

# Section 1: 10-Q (10-Q)

United States Securities and Exchange Commission  
Washington, D.C. 20549

## FORM 10-Q

(Mark One)

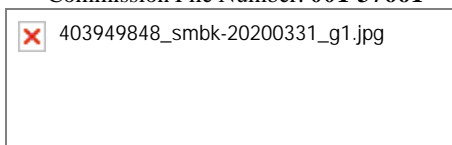
### QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2020

### TRANSITION REPORT PURSUANT SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: **001-37661**



(Exact name of registrant as specified in its charter)

Tennessee

62-1173944

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

5401 Kingston Pike, Suite 600 Knoxville, Tennessee

37919

(Address of principal executive offices)

(Zip Code)

865-437-5700

Not Applicable

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading symbol(s)	Name of Exchange on which Registered
Common Stock, par value \$1.00	SMBK	The Nasdaq Stock Market

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such period that the registrant was required to submit such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or and emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes      No

As of May 8, 2020 there were 15,216,932 shares of common stock, \$1.00 par value per share, issued and outstanding.

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**PART I – FINANCIAL INFORMATION**  
**ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS**

SMARTFINANCIAL, INC. AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS  
*(Dollars in thousands, except for share data)*

	(Unaudited) March 31, 2020	December 31, 2019
<b>ASSETS:</b>		
Cash and due from banks	\$ 38,802	\$ 33,205
Interest-bearing deposits with banks	194,454	127,329
Federal funds sold	75,833	23,437
Total cash and cash equivalents	309,089	183,971
Securities available-for-sale, at fair value	201,002	178,348
Other investments	14,113	12,913
Loans held for sale	6,045	5,856
Loans	2,139,247	1,897,392
Less: Allowance for loan losses	(13,431)	(10,243)
Loans, net	2,125,816	1,887,149
Premises and equipment, net	73,801	59,433
Other real estate owned	5,894	1,757
Goodwill and core deposit intangible, net	86,503	77,193
Bank owned life insurance	30,671	24,949
Other assets	20,781	17,554
Total assets	<u>\$ 2,873,715</u>	<u>\$ 2,449,123</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY:</b>		
<b>Deposits:</b>		
Noninterest-bearing demand	\$ 431,781	\$ 364,155
Interest-bearing demand	444,141	380,234
Money market and savings	730,392	623,284
Time deposits	735,616	679,541
Total deposits	2,341,930	2,047,214
Securities sold under agreement to repurchase	6,164	6,184
Federal Home Loan Bank advances and other borrowings	125,439	25,439
Subordinated debt	39,283	39,261
Other liabilities	24,699	18,278
Total liabilities	2,537,515	2,136,376
<b>Shareholders' equity:</b>		
Preferred stock, \$1 par value; 2,000,000 shares authorized; No shares issued and outstanding	—	—
Common stock, \$1 par value; 40,000,000 shares authorized; 15,221,990 and 14,008,233 shares issued and outstanding, respectively	15,222	14,008
Additional paid-in capital	254,356	232,732
Retained earnings	67,869	65,839
Accumulated other comprehensive income (loss)	(1,247)	168
Total shareholders' equity	336,200	312,747
Total liabilities and shareholders' equity	<u>\$ 2,873,715</u>	<u>\$ 2,449,123</u>

The accompanying notes are an integral part of the financial statements.

SMARTFINANCIAL, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)  
(Dollars in thousands, except share and per share data)

	Three Months Ended March 31,	
	2020	2019
<b>Interest income:</b>		
Loans, including fees	\$ 26,434	\$ 24,975
Securities available-for-sale:		
Taxable	679	971
Tax-exempt	283	424
Federal funds sold and other earning assets	602	573
Total interest income	<u>27,998</u>	<u>26,943</u>
<b>Interest expense:</b>		
Deposits	4,754	5,251
Securities sold under agreements to repurchase	5	8
Federal Home Loan Bank advances and other borrowings	84	103
Subordinated debt	584	584
Total interest expense	<u>5,427</u>	<u>5,946</u>
Net interest income	22,571	20,997
<b>Provision for loan losses</b>	<u>3,200</u>	<u>797</u>
<b>Net interest income after provision for loan losses</b>	<u>19,371</u>	<u>20,200</u>
<b>Noninterest income:</b>		
Service charges on deposit accounts	770	654
Mortgage banking	584	282
Investment services	437	169
Insurance commissions	269	—
Interchange and debit card transaction fees	276	175
Other	482	418
Total noninterest income	<u>2,818</u>	<u>1,698</u>
<b>Noninterest expense:</b>		
Salaries and employee benefits	10,006	8,398
Occupancy and equipment	1,911	1,640
FDIC insurance	180	179
Other real estate and loan related expense	545	490
Advertising and marketing	198	295
Data processing	538	615
Professional services	711	662
Amortization of intangibles	362	344
Software as service contracts	470	567
Merger related and restructuring expenses	2,096	923
Other	1,776	1,466
Total noninterest expense	<u>18,793</u>	<u>15,579</u>
<b>Income before income tax expense</b>	<u>3,396</u>	<u>6,319</u>
Income tax expense	664	1,588
<b>Net income</b>	<u>\$ 2,732</u>	<u>\$ 4,731</u>
<b>Earnings per common share:</b>		
Basic	<u>\$ 0.19</u>	<u>\$ 0.34</u>
Diluted	<u>\$ 0.19</u>	<u>\$ 0.34</u>
<b>Weighted average common shares outstanding:</b>		

Basic	14,395,103	13,942,016
Diluted	14,479,671	14,018,163

The accompanying notes are an integral part of the financial statements.

