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**

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(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
ASSETS:		
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	$ 2,873,715	$ 2,449,123
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Deposits:		
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
Shareholders' equity:		
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	$ 2,873,715	$ 2,449,123

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	Three Months Ended March 31, 2019
Interest income:		
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	27,998	26,943
Interest expense:		
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	5,427	5,946
Net interest income	22,571	20,997
Provision for loan losses	3,200	797
Net interest income after provision for loan losses	19,371	20,200
Noninterest income:		
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	2,818	1,698
Noninterest expense:		
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	18,793	15,579
Income before income tax expense	3,396	6,319
Income tax expense	664	1,588
Net income	$ 2,732	$ 4,731
Earnings per common share:		
Basic	$ 0.19	$ 0.34
Diluted	$ 0.19	$ 0.34
Weighted average common shares outstanding:		

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)

	Common Stock					
	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
Balance, December 31, 2018	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
Balance, March 31, 2019	13,951,590	$ 13,952	$ 232,241	$ 44,722	$ (434)	$ 290,481
Balance, December 31, 2019	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)
Balance, March 31, 2020	15,221,990	$ 15,222	$ 254,356	$ 67,869	$ (1,247)	$ 336,200

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
Cash flows from operating activities:		
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
Cash flows from investing activities:		
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)
Cash flows from financing activities:		
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
Net change in cash and cash equivalents	125,118	17,172
Cash and cash equivalents, beginning of period	183,971	115,822
Cash and cash equivalents, end of period	$ 309,089	$ 132,994
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	$ 4,643	$ 5,198
Cash paid during the period for income taxes	—	—
Noncash investing and financing activities:		
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.

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.

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.

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 [1]	As recorded by the Company
Assets:			
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
Prepaids	375	(174)	201
Goodwill	231	(231)	—
Other assets	1,881	—	1,881
Total assets acquired	$ 301,041	$ (2,177)	$ 298,864
Liabilities:			
Deposits	$ 271,276	$ —	$ 271,276
Time deposit premium	—	729	729
Payables and other liabilities	776	—	776
Total liabilities assumed	272,052	729	272,781
Excess of assets assumed over liabilities assumed	$ 28,989		
Aggregate fair value adjustments		$ (2,906)	
Total identifiable net assets			26,083
Consideration transferred:			
Cash			9,838
Common stock issued (1,292,578 shares)			24,547
Total fair value of consideration transferred			34,385
Goodwill			$ 8,302

[1] Fair values are preliminary and are subject to refinement for a period of one year after the closing date of an acquisition as information relative to the closing date fair value becomes available.

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

	March 1, 2020
Accounted for pursuant to ASC 310-30:	
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
2020:		
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
2019:		
Supplemental consolidation pro-forma as if PFG had been acquired January 1, 2019	$ 26,766	$ 3,513

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
Basic earnings per share computation:		
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
Diluted earnings per share computation:		
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

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
March 31, 2020:				
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
	$ 199,378	$ 2,677	$ (1,053)	$ 201,002
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
	$ 177,819	$ 1,063	$ (534)	$ 178,348

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
	105,071	105,823
Mortgage-backed securities	94,307	95,179
	$ 199,378	$ 201,002

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
March 31, 2020:						
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)
	$ 49,003	$ (748)	$ 8,515	$ (305)	$ 57,518	$ (1,053)

	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2019:						
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)
	$ 19,836	$ (253)	$ 27,449	$ (281)	$ 47,285	$ (534)

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
	$ (305)	13

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
	$ 14,113	$ 12,913

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.

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[1]	All Other Loans[2]	Total	PCI Loans[1]	All Other Loans[2]	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	$ 35,486	$ 2,096,375	$ 2,131,861	$ 26,831	$ 1,866,174	$ 1,893,005

[1] Purchased Credit Impaired loans ("PCI loans") are loans with evidence of credit deterioration at purchase.
[2] 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
March 31, 2020:						
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	$ 1,009,035	$ 488,773	$ 253,445	$ 377,173	$ 16,866	$ 2,145,292
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	$ 905,306	$ 423,338	$ 227,626	$ 337,075	$ 9,903	$ 1,903,248

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
March 31, 2020:						
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	$ 5,963	$ 3,301	$ 1,484	$ 2,557	$ 126	$ 13,431
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	$ 4,508	$ 2,576	$ 1,127	$ 1,957	$ 75	$ 10,243

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	$ 5,963	$ 3,301	$ 1,484	$ 2,557	$ 126	$ 13,431

	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	$ 4,074	$ 1,949	$ 854	$ 1,709	$ 118	$ 8,704

The following tables outline the amount of each loan classification and the amount categorized into each risk rating *(in thousands)*:

	March 31, 2020					
Non PCI Loans:	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
Total	992,446	476,823	246,966	377,030	16,541	2,109,806
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	—	—	—	—	—	—
Total	16,589	11,950	6,479	143	325	35,486
Total loans	$ 1,009,035	$ 488,773	$ 253,445	$ 377,173	$ 16,866	$ 2,145,292

	December 31, 2019					
Non PCI Loans:	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
Total	890,051	416,797	223,168	336,668	9,577	1,876,261
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	—	—	—	—	—	—
Total	15,255	6,541	4,458	407	326	26,987
Total loans	$ 905,306	$ 423,338	$ 227,626	$ 337,075	$ 9,903	$ 1,903,248

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
Total	$ 9,936	$ 1,252	$ 10	$ 3,060	$ 14,258	$ 35,486	$ 2,095,548	$ 2,145,292

	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
Total	$ 3,182	$ 119	$ 607	$ 2,743	$ 6,651	$ 26,987	$ 1,869,610	$ 1,903,248

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
Impaired loans without a valuation allowance:						
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	—
Impaired loans with a valuation allowance:						
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
PCI loans:						
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
Total impaired loans	$ 4,956	$ 4,979	$ 555	$ 4,173	$ 4,570	$ 631

	Three Months Ended March 31,			
	2020		2019	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired loans without a valuation allowance:				
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
Impaired loans with a valuation allowance:				
Commercial real estate	198	2	24	1
Consumer real estate	984	9	99	—
Construction and land development	—	—	28	—
Commercial and industrial	159	2	644	9
Consumer and other	—	—	57	—
	1,341	13	852	10
PCI loans:				
Commercial real estate	964	1	845	(10)
Consumer real estate	456	1	367	3
Construction and land development	231	—	—	—
Commercial and industrial	355	—	—	—
Consumer real estate	11	—	—	—
	2,017	2	1,212	(7)
Total impaired loans	$ 4,681	$ 22	$ 4,295	$ 29

Troubled Debt Restructurings:

At March 31, 2020, and December 31, 2019, impaired loans included loans that were classified as Troubled Debt Restructurings ("TDRs"). The restructuring of a loan is considered a TDR if both (i) the borrower is experiencing financial difficulties and (ii) the creditor has granted a concession.

In assessing whether or not a borrower is experiencing financial difficulties, the Company considers information currently available regarding the financial condition of the borrower. This information includes, but is not limited to, whether (i) the debtor is currently in payment default on any of its debt; (ii) a payment default is probable in the foreseeable future without the modification; (iii) the debtor has declared or is in the process of declaring bankruptcy; and (iv) the debtor's projected cash flow is sufficient to satisfy contractual payments due under the original terms of the loan without a modification.

The Company considers all aspects of the modification to loan terms to determine whether or not a concession has been granted to the borrower. Key factors considered by the Company include the debtor's ability to access funds at a market rate for debt with similar risk characteristics, the significance of the modification relative to unpaid principal balance or collateral value of the debt, and the significance of a delay in the timing of payments relative to the original contractual terms of the loan.

The most common concessions granted by the Company generally include one or more modifications to the terms of the debt, such as (i) a reduction in the interest rate for the remaining life of the debt; (ii) an extension of the maturity date at an interest rate lower than the current market rate for new debt with similar risk; (iii) a temporary period of interest-only payments; and (iv) a reduction in the contractual payment amount for either a short period or remaining term of the loan. As of March 31, 2020, and December 31, 2019, management had approximately $9 thousand and $61 thousand, respectively, in loans that met the criteria for TDR, none of which were on nonaccrual. A loan is placed back on accrual status when both principal and interest are current and it is probable that the Company will be able to collect all amounts due (both principal and interest) according to the terms of the loan agreement.

There was one loan that was modified as a TDR during the three month period ended March 31, 2020, and no loans were modified during the three month period ended March 31, 2019. There were no loans that were modified as troubled debt restructurings during the past three months and for which there was a subsequent payment default.

Foreclosure Proceedings and Balances:

As of March 31, 2020, there were seven properties secured by real estate included in other real estate owned and there were no consumer mortgage loans collateralized by residential real estate property that were in the process of foreclosure.

Purchased Credit Impaired Loans:

The Company has acquired loans where there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. The carrying amount of those loans are as follows *(in thousands)*:

	March 31, 2020	December 31, 2019
Commercial real estate	$ 24,557	$ 21,570
Consumer real estate	14,703	8,411
Construction and land development	2,321	5,394
Commercial and industrial	7,806	2,540
Consumer and other	486	504
Total loans	49,873	38,419
Less: Remaining purchase discount	(14,387)	(11,432)
Total loans, net of purchase discount	35,486	26,987
Less: Allowance for loan losses	—	(156)
Carrying amount, net of allowance	$ 35,486	$ 26,831

Activity related to the accretable yield on loans acquired with deteriorated credit quality is as follows *(in thousands)*:

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Accretable yield, beginning of period	$ 8,454	$ 7,052
Additions	2,515	—
Accretion income	(2,077)	(1,254)
Reclassification	1,916	1,035
Other changes, net	171	1,811
Accretable yield, end of period	$ 10,979	$ 8,644

Note 6. Goodwill and Intangible Assets

In accordance with FASB ASC 350, *Goodwill and Other*, regarding testing goodwill for impairment provides an entity the option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The Company performs its annual goodwill impairment test as of December 31 of each year and at December 31, 2019, the results of the qualitative assessment provided no indication of potential impairment. Goodwill will continue to be monitored for triggering events that may indicate impairment prior to the next scheduled annual impairment test. As of March 31, 2020 the Company was closely monitoring the effects of COVID-19 on the economy and considered this a triggering event and performed an interim goodwill impairment analysis. The results was no impairment charge for the period. Management will continue to evaluate the economic conditions at future reporting periods for applicable changes.

The Company's other intangible assets consist of core deposit intangibles, and is initially recognized based on a valuation performed as of the consummation date. The core deposit intangible is amortized over the average remaining life of the acquired customer deposits.

The carrying amount of goodwill and other intangible assets as of the dates indicated is summarized below *(in thousands)*:

	March 31, 2020	December 31, 2019
Goodwill:		
Balance, beginning of period	$ 65,614	$ 66,087
Adjustment to values initially recorded for Acquisition of Foothills Bancorp, Inc.	—	(473)
Acquisition of PFG	8,302	—
Balance, end of the period	$ 73,916	$ 65,614

	March 31, 2020	December 31, 2019
Core deposit intangible:		
Balance, beginning of period	$ 14,549	$ 14,549
Acquisition of PFG	1,370	—
Balance, gross core deposit intangible	15,919	14,549
Less: accumulated amortization	(3,332)	(2,970)
Net core deposit intangible, net	$ 12,587	$ 11,579

The aggregate amortization of core deposit intangibles expense for March 31, 2020, and 2019, was $362 thousand and $344 thousand, respectively.

The estimated aggregate amortization expense for future periods for core deposit intangibles is as follows *(in thousands)*:

Remainder of 2020	$ 1,207
2021	1,570
2022	1,526
2023	1,485
2024	1,456
Thereafter	5,343
Total	$ 12,587

Note 7. Borrowings and Line of Credit

FHLB:

The Bank has agreements with the Federal Home Loan Bank of Cincinnati ("FHLB") that can provide additional advances to the Bank in an amount up to $52.0 million. All of the loans are secured by first mortgages on 1-4 family residential, multi-family properties and commercial properties and are pledged as collateral for these advances. There were no securities pledged to FHLB at March 31, 2020, or December 31, 2019.

FHLB advances consist of the following *(dollars in thousands)*:

	March 31, 2020	December 31, 2019
Long-term advance dated September 10, 2019, requiring monthly interest payments, fixed at 0.93%, with a put option exercisable on September 10, 2020 and then quarterly thereafter, principal due in September 2029.[1]	$ 25,000	$ 25,000
Long-term advance dated February 28, 2020, requiring monthly interest payments, fixed at 0.46%, with a put option exercisable on February, 26, 2021 and then quarterly thereafter, principal due in February 2030.[1]	50,000	—
Total	$ 75,000	$ 25,000

[1] On agreements with put options, the FHLB has the right, at its discretion, to terminate the entire advance prior to the stated maturity date. The termination option may only be exercised on the expiration date of the predetermined lockout period and on a quarterly basis thereafter.

Federal Reserve of Atlanta Discount Window:

The Bank has agreements with the Federal Reserve Bank of Atlanta Discount Window ("FRB") that can provide additional advances to the Bank in an amount up to $50.0 million. All of the loans are secured by commercial loans, first mortgages of farmland properties and commercial construction properties and are pledged as collateral for these advances There were no securities pledged to the FRB at March 31, 2020. The Company did not have any borrowings from the FRB at December 31, 2019.

FRB advances consist of the following *(dollars in thousands)*:

	March 31, 2020
FRB advance dated March 27, 2020, fixed at 0.25%, with principal due in June 25, 2020	$ 50,000

Other borrowings:

On May 1, 2018, the Company entered into a loan agreement in the amount of $500 thousand at a rate of 4.75% with semi-annual payments of principal plus accrued interest over an amortization period of ten years. The outstanding principal balance of the borrowing at March 31, 2020, and December 31, 2019, was $439 thousand, with a maturity on April 30, 2028.

