



SmartFinancial, Inc.

First Quarter 2019 Earnings Release

April 25, 2019

Legal Disclaimer

Forward-Looking Statements

Certain of the statements in this presentation may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The words “expect,” “anticipate,” “intend,” “plan,” “believe,” “seek,” and “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, including statements pertaining to the intent, belief, or current expectations of management of SmartFinancial, Inc. (“SmartFinancial”) regarding the company’s strategic direction, plans, objectives, prospects, or future results or financial performance. All forward-looking statements are subject to risks, uncertainties, and other factors that may cause the actual results, performance, or achievements of SmartFinancial to differ materially from any results, performance, or achievements expressed or implied by such forward-looking statements. Such risks, uncertainties, and other factors include, among others, (1) the risk that the recent announcement of the termination of SmartFinancial’s agreement and plan of merger with Entegra Financial Corp. (the “Entegra Merger Agreement”) could have adverse effects on the market price of SmartFinancial’s common stock; (2) the risk that the termination of the Entegra Merger Agreement or the announcement of the same could have an adverse effect on SmartFinancial’s business generally, including its ability to retain customers, retain or hire key personnel, or maintain relationships with customers or suppliers; (3) reputational risk from the announcement of the termination of the Entegra Merger Agreement.; (4) the fact that SmartFinancial has incurred significant costs and expenses related to the Entegra Merger Agreement and the transactions that were contemplated by the Entegra Merger Agreement; (5) the risk of litigation related to the termination of the Entegra Merger Agreement or the abandonment of the transactions that were contemplated by the Entegra Merger Agreement; (6) potential changes to, or the risk that SmartFinancial may not be able to execute on, SmartFinancial’s business strategy as a result of the termination of the Entegra Merger Agreement; (7) the risk that cost savings and revenue synergies from recently completed acquisitions may not be realized or may take longer than anticipated to realize, (8) disruption from recently completed acquisitions with customer, supplier, employee, or other business relationships, (9) SmartFinancial’s ability to successfully integrate the businesses acquired as part of previous acquisitions with the business of SmartBank, (10) changes in management’s plans for the future, (11) prevailing, or changes in, economic or political conditions, particularly in our market areas, (12) credit risk associated with our lending activities, (13) changes in interest rates, loan demand, real estate values, or competition, (14) changes in accounting principles, policies, or guidelines, (15) changes in applicable laws, rules, or regulations, and (16) other general competitive, economic, political, and market factors, including those affecting SmartFinancial’s business, operations, pricing, products, or services. Certain additional factors which could affect the forward-looking statements can be found in SmartFinancial’s 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). SmartFinancial disclaims any obligation to update or revise any forward-looking statements contained in this presentation, 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. The non-GAAP financial measures used in this presentation include: (i) tangible common equity, (ii) tangible book value per share, (iii) net interest income excluding purchase accounting adjustments, (iv) operating efficiency ratio, (v) net operating return on average assets, (vi) net operating earnings per share, and (vii) net operating return on average tangible common equity. Tangible common equity excludes total preferred stock, preferred stock paid in capital, goodwill, and other intangible assets, and tangible book value per share reflects the per share value of tangible common equity. Net interest income excluding purchase accounting adjustments adjusts net interest income to exclude the impact of purchase accounting. The operating efficiency ratio excludes securities gains and losses and merger related expenses from the efficiency ratio. Net operating earnings excludes securities gains and losses and merger related expenses, and the effect of the December, 2017 tax law change on deferred tax assets, and the income tax effect of adjustments, and operating return on average assets is net operating income divided by GAAP total average assets. Net operating earnings per share is net operating income divided by GAAP total average assets. Net operating return on tangible common equity is net operating income divided by tangible common equity. 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.

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
- 385 full-time employees
- ~\$276 million market capitalization⁽¹⁾

- Balance Sheet (03/31/19)**

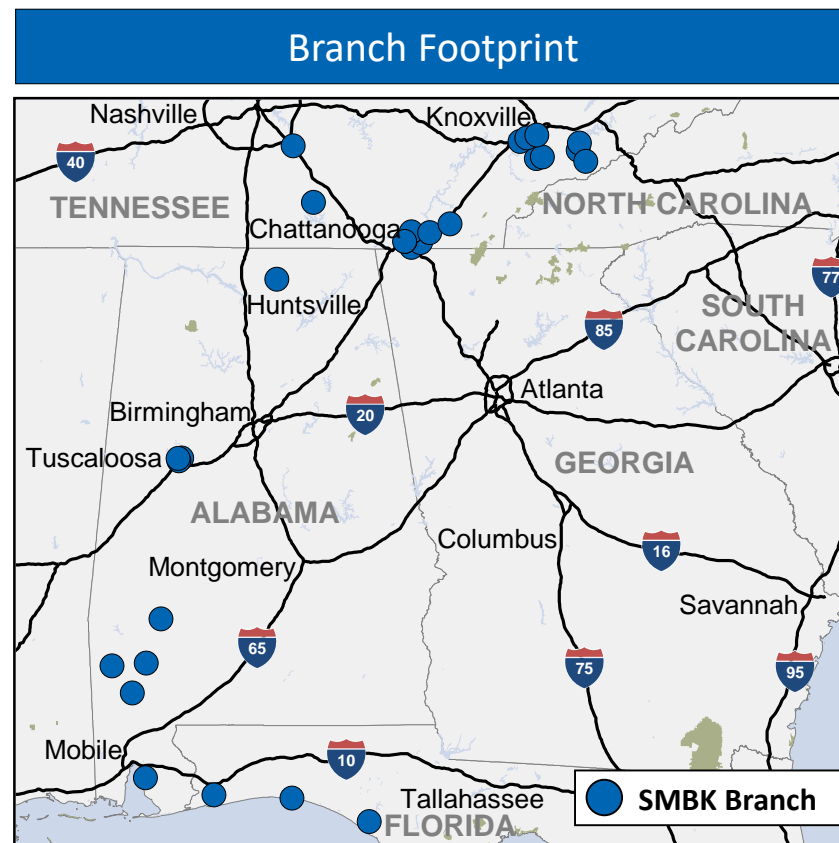
- Assets: \$2.4 billion
- Gross Loans: \$1.8 billion
- Deposits: \$2.0 billion
- Tangible Common Equity (Non-GAAP): \$211.8 million