SMARTFINANCIAL, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(Unaudited)  
(Dollars in thousands)

	Three Months Ended March 31,	
	2020	2019
Net income	\$ 2,732	\$ 4,731
Other comprehensive income:		
Unrealized holding gains and hedge effects on securities available-for-sale arising during the period	1,095	2,851
Tax effect	(244)	(748)
Unrealized gains on securities available-for-sale arising during the period, net of tax	851	2,103
Unrealized gains (losses) on fair value municipal security hedges	(3,072)	309
Tax effect	806	(81)
Unrealized gains (losses) on fair value municipal security hedge instruments arising during the period, net of tax	(2,266)	228
Total other comprehensive income (loss)	(1,415)	2,331
Comprehensive income	\$ 1,317	\$ 7,062

The accompanying notes are an integral part of the financial statements.

SMARTFINANCIAL, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY - (Unaudited)  
For the Three Months Ended March 31, 2020 and 2019  
(Dollars in thousands, except for share data)

	<u>Common Stock</u>		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
	Shares	Amount				
<b>Balance, December 31, 2018</b>	13,933,504	\$ 13,934	\$ 231,852	\$ 39,991	\$ (2,765)	\$ 283,011
Net income	—	—	—	4,731	—	4,731
Other comprehensive income	—	—	—	—	2,331	2,331
Common stock issued pursuant to:						
Stock awards	3,298	3	61	—	—	65
Exercise of stock options	14,788	15	184	—	—	199
Stock compensation expense	—	—	143	—	—	143
<b>Balance, March 31, 2019</b>	<u>13,951,590</u>	<u>\$ 13,952</u>	<u>\$ 232,241</u>	<u>\$ 44,722</u>	<u>\$ (434)</u>	<u>\$ 290,481</u>
<b>Balance, December 31, 2019</b>	14,008,233	\$ 14,008	\$ 232,732	\$ 65,839	\$ 168	\$ 312,747
Net income	—	—	—	2,732	—	2,732
Other comprehensive loss	—	—	—	—	(1,415)	(1,415)
Common stock issued pursuant to:						
Exercise of stock options	14,858	15	158	—	—	173
Restricted stock, net of forfeitures	31,900	32	(32)	—	—	—
Shareholders of Progressive Financial Group, Inc.	1,292,578	1,293	23,254	—	—	24,547
Stock compensation expense	—	—	110	—	—	110
Common stock dividend (\$0.05 per share)	—	—	—	(702)	—	(702)
Purchase of common stock	(125,579)	(126)	(1,866)	—	—	(1,992)
<b>Balance, March 31, 2020</b>	<u>15,221,990</u>	<u>\$ 15,222</u>	<u>\$ 254,356</u>	<u>\$ 67,869</u>	<u>\$ (1,247)</u>	<u>\$ 336,200</u>

The accompanying notes are an integral part of the financial statements.



SMARTFINANCIAL, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)  
(Dollars in thousands)

	Three Months Ended March 31,	
	2020	2019
<b>Cash flows from operating activities:</b>		
Net income	\$ 2,732	\$ 4,731
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,634	1,156
Accretion of fair value purchase accounting adjustments, net	(1,841)	(1,717)
Provision for loan losses	3,200	797
Stock compensation expense	110	143
Deferred income tax expense	90	1,039
Increase in cash surrender value of bank owned life insurance	(162)	(158)
Loss on disposal of fixed assets	—	7
Net losses from sale of other real estate owned	14	26
Net gains from sale of loans	(576)	(282)
Origination of loans held for sale	(15,195)	(16,805)
Proceeds from sales of loans held for sale	15,582	16,061
Net change in:		
Accrued interest receivable	35	(1,093)
Accrued interest payable	784	748
Other assets	685	(1,660)
Other liabilities	2,010	4,702
Net cash provided by operating activities	9,102	7,695
<b>Cash flows from investing activities:</b>		
Proceeds from sales of securities available-for-sale	2,115	—
Proceeds from maturities and calls of securities available-for-sale	3,250	5,000
Proceeds from paydowns of securities available-for-sale	3,816	3,173
Purchases of securities available-for-sale	(3,377)	(1,054)
Purchases of other investments	(507)	(899)
Net increase in loans	(52,721)	(61,011)
Purchases of premises and equipment	(2,429)	(1,296)
Proceeds from sale of other real estate owned	120	458
Net cash and cash equivalents received from business combination	46,132	—
Net cash used in investing activities	(3,601)	(55,629)
<b>Cash flows from financing activities:</b>		
Net increase in deposits	22,158	72,166
Net decrease in securities sold under agreements to repurchase	(20)	(4,686)
Proceeds from Federal Home Loan Bank advances and other borrowings	100,000	50,094
Repayment of Federal Home Loan Bank advances and other borrowings	—	(52,732)
Cash dividends paid	(702)	—
Issuance of common stock	173	264
Purchase of common stock	(1,992)	—
Net cash provided by financing activities	119,617	65,106
<b>Net change in cash and cash equivalents</b>	<b>125,118</b>	<b>17,172</b>
Cash and cash equivalents, beginning of period	183,971	115,822
<b>Cash and cash equivalents, end of period</b>	<b>\$ 309,089</b>	<b>\$ 132,994</b>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the period for interest	\$ 4,643	\$ 5,198
Cash paid during the period for income taxes	—	—
<b>Noncash investing and financing activities:</b>		
Acquisition of real estate through foreclosure	676	55
Change in goodwill due to acquisitions	8,302	—