Line of Credit:

During the first quarter of 2020, the Company entered into a Loan and Security Agreement and revolving note with ServisFirst Bank, pursuant to which ServisFirst Bank has made a $25.0 million revolving line of credit available to the Company. The maturity of the line of credit is September 24, 2021. At March 31, 2020, there was no outstanding balance under the line of credit, and the entire amount of the line of credit remained available to the Company.

The Loan and Security Agreement requires the Company to comply with certain covenants including those related to asset quality, capital levels, and incurring new indebtedness above certain amounts. The Company was in compliance with all covenants associated with this line of credit at March 31, 2020.

Scheduled maturities:

At March 31, 2020, scheduled maturities of the FHLB advances, FRB advance and other borrowings are as follows *(dollars in thousands)*:

Remainder of 2020	$ 50,043
2021	45
2022	47
2023	50
2024	52
Thereafter	75,202
Total	$ 125,439

Note 8. Employee Benefit Plans

401(k) Plan:

The Company provides a deferred salary reduction plan ("Plan") under Section 401(k) of the Internal Revenue Code covering substantially all employees. After one year of service the Company matches 100% of employee contributions up to 3% of compensation and 50% of employee contributions on the next 2% of compensation. The Company's contribution to the Plan for the three month period ending March 31, 2020, and 2019, respectively, was $251 thousand and $198 thousand.

Equity Incentive Plans:

The Compensation Committee of the Company's Board of Directors may grant or award eligible participants stock options, restricted stock, restricted stock units, stock appreciation rights, and other stock-based awards or any combination of awards (collectively referred to herein as "Rights"). At March 31, 2020, the Company had one active equity incentive plan administered by the Board of Directors, the 2015 Stock Incentive Plan. The Company had 32,034 Rights issued and 1,883,107 Rights available for grants or awards under this plan.

In addition to the 2015 Stock Incentive Plan, the Company has 38,250 Rights issued from the Cornerstone Bancshares, Inc. 2002 Long Term Incentive Plan, 49,250 Rights issued from the Cornerstone Non-Qualified Plan Options, and 2,266 Rights issued from the Capstone Stock Option Plan. These plans do not have any Rights available for future grants or awards.

Stock Options:

A summary of the status of stock option plans is presented in the following table:

	Number	Weighted Average Exercisable Price
Outstanding at December 31, 2019	136,658	$ 10.29
Granted	—	—
Exercised	(14,858)	11.62
Forfeited	—	—
Outstanding at March 31, 2020	121,800	$ 10.13

Information pertaining to stock options outstanding at March 31, 2020, is as follows:

	Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$ 6.60	25,000	1.6 years	$ 6.60	25,000	$ 6.60
6.80	13,250	0.9 years	6.80	13,250	6.80
9.48	21,000	2.7 years	9.48	21,000	9.48
9.60	28,250	3.2 years	9.60	28,250	9.60
11.76	2,266	2.2 years	11.76	2,266	11.76
$ 15.05	32,034	5.0 years	15.05	32,034	15.05
Outstanding, end of period	121,800	3.0 years	$ 10.13	121,800	$ 10.13

The Company did not recognize any stock option-based compensation expense during the three months ended March 31, 2020, as all stock options issued are fully vested. During the three month period ended March 31, 2019, stock option-based compensation expense was $31 thousand.

The intrinsic value of options exercised during the periods ended March 31, 2020, and 2019 was $65 thousand and $81 thousand, respectively. The aggregate intrinsic value of total options outstanding and exercisable options at March 31,

2020, was $618 thousand. Cash received from options exercised under all share-based payment arrangements for the period ended March 31, 2020 was $173 thousand.

No shares vested during the periods ended March 31, 2020, and 2019, respectively. The income tax benefit recognized for the exercise of options for the periods ended March 31, 2020, and 2019, was $23 thousand and $22 thousand, respectively.

As of March 31, 2020, all options are fully vested and currently no future compensation cost will be recognized related to nonvested stock-based compensation arrangements granted under the Plans.

Stock Appreciation Rights ("SARs"):

A summary of the status of SARs plans is presented in the following table:

	Number	Weighted Average Exercisable Price
Outstanding at December 31, 2019	67,000	$ 20.54
Granted	18,000	15.19
Exercised	—	—
Forfeited	—	—
Outstanding at March 31, 2020	85,000	$ 19.40

Information pertaining to SARs outstanding at March 31, 2020, is as follows:

	SARs Outstanding			SARs Exercisable	
Exercise Prices	Number Outstanding	Weighted- Average Remaining Contractual Life	Weighted- Average Exercise Price	Number Exercisable	Weighted- Average Exercise Price
$ 15.19	18,000	3.8 years	$ 15.19	—	$ —
18.12	21,000	2.8 years	18.12	—	—
21.61	34,000	1.8 years	21.61	—	—
$ 21.72	12,000	0.8 years	21.72	12,000	21.72
Outstanding, end of period	85,000	2.3 years	$ 19.40	12,000	$ 21.72

SARs compensation expense of ($118) thousand and $21 thousand was recognized for the period ended March 31, 2020 and 2019, respectively. The credit in expense for the period ended March 31, 2020, was due to adjustments related to the current fair value evaluation of SARs.

Other stock based awards:

Direct stock grants of 3,298 shares were issued to local advisory board members during the three month period ended March 31, 2019. The expense for these grants was $65 thousand and was included in salary and benefit expense for the period ended March 31, 2019. There were no direct stock grants issued for the period ended March 31, 2020.

Restricted Stock Awards:

A summary of the activity of the Company's unvested restricted stock awards for the period ended March 31, 2020 is presented below:

	Number	Weighted Average Grant-Date Fair Value
Balance at December 31, 2019	65,400	$ 21.04
Granted	37,400	16.20
Vested	(4,500)	18.12
Forfeited/expired	(1,500)	18.12
Balance at March 31, 2020	96,800	$ 19.35

The Company measures the fair value of restricted shares based on the price of the Company’s common stock on the grant date, and compensation expense is recorded over the vesting period. For the three months ended March 31, 2020 and 2019, compensation expense was $110 thousand and $112 thousand, respectively, for restricted stock awards. As of March 31, 2020, there was $1.3 million of unrecognized compensation cost related to non-vested restricted stock awards granted under the plan. The cost is expected to be recognized over a weighted average period of 3.59 years. The grant-date fair value of restricted stock grants vested was $82 thousand for the period ended March 31, 2020. No restricted stock vested during the period ended March 31, 2019.

Note 9. Commitments and Contingent Liabilities

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing and depository needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Such commitments involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amount recognized on the balance sheet. The majority of all commitments to extend credit are variable rate instruments while the standby letters of credit are primarily fixed rate instruments. The Company's exposure to credit loss is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments as it does for on-balance sheet instruments.

A summary of the Company’s total contractual amount for all off-balance sheet commitments are as follows (in thousands):

	March 31, 2020	December 31, 2019
Commitments to extend credit	$ 419,287	$ 384,411
Standby letters of credit	22,994	11,727

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the customer. Collateral held varies, but may include accounts receivable, inventory, property and equipment, residential real estate, and income-producing commercial properties.

Standby letters of credit issued by the Company are conditional commitments to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. Collateral held varies and is required in instances which the Company deems necessary. At March 31, 2020 and December 31, 2019, the carrying amount of liabilities related to the Company's obligation to perform under standby letters of credit was insignificant.

The Company is subject in the normal course of business to various pending and threatened legal proceedings in which claims for monetary damages are asserted. Management, after consultation with legal counsel, does not anticipate that the aggregate ultimate liability arising out of litigation pending or threatened against the Company will be material to the Company's consolidated financial position. On an on-going basis the Company assesses any potential liabilities or contingencies in connection with such legal proceedings. For those matters where it is deemed probable that the Company will incur losses and the amount of the losses can be reasonably estimated, the Company would record an expense and corresponding liability in its consolidated financial statements.

Note 10. Fair Value Disclosures

Determination of Fair Value:

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the “Fair Value Measurements and Disclosures” ASC Topic 820, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

ASC Topic 820 provides a consistent definition of fair value, which focuses on exit price in an orderly transaction between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact business at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

In accordance with this guidance, the Company groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 - Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 - Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The tables below present the recorded amount of assets and liabilities measured at fair value on a recurring basis are as follows *(in thousands)*:

Description	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
March 31, 2020:				
Assets:				
Securities available-for-sale:				
U.S. Government-sponsored enterprises (GSEs)	$ 17,045	$ —	$ 17,045	$ —
Municipal securities	83,317	—	83,317	—
Other debt securities	5,462	—	5,462	—
Mortgage-backed securities (GSEs)	95,178	—	95,178	—
Total securities available-for-sale	$ 201,002	$ —	$ 201,002	$ —
Liabilities:				
Derivative financial instruments	$ 6,885	$ —	$ 6,885	$ —
December 31, 2019:				
Assets:				
Securities available-for-sale:				
U.S. Government-sponsored enterprises (GSEs)	$ 19,000	$ —	$ 19,000	$ —
Municipal securities	64,391	—	64,391	—
Other debt securities	3,470	—	3,470	—
Mortgage-backed securities (GSEs)	91,487	—	91,487	—
Total securities available-for-sale	$ 178,348	$ —	$ 178,348	$ —
Liabilities:				
Derivative financial instruments	$ 3,446	—	$ 3,446	—

In the periods presented, there were no transfers between Level 1 and Level 2 in the fair value hierarchy.

Assets Measured at Fair Value on a Nonrecurring Basis:

Under certain circumstances management makes adjustments to fair value for assets and liabilities although they are not measured at fair value on an ongoing basis. The following tables present the financial instruments carried on the consolidated balance sheets by caption and by level in the fair value hierarchy, for which a nonrecurring change in fair value has been recorded *(in thousands)*:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
March 31, 2020:				
Impaired loans	$ 2,262	$ —	$ —	$ 2,262
Other real estate owned	5,894	—	—	5,894
December 31, 2019:				
Impaired loans	$ 2,185	$ —	$ —	$ 2,185
Other real estate owned	1,757	—	—	1,757

For Level 3 assets measured at fair value on a non-recurring basis, the significant unobservable inputs used in the fair value measurements are presented below *(dollars in thousands)*:

	Fair Value	Valuation Technique	Significant Other Unobservable Input	Weighted Average of Input
March 31, 2020:				
Impaired loans	$ 2,262	Appraisal and cashflow	Appraisal and cashflow discounts	20 %
Other real estate owned	5,894	Appraisal	Appraisal discounts	27 %
December 31, 2019:				
Impaired loans	$ 2,185	Appraisal	Appraisal and cashflow discounts	22 %
Other real estate owned	1,757	Appraisal	Appraisal discounts	29 %

Impaired loans: Loans considered impaired under ASC 310-10-35, *Receivables*, are loans for which, based on current information and events, it is probable that the Company will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. An impaired loan can be measured based on the present value of expected payments using the loan's original effective rate as the discount rate, the loan's observable market price, or the fair value of the collateral less selling costs if the loan is collateral dependent. The fair value of impaired loans was measured based on the value of the collateral securing these loans or the discounted cash flows of the loans, as applicable. Impaired loans are classified within Level 3 of the fair value hierarchy. Collateral may be real estate and/or business assets including equipment, inventory, and/or accounts receivable. The Company determines the value of the collateral based on independent appraisals performed by qualified licensed appraisers. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Appraised values are discounted for costs to sell and may be discounted further based on management's historical knowledge, changes in market conditions from the date of the most recent appraisal, and/or management's expertise and knowledge of the customer and the customer's business. Such discounts by management are subjective and are typically significant unobservable inputs for determining fair value. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors discussed above.

Other real estate owned: Other real estate owned, consisting of properties obtained through foreclosure or in satisfaction of loans, are initially recorded at fair value less estimated costs to sell upon transfer of the loans to other real estate. Subsequently, other real estate is carried at the lower of carrying value or fair value less costs to sell. Fair values are generally based on third party appraisals of the property and are classified within Level 3 of the fair value hierarchy. The appraisals are sometimes further discounted based on management's historical knowledge, and/or changes in market conditions from the date of the most recent appraisal, and/or management's expertise and knowledge of the customer and the customer's business. Such discounts are typically significant unobservable inputs for determining fair value. In cases where the carrying amount exceeds the fair value, less estimated costs to sell, a loss is recognized in noninterest expense.