- Profitability (Q1 '19)**

- Net Income / Net Operating Earnings (Non-GAAP): \$4.7 million / \$5.5 million
- ROAA / Net Operating ROAA (Non-GAAP): 0.84% / 0.98%
- ROATCE / Net Operating ROATCE (Non-GAAP): 9.26% / 10.79%
- Efficiency Ratio / Operating Efficiency Ratio (Non-GAAP): 68.7% / 64.3%

- Asset Quality**

- Superior asset quality and proven credit culture
- NPAs / Assets of 0.18%
- NCOs / Average Loans of 0.08%



Financial data as of or for the three months ended 03/31/19

(1) Pricing data as of 04/23/19

Note: For a reconciliation of non-GAAP financial measures to their most directly comparable GAAP measures see 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.



Disciplined Acquisition Strategy

- **SmartFinancial has adhered to a disciplined set of merger criteria including:**
 - **3 years (+/-)** of initial TBV-per-share dilution
 - Meaningful EPS accretion in the first full year of operations
 - Conservative loan marks
 - Franchise additive
- **SmartFinancial is committed to balancing organic growth with thoughtful acquisitions and will not make acquisitions simply for the sake of growth**
- **Moving Forward**
 - Positioned extremely well to move forward given progress made over the last several months planning to be a larger institution
 - The company is **Moving Forward** with several major initiatives that were planned:
 - Centralization of operational areas
 - Centralization of finance group
 - Bank-wide organization 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
 - Approved share repurchase plan in place to utilize as appropriate

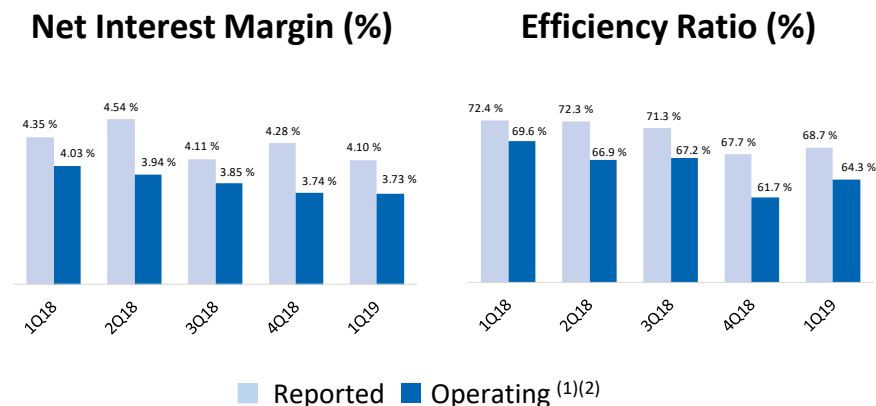
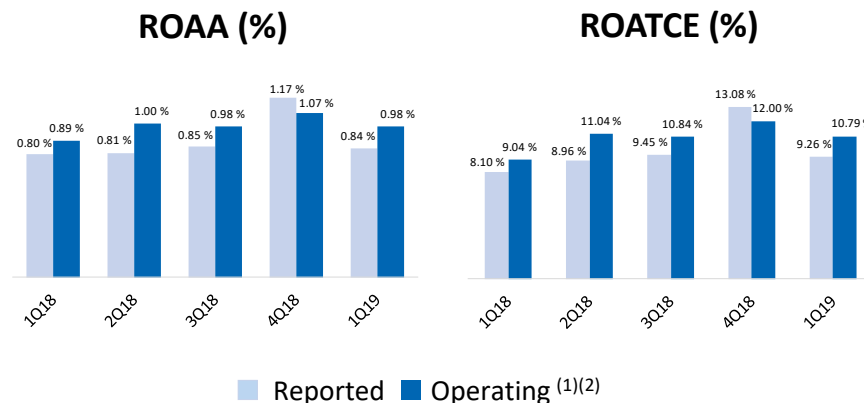


SmartFinancial, Inc.