Initial recognition of operating lease right-of-use assets	222	2,344
Initial recognition of operating lease liabilities	222	2,344

The accompanying notes are an integral part of the financial statements.

**SMARTFINANCIAL, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

**Note 1. Presentation of Financial Information**

*Nature of Business:*

SmartFinancial, Inc. (the "Company") is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiary, SmartBank (the "Bank"). The Company provides a variety of financial services to individuals and corporate customers through its offices in East and Middle Tennessee, Alabama, and the Florida Panhandle. The Bank's primary deposit products are noninterest-bearing and interest-bearing demand deposits, savings and money market deposits, and time deposits. Its primary lending products are commercial, residential, and consumer loans.

*Basis of Presentation and Accounting Estimates:*

The accounting and financial reporting policies of SmartFinancial (the "Company") and its wholly-owned subsidiary conform to U.S. generally accepted accounting principles ("GAAP") and reporting guidelines of banking regulatory authorities and regulators. The accompanying interim consolidated financial statements for the Company and its wholly-owned subsidiary have not been audited. All material intercompany balances and transactions have been eliminated.

In management's opinion, all accounting adjustments necessary to accurately reflect the financial position and results of operations on the accompanying financial statements have been made. These adjustments are normal and recurring accruals considered necessary for a fair and accurate presentation. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of foreclosed assets and deferred taxes, other than temporary impairments of securities, the fair value of financial instruments, goodwill, and the fair value of assets acquired and liabilities assumed in acquisitions. The results for interim periods are not necessarily indicative of results for the full year or any other interim periods. The accompanying unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes appearing in the Company's annual report on Form 10-K for the year ended December 31, 2019.

*Recently Issued and Adopted Accounting Pronouncements:*

As of January 1, 2020, the Company adopted ASU 2019-01, *Leases: Codification Improvements* ("ASU 2019-01"). ASU 2019-01 provides clarification to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet and disclosing essential information about leasing transactions. Specifically, ASU 2019-01 (i) allows the fair value of the underlying asset reported by lessors that are not manufacturers or dealers to continue to be its cost and not fair value as measured under the fair value definition, (ii) allows for the cash flows received for sales-type and direct financing leases to continue to be presented as results from investing, and (iii) clarifies that entities do not have to disclose the effect of the lease standard on adoption year interim amounts. The adoption of ASU 2019-01 did not have a material impact on the Company's consolidated financial statements.

*Recently Issued Not Yet Effective Accounting Pronouncements:*

During interim periods, the Company follows the accounting policies set forth in its annual audited financial statements for the year ended December 31, 2019 as filed in its Annual Report on Form 10-K with the Securities and Exchange Commission ("SEC"). The following is a summary of recent authoritative pronouncements issued but not yet effective that could impact the accounting, reporting, and/or disclosure of financial information by the Company.

In October 2019, the Financial Accounting Standards Board approved a delay for the implementation of ASU 2016-13, *Financial Instruments - Credit Losses* (Topic 326). The Board decided that CECL will be effective for larger Public Business Entities ("PBEs") that are SEC filers, excluding Smaller Reporting Companies ("SRCs") as currently defined by the SEC, for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. For calendar-year-end companies, this will be January 1, 2020. The determination of whether an entity is an SRC will be based on an entity's most recent assessment in accordance with SEC regulations and the Company meets the regulations as a SRC. For all other entities, the Board decided that CECL will be effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. For all entities, early adoption will continue to be permitted; that is, early adoption is allowed for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years (that is, effective January 1, 2019, for calendar-year-end companies). The Company does not plan to adopt this standard early and being that the Company is an SRC, adoption is required for fiscal years beginning after December 15, 2022.

**SMARTFINANCIAL, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. The amendments in this update simplify various aspects of the current guidance to promote consistent application of the standard among reporting entities by moving certain exceptions to the general principles. The amendments are effective for fiscal years beginning after December 15, 2020, with early adoption permitted. The Company does not plan to adopt this standard early and adoption should not have a material impact on the Company's consolidated financial statements.

In March 2020, various regulatory agencies, including the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation, (“the agencies”) issued an interagency statement on loan modifications and reporting for financial institutions working with customers affected by COVID-19. The interagency statement was effective immediately and impacted accounting for loan modifications. Under Accounting Standards Codification 310-40, “Receivables – Troubled Debt Restructurings by Creditors,” (“ASC 310-40”), a restructuring of debt constitutes a troubled debt restructuring (“TDR”) if the creditor, for economic or legal reasons related to the debtor’s financial difficulties, grants a concession to the debtor that it would not otherwise consider. The agencies confirmed with the staff of the FASB that short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief, are not to be considered TDRs. This includes short-term (e.g., six months) modifications such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant. Borrowers considered current are those that are less than 30 days past due on their contractual payments at the time a modification program is implemented. As of March 31, 2020, the Bank had provided modifications to approximately \$70.1 million in loans, per the guidance stated above. This interagency guidance could have a material impact on the Company’s financial statements; however, this impact cannot be quantified at this time.