Carrying value and estimated fair value:

The carrying amount and estimated fair value of the Company's financial instruments are as follows *(in thousands)*:

	Fair Value Measurements Using				
	Carrying Amount	Level 1	Level 2	Level 3	Estimated Fair Value
March 31, 2020:					
Assets:					
Cash and cash equivalents	$ 309,089	$ 309,089	$ —	$ —	$ 309,089
Securities available-for-sale	201,002	—	201,002	—	201,002
Other investments	14,113	N/A	N/A	N/A	N/A
Loans, net	2,131,861	—	—	2,115,550	2,115,550
Liabilities:					
Noninterest-bearing demand deposits	431,781	—	431,781	—	431,781
Interest-bearing demand deposits	444,141	—	444,141	—	444,141
Money market and savings deposits	730,392	—	730,392	—	730,392
Time deposits	735,616	—	739,277	—	739,277
Securities sold under agreements to repurchase	6,164	—	6,164	—	6,164
Federal Home Loan Bank advances and other borrowings	125,439	—	124,797	—	124,797
Subordinated debt	39,283	—	—	34,379	34,379
Derivative financial instruments	6,885	—	6,885	—	6,885
December 31, 2019:					
Assets:					
Cash and cash equivalents	$ 183,971	$ 183,971	$ —	$ —	$ 183,971
Securities available-for-sale	178,348	—	178,348	—	178,348
Other investments	12,913	N/A	N/A	N/A	N/A
Loans, net	1,893,005	—	—	1,879,825	1,879,825
Liabilities:					
Noninterest-bearing demand deposits	364,155	—	364,155	—	364,155
Interest-bearing demand deposits	380,234	—	380,234	—	380,234
Money market and savings deposits	623,284	—	623,284	—	623,284
Time deposits	679,541	—	681,902	—	681,902
Securities sold under agreements to repurchase	6,184	—	6,184	—	6,184
Federal Home Loan Bank advances and other borrowings	25,439	—	24,845	—	24,845
Subordinated debt	39,261	—	—	35,868	35,868
Derivative financial instruments	3,446	—	3,446	—	3,446

Limitations:

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets and liabilities that are not considered financial instruments include deferred income taxes and premises and equipment. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

Note 11. Derivatives

Financial derivatives are reported at fair value in other assets or other liabilities. The accounting for changes in the fair value of a derivative depends on whether it has been designated and qualifies as part of a hedging relationship. For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative net investment hedge instrument as well as the offsetting gain or loss on the hedged asset or liability attributable to the hedged risk are recognized in current earnings. The gain or loss on the derivative instrument is presented on the same income statement line item as the earnings effect of the hedged item. The Company utilizes interest rate swaps designated as fair value hedges to mitigate the effect of changing interest rates on the fair values of fixed rate tax-exempt callable securities available-for-sale. The hedging strategy on securities converts the fixed interest rates to LIBOR-based variable interest rates. These derivatives are designated as partial term hedges of selected cash flows covering specified periods of time prior to the call dates of the hedged securities. The Company has elected early adoption of ASU 2017-12, *Derivatives and Hedging (Topic 815) - Targeted Improvements to Accounting for Hedging Activities*, which allows such partial term hedge designations.

A summary of the Company's fair value hedge relationships for the periods presented are as follows *(dollars in thousands)*:

Liability derivatives	Balance Sheet Location	Weighted Average Remaining Maturity (In Years)	Weighted Average Pay Rate	Receive Rate	Notional Amount	Estimated Fair Value
March 31, 2020:						
Interest rate swap agreements - securities	Other liabilities	7.95	3.09%	3 month LIBOR	$ 36,000	$ (6,885)
December 31, 2019:						
Interest rate swap agreements - securities	Other liabilities	8.20	3.09%	3 month LIBOR	$ 36,000	$ (3,446)

The effects of the Company's fair value hedge relationships reported in interest income on tax-exempt available-for-sale securities on the consolidated income statement were as follows *(in thousands)*:

	Three Months Ended March 31,	
	2020	2019
Interest income on tax-exempt securities	$ 440	$ 456
Effects of fair value hedge relationships	(157)	(32)
Reported interest income on tax-exempt securities	$ 283	$ 424

Gain (loss) on fair value hedging relationship	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Interest rate swap agreements - securities:		
Hedged items	$ 6,885	2,063
Derivative designated as hedging instruments	(6,885)	(2,063)

The following amounts were recorded on the balance sheet related to cumulative basis adjustments for fair value hedges *(in thousands)*:

Line item on the balance sheet	Carrying Amount of the Hedged Assets	Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Assets
March 31, 2020:		
Securities available-for-sale	$ 46,060	$ 6,885

December 31, 2019:

Securities available-for-sale	$	42,710	$	3,446

Note 12. Leases

A lease is defined as a contract, or part of a contract, that conveys the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration. On January 1, 2019, the Company adopted ASU No. 2016-02 and all subsequent ASUs that modified this topic (collectively referred to as "Topic 842"). For the Company, Topic 842 primarily affected the accounting treatment for operating lease agreements in which the Company is the lessee.

Substantially all of the leases in which the Company is the lessee are comprised of real estate for branches and office space with terms extending through 2034. All of our leases are classified as operating leases, and therefore, were previously not recognized on the Company's consolidated balance sheet. With the adoption of Topic 842, operating lease agreements are required to be recognized on the consolidated balance sheet as a right-of-use ("ROU") asset and a corresponding lease liability.

The following table represents the consolidated balance sheet classification of the Company's ROU assets and lease liabilities. The Company elected not to include short-term leases (i.e., leases with initial terms of twelve months or less), or equipment leases (deemed immaterial) on the consolidated balance sheet *(in thousands)*:

	Classification	March 31, 2020	December 31, 2019
Assets:			
Operating lease right-of-use assets	Other assets	$ 5,493	$ 5,470
Liabilities:			
Operating lease liabilities	Other liabilities	$ 5,508	$ 5,479

The calculated amount of the ROU assets and lease liabilities in the table above are impacted by the length of the lease term and the discount rate used to present value the minimum lease payments. The Company's lease agreements often include one or more options to renew at the Company's discretion. If at lease inception the Company considers the exercising of a renewal option to be reasonably certain, the Company will include the extended term in the calculation of the ROU asset and lease liability. Regarding the discount rate, Topic 842 requires the use of the rate implicit in the lease whenever this rate is readily determinable. As this rate is rarely determinable, the Company utilizes its incremental borrowing rate at lease inception, on a collateralized basis, over a similar term. For operating leases existing prior to January 1, 2019, the rate for the remaining lease term as of January 1, 2019 was used.

As of March 31, 2020, the weighted average remaining lease term was 11.17 years and the weighted average discount rate was 2.78%.
The following table represents lease costs and other lease information, in thousands. As the Company elected, for all classes of underlying assets, not to separate lease and non-lease components and instead to account for them as a single lease component, the variable lease cost primarily represents variable payments such as common area maintenance *(in thousands)*.

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Lease costs:		
Operating lease costs	$ 237	$ 146
Short-term lease costs	—	36
Variable lease costs	26	23
Total	$ 263	$ 205
Other information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 230	$ 139

Future minimum payments for operating leases with initial or remaining terms of one year or more as of March 31, 2020, were as follows *(in thousands)*:

	Amounts
March 31, 2021	$ 729
March 31, 2022	846
March 31, 2023	668
March 31, 2024	463
March 31, 2025	366
Thereafter	3,381
Total future minimum lease payments	6,453
Amounts representing interest	(945)
Present value of net future minimum lease payments	$ 5,508

Note 13. Regulatory Matters

Regulatory Capital Requirements:

The Company and the Bank are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgements by regulators. Failure to meet capital requirements can initiate regulatory action. Under Basel III rules, the Company must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer is 2.50%. At March 31, 2020, and 2019, the Company and the Bank exceeded the minimum regulatory requirements and exceeded the threshold for the "well capitalized" regulatory classification.

Regulatory Restrictions on Dividends:

Pursuant to Tennessee banking law, the Bank may not, without the prior consent of the Commissioner of the Tennessee Department of Financial Institutions (TDFI), pay any dividends to the Company in a calendar year in excess of the total of the Bank's retained net income for that year plus the retained net income for the preceding two years. Under Tennessee corporate law, the Company is not permitted to pay dividends if, after giving effect to such payment, it would not be able to pay its debts as they become due in the usual course of business or its total assets would be less than the sum of its total liabilities plus any amounts needed to satisfy any preferential rights if it were dissolving. In addition, in deciding whether or not to declare a dividend of any particular size, the Company's board of directors must consider its and the Bank's current and prospective capital, liquidity, and other needs. In addition to state law limitations on the Company's ability to pay dividends, the Federal Reserve imposes limitations on the Company's ability to pay dividends. Federal Reserve regulations limit dividends, stock repurchases and discretionary bonuses to executive officers if the Company's regulatory capital is below the level of regulatory minimums plus the applicable capital conservation buffer. During the three months ended March 31, 2020, the Bank paid $7.5 million in dividends to the Company. As of March 31, 2020, the Bank could pay approximately $52.0 million of additional dividends to the Company without prior approval of the Commissioner of the TDFI. Since the fourth quarter of 2019, the Company has paid a quarterly common stock dividend of $0.05 per share. The amount and timing of all future dividend payments by the Company, if any, is subject to discretion of the Company's board of directors and will depend on the Company's earnings, capital position, financial condition and other factors, including new regulatory capital requirements, as they become known to the Company.

Regulatory Capital Levels:

Actual and required capital levels at March 31, 2020, and December 31, 2019 are presented below *(dollars in thousands)*:

	Actual		Minimum for capital adequacy purposes		Minimum to be well capitalized under prompt corrective action provisions[1]	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
March 31, 2020						
SmartFinancial:						
Total Capital (to Risk Weighted Assets)	$ 306,982	13.13 %	$ 187,099	8.00 %	N/A	N/A
Tier 1 Capital (to Risk Weighted Assets)	254,268	10.87 %	140,324	6.00 %	N/A	N/A
Common Equity Tier 1 Capital (to Risk Weighted Assets)	254,268	10.87 %	105,243	4.50 %	N/A	N/A
Tier 1 Capital (to Average Assets)[2]	254,268	10.28 %	98,934	4.00 %	N/A	N/A
SmartBank:						
Total Capital (to Risk Weighted Assets)	$ 295,105	12.62 %	$ 187,077	8.00 %	$ 233,847	10.00 %
Tier 1 Capital (to Risk Weighted Assets)	281,674	12.05 %	140,308	6.00 %	187,077	8.00 %
Common Equity Tier 1 Capital (to Risk Weighted Assets)	281,674	12.05 %	105,231	4.50 %	152,000	6.50 %
Tier 1 Capital (to Average Assets)[2]	281,674	11.42 %	98,636	4.00 %	123,295	5.00 %
December 31, 2019						
SmartFinancial:						
Total Capital (to Risk Weighted Assets)	$ 287,937	14.02 %	$ 164,313	8.00 %	N/A	N/A
Tier 1 Capital (to Risk Weighted Assets)	238,433	11.61 %	123,235	6.00 %	N/A	N/A
Common Equity Tier 1 Capital (to Risk Weighted Assets)	238,433	11.61 %	92,426	4.50 %	N/A	N/A
Tier 1 Capital (to Average Assets)	238,433	10.34 %	92,258	4.00 %	N/A	N/A
SmartBank:						
Total Capital (to Risk Weighted Assets)	$ 273,432	13.31 %	$ 164,305	8.00 %	$ 205,382	10.00 %
Tier 1 Capital (to Risk Weighted Assets)	263,189	12.81 %	123,229	6.00 %	164,305	8.00 %
Common Equity Tier 1 Capital (to Risk Weighted Assets)	263,189	12.81 %	92,422	4.50 %	133,498	6.50 %
Tier 1 Capital (to Average Assets)	263,189	11.41 %	92,254	4.00 %	115,317	5.00 %

[1] The prompt corrective action provisions are applicable at the Bank level only.
[2] Average assets for the above calculations were based on the most recent quarter.

Note 14. Other Comprehensive (loss) income.

The changes in each component of accumulated other comprehensive income (loss), net of tax, were as follows *(in thousands)*:

	Three Months Ended March 31, 2020		
	Securities Available-for-Sale	Fair Value Municipal Security Hedges	Accumulated Other Comprehensive Income (Loss)
Beginning balance, January 1, 2020	$ 391	$ (223)	$ 168
Other comprehensive income (loss)	851	(2,266)	(1,415)
Reclassification of amounts included in net income	—	—	—
Net other comprehensive income (loss) during period	851	(2,266)	(1,415)
Ending balance, March 31, 2020	$ 1,242	$ (2,489)	$ (1,247)

	Three Months Ended March 31, 2019		
	Securities Available-for-Sale	Fair Value Municipal Security Hedges	Accumulated Other Comprehensive Income (Loss)
Beginning balance, January 1, 2019	$ (1,979)	$ (786)	$ (2,765)
Other comprehensive income (loss)	2,103	228	2,331
Reclassification of amounts included in net income	—	—	—
Net other comprehensive income (loss) during period	2,103	228	2,331
Ending balance, March 31, 2019	$ 124	$ (558)	$ (434)

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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"). SmartBank provides a comprehensive suite of commercial and consumer banking services to clients through 35 full-service bank branches and two loan production offices in select markets in East and Middle Tennessee, Alabama and the Florida Panhandle.

While we offer a wide range of commercial banking services, we focus on making loans secured primarily by commercial real estate and other types of secured and unsecured commercial loans to small and medium-sized businesses in a number of industries, as well as loans to individuals for a variety of purposes. Our principal sources of funds for loans and investing in securities are deposits and, to a lesser extent, borrowings. We offer a broad range of deposit products, including checking ("NOW"), savings, money market accounts and certificates of deposit. We actively pursue business relationships by utilizing the business contacts of our senior management, other bank officers and our directors, thereby capitalizing on our knowledge of our local market areas.