First Quarter Financial Highlights

Performance Trends

- Net Operating Earnings (Non-GAAP) of \$5.5 million for the quarter, up 45% from a year earlier
- ROAA of 0.84% for the quarter and Net Operating ROAA (Non-GAAP) of 0.98%
- ROATCE (Non-GAAP) of 9.26% for the quarter and Operating ROATCE (Non-GAAP) of 10.79%
- Efficiency Ratio of 68.7% for the quarter and Operating Efficiency Ratio (Non-GAAP) of 64.3%
- Net Interest Margin (fully taxable equivalent “FTE”) of 4.10%, down 18 basis points from the prior quarter
- Nonperforming Assets were 0.18% of Total Assets
- Quarterly loan growth of \$63.3 million or 14.5% annualized



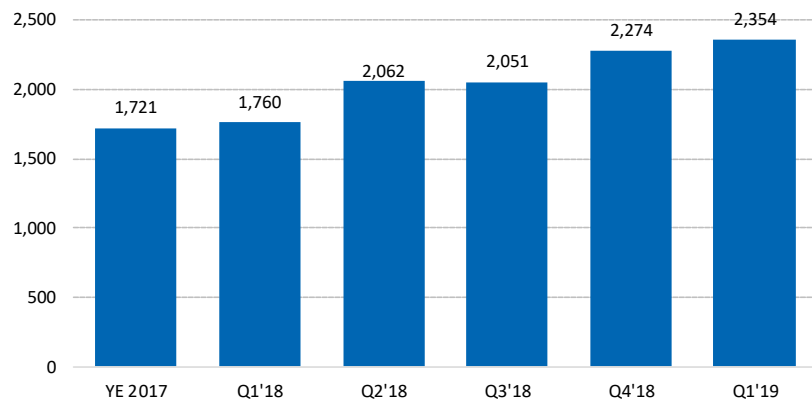
(1) Operating profitability (non-GAAP) figures exclude gain on sale of securities, merger-related expenses and nonrecurring items

(2) Operating net interest margin (non-GAAP) excludes purchase accounting adjustments

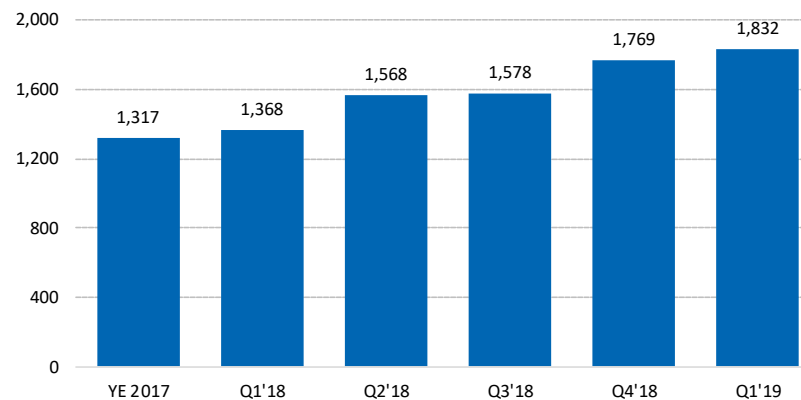
Note: For a reconciliation of these non-GAAP financial measures to their most directly comparable GAAP measures, see the Appendix

Balance Sheet Trends

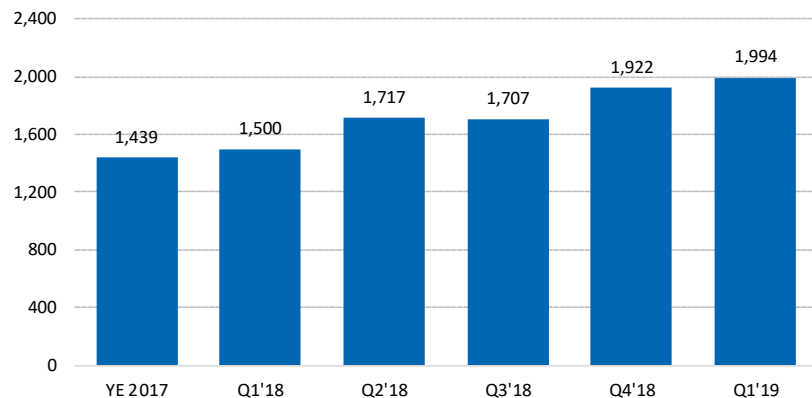
Total Assets (\$mm)



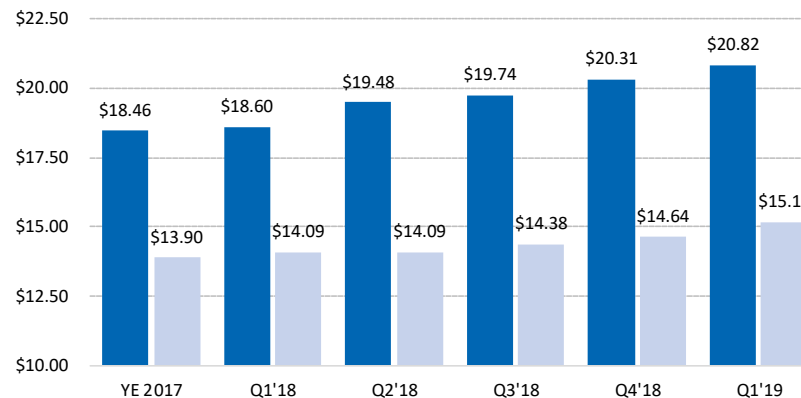
Net Loans (\$mm)