Reclassifications:

Certain captions and amounts in the 2019 consolidated financial statements were reclassified to conform to the 2020 financial statement presentation. These reclassifications had no impact on net income or shareholders' equity as previously reported.

**SMARTFINANCIAL, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

**Note 2. Business Combinations**

*Acquisition of Progressive Financial Inc.*

On March 1, 2020, the Company completed the merger of Progressive Financial Group, Inc., a Tennessee corporation ("PFG"), pursuant to an Agreement and Plan of Merger dated October 29, 2019 (the "Merger Agreement").

In connection with the merger, the Company acquired \$301 million of assets and assumed \$272 million of liabilities. Pursuant to the Merger Agreement, each outstanding share of Progressive common stock was converted into and cancelled in exchange to the right to receive \$474.82 in cash, and 62.3808 shares of SmartFinancial common stock. SmartFinancial issued 1,292,578 shares of SmartFinancial common stock and paid \$9.8 million in cash as consideration for the Merger. The fair value of consideration paid exceeded the fair value of the identifiable assets and liabilities acquired and resulted in the establishment of goodwill in the amount of \$8.3 million, representing the intangible value of Progressive's business and reputation within the markets it served. None of the goodwill recognized is expected to be deductible for income tax purposes. The Company is amortizing the related core deposit intangible of \$1.4 million using the effective yield method over 120 months (10 years), which represents the expected useful life of the asset.

The Company's operating results for the period ended March 31, 2020, include the operating results of the acquired business for the period subsequent to the merger date of March 1, 2020.

The purchased assets and assumed liabilities were recorded at their acquisition date fair values and are summarized in the table below (*in thousands*).

	As recorded by PFG	Fair value adjustments <sup>(1)</sup>	As recorded by the Company
<b>Assets:</b>			
Cash & cash equivalents	\$ 55,971	\$ —	\$ 55,971
Investment securities available-for-sale	27,054	203	27,257
Restricted investments	692	—	692
Loans	191,672	(3,691)	187,981
Allowance for loan losses	(2,832)	2,832	—
Premises and equipment, net	15,681	(2,919)	12,762
Bank owned life insurance	5,560	—	5,560
Deferred tax asset, net	—	813	813
Intangibles	—	1,370	1,370
Other real estate owned	3,695	(100)	3,595
Interest Receivable	1,061	(280)	781
Prepays	375	(174)	201
Goodwill	231	(231)	—
Other assets	1,881	—	1,881
<b>Total assets acquired</b>	<b>\$ 301,041</b>	<b>\$ (2,177)</b>	<b>\$ 298,864</b>
<b>Liabilities:</b>			
Deposits	\$ 271,276	\$ —	\$ 271,276
Time deposit premium	—	729	729
Payables and other liabilities	776	—	776
<b>Total liabilities assumed</b>	<b>272,052</b>	<b>729</b>	<b>272,781</b>
<b>Excess of assets assumed over liabilities assumed</b>	<b>\$ 28,989</b>		
Aggregate fair value adjustments		<b>\$ (2,906)</b>	
<b>Total identifiable net assets</b>			<b>26,083</b>
<b>Consideration transferred:</b>			
Cash			9,838
Common stock issued (1,292,578 shares)			24,547
<b>Total fair value of consideration transferred</b>			<b>34,385</b>
<b>Goodwill</b>			<b>\$ 8,302</b>

<sup>(1)</sup> Fair value adjustments are subject to refinement for a period of six months after the closing date of an acquisition as information relating to the closing date fair value becomes available.



**SMARTFINANCIAL, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

The following table presents additional information related to the acquired loan portfolio at the acquisition date (*in thousands*):

	March 1, 2020
<b>Accounted for pursuant to ASC 310-30:</b>	
Contractually required principal and interest	\$ 21,107
Non-accretable differences	4,706
Cash flows expected to be collected	16,401
Accretable yield	2,515
Fair value	\$ 13,886

The following table discloses the impact of the merger with PFG since the acquisition date through March 31, 2020. The table also presents certain pro forma information (net interest income and noninterest income ("Revenue") and net income) as if the PFG acquisition had occurred on January 1, 2019. The pro-forma financial information is not necessarily indicative of the results of operations had the acquisitions been effective as of these dates.