Forward-Looking Statements

SmartFinancial, Inc. ("SmartFinancial") may from time to time make written or oral statements, including statements contained in this report and information incorporated by reference herein (including, without limitation, certain statements in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 2), that constitute forward-looking statements within the meaning of Section 27A of the Securities Act, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These statements, including statements regarding the potential effects of the COVID-19 pandemic on the Company's business and financial results and conditions, are based on assumptions and estimates and are not guarantees of future performance. Any statements that do not relate to historical or current facts or matters are forward-looking statements. You can identify some of the forward-looking statements by the use of forward-looking words (and their derivatives), such as "may," "will," "could," "project," "believe," "anticipate," "expect," "estimate," "continue," "potential," "plan," "forecast," and the like, the negatives of such expressions, or the use of the future tense. Statements concerning current conditions may also be forward-looking if they imply a continuation of a current condition. These forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause our actual results, levels of activity, performance, financial condition, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to:

- weakness or a decline in the U.S. economy, in particular in Tennessee, and other markets in which we operate;
- the possibility that our asset quality would decline or that we experience greater loan losses than anticipated;
- the impact of liquidity needs on our results of operations and financial condition;
- competition from financial institutions and other financial service providers;
- the impact of negative developments in the financial industry and U.S. and global capital and credit markets;
- the impact of recently enacted and future legislation and regulation on our business, including changes to statutes, regulations or regulatory policies or practices as a result of, or in response to COVID-19;
- negative changes in the real estate markets in which we operate and have our primary lending activities, which may result in an unanticipated decline in real estate values in our market area;
- risks associated with our growth strategy, including a failure to implement our growth plans or an inability to manage our growth effectively;
- claims and litigation arising from our business activities and from the companies we acquire, which may relate to contractual issues, environmental laws, fiduciary responsibility, and other matters;
- expected revenue synergies and cost savings from our recently completed acquisition of Progressive Financial Group, Inc ("PFG") may not be fully realized or may take longer than anticipated to be realized;
- disruption from the merger with customers, suppliers or employees or other business partners' relationships;
- the risk of successful integration of the PFG's businesses with our business;
- lower than expected revenue following these mergers;
- SmartFinancial's ability to manage the combined company's growth following the mergers;
- the dilution caused by SmartFinancial's issuance of additional shares of its common stock in connection with the PFG merger;
- cyber attacks, computer viruses or other malware that may breach the security of our websites or other systems we operate or rely upon for services to obtain unauthorized access to confidential information, destroy data, disable or degrade service, or sabotage our systems and negatively impact our operations and our reputation in the market;

- results of examinations by our primary regulators, the Tennessee Department of Financial Institutions (the “TDFI”), the Board of Governors of the Federal Reserve System (the “Federal Reserve”), and other regulatory authorities, including the possibility that any such regulatory authority may, among other things, require us to increase our allowance for credit losses, write-down assets, require us to reimburse customers, change the way we do business, or limit or eliminate certain other banking activities;
- government intervention in the U.S. financial system and the effects of and changes in trade and monetary and fiscal policies and laws, including the interest rate policies of the Federal Reserve;
- our inability to pay dividends at current levels, or at all, because of inadequate future earnings, regulatory restrictions or limitations, and changes in the composition of qualifying regulatory capital and minimum capital requirements;
- the relatively greater credit risk of commercial real estate loans and construction and land development loans in our loan portfolio;
- unanticipated credit deterioration in our loan portfolio or higher than expected loan losses within one or more segments of our loan portfolio;
- unexpected significant declines in the loan portfolio due to the lack of economic expansion, increased competition, large prepayments, changes in regulatory lending guidance or other factors;
- unanticipated loan delinquencies, loss of collateral, decreased service revenues, and other potential negative effects on our business caused by severe weather or other external events;
- changes in expected income tax expense or tax rates, including changes resulting from revisions in tax laws, regulations and case law;
- our ability to retain the services of key personnel;
- 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;
- the impact of the COVID-19 pandemic on the Company’s assets, business, cash flows, financial condition, liquidity, prospects and results of operations;
- potential increases in the provision for loan losses resulting from the COVID-19 pandemic; and
- the impact of Tennessee’s anti-takeover statutes and certain of our charter provisions on potential acquisitions of us.

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

Under SEC Regulation G, public companies making disclosures containing financial measures that are not in accordance with GAAP must also disclose, along with each non-GAAP financial measure, certain additional information, including a reconciliation of the non-GAAP financial measure to the closest comparable GAAP financial measure, as well as a statement of the company’s reasons for utilizing the non-GAAP financial measure. The SEC has exempted from the definition of non-GAAP financial measures certain commonly used financial measures that are not based on GAAP. However, two non-GAAP financial measures commonly used by financial institutions, namely tax-equivalent net interest income and tax-equivalent net interest margin, have not been specifically exempted by the SEC, and may therefore constitute non-GAAP financial measures under Regulation G. We are unable to state with certainty whether the SEC would regard those measures as subject to Regulation G. 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.

Certain captions and amounts in the prior periods presented were reclassified to conform to the current presentation. Such reclassifications had no effect on net income or shareholders' equity.

Executive Summary

The following is a summary of the Company’s financial highlights and significant events during the first quarter of 2020:

- Completed the acquisition of Progressive Financial Group, Inc. ("PFG") on March 1, 2020.
- Net income totaled $2.7 million, or $0.19 per diluted common share, during the first quarter of 2020 compared to $4.7 million, or $0.34 per diluted common share, for the same period in 2019.
- Return on average assets was 0.43% at March 31, 2020 compared to 0.84% at March 31, 2019.
- Allowance for loan losses increased to $13.4 million, an increase of 31.1%, in light of the current economic conditions.
- The COVID-19 pandemic has caused economic and social disruption on an unprecedented scale. Congress, the President, and the Federal Reserve have taken several actions designed to cushion the economic fallout. Most notably, the Coronavirus Aid Relief and Economic Security (“CARES”) Act was signed into law at the end of March 2020 as a $2 trillion legislative relief package. The goal of the CARES Act is to prevent a severe economic downturn through various measures, including direct financial aid to American families and economic stimulus to significantly impacted industry sectors. The package also includes extensive emergency funding for hospitals and providers. In addition to the general impact of COVID-19, certain provisions of the CARES Act as well as other recent legislative and regulatory relief efforts are expected to have a material impact on our operations.

Analysis of Results of Operations

First quarter of 2020 compared to 2019

Net income was $2.7 million, or $0.19 per diluted common share, for the first quarter of 2020, compared to $4.7 million, or $0.34 per diluted common share, for the first quarter of 2019. The tax equivalent net interest margin was 3.90% for the first quarter of 2020 compared to 4.10% for the first quarter of 2019. Noninterest income to average assets was 0.44% for the first quarter of 2020, increasing from 0.30% for the first quarter of 2019. Noninterest expense to average assets increased to 2.96% in the first quarter of 2020, from 2.77% in the first quarter of 2019. The results above include one month of operating effects of the PFG acquisition, which was completed on March 1, 2020.

Net Interest Income and Yield Analysis

First quarter of 2020 compared to 2019

Net interest income, taxable equivalent, increased to $22.7 million for the first quarter of 2020, up from $21.1 million for the first quarter of 2019. Net interest income was positively impacted, compared to the prior year, primarily due to increases in loan balances Average interest-earning assets increased from $2.09 billion for the first quarter of 2019, to $2.34 billion for the first quarter of 2020, primarily as a result of the acquisition of PFG completed March 1, 2020, and continued organic growth. Over this period, average loan balances increased by $185.3 million, average interest-bearing deposits increased by $126.4 million, and average noninterest-bearing deposits increased $53.0 million. The tax equivalent net interest margin decreased to 3.90% for the first quarter of 2020, compared to 4.10% for the first quarter of 2019. The yield on earning assets decreased from 5.25% for the first quarter of 2019, to 4.83% for the first quarter of 2020, primarily due to rate cuts by the Federal Reserve over the past nine months and, to a lesser extent loan yields have declined from market competition. The cost of average interest-bearing deposits decreased from 1.32% for the first quarter of 2019, to 1.10% for the first quarter of 2020, primarily due to a lower interest rate environment during the period.

The following table summarizes the major components of net interest income and the related yields and costs for the periods presented *(dollars in thousands)*:

	Three Months Ended March 31,					
	2020			2019		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Assets						
Loans [1]	$ 1,987,291	26,434	5.35 %	$ 1,802,014	24,975	5.62 %
Taxable securities	116,837	679	2.34 %	147,188	971	2.68 %
Tax-exempt securities [2]	70,397	400	2.28 %	53,650	539	4.07 %
Federal funds sold and other earning assets	165,512	602	1.46 %	86,688	573	2.68 %
Total interest-earning assets	2,340,037	28,115	4.83 %	2,089,540	27,058	5.25 %
Noninterest-earning assets	216,498			193,698		
Total assets	$ 2,556,535			$ 2,283,238		
Liabilities and Stockholders’ Equity						
Interest-bearing demand deposits	$ 389,500	$ 434	0.45 %	$ 306,164	$ 422	0.56 %
Money market and savings deposits	664,983	1,389	0.84 %	665,018	2,029	1.24 %
Time deposits	680,830	2,931	1.73 %	637,767	2,800	1.78 %
Total interest-bearing deposits	1,735,313	4,754	1.10 %	1,608,949	5,251	1.32 %
Securities sold under agreement to repurchase	5,601	5	0.36 %	7,971	8	0.41 %
Federal funds purchased and other borrowings	46,320	84	0.73 %	10,217	103	4.09 %
Subordinated debt	39,269	584	5.98 %	39,184	584	6.04 %
Total interest-bearing liabilities	1,826,503	5,427	1.20 %	1,666,321	5,946	1.45 %
Noninterest-bearing deposits	373,125			320,134		
Other liabilities	27,215			10,707		
Total liabilities	2,226,843			1,997,162		
Stockholders’ equity	329,692			286,076		
Total liabilities and stockholders’ equity	$ 2,556,535			$ 2,283,238		
Net interest income, taxable equivalent		$ 22,688			$ 21,112	
Interest rate spread			3.63 %			3.80 %
Tax equivalent net interest margin			3.90 %			4.10 %
Percentage of average interest-earning assets to average interest-bearing liabilities			128.12 %			125.40 %
Percentage of average equity to average assets			12.90 %			12.53 %

(1) Includes nonaccrual loans and accretion income on acquired loans of $1.8 million and $1.9 million for the quarters ended March 31, 2020 and 2019, respectively.
(2) Yields related to investment securities exempt from income taxes are stated on a taxable-equivalent basis assuming a federal income tax rate of 21.0 percent. The taxable-equivalent adjustment was $117 thousand for the period ended March 31, 2020 and $115 thousand for the period ended March 31, 2019.

Noninterest Income

First quarter of 2020 compared to 2019

Noninterest income increased by $1.1 million, or 66.0%, during the first quarter of 2020 compared to the same period in 2019. This quarterly change in total noninterest income primarily resulted from the following:

- Increase in mortgage banking, from increased activity;
- Increase in investment services, stemming from personnel hires in 2019; and
- Addition of insurance commissions from the PFG acquisition.

The following table summarizes noninterest income by category *(in thousands)*:

	Three Months Ended March 31,	
	2020	2019
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	$ 2,818	$ 1,698

Noninterest Expense

First quarter of 2020 compared to 2019

Noninterest expense increased by $3.2 million, or 20.6%, in the first quarter of 2020 as compared to the same period in 2019. The quarterly increase in total noninterest expense primarily resulted from the following:

- Increase is salary and employee benefits from the addition of talented staff throughout 2019 and one month of salary and benefits related to the PFG acquisition;
- Increase in occupancy and equipment associated with ongoing infrastructure and facilities added to accommodate our growth in operations and to lesser extent the additional branches of the PFG acquisition; and
- Increase in merger related and restructuring expenses from the PFG acquisition.

The following table summarizes noninterest expense by category *(in thousands)*:

	Three Months Ended March 31,	
	2020	2019
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	$ 18,793	$ 15,579

Taxes

First quarter of 2020 compared to 2019

In the first quarter of 2020 income tax expense totaled $664 thousand compared to $1.6 million a year ago. The effective tax rate was approximately 19.6% in the first quarter of 2020 compared to 25.1% a year ago. The decrease is primarily due to the utilization of an NOL carryforward in March of 2020, that was available as part of the CARES Act.

Loan Portfolio

The Company had total net loans outstanding, including organic and purchased loans, of approximately $2.13 billion at March 31, 2020 compared to $1.89 billion at December 31, 2019. Loans secured by real estate, consisting of commercial or residential property, are the principal component of our loan portfolio.

Organic Loans

Our organic net loans. which excludes loans purchased through the PFG and other acquisitions, increased by $97.0 million, or 6.4%, from December 31, 2019, to $1.61 billion at March 31, 2020. Our goal of streamlining the credit process has improved our efficiency and is a competitive advantage in many of our markets, and contributed to our organic loan growth.

Purchased Loans

Purchased non-credit impaired loans of $482.2 million at March 31, 2020 increased by $133.2 million from December 31, 2019. Since December 31, 2019, our net purchased credit impaired ("PCI") loans increased by $8.7 million to $35.5 million at March 31, 2020. The increase in purchased non-credit impaired loans and PCI loans are related to the acquisition of PFG and offset by maturities, paydowns and payoffs.

The following tables summarize the composition of our loan portfolio (includes loans held for sale) for the periods presented *(dollars in thousands)*:

	March 31, 2020				
	Organic Loans	Purchased Non-Credit Impaired Loans	Purchased Credit Impaired Loans	Total Amount	% of Gross Total
Commercial real estate-mortgage	$ 758,400	$ 234,046	$ 16,589	$ 1,009,035	47.0 %
Consumer real estate-mortgage	309,672	167,151	11,950	488,773	22.8 %
Construction and land development	219,172	27,794	6,479	253,445	11.8 %
Commercial and industrial	329,987	47,043	143	377,173	17.6 %
Consumer and other	9,343	7,198	325	16,866	0.8 %
Total gross loans receivable, net of deferred fees	1,626,574	483,232	35,486	2,145,292	100.0 %
Allowance for loan losses	(12,412)	$ (1,019)	—	(13,431)	
Total loans, net	$ 1,614,162	$ 482,213	$ 35,486	$ 2,131,861	

	December 31, 2019				
	Organic Loans	Purchased Non-Credit Impaired Loans	Purchased Credit Impaired Loans	Total Amount	% of Gross Total
Commercial real estate-mortgage	$ 705,691	$ 184,360	$ 15,255	$ 905,306	47.6 %
Consumer real estate-mortgage	301,771	115,026	6,541	423,338	22.2 %
Construction and land development	210,421	12,747	4,458	227,626	12.0 %
Commercial and industrial	306,521	30,147	407	337,075	17.7 %
Consumer and other	2,817	6,760	326	9,903	0.5 %
Total gross loans receivable, net of deferred fees	1,527,221	349,040	26,987	1,903,248	100.0 %
Allowance for loan losses	(10,087)	—	(156)	(10,243)	
Total loans, net	$ 1,517,134	$ 349,040	$ 26,831	$ 1,893,005	

Loan Portfolio Maturities

The following table sets forth the maturity distribution of our loans, including the interest rate sensitivity for loans maturing after one year *(in thousands)*:

	One Year or Less	One through Five Years	Over Five Years	Total	Rate Structure for Loans Maturing Over One Year: Fixed Rate	Floating Rate
Commercial real estate-mortgage	$ 93,156	$ 430,195	$ 485,684	$ 1,009,035	$ 736,451	$ 179,854
Consumer real estate-mortgage	38,565	179,200	271,008	488,773	267,342	182,866
Construction and land development	71,456	97,634	84,355	253,445	100,953	81,036
Commercial and industrial	90,593	194,135	92,445	377,173	242,063	45,652
Consumer and other	6,223	9,056	1,587	16,866	8,975	107
Total Loans	$ 299,993	$ 910,220	$ 935,079	$ 2,145,292	$ 1,355,784	$ 489,515

Nonaccrual, Past Due, and Restructured Loans

Nonperforming loans as a percentage of total gross loans, net of deferred fees, was 0.14% as of March 31, 2020, which decreased from 0.18% as of December 31, 2019. Total nonperforming assets as a percentage of total assets as of March 31, 2020 totaled 0.31% compared to 0.21% as of December 31, 2019. The increase was primarily the result of the addition of other real estate owned from the PFG acquisition. Acquired PCI loans that are included in loan pools are reclassified at acquisition to accrual status and thus are not included as nonperforming assets.