Total Deposits (\$mm)



Book Value Per Share



■ Book Value ■ Tangible Book Value⁽¹⁾

(1) For a reconciliation of this non-GAAP financial measure to its most directly comparable GAAP measures, see the Appendix

Earnings Profile – First Quarter 2019

- Net Operating Diluted EPS (Non-GAAP) increased 15% year over year (“YoY”)
- Earnings Before Income Taxes increased 45% YoY
- Net Interest Income increased 25% YoY primarily due to higher average earning asset balances and higher earning asset yields
- Increases in Noninterest Expense primarily driven by higher salary and occupancy expense from completed acquisitions, as well as merger expenses
- Total Revenue increased 24% YoY

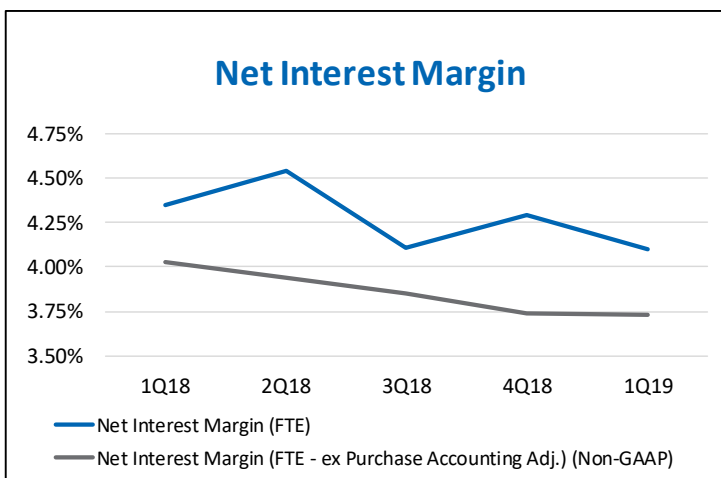
	1Q19	4Q18	1Q18
Total Interest Income	\$26,943	\$26,771	\$19,378
Total Interest Expense	5,946	5,335	2,567
Net Interest Income	20,997	21,436	16,811
Total Noninterest Income	1,698	1,715	1,455
Total Revenue	22,695	23,151	18,266
Provision for Loan Losses	797	1,329	689
Total Noninterest Expense	15,579	15,696	13,222
Earnings Before Income Taxes	6,319	6,124	4,355
Income Tax Expense (Benefit)	1,588	(307)	940
Net Income	\$4,731	\$6,431	\$3,415
Net Income Per Share:			
Diluted Net Income Per Share	\$0.34	\$0.47	\$0.30
Net Operating Earnings Per Share (Non-GAAP):			
Diluted Operating Earnings Per Share	\$0.39	\$0.43	\$0.34

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
- Compared to a year ago, Earning Asset Yields are up 24 basis points; the Average Cost of Interest-bearing Liabilities is up 63 basis points
- Excluding the effect of purchase accounting adjustments, the Net Interest Margin (FTE) decreased 1 basis point quarter to quarter, primarily due to the higher cost of interest-bearing deposits

	1Q19	4Q18	1Q18
Net Interest Income	\$20,997	\$21,436	\$16,811
Average Earning Assets	\$2,089,540	\$1,993,933	\$1,569,127