Merger-related cost from the PFG acquisition of \$2.1 million have been excluded from the three months period of 2020 pro-forma information presented below and included in the three months period of 2019 pro-forma information below. The actual results and pro-forma information were as follows (*in thousands*):

	Three Months Ended March 31,	
	Revenue	Net Income
<b>2020:</b>		
Actual PFG results included in statement of income since acquisition date	\$ 505	\$ 117
Supplemental consolidation pro-forma as if PFG had been acquired January 1, 2019	28,050	4,013
<b>2019:</b>		
Supplemental consolidation pro-forma as if PFG had been acquired January 1, 2019	\$ 26,766	\$ 3,513

**SMARTFINANCIAL, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

**Note 3. Earnings Per Share**

Basic earnings per common share is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding. Diluted earnings per common share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding and dilutive common share equivalents using the treasury stock method. Dilutive common share equivalents include common shares issuable upon exercise of outstanding stock options and restricted stock. The effect from the stock options and restricted stock on incremental shares from the assumed conversions for net income per share-basic and net income per share-diluted are presented below. There were 64 thousand antidilutive shares for the period ended March 31, 2020, and none for the period ended March 31, 2019.

	Three Months Ended March 31,	
	2020	2019
<b>Basic earnings per share computation:</b>		
Net income available to common stockholders	\$ 2,732	\$ 4,731
Average common shares outstanding - basic	14,395,103	13,942,016
Basic earnings per share	\$ 0.19	\$ 0.34
<b>Diluted earnings per share computation:</b>		
Net income available to common stockholders	\$ 2,732	\$ 4,731
Average common shares outstanding - basic	14,395,103	13,942,016
Incremental shares from assumed conversions:		
Stock options and restricted stock	84,568	76,147
Average common shares outstanding - diluted	14,479,671	14,018,163
Diluted earnings per common share	\$ 0.19	\$ 0.34



**SMARTFINANCIAL, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

**Note 4. Securities**

The amortized cost, gross unrealized gains and losses and fair value of securities available-for-sale are summarized as follows (*in thousands*):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>March 31, 2020:</b>				
U.S. Government-sponsored enterprises (GSEs)	\$ 17,012	\$ 96	\$ (63)	\$ 17,045
Municipal securities	82,599	970	(252)	83,317
Other debt securities	5,461	129	(128)	5,462
Mortgage-backed securities (GSEs)	94,306	1,482	(610)	95,178
	<u>\$ 199,378</u>	<u>\$ 2,677</u>	<u>\$ (1,053)</u>	<u>\$ 201,002</u>

**December 31, 2019:**

U.S. Government-sponsored enterprises (GSEs)	\$ 19,015	\$ 41	\$ (56)	\$ 19,000
Municipal securities	63,792	618	(19)	64,391
Other debt securities	3,481	22	(33)	3,470
Mortgage-backed securities (GSEs)	91,531	382	(426)	91,487
	<u>\$ 177,819</u>	<u>\$ 1,063</u>	<u>\$ (534)</u>	<u>\$ 178,348</u>

At March 31, 2020, and December 31, 2019, securities with a carrying value totaling approximately \$95.7 million and \$92.3 million, respectively, were pledged to secure public funds and securities sold under agreements to repurchase.

For the three months ended March 31, 2020, approximately \$2.1 million available-for-sale securities were sold and there were no gains or losses realized. For the three months ended March 31, 2019, there were no available-for-sale securities sold. For the three months ended March 31, 2020, there were approximately \$3.3 million available-for-sale securities redeemed. For the three months ended March 31, 2019, there were approximately \$5 million available-for-sale securities redeemed.

The amortized cost and estimated fair value of securities at March 31, 2020, by contractual maturity for non-mortgage backed securities are shown below (*in thousands*). Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Due in one year or less	\$ 8,491	\$ 8,440
Due from one year to five years	5,177	5,182
Due from five years to ten years	19,145	19,254
Due after ten years	72,258	72,947
	<u>105,071</u>	<u>105,823</u>
Mortgage-backed securities	94,307	95,179
	<u>\$ 199,378</u>	<u>\$ 201,002</u>

The following tables present the gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities available-for-sale have been in a continuous unrealized loss position (*in thousands*):

	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<b>March 31, 2020:</b>						
U.S. Government- sponsored enterprises (GSEs)	\$ 696	\$ (63)	\$ —	\$ —	\$ 696	\$ (63)
Municipal securities	16,370	(250)	527	(2)	16,897	(252)
Other debt securities	1,970	(10)	863	(118)	2,833	(128)
Mortgage-backed securities (GSEs)	29,967	(425)	7,125	(185)	37,092	(610)
	<u>\$ 49,003</u>	<u>\$ (748)</u>	<u>\$ 8,515</u>	<u>\$ (305)</u>	<u>\$ 57,518</u>	<u>\$ (1,053)</u>



**SMARTFINANCIAL, INC. AND SUBSIDIARY**  
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	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<b>December 31, 2019:</b>						
U.S. Government- sponsored enterprises (GSEs)	\$ 2,972	\$ (43)	\$ 5,987	\$ (13)	\$ 8,959	\$ (56)
Municipal securities	3,656	(16)	527	(3)	4,183	(19)
Other debt securities	—	—	947	(33)	947	(33)
Mortgage-backed securities (GSEs)	13,208	(194)	19,988	(232)	33,196	(426)
	<u>\$ 19,836</u>	<u>\$ (253)</u>	<u>\$ 27,449</u>	<u>\$ (281)</u>	<u>\$ 47,285</u>	<u>\$ (534)</u>

At March 31, 2020, the categories of temporarily impaired securities in an unrealized loss position twelve months or greater are as follows (*dollars in thousands*):

	Gross Unrealized Loss	Number of Securities
U.S. Government-sponsored enterprises (GSEs)	\$ —	—
Municipal securities	(2)	1
Other debt securities	(118)	1
Mortgage-backed securities (GSEs)	(185)	11
	<u>\$ (305)</u>	<u>13</u>

The Company reviews the securities portfolio on a quarterly basis to monitor its exposure to other-than-temporary impairment. A determination as to whether a security's decline in fair value is other-than-temporary takes into consideration numerous factors and the relative significance of any single factor can vary by security. Some factors the Company may consider in the other-than-temporary impairment analysis include the length of time and extent to which the security has been in an unrealized loss position, changes in security ratings, financial condition and near-term prospects of the issuer, as well as security and industry specific economic conditions.