The following table summarizes the Company's nonperforming assets for the periods presented *(in thousands)*:

	March 31, 2020	December 31, 2019
Nonaccrual loans	$ 3,060	$ 2,743
Accruing loans past due 90 days or more	10	607
Total nonperforming loans	3,070	3,350
Other real estate owned	5,894	1,757
Total nonperforming assets	$ 8,964	$ 5,107
Restructured loans not included above	$ 9	$ 61

Potential Problem Loans

At March 31, 2020 potential problem loans amounted to approximately $695 thousand or 0.03% of total loans outstanding. Potential problem loans, which are not included in nonperforming loans, represent those loans with a well-defined weakness and where information about possible credit problems of borrowers has caused management to have doubts about the borrower's ability to comply with present repayment terms. This definition is believed to be substantially consistent with the standards established by the Bank’s primary regulators for loans classified as substandard or worse, but not considered nonperforming loans.

Allocation of the Allowance for Loan Losses

We maintain the allowance at a level that we deem appropriate to adequately cover the probable losses inherent in the loan portfolio. As of March 31, 2020 and December 31, 2019, our allowance for loan losses was $13.4 million and $10.2 million, respectively, which we deemed to be adequate at each of the respective dates. The increase in the allowance for loan losses at March 31, 2020, as compared to December 31, 2019 is primarily due to the deterioration in the qualitative factors, such as unemployment and GDP, in our loan loss allowance methodology which was caused by the unstable economic conditions facing the U.S. economy related to the challenges being faced with the world wide COVID-19 pandemic. Our allowance for loan loss as a percentage of total loans was 0.63% at March 31, 2020 and 0.54% at December 31, 2019.

Our purchased loans were recorded at fair value upon acquisition. The fair value adjustments on the performing purchased loans will be accreted into income over the life of the loans. A provision for loan losses is recorded for any deterioration in these loans subsequent to the acquisition. As of March 31, 2020 the notional balances on PCI loans was $49.9 million while the carrying value was $35.5 million. At March 31, 2020, there was no loan loss allowances on PCI loans.

The following table sets forth, based on our best estimate, the allocation of the allowance to types of loans for the periods presented and the percentage of loans in each category to total loans *(dollars in thousands)*:

	March 31, 2020		December 31, 2019	
	Amount	Percent	Amount	Percent
Commercial real estate-mortgage	$ 5,963	44.5 %	$ 4,508	44.1 %
Consumer real estate-mortgage	3,301	24.6 %	2,576	25.1 %
Construction and land development	1,484	11.0 %	1,127	11.0 %
Commercial and industrial	2,557	19.0 %	1,957	19.1 %
Consumer and other	126	0.9 %	75	0.7 %
Total allowance for loan losses	$ 13,431	100.0 %	$ 10,243	100.0 %

The allocation by category is determined based on the assigned risk rating, if applicable, and environmental factors applicable to each category of loans. For impaired loans, those loans are reviewed for a specific allowance allocation. Specific valuation allowances related to impaired, non PCI, loans were approximately $156 thousand at December 31, 2019 compared to $0 thousand at March 31, 2020.

Analysis of the Allowance for Loan Losses

The following is a summary of changes in the allowance for loan losses for the periods presented including the ratio of the allowance for loan losses to total loans as of the end of each period *(dollars in thousands)*:

	Three Months Ended March 31,	
	2020	2019
Balance at beginning of period	$ 10,243	$ 8,275
Provision for loan losses	3,200	797
Charged-off loans:		
Commercial real estate-mortgage	—	—
Consumer real estate-mortgage	(2)	(2)
Construction and land development	—	—
Commercial and industrial	(8)	(318)
Consumer and other	(76)	(130)
Total charged-off loans	(86)	(450)
Recoveries of previously charged-off loans:		
Commercial real estate-mortgage	2	2
Consumer real estate-mortgage	6	4
Construction and land development	2	2
Commercial and industrial	42	12
Consumer and other	22	62
Total recoveries of previously charged-off loans	74	82
Net loan charge-offs	(12)	(368)
Balance at end of period	$ 13,431	$ 8,704
Ratio of allowance for loan losses to total loans outstanding at end of period	0.63 %	0.47 %
Ratio of net loan charge-offs to average loans outstanding for the period (annualized)	— %	0.08 %

We assess the adequacy of the allowance at the end of each calendar quarter. This assessment includes procedures to estimate the allowance and test the adequacy and appropriateness of the resulting balance. The level of the allowance is based upon our evaluation of the loan portfolio, past loan loss experience, known and inherent risks in the portfolio, the views of the Bank’s regulators, adverse situations that may affect borrowers' ability to repay (including the timing of future payments), the estimated value of any underlying collateral, composition of the loan portfolio, economic conditions, industry and peer bank loan quality indications and other pertinent factors. This evaluation is inherently subjective as it requires material estimates including the amounts and timing of future cash flows expected to be received on impaired loans that may be susceptible to significant change.

Securities Portfolio

Our securities portfolio, consisting primarily of Federal agency bonds, state and municipal securities, and mortgage-backed securities amounted to fair values of $201.0 million and $178.3 million at March 31, 2020 and December 31, 2019, respectively. Our investments to assets ratio decreased from 7.3 percent at December 31, 2019 to 7.0 percent at March 31, 2020. Our securities portfolio serves many purposes including serving as a potential liquidity source, collateral for public funds, and as a stable source of income. All of the Company's securities are designated as available-for-sale.

The following table shows the amortized cost of the Company’s securities by investment categories *(in thousands)*:

	March 31, 2020	December 31, 2019
U.S. Government-sponsored enterprises (GSEs)	$ 17,012	$ 19,015
Municipal securities	82,599	63,792
Other debt securities	5,461	3,481
Mortgage-backed securities	94,306	91,531
Total securities	$ 199,378	$ 177,819

The following table presents the contractual maturity of the Company's securities by contractual maturity date and average yields based on amortized cost (for all obligations on a fully taxable basis) at March 31, 2020. The composition and maturity / repricing distribution of the securities portfolio is subject to change depending on rate sensitivity, capital and liquidity needs *(dollars in thousands):*

	Maturity By Years				
	1 or Less	1 to 5	5 to 10	Over 10	Total
U.S. Government agencies	$ 8,000	$ 3,007	$ 6,005	$ —	$ 17,012
State and political subdivisions	490	2,170	7,679	72,260	82,599
Other debt securities	—	—	5,461	—	5,461
Mortgage-backed securities	—	4,738	14,275	75,293	94,306
Total securities	$ 8,490	$ 9,915	$ 33,420	$ 147,553	$ 199,378
Weighted average yield (1)	1.56 %	1.67 %	2.78 %	3.00 %	2.82 %

(1) Based on amortized cost, taxable equivalent basis

Deposits

Deposits are the primary source of funds for the Company's lending and investing activities. The Company provides a range of deposit services to businesses and individuals, including noninterest-bearing checking accounts, interest-bearing checking accounts, savings accounts, money market accounts, IRAs and CDs. These accounts generally earn interest at rates the Company establishes based on market factors and the anticipated amount and timing of funding needs. The establishment or continuity of a core deposit relationship can be a factor in loan pricing decisions. While the Company's primary focus is on establishing customer relationships to attract core deposits, at times, the Company uses brokered deposits and other wholesale deposits to supplement its funding sources. As of March 31, 2020, brokered deposits represented approximately 11.2% of total deposits.

The Company believes its deposit product offerings are properly structured to attract and retain core low-cost deposit relationships. The average cost of interest-bearing deposits for the three months ended March 31, 2020 was 1.10% compared to 1.32% for the same period in 2019, respectively. The decreased cost on interest-bearing deposits was due to changes in rates caused by federal rate-changes during the periods.

Total deposits as of March 31, 2020 were $2.3 billion, which was an increase of $294.7 million from December 31, 2019. This increase was primarily from the completed acquisition of PFG. As of March 31, 2020 the Company had outstanding time deposits under $250,000 with balances of $584.6 million and time deposits over $250,000 with balances of $151.0 million.

The following table summarizes the maturities of time deposits $250,000 or more *(in thousands)*.

	March 31, 2020
Three months or less	$ 28,136
Three to six months	24,768
Six to twelve months	47,981
More than twelve months	50,106
Total	$ 150,991

Borrowings

The Company uses short-term borrowings and long-term debt to provide both funding and, to a lesser extent, regulatory capital using debt at the Company level which can be downstreamed as Tier 1 capital to the Bank. Borrowings totaled $125.4 million at March 31, 2020, and primarily consisted of $75.0 million in Federal Home Loan Bank borrowings and $50.0 million from the Federal Reserve Discount Window. Short-term borrowings totaled $6.2 million at March 31, 2020 and December 31, 2019, respectively and consisted entirely of securities sold under repurchase agreements. Long-term debt totaled $39.3 million at March 31, 2020 and December 31, 2019, respectively and consisted entirely of subordinated debt. For more information regarding our borrowings, see "Part I - Item 1. Consolidated Financial Statements - Note 7 - Borrowings."

Capital Resources

The Company uses leverage analysis to examine the potential of the institution to increase assets and liabilities using the current capital base. The key measurements included in this analysis are the Bank's Common Equity Tier 1 capital, Tier 1 capital, leverage and total capital ratios. At March 31, 2020 and December 31, 2019, our capital ratios, including our Bank's capital ratios, exceeded regulatory minimum capital requirements. From time to time we may be required to support the capital needs of our bank subsidiary. We believe we have various capital raising techniques available to us to provide for the capital needs of our bank, if necessary.. For more information regarding our capital, leverage and total capital ratios, see "Part I - Item 1. Consolidated Financial Statements - Note 13 - Regulatory Matters."

Liquidity and Off-Balance Sheet Arrangements

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing and depository needs of its customers. At March 31, 2020, we had $419.3 million of pre-approved but unused lines of credit and $23.0 million of standby letters of credit. These commitments generally have fixed expiration dates and many will expire without being drawn upon. The total commitment level does not necessarily represent future cash requirements. If needed to fund these outstanding commitments, the Bank has the ability to liquidate Federal funds sold or securities available-for-sale, or on a short-term basis to borrow and purchase Federal funds from other financial institutions.

Market Risk and Liquidity Risk Management

The Bank's Asset Liability Management Committee ("ALCO") is responsible for making decisions regarding liquidity and funding solutions based upon approved liquidity, loan, capital and investment policies. The ALCO must consider interest rate sensitivity and liquidity risk management when rendering a decision on funding solutions and loan pricing. To assist in this process the Bank has contracted with an independent third party to prepare quarterly reports that summarize several key asset-liability measurements. In addition, the third party will also provide recommendations to the Bank's ALCO regarding future balance sheet structure, earnings and liquidity strategies. Two critical areas of focus for ALCO are interest rate sensitivity and liquidity risk management.

Interest Rate Sensitivity

Interest rate sensitivity refers to the responsiveness of interest-earning assets and interest-bearing liabilities to changes in market interest rates. In the normal course of business, we are exposed to market risk arising from fluctuations in interest rates. ALCO measures and evaluates the interest rate risk so that we can meet customer demands for various types of loans and deposits. ALCO determines the most appropriate amounts of on-balance sheet and off-balance sheet items. The primary measurements we use to help us manage interest rate sensitivity are an earnings simulation model and an economic value of equity model. These measurements are used in conjunction with competitive pricing analysis and are further described below.

Earnings Simulation Model We believe interest rate risk is effectively measured by our earnings simulation modeling. Earning assets, interest-bearing liabilities and off-balance sheet financial instruments are combined with simulated forecasts of interest rates for the next 12 months and 24 months. To limit interest rate risk, we have guidelines for our earnings at risk which seek to limit the variance of net interest income in instantaneous changes to interest rates. We also periodically monitor simulations based on various rate scenarios such as non-parallel shifts in market interest rates over time. For changes up or down in rates from our dynamic interest rate forecast over the next 12 and 24 months, limits in the decline in net interest income are as follows:

	Estimated % Change in Net Interest Income Over 12 Months		Maximum Percentage Decline in Net Interest Income from the Budgeted or Base Case Projection of Net Interest Income
March 31, 2020:	Increase +	Decrease -	Next 12 Months
An instantaneous, parallel rate increase or decrease of the following at the beginning of the first quarter:			
± 100 basis points	0.88%	0.39%	8%
± 200 basis points	0.13%	0.18%	14%

Economic Value of Equity Our economic value of equity model measures the extent that estimated economic values of our assets, liabilities and off-balance sheet items will change as a result of interest rate changes. Economic values are determined by discounting expected cash flows from assets, liabilities and off-balance sheet items, which establishes a base case economic value of equity.

