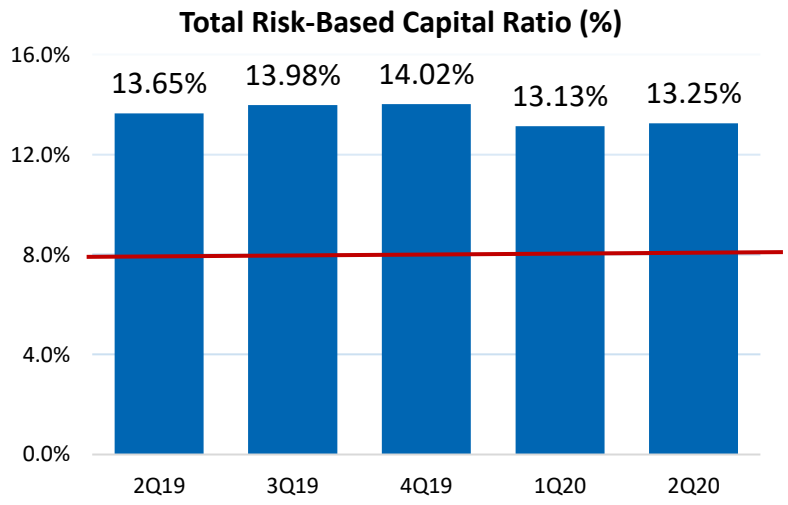
($ in thousands)	2Q19	3Q19	4Q19	1Q20	2Q20
Allowance for Loan Losses - Originated	$ 8,979	$ 9,674	$ 9,969	$ 12,412	$ 14,590
Allowance for Loan Losses - Acquired	118	118	274	1,019	1,664
Acquired Loan Fair Value Discounts	15,871	16,784	15,348	17,237	16,187
Total Reserves	$ 24,968	$ 26,576	$ 25,591	$ 30,668	$ 32,441
Originated Loans	$ 1,349,686	$ 1,433,524	$ 1,521,364	$ 1,621,128	$ 1,639,805
SBA PPP Loans	-	-	-	-	292,774
Acquired Loans	483,216	431,155	376,028	518,119	475,705
Total Loans	$ 1,832,902	$ 1,864,679	$ 1,897,392	$ 2,139,247	$ 2,408,284
Allowance / Total Loans	0.50%	0.53%	0.54%	0.63%	0.67%
Allowance / Total Loans, less PPP Loans	-	-	-	-	0.77%
Allowance / Originated Loans, less PPP Loans	0.67%	0.67%	0.66%	0.77%	0.89%
Allowance / Acquired Loans	0.02%	0.03%	0.07%	0.20%	0.35%
Discount / Acquired Loans	3.28%	3.89%	4.08%	3.33%	3.40%
Total Reserves / Total Loans	1.36%	1.43%	1.35%	1.43%	1.35%
Total Reserves / Total Loans, less PPP Loans	1.36%	1.43%	1.35%	1.43%	1.53%











Basel III Regulatory Capital Minimum To Be Considered "Well Capitalized"