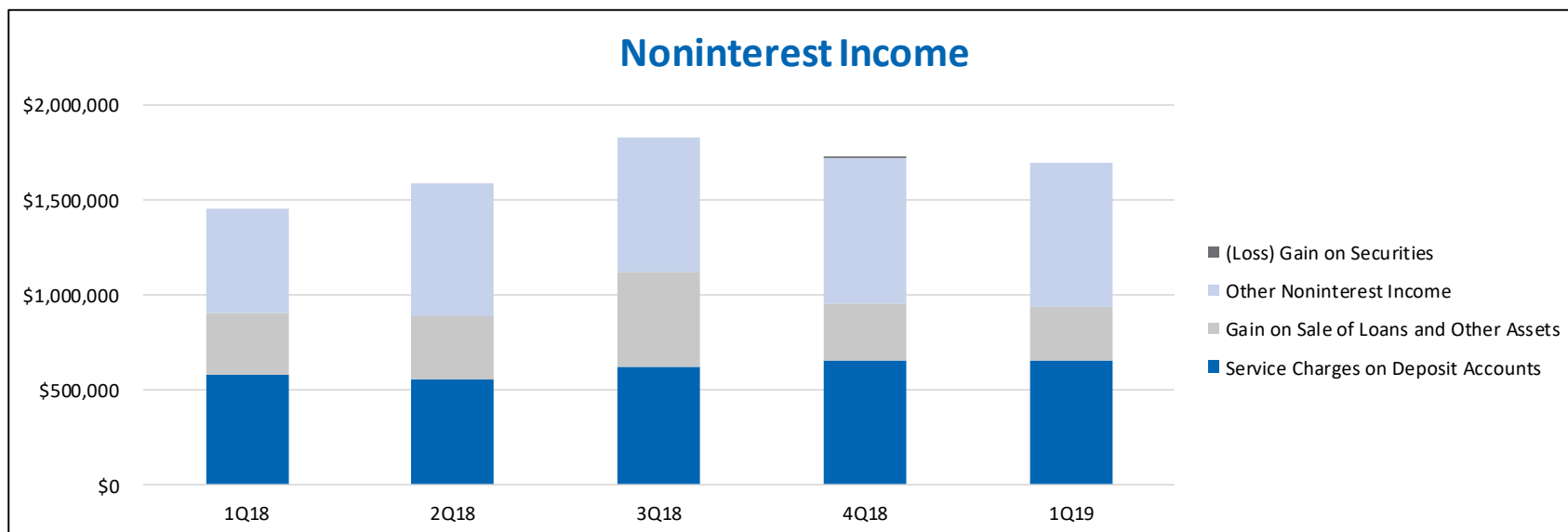


Average Yields and Rates			
	1Q19	4Q18	1Q18
Loans	5.62%	5.81%	5.47%
Taxable securities	2.67%	2.45%	2.33%
Tax-exempt securities	4.07%	4.03%	3.50%
Federal Funds and Other Investments	2.68%	2.08%	1.67%
Earning Asset Yields	5.25%	5.35%	5.01%
Total Interest-bearing Deposits	1.32%	1.21%	0.79%
Securities Sold Under Agreement to Repurchase	0.41%	0.37%	0.31%
Federal funds purchased and other borrowings	4.09%	6.15%	2.32%
Subordinated Debt	6.04%	5.91%	0.00%
Total Interest-bearing Liabilities	1.45%	1.34%	0.82%
Net Interest Margin (FTE)	4.10%	4.28%	4.35%
Cost of Funds	1.21%	1.10%	0.69%

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

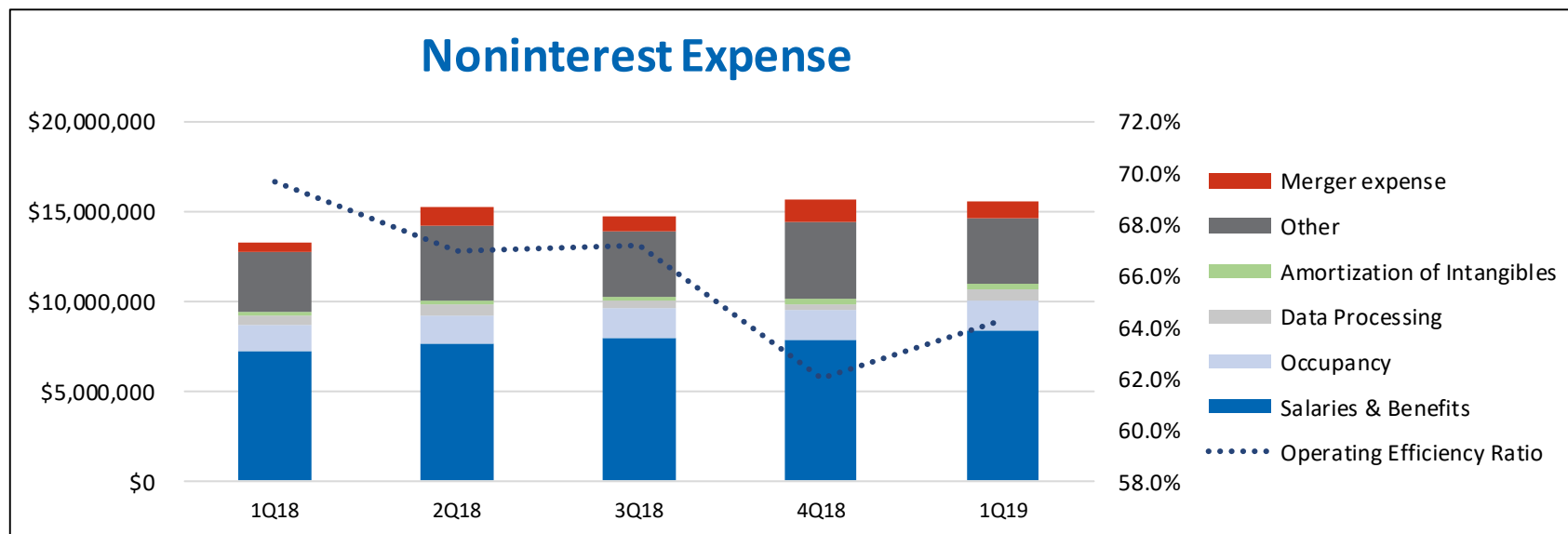
Noninterest Income

- Consistent increases in service charges on deposit accounts, and other noninterest income components
- Noninterest Income trending upward, though 4Q18 and 1Q19 reported decreased gain on sale of loans and other assets