Based on this evaluation, the Company concluded that any unrealized losses at March 31, 2020, represented a temporary impairment, as these unrealized losses are primarily attributable to changes in interest rates and current market conditions, and not credit deterioration of the issuers. As of March 31, 2020, the Company does not intend to sell any of the securities, does not expect to be required to sell any of the securities, and expects to recover the entire amortized cost of all of the securities.

The following is the amortized cost and carrying value of other investments (*in thousands*):

	March 31, 2020	December 31, 2019
Federal Reserve Bank stock	\$ 7,925	\$ 7,917
Federal Home Loan Bank stock	5,838	4,646
First National Bankers Bank stock	350	350
	<u>\$ 14,113</u>	<u>\$ 12,913</u>

Our restricted investments consist of non-marketable equity securities that have no readily determinable market value. Accordingly, when evaluating these securities for impairment, management considers the ultimate recoverability of the par value rather than recognizing temporary declines in value. As of March 31, 2020, the Company determined that there was no impairment on its other securities.

**SMARTFINANCIAL, INC. AND SUBSIDIARY**  
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**Note 5. Loans and Allowance for Loan Losses**

*Portfolio Segmentation:*

Major categories of loans are summarized as follows (*in thousands*):

	March 31, 2020			December 31, 2019		
	PCI Loans <sup>1</sup>	All Other Loans <sup>2</sup>	Total	PCI Loans <sup>1</sup>	All Other Loans <sup>2</sup>	Total
Commercial real estate	\$ 16,589	\$ 992,446	\$ 1,009,035	\$ 15,255	\$ 890,051	\$ 905,306
Consumer real estate	11,950	476,823	488,773	6,541	416,797	423,338
Construction and land development	6,479	246,966	253,445	4,458	223,168	227,626
Commercial and industrial	143	377,030	377,173	407	336,668	337,075
Consumer and other	325	16,541	16,866	326	9,577	9,903
Total loans	35,486	2,109,806	2,145,292	26,987	1,876,261	1,903,248
Less: Allowance for loan losses	—	(13,431)	(13,431)	(156)	(10,087)	(10,243)
Loans, net	<u>\$ 35,486</u>	<u>\$ 2,096,375</u>	<u>\$ 2,131,861</u>	<u>\$ 26,831</u>	<u>\$ 1,866,174</u>	<u>\$ 1,893,005</u>

<sup>1</sup> Purchased Credit Impaired loans ("PCI loans") are loans with evidence of credit deterioration at purchase.

<sup>2</sup> Includes loans held for sale.

For purposes of the disclosures required pursuant to the adoption of ASC 310, the loan portfolio was disaggregated into segments. A portfolio segment is defined as the level at which an entity develops and documents a systematic method for determining its allowance for credit losses. There are five loan portfolio segments that include commercial real estate, consumer real estate, construction and land development, commercial and industrial, and consumer and other.

The composition of loans by loan classification for impaired and performing loan status is summarized in the tables below (*in thousands*):

	Commercial Real Estate	Consumer Real Estate	Construction and Land Development	Commercial and Industrial	Consumer and Other	Total
<b>March 31, 2020:</b>						
Performing loans	\$ 991,914	\$ 475,303	\$ 246,359	\$ 376,872	\$ 16,541	\$ 2,106,989
Impaired loans	532	1,520	607	158	—	2,817
	992,446	476,823	246,966	377,030	16,541	2,109,806
PCI loans	16,589	11,950	6,479	143	325	35,486
Total loans	<u>\$ 1,009,035</u>	<u>\$ 488,773</u>	<u>\$ 253,445</u>	<u>\$ 377,173</u>	<u>\$ 16,866</u>	<u>\$ 2,145,292</u>

**December 31, 2019:**

Performing loans	\$ 889,795	\$ 415,250	\$ 222,621	\$ 336,508	\$ 9,577	\$ 1,873,751
Impaired loans	256	1,547	547	160	—	2,510
	890,051	416,797	223,168	336,668	9,577	1,876,261
PCI loans	15,255	6,541	4,458	407	326	26,987
Total loans	<u>\$ 905,306</u>	<u>\$ 423,338</u>	<u>\$ 227,626</u>	<u>\$ 337,075</u>	<u>\$ 9,903</u>	<u>\$ 1,903,248</u>



**SMARTFINANCIAL, INC. AND SUBSIDIARY**  
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The following tables show the allowance for loan losses allocation by loan classification for impaired, PCI, and performing loans (*in thousands*):