Note: Data as of the three months ended each respective quarter

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Appendix

($ in thousands, except per share data)	2Q20	1Q20	4Q19	3Q19	2Q19
Operating Earnings:					
Net income (GAAP)	$ 6,174	$ 2,732	$ 6,733	$ 5,963	$ 9,121
Noninterest income:					
Securities (gains) losses	(16)	-	-	(1)	(33)
ADECA termination proceeds	-	-	(720)	-	-
Merger termination fee	-	-	-	-	(6,400)
Noninterest expenses:					
Salaries - prior year adjustment	-	-	603	-	-
Merger related and restructuring expenses	1,477	2,096	427	73	1,796
Other - prior year franchise tax true-up	-	-	(312)	-	-
Income taxes:					
Tax benefit - prior year amended return	-	-	(304)	-	-
Income tax effect of adjustments	(382)	(548)	60	(19)	1,119
Operating earnings (Non-GAAP)	$ 7,253	$ 4,280	$ 6,487	$ 6,016	$ 5,603
Operating earnings per common share:					
Basic	$ 0.48	$ 0.30	$ 0.46	$ 0.43	$ 0.40
Diluted	0.48	0.30	0.46	0.43	0.40
Operating Noninterest Income:					
Noninterest income (GAAP)	$ 3,511	$ 2,818	$ 2,840	$ 2,196	$ 8,416
Securities (gain) losses	(16)	-	-	(1)	(33)
ADECA termination proceeds	-	-	(720)	-	-
Merger termination fee	-	-	-	-	(6,400)
Operating noninterest income (Non-GAAP)	$ 3,495	$ 2,818	$ 2,120	$ 2,195	$ 1,983
Operating Noninterest Expense:					
Noninterest expense (GAAP)	$ 18,806	$ 18,793	$ 16,052	$ 14,708	$ 16,809
Salaries - prior year adjustment	-	-	(603)	-	-
Merger related and restructuring charges	(1,477)	(2,096)	(427)	(73)	(1,796)
Other - prior year franchise tax true-up	-	-	312	-	-
Operating noninterest expense (Non-GAAP)	$ 17,329	$ 16,697	$ 15,334	$ 14,635	$ 15,013
Operating Pre-Tax Pre-Provison ("PTPP") Earnings:					
Net interest income (GAAP)	$ 25,746	$ 22,571	$ 21,104	$ 21,140	$ 20,802
Operating noninterest income (Non-GAAP)	3,495	2,818	2,120	2,195	1,983
Operating noninterest expense (Non-GAAP)	(17,329)	(16,697)	(15,334)	(14,635)	(15,013)
Operating PTPP earnings (Non-GAAP)	$ 11,912	$ 8,692	$ 7,890	$ 8,700	$ 7,772
Non-GAAP Return Ratios:					
Operating return on average assets (Non-GAAP)[1]	0.93%	0.67%	1.08%	1.02%	0.96%
Operating PTPP return on average assets (Non-GAAP)[2]	1.53%	1.37%	1.31%	1.47%	1.33%
Return on average tangible common equity (Non-GAAP)[3]	9.80%	4.41%	11.55%	10.52%	16.78%
Operating return on average shareholder equity (Non-GAAP)[4]	8.58%	5.22%	8.34%	7.87%	7.58%
Operating return on average tangible common equity (Non-GAAP)[5]	11.51%	6.90%	11.12%	10.61%	10.31%
Operating Efficiency Ratio:					
Efficiency ratio (GAAP)	64.28%	74.02%	67.04%	63.03%	57.53%
Adjustment for taxable equivalent yields	(0.34%)	(0.34%)	(0.33%)	(0.30%)	(0.23%)
Adjustment for securities gains (losses)	(0.04%)	-	-	-	0.07%
Adjustment for merger expenses	(4.95%)	(8.21%)	(1.76%)	(0.31%)	8.32%
Operating efficiency ratio (Non-GAAP)	58.95%	65.46%	64.95%	62.42%	65.56%

1. *Operating return on average assets (Non-GAAP) is the annualized operating earnings (Non-GAAP) divided by average assets.*
2. *Operating PTPP return on average assets (Non-GAAP) is the annualized operating PTPP earnings (Non-GAAP) divided by average assets.*
3. *Return on average tangible common equity (Non-GAAP) is the annualized net income divided by average tangible common equity (Non-GAAP).*
4. *Operating return on average shareholder equity (Non-GAAP) is the annualized operating earnings (Non-GAAP) divided by average shareholder equity.*
5. *Operating return on average tangible common equity (Non-GAAP) is the annualized operating earnings (Non-GAAP) divided by average tangible common equity (Non-GAAP).*
6. *Note: "ADECA" represents a program administered by the Alabama Department of Economic and Community Affairs*

($ in thousands)	2Q20	1Q20	4Q19	3Q19	2Q19
Tangible Common Equity					
Shareholders' equity (GAAP)	$ 343,488	$ 336,200	$ 312,747	$ 306,040	$ 299,611
Less goodwill and other intangible assets	86,327	86,503	77,193	77,534	78,348
Tangible Common Equity (Non-GAAP)	$ 257,161	$ 249,697	$ 235,554	$ 228,506	$ 221,263
Average Tangible Common Equity					
Average shareholders' equity (GAAP)	$ 339,861	$ 329,692	$ 308,772	$ 303,200	$ 296,570
Less goodwill and other intangible assets	86,484	80,370	77,400	78,222	78,564
Average Tangible Common Equity (Non-GAAP)	$ 253,377	$ 249,322	$ 231,372	$ 224,978	$ 218,006
Tangible Book Value per Common Share					
Book value per common share (GAAP)	$ 22.57	$ 22.09	$ 22.33	$ 21.93	$ 21.47
Adjustment due to goodwill and other intangible assets	(5.67)	(5.69)	(5.51)	(5.56)	(5.61)
Tangible book value per common share (Non-GAAP)[1]	$ 16.90	$ 16.40	$ 16.82	$ 16.37	$ 15.86

1. *Book value per share is computed by dividing total stockholders' equity by common shares outstanding. Tangible book value per share is computed by dividing total stockholders' equity, less goodwill and other intangible assets by common shares outstanding*

Billy Carroll
President & CEO
865.868.0613
billy.carroll@smartbank.com

Miller Welborn
Chairman
423.385.3067
miller.welborn@smartbank.com



SmartFinancial

5401 Kingston Pike, Suite 600
Knoxville, TN 37919


SmartBank
SmartBank
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