Noninterest Expense

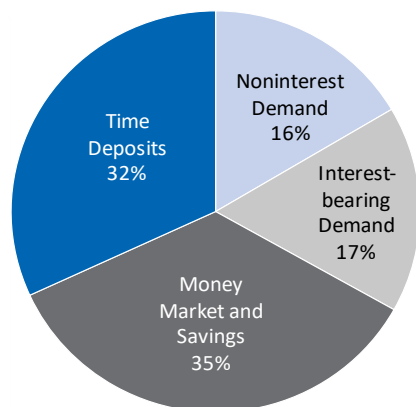
- Efficiency Ratio remained under 70% for the second consecutive quarter while Operating Efficiency Ratio (Non-GAAP) was 64.3%
- Salary increases are primarily due to the addition of associates from two completed acquisitions for periods presented, as well as infrastructure builds
- Merger expense of \$923 thousand in the quarter



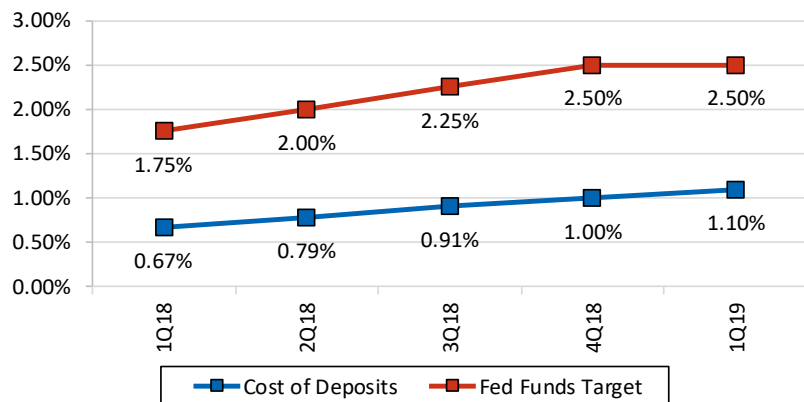
Note: For a reconciliation of non-GAAP financial measures to their most directly comparable GAAP measures, see the Appendix

Attractive Deposit Mix

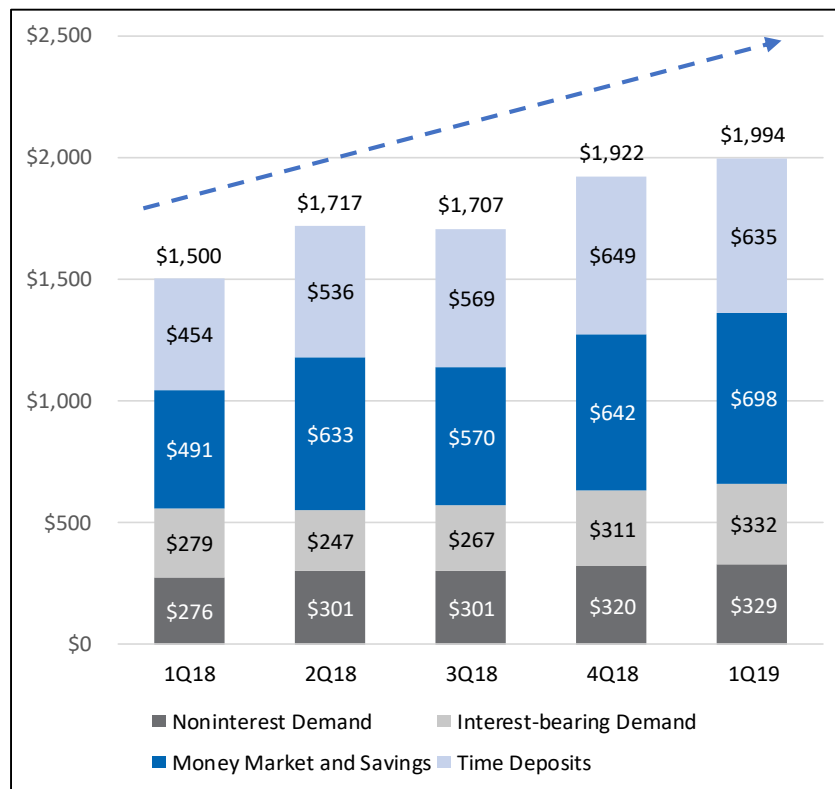
Deposit Composition (03/31/19)



Historical Cost of Deposits

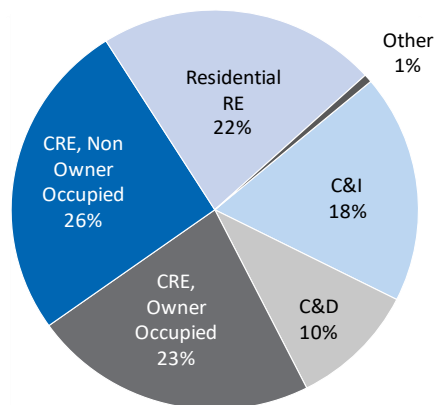


Historical Deposit Composition (\$mm)