	Commercial Real Estate	Consumer Real Estate	Construction and Land Development	Commercial and Industrial	Consumer and Other	Total
<b>March 31, 2020:</b>						
Performing loans	\$ 5,917	\$ 2,922	\$ 1,484	\$ 2,427	\$ 126	\$ 12,876
Impaired loans	46	379	—	130	—	555
	5,963	3,301	1,484	2,557	126	13,431
PCI loans	—	—	—	—	—	—
Total loans	<u>\$ 5,963</u>	<u>\$ 3,301</u>	<u>\$ 1,484</u>	<u>\$ 2,557</u>	<u>\$ 126</u>	<u>\$ 13,431</u>

**December 31, 2019:**

Performing loans	\$ 4,491	\$ 2,159	\$ 1,127	\$ 1,766	\$ 69	\$ 9,612
Impaired loans	—	343	—	132	—	475
	4,491	2,502	1,127	1,898	69	10,087
PCI loans	17	74	—	59	6	156
Total loans	<u>\$ 4,508</u>	<u>\$ 2,576</u>	<u>\$ 1,127</u>	<u>\$ 1,957</u>	<u>\$ 75</u>	<u>\$ 10,243</u>

The following tables detail the changes in the allowance for loan losses by loan classification (*in thousands*):

	Three Months Ended March 31, 2020					
	Commercial Real Estate	Consumer Real Estate	Construction and Land Development	Commercial and Industrial	Consumer and Other	Total
Beginning balance	\$ 4,508	\$ 2,576	\$ 1,127	\$ 1,957	\$ 75	\$ 10,243
Charged off loans	—	(2)	—	(8)	(76)	(86)
Recoveries of charge-offs	2	6	2	42	22	74
Provision (reallocation) charged to expense	1,453	721	355	566	105	3,200
Ending balance	<u>\$ 5,963</u>	<u>\$ 3,301</u>	<u>\$ 1,484</u>	<u>\$ 2,557</u>	<u>\$ 126</u>	<u>\$ 13,431</u>

	Three Months Ended March 31, 2019					
	Commercial Real Estate	Consumer Real Estate	Construction and Land Development	Commercial and Industrial	Consumer and Other	Total
Beginning balance	\$ 3,639	\$ 1,789	\$ 795	\$ 1,746	\$ 306	\$ 8,275
Charged off loans	—	(2)	—	(318)	(130)	(450)
Recoveries of charge-offs	2	4	2	12	62	82
Provision (reallocation) charged to expense	433	158	57	269	(120)	797
Ending balance	<u>\$ 4,074</u>	<u>\$ 1,949</u>	<u>\$ 854</u>	<u>\$ 1,709</u>	<u>\$ 118</u>	<u>\$ 8,704</u>

**SMARTFINANCIAL, INC. AND SUBSIDIARY**  
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The following tables outline the amount of each loan classification and the amount categorized into each risk rating (*in thousands*):

March 31, 2020

<b>Non PCI Loans:</b>	Commercial Real Estate	Consumer Real Estate	Construction and Land Development	Commercial and Industrial	Consumer and Other	Total
Pass	\$ 903,306	\$ 468,494	\$ 238,701	\$ 368,506	\$ 16,423	\$ 1,995,430
Watch	81,277	5,697	7,587	7,233	38	101,832
Special mention	7,225	748	—	1,020	—	8,993
Substandard	638	1,722	678	221	56	3,315
Doubtful	—	162	—	50	24	236
<b>Total</b>	<b>992,446</b>	<b>476,823</b>	<b>246,966</b>	<b>377,030</b>	<b>16,541</b>	<b>2,109,806</b>

**PCI Loans:**

Pass	13,220	8,122	2,169	48	300	23,859
Watch	2,189	743	3,743	—	14	6,689
Special mention	21	59	—	—	—	80
Substandard	1,159	3,026	567	95	11	4,858
Doubtful	—	—	—	—	—	—
<b>Total</b>	<b>16,589</b>	<b>11,950</b>	<b>6,479</b>	<b>143</b>	<b>325</b>	<b>35,486</b>
<b>Total loans</b>	<b>\$ 1,009,035</b>	<b>\$ 488,773</b>	<b>\$ 253,445</b>	<b>\$ 377,173</b>	<b>\$ 16,866</b>	<b>\$ 2,145,292</b>

December 31, 2019

<b>Non PCI Loans:</b>	Commercial Real Estate	Consumer Real Estate	Construction and Land Development	Commercial and Industrial	Consumer and Other	Total
Pass	\$ 860,447	\$ 413,192	\$ 216,459	\$ 328,564	\$ 9,462	\$ 1,828,124
Watch	25,180	989	6,089	6,786	40	39,084
Special mention	4,057	738	—	1,033	—	5,828
Substandard	367	1,713	620	228	51	2,979
Doubtful	—	165	—	57	24	246
<b>Total</b>	<b>890,051</b>	<b>416,797</b>	<b>223,168</b>	<b>336,668</b>	<b>9,577</b>	<b>1,876,261</b>