To help monitor our related risk, we've established the following policy limits regarding simulated changes in our economic value of equity:

March 31, 2020:	Current Estimated Instantaneous Rate Change		Maximum Percentage Decline in Economic Value of Equity from the Economic Value of Equity at Currently Prevailing Interest Rates
Instantaneous, Parallel Change in Prevailing Interest Rates Equal to	Increase +	Decrease -	
±100 basis points	(0.36)%	(5.17)%	10%
±200 basis points	(3.86)%	1.35%	15%

At March 31, 2020, our model results indicated that we were within these policy limits.

Liquidity Risk Management

The purpose of liquidity risk management is to ensure that there are sufficient cash flows to satisfy loan demand, deposit withdrawals, and our other needs. Traditional sources of liquidity for a bank include asset maturities and growth in core deposits. A bank may achieve its desired liquidity objectives from the management of its assets and liabilities and by internally generated funding through its operations. Funds invested in marketable instruments that can be readily sold and the continuous maturing of other earning assets are sources of liquidity from an asset perspective. The liability base provides sources of liquidity through attraction of increased deposits and borrowing funds from various other institutions.

Changes in interest rates also affect our liquidity position. We currently price deposits in response to market rates and intend to continue this policy. If deposits are not priced in response to market rates, a loss of deposits could occur which would negatively affect our liquidity position.

Scheduled loan payments are a relatively stable source of funds, but loan payoffs and deposit flows fluctuate significantly, being influenced by interest rates, general economic conditions and competition. Additionally, debt security investments are subject to prepayment and call provisions that could accelerate their payoff prior to stated maturity. We attempt to price our deposit products to meet our asset/liability objectives consistent with local market conditions. Our ALCO is responsible for monitoring our ongoing liquidity needs. Our regulators also monitor our liquidity and capital resources on a periodic basis.

The Company has $8.5 million in investments that mature throughout the next 12 months. The Company also anticipates $14.4 million of principal payments from mortgage-backed securities over the same period. The Company also has unused borrowing capacity in the amount of $196.6 million available with the Federal Reserve, FHLB, several correspondent banks and a line of credit. With these sources of funds, the Company currently anticipates adequate liquidity to meet the expected obligations of its customers.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

This item is not required for a Smaller Reporting Company.

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of management, including SmartFinancial’s Chief Executive Officer and Chief Financial Officer, SmartFinancial has evaluated the effectiveness of its disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)), as of March 31, 2020 (the “Evaluation Date”). Based on such evaluation, SmartFinancial's Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, SmartFinancial’s disclosure controls and procedures were effective to ensure that information required to be disclosed by SmartFinancial in the reports that it files or submits under the Exchange Act is (i) accumulated and communicated to SmartFinancial's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decision regarding the required disclosure and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

There were no changes in SmartFinancial’s internal control over financial reporting during SmartFinancial’s fiscal quarter ended March 31, 2020 that have materially affected, or are reasonably likely to materially affect, SmartFinancial’s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

SmartFinancial, Inc. and its wholly owned subsidiary, SmartBank, are periodically involved as a plaintiff or a defendant in various legal actions in the ordinary course of business. While the outcome of these matters is not currently determinable, management does not expect the disposition of any of these matters to have a material adverse impact on the Company's financial condition, financial statements or results of operations.

Item 1A. Risk Factors.

The Company disclosed risk factors in its Annual Report on Form 10-K for the year ended December 31, 2019. The risks described may not be the only risks facing us. Additional risks and uncertainties not currently known to us or that are currently considered to not be material also may materially adversely affect our business, financial condition, and/or operating results. The following risk factors have been included in this Quarterly Report on Form 10-Q in response to the global market disruptions that have resulted from the COVID-19 pandemic.

The ongoing COVID-19 pandemic and measures implemented to prevent its spread could have a material adverse effect on our business, results of operations and financial condition, and such effects will depend on future developments, which are highly uncertain and are difficult to predict.

Global health concerns relating to the COVID-19 outbreak and related government actions taken to reduce the spread of the virus have been weighing on the macroeconomic environment, and the outbreak has significantly increased economic uncertainty and reduced economic activity. The outbreak has resulted in authorities implementing numerous measures to try to contain the virus, such as travel bans and restrictions, quarantines, shelter in place or total lock-down orders and business limitations and shutdowns. Such measures have significantly contributed to rising unemployment and negatively impacted consumer and business spending. The United States government has taken steps to attempt to mitigate some of the more severe anticipated economic effects of the virus, including the passage of the CARES Act, but there can be no assurance that such steps will be effective or achieve their desired results in a timely fashion.

The outbreak has adversely impacted and is likely to further adversely impact our workforce and operations and the operations of our borrowers, customers and business partners. In particular, we may experience financial losses due to a number of operational factors impacting us or our borrowers, customers or business partners, including but not limited to:

- credit losses resulting from financial stress being experienced by our borrowers as a result of the outbreak and related governmental actions, particularly in the hospitality, energy, retail and restaurant industries;
- declines in collateral values;
- third party disruptions, including outages at network providers and other suppliers;
- increased cyber and payment fraud risk, as cybercriminals attempt to profit from the disruption, given increased online and remote activity;
- risk of litigation or other third-party claims, including with respect to our participation in the Payroll Protection Program and any other government-sponsored stimulus programs; and
- operational failures due to changes in our normal business practices necessitated by the outbreak and related governmental actions.

These factors may remain prevalent for a significant period of time and may continue to adversely affect our business, results of operations and financial condition even after the COVID-19 outbreak has subsided.

The spread of COVID-19 has caused us to modify our business practices (including restricting employee travel, and developing work from home and social distancing plans for our employees), and we may take further actions as may be required by government authorities or as we determine are in the best interests of our employees, customers and business partners. There is no certainty that such measures will be sufficient to mitigate the risks posed by the virus or will otherwise be satisfactory to government authorities.

The extent to which the coronavirus outbreak impacts our business, results of operations and financial condition will depend on future developments, which are highly uncertain and are difficult to predict, including, but not limited to, the duration and spread of the outbreak, its severity, the actions to contain the virus or treat its impact, and how quickly and to what extent normal economic and operating conditions can resume. Even after the COVID-19 outbreak has subsided, we may continue to experience materially adverse impacts to our business as a result of the virus's global economic impact, including the availability of credit, adverse impacts on our liquidity and any recession that has occurred or may occur in the future.

There are no comparable recent events that provide guidance as to the effect the spread of COVID-19 as a global pandemic may have, and, as a result, the ultimate impact of the outbreak is highly uncertain and subject to change. We do not yet know the full extent of the impacts on our business, our operations or the global economy as a whole. However, the effects could have a material impact on our results of operations and heighten many of our known risks described in the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2019.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

(a) Not applicable
(b) Not applicable
(c) Issuer Purchases of Registered Equity Securities

On November 20, 2018, the Company announced that its board of directors has authorized a stock repurchase plan pursuant to which the Company may purchase up to $10.0 million in shares of the Company's outstanding common stock. Stock repurchases under the plan will be made from time to time in the open market, at the discretion of the management of the Company, and in accordance with applicable legal requirements. The stock repurchase plan does not obligate the Company to repurchase any dollar amount or number of shares, and the program may be extended, modified, amended, suspended, or discontinued at any time. As of March 31, 2020 we have purchased $2.0 million of the authorized $10.0 million and may purchase up to an additional $8.0 million in the Company's outstanding common stock.

The following table summarizes the Company's repurchase activity during the three months ended March 31, 2020.

Period	Total Number of Shares Repurchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Plans or Programs *(in thousands)*
January 1, 2020 to January 31, 2020	—	$ —	—	$ 10,000
February 1, 2020 to February 29, 2020	6,263	19.17	6,263	9,880
March 1, 2020 to March 31, 2020	119,316	15.68	119,316	8,009
Total	125,579	$ 15.86	125,579	$ 8,009

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not Applicable.

Item 5. Other Information.

On March 9, 2020 (the "Grant Date"), pursuant to the SmartFinancial, Inc. 2015 Stock Incentive Plan (the "Plan"), the Board of Directors of the Company approved grants of performance-based restricted stock (the "Restricted Stock Awards") to certain officers and employees of the Company and SmartBank, including William ("Billy") Y. Carroll, Jr., the President and Chief Executive Officer of the Company and SmartBank; Ronald J. Gorczynski, the Chief Financial Officer of the Company and SmartBank; and Wesley M. ("Miller") Welborn, Chairman of the Company and SmartBank (such individuals, collectively, the "Designated Officers"). The Restricted Stock Award for each Designated Officer is subject to the terms of a Performance-Based Restricted Stock Award Agreement entered into by the Company and the Designated Officer, the form of which is filed herewith as Exhibit 10.7 (the "Form of Performance-Based Restricted Stock Award Agreement"). The number of shares of performance-based restricted stock granted to each Designated Officer is set forth below.

Name	Shares of Restricted Stock Granted
William ("Billy") Y. Carroll, Jr.	6,500
Wesley M. ("Miller") Welborn	4,400
Ronald J. Gorczynski	2,500

Generally, up to 50% of each Designated Officer’s restricted shares can be earned if the Company achieves certain operating earnings per share targets for the fiscal year ending December 31, 2020, and up to 50% of each Designated Officer’s restricted shares can be earned if the Company achieves certain operating return on average assets targets for the fiscal year ending December 31, 2020. All restricted shares so earned generally will vest on January 1, 2025, subject to the Designated Officer’s continuous employment until such date.

If a Designated Officer’s employment is terminated for “cause” (as defined in the Form of Performance-Based Restricted Stock Award Agreement) or by the Designated Officer without “good reason” (as defined in the Form of Performance-Based Restricted Stock Award Agreement), any unvested restricted shares will be forfeited by the Designated Officer.

If a Designated Officer’s employment is terminated without cause or by the Designated Officer with good reason, or in the event of a Designated Officer’s “retirement” (as defined in the Form of Performance-Based Restricted Stock Award Agreement), any restricted shares that have been earned but that have not vested will vest on a pro rata basis based on the number of full calendar months the Designated Officer has been employed since the Grant Date. Any restricted shares that have been earned but that have not vested will vest on an accelerated basis in full upon the death or disability (as defined in the Plan) of a Designated Officer. In the event of a change in control (as defined in the Form of Performance-Based Restricted Stock Award Agreement), all unvested restricted shares, whether or not they have been earned, will vest on an accelerated basis in full.

The foregoing summary of the terms of the Restricted Stock Awards is not complete and is qualified in its entirety by reference to the Form of Performance-Based Restricted Stock Award Agreement, which is incorporated herein by reference.

Item 6. Exhibits

Exhibit No.	Description	Location
2.1	Agreement and Plan of Merger, dated as of October 29, 2019, by and between SmartFinancial, Inc. and Progressive Financial Group, Inc.	Incorporated by reference to Exhibit 2.1 to Form 8-K filed October 30, 2019
3.1	Second Amended and Restated Charter of SmartFinancial, Inc	Incorporated by reference to Exhibit 3.3 to Form 8-K filed September 2, 2015
3.2	Second Amended and Restated Bylaws of SmartFinancial, Inc	Incorporated by reference to Exhibit 3.1 to Form 8-K filed October 26, 2015
4.1	Specimen Common Stock Certificate	Incorporated by reference to Exhibit 4.2 to Form 10-K filed March 30, 2016
4.2	The rights of securities holders are defined in the Charter and Bylaws provided in Exhibits 3.1 and 3.2	
10.1	Executive Change in Control Agreement with W. Miller Welborn, dated as of March 9, 2020	Incorporated by reference to Exhibit 10.1 to Form 8-K filed March 11, 2020
10.2	Employment Agreement with William Y. Carroll, Jr., dated as of March 9, 2020	Incorporated by reference to Exhibit 10.2 to Form 8-K filed March 11, 2020
10.3	Employment Agreement with Ronald J. Gorczynski, dated as of March 9, 2020	Incorporated by reference to Exhibit 10.3 to Form 8-K filed March 11, 2020
10.4	Loan and Security Agreement, dated as of March 31, 2020, by and between SmartFinancial, Inc., as Borrower, and SerrvisFirst Bank, as Lender	Incorporated by reference to Exhibit 10.1 to Form 8-K filed April 3, 2020
10.5	Revolving Note, dated as of March 31, 2020, by and between SmartFinancial, Inc., as Borrower, and ServisFirst Bank, as Lender	Incorporated by reference to Exhibit 10.2 to Form 8-K filed April 3, 2020
10.6	Pledge Agreement, dated as of March 31, 2020, by and between SmartFinancial, Inc., as Borrower, and ServisFirst Bank, as Lender	Incorporated by reference to Exhibit 10.3 to Form 8-K filed April 3, 2020
10.7	Form of Performance-Based Restricted Stock Award Agreement*	Filed herewith.
31.1	Certification pursuant to Rule 13a -14(a)/15d-14(a)	Filed herewith.
31.2	Certification pursuant to Rule 13a -14(a)/15d-14(a)	Filed herewith.
32.1	Certification pursuant to 18 USC Section 1350 -Sarbanes-Oxley Act of 2002	Furnished herewith.
32.2	Certification pursuant to 18 USC Section 1350 -Sarbanes-Oxley Act of 2002	Furnished herewith.
101	Interactive Data Files	Filed herewith.

*Certain schedules and similar attachments have been omitted pursuant to Item 601(a)(5) of Regulation S-K. The registrant will furnish a copy of any omitted schedule to the Securities and Exchange Commission upon request.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SmartFinancial, Inc.