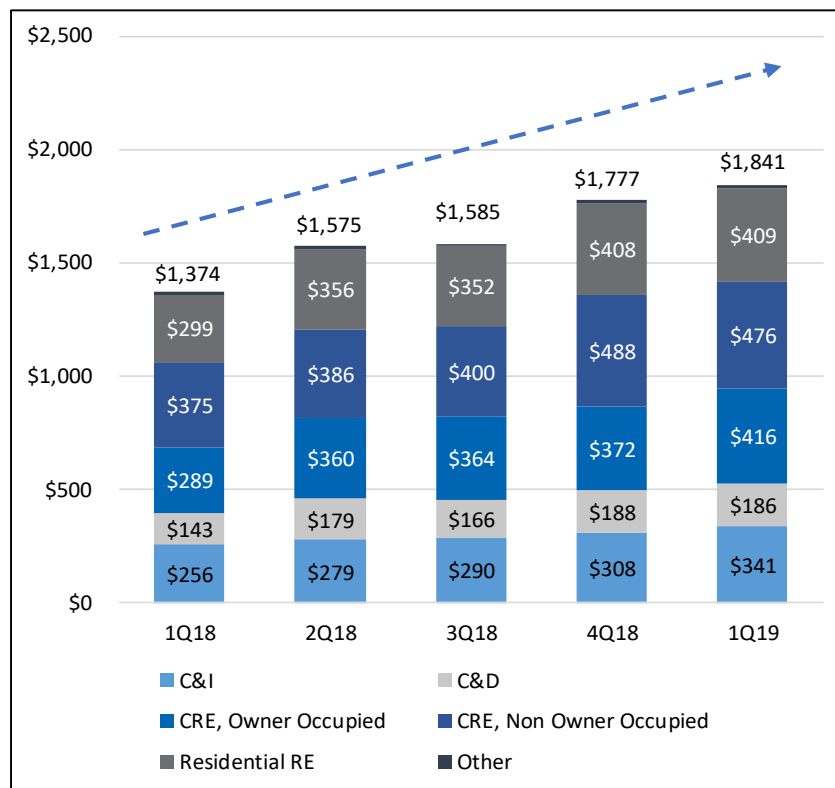


Overview of Loan Portfolio

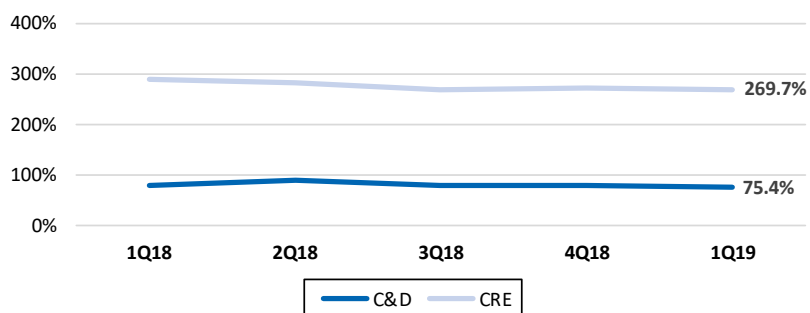
Loan Composition (03/31/19)



Historical Loan Composition (\$mm)



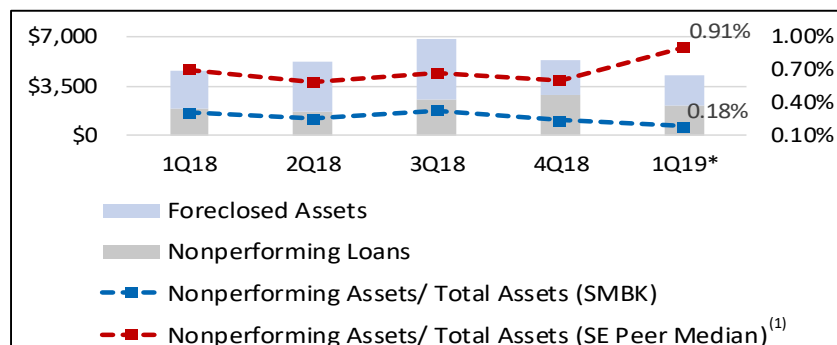
Historical CRE Ratios



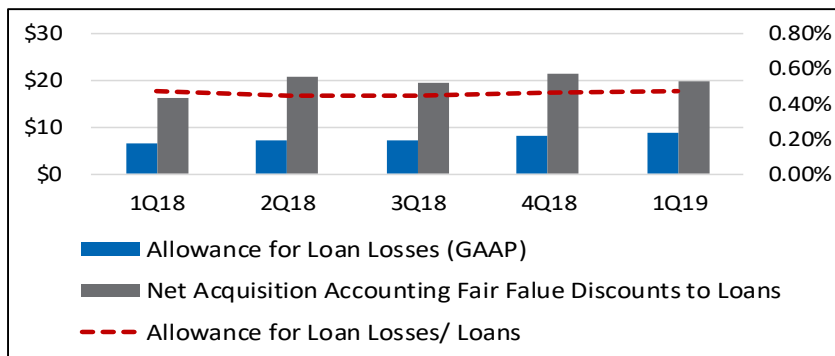
Asset Quality

- Superior asset quality, with Nonperforming Assets at 0.18% of Total Assets compared to the Southeast Peer Median ⁽¹⁾ of 0.91%
- Remaining fair value discounts on acquired loans are 2.3x the current Allowance For Loan Losses
- Acquisitions are marked conservatively for potential losses
- Proven credit culture, with Net Charge-Offs to Average Loans of 0.08% compared to the Southeast Peer Median ⁽¹⁾ of 0.04%