**PCI Loans:**

Pass	12,473	5,258	902	41	300	18,974
Watch	2,234	38	3,556	—	13	5,841
Special mention	139	60	—	—	—	199
Substandard	409	1,185	—	366	13	1,973
Doubtful	—	—	—	—	—	—
<b>Total</b>	<b>15,255</b>	<b>6,541</b>	<b>4,458</b>	<b>407</b>	<b>326</b>	<b>26,987</b>
<b>Total loans</b>	<b>\$ 905,306</b>	<b>\$ 423,338</b>	<b>\$ 227,626</b>	<b>\$ 337,075</b>	<b>\$ 9,903</b>	<b>\$ 1,903,248</b>

**SMARTFINANCIAL, INC. AND SUBSIDIARY**  
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*Past Due Loans:*

A loan is considered past due if any required principal and interest payments have not been received as of the date such payments were required to be made under the terms of the loan agreement. Generally, management places a loan on nonaccrual when there is a clear indicator that the borrower's cash flow may not be sufficient to meet payments as they become due, which is generally when a loan is 90 days past due.

The following tables present an aging analysis of our loan portfolio (*in thousands*):

March 31, 2020								
	30-60 Days Past Due and Accruing	61-89 Days Past Due and Accruing	Past Due 90 Days or More and Accruing	Nonaccrual	Total Past Due and Nonaccrual	PCI Loans	Current Loans	Total Loans
Commercial real estate	\$ 4,305	\$ 418	\$ —	\$ 397	\$ 5,120	\$ 16,589	\$ 987,326	\$ 1,009,035
Consumer real estate	4,029	486	—	1,860	6,375	11,950	470,448	488,773
Construction and land development	564	40	—	679	1,283	6,479	245,683	253,445
Commercial and industrial	665	302	—	48	1,015	143	376,015	377,173
Consumer and other	373	6	10	76	465	325	16,076	16,866
<b>Total</b>	<b>\$ 9,936</b>	<b>\$ 1,252</b>	<b>\$ 10</b>	<b>\$ 3,060</b>	<b>\$ 14,258</b>	<b>\$ 35,486</b>	<b>\$ 2,095,548</b>	<b>\$ 2,145,292</b>

December 31, 2019								
	30-60 Days Past Due and Accruing	61-89 Days Past Due and Accruing	Past Due 90 Days or More and Accruing	Nonaccrual	Total Past Due and Nonaccrual	PCI Loans	Current Loans	Total Loans
Commercial real estate	\$ 466	\$ 22	\$ —	\$ 124	\$ 612	\$ 15,255	\$ 889,439	\$ 905,306
Consumer real estate	1,564	30	—	1,872	3,466	6,541	413,331	423,338
Construction and land development	507	—	607	620	1,734	4,458	221,434	227,626
Commercial and industrial	559	53	—	57	669	407	335,999	337,075
Consumer and other	86	14	—	70	170	326	9,407	9,903
<b>Total</b>	<b>\$ 3,182</b>	<b>\$ 119</b>	<b>\$ 607</b>	<b>\$ 2,743</b>	<b>\$ 6,651</b>	<b>\$ 26,987</b>	<b>\$ 1,869,610</b>	<b>\$ 1,903,248</b>



**SMARTFINANCIAL, INC. AND SUBSIDIARY**  
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*Impaired Loans:*

The following is an analysis of the impaired loan portfolio, including PCI loans, detailing the related allowance recorded (*in thousands*):

	March 31, 2020			December 31, 2019		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
<b>Impaired loans without a valuation allowance:</b>						
Commercial real estate	\$ 136	\$ 136	\$ —	\$ 256	\$ 261	\$ —
Consumer real estate	546	546	—	553	553	—
Construction and land development	607	607	—	547	547	—
Commercial and industrial	—	—	—	—	—	—
Consumer and other	—	—	—	—	—	—
	1,289	1,289	—	1,356	1,361	—
<b>Impaired loans with a valuation allowance:</b>						
Commercial real estate	396	402	46	—	—	—
Consumer real estate	974	974	379	994	994	343
Construction and land development	—	—	—	—	—	—
Commercial and industrial	158	158	130	160	160	132
Consumer and other	—	—	—	—	—	—
	1,528	1,534	555	1,154	1,154	475
<b>PCI loans:</b>						
Commercial real estate	1,010	1,019	—	17	99	17
Consumer real estate	486	491	—	1,205	1,371	74
Construction and land development	253	254	—	—	—	—
Commercial and industrial	376	378	—	396	534	59
Consumer and other	14	14	—	45	51	6
	2,139	2,156	—	1,663	2,055	156
<b>Total impaired loans</b>	<b>\$ 4,956</b>	<b>\$ 4,979</b>	<b>\$ 555</b>	<b>\$ 4,173</b>	<b>\$ 4,570</b>	<b>\$ 631</b>

**SMARTFINANCIAL, INC. AND SUBSIDIARY**  
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<td colspan="3">

	Three Months Ended March 31,			
	2020		2019	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
<b>Impaired loans without a valuation allowance:</b>				
Commercial real estate	\$ 196	\$ 3	\$ 613	\$ 20
Consumer real estate	550	4	967	4
Construction and land development	577	—	573	—
Commercial and industrial	—	—	50	1
Consumer and other	—	—	28	1
	1,323	7	2,231	26
<b>Impaired loans with a valuation allowance:</b>				
Commercial real estate	198			