Date:	May 11, 2020	/s/ William Y. Carroll, Jr.
		William Y. Carroll, Jr.
		President and Chief Executive Officer
		(principal executive officer)
Date:	May 11, 2020	/s/ Ronald J. Gorczynski
		Ronald J. Gorczynski
		Executive Vice President and Chief Financial Officer
		(principal financial officer and accounting officer)

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Section 2: EX-10.7 (EX-10.7)

Exhibit 10.7

Restricted Stock Award
Cliff Vesting
Award Date: [DATE]

SMARTFINANCIAL, INC.
PERFORMANCE-BASED RESTRICTED STOCK AWARD AGREEMENT

THIS PERFORMANCE-BASED RESTRICTED STOCK AWARD AGREEMENT (this “***Agreement***”), dated [DATE] (the “***Award Date***”), is made by and between SmartFinancial, Inc., a Tennessee corporation (“***Company***”), and [NAME] (“***Grantee***”).

WHEREAS, Company has adopted the SmartFinancial, Inc. 2015 Equity Incentive Plan (the “***Plan***”), pursuant to which Company may grant restricted stock awards; and

WHEREAS, Company desires to grant to Grantee, in consideration of Grantee’s service to Company and/or SmartBank, the wholly owned bank subsidiary of Company (“***SmartBank***”), and Grantee desires to accept, the number of shares of restricted stock provided for herein.

NOW, THEREFORE, in consideration of the foregoing and the mutual agreements herein contained, the parties hereto agree as follows:

Section 1. Incorporation of Plan; Capitalized Terms. The provisions of the Plan are hereby incorporated herein by reference.

Except as otherwise expressly set forth herein, this Agreement shall be construed in accordance with the provisions of the Plan and any capitalized terms not otherwise defined in this Agreement shall have the definitions set forth in the Plan. The Board shall have the final authority to interpret and construe the Plan and this Agreement and to make any and all determinations thereunder and hereunder, and its decisions shall be binding and conclusive upon Grantee and Grantee's legal and personal representatives, heirs, beneficiaries, and permitted assigns in respect of any questions arising under the Plan or this Agreement. As used herein, the term "***Board***" shall be construed to mean the board of directors of Company or a committee of the board of directors of Company with authority to administer the Plan. In the event of a discrepancy between the Plan and this Agreement, the provisions of the Plan shall control.

Section 2. Grant of Restricted Stock Award. Pursuant to the Plan, Company hereby grants to Grantee on the Award Date a restricted stock award (the "***Award***") of [NUMBER] whole shares (the "***Restricted Stock***") of common stock, $1.00 par value, of Company (the "***Company Stock***"), on and subject to the terms and conditions set forth in this Agreement, including the performance-based conditions set forth in *Schedule I* hereto, and as otherwise provided in the Plan, in consideration of the services to be rendered by Grantee to Company or a Subsidiary of Company.

Section 3. Terms and Conditions of Award. The grant of the Award provided for in Section 2 hereof shall be subject to the following terms, conditions, and restrictions:

(a) *Earned Shares*. Subject to Sections 3(g), 3(h), 3(i), and 3(j), (i) up to 50% of the shares of Restricted Stock may be earned by Grantee based on Company achieving certain levels of Operating Earnings Per Share for the fiscal year ending December 31, 2020 (the "***EPS Measure***"), as described in more detail in *Schedule I* hereto, and (ii) up to 50% of the shares of Restricted Stock may be earned by Grantee based on Company achieving certain levels of Operating Return on Average Assets for the fiscal year ending December 31, 2020 (the "***ROAA Measure***"), as described in more detail in *Schedule I* hereto. The shares of Restricted Stock actually earned by Grantee based on Company's performance relative to the EPS Measure and the ROAA Measure, as calculated and determined in accordance with this Agreement (including *Schedule I* hereto), are referred to in this Agreement as the "***Earned Shares***." The Earned Shares shall remain subject to the vesting requirements and other restrictions contained in this Agreement until such time as the Earned Shares vest and all restrictions relating thereto shall lapse, or the Earned Shares shall be forfeited by Grantee, in either case in accordance with this terms of this Agreement. All shares of Restricted Stock not earned by Grantee based on Company's performance relative to the EPS Measure and the ROAA Measure shall be immediately forfeited by Grantee, and Grantee shall have no further rights with respect to such shares of Restricted Stock.

(b) *Ownership of Shares*. Grantee shall have no rights or incidents of ownership with respect to the shares of Restricted Stock unless and until the same are earned by Grantee in accordance with Section 3(a). Subject to the restrictions set forth in the Plan and this Agreement, Grantee shall possess all rights and incidents of ownership with respect to the Earned Shares, including without limitation (i) the right to vote the Earned Shares and (ii) subject to Section 3(c) below, the right to receive dividends with respect to the Earned Shares (but only to the extent dividends are declared and paid by Company to holders of Company Stock); *provided, however*, that any such dividends shall be treated, to the extent required by applicable law, as additional compensation for tax purposes if paid with respect to the Earned Shares.

(c) *Dividends*. Any dividends with respect to the Earned Shares (whether such dividends are paid in cash, stock, or other property) (i) shall be subject to the same restrictions (including the risk of forfeiture) as the Earned Shares with regard to which they are paid; (ii) may be held by Company for Grantee prior to vesting; and (iii) if so held by Company, shall be paid or otherwise released to Grantee, without interest, promptly after the vesting of the Earned Shares with regard to which they were paid. If dividends are released to Grantee prior to the vesting of the Earned Shares with regard to which they were paid and such Earned Shares fails to vest and are forfeited for any reason, Grantee shall return or repay such dividends to Company, without interest, promptly following the forfeiture event.

(d) *Restrictions*. Neither the Restricted Stock, nor and any interest therein, may be sold, assigned, transferred, pledged, hypothecated, or otherwise encumbered or disposed of, except by will or the laws of descent and distribution, during the period prior to the date on which the Restricted Stock vests and the restrictions thereon are removed. Any attempt to encumber or dispose of any Restricted Stock in contravention of the above restriction shall be null and void and without effect and shall result in forfeiture of the Restricted Stock.

(e) *Book Entry Form*. Company shall issue the Earned Shares in book entry form, registered in the name of Grantee, with restrictive notations referring to the terms, conditions, and restrictions applicable to the Award.

(f) *Lapse of Restrictions*. All of the Earned Shares shall vest on January 1, 2025, at which time all restrictions relating to the Earned Shares shall lapse. Upon the lapse of restrictions relating to any Earned Shares, Company shall remove the restrictive notations on any such Earned Shares issued in book entry form.

(g) *Forfeiture Upon Termination for Cause or Without Good Reason*.

(i)Notwithstanding Section 3(f) hereof, but subject to Section 3(i) below, in the event (A) Grantee's employment with SmartBank (and Company, if Grantee is employed by Company) is terminated by SmartBank (and Company, if Grantee is employed by Company) for Cause (as defined below) or (B) Grantee's employment with SmartBank (and Company, if Grantee is employed by Company) is terminated by Grantee without Good Reason (other than in connection with Grantee's Retirement (as defined below)), in each case prior to vesting of, and the lapse of restrictions with respect to, any portion of the shares of Restricted Stock granted hereunder (whether or not such shares of Restricted Stock have become Earned Shares), such portion of such shares of Restricted Stock that is not vested (and with respect to which the restrictions hereunder have not lapsed) shall be automatically forfeited by Grantee as of the date of termination of Grantee's employment. Any shares of Restricted Stock forfeited pursuant to this Agreement shall be transferred to, and reacquired by, Company without payment of any consideration by Company, and neither Grantee nor any of Grantee's legal or personal representatives, heirs, beneficiaries, or permitted assigns shall thereafter have any further rights or interests in such shares of Restricted Stock.

(ii)As used in this Agreement, the term "***Cause***" shall have the same meaning given to such term in any written employment agreement between Company and/or SmartBank and Grantee. If no such employment agreement exists, or if such employment agreement does not contain a definition of "Cause," then the term "***Cause***" shall mean (A) fraud against, misappropriation from, or dishonesty to Company or any Subsidiary of Company; (B) willful misconduct, gross neglect, repeated insubordination, or knowing violation of law in the course or scope of performance of services to or for Company or any Subsidiary of Company; (C) repeated or prolonged absences from work without a reasonable excuse; (D) conduct or behavior that has harmed or would reasonably be expected to harm, in each case in any material respect, the business or reputation of Company or any Subsidiary of Company; (E) intoxication with alcohol or drugs while on the premises of Company or any Subsidiary of Company during regular business hours; (F) conviction of or plea of guilty or nolo contendere to a felony or any crime involving moral turpitude; or (G) a material breach or violation of the terms of any agreement to which Grantee and Company and/or any Subsidiary of Company are parties.

(iii)As used in this Agreement, the term "***Good Reason***" shall have the same meaning given to such term in any written employment agreement between Company and/or SmartBank and Grantee. If no such employment agreement exists, or if such employment agreement does not contain a definition of "Good Reason," then the term "***Good Reason***" shall mean (A) a material diminution in Grantee's authority, duties, or responsibilities that is not consented to by Grantee in writing; (B) a material diminution in Grantee's base salary or base rate of compensation, as applicable, that is not consented to by Grantee in writing; or (C) a material breach or violation by Company or a Subsidiary of Company of the terms of any agreement to which Grantee and Company and/or any Subsidiary of Company are parties.

(iv)As used in this Agreement, the term "***Retirement***" shall have the same meaning given to such term in any written employment agreement between Company and/or SmartBank and Grantee. If no such employment agreement exists, or if such employment agreement does not contain a definition of "Retirement," then the term "***Retirement***" shall mean Grantee's retirement from the employ of SmartBank (and Company, if Grantee is employed by Company) on or after Grantee's 65th birthday.

(h) *Accelerated Vesting Upon Involuntary Termination and Retirement*.

(i)Notwithstanding Section 3(f) hereof, in the event (A) Grantee's employment with SmartBank (and Company, if Grantee is employed by Company) is terminated by SmartBank (and

Company, if Grantee is employed by Company) without Cause; (B) Grantee's employment with SmartBank (and Company, if Grantee is employed by Company) is terminated by Grantee for Good Reason; or (C) of Grantee's Retirement, in each case prior to vesting of, and the lapse of restrictions with respect to, any portion of the Earned Shares, such portion of the Earned Shares that is not vested (and with respect to which the restrictions hereunder have not lapsed) shall be subject to Pro Rata Accelerated Vesting (as defined below) as of the effective date of the termination of Grantee's employment (the "***Termination Date***") or the effective date of Grantee's Retirement (the "***Retirement Date***"), as applicable. "***Pro Rata Accelerated Vesting***" means the subject unvested Earned Shares will vest on a pro rata basis from the Award Date through the Termination Date or Retirement Date, as applicable, with the amount of the subject unvested Earned Shares that will vest to be calculated by multiplying the number of subject unvested Earned Shares by a fraction the numerator of which is the number of full calendar months Grantee has been employed by Company and/or SmartBank since the Award Date (including for this purpose the month during which the Award Date occurs if Grantee was employed by Company and/or SmartBank for the entirety of such month) and the denominator of which is 60. For the avoidance of doubt, any shares of Restricted Stock that have not become Earned Shares prior to the Termination Date or Retirement Date, as applicable, shall be automatically forfeited by Grantee as of the date of the Termination Date or Retirement Date, as applicable.

(i) *Accelerated Vesting Upon Death and Disability*. In the event of the death or Disability of Grantee prior to vesting of, and the lapse of restrictions with respect to, any portion of the Earned Shares, such portion of the Earned Shares that is not vested (and with respect to which the restrictions hereunder have not lapsed) shall become and be fully and immediately vested and non-forfeitable and all restrictions thereon shall lapse. For the avoidance of doubt, any shares of Restricted Stock that have not become Earned Shares prior to the death or Disability of Grantee, as applicable, shall be automatically forfeited by Grantee as of the date of Grantee's death or Disability, as applicable.

(j) *Accelerated Vesting Upon Change in Control*.

(i)In the event of a Change in Control (as defined below) subsequent to the Award Date and prior to the vesting of, and the lapse of restrictions with respect to, any portion of the shares of Restricted Stock granted hereunder (whether or not such shares of Restricted Stock have been earned by Grantee pursuant to Section 3(a) and, thus, are Earned Shares), such portion of such shares of Restricted Stock that is not vested (and with respect to which the restrictions hereunder have not lapsed) shall become and be fully and immediately vested and non-forfeitable and all restrictions thereon shall lapse, with any and all shares of Restricted Stock that have not been earned by Grantee prior to the Change in Control in accordance with the terms of this Agreement to automatically become and be Earned Shares immediately prior to the Change in Control.