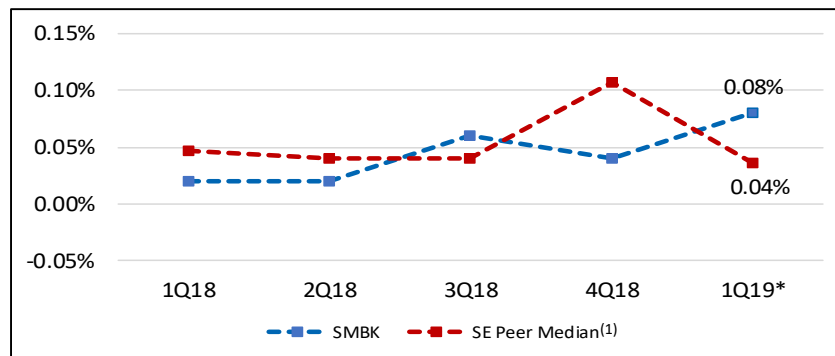
Nonperforming Assets



Loan Discounts



Net Charge-Offs/ Average Loans



Source: S&P Global Market Intelligence

⁽¹⁾ Publicly traded banks between \$1.5B and \$3B in assets headquartered in the Southeast (AL, AR, FL, GA, LA, MS, NC, SC, TN and WV)

*Reflects partial results for reporting financial institutions in peer group



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Appendix

Non-GAAP Reconciliations

	1Q19	4Q18	3Q18	2Q18	1Q18
Net interest income - ex purchase acct. adj.					
Net interest income (GAAP)	\$ 20,997	\$ 21,436	\$ 18,861	\$ 19,538	\$ 16,811
Taxable equivalent adjustment	115	93	16	22	12
Net interest income TEY	21,112	21,529	18,877	19,560	16,823
Purchase accounting adjustments	1,881	2,755	1,208	2,583	1,274
Net interest income - ex purchase acct. adj. (Non-GAAP)	\$ 19,231	\$ 18,774	\$ 17,669	\$ 16,977	\$ 15,549
Tangible Common Equity					
Shareholders' equity (GAAP)	\$ 290,481	\$ 283,011	\$ 251,642	\$ 247,487	\$ 208,949
Less goodwill and other intangible assets	78,690	79,034	68,254	68,449	50,660
Tangible Common Equity (Non-GAAP)	\$ 211,791	\$ 203,977	\$ 183,388	\$ 179,036	\$ 158,289
Non-GAAP Return Ratios					
Net operating return on average assets (Non-GAAP) ⁽¹⁾	0.98%	1.07%	0.98%	1.00%	0.89%
Return on average tangible common equity (Non-GAAP) ⁽²⁾	9.26%	13.08%	9.45%	8.96%	8.10%
Net operating return on average shareholder equity (Non-GAAP) ⁽³⁾	7.81%	8.65%	7.88%	8.33%	6.97%
Net operating return on average tangible common equity (Non-GAAP) ⁽⁴⁾	10.79%	12.00%	10.84%	11.04%	9.04%

(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

	1Q19	4Q18	3Q18	2Q18	1Q18
Operating Earnings					
Net income (GAAP)	\$ 4,731	\$ 6,444	\$ 4,324	\$ 3,931	\$ 3,415
Securities (gains) losses	-	(2)	-	1	-
Merger costs	923	1,322	838	1,123	498
Tax charge related to change in tax law and tax benefit	-	(1,600)	-	-	-
Income tax effect of adjustments	(145)	(0)	(196)	(211)	(103)
Net operating earnings (Non-GAAP)	<u>\$ 5,509</u>	<u>\$ 5,908</u>	<u>\$ 4,966</u>	<u>\$ 4,844</u>	<u>\$ 3,810</u>
Net operating earnings per common share:					
Basic	\$0.40	\$0.44	\$0.39	\$0.40	\$0.34
Diluted	\$0.39	\$0.43	\$0.39	\$0.39	\$0.34
Operating Efficiency Ratio					
Efficiency ratio (GAAP)	68.65%	67.71%	71.34%	72.31%	72.39%
Adjustment for taxable equivalent yields	(0.49%)	(0.45%)	(0.18%)	(0.11%)	(0.06%)
Adjustment for securities gains (losses)	-	0.01%	-	(0.01%)	-
Adjustment for merger expenses	(3.91%)	(5.55%)	(3.99%)	(5.28%)	(2.71%)
Operating efficiency ratio (Non-GAAP)	<u>64.25%</u>	<u>61.72%</u>	<u>67.17%</u>	<u>66.92%</u>	<u>69.62%</u>

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