(ii)"***Change in Control***" means the occurrence of any one of the following events:

1. during any consecutive 12-month period, individuals who, at the beginning of such period, constitute the board of directors of Company (the "***Incumbent Directors***") cease for any reason to constitute at least a majority of such board of directors; *provided, however*, that any person becoming a director after the beginning of such 12-month period and whose election or nomination for election was approved by a vote of at least a majority of the Incumbent Directors then on the board of directors of Company shall be an Incumbent Director; *provided further, however*, that no individual initially elected or nominated as a director of Company as a result of an actual or threatened election contest with respect to the election or removal of directors ("***Election Contest***") or other actual or threatened solicitation of proxies or consents by or on behalf of any person other than the board of

directors of Company ("***Proxy Contest***"), including by reason of any agreement intended to avoid or settle any Election Contest or Proxy Contest, shall be deemed an Incumbent Director;

2. any person becomes a beneficial owner, as defined in Rule 13d-3 promulgated under the Securities Exchange Act of 1934 (each a "***Beneficial Owner***"), directly or indirectly, of either (A) 50% or more of the then outstanding shares of Company Stock or (B) securities of Company representing 50% or more of the combined voting power of Company's then outstanding securities eligible to vote for the election of directors ("***Voting Securities***"); *provided, however*, that for purposes of this subsection (2), the following acquisitions of Company Stock or Voting Securities shall not constitute a Change in Control: (w) an acquisition directly from Company, (x) an acquisition by Company or a Subsidiary of Company, (y) an acquisition by any employee benefit plan (or related trust) sponsored or maintained by Company or any Subsidiary of Company, or (z) an acquisition pursuant to a Non-Qualifying Transaction (as defined in subsection (3) below);

3. the consummation of a reorganization, merger, consolidation, statutory share exchange, or similar form of corporate transaction involving Company or a Subsidiary of Company (a "***Reorganization***"), or the sale or other disposition of all or substantially all of Company's assets (a "***Sale***") or the acquisition by Company of assets or stock of another corporation or other entity (an "***Acquisition***"), unless immediately following such Reorganization, Sale, or Acquisition: (A) all or substantially all of the individuals and entities who were the Beneficial Owners of the outstanding Company Stock and outstanding Voting Securities immediately prior to such Reorganization, Sale, or Acquisition beneficially own, directly or indirectly, more than 50% of the outstanding shares of common stock and the combined voting power of the outstanding voting securities entitled to vote generally in the election of directors, respectively, of the entity resulting from such Reorganization, Sale, or Acquisition (including without limitation an entity which as a result of such transaction owns Company or all or substantially all of Company's assets or stock either directly or through one or more subsidiaries, the "***Surviving Entity***"), in substantially the same proportions as their ownership of the outstanding Company Stock and the outstanding Voting Securities, as the case may be, immediately prior to such Reorganization, Sale, or Acquisition; (B) no person (other than (x) Company or a Subsidiary of Company, (y) the Surviving Entity or its ultimate parent entity, or (z) an employee benefit plan (or related trust) sponsored or maintained by any of the foregoing) is the Beneficial Owner, directly or indirectly, of 50% or more of the total common stock or 50% or more of the total voting power of the outstanding voting securities eligible to elect directors of the Surviving Entity; and (C) at least a majority of the members of the board of directors of the Surviving Entity were Incumbent Directors at the time of the Company board of directors' approval of the execution of the initial agreement providing for such Reorganization, Sale, or Acquisition (any Reorganization, Sale, or Acquisition which satisfies all of the criteria specified in (A), (B) and (C) above shall be deemed to be a "***Non-Qualifying Transaction***"); or

4. approval by the shareholders of Company of a complete liquidation or dissolution of Company.

(k) *Tax Liability and Withholding.* Grantee shall be required to pay to Company, and Company shall have the right to deduct from any compensation paid to Grantee, the amount of any required withholding taxes in respect of the Restricted Stock and to take all such other action as the Board deems necessary to satisfy all obligations for the payment of such withholding taxes. The Board may permit Grantee to satisfy any federal, state, or local tax withholding by any of the following means, or by a combination of such means: (i) tendering a cash payment, (ii) authoring Company to withhold shares of Company Stock from the shares of Company Stock otherwise issuable or deliverable to Grantee as a result of the vesting of the Restricted Stock, *provided* no shares of Company Stock with a value exceeding the minimum amount of tax required to be withheld by law shall be withheld, and/or (iii) delivering to Company previously owned and unencumbered shares of Company Stock.

(l) *Section 83(b) Election*. Grantee acknowledges that, under Section 83(a) of the Internal Revenue Code of 1986, as amended (the "***Code***"), the fair market value of the Restricted Stock on the date on which the forfeiture restrictions associated therewith lapse will be taxed, on the date such forfeiture restrictions lapse, as ordinary income subject to payroll and withholding tax and tax reporting, as applicable. Grantee acknowledges that Grantee may elect under Section 83(b) of the Code (an "***83(b) Election***") to be taxed, at ordinary income tax rates, on the fair market value of the Restricted Stock on the Award Date, rather than when and as the Restricted Stock ceases to be subject to forfeiture restrictions. Such an 83(b) Election must be filed with the Internal Revenue Service **within 30 days** from the Award Date. Grantee understands that there are significant risks associated with the decision to make an 83(b) Election. If Grantee makes an 83(b) Election and the Restricted Stock is subsequently forfeited to Company, Grantee will not be entitled to a deduction for any ordinary income previously recognized as a result of the 83(b) Election. If Grantee makes an 83(b) Election and the value of the Restricted Stock subsequently declines, the 83(b) Election may cause Grantee to recognize more compensation income than Grantee would have otherwise recognized. On the other hand, if the value of the Restricted Stock increases and Grantee has not made an 83(b) Election, Grantee may recognize more compensation income than Grantee would have if Grantee had made an 83(b) Election. Grantee acknowledges that the foregoing is only a summary of the federal income tax laws that apply to the Award and does not purport to be complete. Grantee acknowledges that timely filing of an 83(b) Election is Grantee's sole responsibility. Grantee will seek the advice of Grantee's own tax advisors as to the advisability of making an 83(b) Election, the potential consequences of making an 83(b) Election, the requirements for making an 83(b) Election, and the other tax consequences of the Award under federal, state, and any other laws that may be applicable. Neither Company nor any of its Subsidiaries, nor any of their representatives, have provided or will provide any tax advice to Grantee. If Grantee elects to make an 83 (b) Election, Grantee shall promptly provide Company with a copy of the executed 83(b) Election and evidence satisfactory to Company of the filing of the executed 83(b) Election with the Internal Revenue Service.

(m) *Clawback*. Any shares of Company Stock awarded to Grantee in settlement of this Award are subject to clawback to the extent required by law, government regulation, or national stock exchange listing requirements (or any policy adopted by Company pursuant to any such law, government regulation, or national stock exchange listing requirements). In addition, if Company is required to prepare an accounting restatement due to the material noncompliance of Company with any financial reporting requirement under applicable securities laws, the Board in its sole discretion may require Grantee to surrender a portion or all of the shares of Company Stock received in settlement of the Award.

Section 4. Acceptance. By Grantee's signature on this Agreement, Grantee accepts the Award set out in this Agreement and irrevocably agrees, on behalf of Grantee and Grantee's legal and personal representatives, heirs, beneficiaries, and permitted assigns, to the terms and conditions of this Agreement and the Plan and acknowledges that Grantee has received, has read, and understands the provisions of the Plan. By entering into this Agreement and accepting the Award, Grantee acknowledges that (a) Grantee's participation in the Plan is voluntary; (b) the value of the Award is an extraordinary item which is outside the scope of any employment contract with Grantee; (c) the Award is not part of normal or expected compensation for any purposes, including without limitation for purposes of calculating any benefits, severance, resignation, termination, redundancy, or end of service payments, bonuses, long-service awards, pension or retirement benefits, or similar payments, and Grantee will not be entitled to compensation or damages as a consequence of Grantee's forfeiture of any unvested portion of the Award as a result of the termination of Grantee's employment in accordance with the terms of this Agreement;

and (d) the grant of the Award in and of itself will not be interpreted or considered to form an employment relationship or contract between Grantee and Company or any Subsidiary of Company. Company will be under no obligation whatsoever to advise Grantee of the existence, maturity, or termination of any of Grantee's rights hereunder, and Grantee shall be responsible for familiarizing himself or herself with all matters contained herein and in the Plan which may affect any of Grantee's rights or privileges hereunder.

Section 5. Miscellaneous.

(a) *Notices*. Any and all notices and other communications provided for herein shall be given in writing. Any such notice or other communication provided to Company shall be delivered personally to the Chief Executive Officer or Chief Financial Officer of Company or sent by registered or certified United States mail, postage prepaid, addressed to both the Chief Executive Officer and the Chief Financial Officer of Company at the principal office of Company. Any such notice or other communication provided to Grantee shall be delivered personally to Grantee or sent by registered or certified United States mail, postage prepaid, to Grantee's address appearing on the books and records of Company.

(b) *No Right to Continued Employment*. Nothing in the Plan or in this Agreement shall confer upon Grantee any right to continue in the employment of Company or any Subsidiary of Company or shall interfere with or restrict in any way the right of Company or any Subsidiary of Company, which right is hereby expressly reserved, to remove, terminate, or discharge Grantee at any time for any reason whatsoever, with or without Cause and with or without advance notice.

(c) *Compliance with Law*. The issuance and transfer of shares of Company Stock in connection with this Award shall be subject to compliance by Company and Grantee with all applicable requirements of federal and state securities laws and with all applicable requirements of any national stock exchange on which Company Stock may be listed. No shares of Company Stock shall, in connection with this Award, be issued or transferred unless and until any then applicable requirements of state and federal laws and regulatory agencies have been fully complied with to the satisfaction of Company and its counsel.

(d) *Regulatory Requirements*. Notwithstanding anything in the Plan or this Agreement to the contrary, to the extent that the Board of Governors of the Federal Reserve System, the Tennessee Department of Financial Institutions, or any other bank or bank holding company regulatory agency or authority determines that any change to the Plan and/or this Agreement is required, necessary, advisable or appropriate to improve the risk sensitivity of the Award, then this Agreement shall be automatically amended to incorporate such change, without further action of Grantee. In such event, Company shall provide Grantee with notice thereof.

(e) *Section 409A*. The intent of the parties is that benefits under this Agreement will be exempt from the provisions of Section 409A of the Code and, accordingly, to the maximum extent permitted, this Agreement shall be interpreted and construed in accordance with such intent. In no event whatsoever shall Company be liable for any additional tax, interest or penalties that may be imposed on Grantee by Section 409A of the Code or any damages for failing to comply with Section 409A of the Code.

(f) *Assignment*. Company may assign any of its rights and/or delegate any of its obligations under this Agreement without the consent of or notice to Grantee. Except as otherwise expressly permitted by the Plan or this Agreement, Grantee may not assign any of Grantee's rights and/or delegate any of Grantee's obligations under this Agreement without the prior written consent of Company. The terms of this Agreement shall be binding upon and inure to the benefit of Company, its successors and assigns, and Grantee and Grantee's legal and personal representatives, heirs, beneficiaries, and permitted assigns.

(g) *Invalid Provision*. The invalidity or unenforceability of any particular provision of the Plan or this Agreement shall not affect the other provisions thereof or hereof, and this Agreement shall be construed in all respects as if such invalid or unenforceable provision had been omitted.

(h) *No Waiver*. The failure of Company to enforce any provision of this Agreement at any time shall in no way constitute a waiver of such provision or of any other provision hereof. A waiver of any provision of this Agreement must be in writing and signed by the party granting such waiver.

(i) *Entire Agreement*. This Agreement constitutes the entire agreement between Grantee and Company and supersedes and cancels any other agreement, representation or communication, whether oral or in writing, between the parties hereto relating to the subject matter hereof, *provided* that this Agreement shall be at all times subject to the Plan.

(j) *Amendment*. The Board, in its sole discretion, may hereafter amend the terms of this Agreement, and thus the Award, *provided* that any amendment which would impair the rights of Grantee shall require the consent of Grantee. No such amendment shall be valid unless in writing.

(k) *Governing Law*. This Agreement and the rights and obligations of the parties hereunder shall be construed and determined in accordance with the laws of the State of Tennessee, including such state's law of privilege, without giving effect to its conflict of law principles.

(l) *Headings*. The headings contained in this Agreement are provided for convenience only and are not to serve as a basis for interpretation or construction and shall not constitute a part of this Agreement.

(m) *Counterparts*. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. A signed copy of this Agreement delivered by facsimile, e-mail, or other means of electronic transmission shall be deemed to have the same legal effect as delivery of an original signed copy of this Agreement.

(n) *Discretionary Nature of Plan*. The Plan is discretionary and may, subject to the terms of the Plan, be amended, cancelled, or terminated by Company at any time, in its discretion. The grant of the Award under this Agreement does not create any contractual or other right to receive other awards of Restricted Stock, qualified or non-qualified stock options, or other types of equity or cash awards in the future. Future awards or grants, if any, will be at the sole discretion of the Board. Any amendment, modification, or termination of the Plan shall not constitute a change or impairment of the terms and conditions of Grantee's employment by or service to Company or any Subsidiary of Company.

[*signature page follows*]

By Grantee’s signature and the signature of Company’s representative below, this Agreement shall be deemed to have been executed and delivered by the parties hereto as of the Award Date set forth on the first page of this Agreement.

SMARTFINANCIAL, INC. **GRANTEE**

________________________________ ________________________________
William Y. Carroll, Jr. [NAME]
President and Chief Executive Officer

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Section 3: EX-31.1 (EX-31.1)

CERTIFICATION

EXHIBIT 31.1

I, William Y. Carroll, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SmartFinancial, Inc. (the “Registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the Registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: May 11, 2020

/s/ William Y. Carroll
William Y, Carroll
President and Chief Executive Officer

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Section 4: EX-31.2 (EX-31.2)

CERTIFICATION

EXHIBIT 31.2

I, Ronald J. Gorczynski, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SmartFinancial, Inc. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the Registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: May 11, 2020

/s/ Ronald J. Gorczynski
Ronald J. Gorczynski
Executive Vice President and Chief Financial Officer

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Section 5: EX-32.1 (EX-32.1)

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

EXHIBIT 32.1

In connection with the Quarterly Report of SmartFinancial, Inc., (the "Company") on Form 10-Q for the quarter ended March 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William Y. Carroll, Jr., President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 11, 2020

/s/ William Y. Carroll, Jr.
William Y. Carroll, Jr.
President and Chief Executive Officer

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Section 6: EX-32.2 (EX-32.2)

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

EXHIBIT 32.2

In connection with the Quarterly Report of SmartFinancial, Inc., (the "Company") on Form 10-Q for the quarter ended March 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ronald J. Gorczynski, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 11, 2020

/s/ Ronald J. Gorczynski
Ronald J. Gorczynski
Executive Vice President and Chief Financial Officer

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